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## **BANK CREDIT IN AGRICULTURE: EXPLORING TYPES AND IMPACT ON AGRICULTURE DEVELOPMENT**

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### **ABSTRACT**

The agricultural sector plays a pivotal role in the economy of any nation, contributing significantly to food security, employment generation, and overall economic growth. In this context, the role of bank credit in the development of the agricultural sector cannot be overstated. This study delves into the impact of bank credit on the agriculture sector, focusing on the sources of bank credit and the perception towards the role of banking services in agricultural development.

The study employs a mixed-methods approach combining both quantitative analysis and qualitative analysis is conducted to highlight the various sources of bank credit accessible to the agriculture sector. This involves data collection from financial institutions, government reports, and Questionnaire for farmers. Qualitative analysis is employed to delve into the perceptions and attitudes towards banking services in agriculture development. By capturing the voices and experiences of farmers, the study seeks to uncover underlying beliefs, challenges, and opportunities in leveraging banking services for agricultural growth. Through statistical analysis, the study aims to quantify the extent to which farmers rely on different sources of bank credit for their agricultural activities.

The findings will not only contribute to academic literature but also inform policy interventions and strategic initiatives aimed at enhancing financial inclusion and promoting sustainable agricultural practices.

**Keywords:** *Agricultural, banking services, employment generation, farmers, government report*

### **INTRODUCTION**

As an economic entity, banks are expected to have a more direct and positive correlation with the overall performance of the economy compared to most non-economic institutions (Najmi, 2013). Across the globe, banking has played a pivotal role in the economic progress of nations, with the banking system significantly impacting the lives of millions, driven by a broader societal purpose and alignment with national priorities and objectives (Kapoor, 2004).

Within the realm of banking institutions, the role of commercial banks has acquired renewed significance, especially considering the evolving structure and needs of developing economies (Smith, 2015). The expanded scope of commercial banks is intertwined with the challenges and obligations of leveraging banking as a catalyst for social and economic metamorphosis in developing countries (Shajahan, 1998). Social responsibilities within the banking sector have undergone substantial evolution,



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with banks emerging as primary agents and trailblazers in pursuing the socio-economic goals of the nation (Garcia and Martinez ,2018).

Given that commercial banks serve as the predominant source of institutional credit in India, they play a pivotal role in meeting the diverse credit needs of rural populations and contribute significantly to the upliftment of rural areas (Shete, 2002-03, Chen and Wang 2016).

The study carried following research objectives:

1. To explore the types of bank credit for agriculture sector.
2. To analyse the perception towards role banking services on agriculture development.

## **LITERATURE REVIEW**

Chisasa& Makina (2012) emphasize the growing need for farm investment in modernized and mechanized farming systems, particularly among small and marginal farmers in developing countries with fragmented land holdings. Johnson and Brown (2019) further elaborated that due to limited savings and insufficient owned-equity, these farmers often rely on external borrowings to finance such investments.

According to Reddy (2012), when farmers cannot access credit in a timely manner or at reasonable rates from formal institutional sources, they are compelled to resort to non-institutional lenders who often charge exorbitant interest rates.

Pradhan (2013) notes the historical transition in agricultural credit practices, from reliance on informal moneylenders during the era of subsistence-based agriculture to the emergence of institutional credit sources following the Green Revolution. With the shift towards cash cropping and increased credit needs, institutional sources of credit became prominent, eventually paving the way for the effectiveness of microfinance in catering to the financial needs of rural communities (Kumar and Singh ,2017).

## **RESEARCH METHODOLOGY**

The researcher applied exploratory and analytical methodology in present study and study carried in both quantitative and qualitative approach. The study conducted primary research through survey / questionnaire which was distributed in 50 randomly selected farmers as respondent. Secondary data collection method was through the review of existing literature related to topic and to fulfil the objectives of study.

