

**AN ECONOMIC EVALUATION OF AGRICULTURAL FINANCIAL  
INSTITUTIONS IN MAHARASHTRA**

**(Executive Summary)**

**Deepak Shah**

**AGRO-ECONOMIC RESEARCH CENTRE  
GOKHALE INSTITUTE OF POLITICS AND ECONOMICS  
(DEEMED TO BE A UNIVERSITY)**

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## **EXECUTIVE SUMMARY**

### **Background:**

The planning process of our country is primarily aimed at ensuring access to credit in the rural areas. Besides, it also stands at augmenting agricultural production and alleviating rural poverty, in addition to improving the efficiency of the rural credit delivery system. Although various measures initiated under the planning process have greatly improved the reach of credit institutions and been instrumental in alleviating poverty in the country, the emerging segmentation of the rural credit markets in the face of financial sector reforms unleashed under the changing post-WTO economic scenario has brought forth newer challenges before the rural credit delivery system. In fact, the entire decade of 1990s was full of discussion on the positive and negative impacts of financial sector reforms and their implications for the agricultural sector in particular. The reform process in the banking sector today encompasses the deregulation of interest rates, dismantling of directed credit, besides improving the functioning of capital markets and government securities' market. The emphasis of the financial sector reforms, in general, is on ensuring financial health of the rural credit delivery system. However, the reform package in rural banking sector is reported to have adversely affected the priority sector, especially in the area of administered interest rates since the new interest rate structure is alleged to be highly regressive and biased against priority sector.

The introduction of financial sector reforms coupled with increasing commercialization of agriculture and consequent increasing requirement of credit have put increasing onus on various agricultural financial institutions to play a more pro-active and pivotal role in meeting the increasing capital needs of the farmers and in ensuring timely supply of various inputs, besides providing other service facilities. In this veritable scenario, sustainability, viability and operational efficiency of rural financial institutions (RFIs) are the major issues that need to be taken cognisance of in ensuring effective rural credit delivery system. In fact, the major problems plaguing the efficiency of rural credit delivery system are the mounting overdues' and Non Performing Assets (NPAs) of RFIs. Needless to mention that the mounting overdues' can paralyse the whole gamut of agricultural credit structure and the financial sector reforms.

Among various states of India, the RFIs of Maharashtra are reported to show the highest amount of overdues and outstanding loans over the past one decade so much so that the proportion of overdues' to outstanding loans of RFIs in Maharashtra during 1997 was reckoned at more than 30 per cent. The viability and efficient functioning of RFIs, in fact, depend on as to how efficiently the RFIs manage their asset position, income and expenditure pattern, recovery of loans, deposit mobilization, etc. As a matter of fact, the poor performance of cooperatives owes a great deal to their inabilities in mobilizing adequate deposits, their managerial weaknesses and over riding dominance of vested interests in their functioning. The past performance indicate that both commercial banks and agricultural credit cooperatives have performed rather unsatisfactorily, not only spatially but temporally too. The present study, thus, seeks to comprehensively evaluate the organizational and operational structure of not only commercial banks but also various credit cooperatives of Maharashtra, both at primary and central levels. The scope of the study stretches further to the evaluation of issues related to organizational and financial viability of these agricultural financial institutions, besides examining the impact of these institutions on the beneficiaries. The study seeks to provide policy implications with respect to deposit mobilization, granting of loans, distributional aspects of credit, judicious and rational use of funds, etc., besides evaluating the strength and weaknesses of the agricultural financial institutions of Maharashtra.

#### **Objectives of the Study:**

The study has been conducted with three major objectives:

1. To examine growth trends in various performance indicators of agricultural credit institutions.
2. To assess financial viability of agricultural credit institutions in respect of income and expenditure pattern, break-even analysis of advances and deposits, pattern of distribution of loan, recovery and overdues', etc.
3. To evaluate the impact of agricultural financial institutions on beneficiaries, particularly in respect of their general borrowing position, use of inputs, productivity enhancements, etc. and also assess the responses of the beneficiaries in terms of facilities extended by their concerned credit institutions and the constraints faced by them in availing such facilities.

#### **Methodology:**

The present study was limited to two districts of Maharashtra – one forward and another a backward category one. The forward and backward districts were identified through composite index method and the parameters included in the construction of composite index were cropping intensity, irrigation intensity, operational land holding,

number of commercial banks, per capita and per hectare bank credit to agriculture, loan advances of PACS and commercial banks and their outstanding loans, etc. Based on these indicators, the total composite score of each district was computed. The districts showing scores above 100 were treated as forward and districts with scores below 100 were considered as backward. This procedure helped to develop a scale for ranking all the forward and backward districts of Maharashtra. The district of Sangli showed the highest score on the scale developed for forward districts. On the other hand, the district of Buldana showed one of the lowest scores on the scale developed for backward districts. These two districts were selected for the present investigation with a view to evaluate the performance of both commercial banks and credit cooperatives in these districts.

The procedure for the selection of talukas in the selected districts was little different than selection of districts in the state. The selection of talukas encompassed parameters such as number of PACS, their membership, share capital, working capital, owned funds, and number of borrowers per society. Based on these parameters, standard and total scores were calculated for each taluka and a scale was developed for ranking all the talukas of the selected districts. The talukas of Miraj and Walwa from Sangli district and Malkapur and Mehkar from Buldana district were finally selected for the present investigation as they scored high on the scale.

Stratified random sampling procedure was adopted for the selection of villages/societies and the beneficiaries of concerned PACS and commercial banks. From each selected taluka, two villages were selected randomly with one village falling under the purview of credit cooperatives and the other one encompassing the beneficiaries of commercial banks. From each selected village encompassing credit cooperatives, one PACS was selected randomly. Thus, the study covered four villages from each district with two being the beneficiaries of commercial banks and the other two being the members of PACS. In all, the study encompassed eight villages.

As regards selection of members of credit cooperatives and beneficiaries of commercial banks, a list of members and beneficiaries along with their land holding size was obtained from each of the selected PACS and also from the concerned commercial banks encompassing their beneficiaries in the selected villages. The members and beneficiaries were then categorized as small (upto 2 ha), medium (2-4 ha) and large (above 4 ha) based on their land holding size. It was decided to select 10 members from each of the four selected PACS and 10 beneficiaries from each of the four selected

villages encompassing beneficiaries of commercial banks. Nonetheless, these 10 members/beneficiaries selected from each village/society belonged to different categories and they were selected on the basis of probability proportion to land holding size technique. In all, the study covered 40 members of the society under the umbrella of agricultural credit cooperatives and 40 beneficiaries of commercial banks.

#### **Data Collection and Reference Year:**

Primary data from the members of PACS and beneficiaries of commercial banks were collected on the well structured pre-tested schedule by personal interview method. An in-depth information related to family particulars, land use and cropping pattern, loan distribution pattern, recovery, overdues' and outstanding loans, etc. was collected from each of the sampled members/beneficiaries. The perceptions of the members/beneficiaries were also ascertained with respect to the facilities being extended by their concerned credit institutions and the constraints perceived by them in availing such facilities. In addition to the collection of primary data, secondary data related to various performance indicators such as asset and liability position, income and expenditure pattern, share capital, working capital, deposits, pattern of loan distribution, recovery of loans, etc. were also collected from the district level credit institutions. Besides, information on priority and non-priority sector advances, targets and achievements under various programmes, etc. were also obtained from various data sources and official records. While primary data on relevant aspects were collected for the reference year 1998-99, the secondary data encompassed the period from 1984-85 to 1998-99. Suitable tools and techniques were used to analyse both secondary and primary data.

#### **Major Findings:**

##### **1. Rural Credit Scenario of Maharashtra**

The rural credit scenario of Maharashtra was evaluated with major foci of attention being on the annual credit plan outlays for various sectors, potential linked credit plans for various regions of the state, progress of various rural financial institutions over time, distributional aspect of credit, linkages of bank credit with various self-help groups, etc.

##### **1.1 Annual Credit Plan Under Lead Bank**

An evaluation of rural credit scenario revealed much higher credit plan outlay for priority sectors such as agriculture and allied activities. In this context, activities relating to small scale industries and non-farm sectors were found to receive least allocations in

the total plan outlay for the state of Maharashtra. The other priority sectors such as transport, retail trade, housing, education, consumption, etc. showed a sharp increase in their allocations in total credit plan outlay over time. Crop loans accounted for nearly two thirds share in total credit plan outlay for agriculture and allied activities. Among various regions, the Western Maharashtra showed the highest share (52.15 per cent) in total credit plan outlay of the state during 2000-01, followed by Marathwada (19.60 per cent), Vidarbha (16.86 per cent), and Konkan (11.38 per cent) regions. In general, except for Konkan region, all other regions of Maharashtra showed higher allocations for agriculture and allied activities. Such increased allocations in plan outlay is a reflection of the importance of agriculture in Government's overall policy encompassing priority sector.

### **1.2 Potential Linked Credit Plan (PLCP) Outlay for Maharashtra**

The estimates relating to PLCP outlays encompassing various sectors/activities showed that among various regions Western Maharashtra alone accounted for around 50 per cent share in total PLCP outlay for the state of Maharashtra. The next important regions were Marathwada and Vidarbha, each accounting for about 20 per cent share in state's total PLCP outlay during the past five years. The allocation for Konkan region in state's total PLCP outlay was the least. Thus, Western Maharashtra turned out to be the most important region since this region attracted the major PLCP outlay of the state. Further, though, in general, there had been nearly two folds rise in PLCP outlays of all the regions of Maharashtra during the period between 1997-98 and 2001-02, the rates of growth in these outlays were relatively faster for Vidarbha and Konkan regions as compared to Western Maharashtra and Marathwada regions during the same period.

### **1.3 Cooperative and Commercial Bank Finances**

Although there are multi-agency set-ups in rural banking, the major institutional finance advanced to farming community in Maharashtra was observed to come from commercial banks and credit cooperatives. As for cooperative finances, the trend obtaining over the past two decades was not very encouraging since it showed slower growth in institutional finance through credit cooperatives during the decade of economic reforms (1991-2000) as against the decade preceding it (1980-1990). Moreover, the reform period was also seen to be marked with a slower growth in membership of credit cooperatives in Maharashtra. As against this, the outstanding loans of these cooperatives grew at much faster rate as compared to their loan advances during both pre- and post-economic reform periods.

Another interesting feature of credit cooperatives, particularly in respect of PACS in Maharashtra, was the increasing trend in their share of medium and long term (MT & LT) advances and decline in their share of short term (ST) advances. At the same time, the MT and LT outstanding loans of these credit institutions were found to grow over time in Maharashtra. This is a pointer to the fact that in more recent times medium and long term loans have become the principal foci of farm finance. However, the PACS in Maharashtra are seen to be beset with several deficiencies in their functioning. The deficiencies noticed were in respect of their law operational efficiency, high incidence of 'overdues', low level of recovery, distributional aspects of ST and MT loans, coverage of SC/ST members, etc. The borrowing members per society of PACS were also found to have come down, especially after the late eighties period. Further, despite Maharashtra being accounting for the bulk of the nation's total production and acreage under cotton crop, the share of this crop in total crop loan advances of PACS was found to decline perceptibly, especially in more recent times.

As for institutional finance to farming community, the commercial banks in Maharashtra also could not show encouraging trends. The trend over the past two decades exhibited a slower growth in institutional finance through commercial banks during the decade of economic reforms as against the pre-economic reform period. Even the credit-deposit (C-D) ratio of commercial banks in Maharashtra was seen to come down during the period of reforms as against the pre-economic reform period. However, despite this decline in C-D ratio of commercial banks, it still remained well above the minimum prescribed limit of 60 per cent as stipulated by the RBI. Further, in Maharashtra the outstanding loans of indirect finances of commercial banks grew at much faster pace as compared to their outstanding loans of direct finances to farmers. An increasing trend in share of Maharashtra in total outstanding loans of all scheduled commercial banks of India was also noticed, which was observed to grow from 10 per cent during TE 1985 to as high as above 14 per cent by the TE 2000.

These trends are obviously not very encouraging insofar as the finances advanced to the farming community in Maharashtra by the commercial banks are concerned.

#### **1.4 Regional Rural Bank Finances**

The major part of resources of RRBs is generated through deposits. Nonetheless, too much dependence on deposits and lack of attention paid to loan advances as observed in this study was certainly a disturbing phenomenon. In course of time, the RRBs in India



were found to show a drastic fall in their credit-deposit (C-D) ratio. The C-D ratio of RRBs at all-India level was seen to come down from 123 per cent during 1981 to as low as 43 per cent by the TE 2000. The fall in this ratio was more sharp in the state of Maharashtra as it came down from 148 per cent during 1981 to 55 per cent by the TE 2000. The decline in C-D ratio of RRBs was mainly due to diversion of substantial portion of their resources in investments instead of lending in rural areas.

The decline in the share of loans lent to farmers by the RRBs is a clear cut reflection of the deviant ways indulged in by the RRBs, of late, defeating the primary objectives with which these were initially formed.

### **1.5 Land Development Bank Finances**

In the state of Maharashtra, the loan advances of LDBs were not only found to decline sharply during the period of reform but also working capital of these banks fell marginally during this period. The membership of LDBs of Maharashtra was found to grow at slower rate during the period between 1991 and 2000 as against the period between 1981 and 2000. Even the recovery of loans and share capital base of LDBs was found to weaken during the reform period. Nonetheless, it is to be noted that the outstanding loans of LDBs in Maharashtra grew at slower pace during the period between 1991 and 2000 as against the period between 1981 and 2000.

### **1.6 Micro Credit Innovations**

The NABARD has been propagating, promoting and financing the SHG-Bank Linkage programme since 1992. This Linkage programme received wider acceptability during 1997-98 when 30 commercial banks, 101 RRBs, 17 co-operative banks and 265 NGOs spread over 19 states and two UTs had participated in such a linkage programme. The main objective of the NGOs was to promote and nurture SHGs and act either as facilitators or both facilitators and intermediaries in effecting linkages between SHGs and banks. In the state of Maharashtra, the number of SHGs linked with bank credit and their finances and refinances have grown significantly over the past five years. At present, all the 33 districts of Maharashtra are covered under the SHG-Bank linkage programme. The region that has shown phenomenal growth in the numerical strength of SHGs linked with bank credit was found to be Vidarbha. Western Maharashtra and to some extent Marathwada also showed significant increases in the numerical strength of SHGs over the past five years. However, so far as Konkan region is concerned, linking of SHGs with bank credit was observed to be a more recent phenomenon. Due to initiation of SHG-

Bank linkage programme, there have been perceptible and wholesome changes in the living standards of the members of SHGs, especially in terms of their ownership of assets, savings and borrowing capacity, income generation activities and levels of income.

### **1.7 Overdue and Outstanding Loans of RFIs**

High transaction cost for funds and lower financial margins are the two major factors behind non-payment of rural loans and accumulation of overdues of RFIs in India. However, the estimates relating to various RFIs of Maharashtra showed a slower growth in their outstanding loans (OL), overdue from direct advances (DA) and bad debt in agriculture during the period between 1991 and 1997 as against the period between 1980 and 1990. At the same time, the proportion of overdue to OL of RFIs of Maharashtra was found to grow at much faster rate during the reform period as against the pre-economic reform period. The reform period also showed increasingly high growth of Maharashtra's share in total overdue and bad debt in agriculture of RFIs in India.

## **2. Credit Scenario of Sampled Districts**

The credit scenario of sampled study districts was evaluated with special focus placed on the progress of various commercial banks and credit cooperatives operating in these districts, particularly in respect of their credit-deposit position, loan advances to priority and non-priority sectors over time, demand and recovery position of their loans, etc., and also with respect to disparities in crop loan advances across various talukas in the selected districts.

### **2.1 Banking Business in Sangli District**

The composition of banking network in Sangli district encompasses 15 nationalised banks, four scheduled commercial banks, M.S.F.C., SDCCB, and MSCARDB. Among these, the SDCCB was found to have the largest network of rural branches which played a pivotal role in implementing the District Credit Plan (DCP) as well as in distributing rural credit. An evaluation of banking business showed a declining trend in share of commercial banks in total loan advances of Sangli district during the decade of 1990s. Even the share of commercial banks in total rural deposit was found to gradually fall over time in this district. The cooperative banks, on the other hand, exhibited a reverse trend following an increasing trend not only in total loan advances but also in total rural deposits of this district. Another disquieting feature was the dwindling of credit-deposit ratio of commercial banks, which was found to fall below 60 per cent in

1997-98. Although cooperative banks also showed a decline in their C-D ratio over time, this C-D ratio for cooperative banks was well above 100 per cent all through the period between 1989-90 and 1997-98. On the positive side, the loan advances of commercial banks to priority sectors in Sangli district remained well above 40 per cent of their total loan advances during the period between 1991-92 and 1996-97. Similarly, during the same period, the direct advances of commercial banks to agriculture also remained above 18 per cent of their total loan advances as stipulated by the RBI. Yet another disquieting feature was the loan advances of commercial banks under DRI schemes, which remained less than 1 per cent of their total loan advances all through the period between 1991-92 and 1996-97. On the other hand, the cooperative banks in this district have shown relatively better performance insofar as their loan advances to priority sectors, direct loan advances to agriculture, and loan advances to weaker sections are concerned. Notwithstanding the foregoing, it is pertinent to note here that the performance of commercial banks in terms of achieving their targets of loan advances to various sectors is much better as compared to cooperative banks operating in this district.

## **2.2 Banking Business in Buldana District**

The banking network in Buldana district encompasses a group of four public sector banks, two banks relating to State Bank group, two cooperative banks, two Gramin banks, and M.S.F.C. Although cooperative banks accounted for much larger share in total network of bank branches of this district, the total rural deposits of these banks were much lower as compared to commercial banks. At the same time, it is to be noted that the share of cooperative banks in total rural deposits of Buldana district showed steady increase from 32 to 42 per cent during the period between 1989-90 and 1998-99. Despite lower share in total rural deposits, the cooperative banks of this district showed higher amount of loan advances as against the commercial banks. Interestingly, both commercial and cooperative banks operating in backward district of Buldana were found to show a falling C-D ratio all through the decade of 1990s. However, despite this fall, the C-D ratios of cooperative banks remained substantially higher than the C-D ratios of commercial banks. The higher C-D ratios of cooperative banks were mainly due to their higher amount of loan advances as compared to their total rural deposits. The loan advances and deposits of cooperative banks were found to grow four folds during the decade of 1990s as against only 2-3 folds rise in deposits and credits of commercial banks observed during this period. Further, the overall performance of cooperative banks

in Buldana district in terms of achieving their targets of loan advances to various sectors was much better as compared to the commercial banks. The cooperative banks not only showed better performance in terms of achieving their targets of loan advances under ACP but they were found to have better C-D ratios as well, even compared to commercial banks and in conformity with the norms enunciated by the RBI.

### **2.3 Disparities in Crop Loan Advances**

The distribution of crop loans was evaluated on the basis of per hectare of gross cropped area and the disparity in the distribution of such loans was analysed with the help of computation of Gini's coefficients and coefficient of variation (C.V.) across various talukas of the selected districts encompassing the period between 1980-81 and 1999-2000. The disparity in distribution of crop loans was noticed to be lower in the backward district of Buldana as against the forward district of Sangli. At the same time, the amount of crop loans per hectare of GCA distributed in this district was also very low as compared to Sangli district. Not only this, the increase in the amount of crop loan advances over time in this district was also not observed to be of a very high order and it rose from Rs.117.59 per hectare of GCA in the decade of 1980s to only Rs.265.69 per hectare of GCA in the decade of 1990s as against a sharp increase in these figures from Rs.274.17 per hectare of GCA in the decade of 1980s to as high as Rs.988.35 per hectare of GCA in the forward district of Sangli.

There is, therefore, an ample scope to increase the amount of crop loan advances in the backward district of Buldana. This will certainly help the farmers not only to increase their crop production but also in terms of achieving sustained growth of agricultural sector in this district.

