

An Analytical Study Of Financial Challenges Faced By Farmers In India With Special Reference To Organic Farming



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Abstract

This paper examines financial challenges confronting farmers in India with special reference to organic farming, positioning organic producers as sustainability-oriented micro and small enterprises within an emerging entrepreneurial ecosystem. Using a qualitative design based on secondary data (2016–2025) from peer-reviewed studies, policy documents and institutional reports, the study applies thematic content analysis to synthesize constraints across finance, markets and institutions. Findings show that limited access to formal credit, weak collateral and documentation, and cash-flow stress during conversion jointly restrict investment and innovation. High certification and compliance costs act as entry barriers to premium markets, while fragmented value chains and price volatility undermine revenue predictability and discourage scaling. Infrastructure gaps in storage, cold chain, transport and processing reduce value addition and competitiveness, and policy implementation limitations—such as coordination gaps, delays and misaligned incentives—further weaken support for organic enterprises. The discussion interprets these constraints as ecosystem-level failures requiring coordinated solutions rather than isolated subsidies. The paper recommends tailored green finance (patient capital, risk sharing and blended finance), more inclusive certification options (including group/participatory approaches), stronger market linkages through aggregation and contract mechanisms, and targeted investments in logistics, processing, training and extension. By integrating sustainable entrepreneurship and institutional perspectives with agricultural finance, the study offers policy-relevant insights for strengthening organic farming enterprises as scalable, competitive sustainable SMEs in India and comparable Asian contexts.

Keywords: Sustainable Entrepreneurship; Organic Farming Enterprises; Financial Constraints; SME Development; Entrepreneurial Ecosystem

1. INTRODUCTION

Small and medium enterprises (SMEs) in their turn have become a key source of economic change in emerging economies, especially in Asia, where sustainable entrepreneurship is often the matter of concern. Sustainable entrepreneurship is a concept that combines opportunity recognition with environmental stewardship and value creation to the social groups, making the enterprises agents of long-term sustainable development (Muñoz and Cohen, 2018; Sarango-Lalangui et al., 2018). The field of the study has grown substantially during the last ten years, emphasising the development of sustainability-based business models, as well as the strategic significance of green innovation (Teran-Yepes et al., 2020). The recent literature also highlights the significance of dynamic capabilities and value co-creation in facilitating sustainable performance in the context of SMEs (Putri et al., 2025).

The existence of the supportive institutional frameworks, network of stakeholders, and financial systems is the opinion of the entrepreneurial ecosystem theory that determines the success of sustainable enterprises (Audretsch and Belitski, 2017, Bischoff and Volkmann, 2018). Specifically, factors like availability of finance, regulatory transparency, market support and innovation assistance are elements of the ecosystem that have a

profound effect on sustainable entrepreneurial performance (Huang et al., 2023). Social network and ecosystem-wise, sustainable business models are influenced by interdependences between actors who work within institutional settings (Neumeyer and Santos, 2018). These institutional organizational structures are usually undeveloped or disjointed in the emerging economies, posing structural disadvantages to sustainability-oriented ventures (Nayak and Pillai, 2024).

In this wider discussion, organic farming is a unique sustainable entrepreneurship. Instead of being an agricultural production system, organic farming is a green enterprise paradigm where farmers become micro and small scale entrepreneurs who operate in markets, certification and financial institutions. Green entrepreneurial orientation is provided to have a positive impact on innovation and competitiveness in SMEs, which supports the significance of strategic management in the enterprises concerned with sustainability (Muangmee et al., 2021). In India, organic farming businesses are used in rural development, conservation of the environment, and sustainable value chain, which tend to fit well in the wider scope of sustainable development.

Organic farming businesses have a high financial and institutional constraint, notwithstanding the potential. The main limitations identified in

empirical research in India include high costs of certification, a lack of access to credit, market unpredictability, and risks related to transitions (Gurav et al., 2019; Hanglem et al., 2019; Haneef et al., 2019). These hurdles limit the scalability of entrepreneurs and minimise the ability of farmers to access the high market value. Although such studies record the operational and financial challenges, there is a tendency to consider organic farming through the prism of agriculture, or production, as opposed to placing it in the context of sustainable entrepreneurship and SME development.

The available literature on sustainable entrepreneurship recognises that the initial expenses and gestation of green businesses are often high and prolonged in comparison with traditional ones (Muñoz and Cohen, 2018). Nonetheless, the farming aspect of the financial constraint analysis does not seem to be integrated as much into the overall entrepreneurial ecosystem framework. In particular, the change of how institutional support mechanisms, stakeholder networks, and financial accessibility interactively determine the growth path of organic farming enterprises in the emerging economies has received insufficient attention.

