

# Farmers' Behaviour towards Agricultural Credit in Tiruppur District

C. Vijayalakshmi

Assistant Professor in Economics, Navarasam Arts and Science College for Women, Arachalur, Erode – 638101, Tamil Nadu, India; cvijijii@gmail.com

## Abstract

Agriculture is the backbone of India's economy. It plays a predominant role in deciding the nation's GDP and in establishing the standard of living of dependants. At present, with advancement in technology and due to urbanization, the role of agriculture is declining. The viability of investment becomes doubtful as most of the farmers are in the poverty line. Agricultural growth is possible only with adequate finance and employment of appropriate technology. The implementation of new techniques also requires finance. The financial requirement of farmers can be set off through the credit facilities provided by various financial institutions. The main aspect of agricultural credit scheme is to provide and ensure supply of required finance to the needy people. So, the financial institutions have to create awareness on the credit facilities available and satisfy the increasing credit needs of the agricultural sector. Further, the beneficiaries of credit facilities may also face certain problems in availing and repayment of credit. In this regard, the present study focuses on farmers' behavior towards agricultural credit in Tiruppur District. The sample respondents required for the study have been selected by employing multistage random sampling technique. The association between demographic variables and farmers' behavior towards repayment of agricultural credit was analyzed by using chi-square test and their problems in obtaining credit was examined with Henry Garrett's Ranking Technique. It was found that there is a significant association between age and repayment of agricultural credit by the farmers. Further, it was noticed that the most important problem faced by the farmers in the study area is the high rate of interest charged by the banks and other financial institutions.

**Keywords:** Agriculture Credit, Financial Institution, Repayment and Utilization

## 1. Introduction

Agriculture plays an exorbitant role in the development of Indian economy. The exclusive role of farm credit as an indispensable input to Indian agriculture in the macro-economic structure has its effect on poverty mitigation. Finance is one of the most important aspects required to enhance agricultural output and also to improve the socio-economic conditions of farmers. The inability of farmers to arrange for required finance for agriculture leads to their dependence on various financial institutions for borrowing loans. These institutions provide long term, medium term and short term credit. The amount

of credit, mode of discharge and repayment method will vary among the institutions. Most of the farmers will prefer to obtain credit facilities based on the formalities and procedures involved in it. In this regard, the present study deals with the analysis of farmers' behavior towards agricultural credit in Tiruppur District.

## 2. Statement of the Problem

Agricultural credit has occupied an essential role in supporting farm production in India. Though the outreach and amount of agricultural credit have increased over the years, the performance of repayment of the agricultural

credit is not satisfactory because of many reasons. The repayment of credit together with interest thereon within the stipulated period leads to the smooth functioning of institutional credit. The success of financing for different activities of the farmers is determined to a great extent by the repayment behavior of the borrowers which enables the banks to recycle their funds for further lending. The present study has been undertaken at the micro level to find out the extent of non-repayment of agricultural credit by the farmers and to find out the problems faced by them in getting agricultural credit facility.

### 3. Review of Literature

Ratan Lal Godara *et al.*<sup>1</sup> identified that the cost incurred by the farmers such as transaction costs associated with documentation formalities, commission charges and time spent in getting loan from formal agencies is unjustified. Baba Hananu *et al.*<sup>2</sup> analyzed the factors that influence household's access to credit from both formal and informal sectors in Northern Ghana. The study revealed that almost 50% of the households had access to credit and decision to access agricultural credit was positively and significantly determined by age, education, group membership and source of credit. Abbas Ali Chandio *et al.*<sup>3</sup> found that agricultural credit had an important and positive role to play on the production of wheat in Sindh, Pakistan. The study also found that the long term loan users had significantly spent the credit amount for land preparation, irrigation and plant protection. Romanus Osabohien *et al.*<sup>4</sup> examined the potential of agricultural credit facilities in terms of commercial bank credit to agriculture and Agricultural Credit Guarantee Scheme Fund (ACGSF) and their rate of interest towards increasing agricultural production in Nigeria. It was identified that commercial banks' credits and Agricultural Credit Guarantee Scheme Fund increased food security by 8.12% and 0.002% respectively.

### 4. Objectives of the Study

- To analyze the preference for repayment of agricultural credit by the farmers in the study area.
- To identify the problems faced by the farmers in getting agricultural credit.

