

Impact of Finance on Agriculture

Shakshi Dubey and Monika Chaturvedi

Assistant Professor, Department of Agriculture, GRD-IMT Rajpur Road, Dehradun
Research Scholar Department of Commerce, Delhi University

ARTICLE ID: 31

Introduction

For growing Agricultural sector, financial access is essential. The agriculture sector in India, which employs more than 50% of the labor force and accounts for 17–18% of the GDP, is extremely dependent on agricultural credit and financing. Farmers must have access to reasonable loans in order to invest in contemporary farming methods, buy high-quality inputs, and boost production. Funds are needed to transition agricultural production from subsistence to commercial use. However, funding for investments in agriculture is limited, especially for large investors, in developing nations where agriculture provides a living for 86% of rural people (International Finance Corporation [IFC], 2013). The risks that commonly affect the agriculture industry, such as droughts, floods, pests, and illnesses, as well as the high transaction costs associated with traveling vast distances, are not readily accepted by financial institutions. As a result, with the fact that governments are currently working to encourage investment in agriculture, the industry lacks the money it needs to increase production, processing, and marketing because investors are unaware of the financial dangers and potential in agriculture.

Who Finance Agriculture sector?

✚ **Crop Loan-** Farmers are given short-term loans for the growing of crops. The repayment period for these loans normally spans from 6 to 12 months, and they are approved for a specific crop season. The loans are given to farmers in order to cover their production costs, including the cost of seeds, fertilizer, insecticides, and other inputs. According to the Reserve Bank of India (RBI), the outstanding crop loan amount disbursed by banks in India increased from INR 8,55,328 crore in March 2020 to INR 10,38,954 crore in March 2021. This increase in crop loans helped farmers to overcome the financial stress caused by the COVID-19 pandemic.

✚ **Kisan credit card (KCC)-** This is introduced in 1998 by the Indian government to offer farmers access to affordable finance for crop cultivation, animal husbandry, and



other agricultural operations. KCCs are a sort of revolving credit, which implies that the credit limit can be used, returned, and then used again. They are granted by banks and other financial organizations. Around 19.67 crore KCCs with a credit limit of more than INR 6.78 lakh crore has been issued as of March 2021. The program has been crucial in supplying farmers with timely and sufficient loans, allowing them to buy high-quality supplies and adopt contemporary farming practices.

- ✚ **Agricultural term loans**-Agricultural term loans are long-term loans given to farmers for capital investments in agriculture, such as the purchasing of tractors and farm equipment or the building of farmhouses. The normal payback duration for these loans is between three and ten years.
- ✚ The outstanding amount of agricultural term loans given by Indian banks reached from INR 2,10,491 crore in March 2020 to INR 2,50,378 crore in March 2021, representing a growth of 19%, according to the RBI.
- ✚ **Financing issues for Agriculture**-Farmers are protected by agricultural insurance from crop losses caused by natural disasters including floods, droughts, and insect infestations. The Indian government introduced the Pradhan Mantri Fasal Bima Yojana (PMFBY) as a crop insurance program in 2016. The program offers farmers insurance coverage for any crop loss brought on by pests, illnesses, or natural disasters. Insurance farmers under the PMFBY as of 2020 totaled more than 5.61 crore, for an insurance amount of INR 2,37,000 crore. Agricultural insurance schemes such as PMFBY have played a crucial role in protecting farmers from crop losses due to natural calamities. The availability of insurance coverage has reduced the financial burden on farmers and has enabled them to recover from crop losses quickly.
- ✚ **Pradhan Mantri Krishi Sinchai Yojana (PMKSY)**- Pradhan Mantri Krishi Sinchai Yojana (PMKSY) was introduced in 2015. To encourage water conservation and effective use of water resources in agriculture, The programme offers farmers financial support for a variety of tasks including micro-irrigation, water collection, and watershed rehabilitation. Over 19.53 lakh hectares were covered by the programme as of March 2021, receiving more than INR 8,282 crore in total financial support. The PMKSY programme has assisted in enhancing water efficiency in agriculture, which has raised agricultural production and farmers' income.

✚ **Agriculture Infrastructure Fund (AIF)**- The Agriculture Infrastructure Fund (AIF) was established in 2020 to give farmers financial support for constructing various types of infrastructure, including cold storage facilities, warehouses, and food processing facilities. The program's goal is to decrease post-harvest losses and strengthen the agricultural supply chain by giving farmers access to modern infrastructural facilities. A total of INR 1 lakh crore has been allotted under the AIF for the years 2020–2029.

The interest rate is fixed at 3% per year for a period of seven years under the plan, which offers credit guarantee coverage for loans up to INR 2 crore. Primary Agricultural Credit Societies (PACS), Farmers Producers Organisations (FPOs), Self Help Groups (SHGs), and other qualifying entities are used to execute the AIF. The AIF has already begun displaying favourable results. The AIF has already started showing positive impact, as several projects have been approved for funding. As of January 2021, a total of 6,310 projects worth INR 9,410 crore have been approved under the scheme, and the projects are expected to benefit around 2 lakh farmers.

Challenges of Agricultural Financing

1. **Lack of knowledge**-Many Indian farmers are unaware of the range of financial services and products that are available to them. They frequently fail to take use of these services as a result of their ignorance.
2. **Excessive interest rates**- A common feature of agricultural loans is high interest rates, which make it difficult for small-scale farmers to pay back their loans.
3. **Inadequate credit history**- As many small farmers lack a credit history, it is challenging for financial institutions to determine whether they are creditworthy.
4. **Criteria for collateral**- For agricultural loans, banks and other financial institutions need collateral, which presents a substantial problem for small and marginal farmers who lack the necessary assets to offer as security.

Conclusion

Overall, India's agricultural sector, which is the foundation of the country's economy, has benefited greatly from agricultural loans and finance. Farmers now have easier access to inexpensive loans, modern infrastructure, and insurance, which has improved their standard of living and decreased the dangers involved with agriculture. In order to guarantee sustainable



agricultural and rural development in India, it is crucial to keep putting these programmes and initiatives into action and to give farmers enough assistance.

References

International Finance Corporation. (2013). IFC and agri-finance: Creating opportunity where it's needed most. Retrieved from

<http://www.ifc.org/wps/wcm/connect/44c74a0049585fb1a082b519583b6d16/IFC%2B%2Band%2BAgriFinance%2B-%2BGeneric%2BPresentation%2Bv-4.f?MOD=AJPERES&CACHEID=44c74a0049585fb1a082b51>

https://www.researchgate.net/publication/309668747_Agricultural_Lending_in_India_Status_Issues_and_Future_Agenda

<https://groww.in/blog/the-financial-scenario-of-india-7-major-challenges-for-nirmala-sitharaman>

<https://www.iisd.org/system/files/publications/financing-agriculture-boost-opportunities-developing-countries.pdf>

<https://www.informaconnect.com.sg/insight/agricultural-financing-challenges/>