

## **A Study on the Financing Pattern of Organic Farming in Kannur**

**Smt. Rajasree.k,**

Assistant Professor,  
Department of Commerce,  
CAS College, Madayi, India.

**Dr. A.V Hemalatha,**

Associate Professor,  
Department of Commerce,  
PRNSS College, Mattanur, India.

### **ABSTRACT**

*India contributes a major share in the world's agriculture production. Though the agricultural sector is growing, several studies indicate that farmers as well as agriculture labourers are not encouraging the younger generation to take up farming as an enterprise to earn a livelihood security. The situation in Kerala is also not different. Thus by considering the safe food habits, life style and attitude of the people, authorities think of introducing alternative farming systems which are also financially viable. Organic farming is one such alternative farming system which copes up with the requirements of the changing food habits of the people. The main factor which pulls back the younger generation from organic farming is due to lack of support by way of necessary financing scheme or inadequate knowledge about it. If banks, government and other agencies come forward with more attractive schemes for supporting organic agriculture, we can witness a considerable increase in the Organic food production. Though financing schemes or technical supports are available for organic farming, small and medium farmers are deprived of it or unaware about such support systems. Present study found that majority of the organic farmers strives with their own savings as working capital and there is less support from the government and other agencies by way of special financing schemes for organic farming.*

**Keywords:** Organic Farming, Financing pattern, Sources of finance, owned fund and borrowed fund.

### **INTRODUCTION:**

India occupies a prominent position in the world for its agriculture. The achievements made after independence has not only succeeded and making big growth in the agriculture production which in its totality has also helped to create a global image of self sufficiency in different spheres of agricultural production. Kerala has a good participation in the growth of India's agricultural map. Though the agricultural sector is growing, several studies indicate that farmers as well as agriculture laborers are not encouraging the younger generation to take up farming as an enterprise to earn a livelihood security. Considering this fact our future approach should be to empower the marginal, small and medium size farmers to engage in farming, handling of the produce including processing product value addition, marketing and generate maximum profit by getting them encouraged and organized with the assistance of the government and other funding agencies.

Taking into account the major changes in the attitude, life styles and changing habits of people, many alternative farming systems were emerged. Most of the conventional agricultural practices are unacceptable to the people in several grounds like, the increasing health hazards due to the consumptions of farm products which are cultivated by using chemical fertilizers and pesticides, or by the use of genetically modified organisms and seeds etc. Govt. and other authorities are now conscious about the results of the conventional chemical farming and start thinking of alternative farming systems which are sustainable and maintaining soil health .Whenever a change has occurred it should be beneficial to the farmers also. That is, the farming system should be financially viable to the farmers. Organic farming is an alternative farming system followed by many

countries including India. Kerala is also succeeded in implementing organic farming and the Govt. of Kerala framed Organic Farming Policy which contains various strategies and action plans for the growth of organic agriculture in Kerala.

The main factor which resist the younger generation from framing is the lack of support by way of special financing schemes. Designing of the investment pattern in agriculture is a crucial decision like any other investment portfolios. Thus decision relating to financing pattern of organic agriculture should be a matter to be discussed especially among the youths who are coming with attractive farm projects. Necessary support by the government, banks and other agencies by way of providing suitable financing pattern is inevitable for attracting the farmers towards organic farming.

### **REVIEW OF LITERATURE:**

(MurrayEV, 2006) studied on the issues related to financing of organic agriculture and found that financing organic agriculture becomes a challenge to the banks than providing finance for inorganic agriculture. The study suggested that hence organic farming is more stable than conventional mode of agriculture, banks should come with new financial plans for promoting organic farming.

(KasturiDas, June16, 2007) conducted a study about the obstacles faced by farmers during conversion from non-organic to organic farming system. The researcher, in the article "Towards a Smoother Transition to Organic Farming" opined that for the conversion process of conventional to organic system, small farmers need some support systems by way of financial resources. The researcher also found that, though organic farming had a significant progress in many parts of India with increasing demand for organic products in the export market, institutional support by the government is very essential for its growth.

(ShinogiKC, 2011) Conducted a study on the assessment, adoption, sustainability and constraints of organic farming in Kerala. He selected sample from four districts of Kerala and noticed many factors responsible for the adoption of organic farming in Kerala. The study also pointed out that institutional support for organic farming in Kerala was significant in terms of technical and financial support. According to him the main constraints for the growth of organic farming are fear of initial yield loss, high cost for the certification process and lack of a reliable package of practices for organic farming.

