

SMALL FARMERS' NEED FOR INSTITUTIONAL CREDIT IN BANGLADESH*

M.A. Kashem

Bangladesh Agricultural University

1. Introduction

The use of institutional credit by farmers in Bangladesh is one of the uninvestigated aspect which needs investigation to check whether it is being operating well or not in helping to develop rural agriculture. Credit represents that portion of the investment of a producer which he cannot meet from his own resources to attain a target of production. In Bangladesh credit requirement is very high in the agricultural sector because the overall production of the country depends on a large number of individual farmers, the majority of whom are in a marginal economic condition. The credit requirement has increased following the popularization of HTVs (high yielding varieties) as these varieties require greater investment compared to local ones. Agricultural credit is being operated by various institutions in Bangladesh, the main sources being at present, the Bangladesh Krishi (Agricultural) Bank (BKB), Bangladesh Jatiyo (National) Samabaya (Cooperative) Bank (BJSB), Bangladesh Rural Development Board (BRDB) and the nationalized commercial banks (NCBs). BJSB, BRDB and NCBs provide mainly short-term production loans. BKB is the only institution which provides credit for the development of agriculture through medium- and long-term loans besides catering to the seasonal credit needs of the farmers.

Since the liberation of the country in 1971, the Government's policy has been to increase investment in agriculture. Credit policy has been directed accordingly towards financing agricultural sector. Various credit programmes have been drawn up with due emphasis on increasing the coverage of small and marginal farmers, including sharecroppers, so that they could also participate in the developmental activities. In 1973, the NCBs began to operate in the agricultural credit field and they were involved in a big way through a mass oriented Special Agricultural Credit Programme (SACP) which was launched in February 1977 for providing short-term credit for financing crop production. Through this programme, small farmers who were among the rural disadvantaged group — economically poor, politically powerless and socially under-privileged — were also expected to be eligible for credit. Although the flow of credit to the agricultural sector

* Views expressed in the paper are the author's alone and do not necessarily reflect the views of the organization where the author is affiliated to. Thanks are due to G.E. Jones for offering helpful comments on early drafts of the paper.

has increased substantially after the introduction of this programme, very little of the institutional credit has reached the small farmers because of various constraints and problems which the delivery system could not overcome. The problems arose mainly because of the influence of the rural power structure and the traditional outlook of the credit institutions. However, in order to overcome the problems of the disadvantaged rural poor in receiving institutional credit, (i) an Action-cum-Research Project prepared under the joint auspices of the Government of Bangladesh and the FAO's regional project in Asian Survey for Agrarian Reform and Rural Development (ASARRD) was first undertaken in March 1976 (Molla, 1982:179), and (ii) Grameen Bank Prakalpa (GBP) (Rural Bank Project) was taken up as a project in December 1976 by the Bangladesh Bank (Yunus, 1982:225).

In spite of the efforts so far been made in Bangladesh, small farmers who constitute about two-thirds (65.82 per cent) of the rural households (BBS, 1985:211) are not receiving institutional credit as was expected. In most cases the institutional credit which is assumed to be used by the small and marginal farmers is being received by landlords, large farmers, traders and businessmen who are not usually found to be directly involved in cultivation procedures. Bangladesh is receiving each year a considerable amount of money as loans from the World Bank, UNDP/FAO, IFAD and other government and international organizations in order to help finance small and subsistence farmers in increasing their agricultural production. This is usually made available as credit for such farmers by existing institutions. But, in practice, what is going on behind the scene needs to be carefully reviewed. There is a need to measure the contribution of such credit in developing subsistence agriculture. If the purpose of using the credit has not been fulfilled, or this seems unlikely, it will not be wise to distribute so much credit in the present ways. Rather, alternatives have to be found. Although group-based savings and credit are reported to be operating successfully through the Grameen Bank (Yunus, 1984; Sadeque, 1986) its coverage is still limited not only in its number of clients but also in the category of clients. Its main interest is not the small farmers who are directly involved in cultivation procedures, but the landless, resourceless and other rural disadvantaged — men and women. As Yunus (1984: 9-20) — the founder of the GBP — has described, 'any person whose family own less than 0.40 acre (one acre = 0.4047 hectare) of cultivable land, and the value of all the family assets together does not exceed the market value of one acre of medium-quality land in the area, is eligible to take loans from the Grameen Bank for any income generating activity'. This implies that the Grameen Bank usually does not provide credit for agricultural development, but rather it provides credit for trading and makes the borrower a petty trader.

