

# CHAPTER - I

## INTRODUCTION

### 1.1 Statement of the Problem

Development experiences of the countries of the world show that the importance of the agricultural sector in an economy gradually declines. So is the case with the Indian economy. However, although the relative importance of the agricultural sector in India has slowly declined over the years since Independence, its absolute size is still very large in terms of output, income and employment. Steady growth of population requires a commensurable growth of food grains production. The expansion of agro-based industries requires production of more and more raw materials. The widening of the market for manufactured goods necessitates the generation of higher amount of marketable surplus in agriculture. There is also the need for an increase in agricultural production for enhancing the volume of exports.

Thus, the development of the agricultural sector is a *sine qua non* for the industrial as well as overall development of a developing country like India. But the question is how to develop the agricultural sector itself? The development of agriculture is a function of several factors like natural and human resources, farm credit and entrepreneurship. All the factors are required to be combined in an optimum manner to make a significant breakthrough in agricultural production. However, since the supply of the first factor, that is, land as a natural resource is permanently fixed in supply, it is to be combined with the qualitatively improved use of human resources and entrepreneurship and quantitatively increased use of farm finance to transform traditional agriculture into a modern one.

The role of an efficient system of credit (source of which should be as far as possible institutional in character) is of utmost importance in a developing country like India because of the following reasons :

Firstly, Indian agriculture is mostly in the hands of small farmers who are too poor to finance their operations out of their own resource.

Secondly, the adoption of new technology requires large cash outlays which are beyond the capacity of the majority of the farming population. Therefore, credit system should be developed to meet the financial needs of farmers.

Agricultural credit needs of the farmers can be classified into three categories, viz., productive, consumptive and unproductive. The questions that might be asked in this context for the agricultural sector of West Bengal or of a particular study area are : What is the relative importance of these three categories of credit to a farmer's total credit needs ? Are all categories of loan needed by all types of farmers, or are there variations according to the category of farmers ? Credit need of farmers can also be classified into three categories on the basis of time, viz., short term, medium term and long term. Similar questions as above may be asked on this issue.

Sources of agricultural finance can again be categorized into two groups according to sources, viz., the institutional or organized sources and the non-institutional, informal, or unorganized sources. Institutional or organized sources include government, the commercial banks, the co-operative credit institutions, various agricultural finance corporations, regional rural banks etc. Here the question that might be asked is : What is the role of these various institutional agencies in providing credit to farmers ?

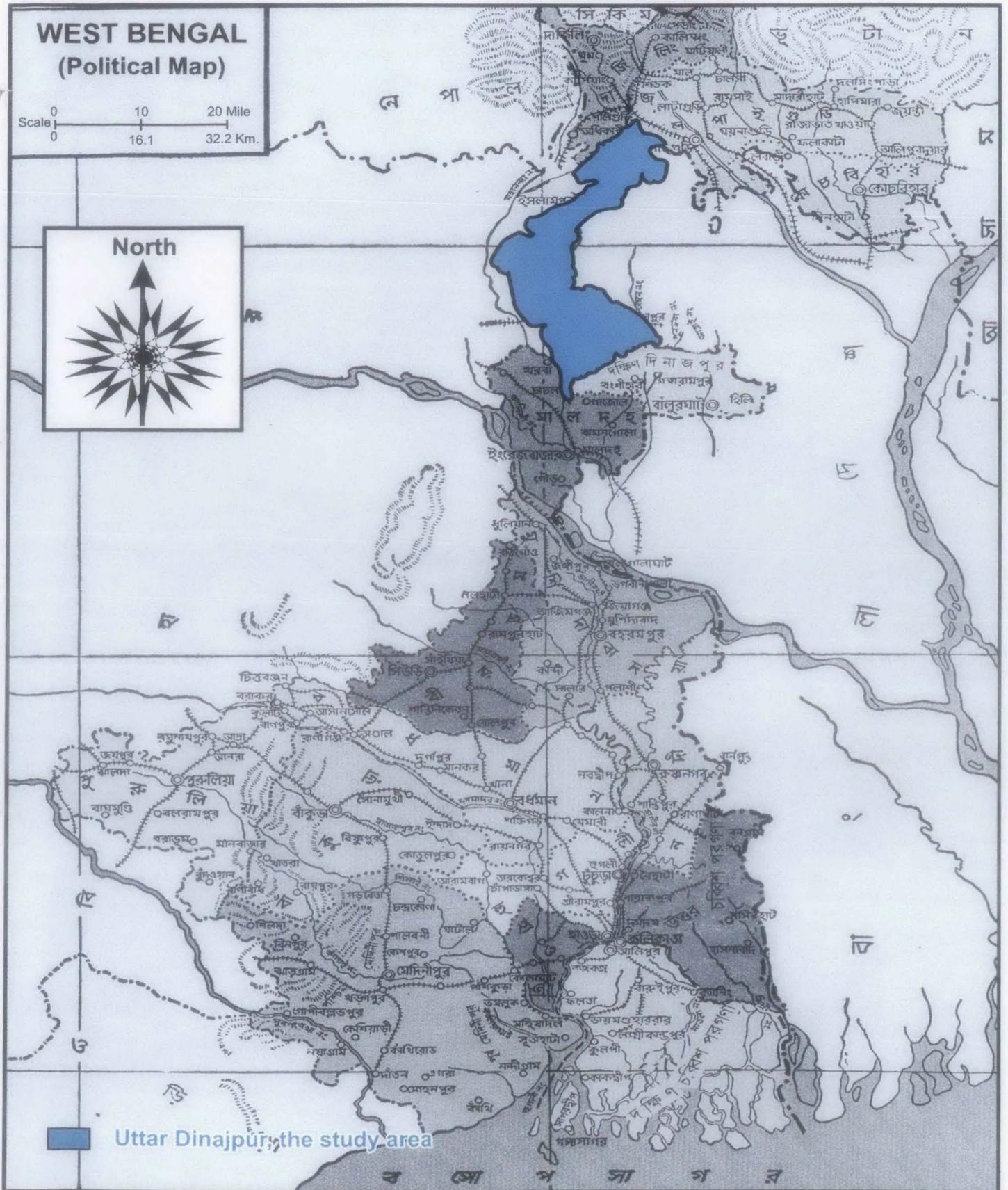
Informal or unorganized credit sources consist of money lenders, merchants, pawn-brokers, landlords, friends and relatives. Some of these credit sources, e.g. landlords and merchants combine other economic activities with

lending . Except for absentee landlords, the relationship between borrower and informal lender is marked by personal contact, simple accounting and low administrative costs.

Informal lenders are important sources of funds in rural areas of many developing countries. These lenders usually know the borrowers personally, requires little collateral, make consumption as well as production loans, are accessible at all times, and usually are flexible in rescaling loans. However, these informal lenders also tend to charge high rates of interest and are frequently accused of exploitative activities. In cases where lenders are landlords, traders, or both, they have been accused of using their position to force their clients to rent from, borrow from, buy from and sell to them. In other words, some sort of interlocking of land, credit and product market develops. Thus, these moneylenders/landlords/traders are said to extract monopoly profits from their clients. Are borrowers consistently being exploited ? It is important to examine this question because it has important implications for the role of more formal, private and public credit institutions.

It appears from a search of existing literature that a few studies have been made in West Bengal on the problem of agricultural finance. Besides, the studies which had been undertaken focused on the part of the problem. For example, some studies have highlighted the activities of commercial banks. Some have looked into the aspect of cooperative farm financing. These works have mostly dealt with the institutional aspect of the agricultural finance. Various facets of non-institutional finance have almost remained unexplored. The problem of interlinkage of credit market with other markets in agriculture in North Bengal districts has not also been dealt with by a good number of scholars. The present study is an humble effort to explore these issues in considerable detail and thereby has attempted to make an important contribution in the existing literature as well as fill an important gap in research in this field.

# THE MAP OF WEST BENGAL SHOWING THE DISTRICT OF UTTAR DINAJPUR (THE STUDY AREA)



However, given the time and resource constraints of an individual researcher we have chosen Uttar Dinajpur District, a newly born District in West Bengal in 1992, which is backward both agriculturally and industrially, for the purpose of microlevel study. The present study is an indepth analysis at micro-level of the features and problems of institutional and non-institutional agricultural credit. We have also used macro-level data wherever applicable.

