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International Journal of Current Research
Vol. 6, Issue, 07, pp.7571-7575, July, 2014

INTERNATIONAL JOURNAL OF CURRENT RESEARCH

ISSN: 0975-833X

RESEARCH ARTICLE

A RESEARCH PAPER ON INADEQUACIES OF INSTITUTIONAL AGRICULTURAL CREDITSYSTEM IN COIMBATORE DISTRICT

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ARTICLE INFO

Article History:
Received 20th April, 2014
Received in revised form
16th May, 2014
Accepted 03rd June, 2014
Published online 20th July, 2014

Key words:

Banks,
Credit Gap,
Farm Credit,
Money Lenders,
Institutional Credit.

ABSTRACT

The institutional credit has been conceived to play an essential part in the agricultural development of India. A large number of institutional agencies are involved in the disbursement of credit to agriculture. In spite of various measures to rejuvenate farm credit, the flow of credit to agriculture sector remained inadequate quantitatively and qualitatively. In this backdrop, the present study has examined the inadequacies of institutional agricultural credit system and has identified the determinants of increased use of institutional credit at the farm household level in Coimbatore. The study is based on a random sample of 130 farm households covering 4 blocks in Coimbatore, comprising 26 marginal, 26 small, 26 semi-mediums, 26 medium and 26 large farmers and pertains to the year 2012-13. The quantum of institutional credit availed by the farming households is affected by a number of socio-demographic factors which include education, farm size, family size, gender, occupation of household, etc. The total debt per sample farm household from both institutional and non-institutional sources has been found to be Rs 22, 66,369 in the year 2012-13. The institutional sources have contributed about 92 per cent to the total debt and non-institutional 8 per cent. Although the institutional credit has increased rapidly in recent years in Coimbatore, it still lacks behind the productive needs of the farmers in Coimbatore. In the case of term loans, extent of credit gap was estimated to be 9 per cent in the study area. About 60 per cent farmers have reported the procedure to get loans from the institutional agencies to be complicated and time-consuming. Policy implications include simplification of loan application form and maintenance of proper records of loan applications and making disbursement of loan mandatory.

INTRODUCTION

Agriculture is the back bone of Indian economy which plays an important role in the economic development of India. Agriculture is the source of livelihood of more than 65 per cent of the population in India and it contributes less than 20 per cent to GDP, with a sizable share of exports. Further, agriculture derives its importance from the fact that it has vital supply and demand links with the manufacturing sector. To meet the requirement of the growing population and rapid developing economy, agriculture has to grow fast and get modernized. This requires the use of high pay off inputs, adoption of high yielding varieties, fertilizers, plant protection chemicals, modernized equipments and machineries which need huge investment. The agricultural sector of the Indian economy is labour intensive, land poor and capital scarce. So it would be very difficult to get the benefits of modernization of agriculture without adequate credit to the farmers at reasonable interest. Farmers' access to institutional source of credits such as commercial banks (public and private banks) too has been a mirage for them in the given socio-economic and political conditions in the rural areas The small farmers are the most helpless victim of the private money lenders who are free to recover their loans by high handed and attachment of the crop of the poor farmers as well as their personal belongings, land and living quarters. Available resource base and the capacity to generate sufficient levels of financial resource within the rural sector particularly in agricultural sector are, however limited at present. Institutional financing viewed from this angle as a principal resource of external finance to support in a planned manner. . In spite of taking various measures to rejuvenate farm credit, the flow of credit to the agriculture sector remained inadequate quantitatively and qualitatively. The present study has examined the inadequacies of institutional credit systems by estimating the gap between the productive needs of farm households and institutional lending; identifying the determinants of increased use of institutional credit at the farm household level; problems faced by the farmers in obtaining institutional loan in study area. In this backdrop, this study was undertaken to (i) identify the factors that are responsible for increasing the use of institutional credit.

