

## CHAPTER VIII

### SUMMARY, CONCLUSIONS AND SUGGESTIONS

#### 8.1 Summary

Since the district of Uttar Dinajpur has a predominantly agrarian economy, the primary occupation of its people must be agriculture and its allied activities. Agriculture forms the backbone of this district's economy as it supplies food-grains to the rising population at reasonable prices, provides raw materials needed for the expansion of agro-based industries and solves the massive problem of rural unemployment.

It is evident from the study that the population of the district has been increasing very rapidly. The percentage in the increase of density of population in rural areas of the district of Uttar Dinajpur is the highest (30.94) as compared to any other districts of the state of West Bengal (as revealed in Table 2.2). As a result, the pressure of population on agricultural land is ever increasing. The population of the district has nearly doubled from between 1981-2001. The man-land ratio which was only 0.99 acre in 1961 (combined figures of Uttar and Dakshin Dinajpur) has declined to 0.32 acre in 2001. Due to excessive pressure of population on land, land has become more and more fragmented and the individual farmers are possessing smaller plots of land.

This district has the second highest rate of increase in rural population (as revealed in Table 2.3) to the total population in West Bengal. This remarkable increase in the percentage of rural population indicates more and more concentration of people to rural areas and it reveals that the scope of employment in urban areas is not expanding. Moreover, if the man-land ratio in the rural areas increases, it has to absorb more people in agriculture that results in more disguised unemployment which is not indication of a country's

economic development. Though it is a sign of hope that the percentage of working population of the district engaged in agriculture and its allied activities is decreasing (83 percent in 1981 and 78.23 percent in 2001) very slowly. There is also a continuous increase in the percentage of landless agricultural labourers. This increase reveals that there is no sufficient growth of non-farm employment in the district. Over-dependence on the limited agricultural land requires intensive cultivation which needs the adoption of new technology which most of the farmers can not afford due to the lack of fund from own sources. Only 39.64 percent of the total cultivable area of the district is under irrigation facilities by different sources of irrigation (as revealed in Table 2.10). It is well known that use of improved technology without proper water management can not increase the productivity of land (Chapter-II).

As regards the need and importance of finance in agriculture we have seen in our study that most of the farmers belong to marginal and small category and they are in extreme need of farm credit to continue their agricultural operation. Credit is the most vital element for utilizing modern agricultural technologies. But the farming population of Uttar Dinajpur District suffers from requisite amount of finance required to continue agricultural operation. Though much stress has always been given by different forms of government to increase the flow of institutional credit to the farmers, still the existence of money lenders in the rural credit market is rampant. The role of the nationalized banks operating in this district is not satisfactory from the point of view of supplying agricultural credit. The C-D (Credit-Deposit) ratios of different nationalized banks are very poor. Actually they are more interested to invest in the sector other than agriculture. However, the C-D ratios of Raiganj Central Co-operative Bank Limited, Gour Gramin Bank and Raiganj Co-operative Agriculture and Rural Development Bank Ltd. are encouraging. The sources of agricultural finance in the district are : (i) institutional sources, such

as, Cooperative Bank, Gour Gramin Bank and Commercial Banks and (ii) non-institutional sources, such as, money lenders, input-sellers, traders, large farmers, friend, relatives and neighbours of farmers. Though the supply of institutional credit is increasing, yet it is far short of the credit requirement of the farming population. At present 31.11 percent of the total borrower-farmers is given credit-support by informal sector. Besides, the number of formal credit institutions has increased but they have not been able to expand their credit-services throughout the district evenly.

In spite of rapid growth of institutional sources of credit to the farming population, a lot of problems in financing agricultural operation exists in reality in the district of Uttar Dinajpur. The major problems are – (i) complicated loaning procedure, (ii) lack of managerial efficiency, (iii) uneven growth of institutional credit houses, and (iv) recovery of loans. In terms of repayment of loans, we made an interview of 360 borrower-farmers. The repayment climate, in general, is not satisfactory. This situation is also similar to all types of banks except Raiganj Central Cooperative Bank Ltd. whose recovery position has been increasing day by day (Chapter-III).

The economic development of an area or region pre-supposes rapid expansion of bank branches throughout the country in a balanced way where both urban and rural people can get credit support in time of need. But before 1969, bank was controlled by a coterie of Industrialists and Business Magnets. Agricultural sector was totally ignored. After nationalization of Commercial Banks in 1969, the problems of agricultural credit began to be considered favourably with great importance. Banks were nationalized mainly to give credit support to the marginal and small farmers so as to free them from the cruel clutches of village money lenders. But the motto of nationalizing commercial banks has not been materialized. For this reason, Regional Rural Banks, especially earmarked for rural development were set up in 1975. Yet the supply

of credit to agricultural sector is far from satisfactory for the farming population. It is seen that the number of bank branches in rural areas in the district of Uttar Dinajpur has increased but the percentage of agricultural credit to the total credit disbursed has been decreasing. In 1993-94, it was 54.74 percent but in 2003-04 it stood at 29.87 percent (as revealed in Table 4.3).

