

Role of Banking sector in Agriculture

A.P. Karanjalkar¹, D.H. Rathod¹

¹Department of Agricultural Economics, CSMSS College of Agriculture, Kanchanwadi, Chhatrapati Sambhajinagar.

Corresponding Author :

A. P. Karanjalkar

E-mail: ashukaranjalkar@gmail.com

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Abstract

The agricultural sector is a cornerstone of economic development, particularly in agrarian economies, where it contributes significantly to employment, food, security, and rural livelihoods. The banking sector plays a crucial role in facilitating agricultural growth by providing necessary financial support in the form of credit, savings, insurance, and investment. Access to institutional finance enables farmers to invest in modern technologies, improve productivity, and manage risks associated with climate variability and market fluctuations. Commercial banks, cooperative banks, and regional rural bank (RRBs) are key institutions in the delivery of agricultural credit. Over the years, various policy initiatives and financial innovations-such as priority sector lending, the kisan credit card (KCC) scheme, and the use of digital platforms- have improved the flow of credit to the agricultural sector. However challenges such as inadequate access in remote areas, high non-performing assets, and low financial literacy persist. This study explores the multifaceted role of the banking sector in supporting agricultural development and highlights the need for inclusive and resilient financial mechanisms to ensure sustainable agricultural growth.

Key Words : Agricultural finance, rural banking, agricultural credit, crop loans, institutional credit.

Introduction

Agriculture is the backbone of many developing economies, providing employment, food security, and raw materials for industries. In this context, the banking sector plays a pivotal role in supporting and sustaining agricultural growth. The modern agricultural sector is increasingly capital intensive and technology driven, requiring timely and adequate financial support. Banks serve as key facilitators by providing credit, savings, insurance, and other financial services tailored to the needs of farmers and agribusiness. According to a report by the Reserve bank of India (RBI 2022), Agriculture credit has grown consistently over past decade, reflecting the banking sectors commitment to rural financing. Commercial banks, regional rural banks (RRBs) and cooperative banks together form the backbone of agricultural finance, providing both short term crop loans and long term investment credit.

A study of Bhavani T.A. and Babu M.S. (2017) in the journal of rural development highlights that access to institutional credit significantly enhances the income and resilience of small and marginal farmers. Moreover, financial inclusion initiatives like Pradhan Mantri Jan Dhan Yojana and kisan credit card (KCC) scheme have strengthened the role of banks in ensuring timely and hassle-free credit to rural communities. However several reviews, including one by the World Bank (2019), note that challenges such as loan defaults, lack of financial literacy, and limited outreach in remote areas still hinder the effectiveness of agricultural financing. Strengthening digital infrastructure and policy

reforms are needed to bridge these gaps and make agricultural banking more inclusive and efficient.

Role of banking sector in agriculture

Agriculture plays a vital role in the economics development of agrarian economies, especially in countries like India, where a large portion of the population depends on farming for their livelihood. The banking sector acts as backbone for agricultural development by providing essential financial services that empower farmers, enhance productivity, and promote rural development.

1. Provision of agriculture credit

One of the most important contributions of the banking sector is providing agricultural credit. Credit enables farmers to invest in high quality seeds, fertilizers, irrigation systems, machinery, and other inputs banks offer.

Short term loans for seasonal inputs.

Medium term loans for equipment and development

Long term loans for land development and irrigation infrastructure, Kisan credit card (KCC) scheme, Loans for purchasing tractors, irrigation systems, and storage units

2. Financial inclusion and accessibility

The banking sector promotes financial inclusion by opening branches in rural areas and offering basic financial services like savings accounts, remittances, and mobile banking. This help in reducing dependence on informal moneylenders, Improving saving habits among rural populations,

encouraging small and marginal farmers to access formal credit.

3. Implementation of government schemes

Banks act as channels for various government schemes aimed at agricultural development, such as **Interest subvention schemes** on crop loans.

Pradhan mantri fasal bima yojana (PMFBY) for crop insurance Pradhan Mantri Kisan Sanman Nidhi (PM-KISAN) for direct income support these schemes increase financial support to farmers and reduce the risks related to farming.