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(ii) Estimate the gap between the productive needs of farm households and institutional lending. (iii) Identify the problems faced by the farm households in availing farm credit.

MATERIALS AND METHODS

Sampling procedure

Coimbatore district has twelve development blocks among which four blocks viz., Anaimalai, Pollachi (North), Kinathukadavu and Annur were selected and from each block, five villages were selected at random .The ultimate sample size was 130 and the number of sample households in each village was arrived in proportionate to the population in that village. At village level, from the list of households, the required sample households were selected at random.

Nature and Sources of data

For evaluating the objectives of the study, primary data were collected by survey using well structured, elaborate and pre-tested schedule. The primary data related to source of credit, reasons for borrowings, credit gap and the problems faced by farmer beneficiaries in availing the credit were collected. Borrowers were personally interviewed to ensure accuracy and comprehension.This information was collected from farmers, who were stratified based on the operational holding as marginal (up to 1 ha), small (1.01- 2 ha), semi-medium (2.01 - 4 ha), medium (4.01- 6 ha) and large (> 6 ha). The data was collected from 26 marginal farmers, 26 small farmers, 26 semi-medium farmers, 26 medium farmers and 26 large scale farmers.

Analytical Tools and Techniques Employed

Credit gap Analysis

The percentage of credit gap was calculated by using the following formula

= [(credit required- credit sanctioned) / amount of credit required] X 100

Determinants of Farmers' Demand to Institutional Credit

To capture different factors responsible for the use of agricultural credit by farming households, Tobit model was used. Tobit model used in the study was of the form:

$$Y_i^* = X_i \beta + \varepsilon_i$$

Where, Y_i * is the share of institutional agricultural credit in total borrowings of the farming households. The vector X_i represents explanatory variables used in the regression analysis. The explanatory variables included in the model were: X1 = Age of house hold head (years), X2 = Gender of household-head (male =1, otherwise = 0), X3 = Household size (number), X4 =Operated land-size (hectares), X5 = Educational status (average years of formal education), X6= Annual household income,X7 = Irrigation (household used irrigation=1, otherwise=0), X8=Cultivating cash crops=1, otherwise=0, X9=Occupational status (Self employed in agriculture = 1, otherwise = 0), X13= ε_i= Error-term.

RESULTS AND DISCUSSION

Examine the source of farm credit

On the basis of field survey an estimate of the loans was made per sample farm household, category-wise from different sources were presented in Table 1. Total loan per farm sample farm household in the study region was Rs.22,66,369 comprising Rs 20,75,601 (92 per cent) from institutional and Rs 1,90,768 (2 per cent) from non-institutional sources. Among institutional sources, the commercial banks provided about 74 per cent and RRBs provided about 12 per cent of the loan. Compare to other farm households dependency of marginal scale farmers on the institutions for credit is low. Semi-medium and medium farm size category households were almost equally served by the institution agents. From table 1 it seen that overall short term loan occupies 18 per cent (Rs 3,77,500) and term loan occupies 82 per cent (Rs 16,98,101) of total amount borrowed. Among all the farm groups share of term loan to total loan borrowed was found higher than short term loan compare to other farm groups, large scale farmer availed higher amount of short term loan (Rs 115000) and term loan (Rs 6,55,000). Loan amount increases with the farm size as the demand for credit is high for large farm holdings.

Table 1. Source wise Amount Borrowed by the Farmers

(Rs/farm)

Farmers Group	Institutional credit				Non Institutional	Total
	Commercial banks	RRBs	Cooperatives	Subtotal		
Marginal	85000 (54)	10000 (6)	12260 (8)	107260 (68)	50000 (32)	157260 (100)
Small	150000 (58)	50000 (19)	17630 (7)	217630 (84)	40000 (16)	257630 (100)
Semi medium	370000 (74)	60000 (12)	25678 (5)	455678 (91)	44322 (9)	500000 (100)
Medium	425000 (76)	70000 (12)	30033 (5)	525033 (94)	35879 (6)	790567 (100)
Large	645000 (82)	75000 (9)	50000 (6)	770000 (97)	20567 (3)	790567 (100)
Total	1675000 (74)	265000 (12)	135601 (6)	2075601 (92)	190768 (8)	2266369 (100)

