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The Limits of Institutional Credit in Reaching the Poor Farmers in Orissa, India

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Abstract

It is normally taken for granted that in the underdeveloped economy of India, people below the poverty line and the poor farmers need lots of doles, subsidy, support of formal institutions and market supportive mechanism to ameliorate their condition. The so called green revolution in agriculture with their elaborate paraphernalia of inputs including irrigation, high yielding varieties of seeds, chemical fertilizers, pesticides, farm mechanization, formal credit systems, regulated marketing and limited crop insurance practices have not been of much use to the general farmers in India. It led to some form of agrarian prosperity in the initial phase when labor cost was low and the productivity, with limited application of fertilizer and pesticide, was high. Over time the structural inequality in the caste system, the land distribution and the dependence of the farmers on the external agencies have made them remain indebted to both the informal money-lenders and the formal agencies so much so that farmers' suicide has attracted attention of the policy makers. This paper is an attempt to unravel the truth historically and contextually.

Keywords

Risk and Uncertainties, Green Revolution, New Inputs, Formal Finance, Usury

1. Introduction

India is a country of villages and agriculture is still the backbone of the country although industrial urban activities are increasing over the years and more so after independence. There is also peasantisation of the tribes who eked out a living from hunting, food gathering and shifting cultivation. Further, Indian villages are no more the self-contained and self-sustaining isolated little republics [20]. Similarly the joint family, the caste and the *jajmani* system on the one hand and the community bond of the tribals on the other, which sustained the agriculture-dependent population over long term are getting gradually eroded, more so after industrial revolution, division of labor, monetization and globalization.

2. The Historical Backdrop

The study area i.e., Sambalpur district in Orissa state, became a unified district only in October 1949 before which its constituent parts were part of the South West Frontier (1849-1860), Orissa Division of Bengal (1860-1862), the Central Provinces (1862-1905), the Orissa Division of the Province of Bengal (1905-1912), and again the Central Provinces (1912-1936) and became a district of Orissa only in 1936 when Orissa became a separate state. The British policies on land, industry, trade and tariff, and the 'general welfare' of the society were crucial to then society, more so in the economic arena. This is evident from several studies ([1], [6], [15], [16]) relating to other regions of Orissa. The initial temporary short-term settlements during the British period from 1850 to 1863 were harmful to the *raiyats* (tenants), who could not invest in land for higher productivity, because in the face of increasing revenue, the *raiyats* faced ejectment of 'their' land by the *Gauntias* and *Zamindars* (landlords) ([17], [19]). A. M. Russel notes that the sources of income of the *Zamindars* include land revenue, forest dues, *bazaar* dues, *nazarana* and *pandhri* tax. "A little more than two-thirds of the land revenue and half of the other sources of income were left to the *Zamindar*" [17]. The *bhograbhogi Gauntias* who enjoyed land free of rent, equivalent to a maximum of 25% of the revenue of the village, beside the *bethi begar*, were equally powerful [13]. That is, the *Gauntias* and the *Zamindars* emerged as a powerful class of landlords in the aftermath of the British rule. The 'general prosperity' of the district, however, had a major setback when the Bengal-Nagpur railway line, passing through Jharsuguda, was completed. The completion in 1894 of the Jharsuguda-Sambalpur Branch Railway changed the run of trade and doubled the price of rice leading to increase in the value of land and 30% enhancement of revenue in the next settlement [13]. The major exports during the period were rice, pulses, oilseeds and hides. The major imports were cotton thread, salt, sugar and tobacco. The immediate result of the expansion of the trade routes in the district which "had no road worthy of the name" in 1874, was an extension of rice cropping and an invasion by Hindu cultivators into the hill and forest villages [7]. There had also been a "general breaking of the power of the old aboriginal owners of the soil". The *Cutchi* traders also encroached into the tribal villages for the minor produce of the *Zamindari* forest e.g., *mahua*, lac, myrobalans, etc. The local *Brahmins*, *Cutchi Muhammadans* and *Marwaris* bought grains and sold imported cotton thread, salt, tobacco, kerosene oil and clothes but their methods and scale of trading were different. The increase in trade is significant when we observe the rise of *Marwari* traders in Sambalpur, which rose by 135% within the decade 1891-1901, and they carried on trade throughout the year [13]. The increase in the price of land, rice and export from the district and the expansion in transport meant prosperity for a particular class of agrarian population [10], who furthered their material gains during the scarcity of 1897 and the famine of 1900. This is evident from the emigration of the aboriginals, laborers and poor *raiyats* observed by F. Dewar [7] in 1906 and Md. Hamid [10] in 1925.

