

## Agricultural Credit Constraints in Nayagarh District of Odisha

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### ABSTRACT

*The banking segment in any country functions as a significant institution in the financial sector. The role of the banking institutions in rendering agricultural credit is immensely appraised. But with the loopholes in the agricultural credit system, the farmers are the sufferers. An attempt is herein made to study the setbacks in agricultural credit delivery mechanism which was designed through a random sample survey of hundred credit availed farmers in the diverse agriculture terrains of Nayagarh district and analyzed by Garreett ranking method. The study indicated that the presence of intermediaries, documentation and the procedural formalities are the major constraints associated with borrowing from each of the sources viz. Commercial banks, Regional Rural Banks and Cooperatives. Higher rate of interest and distance of the institution from the households are the other constraints for the borrowers from Commercial banks and RRBs. Borrowers from cooperatives didn't face much problem. Farmers are undeniably the weaker sections of the society. It is therefore imperative for the government to recognize its duty to protect the legitimate interest of the farmers, especially the small and marginal farmers and there should be no compromise in safeguarding the interest of the farmers. In this way, a strong and healthy nation of tomorrow can be assured with the prosperity of the farming community.*

**Keywords:** Credit, Documentation, Farmers, Garreett ranking

### INTRODUCTION

The banking segment in any country functions as a significant institution in the financial sector. The banking system had certain setbacks. The Indian banking system didn't maintain a planned cost structure and was also unable to match its steps with changing market needs and rising competition. The rigidity within the decision making procedure and high cost of operation of banking activities out of

the assets largely affected Indian Banking system and hence the role of finance as an accepted norm is to reflect the real economy. Nationalization of banking system in two periodic segments viz. July 1969 and April 1980 made it more organized as well as consolidated and hence supported the banking sector in successfully fighting the financial crisis that had affected a large fragment of Indian population.

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The nationalization of banks altered the entire scenario of banking activities throughout India. So also the agriculture sector was immensely facilitated by this nationalization of banking sectors. The economic liberalization in 1991 projected the new role of finance in India in terms of foreign investment expansion and diversification of individual units within various sectors. The liberalization procedure of Indian economy made the Indian companies confront competition from foreign companies to upgrade the quality of their products. To incorporate changes in the financial system modifications of exchange rate policy and interest rate policy are important.

It is well known that sixty eight per cent of country's population is residing in rural areas which directly or indirectly are dependent on agriculture. In this context, to protect agriculture and other allied sectors, some specialised bank branches eg. the Agricultural Development Branches (ADB), Agricultural Banking Divisions (ABDs) of SBI, Grama Vikas Kendras (GVKs) of Bank of Baroda, Rural Service Centers (RSCs) of Dena Bank, Farm Clinics (FCs) of Syndicate Banks and Rural Credit and Development Division (RCDD) of Indian Overseas Bank were opened to cater to their needs. The Indian agriculture banking system flourished from 1975 with the establishment of Regional Rural Banks (RRBs) with an ordinance to expand rural banking in rural areas to benefit farmers in terms of better quality service. The RRBs aimed to provide financial credit to farmers on the lowest interest rate, fulfill the basic needs of working capital of farmers, providing loans and advances to the co-operative societies and other agriculture societies, accept deposit from rural and related areas, provide loans and advances to small entrepreneurs and others who are engaged in trade, commerce and industry. Thereafter in 1982 RBI again established new agriculture finance corporation (NABARD) to provide finance and carry agricultural policies and schemes in

favour of farmers. Cooperative banking governed by Banking Regulation Act 1949 and Banking Law Act 1955 provide the credit facility to farmers, salaried employees and small scale industries.

