

Agriculture Finance in India : Issues , Challenges and Solutions

Dr. Puja Kumari Vishwakarma

Assistant Professor

Dept. of Commerce

R. S. More College, Govindpur, Dhanbad

Abstract

Agriculture finance is a critical component of India's rural economy, serving as a key instrument for enhancing agricultural productivity, ensuring food security, and improving farmers' livelihoods. Agriculture remains one of the most important sectors of the Indian economy, supporting nearly half of the country's workforce and contributing significantly to national income. Access to timely and adequate finance enables farmers to purchase quality seeds, fertilizers, machinery, irrigation facilities, and other essential inputs required for agricultural production. Over the years, the Government of India has introduced various institutional credit mechanisms, including commercial banks, cooperative banks, Regional Rural Banks (RRBs), the Kisan Credit Card (KCC) scheme, and refinancing support through the National Bank for Agriculture and Rural Development (NABARD), to strengthen agricultural financing. Despite substantial progress, the agricultural finance system continues to face several challenges. Small and marginal farmers, who constitute the majority of India's farming population, often encounter difficulties in accessing formal credit due to inadequate collateral, fragmented landholdings, and lack of proper documentation. Consequently, many farmers remain dependent on informal sources of finance such as moneylenders, who charge high interest rates. Climate change, natural disasters, fluctuating market prices, and increasing production costs further heighten credit risks and contribute to rising loan defaults. Regional disparities in credit distribution, limited investment in long-term agricultural infrastructure, and inadequate financial literacy also impede the effectiveness of agricultural finance. To address these issues, a comprehensive approach is required. Strengthening digital financial services, expanding financial inclusion, promoting Farmer Producer Organizations (FPOs), improving crop insurance coverage, and enhancing rural banking infrastructure can significantly improve credit accessibility. Furthermore, policy measures aimed at encouraging long-term investment, climate-resilient agriculture, and sustainable financing practices are essential for ensuring the resilience and growth of India's agricultural sector. Effective agricultural finance can thus serve as a catalyst for inclusive rural development and sustainable economic growth.

Keywords: Agricultural Finance, Agricultural Credit, Financial Inclusion, Small and Marginal Farmers, Sustainable Agriculture Finance.

Publication Timeline

Original Manuscript Received- April 02, 2026, Peer Review Completed- April 05, 2026, Revised Manuscript Received – April 06, 2026, Accepted & Published – April 07, 2026

Recommended Citation

Vishwakarma, P. K, (2026). Agriculture Finance in India : Issues, Challenges and Solutions. Intelligentsia International Journal of Multidisciplinary Research, 2(2), 1- 7.

Introduction

Agriculture is the backbone of the Indian economy and plays a vital role in ensuring food security, employment generation, and rural development. Despite the growing importance of the industrial and service sectors, agriculture continues to support nearly half of India's population and contributes significantly to the country's Gross Domestic Product (GDP). The success and sustainability of agricultural activities largely depend on the availability of timely and adequate financial resources. Agricultural finance refers to the provision of credit, savings, insurance, and other financial services to farmers and agribusiness enterprises for production, investment, and marketing purposes. In India, agricultural finance has evolved from traditional moneylender-based systems to a more organized institutional framework involving commercial banks, cooperative banks, Regional Rural Banks (RRBs), and specialized institutions such as the National Bank for Agriculture and Rural Development (NABARD). Government initiatives like the Kisan Credit Card (KCC), Priority Sector Lending (PSL), and interest subvention schemes have significantly expanded the flow of credit to the agricultural sector. However, the agricultural finance system continues to face numerous challenges. Small and marginal farmers often struggle to access formal credit due to limited collateral, fragmented landholdings, and inadequate financial literacy. Climate change, natural calamities, fluctuating market prices, and rising input costs further increase financial risks and affect repayment capacity. Moreover, regional disparities in credit distribution and dependence on informal lending sources remain persistent concerns. Therefore, strengthening agricultural finance is essential for enhancing productivity, promoting rural prosperity, and achieving sustainable agricultural development. Addressing existing issues and adopting innovative financial solutions can significantly improve the resilience and growth of India's agricultural sector (Mehta, Trivedi & Mehta, 2016).

