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CONSTRAINTS IN THE FLOW OF AGRICULTURAL CREDIT

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Despite concerted efforts on the part of the Government, the supply of credit still lags much behind than the demand. Even under existing situation, the credit facilities provided by different institutions are not fully availed by the farmers particularly by the smaller ones. The study was conducted in order to know the causative factors. The analysis made in this regard revealed that provision of security, heavy transactional cost, time lag, and procedural difficulties were the major constraints in the flow of agricultural credit.

INTRODUCTION

Credit is a key element in the modernization of agriculture. Not only can it remove the financial constraints, but it may also accelerate the pace of adoption of new technologies. Keeping this in view, the Government initiated many programmes and entrusted different agencies to fulfill the credit requirements of farmers. These programmes claim to have achieved the set objectives, but the extent of those is not precisely known. The study in hand was carried out to identify the constraints in the flow of agricultural credit to the farmers.

MATERIALS AND METHODS

The study was conducted in four randomly selected villages of District Sialkot. As many as 226 loanee farmers having land holding upto 12.5 acres were interviewed to find out the constraints faced by them in obtaining institutional credit.

RESULTS AND DISCUSSION

Though the credit advanced by lending institutions has increased tremendously, yet there is a sizeable gap in the actual supply and estimated credit requirements of farmers. In fact, even under existing situation, the credit facilities provided by these institutions are not fully availed by the farmers, particularly by the small holders. The knowledge of the causative factors seems imperative for future improvement in credit policy to benefit the large majority of small farmers. The analysis made in this regard revealed some major constraints which are presented here under:

Eligibility and security: Traditionally, the credit institutions required that the loanees provide some collateral, usually the land, as loan security. Straightway it excluded the tenants who lacked title to land. The small farmers were also unable to get the required amount due to low value placed on land owned by them. The change in eligibility from security to personal surety has improved the situation to some extent but the small farmers and tenants are still facing difficulties in availing this opportunity. The analysis of the data on sample loanees revealed that 55% loans advanced by three major institutions (ADBP, commercial banks and cooperatives) to owner cultivators were against the personal surety as against 45% against security. The respective values for tenants were 92 and 8 in case of the sample respondents. Commercial banks and cooperatives advanced credit against personal surety while ADBP issued loans against security. It was further noted that 15% of respondents (owners + tenants) were unable to arrange the personal surety due to lack of influence and poor financial position which usually created suspicion of non–repayment and thus were unable to benefit themselves from these facilities. The commercial banks did not accept the surety of 10% respondents. As many as 65% of the respondents interviewed were not in favour of collateral requirements of the lending institutions as it not only made the procedure complicated but also enhanced the cost of loan.

Transactional cost: Transactional cost plays crucial role in the disbursement of credit. Among the various costs, interest rate (now called profit) is the important one. It covers the opportunity cost of capital, cost of administering credit, risks, defaults, etc. The interest charged by ADBP for both production and development loans was 12% while commercial banks and cooperatives charged respectively 13 and 11% on development loans, while the production loans were provided free of interest to the small farmers. A large majority (89%) of the sample respondents were against the interest rate on the ground that without adequate facility of credit, the small farmers (owners + tenants) were unable to use the modern technologies and thus lagged behind in the development process, ultimately slowing down the pace of development in the agriculture sector. Furthermore, the monetary gains on investment made in the agriculture sector are relatively lesser than industrial or other sectors of the economy. Hence subsidization on credit to farmers seems feasible. High interest rate may discourage the acceptance of loan by the farmers or enhance the probability of defaults in repayment of credit. However, the lenders on the other hand, argued that subsidization of credit would encourage excessive capitalization of farm investment in farm machinery creating thereby unemployment in rural areas. Secondly, major proportion of subsidized credit would go to the large farmers due to their influence, credit worthiness and finally the provision of subsidized credit to small farmers may lead to corruption and misutilization of loans.

The analysis of transactional cost of loans showed that loanees (owners and tenants) bore Rs. 544/- as the cost of processing of documents, followed by the cost of number of days spent (Rs. 540/-) and entertainment to bank officials (Rs. 300/-) on an average development loan. The average cost assessement came to Rs. 39 per thousand rupees loan without interest.

The cost of interest free production loans was estimated at Rs. 116/- per thousand rupee loan for a crop season (six months). This cost was not only much higher than the interest bearing loans but also is indicative of credit urgency and complex procedural formalities of the loaning agencies.

Time lag: Time lag in the provision of credit not only increases the cost but also affects the proper utilization and expected returns from credit use. As a consequence, it may delay the repayment of loan. According to the lending institutions operating in the study area, the maximum time lag for production loan was 48 hours while for development loans it was 7 days. The farmers response revealed that 56.5% loans were delayed. Of these, 29% were provided after 15 days, 48% after 30 days and 23% after 60 days of loan request. The delay was attributed to difficulties in documentation (64%), non–cooperation of bank officials (21%) and lack of security/surety (14%),.

Procedural difficulties: Receipt and processing of documents substantially increase the cost of loan, delay disbursement and discourage the borrowers. Small farmers and tenants are generally penalized by cumbersome and time consuming procedures for obtaining loans, especially the completion of complex loan forms and pre–audit of borrowers who are illiterate and located away from the lending institutions. So far many efforts such as Pass Book system, declaration form and B–7 guarantee form, have been made to simplify the procedure, but obtaining of these documents poses further problems such as cost, more time consumption, issuance of more than one pass book, etc. These difficulties were reported by 73% of the sample respondents in the study area.

Mode of payments: An analysis of information pertaining to mode of payment (kind vs. cash), (lumpsum vs. instalments) indicated that ADBP and commercial banks disbursed loan both in cash and kind while the cooperative societies disbursed only in kind. The delayed issuance of pay order sometimes did not match with the supply of inputs at a specified shop and it thus not only delayed the supply but also increased the chances of underweighment and low quality input supply. The disbursement of development loans in instalments adversely affected the developmental work.

Loan delinquencies: Failure of loanees to repay their debts in time or to repay them at all, is a serious problem for most of the lending institutions as it adds to the disbursement cost, involves wastage of manpower utilization and rate of turnover. On the farmer's side, the overdues or defaults were mainly due to: the failure to use borrowed funds for productive purposes; secondly, the investment may have gone bad on account of crop failure due to natural disasters of various kinds and changing economic conditions (drop in farm product prices) and finally, the defaults occurred as the farmers (large ones) accord low priority to the repayment of loans, especially taken from public sector. Of the total loans advanced in the study area, 21% were the defaulted loans. In this regard the major default (52%) lied with cooperatives, followed by ADBP (26%) and the commercial banks (20%).

Misutilization: Misutilization of credit disturbs the repayment schedule making difficult the availability of loanable funds to farmers in future time. The analysis showed that the misutilization of interest free loans was at the extreme (90%) as against 2% of the development loans bearing interest. It was reported that the interest free loans were used for home consumption and in non–agriculture business such as shops and other trades. It could be so because the funds were provided to non–deserving farmers who at the end of the period might get more benefits from non–agriculture uses and were able to repay in time. The diversion of loans to non–agriculture uses affects adversely the agricultural development as well as increases the corruption among the management of lending institutions. Further more, majority of those who really deserve help or financial assistance from the public sector remain ignored, leading to social injustice and economic inequality which have deeper repercussios on the smooth development of agriculture sector in the country.

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