Agriculture also had a setback in the post famine period of 1900 and the post war period of 1914-18. Since the price of rice rose very high due to export in 1899 and the hoarding of it by landlords and rich *raiyats* in the second half the aboriginals, the laborers and the smaller cultivators were the worst affected. Even if there is no recording of the mortality from each caste/category it is obvious that the conservative aboriginals, who rarely attended the famine kitchens and the poor peasants and the agricultural laborers, who were afraid of future repayment in case they attended the kitchen, must have perished, to a significant extent in this tragedy [1]. Their pauperization is obvious because they must have worked for miserably low wages and mortgaged/sold their belongings in their last bid for survival [19]. The relative scarcity of laborers after the famine, the low productive capacity of the semi-starved laborers and the underdevelopment of the forces of production on the one hand and the casual interest of the landlords (who had the maximum of the irrigable land) towards agriculture on the other, resulted in the lower productivity that resulted in little increase in area under different crops. Both Dewar [7] and O'Malley [13] observed the massive deforestation, which started after 1887. The desperation of the poor peasants and the aboriginals on the one hand and the appointment of "respectable inhabitant of conveniently situated villages" as forest license vendors on the other, led to increasing earning both for the colonial government and also for the *Gauntias*, who were the "respectable inhabitants" [13]. Further, the transfer of the exclusive right to supply country spirit to contractors (in 1907-08) meant more expenditure for the lower castes/aboriginals who were (and still are) customary drinkers [13]. That is, the British policy on land, forest, transport and liquor on the one hand, and the objective conditions of agriculture on the other, empowered and enriched a particular class of the agrarian population and pauperized further the poor peasants, artisans and the aboriginals. Nethersole [12] opined that probably more than half of the cultivators were, more or less, in debt. Subsequently, it is noted that during pre-independence period the village moneylenders, *Gauntias*, *Zamindars*, *Kabuliwallahs* and *Kistiwallahs* used to meet the loan requirements of people. Their terms and conditions for the loan were different and their interest rate varied from 18% to 75% for cash and 50% for paddy [19]. Informal discussions with very old men of this district confirm that the interest rate was much higher, that there were several informal payments and that compound interest was also there. It is evident from the Season and Crop Reports of Orissa 1938-47 [9] that during this period there was scanty rainfall almost every seven years from 1864 to 1899 and since the price of paddy was correlated with it, the rich *raiyats* prospered further in later period. They advanced loan during lean season and scarcity, and exploited the surplus labor [14]. At the same time they accumulated land, livestock, utensils and jewelry, which the borrowers forfeited. The cooperative movement started way back in 1904 but did not make much headway given the undeveloped production relations of 1920s. Given such conditions in land, labor, credit and the underdevelopment of market the polarization of agrarian classes must have continued at least till the Second World War, which was after the inclusion of Sambalpur district in Orissa state in 1936, because there were no historical incidents except the Great Depression of 1930s, which would have led to the tendency otherwise. The overall social formation and the dominant mode of production of such a situation can be termed as semi-feudalism ([2], [5]) where the poor peasants do not have access to, and control over land and market, and suffer from usury.

During the period 1938-46 there had been substantial improvement in irrigation work, more land was brought under cultivation, the acreage under all the major crops increased, and prices of agricultural commodities increased consistently [9]. The developmental initiatives during the latter part of colonialism were more for entrenched selfishness rather than for altruism. However, the improvement in the factors of production and the consequent profitability in agriculture had enriched further, the population who controlled the means of production.

