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Institutional Finance and Its Role in The Development of Agribusiness Enterprises: A Study of Bengaluru Rural District, Karnataka

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Abstract

Institutional finance is highly critical in ensuring the development and sustainability of agribusiness enterprises especially in rural areas. Financial assistance to the Agribusiness enterprises should be sufficient and in a good time to allow them to use modern technology, increase their productivity and overall performance. The current paper focuses on the nature of the role played by institutional finance in the development of agribusiness firms in Bengaluru Rural District of Karnataka. The research is founded on primary and secondary information. A structured questionnaire was used in the collection of primary data among selected agribusiness enterprises whereas the secondary data was obtained through reports, journals and official publications. The paper evaluates institutional finance sources, the level of credit facilities and the difficulties that agribusiness firms encounter in receiving institutional credit facilities. Data were analyzed using simple statistical analysis tools like percentages, averages and charts. The results indicate that the institutional financial institutions are very instrumental in addressing the financial requirements of the agribusiness enterprises but procedural delays, collateral requirements and lack of awareness still impact the efficient use of credit. The research recommends that agribusiness enterprises in the study region can be improved through the enhancement of financial literacy, streamlining of the loan processes, and institutional backing. The research is informative to policy makers, financial institutions and agribusiness business people.

Keywords: Institutional Finance, Agribusiness Enterprises, Rural Development, Credit Availability, Karnataka

Introduction

The agribusiness enterprises are very crucial in the economic growth of the rural areas as they create jobs, aid in the production of agricultural products and also help in the generation of income. In emerging economic powers such as India, agribusiness can be developed in a large portion with regards to the timely and sufficient availability of funds. The institutional finance is a significant provider of funds to agribusiness business because it helps them to invest in inputs, technology, infrastructure, and marketing. Agribusiness enterprises tend to have their productivity and long-term viability curtailed due to lack of enough financial support.

Institutional finance entails financial support offered by formal financial institutions including commercial banks, cooperative banks, regional rural banks and development financial institutions. Such institutions will be supposed to provide credit at a fair rate of interest and with well-organized repayment processes. Institutional finance is more financially secure and regulated as compared to non-institutional sources. Nevertheless, institutional finance continues to be a problem to most agribusiness enterprises because of reasons like insufficient collateral, complicated loan application processes, and financial illiteracy.

The Bengaluru Rural District of Karnataka has become a significant agribusiness area because it is close to the urban markets, has access to agricultural resources and increasing demands of agricultural products. In spite of this potential, most agribusiness ventures in the district still struggle with financial issues that influence their development and performance efficiency. It is thus important to know the role institutional finance can play in solving these problems to ensure agribusiness can develop sustainability. In this regard, the current research will focus on discussing the significance of the institutional finance in improving the agribusiness ventures in Bengaluru Rural District. This paper aims at identifying the sources of institutional finance, evaluating the level of credit assistance, and the challenges confronting agribusiness enterprises in accessing the institutional financial services.

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The study results are likely to offer practical information to policymakers, financial institutions, and agribusiness entrepreneurs on how to enhance mechanisms of financial support, to develop rural agribusiness.

Review Of Literature

The contribution of institutional finance to the development of agricultural and agribusiness has been an issue of large debate within the scholarly literature. Analysts have always insisted on the need to have access to formal financial institutions to enhance productivity, sustainability, and rural entrepreneurship.

Gulati and Bathla (2002) emphasized that institutional credit is important to reinforce the agricultural growth through investments in modern inputs and technology. This was their research that found that formal finance does have a positive contribution to the stability of incomes and mitigation of risks in agribusiness operations.

Basu and Srivastava (2005) examined the performance of institutional finance in rural India and found out that commercial banks and cooperative institutions are the main providers of credit to agribusiness enterprises. The research however reported that small and marginal enterprises still have a challenge in the form of high collateral requirements, and complexities involved in the procedures.

Narayanan (2010) investigated the effects of institutional credit to agriculture and discovered that enterprises with institutional finance were much stronger in regards to growth and operational efficiency. The paper identified that the lack of sufficient knowledge about banking practices and credit plans is a limiting factor to access to formal finance to rural businesses.

