**India's agrarian sector and banking**

The history of **Agriculture in India** dates back to [Indus Valley Civilization](https://en.wikipedia.org/wiki/Indus_Valley_Civilization) and even before that in some places of Southern India. India [ranks](https://en.wikipedia.org/wiki/List_of_countries_by_GDP_sector_composition) second worldwide in farm outputs. As per 2018, agriculture employed more than 50℅ of the Indian work force and contributed 17–18% to country's GDP.

In 2018, agriculture and allied sectors like [animal husbandry](https://en.wikipedia.org/wiki/Animal_husbandry_in_India), [forestry](https://en.wikipedia.org/wiki/Forestry_in_India) and [fisheries](https://en.wikipedia.org/wiki/Fishing_in_India) accounted for 15.4% of the [GDP](https://en.wikipedia.org/wiki/GDP) (gross domestic product) with about 41.49% of the workforce in 2020. India ranks first in the world with highest net cropped area followed by US and China. The economic contribution of agriculture to India's GDP is steadily declining with the country's broad-based economic growth. Still, agriculture is demographically the broadest economic sector and plays a significant role in the overall socio-economic fabric of [India](https://en.wikipedia.org/wiki/India).

India exported $38 billion worth of agricultural products in 2013, making it the seventh largest agricultural exporter worldwide and the sixth largest net exporter. Most of its agriculture exports serve developing and least developed nations. Indian agricultural/horticultural and processed foods are exported to more than 120 countries, primarily to the Japan, [Southeast Asia](https://en.wikipedia.org/wiki/Southeast_Asia), [SAARC](https://en.wikipedia.org/wiki/South_Asian_Association_for_Regional_Cooperation) countries, the [European Union](https://en.wikipedia.org/wiki/European_Union) and the [United States](https://en.wikipedia.org/wiki/United_States).

**Agricultural finance and marketing needs**

(i) On the basis of time and

(ii) On the basis of purpose.

**On the Basis of Time:**

**The needs of the farmers can be classified into three categories on the basis of time:**

(i) Short term.

(ii) Medium term, and

(iii) Long term.

Short-term loans are required for the purchase of seeds, fertilizers, pesticides, feeds on fodder of livestock, marketing of agricultural produce, payment of wages of hired labour are classified according to the use and kind of application as insecticides, fungicides, herbicides and other pesticides.

Insecticides account for the major share of pesticides consumption in India that includes both preventive treatments, which are applied before infestation levels are known, a implementation treatments which are based on monitored infestation levels and expected crop damages. The use of pesticides in Indian agriculture was negligible in early 1950s with only 100 tones of pesticides being consumed at the beginning of the first adoption of the new agriculture strategy in mid-1960.

The use of pesticides increased considerably as the new varieties are more prone to attack by pests am insects. The pesticides application in 1970-71 stood at about 24.3 thousand tones. Consumption of pesticides (technical grade material) stood at 41 thousand tones for unproductive purposes.

Period of such loans are up to 15 months. Agencies for granting such loans a the moneylenders and cooperative societies. Medium-term loans are obtained for the purchase of cattle, small agricultural implements, repair and construction of wells etc. The period of such loans extends from 15 months to 5 years. These loans are generally provided by money-lenders, relatives of farmers, cooperative societies and commercial banks.

Long-term loans are required for effecting] permanent improvement on land, digging tube wells,’ purchase of larger agriculture implements and’ machinery like tractors, harvesters etc. and repayment; of old debts. The period of such loans extends beyond; 5 years. Such loans are normally taken from Primary Cooperative Agricultural and Rural Development Banks (PCARDBS).

**On the Basis of Purpose:**

**Agricultural credit needs of the farmers can be classified on the basis of purpose into the following categories:**

(i) Productive:

(ii) Consumption needs and;

(iii) Unproductive.

(i) Under productive needs we can include all credit requirements which directly affect agricultural productivity. Farmers need loans for the purchase of seeds, fertilizers, manures, agricultural implements, livestock, digging and repair of wells and tube wells, payment of wage, effecting permanent improvements on land, marketing of agricultural produce, etc. Repayment of these loans is generally not difficult because the very process of production generally creates the withdrawal for repayments.

(ii) Farmers often require loans for consumption as well. Institutional credit agencies do not provide loan for consumption purpose. Therefore farmers stretch their hand towards the moneylenders.

(iii) Loans are taken for unproductive purposes such as litigation, marriages, social ceremonies on birth and death of a family member, religious functions, festivals etc. Farmers take loans from Mahajans since institutional credit agencies do not give such loans.

**Sources of Agricultural Finance:**

**This can be divided into two categories:**

(i) Non-institutional sources.

(ii) Institutional sources

**(i) Non-Institutional sources are the following:**

(a) Moneylenders

(b) Relatives

(c) Traders

(d) Commission agents

(e) Landlords

**(ii) Institutional sources:**

(a) Cooperatives

(b) Scheduled Commercial Banks

(c) Regional Rural Banks (RRBs)

**(a) Co operatives:**

(i) Primary Agricultural Cooperative Societies (PACSs) provide short and medium term loans.

(ii) PCARDBs provide long term loan for agriculture.

**(b)** Commercial banks, including RRBs, provide both short and medium term loans for agriculture and allied activities.