## **1.2 Objectives of the Study:**

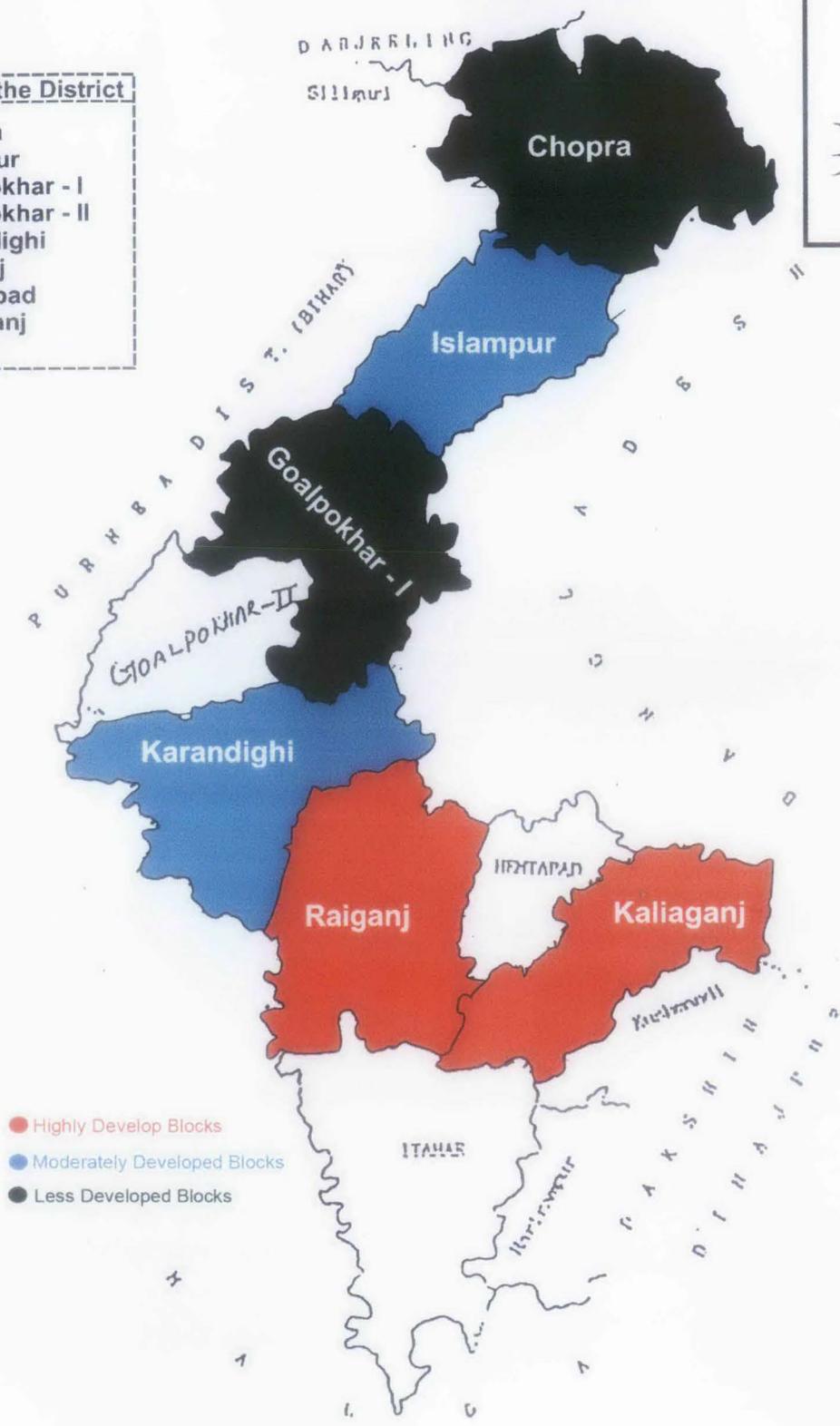
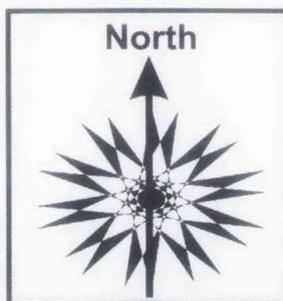
**The present study has the following major objectives :**

1. To find out a relationship between the flow of fund, both institutional and non-institutional, and the growth of agricultural production in the area under study.
2. To study the difference in the nature of institutional credit and non-institutional credit.
3. To study the recovery position of the institutional credit agencies.
4. To see how far the formal credit institutions are eager to make delivery of loan specially to the marginal and small farmers.
5. To find out the causes of overdues with the institutional credit agencies.
6. To find out the nature of the defaulters of credit.
7. To find out whether there have been any misutilisation and/or diversion of funds.
8. To study whether there is any existence of interlocking of informal credit with other factor markets, and if it exists, then what are the causes of its existence ?

## THE MAP OF THE DISTRICT OF UTTAR DINAJPUR SHOWING THE SAMPLE BLOCKS UNDER STUDY

**Blocks in the District**

1. Chopra
2. Islampur
3. Goalpokhar - I
4. Goalpokhar - II
5. Karandighi
6. Raiganj
7. Hemtabad
8. Kaliaganj
9. Itahar



- Highly Develop Blocks
- Moderately Developed Blocks
- Less Developed Blocks

### **1.3 A Brief Overview of Literature :**

Since the topic chosen by us is an interesting and popular one, a good volume of literature has developed on it. We review below the available major literature on the work already done in the area. In this context, it may be noted that the problem is a dynamic one and, therefore, it lends itself to applied research with the ever-changing techno-socio-economic milieu.

Menon (1961) in his book deals with the problems of Indian rural credit as multidimensional and dynamic. According to him, the question of providing loans for agriculture and its allied activities is not merely a financial one, but has a longer economic aspect and also political, sociological and humanitarian aspects. He explores that in India agriculture and other rural activities suffer from financial anaemia at present. The injection of sufficient quantities of finance into them could accelerate their pace and increase the volume and value of their production. But his work lacks the mention of the types of sources of rural credit. It is true that if the sufficient amount of loan to the rural people come from informal credit market, it may or may not increase the volume and values of their production as because, in most cases, informal credit market is more interested in delivering loan for the purposes other than production. So, the sufficient flow of finance to the rural poor can not be treated as the only way of improving their fate and also of the country.

Nimbkar (1968) has lucidly analysed different types of difficulties which institutional credit agencies have to face, while delivering agricultural finance to the farmers, specially in terms of sanctioning and recovery of loan. To him, commercial banks can run successfully if they provide extension services and train their staff accordingly. He opines that before sanctioning loan to the farmers the trained staff will assess the credit worthiness of the farmers. But he has not mentioned any mechanism by which the credit worthiness of a farmer seeking loan can be tested.

Desai and Tanbad (1970) made a case study of the impact of Syndicate Bank loan on agricultural productivity. After analyzing the data of 312 participant and non-participant farmers, they fitted Cobb-Douglas production function to the data of 21 participant farmers. They found that every rupee of credit invested in cash and kind expenditures resulted in Rs. 1.75 of the value of farm production.

Singh and Jha (1971) from their study of three villages of the union territory of Delhi reported that additional credit produced better results in terms of net returns when used with the advanced technology.

Singh, et al (1971) assessed the economic rationale of credit use between different inputs on the progressive and less progressive farms in Varanasi district of Uttar Pradesh. They reported that the progressive farmers were using the credit in the right direction along with its nearly rational allocation between fertilizers and owned irrigation equipment as reflected through nearly equal marginal return per unit of cost of credit in these two sources.

Sharma and Prasad (1971) examined the impact of credit on income of different size of farms of Tannai, Nainital and Rampur districts of the North-western regions of Uttar Pradesh. The empirical findings of this study indicated that an adequate use of credit increased the income substantially even at the prevailing state of technology. A situation of adoption of improved technology with adequate credit facilities almost doubled the income of the farmers.

Ghosal (1972) has mentioned that he finds very few works on the long term loan to the farmers. His study is confined to the discussion on long term loan to the farmer only. He says that if short-term credit is given to the farmers, they have to repay the same within a very short period and renew the same. As a result, the total amount of interest for the short term loan becomes much higher than what is to be paid in case of long-term loan, on the hand and on the other hand, the transaction cost of the financial institutions in issuing short term loan increases.

