



**FACULTY OF AGRICULTURE SCIENCES & ALLIED
INDUSTRIES**

AGRICULTURAL FINANCE: NATURE AND SCOPE

Introduction

Farm finance has become an important input due to the advent of capital intensive agricultural technologies. Farmers require capital in order to enhance the productivities of various farm resources. Indian agriculture, in general, is characterized by low and uncertain returns. In order to break the vicious cycle of low returns → low savings → low investment → low returns, provision of external finance to farmers becomes inevitable. Organized and unorganized credit agencies in rural area provide credit for both development and consumption purposes. Provision of credit by these agencies involved many obstacles to both bankers and borrowers due to differences in banking system followed by bankers, socio-economic conditions of borrowers and infra - structural facilities and institutional support offered to the borrowers. Besides, the government also frequently changes its agricultural credit policies regarding institutional credit set-up, credit rationing, rates of interest, subsidy and the functioning of markets and other developmental agencies which would influence the extent of credit available to farmer-borrower. All these factors, therefore, ultimately have a bearing on farm returns. Hence, problems regarding capital could be well understood, if one could realise the theoretical basis of agricultural credit system in India, bottlenecks faced by bankers and borrowers, and the governments' efforts in solving the problems involved in the agricultural credit system in India. Importance of Agricultural Finance Credit is essential for agricultural development and also for the development of the economy as a whole.

The agricultural finance is required for the following reasons:

- i) The scope for extensive agriculture in India is limited. Therefore, increase in agricultural production is possible only by intensification and diversification of farming. Intensive agriculture needs huge capital
- ii) Extreme inequalities exist in the distribution of operational holdings and operational area. 74.5 per cent of the total number of farm households which own less than 2 hectares operate only 26.2 per cent of the total operated area whereas only 2.4 per cent of total number of farm households which own more than 10 hectares each operate 23 percent of the total operated area in 1980-81 (In India, there were 88.883 million farm households which operated 163.797

million hectares in 1980-81). The purchasing power of these small and marginal farmers is limited to their subsistence farming. Hence, they have to depend on the external financial assistance to use the costlier (modern) inputs.

iii) Farmers economic condition is subject to frequent onslaught of flood, drought, famine etc. Therefore, either the continuance of cultivation of crops or making improvements on the farms depends on the nature and availability of finance.

iv) In recent years, more area is brought under irrigation which in turn would increase the use of inputs like fertilizer and plant protection chemicals. In order to accomplish this, external finance is needed.

v) In order to sustain the development of agro-based industries, there should be a substantial increase in the supply of raw materials needed for such industries. Therefore, for the development of farm sector, a constant flow of credit is essential and it would enhance over all growth of the economy.

vi) In agriculture, fixed capital is locked up in permanent investments like land, well, buildings, etc. Moreover, it takes a long time to get returns from farm. Hence, farmers need finance to continue their farm operations.

vii) The weaker sections of the farming community should be motivated to participate in development programmes by giving financial assistance to acquire productive assets.

viii) Small and marginal farmer's are trapped in the vicious cycle of poverty i.e., low returns → low saving → low investment → low return. To break this cycle, credit has to be injected in agricultural sector. Differences between Financing of Agricultural and Other Sectors Financing agriculture requires a thorough understanding of farming conditions as it is different from lending to other sectors. The important factors which differentiate farm finance from other lending are as follows

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Financing Agriculture Financing other sectors

(i) Farmers are not aware of credit policies and procedures They are aware of banking procedures.

(ii) Difficult to estimate the efficiency of farming in the absence of farm records. Efficiency can be assessed as all returns are recorded.

- (iii) Farming is exposed to natural calamities and uncertainties. Risk and uncertainties involved in an enterprise can be foreseen and managed.
- (iv) Frequent supervision and follow-up after loan disbursement are difficult as farms are scattered. Monitoring is easy and less time consuming.
- (v) Land as major security being immovable is not highly liquid. Apart from immovable assets, movable assets are also taken as security which can be easily liquidated.
- (vi) Ownership of land is difficult to verify as land records are not updated. Identification of ownership can be easily done by verifying records.
- (vii) As farm products are perishable, they are subjected to distress sales. As industrial products are non-perishable, producers can fix prices.
- (viii) Long gestation period between investment and returns. Very short gestation period.
- (ix) Since income is seasonal, repayment schedule is drawn in accordance with income generation from investment. As income generation is a continuous process, repayments will be made continuously.
- (x) Adequate infrastructural facilities are not available to implement new technologies. Sufficient infrastructure is available to implement their schemes.
- (xi) Farmers are susceptible to external influence and hence some vested interests exploit them and guide them in wrong direction. Entrepreneurs are not usually misled by external influence as they are well organized