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Topic : Sources of Agricultural Finance in India

Sources of Agricultural Finance in India

The sources of agricultural finance in India can be classified into two main categories, i.e., **institutional** and **non-institutional sources.**

Non-institutional sources, constitute around 40 percent of total credit availed by farmers in India. The interest rate of the non-institutional agri loans is usually very high, although the land or other assets are kept as collateral in the secured loans. include entities like relatives, landlords, traders, commission agents, and money lenders.

On the other hand, institutional sources include entities such as co-operatives, NABARD, and commercial banks like the RBI and SBI Group.

In the following section, the various institutional sources of agriculture business loan or agriculture loan are discussed briefly.

Institutional sources

The key goal of institutional credit is to enable farmers to increase their agricultural productivity and, as a consequence, their income. Institutional credit doesn't employ exploitative practices. Some of the main institutional sources of agricultural finance in India are listed below.

a. Co-operative credit societies

Co-operative credit societies are the best and cheapest sources of agriculture business loan in India. The active Primary Agricultural Credit Societies (PACS) in India account for almost 86% of all Indian villages and makeup over 36% of the total rural populace in the country

b. Government

The government is another valuable provider of agricultural finance in India. Agricultural finance available from the Government of India are called taccavi loans and these are usually disbursed during times of emergency, such as when floods or famine occur. Interest rates on these loans are also very low.

c. Regional rural banks

Regional rural banks or RRBs have been providing direct loans to agricultural labourers, small and marginal farmers, as well as rural artisans, among others since 1975 for productive purposes.

d. Commercial Banks

Commercial banks have played a marginal role in providing rural finance. After the nationalisation of commercial banks in 1969, these banks began to provide both direct and indirect agri loans for short and medium term durations.

e. Land development banks

These provide both medium and long-term agri business loans against a collateral of land that acts as a security. The duration of these agri business loan is usually 5–20 years with a high loan quantum.

To reduce the exploitation of farmers and enable their growth the government has made many initiatives, encouraging banks and NBFCs to offer the rural farmers agri business loans at competitive interest rates. However, an increase in the awareness and education about the benefits of institutional financing are important for effective acceptance of the institutional credit in rural areas.