

A STUDY ON ROLE OF AGRICULTURAL FINANCE IN AGRICULTURAL PRODUCTION SECTOR WITH SPECIAL REFERENCE TO KOTTOPPADAM PANCHAYATH

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ABSTRACT

Agriculture is the most important sector in our economy. Agriculture and allied activities constitute the single largest contributor to the gross domestic product. They are vital to the national well-being as besides providing the raw- materials for some of the important segments of Indian industry, they provide live hood for almost two third of the work force. The share of the agricultural products in the total export earnings, both in primary and processed form, is very significant. In this paper discuss the role of financial credit in agricultural production sector.

Key words: *Agricultural credit, Agricultural productivity*

1. INTRODUCTION

The national commission of agriculture emphasized that the agricultural sector has to grow at a much faster rate than before not only for its own sake, but for the sake of the economy as a whole. Hence the prosperity of the agricultural sector. If agriculture stagnates, will acts as a break on industrial expansion and halt real growth. But it is obvious that there is hardly any possibility of substantial increase in the area of cultivation. Therefore intensive cultivation appears to be the only way to boost agriculture. This result in introduction of new agricultural technology by replacing the traditional method of farming for instance, use of high yield variety of seeds, fertilizers, pesticides irrigation, machinery and equipment etc.. Requires huge amount of capital which is beyond the capacity of most of the farmers. Due to this the farmers compulsorily depend upon borrowed funds. This cause the increasing demand for credits. So in respect of transformation of traditional or subsistence farming into commercial farming. The importance of agricultural credits has increased comparatively more in the context; this paper examines the role of direct and indirect agricultural credit in the agriculture production taking care of the regional disparities in agriculture and credit disbursement. The study examines the question of access to credit among farmers, and what is their impact made by these loans a production. A large number of industrial agencies are involved in the disbursement of credit to agriculture. However, the persistence of moneylenders in the rural credit market is a still a major concern. In recent year commercial banks have emerged as the major sources of credit to agriculture. It notes that several initiatives has been taken to strengthen the institutional mechanism of rural credit systems. The main objective of thus initiatives has been to improve farmer's access to institutional credit.

1.1. OBJECTIVES OF THE STUDY

- To know the level of success recorded in assisting rural farmers to increase productivity
- To know the difficulties encountered by those farmers in getting these loans.

- To know which institutions have been really supportive in assisting the farmers to increase productivities by providing finance.
- To know if there is a relationship between agricultural credit or loan and the levels of productivity in Kottoppadam panchayath.

1.2. SCOPE OF THE STUDY

This study is conducted among different farmers in kottoppadam panchayath. A major scope of the study is to know the level of success in assisting farmers in the rural areas and to know if there is a relationship between increased governments financial assistance and the level of their productivity.

1.3. DATA COLLECTION METHOD

1.3.1. PRIMARY DATA

It is first hand data, which collected by research itself primary data is collected by various approaches so as to get precise, accurate, reliable data. The main tool in gathering primary data was questionnaire from 50 farmers in kottoppadam panchayath.

1.3.2. SECONDARY DATA

For this study secondary data was collected through various magazines, websites and text backs including published work on agricultural finance.

10.4. LIMITATIONS OF THE STUDY

- The outcomes of this study will be limited to a selected geographical area ,therefore not a true representation of the overall situation.
- The high levels of negative attitude towards surveys among people in general may adversely affect the quality of the result.
- The level of awareness and education of the respondents were major limitations of this project.

2.1. SOURCES OF AGRICULTURAL CREDIT

Credit in the farm sector is available from following two sources.

1. Non institutional sources/ informal sources:

The major non institutional sources of farm credit are money lenders, friends, relatives, shopkeepers and commission agents. The traders and commission agents advance loans to the farmers for short period. These loans are provided mostly for productive purposes before the maturity of crops. The commission agents force the farmers to sell the product to them which generally at low rates. The lenders of the informal sources (friends, relatives etc) have certain advantages over the formal credit sources. The informal lenders usually know the borrowers personally. They require little security for advancing loans.

The loan is given for consumption as well as production purposes. The lenders are approachable at all times. They are also lenient in rescheduling loans. However informal lenders are also accused of charging higher rates of interest. They extract monopoly profit from the borrowers.

2. Institutional sources/ formal sources:

The major institutional sources of agricultural credit are Zarai Taraqiate Bank limited (ZTBL) formally known as Agricultural Development Bank of Pakistan, State Banks, Commercial Banks, co-operative Credit and Taccavi loans.

A) Zari Taraqiate Bank Limited (ZTBL) formally known as Agricultural Development Bank of Pakistan (ADBP):

The ZTBL was established in 1961 through merger of Development Finance Corporation and Agricultural Bank of Pakistan. The ZTBL is an important source of supply of credit to agricultural sector in Pakistan. The ZTBL provides short, medium and long term credits for farm and off farm activities. The bank has five windows of investment.