### **3. Viability of Credit Institutions**

The study attempts to evaluate the organizational, operational and financial health of central level credit institutions operating in both forward district of Buldana and backward district of Sangli. For evaluating the performance/viability of credit institutions over time, Sangli District Central Cooperative Bank (SDCCB) and Buldana District Central Cooperative Bank (BDCCB) were selected as the central level credit institutions operating in the sampled districts.

#### **3.1 Portfolio Structure of SDCCB**

The portfolio management of SDCCB was found to be not very encouraging as not only the proportions of short term advances of the bank fell but the proportions of

medium term advances also remained constant during the period between early- and the late nineties as against the period between mid-eighties and the early nineties. However, an increase in proportions of long term advances and reduction in the proportions of non earning assets such as bank balance during the latter half of the overall period considered are certainly some encouraging trends insofar as asset-mix of the bank is concerned. Among the different types of liabilities, short term bank borrowings, bills for collection, provisions and branch adjustment were relatively cheaper liabilities, whereas deposits from public, interest and charges payable, saving bank deposits amounted to relatively costlier liabilities. The decline in proportions of cheaper liabilities, particularly in the case of bank borrowings and bills and other provisions, and an increase in proportions of costlier liabilities like deposits from public and interest and charges payable were again an indication of unfavourable portfolio management of the bank during the latter half as against the first half of the overall period considered. The only favourable trend in terms of liabilities of SDCCB was the decline in proportion of its costlier liability like saving bank deposit during the period between TE 1992-93 and TE 1998-99 as against the period between TE 1986-87 and TE 1992-93.

### **3.2 Pattern of Loan Advancement of SDCCB**

With the advent of time, the pattern of loan advancement of SDCCB to various societies was found to change considerably. While the share of loans for SAO in total ST loan advances of SDCCB fell rather drastically from 38 per cent during TE 1986-87 to 18 per cent by TE 1992-93 with an increase in the same to 24 per cent by TE 1998-99, the bank was observed to increase its share of ST loans to processing societies from 30 per cent during TE 1986-87 to 50 per cent by TE 1998-99. The share of loans for agricultural purposes in total MT loan advances of SDCCB also came down from over 77 per cent during TE 1986-97 to only around 50 per cent by TE 1998-99. The SDCCB was seen to divert a considerable amount of its MT loans to Maharashtra State Electricity Board (MSEB) during the latter half of the overall period. Nonetheless, this share of MT loans to MSEB was found to have declined from 34 per cent during TE 1992-93 to 23 per cent by TE 1998-99.

### **3.3 Income and Expenditure Pattern of SDCCB**

The profit margin of SDCCB after meeting its all types of expenses was estimated at Rs.29.00 lakhs during the mid-eighties, which rose sharply to Rs.164.32 lakhs during the early nineties with a decline in the same to Rs.108.54 lakhs during the late nineties.

Thus, annual average profit margin of SDCCB observed to have grown over time. These estimates and observations clearly showed a considerable improvement in the operational efficiency of SDCCB during the early- and the late nineties over the mid-eighties. However, in relative terms, the SDCCB showed higher operational efficiency during the early nineties as compared to late nineties.

### **3.4 Break-even Levels of Advances and Deposits for SDCCB**

The SDCCB granted 12.62 per cent higher loan than the break-even level during TE 1986-87, 26.59 per cent during TE 1992-93, and 5.88 per cent during TE 1998-99. A similar trend was also noticed in respect of break-even level of deposits and actual deposit of the bank. The actual deposit of SDCCB turned out to be 23.38 per cent higher than the estimated break-even level during TE 1986-87, 26.66 per cent during TE 1992-93 and 5.94 per cent during TE 1998-99. Thus, the financial viability of SDCCB had declined during TE 1998-99 as against TE 1986-87 and TE 1992-93 consequent to break-even levels of both advances and deposits becoming very close to actual advances and deposits during the late nineties as compared to mid-eighties and the early nineties.

### **3.5 Financial Ratio Analysis for SDCCB**

Though the financial health of SDCCB appeared to have improved during the second half as against the former half of the overall period considered, the more recent period, i.e. the late nineties period, was found to be marked with declining profitability ratios, fixed ratio, asset turnover ratio, income-expenditure ratio, equalization and income multiplier, and marginal efficiency of capital of SDCCB. Although the capitalization ratio of SDCCB gave an indication that the permanent capital of this financial institution had increased over time, this increase in permanent capital of SDCCB, however, might not be considered as a sign of improvement in its efficiency since major portion of SDCCB's assets were financed by debt and this dependency on debt had marginally increased during the latter half as against the former half of the overall period. Further, hardly any improvement in the net worth of SDCCB was observed and in fact the share of net worth in total liability of SDCCB had rather declined over time. The declining share of net worth was instrumental in causing an increase in debt asset ratio of SDCCB during the latter period. This apart, the return on owner's equity had also drastically fallen during the late nineties period as against the early nineties. Thus, it could be interpreted that the financial health and economic viability of SDCCB had considerably declined in more recent times, ignoring increasing trends in several financial ratios. In

fact, the return on owner's equity is a function of how efficiently a firm manages its assets, the net profit margin on sales, and the degree of financial leverage. A decline in returns on equity of SDCCB could, therefore, be considered as a sign of decline in the efficiency of SDCCB in managing its assets and liabilities, and also income and expenditure pattern, especially in more recent times.

### **3.6 Portfolio Structure of BDCCB**

Portfolio of BDCCB clearly indicated that during the entire period the bank could not make favourable asset-mix as not only the proportions of short term advances and branch adjustment of the current assets had steadily declined but there was also not much distinct difference in proportion of medium term advances of the fixed assets, the proportion of which, in fact, had declined during the period between TE 1986-87 and TE 1992-93 registering an increase in the same thereafter. In addition, the bank could neither reduce the proportion of non earning assets nor able to slow down the growth of less earning assets. The bank was also unable to convert its non-earning assets as well as low earning assets into profit earning assets, particularly in more recent times. Further, during the entire period between TE 1986-87 and TE 1998-99, the BDCCB showed a steady decline in proportion of cheaper liabilities like short term bank borrowings, bills for collection, provisions and branch adjustment. On the other hand, the proportion of costlier liabilities of BDCCB like deposits from public and saving bank deposits had grown during the entire period between TE 1986-87 and TE 1998-99. These trends are certainly undesirable insofar as the portfolio management of BDCCB is concerned.

### **3.7 Pattern of Loan Advancement of BDCCB**

Although the ST loan advances of BDCCB to agricultural credit societies had grown by more than two folds during the period between mid-eighties and the late nineties, this period was also marked with a sharp decline in the share of ST loans of BDCCB to agricultural credit societies. During the same period, the share of ST loans of BDCCB to processing societies had grown considerably over time. The share of MT agricultural loans of BDCCB to cooperative societies had also come down with the passage of time. Contrary to this, the shares of MF non-agricultural loans of BDCCB to cooperative societies and to individuals had grown sharply over time. These trends are symptomatic of shift in pattern of loan advances of BDCCB.

### **3.8 Income and Expenditure Pattern of BDCCB**

Although BDCCB had earned an annual average profit of Rs.12-13 lakhs during the period between mid-eighties and the early nineties, this amount of profit turned out to be too meagre when compared with losses incurred by it during the late nineties period. In fact, the BDCCB had earned positive returns only over cost A and cost B and when the profit of the bank over cost C was computed, the bank was reduced to a loss making institution from a profit earning one, particularly during the late nineties period. Thus, the operational efficiency of the bank during the latter half was adversely affected and the bank became an inefficient one during this period.

### **3.9 Break-even Levels of Loan Advances and Deposits of BDCCB**

The break-even level of loan advances for BDCCB was estimated at Rs.2739.93 lakhs in TE 1986-87, Rs.5105.54 lakhs in TE 1992-93, and Rs.39200.95 lakhs in TE 1998-99. As against this, the actual loan advances of this bank were Rs.2984.79 lakhs in TE 1986-87, Rs.5344.31 lakhs in TE 1992-93, and Rs.15716.78 lakhs in TE 1998-99. Thus, the bank granted 8.94 per cent higher loan than the break-even level during TE 1986-87 and 4.68 per cent during TE 1992-93. However, during TE 1998-99, the actual loan advance of BDCCB was much lower than the breakeven level and a deficit in this loan to the tune of around 60 per cent was noticed during this period. A similar trend was also noticed in respect of break-even level of deposits and the actual deposit of the bank. The actual deposit of BDCCB turned out to be 9.27 per cent higher than the estimated break-even level during TE 1986-87 and 5.23 per cent during TE 1992-93 with a deficit in this deposit estimated at 60 per cent during TE 1998-99.

### **3.10 Financial Ratio Analysis for BDCCB**

The mounting NPAs or overdue or bad debt of BDCCB during the late nineties period had adversely affected majority of the estimated ratios during this period. Not only the permanent capital position of BDCCB was noticed to weaken during the late nineties period but its dependency on debt for its finances had also sharply increased during this period. The share of net worth in total liability of BDCCB was also noticed to have sharply declined during the period between mid-eighties and the late nineties. The declining share of net worth had caused an increase in debt asset ratio of BDCCB during this period. Added to this, the return on equity of BDCCB had not only drastically fallen but it became negative during the late nineties period as against the mid-eighties or the early nineties period. The rate of return on asset and marginal efficiency of capital of



BDCCB had also shown a drastic fall during the period between early- and the late nineties. All these disquieting trends clearly indicate non-viable functioning of BDCCB during the more recent times. Further, the negative value of return on equity of BDCCB noticed during the late nineties period clearly indicates inefficiency of BDCCB in managing its assets and liability, as also its income and expenditure patterns.

#### **4. Results of Field Survey**

The results of field survey mainly encompass credit experiences of sampled farmers with their concerned banks and also strength and weaknesses of various credit institutions operating in forward and backward districts of Maharashtra.

##### **4.1 Credit Experiences of Sampled Farmers of Sangli District**

The sampled members of credit cooperatives as well as the beneficiaries of commercial banks of Sangli district were found to seek loans from both PACS and commercial banks. The general borrowing position of these sampled farmers was seen to be dominated by crop loans. During the period between 1992 and 1999, the amount of crop loans borrowed from PACS by the beneficiaries of commercial banks was higher as compared to the members of credit cooperatives who had also borrowed crop loans from their concerned PACS. However, this scenario had an exception in 1999 when the small category of members of credit cooperatives had borrowed substantially high amount of crop loans from PACS. In general, both members of credit cooperatives and beneficiaries of commercial banks showed exemplary repayment performance insofar as crop loans received by them from PACS were concerned. However, the repayment of medium and long term loans received by these sampled farmers was not very satisfactory as majority of them showed quite high amount of outstanding loans due to commercial banks. But, mention may be made here that there were only few borrowers of medium and long term loans and that during the entire period between 1992 and 1999 the frequency of medium and long term borrowings was also too low. This aside, the amount of medium and long term borrowings of the sampled farmers from commercial banks was also not much. This is an indication of the fact that the sampled farmers were chiefly dependent on short term borrowings as against the medium and long term borrowings. This dependency on short term borrowings was seen to be higher in the case of members of credit cooperatives as compared to the beneficiaries of commercial banks.

There were certain advantages and disadvantages of availing loans from PACS and commercial banks. While availability of crop loan facility, reasonable rates of

interest on loans, availability of loans on time, availability of loans for fertilizer, seed and other inputs at subsidized rates, provision of dividend, reasonable installments in terms of repayment of ST and MT loans, cooperative nature of the officials, demand for less documental proof for the disbursal of loan, availability of loans for multiple purposes, etc. were among some of the major advantages of availing loans from PACS, this was associated with some distinct disadvantages, as manifest in non availability of loans for long term purposes, limited amounts of ST and MT loans, and non availability of loans for drip irrigation, tractors, etc. The advantages of availing loans from commercial banks were in terms of availing loans for LT purposes like drip irrigation, tractor, etc. aside from ST and MT purposes, as also for various business activities and for the agricultural development in general. However, high rates of interest on loan advances, requirement of more documental proof for the extension of loans, delay in disbursal of loans in majority of cases, higher transaction costs, non cooperative nature of the staff of various commercial banks, and compulsion of two guarantors at the time of sanctioning of loans were found to be major deterrents for availing loans from these banks.

Majority of the members of credit cooperatives firmly believed that their credit cooperatives had catalytic effect in improving the productivity of crops grown by them and also in increasing their use of fertilizer. A significant section of the beneficiaries of commercial banks were also of the opinion that their concerned banks had a positive impact not only in respect of increasing the utilization of inputs such as fertilizer, improved varieties of seeds, pesticides, etc but also in increasing their crop production and asset position. Some members of credit cooperatives also believed that the community, in general, was benefited because of the positive role played by their concerned credit institution.

#### **4.2 Credit Experiences of Sampled Farmers of Buldana District**

Two differing scenarios emerged insofar as the general borrowing position of sampled farmers of Buldana district was concerned. While the beneficiaries of commercial banks sought loans from their concerned banks for multiple purposes, which not only included crop loans but also loans for goat keeping, drip irrigation, cloth, grocery and other retail shops, auto purchase, readymade cloth manufacturing, etc., the members of credit cooperatives, on the other hand, borrowed only crop loans from their concerned PACS as well as from commercial banks. Nonetheless, the amount of crop loans borrowed from PACS by the beneficiaries of commercial banks was smaller as

compared to the crop loans received by them from their concerned banks. As for the repayment of crop loans, both members of credit cooperatives and beneficiaries of commercial banks showed satisfactory performance as there was hardly any outstanding crop loan due to PACS or commercial banks during the entire period between 1992 and 1999. However, the repayment of medium and long term loans was not very satisfactory as majority of the beneficiaries showed substantial outstanding loans due to their concerned banks during the given period between 1992 and 1999. Thus, while the members of credit cooperatives were chiefly dependent on ST loans, i.e., crop loans, the beneficiaries of commercial banks not only borrowed crop loans but also loans for various other MT and LT purposes.

The PACS were favoured by both members of credit cooperatives and beneficiaries of commercial banks mainly because of their provision of crop loans, reasonable rates of interest and timely availability of loans, availability of loans for various inputs like seeds, fertilizers, etc. on time, provision of dividend to their members, provision of subsidy extended by them on certain loans, and their provision of *Kisan Credit Card* and green card to their members for selling cotton, etc. At the same time, these members of credit cooperatives and beneficiaries of commercial banks had also shown some dissatisfaction over inability of PACS to provide them loans for LT purposes, inadequate and limited amounts of loans, their deduction of 5 per cent from loan amount as share capital, non-availability of loans from them for the purchase of all types of fertilizers, and their restriction to purchase seeds/fertilizers from a specific agency.

The commercial banks on the other hand were not only favoured by their own beneficiaries but also by the members of PACS, mainly due to their provision of loans for LT purposes, larger amounts of their loans, timely loan advancements and reasonable rates of interest on these loans, reasonable number of installments and flexibility in terms of repayment of these loans, their provision of loans for goat keeping and for the purchase of other milch animals, etc. However, excessive paper work of commercial banks while sanctioning loans, delay in disbursement of their loans, their high rates of interest on MT and LT loans, high transaction costs, their compulsion of two surety or guarantors at the time of sanctioning loans, their compulsion to maintain a minimum Rs.250 as bank balance to retain account, and non-cooperative nature of their staff were viewed as some of the major disadvantages of availing loans from commercial banks.

Interestingly, majority of the members of credit cooperatives and some of the beneficiaries of commercial banks chose to reserve their comments on the utility and impact of the credit cooperatives and commercial banks on the adoption of improved varieties of seeds by them and/or increasing use of irrigation or improved machinery by them. None of the members of credit cooperatives believed that the community, in general, was benefited due to the lone facility extended by their concerned PACS. However, a small section of beneficiaries of commercial banks firmly believed that the availability of loan facility for the purchase of tractor, harvester, cattle, buffalo, etc. from their concerned banks had been instrumental for the overall development of the village.

**Policy Implications:**

1. An important aspect of PACS operating in the state of Maharashtra that merits attention is the changes that took place over time with respect to their coverage of SC/ST members. With the passage of time, not only a steady decline in the proportion of SC/ST members to the total membership was observed but the loan share of SC/ST in total loan advancement of PACS also fell. There is, therefore, a need to formulate policies and evolve schemes relating to SC/ST welfare and those affecting the weaker sections of the rural community. Simplification of loan procedure and making cohesive measures for recovery of loans of chronic and heavy defaults of influential well-to-do borrowers who evade repayment despite their capacity to repay are some other important issues that require urgent attention. In fact, the lackadaisical approach of PACS towards loan advances to SC/ST members and other weaker sections, and also for cotton crop calls for immediate remedial measures if Maharashtra is to continue to lead the country in the cooperative development. [Attn.: The Maharashtra State Co-operative Bank Ltd., Mumbai; and Office of the Commissioner for Co-operation and Registrar of Co-operative Societies, Maharashtra State, Pune]

2. Although RRBs have played a predominate role in supplementing the efforts of the Government in eradicating poverty by dispensing credit under Government sponsored programmes, their erosion in profitability and the poor sustainability is causing much concern. The policy regime under which they performed contributed greatly to this state of sorry affairs. The major problem faced by RRBs in India is the lack of staff motivation and specialization despite recruitment of local staff. The poor performance of RRBs can be attributed to their hurriedly recruited and trained staff that not only lacked exposure in dealing with a large number of small-term/ composite loans but also in terms of their

weak knowledge of dealing with bank accounts, seeking assistance and guidance at each stage of loan application and its recovery. One of the suggestions of Shivamaggi (2000) was, therefore, in favour of placing all the employees of RRBs in the rural banking cadre with a view to make them employees of both the RRBs and their sponsoring banks, and, hence, helping them to expand their career prospects, as is the case in general banks. Personal career growth prospects of the employees of RRBs will not only motivate them to work more efficiently but also improve the viability of these rural financial institutions. **[Attn.: Reserve Bank of India (RBI), Mumbai; National Bank for Agriculture and Rural Development (NABARD), Mumbai]**

3. The flow of finances through LDBs encompass activities relating to agricultural production sub-system (APS), agricultural input distribution sub-system (AIS), agricultural produce marketing and processing sub-system (AMPS), and also long-term finance to members of LDBs for the purpose of purchase of tractor and its accessories, minor irrigation, milch and draught animal purchase, etc. Although the overall performance of LDBs in India is satisfactory, they still have to do a lot of catching up to do to improve the condition of rural India. The major problem crippling the functioning of LDBs is the mounting 'overdues' and the outstanding loans, which were observed to grow more dramatically in recent times. This is despite the fact that the loans extended by LDBs are aimed at not only helping in creating productive assets but also in terms of generating adequate incremental income to the farmers. In order to tackle the problem of 'overdues' of LDBs certain suggestions were put forth by Kumar and Dixit (1998), which mainly revolved around creation of greater coordination among ST, MT and LT loans and streamlining the operations of LDBs, checking the diversion and misuse of LDB's credit, effective supervision of loan product, strengthening the share capital base, and mobilizing deposits and debentures through more innovative deposits and debenture schemes. Another important suggestion in this context was in favour of launching intensive membership drive with a view to increase the coverage of these long term financial institutions. Some of the agricultural and rural development banks (ARDBs), popularly known as LDBs, have already taken initiatives in these directions. **[Attn.: Reserve Bank of India (RBI), Mumbai; National Bank for Agriculture and Rural Development (NABARD), Mumbai]**

4. In order to accelerate the pace of SHG-Bank linkage programme, the NABARD has also devised district-specific and location-specific strategies keeping in view the

available potential, resources and prevailing constraints. The NABARD has also taken an initiative in creating 'Micro-Finance Development Foundation'(MFDF). The MFDF is expected to provide financial, technical and other assistance for experimenting with various models encompassing credit delivery innovations. Under MFDF, provisions are also made to utilize funds for conducting studies and undertake research relating to micro-finance, dissemination of information amongst the various players in the system, etc. The Foundation also works towards mobilization of monetary and other requisite resources from various organizations with a view to develop expertise in micro finance. It is expected that with the increasing involvement of banking system as well as NGOs, the micro-credit movement will gain further momentum in the years to come. [Attn.: **National Bank for Agriculture and Rural Development (NABARD), Mumbai**]

5. An evaluation of banking business reveals much better performance of cooperative banks during the decade of 1990s. The cooperative banks have performed well not only in forward district of Sangli but also in the backward district of Buldana. The credit delivery and recovery performance of cooperative banks were found to be remarkable in the forward district of Sangli. Nonetheless, commercial banks were found to have an edge over co-operative banks in meeting and exceeding targets of loan advances to various sectors in Sangli district. However, both commercial and cooperative banks showed rather poor performance insofar as meeting targets of loan advances to S.S.Is were concerned. This held good for both the forward district of Sangli and the backward district of Buldana. Shrinking flow of credit to S.S.Is during the decade of 1990s is certainly a matter of concern. [Attn.: **State Level Bankers' Committee, Mumbai; SDCCB, Sangli; BDCCB; Buldana; MSCARDB, Mumbai; MSFC, Mumbai**]

6. The passage of time has also seen considerable change in pattern of ST loan advancement of SDCCB in favour of processing societies, possibly at the expense of loans meant for agricultural purposes. This situation could be described as disquieting due mainly to the fact that farmer's crop activity heavily depends on these kinds of loans and any reduction in the same would not only affect the production of various crops grown in the district but may also lead the farmers to fall in the trap of unscrupulous private money lenders, especially in the event of inadequate loan supply to farmers by these cooperative credit institutions. This situation needs to be altered and corrective measures are required to be applied if farmers interests have to be safeguarded. The

pattern of loan advances of SDCCB is also fast changing towards its LT advances, which were found to grow over 1200 per cent during the period between mid-eighties and the late nineties as against only over 300 per cent increase in its ST and MT loan advances during the same period. This trend, however, can be construed as desirable since most of the LT loans of SDCCB are extended for the development of horticulture industry, which is gaining ground in India in more recent times, and which has of late become the back bone of all agricultural development of India because of its export competitiveness.

