

Research on the Types of Agricultural Finance

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Abstract

The shift to environmentally friendly farming and food production is not supported by the financial infrastructure that is necessary to enable it. Since the beginning of time, the industries have received a very little amount of money from financial institutions, microfinance organisations, and institutional investors. At the moment, the proportion of the gross domestic product that is contributed by the agriculture sector is too low in lending and investment portfolios. Along the agriculture value chains, there are a large number of micro, small, and medium enterprises (MSMEs) and small farmers, in addition to the unique risks that agriculture presents. The financial markets also have to deal with a limited effective demand for finance, a lack of expertise among financial institutions in managing agricultural loan portfolios, and a large number of small farmers. On the other hand, a great number of countries have imposed regulations and instruments that are either inadequate or ineffective, which has resulted in a reduction in the number of available channels for the mobilisation of private capital.

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

Introduction

India's economy is heavily dependent on agriculture, which not only offers job opportunities but also serves as a means of subsistence for a substantial portion of the country's population. As of 2018, the International Labour Organisation (ILO) estimated that over 44 percent of the working population is engaged in the agricultural and allied sector¹. However, according to statistics from the Ministry of Statistics and Programme Implementation (MoSPI), the proportion of agriculture to GDP has been decreasing from 52% in the 1950s to 30% in the 1990s and further below 20% from 2010 forward. This decline began in the 1950s. As stated in the Annual Report 2018-19 published by the Ministry of Agriculture and Farmers' Welfare (MoA&FW), the percentage of the total Gross Value Added (GVA) that was contributed by Agriculture and Allied Industries was sixteen percent. However, only six to seven percent of agricultural financing is allocated to related sectors, despite the fact that allied activities contribute around forty percent to agricultural production. The fact that the majority of Indian agriculture is carried out by smallholder farmers, with an average landholding size of 1.08 hectares, is a significant distinctive feature of Indian agriculture. A total of 86 percent of all holdings and 47 percent of the total area under operation are owned and managed by small and marginal farmers. They are responsible for more than fifty percent of the overall production of agricultural and associated products. In the context of smallholder farming, increasing

agricultural output and the incomes of farmers continues to be a difficult situation. It is necessary to find acceptable solutions, beginning with the provision of simple access to contemporary inputs and continuing with the sale of the output in the most lucrative marketplaces. The provision of institutional finance at acceptable rates along the whole value chain is one example of a catalytic tool that has the potential to facilitate the process by transforming a large number of subsistence farmers into prosperous commercial farmers. They are therefore able to diversify their agricultural operations by cultivating high-value crops such as fruits and vegetables, as well as participate in activities that are related to agriculture, such as dairy farming, poultry farming, fishing, honey production, beekeeping, and so on. It is possible to make the most of the enormous potential that allied has by increasing the flow of financing towards it and by encouraging farmers to shift into businesses that are associated with it.

The financing of activities connected to agriculture, ranging from production to market entry, is referred to as agricultural finance. The term "rural finance" does not include all agricultural financing, and not all rural finance is agricultural. Nevertheless, financial service providers that provide financing for rural, micro, or agricultural purposes sometimes have aims and possibilities that overlap with one another.

To stabilise food prices, assure abundant food production, guarantee farmers' basic incomes, and enhance the entire agricultural sector of the national economy, the government provides a subsidy to farmers and agribusinesses. This subsidy is known as an agricultural subsidy. The argument put up by proponents of agricultural subsidies is that the nation's food supply is too important to the nation's well-being to be regulated by market forces that are not tightly controlled. They also argue that in order to maintain a consistent food supply, the earnings of farmers need to be reasonably constant. If this were not the case, then many farms would be forced to close their doors during periods of economic instability. It has been argued by detractors that subsidies are not only very costly but also fail to achieve the required level of market stability.

The phrase "contract farming" refers to an agreement between farmers and processing and/or marketing companies for the production and delivery of agricultural goods at a certain period in the future, often at prices that have been fixed. When a farmer sells their product, the amount of the input credit that they owe is removed from their income.

Covariant Risk - Covariant risk occurs when a single incident, such as a natural catastrophe, disease, unanticipated shift in global prices, macroeconomic crisis, or civil unrest, has a negative impact on a large number of farms or families in a particular region. There is a distinction between this and individual hazards, which are those that randomly impact various families.

