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Agricultural Credit And Farmers' Economic Development In India – A Study

Dr. Ateeq Begum
Assistant Professor of Economics, Government Degree College for Men, Adilabad, Telangana

Abstract

Agricultural credit is an essential machinery for improving agricultural production, farm investment, productivity, and the economic well-being of farmers in India. For the purchase of seeds, fertilizers, insecticides, machinery, irrigation equipment, animals, and other agricultural inputs, farmers need fast and reasonably priced credit. The availability of agricultural financing has increased thanks in large part to institutional sources like commercial banks, cooperative banks, regional rural banks, and NABARD. The study is based on secondary data collected from government publications, NABARD, Reserve Bank of India, Ministry of Agriculture, and relevant research studies. Agricultural credit disbursement increased from ₹8.45 lakh crore to ₹10.66 lakh crore, exceeding the targets fixed by the Government of India. Empirical research also indicates that institutional credit is associated with higher farm income and household consumption, while access to credit can contribute to agricultural productivity. The study concludes that expanding timely, affordable, and inclusive institutional credit is essential for improving farmers' economic conditions.

Keywords: Agricultural Credit, Farmers, Economic Development, Institutional Credit, Farm Income, Agricultural Productivity, NABARD, Kisan Credit Card, Rural Development.

Introduction

A substantial portion of the rural population in India still depends heavily on agriculture, which has a significant place in the country's economy. Farmers' access to sufficient financial resources is just as important to their economic growth as agricultural output. The cost of seeds, fertilizers, insecticides, irrigation, machinery, labor, and other inputs is high for agricultural operations. Farmers frequently need financing to satisfy production and consumption needs because farm income is typically seasonal. Loans and other financial resources given to farmers for agricultural and related operations are referred to as agricultural credit. Credit can help farmers invest in irrigation and gear, buy new inputs, adopt better technology, and boost output. Additionally, it can lessen farmers' reliance on unofficial moneylenders, who might charge exorbitant interest rates.

The Government of India has promoted institutional agricultural credit through commercial banks, cooperative institutions, Regional Rural Banks, NABARD, and specialised schemes such as the Kisan Credit Card (KCC). During 2014–15, the agricultural credit target was ₹8 lakh crore and actual disbursement reached ₹8.45 lakh crore. By 2016–17, the target had increased to ₹9 lakh crore, while actual disbursement reached approximately ₹10.66 lakh crore. The importance of credit is also connected with the broader objective of improving farmers' income. NABARD's 2016–17 Annual Report noted that adequate and timely bank credit, together with irrigation, technology, markets, crop insurance, and diversification, was important for improving agricultural production and farmers' income.

Importance of Agricultural Credit in India

Credit for Agricultural Inputs

Farmers need credit to purchase seeds, fertilisers, pesticides, agricultural equipment, and other inputs. Timely availability of credit allows farmers to purchase inputs when they are required and can contribute to better farm productivity.

Credit for Farm Investment

Agricultural credit is also necessary for long-term investments such as irrigation facilities, tractors, pumpsets, farm machinery, storage facilities, and land improvement. Such investments can increase productive capacity and reduce dependence on traditional production methods.

Credit and Farm Income

Adequate institutional credit can help farmers increase production and adopt profitable agricultural activities. Research based on national farm-household data found that formal credit had a positive effect on net farm income and per-capita household consumption expenditure.

Credit and Rural Development

Agricultural credit contributes to rural economic development by supporting agricultural production, employment, investment, and consumption. Increased agricultural activity can generate demand for transport, marketing, processing, storage, and other rural services.

Methodology

The study is based entirely on secondary data. Data and information have been collected from publications of the Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), Government of India, Ministry of Agriculture and Farmers Welfare, and other relevant institutional sources. Academic research papers and published studies on agricultural credit have also been used.

Institutional Sources of Agricultural Credit

Commercial Banks

In India, commercial banks are one of the main suppliers of agricultural financing. Banks have become more involved in financing agriculture and related operations since priority-sector lending has expanded. They offer short-term crop loans for the purchase of labor, insecticides, fertilizers, seeds, and other inputs. Additionally, they offer medium- and long-term loans for land expansion, dairy farming, tractors, irrigation equipment, and other profitable ventures. Additionally, commercial banks offer loans via the Kisan lending Card (KCC) system and carry out a number of government-backed agricultural lending initiatives. Farmers can obtain official banking services because to their vast branches.

Regional Rural Banks

Regional Rural Banks were established with the objective of improving the availability of institutional credit in rural areas. RRBs primarily serve small and marginal farmers, agricultural labourers, artisans, and other weaker sections of rural society. They provide crop loans, investment credit, and loans for allied agricultural activities. Because of their rural orientation and local presence, RRBs can play an important role in meeting the credit requirements of farmers who may have limited access to larger commercial banking institutions.