**[Attn.: SDCCB, Sangli]**

7. Notably, in due course of time, the pattern of loans advances of BDCCB has shifted considerably. While the shift in ST loans of BDCCB during the entire period between mid-eighties and the late nineties was in favour of processing societies, the shift in MT loans, on the other hand, was more in favour non-agricultural cooperative societies. Nonetheless, the decline in share of ST and MT loan advances of BDCCB to agricultural credit societies and for various agricultural purposes is certainly a matter of concern due mainly to the fact that these loans are aimed at not only helping the farmers in enhancing their crop production but also in terms of increasing their income levels. This certainly calls for remedial and corrective measures to safeguard the interest of the farming community. **[Attn.: BDCCB, Buldana]**

8. The BDCCB showed higher break-even levels of loan advances and deposits due to excessively high fixed expenses incurred by it during the late nineties period. The higher fixed expenses were mainly due to very high levels of NPAs as these got included in the fixed expenses of BDCCB during this period. Obviously, the viability of BDCCB, measured in terms of break-even levels of advances and deposits, was adversely affected during the late nineties period. The gaps between break-even levels of loan advances and deposits and the actual loan advances and deposits were estimated to be so high as making it difficult for the bank to bridge these gaps and attract enough deposits to augment its financial viability to sustain a future that lasted many years in future. **[Attn.: BDCCB, Buldana]**

9. In order to improve the functioning of credit institution, the suggestions of the sampled respondents were also sought. The suggestions of the sampled respondents of Sangli district, in general, revolved around those kind of extension services which were not provided by their concerned credit institution. These facilities included provisions of loan for the purchase of medicines and for medical treatment, purchase of diesel for

tractor, and also loan provisions for various social ceremonies such as marriages, functions, etc. A hike in the limits on personal loans and also on ST, MT, and LT loans and a reduction in the rates of interest on such loans, provision of loans for various farm inputs at subsidized rates, provision of tractor on rental basis to the smaller categories of farmers, an insurance scheme for the farmer members, etc. were among the other suggestions of the sampled respondents. The major suggestions of the sampled respondents of Buldana district were in favour of provision of loans from their concerned credit institutions for medical treatment and flexibility in terms of limits on ST, MT and LT loans, besides extending their suggestions for the provision of LT loans from PACS. In fact, as against the beneficiaries of commercial banks, the members of credit cooperatives were more critical and forthcoming in providing their suggestions with respect to smooth functioning of their concerned PACS. [Attn.: RBI, Mumbai; NABARD, Mumbai; SDCCB, Sangli; BDCCB, Buldana]

10. The estimates show considerable regional variations insofar as PLCP outlays for these regions are concerned. The shares of Western Maharashtra, Marathwada, Vidarbha and Konkan regions in total PLCP outlays of the state over the past few years were observed to be 50 per cent, 20 per cent, 20 per cent, and 10 per cent, respectively, showing PLCP outlay for Western Maharashtra to be the highest. There is, therefore, a need to rationalize PLCP outlays for Marathwada, Vidarbha and Konkan regions. [Attn.: State Level Bankers' Committee, Mumbai; NABARD, Mumbai]

#### **Conclusions:**

The slower growth in institutional finances through commercial banks, credit cooperatives, RRBs and LDBs, particularly during the decade of 1991-2000, is mainly due to adverse environment created by the financial sector reforms. Due to unfavourable policy framework, the entire rural credit delivery system encompassing rural branches of commercial banks, cooperative credit institutions and RRBs is reduced to a moribund state. It is to be noted that high transaction costs and poor repayment performance are the twin root causes of this moribund state of rural credit delivery system. With a view to revive the agricultural credit delivery system, there is a need to adopt innovative approaches like linking of Self-Help Groups (SHGs) and Non-Government Organizations (NGOs) with mainstream financial institutions. Such linkages are reported to have not only reduced transaction costs but also resulting in better repayment performance.



One of the recent welcome developments in rural credit has been the establishment of the Rural Infrastructure Development Fund (RIDF) instituted by NABARD with the objective of advancing loans to state governments and state-owned corporations for hastening ongoing projects, that is, mainly those relating to medium and minor irrigation, soil conservation, watershed management, etc. However, the utilization of this fund was observed to be dismal at only 30 per cent. One of the further disquieting features of RFI in Maharashtra has been the incidence of high proportion of NPAs to total assets, particularly with respect to RRBs and SCARDBs, and it was estimated to hover around 36-48 per cent during the mid-to late nineties.

An analysis encompassing central level credit cooperatives operating in forward and backward districts of Maharashtra also revealed deterioration in their financial health due to mounting NPAs or overdues'. It is to be noted that both SDCCB and BDCCB showed a decline in their financial health and economic viability during the late nineties as against the early nineties period. Nonetheless, this deterioration in financial health witnessed particularly during the second half (between TE 1992-93 and TE 1998-99) of the overall period (TE 1986-87 and TE 1998-99) was found to be more pronounced in the case of BDCCB as not only various financial ratios estimated for this bank had declined during this period but majority of them were seen to be beset with negative values, especially during the late nineties period. The mounting NPAs or overdues' of BDCCB, noticed during the late nineties period, had grossly affected the functioning of this bank. They had not only affected various estimated financial ratios but also break-even levels of loan advances and deposits of this bank. Because of substantially high NPAs, the fixed expenses of BDCCB had been adversely affected, which in turn had grossly affected the break-even levels of loan advances and deposits of this bank, so much so that there had been huge gap between the break-even levels of loan advances and deposits and the actual loan advances and deposits. The deficit between actual and the break-even levels were so high (about 60 per cent) that it was well-nigh impossible for BDCCB to overcome this situation. The mounting NPAs of BDCCB had also affected the profit profile of this bank during the late nineties period. The proportions of actual advance and deposits to their break-even levels of SDCCB had also come down during the latter half (between TE 1992-93 and TE 1998-99) as against the former half (between TE 1986-87 and TE 1992-93) of the overall period considered. Nonetheless, mention may be made here that there was no deficit between actual and break-even levels of loan advances and

deposits of SDCCB during this period. Thus, while BDCCB had shown gross inefficiency in its functioning during the latter half of the overall period, the SDCCB, on the other hand, showed only a general deterioration in its financial health during this period.

One of the reasons for such high incidence of NPAs of RFIs has been the familiar practice of debt forgiveness, which eroded repayment and allowed defaulters to go scot free with no deterrent reprimand. Political interference in issues of prudent fiscal management has got a lot to do with this unfortunate scenario. There is, therefore, a need to take more stringent and cohesive measures for recovery of loans from chronic and heavy defaulters. In brief, in order to rejuvenate rural credit delivery system, the twin problems facing the system, viz., high transaction costs and poor repayment performance, need to be tackled with more fiscal jurisprudence reserving exemplary punishment for willful defaults, especially by large farmers. In fact, insofar as the rural credit delivery system is concerned, the focus should be on strategies that are required for tackling issues such as sustainability and viability, operational efficiency, recovery performance, small farmer coverage and balanced sectoral development (Puhazhendhi and Jayaraman, 1999).

## POLICY MATRIX

Sl. No.	Problems Identified	Action Points	Implementing Agency
1.	The estimates show considerable regional variations insofar as Potential Linked Credit Plan (PLCP) outlays for Western Maharashtra, Marathwada, Vidarbha, and Konkan regions are concerned. The shares of Western Maharashtra, Marathwada, Vidarbha and Konkan regions in total PLCP outlay of the state over the past few years are seen to be 50 %, 20 %, 20 %, and 10 %, respectively, showing PLCP outlay for the Western Maharashtra to be the highest.	There is need to rationalize/increase PLCP outlays for Marathwada, Vidarbha and Konkan regions.	State Level Banker's Committee (SLBC), Mumbai; NABARD, Mumbai
2.	The new generation lending institutions like SHGs show high rate of recovery despite excessively high rates of interest on their loan advances. They also show lower transaction cost as compared to other lending institutions.	There is need for cooperative and commercial banks to study the mechanism of new generation lending institutions in terms of their pattern of loan recovery and interest rate structure.	State Level Banker's Committee (SLBC), Mumbai; NABARD, Mumbai; State Co-operative Bank, Mumbai
3.	In the state of Maharashtra, not only the institutional finance but the membership of credit cooperatives have slowed down during the decade of economic reforms as against the decade preceding it. As against this, the outstanding loans of these cooperatives have grown at much faster rate as compared to their loan advances during both pre- and post economic reform period.	The twin problems of credit cooperatives relating to slower growth in their institutional finance and membership and higher growth in their outstanding loans need to be tackled.	State Cooperative Bank (SCB), Mumbai
4.	The PACS have also shown a decline in their coverage of SC/ST farmers, besides showing a fall in their loan advances to them. Further, despite Maharashtra accounting for the bulk of the nation's total production and acreage under cotton crop, the share of this crop in total crop loan advances of PACS has come down perceptibly over time.	The lackadaisical approach of PACS towards loan advances to SC/ST members and other weaker sections, and also for cotton crop calls for immediate remedial measures if Maharashtra is to continue to lead the country in the cooperative development.	The Maharashtra State Co-operative Bank Ltd., Mumbai; Office of the Commissioner for Co-operation and Registrar of Co-operative Societies, Maharashtra State, Pune

5.	Like credit cooperatives, the commercial banks, RRBs and LDBs in Maharashtra have also shown slower growth in their institutional finance during the decade of economic reforms. There has also been an increasing trend in share of Maharashtra in total outstanding loans of all scheduled commercial banks of India, which has grown from 10 % during TE 1985 to 14 % by TE 2000.	The commercial banks, RRBs and LDBs of Maharashtra need to tackle the slow growth of their institutional finance, particularly in more recent times. Besides, they should slow down the growth of their outstanding loans.	RBI, Mumbai; All the Commercial Banks of Maharashtra
6.	Lack of staff motivation and specialization despite local recruitment of staff are the twin problems faced by RRBs. The poor performance of RRBs can be attributed to their hurriedly recruited and trained staff that not only lack exposure in dealing with a large number of small-term/ composite loans but also in terms of their weak knowledge of dealing with bank accounts.	The employees of RRBs should be placed in the rural banking cadre (RBC) with a view to make them employees of both the RRBs and their sponsoring banks. This will help them to expand their career prospects, which in turn motivate them to work more efficiently. This will improve the viability of RRBs.	Reserve Bank of India (RBI), Mumbai; NABARD, Mumbai
7.	The major problem crippling the functioning of LDBs in Maharashtra is the mounting 'overdues' and the outstanding loans, which have grown more dramatically in recent times. This is despite the fact that the loans extended by LDBs are aimed at not only helping in creating productive assets but also in terms of generating adequate incremental income to the farmers.	There is need for the LDBs to create greater coordination among their ST, MT and LT loans, streamline their operations, check the diversion and misuse of their credit, supervise the loan product, strengthen the share capital base, and mobilize deposits and debentures through more innovative deposits and debenture schemes.	Reserve Bank of India (RBI), Mumbai; NABARD, Mumbai
8.	The disparity in distribution of crop loans, measured with the help of Gini's coefficients, is noticed to be lower in the backward district of Buldana as against the forward district of Sangli. At the same time, the amount of crop loans per hectare of GCA distributed in this district is also very low as compared to Sangli district.	There is an ample scope to increase the amount of crop loan advances in the backward district of Buldana. This will certainly help the farmers not only to increase their crop production but also in terms of achieving sustained growth of agricultural sector in this district.	State Cooperative Bank (SCB), Mumbai; Buldana District Central Cooperative Bank (BDCCB) Ltd., Buldana
9.	Both commercial and cooperative banks operating in forward district of Sangli and backward district of Buldana have shown shrinking flow of credit to S.S.Is during the decade of 1990s.	There is need for the commercial banks and credit cooperatives to increase the flow of credit to S.S.Is in Sangli and Buldana districts of Maharashtra.	All the Commercial Banks of Buldana and Sangli Districts; SDCCB, Sangli; BDCCB, Buldana

10.	In due course of time, the pattern of ST loan advances of both SDCCB and BDCCB has shifted in favour of processing societies and MT loans of BDCCB in favour of non-agricultural cooperative societies.	This certainly calls for remedial and corrective measures to safeguard the interest of the farming community.	SDCCB, Sangli; BDCCB, Buldana
11.	The BDCCB has shown higher break-even levels of loan advances and deposits due to excessively high fixed expenses incurred by it during the late nineties period. The higher fixed expenses are mainly due to very high levels of NPAs as these got included in the fixed expenses of BDCCB during this period. This has adversely affected the viability of BDCCB. A deficit to the tune of 60 % is noticed in actual advances and deposits as compared to break-even levels of advances and deposits of BDCCB.	There is need for the BDCCB to recover its overdues' and outstanding loans and, thus, reduce its NPAs which has adversely affected its profit profile.	BDCCB, Buldana
12.	The major suggestions of the sampled respondents of both Sangli and Buldana districts were in favour of provision of loans from their concerned credit institutions for medical treatment and flexibility in terms of limits on ST, MT and LT loans, besides extending their suggestions for the provision of LT loans from PACS.	Both commercial banks and credit cooperatives should find possibilities to extend loans for meeting medical expenses and also in terms of relaxing limits on their ST, MT and LT loans.	All the Commercial Banks of Sangli and Buldana district; SDCCB, Sangli; BDCCB, Buldana
13.	Complicated procedure in terms of loan advancement, delay in disbursement of loan, high transaction costs, and high NPAs are noticed to be the major problems of commercial banks.	The commercial banks should simplify their loan procedures and make cohesive measures for recovery of loans of chronic and heavy defaults of influential well-to-do borrowers who evade repayment despite their capacity to repay.	Reserve Bank of India (RBI), Mumbai; NABARD, Mumbai; All the Commercial Banks of Maharashtra
14.	Various RFIs of Maharashtra have shown a slower growth in their outstanding loans (OL), overdue from direct advances (DA) and bad debt in agriculture during the period between 1991 and 1997 as against the period between 1980 and 1990. At the same time, the proportion of overdue to OL of RFIs of Maharashtra have grown at much faster rate during the reform period as against the pre-economic reform period.	The RFIs of Maharashtra, in general, need to tackle their problems relating to overdues' and outstanding loans.	All Rural Financial Institutions of Maharashtra

5.	Like credit cooperatives, the commercial banks, RRBs and LDBs in Maharashtra have also shown slower growth in their institutional finance during the decade of economic reforms. There has also been an increasing trend in share of Maharashtra in total outstanding loans of all scheduled commercial banks of India, which has grown from 10 % during TE 1985 to 14 % by TE 2000.	The commercial banks, RRBs and LDBs of Maharashtra need to tackle the slow growth of their institutional finance, particularly in more recent times. Besides, they should slow down the growth of their outstanding loans.	RBI, Mumbai; All the Commercial Banks of Maharashtra
6.	Lack of staff motivation and specialization despite local recruitment of staff are the twin problems faced by RRBs. The poor performance of RRBs can be attributed to their hurriedly recruited and trained staff that not only lack exposure in dealing with a large number of small-term/ composite loans but also in terms of their weak knowledge of dealing with bank accounts.	The employees of RRBs should be placed in the rural banking cadre (RBC) with a view to make them employees of both the RRBs and their sponsoring banks. This will help them to expand their career prospects, which in turn motivate them to work more efficiently. This will improve the viability of RRBs.	Reserve Bank of India (RBI), Mumbai; NABARD, Mumbai
7.	The major problem crippling the functioning of LDBs in Maharashtra is the mounting 'overdues' and the outstanding loans, which have grown more dramatically in recent times. This is despite the fact that the loans extended by LDBs are aimed at not only helping in creating productive assets but also in terms of generating adequate incremental income to the farmers.	There is need for the LDBs to create greater coordination among their ST, MT and LT loans, streamline their operations, check the diversion and misuse of their credit, supervise the loan product, strengthen the share capital base, and mobilize deposits and debentures through more innovative deposits and debenture schemes.	Reserve Bank of India (RBI), Mumbai; NABARD, Mumbai
8.	The disparity in distribution of crop loans, measured with the help of Gini's coefficients, is noticed to be lower in the backward district of Buldana as against the forward district of Sangli. At the same time, the amount of crop loans per hectare of GCA distributed in this district is also very low as compared to Sangli district.	There is an ample scope to increase the amount of crop loan advances in the backward district of Buldana. This will certainly help the farmers not only to increase their crop production but also in terms of achieving sustained growth of agricultural sector in this district.	State Cooperative Bank (SCB), Mumbai; Buldana District Central Cooperative Bank (BDCCB) Ltd., Buldana
9.	Both commercial and cooperative banks operating in forward district of Sangli and backward district of Buldana have shown shrinking flow of credit to S.S.Is during the decade of 1990s.	There is need for the commercial banks and credit cooperatives to increase the flow of credit to S.S.Is in Sangli and Buldana districts of Maharashtra.	All the Commercial Banks of Buldana and Sangli Districts; SDCCB, Sangli; BDCCB, Buldana

10.	In due course of time, the pattern of ST loan advances of both SDCCB and BDCCB has shifted in favour of processing societies and MT loans of BDCCB in favour of non-agricultural cooperative societies.	This certainly calls for remedial and corrective measures to safeguard the interest of the farming community.	SDCCB, Sangli; BDCCB, Buldana
11.	The BDCCB has shown higher break-even levels of loan advances and deposits due to excessively high fixed expenses incurred by it during the late nineties period. The higher fixed expenses are mainly due to very high levels of NPAs as these got included in the fixed expenses of BDCCB during this period. This has adversely affected the viability of BDCCB. A deficit to the tune of 60 % is noticed in actual advances and deposits as compared to break-even levels of advances and deposits of BDCCB.	There is need for the BDCCB to recover its overdues' and outstanding loans and, thus, reduce its NPAs which has adversely affected its profit profile.	BDCCB, Buldana
12.	The major suggestions of the sampled respondents of both Sangli and Buldana districts were in favour of provision of loans from their concerned credit institutions for medical treatment and flexibility in terms of limits on ST, MT and LT loans, besides extending their suggestions for the provision of LT loans from PACS.	Both commercial banks and credit cooperatives should find possibilities to extend loans for meeting medical expenses and also in terms of relaxing limits on their ST, MT and LT loans.	All the Commercial Banks of Sangli and Buldana district; SDCCB, Sangli; BDCCB, Buldana
13.	Complicated procedure in terms of loan advancement, delay in disbursement of loan, high transaction costs, and high NPAs are noticed to be the major problems of commercial banks.	The commercial banks should simplify their loan procedures and make cohesive measures for recovery of loans of chronic and heavy defaults of influential well-to-do borrowers who evade repayment despite their capacity to repay.	Reserve Bank of India (RBI), Mumbai; NABARD, Mumbai; All the Commercial Banks of Maharashtra
14.	Various RFIs of Maharashtra have shown a slower growth in their outstanding loans (OL), overdue from direct advances (DA) and bad debt in agriculture during the period between 1991 and 1997 as against the period between 1980 and 1990. At the same time, the proportion of overdue to OL of RFIs of Maharashtra have grown at much faster rate during the reform period as against the pre-economic reform period.	The RFIs of Maharashtra, in general, need to tackle their problems relating to overdues' and outstanding loans.	All Rural Financial Institutions of Maharashtra

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## FOREWARD

The diversification of agriculture over the years has accentuated the need for the rapid development of rural infrastructure and larger flow of credit. However, despite technological innovations and commercialization of agriculture, a large segment of cultivators, particularly small and marginal farmers, are not able to make additional capital investments in agriculture to reap the benefits of the green revolution due to low agricultural surplus income accruing to them. The adequacy and timely availability of credit have always played a crucial role in enabling the farmers to shift over to a technologically superior production frontier and, consequently, in realising higher productivity. Although various measures initiated to improve the reach of credit institutions are instrumental in alleviating poverty in the country, the changing economic scenario, in the wake of unleashing of new package of financial sector reforms coupled with emerging segmentation of the rural credit markets, are posing hitherto new unknown challenges before the rural credit delivery system.