- Development loans
- Production loans
- Agriculture business loans
- Cottage industry loans
- Off farm income to farmers generating activities loan

a) Commercial Banks:

Commercial Banks were introduced into the field of agricultural credit under the Banking reform act of 1972. The banks, since then, are providing loans to the farmers for meeting their short and medium term requirements. The loans are advanced to the farmers against the security of loan, crop, fixed assets and even on personal security. Commercial banks disburse agricultural credits for the purchase of inputs, cattle, tractors, dairy farming, installation of tube wells etc. Banks provides loans under the supervise credit scheme and outside the supervise credit scheme.

b) Co-operatives:

The co-operatives are oldest institutional sources of farm credit in Pakistan. The performance of co-operatives in the spread and utilization of credit to the small farmers is not satisfactory. The loans are mostly utilized by big farmers who are mostly utilized by big farmers who have got their pocket societies registered with their co-operative department.

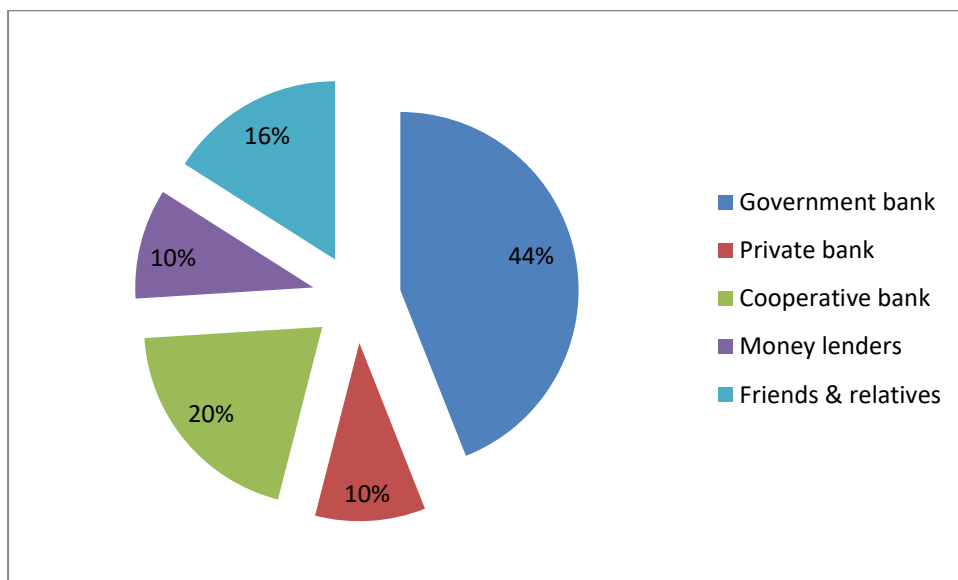
c) Taccavi loans:

Taccavi loans are handed by the provincial revenue department. Necessary funds are allocated for different areas each year in the provincial budgets. The Taccavi loans are primarily given to the farmers for meeting emergencies such as flood, earthquake, famine etc. The farmers take these advances in the spirit of gift or relief given in the calamity and are not serious in repaying them.

Table1: showing Source of agricultural loan is used

Source	Number	Percentage
Government bank	22	44%
Private bank	5	10%
Cooperative bank	10	20%
Money lenders	5	10%
Friends & relatives	8	16%
Total	50	100

Chart2: showing Source of agricultural loan is used



INTERPRETATIONS

Most of the farmers take loan from public or government banks. It is because of the loan waiver schemes introduced by the government; the second most important source is co-operative bank. Both private and co-operative bank together contributes the same as that of government banks. Money lenders contributes 10% to the total source, it indicates that influence of non-banking institutions exploit framers.