### 5. Research Methodology

The study is basically descriptive and empirical in nature. The respondents were selected for the study using a multistage random sampling technique by selecting Tiruppur District at the first stage, as agriculture continues to be the most predominant sector in Tiruppur District and around 30% of the working population is engaged in agriculture and allied activities for their livelihood. In the second stage, five taluks out of a total of 9 taluks namely Avinashi, Uthukuli, Palladam, Dharapuram, Kangayam have been selected. In the third stage, 10 villages from each taluk were considered and in the final stage, 9 farmers from each village were selected as sample where the total respondents account to 450 farmers. The primary data has been collected from all the selected respondents with a well structured questionnaire and the collected data has been analyzed by using Henry Garrett's Ranking Technique and Chi-square test. The required secondary data has been gathered from various journals, magazines and related websites.

### 6. Hypothesis

$H_{01}$ : There is no significant association between demographic variables (age, education) and repayment of agricultural credit.

### 7. Results and Discussion

#### 7.1 Preference for Repayment of Agricultural Credit

The success of financial institutions depend on the level of farm credit availed and repayment made by the farmers. The preference given by the farmers in repaying institutional and non-institutional agricultural credit is examined with Henry Garrett's Ranking Technique. The results are shown in Table 1.

The Table 1 reveals that the farmers have given preference for repayment of institutional credit with a Garrett score of 65.74 followed by non-institutional agricultural credit with a Garrett score of 64.21. Thus, it is concluded that major preference is given for repayment of institutional agricultural credit.

**Table 1. Preference for repayment of agricultural credit**

Source of Credit	Total Score	Average Score	Garrett Ranking
Institutional Credit	29591	65.74	I
Non-institutional Credit	28906	64.21	II

Source: Computed

## 7.2 Association between Demographic Variables and Repayment of Agricultural Credit

The association between demographic variables namely age, education and repayment of agricultural credit is examined by framing null hypothesis and the same has been tested with chi-square test at 5% level.

### 7.2.1 Age and Repayment of Agricultural Credit

The respondents are classified into three categories namely 21-40 years, 41-60 years and 61-80 years based on their age. The Table 2 shows the level of repayment

of agricultural credit by the respondents based on age.

The Table 2 reveals that out of 450 respondents, more number of respondents (167) belong to the age group of 41-60 years and majority (56.8%) of the farmers have not repaid the agricultural credit. The association between age and repayment of credit is analyzed and the results are shown in Table 3.

From the above Table 3, it is observed that the chi-square value is 24.226 and p value is less than the significant value, i.e.  $0.000 < 0.05$ . Hence, the null hypothesis is rejected at 5% level. It is concluded that there is a significant association between age of the farmers and repayment of agricultural credit.

**Table 2. Distribution of respondents based on age**

Age of the Respondents	Repayment of Credit		Total
	Repaid	Not Repaid	
21-40 years	32 (20.5%)	80 (27.2%)	112 (24.9%)
41-60 years	67 (42.9%)	167 (56.8%)	234 (52.0%)
61-80 years	57 (36.6%)	47 (16.0%)	104 (23.1%)
<b>Total</b>	<b>156 (100%)</b>	<b>294 (100%)</b>	<b>450 (100%)</b>

Source: Computed

**Table 3. Association between age and repayment of credit**

Variable	Chi-square Value	df	Asymp. Sig. (2-sided)
Age	24.226	2	.000*

Source: Computed

\*-Significant at 5% level

### 7.2.2 Education and Repayment of Agricultural Credit

The respondents are classified under four categories based on their education as illiterate, primary, high school and under graduate. The level of repayment of agricultural credit by the farmers based on their education is shown in Table 4.

The Table 4 reveals that out of 450 respondents, more number of respondents (119) belong to illiterate category and majority (40.5%) of the farmers have not repaid the agricultural credit. The association between education and repayment of credit is analyzed and the results are shown in Table 5.

From the Table 5, it is observed that the chi-square value is 2.698 and p value is greater than the significant value, i.e.  $0.440 > 0.05$ . Hence, the null hypothesis is accepted at 5% level. It is concluded that there is no significant association between education of the farmers and repayment of agricultural credit.

### 7.3 Problems Faced by the Farmers

The problems faced by the farmers in getting agricultural credit from banks are analyzed by using Henry Garrett's Ranking Technique. The problems considered are high rate of interest, seek more security, no assistance to obtain loan, unaware of mode of obtaining loan, long loan processing period, inadequate loan amount, complicated procedures, no previous experience, distance of location of bank and bribe. The respondents are asked to rank the problems based on their significance. The results are shown in Table 6.