Pal (1973) claims that he has made the first original study of the problems of agricultural finance in West Bengal. By analyzing a mass of data collected from original sources the author studies the demand and supply position of agricultural credit in the context of rapid modernization of agriculture, critically evaluates the role of existing financial institutions like cooperatives and commercial banks and other public sector organizations and finally outlines an integrated credit policy for the future.

Vankataram (1975) analysed the behaviour of 51 farmers in Mandya district of Karnataka and reported that 50 percent increase in loan funds available over the existing loan limits facilitated favourable conditions for adoption of new technology and also provided about 52 percent increase in net returns.

Hazari (1976) in his article has tried to identify the area in which the Regional Rural Banks can participate in rural development of introducing the concept of 'Command Area Development'. He argued that instead of solely depending on individual farmer to increase output, it is necessary to channelise the amenities to the groups of farmers for the integrated development of the region.

Kumar et al (1978) estimated credit demand functions on the basis of unit output price (UOP) profit function approach for the marginal farmers of Moradabad district in Western Uttar Pradesh for three different seasons. The outcome of this study pointed out that prices of inputs and outputs alone influenced the demand for farm credit rather than interest rate. It is evident from the results of the above studies that the demand for farm credit is interest inelastic. This study also assumes an interest inelastic demand for farm credit in the short run because it usually takes time for demand to adjust fully to an interest rate change. Further, farmer's decision to borrow is not influenced by the interest rate considerations when the rate of return on additional credit employed in growing the new varieties tends to be considerably high.

Kurulkar and Deogirikar (1980) have shown that major proportion of the beneficiaries belonged to landless category, followed by small and marginal farmers in the Marathawada Regional Rural Bank. The percentages of flow of credit to these weaker sections has shown a declining trend and the study recommended for reconsideration of loaning policies of the bank..

Gupta (1980) finds out that the Land Development Banks in Haryana have recorded a spectacular progress in all the spheres of their activities. More than 90 percent of the total loans are issued to small and marginal farmers. It is also revealed that the Haryana State Land Development Bank has been maintaining its record of cent percent recoveries, throughout its life, attaining top position in the country. The Land Development Banks have been showing the best performance in terms of recovery position. But the author has unfortunately ignored to mention how the LDB's in Haryana have attained the top position in terms of their performance in the recoveries of loan.

Mehrotra's (1980) paper has tried to find out the co-relation between the flow of institutional credit to the farmers and the agricultural growth in the state of Rajasthan through an inter-district analysis to study the agricultural credit institutions with special reference to the basic units of the cooperative credit structure, namely, PACS. The study has explored a wide variation in the performance of PACS in different districts of the state and explained the reasons of why such a wide variation has taken place.

Koirala (1981) tried to evaluate the impact of agricultural credit on farms in Rupandehi District of Nepal. He concluded that credit had a positive co-efficient in all cases, especially higher in the case of improved rice and wheat. He further concluded that total production and net profits were found increased with successive addition of credit.

Jain's study (1983) reveals that the rural economy of Bhilwara district has benefited as a result of loans provided by nationalized banks. With this general observation certain problems and difficulties have also come up. He

opines that it is the hightime on or part to look forward for a meaningful involvement of these banks for betterment of the lives of people in the rural areas of the district. The work does not give us any national-level picture of performance of the nationalized banks in terms of the delivery of credit to the rural poor.

Roth (1983) in his book has made some enquiries into traditional money lenders and the resulting debt relations between them and the debtor-farmers on the basis of a detailed study of selected villages in Dhanbad district in Bihar. The author finds that in spite of the relatively extensive network of government supported credit institution, private money lenders continue to dominate the agricultural market, specially due to the traditional dependence on the private money lenders on the part of the farmers, though they still run their unscrupulous business practices by charging exorbitant rate of interest on loan. His work reveals that the debt relations between the moneylenders and the marginal and small farmers may be either purely from loan obligations or from traditionally personal relationship and/or from a combination of both. The author finds that the large scale farmers-cum-money lenders, in most cases, occupy the high administrative position in rural bodies, and by virtue of this high position in rural administrative bodies they exert their influence on the marginal and small farmers in obtaining loan from them.

Lakshminarayana (1984) stressed the need for educational programmes, establishing effective link between credit, marketing and other services and dissemination of knowledge about improved technology in agriculture and allied fields to improve the recovery of loans advanced by banks.

Bandyopadhyay (1984) in his study says that the crucial problem of agricultural credit market began to be highlighted just after the establishment of All India Rural Credit Survey, 1953-54. The basic objective of this book is to understand the behaviour and or nature of agricultural credit market in West Bengal, with special reference to small farmers. He emphasizes on the point that

if the desirable changes in the agricultural credit market are to be made, other markets, such as, labour market, land-lease market etc related to credit market should be reformed. The author thinks that if the credit market fails to act in response to the fresh demand for loans under modern agriculture based on new technology, the total agricultural growth process may be hampered. He also opines that the small farmers don't have easy or significant access to the formal credit institutions because of the unfavourable terms and conditions for which they are compelled to have credit facilities from informal credit sector where they have to pay exorbitant high rate of interest on loan they take while the large farmers have easy access to the institutional credit agencies where loan is delivered at much lower rate of interest. Thus, the monopolistic position of the moneylenders is perpetuated and the disparity of income and wealth between the marginal and small farmers and the large farmers goes on increasing.

Agriculture Project Service Centre (1987) conducted a comprehensive study in December 1987 regarding impact of the credit and found several positive changes with the help of credit availed to small farmers. The study concluded that farm income grew by 19.5 percent during the project period or by 5.1 percent annually at the constant price of 1981/82. During the same period, off-farm income increased by 68 percent and as a result, household income increased 30 percent or an annual increase of 8 percent at 1981/82 prices.

Yunus (1987) says that banking system has been deliberately designed to be anti-poor. He is of the view that to push the poor out of the banks, the idea of 'collateral' against credit has come up. He mentions that banking system is gender-based. Banks don't want to deliver credit to women, though they have arranged for women branches where deposits from women customers are collected. He says that such branches are very much reluctant to deliver loan to women. Yunus is also of the opinion that the banking system is designed to be an anti-illiterate organization. In Bangladesh, more than 75 percent of the people

are illiterate, and if a person intending to deposit an amount of money into bank, is asked by the bankers to fill up the challan of the bank for the purpose, it really stands ridiculous. In this respect whatever is needed to serve the people should be made by the banker. He defines credit as trust and says that whenever it got institutionalized, it was put on distrust. Banks think nobody honest, rather they think everybody a cheat, and for this reason bank wants collateral from the loanee.

Desai(1988) is clearly of the view that all deposits collected from rural sector should be fully utilized for short-term loan to the farmer, and no portion of such deposits should be diverted into other sectors of the economy. He sheds light on the fact that short-term credit to the farmers should be made after detailed assessment of the credit requirements. Here special attention should be given so that no portion of such loan is diverted into unproductive channel. The author is also of the opinion that the sanction of short term loan should be made to all farmers and restriction of Regional Rural Banks to serve only the marginal and small farmers and also the landless labourers should be removed. But the author has not clarified the reasons for which the big farmers should be entitled to have short-term loan despite their capacity to finance their agricultural operation out of their own resource.

Reddy's (1989) paper emphasises on the overdues of bank loans. In his article he advocates for the minimization of overdues by bringing about reform in the management pattern of the institutional credit agencies. Further he explains that the reform in the institutional credit management should bring equity and justice for the landless labourers and marginal farmers so that these two groups of beneficiaries can repay their loans more easily. But the author has not clearly stated if it is only the landless labourers and marginal farmers defaulting bank loans or there is also the big farmers who make great contribution to the volume of overdues of the institutional credit sector. Besides,

he has not prescribed any solutions to the problems of overdues in a concrete form.

Desai (1989) in his article focuses on the fact that in India, rural institutional finance is extended not only to the agricultural production sub-system but for selective purposes also to the agricultural input sub-system and the agricultural produce marketing and processing sub-system. He finds that though this innovative policy has earned some dividends, there are some lacunae in it as well as in the intermediation instruments of rural financial institutions. Desai identifies these lacunae to achieve the objectives of high rural growth, better equity and viability of institutional finance.