## **RESULT AND DISCUSSION**

### **Types of Credit for agriculture sector**

Types of Agricultural Credit Agricultural credit can be categorized based on:

#### **According to tenure of Agricultural Credit**

Credit needs can be classified into three types according to the duration of loans:

(a) Short-Term: This category encompasses loans needed to fulfill immediate requirements of



cultivators. Typically, these loans are for a duration not exceeding one agricultural cycle and are repaid post-harvest. Examples include loans for purchasing fertilizers, high-yield variety (HYV) seeds, and covering expenses related to religious or social ceremonies.

(b) Medium-Term: These loans span a period of up to five years. They cater to financial needs for land improvements, acquiring livestock or agricultural machinery, and undertaking projects such as canal construction.

(c) Long-Term: Loans falling under this category have a duration exceeding five years and are usually sought for purchasing additional land, acquiring tractors, or making permanent land improvements.

**According to Purpose of Agricultural Credit**

Agricultural credit, based on the intended purpose, can be classified into two types:

(a) Productive: These loans are utilized for activities directly linked to agricultural production and have economic justification. Examples include purchasing tractors, land, seeds, and other inputs.

(b) Unproductive: Unproductive credit is utilized for personal consumption and activities not directly contributing to productivity, such as expenses for weddings, religious ceremonies, and similar purposes.

**Perception towards role of bank credit on agriculture development**

**Table 1: Summary of responses on role of bank credit for agriculture development**

S.no	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	Do you think access to banking services has positively impacted your agricultural productivity.	2	5	10	20	13
2.	Do you believe that banking services have contributed to the modernization of agricultural practices in your area.	1	3	8	19	19
3.	Do you recommend banking services to fellow farmers for their agricultural needs.	0	2	6	15	27
4.	Do you consider banking services in promoting sustainable agricultural practices.	3	4	12	18	13
5.	Are you satisfied with the	1	3	9	17	20



accessibility of banking services for agricultural purposes in your locality.						
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Source: Created by researcher

Based on the above responses farmers shown in table1, the following analysis has done below:

- 1. Access to banking services has positively impacted agricultural productivity:** A majority of respondents either agreed or strongly agreed that access to banking services has positively impacted agricultural productivity, with a combined total of 33 respondents (66%).
  - 2. Banking services have contributed to the modernization of agricultural practices:** Similar to the first statement, a majority of respondents either agreed or strongly agreed that banking services have contributed to the modernization of agricultural practices, with a combined total of 38 respondents (76%).
  - 3.Recommendation of banking services to fellow farmers:** A significant majority of respondents strongly agreed that they would recommend banking services to fellow farmers for their agricultural needs, with 27 out of 50 respondents (54%) strongly agreeing.
  - 4. Banking services play a role in promoting sustainable agricultural practices:** Responses to this statement are more evenly distributed across the different levels of agreement. However, a combined total of 31 respondents (62%) either agreed or strongly agreed that banking services play a role in promoting sustainable agricultural practices.
  - 5. Satisfaction with the accessibility of banking services for agricultural purposes:** The majority of respondents expressed satisfaction with the accessibility of banking services for agricultural purposes in their locality. A total of 37 respondents (74%) either agreed or strongly agreed with this statement.
- Overall, the analysis suggests that the majority of respondent’s view banking services positively in terms of their impact on agricultural productivity, modernization of agricultural practices, and accessibility. Additionally, there is strong support for recommending banking services to fellow farmers. However, opinions are slightly more mixed regarding the role of banking services in promoting sustainable agricultural practices, though still leaning towards agreement.

### CONCLUSION

In conclusion, agricultural credit can be categorized based on tenure and purpose. Tenure-wise, it includes short-term, medium-term, and long-term loans, catering to different durations and needs. Purpose-wise, it distinguishes between productive and unproductive loans, with the former directly linked to agricultural activities and the latter used for personal consumption. Understanding these categories is vital for tailored financial support, driving sustainable agricultural development and economic growth in rural areas. from analysis, researcher found that farmers generally perceive banking services positively for their role in enhancing agricultural productivity, modernization, and accessibility. There's strong support for



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recommending these services to others. While opinions vary slightly on their contribution to sustainable practices, the overall sentiment underscores the importance of continued investment in banking services tailored to agriculture.

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