4. Support for agri allied activities

Agriculture today is not just limited to crop cultivation. Banks finance agri allies sectors such as Dairy farming, Poultry, Fisheries, Sericulture and horticulture .By supporting these sectors, banks help diversify income sources and reduce farmer's vulnerability to crop failure.

5. Risk management and insurance

Farming involves high levels of risk due to unpredictable weather, pests, and price fluctuations. Banks in coordination with insurance companies help farmers by.

Offering **crop insurance**.

Providing **credit guarantee coverage** supporting disaster relief and rehabilitation.

These services reduce the impact of adverse events and encourage continued investment in agriculture.

6. Promotion of agri-infrastructure

Banks provide funding for the development of agricultural infrastructure, including cold storage facilities, warehouses, rural roads irrigation systems such infrastructure is critical for reducing post-harvest losses and improving supply chains.

7. Encouraging entrepreneurship in agriculture

With the rise of agritech and startups in rural areas, banks offer financial products tailored to agripreneurs and small agribusiness. This promotes innovation, value addition, and market access.

To explore the role of the banking sector in agriculture, this study employs a descriptive and analytical research design. The methodology integrates both qualitative and quantitative approaches, aligning with previous studies (Bhavani T.A. & Babu M.S., 2017) that emphasize a mixed method framework for capturing the multifaceted impact of banking on agricultural outcomes. The study follows a cross sectional design, examining the current state of agricultural finance, access to credit, and its impact on farming communities. This approach allows for the identification of trends, challenges, and best practices across different banking institutions. Collected from official sources such as the reserve bank of India (RBI), NABARD, and the ministry of agriculture. Academic journals and review articles (World Bank, 2019) provides insights into trends in agricultural finance, rural banking outreach, and policy initiatives.

Table no.1 Agency-wise Ground Level Credit Flow for Agriculture and Allied Activities (Rs. in Crores)

Year	Co-operative Banks	Regional Rural Banks	Commercial Banks	Other Agencies	Total
1999-2000	18260 (39.47)	3172 (6.86)	24733 (53.46)	103	46268
2000-2001	20718 (29.22)	4220 (7.99)	27807 (52.64)	82	52827
2001-2002	23524 (37.91)	4854 (7.82)	33587 (54.13)	80	62045
2002-2003	23636 (33.98)	6070 (8.73)	39774 (57.18)	80	69560
2003-2004	26875 (30.90)	7581 (8.72)	52441 (60.29)	84	86981
2004-2005	31231 (24.92)	12404 (9.90)	81481 (65.02)	193	125309
2005-2006	39403 (21.83)	15223 (8.43)	125477 (69.52)	382	180485
2006-2007	42480 (18.52)	20435 (8.91)	166485 (72.57)	-	229400
2007-2008	48258 (18.95)	25312 (9.94)	181088 (71.11)	-	254658
2008-2009	45966 (15.23)	26765 (8.87)	228951 (75.83)	226	301908
2009-2010	63497 (16.51)	35217 (9.16)	285800 (74.33)	-	384514
2010-2011	78121 (16.68)	44293 (9.46)	345877 (73.86)	-	468291
2011-2012	87963 (17.21)	54450 (10.65)	368616 (72.13)	-	511029
2012-2013	111203 (18.31)	63681 (10.48)	432491 (71.21)	-	607375

To be Cont....

2013-2014	119964 (16.43)	82653 (11.32)	527506 (72.25)	-	730123
2014-2015	138469 (16.38)	102483 (12.12)	604376 (71.50)	-	845328
2015-2016	153295 (16.74)	119261 (13.03)	642954 (70.23)	-	915510
2016-2017	142758 (13.40)	123216 (11.56)	799781 (75.04)	-	1065755
2017-2018	150389 (12.87)	140959 (12.06)	877155 (75.07)	-	1168503
2018-2019	152340 (12.12)	149667 (11.91)	954823 (75.97)	-	1256830
2019-2020	157367 (11.30)	165326 (11.87)	1070036 (76.83)	-	1392729
2020-21	190682 (12.1)	190012 (12.1)	1194704 (75.8)	-	1575398
2021-22	243220 (13.05)	204180 (10.96)	1415964 (75.99)	-	1833363
2022-23#	175279 (11.03)	247657(15.58)	1166465(73.39)	-	1589400

Figures given in brackets indicate percentages.

