An Analysis of Factors Affecting the Credit Need of Tribal Farmers in India

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Abstract: One of the important handicaps faced by the tribal in improvement of their lot is inadequacy of institutional credit. Lack of sufficient credit is one of the serious inhibiting factors in the modernization of the traditional agriculture in the tribal areas. 140 households spread over 8 villages of 4 development blocks of Ranchi district of erstwhile Bihar state, India were interviewed through a specially designed questionnaire. As the study was divided in less developed region and developed region, 70 respondents were taken from each region. Regression equation was fitted to know the importance of each selected variables on credit requirement of the tribal farmers of three groups in the two regions. Farm borrowing in the case of “all farmers” of less developed region are significantly sensitive to fixed capital expenditure, expenditure on consumption and non-farm activities. Variations in farm borrowings can also be explained to some extent by working capital expenditure, expenditure on fertilizers and loans outstanding variables. Thus, across the two regions there are differences in the factors affecting farm borrowings and also there are differences in the extent of influence of these explanatory variables.

Key words: Credit, Agriculture, regression, Tribal, Loan

INTRODUCTION

One of the important handicaps faced by the tribal in improvement of their lot is inadequacy of institutional credit. Credit is not only essential but also enviable in the present day agriculture of our country particularly in the tribal areas. As tribal farmers mainly subsist on agriculture for their livelihood, the development of agricultural sector in the tribal areas will bring about overall development of the tribal people. Lack of sufficient credit is one of the serious inhibiting factors in the modernization of the traditional agriculture in the tribal areas. Credit becomes indispensable to meet the social and economic needs of the tribal people. The marginal propensity to save on the non-tribal farms was about 50 per cent more than on the tribal farms indicating the greater dependence for credit[1] . what is often interpreted as apathy on the part of the tribal should be read as a cautious approach by people found to be aware of the means of increasing productivity, but the held back by the lack of finance for investment, lack of knowledge of subsidies and an over-cautious attitude to possible improvements in production[2]. The impact of institutional credit on tribal and non-tribal farms in Madhya Pradesh and found that the percentage increase in farm production in the case of tribal borrower farmers was about 43 as compared to about 18 for the other non-borrower tribal farmers[3]. Considering the above back ground a study was conducted in Ranchi District of Jharkhand to know the factors affecting the credit of tribal farmers.

MATERIALS AND METHOD

140 households spread over 8 villages of 4 development blocks of Ranchi district were interviewed through a specially designed questionnaire. As the study was divided in less developed region and developed region, 70 respondents were taken from each region. Proportional sampling method was used for selection of the respondents such as defaulters and non-defaulters. For this purpose, the information with regard to village-wise distribution of the number of defaulters, the amount of default, overdue position, the date of repayment of loan, the date of repayment of the loan in respect of crop loans and investment loans were collected separately for commercial banks, cooperatives and RRB’s.

Choice of Variables: In the regression analysis choice and specification of variables are having considerable importance. The variables considered in the present study are Total amount borrowed (dependent variable) total working capital expenditure, amount of loans outstanding, rate of interest, fertilizer expenditure, area under commercial crops, etc.

Specification of the Model: Variations in the level of farm borrowing can be explained by various factors stated above. In the mathematical notation the function can be written as...
Results: Zero order correlation matrices revealed that there was no serious multicollinearity problem in any case. Linear function gave a good fit and also it was better with respect to the significance levels of the parameters. So these functions were finally selected for analysis. The parameters of these selected functions along with the value of coefficient of multiple determinations were presented in Table-1 and Table-2 for the less developed and developed regions respectively.

Less Developed Region: The parameters of the selected functions along with the value of the coefficient of multiple determinations ($R^2$) for the less developed region are presented in Table-1. In the case of (All farmers) of this region, the coefficient of multiple determinations is statistically significant at one-percent level. It implies that the independent variables considered serve to explain about 74 percent variation in the level borrowing in the less developed region.

In the case of ‘all farmers’ of this region the regression coefficient of the input factors working capital expenditure (X1) and expenditure on fertilizer (X4) are of expected positive sign and are statistically significant at 10 percent level. Thus they are in a position to explain some extent variation in amount borrowed of this region. Regression coefficient of fixed capital expenditure (X2) is of expected sign and is statistically significant at one-percent level. A one-rupee increase in fixed capital expenditure, keeping other factors at their respective mean levels, will increase the farm borrowing by Rs. 2.19.

