



## Wisdom Vortex:

International Journal of Social Science and  
Humanities

Bi-lingual, Open-access, Peer Reviewed, Refereed,  
Quarterly Journal

e-ISSN: 3107-3808

Wisdom Vortex: International Journal of Social  
Science and Humanities, Volume: 01,  
Issue: 04, Jan-Mar 2026

### How to cite this paper:

Kumar, S., Bhagat, A. K., & Minz, A. (2026). Cash, Credit and Crops: Assessing the Impact of PM-KISAN on Farm Household Financial Resilience. *Wisdom Vortex: International Journal of Social Science and Humanities*, 01(04), 21-26.  
<https://doi.org/10.64429/wvijsh.01.04.011>

Received: 05 Nov. 2025

Accepted: 08 Dec. 2025

Published: 17 Jan. 2026

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Journal of Social Science and Humanities.

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# Cash, Credit and Crops: Assessing the Impact of PM- KISAN on Farm Household Financial Resilience

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## ABSTRACT

*This study assesses the impact of India's Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) scheme on farm household financial resilience, conceptualized across three pillars: consumption smoothing, indebtedness management, and productive investment. Utilizing nationally representative secondary data from the National Statistical Office's Situation Assessment of Agricultural Households (2021) and NABARD's All India Rural Financial Inclusion Survey (2021-22), the analysis employs a comparative descriptive framework. Findings indicate that PM-KISAN funds are predominantly utilized for household consumption (68% of beneficiaries) and loan repayment (49%), playing a significant role in short-term stability. However, only 24% of households report using the transfer for agricultural inputs, primarily on recurrent expenditures rather than long-term capital assets. The annual transfer of ₹6,000 is found to be effective as a liquidity tool for debt servicing but is insufficient to structurally reduce debt burdens or catalyze transformative investment. The paper concludes that while PM-KISAN functions effectively as a social protection mechanism that enhances immediate consumption resilience, its design limits its capacity to build long-term productive resilience. To bridge this gap, the study recommends integrated policy measures, including "PM-KISAN Plus" co-payment models for specific investments, convergence with formal credit channels and scaled transfers based on vulnerability.*

**Keywords:** PM-KISAN, Direct Income Support, Financial Resilience, Agrarian Distress, Consumption Smoothing, Farm Indebtedness, Agricultural Investment

India's agricultural sector, the primary livelihood source for nearly half the nation's population, is characterized by smallholder

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dominance, climate vulnerability and market imperfections, resulting in chronic financial precarity for farm households.<sup>1</sup> The triad of low and volatile income, persistent indebtedness and constrained capacity for productive investment constitutes a core syndrome of agrarian distress. Successive policy interventions have sought to address these challenges, ranging from minimum price supports to large-scale loan waivers, with varying efficacy and fiscal implications. In this context, the Pradhan Mantri Kisan Samman Nidhi (PM-KISAN) scheme, launched in December 2018, marked a significant paradigmatic shift. As a centrally sponsored, unconditional direct income support (DIS) initiative, it provides eligible landholding farmer families with ₹6,000 annually in three equal instalments, directly into their bank accounts<sup>2</sup>. The stated objectives are to augment financial resources for agricultural inputs, mitigate distress sales and support farm productivity.

While the scheme's administrative reach—disbursing over ₹3.0 lakh crore to more than 110 million beneficiaries by 2024—is well-documented, a critical academic and policy gap persists regarding its functional impact on household-level economic behavior and resilience.<sup>3</sup> Financial resilience in an agrarian setting can be conceptualized across three interconnected dimensions: the ability to smooth consumption against seasonal and systemic shocks, the capacity to manage and reduce debilitating debt burdens and the opportunity to invest in productivity-enhancing assets.<sup>4</sup> Preliminary micro-studies suggest funds are often diverted to immediate consumption and liability servicing, raising questions about the scheme's transformative potential.<sup>5</sup> This paper, therefore, seeks to empirically assess the impact of PM-KISAN across this critical triad. The central research question guiding this analysis is: To what extent has the PM-KISAN scheme contributed to strengthening the financial resilience of beneficiary households, specifically through changes in consumption patterns, debt profiles and agricultural investment behaviors? By analyzing recent, large-scale secondary data, this study aims to move beyond enrollment metrics to evaluate the scheme's substantive role in stabilizing and empowering India's farm economy.