Indicator-based Insurance refers to a specialised kind of insurance that may be used to pay for losses that are associated with severe weather conditions. These weather conditions often affect agricultural businesses and raise the amount of risk that is associated with agricultural endeavours. Index-based insurance is most effective in situations where there is correlated risk, which refers to the risk of an event that causes consistent damage or losses across a geographical area or sector, such as drought,

flooding, or price volatility. This is in contrast to traditional insurance, which is most useful in compensating for losses that are caused by idiosyncratic events, such as house fires or car accidents. In more recent times, a number of insurance companies have also been testing out unique index-based livestock insurance products.

Leasing is a contract that allows two parties to utilise an asset for a certain period of time in return for recurring payments that are established in advance. Leasing is a means of financing the purchase or use of a fixed asset. This strategy is based on the idea that the value of the asset is in its commercial usage rather than via ownership of the asset.

The provision of financial services to a diverse rural population that includes both farm and non-farm households at various income levels is what is meant by the term "rural finance." A wide range of formal, informal, and semiformal institutional arrangements, as well as a wide range of goods and services, such as loans, deposits, insurance, and remittances, are included in this category. The wider financial industry is broken down into many sub-sectors, one of which is rural finance, which encompasses both agricultural financing and rural microfinance.

It is referred to as secured lending when a borrower pledges an asset to a lender as collateral in order to secure a loan until the debt is repaid. It is within the lender's rights to take the collateral and sell it in order to pay off the loan in the event that the borrower fails to make their payments.

Short-term or seasonal loans between buyers and sellers of inputs or goods are examples of what are known as trade credits. The majority of the time, it is delivered via commodity value chains. When compared to out grower programs, relationships between buyers and sellers are often more fleeting and are motivated more by pricing expectations.

The value chain is a series of transactions that are required to move a product from its inputs to its end market. These transactions include a process of adding value at each step of the process.

Flowing credit or other financial services via players along value chains is what we mean when we talk about value chain finance. Through the identification of linkages between participants throughout the value chain, the mitigation of limitations, and the exploration of how formal financial institutions might engage to offer services, value chain finance has the potential to enhance the overall efficacy and efficiency of the value chain. The competitiveness of a wide variety of agricultural and agribusiness firms, including small farmers, may be improved via the implementation of value chain financing interventions if they are planned well.

Receivables from the Warehouse (also known as inventory credit) - The use of commodities that have been safely kept as collateral for a loan. A warehouse will often publish a document that contains a list of the products or commodities that have been put in the warehouse. Following that, the depositor is able to utilise that receipt as a pledge in order to get a loan from a bank or other lender. The lender will put a lien on the commodity, which will prevent it from being sold without the revenues being used to pay off the debt that is still due.

Loans for Land and Agriculture in India

The Indian economy is built on agriculture, thus it should not come as a surprise that banking institutions are providing financial assistance to farmers all throughout the nation. Agriculture is crucial to the Indian economy. Agricultural loans are offered for a variety of activities that are associated with farming (agriculture).

Agricultural Loans in India and Their Definitions

Activities that are associated with agriculture that are eligible for a loan include the following:

The day-to-day activities of the business

Purchasing agricultural equipment such as tractors, harvesters, and other such items

Acquisition of land for the purpose of storage

Bank loans for product promotion

Spreading out

Furthermore, these financial aids may be provided in the form of grants and subsidies as well. These types of aids are often intended to safeguard the farmer in the case that the crops are damaged or lost.

Agricultural loans in India are not only made accessible to farmers who are working towards the growth of food crops, but they are also made available to anybody who is interested in other agriculture-related industries such as horticulture, aquaculture, animal husbandry, silk farming, apiculture, and floriculture.

Conclusion

In order to produce more food, the agricultural sector in India faced a severe obstacle. We are now a nation that has a surplus of food and is a net exporter of a wide variety of agricultural and associated items. In light of this, the policies of the government pertaining to agriculture need to be reoriented such that they are no longer focused on managing food shortage but rather on managing food excess. Agriculture in India is now confronted with an even more difficult problem, which is to cultivate agricultural products in a manner that is responsible, inclusive, and sustainable. When all of the stakeholders align their policies and activities with the Sustainable Development Goals (SDGs), this can be accomplished. When it comes to the financing of agriculture, coming ahead, financial institutions will be required to include the concept of "sustainability" into their business strategies and decision-making procedures in order to provide assistance for initiatives in the agricultural sector that are ecologically responsible and sustainable. In order to do this, financial institutions will need to develop novel approaches to agricultural finance in order to provide assistance for projects that are both environmentally benign and sustainable.

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