CHAPTER-VIII

LEVEL OF FARM OPERATIONS AND PARTICIPATION BY FINANCIAL INSTITUTIONS

8.1. SIGNIFICANCE OF INSTITUTIONAL CREDIT FOR AGRICULTURAL PERFORMANCE

The analysis in chapter VII reveals the positive impact of access to institutional credit on farm investment among sample farmers. The impact of the factor on use of productivity increasing inputs and practices like HYV seeds, fertilizers and multiple cropping is however apparently not significant. But since greater farm investment opens up possibility of adoption of better farming methods, including the inputs and practices just mentioned, importance of availability of institutional credit for higher level of performance by farmers has been established. It is therefore hardly surprising that the average yield of the main crop rice is much higher at 2451.66 kg/ha in case of those sample farmers who have borrowed from financial institutions than the average of 2055 kg/ha for the rest of the sample farmers.

To further reiterate this finding, a comparison between two blocks, one having a relatively large number of borrowers and the other having fewer number of such borrowers has been carried out. The blocks chosen were Mayong in Morigaon district (90% borrowers from financial institutions) and Khagarijan in Nagaon district (37.5% borrowers from financial institutions). The comparative picture is presented in Table 8.1.
Table 8.1

Level of Agricultural Operations in Mayong and Khagarijan Blocks

<table>
<thead>
<tr>
<th>Sl. no</th>
<th>Factors</th>
<th>Mayong</th>
<th>Khagarijan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No of farms having irrigation</td>
<td>28</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Percentage of farms having irrigation to total number of farms</td>
<td>71.79%</td>
<td>7.69%</td>
</tr>
<tr>
<td></td>
<td>Percentage of irrigated area to GCA</td>
<td>30.45%</td>
<td>1.47%</td>
</tr>
<tr>
<td>2</td>
<td>No of farms using HYV seeds</td>
<td>26</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>Percentage of farms using HYV seeds to total number of farms</td>
<td>66.67%</td>
<td>46.15%</td>
</tr>
<tr>
<td></td>
<td>Percentage of HYV rice area to total rice area</td>
<td>37.18%</td>
<td>16.16%</td>
</tr>
<tr>
<td>3</td>
<td>Cropping intensity</td>
<td>120.06%</td>
<td>110.42%</td>
</tr>
<tr>
<td>4</td>
<td>Expenditure on fertilizers (in Rs per hectare of GCA)</td>
<td>272.22</td>
<td>119.36</td>
</tr>
<tr>
<td>5</td>
<td>No of farms using farm machinery</td>
<td>38</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Percentage of farms using farm machinery to total farms</td>
<td>97%</td>
<td>5%</td>
</tr>
<tr>
<td>6</td>
<td>No of tenant farmers</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Percentage of tenant farmers to total farmers</td>
<td>12.82%</td>
<td>33.33%</td>
</tr>
<tr>
<td>7</td>
<td>Rice yield (in kg/ha)*</td>
<td>2710.87</td>
<td>1799.83</td>
</tr>
<tr>
<td>8</td>
<td>Wheat yield (in kg/ha)*</td>
<td>2116.41</td>
<td>1007.34</td>
</tr>
<tr>
<td>9</td>
<td>Investment expenditure (in Rs per hectare of operational holding)**</td>
<td>2592.88</td>
<td>1481.50</td>
</tr>
<tr>
<td>10</td>
<td>No of borrowers from Financial Institutions (FIs)</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Percentage of borrowers from FIs to total borrowers</td>
<td>90%</td>
<td>37.5%</td>
</tr>
<tr>
<td>11</td>
<td>No of borrowers from non institutional sources</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Percentage of non-institutional borrowers to total borrowers</td>
<td>10%</td>
<td>50%</td>
</tr>
<tr>
<td>12</td>
<td>No of borrowers (Institutional &amp; non-institutional)</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>Percentage of institutional &amp; non-institutional borrowers to total farmers</td>
<td>51.28%</td>
<td>41.03%</td>
</tr>
</tbody>
</table>

