



A Study on The Sway Of Agricultural Financing Problems Faced By Agricultural Entrepreneurs.

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ABSTRACT

Agribusiness is characterized by recurring uncertainties that present farmers with various conditions that affect their investment needs. This article tries to understand the financial problems of agricultural entrepreneurs and examines the relationship between their agricultural finance knowledge and financial problems. This study was carried out in Lucknow district of Uttar Pradesh, India. Approximately 45 farmers were reached at various sampling stages. The survey revealed that the main cause of farmers' financial problems is poor storage and poor loan application procedures, with 64% of farmers having agricultural understanding as private lenders use these funds to make a difference. Cooperation between government agencies and farmers on private loans has led to more debt. The analysis also shows that political interference can lead to NPA (non-performing loans) resulting from farmers' failure to repay their loans. When the effect of the agricultural financial information of the farmers on their financial problems is examined, it has been revealed that one of the main problems is the lack of funds and the inadequacy of external resources. Therefore, increasing the financial knowledge of farmers about agriculture can greatly reduce their financing problems.

Keywords: agricultural business; agricultural finance information; financial problems, KCC

INTRODUCTION

Access to finance is critical to agricultural development. The transition from agricultural production to commercial agriculture requires capital. However, in developing countries where agriculture is the livelihood of 86% of the rural population (International Finance Corporation [IFC], 2021), monetary financing for the agricultural industry is rare, even for large traders. Financial institutions refuse to accept risks such as flooding, flooding, pests, and diseases occurring in agriculture or long-term transaction costs. Thus, despite the government's current efforts to encourage investment in agriculture, there is a lack of understanding of the financial risks of agriculture and the resources that lead to jobs of much-needed capital to support production, production, and trade. This policy brief examines the financial needs of agriculture in developing countries and the means available to meet them. We examine the challenges of investing in agricultural finance, the role of different actors, and governments' options to strengthen fiscal laws and policies to support agricultural development.

CHALLENGES IN AGRICULTURE FINANCE

Investments in agriculture, as in other sectors, will need money from third parties, especially local farmers, as well as foreign farming countries, producers, warehouses, or fertilizer companies to do their job. However, in the current international financial system, many factors prevent the development of sustainable financial services in rural areas of most countries.

First, renovation costs are higher in rural areas than in cities, due to more refugees and weak infrastructure. Secondly and more importantly, there are risks in agriculture that prevent financial institutions from lending. These include production risks associated with natural disasters (such as flooding, flooding, and pests),

farmers' inability to provide guaranteed crops (because farmers do not have land titles to provide credit collateral or land prices are too low). and price volatility.

Third, the financial markets of some developing countries may not be mature enough. The availability and innovation of certain financial instruments and services is often poor. Also, when financial services are available, they may not be suitable for all types of agriculture with different needs in terms of payment time, cost, and risk. For example, in seasonal agriculture, certain stages of the production process require capital. At the same time, the supply of financial products is only available to large farms with proven data and therefore cannot meet the specific needs of users' goods.

Finally, the lack of agricultural data and statistics in developing countries makes it difficult for financial service providers to assess their creditworthiness. This situation changes the necessary conditions to obtain financial products and destroys the investment results obtained.

Geographic Scenario of Lucknow Region: Agricultural Sector in Development Dominant Lucknow Rural Economy has a total of 215280 hectares of arable land, 138148 hectares of net arable land, net irrigated area 124,000 people, small farmers 92.9% of the total population. small farmers have an average of 0.8 hectares of land.

The Variables on basis of which the research has been conducted are as follows:-

- a. Kissa Credit Card (KCC)
- b. Banking Services related to agriculture.
- c. Agriculture Sources of Finance.
- d. Agriculture Productivity.

LITERATURE REVIEW

(Sharma, 2012). Therefore, agriculture plays an imperative role in the socio-economic growth of the state by creating livelihood for a major portion of the population.