If the small farmers who constitute the majority of the rural households do not obtain institutional credit, question automatically arises. Who are then maximum beneficiaries of these credits? A research study was, therefore, undertaken to determine the credit needs of small farmers in Bangladesh. It is at this point necessary to define a small farmer. In the international development jargon "small farmer" has been built up as the typical poor and the neglected; smallness of the "small farmer" however, varies, in the international scene from country to country — it ranges from an ownership of maximum of 25 acres in one country to 2.5 acres in another country. A farmer with 2.5 acres of cultivable land in Bangladesh occupies a pretty respectable position in the income hierarchy in comparison with more than half of the population. However, to avoid this embarrassment, "small farmer" in the present context, is limited to the farmers (i) who possess cultivable land up to one acre (excluding the homestead areas); and (ii) who do not have own homestead and/or cultivable land but cultivate land up to one acre as sharecropper or tenant cultivator.

2. Methodology

The total population in the study was 1619 small farmers included within the Agri-Varsity Extension Project of the Bangladesh Agricultural University, Mymensingh, Bangladesh. Data were, however, collected from a sample of 205 small farmers during June to September 1983.

The credit need of a respondent was measured in terms of Takas (£ 1.00 = Tk. 40.00 approximately) and was defined as the difference between total requirement of credit and amount of credit actually received by him. Credit need score of a respondent was computed as follows:

$$\text{Credit Need Score} = \frac{\text{Total Requirement of Credit} - \text{Amount of Credit Received}}{\text{Total Requirement of Credit}} \times 100$$

Thus, the credit need score of a respondent could range from 0 to 100, 0 indicating no credit need. The data revealed that the credit need score of the sample farmers ranged from 0 to 97, the average being 27.9. On the basis of this credit need score, the farmers were classified into four categories as shown in Table 1.

Table 1

CLASSIFICATION OF FARMERS ACCORDING TO THEIR CREDIT NEED

Categories according to credit need score		Farmers	
Categories	Credit need score	Number	Percent
No credit need	0	75	36.59
Low credit need	1.0 to 35.0	50	24.39
Medium credit need	35.1 to 55.0	41	20.00
High credit need	> 55.0	39	19.02
Total		205	100.00

3. Findings

Of the respondents who had no credit need, 29 respondents (39 per cent) received credit as they needed; 46 respondents (61 per cent) did not feel they had any requirement for credit. The distribution of the sample farmers who received credit as per requirement is presented in Table 2.

Table 2

DISTRIBUTION OF SAMPLE FARMERS WHO RECEIVED CREDIT THEY REQUIRED

Sl. Nos.	Sources of credit	Rate of interest	Number of respondents
1	Moneylender	20% per month	1
2	Moneylender	15% per month	5
3	NCBs	13 1/2% per year	5
4	BKB	13 1/2% per year	3
5	Cooperative Bank	13 1/2% per year	1
6	CARE (Cooperative for American Relief Everywhere)	15% per year	1
7	BKB and Land Lease	13 1/2% per year and undetermined respectively	1
8	BKB and Moneylender	13 1/2% per year and 20% per month respectively	1
9	NCB and Moneylender	13 1/2% per year and 15% per month respectively	1
10	Land Lease	Undetermined	5
11	Relatives	Interest free (interest hidden)	4
12	Provident Fund	Interest free	1
Total			29

It is evident from Table 2 that of the 29 farmers who received the credit they needed, only 10 farmers (34.5 per cent) received credit fully from institutional sources; 3 farmers (10 per cent) received partly from institutional sources and partly from moneylenders and others; 6 farmers (21 per cent) received credit from moneylenders; and the remaining 10 farmers (34.5 per cent) received credit through land lease, relatives and the provident fund.