Yunus (1989) tried to demonstrate that credit to the poor can create self-employment and generate income from them. He stressed on giving credit to the poor women who can bring more benefits to a family than giving credit to the men. His paper says about right to life with dignity for all individuals, institutions, to build collective capabilities, democratic national and local government, no unconditional give-aways. The essence of his paper is to help a community to learn 'how to fish' rather than give them fish all the time.

Sarap (1991) in his articles "Interlocked Agrarian Markets in Rural India", highlights that the interlocked credit market is mainly confined to marginal and small farmers and landless labourers. He shows that the phenomenon of interlinkages is the manifestation of the economic survival strategies of the rural poor. He also mentions the weaknesses of the bargaining power of the rural poor and is of the view that the mechanism of the formal credit sector should be reformed so as to enable the rural poor to the easy access to the formal credit. But he has not mentioned how credit mechanism should be reformed. It is true that the problem of interlinkages of credit with other factor markets is mainly due to the insecure tenancy and limited land ownership of the rural poor.

Reddy (1992) focused light on the fact that the incidence of interlocked credit transactions with factor markets is dominant in Indian Agriculture. He has categorised two types of villages where linkages are prevalent. One is developed village, i.e. where formal credit flow is good and the other is backward village where formal credit flow is bad. He shows that in developed villages labour interlocked credit transaction takes place. In these villages the moneylenders, who are also the large farmers give loan to the marginal and small farmers at cheap explicit cost to reduce the uncertainties in the supply of labour in the peak seasons in the land of large farmers. He is also of the view that the input and output interlocked credit market is dominant in the backward villages. The trader, while offering credit in the form of inputs to the farmers, overvalues them and when the farmers repay their credit in the form of output, the price of the output is also undervalued. Thus, the trader continues his exploitation on the weaker section of the villages.

He concludes by stating that in case of labour interlocked credit market both the parties are benefited in the way that the large farmers can avoid uncertainties in the supply of labour in the peak seasons and the labourers can get credit at that time. The field where the author has not stressed is that in the peak seasons in agriculture the wage rate of labourers remains higher than that of what prevails in the slack seasons and as the trader gives loan to the labourers in the slack seasons, he gives them the lower rate of wages. Thus, he exploits the labourers by not giving them the prevailing market rate of wages.

Tripathi, et al (1994) expressed their view that the contribution made by credit to agricultural income would depend upon the adequacy and efficiency of infrastructure and the agro-economic situation of the area. They concluded that the impact of the short-term crop credit is encouraging and provision of short-term crop credit is an effective way to increase the farm return.

Gadgil (1994) in his paper raises some basic points about the role of interest of refinance, subsidization of refinance and the cost of such subsidy.

Mahapatra (1994) in his paper throws up some distinct features of the lessor-lessee relationships in connection with the land-lease parties under semi feudal mode of production, especially in Eastern India. He points out that many lessors exercise exploitative relations with their lessees by trying in land-leases with the lessee's family labour, consumption loans to the lessee and so on, and this process of leasing is known as land-lease interlocking. His study sheds special light on the consequences of land-lease interlocking and the underlying exploitation on their production performance and economic conditions.

Gill (1996) in her work points out that informal credit markets are acknowledged exploitative, but any attempt to push them out of business completely will adversely affect agricultural activities, given the growing demand for credit which institutional sources are unable to meet. She admits the dominating position of the informal credit market even in Punjab which is the richest state in India and where agriculture has been the prime factor in the state's growth and prosperity. On her paper she has nicely dealt with the problem of interlinkage of rural credit market with labour, input and output market.

Veeratshekharappa (1996) has conducted several studies and found that credit institutions are unequally distributed across region and accessibility to timely credit depends often on political intervention. This study undertakes an attempt to examine the influence of political intervention on the expansion of delivery of institutional credit in two districts of Uttar Pradesh, viz. Raebareli and Sultanpur, represented in parliament by two former Prime Ministers. He explores that these two districts represent the best of what the credit system can do. Thus, these districts are an appropriate choice to examine the expansion of branches, efficiency in credit delivery etc. The author has only made a mention that in spite of having sufficient physical and manpower resources on the part of the institutional credit agencies in these two districts, the productivity and overall production of these two districts have been lower than the state average

and much lower than the national one, but has not assigned any reasons thereof.

Roy (1996) in his paper shows how rapidly the population in his study area has increased due to the indigenous and exogenous factors. Of them, the most important one is the continuous influx of population from Bangladesh. The alarming rate of growth of population has increased the pressure on land and thereby the man-land ratio has fallen down remarkably. Since our independence the land has been fragmented and the farmers have to depend on the smaller plot of land. Due to overdependence on the fragmented land intensive cultivation is needed to match the demand of goodgrains of the people. To make cultivation more intensive new technology in agriculture is to be adopted, which need more money and which our farmers can not afford from their own resources. Here lies the need of credit from outside. He thinks that as the institutional credit is not available in the village for the farmers, they specially, the marginal and the small ones, have to knock the door of money lenders for credit in spite of high rate of interest. He has also attributed a good number of factors to the low productivities of land and low rate of repayment of credit on the part of the farmers. Though Roy's paper deals with the existence and importance of informal credit in rural areas, he has not shown if there is any interlinkage of informal credit with other factor markets.

Meenakshi Rajeev and Sharmistha Deb (1998) focused light on the high growth of agricultural productivity in West Bengal since 1970's and they found that this period witnesses a growth of an informal credit market with a new lending class comprising traders (of HYV, fertilizers and pesticides), catering to the working capital needs of the farmers. The article also reveals how the marginal and small farmers are compelled to depend upon such informal credit market on high rate of interest in spite of the existence of formal credit market where credit is delivered at cheaper rate of interest. The study also sheds light on how the marginal and small farmers by taking loans from informal credit market

at high rate of interest for productive proposes face the risk of falling into a vicious cycle of perennial indebtedness. The authors are of the view that until and unless the activities of the institutional credit agencies operating in rural areas represent a cooperative and dedicated effort in catering loan to the marginal and small farmers, the active and dominating network of informal credit market can not be on the wane . The study reveals that the need of a fresh look at the cooperative movement in order to bring out essential changes in strengthening the institutional credit market .

Shajahan (1998) highlights that during the pre-nationalised period our priority sectors were completely neglected but it is one of the most important objectives of government policy since nationalization of commercial banks to extend and expand credit not only to those sectors which were of crucial importance in terms of their contribution to national income but also to those sectors which had been severally neglected in terms of access to institutional credit. The sectors which were initially identified for this purpose were agriculture, small industry and self-employment. These sectors were to be accorded priority status in credit allocation by banks. Here the author points out that priority sector banks lending was an active instrument of our financial policy with an aim to restore sectoral balance within credit disbursement and to channel credit to the weaker sections within these sectors. But according to the author, banking sector reforms initiated as part of the liberalization programme since the beginning of the 1990's has almost brought the priority sector lending policy to a halt. Moreover, the position of the poorer states in regard to priority sector bank credit seemed to have worsened because of the manner in which priority sector targeting has been done by linking it to total bank credit rather than to bank deposits.

Amalorpavanathan (2001) attempted to highlight the restructuring of Regional Rural Banks. He observed the structural weakness of RRBs, such as narrow clientele base, stuned structural growth, lack of capacity to serve,

inefficient allocation of resources, lack of market integration, lack of morale, etc. Also, he focused some approach to remodelling of RRBs like freedom for operation, better governance and accountability, responsibility of government on the board of RRBs, Capital adequacy, etc.

Expert Committee on Rural Credit, ECRC (2001) recommended formation of a new set of regionally oriented rural banks which would combine the Co-operatives' local feel and familiarity with problems and the commercial banks' business acumen, ability to mobilize deposits, access to central money market and modern outlook. He included some important reform measures such as deregulation of interest rate of advances as well as deposits, permission to lend to others outside target groups, provision for rationalization of branch network, relocation and merger of loss incurring branches, introduction of "Kishan Credit Cards" to simplify provision of a production credit to their clients.