Cooperative Banks

Cooperative banks have traditionally been an important source of agricultural credit, particularly for small and marginal farmers. The cooperative credit structure operates at different levels and provides short-term, medium-term, and, in some cases, long-term agricultural finance. Their local-level presence and relationship with rural communities enable them to understand the financial requirements of farmers. Cooperative institutions can therefore contribute significantly to agricultural production and rural economic development.

NABARD

The National Bank for Agriculture and Rural Development (NABARD) is a key institution supporting agricultural and rural finance in India. NABARD provides refinance assistance to eligible financial institutions, supports rural infrastructure and financial inclusion, and contributes to the development of rural credit institutions. It also promotes initiatives aimed at improving access to institutional finance for farmers and rural households. Thus, NABARD plays an important role in strengthening the overall agricultural credit system and promoting sustainable rural development.

Credit to Small and Marginal Farmers

Small and marginal farmers are particularly dependent on credit because of their limited financial resources. During 2015–16 to 2016–17, the share of small and marginal farmer accounts in the total number of accounts financed increased from 60.07 per cent to 72.06 per cent. Their share in the amount disbursed increased from 41.51 per cent to 50.14 per cent. In absolute terms, credit disbursement to small and marginal farmers increased from ₹3.80 lakh crore to ₹5.34 lakh crore during this period.

This expansion is important because small and marginal farmers constitute a large proportion of India's agricultural households and frequently face difficulties in accessing formal credit.

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Table 1: Growth of Agricultural Credit Disbursement in India, 2010–11 to 2016–17
(₹ crore)

Year	Agricultural Credit Disbursement
2010–11	4,68,291
2011–12	5,11,029
2012–13	6,07,375
2013–14	7,11,621
2014–15	8,40,643
2015–16	9,15,510
2016–17	10,65,756

Source: NABARD, Annual Report 2014–15 and Government of India/PIB. The 2010–11 to 2014–15.

Above table shows a continuous increase in agricultural credit disbursement in India during the study period. Credit increased from ₹4.68 lakh crore in 2010–11 to approximately ₹10.66 lakh crore in 2016–17. Thus, agricultural credit more than doubled during these years. The increase indicates the growing role of institutional finance in supporting agricultural activities.

The expansion of credit enabled farmers to finance crop production, purchase agricultural inputs, invest in machinery and irrigation, and undertake allied activities. The trend also reflects the increasing emphasis placed by the Government and financial institutions on institutional agricultural finance. However, the increase in credit volume should also be examined in relation to its distribution among small and marginal farmers.

Table 2: Agricultural Credit Target and Achievement, 2010–11 to 2016–17
(₹ crore)

Year	Credit Target	Achievement	Achievement (%)
2010–11	3,75,000	4,46,779	119.14
2011–12	4,75,000	5,11,029	107.58
2012–13	5,75,000	6,07,375	105.63

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Year	Credit Target	Achievement	Achievement (%)
2013–14	7,00,000	7,11,621	101.66
2014–15	8,00,000	8,45,328	105.67
2015–16	8,50,000	9,15,510	107.71
2016–17	9,00,000	10,65,756	118.42

Source: RBI, NABARD and Government of India. RBI reports the 2013–14 and 2014–15.

The table indicates that actual agricultural credit disbursement exceeded the government target in every year shown. In 2010–11, banks achieved approximately 119 per cent of the target. Although the percentage achievement declined during 2013–14, actual disbursement still remained above the target. By 2016–17, achievement increased to about 118 per cent.

This trend suggests that banking institutions were able to provide agricultural credit beyond the annual targets fixed by the Government. The expansion of institutional credit is significant for farmers because timely credit can reduce dependence on informal lenders and facilitate investment in agricultural production. Nevertheless, achieving the target in terms of total credit does not necessarily mean that credit was equally accessible to all categories of farmers.

Table 3: Agricultural Credit Disbursement by Institutional Agencies, 2010–11 to 2014–15 (₹ crore)

Year	Commercial Banks	Cooperative Banks	RRBs	Total
2010–11	3,14,182	69,076	43,273	4,26,531
2011–12	3,55,000*	69,500*	50,500*	4,75,000*
2012–13	—	—	—	6,07,375
2013–14	—	—	—	7,11,621
2014–15	—	—	—	8,40,643

2011–12 figures shown here are annual targets in the cited Government release; actual full-year disbursement for 2011–12 in the NABARD series was ₹5,11,029 crore.

Source: Government of India/PIB and NABARD.

The table demonstrates the important role of different institutional agencies in agricultural finance. In 2010–11, commercial banks were the largest institutional providers, disbursing ₹3.14 lakh crore, followed by cooperative banks at ₹69,076 crore and Regional Rural Banks at ₹43,273 crore. This indicates that commercial banks were particularly important in expanding the formal credit supply to agriculture.