(Yadav, 2013). These days, practicing agriculture is not only limited to a means of survival but has become a source of livelihood and taking the direction of entrepreneurial activity. Such potency leads to the creation of agricultural entrepreneurs which is defined by Chander (2016) as creative farmers who are innovating and applying suitable technologies and practices developed by them or integrating into their farms the technologies developed elsewhere, But the major aspect is that such activities demand a significant amount of capital that needs to be invested. Besides their saving, they often have to rely on the outside source for acquiring funds.

Shanmugavadivel (2015) stated that credit facility enables the farmer to attain the required capital for increasing agricultural production and it can boost other factors of production by making the latent or underused capacities functional. Thus, agricultural financing performs a crucial role in the advancement of the agricultural sector.

Nath et al. (2016) found that lack of capital and unavailability of timely credit facilities act as major constraints for future improvement of agricultural activities.

(Ajayi et al. 2019). Daily agricultural life depends on the sustainability of financial power, which is influenced by the information chain of the financial providers.

(Ulusoy, 2020). Several policy measures have been introduced by the government to boost the accessibility of farmers towards institutional sources of credit.

(Subramaniam and Shivananjappa, 2021). The umbrella coverage of agricultural financing services from banks allows the agricultural entrepreneurs to carry out their farming process in a smooth way. There are various schemes in India through which the agricultural loan is provided at a subsidized rate. Besides that, with the introduction of the Kisan Credit Card (KCC), agricultural loans are provided for consumption purposes, post-harvesting expenses, marketing expenses, the loan with crop insurance and the agricultural entrepreneurs also get the option for social security schemes and loans on warehouse receipt. It also gives the provision for the loan without collateral security. Availing such facilities requires awareness among the agricultural entrepreneurs. However, inadequate awareness of formal agricultural financial services would drive the agricultural entrepreneurs to the doorstep of the unorganized sector.

(Shanmugavadivel, 2022). Widhiyanto et al. (2022) were concerned that better awareness creates more access to financial institution's products and services.

METHODOLOGY

Objective of the Study: -

- 1- To identify the financial problems of agricultural entrepreneurs.
- 2- To determine the level of agricultural financing awareness of agricultural entrepreneurs.
- 3- To determine the effect of awareness on agricultural financing on the financial problem of agricultural entrepreneurs.
- 4- To determine the causes and effects of low agriculture productivity and its effect on finance.

The research design of the paper is descriptive followed by a cross-sectional study. In this study, only those agricultural entrepreneurs were taken into consideration who produced for commercial purpose, come within the purview of the agriculture and horticulture sector and engaged in the business for at least 2 years. Since there was no record or list of the total population of agricultural entrepreneurs in the study area, the population was considered as infinite in this paper and from each district, the samples of agricultural entrepreneurs were selected with the help of agricultural extension officials assigned by the respective district agriculture office. Accordingly, 96 samples were selected considering the minimum number of samples that needed to be present as per the number of variables in the study, use of survey scale and to run the statistical test such as t-test, ANOVA (Delice, 2010; Louanglath, 2017; Cohen et al., 2005). Multi-stage sampling was used. The State of Uttar Pradesh falls under three agro-climatic zones viz. Agro Climatic Zone-IV: Middle Gangetic Plains region, Agro Climatic Zone-V: Upper Gangetic Plains region and Agro Climatic Zone-VIII: Central Plateau and Hills region. The Agro-climatic zone- V is among the larger and very thickly populated agro-climatic zones. It covers 32 districts of Uttar Pradesh. A large part of the geographical area is cultivated and is well irrigated. This is the most developed region of the State of Uttar Pradesh. Over 70% of the area is sown and nearly 65% of this is irrigated. The zone is characterized by semi-arid and sub-humid conditions. The mean Annual rainfall varies between 700 and 1,000 mm. There are three sub-zones under this agro-climatic zone. Central Plains - Allahabad, Fatehpur, Pratapgarh, Sultanpur, Rae- Bareilly, Unnao, **Lucknow**, Bara Banki, Sitapur, Hardoi, Kheri and Pilibhit districts fall under this sub-zone. The region receives on an average 979 mm of rainfall; the climate ranges from dry sub-humid to semi-arid and the soil is alluvium calcareous sandy loam. About 62% of the land is cultivated of which 56% is irrigated.

