

Agricultural Credit under Priority Sector Lending: Evidence from Dindigul District, Tamil Nadu

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Abstract: *The present study is based on agricultural credit planning and performance of priority sector lending in Dindigul District of Tamil Nadu using secondary data in Lead Bank Office records. The analysis includes annual targets and actual disbursements from 2022-23 to 2024-25 in five sub-sectors: crop loans, term loans and allied activities, agricultural infrastructure, and ancillary activities. In measuring target achievement and changes in the patterns of credit allocation over time, this study utilises a descriptive cum analytical framework. The results provide sub-sector-level information and can help policymakers enhance the district-level Annual Credit Plan and increase the developmental effects of institutional agricultural finance.*

Keywords: Priority Sector Lending, Agricultural Credit Planning, Lead Bank, Credit Allocation Pattern, District Level Analysis.

1. INTRODUCTION

In rural India, agriculture remains the main source of livelihood that supports the people who constitute a significant portion of the population. It is well accepted that timely and sufficient institutional credit is critical to the survival of agricultural production, investment, and enhancing farmers' incomes. In this context, various policy structures have focused on the growth of agricultural loans under the priority sector lending (PSL) mechanism (Reserve Bank of India, 2021).

PSL has become a powerful policy tool to direct institutional credit to areas where it is needed for inclusive growth - areas where the credit systems of the market have tended to fail. In this context, agricultural credit holds a core position, which includes short-term crop credit, long-term investment credit, allied activities, agricultural infrastructure and ancillary enterprises. The success of PSL is determined not only by the amount of credit released but also by the quality of credit planning and the extent to which the planned targets are converted into actual disbursements at the field level (NABARD, 2022).

District-level credit planning is central to the operationalisation of national and state-level policies of agricultural credit. They were developed by the NABARD with the help of the Potential Linked Credit Plan and Annual Credit Plan drawn up by the Lead Bank based on local agricultural conditions, development priorities, and institutional capacities. The Lead Bank system is the nodal coordination system of credit planning, implementation, and monitoring among banks and development agencies (Reserve Bank of India, 2022).

Over the last few years, the PSL agricultural credit has been broadened in relation to crop finance to encompass allied activities, post-harvest infrastructure, and value-added agribusiness. Programs such as the Agriculture Infrastructure Fund have been trying to encourage long-term investments in storage, processing, and marketing infrastructure (Government of India, 2020). However, credit uptake differences between sub-sectors and regions remain high, highlighting the importance of analysing them at the district level. Against this background, the current study investigates agricultural credit planning and performance in the Dindigul District of Tamil Nadu, with the objective of determining how well the credit planning mechanisms work in various districts and determining the structural trends in credit delivery.

2. REVIEW OF LITERATURE

The role of institutional credit in encouraging agricultural development in India has been extensively studied. Initial research showed that institutional credit should be increased to ensure that farmers are less reliant on non-institutional sources to stabilise agricultural output (Gulati and Bathla, 2002). Prompt and sufficient credit has been cited as a major facilitator of the contemporary application of inputs, introduction of technology, and investment in agriculture, especially among small and marginal farmers.

According to policy reports by the Reserve Bank of India, although the agricultural credit has been on the rise, there are still large discrepancies by region, category of borrowers, and sub-sectors (Reserve Bank of India, 2021; 2022; 2023). These reports emphasise that aggregate credit expansion is not necessarily matched by balanced sectoral development; therefore, it is necessary to monitor disaggregated development. According to the performance reviews of NABARD, institutional lending reveals that crop loans are more likely to be distributed than institutional lending because these loans are of short-term nature and have simpler procedures, whereas long-term investment credit often falls short of the targets (NABARD, 2022; 2023). District credit delivery mechanism studies reveal that Annual Credit Plan targets are easier to achieve in crop loans, while infrastructure and term lending have challenges in project implementation in terms of project feasibility, risk perception, and demand constraints.

