CHAPTER-II

REVIEW OF LITERATURE

In this chapter, an attempt is made to review the available literature relating to the subject of study from different sources. The different sources selected are research papers, published books, journals, research articles, magazines and various websites. As the subject of study focuses on the credit requirements and the credit supply for the coffee plantations, the review of literature is taken in two parts, literature relating to financing for agriculture in general and relating to coffee cultivation.

Literature relating to financing agriculture in general

B M Desai (1989) pointed out that the three main objectives of institutional finance for the agricultural and rural sector are, promoting growth, ensuring better equity and making financial operations viable. There is relatively a longer operating cycle for a farm enterprise, especially for a tree-crop farmer, there is a vast gap between the time of expenditure and income generation.

Direct rural credit for working capital purposes includes only loans for crops. The regular crop loan system is normally used but loans for soil and moisture improvement, land reclamation and leveling, simple soil turning operations which farmers periodically undertake are rarely planned for. Therefore the need to combine them and working capital loans and credit for all these purpose like well irrigation, purchase of farm implements, power tiller, tractor etc. is too obvious to elaborate. Thus rural financial institutions should adopt a more flexible approach to direct rural credit rather than confine to the “avowed” purpose for extending such credit.

He also finds that loans are extended only for production and not for marketing activities and opines that existing policy of RBI and NABARD for granting credit for marketing of crops is inappropriate and even unfavorable to farmers. Some of the lacunae which he finds in granting loans are, the loan application not printed and negotiated in the local language, screening of applications based on ownership of an adequate and eligible collateral instead of the incremental income and repayment capacity criteria, larger margin requirements, insistence upon third party guarantee,
mismatch between the time fixed for repayment and the time at which farmers can repay loans etc.

Johan F.M.Swinnen and Hamish R. Gow (1997) observed that agriculture credit markets work imperfectly even in countries with a developed market economy and government intervention in the market is wide spread. For most of the banks, financing agriculture is a high risk activity because of low profitability in the sector, high nominal inflation, problems with collateral because of uncertain property rights and ineffective land markets.

Many of the credit programmes focus on symptoms rather than on solving the primary causes of the problems. This is not a good policy. Any optimum government policy should address the causes of the problems by reducing the budget deficit and cautious monetary policies, speeding up the land reform and privatization process, by creating the environment for a private agriculture to function and by involving in rural infrastructure and agriculture research and by creating the environment for the development of commercial rural financial institutions to develop. To the extent that the government credit programmes are in consistent with the above, they will have a perverse effect on solving the agricultural credit problem.

Elizabeth Coffey (1998) identified that although numerous new or reformed financial institutions have emerged, substantial gaps persist in many rural financial markets. These gaps relate to scarce provision of formal agricultural credit to small farmers, a paucity of medium and long term lending, and few deposit facilities in rural areas. The absence of these financial services has important implications for agricultural development and for small farm house holds. Major segments of agriculture cannot modernize without the support of a strong financial system. An increasingly capital intensive agriculture requires access to working capital and seasonal loans along with medium and long term credit.

Banks that provide highly subsidized credit discourage other financial institutions from expanding rural operation and when they are liquidated they leave a large void in rural areas. By responding to the desires of employers, agricultural economics and agri business can not only remain relevant as a source of employees for the industry but the first choice of agricultural finance services sector when they are all searching for new hires.
J.J. Rebello (2001) asserted that India’s plantations should be equated with agriculture in terms of being brought under the priority sector lending of banks. There is a mismatch between high production cost and plummeting inflation. Some estates are not able to pay the wages. The majority of them have exhausted their OD limits and the banks refused to make further advances. The cost of finance to the Indian plantation industry is quite steep when compared to the cost in competing countries.

The policy makers at the macro level have to take the necessary measures to prevent the liquidation of the plantation sector so as to ensure that the livelihood of millions of people in backward and hilly areas is not affected. A policy decision has to expedite rubberization of roads, beginning with the national highways. He also suggests for the serious efforts to boost domestic consumption which has remained virtually stagnant over the last decades.

N.S. Parthasarathy (2001) observed that the rural financial system has played an important role in Syrian agriculture through state owned agricultural credit institutions, fixed subsidized interest rates, and integration of input, credit and output procurement. In agricultural lending, average loan size has been increasing and the number of beneficiaries is dwindling suggesting that the smaller farmers may be gradually getting left out. In the lower zones, for farmers with no collateral, the group lending concept through micro-finance groups could be tried out on a pilot scale, the concept is particularly suited where communities have strong group cohesiveness and are ready to assume responsibility for supervising their funds.

Working group on agriculture credit, co-operation and crop insurance (2002-07) has observed that in the past few decades, credit has played a very important role in supporting agriculture production and investment activities. The flow of agriculture credit has increased tremendously in agriculture loans. Credit is a key factor in agricultural development. In the context of technological up gradation and commercialization of agriculture which is envisaged in the coming years, it is necessary that credit support to agricultural sector is stepped up considerably. There is a close relationship between the credit and agricultural productivity. The ratio of inputs to outputs in agriculture has been a constant. The real solution lies in enhancing the profitability of agriculture by increasing the productivity and reducing the cost of production so as to make the agricultural produce competitive in the international market.
market. This would require a focus on the marketing strategies, storage, agro-processing and value addition to avail the export opportunities available under the WTO regime. The adoption of technology driven policy for tapping the productive potential for agricultural crops would necessitate progressively greater infusion of capital resources, which in the case of private investments would call for larger credit support from institutional sources. These investments must be induced by making agricultural enterprise profitable through a multi-pronged strategy, providing incentives to the producers to facilitate adoption of new technologies. Institutional credit agencies would need to support investments for land development, irrigation structures, farm mechanization, biotechnology, cold storages, value adding enterprises and marketing to improve the productivity and profitability in agriculture.

Robin Burgess, Rohini Pande and Grace Wong (2004) in their work, “Banking for the poor: evidence from India” opined, state led credit and savings programmes have been implemented in numerous low income countries but their success in reaching the poor remains widely debated. The poor are less likely to avail banking facilities. One of the features of the Indian social banking programme was an emphasis on directed bank lending towards sectors deemed as priority sectors (agriculture and small industries). The Indian social banking programme was amongst the largest state-led credit programmes ever attempted.

Prof A. Vaidyanathan (2004) identified that the main players in the field of agricultural credit in the formal sector include the commercial banks, the RRBs, and the rural cooperatives. The cooperatives once dominated the rural credit market in the institutional segment, but now have a significantly smaller role.

Even though the commercial banks almost meet their targets for lending the priority sector, they have moved more towards larger customers. Therefore in a country predominated by small or marginal land holdings, the reach of the cooperative system is much deeper than the other institutional arrangements in the rural areas. Banks have traditionally worked on documentation related appraisals rather than on trust and production related appraisals. The client group needs much more support than what the banks currently provide. Therefore we need to necessarily look to the cooperative sector for delivering credit to small and marginal farmers and those who have little or no productive assets.
Rakesh Mohan (2004) opined that due to the high risk inherent in traditional farming activity, the prevalence of high interest rates was the norm rather than an exception and the concomitant exploitation and misery that often resulted in the failure of the credit system. Development of rural credit systems has therefore been found to be intrinsically very difficult and an issue of continuing official concern for over a century.

