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# ROLE OF BANKS IN EMPLOYMENT GENERATION THROUGH AGRICULTURAL CREDIT: A LITERATURE REVIEW

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**Abstract**

Agriculture continues to play a vital role in driving economic growth, particularly in emerging economies, where it supports livelihoods and contributes significantly to GDP. Providing agriculture credit is essential for modernizing agricultural practices, improving productivity, and generating employment. Banks have emerged as key players in delivering agricultural credit, supplementing the efforts of public sector institutions. This paper reviews existing literature on the role of Banks in employment generation through agricultural credit, highlighting their contributions, challenges, and areas for policy intervention.

## 1. Introduction

Agriculture contributes a substantial portion of employment in many developing countries, particularly in rural areas. Access to adequate and timely credit is crucial for enabling farmers to adopt advanced technologies, diversify crops, and invest in value-added activities. While public sector banks have historically played a dominant role in agricultural financing, private sector banks have increasingly contributed to this space, offering innovative financial products and leveraging technology to reach underserved populations. This paper examines the literature to understand how banks influence employment through agricultural credit.

## 2. Conceptual Framework

The role of credit in agricultural development is rooted in theories of rural finance and development economics. According to Keynesian economics, increased investment in agriculture, facilitated by credit, can lead to higher productivity and employment. The Green Revolution in developing economies provides empirical evidence of the transformative role of credit in modernizing agriculture. Private sector banks, with their focus on efficiency and innovation, align with the neoliberal emphasis on market-driven growth, complementing public sector efforts in rural finance.

Agriculture credit refers to loans and advances provided to farmers and agricultural enterprises for activities such as crop production, machinery purchase, infrastructure development, and value chain improvements. The availability of credit is essential for modernizing agriculture, increasing productivity, and creating employment opportunities. Employment generation occurs both directly—through hiring for farming and related activities—and indirectly, via backward and forward linkages such as machinery manufacturing, transportation, and processing industries.

## 3. Need of Agriculture credit

Need of Agricultural Credit When someone needs credit, they often turn to banks for loans or other credit vehicles. Some industries have special facilities set aside through certain financial institutions as is the case with agricultural business—the business sector

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encompassing farming and farming-related commercial activities which involve all the steps required to send an agricultural good to market—production, processing, and distribution. This is called agricultural credit. Agricultural credit, which is also commonly referred to as agricultural finance, is an important component of the economy, especially in countries with arable land since agriculture product can be exported. Credit is vital to s businesses because it gives farmers access to capital that might not otherwise be available to them. It helps them secure the seeds, equipment, and land they need to operate a successful farm. Agricultural credit programs not only help farmers and other agricultural producers, but also supports ranchers and rural homeowners with their finances. The investment requirements for cultivation have continuously increased, as almost all inputs like seeds, pesticides, fertilizers, motor pump sets, tractors, pipe lines, etc., are to be purchased and several other services such as tractors, sprayers, rotors, harvesters etc., are to be hired from the market. Agriculture credit plays a crucial role in the development of the agricultural sector in Maharashtra, which is one of the largest agricultural states in India. Here are some reasons why agriculture credit is needed in Maharashtra: 26 Boosting agricultural productivity: Access to agriculture credit can help farmers in Maharashtra invest in modern farming techniques, quality seeds, fertilizers, and other inputs that can increase agricultural productivity. Meeting working capital requirements: Farmers in Maharashtra often require credit for meeting their working capital requirements, such as purchasing seeds, fertilizers, and other inputs. Coping with natural calamities: Maharashtra is prone to natural calamities like droughts, floods, and cyclones, which can severely impact the agricultural sector. Access to agriculture credit can help farmers cope with these situations by providing them with funds to recover and rebuild. Supporting crop diversification: Maharashtra is known for its diverse agriculture, with crops ranging from wheat and rice to fruits and vegetables. Agriculture credit can help farmers in Maharashtra to experiment with new crops and diversify their farming practices. Addressing rural poverty: Agriculture credit can be a powerful tool for poverty alleviation in rural Maharashtra. By providing farmers with the necessary funds to improve their agricultural practices, agriculture credit can help increase their income and improve their standard of living. Overall, agriculture credit is essential for the development of agriculture, and its availability can have a significant impact on the lives of farmers and the growth of the agricultural sector in the state.

**4. Scope:**

1. Agricultural Credit as a Catalyst for Economic Growth
    - Role of banks in providing credit to farmers, cooperatives, and agribusinesses.
    - How credit facilitates the adoption of modern farming techniques, mechanization, and inputs like seeds, fertilizers, and irrigation systems.
    - Contribution of agricultural credit to increased productivity and expansion of arable land.
2. Employment Generation in Rural Areas
    - Direct employment: How credit enables farmers to hire labour for agricultural operations such as sowing, harvesting, and processing.
    - Indirect employment: Growth of agribusinesses, food processing units, supply chains, and allied industries due to increased agricultural activity.

- Self-employment: Empowering farmers and rural entrepreneurs to start micro-enterprises like poultry, dairy farming, and aquaculture.

