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Addressing credit challenges faced by Indian farmers

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It is a necessity for ensuring long-term agricultural resilience and economic stability

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Agriculture contributes over 16 per cent to India's GDP and employs roughly 42.3 per cent of the country's workforce. However, a substantial portion of the farming community faces persistent challenges in accessing credit. As per the last available reports, over 86 per cent of Indian farmers are classified as small and marginal, owning less than 2 hectares of land, obtaining financial support from banks and financial institutions (FIs) remains a daunting task. The lack of adequate collateral, procedural complexities and limited financial literacy further exacerbate the issue, leaving farmers reliant on high-cost informal credit sources. Studies show that over 60 per cent of farmers do not have access to formal credit, and this leads them to depend on informal sources that charge interest rates as high as 30-40 per cent annually. The financial constraints are significantly impacting their ability to scale agricultural practices and invest in technology, thereby reducing overall productivity.

The landscape of agricultural credit: Challenges and bottlenecks

Agricultural credit in India is primarily sourced from formal institutions such as banks, co-operative societies and government-backed financial programs, alongside informal lenders like moneylenders and traders. While formal institutions offer lower interest rates and structured repayment options, their reach remains limited, and procedural barriers deter many farmers from availing benefits. In contrast, informal lenders, though more accessible, charge exorbitant interest rates, leading to debt traps.

Core challenges in agricultural credit access

- 1. Collateral constraints:** Most farmers have small landholdings, often fragmented, making them ineligible for traditional secured loans. The reliance on land-based collateral leaves a significant number of small and marginal farmers without access to formal credit.
- 2. Procedural hurdles:** Loan application processes at banks and financial institutions involve extensive documentation and lengthy verification procedures. Additionally, many farmers are unaware of government-backed credit schemes due to inadequate financial education and outreach. While government initiatives like Kisan Credit Cards (KCC) are designed to help farmers, the complexity in accessing them and the lack of awareness create significant barriers. Farmers often struggle with the documentation process and are unable to benefit from these schemes due to a lack of outreach and financial literacy.

3. Interest rate disparities: While banks provide subsidised agricultural loans, many farmers fail to qualify due to eligibility criteria, forcing them to turn to informal lenders who charge excessive interest rates, drastically reducing their profitability. Reports indicate that NBFCs (Non-Banking Financial Companies) have been increasingly involved in agricultural lending due to farmers seeking easier access to credit and fewer documentation requirements. This is a direct result of farmers turning to these institutions due to easier access and fewer documentation requirements. The debt burden caused by high-interest rates often puts additional pressure on farmers and can span across generations, leading to long-term financial instability for rural families.

4. Inadequate coverage: Remote agricultural regions lack sufficient banking infrastructure, making it difficult for farmers to access credit. The absence of financial service providers in rural areas further widens the credit gap.

Pathways to empowerment: Innovative financing models

To bridge the credit gap, alternative financing models that cater to the specific needs of farmers must be adopted. Several innovative approaches hold promise:

1. Warehouse receipt financing: By increasing the acceptance of stored agricultural produce as collateral, farmers can access much-needed credit without requiring traditional land-based collateral. The need is to increase the smaller warehouse infrastructure at the tehsil levels through a PPP model.

2. Value chain financing: Integrating financial services within agricultural value chains enables farmers to receive funding based on their supply chain linkages, ensuring more seamless access to credit.

3. Technology-driven lending: Fintech solutions, including AI-driven credit scoring and digital loan processing, can simplify loan applications and expand financial inclusion in rural areas. Some of the Indian startups are already leveraging AI and data analytics to offer better loan terms to farmers, thereby promoting financial inclusion. These platforms use advanced technology to evaluate creditworthiness, based on factors such as farming history, transaction patterns and market trends.

4. Group lending and farmer producer organisations (FPOs): Encouraging collective borrowing models allow small-scale farmers to secure credit through shared responsibility, reducing individual risk and improving repayment credibility.

The role of technology and data analytics

Technology has the potential to transform agricultural finance by making credit access more efficient and transparent. The application of digital solutions in agricultural lending includes:

1. **Digital platforms:** Mobile applications and online portals enable farmers to apply for loans, track approvals, and receive disbursements remotely, minimizing physical banking challenges.
2. **Data analytics and AI:** An advanced data analysis can assess a farmer's creditworthiness based on farming history, transaction patterns, and market trends, reducing risks for lenders and improving loan accessibility.
3. **Remote sensing and precision agriculture:** Satellite imaging and IoT-driven farm monitoring can provide real-time insights into crop health and yield predictions, enhancing credit risk assessments for financial institutions.

Towards sustainable and inclusive agricultural finance ecosystem

A robust agricultural finance ecosystem requires a collaborative approach involving government agencies, financial institutions, technology providers and farmer organisations. Key steps towards fostering financial inclusion include:

- Implementing policy reforms that simplify agricultural credit disbursement and reduce bureaucratic bottlenecks.
- Expanding banking infrastructure in rural areas to ensure wider access to formal credit sources.
- Promoting financial literacy programs to educate farmers on loan options, repayment strategies and available government schemes.
- Encouraging private sector investment in Agri finance innovations to develop tailored solutions for small and marginal farmers. Encouraging private sector investment in Agri-finance innovations to develop tailored solutions for small and marginal farmers. NBFCs have already played a significant role here by offering customised products that meet the unique needs of rural farmers. These institutions are increasingly gaining popularity due to their flexibility, ease of access and minimal paperwork compared to traditional banks.

- Women play a crucial role in the agricultural sector, and empowering women entrepreneurs through initiatives like the Mahila Kisan Sashaktikaran Pariyojana (MKSP) can significantly enhance financial inclusion in agriculture.
- Micro LAPs, offered by organisations like NBFCs, have proven to be a powerful tool in enabling farmers and rural communities to access small, accessible amounts of credit for long-term agricultural and Allied Agricultural Business needs for Growth.
- Women-led Farmer Producer Organizations (FPOs) are emerging as a key solution for improving financial access for women farmers. Several state governments are already promoting such organisations, which not only help with credit access but also improve market linkages and bargaining power for women farmers.
- In this landscape, the Credit Guarantee Scheme for e-NWR-Based Pledge Financing (CGS-NPF) is an initiative launched by the Government of India on December 16, 2024, with a corpus of ₹1,000 crore. Its primary aim is to provide post-harvest financial support to farmers, especially small and marginal ones, by enabling them to access loans against electronic Negotiable Warehouse Receipts (e-NWRs) issued for commodities stored in Warehousing Development and Regulatory Authority (WDRA)-accredited warehouses.

Strengthening credit access for Indian farmers is not just a financial imperative but a necessity for ensuring long-term agricultural resilience and economic stability. A future where farmers have seamless access to credit will drive sustainable agricultural growth, improve rural livelihoods and contribute to national food security. With collective efforts, it is possible to create a more inclusive and supportive financial ecosystem that empowers India's farmers and enhances their economic well-being.

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