Priority sector lending for all around development of the economy as against concentrating only on profitable financial sectors includes giving loans to all those sectors like agriculture, micro small medium enterprises, export credit, housing, social infrastructure renewable energy and others (personal loans to weaker sections, loans to distressed persons, and loans to state sponsored organisations for scheduled castes and scheduled tribes) which may not get timely and adequate credit without special dispensation and the total priority sector targets is forty per cent of Adjusted Net Bank Credit (ANBC). As far as agriculture as priority sector is considered, it incorporates farm credit, agriculture infrastructure, and ancillary activities and this priority sector targets eighteen per cent of ANBC. With this objective, the scheduled commercial banks provide multifarious services to the farmers viz. cash credit, mobile banking, crop insurance, gold loan, online banking, training and consultancy services, agro tech and agro clinic facilities, kishan credit card (green card) services so on and so forth. Agricultural credit systems promotes the expansion and continued survival of farm and livestock operations

So far as agricultural credit is concerned in Odisha, the extent of crop loan has been maximum in case of paddy with a lion share by the cooperatives (~66 per cent). Issue of term loan has been a challenge for the bankers as the majority of the farmers are marginal farmers and they lack security. Unlike the capitalistic countries, the concept of collective farming is not in practice. For all that, a new idea of FPOs (Farmers Producers Organization) has been promoted in Odisha just four to five years before that foster collective asset owning, hire of expertise

service, technology support to increase scale of production, price discovery through spot exchange mechanism, better price realization for the produce and equal share of the dividends for the members. FPOs, working on the principle of cooperation, are the Bankers first choice for lending owing to reduced transaction cost, account maintenance, default chance and so on. Despite that, out of the two hundred twenty five FPOs registered under Company Act of 1956, in Odisha, only eighteen FPOS have availed credit facility. Coming to Nayagarh district, it can be mentioned that though six FPOs have been registered, none of them have availed credit. The level of their work has been completely unsatisfactory. The challenges confronted by the fellow farmers are alarming. Majorities of the needy, willing as well as able to borrow farmers, normally, are unable to have the access to agricultural credit owing to the bureaucratic and procedural lending process that prevail and most importantly it skew towards the influential farmers in the locality. The needy farmers are thus the sufferers for which the loopholes in the agricultural credit system need to be addressed.

With this backdrop, the research has been undertaken to study the problems in the agricultural credit structure in the study area that stands on the path of the development of the agriculture sector.

## MATERIALS AND METHODS

Nayagarh district in the state of Odisha was purposively selected for the study. The sampling procedure followed here for the study was multi staged random sampling method. On the first stage, Nayagarh block was randomly selected.

On the second stage out of the twenty nine gram panchayats in Nayagarh block, one third (ten) of them were selected randomly that would represent the entire block. Such panchayats were Balugaon, Champatipur, Badapandusar, Biruda, Bhattasahi, Lenkudipada, Kalikaprasad, Lathipada, Nabaghanapur, Sinduria.

In the third stage, ten households were taken from each GP randomly. Head of the household was the respondent. The farm holdings were classified in three size groups as:

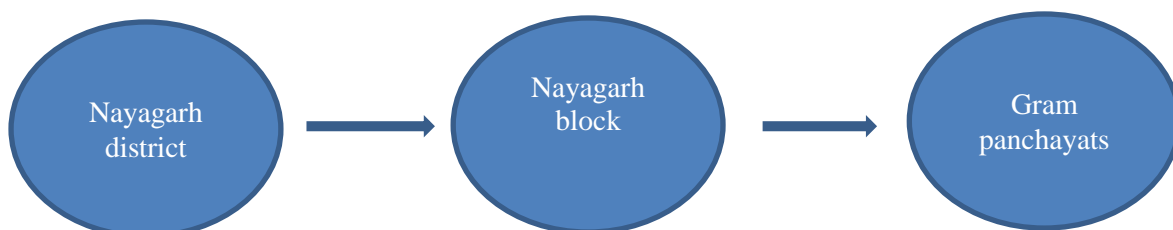
Group-I: Marginal farmers (< 2.5acres)

Group-II: Small farmers (2.5-5acres)

Group-III: Large farmers (> 5acres)

It was seen in all the Panchayats that nearly sixty per cents farmers belonged to Group-I category while thirty five percent from Group-II and rest from Group-III category. From each panchayat ten households were take randomly that comprised of six marginal farmers, three small farmers, and one large farmer.