* during reference year of sample study

** at 1980-81 prices
It is seen from the above table that in case of all the factors which influence farm productivity, Mayong block is at a far better level in comparison to Khagarijan block. It has been found that while percentage of irrigated farms in Mayong is 71.79%, it is only 7.69% in Khagarijan. Comparisons related to application of improved farming practices like adoption of high yielding varieties, fertilizers and increase in cropping intensity also shows vast differences in the two blocks. In Mayong, HYV rice area to total rice area is 37.18% while it is only 16.16% in Khagarijan, fertilizer usage is far higher in Mayong and in case of cropping intensity, it is 120.06% in Mayong while it is 110.42% in Khagarijan. These differences are reflected in the yield rates of the main crop i.e. rice which has recorded a high of 2710.87 kg/ha in Mayong while it has recorded only 1799.83 kg/ha in Khagarijan.

It is clear from the table itself that the higher agricultural performance by sample farmers in Mayong has been helped by higher level of farm investment taken up by farms there, which was facilitated by greater deployment of credit by financial institutions there. This can be attributed to better institutional credit accessibility in Mayong. Though the percentage of borrower farmers to total sample farmers is 51.28% in Mayong and it is 41.03% in Khagarijan, the percentage of institutional borrowers to total borrowers is as high as 90% in Mayong while it is a mere 37.5% in Khagarijan.

To get a more rigorous and in-depth insight into this finding, regression analysis to see the influence of various factors like size of operational holding, percentage of tenancy, area irrigated, flood proneness and access to institutional and non-institutional sources of credit on investment per hectare in the farm-households in the two blocks have been worked out. The results which have
been presented in Appendix-1, indicates that while institutional credit has a
highly significant impact on investment in Mayong block, it has no significant
role on farm investment in Khagarijan block. This reiterates that farm
investment which has played a crucial role in augmenting agricultural
performance of farm-households in Mayong block, is suitably influenced by the
provision of institutional credit.

8.2. LEVEL OF PARTICIPATION OF FINANCIAL INSTITUTIONS

The above analysis shows that participation of financial institutions is essential
for undertaking farm investment. But it is seen from the field study that the
participation level is quite low, not very high.

As mentioned earlier, only 31.28% of the sample farmers have borrowed from
institutional sources while 68.72% have not borrowed institutional finance. The
repayment pattern of these institutional borrower farmers indicates that 52.46%
have repaid, 22.95% have partly repaid and 24.59% have not repaid agricultural
loans taken from the financial institutions.

The rest of the sample farmers i.e. 134 (68.72%) have not borrowed institutional
finance. Out of these 134 sample farmers, 25 (18.66%) borrow from non-
institutional sources, mainly friends and relatives and in a few cases, from
moneylenders. Finally, out of the remaining 109 sample farmers who are
neither borrowers from institutional or non-institutional sources, 60 (i.e. 55%)
are keen to avail credit from the financial institutions as in the near future for
making improvements on the farm and to acquire capital assets, which, they
feel would raise productivity levels on their farms. On the other hand, the
remaining 45% are quite content with their present level of farming and would not like to make any improvements with the help of borrowed finance. This could be related to the fact that some of the fellow farmers in the sample area have experienced major constraints in obtaining the much needed finance from the financial institutions.

8.3. FACTORS BEHIND LOW LEVEL OF PARTICIPATION BY FINANCIAL INSTITUTIONS

For identification of factors behind low level of participation by financial institutions, two sets of inputs have been analysed. First, inputs gathered from a sample of bank branches operating in the blocks covered in the field study have been analysed. Secondly, a closer look was taken at individual cases of a handful of selected farmers.