Research on agricultural diversification also emphasises the role of credit access in dairy, fisheries, horticulture, and agro-processing in stabilising farm incomes and creating rural employment (Chand and Singh, 2016; BIRTHAL et al., 2014). Nevertheless, empirical data indicate that institutional credit for these activities is still disproportionate, particularly in districts where entrepreneurial density is lower and market connections are weaker (Reddy and Mishra, 2019).

The Agriculture Infrastructure Fund has been addressed in the policy literature as a mechanism for catalysing post-harvest infrastructure investment. Regardless of concessional credit and interest subvention, studies and government reports show that adoption in many areas has been low because of challenges in project identification, proposal preparation, and stakeholder coordination (Government of India, 2020; 2022). A recent study by Vaish (2025) on the Lead Bank Scheme reveals that districts with better lead bank coordination and more digitisation have considerably better financial inclusion results, such as penetration in branches, credit-deposit ratios, and agricultural loan disbursement. Although the body of literature on agricultural credit has significantly increased, most research is based on national or state aggregates. This gap is addressed by the present study, which proposes a disaggregated sub-sector analysis at the district level over a period of three years.

3. THEORETICAL FRAMEWORK

3.1 Financial Intermediation Theory

Levine (2005) contends that financial middlemen are core to mobilising savings, distributing capital, and

transacting economic activities. Regarding agricultural credit, banks and cooperative institutions direct the savings of households and cooperative institutions into productive agricultural investments. This intermediation is determined by the efficiency of transaction costs, information asymmetries, and institutional capacity, which are especially strong in rural agricultural environments.

3.2 Credit Rationing Theory

Stiglitz and Weiss's (1981) credit rationing model highlights agricultural credit markets. When there is imperfect information, credit rationing by lenders can be a better option than increasing interest rates, because the latter can attract riskier customers. This view can be used to understand why, even with policy support, institutional credit serves sub-sectors with long gestation cycles and uncertain returns, such as infrastructure projects, less than it would serve their developmental potential.

3.3 Development Finance and Institutional Credit Theory.

An institutional credit strategy is based on the development finance literature and it is an approach that concentrates on directed credit policy as a solution to correcting market failures in agricultural finance (Mohan, 2004). PSL mandates are a policy solution to the uncontrolled behaviour of commercial banks in under-serving agriculture. This framework provides the foundation through which the translation of PSL targets on actual disbursement can be analysed and whether the institutional structure of credit planning at the district level is sufficient to support the various agricultural sub-sectors.

Together, these three theoretical approaches offer an analytical prism through which to conceptualise the planning and performance of agricultural credit in the Dindigul District. They utilise financial intermediation theory to conceptualise the role of banks and the Lead Bank system, credit rationing theory to conceptualise performance differentials in the sub-sector, and the institutional credit framework to conceptualise the performance of PSL mechanisms in the district.

4. OBJECTIVES OF THE STUDY

The goals and objectives of this study are as follows:

1. To examine the targets and achievements of agricultural credit under PSL in Dindigul District over the study period.
2. To assess the performance of key agricultural sub-sectors crop loans, term loans, allied activities, agricultural infrastructure, and ancillary activities — in meeting stipulated credit targets.
3. To evaluate changes in the composition and pattern of agricultural credit allocation across sub-sectors over time.
4. To identify the gaps between planned targets and actual disbursements and draw policy-relevant observations for improving district-level agricultural credit planning.

5. DATA AND METHODOLOGY

The study is based on secondary data in the form of official records kept by the Lead Bank Office, Dindigul District, for three fiscal years: 2022-23, 2023-24 and 2024-25 in the form of agricultural credit disbursement. This data has credit targets and actual performance on five sub-

sectors of crop loans, agricultural term loans, allied activities, agricultural infrastructure, and ancillary activities according to the classification of the district-level Annual Credit Plan documentation.

The analysis is done at the aggregate district level and not at the individual bank, branch, or borrower level. The methodology will be descriptive cum analytical, and the year-wise comparison of targets, achievements, and calculations of target achievement ratios and examination of changes in trends in patterns of credit allocation with time will be the basis for assessment. The main tools of analysis are percentage analysis and trend comparison, and data processing was done with Microsoft Excel. The study will be restricted to PSL agricultural credit of Dindigul District at that time. Although the data provide a general picture of credit planning and performance at the district level, they may not be sufficient to reflect the heterogeneity of the experience of individual farmers or banks. The constraints are identified and act as the basis for future research recommendations.