3. The Objectives, Field and Methodology

After independence formal legislations, industrial urbanization and agricultural modernization have changed substantially the rural scenario in Sambalpur, at least cosmetically. The five-year plans of government of India and Orissa have introduced several developmental initiatives in the four major domains of agriculture i.e., land, labor, market and credit. However, the policy makers do not try to understand the link between these domains and the historical background (specificities) of a particular region before implementing developmental initiatives. Hence, an effort was made to understand the limits of institutional credit in such a semi-feudal economy as Sambalpur and Kalahandi districts in Orissa. A diachronic, rather than a synchronic approach was followed and an attempt was made to understand the rural credit scenario as it evolved historically. The motive was to explain why despite the best intention of the government the formal and cooperative institutional credit has limited utility vis-à-vis the exploitative informal credit.

4. Data Analysis

For larger generalization, six different types of villages of erstwhile Sambalpur district taking one irrigated (wet) and one non-irrigated (dry) village from three sectors: tribal, peasant and suburban, were selected. For the purpose of brevity these were named as Tribal Dry Village (TDV), Tribal Wet Village (TWV), Peasant Dry Village (PDV), Peasant Wet Village (PWV), Suburban Dry Village (SDV) and Suburban Wet Village (SWV). The formal and informal, as well as the cooperative and exploitative dimensions in the exchange of land, labor, credit and market was examined. Previous experience at a village in Dharamgarh Block of Kalahandi district, an area rather notorious for hunger and malnutrition, was reflected upon. Overall, it was found that there is some sort of caste-class congruence and there is not much change in the structural relations but there has been differentiation in the peasantry. The economy was no more self-sustaining and had been exposed to external market instability thereby making the poor section more vulnerable and always dependent on the doles such as 25 Kgs of rice per family per month at the rate of INR 2 given to the people below poverty line. This initiative by the Government of Orissa has stunted the productive potential of the active peasants. This has also led to decline in productivity and has neither benefitted the employer nor the laborers. It is entirely possible that if this program is suddenly stopped by the government, some people would be just beggars.

When the villages in any sector were compared (tribal, peasant, suburban) the physical accessibility to the wet village was easier than it was for the dry village. This was probably due to the difference in the volume of transaction of material goods and services – the higher the transaction, the greater was the necessity of transport and communication and this necessity was met by the people who were immediately involved in it or by the state. It was further observed that there were no traders from outside the village to buy paddy, etc. from the dry villages, where as in the wet villages the sale of paddy, and vegetables, was mediated though individual producers, local traders and mainly through traders from outside. Though it happened due to the difference in physical accessibility and volume of transaction, the 'outsiders' had tapped the bulk of profit, at least in the initial phase of irrigation. The siphoning off of profit would continue until the local entrepreneurs were in a position to amass sufficient wealth to take up the operation successfully. However, irrespective of traders and the type of village the small producers would always be at a loss in these transactions because of the small volume of goods, urgent necessity to sell during harvest glut, conditional sale of produce to repay loan advance, problem of transportation and storage, etc. From the trader's point of view it was evident from the data that the trader who can combine trade with lending of cash, consumption goods and fertilizers (especially in an agrarian economy), construction materials, etc., would make the maximum profit.

Though in informal lending the dominance of the outsiders had been decreasing in all the villages, the sources of borrowing were mostly outsiders in the dry villages (except the PDV), whereas they were mainly insiders in the wet villages. Though there was higher risk in lending in the dry villages (except the TDV) and less risk in the wet villages, the outsiders needed no collateral whereas the insiders always kept collaterals for lending out cash [18]. The duration of borrowing was for shorter period in the dry villages and for longer period in the wet villages. Further, the sources of informal borrowing in the dry villages were fewer than in the wet villages. Due to the combined effect of all these factors the interest rate in the dry villages was invariably higher than that of the wet villages. The major implication is that, given the uncertainty of production in dry villages, the difference in interest rate would continue as long as the factor of irrigation separates the two sets of villages. The higher rate of default to formal financial institutions and the lower rate of membership (except in PDV) and low rate of borrowing also show that both risk in investment and uncertainty of yield as well as the high 'opportunity cost' deterred the land-owning people in the dry villages to borrow from the formal institutions. On the other hand, the 'incremental gain' in the form of employment, politico-legal protection, loan during emergency envisaged by the small farmer compelled him to borrow from the informal sources [21]. Keeping in mind the paper-partition and the mechanisms to become small farmers, and the collusion of the lower bureaucracy in this effort, it was evident that the small farmers as such had not benefited much from the formal financial institutions where default means stoppage of further lending. This was further evident from the fact that their limited ownership of resources and the low rate of borrowing from formal institutions had necessarily been supplemented by informal borrowing to meet the investment in agriculture and other consumption needs. However, given the uncertainty in production the small farmers in the dry villages were more prone to economic decline than their counterparts in wet villages. The implication is that, to check the tragedy of villagers in dry villages, a more liberal policy for credit, effort to generate income from nonagricultural sources, substantial investment in minor irrigation and introduction of crops suitable for dry land would be necessary.

