Chapter I

Introduction
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INTRODUCTION

Human civilization on earth started progressing with the introduction of agricultural and even today despite grand strides made by other sectors, agricultural cannot be ignored because food is essential for every human being and that food is given by agriculture. India is predominantly an agrarian society. Agricultural is a way of life, a tradition, which for centuries has shaped the thought, the outlook, the culture and economic life of the people of India. Agriculture, therefore, is and will continue to be central to all strategies for planned socio economic development of the country. Rapid growth of agriculture is essential not only to achieve self-reliance at national level but also for household food security and to bring about equity in distribution of income and wealth resulting in rapid reduction in poverty levels.

There are more than 185 million small and marginal farmers who comprise over 70 percent of all farming households in the country. These farmers largely undertake subsistence farming owing to a number of constraints i.e. lack of access to input, credit, technology and other resources, lack of organization and above all lack of education. Small farmers, by and large, remain the most vulnerable to various risks involved in agriculture.

Though there are various constraints, the small and marginal farmers were affected due to inadequate finance which is an important one among those constraints and all these constraints are arising due to lack of finance. Small and marginal farmers have very meagre financial resources. Their purchasing power is low and ability to take risk is much less as compared to large and medium farmers. Investible surplus with the small farmers being almost nil, credit plays a dominant role in enabling this section of farmers to participate in new agricultural technology and contribute their full might for the economic development of the country.

There was a growing tendency among the farmers to replace the traditional farming practices with scientific and modern practices, which is reflected by the use of
High Yield Verities seeds, fertilizers, pesticides, irrigations, machinery and equipment etc. These inputs require heavy financial investment which the majority of the farmers cannot afford from their own savings. The farmers have to depend to a large extent on borrowed funds. This had naturally increased demand for providing credit to a large number of farmers. Agricultural credit, therefore assumes greater importance in the transformation of Indian agriculture from the traditional subsistence type of farming to commercial farming.

Due to huge borrowing at high rate of interest, the farmers remained perpetually indebted to the informal sources and are subject to the various forms of exploitation. Hence, various initiatives were taken by the Government to enhance the flow of credit to small and marginal farmers i.e. concessional interest rates, setting target for lending to the agricultural sector, ensuring the availability of refinance from National Bank for Agricultural and Rural Development to the bank at softer terms. All these have helped in increasing the flow of credit to the agricultural sector.

However, small and marginal farmers face unique problems which basically arise from their small farm size. Their access to credit is limited due to several institutional and non institutional factors. At the same time, the available limited resources i.e. both owned and borrowed funds should be utilized by the farmers to the optimum level.

Thus, the lender as well as the borrower should have a system of continuous evaluation of the finance programmes to estimate quantitatively the impact on improvement on farm productivity, cropping pattern, cropping intensity, farm output, employment opportunities and real farm – income. This may avoid over dues for banker and indebtedness to the borrower.

Statement of the Problem

In India, small and marginal farmers constitute 80 percent of land holdings and operate only 35 percent of the land². There are number government agencies, organizations, companies that cater to the needs of small farmers.
The study of agricultural finance for small and marginal farmers consists of two parts i.e. acquisition of funds and utilization of available funds. The funds available consist of own fund and borrowed fund. The small and marginal farmers own capital is very much limited. Hence, they largely depend on outside financial agencies. Various studies revealed that the government agencies should provide adequate support services for small and marginal farmers to increase agricultural production, employment, income, and savings.

To a lender, efficient management of loan is an important factor. Hence, they should exercise great care in seeing that the loan provided is not diverted to meeting unproductive expenditure. They should have internal mechanism to ensure that the credit goes only to right small and marginal farmers. Therefore, the lenders follow the lending policy which is required to assess the borrower and judge the soundness of the credit.

As regards borrowers, they are expected to use the borrowed money only for agricultural purpose. Before investing their money in farm activities, they should ensure that the production and income will be sufficient not only to repay the loan with interest, but will also leave a reasonable surplus to improve his standard of living. Since, the small and marginal farmers’ land holding size is small, cost of credit per unit is higher when compared with big farmers. Hence, these farmers while using their own or borrowed fund in farm operation, they should assure that the earning capacity of the capital invested is sufficient in order to ensure the timely repayment. Though there are lot of constraints which affect the farm production of small and marginal farmers, they are expected to be very cautious while using the fund in the farm operation.