Objectives of the Study

1. **To examine the major issues and challenges associated with agricultural finance in India**, including access to credit, financial inclusion, institutional lending, and the problems faced by small and marginal farmers.
2. **To analyze the possible solutions and policy measures for strengthening agricultural finance**, with a focus on improving credit delivery, risk management, financial sustainability, and inclusive rural development.

Methodology

The present study is based on **secondary data** collected from various sources, including government reports, research articles, books, journals, NABARD publications, Reserve Bank of India (RBI) reports, and official statistics related to agricultural finance in India. The study adopts a **descriptive and review-based research methodology** to examine the existing issues, challenges, and developments in agricultural finance. Relevant literature and policy documents have been reviewed and analyzed to understand current trends and suggest appropriate solutions for improving agricultural financing in India.

Concept of Agricultural Finance in India

Agricultural finance refers to the provision of financial resources and services required for agricultural production, processing, marketing, and allied activities. It is a specialized branch of finance that focuses on meeting the credit and investment needs of farmers and agribusiness enterprises. In India, agriculture remains a vital sector of the economy, supporting nearly half of the population and contributing significantly to employment and food security. Since agriculture is highly dependent on seasonal production cycles, farmers often require external financial assistance to purchase seeds, fertilizers, pesticides, machinery, irrigation equipment, and other essential inputs. Agricultural finance helps bridge the gap between farmers' limited savings and their production requirements. It includes both short-term credit for crop cultivation and long-term finance for capital investments such as land development, farm mechanization, irrigation facilities, and storage infrastructure. Thus, agricultural finance plays a crucial role in enhancing productivity, increasing farm income, reducing rural poverty, and promoting sustainable agricultural development. It also facilitates the adoption of modern technology and scientific farming practices, which are essential for improving agricultural efficiency and competitiveness in the global market.

The concept of agricultural finance in India has evolved considerably since independence. Initially, farmers relied heavily on informal sources of credit such as moneylenders, traders, and landlords, who often charged exorbitant interest rates. To address this problem, the government promoted institutional credit through cooperative banks, commercial banks, and Regional Rural Banks (RRBs). A major milestone was the establishment of the National Bank for Agriculture and Rural Development (NABARD) in 1982, which serves as the apex institution for agricultural and rural financing. The Reserve Bank of India (RBI) has also played an important role by including agriculture under Priority Sector Lending (PSL), ensuring that banks allocate a certain proportion of their credit to the agricultural sector. Agricultural finance in India is generally classified into short-term, medium-term, and long-term credit depending on the purpose and duration of the loan. Several government initiatives, such as the Kisan Credit Card (KCC) Scheme, Interest Subvention Scheme, and various subsidy programs, have further strengthened access to agricultural credit. In recent years, digital banking, mobile applications, and fintech innovations have expanded financial services to rural areas, making agricultural finance more accessible and efficient.

The significance of agricultural finance extends beyond the provision of credit and has become a key instrument for rural transformation and economic development. Adequate and timely finance enables farmers to adopt improved technologies, diversify into high-value crops, livestock, dairy, fisheries, and horticulture, thereby increasing productivity and income. It also reduces dependence on informal lending sources and protects farmers from exploitative financial practices. Modern agricultural finance increasingly incorporates risk management mechanisms such as crop insurance, warehouse receipt financing, value-chain financing, and climate-resilient investments. Programs such as the National Bank for Agriculture and Rural Development (NABARD)-supported initiatives and the Pradhan Mantri Fasal Bima

Yojana (PMFBY) have broadened the scope of agricultural finance beyond conventional lending. With growing concerns over climate change, resource scarcity, and market volatility, agricultural finance is increasingly focused on promoting sustainable farming practices, renewable energy adoption, water conservation, and climate-smart agriculture. Therefore, an efficient, inclusive, and technology-driven agricultural finance system is essential for ensuring food security, improving farmers' livelihoods, and achieving sustainable rural development in India (**Pandeya, 2022**).

Initiatives Taken by the Government of India for Agricultural Finance

The Government of India has introduced several policies, schemes, and institutional reforms to strengthen agricultural finance and improve farmers' access to credit. These initiatives aim to promote financial inclusion, reduce dependence on informal lenders, enhance agricultural productivity, and support sustainable rural development (**Tripathi, & others 2023**).