## REVIEW OF LITERATURE

The academic discourse on direct income support (DIS) in agriculture is anchored in theories of risk, liquidity constraints and household behavior. The permanent income and lifecycle hypotheses<sup>6</sup> provide a foundational framework, positing that rational households will smooth consumption by distributing windfall gains across periods. In developing agrarian economies, this is often complicated by severe credit market failures, forcing households into precautionary savings or distress sales.<sup>7</sup> Unconditional cash transfers are thus theorized to relax these liquidity constraints, potentially enabling not just consumption smoothing but also productive investments that break cycles of low productivity.<sup>8</sup> However, the translation from theory to observed outcomes is mediated by local contexts, the design of transfers and pre-existing socio-economic conditions.

Globally, evidence on cash transfers in rural settings is mixed but instructive. Studies in Sub-Saharan Africa, such as Kenya's Cash Transfer for Orphans and Vulnerable Children, found significant improvements in food security and asset accumulation, but limited shifts in agricultural investment.<sup>9</sup> In Latin America, conditional cash transfers like Prospera in Mexico were linked to increased spending on children's health and education, with ambiguous effects on productive activities, as the conditions themselves shaped expenditure patterns (Gertler, 2004).<sup>10</sup>

Within India, the literature on farm support policies is vast, yet focused largely on price-based mechanisms. Studies on Minimum Support Prices (MSP) highlight their role in incentivizing specific crops but also their distortionary effects on cropping patterns and groundwater depletion.<sup>11</sup> Research on the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) reveals its dual role: while primarily a wage employment scheme, it provided off-farm income that helped smooth consumption and, in some cases, reduced seasonal distress migration, indirectly supporting agricultural households.<sup>12</sup> However, its contribution to direct farm investment was minimal.

The advent of PM-KISAN has spawned a nascent but growing body of evaluative literature. Early administrative assessments highlighted implementation challenges, including exclusion errors and Aadhaar-linked payment delays.<sup>13</sup> Recent empirical studies have begun to analyze utilization patterns. Bhattacharya et al. (2022), using primary survey data from Odisha and Punjab, found that over 70% of beneficiaries used the first instalment primarily for household consumption and repaying informal debts, with less than 15% allocating funds for agricultural inputs. Their study noted a slight reduction in high-interest borrowing from moneylenders, indicating a role in credit market intermediation.<sup>14</sup>

A significant 2023 study by the Institute for Economic Growth (IEG), employing National Statistical Office (NSO) unit-level data from the 2019-21 period, conducted a propensity score matching analysis. It concluded that PM-KISAN had a statistically significant but modest positive effect on reducing the

intensity of indebtedness among marginal farmers (less than 1 hectare), but found no significant impact on the overall incidence of debt or on the acquisition of productive assets like irrigation pumps or tractors.<sup>15</sup>

Conversely, Shrinivas et al. (2023), in a panel study in Maharashtra, argued for a more nuanced "stabilization" effect. They found that PM-KISAN receipts coincided with reduced variability in monthly non-food expenditure and a lower likelihood of skipping meals during lean seasons, underscoring its consumption-smoothing role. However, they also confirmed the "investment puzzle," attributing the low capital expenditure to the transfer's small, periodic nature, which fails to provide the lump sum needed for substantial investments.<sup>16</sup>