This gap is important to fill in the gap in knowledge regarding the intersection of entrepreneurship, sustainability and institutional development in Asia. Using the idea of organic farming as a sustainability-focused SME activity integrated into the entrepreneurial landscape in India, the paper will analyse the financial limitations that affect enterprise sustainability, growth strategy, and competitiveness in the long run. That way, it helps to add to the growing body of knowledge on sustainable entrepreneurship in emerging markets and provides policy-relevant information on enhancing the development of green enterprises.

2. METHODOLOGY

Research Design

The proposed study will use a qualitative research design based on the analysis of secondary data to investigate the financial limitations of organic farming businesses as the small scale sustainable companies in India. The study re-conceptualises organic farmers as micro and small-scale entrepreneurial units integrated in the rural economic systems in opposition to viewing them as agricultural producers only. The enterprise-based approach permits to enlarge the financial sustainability, institutional constraints, and strategic growth obstacles in the context of sustainable entrepreneurship. A qualitative method is the right choice as the aim of the research is to synthesise the current theoretical and empirical background, discover common financial and institutional issues, and translate the limitations

into the existing entrepreneurship and ecosystem theories instead of quantifying the causal relationships.

Data Sources and Selection Criteria

The paper will be based on secondary data and peer-reviewed academic journals, governmental reports, policy reports, institutional reports, and reliable industry sources, which were published within the next three years (2016 and 2025). The chosen period will make sure that the analysis will represent the recent progress in the field of sustainable entrepreneurship research, changing certification requirements, financial inclusion programmes, policy interventions that encourage organic farming in India. The sources were selected on the basis of their relevance to the topic of sustainable entrepreneurship, SME funding, organic development of enterprises and institutional analysis of emerging economies. An emphasis was made on the existing scholarly contributions that investigate financial barriers, ecosystem structures, and sustainability-oriented business models in the context of the Asian environment. This is a systematic sampling technique that increases the validity and scholarly quality of the research.

Analytical Framework

The thematic content analysis is used in analysing to identify and describe common patterns concerning financial and institutional limitations. Financial difficulties are also discussed on the interdependent levels, such as availability of formal credit, certification and compliance fees, income variability during the changes, market instability, infrastructure disparities, and policy discrepancies. The analysis of these themes is in terms of the theory of sustainable entrepreneurship and the entrepreneurial ecosystem models to comprehend the impact of financial obstacles on the viability, scalability, and competitiveness of enterprises. The study combines the analysis of financial constraint with the institutional theory and offers a complete picture about the way in which the structural factors influence the development path that organic farming enterprises follow as the sustainability-oriented SME.

Contextual Justification

India is a pertinent and important environment to consider sustainable entrepreneurship in Asia. It has one of the largest agricultural sectors in the world and has put in place several programmes of encouraging organic farming as one of its wider sustainability programmes. Simultaneously, the MSME sector of India is an important source of employment and economic growth on a regional level, which is why it can be used as a suitable location to study the issue of small-scale sustainable business. India has a complex entrepreneurial ecosystem in its institutional environment,

including government schemes, certification bodies, financial institutions, and rural markets, in which organic enterprises can be found. The discussion of financial constraints in this framework enables the research to add to the wider debate about the theme of institutional development and sustainable business expansion in new economies in Asia.

3. RESULTS

Financial Capital Constraints

The analysis indicates that, lack of access to formal credit is one of the greatest constraints that impacts

organic farming business in India. Most entrepreneurs do not have collateral, legal records and stable source of income, which makes them less eligible to take institutional loans. Temporary declines in yields during the process of the transition of conventional to organic farming, and costs on certification make it even weaker in terms of liquidity. These financial obstacles, as shown in Figure 1, are sequential in nature and start with limited access to credit and finally with the constraint of cash flow, which eventually curtails the development and innovativeness of an enterprise.

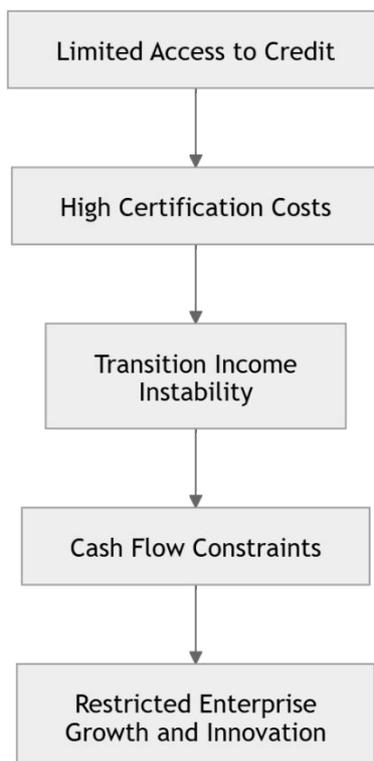


Figure 1. Financial Constraints Framework Affecting Organic Enterprises

The net effect of these financial restrictions on the performance of the enterprises is summed up in Table 1 that illustrates how short-term liquidity scarcity leads to long-term constraints in the growth and competitiveness.

