CHAPTER - I

1.1. INTRODUCTION

Agriculture is the back-bone of Indian economy, it offers direct employment to $2/3^{rd}$ of our population and it is a provider of food, clothing, fodder and other basic necessities of life for the entire population. The role of agricultural finance in the agricultural development of a country cannot be overemphasized. One of the reasons for the decline in the contributions of agriculture to the economy is lack of a formal National Credit Policy and paucity of credit institutions, which can assist farmers. Financing to agriculture (capital) is viewed as more than just another resource such as labour, land, equipment and raw materials. The performances of loan contracts determine the profitability and stability of financial institutions, and screening the loan applications is a key process in minimizing credit risk$^1$.

Before making any financial decisions, credit analysis (the assessment of the financial history and financial backgrounds of the borrowers) should be completed as part of the screening process. The trust worthy borrowers with low credit risk would be granted a loan, while a high risk borrower would be denied. A good credit risk assessment assists financial institutions on loan pricing, determining amount of credit, credit risk management, reduction of default risk and increase in debt repayment. Credit analysis is the primary method in reducing the credit risk on a request for loan. This includes determining the financial strength of the borrowers, estimating the probability of default and reducing the risk of non payment to an acceptable level$^2$.

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The noteworthiness of agricultural finance varies widely from country to country. In the less developed countries, agricultural credit is closely related to providing necessary resources which farmers cannot source from their own available capital. In this case, promotion of agricultural development through the provision of agricultural credit has become one of the most important government activities. However, in the developed countries, it is a basic tool of production which provides the farmer with capital to acquire resources in time, with advantageous amount in an efficient manner.

Institutional credit, which played a vital role in the development of agricultural sector, was instrumental in the development of Indian agriculture. It showed all signs of resilience to natural shocks like droughts and famines. In fact, credit has acted as a means to provide control over resources to enable the farmers to acquire the required capital for increasing agricultural production. It enabled the farmers to go for short-term credit for purchase of inputs and other services and the long-term credit for investment purposes. Thus, credit has played a pivotal role by facilitating technological up-gradation and commercialization of agriculture. The success of Green Revolution in Indian agriculture to a large extent laid on institutional credit support to agricultural sector in terms of expansion in inputs like fertilizers, irrigation and private capital formation.

Finance is one of the major critical inputs for agricultural development. It capitalizes farmers to undertake new investments and/or to adopt new technologies. The importance of agricultural finance is further reinforced by the unique role of

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Indian agriculture in the macroeconomic framework along with its significant role in poverty alleviation. Realizing the importance of agricultural finance in fostering agricultural growth and development, the emphasis on the institutional framework for agricultural finance is being emphasized since the beginning of planned development era in India\textsuperscript{4}.

1.2. STATEMENT OF THE PROBLEM

“Agriculture is the backbone of the Indian Economy” - said Mahatma Gandhi six decades ago. As we have entered the new millennium, the situation remains the same, with almost the entire economy being sustained by agriculture, which is the mainstay of the villages. Not only the economy, but also every one of us looks up to agriculture for our sustenance too. The agriculture sector is important for food security, employment generation and economic growth. However, concern now is on the decline in agricultural growth. An excessive emphasis on variety in the early stages of ‘Green revolution’ did help in augmenting of food grain production, but also became the cause for unsustainable agriculture in the absence of adequate science and knowledge base. Since agriculture is a vital sector in India, there should be an end for isolation of agriculture. In Tamilnadu, agriculture is the most over riding sector in the economy\textsuperscript{5}.

Farmers actively participate in cultivation at the age of 18 to 20 years. On an average, throughout the country, farmers have committed suicide at the age of 35 to 45. The reasons are non-availability of credit, sub standard inputs and

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non-availability of extension services. There is accumulated debt on the bank loans and private loans. They sell their entire gold, mortgage all their lands. Ultimately, at the age of 35, 40 and 45 when their children are grown up, when the question of their marriage comes, they feel that there is little hope to handle the critical family situation.

Farmers command no respect in the society and are looked down upon, they have no guaranteed income or sufficient income, and have no full-time work. There is unemployment, under-employment, and most of the time owing to famine, drought, floods and other natural calamities they have to migrate.

The institutional lending and the institutional credit has been reduced abnormally. Farmers are to depend on moneylenders and their indebtedness lead to sell their products below the production cost. So, they are not in a position to repay the loan in time. Farmers approach banks and cannot get a loan from the bank for the mere reason of holding small size of land and hence they approach moneylenders and take money at a higher rate of interest and suffer.

1.3. SIGNIFICANCE OF THE STUDY

Agriculture usually plays a vital role in the economy of every nation as it tends to feed the entire population of a country and in that respect that it correlates and interacts with all the related industries of that country. A country is usually considered to be a socially and politically stable nation if it possesses a very stable agricultural basis. The agricultural field represents the main source of employment in most countries. The larger farms usually find it necessary to hire additional hands to successfully cultivate the lands and to take care of the related farm animals. Most of these large farms have processing plants located in nearby facilities for finalizing their agricultural products and developing the by-products. Most of the modern farms and
agriculture-related industries make good use of today's modern equipment as well as the principles of science and technology. The use of technologies in farming is determined by finance and competence of farmers towards coping with these advancements relating to agriculture. These are the current issues of the agriculturists and farmers. In this regard, this study gets prominence in focusing farmers' perception towards agricultural finance provided by various sectors of banks for the development of agriculture.

