FACTORS DETRMINING BANKING FINANCE OF FARMERS IN AGRICULTURAL ACTIVITIES

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ABSTRACT

The farmers need credit for the purpose of seed, manure and fodder, payment of rent, wages, irrigation of crops, hire charges of pumps, purchase of livestocks, repair of agricultural implements, land improvement, for laying of orchard and capital expenditure on agriculture. The present study aimed to know the factors which determine the banking finance of farmers in Erode District. Access to a comprehensive range of financial services is a significant challenge for smallholders, who constitute the vast majority of farmers in developing countries especially in India. Smallholder farmers are quite a heterogeneous group, differing in their resource base and choice of crops and livestock, links to markets, the relative importance of agricultural income, and other dimensions. As such, solutions regarding access to finance need to better understand the various profiles of smallholder families and the conditions and market context where they operate.

KEY WORDS: Farmers, Agriculture, Finance, Land, Access.

INTRODUCTION

Agriculture remains the main economic activity and employs the majority of the people in most low income countries. Globally, there are approximately 450 million households whose main activity is agriculture. Agricultural producers in developing countries, particularly those in low income countries, face a number of hurdles including low productivity, limited access to markets for their products, lack of adequate risk management products and services and limited access to finance. Access to financial services, while not a means to an end, is critical to provide funds for farm investments in productivity, improve post harvest practices, smooth household cash flow, enable better access to markets and promote better management of risks. Access to finance can also play an important role in climate adaptation and increase the resilience of agriculture to climate change, thus contributing to longer term food security. Generally, credit in agricultural sector may be divided into short-term loans to meet the input expenses and average and long-term loans to facilitate the development of fixed farm assets such as land. This gap arises in relation to static or dynamic production function. Under a static functioning, the level of input use per hectare of cropped area being stable, the year to year difference in the amount of credit reflects the changes in input prices. Under a situation of diminishing returns, though, increasing input use is required to continue the same level of output. The supply of credit linked to static production conditions will not contribute to increase in output, though the withdrawal of it might lead to a decline in conditions will not contribute to increase in output, although the withdrawal of it may lead to a decline in output. Under dynamic functions,

credit requirements would rise from year to year even if input prices stay constant. The growth in credit under such dynamic conditions would lead to increased output. In the similar way the investment credit too would lead to a development in the production potential of the farms through the process of net capital formation. Agricultural credit, thus, in a practical sense, is a nucleus of the system of farm operation. It provides flow to the system averting ruins which would have occurred due to the lack of monetary capacity of farmers. Thus sufficient and timely credit to the farmer is, essential and indispensable for the rehabilitation and progress of agriculturists. In underdeveloped countries, agriculture assumes even more importance. Farmer's incapability or least limited ability to save does not allow him to finance his pursuits and raise better production from his farms. Agricultural credit through institutional channels is the only way to break agricultural stagnation. Private funding agencies play a limited role keeping in view the larger public interest. The present study aimed to know the factors which determine the banking finance of farmers in Erode District.

MATERIALS AND METHODS

Ojha (2016) brought into light about the significance of banking segment particularly the significance of local rural banks which play an significant position in providing farming loan and to take away them from the control of local moneylenders. The study accomplished that the economic institutions provide loans for the aim of agriculture turned out to be complete failure. Though there is a small development in the situation of employees but the general position is that the economic institutions do not serve the aim of farming. Consequently the farming division is covering at the back and owing to the economic development of the country is also back ward since Indian economy is agriculture based economy and if the circumstance of agriculture economy will not get better it will absolutely affect the Indian Economy and its development. Patil (2016) affirmed that in India, farmers are not economically steady as like overseas countries. For that reason in India, farmers require appropriate credit supply to develop their standard of living. It is entirely depend on the development or raise the production and decrease the production cost. When farmers implement new technology as well as focus on organic farming. Farmers require credit supply from approved sources like cooperative societies and banks in minimum interest rate. Now a day's close to about seventy percent credit supply offered by authorize sources it needs to expand it near arount100 %. Banking and cooperative society require to diminish the paper work in loan and credit facility.

Methodology is a mode to systematically solve the research problems. It explains the various steps that are generally adopted by the researcher in studying the research problems along with the logic behind it. This study used both primary data and secondary data. For collecting primary data field survey technique was undertaken in the study. The researcher has collected 760 samples in Erode district by means of using questionnaires from the farmers. The respondents were selected on the basis of convenient sampling technique. Factor analysis was used for further analysis.

RESULTS AND DISCUSSIONS

The factors which determine the banking finance of farmers was studied by measuring opinion of the

respondents through 15 statements of cognitive components, affective component and co native components. These 15 statements were chosen and classified in an orderly form, and factor analysis was employed and the detailed analysis and discussions are done at various stages.

TABLE 1

KMO AND BARTLETT'S TEST

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.920
Bartlett's Test of Sphericity	Approx. Chi-Square	4727.929
	D.F	105
	Sig.	.000

It is interested from table no.1 that shows the results of Bartlett's test of sphericity and Kaiser Meyer Olkin measures of sample adequacies which were used to test the suitability of the factor model. Bartlett's test was used to test the null hypothesis that the variables of this study are not correlated. Since the appropriate chi-square value is 4727.929 which are significant at 1% level and the test leads to the acceptance of the alternative hypothesis.

