

IMPACT OF MICRO FINANCE ON AGRICULTURAL SECTOR

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Abstract

Agriculture has been and still remains the backbone for any developing countries. It plays a key role in providing raw materials for the industrialized and less developed world. Nonetheless, it is challenged financially resulting in the use of basic technology consequently leading to low production. Amidst the issue, microfinance contributes great towards agricultural modernization and increased production in developing countries. This paper seeks to evaluate the impact of microfinance on agricultural production. The study recognized that microfinance is positively related to agricultural production and shows a significant impact on output levels. Major challenges identified with credit access include unavailability of collateral securities, small loan amounts and delay in the release of agricultural loans. The major challenge with credit administration is the lack of understanding of the loan acquisition process among farmers. The formation of active farmer-based organizations, educating farmers on the loan acquisition process, encouraging farmers to save, and encouraging Microfinance Institutions (MFIs) and other development partners to sufficiently finance agriculture were recommended. It is envisaged that such efforts have the potential to reduce income inequality thus contributing towards the achievement of the millennium development goal of poverty reduction.

Keywords: MFIs, GDP, UNCDF, Microfinance, Agricultural, Production, Collateral Securities.

Introduction

Agriculture is an inevitable associated to the economies of developing countries as it plays a key role in providing food to the population and supplying other sectors with raw materials for production of goods and services. Agriculture is a major sector of the economy because its impact heavily on poverty reduction and industrial promotion through the supply of inputs. Higher production from a farmer's increases access to food and enhances household food security that result is improving the nutritional needs of society. For those who purchase food, higher production generally means lower food prices and consequently access to a greater quantity of food in the market for a given income level. Poverty is deepest among food crop farmers, who are mainly traditional small scale producers. Despite the significance of the agricultural sector to poverty reduction and overall development but the agriculture is characterized by low production and badly functioning markets for outputs. Small holder farmers rely on elementary methods and technology. Small farmers have limited skills and inputs such as improved seeds that would increase yields. Peasant and subsistence farming with the use of undeveloped technologies have been very primary in the agricultural sector, resulting in low levels of production. Although the sector contributes significantly to the Gross Domestic Product (GDP) of the country, its per capita contribution is very insignificant. Thus, the overall production has not been up to the level that will ensure that the sector makes the needed impact. The gross effect of the situation described above is that, most of these farmers lack economies of scale as a result of the small scale production, resulting in a high per capita cost and generally low production levels. Finance or capital has been identified as been inadequate to expand production in the sector especially by the low- income earners or farmers who hold small farms. Microfinance has a very important role to play in

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