SJIF Impact Factor (2025): 8.688| ISI I.F. Value: 1.241| Journal DOI: 10.36713/epra2016 ISSN: 2455-7838(Online)
EPRA International Journal of Research and Development (IJRD)
Volume: 10 | Issue: 8 | August 2025 - Peer Reviewed Journal

TRENDS AND CHALLENGES OF AGRICULTURAL FINANCE IN INDIA: A REVIEW

Rajesha. B[1], Dr. Harisha N[2]
[1]Research Scholar, Department of Economics, Karnataka State Open University, Mukthagangothri, Mysore
[2]Assistant Professor, Department of Economics, Karnataka State Open University, Mukthagangothri, Mysore

ABSTRACT
Agricultural finance plays a crucial role in sustaining and modernizing Indian agriculture, ensuring food security, and enhancing rural livelihoods. With nearly 42% of India's workforce engaged in agriculture and the sector contributing around 18% to the GDP, access to adequate and timely credit remains vital. Over the years, institutional credit to agriculture has witnessed substantial growth, reaching an all-time high of ₹25.10 lakh crore in FY 2023–24. This paper analyses the evolution, institutional framework, trends, challenges, and policy measures related to agricultural finance in India. The study uses data from the Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), and Ministry of Agriculture, presenting a holistic understanding of the credit landscape and offering policy suggestions for equitable and efficient rural financial inclusion.
KEYWORDS: *Agricultural Finance, Institutional Credit, Rural Development, Comprehensive*

INTRODUCTION

Agriculture continues to underpin India's socio economic framework, despite a gradual decline in its share of GDP from over 50% in the 1950s to around 18% in 2023 (Ministry of Finance, Economic Survey 2023 to 24). The sector remains the primary livelihood source for a significant portion of the population, employing approximately 42% of the workforce (FAO, 2024). Agricultural finance plays a pivotal role in enabling farmers to access quality inputs, adopt modern technology, and withstand production and price risks, thereby ensuring sustained agricultural productivity and rural prosperity (RBI, 2024).

Institutional sources of agricultural credit such as cooperative banks, commercial banks, regional rural banks (RRBs), and apex bodies like NABARD form the backbone of the rural financial system in India (NABARD, 2023). These agencies provide both short term production credit and long term investment credit for agriculture and allied activities. Over the decades, institutional credit has expanded significantly, reaching an all time high of ₹25.10 lakh crore in 2023 to 24 (RBI, 2024). However, challenges persist in ensuring equitable access to credit, particularly for small and marginal farmers, addressing regional disparities, and reducing reliance on informal lenders in certain pockets of the country (World Bank, 2023; NABARD, 2023).
This paper provides a comprehensive analysis of agricultural finance in India, examining its historical evolution, institutional framework, credit flow trends, and policy measures. Using secondary data from the Reserve Bank of India (RBI), the National Bank for Agriculture and Rural Development (NABARD), the Ministry of Finance, and other government sources, the study evaluates agency wise contributions, sectoral credit allocation, and key performance indicators. It also highlights persistent structural bottlenecks and offers recommendations to strengthen the efficiency, inclusiveness, and resilience of India's agricultural credit architecture.

LITERATURE REVIEW

Studies on agricultural finance in India consistently highlight its critical role in enhancing farm productivity, promoting rural livelihoods, and reducing dependence on informal credit. "Bhatt and Bhat (2019)" observed that institutional finance significantly increases crop output by enabling timely access to quality inputs and technology. "National Bank for Agriculture and Rural Development [NABARD], 2018" reported that although formal credit coverage has expanded, small and marginal farmers still face accessibility barriers due to collateral requirements, procedural delays, and limited financial literacy. "Reddy and Syamasundar (2020)" noted that regional disparities in credit disbursement persist, with states like Punjab, Maharashtra, and Tamil Nadu receiving higher per capita agricultural credit compared to eastern and north-eastern states. "Reserve Bank of India [RBI], 2023" emphasized the dominance of commercial banks in agricultural lending, followed by cooperative institutions and regional rural banks, while pointing to the need for greater diversification and risk mitigation measures. Overall, literature indicates that while credit availability has grown markedly, policy reforms must address structural bottlenecks to achieve equitable and sustainable agricultural finance in India.

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OBJECTIVES

The present study aims to:

- To analyze trends and challenges in agricultural credit flow across different institutional sources in the country.
- To suggest policy measures for strengthening India's agricultural credit delivery system.