The introduction of irrigation has necessitated higher investment in agriculture related inputs, and by now people have already tried all sources of formal cooperative financial agencies − Primary Agricultural Cooperative Society, State Bank of India (Agricultural Development Branch), Regional Rural Bank, Land Development Bank, etc., and have been selling the major surplus of paddy to the Regional Cooperative Marketing Societies. However, many of them still hesitate to borrow from these sources because of risk and uncertainty in agriculture, higher cost of borrowing, procedural hurdles and lack of proper collateral [8]. The exploitative, rather usurious, informal money-lenders are still at large and enjoying their operations at the cost of the poor people [3]. When people have started saving for higher interest they have been cheated by the fraudulent finance companies that initially give more interest and all of a sudden lock the office and flee the area (Note). There is massive misuse of the various schemes initiated by government due to collaboration and collusion. The Self Help Groups which initially did well in terms of production, processing and marketing of the produces and the MFPs are now politicized and in some cases charging higher interest than the formal organizations. Two cases are presented below to demonstrate how pervasive is the informal credit and how difficult it is for the formal one to penetrate and eradicate it.

Case 1 In the tribal dry village, the tribals have little surety/collateral to offer except their labor and the pledge to return with earning from the forest; arrangement of credit was a crucial problem in this village. The village elders mention that till the beginning of the present century, *Kabuliwallah* lent clothes and money in the month of *Bhadraba* and collected them with interest after the harvest. Then the *Kulta Gauntia* family accumulated wealth by money/paddy lending. But this family was robbed off four times between 1950 and 1960. Since then, they stopped the usurious lending. Then came the Telugu money-lenders locally known as *Lalbangla*, who advance money in the way shown in Table-1. They were living about 5 Kms away from the village. Due to their usurious practices, some local people once beat them and they stopped their business for some time; but they again resumed due to the patronage of some influential people. In the wake of bamboo cutting for the Orissa Paper Mills, the villagers borrowed from a *Pathan*, staying 8 Kms away, who loaned out money according to conditions shown in Table-1. The simple interest as shown in Table-1 comes to 422% per annum. The liquor retailer, a *Gond*, borrows from another *Pathan* at the simple annual interest of 208%.

Table 1. *Borrowing from Informal Sources in the Tribal Dry Village of Sambalpur.*

Pathan				**Telugu**		**Kulta**	
Principal (in Rs.)	**W.F.**	**R/W (in Rs.)**	**Weeks**	**R/W (in Rs.)**	**Weeks**	**R/W (in Rs.)**	**Weeks**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
20	1.00	4	8	2.50	10	2.50	10
30	1.50	6	8	3.75	10	3.75	10
40	2.00	8	8	5.00	10	5.00	10
50	2.50	10	8	6.25	10	6.25	10
60	3.00	12	8	7.50	10	7.50	10
70	3.50	14	8	8.75	10	8.75	10
80	4.00	16	8	10.00	10	10.00	10
90	4.50	18	8	11.25	10	11.25	10
100	5.00	20	8	12.50	10	12.50	10

Notes: 1. Principal for all the sources (*Pathan*, *Telugu*, and *Kulta*) are same.
2. W.F. implies writing fees; R/W implies repayment per week.
3. There is no writing fee for money borrowed from the *Kulta*.

