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A Study of Agricultural Credit Sources and its Utilization Pattern by Farmers in Selected Villages of Udaipur District

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Abstract:

Agriculture is the mainstay of the Indian economy engaging about 60 percent of the population, and contribution 16 percent of GDP. In fact, agriculture is the way of life, a tradition, which for centuries, has shaped the thought, the outlook, the culture and the economic life of the people of India (National Agriculture Policy, 2000). Agriculture sector in India is central to the socioeconomic life of the country for its multi-functionalities to provide employment, food, nutritional and ecological securities. That is why there is a need to focus on agriculture growth for national development. It is needless to mention that adequate and timely finance is indispensable for agricultural development. Credit is indispensable for every sector of the economy to grow. It provides additional oxygen to breath for better health of the economy. Schumpeter referred to 'Credit' as a phenomenon of development and considered the banking system along with entrepreneurship as a key input in the process of development. The succinctly brings out the importance of credit an input in development. Though credit in every sector of the economy is indispensable yet its role in agriculture is crucial. Agricultural credit has played a great role in increasing the agricultural production and also to improve the standard of living of the rural population. In other words, agriculture credit may be defined as the amount of investible funds made available for farm business. In fact, it is a unique source since it provides the opportunity to use additional inputs and capital items now and to pay the cost from future earnings. This study explores the opinion of the farmers collected through survey in the sampled villages of Udaipur district of Rajasthan state. Part I of the paper deals with the structural features of respondents and part II with the utilization pattern and opinion of farmers regarding agricultural finance.

Keywords: Indian economy, agricultural credit, indispensable

1. Introduction

The success of the agricultural sector in India depends not only on the use of new technology like use of better seeds, fertilizers and plan protection method, development of water resources but also on the availability of adequate credit at the proper time. Though the agriculture is dependent on nature to a great extent, it also depends upon men and material inputs. The transportation and growth of this sector require extensive adoption of a variety of inputs such as high yielding variety seeds, fertilizers, insecticides, pesticides, irrigation facilities and mechanization etc. In present time all these constitute two-third of our farming community. In this backdrop the role of finance assumes more significance. The need of the agricultural finance can hardly be overemphasized in a developing country like India. This is particularly true in the context of the economy of Rajasthan was agriculture productivity has made a significant contribution in the overall development of the state economy. Thus, adequate and timely credit in the overall development of state economy, and timely credit to the farmers is vital and indispensable for their rehabilitation and progress. Agricultural development is possible only if adequate capital and modern technology are used. The changes in technology of agriculture, enhance the need of credit. Farmers' inability or least ability to save does not allow him to finance his pursuits and raise better production from his farms. Agricultural credit through institutional channels is the only way to break agricultural stagnation as private funding agencies play a limited role keeping in view the larger vested interests. Credit plays a pivotal role in the agricultural development. The importance of agricultural credit as a critical input to agriculture is reinforced by the unique role of Indian agriculture in the macroeconomic framework and its role in poverty alleviation. Agricultural credit is one of the most crucial inputs in all agricultural development programs. For a long time, the major source of agriculture credit was the private moneylenders. However, this was inadequate, expensive and an exploitative source of credit. After nationalization, the banks were advised to move away from their accustomed security-oriented lending to purposive, productive and incremental income-oriented lending. The banks too have responded to this positively and their attempts for the formulation and implementation of several agricultural based schemes testify to this change.

2. Research Methodology

The research is exploratory in nature to find out the opinion of the farmers regarding credit sources, and reasons for choosing a particular source, utilization pattern and the facilities required by the farmers .

3. Objectives of the Study

- To know the awareness among farmers regarding agricultural credit schemes
- To identify the opinion of the respondents regarding choice of credit source
- To study the utilization pattern of loans

3.1. Sample Profile

In order to generate primary data a sample of 160 farmers was chosen from 4 villages of Udaipur district through convenience sampling .The profile of the sample is as under:

3.2. Age group of Respondents

Table 1 presents the age structure of respondents. The large share of respondents belongs to the age group 30-40. It is due to the fact that loanee-farmers are generally head of the families. Age group affects the outlook of the farmer as it is assumed that old generation still resists to borrowing perhaps mainly due to their conservative outlook.