Concern with the inadequacy of agricultural credit has had more than a century of tortuous history. The agricultural credit system as it has emerged has been a product of both evolution and intervention and symbolizes the system’s response to stimulate from continuing dissatisfaction with credit delivery. The hesitation on the part of commercial banks may be due to the high level of NPAs. He also opines that after about 70 years of constant efforts, institutional credit is indeed reaching a substantial portion of farmers. It is required that a better analysis by banks on where the risks are in the extension of agriculture credit and to then find market oriented solutions for mitigating such risks.

Gagan Bihari Sahu (2004) concluded that interest plays an important role in determining the supply of agricultural credit. Interest rates on agriculture loans is kept low to promote agricultural growth and to assist the rural poor but several decades of experience on the impact of low interest rates indicates that cheap loans did not appear to have either increased agriculture output or reached the rural poor. The administered allocation of credit to priority sectors at concessional interest rates is an important policy dimension of directed credit programmes.

The better off farmers have better access to formal credit as compared to small and marginal farmers. The flow of agricultural credit is largely governed by the collateral security. The flow of formal credit is insufficient to meet the production costs of peasant farmers engaged in cultivation. To meet the remaining cost, they turn either to self finance or the borrowing from the informal market or both or remain satisfied with poor investment. This is called the credit gap. The credit gap is defined as the unmet credit needs of potential borrowers from either formal or informal sources. In order to reduce the credit gap, there should be a rethinking of the scale of finance. The farmers, who are unable to obtain timely credit and adequate formal credit, turn to informal sources. Therefore the access to institutional credit for small
and marginal farmers continues to be an outstanding issue notwithstanding the recent banking reforms.

P S Badal (2005) observed, agriculture is the most crucial sector of the country because the main policies of output growth, poverty alleviation, social justice and equity are best served in this sector. He suggests that the flow of credit to agriculture sector has to be increased. Productive agriculture requires investment in complementary assets like irrigation, farm machinery and livestock. New loan products such as pledge financing, marketing credit loan against warehouse receipts, export credit and venture capital for agricultural entrepreneurship shall have to be promoted to meet the challenges posed by globalization. But the present credit delivery system is emphasizing only on production credit. The imbalance between production and post production credit needs to be ratified.

Crop insurance programmes need to be more effective for taking care of risks arising out of crop failure. Tenants lack access to credit because tenancy agreement is not in written form. He also suggests flexibility in the loans with regard to use and repayment may increase the flow of agriculture credit.

M.S.Sriram, (2005) asserted that the Cooperatives function most effectively when they are small and neighborhood institutions. They have significant advantages over externally driven institutions like banks. The people who are making loan decisions are embedded in the local economy know a great deal of information that might not be available to the external institutions. The knowledge could be the local farmer conditions, expected yields, the performance of a particular client over a period of time etc. since most of these information are not available in paper, the banking institutions find it difficult to make assessments about customers to whom their cooperatives can easily lend. The cooperatives bridge this gap and thus have a great potential to reduce transaction costs.

Thus cooperatives are complex organizations and need to be dealt with a great deal of thought and care. While given the macro economic situation, the recommendations of the Vaidyanathan committee report was appropriate at that point of time and the recommendation of state partnership was useful. But now the state can withdraw from cooperative sector.
Meagan Andrews (2006) in his paper “Micro credit and agriculture: how to make it work” opined that there is no one easy and specific answer on how to make agriculture credit work in all countries for all the clients in all locations, all the time. Each institution should follow their own programme for improving their effectiveness, outreach and impact with their rural clients.

He also opined that there is a definite need to continue the dialogue between policy makers, donors, Governments and practitioners on agricultural credit and the wider topic of rural finance to ensure ongoing learning and effective project design, rural finance organizations by examining what is working and what has been learnt in different regions.

He has even suggested some general learning on agricultural learning as, knowledge of the economic environment of the local, regional and even in some cases global is very important. The skills and capacity of management and staff is a critical component to the successful implementations of any lending activity. Investments in the lending programme need to be timely and sufficient.

IBA sub-committee report on flow of credit to agriculture (2007) concluded that, in the context of predominance of agriculture as the largest employer of the country’s population and the financial exclusion as one of the crucial obstacles in ensuring equitable agricultural growth of the nation, the extent of credit required is small and urgent. There is a mismatch of flow of income and expenditure. The collateral capacity is very low and at the same time, there is financial illiteracy. Contract farming and credit counseling can be adopted to overcome these problems.

Ramesh Golait(2007) identified that the credit delivery to the agriculture sector is inadequate. The banking system is still hesitant to provide credit to small and marginal farmers. Less availability of credit influences adversely the adoption of modern technology and private capital investments and in turn lowers the productive capacity of the agriculture sector and results in lower productivity.

The large proportion of population in the lower strata, which is having major share in the land holdings, receives much less credit than its requirements. This is due to the risk aversion tendency of the bankers towards them as against the large farmers, who are better placed in offering collaterals.
Indian agriculture still suffers from poor productivity, falling water levels, expensive credit, inappropriate research etc. Concerted efforts have to be made for enhancing the flow of credit to critical infrastructure in the areas such as irrigation, marketing, storage, watershed etc. More finance can go a long way in catering to the requirements of small and medium farmers.

Eric Robbins (2009) observed that the differences in yield on earning assets and comparison of their respective interest rates indicate that, farm credit system lenders are lending at slightly more competitive rates compared to agriculture banks although the differences could be due to several legitimate factors when it comes to overall profitability. Though performance data indicate that FCS’s lower operating costs is a bigger contributing factor. Small banks have access to inexpensive consumer and business deposits.

Another factor leading to high competition is related to the scale of the FCSs compared to agriculture banks. The FCSs have very low operating costs. The future agriculture finance market will likely continue to be very competitive. Community banks face many challenges in competing for agriculture loans.

M.D. Mallya (2009) opined that the cultural shift of reducing dependency on indigenous finance to bank finance helps the banks to accelerate agricultural credit. Among the sectoral allocation of agricultural credit, the maximum flow is to crop loans. As a part of priority sector credit, banks have always been focusing on agriculture advances in a big way because of its inherent indirect advantage of potentiality of canvassing savings accounts. Banks can therefore look forward to robust financing opportunities in agricultural and its related infrastructure.

At the same time, the agricultural loans rank low in terms of NPAs of banks. More inclusive growth can only make the strategic game changes to stimulate agriculture finance in the new decade. Looking to the developments and potentials of agriculture, banks should strategically build their capability to tap the opportunities to expand farm loans and step up profitability with a broad vision to stimulate overall economic growth of the country.

N. Srinivasan (2009) observed that finance for agriculture has increased by leaps and bounds in the last five years. While credit flow for agriculture had shown a
tendency to double every five years from early 90s in the last five years, it had more than doubled. The demand side response was stimulated through the reduction of interest rates in the first stage and later through a large farm loan waiver scheme. The lower interest has led more farmers to avail credit and the waiver has boosted the demand.

The incremental credit flow has not increased the agricultural production. It has only resulted in higher credit intensity in agriculture. While the willingness of banks to increase the loan exposure to farming, whether the increased loans enable the farmer to improve repayment capacity is a question that remains unanswerable. Income enhancement through a combination of productivity and price realization has not been much in evidence.