The rate of interest was exploitative in all cases and would be much more if compound rate was taken into account. On top of it there were certain other general conditions. At the time of borrowing, at least till the lender ‘knows’ the borrower, there would be one surety; money had to paid in installments on market days once a week. The first installment of repayment was made on the spot after the borrowing. If the amount was not returned on the due date or by the next day, the moneylender sent a man on bicycle and collected double the amount to be paid plus the hiring charge for the bicycle. That is why it is known as “double company” in Kalahandi district of Orissa. These people have been able to extract usury in such a way because it is alleged that, they have connived with the police and the ex-*Zamindar* of the local area. The *Zamindar* had also instigated the people to steal from the forest, the only way to repay such usury. This shows the monopoly condition of the credit system. When the tribals were unable to repay such ‘double’ amount, they went to the *Kulta Gauntia* and the *Keut* shopkeeper and pawned their utensils. In most of the cases the tribals have never been able to free these collaterals and were now using aluminum utensils. The *Kulta* trader-moneylender family very often advanced loan to procure the forest goods from the tribals at a cheaper rate and sold it at a higher price in the irrigated area. The *Keut* shopkeeper lent out husked paddy/rice, during rainy season to agricultural laborers. He lent out two units of rice and collected five units of paddy the next day, thus deriving 25% interest inclusive of his labor for husking (one unit of paddy gives half unit of rice). The rainy season makes it difficult to go to the jungle and in the absence of old stock and alternative employment; they can eat only by borrowing-repaying-borrowing system.

Case 2 In Kalahandi the *Gauntia* lent cash and kinds to people of 20 surrounding villages and applied a multiple strategy to enhance interest and attach them for cultivation and underpaid labor activities. To celebrate *Nuakhai*, sometimes in September, and to meet other expenditure in the off-season people borrowed money and paddy from the *Gauntia* without any collateral. They promised to supply labor to the *Gauntia* at a much cheaper rate during harvest and also to pay interest at 25% in about three months. They cultivated the far off and suitable-crop-specific plots of the *Gauntia* and also sold their meager surplus to the *Gauntia* at a cheaper rate during the harvest glut.

5. Conclusions

Despite the global initiatives for different revolutions − green, blue, white and all − we have to realize that there is necessity of a red revolution which is necessary for changing the structural relations in Indian agriculture in terms of distributive justice − land holding, equality in opportunity irrespective of social categories (caste and tribe) and regions and access to facilities such as irrigation, credit, marketing and insurance. Sizable holdings, essential inputs like irrigation, formal finance, fertilizers and pesticides, manual and mechanized labor as also proper marketing are the essential ingredients for sustaining agriculture and the farmers at large [11]. We have also to realize that agriculture is susceptible to so much of risk and uncertainties and that the Indian peasants have lots of repository experience and their indigenous knowledge has to be preserved and respected. There must not be imposition of extrapolated measures and practices in agriculture (high yielding varieties, genetically modified seeds, new plants and animal breeds, etc.) without examining its relevance in the local agro-climatic and social conditions [4]. Institutional credit with lots of subsidies and the marketing of the surplus produce of the peasants, have ameliorated the conditions of the peasants but usurious informal credit, the expensive nature of agriculture and a new consumer culture has made the peasantry live in a borrowing-repaying-borrowing cycle. The myopic new initiatives in agriculture in the light of globalization have not liberated the peasants from dependency and despair. A rethinking, may be a context specific new cooperative movement, is needed to sustain the peasants, the backbone of the country.

Note: The UPA-1's Rs 52,000 crore farm-loan waiver scheme has turned out to be a big financial scandal. Out of 1 lakh farm loan waiver accounts audited in 700 bank branches across the country − involving disbursement of Rs 500 crore, about 30% of the waiver amount, it was alleged to have been siphoned off by a nexus of bank managers and microfinance institutions (MFIs). It was reported on January 17 that the RBI had asked all banks responsible for implementation of the waiver scheme to register FIRs against bank officials and MFIs who fraudulently drew part of the benefit meant only for individual farmers [22].

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