Villages	Age group (Years)				Total
	Below 30	30-40	40-50	Above 50	
I	2	15	14	9	40
II	8	16	8	8	40
III	10	20	6	4	40
IV	7	23	4	6	40
Total	27	74	32	27	160

Table 1: Village-wise Age Structure of Respondents
Compiled from primary data

3.3. Education Level of Respondents

Table 2 shows the educational status of respondents. It is clear that the large share of farmers (40.82%) is illiterate. Only a few of the respondents were highly educated, i.e. graduate and postgraduate. Educational status plays a considerable role since it increases the ability of the farmers under the assumption that they respond to better cultivation practices with greater elasticity.

Villages	Category						Total
	Illiterate	Primary	Middle	Matric	Graduate	Post graduate	
I	15	9	12	2	2	0	40
II	23	12	5	0	0	0	40
III	17	17	4	0	2	0	40
IV	10	10	11	5	3	1	40
Total	65	48	32	7	7	1	160

Table 2: Educational Status of Respondents
Compiled from primary data

3.4. Age-wise Education Level

The data relating to educational level according to age presented in Table 3 & fig 1 depicts that 58.5 per cent farmers are illiterate in the age group of 50 years and above. As the age decreases the number of illiterate also decreases. It is presumed that due to illiteracy old age farmers are less dynamic or less inclined towards new techniques

Age (Yrs)	Category						Total
	Illiterate	Primary	Middle	Matric	Graduate	Post graduate	
< 30	2	29	15	2	5	1	54
30-40	5	12	12	4	2	0	35
40-50	20	4	5	1	0	0	30
50 <	38	3	0	0	0	0	41
Total	65	48	32	7	7	1	160

Table 3: Age-wise Education Level of sampled Farmers

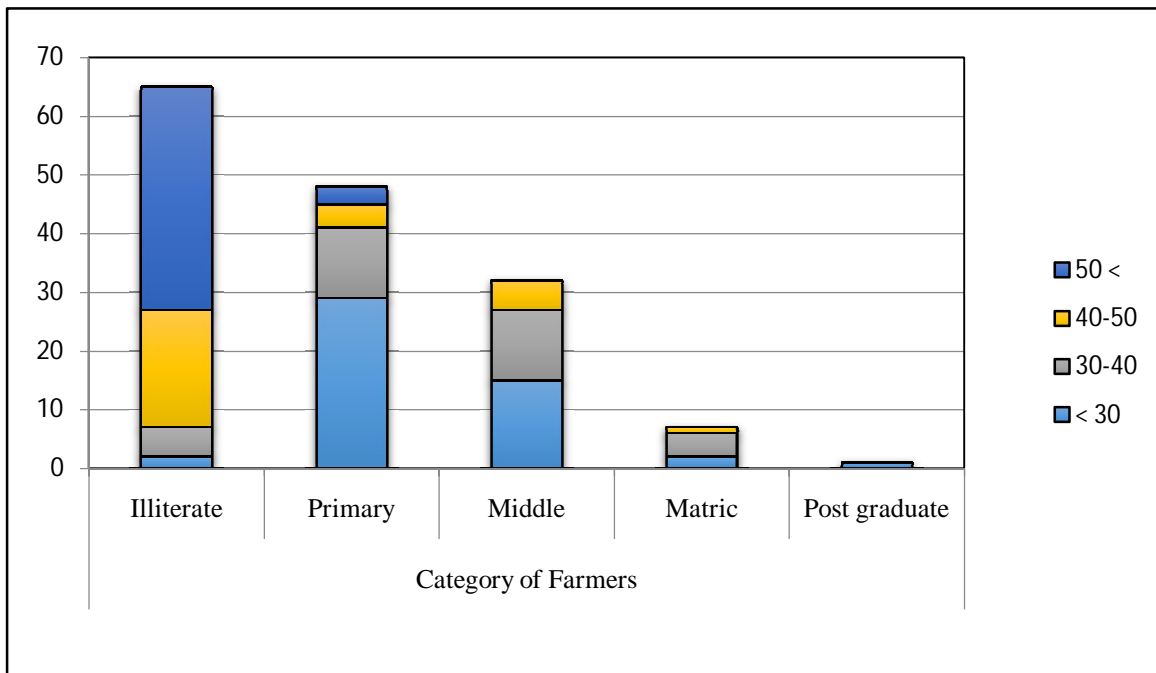


Figure 1 : Age wise education level of respondents (Compiled from primary data)

3.5. Land Holding Size

An examination of holding size distribution is important not simply because it would contribute to the economies of scale but also because several credit facilities, subsidies and other types of government’s aids are supposed to be disbursed in direct relation to the holding size. The holding size is categorized into four categories viz. above 10 acres ,5-10 acres,2.5-5.0 acres and upto 2.5 acres.