RESEARCH METHODOLOGY

The study is based on secondary data collected from authentic national-level sources, including the Reserve Bank of India (RBI) annual reports, National Bank for Agriculture and Rural Development (NABARD) publications, Ministry of Agriculture and Farmers Welfare statistics, and relevant government documents. Additional information was obtained from published research papers, books, and reports from credible institutions. The analysis covers the historical evolution, structural composition, and trends of institutional agricultural finance in India, with emphasis on agency-wise credit flow and sectoral performance. Descriptive statistical tools, such as percentage analysis, compound annual growth rate (CAGR), and trend analysis, were employed to interpret the data. The methodology ensures a comprehensive understanding of the agricultural credit system in India, focusing exclusively on institutional sources and their impact on agricultural development.

Scope and Limitations

The scope of the present study is confined to analyzing trends in agricultural credit flow across different institutional sources in India, including cooperative banks, commercial banks, and regional rural banks. It focuses on assessing the role of agricultural finance in supporting farm productivity, adoption of modern technology, and overall agricultural modernization within the country. The study also seeks to identify the major challenges faced by farmers in accessing institutional credit, such as regional disparities, limited outreach to small and marginal farmers, and procedural bottlenecks. However, the analysis is restricted to secondary data and does not incorporate primary field surveys, which may limit the direct measurement of farmer-level perceptions. Additionally, the study is limited to institutional credit sources and excludes informal lending channels, thereby providing a focused but partial view of the overall rural credit landscape in India.

Analytical Framework

The analytical framework of the study is designed to examine the flow, structure, and impact of institutional agricultural credit in India using secondary data from authoritative sources such as the Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), and relevant government reports. The analysis focuses on identifying trends in credit disbursement across various institutional sources, namely cooperative banks, commercial banks, and regional rural banks, over a defined time period. Statistical tools such as compound annual growth rate (CAGR), percentage share analysis, and trend analysis are employed to assess changes in credit allocation and agency-wise contributions. The framework also integrates a critical review of policies and reforms influencing agricultural finance, enabling the interpretation of how institutional credit impacts farm productivity and modernization. By systematically linking data trends to policy shifts and sectoral outcomes, this approach provides a comprehensive basis for evaluating the strengths and gaps in India's agricultural credit system.

Trends in Agricultural Finance in India:

Trends in agricultural finance in India reflect the growing role of institutional credit in supporting the country's farming sector. Over the past two decades, there has been a significant increase in the flow of credit from sources such as cooperative banks, commercial banks, and regional rural banks, driven by policy initiatives, interest subvention schemes, and expanding rural banking infrastructure. This rise in credit has supported greater adoption of technology, diversification of crops, and improved farm productivity. However, disparities in access remain, with small and marginal farmers and certain regions still facing challenges in availing adequate and timely finance.

Flow of Institutional Agricultural Credit in India

The flow of institutional agricultural credit in India has increased significantly over the past decade. Commercial banks provide the largest share of credit, followed by regional rural banks and cooperative banks. Total credit from these sources has more than tripled from 2013–14 to 2023–24. This growth reflects government efforts to support farmers through better credit access and rural banking. Despite this progress, ensuring credit reaches small and marginal farmers remains a challenge.