In the present milieu, sustainability, viability and operational efficiency of rural financial institutions (RFIs) are the major issues that need to be looked into in order to ensure effective rural credit delivery system. The major problems plaguing the efficiency of rural credit delivery system are the mounting 'overdues' and Non Performing Assets (NPAs) of RFIs. Among various states of India, the RFIs of Maharashtra are reported to show the highest amount of overdues and outstanding loans over the past one decade. Further, the past performance indicates that both commercial banks and agricultural credit cooperatives have performed rather unsatisfactorily, not only spatially but temporally too. It is on this record that it was thought prudent to evaluate the functioning of various RFIs in the state of Maharashtra. The scope of the present investigation encompasses several burning issues relating to organizational and financial viability of various credit institutions, besides evaluating the impact of these institutions on their beneficiaries. One of the major findings of this study relates to the slower growth of institutional finance through commercial banks, credit cooperatives, RRBs, and LDBs, particularly during the period (1991 onwards) of financial sector reforms. High transaction cost, poor repayment performance and high incidence of NPAs of RFIs are cited as the root causes of the moribund state of rural credit delivery system in the state of Maharashtra. In order to rejuvenate rural credit delivery system, one of the suggestions of

this study is in favour of taking on the crucial issues of RFI, such as their sustainability and viability, operational efficiency, recovery performance, small farmer coverage and balanced sectoral development.

I hope the findings and remedial measures suggested in the report will be useful not only in formulating policies relating to rejuvenation of rural credit delivery system but also in terms of larger flow of credit to farming community in general and in achieving a more sustainable growth oriented agriculture in the country.

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V.S.Chitre  
Director

## PREFACE

The introduction of financial sector reforms coupled with increasing commercialization of agriculture and consequent increasing requirement of credit have put increasing onus on various agricultural financial institutions to play a more pro-active and pivotal role in meeting the increasing capital needs of the farmers and in ensuring timely supply of various inputs, besides providing other service facilities. In this veritable scenario, sustainability, viability and operational efficiency of rural financial institutions (RFIs) are the major issues that need to be taken cognisance of in ensuring effective rural credit delivery system. In fact, the major problems plaguing the efficiency of rural credit delivery system are the mounting overdues' and Non Performing Assets (NPAs) of RFIs. Needless to mention that the mounting overdues' can paralyse the whole gamut of agricultural credit structure and the financial sector reforms.

Among various states of India, the RFIs of Maharashtra have shown the highest amount of overdues' and outstanding loans over the past one decade. The viability and efficient functioning of RFIs, in fact, depend on as to how efficiently the RFIs manage their asset position, income and expenditure pattern, recovery of loans, deposit mobilization, etc. As a matter of fact, the poor performance of cooperatives owes a great deal to their inabilities in mobilizing adequate deposits, their managerial weaknesses and over riding dominance of vested interests in their functioning. The past performance indicate that both commercial banks and agricultural credit cooperatives have performed rather unsatisfactorily, not only spatially but temporally too. The present study, thus, seeks to comprehensively evaluate the organizational and operational structure of not only commercial banks but also various credit cooperatives of Maharashtra, both at primary and central levels. The scope of the study stretches further to the evaluation of issues related to organizational and financial viability of these agricultural financial institutions, besides examining the impact of these institutions on the beneficiaries. The study seeks to provide policy implications with respect to deposit mobilization, granting of loans, distributional aspects of credit, judicious and rational use of funds, etc., besides evaluating the strength and weaknesses of the agricultural financial institutions of Maharashtra. In fact, the present study entitled 'An Economic Evaluation of Agricultural Financial Institutions in Maharashtra' was undertaken at the initiative of the Ministry of Agriculture, Government of India.

At various stages of this study, I had fruitful discussions with the officials of NABARD, Pune, Managing Directors and Managers of Sangli District Central Cooperative Bank (SDCCB) Ltd. and Buldana District Central Cooperative (BDCCB) Ltd., and also with the Managers of Lead Bank of Sangli district and Zonal Manager of Central Bank of Buldana district. I am thankful to all of them and their colleagues for their cooperation and facilities extended in the conduct of the present investigation.

I am grateful to the village officials as well as the farmers of the selected areas for their kind cooperation and hospitality during our field work.

I am greatly indebted to Prof. V.S. Chitre, Director of this Institute, for his unstinted support, keen interest and providing all the necessary facilities in carrying out the present investigation. I am also grateful to Economic and Statistical Advisor, Directorate of Economics and Statistics, Department of Agriculture and Cooperation, Ministry of Agriculture, Government of India, for his continuous support and for giving approval to conduct the present investigation. I wish to place my gratitude to Dr. A. Narayanamoorthy, Incharge, AERC, Pune, for his keen interest and providing necessary facilities in carrying out this study.

I hereby extend my hearty thanks to Shri S.S. Dete, Shri S.B. Kate, Shri V.G. Kasbe and Shri Ajit Karpe for their assistance in data collection and tabulation work.

It gives me great pleasure in extending my grateful thanks to all the members of Computer Centre and in particular to Smt. A.A. Kher and Ms. Anagha Punde who took pain in processing and analysing the data on the computer.

I shall be failing in my duties if I do not express my sincere thanks to my esteemed colleagues, both faculty members and office and library staff of this Institute, for their cooperation and support in completing the present investigation.

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# **CHPATER - I**

## **INTRODUCTION**

### **1.1 Background**

Farmers, in India, often lack capital for investment in agriculture that is so very vital for improving their agricultural production. This paucity of capital flow perforce makes them seek loans from money lending sharks at exorbitant rates of interest and often this debt-trap reduces them to penury. It becomes difficult for the farmers to come out of this debt-trap even when faced with a favourable season and a good harvest. The problem stands compounded and further exacerbated when farmers look forward to taking advantage of modern high yielding seed technology and absorbing newer methods of scientific farming which require both working capital and investment capital. Technological innovations and commercialization of agriculture have not only increased capital requirements of farmers but they are also seen as responsible for necessitating and increasing the demand for superior inputs. In this scenario, a large segment of cultivators, particularly small and marginal farmers, are not able to make additional capital investments in agriculture to reap the benefits of the green revolution due to low agricultural surplus income accruing to them. The adequacy and timely availability of credit have always played a crucial role in enabling the farmers to shift over to a technologically superior production frontier and, consequently in realising higher productivity. Thus, commercialization of agriculture coupled with increasing requirement of credit have put a lot of onus on various agricultural financial institutions to play a pivotal role in meeting the increasing capital needs of the farmers and in ensuring timely supply of various inputs, besides providing other service facilities.

As regards credit delivery, the entire rural finance not only encompasses credit to farming community but also the development of various farming and non-farming sectors of the economy. In general, commercial banks (CBs), Regional Rural Banks (RRBs) and Cooperatives are the main rural financial institutions that provide credit to the agricultural sector at the village level. The co-operatives account for 44 per cent share in the rural credit flow for agriculture and 31 per cent in rural deposits in terms of network, coverage and outreach (Gulati and Bathla, 2002). The statistics reported by Shivamaggi (2000) also reveal 45 per cent share of cooperatives in total rural credit. The remaining share in total

rural credit delivery is reported to be accounted for by commercial banks with the role of RRBs being only marginal. However, the point that merits attention is how far these credit institutions will be effective in sustaining the reforms sweeping the financial sector and in coming up trumps against competition from other players as they may not have level playing reserved areas for their operations any more. In fact, the entire decade of 1990s is full of discussions on the positive and negative features of financial sector reforms and their implications for agricultural sector. In the following sections, an attempt has been made to present a brief overview on the rural banking sector reforms in general and on the reform initiatives in cooperative sector in particular.

## **1.2 Rural Banking Sector Reforms**

As indicated by Puhazhendhi and Jayaraman (1999), the development of rural credit delivery system had three distinct phases. While the first phase (1904-1969) encompassed the monopoly of the credit cooperatives, the second phase (1969-1991) was marked with the induction of the commercial banks into the rural credit delivery system through their nationalisation in 1969 and the setting up of the RRBs all over the country in 1975 with a view to provide low cost banking facilities to the weaker sections of the society. The third phase (1991 onwards), concomitant with the introduction of financial sector reforms, is characterized by the transformation of credit institutions into organizationally strong, financially viable and operationally efficient units. The emphasis of the financial sector reforms is on ensuring financial health of the rural credit delivery system. It is being conceded by Puhazhendhi and Jayaraman (1999) that the innovations in rural credit delivery have a favourable impact on agricultural production and in reduction of poverty mainly due to increased flow of credit to farming community. They also assert that with the acceleration in the pace of capital formation, rural infrastructure development will see a new pace and much of this effort will be directed and focussed on establishing cool chains and in networking transportation and marketing channels which in turn will allow more productive and increasing amount of credit absorption from financial institutions.

It is reckoned that the major foci of attention of the planning process of our country are directed at in not only ensuring access to credit in the rural areas but also in augmenting agricultural production and alleviating poverty in rural areas, besides improving the efficiency of the rural credit delivery system. Although various measures initiated to improve the outreach of credit institutions are instrumental in alleviating poverty in the country, the changing economic scenario in the wake of unleashing of new

package of financial sector reforms coupled with emerging segmentation of the rural credit markets, has also posed new challenges to the rural credit delivery system. The reform process not only seeks to minimize government controls on credit institutions but also imposes stringent accounting norms and gives freedom to banks from mandatory rural lending (Puhazhendhi and Jayaraman, 1999). However, in their wake, they may also create conditions not auguring well for rural development, especially for the vulnerable sections of the society. In general, as indicated by Mujumdar (1996), the reform process in the banking sector encompasses the deregulation of interest rates, dismantling of directed credit, besides improving the functioning of capital markets, including the government securities' market. However, against the argument put forward by Puhazhendhi and Jayaraman (1999), it is opined by Mujumdar (1996) that the reform package in rural banking sector has adversely affected the priority sector, especially in the area of interest rates since the new interest rate structure has become highly regressive and biased against priority sector. Although the Approach Paper to the Ninth Plan (1997-2002) has accorded high priority to activities relating to agriculture and rural development, the credit policy is yet to react to the Ninth Plan priorities and initiatives. At this juncture, the point that merits attention is: what ingredients need to be added to the credit policy to make the rural credit delivery system more effective and efficient.

Undoubtedly, the commercialization and diversification drive in agriculture have underlined the need for the rapid development of rural infrastructure and larger flow of credit. Nonetheless, the new policy regime does not pay heed to several areas of rural infrastructure development. For instance, while the rural infrastructure development fund (RIDF) of the National Bank for Agriculture and Rural Development (NABARD) is helping infrastructure projects to a considerable extent, there is hardly any attention given in new policy package vis-à-vis certain other concurrent issues such as the development of brand names for agricultural products, development of water saving technology and cold storage facilities, besides packaging activities, etc., which also merit attention (Shivamaggi, 2000). With a view to achieve overall rural development, Shivamaggi (2000) lays emphasis on the need to introduce employment oriented programmes in the rural credit policy such as waste land development and watershed planning. In general, Shivamaggi (2000) admits that the policy makers are yet to arrive at a banking structure and operational system that suits the credit and saving needs of agriculturists' and at the same time promotes agriculture.

### **1.3 Reforms in Cooperative Sector**

Although the reforms in the banking sector have been initiated in commercial banks much earlier (beginning 1991-92), the reform process in cooperatives have taken much longer time in initiation on account of certain limitations, viz., the need for generating a consensus among the various State Governments which govern and control cooperative credit institutions and the need to balance the interests of very many diversified groups which control, operate and guide the cooperatives. However, despite these limitations, a few major reforms have been introduced in the cooperative credit system. The policy reforms in the cooperative credit sector have been outlined and examined by Subrahmanyam (1999).

In broader terms, the major reforms/steps initiated during the period from 1991/92 to 1997/98 in Cooperative Credit Sector, according to him, are seen to revolve around : (a) relaxation in branch expansion policy, (b) liberalization and relaxation in Credit Authorization Scheme, (c) permission to SCBs to introduce STOCKINVEST and Currency Chest Branches, (d) 'some additional' scheme to SCBs under National Level Consortium arrangement for financing, (e) a policy decision to permit SCBs on case by case to subscribe to the Public Sector Bonds, (f) assistance to SCBs from Cooperative Development Fund by NABARD to ensure proper Management Information System and to conduct research studies, (g) deregulated interest rates on advances and deposits by SCBs / DCBs, (h) preparation of Development Action Plans and entering into MOUs at the instance of NABARD, (i) applicability of Prudential norms to SCBs / DCCBs , and (j) relaxation in extending finance to individuals with a view to provide avenues for broader deployment of the resources. Further, Subrahmanyam (1999) also delves into not only the positive and negative effects of the policy reforms but also suggests some new steps that need to be initiated to truly restructure and bolster the cooperative credit sector in the country. Earlier, Gadgil (1994) had delved into the future likely impact of financial sector reforms on the formal agricultural credit system. Thus, the economic viability and successful and efficient functioning of cooperatives have been the *raison-d-etre* of a generation of economists, especially in the aftermath of the dawn of liberalization era and consequent change in the economic scenario

It is to be noted that, of late, the withdrawal of the Government regulations from many spheres of economic and business activities has enabled the use of cooperatives as an institutional set up for implementing the programmes relating to socio-economic



development. The new economic policies are expected to usher in a host of such those favourable conditions as autonomy, freedom with greater accountability and changes in cooperative laws, that will eventually lead to a gradual freeing of the cooperatives. The cooperative sector in the changed economic scenario has better opportunities for expanding and diversifying its business operations relating to farm and non-farm activities in agriculture. However, some quarters fear that unhindered unleashing of market forces will subject the cooperatives to unequal competition from the private sector with no patronising support forthcoming from the Government for their growth and development. Nonetheless, experts also concede greater growth opportunities for the non-credit cooperative organisations, especially those which are as large in their size and market reach as any of the private or multinational firms.

Insofar as the development of cooperatives in new economic environment is concerned, one of the arguments of Shivamaggi (2000) is not in favour of leaving the cooperatives alone to face up the challenges of market forces since they still require government support in their lending business and deposit mobilization. In fact, the weakness of cooperative banking lies at the primary level. It is pertinent to note that in majority of the states neither the deposit mobilization nor the borrowing membership of PACS is high. For instance, during 1996-97 the borrowing membership was less than a fourth of the total membership in Uttar Pradesh (20 per cent), Karnataka (17 per cent), Assam (0.20 per cent), and Maharashtra (24 per cent). Even in Andhra Pradesh, which initiated steps to restructure cooperatives, the proportion of borrowing members was only 29 per cent. The average loan business per primary society was less than Rs 5 lakh in West Bengal, Orissa, Bihar, UP, Maharashtra, AP and Karnataka. Thus, in general PACS in India have shown a dismal picture. It is to be further noted that while some of the states like Andhra Pradesh, Kerala, Karnataka, Bihar, Rajasthan, etc., have modified their cooperative laws, certain other states like Tamil Nadu, Gujarat and Maharashtra are yet to follow suit and initiate changes in their respective cooperative laws (Elumalai, 1999). The need of the hour is to truly restructure cooperatives throughout the country. This requires rewriting of the cooperative society legislation on the basis of a model law to be enunciated, formulated, and legislated by the Government of India.

As indicated by Shivamaggi (2000), the future course of action should be to enable PACS to transform themselves into full-fledged rural banks in order to cater to all types of productive and investment credits at the village level. Further, the role of

Government should be that of a facilitator. The Government should (i) provide incentives and disincentives through financial and other means and establish a primary cooperative development fund for this purpose; (ii) monitor the societies and check undesirable trends; (iii) audit the societies' accounts to ensure proper financial management; (iv) promote professionalism in the cooperatives; and (v) encourage a politics-free cooperative leadership by barring politicians from participation in the management of the cooperatives (Shivamaggi, 1996, 2000). Yet, another suggestion of Shivamaggi (2000) is in favour of drastically cutting down the role of registrar of cooperative and in redefining this role in accordance with the obtainable situation and standard of operations.

The conditions created by the new economic policies such as ushering in of autonomy, freedom with greater accountability and changes in cooperative laws are certainly steps in the right direction for the growth and gradual freeing of the cooperative sector. Now, how efficiently and quickly the cooperatives learn the ropes of market economy and are able to compete with other sectors of the economy will depend on their inherent competitive strengths, cutting edge technological mite and productive capabilities.

In the present milieu, sustainability, viability and operational efficiency of rural financial institutions (RFIs) are the major issues that need to be taken cognisance of in ensuring effective rural credit delivery system. However, the major problems plaguing the efficiency of rural credit delivery system are the mounting overdue and Non Performing Assets (NPAs) of rural financial institutions. In fact, overdue problem of different entities of rural credit delivery structure is reported to be an all pervasive phenomenon that cuts across these different agencies (Puhazhendhi and Jayaraman, 1999). An attempt has been made in the subsequent section, therefore, to provide a broad overview on the overdue and outstanding loan positions of various rural financial institutions in India.

#### **1.4 Status of Loans Outstanding and Overdues of RFIs in India**

Deposit mobilization, availability of resources for disbursement and amount of loan recovered for further recycling are the three major determinants of the lending business of any financial institution. Lack of recovery of loan results into overdues. In fact, overdues are defined as loans and interest thereon not repaid on due dates. Obviously, the financial health of banking business heavily depends on recovery of loans. Of the total amount of loan due at different points of time, some of it is recoverable and some irrecoverable and the latter often turns into bad debt on defaults (Gulati and Bathla,

2002). Table 1.1 presents all India scenario of deposits, direct outstanding loans and overdues of loans of cooperatives, RRBs, and commercial banks (CBs) in the agricultural sector encompassing the period from 1980 and 1998.

