Chapter 8
Conclusion

8.1. Introduction

Inaccessibility to credit is a major constraint in agricultural development in underdeveloped pockets of West Bengal as well as that of India. Like many other parts of India, in West Bengal also, the widespread network of institutional settings is an attempt to ease the access to credit and thereby to get rid of the clutches of informal lenders. Moneylenders' grip on rural life and the exploitation of poor peasantry led to the developmental intervention with the objective to provide a positive institutional alternative to the moneylender himself, something which will compete with him, remove him from the forefront and put him in his place (RBI, 1954). However, the personalised credit transactions, flexible but exploitative, are the main sources of credit till now, especially in the underdeveloped regions.

8.2. Issues leading to the need for field study

The present study has been undertaken to assess the extent and nature of access of farm households to formal financial sources and to identify the factors hindering the access of poor farmers in developed as well as underdeveloped regions of the state. The field work has been undertaken for making a regional analysis of participation of farming community in formal and informal credit market in rural Bengal. Need has been felt to examine certain issues of credit market like determinants of the volume of and access to formal loan, the credit gap in irrigated or developed region and in unirrigated or underdeveloped region for small as well as for all farmers on the basis of field work. The questions pertaining to identification of households entering interlinked credit contracts, in general and identification of particular type of linkage, in particular, have also been dealt in the thesis through examination of field data. The role of
microcredit institutions through its informal and flexible nature in increasing standard of living and also in mitigating the problem of repayment has also been discussed with the help of a case study.

8.3. Observations from Secondary Data

(1) The figure for indebtedness of Bengal farmers to various sources of finance, revealed from NSSO data (2003) shows that forty one per cent of total borrowing is met by institutional finance whereas it is forty three per cent for India as a whole. Out of this, cooperatives meet nineteen percent and commercial banks meet twenty six per cent of total institutional finance. The corresponding figures for cooperatives and commercial banks are twenty six and twenty seven per cent for the country as a whole in the same year. The average formal loan per household is also low in Bengal compared to India as a whole.

(2) The credit deposit (C-D) ratio for rural areas of Bengal is much low compared to the country as a whole. The over all credit deposit ratio is also low in Bengal compared to India as a whole. Moreover, it has been found that C-D ratio in Bengal has increased from 45.9 per cent in 1994 to 65 per cent in 2005 whereas the C-D ratio for rural Bengal has decreased from 43.2 per cent in 1994 to 28.4 per cent in 2005.

(3) It is worthy to note that out of a total amount of Rs. 6693 crores allotted by the Government of West Bengal for agricultural sector more than fifty per cent (Rs. 3348 crores) have been allocated for small and marginal farmers in 2008-09.
8.4. Major Findings

(1) From the analysis on the basis of micro data, it has been found that the participation of farm households in the credit market, formal and informal, is high in West Bengal. Around 80 per cent of households are borrowers in the study area. This reflects the dire need of credit in the state in spite of high productivity and remarkable achievement in the institutional front. The incidence of financial exclusion is not so acute in the developed pockets of West Bengal. More than forty eight per cent (48.50%) of farmers borrow from formal sources of finance comprising commercial banks and cooperatives. The percentage of borrowers is the highest in the case of semi medium category of farmers. This incidence of borrowing is an exception from the observations at all India level. NSSO (2003) study shows that the percentage of indebted farmers increases with the size of landholding. However, in addition to formal financial institutions, farmers take recourse to informal lenders as well. The dependence on informal sources of finance is more intense in the underdeveloped block and more so for marginal farmers. Almost 54 per cent farm households depend partly or fully on informal lenders. Marginal farmers of the unirrigated region depend fully on informal finance to meet their credit requirements.

(2) The low dependence of cultivators on moneylenders or traders is due to the existence of well functioning Primary Agricultural Cooperative Societies in Bardhaman region. But these cooperative societies are conspicuous by their absence in Baruipur region of South 24 Parganas district. Hence, the poor farmers in this region are vulnerable to the exploitation of informal credit market in the face of volatile product prices and rising cost structure of production. However, the situation is not very rosy as it seems in either of the regions. It has been seen from the study that the amount of loan per borrower and per acre
is quite low for poor farmers compared to their relatively rich counterparts. It has also been found that the share of formal loan to total loan is the highest for medium farmers. The study also finds that per acre formal loan is also the highest for medium farmers. Hence, it can be commented that in spite of some serious attempts, the lower economic classes like small and marginal farmers in the advanced regions and all categories of farmers in the backward regions bear definite evidences of inaccessibility to institutional credit.

