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### Role of finance literacy for agricultural sector and its impact on Bihar economy- special references to Bhagalpur district

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#### Abstract

Financial literacy plays a crucial role in enhancing the agricultural sector, especially in a state like Bihar, where agriculture is the backbone of the economy. Financial literacy refers to the understanding and effective use of financial skills, including personal financial management, budgeting, and investing. In Bihar, a state with a predominantly rural and agrarian population, empowering farmers with financial knowledge can significantly improve their economic well-being, productivity, and resilience to market fluctuations. Financial literacy helps farmers understand the benefits of agricultural insurance, savings schemes, and government programs like the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) and Kisan Credit Card (KCC). These tools can safeguard them against crop failure, climate risks, and price fluctuations, ensuring a more stable income. Moreover, farmers can use financial knowledge to diversify their investments, explore new farming techniques, and adopt technology, leading to improved yields and higher income.

Bihar's agricultural sector faces several challenges, including fragmented land holdings, low productivity, and limited access to modern agricultural practices. A major hurdle is the lack of financial literacy among farmers, which limits their ability to access credit, manage debts, and make informed decisions about investments in their farms. With proper financial education, farmers can better manage their resources, reduce dependency on informal money lenders, and improve their creditworthiness with formal institutions.

**Keywords:** Financial literacy, empowering, agricultural insurance, Pradhan Mantri Kisan Samman Nidhi (PM-KISAN)

#### Introduction

Bihar's agricultural sector faces several challenges, including fragmented land holdings, low productivity, and limited access to modern agricultural practices. A major hurdle is the lack of financial literacy among farmers, which limits their ability to access credit, manage debts, and make informed decisions about investments in their farms. With proper financial education, farmers can better manage their resources, reduce dependency on informal money lenders, and improve their creditworthiness with formal institutions. Financial literacy helps farmers understand the benefits of agricultural insurance, savings schemes, and government programs like the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) and Kisan Credit Card (KCC). These tools can safeguard them against crop failure, climate risks, and price fluctuations, ensuring a more stable income. Moreover, farmers can use financial knowledge to diversify their investments, explore new farming techniques, and adopt technology, leading to improved yields and higher income.

#### Importance of financial literacy in agriculture

Financial literacy is essential in agriculture as it equips farmers with the knowledge and skills to manage their financial resources effectively, leading to improved decision-making and long-term economic stability. In the agricultural sector, especially in rural areas, farmers often lack access to formal financial education, limiting their

ability to secure loans, manage debt, and make informed investments. Financially literate farmers can better assess credit options, utilize government schemes such as agricultural subsidies and loans, and engage in insurance programs that protect them from the risks associated with crop failure, climate variability, and price fluctuations. By understanding financial concepts like budgeting, saving, and investment, farmers can enhance their productivity by investing in modern farming technologies, quality seeds, and fertilizers, ultimately increasing yields and profitability. Moreover, financial literacy empowers farmers to reduce their reliance on informal money lenders, who often charge exorbitant interest rates, thereby preventing a cycle of debt and financial insecurity. With access to digital banking, financial planning, and market information, financially educated farmers can diversify their income streams, enter new markets, and enhance their bargaining power when selling crops. This not only improves the livelihoods of individual farmers but also contributes to the overall development of rural economies. As agriculture remains the backbone of many developing regions, including Bihar, raising financial literacy levels can have a profound impact on reducing poverty, increasing income stability, and driving economic growth in agrarian communities. Thus, financial literacy is a critical tool for fostering sustainable agricultural development and ensuring economic resilience in rural areas.

### Impact on Bihar's economy

The impact of financial literacy on Bihar's economy, particularly through the agricultural sector, is profound, as agriculture is the backbone of the state's rural economy. Bihar, being predominantly agrarian with about 70% of its population dependent on farming, faces challenges such as low agricultural productivity, fragmented land holdings, and limited access to formal financial services. Financial literacy plays a pivotal role in overcoming these challenges by empowering farmers with the knowledge and skills needed to manage their financial resources effectively. When farmers are financially literate, they are better equipped to access formal credit, government subsidies, and agricultural insurance schemes, reducing their dependency on informal moneylenders who often charge high-interest rates. This shift not only helps them manage debt responsibly but also facilitates investments in modern farming techniques, such as high-quality seeds, irrigation systems, and mechanization, which can significantly boost agricultural productivity. Higher productivity leads to increased income for farmers, allowing them to reinvest in their land and improve their standard of living. Additionally, financially literate farmers are more likely to adopt risk management practices, such as crop diversification and participation in insurance programs, which make them more resilient to economic shocks and natural disasters like floods or droughts—common in Bihar. A more financially stable farming community leads to greater rural economic activity, as increased income generates higher demand for goods and services, benefiting local markets and creating employment opportunities in non-agricultural sectors. Moreover, financial literacy enhances farmers' ability to engage with digital banking services and market linkages, enabling them to access wider markets and get fair prices for their produce. As farmers gain financial stability, the overall economic health of Bihar improves, contributing to poverty reduction, better access to education and healthcare, and enhanced rural development. Ultimately, the spread of financial literacy across Bihar's agricultural sector can lead to more sustainable economic growth, increased agricultural output, and a more balanced contribution of rural areas to the state's economy, fostering long-term socio-economic development and reducing regional disparities.