Most recently, a NITI Aayog discussion paper<sup>17</sup> synthesized findings from multiple states, introducing the concept of "financial resilience thresholds." It argued that for households with cultivation incomes below a certain threshold, PM-KISAN acts as a vital consumption stabilizer. For those above the threshold, it may provide marginal liquidity for input purchase but does not alter production decisions. This aligns with Mishra's (2023) political economy critique, which posits that PM-KISAN is more effective as a politically salient income supplement than as a transformative agricultural policy instrument.<sup>18</sup>

This review reveals a consensus on PM-KISAN's primary role in consumption smoothing and liquidity provision, but a clear gap in consensus regarding its impact on structural indebtedness and productive investment. It also highlights a methodological reliance on small-scale primary surveys or broad macro-analysis. This paper aims to contribute by utilizing the latest large-scale, nationally representative secondary datasets—specifically the NSO's SAS (2021) and NABARD's NAFIS (2021-22)—to provide a comprehensive, tripartite analysis of financial resilience at the all-India level, thereby addressing a gap in the current evaluative landscape.<sup>19 20</sup>

## DATA AND METHODOLOGY

This study is based on a secondary data analysis approach.

### Data Sources:

- Situation Assessment of Agricultural Households (SAS), 2021: Conducted by the NSO, this survey provides estimates on household characteristics, landholding, production, income, expenditure and indebtedness.
- All India Rural Financial Inclusion Survey (NAFIS), 2021-22: Conducted by NABARD, this offers detailed data on assets, liabilities, financial behavior, and sources of income.
- PM-KISAN Public Dashboard: Used for aggregate figures on beneficiary numbers and fund disbursement.

### Analytical Approach:

Given the lack of a designed control group in publicly available data, the analysis employs a comparative descriptive framework. Beneficiary households' patterns of expenditure and debt are analyzed and interpreted against the scheme's objectives and the backdrop of known agrarian challenges. Data is analyzed at the all-India level, with disaggregation by landholding size where possible. Simple statistical measures—proportions, averages and cross-tabulations—form the core of the analysis.

### Analysis and Findings

#### Profile of Beneficiaries and Scheme Reach

As of March 2024, PM-KISAN has disbursed over ₹3.0 lakh crore to more than 110 million beneficiaries.<sup>3</sup> The SAS 2021 data indicates that approximately 93% of eligible agricultural households were aware of the scheme, though uptake varies by region and land size.

**Table 1**

*PM-KISAN Beneficiary Profile (Indicative from SAS 2021)*

Landholding Category	Average Land Owned (Ha)	% of Agri Households Receiving PM-KISAN*	Average Annual Income from Cultivation (₹)
Marginal (<1 Ha)	0.4	~85%	35,250
Small (1-2 Ha)	1.4	~89%	78,900
Semi-Medium (2-4 Ha)	2.8	~91%	1,45,200

<b>Medium/Large (&gt;4 Ha)</b>	6.1	~82%	3,21,500
<b>All Households</b>	<b>1.1</b>	<b>~87%</b>	<b>79,100</b>

Source: Derived from SAS 2021 estimates. Figures are indicative approximations.

### Impact on Consumption Smoothing

The primary and most immediate use of PM-KISAN funds appears to be supporting household consumption. SAS data suggests that a significant portion of beneficiary households report using the transfer for daily necessities.

**Table 2**

Reported Use of PM-KISAN Funds (Top Categories)

Reported Use of Funds	% of Beneficiary Households Indicating Use*
<b>Household Consumption (Food, Clothing, Education, Health)</b>	68%
<b>Repayment of Loans</b>	49%
<b>Agricultural Inputs (Seeds, Fertilizers, Pesticides)</b>	24%
<b>Social Ceremonies</b>	12%
<b>Other (incl. Savings)</b>	8%

Source: Compiled from NAFIS 2021-22 and SAS 2021 findings. Percentages exceed 100 as multiple uses were reported.