It is true that most of the surveyed branches of commercial banks, in the district reveal impressive figures in Credit-Deposit ratios (C-D ratio), yet their performance in agricultural credit is very discouraging. We have already noted that commercial banks are not paying due weightage to the agricultural sector rather they are more interested to deliver credit to other sectors. In this respect, some bank managers argue that the declining trend of agricultural credit has been mainly due to the poor percentage of recovery of loan. It is a fact that though the number of bank branches is increasing, yet the number of rural branches is decreasing day by day. So, if the climate of recovery is not considered seriously from all corners - bankers, beneficiaries and the local Panchayats, the number of rural branches must come down drastically and the credit to agricultural sector is bound to be hampered. One thing we should note that provision of credit alone can not usher in miraculous changes in agricultural sector. The extension services to the farmers are to be improved. The follow-up of credit is an integral part of the provision of finance. Farmers need a package of services for proper utilization of the funds provided by banks and other financial agencies. There is much scope to expand bank branch in the district as a bank branch in the district covers as much as 49, 832 people ( as revealed in Tables 4.2 (a) and 4.2 (b) ) whereas at national level it is 15,000 people in 2002.

PACS is considered to be the wheel on which the Cooperative movement touches the heart of rural people. If Central Cooperative Bank does not pay much attention to development of PACS in our rural areas, the vision of

Cooperative Bank can not come true. The Indian planners considered PACS as such a rural financial institution which could be able to provide funds to all its weak members in order to uplift their standard of living through higher agricultural production. But the objective of forming PACS were not fulfilled. By times, it has become an institution of that section of rural people who have sufficient financial resources. They control them for their own interest and the members of weaker section are exploited. But recently the Central Cooperative Bank has taken initiative to revitalize the weak PACS.

Panchayati Raj Institutions occupy paramount importance in the socio-economic development of rural areas. At present these institutions have been given immense power to transform the socio-economic condition of rural people. It plays important role from planning to implementing schemes for rural development. Allegations are there that there is lack of efficiency and transparency of some 'Pradhans' who can not make any plan for development and who sponsor the names of beneficiaries to financial institutions not on the basis of genuine credit need, but on the basis of political affiliation of the beneficiaries. If the beneficiaries do not belong to the political party that the Pradhan holds, their names are not sponsored or recommended for any financial benefits. This is the main deficiency of the Panchayat Raj System. The Swarnajayanti Gram Swarajgar Yojana (SGSY) is a newly born baby in the field of credit-support mainly to the BPL families in the district of Uttar Dinajpur. It came into existence on 1<sup>st</sup> April, 1990. The revolving fund assistance so far released by this scheme is encouraging (Chapter – IV).

Farmers are always in search of credit, even in some cases, they do not know why they need credit and what type of credit they should have. It is a fact that farm credit is a problem not only to the fund providers, but to the farmers also. Credit agencies give credit according to their rules, farmers use fund as per their own wishes. The result is that both can not achieve their targets.

In this chapter V, we have delineated the results of a micro level study of the individual farmers with the help of field-survey to know their socio-economic conditions, repayment behaviour etc.

Our field-survey gives us very interesting results on the repayment behaviour of individual farmers. Out of 360 borrower-farmers of different categories, 248 farmers took loan from formal sector and 148 borrower-farmers were found defaulters, i.e., 59.68 percent of the total borrower-farmers was classified as defaulters and 100 borrower-farmers were classified as non-defaulters, i.e., 40.32 percent of the total borrower-farmers was found non-defaulters. Again, it is evident from the survey that among the total defaulting borrower-farmers 56.76 percent was found willful defaulters and 43.24 percent was found non-willful defaulters. From the result of rank correlation between two sets of data for willful and non-willful defaulters it can be concluded that the reasons for which the willful defaulters and non-willful defaulters do not repay their dues are not the same. The survey reveals that overdues were the highest (79.12 percent) for small farmers, 55.00 percent for marginal farmers and 24.24 percent for big farmers. As compared to small and marginal farmers, the big farmers are found as 'good payers'. This is because they are generally literate and they know that if loan is repaid in time there will be a further scope of loan for larger amount. Besides, they are afraid of loss of social prestige in case of being defaulters as they hold a strong social recognition in the locality. On the other hand, marginal and small farmers are less literate and they do not know the banking behaviour. They think that if bank does not deliver them credit, there is informal lender who can be easily accessed. But the big farmers do not think so. They hesitate to approach for loan to the informal lenders for the fear of erosion of social prestige. The survey reveals some important causes for overdues which are as follows.

