Chapter-VII

PROBLEMS OF
AGRICULTURAL FINANCING
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This chapter is divided into three sections. Section one discusses the general problems faced by banks in agricultural financing. Section two throws light on some of the problems faced by selected commercial banks in financing agriculture. The third section deals with the problems faced by farmers in the selected villages while obtaining finance.

Section-I

General Problems Faced by Banks in Agricultural Financing

The crux of the problem of the rural finance is not the inherent unsuitability of the commercial banks, but the weakness of the rural economy characterised by low agricultural productivity, under-employment and the consequent poverty of the people. Credit institutions, whether co-operatives or commercial banks, are not charitable institutions. They can give credit only to those who can repay it. But a majority of the rural people do not come under this category, because of non-viability of their household economy, i.e., inadequacy of their total family income to maintain the standard of living even at the
customary cultural level. Such households include small cultivators, tenants, landless labourers, artisans and craftsmen. The basic problem of these households is not mere finance, but underemployment and low income. The ultimate solution for their problem lies in the overall development of the rural economy and in orienting the rural credit system to the needs of such development.

Most of the small farmers are not in a position to distinguish between capital and borrowing or between investment and consumption. Under such circumstances, if they do not have access to the inputs at the time when money in the form of credit is available, it is most likely to be diverted for consumption and other non-productive purposes. Their individual demands for inputs being small, they are either ignored by the inputs dealers or are cheated. As a result, they are unable to use the credit effectively and productively. Besides these, there are some additional problems, e.g.,

i Lack of absorbing capacity for the available credit,
ii Low level of entrepreneurial stakes in the projects, and
iii Lack of managerial skills, etc.

The use of credit involves a certain degree of risks to both the borrower and the lender. No matter how carefully a loan is considered, the element of risk cannot be entirely eliminated. Sometimes, unfavourable weather or attack of
pests results in crop failures, or diseases destroy livestock. Sometimes, prices of particular farm products decline, resulting in lower than expected farm income. Illness in the family may create unusually heavy expenses. Thus, it is risky on the part of the banking institutions to extend loan and other services to farmers.

Risks can be minimized by observing sound principles such as good farm management and the observance of sound credit principles can reduce risks to a minimum. When a borrower borrows money, he should make sure that it is (1) for purposes that will result in either increased income or some other benefit (2) for amounts that can be repaid from farm income after allowing a reasonable margin for uncertainties and (3) on terms that will permit repayment at the time farm income is available.

Some of the specific and serious problems of banks in financing agriculture as pointed out by various scholars and agencies like Pandey and Guglani¹, Rao and Ramana,² Ramasamy and Meskel,³ Panthulu, Raju, Siddaiah and Lakshmi,⁴ Desai,⁵ World Bank,⁶ and several others are as follows:

(1) Organizational Problems:

The serious problem is the scarcity of adequately trained staff. The staff should know the local languages and different local backgrounds, traditions and culture of the people so that they would understand problems involved
and treat them sympathetically. Several schemes have been introduced to help the rural masses. They have to sanction a large number of small advances in their rural branches which are time consuming and manpower intensive and consequently a high cost proposition. Perhaps because of this the banks have been found reluctant in posting sufficient supervisory and other staff in rural branches. So there is bad supervision of rural advances. Besides this, the staff in rural branches of commercial banks lack sufficient motivation to work in the rural areas for various reasons.

2) Legal and Administrative Problem:

A number of legal and administrative problems continue to hinder the smooth flow of funds from commercial banks into the agricultural sector. For example, in many areas, particularly in zamindari areas, land records have not yet been completed satisfying all the legal requirements. In some states, titles of land are not very clear; some lands belong to the landlords and some are owned by the absentee landlords. The cultivators of such lands are the pure tenants.

3) Problem of Poor Profitability:

The overall profitability of the commercial banks has been under strain for some time due to the following reasons:
i Rise in the cost of deposits,
ii Declining yield on advances,
iii Rise in establishment expenses, and
iv Priority sector lendings.

