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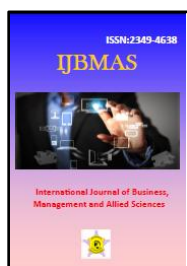
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DETERMINANTS OF FARMERS ACCESS TO INFORMAL CREDIT DESPITE FORMAL LENDERS IN TIRUNELVELI DISTRICT, TAMILNADU

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ABSTRACT

To quote, Dr. M. S. Swami Nathan, Father of Green Revolution, "Future Belongs to Nations with Grains and not Guns"¹.

Agriculture is the primary sector in Indian economy and hence the prosperity of agriculture determines the development of Indian economy. The goal of agricultural policy of Indian Government has been to reduce farmers' dependence with informal credit. To that end, recent measures have been concentrated explicitly on under developed areas and have had a positive consequence on the flow of agricultural credit. Though credit flow to the agricultural sector increased, the quantum of small loans from formal institutions has steadily diminished. The availability of timely credit and financial assistance from Commercial Banks under Priority Sector Lending Scheme appears to be the highest challenge for farmers, according to the primary findings of this study. In addition, there are many more factors which forces farmers' credit access from informal money lenders who occupy a prime place in lending credit to rural people by charging exorbitant rate of interest and have a complete control over them in the villages. Thus agricultural borrowings at a reasonable rate available at institutional lenders are unattainable by the desired sectors and areas of economy which are more productive and prospective.

Key words: Agricultural finance, formal lenders, informal lenders, commercial banks, borrower preference.

1. INTRODUCTION

Prof. Murray (1953) defined agricultural finance as "an economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society's interest in credit for agriculture"². Prof. Tandon and Prof. Dhondyal (1962) defined agricultural finance "as a branch of agricultural economics, which deals with and financial resources related to individual farm units"³.

Sources of agricultural finance

The sources of agricultural credit available in our economy are,

1. Formal sources

- a. Commercial Banks
 - b. Non-Banking Financial Companies (NBFC) and
2. Informal Sources of Finance

1. a) Commercial Banks

Commercial Banks indicate to both scheduled and non-scheduled commercial banks that are regulated under Banking Regulation Act⁴-1949.

Scheduled Commercial Banks are grouped under following categories:

- i. State Bank of India and its associates
- ii. Nationalized Banks
- iii. Foreign Banks
- iv. Regional Rural Banks
- v. Other Scheduled Commercial Banks.
- vi. Non-Scheduled Commercial Banks

As per Reserve Bank of India Act-1934, the banks not under schedule-II are called as non scheduled banks.

b) Non-Banking Financial Companies (NBFC)

A Non-Banking Financial Company is a company registered under Companies Act-1956 take lead role in the business of loans and advances to MSMEs, acquisition of shares or stock; engage in hire purchase, loan to housing & infrastructure and do all necessary functions of a bank except issuing cheques and or demand drafts.

2. Informal Sources / Non-institutional lenders

The non-institutional lending forms an important source of rural credit in India. The rate of interest charged by the informal lenders is usually very high. The land, ornaments or other assets are kept as collateral. The important sources of non-institutional credit are as follows:

(i) Money-Lenders / pawn brokers:

Money-lending with or without following any norm has been the widely prevalent profession in the rural areas. The money-lenders charge arbitrary rate of interest and pledge the property of the cultivators as collateral.

(ii) Other Private Sources:

Traders, landlords and commission agents: The agents give credit on hypothecation basis to farmers of crops which when harvested is used to repay loans.

(iii) Credit from relatives:

These credits are normally used for meeting day-to-day agricultural demands like wages for labour, purchase of seeds, manure etc.

