

# Financing for Agriculture: How to Boost Opportunities in the Varanasi District of Uttar Pradesh

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**Abstract:** Timely and adequate finance at affordable price is crucial to agricultural development in Varanasi District of Uttar Pradesh. Agriculture sector occupies a key position in the development of the Varanasi economy. It provides employment to about 60 per cent of the working population in Varanasi District. Large part of the Varanasi's income originates from the agriculture sector. It is imperative that the problems of farmers are addressed with the sense of urgency. Risks are heavy in agriculture due to the global warming and other natural calamities that hampers the agricultural productivity and mispricing of the output thereby dent in their revenue. Other sectors, who invest in agriculture, particularly local farmers, need funds from third parties to carry out their businesses. However, in the current global financial system, a number of factors frustrate the development of solid financial services in Varanasi District.

**Keywords:** Varanasi; agriculture finance; commercial banks

## 1. Introduction

The critical factor for the growth of agriculture sector in developing nations is finance. The shifts from subsistence to commercial agricultural production requires funds (Ruete, 2015). In developing nations, where agriculture is a source of livelihood of 86 per cent of rural people (International Finance Corporation [IFC], 2013), financing for investments in agriculture is scarce, even for large investors. In the developing nations like India, less than 5 per cent of commercial lending is destined to the agriculture sector. Commercial banks in India are reluctant to accept the risks prevalent in the agriculture sector, such as droughts, floods, pests and diseases, or the transaction costs of covering large geographical distances. Consequently, although governments are now making efforts to attract investments for agriculture sector, the lack of understanding of the financial risks and opportunities in agriculture, deprives the sector of much-needed funds to boost production, processing, and marketing.

Financing in agriculture is also important for other inputs being used in agricultural production. Technical inputs can be purchased and used by farmers only if he has funds. But due to lacking in their own financial sources they need outside source of financing. Agricultural finance capitalizes farmers to undertake new investments and/or adopt new technologies. The important agricultural finance is further reinforced by the

unique role of Indian agriculture in the macroeconomic framework along with its significant role in poverty alleviation. Realizing the importance of agricultural financing in fostering agricultural growth and development, the emphasis on the institutional framework for agricultural finance is being emphasized since the beginning of planned development strategy in India (Mishra & Mohapatra, 2017).

Agriculture sector occupies a key position in the development of the Varanasi economy. It provides employment to about 60 per cent of the working population in Varanasi District. Large part of the Varanasi's income originates from the agriculture sector. It is imperative that the problems of farmers are addressed with the sense of urgency. Agriculture being a State Government subject, the bulk of public investment in agriculture takes place at the level of States and the Central Government supports the states as a catalyst. Like other industries, agriculture also requires finance. Small and marginal farmers in Varanasi requires funds to meet their operational expenses. Their fund need is high at the time of crop season. Millions of farmers are depending upon marginal and subsistence farming. Due to low yield, they are not in a position either to have surplus for distribution or at a times even to continue the production process successfully and economically. These are the main reasons farmers are depending mostly on credit funds even for normal agricultural operations and have to pay a part of their income by way of interest later (Selvaraj & Palaji kumar, 2015).

## 2. Statement of the problem

Finance is the lifeline of the agricultural economy of Varanasi, and it is considered as the one of the important tool for the up gradation of agriculture sector and farmer vice-versa. In other words, there cannot be any agricultural development unless required doses of finance are available. Today farmers are facing substantial difficulties due to natural calamities, price fluctuation, shortage of skilled labour, lack of knowledge regarding proper management of finance etc. Many commercial banks and financial institutions have been lending both direct and indirect finance to agricultural sector and tends to invest the funds in agricultural development. Even though farmers in

Varanasi are unable to acquire infrastructure facilities and services due to financial constraints. Thus agricultural finance delivery mechanism in Varanasi is loosely integrated and not reaching the target beneficiaries. Risks are heavy in agriculture due to the global warming and other natural calamities that hampers the agricultural productivity and mispricing of the output thereby dent in their revenue. Schemes that tried to integrate the mechanism of insuring yields and market risks to protect the interests of the farmers remained in nascent stage.