Farmers who received credit but could not fulfil their requirements are shown in Table 3. The table represents that out of 130 farmers, 69 farmers (53 per cent) received credit from moneylenders; only 38 farmers (29 per cent) received credit from institutional sources, and the remaining 23 farmers (18 per cent) received credit from other sources.

Careful analysis of the data in Table 2 and 3 reveal that in both the cases only about one-third of the farmers received institutional credit. The majority of the farmers borrowed from local moneylenders with an extremely high rate of interest, usually from 10 to 50 per cent per month. A considerable portion of farmers gave their land on lease as security and borrowed loans, and some borrowed from relatives with or without interest (interest assumed to be hidden).

Table 3

DISTRIBUTION OF SAMPLE FARMERS WHO RECEIVED CREDIT BUT COULD NOT FULFIL THEIR REQUIREMENTS

Sl. Nos.	Sources of credit	Rate of interest	Number of respondents
1	Moneylender	50% per month	2
2	Moneylender	30% per month	1
3	Moneylender	25% per month	2
4	Moneylender	20% per month	59
5	Moneylender	15% per month	4
6	Moneylender	10% per month	1
7	BKB	13 1/2% per year	20
8	NCBs	13 1/2% per year	13
9	Cooperative Bank	13 1/2% per year	2
10	Cooperative Society	13 1/2% per year	2
11	BKB & Cooperative Society	13 1/2 per year	1
12	BKB & Land Lease	13 1/2 per year & undetermined respectively	1
13	NCB & Relatives	13 1/2 per year & hidden interest respectively	1
14	Land Lease	Undetermined	10
15	Relatives	20% per month	5
16	Relatives	Interest free (hidden interest)	3
17	Neighbour	30% per month	1
18	Neighbour	100% per year	1
19	Foreign Aid Agency	24% per year	1
			Total 130

Further, merging of the Tables 2 and 3 demonstrates that of the farmers who received credit (both who did fulfil their requirements and who did not), about half (47 per cent) borrowed loans from local moneylenders; less than one-third (30 per cent) received credit from institutional sources; 9 per cent borrowed loans giving their lands on lease as security; 9 per cent borrowed from relatives and neighbours at an interest up to 30 per cent per month; 3 per cent received credit partly from institutional sources and partly from local moneylenders and relatives; only 2 per cent received credit from foreign aid agencies and others.

4. Conclusions and implications

In order to be able to purchase agricultural inputs and other requirements, credit may often be essential for a small farmer. But the findings of this study indicate that high proportion (37 per cent) of the farmers did not have any credit need (table 1) of whom nearly two-thirds further did not feel they had any requirement for credit. This might be due to the small farmers' feeling of avoiding the burdens by taking credit as they have to borrow from local moneylenders, neighbours and others who charge very high rate of interest. They might also be reluctant to receive institutional credit because of bitter experiences in the past. They might feel that if they applied for institutional credit, they would have to seek the assistance of a middleman or broker to undertake the negotiation with the officials concerned; and they recognize that if they succeed in obtaining institutional credit in this way they might have to surrender a portion of the loan to the middleman or broker and corrupt officials. Also, small farmers' conception of institutional credit may be too narrow; some of them often consider this credit as a government grant or aid, and do not recognize their liability to repay it. As a result, the next generation is born encumbered with debt and is required to repay the entire loan with interest, and in the case of inability to repay it, existing properties are often forfeited. This creates an unfavourable attitude towards institutional credit among members of the community. Some farmers might think that if they cannot properly use institutional credit, or that they will not be able to repay it in future, they will remain in permanent debt which will ultimately lead them to ruin. Of course, farmers occasionally and traditionally use credit for non-productive purposes such as marriage ceremonies, purchasing foodgrains, clothes, children's education and other household maintenance, and even for litigation, and find they can never repay it. Sometimes the rural elite also discourage and dissuade poor farmers from borrowing from institutional sources say-