8.3.1. Inputs from Financial Institutions

Inputs were gathered from 10 branches comprising 20% of total number of branches operating in the blocks covered in the field study. 70% of the sample comprised of branches of Regional Rural Bank and the remaining 30% comprised of commercial bank branches and co-operatives.

It is observed that bank finance in the sample area has flown to the medium sized farmer with land holdings between 2-5 hectares. Of the total credit flow, medium and term credit (for power tillers and plough animals) takes 72.07% of the share while the share of short-term credit, mainly for the rabi crop, is only 27.93%.
All the bank branches have stated that since recovery of agricultural loans are poor and so they have been compelled to restrict sanction of the same. Restrictions in case of the number of loans sanctioned implies that the needs of many agriculturists

Only in the case of two branches, they have reported that their recovery of agricultural loans has been satisfactory. This is because one of these branches located in Khagarijan block is a semi-urban branch in which loans have mainly been advanced to the allied and non-farm sector rather than agriculture proper. On the other hand, the other branch located in Mayong block has reported that cultivation of HYVs, crop diversification, etc in the area has raised productivity levels and has helped farmers in repaying loans along with the banks own efforts at maintaining personal contact with borrowers very frequently to ensure recovery. This fact has also been verified from the borrowers side also because out of the total number of institutional borrowers in Mayong block, 94% have duly repaid credit taken for agricultural purposes. Thus this branch represents an exception from the usual pattern.

The data collected from the bank branches indicates that each rural branch on an average covers around 20-25 villages with population ranging from 12,000-50,000 in their service areas. To efficiently provide and cater to the needs of such a large population with limited manpower in the rural branches is no mean task.

The major problems that financial institutions face in recovering agricultural loans as cited by the sample branches are listed as follows-
a) Willful defaulting by borrowers, wrongly influenced by Agricultural Debt Relief Scheme (ARDR, 90') scheme of 1990.

b) Lack of proper communication between villages in service area of branches; made almost inaccessible for field visits during the monsoons.

c) Shortage of adequate manpower in the rural branches.

d) Lack of proper co-ordination and co-operation amongst government, bank and other concerned agencies for a cohesive effort at recovery, adequate changes in existing laws to boost recovery, personal contact and pursuance with borrowers, etc.

e) Inability of the loanees to repay because of diversion of credit amounts for unproductive or consumption purposes.

f) Improper selection of borrowers. Branches lack the services of personnel with agricultural background for proper guidance in matters relating to sanctioning of agricultural loans.

Though bankers sight default as the main factor eroding their capacity to extend credit to the agriculture sector, our findings in the field study indicate that the default factor is sometimes overemphasized. As reported earlier, 52.46% of sample farmers who borrow from institutions have repaid and another 23% have also repaid partly and only a quarter of the borrower sample farmers have not repaid. Nonetheless, it is worthwhile to examine the factors which influence a section of borrowing farmers not to repay. The following review of cases may be instructive in this context.
8.3.2. Case Studies of Selected Sample Farmers with Experience of dealing with Credit Institutions

Case 1

Farmer 'A' has a land holding of size 1.74 hectares i.e. he falls in the small size group. Besides cultivation, which is his primary occupation, he also deals in small business or trade. Paddy is the main crop cultivated and mustard is cultivated in 0.13 hectares of land. He does not use high yielding variety seeds (HYV's) and has no means to irrigate his fields, and cultivates entirely under rainfed conditions. He has a cropping intensity of 100% and gets a rice yield of 1,863.30 kg/ha.

This farmer had taken a bank loan of Rs.12,500/- in 1997, for purchasing a pair of bullocks and a cart at 12.25% rate of interest per annum repayable for over a period of three years. He has reported that he had to pay bribes amounting to Rs.2000/- to secure the loan. The time taken by the bank to disburse the loan was more than six months from the date of submission of the loan application. So far, he has repaid only Rs 4,500/-. He has reported inability to pay the rest.