(3) In rural West Bengal, different groups of lenders operate in the informal credit market. Among the informal lenders, input sellers cum shopkeepers and traders are the most important sources of informal finance. The main objective of their lending activities is to run their trading business which is possible if cultivators of their locality can continue production and keep on cultivating their land. This is one of the probable reasons for which the input sellers or traders charge comparatively moderate rate of interest. In contrast, money lenders charge a high rate of interest and lend against collateral. Many a times the borrowers cannot repay the loan because of high interest payment and consequently lose their collateral.

(4) A comparative analysis of irrigated and the unirrigated areas shows that per acre formal loan is much higher for all categories of farmers in the developed/irrigated region. Because of the presence of cooperatives and because of Self Help Group intervention in the developed region, the incidence of per acre disbursement of formal credit is better here. The recovery or repayment is better in the case of loans provided by cooperatives. Sarkar (1999) observes that the recovery rate in the cooperative sector is better as these societies provide timely credit before the sowing began.
(5) Decomposing the sources of loan into formal and informal categories the study finds that production and investment purpose loans are mainly taken from formal sources. It has been found in the study that in West Bengal, the demand for production credit is the highest for small categories of farmers. This finding is in conformity with the findings of others’ observations (Khasnobis, 2003) that in West Bengal small farms are productive and competent. Informal lenders also provide loan for production purposes. In addition to production loans they provide consumption loan. So, there is segmentation in the credit market of rural Bengal as two different sources of credit exist for two different purpose loan. This finding has been corroborated by the studies of Bhaumik and Rahim (2004).

(6) One of the important findings of the study which needs to be mentioned is that all categories of farmers (of landholding size, up to 5 acres) in the underdeveloped Baruipur block depend on informal sources of loan for medical purpose which is very much inelastic in nature. In the developed Bardhaman block, only submarginal and marginal farmers depend on informal sources for medical purpose loan. Hence, the intensity of vulnerability of farmers to exploitative sources of loan is more in Baruipur region than Bardhaman.

(7) It is also worth noting that majority of the farming community in the developed region takes loan for investment purposes whereas in the underdeveloped regions only the relatively better off farmers demand credit for investment purposes. It is likely that infrastructural facilities like irrigation, availability of pump sets, better marketing and road conditions encourage farmers of the developed region to invest in farming.

(8) One of the important findings of our study is that input sellers cum shopkeepers prefer marginal and small farmers whereas village money lenders prefer medium and
semimedium farmers. The terms and conditions of the loans provided by the input sellers are relatively less exploitative and in most of the cases against standing crops in stead of land or other types of collateral. Hence, usually farmers repay loan after the harvest and do not lose their security.

(9) It has been attempted to find out the determinants of the volume of formal loan and probability of access to formal loan in West Bengal. The determining factors affecting the amount of formal loan issued has been estimated through a multiple regression analysis. To identify the factors affecting the possibility of access to formal finance, certain parameters have been estimated through a logit regression analysis. An attempt has also been made to understand the difference in the probability of access to formal credit agencies in the irrigated and unirrigated regions.

It has been found that size of landholding possessed by the borrower affects volume of credit very significantly. In addition to this, households with higher level of education, higher per acre cost indicating use of modern technology obtain larger amount of loan. On the other hand, the amount of loan issued by formal credit agencies is adversely affected by bigger family size and higher overdue of the borrowers. The higher percentage of irrigated land to total land in the possession of a household has a positive impact on the amount of formal loan.

(10) There is a number of factors which increases the possibility of access to formal finance whereas, their absence, prevent farmers accessing formal financial institutions.

First, collateral based lending policy of the formal sector is unfavorable to the small and marginal farmers because one has to approach for the formal loans
with marketable assets but the poor farmers do not possess it. Land is the only acceptable form of collateral in the formal credit market. This has the implication that farmers having land approach formal credit agencies whereas those who do not have land approach informal lenders.

Similarly, households having higher education, possessing assets, have a higher possibility of obtaining formal loan. The households with overdue or having past loans as outstanding and with bigger family size are in a disadvantageous position to get formal loans. The households with higher per acre cost indicating adoption of modern technology of production by them have a higher probability of getting loan from the formal sector. It has also been found that households of the irrigated zone have a higher probability of access to formal credit agencies than the households of the unirrigated zone.

(11) In the case of formal loan in rural Bengal, a household has to wait for a month or so to get loan whereas in the informal credit market, loan is available instantaneously. In the informal credit market, although standing crops, family labour etc. are accepted as collateral but they are undervalued to a great extent.

(12) Although the associated transaction costs of borrowing from the formal sources are not high in our study region still these costs increase with the decrease in land holding size meaning more formalities and delays in sanctioning and delivering a loan for poor farmers compared to those for the medium and semimedium farmers.

The political connection and triadic influence may prompt the officials to disburse loans for large farmers rather than for small farmers. Hence even the
cooperatives, where the representatives are mainly from relatively better off farm households, discriminate against the small and marginal farmers and take longer time to disburse loan to them.