Villages	Category				Total
	Up to 2.5	2.5 to 5.0	5 to 10	Above 10	
I	22	11	2	5	40
II	11	12	14	3	40
III	10	14	12	4	40
IV	10	19	3	8	40
Total	53	56	31	20	160

Table 4: Landholding of Respondents

Table 4 shows that majority of the respondents 86.4% have landholding less than 10 acres. The average size of their landholding is decreasing day by day thereby leading to decrease in the number of large farmers. On the basis of their farming experience the farmers find it difficult to meet their requirements from their small size of landholdings and they have to undertake other activities along with agriculture to support their income.

3.6. Education Level wise Land Holding

Holding size (in acres)	Category						Total
	Illiterate	Primary	Middle	Matric	Graduate	Post graduate	
Up to 2.5	27	15	8	0	2	1	53
2.5 to 5.0	25	18	11	0	2	0	56
5 to 10	10	10	8	2	1	0	31
Above 10	3	5	5	5	2	0	20
Total	65	48	32	7	7	1	160

Table 5: Education Level wise Land Holding of Respondents

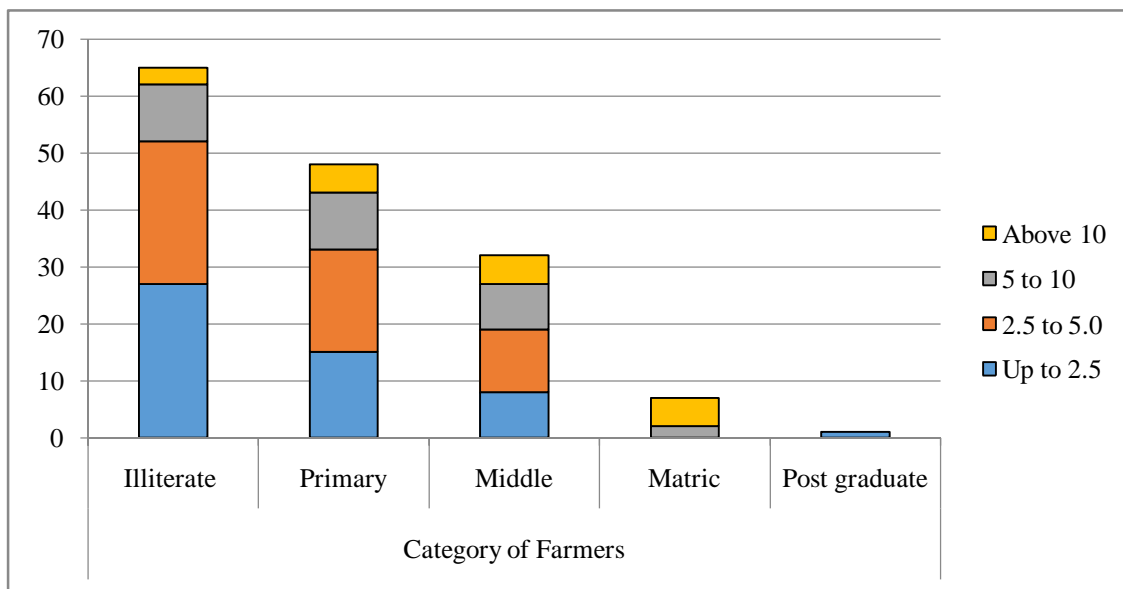


Figure 2: Education Level wise Land Holding of Respondents

Above Table and fig 2 shows the educational level of the respondents according to the size of landholding. As the size of landholding is decreasing day by day, income from agriculture is not adequate and sufficient to meet the financial requirement of the family. Education is necessary to undertake other activities along with agriculture.