### 3. Agricultural Profile of the Varanasi District

The Varanasi is eastern region of the Uttar Pradesh. It is the oldest religious place of Hindu and historical district of U.P. in India. Geographical location of the district is surrounded on the west by the Jaunpur and SantRavidas Nagar district, on the east by the Chandauli district, on the north-east by the Gazipur District and the south by the Mirzapur District. Agriculture pattern of Varanasi, indicates the proportion of area under different crops at a point of time. In Varanasi, agriculture is at subsistence level and thereof any change in agriculture pattern depends mainly on the changes in the domestic requirement of the peasants. This also depends, to the large extent, on the facilities available to raise various crops in the given natural agro-climatic conditions of the region and also on the availability of other inputs like water, manures, fertilizers, and credit etc. with the technological development in agriculture and the evolution of the high yielding varieties of crops such as Paddy, Wheat, Jowar, Bajra, Maize, Barley, Gram, Pea, Arhar, Sugar Cane, Mustard, Linseed, and other Oil Seeds.

### 4. Need for the study

It has become difficult especially for Commercial Banks and other Financial Lenders in the Varanasi District to gauge and appraise the quality of agricultural credit for the farmers. The study brings out the fact that commercial banks are simply agricultural financial source and a path to reach the target of priority sector lending. In Varanasi agricultural productivity is low, soil health is deteriorating and risk mitigation strategy is not very effective. The agricultural financing agencies in the District are not vertically integrated to a complete extent at different phases in this context. There is need to make commercial banks in Varanasi more participative through policy implementation, proper monitoring and build a conducive environment for beneficial and sustainable agricultural system.

### 5. Review of literature

Kumar, Singh & Sinha (2010), examined the performance of agricultural finance flow and has identified the determinants of increased use of institutional finance at the farm household level in India. The structure of finance outlets has witnessed a significant change and commercial banks have emerged as the major source of institutional finance. Kannan, (2011), has find

out that the disbursement of credit through institutional sources had a large impact on improving agricultural productivity. However, it points at its inadequacy and thereby urges for widening its coverage both in terms of the amount of finance and the coverage of more number of marginal and small farmers. Govindasamy (2013), found that financial institutions like commercial banks as effective channels of finance for farm sector. Seema (2015), concluded that performance of agricultural credit in India reveals that though the overall flow of institutional credit has increased over the years, there are several gaps in the system like inadequate provision of credit to small and marginal farmers, limited deposit mobilization and heavy dependence on borrowed funds. Efforts are required to address and rectify these issues.

### 6. Challenges of agricultural financing in Varanasi

Similar to other sectors, those who invest in agriculture, particularly local farmers, need funds from third parties to carry out their businesses. However, in the current global financial system, a number of factors frustrate the development of solid financial services in Varanasi District of Uttar Pradesh. First, transaction costs are higher due to a more dispersed population with weak infrastructure.

Second, and more importantly, the risk factors inherent in agriculture often inhibit financial institutions from lending. These include production risks lined to natural hazards (such as droughts, floods, and pests), farmer's weak ability to provide collateral and the volatility of prices.

Third, the financial sector may not be sophisticated enough in Varanasi District. The availability and innovation on sector-specific financial instruments and services is usually poor. Also, although financial services may be available, they may not be suitable for all types of agricultural activities, which will have diverse needs with respect to timing for disbursement, amounts and risks, among others.

Finally, the lack of records and statistics on farming in Varanasi makes assessment of finance suitability challenging for financial providers. This changes the conditions required to access financial products and undermines opportunities for profitable investments.

### 7. Who Finances Agriculture in Varanasi?

The diverse system of agricultural finance enables a wide variety of actors to be financiers in Varanasi. Different risks and instruments are covered by different actors. Farmers and small entrepreneurs play the most important role and are the first level, acting mainly within the informal sector such as Self-Help Groups (SHGs) but also in more complex organizations, such as saving and credit cooperatives and unions or mutual credit guarantee schemes. Cooperatives and credit societies plays an important role in agriculture as self-help member institutions. Unlike banks, they have a non-profit status. Smaller cooperatives are well positioned to offer its members better access to financial institutions and investments.