Based on prior research papers and pilot survey, seven items were considered to measure the causes of financial problems of agricultural entrepreneurs. The items include inadequate savings, less source of borrowing, high risk in borrowing, lack of awareness on applying for bank loan, cumbersome process in applying for bank loan, high rate of interest and lack of collateral security. To quantify the items of financial problems, 7-point interval rating scale was used where 1 denoted least agree and 7 referred to strongly agree to the causes of the financial problems. Subsequently, the mean score was calculated based on ratings provided by the respondents on different financial problems. The individual mean score of the items was calculated to compare the items causing the financial problem and the overall mean score of the financial problem was ascertained to correlate it with the awareness of agricultural entrepreneurs on agricultural financing.

The items that measured the awareness level of the agricultural entrepreneurs on agricultural financing were grouped into five factors that were: awareness of basic banking services, periodicity of loan, collateral security on loan, various agricultural financing schemes and facilities on KCC (Kisan Credit Card). Each factor was represented with several items and the questions were asked in the dichotomous form and scores were measured accordingly by segregating the responses into '1' for 'aware' and '0' for 'not aware'. The overall scores on the items were then categorized into three different levels i.e. high, medium and low. If the score of the respondents fell below the (Mean Standard Deviation) the awareness level was taken low. The awareness level was considered medium when the score declined between (Mean \pm Standard Deviation). If the score was above (Mean \pm Standard Deviation) the awareness was considered high (Shanmugavadivel, 2021).

Relationship between agricultural financing awareness and financial problems of agricultural entrepreneurs was analyzed using One-Way ANOVA. The independent variable was the level of awareness on agricultural financing and financial problem of the small-scale commercial farmers was the dependent variable. Using this variable, the null hypothesis was constructed as:

There is no significant difference in the mean score of financial problems across the levels of awareness on agricultural financing.

FINDINGS AND DISCUSSION

Financial problems of Agricultural Entrepreneurs

The reasons leading to the financial problem of the agricultural entrepreneurs are depicted.

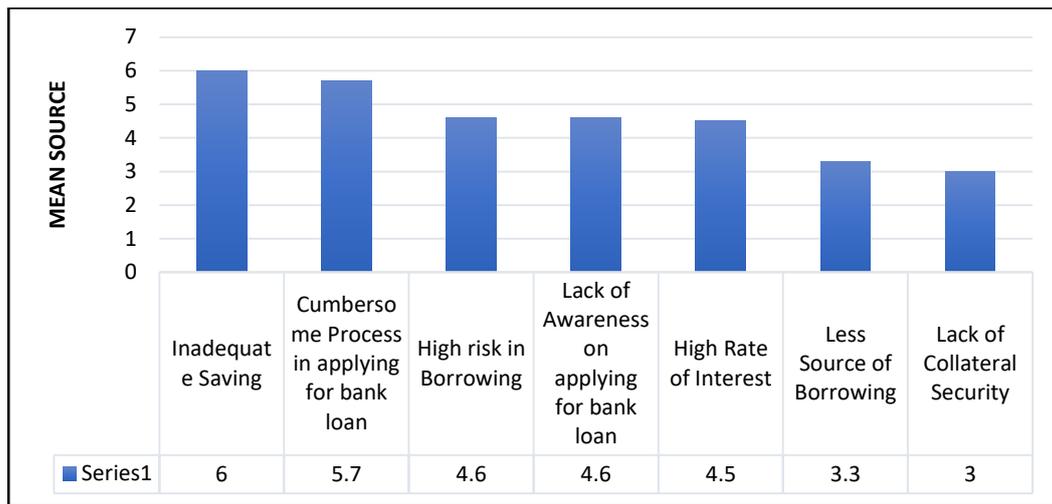


Figure 1: Causes of Financial Problems of Agricultural Entrepreneurs

Source: Journal of Extension Education Vol. 32 No. 4, 2020 Author Name: N.Purnima & B.Anjan