Note: #Provisional

Source: NABARD Publication (Various Issues) and NABARD, Handbook of Statistics on Indian Economy, RBI Bulletin

Table 1 indicates a steady and substantial increase in the ground-level flow of institutional credit to agriculture and allied activities over the years. The total credit flow increased from approximately 7.3 lakh crore in 2013–14 to over 18.3 lakh crore in 2021–22, reflecting a more than two-fold rise during this period. Commercial banks continue to account for the largest share of agricultural credit, followed by cooperative banks and regional rural banks. The data also reveal that actual credit disbursement has consistently exceeded annual targets, highlighting the growing emphasis on agricultural financing within the priority sector framework.

Strong credit flow to agriculture

Agriculture, as a priority sector, receives targeted annual flow of credit, and in recent years, actual flow has generally exceeded the set targets. Credit flow to agriculture (from commercial banks, regional rural banks, and cooperatives taken together) registered a growth of 13.6% during FY2024, which was higher than the nominal growth in agricultural GVA at 5.4%. The Kisan Credit Card (KCC) scheme has played a pivotal role in providing timely credit to farmers, with over 7.4 crore operative KCC accounts involving a total outstanding credit of 8.9 lakh crore as on 30 June 2023.

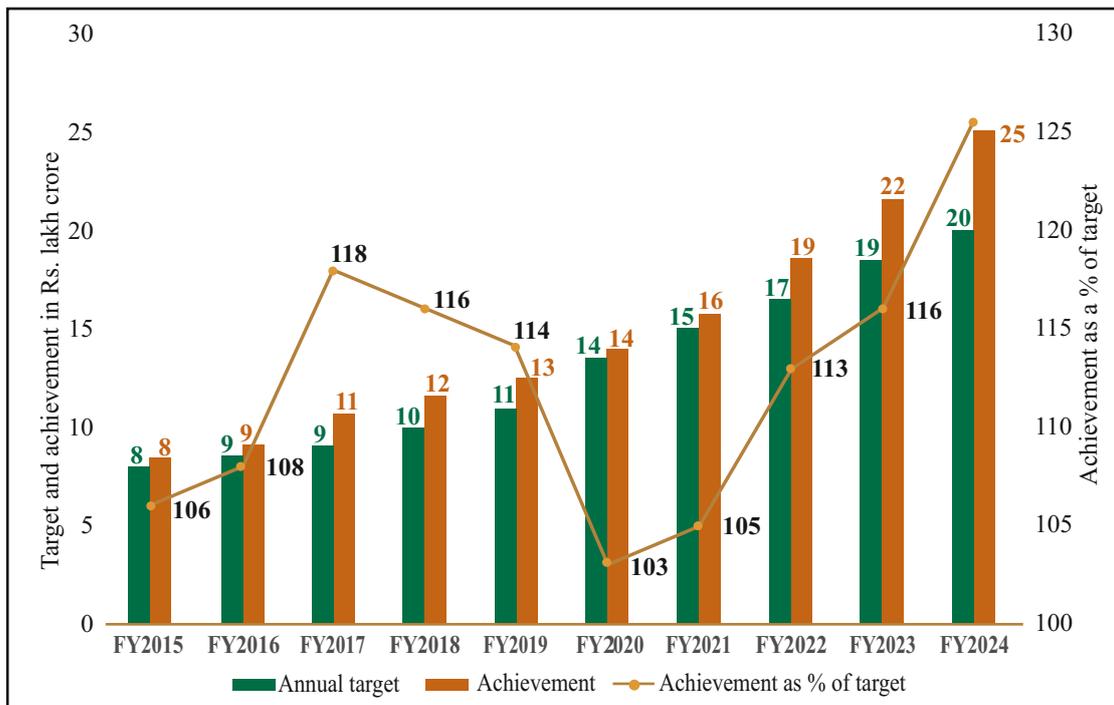


Fig.1 Sources:RBI (various years), Database on Indian Economy, Reserve Bank of India, Mumbai. National Bank for Agriculture and Rural Development

