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1. Agri Financing and Agri Insurance

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Abstract:

Agricultural lending and financing play a crucial role in India's agriculture sector, which employs over 50% of the country's workforce and contributes around 17-18% to the country's Gross Domestic Product (GCPIT,2023) Agricultural finance as a subset of rural finance dedicated to financing agriculture-related activities. Agricultural insurance is a tool for improving the resilience of the farming output, reducing the losses caused by natural disasters to the agricultural production and protecting farmers' income (Bhuiyan,2022). Agriculture insurance can reduce farmer and herder risk and increase average productivity and incomes. It can also increase access to credit. However, agriculture insurance is effective when combined with the adoption of risk management measures. Governments and development agencies have to play a bigger role in partnering with private re/insurers, technology providers, input suppliers, and financial institutions (Chatterjee ,2017).

1.1 Agricultural Finance:

Agriculture finance is defined as a financial analysis of borrowing funds and reserves by farmers, the operation of farm lending agencies, association and of organization interest in loans for agriculture (Murray,1953). Agriculture finance has been provided to the farmers by banks and other government institutions. Farmers need finance as short, medium and long-term loans. Short-term credit for operating expenses in field, medium term credit for purchase of cattle, farm machinery and repairs. Long-term loans are required for effecting permanent improvement of land, digging tube wells, purchase of larger agriculture machinery like tractors, harvesters and repayment of old debts. Farmers are getting external financial assistance from two sources namely, i) non- institutional or unorganized agencies, and ii) institutional or organized agencies.

1.2 Institutional Sources:

Institutional sources are established by the government and known as formal source of credit. The main objective is to provide credit at cheap rate of interest. Institutional sources such as Government, Co-operatives, Commercial Banks, Regional Rural Banks, Reserve Bank of India (RBI)and NABARD (Kumar *et.al.*,2017). The commercial banks provide loan for all agricultural purpose for short, medium and long term. Cooperatives ensures timely and rapid flow of credit to farmers at lower rate of interest. Due to certain deficiencies in the functioning of Co-operatives and commercial banks, the emergence of state-sponsored, rural oriented banks called Regional Rural Banks (RRBs) was developed.

The objective of RRB is to provide credit for agriculture and allied activities, to help the poor financially for their consumption needs and to encourage village industries, artisans, carpenters, craftsman. RRB's were created to the people where there are No banking facility. RBI Provides short, medium and long-term credits to agriculture through co-operative channels. NABARD, as a Development Bank, is mandated for providing and regulating credit and other facilities for the promotion and development of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts.

1.2.1 Non-Institutional Sources:

Non-institutional sources are traditional source of credit commonly known as Informal source of credit. They usually charge high rate of interest. Non-institutional sources include money lenders, landlords, traders and commission agents, friends and relatives. Money lenders provide credit to all rural people. Landlords provide loan to small and marginal farmers. Traders and commission agents provide credit to peasants on mortgaging crops at high interest. Farmers are borrowing cash from their relatives for agricultural operations. These loans are a kind of informal loans and carry no interest and are normally returned after harvest (Kumar *et al*.,2017).

1.3 Micro Finance:

Microfinance, also called microcredit, is a type of banking service provided to low-income individuals or groups who otherwise wouldn't have access to financial services. It has started for poor to raise their income level and improve living standards and for budding entrepreneurs to borrow start-up capital. Micro finance institutions (MFI) in India fall under two categories: i) Financial: Commercial banks, Regional Rural Banks and Co-operative banks ii) non-financial: a) Not for Profit MFIs: NGOs, Trusts, etc., b) Mutual Benefit MFIs: State/ national credit co- operatives, and c) Profit Centered MFIs: Non-banking financial companies (Mohd,2018).

NBFC-MFIs having the huge market share of 41.28 per cent, thus make the major player in the microfinance sector. The Self-Help Group (SHG) - bank linkage (SBL) is the largest microcredit model in India which was initiated by NABARD in 1992 and Kisan Credit Card (KCC)in 1998 to provide adequate and timely credit support for agriculture and allied activities. For microcredit institutions, banks are the second largest source with 31.98 per cent. SFBs, NBFCs and NFPs accounted for 17.40 per cent, 9.06 per cent and 0.27 per cent of the market share, respectively (The business line,2023).

