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Research Article

Navigating Agricultural Finance: Role Of Financial Institution In India

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ABSTRACT

Financial institutions play a pivotal role in mobilizing savings and directing them towards productive economic endeavours, making their significance undeniable in sectoral development. This study focuses on the agricultural sector's sustenance and growth by highlighting the sources of agricultural finance and understanding the dynamics of financial institutions in this context.
The scholar used both qualitative and quantitative methodologies in an a mixed-method strategy. Primary data collection involves surveys/ questionnaire with representatives from financial institutions and secondary data collected through review of existing literature on agriculture finances. The goal of the research is offering insightful information on the conversation here in India around agrarian financing. By navigating the intricate relationship between financial institutions and the agricultural sector, it aspires to offer a roadmap for policymakers, financial institutions, and other stakeholders to promote sustainable growth and resilience in Indian agriculture.

Keywords: *Financial institution, Agriculture, Agriculture finance, economic*

1. INTRODUCTION

Rural finance in India has its roots in the 19th century, primarily focusing on providing financial support to the country's farmers. Despite its initiation in the 19th century, agricultural finance has not yet reached its zenith even in the 21st century. The historical trajectory closely examines both the positive and negative transformations in agricultural finance within India. The inception of agricultural finance dates back to the colonial period, and the challenges faced by farmers exhibit a notable continuity from that era through the subsequent periods under consideration. The prevalent reliance on local moneylenders creates an exploitative environment that significantly impacts the rural poor farmers (Barot and Patel, 2015).

Providing short- and lengthy-term loans, the Banking Corporation for India has taken action to institutionalise lending for the rural population. Commercial banking institutions were encouraged to grow in Agriculture Financing by the nationalisation of banks. The RBI highlights that the financial sector should get 40% of net credit granted by banks, with agricultural receiving 18% of that amount. The Lead Bank Scheme monitors and reports on the agricultural sector's performance, addressing the need for comprehensive Agriculture Finance policies (Godara et al., 2014).

The researcher carried the study with following objectives:
1. *To highlight the sources of agricultural finance in India.*
2. *To study the role of financial institutions in agricultural finance.*

2. LITERATURE REVIEW

Nadia (2014) emphasized that a primary factor contributing to Lack of access to earnings and finances is the main cause for hunger in India's rural regions. The investigator contended that rural finance plays a crucial role in improving economic outcomes for individuals in India. Substantial evidence indicates that establishing branches in underserved rural areas in India is linked to a decrease in rural poverty.

Narayanan (2015) identifies three ways formal credit affects agriculture: immediate impact on production by enabling input purchases, building capital stock for long-term production support, and replacing high-interest informal credit. This not only relieves farmers from credit constraints but also alleviates interest burden and facilitates consumption smoothing.

Raju (2012) has made clear that proper funding for all of a farmer's needs at the appropriate time requires a thorough comprehension of the methodology, empathy for the farmer, and comprehensive awareness of the needs for purchases, eating, and agricultural operations, respectively.

3. MATERIAL METHOD

The researcher applied descriptive and analytical methodology in present study and study carried in both quantitative and qualitative approach. The study conducted primary through survey / questionnaire distributed in 5 selected financial institutions and 10 respondents from each were approached. Secondary data collection method was through the review of existing literature related to topic and to fulfil the objectives of study.

4. RESULT AND DISCUSSION

3.1 SOURCES OF AGRICULTURAL FINANCE IN INDIA

Agricultural credit sources in India can be broadly categorized into two main types based on organization: (1) Non-Institutional Sources and (2) Institutional Sources (Yadav,2017).

3.1.1 Non-Institutional Sources

Non-institutional finance plays a significant role in rural credit in India and non-institutional lenders often charge high-interest rates and require collateral, such as land or other assets.

Key sources of non-institutional credit include:

1. “Traders and Commission Agents”: These entities provide loans to farmers for productive purposes without adhering to legal formalities. Farmers may be compelled to engage in transactions with them, paying substantial interest rates and commissions on sales and purchases. This is particularly relevant for cash crops such as tobacco products, groundnuts, and linen.
2. Landlords: To meet financial demands, renters and rural residents commonly turn to tenants.
3. Moneylenders, comprising agriculturist and professional categories, maintain a significant influence despite progress in rural branches of institutional credit agencies. Factors like versatility in addressing productive and unproductive needs, accessibility at unconventional hours, and minimal paperwork contribute to their popularity. Moneylenders, often exploiting urgency, impose high-interest rates. Regulatory efforts face challenges due to limited institutional credit access, particularly in certain sections and areas. Cooperative credit and self-help groups hold potential for regulating and controlling money lending practices.
4. Partners and family: Typically, credits like this can be utilised to cover personal expenses or excessively brief expenses.