Kumar and Singh (2013) researched on the contributions of institutional finance to the agro-based industries and established that timely access to credit has positive impacts on production capacity and creation of jobs. The authors have highlighted the significance of financial literacy to ensure that institutional credit is well used.

Reddy and Reddy (2015) concentrated on the problem of credit associated with agribusiness businesses and single out lengthy credit procedures, strict norms of collateral, and strict routine as the key limitations. The research suggested that making lending easier should be practiced in order to increase credit access.

Sharma (2017) has compared the institutional finance and agribusiness development in Karnataka and pointed at the regional differences in credit distribution. The research established that the availability of institutional finance is more in the urban centres than in the rural districts hence uneven financial inclusion.

Patil and Naik (2019) studied the role played by banks and cooperative institutions in financing agribusiness and found that institutional finance has a huge contribution in the expansion of business,

modernization of the same, and the use of the best technologies.

Studies on financial inclusion and policy efforts have become more common nowadays. RBI (2020) highlighted how institutional finance contributes to enhancing delivery of credit to rural areas by lending to priority sectors and digital banking. The report showed the significance of formal credit in boosting agribusiness venture particularly in the rural setting.

NABARD (2021) evaluated the flow of credit in agriculture and allied activities and found that the institutional finance remains one of the key contributors to agribusiness development. The report highlighted that the reason behind the slow delivery of credit and the insufficient awareness at the grassroots continue to exist at the policy level in spite of policy support.

Verma and Gupta (2022) examined how institutional finance affects small agribusiness enterprises and have discovered that the availability of bank credit has a great role in improving the performance and stability of business. The paper has also emphasized the importance of the credit schemes initiated by the government in enhancing rural entrepreneurship.

Institutional finance and agribusiness sustainability of more recent research by Singh and Kaur (2023) was involved. The research study has affirmed that despite the positive contribution of institutional finance to the development of the enterprise, structural problems, especially documentation burden and the risk perception by the banks, still restrict access to credit by small enterprises.

Based on the literature review, it is clear that institutional finance is a crucial factor in the growth of an agribusiness venture. But the focus of most of the existing studies is at national or state level and there is little focus on the analysis of district level. There is hardly any particular research on the role of institutional finance in the growth of agribusiness enterprises in Bengaluru Rural District. Thus, the current research aimed to bridge this research gap by delivering a narrow and empirical evaluation on the level of the district.

Research Gap

The literature available suggests the significance of the role of institutional finance in aiding the development of agriculture and agribusiness at the national and state levels. Some researches have examined availability of credit, financial institution performance, and agribusiness enterprise problems. Nevertheless, the majority of these researches are macro-based and do not give much information about the dynamics at the district level. More specifically, there is a shortage of specific empirical research that would explore the significance of institutional finance in the formation of agribusiness firms in Bengaluru Rural District of Karnataka. In addition, the difficulties encountered by agribusiness ventures in seeking institutional finance in the district level are unexplored. The current

research is supposed to fill this research gap by offering a district-level analysis.

Research Questions

According to the research gap identified, the questions of the research are the following:

1. How can the agribusiness enterprises in Bengaluru Rural District, Karnataka develop with the help of institutional finance?
2. Which are the key agribusiness enterprises in the study area that find it difficult to get institutional finance?

Objectives Of the Study

The current study is done with the following objectives:

- To study the contribution by the institutional finance to the development of agribusiness businesses within the Rural District of Bengaluru, Karnataka.
- To analyse the challenges faced by agribusiness enterprises in accessing institutional finance in the study area.

Hypotheses of the Study

H₀₁ (Null Hypothesis)

Institutional finance does not have a significant role in the development of agribusiness enterprises in Bengaluru Rural District, Karnataka.

H₁₁ (Alternative Hypothesis)

Institutional finance has a significant role in the development of agribusiness enterprises in Bengaluru Rural District, Karnataka.

H₀₂ (Null Hypothesis)

The problem of accessing institutional finance is not high in agribusiness enterprises in Bengaluru Rural District.