1.4. SCOPE OF THE STUDY

This study is confined to the cultivators mainly engaged in cultivation of land in Tirunelveli district. It provides the details of the status of farmers, perception of the farmers about agricultural finance and problems encountered by farmers for receiving agricultural loan and socio economic background of the farmers. It covers the farmers’ perception towards agriculture finance provided by various sectors of banks in Tirunelveli District.

1.5. OBJECTIVES OF THE STUDY

1. To study socio-economic conditions of the farmers availing agricultural loan from banks through various schemes.

2. To evaluate the various cropping pattern followed by the beneficiaries.

3. To identify the various credit schemes followed by the banks and the loans sanctioned under various schemes.

4. To draw the opinion of the farmers about receiving agriculture finance and the problems faced in settling the same.

5. To assess the operation of agriculture and the settlement of the loans.

6. To offer suggestions to the banks and the beneficiaries for the efficient sanctioning and effective use of the loan sanctioned.
1.6. HYPOTHESES OF THE STUDY

Ho: There is no significant association between type of farmers and repayment pattern

Ho: There is no significant association between type of land and farm total income

Ho: There is no significant association between years of farming and cropping pattern

Ho: There is no significant association between formal sources of finance and informal sources of finance

Ho: There is no significant association between education and knowledge about the financial sources

Ho: There is no significant association between cropping pattern and loan amounts

Ho: There is no significant association between cropping pattern and financial requirement for cultivation

Ho: There is no significant association between size of land and farm total income

Ho: There is no significant association between time of cultivation in a year and farm total income

Ho: There is no significant association between farm total income and borrowed amount from formal financial sources

Ho: There is no significant association between cropping pattern and crop insurance

Ho: There is no significant association between problems from getting fertilizers and seeds in government department and type of farmers

Ho: There is no significant association between years of farming and farm total income
1.7. METHODOLOGY

1.7.1. Sources of the study

The data required for the study have been collected from both the primary and secondary sources. The primary data have been collected directly from Farmers by using Interview schedule. The secondary data have been collected from the published journal, books, magazines and websites.

1.7.2. Period of the Study

The study covers a period of two years from 2009 to 2011. The study of one year was earmarked for collection of primary data.

1.7.3. Sampling Design

Two sampling methods, viz., stratified random sampling and purposive sampling have been adopted for selecting samples of the respondents. Stratified random sampling technique has been pursued for selection of banks and purposive sampling for farmers in Tirunelveli. There are two hundred and eighty six commercial banks, regional rural banks and cooperative banks and of these 60 banks have been selected representing the different kinds of banks. The farmers are selected by purposive sampling technique. The data have been collected from 480 (60 banks × 8 farmers) respondents. Finally 450 respondents were shortlisted after elimination of 30 respondents.

1.7.4. Pilot study

A pilot study was made before carrying out the actual study. The interview schedules were used in the pilot study from fifty respondents comprising all farmers. From the pilot study necessary changes were carried out in the interview schedule for the final administration.
1.7.5. Tools for Analysis

The data collected were processed further with the help of the Statistical Product and Service Solution (SPSS) to analyse and interpret the data in the study. The following statistical tools namely, Chi-square Test, Correlation, Factor Analysis, One-way ANOVA, Turkey Test, Mean Score and Weighted Average Methods have been used for analysis to arrive at meaningful conclusions.

1.8. SOCIAL RELAVANCE OF THE STUDY

Agriculture is the predominant occupation of two-third of working population for their livelihood. It is the major source of income for about three-fourths of India's populations. Agriculture provides not only food but also raw materials for manufacturing industries like textiles, sugar, vegetable oil, jute and tobacco. Agriculture is not only an important occupation of the people, but also the way of life, culture and custom. Most of the Indian customs and festivals are observed in consonance with agriculture seasons, activities and products. Finance is the life blood of all and without finance one can not do anything in the world. This study makes an attempt to evaluate a better way to distribute the financial product and to reduce the financial distribution barriers among the agriculturists and farmers, so as to increase the agriculture production and to contribute towards development of the economy.
1.9. CHAPTER DESIGN

This study is organized and presented in six chapters.

Chapter – I

This chapter deals with the introduction of the study, statement of the problem, objectives, hypothesis, methodology and the chapter design.

Chapter – II

This chapter describes the review of the literature of various researches related to agricultural finance.

Chapter – III

This chapter exhibits the agricultural finance – an overview that explains about the agricultural finance, its meaning, definition, characteristics, functions and types.

Chapter – IV

This chapter expounds with the profile of the study area.

Chapter – V

This chapter deals with the analysis of data relating to agricultural finance of farmers.

Chapter – VI

This chapter provides information relating to the summary, findings, suggestions, conclusion and scope for future research.