From a banker’s point of view, small farmers constitute a higher credit risk than large farmers. As such, to limit risky exposure, banks tend to reduce the quantum and number of loans and as a consequence, access of small farmers to loans suffers. KCC helps in reducing the transaction cost on the part of the borrower. The financial literacy and debt counseling initiatives should be mainstreamed. A farm family based, cash flow centered credit product should be introduced. Policy on agricultural credit should move away from input focus to marketing and value addition focus.

P Satish (2009) in the article, “term credit to agriculture: present trends and future portents, expressed that, the banks need to hire a large number of professionals technically qualified to deal with agricultural term credit, the existing staff also need training and reorientation towards term credit in agriculture. The cooperatives should cease to be exclusively for crop loans. They should be encouraged to increase their exposure towards term finance.

Indian agriculture finance should have a new product called leasing. NABARD should formulate special area development projects focusing on sectors of strategic importance.

Agriculture term loan processing centers at taluks/district levels would be manned by well trained and technically qualified agricultural credit specialists. Leasing is not fully developed as financial instrument for financing equipment in farm
sector in developing countries, despite its advantages. However, leasing needs an enabling legal and institutional environment.

He also observes, in the past five years, there is a steady decline in the share of investment credit for agriculture. The sector-wise break-up of term credit to agriculture indicates a decline in credit flow to crucial sectors like minor irrigation, fisheries and forestry.

Lenders must carefully screen and select borrowers to reduce moral hazard risks and ensure that the farmer has sufficient skills. Technical feasibility studies and projection of future price and demand trends and maintenance of data base can reduce the risks related to investment.

ICO LONDON (2010) found that, lines of credit, harvesting and warehousing are very important in coffee cultivation. Farmers in Brazil have a coffee economy defense fund. Credit line objective- “To finance cultivation costs involved in coffee growing such as fertilizers, crop protection products, labour and operation of machinery”. Objectives of financing cost of coffee harvest-“to finance inputs used for harvesting such as herbicides, cultural practices, transportation, drying and labour”

Objectives of financing warehousing of coffee crop- To provide rural producers and agricultural cooperatives with financial conditions that will enable them to warehouse their coffee during periods of low prices in the internal and external markets. National programme for strengthening family agriculture- financial support for both agriculture and livestock activities carried out through direct employment of rural producer family labour.

Non-agricultural and livestock activities- rural tourism, crafts, family-agro business and services compatible with the nature of rural activities making the use of family labour.

Anjani Kumar (2010) suggested that credit is one of the critical inputs for any agricultural development. Commercial banks have emerged as a major source of institutional credit to agriculture. But there is inequality in the distribution of institutional credit across different categories of farmers. The choice of a credit outlet and the quantum of institutional credit availed by farming households is affected by a number of socio-demographic factors. At the same time, the procedure for the loan
disbursement should be made simple so that it will be easy for the less educated households to access the agencies.

Jeevan Chinnappa, (2010) is of the opinion that the coffee loan waiver scheme of the government has not brought cheers among the coffee growers in Kodagu because the prompt loan payers are not eligible for the benefits. He further adds, coffee harvest is in full swing in Kodagu but debt relief package disappoints the growers.

Jason Henderson, (2010) in the article, “financial challenges facing farm enterprises observes, even though agricultural banks have performed better than the commercial banks, declining farm income in 2009 depressed repayment rates and raised delinquency and charge off rates on agricultural loans. As a result, commercial banks have tightened credit standards by maintaining elevated collateral requirements and stringent loan terms. Banks assign risk ratings to loans based on the borrower’s expected payment performances which typically incorporate both the borrower’s history of debt repayment and current financial prospects.

Profitability shapes credit availability and helps improving access to credit. He also opines that rising profitability helps to keep the farm debt levels low, further enhancing the farm sector’s ability to access credit.

C.Upendranadh( 2010) identified that more than 98 percent of the growers belong to the small farmers having less than 10 hectares and 80.9 percent of them have holdings less than 2 hectare. Given the fluctuating fortunes of coffee growers, mechanisms of credit based support appear to have limited impact in the sense of achieving sustainability. Insurance based support mechanism has not yet taken roots. At the same time, it is to be understood that credit institutions in the districts are extremely pro active and to a larger extent they are able to arrest the downslide of the small growers. There are concerns on the high interest rate charged by the commercial bank.

Sourovi De (2010) opined that the availability of credit at reasonable rates is a pre-requisite for agricultural growth. On the front of canvassing for a awareness among agriculturists regarding availability of requisite lending facilities and creating
suitable credit options for potential borrowers, institutional lenders have failed in varying degree.

It has shown by the experimental studies that more than half the agricultural credit needs of Indian farmers are met by unorganized lenders. Borrowers generally avoid formal credit sources because of cumbersome paper work, need for conventional forms of collateral and inflexible terms of lending are of which in turn raise transaction costs. The nature of credit delivery mechanisms followed by formal sources of lending is not compatible in many ways, to what one might expect from a poor-friendly lending policy.

Devaraja T.S. (2011) found that lack of access to rural credit has certainly been one of the factors depressing growth in agriculture which is regarded as the main drag on the Indian economy. More importantly, it has snow balled into vertical agrarian crisis, with thousands of farmers taking their own lives and many others taking to the gun. Seasonality of agriculture demands that loans be provided in time.

The formal banking system could provide some productive credit requirements but it has suffered greatly from a lack of professionalism and accountability in its functioning. The “consumption needs” of the poor also could not be met by banks system. The programme of linking SHGs with banks holds out great promise in providing needs of the rural poor in a manner that is financing and socially empowering them. But this must not be seen as a standalone magic bullet.

He suggested for massive increase in public investment in natural resource generation, market support for crops, reforms of public sector banking, reforms of the cooperative credit structure on the lines proposed by the Task Force on Revival of Rural cooperative credit Institutions, strengthening of SHG-Bank linkage and strict public vigilance.

Yoginder K Alagh, (2011) in his lecture given in memory of Dr. B.P.Pal, “The future of Indian Agriculture” states that our economy is facing a very slow growth of grain demand but there is a 5-8 percent in the demand for commercial crops, fruits and horticulture.

As regards banking finance for projects in agro-climatic approach, NABARD had introduced a concept of agro-climatic planning in its lending but that was allowed
to get into diverse. NABARD’s new thinking sees its role as developing refinancing for financial products to suit each region’s agricultural priorities leaving the state funding to the plan. Very few commercial and no foreign banks give rural credit.

Planning Commission (2011) recommended that there is a need to look into the definition of priority sector keeping in view the emerging concerns the interest subvention for prompt repayee farmers introduced during 2009-10 was not made available by the bankers to the full extent. The impact of debt waiver is almost negative as there are farmers who obtains gold loan for agriculture purposes are not benefited where as some others who have taken gold loan for non-agricultural purposes as the loan was recorded in the bank ledger as “agriculture” to meet its priority sector target.

There is a need to completely relook at the philosophical approach to agricultural credit. Instead of looking at credit as a “push” of one more input for agriculture, it should be seen as a product that would delight the customer. Therefore it is important to ensure that subsidies that could be earmarked for this sector and the subventions for the sector are designed and delivered smartly.

It is true that agricultural subsidies in India are much less when compared to the rest of the world, and the Indian farmers do need support. Despite the commercial banks and RRBs, cooperatives continue to provide significantly, larger portion of agriculture credit. Financial literacy that is giving awareness about different schemes of finance and risk meeting instruments has to be strengthened.