Performance of ST refinance

To meet the production and working capital needs of farmers, weavers, and artisans, NABARD extends refinancing support through its short-term (ST) facility. In the financial year 2023–24, total ST refinance amounted to 1.8 lakh crore, with state cooperative banks accounting for the largest share at 73.3 percent. Compared to the previous year, overall disbursements under this facility recorded a growth of 15 percent. Credit support extended to cooperative institutions

Region-wise disbursement of ST refinance

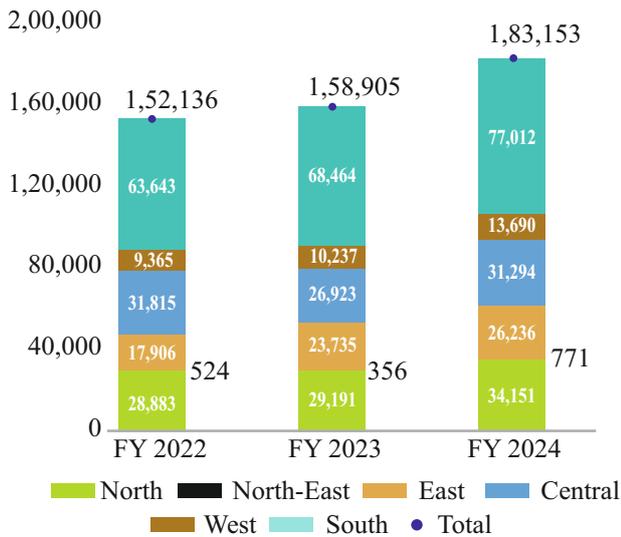


Fig.2

Performance of LT refinance

During the financial year 2023–24, long-term (LT) refinance disbursements reached approximately 1.3 lakh crore, reflecting a substantial year-on-year growth of 23.8 percent. A dominant proportion of this refinance support was channelled to scheduled commercial banks, including small finance banks, which together accounted for about 67 percent of the total disbursement. State cooperative banks received nearly 13 percent, while regional rural banks accounted for

Region-wise disbursement of LT refinance

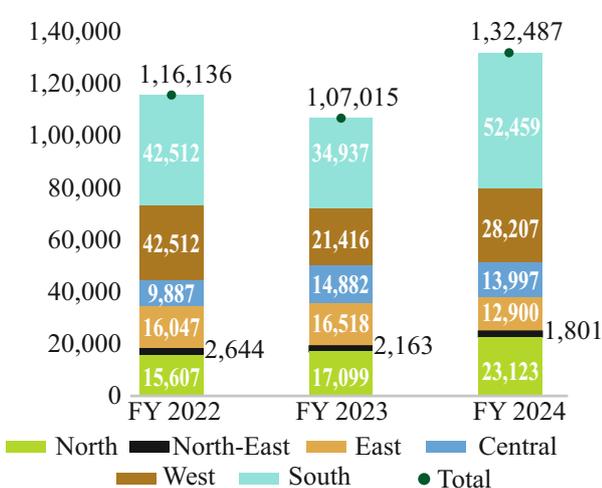


Fig.4

increased at a similar rate, while combined disbursements to regional rural banks and small finance banks rose by 16 percent during the same period. A regional analysis reveals a marked concentration of ST refinance in the southern region, which received 42.1 percent of total disbursements. This was followed by the northern, central, and eastern regions with shares of 18.7 percent, 17.1 percent, and 14.3 percent, respectively. In contrast, the western

Region-wise share of ST refinance (%)