### Selection of sample respondents



CATEGORY GPs	Group-I	Group-II	Group-III	Total
Balugaon	6	3	1	10
Champatipur	6	3	1	10
Badapandusar	6	3	1	10
Biruda	6	3	1	10
Bhattasahi	6	3	1	10
Lenkudipada	6	3	1	10
Kalikaprasad	6	3	1	10
Lathipada	6	3	1	10
Nabaghanapur	6	3	1	10
Sinduria	6	3	1	10
Total	60	30	10	100

Thus in this way hundred households i.e. sixty from Group-I, thirty from Group-II and ten from Group-III were selected from the block for the present study.

The source of data was typically primary in nature

In order to analyze the factors affecting borrowing and evoke the constraints in farm credit, Garreth ranking technique was used. Unlike simple frequency distribution, in this technique, the constraints were arranged based upon their importance as stated by the respondents. In other words, respondents were asked to assign rank for all the factors and the outcomes of such ranking were converted into score value as per the following formula.

$$\text{Per cent position} = \frac{100 * (R_{ij} - 0.5)}{N_j}$$

Where,

$R_{ij}$  = Rank given for  $i^{\text{th}}$  factor by  $j^{\text{th}}$  individual

$N_j$  = Number of factors ranked by  $j^{\text{th}}$  individual

With the help of Garret's Table given by Garret and Woodsworth (1969), the per cent position of each rank was converted into scores. For each factor, the scores of each individual were added together and divided by the total number of the respondents for whom scores were added. Thus mean value of scores were calculated. These mean scores for all the factors were arranged in descending order and ranks were given. The factor with the highest

mean value was considered the most important factor.

## RESULTS AND DISCUSSION

Availing credit from institutional sources involves several problems. But before analyzing the agricultural credit constraints, let us have a quick glance on the sources of credit of the sample respondents.

Table 1 represents the sources of farm credit for the sample respondents. Commercial banks, Regional Rural Banks and Cooperatives are the various sources of credit for the sample respondents in the study area. Group-I respondents have maximally borrowed from cooperatives while Group-III respondents have completely relied upon commercial banks. RRBs have only contributed to the Group-I respondents indicating limited credit transaction. All the three sources of credit have catered to the credit needs of Group-I respondents. Majority of the Group-II respondents i.e. eighty per cent are dependent on commercial banks and rest of the respondents on cooperatives. So in a decreasing tune, forty four respondents met their credit need from cooperatives followed by thirty nine from commercial banks and rest of the respondents from the RRBs.

**Table 1: Sources of credit for the sample respondents (n=100)**

Sl. No.	Category	Commercial banks		RRBs		Cooperatives	
		Number	%	Number	%	Number	%
1	<b>Group-I</b> (n <sub>1</sub> =60)	5	8.3	17	28.3	38	63.3
2	<b>Group-II</b> (n <sub>2</sub> =30)	24	80	0	0	6	20
3	<b>Group-III</b> (n <sub>3</sub> =10)	10	10	0	0	0	0
4	<b>Total</b> (n=100)	39	39	17	17	44	44

Each of the institutional sources has its own limitation. Table 2 points out the constraints faced by the sample respondents while seeking to borrow from the commercial banks. Presence of the intermediaries is the major constraint to borrow from the Commercial banks. Next to it is the documentation and

procedural formalities that hinder the borrowing process. Thereafter ensues respectively the distance of the institution from the household, higher rate of interest, 24\*7 hours unavailability, time lag between credit need and disbursement and the collateral security.

**Table 2: Constraints faced by sample respondents seeking to borrow from Commercial banks (n=100)**

Sl no.	Constraints	Garrett score	Rank
1	Presence of Intermediaries	75.8	I
2	Documentation and procedural formalities	65.9	II
3	Collateral security	18.9	VII
4	24 x 7 hours availability	42.44	V
5	Time lag between credit demand and disbursement	21	VI
6	Distance of the institution from the household	53.5	III
7	Higher Rate of Interest	52.9	IV

Similarly, sample respondents face the similar constraints while borrowing from RRBs, but in varying order and are presented in Table 3. Presence of the intermediaries and the documentation and procedural formalities are even the major constraints in borrowing from

RRBs. Thereafter comes higher rate of interest, distance of the institution from the household, time lag between credit need and disbursement, 24\*7 hours unavailability and the collateral security as the succeeding constraints in borrowing process from RRBs.