To provide valuable financial service to farmers, all the existing institutions like money lenders, commercial banks, cooperatives and the Government have to be integrated and harnessed to a common benefit/purpose. Such a comprehensive approach is essential for ensuring the best use of all the available resources of the nation⁵

2. STATEMENT OF THE PROBLEM

Contributions to agricultural sector by our State and Central Government are innumerable. They offer economic assistance in the form of interest subvention/subsidy and even part/full waiver of principal amount too. These assistances are enabled with the help of commercial banks. But still, in most times, farmers tend to borrow from usurious lending sources other than commercial banks. The most important reason behind going for informal borrowing is that these commercial banks tend to restrict their lending activities to more risky field of lending i.e. the agricultural sector.

As per the preliminary finding of this research, the forces push farmers to access credit from informal lenders are, inability to post collateral, financial illiteracy, insecure property titles and lack of credit history. Consequently, pawn brokers, professional moneylenders and land lords who offer informal credit, frequently acquire fund from commercial banks to service borrowers' financing

needs. Financial sector coexistence not only permits poor borrowers to borrow funds from two sources, but it also allows non-institutional lenders to access banks⁶.

Against this perspective, a need is felt by the researcher to analyze the factors determine farmers' access to non-institutional lenders inspite of commercial banks in Tirunelveli district.

3. OBJECTIVES OF THE STUDY

- ✍ To study the factors that forces farmers to access credit from informal lenders atop of commercial banks and NBFCs
- ✍ To examine the overwhelming accusation that commercial banks are prejudiced against needy farmers.
- ✍ To analyze informal financiers' complimentary role to commercial banks in the study area with reference to agricultural credits.
- ✍ To find out socio-economic factors impacts the borrowing behaviour of farmers between institutional and non-institutional lenders.
- ✍ To offer suggestions to deliver benefits of formal lending to every needy farmers through commercial banks.

4. SCOPE OF THE STUDY

The present study focused on farmer borrowers' choice selection of non-institutional lenders. This study is developed from the data provided by rural and urban farmer borrowers by employing structured questionnaire. Borrowers' opinion on lending practices of commercial banks, NBFCs and informal lenders are studied by considering factors such as rate of interest, lending formalities, quantum of funding, repayment mode, repayment duration etc. This study is limited to the district of Tirunelveli.

5. METHODOLOGY

The survey covered 23 villages across the district and elicited opinion from 160 farm loan borrowers. The responses were primarily collected for the agricultural year 2016-2017. A multi-stage random sampling method was employed in determining sample respondents. In the beginning stage, villages that had no access to formal credit were selected. Some areas which have access to NBFC and no banks are added in the first stage of study. In the second stage, the banks located in the block, namely State Bank of India, Canara Bank, Indian Bank, Primary Agricultural Co-operative Societies and District Co-operative Banks were selected.

Responses were gathered through structured questionnaire by personally meeting respondents in the premises of Government & private commercial banks, NBFCs, pawn shops and local lenders. Few illiterate respondents were gathered opinions through interview schedule method. For the purpose of analyzing the data collected in the survey undertaken, Chi-Square test was applied.

6. LIMITATIONS OF THE STUDY

- 👉 Data collection was confined to 160 farmer borrowers of Tirunelveli district
- 👉 Lending schemes and norms of various lenders are subject to change from time to time and hence this study is valid for specific time / period only.
- 👉 NBFCs are given less importance to commercial banks
- 👉 Few critical questions were dropped in view of non-response from the respondents.

7. REVIEW OF LITERATURE

Mariappan.K in his PhD thesis submitted to Manonmaniam Sundaranar University entitled "A study on farmers' perception towards agricultural finance provided by various sectors of banks in Tirunelveli district, Tamilnadu" reported that majority of the farmers wish to maintain their accounts in Regional Rural Banks, Cooperative Banks, Public Sector Banks and Private Sector Banks etc., they fall in the clutches of Private Money Lenders. Default repayments outdo regular repayment of loans. His suggestions: provision of finance commensurate with operations, post of agricultural field experienced banking officials and in time finance to meet the social conditions of the farmers⁷.