(DavidWCrowder&JohnP.Reganoldb, 2015) analysed the financial competitiveness of organic agriculture on a global scale by examining a global dataset across 55 crops grown on five different continents and found that price premium available for organic farmers had a significant influence on the financial performance of organic agriculture. If there is no premium price on organic products it shows lower benefit /cost ratio and Net Present Value than conventional agriculture. When price premiums applied, organic agriculture experienced profitability. Researcher concluded the study by point out the fact that despite of lower yields, compared to conventional agriculture, and by considering externalities, or eco-system services, organic agriculture was significantly more profitable than conventional agriculture and which ensures sustainable agriculture and are financially viable.

United Nations conference on Trade and Development (UNCTAD) (2016) analysed the issues relating to financing organic agriculture in Africa and concluded that organic agriculture stakeholders have insufficient access to funding, especially in areas like, certification, research purchase of equipments, establishing cold storage units etc. The study concluded that the financing issue needs to be better integrated into current and future efforts to promote the growth of organic agriculture in the continent of Africa.

### **OBJECTIVE OF THE STUDY:**

1. To understand the financing pattern of organic farming.
2. To identify and analyse the various sources of finance available for organic farming in Kerala.

### **RESEARCH METHODOLOGY:**

Present study is a descriptive cum analytical study focusing on the importance of capital in starting an organic farm and the availability of various sources of finance from banks, government and other agencies for promoting organic agriculture in Kannur district of Kerala state.

### **Sample Size:**

Present study included 50 certified organic farmers of Kannur district of Kerala state. Farmers were selected by using simple random sampling method from the list of certified organic farmers supplied by Fair Trade Alliance of Kerala (FTAK), an NGO in promoting organic farming in the North Malabar area of Kerala state.

### **Source of Data:**

Information from primary sources was used. All sampled farmers were interviewed using a structured interview schedule to understand their financing pattern and to analyse the opinions about availability of various sources of finance.

### **Analysis of Data:**

Collected data regarding opinion of availability of various sources of finance was analysed with the help of statistical tools of Mean, standard deviation and independent sample t test.

## **CONCEPTUAL FRAMEWORK:**

### **Organic Farming:**

Organic farming is one of the alternatives farming system whereby the production system aims to avoid the use of harmful chemical fertilizers and pesticides, artificial growth regulators, antibiotics and live stock feed additives. It is a method of practicing agriculture which ensure sustainability of the environment, increases soil health, and assure healthy food to the society.

According to International Federation of Organic Agriculture Movement "Organic agriculture is a production system that sustains the health of soils, ecosystems and people. It relies on ecological processes, biodiversity and cycles adapted to local conditions, rather than the use of inputs with adverse effects. Organic Agriculture combines tradition, innovation and science to benefit the shared environment and promote fair relationships and a good quality of life for all involved." (IFOAM)

### **Financing pattern of Organic Farming:**

Financing pattern is the combination of all sources of finance involved in the capital of a firm. Farming is a business like all other businesses. Capital is very essential for the running of agriculture and related activities. Hence organic farming involves various costs including cost of certification, it is necessary to identify the available sources of finance for establishing organic farming activities.

These sources of finance or investment made to develop and run the farm till marketing the produces is referred here as financing pattern of organic farm. Growth of every activity depends on the availability of sufficient amount of working capital and other long term finance to the farm. Shortage of working capital in a farm operation can lead to a fast deterioration of the overall financial viewpoint for the entire farm business and its owners. Likewise, huge amount of investment is essential for acquiring agricultural machineries and implements, setting up of cold storage units, making arrangements for transportation etc.

Maintaining the growth of farming activities inputs can be purchased and used by farmers only if sufficient fund is available with him. But inadequacy of fund is the crucial problem facing by most of the farmers. Thus along with owned fund of the farmers importance of borrowed fund in the financing pattern is increasing.

The farming community must be kept informed about the available sources of agricultural finance. They should know about the knowledge of lending institutions, sources of credit, their legal and regulatory environment, which helps the farmers in selecting the appropriate financier who can adequately provide the credit with terms and related services needed to finance the farm business. By understanding the importance of organic agriculture and increasing demand for certified organic products, government, banks and other agencies come forward with many schemes.

## **DESIGNING A SUITABLE FINANCING PATTERN FOR ORGANIC FARMING:**

The financing pattern of an organic farm consists of the use of owned fund available with the farmer, the external source of funds such as borrowed fund, short term & long term loans of the banks and the funds sponsored under various schemes of the government and other agencies.