The Table 6 shows that high rate of interest is the most important problem faced by the farmers with the Garrett Score of 58.59, the second important problem is seek more security with the Garrett Score of 55.73 followed by no assistance to obtain loan (51.39), unaware of mode of obtaining loan (50.17), long loan processing period (48.19), inadequate loan amount (48.18), complicated procedures (47.80), no previous experience (46.05), distance of location of bank (45.81) and bribe (45.62).

**Table 4. Distribution of respondents based on education**

Educational Qualification	Repayment of Credit		Total
	Repaid	Not Repaid	
Illiterate	61(39.1%)	119(40.5%)	180(40.0%)
Primary	57(36.5%)	99(33.7%)	156(34.7%)
High School	34(21.8%)	59(20.1%)	93(20.7%)
Under Graduate	4(2.6%)	17(5.7%)	21(4.6%)
<b>Total</b>	<b>156 (100%)</b>	<b>294 (100%)</b>	<b>450 (100%)</b>

Source: Computed

**Table 5. Association between education and repayment of credit**

Variable	Chi-Square Value	df	Asymp. Sig. (2-sided)
Education	2.698	3	.440**

Source: Computed

\*\* - Not Significant

**Table 6. Problems faced by the farmers**

Problems	Total Score	Average Score	Garrett Rank
High Rate of Interest	26366	58.59	I
Distance of Location of Bank	20613	45.81	IX
Complicated Procedures	21514	47.80	VII
No Assistance to obtain Loan	23129	51.39	III
Seek More Security	25077	55.73	II
Inadequate Loan Amount	21682	48.18	VI
Long Loan Processing Period	21686	48.19	V
No Previous Experience	20925	46.05	VIII
Unaware of Mode of Obtaining Loan	22577	50.17	IV
Bribe	20531	45.62	X

Source: Computed

## 8. Suggestions

The following suggestions were given based on the results of the study.

- The present study reveals that the respondents prefer to repay institutional credit at the highest. Hence, it is suggested that banks and other financial institutions should concentrate on expanding the provision of agricultural credit to the farmers by reducing the procedures and formalities involved in it so that it will motivate them to obtain more credit from financial institutions.
- It is found that there is a significant association between age and repayment of loan by the farmers and majority of the farmers have not repaid the loan. In this regard, it is suggested that the concerned authorities have to concentrate on the aspects involved in mobilizing the benefits of repayment of loan to the farmers. This will enable the financial institutions to maintain proper circulation of money.
- The study revealed that the most important problems faced by the farmers in obtaining loan are high rate of interest and seek more security. Therefore, it is suggested that the banks should

concentrate on creating awareness among the farmers regarding the availability of various types of loans and advances that will help them to improve their livelihood. Further, the authorities should also focus on reducing the rate of interest as most of the beneficiaries are the people living below the poverty line.

- The banks have to raise the amount of loan that it sanctions to the farmers so that they can utilize it in developing their farming practice.

## 9. Conclusion

Agricultural credit has played a vital role in the development of agricultural activities, though the outreach and amount of agricultural credit have increased over the years. The access and repayment behavior of farmers are not at a satisfactory level which affects the financial institutions. In the study, majority of the respondents have not repaid the agricultural loan raised either from commercial banks or from the co-operative society. The abnormal delay in recovering the loan is the root cause for overdue, which affect the liquidity position of the financial institutions. So, the agricultural loan borrowers should try to make the repayment of loan in proper time.

The concerned authorities have to take appropriate steps to eliminate the drawbacks in providing agricultural credit to the farmers and thereby improve the functioning of financial institutions.

## 10 References

---

1. Godara RL, Singh P, Singla S. Agriculture Credit in India: An Analytical Study International Journal of Latest Trends in Engineering and Technology. 2014; 3(3):326–335.
2. Hananu B, Abdul-Hanan A, Zakaria H. Factors Influencing Agricultural Credit Demand in Northern Ghana. African Journal of Agricultural Research. 2015 Feb; 10(7):645–652. <https://doi.org/10.5897/AJAR2014.9330>
3. Chandio AA, Jiang Y, Wei F, Guangshun X. Effects of Agricultural Credit on Wheat Productivity of Small Farms in Sindh, Pakistan. Are short-term loans better? Agricultural Finance Review. 2018; 78(5):592–610. <https://doi.org/10.1108/AFR-02-2017-0010>
4. Osabohien R, Afolabi A, Godwin A. An Econometric Analysis of Food Security and Agricultural Credit Facilities in Nigeria. The Open Agriculture Journal. 2018; 12:227–239. <https://doi.org/10.2174/1874331501812010227>