

# Linking small-scale farmers to credit institutions

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*Improvement in farmers livelihoods depends on the strength of their coming together. Access to resources is influenced by the extent to which farmers are organized and the institutional arrangements available and finally the contextual social and political structure. Farmers' organizations, therefore, would have a vital role to play in rural change.*

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The demand for poultry feed is increasing in India due to fast growth (by 15-20%) of poultry sector, while the usual energy source in the poultry feed, maize's growth rate is limited to only 2-4% annually. This is because poultry feed manufacturers are using sorghum and pearl millet in poultry feed formulations to some extent whenever there is a shortage of maize supply. To improve the farm income and livelihoods of small-scale sorghum and pearl millet farmers in SAT regions of India, a collaborative project was launched by Common Fund for Commodities (CFC), The Netherlands, ICRISAT and FAO.

The CFC-ICRISAT-FAO project titled 'Enhanced utilization of sorghum and pearl millet grains in poultry feed industry to improve livelihoods of small-scale farmers in Asia' aimed at mobilizing groups of small-scale sorghum and pearl millet farmers in order to improve the crop productivity and income by providing support in terms of improved inputs, better information services, credit linkages and post harvest operations. This paper exclusively deals with the credit linkages component of the project.

## Approach

Strategic interventions were jointly made by ICRISAT and the consortium partners along with ICRISAT to train the farmers, build their technical capabilities and provide them further with information on improved crop production practices to enhance the yields per unit area. Institutional linkages with various actors in supply and market chains helped the farmers in reducing the overall production and post harvest handling costs. However, it is a well-known phenomenon that the farmers in the absence of sufficient funds dump their produce in the local markets or with middle men. They fall victim to the brokers and traders who take advantage of this distress sale position of the small-scale farmers and procure the commodities at low prices, un-remunerative to the farmers.

Thus, the importance of credit becomes very evident not only at the time when the farmers have stored their produce to meet their regular expenses but also when they are growing crop they need to buy various inputs like improved cultivar seeds, fertilizers, and pesticides.

The baseline survey conducted before commencement of the project was helpful in getting realistic picture of the constraints faced by the farmers prior to the project with regard to institutional credit. The major sources of credit prevalent in the villages were private money lenders (individuals), local input dealers and grain merchants, private finance companies, local agriculture cooperatives and public sector banks.

The baseline survey results indicated that secure and equitable access to resources and markets was key to improving the incomes of small-scale farmers. This was the foremost action needed to address poverty issues and promote the overall development of farm families. Therefore, all the interventions in the project were aimed to address these constraints.

## Organising farmer groups

On the basis of interactions with farmers and the project team's previous experiences, it was felt that farmers' associations were viable platforms to bring farmers together, build their capacities and enable them to gain access to resources, credit, inputs and markets. This would directly help them in reducing uncertainty and transaction costs, and empower them to make choices relating to feasibility, productivity and profitability of farm enterprises. It would also help to pinpoint asymmetric access rules, and allow farmers to raise their voice and have it heard.

One of the major interventions of the project was to help increase farm productivity. Farmers were organised into groups as it was

realised as the best mode of reaching them with improved technologies. Linkages with institutions were fostered. This project also identified a few areas for immediate collaboration in developing a common understanding of the issues of technology development as they relate to the needs of the rural poor: for instance, sharing of experience between scientists and farmers, higher levels of coordination for ongoing field operations and support for initiative-linked activity, focusing on the development of farmers' learning platforms.

### Access to institutional credit

Credit is required usually for the period of crop production (sowing to harvest), mainly for purchase of quality seeds, fertilizers, pesticides and farm equipment/equipment hire charges; payment of labour charges for sowing and harvest. The baseline survey conducted in for this project clearly indicated that farmers also need cash after the harvest for storing produce as well as for meeting immediate family requirements. In the absence of institutional credit facilities, they sell their produce in the local markets or to middlemen soon after harvest at non- remunerative prices. Thus, post-production credit needs were given equal importance while designing credit requirement strategies.

In the first year of project execution, various possibilities of linking banks with the farmers were explored at the local (cluster) level. The branch managers of various banks located near to the cluster villages were briefed about the concept of the project. The private banks expressed that the amount of loan availed was very low, maintaining farmers records is cumbersome and it would not be economical for bank to cover up their costs. Moreover, for the warehouses, there are collateral management charges that are to be borne by the borrower and it will be very high and would raise the cost of finance per farmer exorbitantly.

In addition, most of the branch managers of nationalized banks at cluster level were reluctant to provide loans on the stored produce in the godowns constructed under the project in the absence of clear cut instructions or guidelines to finance private warehouses. They had clear guidelines for financing against produce stored in public warehouses such as the warehouses owned by Central Warehouse Corporation (CWC) and State Warehouse Corporation (SWC). They however suggested that if they were given instructions from the top management to provide loans for CFC funded godowns, they would have no procedural problems in providing the loans.