3.7. Awareness among Farmers Regarding Agricultural Credit Schemes

The result of awareness level among the farmers about various agricultural credit schemes of the banks is presented in Table 6 which shows that majority of the respondents (55%) are not aware about various agricultural credit schemes of the organized sector (banks). So, there is great need to increase awareness level among farmers to make bank credit scheme more effective

Variable	Frequency	Percentage (%)
Aware	72	45
Not Aware	88	55
Total	160	100

Table 6: Awareness Level among Farmers

3.8. Choice of Credit Source

Various financial agencies are available to meet the credit needs of the farmers. To find out the choice/liking about credit agency, preferences were sought regarding the five common credit agencies stated in the following Table 7.

Sr. No.	Agency	Mode	Rank
1	Co-operative Society	1	1
2	Nationalized Banks	2	2
3	Land Development Bank	3	3
4	Private Banks	4	4
5	Private moneylenders	5	5

Table 7: Choice of Credit Agency by Sampled Farmers

From the above Table it is clear that Co-operative society is the most preferred agency as it is the most convenient and easily approachable institutional credit source to the farmers. Nationalized banks ranks second followed by land development banks. Private Banks and private moneylenders are ranked the last, may be because they charge high rate of interest and processing charges are also high.

There may be various reasons for preferring a particular credit source to meet credit requirements. Following Table 8 depicts the reasons for preferring particular credit agency by the respondents.

Sr. No.	Agency	Mode	Rank
1	Interest rate	1	1
2	Quick Service	2	2
3	Awareness	3	3
4	Nearness	4	4
5	Surety about Full amount of Loan	5	5
6	Personal contacts	6	6
7	No other alternative	7	7

Table 8: Reasons for Choice of Agency by Sample Farmers

It is revealed from the above Table that the most important criteria for selecting a credit source is 'rate of interest'. That is why, the farmer prefer co-operative and nationalized banks as interest rate is generally lower in these banks in comparison to private banks and other private agencies. Quick service is the second important reason as the farmers need agricultural credit in time. The next important reason is awareness than 'nearness' and it is evident that co-operatives are given preference as they are mostly located near to the respondents, followed by surety of getting the full amount of loan. Personal contacts and no alternative are also found to be the reasons of choosing an agency by the respondents.

3.9. Hypothesis Testing

The source of credit was divided into two organized and unorganized and it was tested statistically whether awareness about bank credit schemes play any role in choosing the credit source

H01: There is no significant relationship between awareness of farmers and their choice of credit source

For hypothesis testing we applied Chi square test and the results are

Calculated value of Chi Square=13.98

Degree of Freedom=1

Level of significance =5 %

Tabulated value =3.84

Since the calculated value is much higher than the tabulated value the null hypothesis is rejected and so awareness about the different schemes of organized sector affects the choice of credit source of the farmers.

3.10. Facilities Expected by the Farmers

Farmers expect various facilities from the credit sources. To know the expectations of the farmers about the facilities provided by the banks, the respondents were asked to give preferences to the following facilities generally provided by the banks mentioned in the following Table 9.

S. No.	Expectation	Mean	Mode	Rank
1	Simplified procedure and documentation	3.034	1	1
2	Provision of prompt service	2.853	2	2
3	Reduction of interest rates	3.297	3	3
4	Increase in repayment period	4.134	4	4
5	Supply of loan amount as desired	3.981	5	5
6	Exemption in recovery of loans in case of crop failure due to natural calamity	4.706	7	6*
7	Change in the periodicity of installments in case of long term loans	5.891	7	7

Table 9: Facilities Expected by the Sampled Farmers

*Being the same mode of Sr. No. 6 and 7, rank is given on the basis of mean of variable

In the above Table 'Simplified procedure and documentation' has been ranked as the first expectation by the farmers as they are unable to get the loans due to complicated formalities. 'Provision of prompt service' ranked as second expectation by the farmers because if the loan is received late, it cannot be utilized properly and does not serve the intended purpose. Reduced interest rates and increase in repayment period are also found important facilities expected by the respondents along with others.