Losses on account of rural business of commercial banks have been contributing to their overall losses. Low interest rates on agricultural advances, lendings under IRDP, relatively poor deposit mobilisation in rural branches, lower staff productivity, etc. have contributed to the poor profitability of rural business. As rural lending has been found contributing to losses compared to the rest of the business, necessitating cross subsidization, commercial banks have been reluctant to expand their rural business and post further staff to support these lendings.

Further, in many cases, even honest and fairly efficient farmers find it difficult to make regular payment of their dues because of wide fluctuations in prices of agricultural goods and precarious nature of agriculture which have direct bearing on the intensity of crops grown. This leads to an increase in the cost of providing finance to agriculture and consequent decrease in the profitability.

4) Environmental Problems:

A majority of the agriculturists are dependent upon the monsoon which is precarious. In other words, Indian
agriculture is exposed to vagaries of nature such as floods, droughts, hailstorms, conflagrations, locust attacks, etc. All these damage crops and cause endless losses to the cultivators. There is also dry farming over vast areas in most of the states. There is also by and large absence of allied economic activities which, even where they exist, are in extremely unsatisfactory conditions. Most of the cultivator families have hardly any assets and some of them are burdened with debts. So it is difficult to judge the credit worthiness and repaying capacity of the farmers.

5) Social and Political Problems:

Banks are like a tortoise that puts out its head only when there is peace and tranquility and withdraws it the moment there is the slightest disturbance. Commercial banks in India have to function in a social and political milieu which is not conducive always to it. Villages which are faction-ridden are arenas of party clashes and class and caste conflicts. Under such circumstances, commercial banks find it difficult to function efficiently.

A majority of peasants are small and marginal farmers or landless agricultural workers and mostly they belong to the so called backward classes. They are also illiterate and own hardly any assets.
6) Closed Economy:

Banking presupposes saving. Saving is possible when there is surplus. Villages of India where there is subsistence economy, where a vast majority of people are engaged in the relentless struggle of making both ends meet are hardly the places where banks can thrive. Further, there is lack of banking habit in rural areas. In many villages, consumption consists of local production though many developments have taken place in transport and communication in recent years. Barter system still prevails in many villages.

7) Problem of Monitoring Accounts:

While the banking system is poised for rapid expansion and extend to the agriculture sector, monitoring numerous accounts will pose one of the greatest challenges to the system. With the emphasis on more credit to small and marginal farmers, it is expected that the number of borrowers in the agricultural sector will be nearly 25 million by the end of 1993. Above all, these lending institutions are expected to extend loans to landless labour families. The monitoring of these accounts will be one of the formidable challenges posed to the banking system.
8) Problem of Working Hours:

At present almost all the rural financial institutions are working from 10.00 a.m. to 5.00 p.m. But most of the rural families are not free during this time. They will be busy in their agricultural activities during these hours. As a result, banking institutions are finding it very difficult to contact the farmers and discharge their duties. This would adversely affect the working of these institutions.

9) Problem of Expansion:

Before nationalisation, commercial banks were rather hesitant to enter the field of rural finance, but today they have gone ahead of co-operatives with regard to rural finance. One of the consequences of such rapid expansion has been the deterioration in the quality of lending. The deterioration was also due to heavy work-load of day-to-day office work. Without commensurate increase in the supporting staff. Some of the deficiencies in rural lending are:

1) Over-dependence on standard norms without adequate enquiry in individual cases,
2) Under-provision of production finance in support of investment finance,
3) Fixation of shorter repayment schedules than what is warranted, and
4) Lending under poverty alleviation programmes without assessing the realistic potential.

10) Lack of Integration between Credit and Marketing:

This problem of lack of integration between credit and marketing has become an obstacle in the way of timely lending and recovery of loans. A farmer should be given credit not only for raising the crops and developing land, but also for marketing the produce. This will fetch adequate and timely return from the farmer and will enhance their repaying capacity.

11) Credit Worthiness:

Credit worthiness is an important consideration in bank lending. It is an assessment of the borrower's capacity to fulfil the terms and conditions of a particular loan so that the safety of bank resources may be ensured in conformity with the banking rules. Banks find it difficult to provide large amounts of credit to farmers, partly because of the peculiar difficulties of assessing credit worthiness in agrarian sector.