ing that they will lose everything they have in repaying the loan. All these factors, therefore, lead the small farmers to avoid even considering the use of institutional credit. Extension personnel who are directly involved with farmers in developing their agriculture must be aware of these factors relating to credit affairs and should help small farmers to receive and use institutional credit, rather than leaving them at the mercy of local moneylenders, neighbours and others. In order to increase small farmers' use of institutional credit, their credit need can be increased by providing better advisory services and pin-pointing those aspects where it would be appropriate to invest the loans. In order to involve small farmers largely to receive institutional credit they should be encouraged by village level extension workers to form informal homogeneous groups voluntarily among themselves. As a group they might have access to institutional credit by which each of them would make judicious use of such credit in production purposes through close supervision by their fellow group members. Each group member should be liable for the judicious use of the credit by the others as, in the group, each and every member should be the guarantor of the entire credit sanctioned to the group; or, if the credit is sanctioned to an individual in a group, other group members can at least still see to it that their neighbours do not misuse loans. Hence, unless arrangements are made to form viable homogeneous groups for institutional credit, small farmers will continue to receive loans from local moneylenders, neighbours and others at extremely high rate of interest which will make their condition even worse. In many cases, their chances of becoming landless will be greater. Although the activities of the GBP have been recognized as successful by various corners (Alamgir, 1982; Sadeque, 1986) in providing credit to the rural poor, its impact would have been much greater if the small farmers could be involved within the ambit of this programme. In order to allow a greater involvement of small farmers in this programme, the present land ceiling (which is 0.40 acre) should be increased at least up to one acre of cultivable land (either owner, owner-cum-tenant, or sharecropper) irrespective of any valuation of the family assets. However, care must be taken not to include any fraudulent small farmers (i.e. medium and large farmers, and landlords in the name of small farmers) in order to receive credit through the formation of groups. If small farmers could receive adequate institutional credit and use it for productive purposes with the help of extension workers, their possibility of becoming recipients of such credit would be greater. In Brazil, for example, a supervised credit system has been linked with extension work (Athapathu, 1985: 71). India and Mexico provide further examples of the effectiveness of a supervised credit system where the credit has been successfully applied in a variety of conditions (Udupa and Pramod, 1984).

The officials concerned, the planners and administrators involved in operating institutional credit, who frequently devise credit schemes for the small farmers so as to stimulate agricultural development should also be aware of the underlying factors related to credit problems. They should carefully identify the actual clients who could benefit from receiving credit and help them by providing it as simply as possible, and supervise its use in productive purposes in collaboration with local extension workers.

References

- Athapathu, H.A (1985), «Small Farmer Lack of Capital as a Constraint in Adoption of Agricultural Innovations in Paddy Cultivation in Sri Lanka», M. Sc. Dissertation. Agricultural Extension and Rural Development Centre. The University of Reading, England.
- Alamgir, M. (1982), Report on Grameen Bank Project, Report of the One Man IFAD Evaluation Mission, Dhaka: GBP.
- BBS (1985), *Statistical Pocket Book of Bangladesh*. Bangladesh Bureau of Statistics. Statistics Division, Dhaka: Ministry of Planning, Government of the People's Republic of Bangladesh.
- Molla, M.A.M. (1982), «Credit Problems of Rural Disadvantaged in Bangladesh», pp. 177-180 in: *Report of the Workshop on Poverty Focused Rural Development and Small Farmer Credit*, Vol. 2. Comilla: Commonwealth Secretariat.
- Sadeque, S. (1986), «The Rural Financial Market and the Grameen Bank Project in Bangladesh: An Experiment in Involving Rural Poor and Women in Institutional Credit Operations», *Savings and Development*, Vol. 2: 181-196.
- Udapa, K.M. and B. Pramod (1984), *New Vistas of Rural Development Banking*. Credit Department. Priority Sector Credit and Rural Development Division. Manipal, India: Syndicate Bank.
- Yunus, M. (1982), «Grameen Bank Prakalpa in Bangladesh», pp. 214-242 in: *Report of the Workshop on Poverty Focused Rural Development and Small Farmer Credit*, Vol. 2. Comilla: Commonwealth Secretariat.
- Yunus, M. (1984), «Group-based savings and credit for the rural poor: the Grameen Bank in Bangladesh», pp. 9-20 in: *Group-based Savings and Credit for the Rural Poor*. Geneva: International Labour Office.