Most of the small farmers want to educate their children and need loan to do so. They also need loans to send their youth for training in non-agricultural skills. Credit to the small farmers must include loans for these purposes as well. The quality of lending and the direction of it in the incremental lending have to be improved. Regional imbalances in credit flow, term lending taking back seat dilution in synchronization of credit flow with agricultural seasonality, increase in the share of indirect finance and poor MIS are some of the important concerns which implies that the since of priority is getting deteriorated. It recommends that “credit for agriculture” should be made “credit for rural livelihoods”.
Dr. P. Raghuram and Dr. S. Hynajyoti (2011) insisting the importance of agriculture finance observed that, it plays a catalytic role in strengthening the farm business. The use of new technology purchased through farm finance helps in increasing productivity. Indian agriculture is still traditional and subsistence in nature and agriculture finance is needed to create supporting infrastructure for adopting technology.

Moussa Camara and Zakari Yaou (2011) opined that agriculture needs diversified financial services. At the same time, financing agriculture is risky; there are risk of production, risk of price fluctuations and the individual risk of farmers. For the financial institutions, agriculture is an industry that pays poorly because it has long been protected by the state and it has resulted in significant arrears. The financial institutions must achieve financial autonomy and release resources for the development and they should show great caution in financing agriculture.

Prof, Dr. G.L. Pedhiwal (2011) Pointed out that NPA in rural credit are far less and the rate of retrieval of rural credit. NPA is faster than other advances. The progress of agriculture credit in India has witnessed a substantial decline as against the plans. Banks are not only giving loans for purchase of seeds and tractors, but also for bringing new technology to the farmers and in educating them. The day is not far off when the face of India will be changed beyond recognition. In that respect, the major share of the credit would certainly belong to the banking industry in the country.

Kodigehalli, Bhavya Venkatesh (2011) Opined that important factor in the production process is the money to invest. Most of the producers take the credit from agents since there is no pledging of properties. It bounds them to remain in the clutches of the agents. Therefore it becomes very essential on the part of the government to make attempts to provide loans at the lower rates for the small producers.

The attempt of delivering credit through SHGs also should be undertaken on larger scale. The very important thing is to see that the credit reaches the producers in time. This would help the farmers to use the credit for the productive purpose and will avoid the misuse of credit. Timely and adequate finance to producers not only help
them to increase productivity but also makes a way to come out of the clutches of the middlemen.

Dr. S.Gandhimathi, Dr. P. Ambigadevi (2011), were of the opinion that, agricultural growth is crucial for alleviating rural poverty. Access to institutional credit to more farmers and appropriate quantity and quality of agricultural credit are crucial for realizing the full potential of agriculture as a profitable activity.

One of the major stumbling blocks in enlarging the flow of institutional credit to agriculture is that of mounting over dues. It adversely affects the credit institutions to recycle the resources and also restrict eligibility to avail of refinances from NABARD. Moreover, the eligibility of a large number of fresh borrowings is restricted which ultimately hampers the growth of new borrowers.

D. Muthamizh Vendan Murugavel (2011) observed that financing agriculture has been a gigantic task for banks in India. Ensuring timelines and adequacy of credit to farmers have posed the most serious challenges to banks engaged in financing agriculture. Agricultural credit is disbursed through a multi agency network in India. The green revolution characterized by a greater use of inputs like fertilizers, seeds and other inputs increased credit requirements which were provided by the agricultural financial institutions.

He also opines that though the overall flow of institutional credit has increased over the years, there are several gaps in the system like inadequate provision of credit to small and marginal farmers, scarcity of medium and long-term lending, limited deposit mobilization and heavy dependence on borrowed funds by the agricultural purveyors etc.

Mohammad R. Mustafa, Mohammad A.I, Sayed Ali (2011) opined that there are two kinds of risks faced by the agriculture banks. Banking risks, which plague all finance transactions regardless of the type of the institution and the client’s risks which in agriculture finance include climatic and other production risks as well as the field-to-market agricultural processing and marketing risks.

These dual risks continually expose them to losses and bankruptcy unless they have excellent risk management practices and or financially supported by the government. Agricultural banks demand fixed and movable collateral to secure their
debts. Large loans are usually guaranteed by immovable property but still banks have some risks because they are reluctant to take liquidation measure because legal proceedings are numerous and long-winded or due to the bank’s unwillingness to hurt the borrower’s esteem or for its public reputation. Proper banking operation leads to realizing a profit and reinforcing the bank’s ability to cope with risk.

Michael A. Gunderson, Joseea D. Detre, (2011) asserted that the relevant financial concepts and skills are to be taught as part of the financial management curriculum in undergraduate agricultural economics and agricultural business programmes. Generally, employees in the agricultural financial services sector have greater opportunities for improvement in finance skills relative to non finance skills. Focus on business and financial risk might be helpful in increasing the competence of new hires.

Annual report2010-11, (March 2011), department of agriculture and cooperation, ministry of agriculture, reports that the government has taken many policy initiatives for strengthening the farm credit delivery system for providing credit at affordable rates of interest to support the resource requirements of the agricultural sector. The policy essentially lays emphasis on augmenting credit flow at the ground level through credit planning adoption of region-specific strategies and rationalization of lending policies and procedures and bringing down the rate of interest on farm loan.

Agriculture credit is disbursed through a multi-agency network comprising of commercial banks, RRBs and cooperatives. With this vast network, wider coverage and outreach, extending to the remotest part of the country, the cooperative credit institutions, both in short and long term structure, are the main institutional mechanism for dispensation of agricultural credit. There are 1,06,384 primary agricultural credit societies (PACs), 370 District Central Cooperative Banks with 12,991 branches and 30 State Cooperative banks with 962 branches providing primarily short term and medium term agricultural credit in the country.

The long term cooperative structure consists of 19 State Cooperative Agriculture and Rural Development Banks. Of this, 7 are unitary structure with 750 branches and 12 are federal structure with 703 primary Agricultural and Rural Development banks with 1132 branches. Special farm credit package, simplifying the procedure of documentation for agriculture loans, improving the outreach among the poor and the
informal sector, SHG-bank linkage, joint liability and tenant farmer’s groups, no frill accounts, issuing general credit cards, revival package for short term cooperative credit structure, KCCs (948 lakh KCCs issued upto June 2010), less/reduced interest rate of 7 percent and 1 percent, interest subvention schemes etc are some of the policy initiatives by the government for increasing the flow of credit to agriculture.

Report on trend and progress of banking in India (2011-12) finds that agriculture is one of the most important employment intensive sectors of the economy and as such a sub-target of 18 percent of ANBC is prescribed for ensuring adequate credit flow to this sector. It also observes that credit to micro and small enterprises reveals a bias in favour of relatively bigger enterprises. Majority of loans are concentrated in relatively larger accounts. Therefore there is a need to change credit concentration within the priority sector in order to further facilitate the process of inclusive growth.

Reuben Jessop, Boubacar, (2012) in their work Creating access to agricultural finance based on a horizontal study of Cambodia, Mali, Senegal, Tanzania, Thailand and Tunisia opine that in 1980s agricultural development banks disburse loans based on assumed needs rather than the demand, neglecting portfolio quality, non-farm rural incomes and other financial services. Farmers are often forced into cooperatives, borrowed for a wrong reason namely to get cheap credit and not because of viable opportunities. Government often imposed agricultural debt forgiveness (Bangla, India, Sudan, and Thailand) further confusing farmers on the difference between loans and grants. It makes it clear that strong state intervention in agriculture, including finance has achieved the opposite of what had been intended. Most subsidies were captured by the rich rather than poor farmers.