**Table 1.1: Deposits, Direct Loans Outstanding and Overdues of Loans for the Cooperatives, RRBs and CBs of India From 1980 to 1998**

(Amount in Crore Rupees)								
Particulars/Year	1980-81	1985-86	1989-90	1993-94	1994-95	1995-96	1996-97	1997-98
<b>Deposits</b>								
CBs	37988	85404	-	-	-	-	-	-
RRBs	336	1714	4150	8826.51	11150.01	14187.9	18032.01	22189.23
PACS	291	653	1284	2979	2928	4555.47	2322.53	-
LDBs	20	30	-	111	122	158	163	207
<b>Total</b>	<b>38635</b>	<b>87801</b>	<b>5434</b>	<b>11916.51</b>	<b>14200.1</b>	<b>18901.37</b>	<b>20517.54</b>	<b>22396.23</b>
<b>Loans Outstanding</b>								
CBs	2326.4	7997.84	15313.29	-	-	-	25279.55	26903.01
RRBs	385.25	1747.27	3503.78	5219.7	6258.2	7470.5	8668.9	9860.61
PACS	2622.0	4419.85	6696	9399.3	9992.44	13609.1	10771.22	18175
LDBs	1697.08	2655.52	3899.21	5916.25	6816.38	6856.59	8015.88	9182
<b>Total</b>	<b>7030.73</b>	<b>16820.48</b>	<b>29412.28</b>	<b>20535.25</b>	<b>23067.02</b>	<b>27936.19</b>	<b>52735.55</b>	<b>64120.62</b>
<b>Overdues</b>								
CBs	727.02	1743.65	3625.52	-	-	-	5378.81	5678.8
RRBs	68.11	437.08	1140.18	1850.3	1765.4	1979.5	2085.6	-
PACS	1086.39	1859.66	2986.8	3160.78	3605.32	5142.39	4125.38	-
LDBs	242.6	260.77	803.2	683.08	713.93	915.44	1024.92	1230.97
<b>Total</b>	<b>2124.12</b>	<b>4301.16</b>	<b>8555.7</b>	<b>5694.16</b>	<b>6084.65</b>	<b>8037.33</b>	<b>12614.71</b>	<b>6909.77</b>
<b>% age of Overdue to Demand</b>								
CBs	47	43	51.16	42.33	40.55	38.01	36.69	33.88
RRBs	48	51	-	53.77	49.02	44.90	42.90	39.46
PACS	43	41	-	-	31.42	33.74	35.72	35
LDBs	46	45	-	43	38	39	39	40
<b>% age of Overdue to Loan Outstanding</b>								
CBs	31.25	21.80	23.68	-	-	-	21.28	21.11
RRBs	17.68	25.02	32.54	35.45	28.21	26.50	24.06	-
PACS	41.43	42.08	44.61	33.63	36.08	37.79	38.30	-
LDBs	14.30	9.82	20.60	11.55	10.47	13.35	12.79	13.41
<b>Total</b>	<b>30.21</b>	<b>25.57</b>	<b>29.09</b>	<b>27.73</b>	<b>26.38</b>	<b>28.77</b>	<b>23.92</b>	<b>10.78</b>

Source: Gulati, Ashok and Seema Bathla (2002), 'Institutional Credit to Indian Agriculture: Defaults and Policy Options', Occasional Paper – 23, National Bank for Agriculture and Rural Development, Mumbai.

It is clearly evident from Table 1.1 that not only the outstanding loans of various RFLs operating in India grew significantly but the overdues of these financial institutions had also increased considerably during the period between 1980 and 1998. The RRBs, in particular, showed maximum increase in their outstanding loans, followed by CBs. The PACS and land development banks (LDBs) in comparison showed the lowest increase in their outstanding loans. At the same time, it is noteworthy that the deposit mobilization of these credit institutions also grew significantly over the course of time. Further, while the nineties' period (1990-1998) was marked with higher growth in outstanding loans for the cooperatives as compared to eighties' period (1980-1989), the outstanding loans of RRBs were found to decline substantially in the latter period as compared to the former.

Among various states of India, the RFIs of Maharashtra are reported to show the highest amount of overdues and outstanding loans over the past one decade (Gulati and Bathla, 2002). Even the proportion of overdue to outstanding loan of RFIs are substantially high in this state. According to Gulati and Bathla (2002), the proportion of overdue to outstanding loans of RFIs was more than 30 per cent in Maharashtra during 1997. The other states that fall in the category of above 30 per cent overdue as proportion of loans outstanding of their RFIs are Assam, Bihar, Jammu and Kashmir, Madhya Pradesh, Orissa and Tripura. One can observe several weaknesses insofar as the working of RFIs in Maharashtra is concerned. One of the earlier studies conducted in cooperative sector of Maharashtra has clearly shown better financial health for the institutions at the district/central level as compared to the primary or grass root level (Shah, 2001). It is to be noted that the viability and efficient functioning of any institution heavily depend on as to how effectively it manages its asset position, income and expenditure pattern, recovery of loans, deposit mobilization, etc. In fact, the poor performance of cooperatives owes a great deal to their inabilities in mobilizing adequate deposit resources, their managerial weaknesses and the over riding dominance of vested interests in their functioning (Kumar and Singh, 1998). It is not the cooperatives alone but there are several other rural financial institutions that are beset with similar plethora of deficiencies that impede their efficient functioning. This necessitates a relook at the performance of various agricultural financial institutions operating in Maharashtra with a view to recommending, designing and framing appropriate policies to rejuvenate and/or revitalize the existing rural credit delivery system in this state.

### **1.5 Need of the Study**

In fact, in view of the strategic importance of both commercial banks and various credit cooperatives in the agricultural development of our economy, their economic viability becomes the prima donna of a successful agricultural policy. The policy procedures of the Government vis-à-vis commercial banks and cooperative financing, have always endeavored to widen its reach to benefit and bring more of the rural agricultural population within its gambit and fold. The major aspects of institutional finance in agriculture mainly concern issues relating to capital adequacy, timely availability of loans and also repayment capacity of farmers. This stems from the fact that with the institutionalization of agricultural credit, the problem of overdue has acquired a new dimension. Needless to mention that the mounting overdue can paralyse the whole

gamut of agricultural credit structure and the financial sector reforms. The past performance indicate that both commercial banks and agricultural credit cooperatives have performed rather unsatisfactorily, not only spatially but temporally too. The present study, thus, seeks to comprehensively evaluate the organisational and operational structure of not only commercial banks but also various credit cooperatives, both at primary and central levels. The scope of the study stretches further to the evaluation of issues related to organisational and financial viability of these agricultural financial institutions, besides examining the impact of these institutions on the beneficiaries. The study seeks to provide policy implications with respect to deposit mobilization, granting of loans, distributional aspect of credit, judicious and rational use of funds, etc. The study also encompasses evaluation of the strength and weaknesses of the agricultural financial institutions.

### **1.6 Objectives of the Study**

The study has been conducted with three major objectives:

1. To examine growth trends in various performance indicators of agricultural credit institutions.
2. To assess financial viability of agricultural credit institutions in respect of income and expenditure pattern, break-even analysis of advances and deposits, pattern of distribution of loan, recovery and overdue, etc.
3. To evaluate the impact of agricultural financial institutions on beneficiaries, particularly in respect of their general borrowing positions, use of inputs, productivity enhancements, etc. and also assess the responses of the beneficiaries in terms of facilities extended by their concerned credit institutions and the constraints faced by them in availing such facilities.

### **1.7 Organization of the Study**

The study is organized in VII chapters, After this introductory Chapter I, the methodology adopted for this study is elaborated in Chapter II, which not only includes selection procedures for the sampled districts/talukas/villages/societies and members/beneficiaries but also analytical techniques used for the estimation of various parameters. The Chapter III provides an insight into the rural credit scenario of Maharashtra with a focus on annual credit plans and evaluates the progress of various rural financial institutions overtime, besides examining the micro-finance or linkage of bank credit with various self-help groups. In Chapter IV, the progress of rural financial institutions over time is evaluated in the sampled districts with the major focus being

centred on the functioning of commercial and cooperative banks in these districts. The Chapter V evaluates financial health of the selected credit institutions with emphasis on examining their profit and loss pattern, income and expenditure pattern, asset and liability positions, distributional aspects of credit, break-even analysis of advances and deposits, etc. The Chapter VI is devoted to the analysis of socio-economic features, land holding and cropping pattern of the sampled members of the selected societies/ beneficiaries of commercial banks, besides evaluating the perceptions of these respondents with respect to the functioning of various credit institutions, their degree of awareness about the facilities being extended and perceptions regarding strength and weaknesses of these credit institutions, etc. The Chapter VII summarises the key findings of the study with a synthesis of policy implications and recommendations for the effective rural credit delivery system in Maharashtra, and provides an insight into the policy matrix constructed based on the findings of the study.

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## **CHAPTER – II**

### **METHODOLOGY**

#### **2.1 Selection of Study Districts**

The present study confined itself to two districts of Maharashtra encompassing both forward and backward districts. The forward and backward districts were identified through composite index method. While working on the composite index, an attempt was made to include those parameters which, in general, not only reflected the overall land use and cropping pattern but also the financial position of the district. The composite index was computed for each district and the parameters included in the construction of composite index were cropping intensity, irrigation intensity, operational holding, number of commercial banks, per capita bank credit to agriculture, per hectare bank credit to agriculture, outstanding agricultural finance, number of cooperative banks, membership of PACs, loan advances of PACs, and outstanding loans of PACs. Based on these indicators, the total composite score of each district was computed. The districts showing scores above 100 were treated as forward and districts showing scores below 100 were considered as backward. Thus, following this procedure the forward and backward districts of Maharashtra were separated. This procedure helped to develop a scale for ranking all the forward and backward districts of Maharashtra. The district of Sangli showed the highest composite score on the scale developed for forward districts. On the other hand, the district of Buldana showed one of the lowest scores on the scale developed for backward districts. These two districts were selected for the present investigation. The major focus of this study was on evaluating the performance of both commercial banks and credit cooperatives in both forward and backward districts of Maharashtra.

#### **2.2 Selection of Talukas**

The procedure for the selection of talukas in the selected districts was little different than selection of districts in the state. The parameters considered in the selection of talukas were also a little different. The selection of talukas encompassed parameters such as number of PACs, their membership, share capital, working capital, owned funds, and number of borrowers per society. Based on these parameters, standard score (S.S =

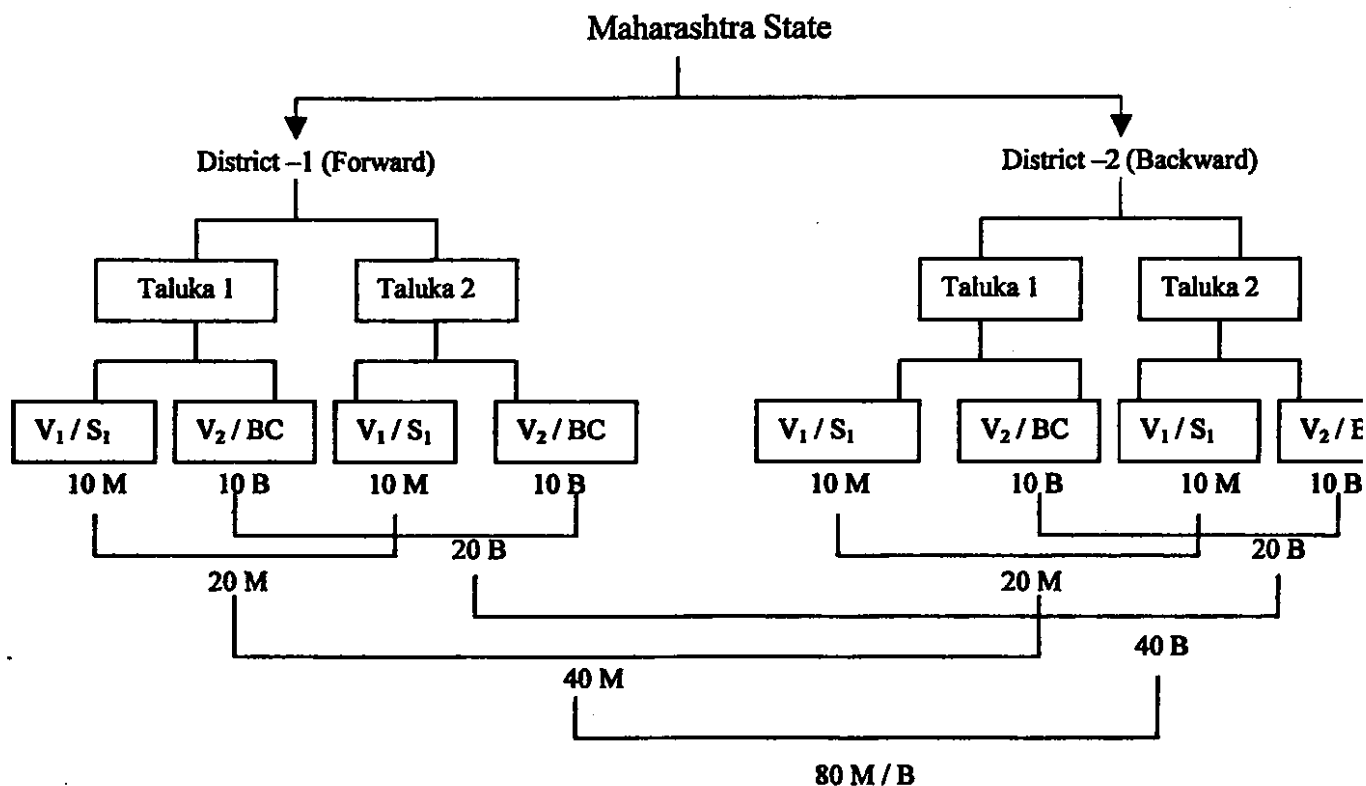
$X_i - \bar{X} / SD$ ) for each parameter was calculated. After adding up all the standard scores, the total score (T.S. =  $\sum$  S.S.) was calculated for each taluka and a scale was developed for ranking all the talukas of the selected districts. Two talukas, which scored high on this scale, were selected from each of the selected districts. The selected talukas were Miraj and Walwa from Sangli district and Malkapur and Mehkar from Buldana district.

### **2.3 Selection of Villages / Societies and Members / Beneficiaries**

Stratified random sampling procedure was adopted for the selection of villages/societies and the members affiliated to the credit societies or the beneficiaries of the commercial banks. From each selected taluka, two villages were selected randomly with one village falling under the purview of credit cooperatives and the other one encompassing the beneficiaries of commercial banks. From the each selected village encompassing credit cooperatives, one society (PACS) was selected randomly. Thus, the study covered eight villages with four villages each from forward and backward districts. Out of four villages selected from each district, two villages were selected to evaluate the performance of credit cooperatives and another two for assessing the performance of commercial banks. In all, the study covered four PACS with two PACS from each district.

As regards selection of farmer members from credit cooperatives, a list of members along with their land holding size was obtained from each of the selected society. The members were then categorised as small (upto 2 ha), medium (2-4 ha) and large (above 4 ha) based on their land holding size. It was decided to select 10 members from each of the selected society. Nonetheless, these members belonged to different categories and they were selected on the basis of probability proportion to land holding size technique. In the case of selection of beneficiaries of commercial banks, a list of beneficiaries along with their land holding size was obtained from the selected commercial banks and 10 beneficiaries from each of the selected villages were covered. The procedure followed for the categorisation of beneficiaries of commercial banks and their selection was similar as in the case of selection of members of credit cooperatives. In all, the study covered 40 members of the society under the umbrella of agricultural credit cooperatives and 40 beneficiaries of commercial banks. The sampling design of this study is sketched as follows:





Where,

V – Village; S – Society; BC – Beneficiary of Commercial Banks; M – Members; B – Beneficiary

The distribution of number of members selected from each society as well as selection of beneficiaries of commercial banks is exhibited in Table 2.1. It is to be noted that in the case of Sangli district, the number of members selected from the two selected societies were 12 in small category, 5 in medium and 3 in large category. In this district, the selected beneficiaries of commercial banks were 15 in small category, 4 in medium and 1 in large category. As for the Buldana district, the number of members selected from the two selected societies were 9 in small category, 7 in medium and 4 in large category. The selected beneficiaries of commercial banks in this district were 11 in small category, 5 in medium and 4 in large category.

#### 2.4 Data Collection

Primary data from the members of PACS and beneficiaries of commercial banks were collected on the well structured pre-tested schedule by personal interview method. An in-depth information related to family particulars, land use pattern, cropping pattern, loan distribution pattern, recovery, overdue and outstanding loans, sources of loan for crop and other enterprises, etc. was collected from each of the sampled members/beneficiaries. The perceptions of the members/beneficiaries were also ascertained with

respect to the facilities being extended by their concerned credit institution and the constraints faced by them in availing such facilities.

**Table 2.1: Landholding size-wise Distribution of Sampled Members/Beneficiaries of PACS/ Commercial Banks**

District	Taluka	Village	Society/Bank	Category-wise Sample Selection			
				Small	Medium	Large	Total
<b>Members of PACS</b>							
Sangli	Miraj	Erandoli	EVKSS	5	3	2	10
Sangli	Walwa	Tandulwadi	TVKSS	7	2	1	10
Total				12	5	3	20
<b>Beneficiaries of Commercial Banks</b>							
Sangli	Miraj	Kadamwadi	LB	7	2	1	10
Sangli	Walwa	Kurla	LB	8	2	-	10
Total				15	4	1	20
<b>Members of PACS</b>							
Buldana	Malkapur	Chikhli	CGSSS	5	3	2	10
Buldana	Mehkar	Kalveshwar	KGSSS	4	4	2	10
Total				9	7	4	20
<b>Beneficiaries of Commercial Banks</b>							
Buldana	Malkapur	Lasura	CBI	4	3	3	10
Buldana	Mehkar	Mundefal	SBI	7	2	2	10
Total				11	5	4	20

Note: EVKSS = Erandoli Vikas Karyakari Sahakari Sanstha (PACs)  
 TVKSS = Tandulwadi Vikas Karyakari Sahakari Sanstha (PACs)  
 CGSSS = Chikhli Gram Seva Sahakari Sanstha (PACs)  
 KGSSS = Kalveshwar Gram Seva Sahakari Sanstha (PACs)  
 LB = Lead Bank; CBI = Central Bank of India; SBI = State Bank of India

In addition to the collection of primary data, secondary data related to various performance indicators such as asset and liability position, income and expenditure pattern, share capital, working capital, deposits, pattern of loan distribution for various activities, recovery pattern of loan, etc. were also collected from the district level credit institutions. Added to this, various information relating to credit, deposits, priority and non-priority sector advances, recovery of loans, target and achievements under various programmes, etc. were collected from various data sources and official records with respect to both credit cooperatives and commercial banks.

## 2.5 Reference Year/Period of Data Collection

As indicated earlier, both secondary and primary data were used in the present investigation. Primary data on relevant aspect were collected from members/beneficiaries of credit cooperatives/commercial banks for the reference year 1998-99. Besides, time series data for fifteen years encompassing the period from 1984-85 to 1998-99 were also collected from various official record as well as other sources of information, especially

with a view to evaluate the performance of various credit institutions selected for the present investigation.

## **2.6 Conceptual and Analytical Framework**

The data collected during the period of enquiry were scrutinized, coded, tabulated and compiled systematically. Commensurate with the objectives of the study, both tabular and functional analysis were performed. Various tools and techniques were used to evaluate viability of agricultural credit institutions. The tools of economic analysis are presented and discussed in the following sections:

### **2.6.1 Financial Viability Analysis**

#### ***(a) Income and Expenditure Pattern***

The major sources of income of the credit cooperatives were interest and discounts earned on loans and advances, interest on deposits kept with the other bank branches and commission on services provided to customers, exchange and brokerage, subsidies and donations, income from non-banking assets and profit from sale of or dealing with such assets, other miscellaneous sources of income such as share transfer fee, dividend recovered and other receipts. The major elements of expenditure in this case entail interest on deposits / borrowings, salaries, allowances and provident fund, fees and allowances paid to Directors and local committee members, rent, taxes, insurance charges, legal and other professional charges, postage, telegrams and telephone charges, auditor's fees, stationary, printing and advertisement expenses, depreciation on and repairs of property, vehicle expenses, expenses towards various other provisions and some other minor expenses.

In order to evaluate the performance of the credit cooperatives over time, the gross income was categorised into four groups: (a) income from interest and discounts, (b) bank commission, exchange and brokerage, and (c) other miscellaneous income. Similarly, the total expenditure was categorised into three groups: (a) interest expenditure, (b) establishment expenditure, and (c) miscellaneous expenditure.