### Top-down approach

From the experience in the first year it was thought that in the second year a "top-down approach" would be best where consortium team members first talk to the top level departmental heads of various nationalized banks namely State Bank of Hyderabad (SBH) and State Bank of India (SBI). Following this, a series of discussions with the different levels of departmental managers of these banks was carried out by explaining project objectives and activities. Method of project approach where marketing linkages were established with the poultry feed industry for buy-back of the produce of small-scale farmers gave them

### Project overview

The project addressed various constraints identified through a baseline survey. Important interventions included introduction of farmer preferred best cultivars of sorghum and pearl millet, establishing sustainable linkages for long-term input supply, constitution of 5 farmers associations (one for each cluster) and building their capacities to carry forward the interventions on long term basis. Demonstrations on the farmer's fields helped the farmers to test the performance of new cultivars, integrated nutrient and crop management technologies that enhanced grain yields from 19 to 111 percent in sorghum and 36 to 120 percent in pearl millet; and fodder yields by around 25 percent. Farmer's field days, expert's visits, exposure trips and learning events facilitated sharing of the knowledge and experiences between the scientific community and the farmers. The rural storage structures constructed under the project helped the farmers adopt safe and scientific storage of the bulked produce and thus avoid distress sale. Linking of farmers with alternative end users (food, poultry feed, liquor industries) has been achieved through a series of Farmers-Buyers dialogues. Lessons across the clusters indicate that multi-stakeholder initiatives can bring in synergistic and long lasting positive impacts on rural poverty reduction. Other important learnings included providing sufficient start-up time for planning; building strong coherence and trust among partners; role clarity; capacity building; adopting process-oriented systems.

confidence and assurance on loan repayment. Both the banks were positive on providing credit facilities to farmers associations both in Andhra Pradesh and Maharashtra states and passed on positive messages to the concerned cluster level branch managers.

It was decided that for Andhra Pradesh, the State Bank of India and for Maharashtra, the State Bank of Hyderabad would be invited to initiate the process of providing loans to the farmers. This was to be given both against their stored produce in the current season

### Constraints in Farm Credit

- Non-availability of timely credit
- High rates of interest when borrowed from private sources
- Lengthy and complex procedures involved in availing farm credit from banks
- Complex credit-processing procedures
- Time taken to process loan applications
- Middlemen facilitating loans on a commission basis
- Loan periods are usually short

These constraints are related to

- Policies of the government, which govern the overall outlay of finance for the farm sector
- Legal and regulatory framework of farm credit agencies
- Institutional diversity of credit/finance organizations providing credit to farmers
- Formalities and procedures of credit disbursement

and issue Kissan Credit Cards to the eligible farmers in the next year rainy (Kharif) season 2006 to meet their crop production expenditure. With this decision two joint meetings were organized at ICRISAT that formed the major guiding activity with regard to making the model operational, effective and establishing sustainable linkages between the farmers and the bankers.

### Facilitating joint meetings

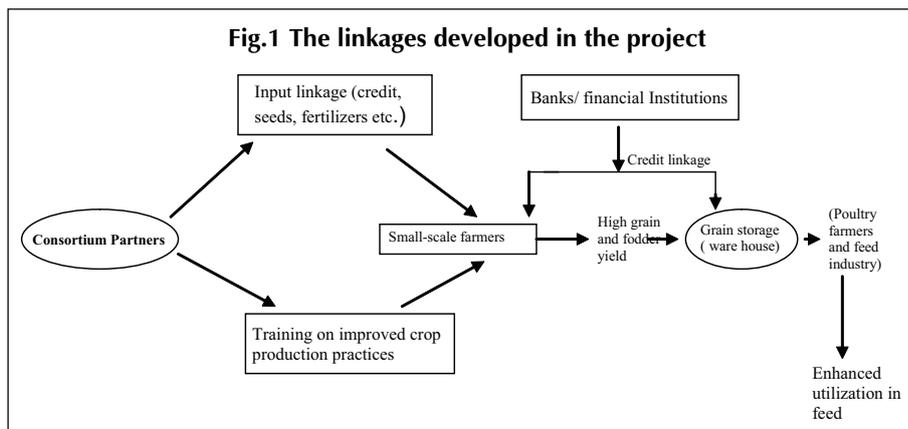
Several meetings were organized at the village and cluster levels to highlight the importance of credit linkages with public sector banks. These meetings also served to set at rest any apprehensions the farmers may have had about sharing information with field-level workers. These meetings became platforms upon which farmers shared their credit problems. To further gain the farmers' confidence, public sector bankers were invited to join these meetings to explain loan procedures. Applications were filled and loan procedures made simple for the farmers.

The project partners and bank officials fixed convenient dates for the farmers to visit the bank to discuss matters pertaining to loans. This was helpful in building confidence in the farmers. This practice has become popular because farmers get undivided attention from bankers on these days.