3.11. Sources of Institutional Credit

Sources-wise dependence of farmers of different land holding size discloses some interesting pattern as shown in Table 10

Holding size (in acres)	Type of credit source (%)				
	Cooperative	Commercial Banks	Private moneylenders	Regional Rural Banks	Total
Marginal (Up to 2.5 acres)	74.2	17.7	1.6	6.5	100.0
Small (2.5 to 5 acres)	69.6	17.6	0.8	12.0	100.0
Medium (5 to 10 acres)	63.7	25.7	0.9	9.7	100.0
Large (above 10 acres)	64.6	22.3	1.8	11.6	100.0
Total	67.2	21.1	1.2	10.5	100.0

Table 10: Holding-wise Sources of Credit Used by Sample Farmers

It is evident from the Table 10 and fig 3 that the marginal, small, medium and large farmers availed loans from commercial banks to the extent of 17.7 percent, 17.6 percent, 25.7 percent and 22.3 percent respectively. It has been found that as the size of the landholdings increases, the farmer's demand of loans also increases which is met by commercial banks. Only a very low percentage of farmers are attracted by the private moneylenders due to heavy burden of interest. Thus, cooperative banks have been found to be the most important and convenient source for meeting loan requirements of farmers and so the cooperative and commercial banks should be made more rural oriented and awareness among farmers should be made to incline them from unorganized credit sources to organized sector.

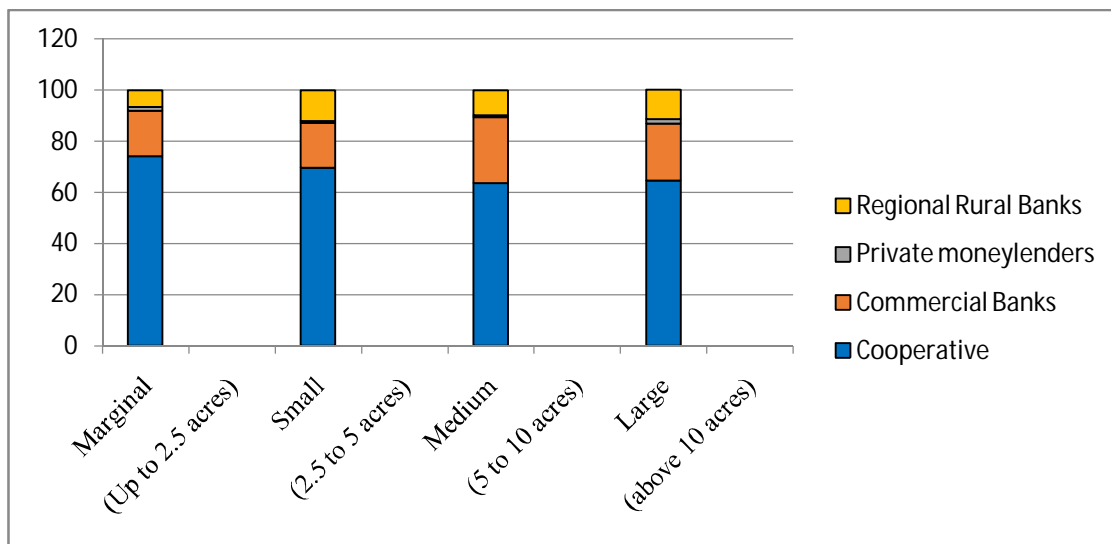


Figure 3: Holding-wise Sources of Credit Used by Sample Farmers

3.12. Utilization Pattern of Loans

The below table 11 indicates the purpose for which the loan is utilized.

'Consumption purpose' ranked first among the various purposes because there is a long interval of time between the production and sale of crops and farmers do not have sufficient income to sustain during this period. Farmers divert the loans or go to moneylenders/Mahajans to fulfill their requirement and thus, divert the loan from actual purpose.

S. No.	Purpose	Mean	Mode	Rank
1	Consumption purpose	2.24	2	1*
2	Buying the inputs	2.48	2	2*
3	Meeting social expenses, marriage etc	2.95	3	3
4	Repayment of other loans	3.75	4	4
5	Reloaned the amount	4.92	5	5
6	Other (House/livestock)	3.89	6	6

Table 11: Purpose-wise Utilization Pattern of Loans

*Being the same mode of Sr. No. 1 and 2, rank is given on the basis of mean

'Buying other inputs' ranked second as the farmer has to purchase seeds, fertilizers etc. They also have to make payment of huge amount as wages to workers for which no loan is generally provided by banks. The loan is also diverted for other purposes such as meeting social expenses, repayment of previous loans, reloaning and others (such as construction of house or purchase of livestock) and these are ranked third, fourth, fifth and sixth respectively.