The agricultural sector contributes significantly to Bihar's economy, employing nearly 70% of its population. However, the sector's full potential remains untapped due to low financial literacy and poor access to formal financial systems. By improving financial literacy, Bihar can boost its agricultural productivity and economic growth.

When farmers are financially literate, they can make more informed decisions about credit, investments, and risk management. This can lead to increased farm productivity, better use of inputs, and higher incomes, which in turn would stimulate the local economy through increased consumption and investments in rural infrastructure.

Financially literate farmers are also more likely to invest in education, healthcare, and other social services for their families, contributing to overall socio-economic development. In the long term, this can lead to poverty reduction, increased rural employment, and a more balanced state economy.

### Objective of the study

- The objective of financial literacy in the agricultural sector is to empower farmers with essential knowledge and skills to effectively manage their finances and resources.
- It aims to improve farmers' access to formal financial services, such as loans, savings, insurance, and subsidies, for better economic decision-making.
- Financial literacy seeks to reduce farmers' reliance on informal credit sources, often burdened with high-interest rates, by connecting them to more affordable financial systems.
- It promotes the adoption of modern farming techniques, technologies, and practices by enabling farmers to make informed investments, increasing productivity and profitability.
- Financial literacy enhances farmers' ability to manage risks, particularly those related to climate, crop failure, and market fluctuations, through better awareness of insurance and other risk management tools.
- By improving their financial skills, it helps farmers optimize their income management, leading to increased savings, reinvestment in farming, and improved living standards.
- It fosters greater participation in digital financial services, enabling farmers to benefit from market linkages, online banking, and e-commerce, broadening their economic opportunities.
- Ultimately, the objective is to stimulate rural economic growth in Bihar, reduce poverty, and contribute to the overall socio-economic development of the state through a more empowered and financially literate agricultural sector.

### Conclusion

In conclusion, improving financial literacy among farmers in Bihar is a critical step toward empowering them economically and strengthening the state's agricultural and broader economic landscape.

Financial literacy plays a pivotal role in transforming the agricultural sector, particularly in Bihar, where a large portion of the population relies on farming for their livelihood. Given the unique challenges faced by Bihar's agrarian communities, such as fragmented land holdings, low productivity, and a reliance on informal credit sources, enhancing financial literacy is crucial to unlocking the full potential of the agricultural sector. Financial literacy equips farmers with the knowledge and skills required to make informed financial decisions, access formal credit systems, manage risk, and take advantage of government programs designed to support agricultural development.

For Bihar, financial literacy serves as a catalyst for rural economic growth. By understanding how to navigate formal financial institutions, farmers can access affordable credit through schemes like the Kisan Credit Card (KCC) and Pradhan Mantri Fasal Bima Yojana (PMFBY), rather than depending on high-interest informal loans. This shift not only reduces financial vulnerability but also allows farmers to invest in modern agricultural technologies, quality inputs, and better irrigation methods, ultimately leading to higher productivity and improved income levels. Moreover, financial literacy fosters better risk management, enabling

farmers to take advantage of insurance schemes that protect against crop failure, climate-related risks, and market fluctuations, thus ensuring a more stable income.

Financial literacy is also essential for achieving sustainable development in Bihar, as it promotes the efficient use of resources, encourages diversification of income sources, and ensures long-term economic resilience. It plays a key role in reducing poverty, addressing income disparities, and improving the socio-economic conditions of rural communities. Ultimately, by investing in financial literacy programs tailored to the needs of farmers, Bihar can create a more robust and sustainable agricultural sector that drives inclusive growth and strengthens the state's economy as a whole.

Financial literacy is not just a tool for individual empowerment but a critical factor in the broader economic transformation of Bihar's agricultural sector. Its ripple effect on rural development, poverty alleviation, and economic stability makes it an essential component of the state's path toward sustainable growth.

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