© INTERNATIONAL JOURNAL FOR RESEARCH PUBLICATION & SEMINAR
ISSN: 2278-6848 | Volume: 12 Issue: 03 | July - September 2021
Paper is available at http://www.jrps.in | Email : info@jrps.in

Study of Type of Agricultural Finance

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Abstract

Don't have the resources to make the change to sustainable farming and food production. Banks, microfinance institutions, and institutional investors have traditionally provided inadequate capital for the sectors. Lending and investment portfolios do not adequately reflect the agriculture sector's current contribution to GDP. A huge number of small farmers and micro, small, and medium-sized companies (MSMEs) throughout the agriculture value chains further complicate matters for financial markets already challenged by agriculture's peculiar vulnerabilities. Many countries, however, have established regulations and mechanisms that are either inadequate or ineffective, limiting the number of available channels for private capital mobilisation.

Key words: Agriculture, management, environmental, Finance etc**.**

Introduction

A sizable portion of the Indian population relies on agriculture for their income and means of subsistence, making it an important sector of the Indian economy. According to a 2018 estimate by the International Labor Organization, 44% of the labour force is engaged in agriculture and the related industries1. Data from the Ministry of Statistics and Programme Implementation shows that agriculture's share of GDP has been falling steadily since the 1950s, from 52% to 30% in the 1990s and below 20% after 2010. (MoSPI). According to the Ministry of Agriculture and Farmers' Welfare's (MoA&FW) Annual Report for 2018–19, the percentage of GVA contributed by Agriculture & Allied was 16%. Although ancillary industries contribute around 40% to agricultural production, they only get 6-7% of total agricultural financing. The typical Indian farmer only owns 1.08 hectares of land, making this fact a defining feature of the country's agricultural sector. Eighty-six percent of the holdings and forty-seven percent of the operating area are owned by small and marginal farmers. They are responsible for more than half of the agricultural and associated products produced worldwide. However, increasing agricultural output and farmer incomes remains a significant obstacle for smallholder farmers. Access to current inputs is the first step, followed by marketing the product in the most lucrative markets. This may be aided by a number of catalytic instruments, one of which is the availability of affordable institutional finance throughout the whole value chain, which would allow many subsistence farmers to transition into successful commercial farmers. Then they may branch out into other related industries like dairy, poultry, fishing, honey production, beekeeping, etc., in addition to farming high-value crops like fruits and vegetables. Increased access to financing for the sector and targeted outreach to farmers might unlock allied's full potential.

Type of Agricultural Finance

Agricultural Finance – Help in getting your agricultural products to market via financing. There is a distinction to be made between rural finance and agricultural financing. Despite this, there is frequently overlap between the goals and prospects of financial service providers that focus on rural, micro, or agricultural financing.

Agricultural Subsidy – Payments made by the government to farmers and agribusinesses with the goals of maintaining affordable food prices, boosting agricultural output, securing a minimum living wage for farmers, and fortifying the agricultural sector of the economy as a whole. Agriculture subsidy supporters argue that the nation's food supply is too important to be left to the whims of the market. Farmers' wages, they argue, need to remain somewhat consistent to prevent widespread farm closures during economic downturns, which would threaten food security. Subsidies, critics say, are too expensive and don't lead to the desired level of market stability.

Contract Farming – A contract that specifies the quantity and price of agricultural goods to be produced and delivered at a future date by one or more farmers to one or more processing and/or marketing enterprises. At the time of harvest and sale, the farmer must repay the input credit.

Covariant Risk – Natural disasters, epidemics, sudden shifts in global pricing, macroeconomic crises, and civil conflicts are all examples of events that may cause widespread damage to a large number of farms and families in a given region, creating what is known as "covariant risk." This is different from the randomness with which individual families are exposed to "individual hazards."

Index-based Insurance – Natural disasters, epidemics, sudden shifts in global pricing, macroeconomic crises, and civil conflicts are all examples of events that may cause widespread damage to a large number of farms and families in a given region, creating what is known as "covariant risk." This is different from the randomness with which individual families are exposed to "individual hazards."

Lease – Lease is a contract between two parties to share the use of an asset for a certain period of time in return for regular and predetermined payments. Leasing is a kind of finance for the purchase or rental of a fixed asset based on the idea that the item's value is derived from its application to a company rather than from its physical possession.

Rural Finance – Lease is a contract between two parties to share the use of an asset for a certain period of time in return for regular and predetermined payments. Leasing is a kind of finance for the purchase or rental of a fixed asset based on the idea that the item's value is derived from its application to a company rather than from its physical possession.

Secured Lending – Collateralization refers to the practise of pledging an asset as security for a loan. After a borrower fails on a loan, the lender may sell the collateral to recoup their losses.

Trade Credit – Loans made between buyers and sellers of inputs or finished goods for a short period of time or for a single season. Commonly, it is made available via commodity value chains. Consumer-business transactions are often more transient and price-driven than out grower programmes.

Value Chain – Value is added at each step in the chain of transactions that takes a product from raw materials to consumers.

Value Chain Finance – Actors throughout value chains may be provided credit or other financial services. Through the identification of relationships among players along the value chain, the mitigation of constraints, and the exploration of how formal financial institutions can participate to provide services, value chain finance can improve the effectiveness and efficiency of the value chain as a whole. A variety of agricultural and agribusiness firms, including small farmers, may benefit from well-designed value chain financing interventions, which boost their competitiveness.

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Warehouse Receipt Financing (inventory credit) – Collateralization is putting up something of value like a safe deposit box in order to get a loan. A warehouse will provide a paper detailing the items that have been stored there. After getting a receipt for the deposit, the depositor may utilise it to seek a loan from the bank or another lender. Lenders often establish liens on collateral to ensure that loan balances are paid back before the collateral is liquidated.

Agricultural Loans in India

It should come as no surprise that Indian banks are willing to lend money to the country's farmers, given that agriculture is the backbone of the country's economy. Loans for agricultural and farming-related activities are available.

Types of Agricultural Loans in India

Some of the agricultural pursuits for which one may apply for a loan are as follows:

- Maintenance of normal business procedures
- Acquiring Tractors, Harvesters, and Other Farming Equipment
- Spending money on Acquiring Property for the Purpose of Storage
- Marketing Product Financing
- Expansion
- Grants and subsidies are another kind of financial relief that may be provided to farmers in the case of crop damage or loss.
- Farmers in India may apply for agricultural loans if they are involved in horticulture, aquaculture, animal husbandry, silk farming, apiculture, or floriculture in addition to the production of food crops.

Conclusion

Growing more food was a huge task for Indian agriculture. We now have a food surplus and export several agricultural and associated goods. This necessitates a change in government agricultural policy, from one focused on preventing food shortages to one concerned with dealing with an abundance of food. Growing Agri-product in a way that is sustainable, inclusive, and responsible is now an even greater challenge for India's agricultural sector. All parties involved must work together to accomplish this result by

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orienting their policies and activities towards the SDGs. In order to continue supporting ecologically responsible and sustainable agricultural initiatives, banks will need to include "sustainability" into their business strategy and decision-making processes moving ahead. Financial institutions will need to develop new ways of funding agriculture to help green initiatives get off the ground.

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