3.1.2 Institutional Sources

“The National Bank for Agriculture and Rural Development (NABARD)”, established in 1982, serves as the apex institution for rural credit in India. While NABARD does not directly finance farmers and rural individuals, it extends support through various institutions, as outlined below:

1. “Rural Co-Operative Credit Institutions:” Representing the oldest and most extensive form of institutional financing in rural India, rural credit cooperatives aim to prevent the exploitation of peasants by moneylenders.
2. “Primary Agricultural Credit Societies (PACS)”: Organized at the village level, PACS provide loans primarily for productive purposes. They aim to raise capital for lending, support essential member activities, and cover approximately 99.5 percent of villages in India.
3. “District Central Cooperative Banks”: Operating at the district level, DCCBs coordinate with PACS, facilitating credit, and engaging in banking operations.
4. State Cooperative Banks: Affiliated with DCCBs, SCBs coordinate their activities, organize financial provisions, conduct banking operations, and act as leaders of cooperatives in the states.

3.2 ROLE OF FINANCIAL INSTITUTION IN AGRICULTURAL FINANCE

Table:1.1 Responses of financial representatives on Agricultural finance

S.no	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	*The agricultural sector is a crucial focus area for our financial institution.*	1	4	10	25	10
2.	*Our institution believes that investing in agricultural finance is essential for the overall economic development of the region.*	2	3	8	27	10
3.	*Our institution perceives agricultural finance as a high-risk area.*	5	12	15	10	8
4.	*Our institution has specific financial products tailored for the diverse needs of the agricultural sector.*	1	3	7	26	13
5.	*Lack of sufficient collateral in agricultural loan applications.*	3	12	10	15	10

Source: *Created by Researcher from data collected through questionnaire*

The table presents the responses of financial representatives on various statements related to agricultural finance. Following are analyses and findings:

1. ***Crucial Focus on Agricultural Sector***: The majority 70% of respondents Agree and Strongly Agree acknowledge the agricultural sector as a crucial focus area for their financial institution. This indicates a consensus among the respondents regarding the significance of the agricultural sector in their institution's focus.
2. ***Investing in Agricultural Finance for Economic Development:*** A substantial percentage 74% of respondents Agree and Strongly Agree express the belief that investing in agricultural finance is essential for regional economic development. This suggests a strong alignment with the notion that agricultural finance contributes significantly to overall economic development.
3. ***Perception of High Risk in Agricultural Finance:*** There is a diversity of opinions on the risk associated with agricultural finance. While 20% respondents are Neutral, a considerable number (12 Disagree and 8 Strongly Disagree) express a disagreement with the perception that agricultural finance is high-risk. This indicates a lack of consensus on the perceived risk.
4. ***Tailored Financial Products for Agriculture:*** The responses indicate a positive trend, with a significant percentage 78% of respondents Agree and Strongly Agree affirming that their institution has tailored financial products for the diverse needs of the agricultural sector. This suggests an alignment with the provision of specialized financial products for agriculture.
5. ***Concerns About Collateral in Agricultural Loan Applications:*** The responses indicate varying levels of concern regarding the availability of sufficient collateral in agricultural loan applications. While 30% respondents are Neutral, a notable number (12 Disagree and 10 Strongly Disagree) express disagreement, suggesting a perceived adequacy of collateral in agricultural loan applications.

In summary, the findings highlight areas where financial institutions may need to align their perspectives and strategies for more effective collaboration and support in agricultural finance.

5. CONCLUSION

In conclusion, agricultural credit in India is sourced from two main categories: "Non-Institutional and Institutional Sources". Non-institutional channels, such as traders, landlords, and moneylenders, continue to play a significant role, with potential for regulation through cooperative credit and self-help groups. On the institutional side, NABARD and its affiliated entities, including PACS, DCCBs, and SCBs, work to prevent exploitation, raise capital, and provide essential financial services across different levels of the agricultural landscape. The analysis reveals the general consensus on the importance of the agricultural sector and the belief in the essential role of agricultural finance in economic development. However, there is divergence in opinions on the perceived risk associated with agricultural finance, and respondents generally express confidence in their institutions offering tailored financial products for the agricultural sector. The concern about the lack of sufficient collateral in agricultural loan applications shows some variation in perceptions.

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