12) Lack of up-to-date Land and other Property Records:

In order to provide loans on a wide scale, the banks require up-to-date information with regard to the farmer's assets and liabilities. The banks contact the offices
concerned for the information, but several times information is either delayed or not fully supplied.

From the above discussion, it is clear that generally rural banking institutions are finding all these difficulties in extending loans to farmers. Though the above-mentioned studies have highlighted some of the problems of rural commercial banking institutions, they have not been able to probe deep into the problems faced by the commercial banks in the process of extending credit. Hence, it is felt that there is a need for an in-depth study of the problems faced by commercial banks in financing agriculture. The foregoing discussion will show the various difficulties faced by selected commercial banks.

Section-II

Difficulties Faced by Selected Commercial Banks in Financing Agriculture:

In her field-work the present author tried to get information regarding difficulties faced by selected commercial banks in extending loans to rural families. The same field-work data have been used for the purpose of the present analysis. The difficulties as stated by the bank managers have been discussed in the following paragraphs. It must be noted here that these difficulties are not only economic in character but also social and legal in nature.
1) Non-availability of documents:

It can be said that availability of timely revenue records and other documents is the pre-condition for extending credit to the farm families. The non-availability of authentic documents is a peculiar problem in Goa state. This is mainly because of the existence of comunidade system and absentee landlord system in the selected villages. In addition to this, prior to 1961, authentic documents were not created. However, the State Government has undertaken effective steps for up-dating land records. But unfortunately work in this regard is unsatisfactory. As a result, many farm families are cultivating the land without having proper land rights and records. Moreover, many farmers are cultivating comunidade land and they lack incentive to work hard.

Commercial bank managers have pointed out the difficulties of farmer-borrower's problem in getting extracts from the revenue records to establish his ownership or tenancy rights in land. As a result, banks cannot process loan applications in the absence of these documents.

Two bank managers reported that due to non-supply of authentic documents, they did not extend long-term credit to four farmers during the survey year. These managers gave the following reasons for not extending credit to the applicants on their demand. They are: (1) Absence of
up-to-date records (2) Complete absence of records in case of tenancy (3) Unhelpful attitude of revenue officials (4) Illiteracy and ignorance on the part of the borrower (5) Non-availability of extension (6) Illegal transfers of land. It may be inferred from this analysis that the non-availability of revenue records and other documents is the main hurdle in extending loan to farmers.

2) Inadequate Infrastructure and Marketing Facilities:

Inadequate infrastructure, particularly roads, is a problem in implementing agricultural credit schemes particularly in hilly and other interior regions. It is disheartening to note that some hilly regions in the state are not connected to urban centres by surface roads. Out of the five bank managers, two said that they could not send their officers to interior villages for collecting information. This is not only because they have less staff but also because of inadequate transport facilities. Further, Goa state experiences heavy rainfall during the first two months of the rainy season. Sometimes, there is also the problem of water-logging on the road which means a standstill of transportation.

Besides this, marketing facilities are also inadequate in terms of availability of marketing yards, godowns and cold storage facilities for perishable commodities like milk, fish, meat, etc. In the absence of adequate marketing facilities agricultural borrowers do not get reasonable
prices. There is also inadequacy of marketing and warehousing facilities in the study area. As a result, farmers in this region are disposing their goods soon after harvest to local traders. All these factors adversely affect the lending and recovery of loans by commercial banks.

3) Inadequacy of Staff in Commercial Bank Branches:

One of the major problems faced by the selected commercial banks in financing agriculture is the inadequacy of staff. It is generally believed that in majority of the rural branches of the commercial banks, there is inadequacy of working staff. Out of the five selected bank branches, four bank managers have opined that there is a dearth of working staff in their respective branches. Further, it is also found from the present study that in two bank branches there is 50 per cent inadequacy of working staff.

It is also interesting to note that the selected commercial banks suffer from the paucity of trained and competent staff. These bank managers have complained that while implementing their agricultural credit schemes, they were handicapped by non-availability of trained and skilled staff. It is found from the present study that out of five bank branches, four banks do not have such workers.

The rural bank employees are also not sincere and regular in their work. It is found that of the total 57
banking staff, seven members were irregular in their duties as mentioned by the managers.