6. REGIONAL AGRICULTURAL PROFILE OF DINDIGUL DISTRICT

Dindigul District, which is situated in central Tamil Nadu, is a diverse area in terms of topography, with a plain, foothill area with a forest cover that supports diversified agricultural work. A large proportion of the population relies on agriculture and allied activities, consisting of both conventional farming and market-based production. The major crops are paddy, maize, millets, groundnut, cotton, and sugarcane, and horticulture, particularly banana and vegetables, is becoming more significant. Irrigation depends on tanks, wells, and canals, but rainfed agriculture is still present in certain regions which influences credit risk. Dairy and poultry activities are further sources of income and add to the demand for diverse institutional credit.

7. RESULTS AND DISCUSSION

7.1 Pattern of Agricultural Credit Flow in the District

Table 1: Agricultural Credit Targets and Achievements in ¹ crore

Year	Target (Rs. Crore)	Achievement (Rs. Crore)	Achievement (%)
2022-23	7718.03	9907.54	128.37
2023-24	10165	12316.63	121.17
2024-25	15466.79	13091.95	84.65

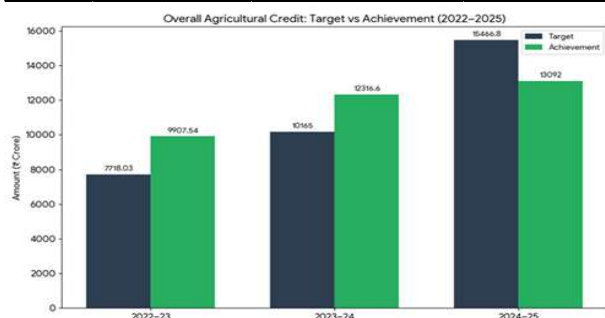


Table 1 indicates that agriculture credit targets and actual disbursements have been on a rising trend over the course of the study, indicating long-term policy encouragement and the involvement of financial institutions. However, the achievement ratios differ across years. Although the targets

were achieved or surpassed in the early years, there was a decrease in the ratio in the last year, despite the increase in disbursement levels. This implies that the growth of targets does not guarantee an equal flow of credit. Credit absorption is affected by factors such as cropping patterns, market conditions, climate, and farmers' borrowing capacity. The results indicate that realistic target setting and effective monitoring at the district level are necessary to achieve improved adjustment of planned targets and actual credit requirements.

7.2 Dominance of Crop Loans

Table 2: Sub-Sector-wise Agricultural Credit Targets and Achievements (¹ Crore), FY 2024-25

Sub-Sector	Target (Rs. Crore)	Achievement (Rs. Crore)	Achievement (%)
Crop Loans	10689.84	8748.22	81.84
Agricultural Term Loans	3007.76	3636.04	120.89
Ancillary Activities	634.87	652.72	102.81
Agricultural Infrastructure	1134.32	54.97	4.85
Total	15466.79	13091.95	84.65

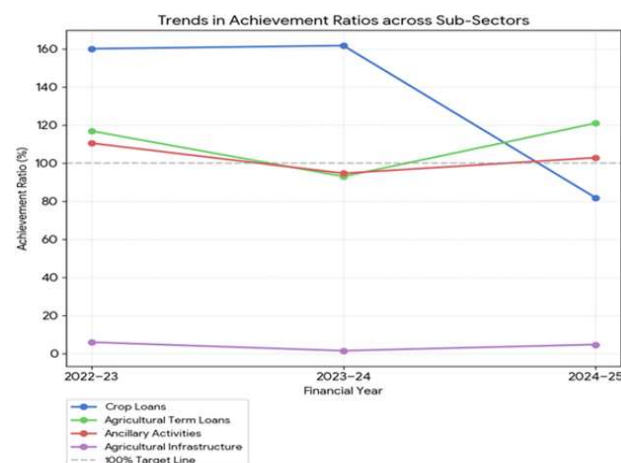
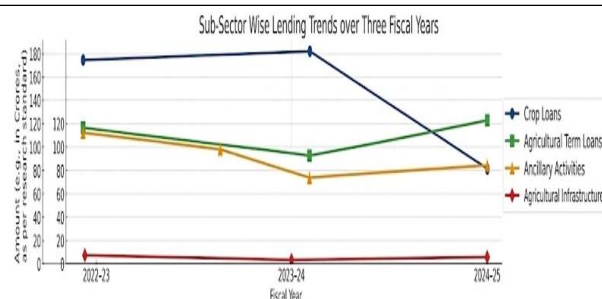