The National Bank for Agriculture and Rural Development (NABARD) is the apex institution at the national level for agriculture credit and provides assistance to the agenciesmentioned above. The Reserve Bank of India plays a crucial role in this sphere by giving overall direction to rural credit and financial support to NABARD for its operations.

At the time of Independence the most important source of agricultural credit were the moneylenders. In 1951 (the year when planning was initiated in the country) moneylenders accounted for as much as 71.6 per cent of rural credit. This was because there was no other source or from where the farmers could borrow money.

Hence the moneylenders exploited the poor farmers. Thus, they used to charge exorbitant interest for their loans. The moneylenders used to manipulate their accounts and force the farmers to sell their produce to them at low price. The government has therefore undertaken various steps to regulate the activities of the moneylenders.

The most important move was to free the agriculturists from the clutches of the money lenders and the expansion of institutional credit to agriculture.

**The Government has helped the cooperatives in a number of ways to expand their operations:**

I. 14 major commercial banks were nationalised in 1969.

II. 6 more banks were nationalised in 1980.

III. In 1975 an institution was established by the government to meet the requirements of rural credit – Regional Rural Bank (RRBs).

IV. In July 1982 National Bank for Agriculture and Rural Development (NABARD) was set up.

V. India now has a wide network of rural finance institution (RFI).

As a result of this massive expansion of RFIs their participation in rural credit has increased significantly while that of moneylenders has declined. Non- institutional sources of agriculture credit still remain and they offer credit at high rates of interest specially in case of unproductive purposes.

i. NABARD provides re-finance facilities to SCB, SCARDB, PACS, is PLDBs etc.

**The flow of fund from NABARD to all of then-shown in the flow chart below:**





**Cooperative Credit Societies:**

The rural co-operative credit institutions in India have been organised into short-term and long-term structures. The short-term co-operative structure is based on three-tier structures, except the states in the north­east region. At the lowest tier are the Primary Agricultural Credit Societies (PACSs). These are organised at the village level. At the second tier and District Central Cooperative Banks (DCCBs) organised at the district level. At the third and uppermost tier are the State Co-operative Banks (STCBs) organised at the state level state Co-operative Banks (state level).



To cater to long-term loans long-term credit cooperatives have been set up.

**These are organised at two levels and categorized into four types:**

(i) The unitary structure in which Stat Cooperative Agricultural and Rural Development Banks (SCARDBs) operate at the state level.

(ii) The federal structure in which Primary Cooperative Agricultural and Rural Developments Banks (PCARDBs) operate as independent units at the primary level and federate themselves into SCARDBS at the state level.

(iii) The mixed structure wherein both the unitary and federal types operate in one form or another.

(iv) The integrated structure where no separate Agricultural and rural development banks exist and the long-term credit business is undertaken by the long-term section of the StCBs concerned.

**Commercial Banks:**

In fact up to 1970 the government policy was to depend entirely on the cooperative banks as a major source of institutional credit in rural areas. Government felt that Cooperative Bank alone cannot meet the growing demand. Therefore Govt, policy changed and a number of institutions were developed to give rural credit. In 1969, 14 major banks were nationalised.

In 1980, six more banks were nationalised. In 2004, the number of total branches had shot up to 67062, of this 32,200 in rural areas. Despite the achievement of the commercial banks in the field of rural creditmentioned above, their performance and operations have invited a lot of criticism.

**National Bank for Agriculture and Rural Development (NABARD):**

The most important development in the field of rural credit has been the setting up of the National Bank for Agriculture and Rural Development (NABARD) in July 1982. It took over from Reserve Bank of India all the functions that the latter performed in the field of rural credit. NABARD is now the open bank for rural credit.

**Functions of NABARD (1982):**

**The main functions of NABARD are as follows:**

(1) It works as an open body to look after the credit requirement of the rural sector.

(2) It has authority to oversee the functioning of ‘the cooperative sector through its Agricultural Credit Department.

(3) It provides short-term credit (up to 18 months) to State Cooperative Banks for seasonal agricultural operation (crop loans), marketing of crops, purchase and distribution of fertilizers and working capital requirements of cooperative sugar factories.

(4) It provides medium-term credit (18 months to 7 years) to State Co-operative Banks and RRBs for agricultural purposes purchase of shares of processing societies and conversion of short- term crop loans into medium term loans in areas affected by natural calamities.

(5) It provides medium and long-term credit (not exceeding 25 years) for investment in agriculture under schematic lending to State Cooperative Banks, Land Development Banks, RRBs and commercial banks.

(6) It provides long-term assistance in the form of loans to state governments (not exceeding 20 years) for contribution to share capital of cooperative credit institutions.

(7) It has been entrusted with the responsibility of inspecting District and State Cooperative Banks and RRBs. The inspection of State Land Development Banks and other Federation Cooperative are undertaken on a voluntary basis.

(8) It maintains a research and development fund to be used to promote research in agriculture and rural development so that projects and programmes can be formulated and designed to suit the requirement of different areas.

So far as the supply of credit to agriculture and to rural industries is concerned, this bank performs all the functions including short, medium and long-term refinancing that were previously performed by the Reserve Bank of India. The paid up capital of NABARD is wholly subscribed by the Central Government and the RBI.

The NABARD played an important role in solving the problem of rural indebtedness in India. This aspect would be clear if we study the functions of NABARD, and the overall impact of all activities on Indian agriculture.