(13) The rate of interest charged for informal loan is much high compared to that charged for the formal loan. However, a look at the percentage of defaulters belonging to different categories, show that the respective share is maximum for medium farmers.

(14) Credit gap has been measured to find out the proportion of potential requirements of production credit met by formal sources of finance. It has been found that only 21 per cent of potential credit needs are met by institutional sources of finance. Severe regional disparity is also observed so far as credit gap is concerned. Around 30 per cent of credit needs of small farmers (holding size of less than 5 acres) are met by formal finance in the developed area but only 10 per cent of potential production credit needs are met in the underdeveloped area.

(15) Interlinked transactions exist between credit with output and with other input markets in both the developed and underdeveloped regions. However, interlinkage is more prevalent among submarginal, marginal and small categories of farmers in the underdeveloped regions of the study area than the developed regions. This finding is in contrast with the findings of other studies (Sarap 1991) where it had been found that interlinkage is more prevalent in the developed regions. In our study area, it has been found that medium and semimedium farmers do not enter into any interlocked transactions. The average effective rate of interest is high in the underdeveloped Baruipur region than Bardhaman region.
in the linked credit market. An identification of households going in for interlinkage, in general, and of specific type of interlinkage, in particular, has been done for the study villages.

(16) Micro finance institutions have been able to improve the standard of living of its members. We have analysed three situations where loan has been provided by banks, informal lenders and Self Help Group. It has been found through a case study that there has been an improvement in mean savings, value of assets, increased percentage of persons having improved level of savings through SHG intervention. The dependence of borrowing has also been reduced.

8.5. Policy Implications

There has been a large scale widening of institutional credit network for agriculture. However, agricultural credit still suffers from some serious bottlenecks both on demand side and supply side. On the supply side, agricultural credit, especially the long term credit, suffer from high risk, high supervision and monitoring costs and low profitability. But an unhindered flow of investment credit to agriculture is required to bring in technological improvements, building of infrastructure like irrigation etc., purchasing of agricultural implements, land improvements. On the demand side the flow of agricultural credit faces hindrances from the fact that small and marginal farmers borrow mainly for short term purposes to purchase input, fertilizers, pesticides and for other immediate production needs. A host of other factors like lack of awareness, lack of credit worthiness of small farmers, lack of marketable collaterals are associated with small but easy loans required by small and marginal farmers. Policy may be directed to cater to these requirements.
Secondly, the cooperatives may be revamped in our study villages of the underdeveloped region, which have virtually become non functional. In this context, it is important to remember the suggestions of the Vaidyanathan Committee that recapitalization of cooperatives can be undertaken so that the credit channels for agriculture may be smoothened. The farmers belonging to poorer strata should get membership of these cooperatives to facilitate allocation of funds to poor farmers. It is also worth mentioning that although in the developed regions, cooperatives are a major source of loan, the members of the cooperatives are mainly from affluent families and higher economic strata. This fact inhibits the flow of formal finance to poor farmers.

Thirdly, it is well known that marginal and small farmers are compelled to sell their produce after the harvest at low price. In the interlinked market, they sell to the informal lenders even at less than the market price. Under these circumstances, formal financial institutions can come forward to lend against the produce stored by the farmers. This can prevent distress sale by farmers.

Fourthly, input supply centres and regulated markets may be extended to ease the marketing of agricultural production. In the absence of regulated markets farmers are compelled to sell their produce at a price lower than the market price to informal lenders like traders or aratdars. The regulated markets can improve the bargaining power of small and marginal farmers.

Fifthly, credit policies should be based on the credit needs of poor farming community. In addition to production purpose, consumption, education and medical purpose loan may be provided to reduce the dependence of farming community on interlinked market and on informal finance.
Finally, Micro finance institutions can go a long way in reducing the dependence on informal finance through group lending. The SHG- bank linkage can improve the recovery rate and reduce transaction and monitoring cost to a great extent.

In the developed regions of West Bengal, the situation is better. Because of well developed irrigation facilities, availability of electricity etc., farmers are able to use pump sets and other sophisticated agricultural implements and thereby to enhance surplus production and cropping intensity. Enhanced agricultural production in the developed regions leads to better financial position and higher marketable assets of farmers and resultingly more accessibility to formal financial sources of credit. However, it has been observed that only widening of banking network and creation of credit facilities cannot solve the problem of abject poverty of the farm households. So, an integrated approach is required to increase farm income, reduce farmers dependence on exploitative informal lenders and save them from their debt trap. Infrastructural facilities like irrigation etc. need to be developed along with extending credit facilities so that cropping intensity can be increased in the underdeveloped regions.