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Cooperative banks and RRBs nevertheless remain important because of their rural orientation and proximity to farmers. RRBs, in particular, were established to improve institutional credit availability in rural areas. The combined contribution of these institutions is important for reaching small and marginal farmers and underserved rural households.

Table 4: Agricultural Credit to Small and Marginal Farmers, 2010–11 to 2016–17
(₹ crore; number of accounts in lakh)

Year	Total Farm Loan Accounts (lakh)	Small & Marginal Farmer Accounts (lakh)	Share of SF/MF Accounts (%)	Total Credit Disbursed	Credit to SF/MF (₹ crore)	Share of Credit (%)
2010–11	549.60	335.95	61.13	4,68,291	1,63,190	35.00
2011–12	646.57	404.82	62.63	5,11,029	2,21,329	43.31
2015–16	—	—	60.07	9,15,510	3,80,000*	41.51
2016–17	—	—	72.06	10,65,756	5,34,351	50.14

Source: Government of India/PIB and NABARD. The 2010–11 and 2011–12.

Table 4 highlights the increasing importance of institutional credit for small and marginal farmers. In 2010–11, small and marginal farmers accounted for about 61.13 per cent of farm loan accounts and received 35 per cent of total agricultural credit. By 2011–12, their share of accounts increased to 62.63 per cent, while their share of credit increased to 43.31 per cent.

A significant improvement can be observed in 2016–17. Small and marginal farmers accounted for 72.06 per cent of financed accounts and 50.14 per cent of the total amount disbursed. Their credit amount reached ₹5.34 lakh crore.

This indicates greater attention to the credit requirements of farmers with relatively smaller landholdings. However, the continued difference between the share of accounts and share of credit also suggests that the average amount of credit received by small and marginal farmers may remain lower than that received by other farmers.

Major Challenges in Agricultural Credit

Limited Access to Institutional Credit

One of the major concerns is that particular categories of farmers have restricted access to official institutional finance. Inadequate documentation, a lack of collateral, a lack of banking facilities, and a lack of knowledge about existing credit programs can all make it difficult for

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small and marginal farmers to get loans. Because they do not have official ownership documents for the land they cultivate, tenant farmers and sharecroppers may encounter additional challenges. Because of this, some farmers can still rely on unofficial funding sources. Expanding collateral-free lending options, streamlining loan processes, and raising financial awareness can all contribute to greater access to institutional credit.

Dependence on Informal Credit

Despite the expansion of commercial banks, cooperative banks, and Regional Rural Banks, some agricultural households continue to depend on moneylenders, traders, relatives, and other informal sources. Informal lenders may provide loans quickly and with fewer documentation requirements, which can be attractive to farmers facing urgent financial needs. However, the cost of informal borrowing may be relatively high and can contribute to debt burdens. Strengthening formal credit delivery and ensuring timely availability of agricultural loans can reduce farmers' dependence on informal lenders.

Regional Imbalances

Agricultural credit is not distributed equally across different states and regions. Differences in banking infrastructure, agricultural development, irrigation facilities, institutional capacity, and financial awareness contribute to regional disparities in credit availability. Some agriculturally developed regions receive a relatively larger share of institutional credit, while financially underserved regions may receive less. NABARD has highlighted the importance of addressing such regional disparities to ensure more balanced agricultural development.

Credit Repayment Problems

Loan repayment is another major challenge faced by agricultural households. Crop failures caused by droughts, floods, pests, and other natural disasters can reduce farmers' income and their ability to repay loans. Fluctuations in agricultural prices can also affect repayment capacity. Research on agricultural lending has shown that factors such as crop yield, farm size, loan amount, banking relationships, and distance from the lending institution can influence repayment behaviour. Therefore, agricultural credit should be supported by crop insurance, risk-management measures, suitable repayment schedules, and timely restructuring facilities during severe agricultural distress.

Conclusion

In India, agricultural lending is crucial to the economic growth of farmers. The flow of institutional agricultural financing increased significantly between 2014 and 2017. According to government data, agricultural credit disbursements surpassed annual expectations, rising from ₹8.45 lakh crore in 2014–15 to ₹10.66 lakh crore in 2016–17. However, not all farmers will necessarily see equal economic development as a result of credit expansion. Small and marginal farmers, tenant farmers, and farmers in financially underserved regions may continue to face difficulties in obtaining formal credit. Dependence on informal lenders, repayment difficulties, regional inequalities, and inadequate financial awareness remain important concerns.

Therefore, agricultural credit policy should focus not only on increasing the volume of credit but also on improving its accessibility, affordability, timeliness, and distribution. Better coordination between agricultural credit, insurance, irrigation, technology, and marketing can further strengthen its impact. An inclusive and efficient agricultural credit system can play a major role in improving farmers' income, productivity, livelihoods, and overall rural economic development.

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