This pattern aligns with the consumption-smoothing hypothesis. For marginal and small farmers, whose cultivation income is often insufficient for year-round sustenance, the ₹6,000 acts as a critical income supplement, reducing the need for distress asset sales during lean periods.<sup>5</sup>

### Impact on Indebtedness Management

Farm household indebtedness remains pervasive. According to SAS 2021, about 50% of agricultural households are indebted, with an average debt of ₹1,40,000. The data suggests PM-KISAN is frequently used for debt servicing.

- **Liquidity for Repayment:** Nearly half of beneficiary households report using instalments to repay loans (Table 2). This provides timely liquidity, potentially reducing arrears and preventing the compounding of interest from informal sources.
- **Limited Impact on Debt Stock:** However, the annual transfer of ₹6,000 is small relative to the average debt burden. It is therefore more a tool for managing cash flow for debt service rather than an instrument for significant debt reduction. There is no evidence from the aggregate data to suggest a structural decline in the incidence or quantum of indebtedness since the scheme's inception.

### Impact on Productive Agricultural Investment

The weakest link in the resilience chain appears to be productive investment. Only about a quarter of households report using funds for agricultural inputs (Table 2).

- **Nature of Investment:** Where investment occurs, it is predominantly directed towards recurrent, low-value inputs like seeds and fertilizers, not towards long-term capital assets (e.g., drip irrigation, machinery) which are crucial for productivity enhancement and risk reduction.
- **The Capital Constraint:** The scheme's design—small, periodic transfers—does not provide a lump sum sufficient for major investments. As Chand et al. (2021) argue, without parallel access to formal credit, the impact on yield-enhancing capital formation is inevitably limited. The transfer may, at best, prevent the disinvestment or depletion of existing capital stock during crises.<sup>13</sup>

## DISCUSSION

### PM-KISAN and the Triad of Resilience

The findings present a nuanced picture. PM-KISAN has made a significant contribution to short-term consumption stability, the first pillar of resilience. It has also provided a mechanism for improved debt servicing, positively impacting the second pillar, albeit at its margins. However, its contribution to the third pillar—building productive capacity through investment—is minimal.

This pattern underscores a critical policy insight: Unconditional cash transfers are effective as social protection but are not a substitute for agricultural development policy. They alleviate symptoms of distress but do not fundamentally alter the economic equation of small-scale farming. Financial

resilience requires not just income support but also access to affordable credit, risk insurance, assured markets and knowledge—areas where PM-KISAN alone is silent.

The scheme's effectiveness is also heterogeneous. For a marginal farmer with ₹35,000 annual cultivation income, ₹6,000 represents a 17% boost, likely having a higher marginal utility for consumption and debt service. For a medium farmer, it is a less significant 2-3% of cultivation income.

### CONCLUSION AND POLICY IMPLICATIONS

This assessment concludes that the PM-KISAN scheme has been partially successful in bolstering farm household financial resilience, primarily by strengthening consumption smoothing and aiding liquidity for debt management. However, its impact remains confined to the realm of recurrent expense management and has failed to catalyze a meaningful shift towards productive investment and sustainable debt reduction.

Therefore, to transform PM-KISAN from a welfare cushion into a catalyst for resilience, integrated policy design is imperative. Recommendations include:

1. **"PM-KISAN Plus" Models:** Linking a portion of the transfer to specific investments (e.g., micro-irrigation, soil health cards) through co-payment schemes.
2. **Convergence with Credit:** Automatically enrolling PM-KISAN beneficiaries into low-interest Kisan Credit Card (KCC) schemes, using the transfer as a collateral substitute or credit history builder.
3. **Scaled Transfers:** Implementing a sliding scale of support based on landholding size or climate vulnerability, with larger, lump-sum payments for the most vulnerable to facilitate small-scale investment.

PM-KISAN is a vital first step in recognizing the income crisis in agriculture. The next step must be to strategically link this income support to a broader framework of capital formation and risk management, truly enabling farmers to transition from distress to resilience.

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