1.4 Government Schemes to Support Farmers:

The interest subvention scheme for farmers aims at providing short term credit to farmers at subsidized interest rate. Differential Rate of Interest (DRI) is the scheme to improve the economic conditions of the weakest of the weaker sections of community by providing financial assistance at concessional rate of interest for engaging in productive and gainful activities. The Rashtriya Krishi Vikas Yojana (RKVY) scheme provides financial assistance to farmers for various activities such as crop diversification, value addition, and marketing. The RKVY scheme has helped promote agricultural diversification, resulting in increased agricultural productivity and income for farmers. The Agriculture Infrastructure Fund (AIF) provides financial assistance to farmers for various infrastructure development activities such as cold storage, warehouses, and food processing units. The scheme aims to improve the agricultural supply chain and reduce post-harvest losses by providing modern infrastructure facilities to farmers. Under the AIF, a total amount of INR 1 lakh crore has been allocated for the period 2020-2029 (Santhosh,2023).

The scheme provides credit guarantee coverage for loans up to INR 2 crore, and the interest rate is fixed at 3% per annum for a period of seven years. 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 (santhosh.2023).

1.5 Agri Insurance:

Agricultural insurance is a tool for improving the resilience of the farming output, reducing the losses caused by natural disasters to the agricultural production and protecting farmers' income (Bhuiyan,2022).

It aims to reduce the financial risk and uncertainty faced by farmers and help them manage their production and income more effectively. Insurance has become even more important as extreme weather events and climate change have increased the risks and uncertainties of farmers and agriculture-based enterprises. In addition, agriculture insurance an improve access to credit for households and businesses, as lenders may be more willing to lend money to farmers who have coverage. This can help farmers to expand their operations and invest in new equipment or technology (Uvaneshwaran and mohana priya,2014).

1.6 Agricultural Insurance Schemes:

The major schemes which are commonly followed in agri insurance sector as follows:

1.6.1 Pradhan Mantri Fasal Bima Yojana (PMFBY):

The Pradhan Mantri Fasal Bima Yojana was launched by Prime Minister of India Narendra Modi on 13 February 2016. Insurance protection for food crops, oilseeds and annual horticultural/commercial crops.

The actual premium for farmers as for Kharif season - 2% of sum insured, Rabi Season 1.5% of sum insured and Annual commercial/horticultural crops - 5% of sum insured.

If the sowing is not done due to adverse weather/climate, claims up to 25% of sum insured will be paid for prevented sowing/planting risk. When the yield is lower than the guaranteed yield of notified crops, the claim payment equal to shortfall in yield is payable to all insured farmers. If 50% loss in mid-season of crop then on account advance payment, up to 25% of likely claims will be paid as immediate relief. In addition to this, hail storm and landslide affected areas also assessed at individual farm level. Implementing agency will be selected by the State Government through bid (Gujji and Darekar,2018).

1.6.2 Weather Based Crop Insurance Scheme (WBCIS):

WBCIS mainly for Insurance protection for notified food crops, oilseeds and horticultural /commercial crops. Uniform maximum premium for all farmers like PMFBY. When the Weather indices is less/ higher from the Guaranteed Weather Index of notified crops, the claim payment equal to shortfall is payable to all insured farmers. Provision for other losses and implementing agency will be selected as like PMFBY.

1.6.3 Coconut Palm Insurance Scheme (CPIS):

CPIS Insurance protection for Coconut Palm growers. Premium rate per palm ranges from Rs. 9.00 (in the plant age group of 4 to 15 years) to Rs. 14.00 (in the plant age group of 16-60 years).50-75% subsidy of premium is provided to all types of farmers. When the palm damaged, the claim payment equal to shortfall in yield is payable to all insured farmers.

1.7 Challenges Faced in Agri Finance and Agri Insurance:

These challenges faced by government and private sector includes lack of awareness, collateral requirements, improper utilization of loans, lack of savings, predominance of private agencies, high interest rates. Increasing awareness and understanding of insurance among agriculture households and business and improving capacities of insurance providers including insurers, aggregators and governments needs continuous efforts.

1.8 Conclusion:

Policies to improve and attract agricultural finance come from different ministries, including agriculture, finance and economy. Government would ensure that Crop Estimation Surveys (CES) and estimation procedures for multiple picking crops in particular be strengthened in order to furnish accurate estimates of yield and in assessing the extent of crop loss of individual insured farmers due to operations. It is essential to continue implementing such schemes and initiatives and provide adequate support to farmers to ensure sustainable agriculture and rural development in India (International Labour Organizations,2023).

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