3. Types of Credit Provided by Banks
   - Short-term and long-term loans for various purposes (e.g., crop loans, equipment financing).
   - Specialized schemes for marginalized groups like small and marginal farmers, women, and rural youth.
   - Role of microfinance and cooperative banks in meeting credit needs of the unorganized sector.
4. Government Policies and Subsidized Credit
   - Examination of schemes like Kisan Credit Card (KCC), Pradhan Mantri Fasal Bima Yojana (PMFBY), and interest subvention programs.
   - How these policies incentivize banks to disburse credit to agricultural and allied sectors.
5. Role of Technology in Agricultural Credit
   - Adoption of digital platforms, fintech solutions, and mobile banking for efficient disbursement of credit.
   - Use of credit scoring and data analytics to assess creditworthiness and reduce non-performing assets (NPAs).
6. Challenges Faced by Banks
   - Risks in agricultural lending due to crop failure, price volatility, and natural disasters.
   - Issues related to repayment capacity, lack of collateral, and high default rates.
   - Balancing profitability with social responsibility in rural lending.
7. Impact Assessment
   - Analysis of how bank-led agricultural credit has improved rural incomes and reduced poverty.
   - Case studies of successful credit-based agricultural projects leading to employment creation.
   - Measuring the multiplier effect of agricultural credit on other sectors of the economy.
8. Recommendations and Future Prospects
   - Strategies to strengthen the role of banks in sustainable agricultural financing.
   - Innovations in credit delivery systems to maximize employment generation.
   - Aligning banking services with broader goals like food security, rural development, and climate resilience.

This scope provides a comprehensive foundation for exploring the multifaceted role of banks in employment generation through agricultural credit.

## 5. Review of Literature

### 5.1 Accessibility and Outreach

Banks, particularly public sector and rural banks are instrumental in extending financial services to underserved agricultural communities. According to studies by Sharma and Bhattacharya (2019), access to formal credit has empowered small and marginal farmers by enabling investments in productivity-enhancing technologies. Rural branches and specialized institutions, such as cooperative banks and regional rural banks (RRBs), play a crucial role in addressing credit gaps in agriculture.

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5.2 Private Sector Banks and Agricultural Credit

Several studies highlight the increasing role of private-sector banks in agricultural finance. Kumar et al. (2020) state that private banks contribute significantly to short-term and long-term agricultural loans, focusing on commercial crops and high-value agriculture. Singh and Yadav (2018) note that private banks use technology, such as mobile banking and digital platforms, to reduce transaction costs and improve accessibility for rural farmers.

5.3 Employment Generation through Agricultural Credit

Agricultural credit enables farmers to invest in modern equipment, improved seeds, and irrigation systems, directly increasing labor demand in the sector. Sharma et al. (2019) emphasize that credit supports agri-business ventures, such as food processing and agro-tourism, which generate employment beyond traditional farming. Studies by Rajan and Gupta (2017) show a positive correlation between access to credit and rural employment levels, particularly among smallholder farmers.

Agricultural credit fosters employment by facilitating mechanization, irrigation, and diversification into high-value crops. Mishra and Singh (2020) highlight that access to credit encourages adopting labor-intensive farming practices, thereby creating demand for skilled and unskilled labour. Similarly, Kaur (2021) emphasizes that credit-financed investments in post- harvest infrastructure, such as cold storage and processing units, generate employment along the value chain.

5.4 Challenges Faced by Private Sector Banks

Despite their contributions, private sector banks face challenges in agricultural lending. High transaction costs, risks associated with weather and market fluctuations, and the lack of collateral among small-scale farmers are significant barriers (Choudhary, 2021). Studies also highlight the concentration of private sector credit in relatively prosperous agricultural regions, leading to unequal benefits (Mehta, 2020).

Ramesh Golait (2007) has made an attempt to study the current issues in agricultural credit in India. The Researcher observed that the credit delivery to the agriculture sector continues to be inadequate. The study has identified crop losses, consecutive failure of monsoon, recurrent drought, mounting debts and land tenancy, as some of the main causes which led many distressed farmers to commit suicide. He suggests merging and revamping of RRBs that are predominantly located in tribal /backward regions is seen as a potentially significant institution arrangement for financing the hitherto unreached population.

5.5 Policy and Regulatory Environment

The role of government policies in shaping the engagement of private banks in agriculture cannot be overstated. Priority sector lending mandates and incentives for financial inclusion have spurred private banks to enter rural credit markets (RBI, 2020). However, gaps remain in ensuring equitable access and aligning private sector activities with broader development goals.

5.6 Case Studies and Evidence

In India, initiatives such as the Kisan Credit Card (KCC) scheme and priority sector lending norms have expanded credit access in agriculture. According to a study by Das et al. (2021), these schemes have significantly contributed to employment growth by supporting mechanization and crop diversification.

**5. Discussion**

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The literature underscores the significant role of banks in enhancing agricultural productivity and employment generation. However, their impact varies depending on regional and socio-economic contexts. While private banks bring efficiency and innovation, their focus on profitability can sometimes limit outreach to the most marginalized farmers. Integrating technology and risk management strategies can help overcome these challenges, enabling a more inclusive approach to agricultural credit.

**6. Conclusion and Recommendations**

Banks play a crucial role in employment generation through agricultural credit by enabling investments in modern farming practices and value chain development. To enhance their impact, the following recommendations emerge from the literature:

1. Strengthening Financial Inclusion: Expand credit access to smallholder farmers and marginalized regions through tailored products and services.
2. Leveraging Technology: Promote the use of digital platforms to reduce costs and improve efficiency in credit delivery.
3. Risk Mitigation: Develop innovative insurance products and hedging mechanisms to address risks associated with agricultural lending.
4. Public-Private Partnerships: Encourage collaborations between private banks, public institutions, and non-governmental organizations to pool resources and expertise.
5. Future research should focus on innovative credit delivery mechanisms and their long- term impact on rural employment and economic growth.

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