Mr. Hari Srinivas (2016) in his case study series E-111 analyzed and revealed fourteen reasons why informal credit is used mostly by rural poor populace. His second reason is highly noticeable that the borrowers are primarily asked to make a small deposit with the local lenders, and are then allowed credit in multiples of their deposit a few months later. This feature facilitates poor to enable borrowing process easier. He also concluded that the terms and conditions of informal lenders are so flexible⁸.

Dr. M. Lakshmi and R. Pradeepa (2016) studied on borrower preference to daily collection finance, concluded that such informal finance is really risk free and are so convenient too. This type of finance has an advantage of collection dues on daily basis. Borrowers prefer such finance for the reasons of simplified procedure, tolerable risk, proximity to lender, convenient repayment and even a borrower can use borrowing for unproductive reasons also⁹.

G. Maria Delicia Helina, in her study entitled, "Customer's Perception Towards NBFC in Tuticorin District" aimed to determine the complimentary role of NBFCs to commercial banks in the district. She has identified that NBFCs occupy a strong position in providing gold loans when comparing other loan providers. She also found that simplified procedural formalities and availability in short notice are the factors which attract borrowers towards non-banking financial companies.

Mr. Manash Ranjan Gupta and Mr. Sarbajit Chudhuri (1996) studied that the supply of formal credit is affected mainly by a bank official, who is bribed by the farmer to get credit and the effective interest rate for formal credit incorporates the bribe. The money lender on the other side determines the informal interest rate. Thus the money lender and the bank officer play a non-cooperating game, choosing the bribing rate and the interest rate simultaneously. These factors affect the effectiveness of bank credits to agricultural sector¹⁰.

8. FINDINGS AND INTERPRETATION

Table 1: Demographic distribution of sample respondents

| Demographic information | Frequency | Percentage |
|------------------------------|------------|------------|
| Gender | | |
| Male | 142 | 88.8 |
| Female | 18 | 11.3 |
| Total | 160 | 100 |
| Age | | |
| 18 to 25 years | 7 | 4.4 |
| 26-35 years | 36 | 22.5 |
| 36-50 years | 63 | 39.4 |
| Above 50 years | 54 | 33.8 |
| Total | 160 | 100 |
| Marital Status | | |
| Single | 22 | 13.8 |
| Married | 138 | 86.3 |
| Total | 160 | 100 |
| Family monthly income | | |
| Upto Rs.10,000 | 28 | 17.5 |
| Rs.10001 to Rs.20,000 | 87 | 54.4 |
| Rs.20,001 to Rs.30,000 | 33 | 20.6 |
| Above Rs.30,000 | 12 | 7.50 |
| Total | 160 | 100 |

| Number of dependents | | |
|----------------------|------------|------------|
| Nil | 1 | 0.6 |
| 1 to 2 | 9 | 5.6 |
| 3 to 4 | 64 | 40.0 |
| Above 4 | 86 | 53.75 |
| Total | 160 | 100 |

Source: Field survey

Gender wise classification of respondents shown in Table.1 depicts that about 89 percent of respondents are male and the remaining 11 percent are female. So, it is inferred that men are taking a major share in agricultural profession than women.

A majority of 39 percent of the respondents fall in the age category of 26 to 50 years, 34 percent of the respondents are of the age category above 50. From this evidence, it is clear that teenagers' participation in farm activity is very low.

When seeing the marital status of respondents, majority of 86 percent are married and just 14 percent are unmarried. The lowest proportion of unmarried respondents shows that participation of younger bloods in agriculture is poor in this district.

This analysis also reveals that 18 percent of the respondents had a monthly income upto 10000 whereas majority of the respondents i.e. 54 percent fell in the income category of 10001 to 20000. 21 percent were in the bracket of 20001 to 30000 & only 8 percent had a monthly income of above 30000.

The data related to number of dependents indicates that 54 percent of the respondents have a family size above 4 members, 40 percent have 3 to 4 members whereas 6 percent have 1 to 2 dependents and just 0.6 percent of respondents are free of dependents.

