1. Flow of Credit to Small and Marginal Farmers

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The present study is undertaken following the recommendations of the Parliamentary Standing Committee on Agriculture to study the credit flow problems of small and marginal farmers in getting easy and cheap credit from the rural financial institutions. Households working on small and marginal landholdings, because of the tiny size of their land relative to the amount of labour force available to them, often find it necessary to sell a part of their labour power against wages.

Credit is necessary for the marginalised section of the rural community not only for meeting their basic economic needs in the present, but also for their future socio-economic development. Since tangible and marketable collateral are not always available to the small and marginal farmers, the risks of lending to the borrower are simply too high. Moreover borrowers, having heterogeneous types of demand for credit, depend on a large number of imperfect markets for complementary services.

The study is aimed at examining the credit flow problems of not only pure cultivating households but also of impure categories of cultivators (selling labour in the market) within rural households owning less than 2 ha of land. The rural financial system comprises not only traditional sources within both formal (banks, cooperatives, etc) and informal (e.g. rural moneylenders) segments, but also new generation institutions with emphasis on micro finance within the two segments. It is thus imperative to study the experiences of both traditional and new generation components of the system and also to find out whether and how new generation institutions are making a difference to the flow of credit to this target group of farmers.

Major Objectives of the Study

- To review the credit experiences of traditional financial institutions with respect to the vulnerable sections of the farming community;

- To identify and analyze the existing credit flow gaps and the reasons thereof for the same target group; and

- To suggest measures at both economic policy level and enterprise level to ensure smooth flow of credit on a sustainable basis to this group.

Methodology

A multistage stratified random sampling procedure was adopted. In the first stage, Mysore and Gulbarga districts were selected, representing the agricultural situation prevailing in the State. Of the two regions, Gulbarga has only the traditional rural financial institutions, whereas Mysore district has the presence of new-generation financial institutions in addition to traditional institutions. Muttathi and Dongargaon villages were selected for the present study after discussion with the District Development Manager of NABARD. Stratified random sampling procedure was adopted to choose the sample households from the selected villages.

The required data were collected from 25 sample households by personal interview using pre-tested well-structured questionnaires. As a part of the study, managers /secretaries of the formal credit institutions in the area we interviewed about disbursement of credit to the target group. Their experiences and perceptions with regard to financing the target group were also documented.

Results

- The average borrowing per household across the farm size groups in Karnataka was two to three times higher than that of their counterparts at the all-India level.
- Medium/large farmers shared 25 per cent and 44 per cent of the total credit disbursed by the commercial banks in Muttathi and Dongargaon, respectively.
- Landless households accounted for 9 per cent and 6 per cent of the total number of borrowers in Muttathi and Dongargaon, respectively, and shared 13.9 and 6 per cent of the total credit disbursed by the RRB in the respective villages.
- Loan portfolios of commercial banks as well as RRBs were more diversified in the region with micro finance activity as compared with their counterparts in the area without micro-finance activity. Loan portfolio of co-operative banks was dominated by crop loans in both the areas.
- It was mainly large farmers (70 per cent of all the borrowers) who took loans for development of irrigation; commercial banks were the major source of loans.
- Loans for small and tiny industries were given only to landless households in Muttathi, whereas these were appropriated by large farmers in Dongargaon.
- The proportionate area under food crops was inversely associated with the farm size.
- The proportion of farmers buying inputs on credit was higher among the large farmers as compared with their small and marginal farmer counterparts.
- Income from agriculture hovered around 60 per cent of the total household income on marginal and small farms, whereas it accounted for more than 90 per cent on the large farms.
- Roughly 90 per cent of the total number of households from both the villages borrowed from formal lending institutions.
- About 50 per cent of the landless and 55 per cent of the marginal farmers borrowed through SHGs.
- Loans from formal sources accounted for 60 per cent of the loans of the landless as against 53 per cent in the case of medium/large farmers.

- Informal sources (friends/relatives and moneylenders) shared almost three-fourths of the loans taken for contingent consumption in both the villages.
- Almost all the landless households took consumption loans as against 20 per cent of the large farmers opting for the same.
- It was observed that about three-fourths of the borrowers from co-operatives had overdues as against 36 per cent of the borrowers from banks.
- The proportion of overdues in the outstanding loans from co-operatives was positively associated with the size of landholding.
- In general, transaction cost of borrowing from informal sources was the lowest among sources of loan in both the villages.
- The transaction cost per loan from informal sources ranged from Rs.10 for small farmers to Rs.33 for the landless.

Policy Matrix

Problems/shortcoming	***Action point***	***Implementing agency***
Security/collateral requirement	Evaluate the incremental income resulting from use of credit	Commercial banks and Co-operatives
Inadequate loan amount	Use realistic scale of finance and additional amount to meet consumption needs of the poor farmers	NABARD, DCCs and commercial banks
Uniform rate of interest	Since rate of value addition is positively associated with land holding, differential rate of interest will help the small and marginal farmers	Policy decision by NABARD
Time lag between application and disbursement of loan	Reduce the time taken for processing the loan application. Fix the time schedule for processing of loan application and disbursal of loan	Co-operatives and commercial banks
High transaction cost	Simplify documentation process. Inform the applicant about shortcoming of documents at the time of submission of application and probable date of disbursal of loan to avoid frequent trips	Banks and co-operatives
Recovery & Overdue	Recovery of loan amount should coincide with the harvest period	Commercial and Co-operative Banks
Re-phasing of credit	Recovery of loan amount should be re-phased during severe distress like drought and floods or localized events	NABARD, Commercial and Co-operative Banks
Non-availability of loans to meet contingent consumption	Provision should be made to extend loans to meet contingent consumption needs of the poor	Co-operatives and commercial banks
Supply-oriented banking	The financial institutions should follow pro-active banking strategies in rural areas.	Co-operative and commercial banks