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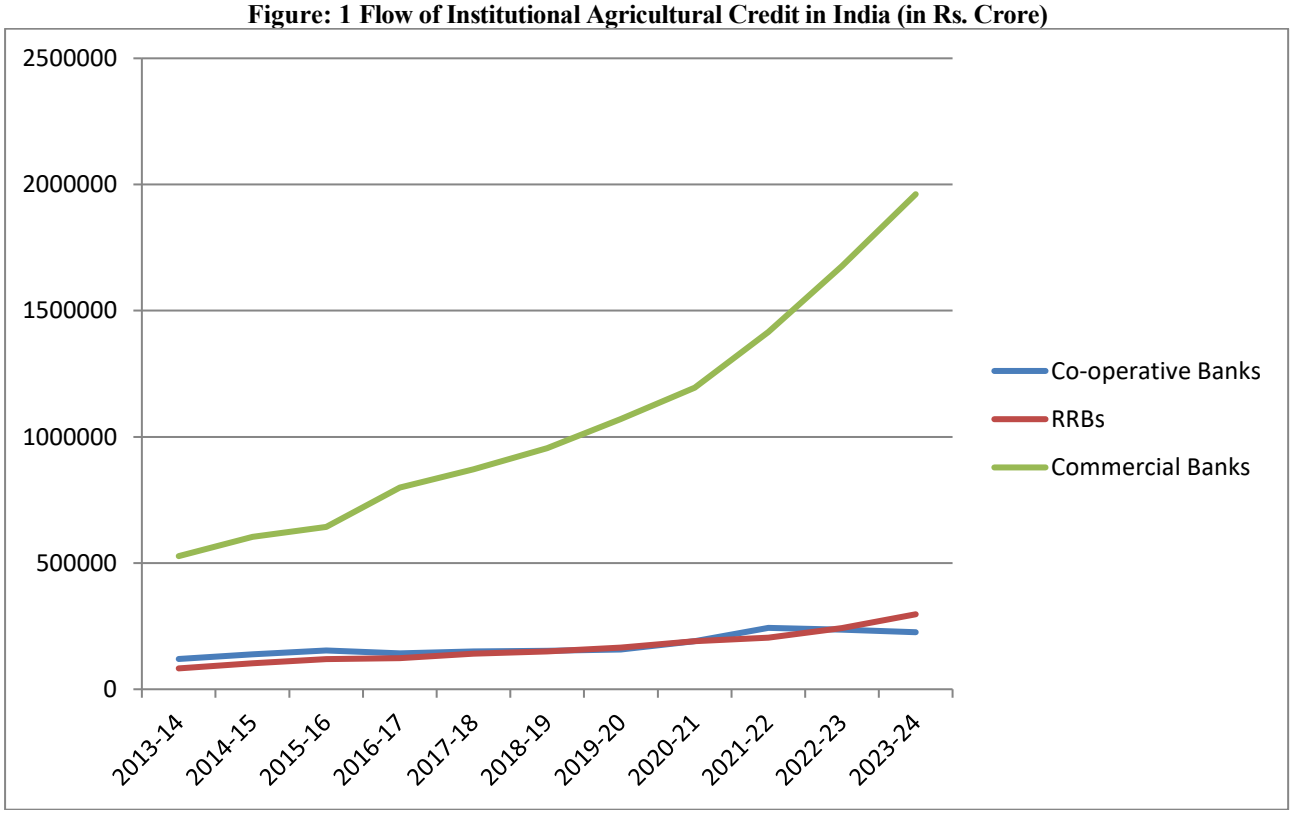
Table: 1 Flow of Institutional Agricultural Credit in India (in Rs. Crore)

Particulars / Agency	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Co-operative Banks	119963	138469	153295	142758	150321	152340	157367	190682	243220	236349	225483
RRBs	82653	102483	119260	123216	141216	149667	165326	190012	204180	242286	297071
Commercial Banks	527506	604376	642954	799781	871080	954823	1070036	1194704	1415964	1676529	1961613
Total	**730122**	**845328**	**915509**	**1065755**	**1162617**	**1256830**	**1392729**	**1575398**	**1863363**	**2155163**	**2484167**

Source: Agricultural Statistics at a Glance, 2023

Between 2013–14 and 2023–24, institutional agricultural credit in India showed a substantial upward trend across all major agencies. Co-operative banks increased their credit disbursement from ₹119,963 crore to a peak of ₹243,220 crore in 2020–21, followed by a slight decline to ₹225,483 crore in 2023–24. Regional Rural Banks (RRBs) demonstrated steady growth, nearly quadrupling their credit from ₹82,653 crore to ₹297,071 crore over the period. Commercial banks led this expansion, with credit flow rising nearly fourfold from ₹527,506 crore to ₹1,961,613 crore, underscoring their dominant role in agricultural finance. Overall, total institutional credit more than tripled, rising from ₹7,30,122 crore to ₹24,84,167 crore, reflecting increased government support, enhanced rural banking infrastructure, and greater outreach. While all agencies contributed to this growth, commercial banks remain the primary source of agricultural credit, followed by expanding contributions from RRBs and a relatively stable share from co-operative banks.