#### ***(b) Profit and Loss Pattern***

Operational efficiency of various credit institutions was judged by analysing their profit or loss pattern during the time period under consideration. To evaluate the profit and loss pattern, the costs were categorised into three groups:

Cost A - Operating expenses

Cost B - Operating expenses + establishment expenses

Cost C - Operating expenses + establishment expenses + miscellaneous expenses

Here, operating expense include interest paid on deposits mobilized and borrowings. Establishment expenses include salaries, allowances and provided fund, directors and local committee members fees and allowances, rent, taxes, insurance, lighting charges, legal and other professional charges, subscription and contribution. As for the miscellaneous expenses, these include postage, telegraph and telephone bills, auditors fees, depreciation on and repairs to property, stationary, printing and advertisement bills, contribution towards cooperative state cadre employment fund, loss from sale or dealing with non-banking assets, other expenses including vehicle expenses, provision for bonus, NPA and dividend equalization fund.

In this investigation, gross and net income over Cost A, Cost B and Cost C were analyzed.

*(c) Break Even Analysis*

Break – even analysis for any business organisation indicates the level of operation at which organization would neither make profit nor strike a loss (Kumar and Singh, 1998). An analysis of break even level of the bank has been attempted to elucidate the performance of credit cooperatives in terms of advances and deposits during the given period of time.

The Break Even Level of the banks was estimated using the following formula:

$$\text{Break Even Point for Advances} = \frac{\text{Fixed Expenses}}{\text{Income Per Rupee of Advance} - \text{Variable Cost Per Rupee of Advance}}$$

$$\text{Break Even Point For Deposits} = \text{Break Even Point for Advance} \times \frac{\text{Deposit}}{\text{Advance}}$$

Here, fixed expenses include salaries and allowances and provident fund, directors and local committee members fees and allowances, rent, taxes, insurance and lighting charges, legal and other professional charges, auditors fees, depreciation on and repairs of property, contribution to cooperative state cadre employment fund, provision for bonus, bad and doubtful debts, dividend equalization fund, etc. On the other hand, variable expenses include interest paid for borrowings, deposits, etc, postage, telegrams and telephone charges, stationary, printing and advertisement bills, subscription and contributions, loss from sale of or dealing with non-banking assets and other expenditure including vehicle expenses.

*(d) Inequality/Disparity Analysis*

In order to evaluate disparity in distribution of loan among various talukas of the selected districts, Gini coefficients were computed by using the following formula:

$$G = 1 + (1/n) - (2/n^2 x) (y_1 + 2y_2 + 3y_3, \dots + ny_n)$$

Here,  $y_i$ 's are in descending order for computation, i.e.,  $y_1 \geq y_2 \geq y_3 \dots y_n$

G = Gini Coefficient

n = Number of talukas among which loan is distributed

x = Mean of amount of loan distributed (Rs./Hectare of gross cropped area) among different talukas

$y_1, y_2, y_3, \dots, y_n$  = Amount of loan distributed in each taluka

Here, it is to be noted that higher the value of Gini coefficient higher will be the disparity in the distribution of loan across various talukas of the selected districts. The disparity is evaluated for the period between 1980-81 and 1999-2000.

### **2.6.2 Financial Ratio Analysis**

Another angle to evaluate the efficiency of any institution is to analyse various financial ratios. In broader terms, six types of financial ratios are analysed in this study. These are categorised as: (a) Liquidity Ratios, (b) Profitability Ratios, (c) Financial Leverage Ratios, (d) Efficiency Ratios, (e) Income Ratios, and (f) Other diagnostic tools and ratios.

The ratios included under liquidity category, such as current and acid test ratios, are generally designed to assist in determining a firm's ability to pay the current liabilities as they come due. The profitability ratios, such as rate of return on asset and return on owner's equity, are designed to assist in evaluating a firm's ability to control expenses and to earn a reasonable return on economic resources (funds) committed. The financial leverage ratios, such as debt-asset ratio, capitalization ratio, fixed ratio, net capital ratio, equity ratio and equity to asset value ratio, are the group of ratios that measure the extent to which a firm relies on debt for its finances. The efficiency ratios, such as asset turnover, accounts receivable turnover, days advances outstanding, give an indication of how effectively a firm has been managing its assets. The income ratios, such as income-expenditure ratio, gross ratio, operating ratio, rate of capital turnover, show as to how efficiently the firm has used its capital resources to generate output. These ratios are good measure for appraising the earning power of the capital assets or they measure the earnings of a business on its assets. The other diagnostic tools/ratios, such as equalisation

multiplier, income multiplier, and marginal efficiency of capital, give an indication of as to how efficiently a firm has been managing its income and expenditure and assets (for details regarding formulation and interpretation, see : Jerry A. Viscione, 1977 ; Clemens and Dyer, 1977). Information relating to computation of various financial ratios are provided in Table 2.2.

**Table 2.2: Various Financial Ratios and their Computations**

Sr.	Ratio	Explanation
	<b>Liquidity Ratios</b>	
1.	Current Ratio	The current ratio is calculated by dividing total current assets by total current liabilities. The ratio is designed to assist the decision maker in determining a firm's ability to pay its current liabilities.
2.	Acid Test Ratio	$\text{Acid Test Ratio} = \frac{\text{Cash} + \text{Marketable Securities} + \text{Accounts Receivables}}{\text{Current Liabilities}}$
	<b>Profitability Ratios</b>	
3.	Rate of Return on Assets	$\text{Rate of Return on Assets} = \frac{\text{Net Profit after Taxes}}{\text{Total Assets}} \times 100$
4.	Return on Owner's equity	$\text{Return on Owner's equity} = \frac{\text{Net Income after Taxes}}{\text{Owner's equity}} \times 100$ $= \frac{\text{Net Income after Taxes}}{\text{Total liabilities} - \text{Current liabilities} - \text{Term liabilities}} \times 100$ $= \frac{\text{Net Income after Taxes}}{\text{Net worth}} \times 100$ <p>Where, Owner's equity = Preferred stock + Common stock + Paid in capital + Retained Earnings</p>
	<b>Financial Leverage Ratios</b>	
5.	Debt – Asset Ratio	Total debt to total assets is a frequently used leverage ratio used to indicate the proportion of assets that are financed by debt. [Total debt = Current Liabilities + Term Liabilities]
6.	Capitalization Ratio	$\text{Capitalization Ratio} = \frac{\text{Term Debt}}{\text{Term Debt} + \text{Net Worth}}$
7.	Fixed Ratio	This ratio measures the financial safety of the business over a longer period of time. $\text{Fixed Ratio} = \frac{\text{Fixed Assets}}{\text{Fixed or Term Liabilities}}$
8.	Net Capital Ratio	This ratio measures the degree of financial safety over a period of time. It indicates the long liquidity position of the farm business. $\text{Net capital Ratio} = \frac{\text{Total Assets}}{\text{Total Debt (Current Liability + Term Liability)}}$
9.	Equity Ratio	The equity ratio, is a concept similar to the net capital ratio. This represents the creditor's contribution of capital to that of the farm. $\text{Equity Ratio} = \frac{\text{Net Worth}}{\text{Total Debt (Current Liability + Term Liability)}}$

10.	Equity to Asset Value Ratio	This ratio measures the overall financial position of the farm business. $\text{Equity to Asset Value Ratio} = \frac{\text{Net Worth}}{\text{Total Assets}}$
<b>Efficiency Ratios</b>		
11.	Asset Turnover (times)	$\text{Asset Turnover} = \frac{\text{Total Advances}}{\text{Total Assets}}$
12.	Accounts Receivable Turnover (times)	$\text{Accounts Receivable Turnover} = \frac{\text{Net (total) Advances}}{\text{Accounts Receivables}}$
13.	Days Advances Outstanding (days)	$\text{Days Advances Outstanding} = \frac{\text{Accounts Receivable}}{(\text{Total Advances} / 365)}$
<b>Income Ratios</b>		
14.	Income-Expenditure Ratio (%)	$\text{Income-Expenditure Ratio} = \frac{\text{Total (Gross) Income}}{\text{Total Expenditure}} \times 100$
15.	Gross Ratio (%)	$\text{Gross Ratio} = \frac{\text{Total Expenses}}{\text{Gross Income}} \times 100$
16.	Operating Ratio (%)	$\text{Operating Ratio} = \frac{\text{Operating (Interest) Expenses}}{\text{Gross Income}} \times 100$
17.	Rate of Capital Turnover	$\text{Rate of Capital Turnover} = \frac{\text{Gross Income}}{\text{Total Assets}}$
<b>Other Diagnostic Tools / Ratios</b>		
18.	Equalization Multiplier	Equalization multiplier shows the relation between change in the working capital and the change in share capital. It is estimated as follows: $\text{Equalization Multiplier} = \frac{\text{Change in working Capital}}{\text{Change in Share Capital}}$
19.	Income Multiplier	$\text{Income Multiplier} = \frac{\text{Gross Income}}{\text{Total Assets}}$
20.	Marginal Efficiency of Capital	Marginal Efficiency of Capital (M.E.C) is a relationship between profit and working capital. It is measured as below: $\text{M.E.C.} = \frac{\text{Profit}}{\text{Working Capital}} \times 100$
21.	Debtors / Creditors Ratio	$\text{Debtors / Creditors Ratio} = \frac{[\text{Loan Advances} + \text{Accounts Receivables}]}{[\text{Loans Taken (Borrowing)} + \text{Bills Payables (Interest \& Charges Accrued \& Payable)}]}$

Note: For detailed interpretations of various ratios, please refer Jerry A. Viscione (1977) and Clemens and Dyer (1977).

## 2.7 Limitations

One of the limitations of the present investigation was the coverage of study districts. Only two districts were selected for evaluating the performance of agricultural credit institutions in Maharashtra. These two districts differed significantly insofar as their climate, topography, soil characteristics, etc. were concerned. The data maintained in official records, particularly in the district selected/covered from backward region, were not only unsystematic but also confusing and at times not at all available for the previous years. As a result of this, comparison of various parameters pertaining to

various credit institutions operating in forward and backward districts of Maharashtra could not be done adequately and systematically. This had obviously led to inconsistency in presentation of data collected from forward and backward districts of Maharashtra. As for data, the major problem faced in this investigation was relating to collection of information/data from commercial banks. It was pretty difficult to extract information/data from commercial banks. This held true for both the selected forward and backward districts. Therefore, whatever little information was collected from these commercial banks or available with them, we have tried to analyse and presented systematically in this report. Further, due to lack of data, the financial viability analysis could be performed only for the district level credit cooperatives operating in both the selected districts.

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## CHAPTER – III

### RURAL CREDIT SCENARIO OF MAHARASHTRA

This chapter provides an insight into the rural credit scenario of Maharashtra with a major foci of attention on annual credit plans prepared for various sectors by the State Level Bankers' Committee (SLBC), potential linked credit plans for various regions of the state, progress of various rural financial institutions overtime, distributional aspect of credit, micro-finance or linkage of bank credit with various self-help groups, etc. The basic idea of this chapter is to highlight, in general, the functioning of various agricultural financial institutions in Maharashtra with a focus on credit cooperatives, commercial banks, regional rural banks (RRBs) and land development banks (LDBs).

#### 3.1 Annual Credit Plan Under Lead Bank

The State Level Bankers' Committee (SLBC) generally prepares Annual Credit Plan (ACP) for each district with a view to achieve overall development of various sectors and regions of the state. The SLBC is a recognized forum and it not only coordinates the activities of Bankers, NABARD, various departments of the state Government, development agencies, NGOs, etc. but also ensures effective implementation of various schemes relating to flow of credit to poverty alleviation programmes, besides helping to achieve the targets envisaged in the ACP. The members of this forum have a unique system of evaluating their own performance. The activities of the convener of SLBC not only encompass collection of meaningful performance related data but also facilitation of meaningful discussion on important issues and arriving at a consensus for effective implementation of various development programmes, besides ensuring flow of credit, in general, to different sub-sectors of the economy. The forum regularly meets and interacts with a view to ensure effective discharge of their respective role in terms of achieving the objectives envisaged in the State Credit Plan. This also helps in ensuring timely credit flows towards various programme aimed at employment generation.

It is to be noted that before formulating district level credit plans, block level credit plans are prepared taking into account the village surveys conducted by each of the bank branches, especially with respect to cropping pattern of the area, exploitable potential and demand for credit for various activities. The purpose of this exercise is to

achieve a balanced growth of various sectors/regions with a view to improve the socio-economic conditions of rural poor and artisans and, in general, helping the agricultural sector as a whole. Monitoring and evaluation of these plans are done periodically by the Block Level Bankers' Committee (BLBC), District Level Bankers' Committee (DLBC) and also by the State Level Bankers' Committee (SLBC). However, major guidance with respect to successful implementation of the credit plan is being extended/ensured by the Reserve Bank of India (RBI), NABARD, Government of India and other apex institutions. The Annual Credit Plan estimates for various regions of Maharashtra are brought out in Table 3.1.

### 3.1 Annual Credit Plan Outlays for Different Regions of Maharashtra

(Amount in Crore Rs.)

Particulars	Regions (2000-01)				Maharashtra State
	Western Maharashtra	Vidarbha	Marathwada	Konkan	
1. Agriculture & Allied Activities	2478.75 (59.34)	716.89 (53.09)	1073.39 (68.36)	178.31 (19.56)	4447.34 (55.53)
Of which - Crop Loans	1562.12	452.28	852.00	46.92	2913.32
2. SSI / NFS	337.40 (8.08)	70.71 (5.24)	103.00 (6.56)	158.37 (17.38)	669.48 (8.36)
3. Other Priority Sector	437.09 (10.46)	256.94 (19.03)	175.82 (11.20)	245.62 (26.95)	1115.47 (13.93)
4. Total Priority Sector	3253.45 (77.89)	1044.52 (77.35)	1352.21 (86.12)	582.30 (63.89)	6232.48 (77.82)
Of which - Employment Guarantee and Poverty Alleviation Programme	317.47	227.17	133.02	106.28	783.94
5. Non Priority Sector	923.60 (22.11)	305.91 (22.65)	217.95 (13.88)	329.19 (36.11)	1776.65 (22.18)
Grand Total (4+5)	4176.94	1350.43	1570.13	911.46	8008.96
<b>Per cent Increase in 2000-01 over 1999-2000</b>					
1. Agriculture & Allied Activities	17.27	13.09	22.58	31.47	18.32
Of which - Crop Loans	15.64	15.24	24.59	15.45	18.05
2. SSI / NFS	2.42	-0.45	20.33	4.45	4.99
3. Other Priority Sector	28.23	14.12	26.39	47.85	28.03
4. Total Priority Sector	16.86	12.30	22.89	28.43	18.31
Of which - Employment Guarantee and Poverty Alleviation Programme	20.49	24.61	18.00	9.71	19.61
5. Non Priority Sector	-1.67	17.99	39.07	6.94	6.83
Grand Total (4+5)	12.18	13.54	24.90	19.74	15.55

Source: Computations are based on figures obtained from 'Maharashtra State Annual Credit Plan', Bank of Maharashtra, Mumbai, 2000-2001.

Notes: i) Figures in parentheses are percentages to the total plan outlay for the district/state.

ii) (a) Agriculture and Allied Activities include minor irrigation, energisation programme, land development, dry land agriculture, farm mechanization, plantation and horticulture, sericulture, fodder cultivation, animal husbandry, fisheries, forestry and waste land development, storage operations, non-conventional energy, seed project, etc. (b) Non-farm Sector (NFS)/ Small Scale Industries (SSI) include handloom/ Powerloom, tiny sector, rural cottage and village industries, rural Artisans, agro-processing, etc. (c) Other Priority Sectors include transport operations, retail trade small business, professional and self employed, educational loans, housing loans, consumption loans, etc.

It could be readily discerned from Table 3.1 that the total credit plan outlay for the state of Maharashtra was Rs.8008.96 crores in 2000-01, which stood at 15.55 per cent higher than the state's previous year's credit plan outlay. During 2000-01, out of the total credit plan outlay, 56 per cent share was accounted for by agriculture and allied activities, eight per cent by SSI/NFS, 14 per cent by other priority sectors, and the remaining 22 per cent by the non-priority sectors. Thus, in general, while priority sectors such as agriculture and allied activities accounted for the major share in total credit plan outlay for the state of Maharashtra, the allocations in credit plan outlay were the least for activities relating to small scale industries and for non farm sectors of the state. Interestingly, other priority sectors such as transport, retail trade, housing, education, consumption, etc. showed a sharp increase in their allocations in total credit plan outlay during 2000-01 over that of the reference year 1999-2000. Crop loans accounted for nearly two thirds share in total credit plan outlay for agriculture and allied activities during 2000-01.

Among various regions, the Western Maharashtra showed the highest share (52.15 per cent) in total credit plan outlay of the state during 2000-01, followed by Marathwada (19.60 per cent), Vidarbha (16.86 per cent), and Konkan (11.38 per cent) regions. Nonetheless, during this year, the share of priority sector in total credit plan outlay was relatively higher for Marathwada region as compared to other regions.

It is interesting to note that in the case of Konkan region agriculture and allied activities accounted for only 20 per cent share in total credit plan outlay during 2000-01. On the other hand, non-priority sectors accounted for as high as 36 per cent share in total credit plan outlay for Konkan region during the same year. Nonetheless, in the case of Konkan region too priority sectors accounted for the highest share (64 per cent) in total credit plan outlay, which was mainly due to relatively higher share in credit plan outlay for other priority sectors. In general, except for Konkan region, all other regions of Maharashtra showed higher allocations for agriculture and allied activities. Such increased allocations in plan outlay is a reflection of the importance of agriculture in Government's overall policy encompassing priority sector.

### **3.2 Potential Linked Credit Plan (PLCP) Outlay for Maharashtra**

The estimates relating to potential linked credit plan (PLCP) outlays over the past five years encompassing various sectors/activities and regions of Maharashtra are provided in Table 3.2.

**Table 3.2: Potential Linked Credit Plan (PLCP) Estimates of Exploitable Potential for Different Regions of Maharashtra**

(Amount in Crore Rupees)

Year	Regions				Maharashtra State
	Western Maharashtra	Vidarbha	Marathwada	Konkan	
1997-98	2552.87 (50.66)	912.67 (18.11)	1159.36 (23.00)	414.87 (8.23)	5039.77
1998-99	3066.47 (50.48)	1134.27 (18.67)	1353.86 (22.29)	519.59 (8.56)	6074.19
1999-2000	3577.54 (50.17)	1361.47 (19.09)	1556.79 (21.83)	635.51 (8.91)	7131.31
2000-01	4210.38 (50.21)	1624.02 (19.37)	1784.27 (21.28)	766.43 (9.14)	8385.10
2001-02	4945.71 (50.18)	1937.79 (19.66)	2048.29 (20.78)	925.13 (9.38)	9856.92

Source: Compiled from Official records, NABARD office, Pune.

Notes: i) Figures in parentheses are percentages to the total potential linked credit plan for the state.

ii) The activities for which the PLCP estimates are available include: Minor Irrigation and Energisation (MI), Land Development (LD), Dry Land Farming (DLF), Farm Mechanization (FM), Plantation & Horticulture (P&H), Sericulture (SERI), Animal Husbandry-Dairy (AH-D), Animal Husbandry-Poultry (AH-P), Animal Husbandry-Sheep, Goat and Poultry (AH-SGP), Inland Fishery (FISH-INL), Brakish Water Prawn (BRAKISH), Marine Fishery (FISH-MAR), Forestry/Waste Land Development (FORWL), Storage Godowns-Market Yard (SGMY), Non-Conventional Energy (NCES), Non-Farm Sector (NFS), Other Priority Sectors (OPRSEC), Crop: Crop Loan, Working Capital (WC), Self Help Groups (SHGs).

The estimates relating to PLCP outlays encompassing various sectors/activities show that among various regions Western Maharashtra alone account for around 50 per cent share in total PLCP outlay for the state of Maharashtra. The next important regions are Marathwada and Vidarbha, each accounting for about 20 per cent share in state's total PLCP outlay during the past five years. The allocation for Konkan region in state's total PLCP outlay is the least. Thus, Western Maharashtra turns out to be the most important region since this region attracts the major PLCP outlay of the state. Further, though, in general, there has been nearly two folds rise in PLCP outlays of all the regions of Maharashtra during the period between 1997-98 and 2001-02, the rates of growth/increases in these outlays are relatively faster for Vidarbha and Konkan regions as compared to Western Maharashtra and Marathwada regions during the same period. The PLCP estimates are available for 21 diversified activities with activities relating crop loans, non farm sector, other priority sector, minor irrigation and farm mechanization put together accounting for around 80 per cent share in state's total PLCP outlay.