On this basis, it will be worth to know detailed back ground about acquisition and utilization of funds by small and marginal farmers. Hence, the study aims to know the problem involved in acquiring the fund and managing the same and the related issues such as income generation, expenditure pattern, investment pattern and alternative employment that has bearing influence on repaying capacity of small and marginal farmers.
Objectives of the study

1. To study the sources of funds, borrowing practices and the problems of small and marginal farmers in obtaining finance.
2. To study the asset position and cultivation practices of small and marginal farmers.
3. To study the factors that influence the small and marginal farmers in the utilisation and management of funds.
4. To study the income, expenditure, savings, and investment pattern of small and marginal farmers.
5. To study the opinion of small and marginal farmers on finance related issues.
6. To study the gap between the level of opinion of farmers and the level of opinion of banks on the various finance related issues.
7. To offer suggestion on the basis of the results of the study.

Methodology used in this study

i) Area of Study

Area of the study refers to Gangavalli Taluk of Salem District of Tamilnadu, one of the Southern States of India. Gangavalli Taluk consists of 42 revenue villages, the occupation for 95% of the people are agriculture and allied activities. This Taluk has 10% big farmers and 90% small farmers and marginal farmers. As the big farmer form a small percentage of total farmers, small and marginal farmers alone were considered for the study. Banks in Gangavalli Taluk consists of Primary Agricultural Co-operative Banks, Nationalized commercial banks and other scheduled banks.

ii) Sources of data:

The data were collected from the farmers and banks using two separate interview schedules, one for farmers and another for banks. In order to make the data collection effective, interview schedules have been prepared in such a way that the respondents were able to express their opinions freely and frankly. Further, for farmers, the interview schedule has been translated into Tamil medium so as to enable the farmers to understand and answer the question clearly without any ambiguity.
iii) Sampling design:

For the purpose of the study, 500 farmers consisting of small farmers and marginal farmers who were selected using random sampling method. Regarding banks, there are thirteen cooperative banks and five nationalized and scheduled banks in Gangavalli Taluk and all these banks were selected for the study.

iv) Tools for Analysis:

For purpose of analysis, the following tools were used in this study.

- Percentage analysis
- Chi-square analysis
- Average rank analysis
- Four point scaling technique
- Average score analysis
- Factor analysis
- Multiple regression analysis
- Gap analysis
- Trend analysis

Limitation of the Study:

The subject of this study involves collection of data from farmers who normally do not have proper records for their reference. Further, due to lower literacy level, there is reluctance on the part of farmers in giving information freely. However, adequate care has been exercised in the collection of unbiased data. More over, the data were collected with the help of local leaders / officers such as presidents, chairman of Panchayat Unions, Village Administrative Officers and Special Officers in order to ensure the authenticity of data.

Operational Definition:

Big Farmers:

Farmers holding land above 5 acres of wet land and 10 acres of dry land.
Small and Marginal Farmers

Farmers holding between 5 and 10 acres of dry land or 2.5 and 5.0 acres of wet land and farmers holding land below 5 acres of dry land or 2.5 acres of wet land are classified as small and marginal farmers. Though by size they appear to be different, due to nature and characteristics they are identified as similar and thus the study focus on small and marginal farmers together.

Chapter Scheme:

The thesis is arranged into the following five chapters.

Chapter I: Introduction

This chapter deals with Introduction, statement of the problem, objectives of the study, methodology and limitations.

Chapter II: Review of Literature

This chapter deals with review of various studies conducted in this area or related areas.

Chapter III: Agricultural financing for small and marginal farmers

This chapter presents a theoretical input in order to explain the core aspects of the study.

Chapter IV: Analysis and Discussion

In this chapter, the data collected from farmers and banks were analyzed with the help of tables, diagrams, charts and other statistical tools.

Chapter V: Results and recommendations

This chapter brings out the findings of the study, recommendations and conclusion.