A joint meeting was held at ICRISAT with the participation of various project partners, representatives from ICRISAT and also farmers from the clusters and farmers association office bears and with the divisional and local heads of the Banks with the following agenda.

1. Finalizing the procedures for linking farmers' associations (Udityal, Balanagar mandal, and Palavai, Maldakal mandal of Mahabubnagar district, Andhra Pradesh) with State Bank of India (SBI) for agricultural credit. Similarly joint meetings were conducted in Anjanpur and Rohatwadi clusters in Beed district and Koke cluster in Parbhani district of Maharashtra state.
2. Issuing Kissan credit cards to project farmers.
3. Finalizing the procedures for providing short-term credit to project farmers against stored agricultural produce (sorghum and pearl millet) for the produce.

A number of points emerged out of these discussions, the main item being that the bank would simplify the application procedures and processing time to finance the project farmers based on certain essential conditions being met according to guidelines set by the bank administration. The concerned bank official will visit the village once in a week or fortnight and scrutinize the applications. The farmers association secretary will process all applications of project farmers with minimum documents sets, prior to the visit of bank officials and submit to the bank a set of 20 applications per group. This facility will avoid all the farmers visiting the bank to prove their identity and present their case for loan.



A number of other points also emerged in this meeting. The bankers advocated bundling the two products (KCC and warehouse loans) into a single product called 'Cyclic Credit' to be implemented next year and organization of farmers into groups as it would significantly reduce their transaction costs. The requirements of the short-term loans based on warehouse receipts are:

- The farmers' committee to have the capacity of maintaining the required records such as Stock accounting register and other books required at the warehouse
- Identity of the farmer by the association - The association would make arrangements to issue a numbered photo identification card to its member farmers indicating their name, address, land holdings and other details
- Committee to operate and maintain the godowns
- Committee to authorize signatories for issuing the warehouse receipt to the farmers who stock their produce.
- Signing of a MoU with the bank for not releasing the stock till the bank loan is cleared and receipt is returned.
- Scientific storage support to be sought for the safe and scientific storage of grains by consortium institutions
- Godown insurance and produce insurance to be sought against any eventualities

During farmer-banker interaction meetings at the village level, senior bankers provided information regarding various farm credit schemes, including short and medium-term loans. Project partners were advised to help the banks in identifying the farmers who would be eligible for the loans. The size of loan amount was based on the size of the farmers' land holding and credit requirement. The documentation for obtaining a credit card was also made simple.

### Impact

Project interventions has increased the participation of small-scale farmers in credit linkages. They have availed more loan amount from other sources of finance with less effort, low interest rate and low processing fee. The impact study assessed farmer's perceptions of benefits accrued to them from different components of the project (Table 1). About 83% of them said the crop production component held the most benefiting to them followed by formation of farmers association (76%). Bulking (61%) and credit linkages (56%) and bulk marketing (54%) were other components that were

**Table 1. Farmers feedback on project components**

Cluster	Percent benefits gained by project farmers from village initiatives					Remarks
	Crop production	Farmers association	Bulking and storage	Bulk marketing	Credit linkages	
<b>Andhra Pradesh</b>						
1. Palavai	88	75	72	71	72	On an average 75% of project farmers benefited by credit linkages in AP clusters
2. Uditiyal	82	86	78	71	78	
<b>Maharashtra</b>						
1. Koak	70	47	49	42	37	On an average 45% of project farmers benefited by credit linkages in Maharashtra clusters
2. Anjanpur	92	93	61	55	57	
3. Rohatwadi	85	82	47	31	40	
<b>Average</b>	83.4	76.6	61.4	54	56.8	

cited as beneficial by the respondents. On an average, 75% of project farmers benefited by credit linkages in Andhra Pradesh and 45% farmers in Maharashtra cluster villages.

Establishment of credit linkages targeted at small and marginal farmers drew their credit preferences away from informal sources to formal sources with low interest charges. A majority of participants in the project borrowed loans from formal sources. Around 75 percent farm families got benefited by credit linkages in Andhra Pradesh and 45 percent in Maharashtra clusters, at low interest. Majority of the farmers were interested in linking with banks rather than cooperatives and private money lenders as the interest rates and processing fee was lower. Only about 10% of the project farmers revealed that they still depend on money lenders.

The interventions undertaken by the project succeeded in making the farmers' voice heard by finance institutions. The joint dialogue between farmers and financial institutions brought about tremendous changes in the mindsets on either side. The farmers were able to provide inputs to the bankers in the design of loan products for the farm sector. This mutual understanding of priorities and constraints had an effective impact on loan decisions. For instance, banks modified several of their administrative procedures for processing loan applications. They also gave priority to project farmers.

Evidently, improvement of farmers livelihoods depends on the strength of their coming together. Access to resources is influenced by the extent to which farmers are organized and the institutional arrangements available and finally the contextual social and political structure. Farmers' organizations, therefore, would have a vital role to play in rural change. This study is one classical example in that direction.

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