The above table also shows the value of KMO statistics (0.920) which was also large and it exposed that factor analysis might be considered as an suitable method for analyzing the correlation matrix. The following communality table shows the initial and extraction values.

TABLE 2

COMMUNALITIES

Va. No.	Variables	Initial	Extraction
1	Safety margin	1.000	.662
2	Profitability	1.000	.739
3	Capital	1.000	.706
4	Reliability	1.000	.724
5	Capacity of farmers	1.000	.605
6	Credit worthiness	1.000	.415
7	Security	1.000	.435
8	National interest of the bank	1.000	.322
9	Responsiveness of farmers	1.000	.390
10	Diversification	1.000	.538
11	Liquidity of bank	1.000	.547
12	Resourcefulness	1.000	.476
13	Cash flow statement	1.000	.558
14	Estimated production	1.000	.433
15	Repayment period	1.000	.390

The above table shows the communality values. Communality can be defined as the proportion of variance in any one of the original variables, which is captured by the extracted factors. The history of the derived components is given in the following table.

TABLE 3

TOTAL VARIANCE EXPLAINED

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.993	39.955	39.955	5.993	39.955	39.955	4.090	27.264	27.264
2	1.946	12.976	52.931	1.946	12.976	52.931	3.850	25.667	52.931
3	.985	6.567	59.498						
4	.760	5.070	64.568						
5	.713	4.756	69.325						
6	.679	4.529	73.853						
7	.589	3.926	77.779						
8	.520	3.467	81.247						
9	.503	3.356	84.603						
10	.473	3.150	87.753						
11	.467	3.111	90.864						
12	.419	2.793	93.657						
13	.373	2.486	96.143						
14	.303	2.020	98.163						
15	.276	1.837	100.00						

It is clear from table no.3 that the labeled “Initial Eigen values” give the Eigen values. The Eigen value for a factor indicates the “Total Variance” attributed to it. From the extraction sum of squared loadings, it is learnt that the first factor accounted for a variance 5.993 which is 39.955% and the second factor accounted for the variance 1.946 which is 12.976%. Both these two factors put together showed the total percentage of the variance with 52.931.

Determination of factors based on Eigen values

In this method, only factors with Eigen values greater than 1.00 are retained and the other factors are not included in this model. The two components possessing the Eigen values greater than 1.00 are considered as the components extracted.

TABLE 4

ROTATED COMPONENT MATRIX

S.N	Variables	1	2
1	Liquidity of bank	.740	
2	Cash flow statement	.730	
3	Diversification	.726	
4	Resourcefulness	.670	
5	Estimated production	.641	
6	Credit worthiness	.572	
7	Repayment period	.547	
8	Security	.540	
9	National interest of the bank	.522	
10	Responsiveness of farmers	.491	
11	Reliability		.830

12	Profitability		.829
13	Capital		.820
14	Safety margin		.781
15	Capacity of farmers		.765

It could be seen from table no. 4 which gives a result of VARIMAX method of factor rotation. Interpretation is assisted by identifying the variables that have large loadings on the similar factor. Hence, those factors with high factor loadings in each component i.e. values greater than 0.5 were selected. The selected factors were named independently and highlighted in table no. 4. It is observed from table no.4 that the variables 6, 7, 8, 9, 10, 11, 12, 13, 14 and 15 were grouped together as factor 1 and accounted for 39.955% of the total variance and have been named as 'Indispensable'. On the other hand, the variables 1, 2, 3, 4 and 5 are grouped together as factor 2 and accounted for 12.976% of the total variance and have been named as 'Imperative'. Thus, the factor analysis condensed and simplified the fifteen variables and grouped them into 2 factors explaining 52.931% of the variability of all the variables.

It is interested from the analysis that out of fifteen factors generally consider by the bankers for providing loan to farmers, only two factors showed high influence to bankers for providing loan and it was coined as indispensable and imperative.

SUGGESTIONS AND CONCLUSION

Banking finance is the most vital aspect for any farmer in a country where 60% of population depends on farming. India is also one of the major producer of food grains and cash crops as well as the main consumer of them. But there are still so many underlying troubles in this sector which directly affects the farmer's ability to earn to his full potential. There are different issues like seed procurement, floods, loss of monsoon, high wages, low price for farming produce, water management, unavailability of labor, transportation of food grains, conversion of land for industries and housing needs, farmers children not interested to take up farming, migration to urban areas, etc and problems like disputes between states which do not want to share water to its neighbors. Finance plays a very important role in each aspect, as with availability of finance alternative solutions could be found that would help the farmers not to take unpleasant decisions. While defining a credit policy, there cannot be a uniform policy across the country. It should be flexible and decentralized, based on the local socio-economic condition. Therefore more innovative models are needed to reach small and marginal farmers in rural areas for the success of financial inclusion programme.

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