**Table 3: Constraints faced by sample respondents seeking to borrow from RRBs**

(n=100)

Sl no.	Constraints	Garrett score	Rank
1	Presence of Intermediaries	67	I
2	Documentation and procedural formalities	64.5	II
3	Collateral security	22.3	VII
4	24 x 7 hours availability	34.9	VI
5	Time lag between credit demand and disbursement	43.7	V
6	Distance of the institution from the household	52.2	IV
7	Higher Rate of Interest	57.1	III

Table 4 represents the constraints confronted by the sample respondents seeking to borrow from cooperatives. Again Presence of the intermediaries and the documentation and procedural formalities constitute for the top

two major constraints in borrowing from Cooperatives. However, in borrowing from cooperatives there is no other constraint except the time lag between credit need and disbursement, but it has less Garrett score.

**Table 4: Constraints faced by sample respondents seeking to borrow from Cooperatives (n=100)**

Sl no.	Constraints	Garrett score	Rank
1	Presence of Intermediaries	79	I
2	Documentation and procedural formalities	46.2	II
3	Time lag between credit demand and disbursement	25.8	III

From among the different constraints faced by the farmers while borrowing from different institutional sources as depicted in table 2, 3 and 4, the respondents have opined collateral security as the minor constraint both in RRBs and commercial banks. The respondents wishing to borrow from cooperatives don't even think it as a constraint.

This is a contradiction to the findings of Akram et al. in (2008) about agricultural credit constraints in rural Punjab and Ibrahim and Aliero in (2012) regarding access to agricultural credit in Nigeria. The contradiction may be obvious due to the difference in area studied.

In the perspective of security, it can be noted that all the respondents have availed short term loans only. The papers of cultivated land are placed for mortgage process. Term loans are not at all provided by the financial institutions in the study area. So obviously collateral is not a problematic aspect. Had there been the issue of term loans, collateral security might have been a problematic aspect.

Further it is clear from those three tables that presence of intermediaries, documentation and the procedural formalities were the major constraints associated with borrowing from each of the sources. Higher rate of interest and distance of the institution from the households were the other constraints for the borrowers from Commercial banks and RRBs. Borrowers from cooperatives didn't face much problem

This is similar to the findings of Srivastava and Singh in 2005 regarding inappropriate functioning of financial

institutions and Thomas et al. in (2005) regarding problems encountered by borrowers in Thrissur district of Kerala.

From the tables 1, and 2, 3, and 4, it is clear that the cooperatives are the farmers' first choice for credit and more particularly for the marginal farmers for its limited limitations. Though in commercial banks procedural and bureaucratic lending process prevail, it has catered the credit needs of Group II and III respondents signifying their rapport and close nexus with the bankers. Only few influential Group I respondents met their credit needs from Commercial banks.

## CONCLUSION

Based on the findings of the study, the following policies are suggested in the study area to eliminate agricultural credit constraints and to ensure farm credit for all.

- Issue of composite credit system that would include both cash credit and term loans that would result in institutional support for capital formation in agriculture.
- Business Correspondents or Business Facilitators need to be set up by banks to provide banking services at locations other than a bank branch to expand its outreach and offer a range of banking services at a low cost.
- Bankers should strictly restrict the interference of the intermediaries and middlemen in the lending process.
- Simplified documentation and procedural formalities.

- The implementation of agricultural credit programmes are largely monitored and supervised by top managers (higher scale officers). Such officials should not only formulate the policies from their own stand point but have to deal it in the grass root level, else the impact of such programmes would render insignificant.

Farmers are undeniably the weaker sections of the society. It is therefore imperative for the government to recognize its duty to protect the legitimate interest of the farmers, especially the small and marginal farmers and there should be no compromise in safeguarding the interest of the farmers. In this way, a strong and healthy nation of tomorrow can be assured with the prosperity of the farming community.

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