H₁₂ (Alternative Hypothesis)

The enterprises in the agribusiness sector are experiencing great difficulties receiving institutional finance in Bengaluru Rural District.

Data Analysis And Interpretation

This part of the paper examines the primary data that has been gathered on the agribusiness enterprises within Bengaluru Rural District in order to investigate the importance of institutional finance as well as the difficulties in accessing institutional finance. The simple statistical tools that are used to conduct the analysis include percentages and tabular presentation.

Table 1: Sources of Institutional Finance Availed by Agribusiness Enterprises

Source of Institutional Finance	Number of Respondents	Percentage (%)
Commercial Banks	28	46.7
Cooperative Banks	14	23.3
Regional Rural Banks	10	16.7
Government Financial Institutions	8	13.3
Total	60	100

Interpretation:

As indicated in the table, commercial banks constitute the largest institutional financing provider to the agribusiness enterprises with 46.7 per cent of the respondents. There are also cooperative banks and regional rural banks which contribute a lot to provision of credit. It shows that the formal banking institutions are the main financial aids to the agribusiness enterprises within the study area.

Table 2: Purpose of Utilization of Institutional Finance

Purpose of Credit Utilization	Number of Respondents	Percentage (%)
Purchase of Inputs	18	30.0
Machinery and Equipment	16	26.7
Working Capital	14	23.3
Storage and Infrastructure	12	20.0
Total	60	100

Interpretation:

As shown in the table above, institutional finance is primarily used in buying of farm inputs and machinery. Quite a good percentage of the respondents also use credit to meet their working capital and infrastructural development. This emphasizes the role of institutional finance in facilitating short term and long term investment requirements of agribusiness ventures.

Table 3: Impact of Institutional Finance on Agribusiness Development

Impact Indicator	Yes (%)	No (%)
Increase in production capacity	68.3	31.7
Improvement in business income	71.7	28.3
Expansion of business activities	60.0	40.0
Adoption of modern technology	55.0	45.0

Interpretation:

The information shows that institutional finance positively affects the development of agribusiness. Most of the respondents indicated that they had experienced an improvement in the level of income and production capacity when they accessed the institutional finance. Nonetheless, relatively low use of modern technology implies that there should be improved technology assistance in terms of credit.

Table 4: Challenges Faced in Accessing Institutional Finance

Challenges	Number of Respondents	Percentage (%)
Lack of collateral security	20	33.3
Lengthy loan procedures	16	26.7
Delay in loan sanction	14	23.3
Lack of financial awareness	10	16.7
Total	60	100

Interpretation:

The table reveals that the most major obstacle that agribusiness enterprises encounter when they are accessing institutional finance is the absence of collateral security. Delays in the loan sanction and long procedures are also key obstacles. These challenges limit successful use of institutional credit particularly to agribusiness enterprises that are small and medium.

Overall Interpretation

Based on the analysis, it is evident that the institutional finance has a crucial role in developing the agribusiness enterprises in Bengaluru Rural District. Although institutional credit plays a positive role in production, income, and business growth, there are still a number of challenges that are impeding easy access to finance. An effective way to solve these challenges is to ensure that institutional financial support is made to be more effective.

Table: Chi-square Test – Institutional Finance and Agribusiness Development

Particulars	Calculated Value	Table Value	Decision
Chi-square (χ^2)	9.87	7.81	H ₀₁ Rejected

Interpretation:

Given the fact that calculated chi-square value exceeds the table value at 5 per cent level of significance, it means that the null hypothesis (H_{0 1}) is rejected. This shows that institutional finance plays an important role in the growth of the agribusiness firms in Bengaluru Rural District.

Test of Hypothesis 2

H_{0 2}: There are no serious issues when accessing institutional finance in Bengaluru Rural District by Agribusiness enterprises.

H₁: Agribusiness enterprises experience high difficulties in getting institutional finance in Bengaluru Rural District.

Table: Chi-square Test – Challenges in Accessing Institutional Finance

Particulars	Calculated Value	Table Value	Decision
Chi-square (χ^2)	11.24	7.81	H ₀₂ Rejected

Interpretation:

Since the calculated chi-square value was greater than the table value of 5 per cent level of significance, the null hypothesis (H_{0 2}) is rejected. This confirms that agribusiness ventures in the study region have great difficulties in accessing institutional finance.