(1) lack of careful analysis of the scheme, (2) staff problem, (3) deficiency in the follow-up measures for recovery of loan, (4) verification of credit need, (5) denial of consumption loan, and (6) lack of initiative on the part of local bodies and other lending agencies to teach the farmers about banking behaviour.

It is evident from our field survey that willful default is rampant and bank alone can not do much in this context. Giving credit to the poor can not improve their economic conditions, if that credit is not properly utilized (Chapter – V).

For centuries, there is a great controversy over the image of money lender in the socio-economic development process. But there is no consensus that moneylender is completely a parasite in rural economy and they should be driven away from rural credit market. Financial sectors, both formal and informal, play a decisive role in the growth of agriculture in a backward region like Uttar Dinajpur district.

Different forms of informal lenders are in existence in our study area. They are – village moneylenders, traders, input-sellers, big cultivators, friends, relatives and neighbours of farmers. Of them, input-sellers have much dominance in the informal agricultural credit. They provide as much as 38.39 percent of the informal farm credit and it is the highest among the informal lenders (as revealed in Table 6.1). Big cultivators as informal lender prefer delivering consumption credit to marginal farmers and the marginal farmers take maximum amount of loan for consumption purpose. They do so as they do not have sufficient land to cultivate. As regards collateral big cultivators prefer labour as collateral and village moneylenders prefer gold or silver as collateral. In respect of production and productivity of agricultural crops it is evident from our survey that the productivity of almost all the crops have a tendency to

increase except Boro rice. The production and productivity of agricultural crops depend heavily on cash outlays which are provided by both formal and informal lenders. So, informal lenders deserve to claim much contribution to the growth of agriculture in spite of having a lot of allegations leveled against them. In respect of per capita income of the people of Uttar Dinajpur district, it has increased to a considerable extent and it has been possible for the increase in the production and productivity of agricultural crops. Though per capita income is increasing, yet it is the lowest among the other districts in North Bengal (as revealed in Table 6.9) and much lower than those of State and National level (Chapter-VI).

The interlinkage of credit takes place when the parties or any one party involved in interlocked credit transaction think that the delinking of credit from other factor markets would be non-feasible or costly.

In our study area, the types of interlocked transaction are found in the form of the provision of labour services to the lender, the transfer of right of the land to the lender, the sale of output to the lender alone and the purchases of farm inputs from the lender. It is evident from Table 7.1 that the majority of the borrowing farm households obtaining loan from informal lenders go for interlocked transactions (81.25 percent) and the percentage of interlocked transactions falls with the increase in the size of land-holding. In respect of collateral preference against interlocked credit transactions it is observed in our field investigation that collateral preference differs from lender to lender. Traders and input-sellers prefer to interlink credit with product which is treated as collateral, whereas large farmers prefer labour as it ensures them assured supply of labour to their land at peak seasons when there is acute shortage of labour. So, lending being interlocked with labour leads them to a position to smoothly continue their agricultural operations. Interlinkage of credit with other factor markets has immense impact on the economy of different types of farming

households. It could be gathered from our field survey that interlinkage of different forms of agrarian markets appeared to be beneficial to both lender and borrower-farmers of all categories (Chapter-VII).

## **8.2 Conclusions**

We have arrived at the following conclusions from our study.

It is gathered from our field survey that economy of the study area is completely dependent upon agriculture. The size of the landholding has constantly been fragmented due to excess pressure of population on land. It is also evident that, in most places of the study area, the farmers sufficiently lag behind in the introduction of new agro-technologies. Backdated agricultural method is still dominating the area.

There is no doubt that credit is a vital element for modern agriculture. But as most of the farming population are financially weak, they need credit to continue their agricultural operations. It is revealed from the survey that institutional credit agencies are expanding and the C-D ratios are increasing. But their business performances lead us to conclude that their contribution to agricultural sector is not as satisfactory as it is in case of non-agricultural sector, though they are situated in rural areas. This is a common phenomenon in the study area.

As regards commercial banks, we may come to a conclusion that they have forgot the motto of nationalizing them. They are not paying due importance in agriculture, rather they have been more interested to deliver credit to the sectors other than agriculture.

It is clear from the field survey that PACS is not protecting and uplifting the weaker section of the farming population. In most cases, it has become an institution of some financially sound people who mislead and exploit the weaker

section. The office-bearers of PACS are not expanding the membership for the fear of being defeated in the election of the office-bearers of PACS.