Table 1. Major Financial Constraints and Their Enterprise-Level Impact

Financial Constraint	Immediate Effect	Long-Term Enterprise Impact
Limited credit access	Liquidity shortages	Restricted scaling and innovation
High certification cost	Increased initial investment	Entry barrier to premium markets
Transition yield reduction	Income instability	Financial vulnerability
Market price volatility	Revenue fluctuation	Strategic risk and uncertainty
Infrastructure gaps	Post-harvest losses	Reduced competitiveness

Certification and Compliance Costs

Certification acts as an entry to and a block to high quality organic markets. The financial burden of the inspections, documentation, renewing procedures, and standards of compliance imposes a huge financial burden on small-scale businesses. Besides direct costs, the technical expertise and institutionally orientation abilities are also needed in terms of administrative complexities. As indicated

in Table 1, certification in addition to raising the initial investment costs also limits entry to high-value markets, thus limiting the potential to generate revenues.

Market Volatility and Limited Market Access

Organic businesses are characterised by fluctuating prices and demand. Even though organic products will yield price premiums, the premiums are not always assured because of the difference in the

supply chains and reliance on intermediaries. Fragmented market structures enhance the bargaining power, as shown in Figure 2, which leads

to unpredictable price premiums and uncertainty of the revenues. This volatility minimises long-term investment and expansion decisions.

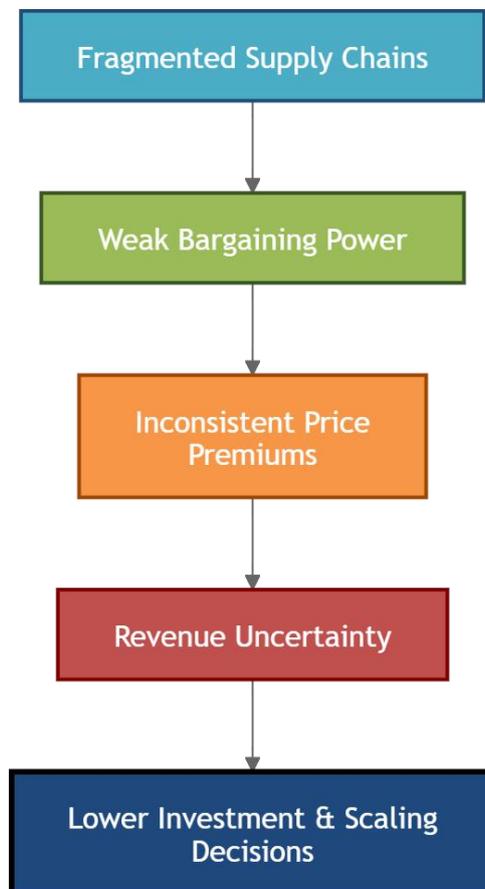


Figure 2. Market Risk and Strategic Uncertainty Model

The overarching linkage between financial constraints and entrepreneurial performance is also explained in Table 2, which shows how price instability affects conservative growth policies and scaling decision.

Table 2. Relationship Between Financial Barriers and Entrepreneurial Outcomes

Financial Barrier	Affects	Entrepreneurial Outcome
Credit constraints	Investment capacity	Reduced enterprise expansion
Certification cost	Market entry	Limited premium capture
Price instability	Risk management	Conservative growth strategy
Infrastructure deficiency	Value addition	Lower profitability
Policy inconsistency	Strategic planning	Reduced long-term sustainability

Infrastructure and Support Gaps

The lack of infrastructure such as lack of sufficient storage, poor cold chain, and poor transport networks inhibit value addition and post-harvest losses. The structural gap diminishes enterprise

competitiveness in organised markets. The institutional vulnerabilities of the ecosystem level interact with financial constraints thereby increasing the growth constraints of sustainable SMEs as seen in Table 3.