Note: Figures within the parentheses indicate percentages to the total

Table 2. Short Term and Term Loans borrowed from institutional sources

(Rs/farm)

SNo.	Farmers Group	Short term		Term Loan		Total
		Amount	%	Amount	%	
1	Marginal	37500	35	69760	65	107260
2	Small	45000	21	172630	70	217630
3	Semi medium	80000	18	375678	82	455678
4	Medium	100000	19	425033	81	525033
5	Large	115000	15	655000	85	770000
	Overall	377500	18	1698101	82	2075601

Note: Figures within the parentheses indicate percentages to the total

Table 3. Distribution of borrowers in different farm groups

Farmers group	Short term loans	Term loan	Both loans
Marginal	21	5	-
(n=26)	(80.77)	(19.23)	
Small	17	9	-
(n=26)	(65.38)	(34.62)	
Semi-medium	12	8	6
(n=26)	(46.15)	(30.77)	(23.08)
Medium	11	10	5
(n=26)	(42.07)	(38.46)	(19.23)
Large	6	15	5
	(23.08)	(57.69)	(19.23)
Total	67	47	16
	(51.53)	(36.15)	(12.30)

Note: Figures within the parentheses indicate percentages to the total

Table 4. Estimation of credit gap among the sample households

(Rs/ farm)

Category & Purpose	Average amount of loan required	Average amount of loan sanctioned	Credit Gap	Percentage of credit gap(%)
		Short Term		
Marginal	42125	37500	4625	11
Small	50800	45000	5800	11
Semi medium	86700	80000	6700	8
Medium	107250	100000	7250	7
Large	124500	115000	9500	8
Subtotal	411375	377500	33875	8
		Long Term		
Marginal	85260	69760	15500	18
Small	193580	172630	20950	11
Semi medium	411218	375678	35540	9
Medium	465111	425033	40078	9
Large	702856	655000	47856	7
Subtotal	1858025	1698101	159924	9
Total	2269400	2075601	193799	9

Table 5. Factors Influencing Demand for Institutional Farm Credit

S.No	Explanatory variable	Coefficient	t-value
1	Age of household head	0.452	0.12
2.	Gender of household head(male=1, female=0)	0.013	0.32
3.	Household size	0.738*	2.01
4.	Operational land size	2.312*	1.98
5.	Educational level	1.724**	2.67
8.	Annual household income	0.142*	1.99
6.	Irrigation	0.321	1.23
7.	Cultivating cash crops	0.493**	2.87
8.	Occupational status	1.432*	2.05
9.	Constant	-22.176	
	R^2	0.8243	

** and *indicates at 1 per cent and 5 per cent level of significance.

Table 6.Problems faced by the farmers in availing institutional credit

[Percentage of farmers (multiple responses)]

S.No	Problem	Farm Size					
		Marginal	Small	Semi medium	Medium	Large	Overall
1	Complicated and time consuming procedure	60	50	60	50	70	60
2	Unapproachable	20	10	5	10	-	15
3	Illiteracy & less link with bank officials	10	30	10	5	-	5
4	No Loan without surety	10	10	15	15	-	10
5	No Problem	-	-	10	20	30	10

Distribution of borrowers in different categories

From Table 2, it was seen that overall Short term loan occupies 18 per cent (Rs 3, 77,500) and term loan occupies 82 per cent (Rs 16, 98,101) of total amount borrowed. Among all the farm groups share of term loan to total loan borrowed was found higher than short term loan Compare to other farm groups, large scale farmer availed higher amount of short term loan (Rs 115000) and term loan (Rs 6,55,000). Loan amount increases with the farm size as the demand for credit is high for large farm holdings. From table 3 it could be seen that majority of marginal farmer have availed short term loan and majority of large scale farmer have availed term loan.