The regression coefficient of the input factors land operated (X8) is of negative sign and is not statistically significant at any levels. The regression coefficient of loans outstanding (X3) variables is of negative sign but is statistically significant at ten-percent level. On the other hand, the regression coefficient of interest rate (X5) variable is of expected negative sign and is statistically not significant. The negative sign of the regression coefficient of interest rate variable, though statistically not significant, is in conformity with the theoretical observation that amount borrowed is negatively associated with rate of interest.

The regression coefficient of area under commercial crop (X6) is negative and statistically not significant. On the other hand the regression coefficient of expenditure on consumption and non-farm activities (X7) is of expected positive sign and is statistically significant at one-percent level. Thus while the input factors area under commercial crops failed to explain variations in amount borrowed, the input factor expenditure on consumption and confirm activities is capable of explaining significantly variations in the farm borrowing.

Thus farm borrowing in the case of “all farmers” of this region are significantly sensitive to fixed capital expenditure, expenditure on consumption and non-farm activities. Variations in farm borrowings can also be explained to some extent by working capital expenditure, expenditure on fertilizers and loans outstanding variables.

Developed Region: The parameters of selected functions along with the value of the coefficient of multiple determination for the developed region are being presented in Table-2.

\[
Y = f (X1, X2, X3, X4, X5, X6, X7, X8, X9)
\]

Where $Y = \text{total amount borrowed in Rs.}$

\[
X1 = \text{total working capital expenditure in Rs.}
\]
\[
X2 = \text{total fixed capital expenditure in Rs.}
\]
\[
X3 = \text{total amount of loan outstanding at the beginning of the period in Rs.}
\]
\[
X4 = \text{total expenditure on fertilizer}
\]
\[
X5 = \text{rate of interest}
\]
\[
X6 = \text{percentage of gross cropped area under commercial crops}
\]
\[
X7 = \text{percentage of borrowed amount diverted for non farm activities}
\]
\[
X8 = \text{land operated}
\]
\[
X9 = \text{square of land operated}
\]

Two forms of the above said functions namely linear and log linear are chosen for the current analysis. They are

\[
Y = a + b1x1 + b2x2 + b3x3 + b4x4 + b5x5 + b6x6 + b7x7 + b8x8 + b9x9 + U
\]

\[
\text{Loge}Y = a' + b1\text{Loge}x1 + b2\text{Loge}x2 + b3\text{Loge}x3 + b4\text{Loge}x4 + b5\text{Loge}x5 + b6\text{Loge}x6 + b7\text{Loge}x7 + b8\text{Loge}x8 + b9\text{Loge}x9 + U
\]

Where a’s and b’s are the parameters and u’s are the error terms.

Results and Discussion
In the case of ‘all farmers’ of this region also the coefficient of multiple determination is statistically significant at one-percent level. The coefficient is explaining that nearly 91 percent of variability in farm borrowing is caused by the entire explanatory variable taken together.

In the case of ‘all farmers’ of this region, the regression coefficient of working capital expenditure (X1), expenditure on fertilizer (X4) and land operated (X8) are of positive sign and are statistically significant at one percent level. Thus they are in a position to explain significantly variation in amount borrowed of this region.

The regression coefficient of fixed capital expenditure (X2) is of expected positive sign and is statistically significant at one-percent level. The regression coefficient of loans outstanding variable (X3) is negative as in the less developed region, but is statistically significant at one-percent level.

The coefficient of rate of interest (X5) is positive but is statistically significant at one-percent level. Thus this variable able to explain significantly variations in the level of borrowing of this region. This characteristic feature of farm borrowing of farm borrowing observed in this region is not in conformity with the theoretical observation that borrowing and rate of interest move in opposite direction.

The regression coefficient of area under commercial crop (X6) is negative and is not statistically significant. Thus this variable dies not serve to explain variations in the farm borrowings. The regression coefficient of expenditure on consumption and other non-farm activity (X7) is positive and statistically significant at one-percent level. This significant and positive relation between farm borrowing and expenditure on consumption and non-farm activities is in conformity with the widely believed hypothesis that cultivators borrow mainly for increasing large family expenditure.

Thus farm borrowing in this region are significantly sensitive to changes in amount of loans outstanding, fertilizer expenditure, fixed capital expenditure, rate of interest, land operated and expenditure on consumption and other non-farm activities.