Table.2 showing educational qualifications of respondents

| Educational qualification | Frequency | Percentage |
|---------------------------|------------|------------|
| Illiterate | 17 | 10.63 |
| Upto standard 8 | 114 | 71.25 |
| Upto +2 | 27 | 16.88 |
| Graduate & above | 2 | 1.25 |
| Total | 160 | 100 |

Source: Field survey

From this analysis, it is inferred that about 71 percent of respondents have studied upto 8th standard and about 11 percent of them are uneducated. A very low of 1.25 percent i.e. just 2 respondents are graduates.

Table 3: Chi-square analysis on the relationship between educational qualification and access to particular lender

| Educational qualification | Type of lender | | | Total |
|---------------------------|----------------|-----------------|-------------------|------------|
| | Formal lender | Informal lender | Formal & Informal | |
| Illiterate | 2 | 55 | 5 | 62.0 |
| Upto 8th standard | 5 | 29 | 8 | 42.0 |
| Upto +2 | 7 | 13 | 17 | 37.0 |
| Graduate & above | 12 | 2 | 5 | 19.0 |
| Total | 26 | 99 | 35 | 160 |

Difference of freedom: 6

Table value: Five percent level - 12.59

Calculated χ^2 (Chi-Square) value: 71.04

One percent level - 16.81

Null Hypothesis: There is no significant relationship between educational qualification and access to credit from a particular lender.

Inference: Chi- square test reveals that the calculated value of chi- square 71.04 is greater than the table value at 5% level ($\chi^2 = 71.04 > 12.59$) so the null hypothesis is rejected. Hence it is inferred that there is significant relationship between educational qualification and choice selection of a particular lender.

Table.4 showing classification of farmers based on size of land holding

| Type of farmer | Frequency | Percentage |
|-----------------|------------|------------|
| Marginal farmer | 28 | 17.5 |
| Small farmer | 65 | 40.6 |
| Medium farmer | 54 | 33.8 |
| Large farmer | 13 | 8.1 |
| Total | 160 | 100 |

Source: Field survey

From the total respondents, a majority of 41 percent of respondents are small farmers, 34 percent are medium farmer and about 18 percent are marginal farmers. A minimum of 8 percent of respondents are large farmers.

Table 5: Cross tabulation between type of farmer and access to credit from various sources

| Type of farmer | Sources of lending | | | | | | Total | |
|-----------------|--------------------|------------|------------------|------------|-------------------|------------|-------|------------|
| | Formal Sources | | Informal Sources | | Formal & Informal | | | |
| | No. | Percentage | No. | Percentage | No. | Percentage | No. | Percentage |
| Marginal farmer | 2 | 7.6 | 19 | 19.1 | 7 | 20 | 28 | 17.5 |
| Small farmer | 7 | 26.9 | 45 | 45.4 | 13 | 37.1 | 65 | 40.6 |
| Medium farmer | 12 | 46.1 | 33 | 33.3 | 9 | 25.7 | 54 | 33.7 |
| Large farmer | 5 | 19.2 | 2 | 2 | 6 | 17.1 | 13 | 8.1 |
| Total | 26 | 100 | 99 | 100 | 35 | 100 | 160 | 100 |

Source: Field survey

Table 6: Chi-square analysis on the relationship between type of farmer and access to particular lender

| Type of farmer | Type of lender | | | Total |
|-----------------|----------------|-----------------|-------------------|------------|
| | Formal lender | Informal lender | Formal & Informal | |
| Marginal farmer | 2 | 19 | 7 | 28 |
| Small farmer | 7 | 45 | 13 | 65 |
| Medium farmer | 12 | 33 | 9 | 54 |
| Large farmer | 5 | 2 | 6 | 13 |
| Total | 26 | 99 | 35 | 160 |

Difference of freedom: 6

Table value: Five percent level - 12.59

Calculated χ^2 (Chi-Square) value: 18.10

One percent level - 16.81

Null Hypothesis: There is no significant relationship between type of farmer and access to particular category of lender.