The x-axis represents the variables of financial problems and the mean score of the variables leading to the financial problem is presented in the y-axis. A high mean score indicates more financial problems for agricultural entrepreneurs. Here, it can be seen that inadequate savings affected mostly to financial/capital requirement of agricultural entrepreneurs which was quite found in prior research papers on the financial-related problems faced by the entrepreneurs (Swathy & Benazir, 2014; Jayadatta, 2017). However, it can be interpreted from Figure. 1 that the cumbersome process in applying for a bank loan affected the financial requirement with an average rating of 5.7 out of 7. This result also supports the findings of the study conducted by Gichuki et al., in 2021 where 75.7% of entrepreneurs rarely apply for loans from banking institutions due to strict terms. There was an almost equal rating on the high risk in borrowing, lack of awareness on applying for a bank loan and high rate of interest.

The research design of the article is defined as a cross-sectional study. The study is conducted on secondary data. The study was carried out in Lucknow. In this study, agricultural businessmen who produce only for the market, who are in the agriculture and horticulture sector and who have been operating for at least 2 years have been determined. Since there is no information or list regarding the entire farmer population in the study area, the population is assumed to be infinite in this study and a sample of the farmers was selected with the help of agricultural officers sent from each province. Affiliated District Agriculture Department. Based on previous research and research, seven items were considered to quantify the causes of farmers' financial problems. Insufficient savings, some loans, high-risk loans, poor knowledge on applying for bank loans, application process for bank loans, high interest rates and lack of loan guarantee. An average score is then calculated based on participants' assessments of different financial questions. Calculate the average individual score for each item, compare the items that cause financial problems, and determine the overall average score of financial problems associated with people's agricultural knowledge of agricultural finance.

Determine The Level of Agricultural Financing Awareness of Agricultural Entrepreneurs

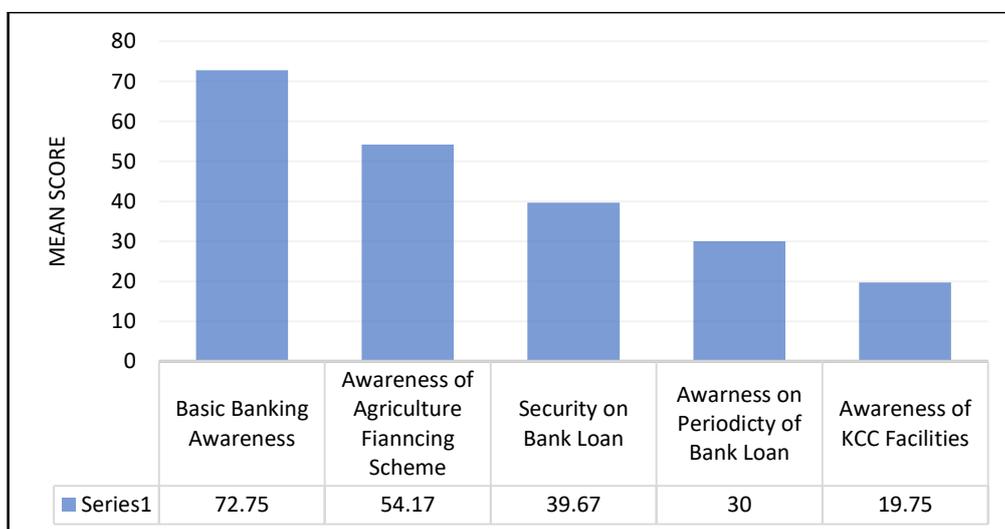


Figure. 2: Dimensions of Agricultural Financing Awareness

Source: Journal of Agriculture & Extension Education Research Vol. 12 No. 4, 2021 Author Name: Ghasemi and Zahediasl