Summary

Small farmers constitute about two-thirds (65.82 per cent) of the rural households in Bangladesh. Organized efforts made so far in Bangladesh to provide credit to small farmers could not benefit them as was envisaged. Rather they largely depend at the mercy of local moneylenders for borrowing loans. This paper critically reviews the small

farmers' need for institutional credit. Data were collected from 205 small farmers (out of 1619 in total in the area). Credit need of a farmer was measured by computing a credit need score.

About one-quarter of the small farmer did not feel they had any need for credit. Among the receivers about half borrowed from local moneylenders at an extremely high rate of interest up to 50 per cent per month; less than one-third received credit from institutional sources; and the rest borrowed loans through land lease, and from neighbours, relatives, foreign aid agencies and others at an interest up to 30 per cent per month.

Small farmers often fear to applying for institutional credit because of their own or their peers' past bitter experiences in obtaining such credit. None the less their use of institutional credit in non-productive purposes in the past that led to their inability to repay the loan has warned them not to consider to using such credit in future. Therefore, steps may need to be taken by the authorities concerned to give responsibilities to the local level extension workers to form viable homogeneous small farmers' groups (i) to increase their use of institutional credit, and (ii) to provide guidance and advice in pinpointing the areas for investing the credit profitably.

LES BESOINS DES EXPLOITATIONS AGRICOLES DE PETITE DIMENSION POUR LE CRÉDIT INSTITUTIONNEL AU BANGLADESH.

RESUME

Les exploitations agricoles de petite dimension constituent à peu près les deux-tiers (65,82%) des ménages ruraux au Bangladesh. Les efforts d'organisation faits jusqu'à présent au Bangladesh pour offrir du crédit aux exploitations agricoles de petite dimension n'ont pas pu les aider comme on avait pensé. Au contraire, ces exploitations sont à la merci des prêteurs locaux en ce qui concerne les crédits.

Cet article analyse d'une façon critique les besoins des exploitations agricoles de petite dimension pour le crédit institutionnel. On a pu rassembler les données de 205 exploitations de petite dimension (sur un total de 1.619). Les besoins de crédit des agriculteurs ont été évalués par des méthodes quantitatives. A peu près un quart des petits exploitants a déclaré de ne pas avoir besoin de crédit. En ce qui concerne les exploitations ayant recours aux crédits des prêteurs locaux, à peu près la moitié a dû payer un taux d'intérêt extrêmement élevé (jusqu'à 50% par mois); moins d'un tiers a recouru aux sources institutionnel de crédit; la partie restante a dû recourir aux prêts hypothécaires, aux voisins, aux parents, aux organismes d'aide provenant de l'étranger, etc. à des taux d'intérêt qui pouvaient atteindre 30% par mois.

Les exploitations de petite dimension souvent ont peur de s'adresser au crédit formel à cause des expériences négatives enregistrées par eux ou par leurs confrères. Il faut rappeler que dans le passé la difficulté ou l'impossibilité de rembourser les prêts fut imputable à leur utilisation non productive: cette expérience peut leur enseigner d'utiliser d'une façon économique les crédits obtenus. Les autorités compétentes devraient s'engager à former des groupements homogènes d'exploitation de petite dimension: 1°) pour augmenter le recours au crédit formel et 2°) pour conseiller et pour donner des directives de façon que dans les zones rurales le crédit obtenu puisse être canalisé d'une façon plus productive.