Farmers face two risks that is performance risk (crop failure) and market risk (low prices) and it can be mitigated through access to short term credit. Poverty often forces farmers to sell the crop when the time is not right. Half of the farmers do not ask for credit because they fear debt, fear the interest to be paid and are unwilling to amortize their land. Many farmers would be able to improve their farm and productivity through credit but they do not try. They fear the community will look upon them badly if they cannot repay the loan.

They are also of the opinion that credit itself will not make the wheat grow taller and the agriculture insurance does not stop the weather from destroying the crop. To
have impact on agriculture, financial services must be structured to induce farmers to
make innovations in their operations. There is little evidence that credit alone
significantly raises agriculture productivity. Credit should be combined with
agricultural training and advice. It helps them better manage their finances, use the
credit wisely and avoid over indebtedness. Physical infrastructure (roads, irrigation
etc) as well as social infrastructure (education, health etc) are also fundamental to
agricultural development.

Carlos Brando (2012) in the work “Pooling efforts: Sustainability and the small
growers” observed, not only the cost of living grows but most importantly, grower’s
aspirations also grow as a natural result of development. The cost of tractors, sprayers
and even irrigation is more than double to a small farmer compared to large farmers.
Attempts to develop specific equipment for small growers often succeed on the
technical side but fail as often on the cost/price side, sometimes miserably. This
phenomenon is compounded by lack of access to credit for small farmers to acquire
equipment and inputs too.

The issue of credit brings up another problem that pesters small coffee growers.
They have limited bargaining power not only while buying equipment but also while
selling their crop. It does not take a PhD in economics to know and understand that on
an average a small grower pays more and sell less than a mid-sized or large grower.
At the same time the goods cost more in a corner store of a low income neighborhood
than in a super market.

Instead of making technology compatible with small coffee farming and
subsidizing credit to small growers, the focus should be on bringing growers together
to benefit from economies of scale in technology and to gain bargaining power by
buying and selling as a group. Equipment sharing, joint processing facilities, group
purchasing and pooling of coffee can be some useful paths.

N T Krishna Kishore (2012) in the paper “Agriculture credit in India: an
integrated rural credit approach”, opined that Indian agriculture has been always in
need for credit and dependent on traditional credit with high rate of interest. It has
caused serious exploitation resulting in rural indebtedness. To encourage the
neglected sector, the concept of priority sector was introduced in 1969 which included
agriculture. To have better planning at the ground level the lead bank scheme was
introduced. Along with the crop yields, the cost of production has raised drastically calling huge credit requirement. This huge credit requirement was not met by the cooperatives or commercial banks for their own limitations.

In India, strengthening of agriculture is important for elimination of rural poverty, food insecurity, unemployment and sustainability of natural resource. But till today, strengthening of agriculture was meant to be increasing productivity by introducing high yielding seeds, applications of chemical fertilizers, mechanization and making availability of institutional credit for purchasing inputs. As a result, Indian agriculture has become commercial and not profitable to the producers. This assumes added importance to integrate efficient marketing and rural credit systems. As a result of efforts in the agriculture credit delivery system, the share of private money lenders has decreased substantially.

Rural credit with infrastructural requirements for production, processing, marketing, distribution, utilization, trade with value added service like technology transfer at single point to form the rural credit hubs or virtual integration by utilization of the information technology is the most required.

Jyothi Gupta, Suman Jain (2012) found that the cooperative banks face the problems of restricted ability in lending loans due to, limited ability to mobilize resources, low level of recovery, high transaction cost, government interference in the day-to-day administration etc. They are not able to formulate their respective policies for investment of their funds that include their surplus resources because of restrictions.

Victoria Ada Okwoche, Benjamin Chijioke, (2012) opined that the loan acquired by the respondents had significant impact on their output and income. Farmers joined farmers’ cooperatives mainly for access to credit. Formal credit institutions should increase the access of farmers to credit facilities as it will go a long way in improving their productivity and welfare. The informal sources of credit is more popular among small scale farmers which may be due to the relative ease in obtaining credit devoid of administrative delay, non existence of collateral, flexibility built into repayment which is against what is obtained in the formal sources.
When the farmers are middle aged and within the age bracket of active work, can make meaningful impact on agricultural production if properly motivated with the needed credit facilities. They recommend that the farmers should be adequately motivated with needed credit facilities as this will further enhance agricultural production. There is a need to increase access of farmers to credit facilities as they are most likely to utilize the fund for the purpose of increasing agricultural production. Financial institutions should be established in the rural areas. The procedure for securing loans should be reviewed in order to make it simple. The government agencies should mobilize the rural farmers to form themselves into formidable groups so that they can derive maximum benefit of collective investment of group savings.

Kadam Nandakumar Laxman (2012) said, the agriculture sector and the banking sector are inter-dependent. Both should understand their responsibilities and extend co-operation to each other. They further suggest that the banks should establish strong follow-up and recovery machinery. Follow-up machinery will ensure proper utilization of the loan and the recovery machinery will take care of repayment of loan in time by applying practical means and ways. Bankers should conduct surveys to collect data regarding requirements of farmers, status of monsoon, availability of facilities etc. which will lead to proper and adequate planning.

Anil Kumar Soni and Dr. Harjinder Pal Singh Salnja(2012) were of the opinion that cooperative banks are the oldest forms of collective action in providing credit and rural development. They are the main banks in India supporting development of agriculture. The government should see that there is an easy access to the cooperative credit to farmers.

Ifeanyi A, Ojiako and Blessing C Ogbukwa- (2012) observed that Farm credit played vital roles in the socio-economic transformation of the rural economies. However their acquisition and repayment were characterized by numerous challenges including high levels of default among beneficiaries.

Farm credit is an indispensable tool for achieving socio-economic transformation of the rural community. If well applied, it would stimulate capital formation and diversified agriculture, increase resource productivity and size of farm operations, promote innovations in farming, marketing efficiency and value addition while enhancing net farm incomes.
Promoting small holder cooperative farmers’ loan repayment capacity would require conscious use of policies directed at increasing loan size and farmer’s farm holding and/or reducing house hold size. Larger loan sizes would enhance the beneficiary farmer’s access to basic inputs and improved farm management opportunities which would lead to higher productivity, reduced per unit cost and higher income.

Vivek Thoopa(2013) opined that before the advent of professional collateral management entities, the flow of credit remained skewed in favour of the development of urban pockets. But over the past 8 years, collateral management services have brought about a transformation by allowing banks to almost ignore the borrower’s financial strength and rely solely upon the warehouse receipt issued by the agency. This form of lending by the banks is in contrast to the traditional lending in the form of working capital and is more secure due to the collateral manager’s services.

The loans against agricultural collaterals are typically short term (8 months to 1 year), self liquidating, and one of the most secure products in a bank’s portfolio. For the borrowers the willingness of a collateral manager to provide services in a variety of storage facilities including the godown in his backyard (field warehousing) makes this the easiest method of procuring low cost finance. Collateral management in India has witnessed tremendous growth and acceptability in recent time. The initial thrust was driven by the RBI’s regulations which require 18 percent of a bank’s loans be directed towards the agriculture sector. The product which started around the year 2004 is expected to grow four-fold in the near future.