Inference : Chi- square test reveals that the calculated value of chi- square 18.10 is greater than the table value at 5% level ($\chi^2 = 18.10 > 12.59$) so the null hypothesis is rejected. Hence it is inferred that there is significant relationship between categories of a farmer with choice selection of particular lender.

Table 7: Borrowers' perceive high on selected service qualities of lenders

| Service quality | No. of respondents perceive high | Percentage |
|--------------------------------|----------------------------------|------------|
| Adequate and timely credit | 48 | 30.0 |
| Collateral free lending | 43 | 26.9 |
| Government fixed interest rate | 39 | 24.4 |
| Easy to approach | 30 | 18.8 |
| Total | 160 | 100 |

Table 8: Chi-square analysis on the relationship between service quality perception and selection of particular lender

| Service quality | Type of lender | | | Total |
|----------------------------|----------------|-----------------|-------------------|------------|
| | Formal lender | Informal lender | Formal & Informal | |
| Adequate and timely credit | 7 | 36 | 11 | 54 |
| Collateral free lending | 4 | 33 | 8 | 45 |
| Reasonable interest rate | 12 | 4 | 9 | 25 |
| Easy to approach | 3 | 26 | 7 | 36 |
| Total | 26 | 99 | 35 | 160 |

Difference of freedom: 6

Table value: Five percent level – 12.59

Calculated χ^2 (Chi-Square) value: 33.00

One percent level – 16.81

Null Hypothesis: There is no significant relationship between service quality perception and access to credit from a particular lender.

Inference: Chi- square test reveals that the calculated value of chi- square 33.00 is greater than the table value at 5% level ($\chi^2 = 33.00 > 12.59$) so the null hypothesis is rejected. Hence it is inferred that there is significant relationship between borrowers' perception on service quality and choice selection of a particular lender

9. SUGGESTIONS

The ultimate findings of this research shows that agricultural borrowers prefer to access a lender who can lend at reasonable rate of interest, simplified procedure, adequacy in funding and lender-borrower relationship. Whenever they demand for credit, their first preference is to borrow from institutional lenders as they perceive it as meritorious over informal lenders. But in most times, their willingness to have borrowing from commercial banks results in failure due to personal bias of bankers, perception that agricultural lending is risky one, rigid bank lending norms and formalities etc.

The researcher here tries to suggest either the lending institutions; the informal lenders should not be exploitative whereas the formal lenders should be condescending in delivering Governments' scheme to really needy farmers.

Many times even the farmers who possess required collateral unable to avail loans because bank lending is largely urban based. To tackle the overall problems, our government can provide:

- ✓ More banking operations in rural areas and hence the availability of formal lending to every farmer is to be ratified.
- ✓ The terms of credit (such as collateral requirements) can be relaxed for the poor.
- ✓ Farmers should be stop exploited by informal lenders who are with inherent profit motive.
- ✓ The provisions of mandatory lending for priority sector and the agricultural activities should continue.
- ✓ The financial cum consultancy approach of commercial banks needs to be followed.
- ✓ Farmer borrowers' turnover to informal lenders should be minimized or stopped by improving the channels of formal lending to agricultural activity.

10. CONCLUSION

The non-institutional lenders however are not totally a risky finance. Anyhow it is risky in terms of slightly high interest compare to commercial banks and NBFCs. The accessibility and fundability of informal lenders, low importance to collateral and availability in short notice are also their merits. The promise of politicians on waiver of agricultural loan has stimulated greedy farmers' non-repayment of their dues, virtually stopped credit cycle and made commercial bankers to think farm lending as a risky one. So this practice should be either stopped or modified as needful. Above all, marginal and small farmers still remain helpless in the banking parlance and thus progressive institutionalization of agricultural lending is the need of the day.

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