

IMPACT OF AGRICULTURAL CREDIT - AN ANALYSIS OF SAMPLE FARMER

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Abstract

The financing institutions supply credit to the farmers in order to enable them to procure yield increasing inputs, minor irrigation projects, implements, machinery, power etc. and thereby, to take up scientific or improved method of cultivation. Scientific method of cultivation in its turn gives more yield, higher return and regular employment to the farmers compared to the traditional method of cultivation. As such they cannot arrange capital from own source alone for taking up this costly method of cultivation. In these hard days when there is spiraling rise in prices of inputs, labour and the like even many large farmers cannot afford to scientific method of cultivation by making huge investments from their own source.

Introduction

In this paper the impact of agricultural credit on generation of farm output, income, employment and assets of the sample farmer borrowers has been examined. The financing institutions supply credit to the farmers in order to enable them to procure yield increasing inputs, minor irrigation projects, implements, machinery, power etc. and thereby, to take up scientific or improved method of cultivation. Scientific method of cultivation in its turn gives more yield, higher return and regular employment to the farmers compared to the traditional method of cultivation. As such they cannot arrange capital from own source alone for taking up this costly method of cultivation. In these hard days when there is spiraling rise in prices of inputs, labour and the like even many large farmers cannot afford to scientific method of cultivation by making huge investments from their own source. Therefore, the area covered under improved method of cultivation is considered as the real benefits flowing from agricultural financing by co-operatives and other banking institutions. In turn, the higher yield and income, regular employment etc. constitute the benefits of scientific method of cultivation.

Review of the literature

Lavania had studied "The Impact of Bank Finance on Agricultural Incomes and Yields", and she had found that the farmers augmented their yields and their net incomes from their major crops through improved technology and by the available short term and medium term loans.

Sriram (2007) in his study entitled "Productivity of Rural Credit : A Review of Issues and Some Recent Literature" stated that the policy intervention in agriculture had been credit driven. This is even more pronounced in the recent interventions made by the State in the package announced for distressed farmers, in doubling agricultural credit, providing subvention and putting an upper cap on interest rates for agricultural loans. He use existing literature and data to argue that the causality of agricultural output with increased doses of credit cannot be clearly established. He argue that Indian agriculture is undergoing a fundamental change, wherein the technology and inputs are moving out of the hands of the farmers to external suppliers. This, over a period of time may have resulted in the deskilling of farmers and without adequate public investments in support services and without appropriate risk mitigation products, has created a clear-crisis in agriculture. Thus, he argue that policy interventions have to be necessarily patient and holistic. Looking specifically at the rural financial markets using some primary data, he argue that it is necessary to understand the rural financial markets from the demand side. He conclude the article by identifying some directions in which the policy intervention could move, keeping the overall rural economy in view rather than being focused only on agriculture.

Methods of Analysis

Keeping in view the objectives of the study, the selected 500 sample beneficiaries were stratified into three categories, namely marginal small farmers, medium and large farmers based on the area of cultivation of Land. The farms less than one acre were grouped as marginal, farms of 1 to 5 acres were grouped as small farmers and the farms of more than 5 acres were classified as medium and large farmers. Out of the 250 sample farmer borrowers, 73 (29.20 per cent), 125 (50 per cent) 52 (20.80 per cent) sample farmer borrowers are under the category of marginal, small, medium and large farmer groups respectively. Further, the sample farmer borrowers were post - stratified into non-defaulters and defaulters.

Analysis of the Study

Generation of Output

Farm size-wise information on average agricultural production per sample farmer borrower between the pre-loan and post-loan year presented in table 1.

**Table 1 Average Output Generated Per Sample Farmer Borrowers In Madurai District
(Output in Quintals)**

Category of Farmer	Average output generated per sample farmer borrower			
	Pre-loan Year	Post- loan Year	Additional Output Over Pre-loan Year	Average Growth Over Pre-loan Year (%)
Marginal farmer	13.2	16.2	3.00	22.73
Small farmer	22.3	27.8	5.5	24.66
Medium and large farmer	34.2	45.1	10.9	31.11
All sample farmer borrowers	19.4	24.7	4.8	20.74

Source: Compiled from survey data.

The Table 1 indicates that the average agricultural output per sample farmer borrower increased from 19.4 quintals in pre-loan year to 24.7 quintals in post-loan year, showing a growth of 20.74 per cent for all sample farmer borrower. The percentage growth was the highest in case of medium and large farmers (31.11) closely followed by small farmers (24.66) and lastly marginal farmers (22.73). In absolute terms the average output per sample farmer borrower in both pre-loan and post-loan years was almost doubled with each increase in the size of holding. This was mainly due to extent of cultivated land operated by different categories of farmers.

The medium and large farmer borrowers were able to enhance the agricultural output to the maximum extent because of the fact that (i) they had easy access to the available inputs, (ii) they were economically better-off and (iii) agricultural operations in their bigger size of lands were economic. The marginal farmer borrowers had less production from their small cultivated land but the growth rate between the pre-loan and post years was quite high due to easy supply of credit by the financing institutions without any tangible security under various direct loan schemes and anti-poverty programmes. On the other hand the small farmers were in less advantageous position in all fields for which the growth rate of production between the pre-loan and post-loan years in their case could not cope up with that of marginal and medium and large farmers.