In the light of these facts, institutional delays and alleged corruption have been major constraints faced by this farmer in procuring the bank loan. Though he has to pay 12.25% interest on Rs.12,500/-, he received only Rs.10.500/-after paying bribes. So his actual interest burden is much higher i.e. around 14.58%. But, his inability to repay the full amount of the loan borrowed rests on the fact that he has not been able to get the expected yield from his crop to earn him enough income to enable him to pay the overdue amount of the loan. Had the
farmer kept the bribe amount of Rs.2000.00 even in a savings account, interest earnings on it would have earned him an amount of Rs.90.00 in six months and Rs.270.00 in the entire loan repayment period of 3 years.

He has stated that his immediate requirement is a pump-set for irrigating his fields to increase productivity level on his farm. But bitter about the unpleasant experience he had faced in his dealings with the bank while procuring the loan for the pair of bullocks and cart, he is hesitant about approaching such credit institutions again.

Case 2

Farmer B has a land holding size of 2.55 hectares. Besides paddy, which is the main crop, he also cultivates jute, sugarcane, mustard and vegetables. With a cropping intensity of 150%, without the use of HYV’s and irrigation, he gets a rice yield of 4134.98 kg/ha.

This farmer had taken a crop loan of Rs.3,326 at 12.25% rate of interest per annum for ‘Ahu’ crop from the bank for a period of 8 months. He has been able to repay only Rs. 700.00 so far. He had to pay bribes referred to as ‘advance money’ to the bank to secure the loan. The time taken from receiving the loan application to final receipt of the loan amount took three months. So the loan money had to be diverted to other purposes rather than for meeting working capital expenses of the early ‘Ahu’ crop. The farmer, offended at having to pay bribes for a simple crop loan is adamant about not repaying the outstanding amount. He is not bothered to be termed as a defaulter and he refers to the
government's agricultural loan waiver scheme of 1990 and treats the loan taken to be a grant, which he strongly asserts that he does not have to repay.

Though land holding size and in terms of agricultural performance, this farmer is in a better position than the one in case 1, yet there is no inclination to repay loans.

This farmer requires finance to buy a pump-set and to undertake some land improvement measures but is not prepared to approach the financial institutions for the same because of the unpleasant experience faced earlier. The common factor with case 1 is having to pay bribes for availing the loan but the government's loan waiver policy is an added incentive.

Case 3

Farmer C has an operational holding size of 3.89 hectares. He cultivates only paddy on 4.15 hectares. He has a cropping intensity of 107% and gets a rice yield of 1785.79 kg/ha.

This farmer had taken a loan of Rs.6,000/- for a pair of bullocks in 1992 from the GPSS (Gaon Panchayat Samabai Samiti i.e. primary agricultural co-operative society). He has reported that he had to pay bribe money amounting to Rs.1,500/- to procure the loan. He has not repaid the loan. This farmer is a defaulter but as he reports, he feels that by not repaying, he is paying the concerned officials in their own coin for taking bribes from him.
Though dissatisfied with his experience with the GPSS, yet this farmer is trying to procure a term loan from a commercial bank for fishery, on subsidy through the District Rural Development Authority (DRDA) which selects beneficiaries for loans under schematic lending of the banks. But, in this case too, he is facing a number of constraints viz., numerous visits to the DRDA office connected with furnishing of various documents related primarily to land, etc and the monetary demands made by the dealing officials. Since he has been unable to overcome these constraints, his loan application has not been forwarded to the concerned bank by the DRDA office.

Case 4

Farmer D has a land holding size of 0.87 hectares. He mainly cultivates paddy on 0.74 hectares, of which 0.07 hectares is under HYV’s of paddy and on 0.13 hectares, he cultivates mustard. He has a cropping intensity of 100% and gets a rice yield of 2074.68 kg/ha. Besides cultivation, he is also involved in small trade.