Some of the major initiatives are discussed below:

1. Kisan Credit Card (KCC) Scheme

Introduced in 1998, the Kisan Credit Card Scheme provides farmers with timely and affordable credit for agricultural operations. It enables easy access to working capital for purchasing seeds, fertilizers, pesticides, and other inputs. The scheme reduces procedural delays and dependence on moneylenders while ensuring flexible repayment options.

2. Priority Sector Lending (PSL)

Under Priority Sector Lending guidelines, commercial banks are required to allocate a specific percentage of their lending to agriculture. This policy ensures adequate credit flow to the agricultural sector and promotes financial inclusion among small and marginal farmers, helping them access institutional finance at reasonable interest rates.

3. NABARD Refinance Support

The National Bank for Agriculture and Rural Development (NABARD) provides refinance assistance to banks and rural financial institutions for agricultural lending. It strengthens rural credit delivery systems, promotes investment in agriculture and allied sectors, and supports various developmental programs aimed at improving rural livelihoods and infrastructure.

4. Interest Subvention Scheme

The Interest Subvention Scheme offers short-term crop loans to farmers at concessional interest rates. Farmers who repay loans on time receive additional interest incentives. This initiative reduces the financial burden on farmers, encourages prompt repayment, and enhances access to affordable agricultural credit.

5. Pradhan Mantri Fasal Bima Yojana (PMFBY)

The Pradhan Mantri Fasal Bima Yojana (PMFBY) provides crop insurance coverage against natural calamities, pests, and diseases. It protects farmers from financial losses arising from crop failure and improves their creditworthiness. The scheme also reduces lending risks for banks and financial institutions.

6. Regional Rural Banks (RRBs)

Regional Rural Banks were established to provide banking and credit facilities to rural communities, especially small and marginal farmers. RRBs play a crucial role in expanding financial services in remote areas and ensuring that institutional credit reaches underserved agricultural households.

7. Agricultural Infrastructure Fund (AIF)

Launched in 2020, the Agricultural Infrastructure Fund provides long-term financing for post-harvest management and community farming assets. It supports investments in warehouses, cold storage facilities, processing units, and supply chains, thereby improving agricultural marketing and reducing post-harvest losses.

8. Formation and Promotion of Farmer Producer Organizations (FPOs)

The government promotes Farmer Producer Organizations to strengthen the collective bargaining power of farmers. FPOs facilitate better access to credit, inputs, technology, and markets. Financial institutions are encouraged to provide loans to FPOs, enhancing the efficiency of agricultural financing.

9. Digital Agricultural Finance Initiatives

The government has promoted digital platforms such as Aadhaar-linked banking, Direct Benefit Transfer (DBT), mobile banking, and digital KCC services. These initiatives improve transparency, reduce transaction costs, enhance financial inclusion, and ensure faster delivery of credit and subsidies to farmers.

10. Rural Infrastructure Development Fund (RIDF)

Managed by National Bank for Agriculture and Rural Development (NABARD), the Rural Infrastructure Development Fund finances projects related to irrigation, roads, bridges, and rural connectivity. Improved infrastructure supports agricultural growth, increases productivity, and creates a favorable environment for agricultural investment and financing.

Issues and Challenges of Agricultural Finance in India

Agricultural finance in India faces several challenges despite significant expansion in institutional credit over the years. One of the most critical issues is the limited access to formal credit among small and marginal farmers, who constitute more than 85 percent of the farming population. Due to small landholdings, lack of collateral security, unclear land ownership records, and complex banking procedures, many farmers are unable to obtain loans from formal financial institutions. Consequently, they depend on informal sources such as moneylenders, traders, and landlords who

charge exorbitant rates of interest. Furthermore, low levels of financial literacy, inadequate awareness of government schemes, and poor digital infrastructure in rural areas restrict farmers' ability to access banking services and agricultural credit. These factors often result in delayed financing, increased indebtedness, and reduced agricultural productivity.