Generation of Income

An important aspect of Agricultural credit is to enable the farmer borrowers to generate more income. This objective seems to have been achieved to some extent in the study area as the sample farmer borrowers were able to generate more income in the post-loan year compared to the pre-loan years as would be seen from Table 2.

**TABLE 2 Average income Generated Per Sample Farmer Borrowers In Madurai District
(Amount in Rupees)**

Category of Farmer	Average Income generated per sample farmer borrower			
	Pre-loan Year	Post- loan Year	Additional Output Over Pre-loan Year	Average Growth Over Pre-loan Year (%)
Marginal farmer	2016	2626	610	30.26
Small farmer	4421	5524	1103	24.95
Medium and large farmer	7935	10740	2805	35.35
All sample farmer borrowers	3788	4923	1135	29.96

Source: Compiled from Survey data.

The table 2 indicates that the average income per sample farmer borrowers was Rs.3788 during the pre-loan. It increased to Rs.4923 in post-loan year showing a growth of about 29.96 per cent. The growth was the highest in case of medium and large farmers (35.35 per cent) and closely followed by marginal farmer (30.26 per cent) and lastly small farmers (24.95 per cent). These growth rates were more or less similar to those of production as the incomes of the sample borrowers were almost fully contributed by agricultural production. The amounts of pre-loan year income and post loan year income are almost doubled (in some cases more than doubled) with each increase in the size of holding. This was mainly due to difference in size of operational holdings. However, the income was very low even in the post-loan year in case of marginal farmers (Rs.2626) and small farmers (Rs.5524). In case of medium and large farmer only the average income was however, fairly high (Rs.10740) in the post loan period.

Though the increase in income of the sample marginal and small farmer borrowers was less in comparison to medium and large farmers' borrowers between the pre-loan and post -loan years, yet the change in income over the period was spectacular. The credit supply by financing institutions enabled them to undertake some amount of modernization of agriculture, adoption of suitable cropping pattern technically feasible in the area and allied agricultural activities and thereby to earn higher income during the post-loan pre-loan year.

Generation of Employment

Another important aspect of agricultural credit is to promote regular employment in farm sector with a view to reducing substantially the rigour of unemployment and under employment existing in the rural areas. As indicated earlier vast majority of the rural people depend on agriculture for their livelihood. But due to seasonal characteristics of

agricultural operations most of these people remain unemployed or under-employed. The study shows that additional employment was generated after getting financial assistance and its utilization in crop production and permanent improvement of agriculture as would be noticed from Table 3.

Table 3 Average Employment Generated per Sample Farmer Borrowers in Madurai District (In Mandays)

Category of Farmer	Average Employment generated per sample farmer borrower			
	Pre-loan Year	Post- loan Year	Additional Output Over Pre-loan Year	Average Growth Over Pre-loan Year (%)
Marginal farmer	95	112	17	17.89
Small farmer	140	185	45	32.14
Medium and large farmer	230	300	70	30.44
All sample farmer borrowers	135	160	25	18.32

Source: Compiled from survey data.

The Table 3 reveals that the average mandays of employment per sample farmer borrower was 135 mandays in the pre-loan year. It increased to 160 mandays in post-loan year showing an additional mandays of employment of 25. The increase over pre-loan period worked out to be 18.32 per cent. The number of additional mandays was the highest among medium and large farmers (70 mandays) followed by small farmers (45 mandays) and lastly marginal farmers (17 mandays). This was mainly due to the extent of cultivated land operated by different categories of farmers. In percentage terms it was higher for small farmers (32.14 per cent) than for medium and large (30.44 per cent) and marginal farmers (17.89 per cent).

Generation of Assets

Agricultural credit may enable the borrowers in acquiring productivity asset. These asses make the agricultural operations easier, encourage the farmer borrowers to work more efficiently in the filed and help in rising productivity. The information on position of assets acquired by the farmer borrower in pre-loan and post-loan years is given in the Table

Table 4 Average Value of Assets Acquired per Sample Farmer Borrowers in Madurai District (Amount in Rupees)

Category of Farmer	Average value of assets generated per sample farmer borrower			
	Pre-loan Year	Post- loan Year	Additional Output Over Pre-loan Year	Average Growth Over Pre-loan Year (%)
Marginal farmer	388	690	302	77.84
Small farmer	555	989	434	78.20
Medium and large farmer	2090	3930	1840	88.04
All sample farmer borrowers	695	1256	561	80.72

Source: Complied from survey data.

The Table 4 indicates that the average value of assets per sample farmer borrower was Rs.695 in pre-loan years for all sample farmer borrowers. It increased to Rs.1256 in post-loan showing an increase of 80.72 per cent over pre-loan year. The percentage growth ranged between 77.84 for marginal farmers and 88.04 for medium and large farmers. Thus the growth of assets in post-loan year over pre-loan year was very high in case of all categories of farmers. This was possible due to agricultural credit by financing institutions.

Conclusion

Thus it could be concluded, from an analysis that the medium and large farmers had performed well for additional growth of output and income. Small farmers had created employment whereas in the case of marginal farmers had created more assets than other categories in the study area. Besides the agricultural credit had also promoted farmers to adopt intensive method of cultivation.

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