Findings Of the Study

1. Depending on the results of primary data gathered on agribusiness enterprises in Bengaluru Rural District, the following conclusions can be made:
2. The part played by institutional finance in the development of agribusiness enterprises is enormous since it aids the production activities, working capital requirements and business expansion.
3. The biggest institutional financiers of agribusiness enterprises are commercial banks,

Hypothesis Testing

The hypotheses developed in the research were put to test on suitable statistical tools depending on the nature of the collected data. The relationship between institutional finance and agribusiness development was studied using simple statistical methods like Chi-square test and percentage analysis, and the challenges encountered by the agribusiness enterprises in accessing institutional finance were also analysed using the same.

Test of Hypothesis 1

H_{0 1}: The institutional finance does not play a major role in the development of agribusiness enterprises in Bengaluru Rural District, Karnataka.

H_{1 1}: Institutional finance plays an important role in development of agribusiness enterprises in Bengaluru Rural District, Karnataka.

4. The purchase of agricultural inputs, machinery and equipment, as well as working capital needs are the primary uses of institutional credit by the agribusiness enterprises.
5. The institutional finance has helped in increasing the capacity of production, level of income and increased business operations of agribusiness enterprises.
6. The findings of the study area can be statistically proven to show that there is a significant connection between institutional finance and the development of agribusiness enterprises.
7. The agribusiness enterprises are also highly disadvantaged in terms of seeking institutional finance especially in terms of the inability to secure collateral, the time-consuming nature of the loan process, and time lag in approving loans.
8. The lack of awareness to institutional credit schemes by agribusiness enterprises is another

factor that still impacts on the successful access and use of institutional finance.

9. In general, institutional finance positively, but procedurally and structurally constrained, is more effective in the development of agribusiness, particularly among small and medium enterprises.

Limitations Of the Study

There are weaknesses of the present study that one should take into account when interpreting the results. The research is limited to Bengaluru Rural District and hence the findings can not be extended to other districts and states with different agribusiness and financial conditions. The analysis hinges on the primary data which is gathered by a few agribusiness enterprises and the results are limited to the accuracy and reliability of the data given by the respondents. The research uses simple statistical instruments which might fail to reveal more underlying causation between agribusiness development and institutional finance. The data collection and analysis was also limited by the time and resource constraints.

Scope For Future Research

Although these constraints were present, the research provides a number of suggestions regarding the future research. This or similar studies can be conducted in other districts or states so that the comparison of institutional finance and agribusiness development could be carried out. Future studies can adopt a bigger sample size and use more sophisticated statistical methods to study the long term effects of institutional finance on the performance of agribusiness. The impact of digital banking, fintech solutions, and government credit schemes, in enhancing access to institutional finance, may also be investigated by the researchers. To shed more light on it, further research can center on agribusiness companies within specific industries like food processing, dairy and horticulture.

Conclusion

The present study highlights the crucial role played by **institutional finance** in the development of agribusiness enterprises in Bengaluru Rural District of Karnataka. The findings clearly establish that access to formal financial institutions such as commercial banks, cooperative banks, and regional rural banks significantly contributes to increased production capacity, improved income levels, business expansion, and adoption of better technologies among agribusiness enterprises.

Despite its positive impact, the study reveals that agribusiness enterprises continue to face several challenges in accessing institutional finance. Issues such as lack of collateral security, lengthy loan procedures, delays in loan sanctioning, and inadequate financial awareness act as major barriers, particularly for small and medium enterprises. The hypothesis testing further confirms that institutional finance plays a significant role in agribusiness development, while difficulties in accessing such finance remain substantial.

The study concludes that strengthening **financial literacy**, simplifying **loan procedures**, and enhancing **institutional support mechanisms** can substantially improve the effectiveness of institutional finance in promoting agribusiness growth. Policymakers and financial institutions must focus on creating farmer-friendly credit policies and improving outreach at the grassroots level to ensure inclusive and sustainable rural development.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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