Table 2 indicates that the proportion of crop loans is the highest in the agricultural credit in Dindigul District, which indicates the reliance of farmers on short-term institutional finance to acquire seasonal inputs like seeds, fertilisers, and labour. The strong performance in previous years may be explained by the fact that lending practices and seasonal borrowing trends were well established and could be predicted. Nevertheless, the recent reduction in the crop loan share is a sign that the lending pattern is slowly changing to investment-based lending. Nevertheless, agricultural credit remains primarily crop-based. Overdependence on short-term credit can restrict development in the long run, as it calls for a balanced portfolio of term loans and infrastructure financing.

7.3 Role of Agricultural Term Loans in Capital Formation

Table 3: Sub-Sector-wise Target Achievement Ratio (%)

Sub-Sector	2022-23	2023-24	2024-25
Crop Loans	159.94	161.58	81.84
Agricultural Term Loans	116.8	92.91	120.89
Ancillary Activities	110.44	94.61	102.81
Agricultural Infrastructure	6.06	1.57	4.85



Agricultural term loans are significant for capital formation as they allow farmers to invest in permanent capital, such as machinery, irrigation facilities, and farm infrastructure. Table 3 indicates better performance in terms of loan achievement in the latter period, showing that investment-oriented credit is becoming more preferable. This trend facilitates agricultural modernisation in terms of increased productivity, minimisation of risks, and resilience to climate and market uncertainties. Short-term crop finance can be supplemented by enlarging term lending and encouraging sustainable development. Nevertheless, it requires close evaluation and tracking at the branch level and increased technical assistance and borrower instructions to enhance its efficiency.

7.4 Financing Agricultural Infrastructure Constraints:

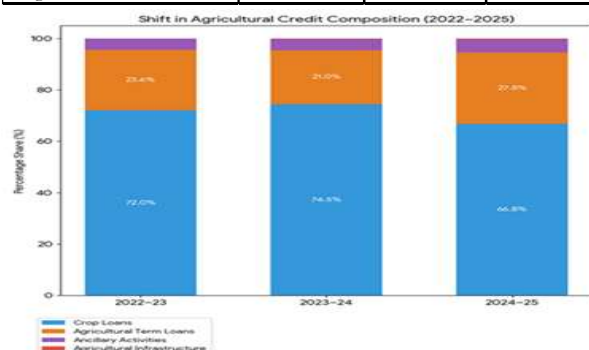
Agricultural-infrastructure lending had the lowest target achievement during the study period. Even with policy support from schemes such as the Agriculture Infrastructure Fund, actual lending remains limited. This is not because banks are unwilling, but mainly due to issues on the demand side and those related to specific projects. Key problems include a lack of bankable proposals, limited borrower ability to create viable projects, long development periods, and uncertainty in market linkages. These factors reduce credit uptake. To address this gap, a two-part approach is needed: developing a pipeline of viable projects through NABARD and state agencies and offering technical support to farmers for project preparation and loan acquisition.

7.5 Comparative Analysis

Table 4 shows the percentage share of agricultural credit achievements in sub-sectors during the three-year period of the study. This indicates important structural trends in the agricultural credit portfolio of the district.