Hosamone (2002), in his book focused the performance of RRBs by examining the Malaprabha Grameen Bank in Karnataka. He observed that the gross ratio and operating ratios were unfavourable for earning profit. His observation revealed that emphasis on adequate, timely and equitable distribution of credit would enhance income and employment opportunities of the borrower.

#### **1.4 Research Hypotheses :**

In our study we have tested the following main hypotheses :

- 1) There is acute problem of finance specially on the part of the marginal and small farmers to run their agricultural operations.
- 2) Formal credit institutions are performing their role satisfactorily in providing finance to the farmers.
- 3) The institutional credit agencies in rural area suffer from the burden of over dues due to the reluctance of farmers to repay loans.

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- 4) Diversion of credit by borrower farmers for unproductive purposes is a widespread phenomenon.
- 5) Insecure tenancy and limited land ownership, in most cases, lead the marginal and small farmers to the door of informal credit agencies.
- 6) The informal credit agencies make interlinkages of credit with other factor markets, specially in delivering credit to the marginal and small farmers.
- 7) Though money lenders are harmful to the economy of the small and marginal farmers, their activities/services are indispensable at the present socio-economic scenario.
- 8) The flow of finance in the agricultural sector, whether it be from formal or from informal source, exerts its impact on the production and productivity of agriculture.

**1.5 Research Questions :** In the light of the objectives stated and the hypotheses framed we have made an attempt in our study to investigate and seek answers to the following major research questions.

- 1) What, according to the farmers, are the major constraints in the growth of agricultural production ?
- 2) Is there sufficient availability of loan in the village under investigation ?
- 3) What are the factors influencing the demand for credit ?
- 4) Is it possible for the farmers to cultivate their land by their own investment without taking loan from outside ?
- 5) Do the farmers think credit as a source of increasing their production and productivity ?
- 6) What are the terms and conditions of informal credit ?

- 7) Is the rate of interest charged by the institutional credit agencies cheaper than that of the money lenders ?
- 8) Why do the farmers go to the door of the money lenders despite the higher rate of interest charged by the money lenders ?
- 9) Do the informal credit agencies demand any collateral from the borrowers before delivering loan?
- 10) What types of collateral do the formal credit agencies demand from the borrowers ?
- 11) Do the banks sanction any loan to the borrower who has still a balance of previous loan ?
- 12) Do the informal credit sources issue any loan to the borrower despite his balance of previous loan ?
- 13) Do the formal credit agencies organize any workshop/seminar for imparting banking habit among the loanees ?
- 14) Do the farmers think that the performance of the rural credit institutions is satisfactory ?
- 15) Is the procedure of taking loan from the informal credit sources more flexible than that of the formal credit sources?
- 16) Can it be possible for the farmers to repay loan in time, if not, why ?
- 17) Is it a fact that short term credit is not influenced by the rate of interest ?
- 18) Is formal credit available for the purposes other than the productive one ?
- 19) Do formal credit sources give any relaxation or concession in the payment of loan if the crop is damaged by any natural calamities, such as, flood, hailstorm, drought etc ?

- 20) Is the fate of the money lenders tied up with that of the farmers ? If so, for what reason(s) ?
- 21) Is there any practice by the money lenders to engage the defaulting borrower or any member of his family as labour in the money lender's land ?
- 22) Is it a fact that farmers think that informal credit market in many cases is interlocked with other factor markets ?

## **1.6 Conceptual Framework**

Agriculture occupies the central place in our rural life. Still more than three-fourths of our population live in rural areas and almost two-thirds of the Indian population earn their livelihood from agriculture. The primary objective of a developing country like India is to achieve balanced, rapid and sustained rate of economic growth. Agriculture plays a major role in the achievement of economic growth and socio-political objectives in India. So, agriculture can rightly be said to be the base of Indian economy. Development of agricultural sector is of paramount importance not only because of its contribution to provide food, fodder, vegetables and other agro-products to the population, but also due to its important role in ensuring a strong base for the extension of markets, employments, exportables and other invertible resources.

In a developing country like India the farmers constitute the weakest agent of production as majority of them are still in practice of traditional agriculture. A shift from traditional agriculture to modern agriculture based on advanced science and technology requires huge cash outlays which most of our farmers can not afford. The farmers all over the world, in general have to borrow at one time or other, and many of them heavily too. For raising agricultural production they will have to borrow still more. Where there is redistribution of rights in land, further credit is almost always needed. It is thus

in the interest of agriculture and for general economic progress that adequate credit is made available to farmers and at reasonable costs.

Agriculture is dependent upon outside finance for its development. It is a fact proved by history and evidenced by the serious indebtedness of almost every person everywhere engaged in the industry of agriculture. In fact, the lesson of universal agrarian economy history is that an essential need of agriculture is credit. Neither the nature of land tenure nor the position of agriculture affects the one great fact that the agriculturist must borrow due to the fact that the agriculturist's capital is locked up in his land and stocks. Hence, credit is not only essential but absolutely essential and, as such, it is not necessarily objectionable, nor a sign of weakness. Farmers need credit to pay current expenses of cultivation such as the purchase of seeds, manures, etc., the purchase of cattle, implements and raw materials; acquire new land, or improve land by drainage, irrigation, seeding and planting, purchase foodstuffs and other personal necessities, pay land revenue to the government, meet expenses connected with marriage and other social ceremonies in the family, buy jewellery and conduct law suits. The credit need of agriculturist can, therefore, be broadly divided into directly productive and indirectly unproductive expenses

It is a hard fact that farmers in developing countries are in need of both types of credit. The International Labour Organisation (1951) while reporting on the economic background of the social policy has very vividly brought out this fact in the following words : If the debts of the rural population were incurred primarily for the purpose of improving agricultural productivity, the growth and extensiveness of rural indebtedness would give no cause for alarm. In many Asian countries however, the heavy rural debts have accumulated chiefly as a result of borrowing to finance consumption.

It is obvious, therefore, that the situation in the underdeveloped countries is more alarming than that of advanced and highly developed countries. But

whether the developed or underdeveloped, credit is a sine-quo-non for the improvement of agriculture in all countries.

Regarding differences in farm production between developing and developed nations, T.W.Schultz (1970) pointed out that differences in land are least important, differences in the quality of material capital are of substantial importance and the differences in the capabilities of farm people are most important. He further illustrated this point with the help of the trends in agricultural production in different parts of the world. Western Europe with a population density much greater than Asia's and with poor endowment of farm land has been increasing its agricultural production at a rate that would have been thought impossible only a couple of decades ago. Italy, Austria and Greece for example, with less arable land per capita than India and with farm land inferior to India's have increased agricultural production tremendously. Similar is the case with Israel. Mexico stands as the best example for the many low income countries to develop modern economy.

Without widespread availability of credit inputs associated with improved technologies can be purchased only by the larger, wealthier farmers. Capital formation and improvements on smaller farms are hampered. Fewer farmers are able to purchase or even rent land. In cases where produce marketing requires cash outlets, lack of credit can disrupt marketing activities. Well-functioning rural financial institutions are essential to improving economic efficiency reducing income risk and meeting income distribution goals.

To meet the credit needs of agriculture a sound financial system is essential to be built up. Such a system will be one as would convert the present, 'static credit' into a 'dynamic credit' the former being defined as one under which at the end of the credit period, there is no increase in the output, income or in assets, and the latter as one wherein at the end of the credit period there is an improvement in output, income or in assets.

Credit facilitates the temporary transfer of purchasing power from one individual or organization to another. However, many types of lenders (e.g. institutional or non-institutional) or money markets (e.g. organized or unorganized; formal or informal) assist and a credit institution may or may not serve the need of a developing agriculture. Credit is often viewed as an oppressive or exploitative device in developing countries; we need to examine both the types of lending sources found in these countries and the evidence of exploitative behaviour associated with these money markets.