It was also observed that a majority of the bank employees did not stay in rural areas. It is found that only 13 bank employees resided in the villages.

4) Lack of Demand for Agricultural Credit:

The banking efficiency and profitability mainly depend on demand for credit. Another very important problem faced by selected commercial banks is that the demand for credit by the farm families is generally low. However, it is found from the present study that the demand for short and medium term credit is greater than the demand for long-term credit. As regards the factors responsible for the lack of demand for credit the following factors are mentioned by the selected bank managers.

The subsistence nature of the agriculturist is one of the reasons of low demand for agricultural credit. That is, the agriculturist is more or less satisfied with his low living standard and is not intelligent or ambitious enough to treat his farm as a commercial proposition which he can develop with loans from these banks. Most holdings are confined to a single crop. In such an agricultural set up credit cannot generate additional income. So the repayment becomes a difficult problem.
Technological backwardness of agriculture in the area of operation of these banks is another reason responsible for the low demand for agricultural credit. The area under High Yielding Varieties of paddy seeds is around 41 per cent. But the area under H.Y.V. of paddy seeds in case of small farmers in general is still lower. As regards fertilizers, in the case of most of the cultivators the use of the fertilizers was found to be less than prescribed. Limited use of non-traditional inputs reduces the cash expenses of the cultivators. In addition, it was also noted that many cultivators used the home-grown seeds of the High-Yielding Varieties, thus trying to save money on inputs. This reduces their requirement of cash expenses and hence demand for agricultural credit is low.

The small size of holdings is one more reason for the low demand for agricultural credit. The land holdings are very small in Goa.

According to the latest Agricultural Census, 78.59 per cent of holdings in Goa are less than 1 hectare, 12.93 per cent holdings between 1 and 2 hectares, 5.31 per cent holdings between 2 and 4 hectares, 2.5 per cent holdings were between 4 and 10 hectares and 0.67 per cent holdings of the size 10 hectares and above. This shows that there is a large number of small holdings in Goa State leaving very little scope for mechanisation, consequently, farmers' demand for agricultural credit is low.
Still other reasons for the low demand for agricultural credit are as follows: (i) Lack of irrigational facilities. (ii) Tendency of Goans to go abroad to earn more money. (iii) Availability of khazan and morod lands in which cultivation is not productive. (iv) People in Goa generally prefer to take up jobs outside the farm sector. (v) The shy nature of some farmers does not permit them to borrow from banks. (vi) Fear of imprisonment in case they fail to repay their dues. (vii) The proverbial easy-going style of the living of rural Goans is also another reason for the low demand for agricultural credit. Three bank managers pointed out that the demand for credit is low in their areas.

5) Special Difficulties in Providing Credit to Weaker Sections in Rural Areas:

It is found from the present study that the bank managers are facing some peculiar difficulties in extending credit to weaker sections in hilly and tribal areas. These difficulties are different from the difficulties discussed above. In hilly backward areas shifting cultivation is still practiced. It is painful to note that farmers in hilly regions are cultivating the land without land records, proper demarcation of land, infrastructure, planning, extension, credit, etc. Further, the bank managers have opined that a majority of hill area farmers have not heard about new credit schemes and extension facilities by commercial banks and other facilities extended by the
Government. The manager of the State Bank of India, Maxem complained that Loliem was a village in his jurisdiction where he had to deal with tribal and backward farmers.

6) The Problem of Recovery of Loans:

The situation is almost tragic. The farmers in general do not take loans to improve their agricultural income, but the few who do, do not repay the loans. Of all problems faced by the lenders, the most serious one is inadequate recovery of loans. The total overdues of all the selected banks has increased from Rs. 20,93,000 in 1986 to Rs. 40,74,000 in 1990. This has been discussed in detail in Chapter-VI.