Development banks play an important role in agriculture finance by filling financial gaps in Varanasi District. They finance specific programs in the public sector, directly with local companies or through local banks acting as intermediaries because of their better access to the domestic market of the District. In Varanasi, several private sector finance traditionally comes from local commercial banks and financial institutions. These institutions finance small farmers and entrepreneurs directly, facilitate microfinance schemes and finance large rural infrastructure projects. The most successful ones have in-house expertise in the agriculture sector and the capacity to diversify across geographic regions, economic sectors and agriculture sub-sectors.

### 8. Role of government in financing agriculture in Varanasi district

Aside from private sources of finance, Governments are also important source of finance for Varanasi District agriculture. Public financing can focus on particular actors, such as small farmers; on particular issues, such as environment protection and organic agriculture. Other promising government initiatives include the creation of financial institutions in agriculture, whose regulations are usually defined by Central Government and Banks. Government intervention in agriculture finance in the district is often directed towards managing risks in the agriculture sector. This includes:

- a. Support to farmers in the form of payment of indemnities, reductions in social security contributions and exemption of taxes during periods of crisis in the sector or subsidizing private insurance schemes.
- b. Creating credit guarantee funds or supporting credit guarantee schemes offered by private institutions through counter guarantees.
- c. In the case where risk management is left to the farmers, government can still support by providing information to the sector on potential risks, and
- d. The government can act as a facilitator without disbursing public funds itself. This role is especially significant in value chain finance, where the government can develop a business model to link the different actors that would benefit from financing one another.

### 9. Role of government in regulating agricultural financing

Policies to improve and attract agricultural finance come from different ministries, including agriculture, finance and economy. The number of governmental actors influencing agricultural finance makes its development more complex. Financial regulations are critical and products, particularly to ensure optimal allocation of financial resources, minimize the transaction costs in financial intermediation and adapt financial institutions to changing environments. The regulatory framework governing the financial sector is twofold: First, the government must provide enough openness and flexibility for

the financial sector to offer the financial instruments needed for the rural sector and, second, regulation should control abuse by financial institutions, such as offering unduly high rates or taking excessive risks with people's saving or investors' funds. Laws also have to be coupled with efficient supervision of the financial sector.

Overregulation presents major problems for flexibility and innovation in agriculture finance. If the Government aims to attract foreign or domestic financial institutions to agriculture sector of Varanasi, it must also offer an overall stable and efficient institutional environment that increases the confidence of financial institutions to invest in the country and sector. Weak land tenure systems and poor enforcement of laws and regulations affect the extent to which financial institutions will finance agriculture.

### 10. Conclusion

Access to finance is a vital part of agriculture sector, and drawing farmers and small entrepreneurs in Varanasi into the financial system is far from accomplished. It is not mere coincidence that the Varanasi District with developing financial markets in the agriculture sector are the ones where the sector is still in developing stage. Innovation in finance to solve the needs of the agriculture sector in the district and should not be limited to commercial banks or any other financial institutions. The government can play a proactive role by promoting laws and regulations with new financial instruments or even raising awareness of existing ones to bring them to the attention of the financial and agricultural sectors. Specialization in agricultural finance in the government and in the financial sectors in an important driver to its development.

However, financing is not a charitable activity; it is primarily profit driven. The necessarily means that all possible regulation and programs to attract financing must be realistic and characteristics of the sector and the viability and rate of return. Managing the risks and understanding the opportunities of the agriculture sector is key for any successful policy or law. Thus, to attract finance and, consequently, investment in the agriculture sector, it is critical to strengthen both the agriculture and financial sectors. This requires a coherent strategy with consistent regulation and policies that match the sectors needs and in line with the realistic capacities of all the actors in agriculture sector in Varanasi.

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