Another major challenge is the high level of risk associated with agricultural lending. Agriculture in India is highly dependent on monsoon rainfall and is vulnerable to natural calamities such as droughts, floods, cyclones, pest attacks, and the adverse effects of climate change. These uncertainties frequently affect crop production and farmers' repayment capacity, leading to an increase in Non-Performing Assets (NPAs) in agricultural lending. Although crop insurance schemes such as the Pradhan Mantri Fasal Bima Yojana (PMFBY) have been introduced, delays in claim settlements and inadequate coverage often fail to provide timely relief. Additionally, frequent loan waiver announcements by governments create moral hazard, weaken repayment discipline, and discourage financial institutions from expanding agricultural lending. Another concern is the excessive concentration of credit on short-term crop loans, while long-term investment finance for irrigation, mechanization, storage, and infrastructure remains insufficient. **(Sahoo, Dash, & Rath, 2020).**

Regional disparities and structural weaknesses further limit the effectiveness of agricultural finance in India. Agricultural credit is unevenly distributed across states, with relatively developed regions receiving a larger share of institutional finance than economically backward areas. Weak rural banking networks, shortage of trained personnel, and limited use of modern technology in credit assessment and monitoring affect efficient credit delivery. Moreover, inadequate market linkages, poor post-harvest infrastructure, and limited support for climate-resilient agriculture reduce farmers' income-generating capacity. These challenges hinder the development of an inclusive, sustainable, and efficient agricultural finance system capable of supporting long-term rural development and agricultural transformation.

Conclusion

Agricultural finance plays a crucial role in the development of India's agricultural sector and rural economy. It provides the financial support necessary for purchasing agricultural inputs, adopting modern technologies, improving productivity, and enhancing farmers' incomes. Over the years, the Government of India has undertaken several initiatives, such as institutional credit expansion, Kisan Credit Card (KCC), NABARD support, crop insurance schemes, and digital financial services, to strengthen agricultural financing. Despite these efforts, significant challenges continue to exist, including limited access to formal credit for small and marginal farmers, dependence on informal lenders, climate-related risks, regional disparities, and inadequate long-term investment finance. These issues restrict the effectiveness of agricultural finance in achieving inclusive and sustainable agricultural growth. Therefore, strengthening agricultural finance remains essential for ensuring food security, reducing rural poverty, increasing farm productivity, and promoting balanced economic development in India. To improve the effectiveness of agricultural finance, several policy and institutional measures are required. Efforts should be made to

simplify credit procedures and expand financial inclusion for small, marginal, tenant, and women farmers. Digital technologies, mobile banking, and Aadhaar-linked financial services should be further promoted to ensure timely credit delivery. Crop insurance schemes need to be strengthened through faster claim settlements and wider coverage to reduce farmers' vulnerability to climate risks. Greater emphasis should be placed on long-term investment credit for irrigation, mechanization, storage facilities, and sustainable agricultural practices. The government should also encourage Farmer Producer Organizations (FPOs), value-chain financing, and climate-resilient agriculture. Strengthening rural banking infrastructure, improving financial literacy, and promoting collaboration between banks, fintech companies, and agricultural institutions can help create a more efficient, inclusive, and sustainable agricultural finance system capable of supporting long-term rural prosperity.

References

1. Mehta, D., Trivedi, H., & Mehta, N. K. (2016). Indian kisan credit card scheme: An analytical study. *BRAND. Broad Research in Accounting, Negotiation, and Distribution*, 7(1), 19-23.
2. Pandeya, N. (2022). Pradhan Mantri Fasal Bima Yojana (PMFBY): Analysis of issues, challenges and the way forward. *Contemp. Issues Bank. Insur. Financ. Serv*, 226(1).
3. Tripathi, G., Dhodia, A., Giri, A., Rathore, V., Verma, A., Shukla, A., & Verma, L. K. (2023). Government agriculture schemes in India: a review. *Asian Journal of Agricultural Extension, Economics & Sociology*, 41(11), 58-67.
4. SAHOO, A. K., DASH, S., & RATH, S. S. (2020). Agricultural financing for agricultural development in India: a perceptual study on Sambalpur district. *Revista Espacios*, 41(08).
5. Mittal, S., & Mukherjee, A. (2008). Indian agriculture: Issues and challenges. *Food Policy [Internet]*, 1-18.
6. Sahni, M. (2020). Challenges of agriculture credit in India. *International Education and Research Journal*, 6(9), 29-31.