Figure: 1 Flow of Institutional Agricultural Credit in India (in Rs. Crore)



Source: Agricultural Statistics at a Glance, 2023

The line chart illustrates the flow of institutional agricultural credit in India from 2013–14 to 2023–24 across three banking institutions: Commercial Banks, Co-operative Banks, and Regional Rural Banks (RRBs). Commercial Banks dominate the sector, showing a sharp and consistent rise in credit flow from about ₹5.27 lakh crore to nearly ₹20 lakh crore, reflecting their expanding role in agricultural finance. Co-operative Banks experienced moderate growth, rising gradually until around 2021–22 before slightly declining to approximately ₹2.25 lakh crore, indicating slower growth and some fluctuations. RRBs started with the lowest credit flow but steadily increased, surpassing Co-operative Banks around 2022–23 and reaching close to ₹3 lakh crore, underscoring their growing significance in rural credit provision. Overall, the chart highlights substantial growth in total institutional agricultural credit,

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driven mainly by Commercial Banks and supported increasingly by RRBs, while Co-operative Banks show comparatively slower progress.

Problems and Challenges

Despite significant progress in expanding agricultural finance in India, several challenges remain. Small and marginal farmers who make up about 86.2% of all farmers often struggle to meet eligibility criteria such as providing collateral or formal land ownership records (Agricultural Census, 2015 16). There are marked regional disparities in credit distribution; for example, Tamil Nadu, Maharashtra, and Uttar Pradesh together accounted for over 40% of total institutional agricultural credit in 2021 22, while many northeastern states received less than 1% (Reserve Bank of India, 2023). According to NABARD (2022), nearly 45% of small farmers continue to rely partly on informal credit sources due to faster access, despite interest rates sometimes exceeding 24% annually. Additional barriers include delays in loan disbursement, high transaction costs, and complex application procedures which discourage many farmers from seeking formal finance. Moreover, low financial literacy, only about 27% of rural adults are financially literate (OECD, 2021), and limited banking infrastructure in remote areas further undermine the effectiveness of institutional agricultural credit.

FINDINGS

Despite notable progress in expanding agricultural finance in India, small and marginal farmers who make up about 86.2 percent of the farming population continue to face significant challenges in accessing institutional credit. Key barriers include strict eligibility criteria like collateral requirements, complex loan procedures, and delays in disbursement, which often push farmers toward costly informal credit sources charging interest rates above 24 percent. Additionally, regional disparities in credit distribution concentrate resources in a few states, leaving many areas underserved. Low financial literacy, with only around 27 percent of rural adults being financially literate, and inadequate banking infrastructure in remote regions further limit farmers' ability to benefit from formal credit, restricting the overall effectiveness of agricultural finance in promoting inclusive rural development.

Policy Measures and Government Initiatives:

The Government of India has introduced several initiatives to improve farmer's access to institutional credit and reduce their reliance on informal sources. One of the flagship programs is the **Kisan Credit Card (KCC) scheme**, which provides timely and affordable credit to farmers for crop production and allied activities. The KCC scheme has expanded significantly, covering millions of farmers across the country, making credit more accessible and helping stabilize their financial needs.

To further support agricultural finance, priority sector lending (PSL) norms require banks to allocate a defined portion of their credit to agriculture and allied sectors. This has encouraged banks and financial institutions to extend their outreach in rural areas. The government also promotes the **Agriculture Infrastructure Fund (AIF)**, which provides financial assistance for building post-harvest management and farm-gate infrastructure, aimed at reducing losses and improving farmers' income.

Efforts to enhance financial literacy and simplify credit access have been prioritized through the establishment of Financial Literacy Centers and promotion of digital banking in rural areas. Interest subvention schemes offer subsidized rates on crop loans, easing repayment burdens for small and marginal farmers. Simultaneously, strengthening cooperative and regional rural banks ensures a robust rural credit infrastructure. These combined measures strive to create an inclusive, affordable, and efficient agricultural finance ecosystem in India.

CONCLUSION

India has made substantial progress in expanding institutional agricultural finance, yet significant challenges remain, particularly for small and marginal farmers who constitute the majority of the farming community. Issues such as stringent eligibility criteria, regional disparities, limited financial literacy, and inadequate rural banking infrastructure continue to restrict effective access to formal credit. Government initiatives like the Kisan Credit Card scheme, priority sector lending, and interest subvention have made important strides in addressing these gaps. However, sustained efforts to simplify loan procedures, enhance financial literacy, and improve rural financial infrastructure are essential to ensure that agricultural finance effectively supports inclusive growth and modernization in the sector.

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