Table2; showing Farmers view about agricultural finance scheme

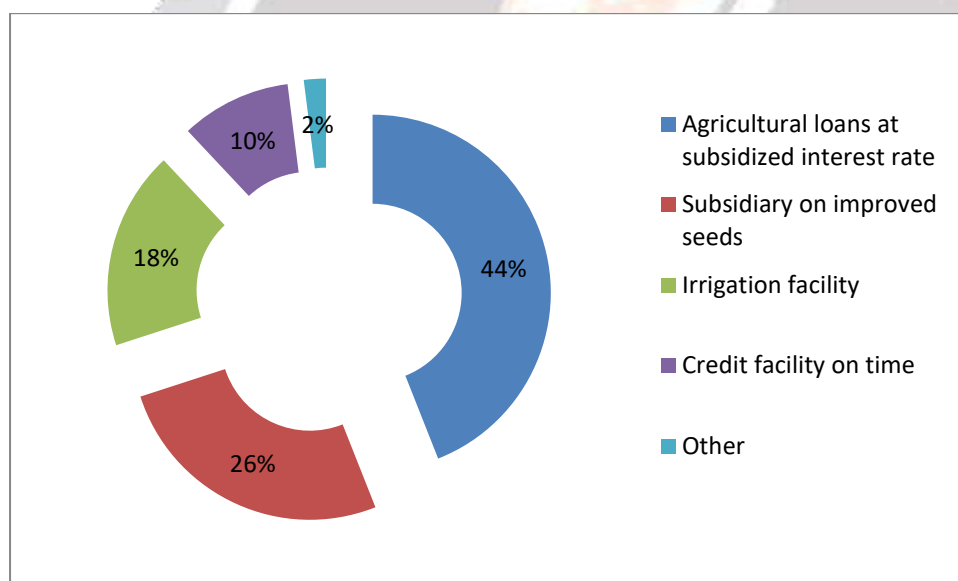
Opinions	Number	Percentage
Fully satisfied	9	18%
Somewhat satisfied	19	38
Fully dissatisfied	15	30%
Somewhat dissatisfied	7	14%
Total	50	100

INTERPRETATIONS

The above data depicts that about 38% of farmers are only moderately satisfied with agricultural finance. Whereas 30% farmers are fully satisfied with the loans. The main reasons for this dissatisfaction are the inefficiency of the schemes and indebtedness of framers due to inefficient utilization of credit.

Table3: Showing Suggested solutions for problems faced by farmers

Opinions	Number of respondents	Percentage
Agricultural loans at subsidized interest rate	22	44%
Subsidy on improved seeds	13	26%
Irrigation facility	9	18%
Credit facility on time	5	10%
Other	1	2%
Total	50	100

Chart2: showing Suggested solutions for problems faced by farmers

INTERPRETATIONS

Most of the farmers are of opinion that agricultural loans should be provided at subsidized interest rate. About 44% of farmers feel that the loans at subsidized interest rate can to a certain extent improve farm production. 26% of respondents need a subsidy on improved seeds, and about 18% need irrigation facilities. About 10% of respondents think that the availability of credit on time can solve shortages in production. Only 2% had other opinions like simplifying the acquisition and recovery process of credit, subsidy for fertilizers, etc.

FINDINGS

- Most of the respondents prefer government banks for loan taking.
- Most of the respondents are dissatisfied with the agricultural credit scheme.
- Introducing more loan schemes at a subsidized rate is a solution to the farmers' financial problem.
- Credit to the agricultural sector is on an upward trend during the recent years. However, such credit is mostly disbursed by micro credit banks, Rural Development Bank and Agricultural Development Bank.

- Farmers are not getting as much credit as they need even by paying very high interest rates.

SUGGESIONS

1. The credit facility should be provided on time, otherwise the delay in the completion procedure for taking loans will be occurred and the farmers will not get maximum profit regarding their plans.
2. For getting maximum output and improving the welfare of farmers, polices should be flexible and rate of interest should be less for small farmers then large farmers because small farmers hardly acknowledge their basic need.
3. Financial institutions should give the credit to farmers according to their need and the importance of crops.
4. Acquisition and recovery process for credit should be simple to give benefits to maximum number of farmers.
5. Micro credit should come in package including input supply (seed, fertilizer, pesticides etc), technical know- how and marketing. This would increase the income of the borrowers and hence repayment condition will be improved.
6. Banking policies for agricultural credit are still business oriented rather than directed towards development. So, it is imperative on the part of such institutions to chalk out policies and programmes aimed at larger national interest rather than individual and personal gains.
7. Efforts should be made to simplify the borrowing procedure in the terms of time lag, acceptance of security, documentation and disbursement of loan.

COCLUSION

Credit to agricultural sector is on upward trend during the recent years. However, such credit is mostly disbursed by micro credit banks, Rural Development Bank and Agricultural Development Bank. Out of the disbursed credit to agricultural sector, a significant portion has gone to finance tractors which can be used to transport construction materials like sand, concrete, etc. Fertilizer, pesticides, irrigation and other necessary farm inputs have obtained a low chunk of the credit. Thus, banks and financial institutions should be encouraged to disburse credit to finance the necessary inputs of agricultural production besides the capital inputs. Farmers are not getting as much credit as they need even by paying very high interest rates. Thus, policy makers should ensure that the farmers get as much credit as they need at a subsidized interest rate. It will enhance their access to improved seeds, use of fertilizer and pesticides, better irrigation facilities and mechanized methods of production which will ultimately increase the productivity of farmers.

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