Table 3. Institutional and Ecosystem Barriers

Ecosystem Component	Identified Gap	Impact on Organic Enterprises
Financial system	Lack of tailored green finance	Limited growth capital
Government policy	Weak coordination	Inefficient subsidy benefits
Certification system	Complex procedures	Reduced small-enterprise participation
Market infrastructure	Fragmented supply chains	Weak bargaining power
Training & extension	Limited organic-specific support	Slow innovation adoption

Policy and Institutional Limitations

In spite of the fact that government efforts are facilitating organic farming, the loopholes in its application, coordination, and knowledge decrease their feasibility. Institutional support is undermined by delays in the disbursal of subsidies and poor connexions between financial institutions and

sustainability schemes. As shown in Figure 3, various elements of the ecosystem such as financial institutions, policy frameworks, certification systems, market structures and infrastructure come together to determine sustainable enterprise development.

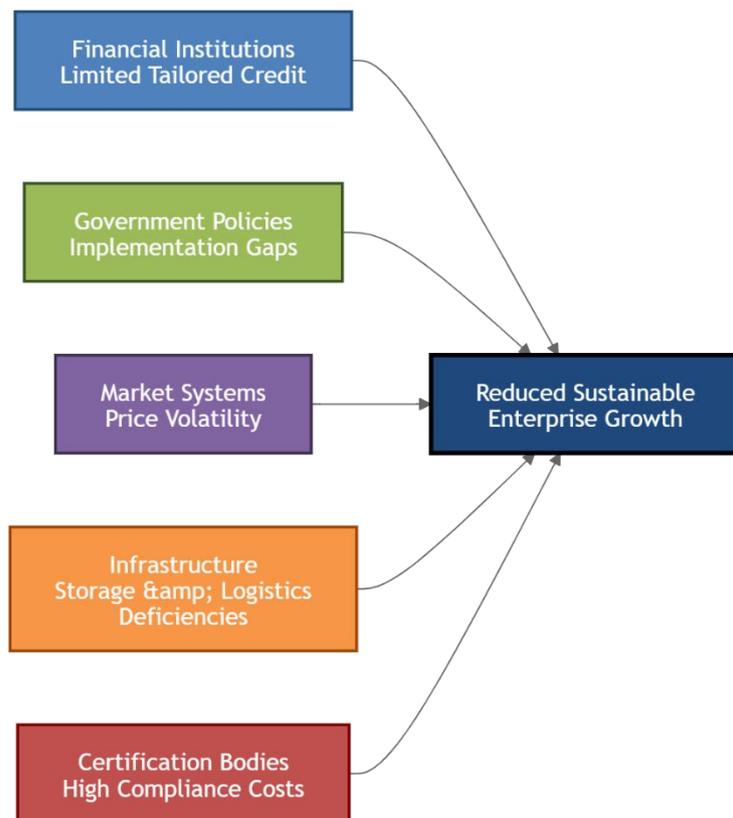


Figure 3. Entrepreneurial Ecosystem Gaps in Organic Farming

The barriers to the ecosystems outlined in this paper are systematically summarised in Table 3 below, and the barriers to the extents of the entrepreneurship are collectively limited by the institutional weaknesses.

Comprehensively, the results suggest that organic farming business lacks financial limitation issues that exist in isolation and stem accordingly. As calculated in Table 2, each financial obstacle has an impact on particular entrepreneurial results, such as investment ability, adoption of innovation, market penetration, and sustainability. These restrictions together restrict the potential of organic farming to become scalable and competitive sustainable SMEs in the Indian emerging entrepreneurial ecosystem.

4. DISCUSSION

The results of this research emphasise that the problem of financial constraints on the organic farming enterprise in India is thoroughly engrained in the larger systems of the entrepreneurship ecosystems, as opposed to being independent agricultural issues. The literature on sustainable entrepreneurship focuses on the fact that

development of an enterprise is subject to favourable institutional frameworks and integration in the ecosystem (DiVito and Ingen-Housz, 2021; Theodoraki et al., 2022). When it comes to other forms of business such as organic farming, the dynamics between the financial institutions and the regulatory frameworks, certification systems and market networks play a significant role in determining the viability of the entrepreneurship. These findings thus support the view that sustainable enterprise development needs ecosystem level correspondence as opposed to disjointed interventions.