In fact, in the state of Maharashtra, the diversification of agriculture over the years has accentuated the need for the rapid development of rural infrastructure and a larger flow of credit. Various credit cooperatives, commercial banks and RRBs are by far the major financial institutions engaged in meeting the capital requirements for diversified activities and developing the farming/rural sector of the state. Besides, LDBs are also playing a crucial role in meeting the increasing capital needs of the farmers of

this state. Although there has been multi-agency set-up for rural banking, the major institutional finance to farming community in Maharashtra comes from commercial banks and credit cooperatives. The following sections, therefore, attempt to evaluate the progress as well as performance of not only cooperative and commercial banks but also RRBs and LDBs in the state.

### **3.3 Cooperative Bank Finances**

Two types of set-up, viz. one short term and the other medium term, constitute the credit cooperative structure in Maharashtra. A 3-tier system is central to the structure of both the short term and the medium term credit cooperatives. This 3-tier system consists of a Co-operative apex bank at the state level, Central Co-operative banks at the district level and of Primary Agricultural Co-operative Credit Societies (PACS) at the village level. The three tier set-up is not only meeting the credit requirements of the farmers for seasonal agricultural operations (crop loans) but also investing on farm assets that do not entail huge capital outlay. The long term co-operative credit is extended by a two-tier set-up with the Maharashtra State Co-operative Agricultural and Rural Development Bank (MSCARDB) operating at the state level and a network of Primary Co-operative Agricultural and Rural Development Banks (PCARDBs) or Urban Banks at taluka level. Though creation of farm assets is the basic objective of extending long term credit cooperative finance, it also helps the farmers in improving their farms on a permanent basis so that they have a commercially viable farm in the long run and a perennial farm enterprise. As on June, 2000, there were 20,529 PACS with a membership of 108.90 lakh and 407 PCARDBs in June 1995 having a membership of 69.33 lakhs in the state of Maharashtra. Although there has been substantial increase in the membership of credit cooperatives in the state of Maharashtra, the trend over the last two decades in terms of cooperative finances is not very encouraging in this state, especially in more recent times.

The trend over the past two decades show a slower growth in institutional finance through credit cooperatives during the decade of economic reforms (1991-2000) as against the decade preceding it (1980-1990). Not only this, the reform period is also seen to be marked with a slower growth in membership of credit cooperatives in Maharashtra (Table 3.3). On the other hand, the outstanding loans of these cooperatives have grown at much faster rate as compared to their loan advances during both pre-and post economic reform periods.

**Table 3.3: Cooperative Bank Finances in Maharashtra; 1980-2000**

(Amount in Crore Rupees)

Period	Cooperative Banks											
	No. of Coop. Inst./Soc.			No. of Members ('000')			Loan Advances			Outstanding Loans		
	Apex	PACS	Total	Apex	PACS	Total	Apex	PACS	Total	Apex	PACS	Total
TE 1982/83	31	18565	18596	1109	5595	6704	3318	288	3606	1507	431	19
TE 1990/91	34	19694	19728	1523	7910	9433	9298	929	10227	4811	1521	63
TE 1999/00	34	20378	20412	1340	10432	11772	22195	2280	24475	15274	3456	187
CGR (%)												
- 1980-90	1.33	-0.03 <sup>NS</sup>	-0.03 <sup>NS</sup>	1.01 <sup>NS</sup>	4.90	4.33	14.47 <sup>NS</sup>	13.64	14.08 <sup>NS</sup>	23.97 <sup>NS</sup>	12.59	18.
- 1991-00	-	0.48	0.48	-1.91	3.48	2.72	7.12	9.36	9.74	13.52	9.07	12.
- 1980-00	0.37	0.65	0.65	1.65	3.35	3.15	8.64	12.93	10.76	14.57	12.92	14.

Source: Computations are based on figures obtained from various issues of 'Economic Survey of Maharashtra'

Notes: 1) CGR = Compound Growth Rates

2) All growth rates significant at 1 per cent level of probability

3) NS: Growth rates not significant at 1 per cent level of probability

4) Apex institutions include SCBs and DCCBs

The institutional finance through credit cooperatives in Maharashtra stood at Rs.3,606 crores during TE 1982/83, which increased to Rs.10,227 crores by TE 1990/91 and further to Rs.24,475 crores by TE 1999/00. On the other hand, the outstanding loans of these credit cooperatives increased from Rs.1,938 crores during TE 1982/83 to Rs.18,730 crores by TE 1999/00. Thus, it can be seen that the outstanding loans of these credit cooperatives have grown very close to their loan advances by the TE 1999/00. This is mainly because of faster growth in outstanding loans of these credit cooperatives as compared to their loan advances during the period between 1980 and 2000. Nonetheless, like slower growth in loan advances during the decade of economic reform, the outstanding loans of these credit cooperatives in Maharashtra have also slowed down during this period as compared to the period before the economic reforms.

Another interesting feature of credit cooperatives, particularly of PACS in Maharashtra, is the increasing trend in their share of medium and long term (MT &LT) advances and decline in their share of short term (ST) advances (Table 3.4). At the same time, the MT and LT outstanding loans have also grown over time in Maharashtra.

The share of ST in total loan advances of PACS in Maharashtra has steadily declined from 82 per cent during TE 1985 to 76 per cent by the TE 2000. Contrary to this, the share of MT in total loan advances of PACS in Maharashtra has grown from around 17 per cent to nearly 22 per cent during the same period. Similarly, the share of LT in total loan advances of PACS in this state has grown from 0.86 per cent during TE 1985 to 4.71 per cent by TE 1990 with a decline in the same in the subsequent periods.

**Table 3.4: Progress of PACS According to Type of Loan Advances, Recover and Outstanding Loans in Maharashtra (Amount in Crores Rupees)**

Period	Loan Advances				Recovery				Outstanding Loan			
	ST	MT	LT	Total	ST	MT	LT	Total	ST	MT	LT	Total
TE 1985	280 (81.79)	59 (17.35)	3 (0.86)	342	255 (87.75)	34 (11.85)	1 (0.40)	290	381 (72.23)	140 (26.53)	7 (1.24)	528
TE 1990	594 (72.67)	185 (22.63)	38 (4.71)	817	485 (77.85)	114 (18.32)	24 (3.83)	623	739 (61.97)	388 (32.58)	65 (5.45)	1192
TE 1995	790 (80.51)	162 (16.55)	29 (2.94)	981	656 (82.51)	124 (15.64)	15 (1.85)	795	1074 (59.18)	631 (34.76)	110 (6.06)	1815
TE 2000	1902 (76.05)	543 (21.69)	57 (2.26)	2502	1567 (81.37)	325 (16.90)	33 (1.73)	1925	2122 (60.09)	1219 (34.52)	190 (5.39)	3531

Source: As in Table 5.

Notes: i) Figures in parentheses are percentages to the total

ii) TE: Triennium Ending; ST: Short Term; MT: Medium Term; LT: Long Term

The trends in recovery and outstanding loans of PACS in Maharashtra are similar to that of their loan advances, i.e., a declining share in short term recovery and outstanding loans of PACS in the face of an increasing trend in their share of MT and LT recovery and outstanding loans during the period between TE 1985 and TE 2000. This is a pointer to the fact that in more recent times medium and long term loans have become the major foci of farm finance. Nonetheless, mention may be made here that the PACS in Maharashtra are beset with several deficiencies in their functioning.

The deficiencies are noticed in respect of their low operational efficiency, high incidence of overdue, low level of recovery, distributional aspect of ST and MT loans, coverage of SC/ST members, etc. (Shah, 2001). The borrowing members per society of PACS are also reported to have come down, especially after the late eighties period. Further, despite Maharashtra being accounting for the bulk of the nation's total production and acreage under cotton crop, the share of this crop in total crop loan advances of PACS is also reported to have declined perceptibly, especially in more recent times (Shah, 2001). Even the statistics reported by Mujumdar (2001) at all-India level show a decline in borrowing farmers during the period between 1990-91 and 1995-96. However, this statistics is reported for commercial banks. In view of several deficiencies in the functioning of PACS in Maharashtra, Shah (2001) has categorically emphasised upon the need to formulate policies and evolve schemes relating to SC/ST welfare and those affecting the weaker sections of the rural community. Simplification of loan procedures and making cohesive measures for recovery of loans of chronic and heavy defaults of influential well-to-do borrowers who evade repayment despite their capacity to repay are some other suggestions extended by Shah (2001). In fact, the lackadaisical approach of PACS towards loan advances to SC/ST members and other weaker sections,

and also for cotton crop calls for immediate remedial measures if Maharashtra is to continue to lead the country in the cooperative development.

### **3.4 Commercial Bank Finances**

In terms of directed credit, the Reserve Bank of India (RBI) has stipulated several targets for Public Sector Banks (PSBs). These encompass a minimum of: (a) 40 per cent of net bank credit to priority sectors, (b) 18 per cent of total advances to agriculture, (c) 10 per cent of total advances to weaker sections, (d) one per cent of net bank credit under differential rate of interest (DRI) scheme, and (e) maintenance of a 60 per cent of a credit-deposit ratio. Among these targets, (b) and (c) are the two sub targets of (a), i.e., 18 per cent of net bank credit to agriculture and 10 per cent to weaker sections with an overall 40 per cent of net bank credit to priority sectors. Despite these targets prescribed by the RBI, the PSBs are reported to have defaulted merrily on majority of these targets (Mujumdar, 2001). This is evident from the fact that, during the period between 1992 and 1996, the net bank credit of PSBs to priority sectors at all-India level was well below 40 per cent. Not only this, at all-India level, the net bank credit of PSBs to agriculture and to weaker sections remained well below 18 per cent and 10 per cent, respectively, of their total advances all through the period between 1991 and 2000. This is a reflection of the fact that the two sub-targets of credit to agriculture and to weaker sections continue to remain unattained even in more recent times. Thus, agriculture in general and weaker sections in particular are grossly neglected by PSBs. However, in view of the recommendations of the Union Budget of 1996-97, which laid emphasis on the need to double the size of rural credit in the subsequent five years, the RBI had restored the priority sector credit of PSBs to the level of 41 per cent of their total advances in March 1997, and it remained well above 40 per cent thereafter (Mujumdar, 2001).

As for institutional finance to farming community, the commercial banks in Maharashtra have also not shown encouraging trends. The trend over the past two decades shows a slower growth in rural institutional finance through commercial banks during the decade of economic reforms as against the pre-economic reform period (Table 3.5). The commercial banks in Maharashtra have not only shown slower growth in their loan advances and deposits but also decline in their credit-deposit (C-D) ratio during the period of reforms as against the pre-economic reform period. However, mention may be made here that though the rural C-D ratio of commercial banks in Maharashtra has come



down from 72 per cent during TE 1982/83 to 65 per cent by the TE 1999/00, it is still well above the minimum prescribed limit of 60 per cent as stipulated by the RBI.

**Table 3.5: Rural Deposits and Credits of Commercial Banks in Maharashtra**  
(Amount in Crore Rupees)

Indicators	Triennium Ending			CGR (%)		
	1982/83	1992/93	1999/00	1980-90	1991-2000	1980-2000
Rural Deposits	381	1964	5145	19.05	14.40 <sup>NS</sup>	16.28
Rural Credits	274	1457	3346	17.08	12.28 <sup>NS</sup>	14.91
CD Ratio (%)	71.91	74.18	65.03	-	-	-

Source: Computations are based on figures obtained from various issues of 'Economic Survey of Maharashtra'

It is to be further noted that in Maharashtra the outstanding loans of indirect finances of commercial banks have grown at much faster pace as compared to their outstanding loans of direct finances to farmers (Table 3.6).

**Table 3.6: Progress of Distribution of Outstanding Advances of Scheduled Commercial Banks to Agriculture in Maharashtra Vis-à-vis India**

Period	(Amount in Crore Rupees)									
	FDFI		LEEBEW		OTIF <sup>@</sup>		DFF		Total	
	No. of Ac.	AO	No. of Ac.	AO	No. of Ac.	AO	No. of Ac.	AO	No. of Ac.	AO
<b>Maharashtra</b>										
1980	2649	18	1105	33	83396	90	485350	254	574500	395 (11.05)
TE 1985	4416	11	5012	69	51141	113	906131	572	966700	765 (10.02)
TE 1990	2458	16	176	44	20940	105	1548068	1388	1571642	1553 (10.06)
TE 1995	4557	24	2454	212	13541	175	1577661	1819	1598212	2230 (10.10)
TE 2000	2859	115	9256	386	21879	2241	1217692	3182	1251686	5924 (14.06)
<b>India</b>										
1980	36700	206	12010	145	1085002	433	8501469	2789	9635181	3573
TE 1985	50135	325	38119	392	639520	695	13582102	6220	14955262	7632
TE 1990	44514	363	54823	484	606412	645	20665098	13950	21370846	15442
TE 1995	45271	389	69127	923	314821	860	20486449	19916	20915667	22088
TE 2000	58477	1455	71915	1589	178850	6095	16810610	33001	17119839	42140

Source: Computations are based on figures obtained from various issues of 'Statistical Tables Relating to Banks in India, Department of Banking Operations and Development for the RBI, Bombay'

Note: Figures in Parentheses are shares of Maharashtra in India's total Outstanding Loans

@-includes loans to farmers through Primary Credit Societies

FDFI: Finance for Distribution of Fertilizer and other Inputs; LSEBEW: Loans to State Electricity Board for Energization of Well, etc.; OTIF: Other Types of Indirect Finance; DFF: Direct Finance to Farmers; AO: Amount Outstanding

Table 3.6 also shows an increasing trend in share of Maharashtra in total outstanding loans of all scheduled commercial banks of India, which has grown from 10 per cent during TE 1985 to as high as above 14 per cent by the TE 2000. These trends are certainly not very encouraging insofar as the commercial bank finances to farming community in Maharashtra are concerned. Despite the recommendations of the R.V. Gupta Committee, appointed in 1997, which encompass several changes in commercial bank's documentation, loan appraisal parameters, operational procedures and loan

product with built-in liquid saving product, the rural credit delivery through commercial banks in Maharashtra has grown at lower pace, especially during the 1990s.

In order to realize high and sustained growth of GDP, Mujumdar (1998) has categorically emphasized upon the need for the PSBs to support priority sectors irrespective of whether there exist credit target or not. As regards rural credit delivery, the Ninth Plan Approach Paper is categorical on priority sector advances. As per Ninth Plan Approach Paper, "Greater credit flow will be ensured to meet the investment requirements of the farming community for stepping up the growth of production. Efforts will be made to ensure timely and adequate availability of credit, particularly to small and marginal farmers and tribal farmers at reasonable rates so as to enable them to make investments necessary for higher production"[*Approach Paper to the Ninth Five-Year Plan (1997-2002)*, p.56, 1996]. The Ninth Plan, therefore, not only recognizes the role of priority sectors in the future growth of the economy, but it also categorically emphasizes upon the imperative of enlarging the flow of credit to these sectors. Hence, one of the suggestions of Mujumdar (1998) is in favour of following such future credit policies which fall in line with the Ninth Plan priorities, and which need to be implemented without any further delay.

### **3.5 Regional Rural Bank Finances**

In the wake of economic liberalization now underway in India, the banking sector in general and Regional Rural Banks in particular are experiencing sweeping changes. Although RRBs have played a predominate role in supplementing the efforts of the Government in eradicating poverty by dispensing credit under Government sponsored programmes, their erosion in profitability and the poor sustainability is causing much concern. The policy regime under which they performed contributed greatly to this state of sorry affairs. In fact, RRBs were initially set-up in India in 1975 as low cost bank with the prime objective of meeting the credit requirements of rural poor. Though these rural financial institutions have created awareness for banking practices amongst the rural masses, in course of time they appeared to have lost their initial image of low cost bank (Deshpande, et.al., 1998). A review of performance of RRBs over the past one decade or so show an estimated aggregated amount of loss to the tune of Rs.15.86 crores incurred by 130 RRBs in 1984-85, which is seen to have grown to Rs.621.00 crores incurred by 162 RRBs in 1991-92 and further to as high as Rs.3047.87 crores incurred by 152 RRBs in 1996-97. Due to huge accumulated losses and operational deficiencies, the very

survival of RRBs is now at stake and it has become a matter of concern. In order to strength the organizational structure of RRBs, several committees were constituted from time to time. The most important among these committees were Kelkar Committee, Agricultural Credit Review Committee (ACRC) under the Chairmanship of Prof. A.M. Khusro (1989), Committee on Financial System (1992) under the Chairmanship of Shri M. Narasimham, and Committee on Restructuring of RRBs (1994) under the Chairmanship of Dr. C. Bhandari. Among these committees, the recommendations of Bhandari Committee are noteworthy. This Committee had evolved a forward looking policy framework, which mainly revolved around: (a) comprehensive restructuring of select 49 RRBs including financial assistance to them, (b) Memorandum of Understanding between RRBs and their Sponsor Banks, (c) freedom to select 70 RRBs from Service Area Obligations in view of their inadequate business so as to provide them broader business base, (d) relocation of loss making branches and opening extension counters, (e) expansion and diversification of loan portfolio by allowing Non Target Group and Non Priority Sector and rural housing finance, (f) widening of avenues of profitable investment and surplus non-SLR funds, and (g) strengthening Board of Directors of RRBs by induction of professionals as GOI nominees (Deshpande et.al., 1998). Majority of these policies were seen to have emanated from the financial sector reforms initiated during 1994-95.

It is to be noted that considering the dismal performance of RRBs and their weak structure, Government of India (GOI) unleashed in the first phase its financial sector reforms in 1994-95 and embarked upon an ambitious plan of revamping initially 49 out of a total of 196 RRBs with the aim of improving their profitability besides launching several other policy reforms aimed at improving their functional efficiency. In the second phase, based on the recommendations of Basu Committee, another batch of 68 RRBs were brought under restructuring during 1995-96. As a result of these revamping efforts, 40 RRBs were reported to have shown profits (Capoor, 1998). Although various policies relating to restructuring and revamping of RRBs were introduced in the first and second phase of financial sector reforms, the policy relating to granting of permission by the RBI to RRBs to invest in non-target avenues like shares and debentures of corporates, units of mutual funds, bonds of public sector undertakings, etc. was severely criticized by Mujumdar (2001) as this had paved the way for a reverse flow of funds from the rural to the urban sector.

Undoubtedly, the major part of resources of RRBs is generated through deposits. Nonetheless, too much dependence on deposits and lack of attention paid to loan advances is certainly a disturbing phenomenon. In course of time, the RRBs in India have shown a drastic fall in their credit-deposit (C-D) ratio. The C-D ratio of RRBs at all-India level has come down from 123 per cent during 1981 to as low as 43 per cent by the TE 2000 (Table 3.7). The fall in this ratio is more sharp in the state of Maharashtra, which has come down from 148 per cent during 1981 to 55 per cent by the TE 2000. It is to be noted that in Maharashtra, as on March 2000, there were 582 branches of RRBs with Marathwada region accounting for around 50 per cent share in total numerical strength of these bank branches of RRBs. The decline in C-D ratio of RRBs is mainly due to diversion of substantial portion of their resources in investments instead of lending in rural areas. It should be recollected here that the chief objective of setting up of RRBs was the effective coverage of small and marginal farmers, landless labourers, rural artisans, etc. with a view to enhance their productive capabilities. The decline in their lending business is a clear cut reflection of deviation of RRBs from the objectives they were initially formed.