### **Owned fund:**

Fund contributed by the farmers themselves is termed as owned fund. Such funds are mainly keeping aside from profit and return from other investments. This is used as the margin for borrowed fund.

### **Borrowed fund:**

Fund available with the farmers are always insufficient and they need outside finance or credit. Because of inadequate financial resources and absence of timely credit facilities at reasonable rates, many of the farmers,

are unable to go in for improved seeds and manures or to introduce better methods or techniques. Thus the major portion of the financing source consists of outside financing like bank and other institutional borrowings

**Bank and Institutional borrowings:**

The main source of external assistance is to borrow fund from banks and financial institutions. Though they charge an interest rate for various schemes, the farmers can rely them to a great extend in availing credit. Presently there are very few schemes for financing organic farming. Various banks have now realizes the scope in the area of organic farming and started developing new schemes. The storage and marketing is one of the areas where farmers individually or as a group need assistance from bank.

- Public sector banks
- Private sector banks
- Co-operative banks and agricultural co-operative societies.

**Government schemes:**

Both central and State government introduced various schemes for financing organic farmers. These assistance are extended through banks or other institutions

**Other Private means:**

In want of fund, a committed farmer goes for any alternative when deprived of bank credit finally land up in money lenders or agent trap who charges huge interest for their credit. This affects the viability of the organic farming. But for getting timely credit like for certification, bio fertilizers, marketing arrangements etc the farmers depends money lenders and other personal borrowings from local public. Commission agents and traders advance loans to farmers for productive purposes against their produce without completing needed legal formalities. It often becomes binding for farmers to buy inputs and sell outputs through them only. They usually charge a heavy rate of interest and a commission on the loan. Besides, mostly small farmers and tenants depend on landlords for gathering their production and day to day financial requirements.

**ANALYSIS AND INTERPRETATION:**

For analyzing the availability of finance for organic farming, farmers were classified into two groups Small and Medium size farmers depending on their land holdings. A farmer who holds a land size of less than 0.2 hectares is a small farmer and a farmer who hold a land size of 0.2 hectare to 0.8 hectare is classified as Medium size farmer(as per Eco-Stat classification) .Equal number of farmers was selected from both groups. The requirement of finance for the two categories of farmers is different. Thus it is assumed that the easiness of availability of finance also differ to both categories. From the survey it is understood that farmers of the study area mainly depending on six available sources of finance. Respondents are asked to give their opinions about availability of different sources of finance and their responses were measured in a five point scale from very difficult to very easy level of availability of finance.

**DISTRIBUTION OF RESPONDENTS:**

**Table 1: Category of organic farmers**

	<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Small	25	50.0	50.0	50.0
Medium	25	50.0	50.0	100.0
<b>Total</b>	<b>50</b>	<b>100.0</b>	<b>100.0</b>	

Variables used for analyzing the source of fund of the sampled farmers include the following

1. Use of Owned fund
2. Availability of fund from co-operative banks and agricultural co-operative societies.
3. Availability of fund from Public sector banks and
4. Availability of fund from Private sector banks
5. Availability of fund from other private source.
6. Availability of fund from Government by way of subsidies or special schemes.

**Table 2: Group statistics of Farmers**

Variable	Small Farmers		Medium Farmers	
	Mean	Standard Deviation	Mean	Standard Deviation
Availability of owned fund	4.4000	.57735	4.0800	.57155
Availability of fund from Public sector banks	2.1600	.80000	2.5600	.76811
Availability of fund from Private banks	2.6400	.70000	2.7200	.73711
Availability of fund from co-operative banks	3.5600	.65064	3.6000	.57735
Availability of fun from other private means	3.3600	.63770	3.2400	.87939
Availability of govt fund	1.5600	.50662	1.8800	.66583

Above table shows the different sources of finance availed by organic farmers for meeting their working capital requirements .By comparing the mean of different sources of finance , it is clear that largest value of mean for both medium and large farmers are for owned fund(Small-4.4000 and Medium-4.0800). It shows that most of the farmers under study depends their own savings for meeting their financial requirements. For availing borrowed fund most of the farmers approaches Co-operative Banks ( Mean Small-3.5600 and Medium-3.6000),the least mean value is for Government fund ( Small-1.5600 and Medium-1.8800) which shows that still organic farmers are deprived of government support by way of special financing schemes

**TESTING OF HYPOTHESES:**

H0= There is no difference of opinion in between small and medium size organic farmers about the availability of finance from owned source.