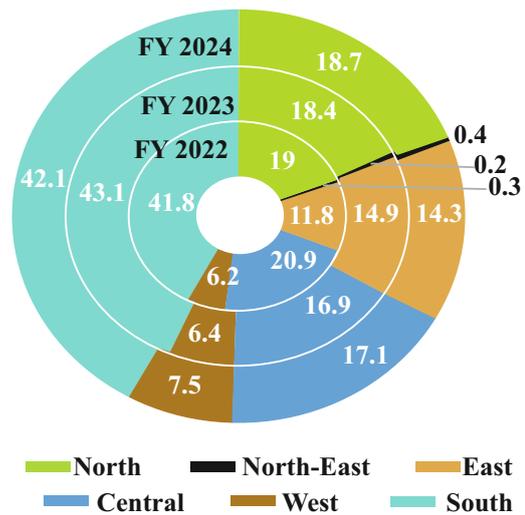


Fig.3

around 10 percent of the LT refinance. The distribution of LT refinance across regions highlights noticeable imbalances, with the southern region emerging as the largest recipient, capturing 39.6 percent of the total. This was followed by the western region at 21.3 percent and the northern region at 17.5 percent. In comparison, the central and eastern regions received relatively smaller shares of 10.6 percent and 9.7 percent, respectively, while the north-eastern region accounted for a marginal 1.4 percent of total LT refinance disbursements.

Region-wise share of LT refinance (%)

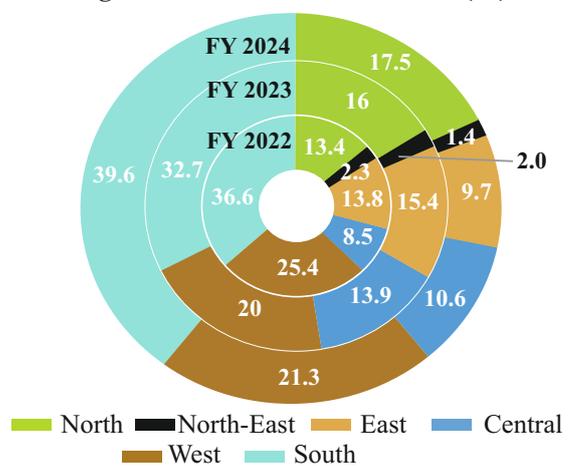


Fig.5

1. Importance of agricultural finance

Numerous studies have emphasized the importance of finance in agriculture. According to Binswanger and Khandekar (1955), access to institutional credit significantly improves agricultural productivity and rural income. They argue that the availability of credit allows farmers to invest in modern farming techniques, purchase quality inputs, and manage risk more effectively.

2. Role of commercial banks

Commercial banks play a central role in extending credit to the agricultural sector. In India, the nationalization of banks in 1969 aimed to improve rural credit delivery. The growing share of commercial banks in total agricultural credit disbursement. However, issues of inadequate outreach, high transaction costs, and risk aversion remain prevalent.

3. Cooperative and regional rural bank

Cooperative banks and RRBs have traditionally catered to small and marginal farmers. As noted by Desai and Mellor (1993), cooperative are better placed to understand the specific needs of local farmer's due to their grassroots presence. However, challenges such as poor governance, limited capital base, and high default rates have limited their effectiveness.

4. Credit access and farmer welfare

Empirical studies, such as Burgess and Pande (2005), found that expansion of rural banking in India led to a significant reduction in rural poverty and increased agricultural output. They highlight that access to formal credit reduces farmer's dependence on informal lenders who charge exorbitant interest rates.

5. Agricultural credit policies and schemes

Governments and central banks have implemented various schemes to boost agricultural lending. Initiatives such as the priority sector lending mandates, Kisan credit card (KCC), and interest subvention scheme have been studied extensively. Mahapatra (2017) argues that while these schemes have improved credit flow, issues of misuse, underutilization, and lack of awareness persist.

6. Role of technology and financial innovation

With the advent of digital banking and fintech solutions, there is shift toward improving credit delivery mechanisms. Studied by IFPRI (2020) suggest that mobile banking, e-kyc, and digitalization of land records have the potential to transform agricultural finance by improving access, reducing cost, and minimizing fraud.

7. Challenges and Gaps

Despite progress, the agricultural sector continues to face several challenges. These include low credit penetration in

certain regions, high non-performing assets (NPAs) in agricultural loans, and lack of crop insurance linkages. Moreover, as Chakrabarti and Sahu (2021) note, climate change and market volatility necessitates more resilient and adaptive financial systems.

Conclusion

The banking sector plays a multifaceted and indispensable role in the growth and modernization of agriculture. By providing credit, promoting financial inclusion, implementing policy initiatives, and supporting infrastructure development, banks ensure that agriculture remains a sustainable and productive sector. Continued efforts to improve rural banking services, simplify loan procedures, and integrate digital technologies will further strengthen the link between banking and agriculture.

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