D D News- 28-02-2013 (budget presentation) the finance minister observed, agricultural credit is a driver of agricultural production. The interest subvention for short term crop loan will be continued and farmers who repay loan on time will be able to get credit at 4 percent interest p a the interest subvention schemes which applies only to public sector banks, RRBs and cooperatives will be extended even to private sector banks and scheduled banks.
Literature relating to coffee cultivation

P N Reddy (1970) observed that reasons for the increase in the total cost of production are the increase in the cost of labour. And the only way out is to increase the efficiency and productivity of the labourers. The other ways could be increasing the competitive position, adequate amount of publicity, increase the area under cultivation, going for improved varieties, improving the productivity of coffee plants. Above all, small scale and ancillary industries can be started to give full time employment to workers and also to increase the revenue of the growers.

Watson (2000) opined that the demand for more productive land from the small-scale coffee farmers and the continued land degradation considering the instability on the world coffee market is the serious threat to the Atlantic rain forest conservation and also to the livelihood of the farmers. This calls for a break out of the cycle of deforestation, coffee cultivation and land degradation. This approach combines the use of sustainable land management techniques, crop diversification and the development of alternative markets to improve the economic and social conditions for small scale rural farmers.

T.Christian Miller and Davan Malaraj (2002) suggested that fair trade movement in coffee is the best solution for the coffee price crisis. Farmers should receive at least 1.26 dollars per pound for their coffee which will be sufficient to ensure that bills are paid with enough left over for education and health care. Ten years ago coffee producing countries got about one third of every dollar spent on coffee but now they are getting less than eight cents.

Parvathi Menon (2002) said, the effect of falling prices is that growers are in debt, plantation labourers are getting laid off and once the lush coffee estates are now neglected. It has also resulted in a sharp drop in productivity owing to the cuts that growers had to make on inputs such as fertilizer and labour. As a result, the average yield has come down, these further results in losses. Farmers demand for the deferring of the repayment of loan for 8-10 years and also for fresh loans at lower rates of interest. A coffee plant takes 15 years to give a good yield and requires attention all through the year. There is no immediate alternative to this industry.
Moria Acginelli (2002-03) observed that at present, the farmers growing coffee are running at a loss as the price per acre is more than the amount that they receive for the coffee. Lower prices are not only a function of international coffee market but also because the production is sold right away after the harvest. Lack of capital forces the small scale growers to sell their coffee immediately after being collected.

Not only that the farmers without capital borrow loans but also the big land owners, which results in shortage of capital. At the same time, credit is obtained by farmers according to their capacity to pay back and that is the reason, if poverty increases beyond certain limits, probably farmers will not obtain any economic help from bankers.

John Baffes (2003) observed in a study conducted in Tanzania, that there were many developments in the field of coffee like, growers started getting higher share of export price, revival of many coffee estates, development of marketing channels, increase in the processing capacity etc. but still the efforts of coffee board and the concerned ministers is not up to the expectations.

K.N.Ninan and Jyothis Sathyapalan (2003) were of the opinion that the external costs accounted for between 7-15 percent of the total discounted costs of coffee cultivation and smaller holdings proportionately incurred higher external costs as compared to large holdings. External costs are wild life damage costs and defensive expenditure to protect against wildlife attacks. The NPVs from coffee excluding external costs range between Rs. 100.8 thousand to Rs. 197.9 thousand per acre and Rs. 96.4 thousand to Rs. 188.5 thousand per acre when the external costs are included.

Only 67 percent of the compensation amount claimed by the households was received by them and for every Re of compensation actually received, the grower had to spend Rs. 3-21.

Tastim Singh, Donald Cameron, Lean Russel (2003) in their paper, “Factors contributing the performance of agricultural credit in Lombok, Indonesia” opined that farm credit distribution from the government has been increasing but the agricultural production and farmer’s income have not followed the same trend in recent years. Although agriculture credit has been in high demand, it has had little impact in increasing agricultural production for individual users. The increase in
production was not always followed by income improvement, as the additional income associated with applying credit was sometimes compensated by extra costs. The repayment level was connected to farmer’s financial capacity, character and motivation.

B. Hiranniah(2003) stated that, increased agricultural production is possible by an addition to the total inputs like land and labour, supported by complementary inputs of technical, educational and institutional nature. He further adds, mixed farming is an insurance against natural calamities and acts as continuous recycling of materials. Livestock comprising cows, buffalos, piggery and poultry gives lots of natural nutrients.

David Hallam (2003-04) opined that the reasons for the decline in coffee prices are due to emergence of Viet Nam as a major producer and exporter, depreciation of the Brazilian real under consumption, exploitation of market power by roasters and retailers, technological change in roasting and domestic market liberalization.

He also suggested that the best remedy is, supply control and demand promotion. In the recent past, the demand has remained unchanged and due to the perennial nature of the crop, the adjustment of supply with demand is not possible. The coffee crisis results not only from the fall in price but also from the economic importance of coffee in many producing countries. The product and production characteristics of coffee make it impossible to reduce the supply in the short period which leads to further fall in the prices.

Pavithra M.T. (2005) opined that due to increased cost, the growers got negative returns in the year 2003-04. Therefore the growers have taken up some measures to cut down the cost by reducing some of the practices/work like reducing the number of rounds of weeding, shade lopping, bush management, irrigation, fertilizer management etc. This in turn leads to reduction in the yield and reduction in the revenue. This again calls for more demand for finance and also diversion of finance.

Dr. Lalith Achoth (2005) in the report on “surveys on coffee holdings and coffee market chain in India in relation to mould contamination in coffee” observed that small holders occupy 71 percent of the total area under coffee and contribute about 60
percent of the total coffee production. India’s coffee industry is largely export driven with more than 70 percent of the production being exported.

He also opined that farmers are to be educated on practices of production of mould free coffee, familiarize the stake holders in the coffee chain with the principle of food hygiene, preparing package of good agricultural practices (GAP) and good manufacturing practices (GMP) for coffee industry. Incentives are to be provided to produce mould free coffee because it calls for high cost. Financial assistance to be provided to the growers to construct, modernize or repair the drying yard and on farm store houses.

The Ecological Society of Japan (2006) observed that ecological function losses caused by monotonous land use induce crop raiding by wild life on the islands of Yakushina, Southern Japan.

S.Baruah, G.K.Saikia and A.Deka(2007) opined that only 2.5 percent small farmers received institutional financial support which needs to be enhanced for the betterment of the sector. This requires appropriate intervention and public sector support. One of the important inherent problems of small scale cultivation of plantation crops is capital lock up due to long gestation period and capital intensive nature of production system. The capital infrastructure facilities also call for huge amount of capital. A cluster of village model can be encouraged to grow plantation crops so that processing can be done in the central processing units.

Fughi Cheng (2007) said, coffee is an important crop widely grown in the developing world. Many countries depend on coffee as a source of both national income and export earnings. But the collapse of the coffee prices had led to a humiliation crisis with devastating effects on coffee growers, communities and countries. In the absence of government intervention in the sector, a number of innovative approaches, most notably the fair trade movement have been proposed to receive farmers’ income from coffee production. The fair trade movement seeks to challenge historically unequal international market relations. The FLO (Fair trade Labeling Organization) certification is designed to help coffee growers gain direct access to international markets at guaranteed premium prices.
The policy makers have twin objectives: to meet the short term needs of poor farmers during crisis and to find long term solutions to overproduction in the market.