Items measuring the agricultural finance knowledge level of farmers are divided into five categories: Banking services information, credit cycle, loan credit, various agricultural finance and KCC (Kisan credit card) opportunities. According to Figure: 2 Everything is represented by several items, and questions are asked in a binary form, and the score is measured by dividing the answer by "1" for "I know" and "0" for "I don't know". Then the total score of the product is divided into three different levels as high, medium, and low. If the respondent's score is low (meaning the standard deviation), the level of knowledge is also low. If the score is between (mean ± standard deviation), the level of consciousness is considered average. Information is considered high as the highest score (mean ± standard deviation). Analysis of variance was used to analyze the relationship between farmers' agricultural finance knowledge and financial problems. The difference between independence is the level of knowledge of agricultural finance, and the financial problems of small farmers are different. Using this difference, the null hypothesis was formulated as follows. There is no significant difference in the mean scores of financial problems at different levels of agricultural finance knowledge.

Effect of Agricultural Financing Awareness on Financial Problems of Agricultural Entrepreneurs.

In the process of examining the effect of the level of agricultural financing awareness on the financial problems of agricultural entrepreneurs, a one-way ANOVA was conducted. ANOVA is based on the assumption of the normal distribution thus the test of normality was conducted using the Shapiro Wilk test. As mentioned by Ghasemi and Zahediasl (2012) on the excellence of the Shapiro Wilk test over Kolmogorov-Smirnov test and a better choice for testing the normality of data. "If the p-value of Shapiro Wilk test is greater than the alpha value (0.05), the data is normal" (Lund Research Ltd., 2018, p. 1). After conducting the Shapiro Wilk test, the result showed the p-value 0.113 (greater than 0.05), consequently, the data were assumed to be normally distributed. The data also met the criteria for homogeneity of variance which was tested with the help of Levene's test. The result of Levene's test showed the p-value of 0.164 which was more than 0.05 and indicated the equality of variance among the groups. Table 1 displays the summary of ANOVA where it showed that p-value (Sig.) is 0.000 (<0.05), therefore the null hypothesis 'there is no significant difference in the mean score of financial problems across the levels of awareness on agricultural financing' was rejected. This inferred that there was a statistically significant difference in the mean score on financial problems of agricultural entrepreneurs having high, medium and low level of awareness on agricultural financing. The difference in the average score on the financial problems of agricultural entrepreneurs across the three levels of awareness on agricultural financing. The data from table 2 revealed that the mean score on the financial problem at the low level of awareness was 37.54, at medium level of awareness the mean score reduced to 32.03 and for the respondents with high level of awareness on agricultural financing, the respective mean score on finance problem was further reduced to 26.55. This indicated that the financial problem of agricultural entrepreneurs decreased with the increase in the level of awareness on agricultural financing. Similar observation was also made by Thakur and Barman (2013).

Therefore, it can be concluded that the financial problem of agricultural entrepreneurs is dependent on their level of awareness of agricultural financing and both the variables share a substantial negative relationship with each other. It is suggested that along with the involvement of bank officials there should be active engagement of agricultural extension officials to increase awareness of agricultural financing at the grassroots level.