In this region the variable area under commercial crops is not able to explain variations in farm borrowing in less developed region. It has a significant and positive influence in the farm borrowing in the less developed region. Responsiveness of borrowings to changes in the working capital expenditure; amount of loans outstanding and other variables except area under commercial crops are significant at one-percent level and higher in the Developed region. On the other hand the regression coefficient of fixed capital expenditure is positive in both the regions and is statistically significant at one-percent level. Thus, across the two regions there are differences in the factors affecting farm borrowings and also there are differences in the extent of influence of these explanatory variables.

**Farmer Group Wise:** In order to examine whether the variables influencing credit vary across the size groups of farmers, regression are estimated separately for small, medium and large farmers of the two regions. Since linear functions estimated for the two regions have given a good fit, results obtained are presented in Table-1 and Table-2. Log linear regression functions are also estimated for the two regions but linear regression giving more significant parameters hence discussed and the others are being presented in the appendix. The coefficient of multiple determination (R^2) is significant in small medium and large farmer groups at one-percent level in both the regions.

**Small Farmers:** In case of small farmers, the regression coefficient of working capital expenditure (X) is of expected (positive) sign and is statistically significant at ten-percent level in both the regions. The regression coefficient of fixed capital expenditure is positive and significant at one-percent level in both the regions. Thus, in both the regions these two variables are capable of explaining significantly variation in farm borrowings.

The regression coefficient of amount of loans outstanding (X3) variable is positive in the developed region and negative in the less developed region. But in both the regions, this variable failed to explain significant variation in the farm borrowings. The regression coefficient of fertilizer expenditure (X4) though positive in both the regions is statistically significant at five-percent level in the developed region only.

The regression coefficient of rate of interest (X5) is positive in the case of farmers of both the regions, but is significant in the developed region only. The regression coefficient of area under commercial crops (X6) is of expected (positive) sign and is not statistically significant in both the regions. Thus this variable does not serve to explain variation in the farm borrowing in both the regions.

The regression coefficient of expenditure on consumption and other non-farm activities (X7) is positive and statistically at one percent level in both the regions. Thus, this variable is able to explain variation in farm borrowing in both the regions.

The regression coefficient of land operated (X8) variable is positive in the less developed region and is
higher in the developed region. The regression coefficient of amount of loans outstanding is negative in the developed region. But in both the regions this variable is not significant even at ten percent level. Thus, this variable failed to explain variations in the farm borrowing in both the regions.

Thus in the case of small farmers of the two regions, factors affecting farm borrowings are not the same. In the less developed region, fixed capital expenditure and expenditure on consumption and other non-farm activities explain variations. In the developed region in addition to the above variables, fertilizer expenditure and rate of interest variables explain variation in the farm borrowing. Responsiveness of farm borrowing to the fixed capital expenditure is higher in the less developed region, while that to rate of interest; expenditure on fertilizers, expenditure on consumption and other non-farm activity variables is higher in the developed region.

**Medium Farmers**: In case of medium farmers the regression coefficient of working capital expenditure (x1) variable is at expected (positive) sign in both the regions, but is statistically significant at one percent level in the developed region only. Thus this variable is able to explain variation in farm borrowings in the developed region only.

The regression coefficient of fixed capital expenditure variable (x2) is of expected positive sign and is statistically significant at one percent level in both the regions. This variable is capable of explaining variations significantly in both the regions. The regression coefficient of amount of loans outstanding is negative and is statistically significant at 10 percent level in the developed region only. This variable is able to explain variations in farm borrowing in the developed region only.

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**Table 1**: Results of estimated linear equations-Farmer Group-wise less developed region

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<th>R2</th>
<th>F-value</th>
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**Table 2**: Results of estimated linear equations-Farmer Group-wise developed region

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<th>X4</th>
<th>X5</th>
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<th>X7</th>
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Note: figure in bracket indicates “t” value
R2 significant at one percent level
*Significant at one percent level
**Significant at 5 percent level
***Significant at ten percent level
The regression coefficient of fertilizer expenditure is positive, higher and statistically significant at one-percent level in the less developed region. On the other hand, in the developed region, the coefficient is positive but is statistically significant at at ten-percent level. Thus responsiveness of this input factor on farm borrowing is higher and more significant in the less developed region only.

The coefficient of rate of interest (X5) is positive in the developed region and negative in the less developed region. In both the regions this variable is not significant even at ten-percent level. Thus, in case of medium farmers farm borrowing in the less developed region are negatively sensitive to change in the interest rate s, while in the developed region they are positively sensitive to these change.