Above hypothesis was tested with independent sample t-test .The outcome variable found to be normally distributed and equal variance is assumed based on the Levene’s test (f=2.8, p=.101).Hence p value is more than 0.05, null hypothesis may be accepted and concluded that there is no significant differences in the opinions of small and medium size farmers about the availability of owned fund. Two tailed test shows a p value of 0.055 which is also not less than 0.05. Thus accept the null hypothesis at 95% confidence level.

Ho=There is no difference of opinion in between small and medium size organic farmers about the availability of fund from Public sector banks.

Above hypothesis was tested with independent sample t-test .The outcome variable found to be normally distributed and equal variance is assumed based on the Levene’s test (f= .556, p=.460) .Hence p value is more than 0.05, null hypothesis may be accepted and concluded that there is no significant differences in the opinions of small and medium size farmers about the availability of fund from public sector banks. Two tailed test shows a p value of 0.078 which is also not less than 0.05.Thus accept the null hypothesis at 95% confidence level.

Ho=There is no difference of opinion in between small and medium size organic farmers about the availability of fund from Private sector banks.

Above hypothesis was tested with independent sample t-test .The outcome variable found to be normally distributed and equal variance is assumed based on the Levene’s test (f=.042 , p=.839) .Hence p value is more than 0.05, null hypothesis may be accepted and concluded that there is no significant differences in the opinions of small and medium size farmers about the availability of fund from private sector banks. Two tailed test shows a p value of 0.696 which is also not less than 0.05. Thus accept the null hypothesis at 95% confidence level.

Ho=There is no difference of opinion in between small and medium size organic farmers about the availability of fund from Co-operative banks.

Above hypothesis was tested with independent sample t-test .The outcome variable found to be normally distributed and equal variance is assumed based on the Levene’s test (f=.655 , p=.422) .Hence p value is more than 0.05, null hypothesis may be accepted and concluded that there is no significant differences in the opinions of small and medium size farmers about the availability of fund from Co-operative banks. Two tailed test shows a p value of 0.078 which is also not less than 0.05. Thus accept the null hypothesis at 95% confidence level.

Ho=There is no difference of opinion in between small and medium size organic farmers about the availability of fund from other Private sources.

Above hypothesis was tested with independent sample t-test .The outcome variable found to be normally distributed and equal variance is assumed based on the Levene’s test (f=.371 , p=.060) .Hence p value is more than 0.05, null hypothesis may be accepted and concluded that there is no significant differences in the opinions of small and medium size farmers about the availability of fund from other private sources. Two tailed test shows a p value of 0.696 which is also not less than 0.05.Thus accept the null hypothesis at 95% confidence level.

Ho=There is no difference of opinion in between small and medium size organic farmers about the availability of fund from the government.

Above hypothesis was tested with independent sample t-test .The outcome variable found to be normally distributed and equal variance is assumed based on the Levene's test ( $f=.000$ ,  $p=1.000$ ) .Hence p value is more than 0.05, null hypothesis may be accepted and concluded that there is no significant differences in the opinions of small and medium size farmers about the availability of fund from the government. Two tailed test shows a p value of 0.062 which is also not less than 0.05.Thus accept the null hypothesis at 95% confidence level.

#### **FINDINGS OF THE STUDY:**

1. Both small and medium size organic farmers depend mainly on two sources of finance which include. owned fund and borrowed fund
2. Majority of the sampled farmers using their own savings for meeting their working capital requirements
3. Among the borrowed fund farmers mostly depends on co-operative banks for raising funds.
4. Financial support by the government is least.

#### **CONCLUSION:**

Easy availability of finance determines the success and viability of organic farming. The need of fund is increasing as various areas are opened for organic farming activity. Right from the conversion, certification process till the organic products are marketed, the need of fund varies. Timely availability of adequate fund whether it is owned or borrowed helps in smooth farming activities. Various financing patterns suiting to the organic farming activities are being developed recently. Banks, government and other institutions offer credit and support to organic farmers. The study concluded that, though more banks have started extending financial assistance to farmers by introducing new schemes, the information about these schemes are not reaching to the farmers and thus they are struggling to raise fund to conduct the farming activities as desired. Majority of the farmers in the present study meeting the working capital requirement by using their own savings and part of the fund with the support of co-operative banks . The support of the government by way of special financing schemes is minimal. Thus it is the need of the hour to encourage organic farmers by providing necessary financial support.

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