CAUSES AND EFFECTS OF LOW AGRICULTURE PRODUCTIVITY AND ITS EFFECT ON FINANCE

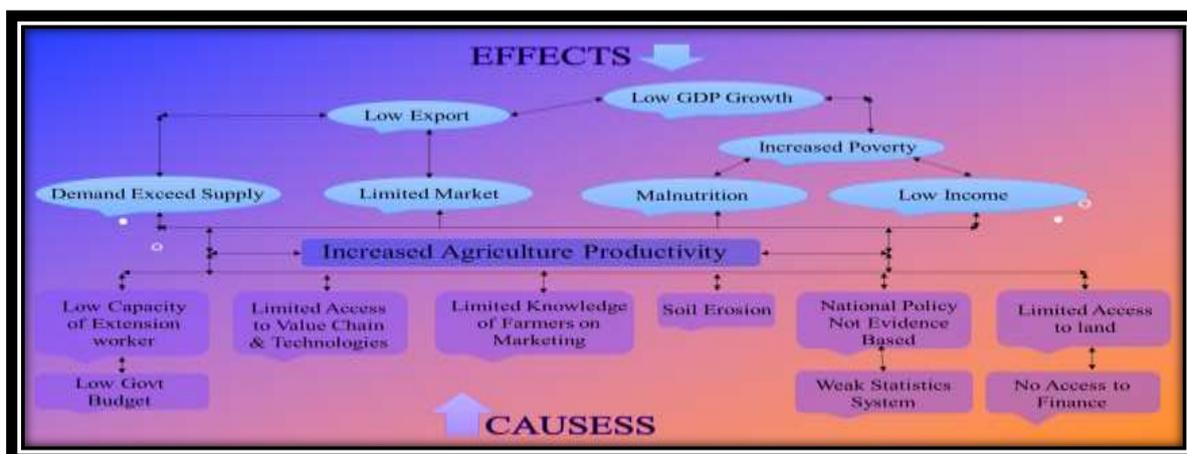


Figure:3- Causes and effects of low agriculture productivity and its effect on finance.

Agricultural knowledge level is divided according to the total score of each dimension of agricultural financial knowledge. According to figure:3 the cause and effects of the low agriculture income is having an adverse effect on the understanding of what farmers know about, the chart shows a data comparison based on the average score for each factor in knowledge farm finance. 2. The average score of each factor of agricultural finance information is calculated by dividing the total score of each factor by the number of items in each factor.

Comparison of average scores on various factors related to agricultural finance knowledge shows that banking services knowledge has the highest value (72.75). Banking services include familiarity with deposit types, interest calculations, ATM cards and online banking services. On the other hand, the average score of knowledge of credit security is quite low (39.67). The security of the loan is shown in terms of secured loans, unsecured loans, and maximum unsecured loans. After analyzing the reasons for the average credit score, it turned out that only 22 of the 96 respondents knew about unsecured loans and only one participant knew the maximum loan amount. Among them, KCC (Kisan credit card) site has the lowest average score (19.75). Information on the KCC site was evaluated, and in addition to information on the availability of KCC-subsidized crop loans; Of the 96 respondents, only 29 were aware of the availability of agricultural equipment, while 33 were aware of the potential use. KCC provides loans to joint ventures. Surprisingly, none of the respondents are aware of the validity of Kisan credit card (KCC), on-demand credit availability, marketing of agricultural products, return fees and credit card (KCC) using Kisan credit card. Mangalam reported similar findings in 2019.

CONCLUSION & SUGGESTION

The empirical analysis of this study shows that farmers face many problems that hinder their investment in agricultural business. There are seven problems faced by the agriculture entrepreneur in the Lucknow region related to agriculture finance. The problems are defined as Inadequate Saving, Cumbersome Process in applying for bank loan, High risk in Borrowing, Lack of Awareness on applying for bank loan, High Rate of Interest, Less Source of Borrowing, Lack of Collateral Security these are the keys to financial problems.

Research shows that most agricultural entrepreneurs have an average level of knowledge of agricultural finance, but the main factors affecting the knowledge are the availability of unsecured loans and maximum unsecured loans. Security, credit, and additional opportunities offered by Kisan credit card.

When the financial problems of commercial farmers were examined, it was determined that they had a negative relationship with agricultural finance knowledge. Therefore, the conclusion of this study is that more efforts should be made to increase the level of knowledge on agricultural finance to meet the financing needs of farmers. Although there are many important strategies to promote agricultural finance knowledge (also in the form of financial literacy), the fundamentally positive impact has not been seen. For this reason, it is recommended that agricultural extension technology employees be included in the process, as well as the participation of bank employees, to raise awareness at the grassroots level of agricultural finance.

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