Table 4: Percentage Share of Agricultural Credit Achievements (%)

Sub-Sector	2022-23	2023-24	2024-25
Crop Loans	71.99	74.48	66.82
Agricultural Term Loans	23.61	20.96	27.77
Ancillary Activities	4.33	4.42	4.99
Agricultural Infrastructure	0.06	0.14	0.42



The comparative analysis shows some essential trends. Crop loans remain the most prevalent, yet their proportion dropped to 66.82 per cent in 2024-25, which is slow but steady diversification. Conversely, agricultural term loans rose by 23.61 per cent to 27.77%, indicating a shift towards investment-oriented credit. The proportion of ancillary activities also did not see much fluctuation but stood at approximately 5 per cent. There was a slight improvement in agricultural infrastructure credit, but its percentage was very low. Overall, the credit pattern is gradually changing from short-term crop lending towards a more diversified one, and this pattern needs more institutional support and demand generation.

8. POLICY IMPLICATIONS

As the nodal coordinating agency of district-level credit planning, the Lead Bank is also in a good position to motivate a turnaround in agricultural credit performance. The Annual Credit Plan process must include a finer analysis of sub-sector credit demand based on surveys of farmers and agricultural department data. Target-setting of agricultural infrastructure must be based on a feasible evaluation of project pipeline and borrower preparedness, and not instigated by top-down growth requirements.

The Potential Linked Credit Plan of NABARD should be revised more frequently in response to fluctuating agricultural conditions and new patterns in credit demand. The agencies at the state level are supposed to liaise with NABARD to come up with a pipeline of bankable agricultural infrastructure projects in Dindigul District, especially cold storage, post-harvest processing, and market infrastructure.

The state government line departments, including agriculture, horticulture, animal husbandry, and rural development, should be brought closer to the banking system so that government schemes can be effectively implemented using credit. The block-level co-location of technical assistance and credit facilitation services would help farmers in the project preparation process and loan application.

Finally, an effective approach to enhancing the developmental effect of agricultural credit in the Dindigul District must comprise realistic target-setting, institutional capacity building, demand stimulation, and market development. Credit planning should be integrated into an overall district agricultural development plan that considers all the constraints encountered by farmers, including financial, technical, and market-related constraints.

9. CONCLUSION

This study discusses the trends and patterns of agricultural credit planning in Dindigul District during 2022-23 to 2024-25 based on the target and achievement data in the district at the Lead Bank Office. The analysis reveals that institutional credit to agriculture has been increasing in absolute value, indicating that the policy has remained focused on agricultural financing via the banking system.

Concurrently, the existence of significant differences in credit performance over the years and sub-sectors implies that the conversion of deliberate goals into real disbursements is informed by a set of operational and contextual variables, such as agricultural conditions, the

ability of farmers to repay, market factors, and project availability.

The agricultural credit portfolio is still dominated by crop loans. Although satisfying seasonal financial requirements is necessary, excessive focus on short-term credit restricts the overall developmental effects of institutional finance. The gradual increase in agricultural term loans and related activities credit is a positive indication of the gradual diversification of the portfolio, a process that must be cultivated and developed. The lending of agricultural infrastructure has been a thorn in the flesh, and these needs concerted efforts on both the demand and supply sides.

This study highlights the value of periodic assessment of the performance of agricultural credit on a district-wide basis. These assessments furnish timely feedback on the need to enhance credit planning techniques, and institutional finance can make a significant contribution to sustainable agricultural development and rural economic growth in the Dindigul District. Credit planning must focus not only on credit volume growth but also on the quality, distribution, and effective usage of credit within the sub-sectors.

The author notes that secondary data in the form of official records of the Lead Bank Office were used to carry out this study.

10. LIMITATIONS OF THE STUDY AND SCOPE FOR FUTURE RESEARCH

The research is based on aggregated secondary data and fails to reflect individual borrower or bank differences. Additional research using primary micro-level information in the future would provide better insight into the patterns of credit utilisation, the behaviour of repayment, and the factors that define credit demand in farming communities. A stricter analytical framework could be provided by econometric modelling of the factors affecting agricultural credit achievement, such as rainfall, crop prices, institutional density, and the characteristics of borrowers. Gender aspects studies of credit access, inter-district comparative studies, and digital financial services and fintech platforms as an expansion of agricultural credit access in the district would also be fruitful directions to be pursued in the future.

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