Nicolas Petit (2007) found that the producers have to depend on the international prices and the working of the world coffee market. What happens in the international coffee market has a direct bearing on the home market on which producers do not have any control.

He further suggests the growers to increase their competitiveness and to go for diversification into other traditional crops or high value commodities. ”STRONG” cultural attachment to coffee is one of the important problems.

Lidia Cabral (2007) Opined, aid and public expenditure in agriculture have fallen significantly over the past two decades. Before calling for an increase in the volume of funding to agriculture, we need a better understanding of how resources are being used. The reasons for the falling development aid are, changes in the role and scope of the state in the sector driven by structural adjustment programmes, the widespread perception that many current agricultural problems can be addressed outside the sector. (Transport and communication, international trade regulations, increased attention and share of public spending being given to the social sectors etc)

Rather than worrying about low volumes of funding, governments and donors should be concerned about returns from funding. But very little discussion is taken up on the returns. There is still insufficient understanding of the composition and quality of agricultural spending and of how these might be affected by the decline in funding. How and how well resources are being used needs to be understood before making a judgment on the need for more.

Understanding public agricultural expenditure should be seen also as a major step towards understanding the role of the state in the sector and tracking how efficiently and effectively the role is performed.

Karla Utting- Chamorro (2007) suggested, fair trade represents an innovative approach to make the rules of global trade mark for disadvantaged producers in the south and for sustainable development. Fair trade can be used as a development tool and the extent of its contribution to the alleviation of poverty in coffee producing regions of Nicaragua. They also opine that it is crucial to analyse the experiences and
problems of small coffee producers and producer’s organizations involved in the fair trade market to ensure that the objectives and claims of fair trade are achieved in practice. They conclude that there are limits to the extent to which fair trade can significantly raise the standards of living of small coffee producers because of factors such as the debt problems faced by cooperation, lack of government support and volatile international coffee prices.

Anadon Nchare (2007) in the paper “Analysis of factors affecting the technical efficiency of Arabica coffee producers in Cameroon” observed, the age of the farmers, experience in production and membership in a mutual group along with contact with agriculture extention workers, family size, distance between house and coffee plots and the practice of mono cropping are not significantly the factors affecting the coffee production and revenue.

He also observed that old farmers are technically more inefficient than younger ones. By virtue of formal education, the young farmers are more towards the modern inputs and technologies. 10 percent of coffee output on the average is lost due to the specific inefficiencies pertaining to the farms.

Kavitha Srinivasas (2007) observed, that kicked off as an experiment by a motley few in the mid to late 1990s when coffee prices began to fall, home stays at the estates have fast become a way to supplement earnings and help maintain the picturesque mansions and acres of plantations.

The price of coffee saw a decline which could not match the cost of production and bank loan could not be paid. Coffee, like all other agriculture crops, is subject to the vagaries of climate and price. It also brings along other problems like severe shortage of labour and high material costs. The prices of agricultural products are not necessarily in proportion with material costs which may often sky rocket.

Delphine Marie Vivien, C. Garcia, (2007) observed, the majority of Indian coffee is marketed without mentioning its geographical origin of production. Coffee is marketed through brands of coffee roasters. There is a cost in controlling the minimum of native species as the extent of shade cover influences coffee yields and there is no premium price for coffee grown under shade crop. The yield of coffee is
around 12 bags per acre in high shade area compared with low shade areas which are 18 bags per acre.

Currently the coffee sector is totally dominated by intermediaries. The coffee growers associations are very weak. They primarily play a role as political unions of producers rather than co-operatives. Stimulating the creation of co-operatives with the support of exporters prepared to collaborate in the promotion of different ways of valorizing coffee seems a needed step. The product value can be increased by transferring the territorial value to the products with trademarks, Geographical Indicators and Environmental Certification.

V. Keshav (2008) opined that the coffee growers are facing many challenges after liberalization. Some of the important among them are, marketing in the world market, storage, tracking of the international market, fluctuations in price level, labour problems with regard to the availability and the cost etc. he suggests that instead of depending on the borrowed funds always, it is better if the growers opt for collective farming and through SHGs. Growers can also go for mechanization of operations to cut down their labour cost.

Deborah Sick (2008) found that small farmers must contend not only with the uncertainties of Mother Nature and the boom and bust cycles in commodity prices but also with limited economic resources and political power. He suggests that the buyers can commit to longer partnership with coffee producers so as to provide a more stable market and lower transaction costs for producers. Buyers can also be obligated to provide technical support and services and to facilitate access to reasonable credit (upto 60percent of contracted harvest earnings) so as to help farmers avoid excessive debt with high rate by the money lenders. Growing fair trade coffee gives some solutions to the problems of the farmers.

George Odour (2008) observed, coffee consumption has more or less equalized with production. He suggests that cautious production practices shall be given priority. The essence is the creation of farmer organizations. At the same time, the interest groups of producers, traders and exporters are to be achieved and all the key players have to play an important role. Improvement in the coffee processing facilities and methods should go along with the increased production to maintain the quality
Thimmaiah T D (2008) while conducting survey on the regional disparities and decentralization, observed that a lot of disparities in the development of Kodagu district and one of them is the allocation of the crop types.

Tucker, (2008) was of the opinion that labour accounts for 1/3 of the cost of production for the small scale producers. Adequate access to market information is very essential to attract labour and further investment in infrastructure.

Daniel Kuhn (2008) observed that despite relative low labour costs, India faces difficulties relating agricultural labour because of the high tech industries. Agricultural labours leave the fields to support personnel in providing better paid jobs. Mechanization could ease the labour shortages. In some areas due to shade trees and tight plantations make the mechanization difficult for harvesting but it can be done by making some adjustments.

Valkila Joni, Nygren Anja (2008) in their paper “Impacts of Fair trade certification on coffee farmers, cooperatives and laborers in Nicaragua” observed that the benefits provided by fair trade for Nicaraguan coffee producers and cooperatives were remarkable during the low world market prices for coffee. Another benefit provided by fair trade has been its facilitation of disparity needed credit for small scale coffee growers institutions where other sources of credit have been limited. Coffee growing is a labour intensive activity. Most of the farmers need pre-financing for the production. When all other institutions stopped lending to small scale producers, fair trade certified cooperatives continued to finance their members even during crisis.

Ellon Mickle (2009) observed that small scale coffee producers worldwide remain vulnerable to price fluctuations after the 1999-2003 coffee crisis. The only way to increase small scale farmer economic resistance is to produce a more expensive product such as quality coffee. He further says, using Geographic Information System helps in identifying suitable land for quality coffee production because it adds to the superior flavor and standards for production and trade.

Mohammad Jalal-Ud-Din (2009) concluded that lack of latest information as well as non-availability of credit facilities is the main problem of the small farmers. Use of technology is definitely going to help the farmers in reducing the cost of
producing but the problem in majority of the small land holders have low income which makes them impossible to adopt new farm technology. A micro credit programme should be of immense importance in boosting the adoption of new agriculture technology.

K. Thirupathi Raja (2009) concluded, coffee trade ranks next to petroleum products in the world. He suggests that restructuring the totally outdated subsidy levels for replanting or rejuvenation of old obsolete coffee plants has to be done, so that it provides sufficiently attractive incentive for the producer to go in for replacement with new materials of high yielding strains and to compensate the temporary loss in income during the gestation period in replants. A free and adequate flow of long term credit to the coffee sector on realistic and sufficient level has to be ensured. This will provide supportive economic atmosphere to the growers.