The coefficient of area under crop (X6) is negative in both the regions. It is statistically significant at ten percent in the less-developed region only. Thus between the two regions, this variable is able to offer a significant explanation of variation in the farm borrowing in the less developed region only. The coefficient of expenditure and other non-farm activities is positive in both the regions and is statistically significant at one-percent level in developed region only. The regression coefficient of land operated (X8) is positive in both the regions. But it is statistically significant at one-percent level in the developed region only. Thus between the two regions, this variable is able to offer a significant explanation of variations in farm borrowings in the developed region only.

Thus in case of medium farmers also, factors affecting farm borrowings are not similar in the two regions. In the less developed region, variation in farm borrowings are explained by fixed capital expenditure, amount of loans outstanding, fertilizer expenditure, rate of interest, area under commercial crops and land operated variables. In the developed region, the variations in the farm borrowings are explained by working capital expenditure, fixed capital expenditure, amount of loans outstanding, fertilizer expenditure, rate of interest, expenditure on consumption and other non-farm activities. In the developed region, the variations in the farm borrowings are explained by working capital expenditure, fixed capital expenditure, amount of loans outstanding, fertilizer expenditure, rate of interest, expenditure on consumption and other non-farm activities. Similarly the nature of sensitivity also differs between the two regions. While sensitivity of rate of interest variable is negative in the less developed region, it is positive in the developed region.

Large farmers: In the case of large farmers of the two regions, the regression coefficient of working capital expenditure (X1) though positive, is statistically significant at 10 percent level in the less developed region only. Thus this variable serves to explain variation in farm borrowings significantly in the less developed region only. The regression coefficient of fixed capital expenditure (X2) though positive in the two regions, is statistically significant in the developed region. Thus between the two regions, this variable is able to explain variations in farm borrowing in the developed region only. The coefficient of amount of loans outstanding (X3) is negative in both the regions but is statistically significant at five-percent level in the less developed region only. Thus this variable offers to explain variations in farm borrowing in the less developed region only.

The coefficient of fertilizer expenditure (X4) is negative but is not statistically significant in the less developed region. On the other hand in the developed region, this coefficient is positive and statistically significant at 10 percent level. Thus this variable is able to explain significantly variations in the farm borrowing in the less developed region only. The coefficient of interest rate variable (X5) is negative in the developed region and is not statistically significant. On the other hand, this variable is positive and is significant at one-percent level in the developed region. Thus this variable also serve to explain variations in farm borrowing by large farmers of the developed region only. The coefficient of area under commercial crop (X6) is negative in the less developed region and not statistically significant at any probability level in both the regions. Thus this variable does not serve to explain variations in farm borrowing in the two regions. The coefficient of expenditure on consumption and other nonfarm activity (X7) is positive and is not statistically significant in both the regions. Thus this variable fails to explain significantly the variations in the farm borrowing in both the regions. The regression coefficient of land operated (X8) is positive and statistically significant at ten percent level in the less developed region. On the other hand, in the developed region this variable is negative and is not statistically significant. Thus this variable is able to explain significantly in farm borrowing in the less developed region only.

Thus in the case of large farmers also, the factors affecting farm borrowing and extent of sensitivity of farm borrowing are different in the two regions. In the less developed region, variations in farm borrowing can be explained by working capital expenditure, amount of loan outstanding, and land operated variables. In the developed region, on the other hand, a significant explanation of these variations is offered by fixed capital expenditure, amount of loan outstanding, fertilizer expenditure, rate of interest and expenditure on consumption and other non-farm activities variables. The nature and extent of sensitivity to some of the variables is also different in the two regions.
Conclusion: In the case of farmers of both the regions, it is found that factors influencing farm borrowings varied between the two regions. Farm borrowing in the less developed region is significantly sensitive to fixed capital expenditure, expenditure on consumption and other non-farm activities. Variations in farm borrowing can also be explained some extent by working capital expenditure, expenditure on fertilizer and loans outstanding. On the other hand, in the developed region farm borrowing are significantly influenced by changes in amount of loans outstanding, fertilizer expenditure, fixed capital expenditure, rate of interest, land operated and expenditure on consumption other non-farm activities. In both the regions, the input factor area under commercial crops is not explaining variations in farm borrowings. It is found that across size groups of farmers, there are variations in factor affecting farm borrowing and also in the nature and extent of their influence. While borrowing by small farmers are positively related to changes in fixed capital expenditure in less developed region, in the developed region borrowings are influenced to a large extent by changes in the rate of interest, expenditure on fertilizer and other non-farm activities. In the case of mecum farmers of the less developed region, borrowing is negatively related to changes in the extent rate. On the other hand in the developed region they are positively related to these changes.

REFERENCES