All the five bank managers stated that very few farmers were regular repayers, whereas most of the borrowers did not pay their dues on time even when notices were sent to them by post and through the neighbours. These managers feel that the defaulters can pay if they are willing to do so. Some borrowers default not because of their poor repaying capacity but they do not want to pay their dues. Some others are misguided by the political leaders or wilful defaulters not to pay their dues. The recovery is very poor in case of the State Bank of India, Agonda. Even the other four banks are suffering from slow recovery and mounting overdues.
7) **Problem of Working Hours:**

Four out of five selected banks work from 10.00 a.m. to 5.00 p.m. Only one bank, i.e. Canara Bank, St.Cruz works from 9.00 a.m. to 1.00 p.m. and from 3.00 p.m. to 5.00 p.m. The managers stated that the farmers were busy with their work during the banking hours and found it difficult to contact them. Even if the banker makes it convenient to visit the beneficiaries, he cannot find the farmer in his house. This aggravates the mis-utilization and overdues problems of banks.

8) **Closed Economy:**

All the five bankers stressed this aspect of rural economy, especially in cases of tribal and weaker sections of the villages. Even with the pace of rapid economic development of the Goan economy, it is disappointing to note that rural masses are not very familiar with the banking habits. It was also mentioned by the bankers that some farmers were reluctant to come to banks either to deposit their money or to borrow from banks.

9) **Environmental Problems:**

As stated by the bank managers, the irrigated land in their area of operation was very low, i.e. 3.6 per cent. Further, heavy rains during the monsoon resulted in flooding of some of the lower regions which caused inconvenience to both bank officials and farmers.
10) Social and Political Problems:

The bankers in selected villages face social and political problems as in other parts of India. Problems relating to caste, religion, language, politics, group clashes, conflicts between native Goans and immigrants are quite common and as such they hinder the implementation of developmental projects and the process of development. All the five bank managers opined that there was lack of enlightened political leadership in Goa which was a serious obstacle in the smooth functioning of banking activities. It is worth mentioning here that Gunnar Myrdal very meaningfully called India a "Soft State". He writes, "The dichotomy between ideals and reality, and even between enacted legislation and implementation, should be seen against the background that India, like the other South Asian Countries, is a 'soft-state'. There is an unwillingness among the rulers to impose obligations on the governed and a corresponding unwillingness on their part to obey rules laid down by democratic procedures. The tendency is to use the carrot not the stick. The level of social discipline is low compared with all Western countries not to mention Communist countries. In India the "Soft-State" is often rationalised and even extolled by associating it with the Gandhian ideal that social reforms should be brought about by a change of heart, not by compulsion and violence".
Thus the politicians in Goa (as in other parts of India) use bank finance as a vote-catching device and pressurise the bankers to sanction loans for their friends and relatives. Further, during election campaign they promise farmers that if elected their government will give a debt relief to farmers and weaker sections. Thus, instead of helping banks, they create additional problems to banks.

11) Strong Competition from Other Banking Institutions:

The bankers also face tough competition from co-operative banking institutions. Even though the rate of interest on loans between co-operatives and selected commercial banks is the same, some farmers prefer co-operative banks, because they are familiar in the villages. Moreover, staff members in co-operative banks are local who can speak in Konkani, the regional language. They also understand farmers' problems and conditions better. Farmers feel at home and free with the staff of the co-operative banks. As a result, farmers go to co-operatives for borrowing.

In the matter of collection of deposits also, there is a severe and unhealthy competition between commercial banks and urban co-operative banks. On term deposits, co-operative banks give 1 per cent extra rate of interest compared to the rates of interest fixed by commercial banks. Similarly on saving bank deposit the co-operative banks give
0.5 per cent rate of interest more than that fixed by commercial banks. Naturally people prefer urban co-operative banks to commercial banks. In addition to this, commercial banks face competition from village money-lenders also. All the bank managers with whom discussions were held have pointed out this problem of unhealthy competition.

Section-III

Problems Faced by Farmers:

The present section aims at identifying the problems from the point of view of farmers. Certain procedures and practices followed by the banks dampen the farmers' responsiveness to bank credit.

Data collected from participant borrowers throw interesting light on the problems faced by the farmers. Borrowers were asked to specify difficulties that they had to undergo in connection with bank credit. The data collected from field work have been presented in Table 7.1.