Danielle Cleland (2010) observed that even though the presence and growth of coffee may seem like a recent phenomenon to many westerners, coffee producing countries realize the long history of the crop. With the spread of industry promotion of free market and price crashes, coffee farmers have had to suffer the impacts and adapt to changes. Coffee production can heavily influence the lives of farmers and their families. In the face of unstable coffee market, producers have been forced to uproot their coffee trees and work on large farms for survival.

Most of the coffee producers are small families and are struggling to earn a living day by day and are often faced with the contradiction of wealthy large scale producers next door. The impoverished indigenous coffee farmers lacked the means to control the coffee system. They know only to produce coffee and to keep trying to produce more. A few elite gained control and only further weakened the small farmer’s ability to control their own business. The result is an increasing gap between the powerful few and the powerless many small farmers.

Suresh Babu and Claire J. Glendenning (2010) were of the opinion that despite many agriculture extension programs, the small farmers are not fed with the required and timely information regarding all these programs which act as a hindrance for their development. They insist that number of agri clinics is to be set up to provide the advisory services.
First consultative Forum on Coffee Sector Finance (2011) concluded in their discussions that there are issues like additional risk management challenges posed by climatic change, the need for additional financing in the coffee sector, difficulties faced by small farmers in gaining access to information about risk management tools and the need to translate complex topics associated with risk management and finance for coffee farmers, producer associations and their role in facilitating access to risk management tools, minimum price guarantee programmes, difficulties posed by language barriers and lack of access to technology, the extent to which speculation versus market fundamentals are driving prices and volatility and successful programmes for informing producers about risk management tools. Strategies are needed to help small and medium scale farmers.

Oscar Schaps (2011) opined that it is the small farmers who are hit hard by all sorts of risks, be it price risk or any other. It is because of lack of information. No risk management tools are currently available to transfer differential risk since the lack of complete transparency of how the differential market operates not only constitutes a technique that can have the same effect as hedging or reduce hedging costs (e.g. Selling part of the crop early to cover production costs and selling options later) the ICO could play a role in developing a vision of a desired end state and disseminating information on pragmatic tools to mitigate volatility risks.

Dr. S.Gandhimathi (2011) observed that agriculture credit is one of the pre-requisite for farmers to increase the agricultural output in the process of agricultural development of a country. But the borrowing behavior of the farmers is not uniform across different farmer groups. Therefore in depth studies on the extent of credit availability, demand for credit constraint, factors determining credit constraint and impact of credit on farm sector are necessary to enable the state and central governments in formulating policies on agricultural refinancing.

She was also of the opinion that the size of land holding is a significant factor in determining the borrowing behavior of farmers. It has a significant and positive relationship with the borrowing behavior. Hence the policy makers should consider the size of land holding as one of the major factor in the allocation of agricultural credit to various regions.
Musebe E, Mitiku M (2011) observed that using hand pulpers for coffee processing is very much sustainable in the long run provided, other factors remain constant. It is advisable for the growers because, the processed beans fetch double the price of unprocessed coffee which adds to the revenue of the growers.

Anil Urs (2012) on a visit to Vietnam which produces about 9 lakh tones of Robusta coffee found that the volumes and productivity in Vietnam is very high. It results in the reduction of cost and leads to profitability. The productivity is more than 2.5 tons a hectare, whether the farms are 2000 hectares or 2 hectares. He is also of the opinion that the coffee board should send scientists to the South East Asian nations for leading scientific practices suitable for domestic condition.

It may help in increase production and productivity levels of Indian coffee industry at least in the future. Domestic consumption of coffee is also very high in Vietnam compared to India.

Marvin Rodregus(2012) found that there are flood of new technology in the market. He suggests that the coffee board has to include eco pulpers, vermiculture and effluent equipment under the new category of green technologies and offer subsidy to growers.

Abhay Agarwal (2012) opined that agricultural activities are inherently risky. Output and prices depend considerably on a host of external factors. These host considerations, particularly detrimental for farmers in developing countries, who lack access to basic formal financial services and adequate market linkages. Their limited knowledge of borrowing options and even more limited access to tools of risk management often makes highly vulnerability. Many financial institutions continue to look at the agricultural sector as highly risky, limiting lending to their mandated requirements.

Research on innovative agriculture finance has picked up speed in the past 5 years. Small alterations in product design can lead to significant improvements in take-up. Income shocks can be prevented through proper mitigating tools and products. New marketing techniques, coupled with financial literacy are required to develop technology adoption. The failure of rainfall insurance scheme is highly due to the limited financial literacy.
Dr. I Satya Sundaram (2012) opined that production costs in India are higher than those of Brazil, Vietnam, Indonesia and Peru because of increasing wages, mandatory social costs like providing housing, health care and PF to the workers. Rising overheads like fuel hikes and state taxes. Due to labour shortage, the growers feel that there is a strong case for massive mechanization in coffee plantations which calls for huge investment.

Ministry of agriculture, Government of India (2012) observed, given the global and macro-economic nature of many of the challenges facing by the coffee sector, there is a particular need and opportunity for building stronger information exchange and cooperation at the global level. Coffee, although an important commodity in India’s agricultural exports have faced fluctuating international prices and decreasing unit value realization.

Coffee bean prices are often below cost of production and leads to a series of adverse consequences among rural workers and small scale farmers. As handful of transactional corporations control the market, the best solution is to grow specialty coffee. The coffee that differ from normal coffee with relevance to visual quality or cup or both, specialty coffees is getting increasingly popular in the world of coffee market.

Sahadev Balakrishna (2013) has found the plantation belt of Chickmagalore, Hassan and Kodagu are facing shortage of fertilizer, rising cost of labour, impending strain on water resources, environmental and quality concerns and a need to replant old plantations.

Plantations are highly labour intensive and since they are situated in interior and remote areas, social benefits are to be provided to the workers. Bearing this cost 100 percent by the management will be a heavy burden to them. Hence he recommends that the central and state governments have to share the social cost by 40 percent and 10 percent respectively and rest 50 percent can be borne by the owners.

Melissa Allison (2013) in the paper “coffee farmers struggle to adjust to eliminate change” opined that one of the biggest problems facing coffee farmers is the climate change. Like many tropical crops, coffee needs predictable dry and wet seasons and cannot tolerate extreme temperature fluctuations. Some rains come too soon or some
others come as the trees bloom or are ready to be harvested, destroying valuable blossoms or dropping ripe coffee cherries. Still others ruin coffee left to dry on outdoor patios. All these may call for having a drying drum or drip irrigation etc. which are more expensive and at the same time, time consuming. Combined with labour shortage, the farmers feel that things are slipping out of their hands.

**Research Gap**

All the studies discussed above have no doubt thrown a lot of light into the fields of both financing to agriculture and also on the problems of the coffee plantation owners. Like all other agriculture, even the plantation sector requires lot of funds from the planting stage till the marketing stage. But the huge gap between these two stages causes lot of problems to the grower and makes him depressed sometimes because there may be times where they are starved for money. This also may affect the productivity and as a result, leads to diversification. Therefore an attempt is made to study the best possible ways to come out of these situations and to suggest some measures to bridge the gap.