### **1.7 Methodology**

As evident from above, the present study is, in part, based on the existing literature ; and in part on field surveys. The theoretical part of the dissertation has been based on large-scale secondary data and literature. For literature and data, the study required an extensive and detailed information and data relating to different areas of observation. We used the resources of the Library of the University of North Bengal, the National Library, Kolkata, the Library of the Centre for Studies in Social Sciences Kolkata. The Census Reports of West Dinajpur (now bifurcated into two - Dakshin Dinajpur and Uttar Dinajpur), Uttar Dinajpur and West Bengal have been of immense use. The Annual Reports of Gour Gramin Bank, Raiganj Central Co-operative Bank, Raiganj Co-operative Agriculture and Rural Development Bank, Lead Bank (UBI), Commercial Banks, Reports of Primary Agricultural Co-operative Societies (PACS), DRD Cell, Uttar Dinajpur, Reports of Principal Agriculture Office (PAO), Uttar Dinajpur, and Reports of Bureau of Applied Economics and Statistics, Uttar Dinajpur, were taken into consideration, Relevant data were collected from Uttar Dinajpur Zilla Parishad , the Office of Irrigation and Waterways, Uttar Dinajpur Division, different Panchayat Samities and Gram Panchayats, Branch Managers of Commercial Banks, GGB, RCCB, RCARDB and other district level offices. Besides, Indian Journal of Agriculture Economics, Economic and Political Weekly (EPW), Lok Udyog, Yojana,

Bhandar and several Journals, Research Reports and other important publications.

As regards the methodology of the village studies, a detailed statement is made below :

**1.7.1 Universe of the Study :** The Universe of the studies has been made confined to the Uttar Dinajpur district of North Bengal.

**1.7.2 Sampling Frame :** Three types of sampling procedures have been followed – the stratified, the purposive and the random sampling.

**1.7.3 Sampling Procedure :** To examine the impact on the credit performance of the financial institutions on farmers and also to identify the problems of overdues of different banks, a micro-level study consisting of field survey has been conducted during our study period. First we stratified the blocks of the district in three strata according to their level of development. These three strata have been represented as – highly developed, moderately developed and least developed blocks. This entire work has been done with three stages. Stage –I deals with the choice of two blocks from each strata of the district. Stage – II deals with the choice of two villages from each strata of blocks randomly. Stage – III deals with the choice of thirty borrower-farmers from each selected village. In the first stage, six(6) blocks of the district have been classified into three strata viz, highly developed, moderately developed and least developed. Then two(2) blocks from each strata have been selected randomly. Raiganj and Kaliyaganj have been selected from highly developed category, Islampur and Karandighi have been selected from moderately developed category and Chopra and goalpokhar-I have been selected from least developed category of blocks. In the second stage two(2) villages from each selected blocks have been chosen randomly. The villages are :

1. Bindole and Gouri under Raiganj Block.
2. Anantapur and Bochadanga under Kaliyaganj Block

3. Gobindapur and Kamalagaon – Sujali under Islampur Block
4. Bazargaon and Gopalganj under Karandighi Block
5. Daspara and Laxmipur under Chopra Block
6. Bhandabari and Jaingaon under Goalpokhar-I Block.

In the third stage we selected thirty loanee households from each selected village comprising of fifteen(15) marginal farmers, eleven(11) small farmers and four(4) big/large farmers. We have chosen only those villages where there are sufficient number of farmers of each category as the land is fragmented and the size of land-holding is not very large only four big/large farmers, eleven small farmers and fifteen marginal farmers have been taken from each village. As most of our farming households are marginal and small in size of land-holding, they have been taken in more number as compared to big/large farmers. From these villages, two villages have been selected randomly from each selected block for the purpose of the field-survey.

#### **1.7.4 Units of Observation and Sample Size**

As noted above, the unit of observation is the household and the total size of sample has been three hundred sixty house-holds.

#### **1.7.5 Tools and Techniques of Data Collection**

Data have been collected by the researcher through personal interview with the respondents with the help of a questionnaire made for the purpose. Various books, reports, journals, articles, bulletins etc. have been consulted for the relevant secondary data and information.

#### **1.7.6 Data Collection**

Data on the need, growth and availability of agricultural finance, the nature of utilization of credit, the impact of credit on production, productivity and farm households, the causes of dominance of moneylenders, the experience of farmers in obtaining loan from institutional agencies, the terms and conditions

of credit, problems of repayment of loans, the causes of overdues of institutional credit. interlinkages of credit market with other factor markets and so on, have been collected on the basis of questionnaire.

### **1.7.7 Data Processing**

After the collection of data, these have been processed for relevant statistical calculation manually by using calculator and also through the computer. The tools used for analyzing data have been simple frequency counts, cross tabulation, simple average, percentages and some statistical tests, such as,  $\chi^2$  test (Chi-square test), Kruskal Wallis H-Test, Spearman Rank Correlation 'r' etc.

## **1.8 Chapterisation :**

The lay out of the Chapters of the thesis is as follows :

### **Chapter I : Introduction**

This chapter has introduced the problem of the study. The justification of the study, research questions or hypotheses, methodology, review of literature and objectives of the study, have been discussed in detail.

### **Chapter II : Description of the Area Under Study and Important Features and Constraints of Agricultural Development in Uttar Dinajpur District**

In this chapter, a general description of the socio-economic set-up of Uttar Dinajpur District along with a short profile of the district describing all the important features like location, soil, demographic structure, economic activities and agriculture infrastructure have been presented. Here also the important features and growth of agricultural operations of the district during the five-year plans have been discussed. The causes of agricultural backwardness and the potentiality of agricultural growth have been dealt with. The various

constraints of agricultural development have also been highlighted in this chapter.

### **Chapter III : Features and Problems of Agricultural Finance in the Study Area since Independence**

This chapter deals with the features and problems of agricultural finance in the Uttar Dinajpur District during the post-Independence period. It discusses the need and importance of formal and informal sources of agricultural finance.

### **Chapter IV : Evaluation of the Role and Performance of the Credit Agencies in Agricultural Development**

This chapter sheds light on the growth and importance of credit agencies in agricultural sector and evaluates their performance in terms of credit-delivery. This evaluation is based on both published secondary data and primary data gathered from field survey.

### **Chapter V : Nature of Utilisation and Repayment of Loan in Selected Villages**

This chapter initiates the discussion regarding the nature of credit and explores whether the credit is being utilized for the specified purpose or not. It deals with the nature of repayment and also the causes of non-repayment of loan. This chapter is solely based on the data collected from the selected village under survey:

### **Chapter VI : Role of Informal Finance with Special Reference to Money Lenders**

The causes, nature and importance of informal finance along with its impact on the production, productivity and income of the rural people have been analysed in this chapter, mainly on the basis of primary data collected through field survey. Here the exploitative nature of the informal finance along with the problems and remedial measures have also been investigated.

## **Chapter VII : Informal Finance and Interlocking of Credit–Output–Labour Market**

The causes and nature of informal finance and its relationship with interlinkages of credit-labour market have been taken up for discussion in detail. The impact of interlinkage of credit with other factor markets on the household economy of the farmers have also been considered on the basis of the data collected through investigation in field survey.

## **Chapter VIII : Conclusion**

This chapter has summarized the findings of the whole study. Conclusions have been drawn and suggestions and policy prescriptions have been made in this chapter.

**Notes :** As per the land-holding pattern in the district of Uttar Dinajpur, the farmers are categorized into five and they are as follows –

Marginal : Below 1.0 acre of land

Small : 1.0 acre and above but less than 2.0 acrs of land

Semi-medium : 2.0 acres and above but less than 4.0 acres of land

Medium : 4.0 acres and above but less than 10.0 acres of land

Big/large : 10.0 acres and above

But for the convenience of our study, the farmers have been categorized into three as follows :

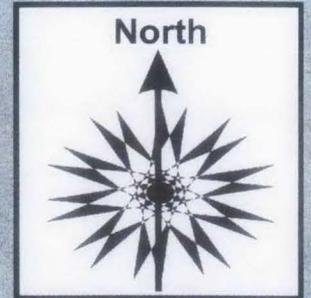
Marginal farmers : Farmers having an amount of land upto 2.0 acres.

Small farmers : Farmers having an amount of land upto 5.0 acres.

Big/large farmers: Farmers having an amount of land above 5.0 acres.