This farmer had taken a loan amount of Rs.16,000/- (at 12.25% rate of interest per annum) for a pair of bullocks and cart in 1996 repayable over a period of 5 years from the bank through the District Rural Development Authority. The loan carried a subsidy amount of Rs.4,000/- or 25% of the total loan amount. The farmer has only repaid Rs.5,600/- and has to pay back Rs.7,250/-. To secure this loan, the farmer reports that he had to spend around Rs.1,000/- on bribes and transaction costs incurred in repeated visits to the DRDA office and the concerned bank.
Though dejected with such discrepancies in the credit supply mechanism, the farmer nevertheless states that he would repay the outstanding amount of the loan as soon as possible but would never again make the mistake of approaching the financial institutions for finance to meet farm requirements in the future.

Case 5

Farmer E has an operational holding size of 2.95 hectares. He cultivates only paddy, which gives him a rice yield of 1864.73 kg/ha. He cultivates HYV’s of paddy in only 0.67 hectares and has a cropping intensity of 100%.

This farmer had tried to avail a loan of Rs 80,000/- for a power tiller from the bank by forwarding his loan application through the District Rural Development Authority but had to pay bribes amounting to Rs 30,000/- in advance for it and till date he has not received the loan.

He is so dejected with the lending authorities that he is certain that it is near to impossible to get such term loans without facing any undue hassles from the financial institutions.

Case 6

Farmer F has an operational holding size of 0.94 hectares, in which paddy is the main crop cultivated on 0.93 hectares along with potato and vegetables on 0.20 hectares. He has a cropping intensity of 120% and gets a rice yield of 1486.52
kg/ha. He cultivates HYV rice on 0.13 hectares. Besides cultivation, the farmer is also engaged in service.

This farmer had applied for a bank loan of Rs.15,000/- for a pump-set. He had applied for the loan on 18.08.98 and till 30.09.98, he had spent more than Rs.1,000/- as bribes and other transaction costs. He is of the opinion that by the time he receives the loan amount, he would have to finally spend around Rs.6,000/- or so on bribes and other overhead costs and this amount when deducted from the actual loan amount of Rs.15,000/- would leave him with only Rs.9,000/-. This amount would not be sufficient for fulfilling his investment requirement for a capital asset such as a pump-set. So, he is on the verge of giving up hope of securing the loan.

The farmer therefore feels that it merely a waste of time and hard-earned money in approaching financial institutions for credit required to increase farm productivity.

Case 7

Farmer G has an operational holding size of 2.68 hectares. Paddy is the main crop cultivated on 3.09 hectares along with mustard on 0.27 hectares. He has a cropping intensity of 125 % and gets a rice yield of 1780.93 kg/ha. He has 0.27 hectares of irrigated land.

This farmer had earlier taken a crop loan of Rs.4000/- from the bank at the interest of 10% per annum which he duly repaid. He had procured the loan
from the nearest Regional Rural Bank branch without facing any undue hassles from the concerned authorities. At present, he reports that he wants to take a loan for a pump-set so that he can bring more area under irrigation. He is trying to procure such a loan on subsidy through the District Rural Development Authority (DRDA). So far he has paid numerous visits to the DRDA office but because of his inability to satisfy their pecuniary demands, his application has not been forwarded to the concerned bank.

With high transaction costs incurred and the additional burden of bribing the DRDA officials, the question of 50% subsidy becomes quite irrelevant in such cases.

Case 8

Farmer H, who is primarily occupied with cultivation, has a land holding size of 3.35 hectares. His main crop is paddy, which he cultivates on 3.48 hectares. Wheat is also cultivated on 0.27 ha, jute on 0.13 ha and mustard on 0.27 ha. He has a cropping intensity of 123% and gets a rice yield of 2080 kg/ha.

