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Title of Thesis: Impact of Institutional Credit on Agricultural Output: A Case Study of District Pulwama (J&K)

Abstract

In the 21st century agriculture continues to be both a cause of concern and hope for achieving sustainable development and poverty reduction. The role of agriculture in economic development has been extensively documented by economists. Some of the great economic transformation would just not have been possible without the seminal role which agriculture played. The role of agriculture has, however, been subjected to contrasting interpretations. Gunnar Myrdal, perhaps, had this centrality of agriculture in mind when he rightly opined that, "It is in the agricultural sector that the battle for long term economic development will be won or lost". Myrdal's averment assumes additional significance in the context of highly overpopulated agrarian economies like India. Here, agriculture continues to be a way of life. India's transition from PL480 era to a stable democratic state and economic powerhouse would be incomplete without relating to its march to food self-sufficiency. In post-green revolution agricultural development rightly accorded primordial position in policy formulation. Agricultural transformation attempted through a series of agrarian reforms (both commodity and factor market reforms particularly like land reforms, minimum support prices, procurement of marketable surplus, storages facilities) and technological changes (introduction of high yielding variety of seeds, assured irrigation, fertilizers, pesticides weedicide, genetically modified varieties of seeds) accompanied by the state investment in capital formation, research and development. These measures indeed yielded dividends. Achievements have, undoubtedly, been impressive and heartening. But failures have been equally disquieting. Investment capacity of majority of our farmers is weak, as they are poor and they cannot afford to meet increased demand for the purchase of improved seeds, recommended dose of fertilizers, hiring farm machinery etc. These low-income households are not able to acquire new technology and working capital for agricultural production. Consequently they lag behind. Thus, providing access to credit to low-income farming households has rightly been considered as an important requirement for rural development. Though financial inclusion is central focus of credit policy yet inclusive rural financial services continue to remain elusive. Institutional credit delivery has achieved significant strides in terms of spread, network and outreach in rural areas but the quantum of flow of credit to agriculture continues to be inadequate. One serious problem with institutional credit is high inter-state disparity in distribution. Against the above backdrop the present study has been contemplated to (i) *Estimate the determinants of access to institutional credit to farmers;* (ii) *Explore the nature and extent of institutional sources of credit and its impact on agricultural output;* (iii) *Study the relationship between farm size and productivity efficiency of farming sector in the study area;*

The study evaluated the ex-post impact of institutional credit on agricultural output. For quantitative analysis cross-sectional survey data were collected from 412 households in District Pulwama in Jammu & Kashmir (India) including both credit borrowers and non-borrowers. To estimate the accessibility of credit, an examination of both demand side and supply side factors were carried out. Logit and Two-limit Tobit Regression Models were used to investigate the determinants that influence the demand for and supply of credit respectively. Propensity Score Matching Method and Switching Regression Method were employed to analyze the impact of the institutional credit on agricultural output. Input-Oriented Data Envelopment Model (DEA) has been employed to estimate the technical efficiency of different farm size households.

Findings

- Accessibility of institutional credit is found to be determined by individual, household, institutional and farm factors like: age of the household head, education, membership, bank account, rate of interest, crop type grown, gender, household asset value and farm size.
- The estimated results showed that there is relatively high demand for credit accompanied by severe constraints.
- Seventy five percent of the respondents identified i) cumbersome procedures, ii) risk and poor timing of credit release as the major constraints to participate in credit market.
- Association between institutional credit and agricultural output in terms of farm income and farm productivity turned out to be positive and significant.
- The estimated results showed that on an average, there is 19.25% increase in farm income of borrowers compared to non-borrowers.
- The impact of institutional credit on cash crop productivity is higher as compared to the food crop (21.17%. versus 15.79%).
- Credit dependency of borrowers worked out to be higher in comparison to non-borrower farmers. Switching Regression Model showed that agricultural productivity improved by 18% among borrower households. However, had they not borrowed, the predicted mean farm productivity growth might have decreased by 28%.
- Further, the analysis revealed that there is a strong relationship between farm size productivity and technical efficiency.
- The relationship, however, turned out to be non-linear. Technical efficiency in the farm production first declined and then rose again as farm size increased.
- The estimated results revealed that inefficient farmers could increase their output by 6% using the same inputs. On an average, output worth Rs. 4185.95 per-acre could be increased with the same level of inputs.
- Scale, rather than technical efficiency proved to be a major source of overall inefficiency.
- Only 18.7% of farmers were found to be Scale efficient and majority of farmers were operating with increasing returns to scale (77.8%).