3.13. Correlation among the Reasons and Purposes for the Use of- Loans

Table 12 exhibits the correlation among the reasons and purposes for the use of- loans. For this purpose, Spearman's Rank Correlation matrix has been applied. High, Negative and significant correlation (-0.754) was found between the variable 'Reloaned the amount' and 'House/Livestock purchase'. The reason behind it may be that if diverted amount is utilized to purchase house/livestock, the farmer cannot have the amount to reloan. Medium, negative and significant correlation (-0.686) has been found between the variable 'Because it was insufficient for agricultural purposes' and 'High rate of interest on loan for actual purpose'. The reason may be that if farmer consider the loan amount insufficient for agricultural purposes, loan is diverted and give less importance to the variable of high interest on loan for actual purpose.

Moderate and negative correlation has been found relating to variable 'House/livestock purchase' with the variables 'Buying other inputs' (-0.384), 'Consumption purposes' (-0.438), 'Meeting social expenses, marriage etc.' (-0.560) and 'Payment of other loans' (-0.563). Similarly, medium and negative correlation was also found regarding the variable 'High rate of interest on loan for actual purpose' with the variables 'insufficiency of loan for agricultural purpose' (-0.686) and 'cannot get loan from this agency for actual purpose' (-0.516). In addition to this, variable 'Loan was received late' has medium negative correlation with 'insufficiency of loan for agricultural purpose' (-0.413) and 'cannot get loan from this agency for actual purpose' (-0.369). The value of correlation of all the above mentioned variables has been found significant at 1 percent level.

Positive and medium correlation (0.255) between the variable 'insufficiency of loan for agricultural purpose' and 'cannot get loan from this agency for the actual purpose' has been found. The other values of low correlation ($r < \pm 2.5$) shown with stars are also found significant at various levels as shown, in the Table 12

4. Conclusion

The study reveals that a large number of farmers do not have sufficient capital. The capital requirements have also increased with the adoption of new technology in agriculture. The role of agricultural finance as a tool for increasing productivity has been stressed by several experts in the field. The underlying assumption is that the growth of agricultural productivity is closely related to the availability of agricultural finance and its non-availability acts as a major constraint.

The results show that the majority of the respondents (55 %) are not fully aware about the various agricultural credit schemes of the banks. So, there is great need to increase the awareness level among farmers to make bank credit schemes more effective. Various methods may be used to create awareness among farmers.

Purpose and Reasons	1	2	3	4	5	6	7	8	9	10
1 Buying other inputs	1.000	-0.049	-0.167	-0.082	0.206***	-0.384*	-0.013	0.091	0.091	-0.081
2 Consumption purpose	0.660	1.000	0.072	-0.009	-0.014	-0.438*	0.089	0.125	-0.123	-0.143
3 Meeting social expenses, marriage etc	0.129	0.513	1.000	0.158	-0.216**	-0.560*	-0.060	-0.123	0.027	0.150
4 Repayment of other loans	0.460	0.932	0.152	1.000	0.219**	-0.563*	-0.196***	-0.091	0.178	0.032
5 Reloaned the amount	0.060	0.900	0.048	0.045	1.000	-0.754*	-0.099	-0.102	0.031	0.091
6 House/Livestock purchase	0.004	0.001	0.000	0.000	0.000	1.000	-0.102	0.068	0.033	0.050
7 Because it was insufficient for agricultural purpose	0.906	0.421	0.591	0.075	0.372	0.469	1.000	-0.255*	-0.686*	-0.413*
8 Cannot get loan from this agency for actual purpose	0.713	0.257	0.264	0.411	0.358	0.627	0.000	1.000	-0.516*	-0.369*
9 High rate of interest on loan for actual purpose	0.410	0.303	0.805	0.105	0.781	0.812	0.000	0.000	1.000	-0.077
10 Loan was received late	0.463	0.196	0.173	0.774	0.412	0.722	0.000	0.000	0.170	1.000

Table 12: Spearman's Rank Correlation Matrix of the Purpose and Reasons for use of Diverted Loan

*Significant at 1% level, **Significant at 5% level, ***Significant at 10% level

Right Upper triangle (Bold figures): Correlation

Left Lower triangle (Unbold figures): Probability of Type I Error

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