# THE MAP OF CHOPRA BLOCK SHOWING THE SAMPLE VILLAGES

## CHOPRA



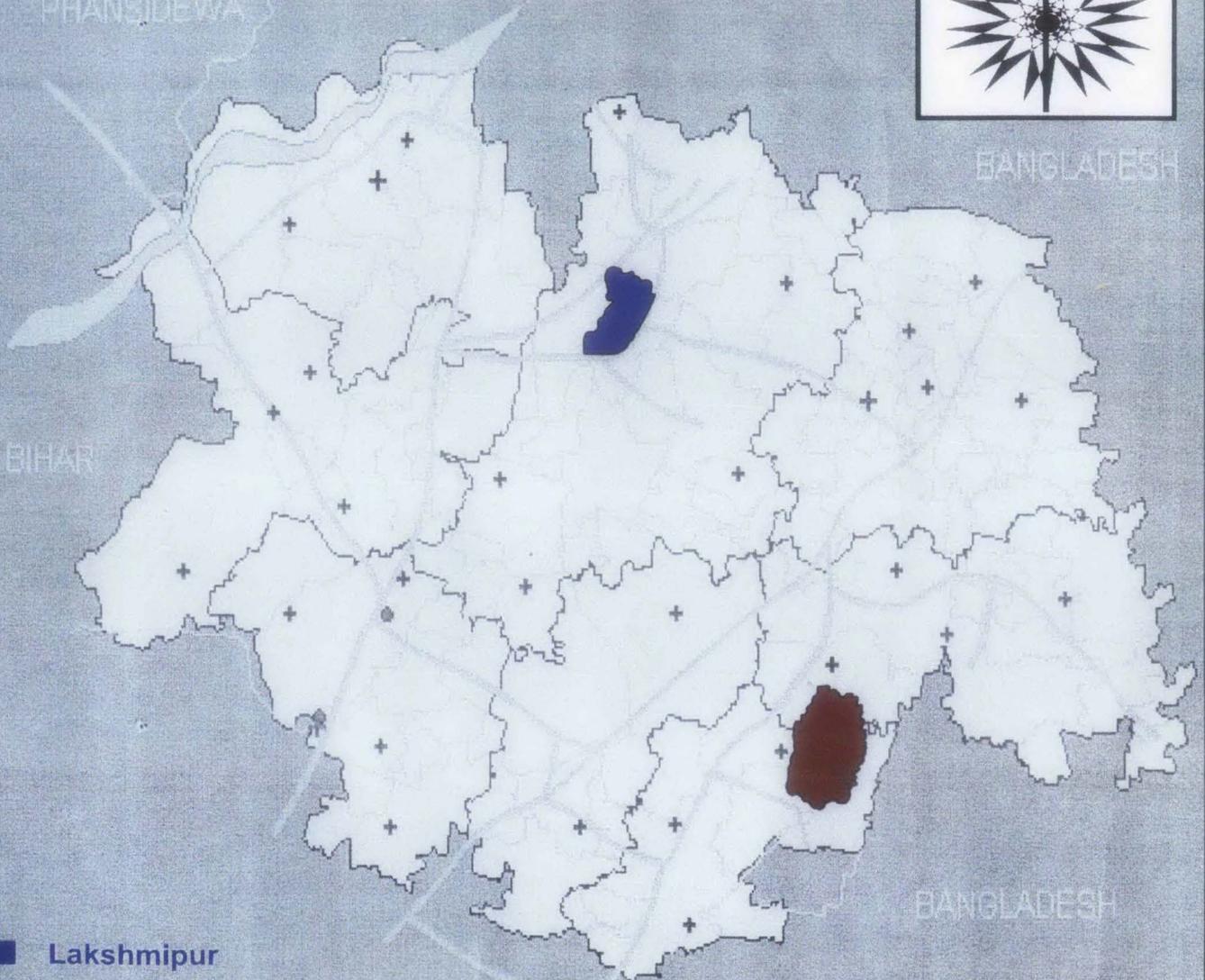
DARJEELING  
PHANSIDEWA

BANGLADESH

BIHAR

BANGLADESH

-  Lakshmipur
-  Daspara



# THE MAP OF ISAMPUR BLOCK SHOWING THE SAMPLE VILLAGES



**ISLAMPUR**

Chopra

Bihar

Banladesh

Gopalpokhar I

 Kamalagaon-Sujali

 Gobindapur

# THE MAP OF GOALPOKHAR - I BLOCK SHOWING THE SAMPLE VILLAGES

Goalpokhar - I



Bihar

Islampur

Goalpokhar II

Bangladesh