This farmer wants to purchase a pump-set to irrigate his entire cultivated area. He also wants to purchase a power tiller. Since he is not able to invest on these assets from his own resources, he wants to take credit from the bank to purchase the same. He is hesitant because, on approaching the concerned bank, he has been informed that for a loan of Rs. 1,00,000/- he has to pay bribes amounting to Rs.25,000/- to Rs.30,000/- to the lending authorities.
Case 9

Farmer I has a land holding size of 1.34 hectares. He cultivates only paddy. On 1.21 hectares, he cultivates traditional varieties of paddy and on 0.40 hectares, he cultivates HYV’s of paddy like ‘Ranjit’ and ‘Mahsuri’. He has a cropping intensity of 120% and gets a crop yield of 1761.34 kg/ha.

This farmer had taken a bank loan of Rs.2,500/- at 10% rate of interest per annum in 1997 to buy a pair of bullocks. He dutifully repaid the entire sum within a period of four months. At present, he wants to procure a bank loan of Rs.12,000/- to buy a pump-set. On approaching the concerned bank, he has been asked to pay bribes amounting to Rs.4,000/- by the concerned bank officials. Completely disillusioned with the attitude of the banking authorities, this farmer is at present hesitant about applying for the loan.

Broad Inference from the Case Studies

Farmers included for case studies comprise of willful defaulters (case 1 to 4), loan applicants who have faced difficulty in getting sanctions (case 5 & 6) and also farmers who have good repayment records but are facing problems in procuring more credit (cases 7 to 9). The conclusion that can be drawn from the observations recorded above are as follows:

- Corruption and other transaction cost raises the cost of credit and reduces ability to repay.
- The problem is more acute in case of schematic lending. In case of such loans given under directed credit schemes, various anomalies occur at the block level itself where beneficiaries of such loans are
selected after the pecuniary demands of the dealing government officials at the block level are met with.

- Bank officials who have taken bribes to sanction and disburse loans lose moral authority to enforce repayment. Farmer's awareness of the fact acts as an incentive to default.
- The government's loan waiver policy of 1990 has created expectation of similar waiving in the future and created disinterest for repayment.

8.3.3. Conclusion

From the facts gathered from the field study, it is obvious that there exists a downward spiral, where corruption and high transaction costs leads to a decrease in ability and in the incentive to repay. This leads to default which affects a fall in the credit deployed by the financial institutions and hence inadequate participation by the financial institutions which leads to stagnation of farm investment and restraint on farm operations.

But, nevertheless, the scope for a virtual cycle also exists as the one in Mayong block where credit deployed by the financial institutions leads to better utilization and co-ordination of efforts by farmers which leads to better farming operations resulting in increase in agricultural performance leading to prompt repayment of credit and hence better recycling of credit.
8.4. SUMMARY OF FINDINGS

- Institutional credit positively influences investment which positively influences agricultural performance in farm-households.
- The participation of credit institutions is insufficient, particularly in case of crop loans.
- Bank branches state that default is high due to-
  a) Willful defaulting by borrowers
  b) Lack of proper communication between villages in service area of branches, made almost inaccessible for field visits for recovery during the monsoons.
  b) Shortage of adequate manpower in the rural branches for effective recovery.
  c) Lack of proper co-ordination and co-operation amongst government, bank and other concerned agencies for a co-hesive effort at recovery, adequate changes in existing laws to boost recovery, personal contact and pursuance with borrowers, etc.
  d) Diversion of credit amounts for unproductive or consumption purposes.
  e) Improper selection of borrowers. Branches lack the services of personnel with agricultural background for proper guidance in matters relating to sanctioning of agricultural loans.

The farmers point of view is that default is due to high transaction costs and corruption incurred while availing the loan from the financial institutions.
A Vicious circle exists where corruption and high transaction costs decreases the ability to repay which leads to default and a fall in credit deployed and this ultimately leads to stagnation and restraint on farm operations.

As an exception to the vicious circle, a virtuous circle as the one in Mayong block also exists where credit deployed by the financial institutions is properly utilized for better farming operations by farmers which leads to good repayment and hence more credit is deployed and so on. Therefore, this shows that things can happen in the right manner also.