Extent of Credit gap

An attempt was made to explore the extent of credit gap in farm credit for different purposes. Table 4 represents the extent of credit gap existed among the different farmer groups in the study area. Results revealed that in the case of farmers who availed the loan as crop loan, the amount of loan sanctioned were estimated to be Rs.377500 as against the amount of loan required of Rs. 411375 which indicates the credit gap of 8 per cent (Rs. 33875). In the case of term loans, extent of credit gap was estimated to be 9 per cent (Rs. 159924). The extent of credit gap was found higher for marginal farmers for both short term (18 percent) and term loan (11 per cent) and it was found lower in large scale farmers. The overall credit gap in the study area was found to be 9 per cent.

From Table 5 it was seen that, the variables such as household size, operational land size, literacy level, household type, annual household income, cultivation of cash crops were found to be significantly influencing the farmer's access to credit. Household size and farm size on borrowing from institutional source was significant and positive. The bigger size of household could spare a family member to pursue the loan disbursement procedures from the institutional sources. The credit requirement of larger farm-size was more because of its higher requirement of inputs and services. The effect of education on the use of credit outlet was positive. The higher the level of education, the higher was the probability of having bigger loans from the institutional sources. The education makes the borrower wiser not to take credit from non-institutional sources at the higher rates of interest. The people with higher education are more likely to be aware of financial opportunities and it may be easier for them to interact with officials in the financing institutions. This suggests the need for simplification of credit disbursement procedure by the institutional sources so that even the illiterates could have increased access to institutional credit in the rural areas. The effect of occupational status of household on share of institutional credit was found to be positive and significant. The households having agriculture as major occupation depicted higher probability of availing higher amounts of institutional credit .This seems to be rational as the households whose major occupation is agriculture, obviously need higher amounts of credit. Cultivation of high value crops such as sugarcane, coconut, and cocoa increases the demand for the institutional credit as credit requirement for such crops cultivation is high. Demand for institutional credit increases with increase in annual income, this is due to the fact that high income households finds easy to avail loan from institutions than low income households.

Problems faced by farmers in availing institutional credit

The farmers faced numerous problems in availing institutional agricultural credit as enumerated in table 6. Based on survey report problems has been discussed for different categories of farm holdings.About 60 per cent of farmers reported the complicated and time consuming procedure as the major problem. The institutional agriculture credit remains unapproachable for 15 per cent of farm households in study area. In the study area about 10 per cent of farmer reported 'no problem' in availing institutional agricultural loan. Marginal farmers found complicated procedure as the major problem and also for 15 percent of marginal farmer in the study area the institutional agencies were found to be unapproachable. Among large scale farmers, 30 percent of the farmers have reported that there was no problem in the existing institutional credit system.

Conclusion

The study has concluded that although the institutional credit for agriculture has increased rapidly in recent years in Coimbatore, it still lacks behind the productive needs of the farmers. Farmers have to resort to non-institutional sources to meet part of their productive as well as un-productive needs. Inequity in the distribution of institutional credit across different categories of farmers also persists. The choice of a credit outlet and the quantum of institutional credit availed by farming households have been found to be affected by a number of socio-demographic factors. Household size, farm size, income, cultivation of high value crops on borrowing from institutional source was found to be significant and positive. The effect of education has indicated the need for capacity building of borrowing farmers. Complicated and time consuming procedure for obtaining loan was reported to be a major problem in the study area.

Policy implications

Some important policy implications emerging from the study are:

- Application form should be made simple and in the local language.
- All banks should fix one day in a week to deal with and help the farmers in filling up of the application form and completing the formalities.
- To minimize the time gap between date of applying for loan and its disbursement, proper maintenance of records with respect to receipt of applications and disbursement of loan should be made mandatory.

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