An analysis of the table may be of much use to the bankers for remoulding and refashioning their lending practices. In other words, a study of this kind would be of great significance to focus on the future banking development in the country. Further, it will be useful to the researchers, policy makers and other financial institutions.
Table 7.1 presents the data regarding the difficulties faced by sample beneficiaries in the selected villages. The difficulties faced by sample borrowers are as follows: (1) Complicated procedure followed by banks in lending (2) Delay in getting records from the block office (3) Delay in land registration (4) Lack of knowledge of rules and regulations (5) Lack of sympathy of bank staff (6) Inconvenient working hours (7) Inadequate transport facilities (8) Non-availability of application forms in regional languages like Konkani, Marathi etc.

Table 7.1 reveals that 145 sample beneficiaries had one or the other difficulty while borrowing from commercial banks. Only 35 farmers opined they did not have any difficulty.

Twenty-three borrowers (8.33 per cent) disclosed that they knew nothing about the rules and regulations of the commercial banks. As they are uneducated, they do not understand the rules of the banking system.
### Table 7.1
**Difficulties faced by Selected Beneficiaries**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Items</th>
<th>Number of borrowers</th>
<th>Percentage to the total borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Complicated procedure of Bank lending</td>
<td>22</td>
<td>12.22</td>
</tr>
<tr>
<td>2</td>
<td>Delay in getting records from the Block office</td>
<td>10</td>
<td>5.56</td>
</tr>
<tr>
<td>3</td>
<td>Delay in getting records from the Land Registration Office</td>
<td>14</td>
<td>7.78</td>
</tr>
<tr>
<td>4</td>
<td>Lack of knowledge of rules and regulations</td>
<td>23</td>
<td>12.78</td>
</tr>
<tr>
<td>5</td>
<td>Non cooperation of bank staff</td>
<td>18</td>
<td>10.00</td>
</tr>
<tr>
<td>6</td>
<td>Working hours are not convenient</td>
<td>22</td>
<td>12.22</td>
</tr>
<tr>
<td>7</td>
<td>Inadequate transport facilities</td>
<td>16</td>
<td>8.89</td>
</tr>
<tr>
<td>8</td>
<td>Non availability of loan application forms and other documents in regional language</td>
<td>20</td>
<td>11.11</td>
</tr>
<tr>
<td>9</td>
<td>No difficulties</td>
<td>35</td>
<td>19.45</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>180</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey

Complicated procedure of bank lending as a difficulty is faced by 22 sample beneficiaries. To most of the farmers who have little or no education, it is a difficult task to communicate effectively with the banks for loans and other help. Frequent visits to banks involve the waste of time and money. Many farmers said that it was difficult for them even to get over the initial hurdles.
Twenty-two borrowers felt that existing working hours of banks from 10.00 a.m. to 5.00 p.m. were not convenient. These were the hours when they were busy with their agricultural operations. Especially in the busy season during these hours they could hardly think of anything other than work in the field.

Another 20 borrowers said that loan applications were in English and Hindi. So they could not fill the forms. They expressed that forms should be in the regional languages such as Konkani and Marathi. Of course, the bank officials do fill the forms on their behalf, and get the signatures. But the farmers who might have heard of large-scale duping and cheating, feel totally unnerved when asked to put their signatures or thumb impressions on documents the contents of which they do not know.

Eighteen borrowers complained that bank officials were not sympathetic and helpful. On the contrary, they were naughty and arrogant. Especially their attitudes towards the poor farmers left much to be desired.

Inadequate transport facilities are also one more difficulty faced by 16 farmers. Non-frequency of buses and their breakdowns led to waste of time of the farmers. This is true in case of private buses. In the interior places more than 70 per cent buses running are privately owned and also they are old and worn out, resulting in frequent breakdowns. This causes inconvenience to the villagers.
Yet another difficulty is getting land records from the Land Registration Office. 14 farmers had faced this problem of making frequent trips to the above-mentioned office. Irregularity of workers, their ignorance and laziness and corruption by the workers at such offices makes the villagers feel very discouraged.

Banks have several schemes for financing agriculture, but they have not succeeded due to the problems faced by the farmers in the process of getting loans.

Thus to conclude: the banks face some of the problems in financing agriculture and farmers also face some problems while getting credit from the banks.
REFERENCES