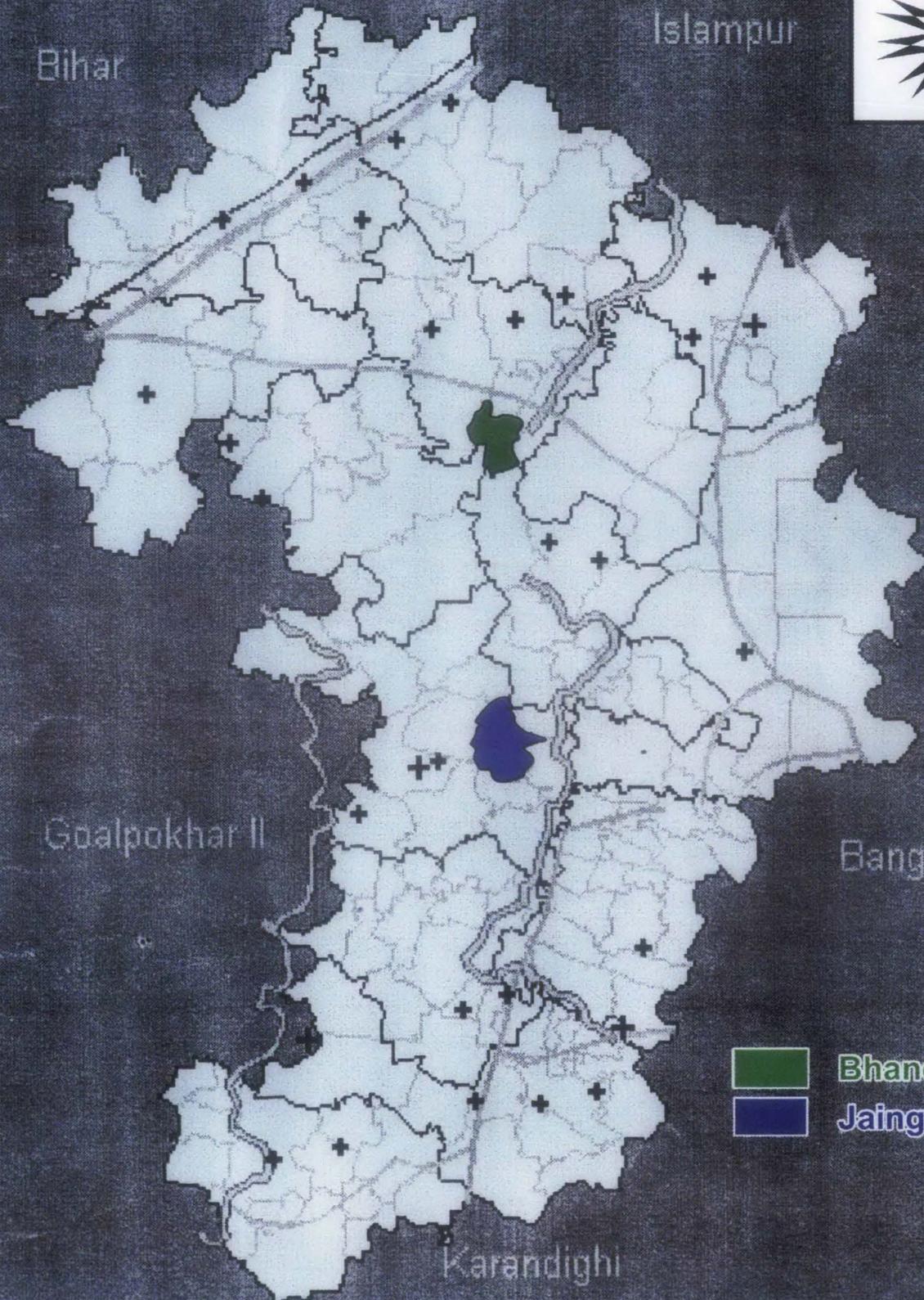
Karandighi



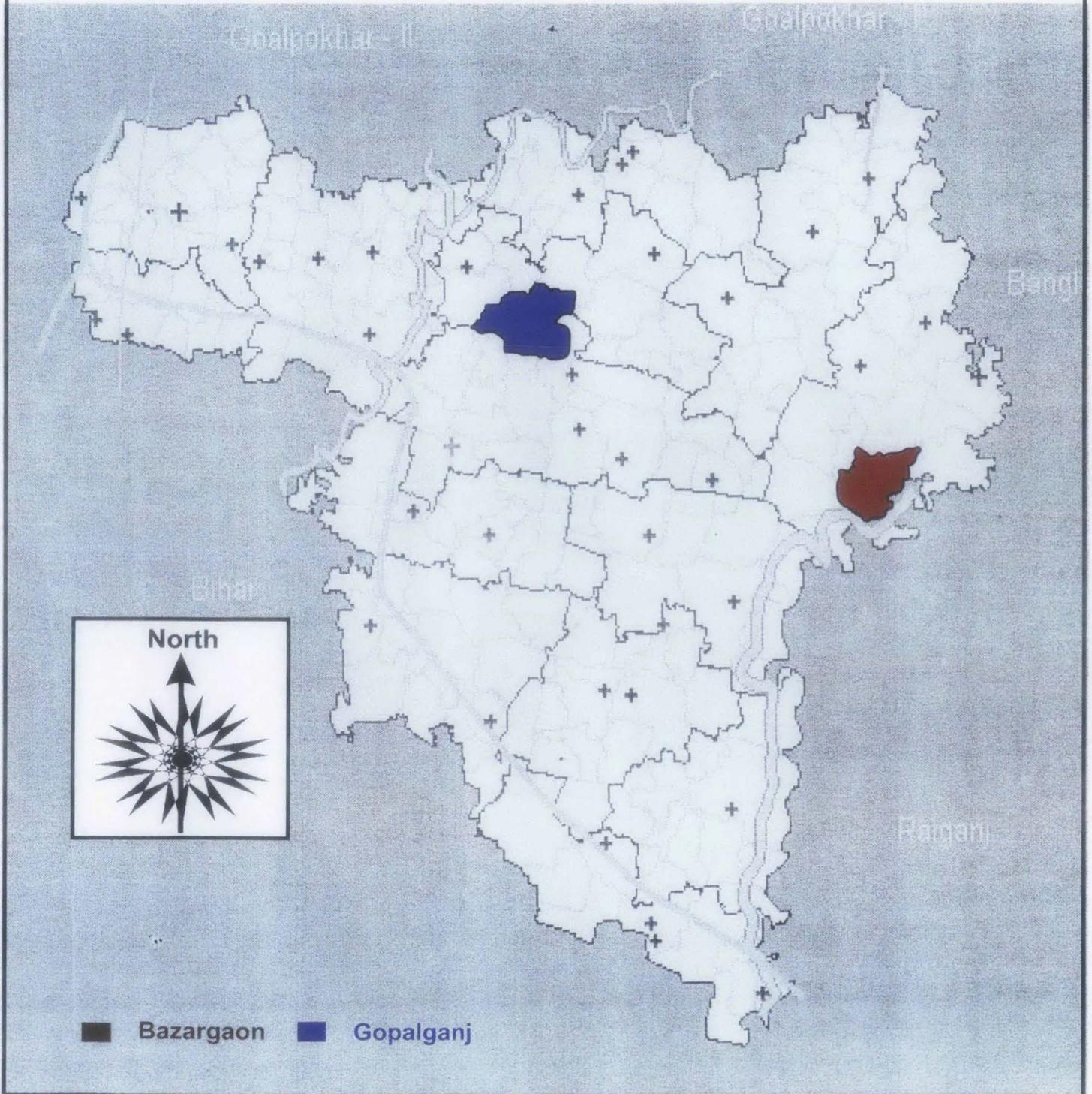
Bhandabari



Jaingaon

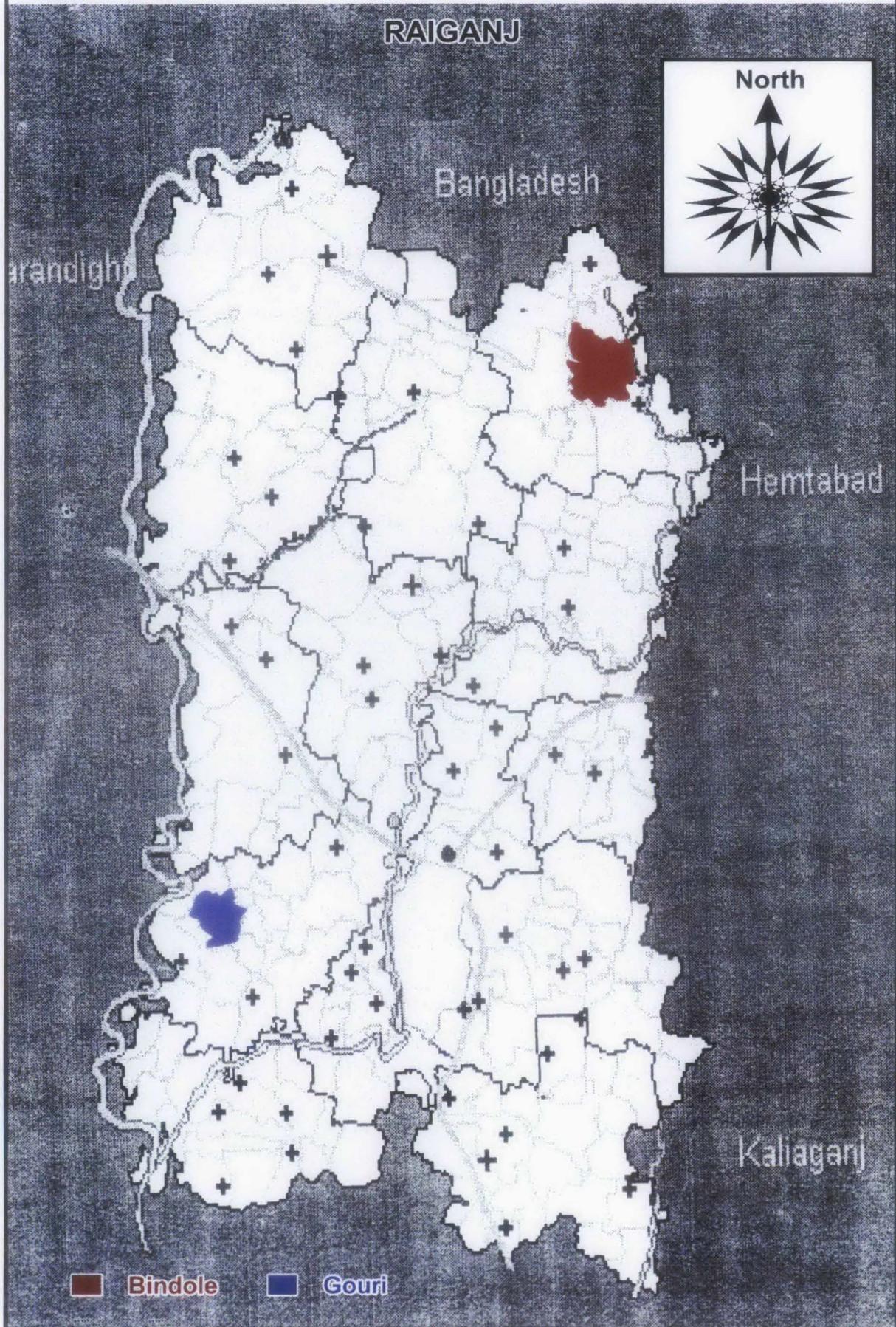


# THE MAP OF KARANDIGHI BLOCK SHOWING THE SAMPLE VILLAGES

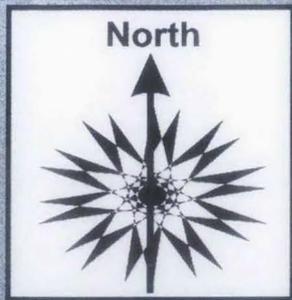




# THE MAP OF RAIGANJ BLOCK SHOWING THE SAMPLE VILLAGES



# THE MAP OF KALIAGANJ BLOCK SHOWING THE SAMPLE VILLAGES



Kaliaganj

Bihar

Bangladesh

Raiganj

Dakshin Dinajpur

Itahar

- Bochadanga
- Anantapur