Financial accessibility still forms a backbone of halted scalability of sustainable enterprises. Literature on sustainable entrepreneurial finance ecosystems suggests that sustainability ventures fail regularly as institutions in financial systems have conflicting institutional logics, promoting short-term returns at the expense of long-term environmental value (Elf et al., 2025). The nature of organic enterprises is often in need of patient capital and lexible repayment patterns because of the variability of transitional yields and compliance

costs. Nevertheless, the conventional lending models do not work well to capture risk profiles that are based on sustainability. Diffused finance structures and climate-centred funding frameworks have also been suggested as potential solutions to provide funding to sustainability-focused SMEs (Dey and Mishra, 2022; Havemann et al., 2022). Correspondingly, state-level climate finance tools can catalyse the exposure of the risk to the smallholder-based businesses (Odhong' et al., 2019). Lack of integrated green finance products therefore inhibits the ability of the organic entrepreneurs to invest in innovation and expansion.

Institutional duality in sustainable markets is also demonstrated through the cost of certification. Although certification helps in improving the market legitimacy and consumer trust, high costs of compliance and administrative burdens disproportionately impact on micro and small businesses. According to recent scholarship, Participatory Guarantee Systems (PGS) can come up with more inclusive options to traditional certification regimes (Kaufmann et al., 2023; Sacchi et al., 2024). These models are able to minimise financial barriers without compromising on quality assurance standards. But policy integration and ecosystem coordination is what determines whether such mechanisms will be effective in the larger scale.

The market linkage issues, observed in this research, are relevant to general observations by large-scale players that small-scale producers in young economies are discriminated against in terms of structural access to organised marketplaces (Ma et al., 2024). Low bargaining power and disintegrated supply chains lower the price stability and constrain the premium realisations. Ecosystem wise, value chain coordination plays a vital role in enhancing the sustainable competitiveness of the enterprise (Khatami et al., 2022). In the absence of built-in market systems, financial benefits of sustainability-based production are unpredictable, and it does not encourage long-term entrepreneurial investment.

The results also coincide with the studies that focus on the susceptibility of the SMEs in the developing economies to structural disadvantages related to ESG (Ferrazzi and Tueske, 2022). As the concept of sustainability continues to be incorporated into policy discourse, there are usually gaps in practise that restrict the benefits at the enterprise level. Instead, institutional capacity and governance alignment are needed to make such blended finance models of agri-SMEs effective (Series, 2021). On the same note, green lending portfolios have proven to positively affect the performance of the SMEs in emerging economies, which indicates that specific financial innovation could be used to enhance growth of enterprises focused on sustainability (Mirza et al., 2023).

The study is also relevant as it has infrastructure and livelihood implications. In India, organic farming has been linked with the potential of sustainable livelihood and rural development (Sahu et al., 2024). But, lacking investments in logistics, processing and institutional training systems at the ecosystem level, there are still bottlenecks in financing and operation. To facilitate the scaling of enterprises, sustainable entrepreneurial systems should hence combine infrastructure, finance, knowledge networks, and coherence in regulations (DiVito and Ingen-Housz, 2021; Theodoraki et al., 2022).

In general, the discussion shows that the reinforcement of organic farming enterprises needs a systemic reform and not a separate financial subsidy. Planned green finance tools, inclusive certification tools, value chain integration tools, and policy congruence are all that is needed to turn organic farming into scalable sustainable SMEs. This study will also be relevant to a further understanding of the role of institutional alignment on the viability of enterprises in emerging Asian economies by placing organic enterprises in the context of the sustainable entrepreneurial ecosystem theory.

5. CONCLUSION

This study examined the financial challenges faced by farmers in India with special reference to organic farming, reframing organic producers as sustainability-oriented micro and small enterprises operating within a complex entrepreneurial ecosystem. The findings demonstrate that limited access to institutional credit, high certification and compliance costs, transition-related income instability, market price volatility, infrastructure deficiencies, and policy implementation gaps collectively constrain enterprise growth and long-term viability. These barriers are interconnected rather than isolated, reinforcing structural weaknesses in financial systems, market linkages, and institutional coordination. The study highlights that organic farming cannot be strengthened through fragmented subsidies alone; instead, it requires ecosystem-level reforms that integrate green finance mechanisms, inclusive certification models, value chain development, infrastructure investment, and coherent policy alignment. Tailored credit instruments, blended finance approaches, group certification support, digital market platforms, and improved logistics systems can significantly enhance enterprise resilience and competitiveness. By situating organic farming within the broader discourse of sustainable entrepreneurship and SME development, this research contributes to understanding how institutional environments shape the scalability of green enterprises in emerging economies. Strengthening financial inclusion and ecosystem coordination can transform

organic farming from a survival-oriented activity into a dynamic, innovation-driven sector that supports rural livelihoods, environmental sustainability, and inclusive economic growth. The study thus underscores the strategic importance of aligning financial systems, institutional frameworks, and market structures to enable sustainable enterprise development in India and similar Asian contexts.

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