It is widely seen in the study area that Panchayats are not giving justice indiscriminately in terms of financial concessions to the rural people. It may be concluded that the efficiency and transparency of some Pradhans are not beyond questions.

It was gathered that most of the loanee farmers are devoid of banking behaviour as a result of their illiteracy. As a consequence, the repayment attitude is not good. Here loanee-farmers are sometimes influenced by political leaders who advise them not to repay institutional credit as there are the chances of the loan being written off by the government.

It may be concluded that the informal lenders still have much importance in rural credit market and they contribute considerably to the growth of agriculture in spite of having a lot of allegations levelled against them.

It could be found that the agricultural credit market is interlocked in different forms and it may be concluded that the interlinkage of credit in different forms of agrarian markets appears to be beneficial to both lenders and loanee-farmers of all categories.

### **8.3 Suggestions**

On the basis of our findings of this study and the conclusions drawn above, the following suggestions may be recommended for improving the climate of agricultural credit delivery system in our study area.

1. Institutional credit agencies deliver loan only for productive purpose. But the borrower-farmers need loan for not only production of crops, but also for consumption and other non-productive purposes. In many cases loanee-farmers take loan apparently for productive purposes, but in

reality they divert the loan-fund for consumption or other non-productive purposes. So, to exert control over diversion of fund, the institutional credit agencies should provide credit for both production and non-production purposes with some specific rules regarding the rate of interest, mode of payment etc.

2. The valuation of collateral is made at a price much lower than the market price. This under valuation of collateral deters a cultivator from approaching for loan to an institutional credit house. This problem can be solved by the way of valuing the collateral at a price very near to the market price to increase the borrowing capacity of the farmers.
3. It also transpires from our study that the nature of collateral in the formal sector should be changed from land to output (crop). In this connection, we can refer to Bell's (1990) suggestion of appointing private agents. These agents will be responsible to procure the produce (crop) of the loanee-farmers. They (agents) will deduct the loan amount from the sale proceeds of crops and deposit it with the lending institutions. To check the private lending activities of the agents, they should be allowed a commission for recovery of loan. This gain of the agents in terms of receipt of commission from the bank would be in addition to the profit that they would earn on sale of the collected crops in the market. Thus, the problem of recovery and overdues of loan may be minimized and the lending institutions may become financially viable to recycle their funds effectively.
4. The informal lenders can keep a close and constant touch with their borrower-farmers as they happen to reside in the same village or of a neighbouring village. The staff of the rural branches of bank should be made rural people-friendly by the way of making them reside in the vicinity of the bank premises in order to be in the close contact with the

rural people and to make them (rural people) feel that they (staff of bank) are their (rural people's) friends in need.

5. Banks should be permitted to appoint private lenders as their agents to grant and also to recover loans on behalf of the institutions on the basis of commission similar to the saving-mobilization agents appointed by banks.
6. Co-operatives are to be revitalized State Co-operative Laws should be amended for augmenting the reserve base of PACS, holding of election of Co-operative bodies and implementation of 'Programmed Effort' consisting of profitable non-credit business, deposit mobilization etc.
7. Governments or peoples' representatives of political parties should not intervene in the matter of repayment of loans and the practice of general write-off of Co-operative dues must be abolished as it puts a constraint on the supply of credit affecting the rural credit delivery system.
8. Farmers' Awareness Camp should be frequently organized by banks to make the farmers aware of different credit facilities easily available from institutional credit agencies and also of the exploitative attitude of the informal lenders.
9. Credit Camp at village level should be organized for the delivery of agricultural credit to the farmers to reduce both transaction cost borne by the loanee-farmers and the wastage of working days of the farmers to pursue for loan.
10. Borrower-farmers should never be given the whole amount of loan at a time. It should be disbursed at different stages of cultivation-work. The disbursement of loan should be made at three stages – (i) at the time of tilling the land, (ii) at the time of spreading/sowing of seeds, applying manures, watering of crops etc. and (iii) at the time of reaping of crops. Generally agricultural work is divided into these three stages. Thus, if

their sanctioned loans are disbursed as per the requirement of each stage, the scope of diversion of loan-fund may be reduced. However, it should be ensured that there is no delay in disbursing loan at each stage. In this respect, each and every borrower-farmer may be issued KISHAN CREDIT CARD where part of the total loan amount and also the time of drawing the same are made fixed.

The loaning procedures of institutional credit agencies should be easy, prompt, flexible and less paper-based. Still most of our farming population are illiterate. They dare not approach for loan to the bank for the fear of complicated paper work. So, to remove this bottleneck, let our slogan be, "Loan to home, not from bank-door."