**Table 3.7: Progress of Deposit and Credit of Regional Rural Banks (RRBs) in Maharashtra Vis-à-vis India**  
(Amount in Lakh Rupees)

Period	Maharashtra			All-India		
	Deposit	Credit	CD Ratio (%)	Deposit	Credit	CD Ratio (%)
1981	557	824	147.94	33147	40682	122.73
TE 1985	1724	2034	117.40	97075	107492	110.73
TE 1990	8851	10709	120.99	353554	321839	91.03
TE 1995	22757	17373	76.34	861931	528835	61.35
TE 2000	75492	41562	55.05	2685412	1152160	42.90

Source: Computations are based on figures obtained from various issues of 'Statistical Tables Relating to Banks in India, Department of Banking Operations and Development for the RBI, Bombay'.

It has been asserted by Shivamaggi (2000) that the major problem faced by RRBs in India is the lack of staff motivation and specialization despite local recruitment of their staff. The poor performance of RRBs greatly owed it to their hurriedly recruited and trained staff that not only lack exposure in dealing with a large number of small-term/composite loans but also in terms their weak knowledge to deal with bank accounts, seek assistance and guidance at each stage of loan application to its recovery. One of the suggestions of Shivamaggi (2000) is, therefore, in favour of placing all the employees of RRBs in the rural banking cadre (RBC) with a view to make them employees of both the RRBs and their sponsor banks, and, hence, helping them to expand their career prospects, as in the case of general banks. Personal career growth prospects of the employees of

RRBs will not only motivate them to work efficiently but also in terms of improving the overall viability of these rural financial institutions.

### **3.6 Land Development Bank Finances**

Long term cooperative finance is provided through Land Development Banks (LDBs). These banks have passed through three distinct stages of development. The period between 1929 and 1954 represented the first stage when these banks were termed as land mortgage banks (LMBs). The major objective of LMBs during this stage was to rescue the farmers out of the clutches of private money lenders. The second stage began when in view of the recommendations of the All India Rural Survey Committee (1951-54) these banks started concentrating on extending long term finances for productive purposes in the farm sector with the aim of meeting the objective of planned development envisaged under the first Five Year Plan initiated in 1951 (Kumar and Dixit, 1998). The beginning of third stage was marked when in the light of the recommendations of Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) in 1980 the LDBs expanded their lending operations by extending credit for non-land based and for non agricultural activities; and at the latter stage their activities also encompassed finances for non farm sectors. During this stage, these LDBs were termed as Cooperative Agriculture and Rural Development Banks (CARDBs). Of late, the loans of LDBs are extended not only for land-based productive activities, viz., minor irrigation, farm mechanization, plantation and land development but also for several other activities, which are, in general, subsidiary to agriculture like poultry, dairy, piggery, sheep rearing, fishery, sericulture, etc. (Kumar and Dixit, 1998). The non-farm sector encompass loans to agricultural labourers, rural artisans and small rural enterprises. Thus, the coverage of non-farm sectors and finances for non-land based purposes have certainly broad-based the activities of LDBs in more recent times.

In general, the flow of finances through LDBs encompass activities relating to agricultural production sub-system (APS), agricultural input distribution sub-system (AIS), agricultural produce marketing and processing sub-system (AMPS), and also long-term finance to members of LDBs for the purpose of purchase of tractor and its accessories, minor irrigation, milch and draught animal purchase, etc. The loans to members of LDBs for long term purposes are provided against the mortgage of their lands. Although the overall performance of LDBs in India is satisfactory, they still have to do a lot of catching up to improve the condition of rural India. The major problem

crippling the functioning of LDBs is the mounting amount of overdues and their outstanding loans, which have grown dramatically in more recent times. The overdues of Primary Cooperative Agriculture Rural Development Banks (PCARDBs) at all-India level is reported to have grown from Rs.196.43 crores in 1987 to Rs.435.20 crores in 1995 (Kumar and Dixit, 1998). Earlier, while reviewing the report of Agricultural Credit Review Committee, Shivamaggi (1993) had also cited overdue as the major problem facing the LDBs. This is despite the fact that the loans extended by LDBs not only help in creating productive assets but also in terms of generating adequate incremental income to the farmers.

In the state of Maharashtra, the loan advances of LDBs have not only declined sharply during the period of reform but also working capital of these banks fell marginally during this period (Table 3.8). The membership of LDBs of Maharashtra has also grown at slower rate during the period between 1991 and 2000 as against the period between 1981 and 2000. Even the recovery of loans and share capital base of LDBs have weakened during the reform period. Nonetheless, it is to be noted that the outstanding loans of LDBs in Maharashtra have grown at slower pace during the period between 1991 and 2000 as against the period between 1981 and 2000 (Table 3.8).

**Table 3.8: Progress of Maharashtra State Cooperative Land Development Banks (LDBs)**  
(Amount in lakh Rupees; Membership in thousands)

Period	Membership	Share Capital	Owned Funds	Borrowings	Working Capital	Loan Advances	Loans Recovered	Loans Outstanding
TE 1985	827	3743	7173	31182	44405	5651	2710	30627
TE 1990	926	4531	11922	48045	66685	8932	3846	49245
TE 1995	1111	7184	14766	68076	107311	13668	6089	82328
TE 2000	1189	9752	54633	109438	144262	4875	8641	99690
CGR (%)								
- 1981-00	2.79*	9.34*	13.18*	9.38*	6.07*	0.54	7.75*	9.21*
- 1991-00	1.65*	7.07*	38.61*	8.79*	-0.27	-18.53	6.83*	5.64*

Source: Computations are based on figures obtained from various issues of 'Co-operative Movement at a Glance in Maharashtra, Office of the Commissioner for Co-operation & Registrar of Co-operative Societies, Maharashtra State, Pune

In order to tackle the problem of overdue of LDBs, certain suggestions have been extended by Kumar and Dixit (1998), which mainly revolve around creation of greater coordination among ST, MT and LT loans and streamlining the operations of LDBs, checking the diversion and misuse of LDB's credit, effective supervision of loan product, strengthening the share capital base, and mobilizing deposits and debentures through more innovative deposits and debenture schemes. Another important suggestion in this context is in favour of launching intensive membership drive with a view to increase the

coverage of these long term financial institutions. Some of the agricultural and rural development banks (ARDBs), popularly known as LDBs, have already taken initiatives in these directions.

### **3.7 Micro Credit Innovations**

It has been noticed that despite vast expansion of banking network in India, a significant section of rural poor continue to remain outside the folds of traditional institutional finance. The dependency of this section of rural population is more on informal sources due mainly to ready and quick disbursal of credit. In fact, a very puzzling characteristic of the Indian rural credit market is the thriving and simultaneous co-existence of the formal and the informal sectors. Lenders, in the formal sector, constitute credit institutions managed or regulated by the Government, whereas, the informal credit sources generally include professional money-lenders, relatives and friends, traders and landlords. In many parts of the country, the informal sector of credit is more dominant than the formal sector (Gill, 2000). This is also corroborated from the findings of the All India Debt and Investment Survey, 1992 which shows the share of informal sector in rural debt to be as high as 36 per cent.

Thus, in the midst of apparent inadequacies of formal financial institutions and their failure to serve and protect the interest of rural poor despite their phenomenal outreach, an informal segment comprising of small groups of rural poor began to mobilize capital and savings of their members and used these resources among their members on a micro scale. These groups were termed as Self Help Groups (SHGs). The lending procedures of these groups were not only simple but also effective due to small amount of loans involved in the process. Since the concept of SHGs was relatively new, NABARD undertook the task of studying the functioning of SHGs in India as well as in other countries. In this sequel, in 1988-89, NABARD had made an attempt to conduct a survey of 43 non-government organizations (NGOs) spread over 11 states in India. The objectives of this survey were not only to study the functioning of SHGs but also to find out possibilities of linking bank credit with SHGs with a view to mobilize rural savings and improve the delivery of credit to the poor (NABARD, 1995). Findings of this investigation encouraged NABARD to launch a pilot project in 1991-92 which involved linkages between banks and SHGs. The SHG-bank linkage programme got a real boost when, in April 1996, RBI had recommended the banks that lending to the SHGs should be considered as an additional segment under priority sector lending. Thus, in view of

this recommendation, lending to SHGs was integrated with the mainstream credit operations of the banks. The NABARD has been propagating, promoting and financing the SHG-Bank Linkage programme since 1992 (NABARD, 1998).

The SHG Linkage programme received wider acceptability during 1997-98 when 30 commercial banks, 101 Regional Rural Banks, 17 co-operative banks and 265 NGOs spread over 19 states and two Union Territories had participated in such a linkage programme. The main objective of the NGOs was to promote and nurture SHGs and act either as facilitators or both facilitators and intermediaries in effecting linkages between SHGs and banks. The progress of SHG-Bank Linkage programme has been quite impressive over the past few years. The information on progress under SHG-Bank Linkage Programme encompassing the period between 1992-93 and 1999-2000 is provided in Table 3.9.

**Table 3.9: Progress of SHG-Bank Linkage Programme in India**

(Amount in Crore Rs.)

Year	No. of SHGs Linked	Cumulative	% age of Women Groups	No. of Participating Banks	No. of States/Uts	No. of Districts Covered	Cumulative Bank Loan	Cumulative Refinance
1992-93	255	255	NA	NA	NA	NA	0.29	0.27
1993-94	356	620	NA	NA	NA	NA	0.65	0.46
1994-95	1,502	2,122	NA	NA	NA	NA	2.45	2.29
1995-96	2,635	4,757	NA	NA	NA	NA	6.06	5.66
1996-97	3,841	8,598	76	120	20	NA	11.84	10.65
1997-98	5,719	14,317	78	150	21	221	23.76	21.38
1998-99	18,678	32,995	84	202	24	280	57.07	52.06
1999-2000	81,780	1,14,775	85	266	24	362	192.98	150.13

Source: Official records of NABARD, Pune.

It is to be noted that as on 31<sup>st</sup> March 2000, 1,14,775 SHGs were linked with the bank credit in India. Most of the SHGs were women groups. The coverage of women groups under the SHG Linkage Programme was as high as 85 per cent as on March 2000. An interesting feature of Table 3.9 was the steep rise in bank loan to SHGs, which rose dramatically from Rs. 11.8 crores in 1997 to as high as Rs. 192.98 crores by 2000. The advent of time was also seen to be marked with perceptible growth in participation of banks in SHG linkage programme. It deserves mention here that with the inclusion of SHG linkage as a normal lending activity of the banks under priority sector from 1996-97, the approach of SHGs as a mechanism for socio-economic development/empowerment of the rural poor has gained wider recognition and importance. The progress has been gathering momentum due mainly to the cost effectiveness of the SHG channel to reach the poor segment of the rural population.



In the state of Maharashtra, the number of SHGs linked with bank credit have grown significantly over the past five years. This could be witnessed from Tables 3.10 and 3.11 which clearly show the strength of SHGs linked with bank credit to grow from as low as 424 as on March 1997 to as high as 11,148 as on June 2001. Initially, only 11 districts of Maharashtra were covered under the SHG-Bank linkage programme. However, in due course of time, more and more districts were covered under the folds of this programme. At present, all the 33 districts of Maharashtra are covered under the SHG-Bank linkage programme. The region that has shown phenomenal growth in the numerical strength of SHGs linked with bank credit is seen to be Vidarbha (Table 3.11). Western Maharashtra and to some extent Marathwada have also shown significant increases in the numerical strength of SHGs over the past five years. However, so far as Konkan region is concerned, linking of SHGs with bank credit has been a more recent phenomenon. Due to initiation of SHG-Bank linkage programme, there have been perceptible and wholesome changes in the living standards of the members of SHGs, especially in terms of their ownership of assets, savings and borrowing capacity, income generation activities and levels of income.

**Table 3.10: Progress of SHG-Bank Linkage Programme in Maharashtra (Amount in Lakh Rs.)**

Sr. No.	Particulars	Cumulative Position As On			
		March 1997	March 1998	March 1999	March 2000
1.	No. of SHGs Linked	424	872	1,969	4,959
2.	Bank Loan	76.9	154.9	378.98	929.89
3.	Refinance	66.27	138.66	360.14	904.44
4.	No. of Districts Covered	11	17	20	29

Source: Official records of NABARD, Pune.

**Table 3.11: Region-wise Number of SHGs Linked with Bank Credit in Maharashtra**

Regions	March 1997	March 1998	March 1999	March 2000	March 2001	June 2001	Cumulative Total
Western Maharashtra	183	172	188	687	649	136	2015
Vidarbha	204	226	764	1618	3965	332	7109
Marathwada	37	48	131	588	500	172	1476
Konkan	-	2	14	97	395	40	548
Total	424	448	1097	2990	5509	680	11148

Source: Official records of NABARD, Pune.

The linkage between banks and SHGs is a mechanism for channeling credit to the poor on a sustained basis. There are numerous potential advantages involved in the linkages between banks and SHGs with NGOs acting as facilitators or financial intermediaries. From the banks point of view, the advantages of linkage approach between banks and SHGs include reduction in transaction cost, mobilization of small savings, assured and timely repayment of loan leading to faster recycling of funds,

opportunity for expansion of business and coverage of poor clientele, and prospects of future quality clients. In this process, NGOs not only act as bridge between banks and the poor and perform their role as financial intermediaries in unbanked and backward areas but they are also propagators of innovative credit delivery approaches. The efforts of NGOs develop thrift habit among the poor and provide them access to large quantity of finance. The efforts of NGOs in linking banks with SHGs also provide freedom, equality, self-reliance and empowerment among the members, besides making them available consumption/ production credit at their door-steps. This in turn helps the members of SHGs to have a window for access to better technology and upgradation of their skills. The NGOs also help SHGs to have access to various promotional assistance, besides scaling up of their operations.

### **3.8 Government of India (GOI) Policy on SHGs**

As per the speech of the Hon'ble Union Minister of Finance, about 1,00,000 SHGs were targeted to be promoted in India during the year 2000-01 (NABARD Annual Report, 2000-01). In view of this target, the NABARD had set its mission to link a minimum of 5,000 SHGs with bank credit in the state of Maharashtra during the year 2000-01. The NABARD has also drawn a medium-term strategic plan to ensure linkage of at least 55,000 SHGs with bank credit by the end of 2004. In order to accelerate the pace of SHG-Bank linkage programme, the NABARD has also devised district-specific and location-specific strategies in view of available potential, resources and prevailing constraints. Now, more emphasis is placed on those aspects such as involving NGOs as active partners in the formation of SHGs, capacity building of the members of SHGs or their group leaders, and sensitization of bankers. Further, the NABARD has also taken an initiative to create 'Micro-Finance Development Foundation'(MFDF). The MFDF is expected to provide financial, technical and other assistance for experimenting with various models encompassing credit delivery innovations. The Foundation will also help NABARD to link SHGs with bank credit, besides providing capacity building support to NGOs and other institutions engaged in such programmes. Under MFDF, provisions are also made to utilize funds for conducting studies and undertake research relating to micro-finance, dissemination of information amongst the various players in the system, etc. The Foundation also includes mobilization of monetary and other requisite resources from various organizations with a view to develop expertise in micro finance. It is

expected that with the increasing involvement of banking system as well as NGOs the micro-credit movement will get further fillip in the years to come.

### 3.9 Rejuvenation of RFIs

The RFIs of India are reported to show a steady increase in their outstanding loans all through the period between 1980 and 1997 (Gulati and Bathla, 2002). High transaction cost for funds and lower financial margins are the two major factors behind non-payment of rural loans and accumulation of overdues of RFIs in India. However, the estimates relating to various RFIs of Maharashtra show a slower growth in their outstanding loans (OL), overdue from direct advances (DA) and bad debt in agriculture during the period between 1991 and 1997 as against the period between 1980 and 1990 (Table 3.12). At the same time, the proportion of overdue to OL of RFIs of Maharashtra has grown at much faster rate during the reform period as against the pre-economic reform period. The reform period also shows increasingly high growth of Maharashtra's share in total overdue and bad debt in agriculture of RFIs in India.

**Table 3.12: Some Broad Performance Indicators of Rural Financial Institutions (RFIs) of Maharashtra vis-à-vis All-India (in Crore Rupees)**

Period	Outstanding Loan (OL)			Overdue from DA			Overdue as % of OL		Bad Debt in Agriculture		
	Mah.	India	Share	Mah.	India	Share	Mah.	India	Mah.	India	Share
TE 1982	842.12	7326.36	11.49	294.99	2157.95	13.74	35.65	29.72	46.97	244.44	19.30
TE 1990	3084.77	25940.29	11.85	812.76	6712.71	12.03	26.13	25.65	112.01	771.98	14.50
TE 1997	3521.57	34579.59	10.67	1536.03	8912.23	17.10	44.56	26.36	185.84	1054.68	17.54
CGR (%)											
- 1980-90	16.12*	15.21*	0.91	13.47*	14.22*	-2.97	-3.92*	-1.89*	11.78*	15.65*	-3.11*
- 1991-97	-1.02	2.01	-2.97	9.99	1.00	7.92*	10.12*	-0.99	4.91	-2.11	7.17*
- 1980-97	10.51*	10.75*	-0.22	11.75*	10.13*	1.45	1.11	-0.56	10.12*	10.83*	-0.65

Source: Computations are based on figures obtained from: Gulati, Ashok and Seema Barhla (2002),

'Institutional Credit to Indian Agriculture: Defaults and Policy Options', Occasional Paper –

23, National Bank for Agriculture and Rural Development, Mumbai

Notes: CGR = Compound Annual Growth Rate; DA = Direct Advances

The slower growth in institutional finances through commercial banks, credit cooperatives, RRBs and LDBs, particularly during the decade of 1991-2000, is mainly due to adverse environment created by the financial sector reforms. As pointed out by Mujumdar (1999), the new policy regime of financial sector reforms has grossly neglected the rural credit delivery system. Due to unfavourable policy framework, the entire rural credit delivery system encompassing rural branches of commercial banks, cooperative credit institutions and RRBs is reduced to a moribund state (Mujumdar, 2001). Mujumdar (1996) while lauding the financial sector reforms also felt that the exaggerated importance given to developing institutions has resulted in "putting the core issues of the financial system, like improving the rural credit delivery system, on the

back-burner". He criticized the blind dependency on market forces, irrespective of their macro-economic implications. Mujumdar (2001) has also shown concern for the shrinking flow of financial resources to agriculture, both in terms of investment and working capital. In fact, the public investment in agriculture is reported to be declining (Thamarajakshi, 1999). Between 1992 and 1997, only 8 per cent of the total public investment went to agriculture, and the actual investment in this sector fell about 40 per cent short of the planned level.

It is to be noted that high transaction costs and poor repayment performance are the twin root causes of the moribund state of rural credit delivery system (Mujumdar, 2001). With a view to revive the agricultural credit delivery system, there is need to adopt innovative approaches like linking of Self-Help Groups (SHGs) and Non-Government Organizations (NGOs) with mainstream financial institutions. Such linkages are reported to have not only reduced transaction costs but also ensured better repayment performance. One of the recent studies conducted in Maharashtra has shown cent per cent recovery of loans through SHGs despite having excessively high rates of interest (24-36 per cent per annum) on their loan advances (Kshirsagar and Shah, 2002).

As pointed out by Mujumdar (1998), one of the recent welcome developments in rural credit has been the establishment of the Rural Infrastructure Development Fund (RIDF) instituted by NABARD with the objective of advancing loans to state governments and state-owned corporations for hastening ongoing projects, mainly those related to medium and minor irrigation, soil conservation, watershed management, etc. However, it is also being conceded by Mujumdar (2001) that the utilization of this fund is dismal at only 30 per cent. One of the further disquieting features of RFIs in Maharashtra has been the high proportion of NPAs to total assets, particularly of RRBs and SCARDBs, which are estimated to hover around 36-48 per cent during the mid-to late nineties. One of the reasons for such high incidence of NPAs of RFIs has been the familiar practice of debt forgiveness, which eroded repayment and allowed defaulters to scot free with no deterrent reprimand. Political interference in issues of prudent fiscal management has got a lot to do with this unfortunate scenario.

### ***3.10 Policy Perspective***

The estimates show considerable regional variations insofar as PLCP outlays for these regions are concerned. The shares of Western Maharashtra, Marathwada, Vidarbha and Konkan regions in total PLCP outlays of the state over the past few years are seen to be 50 per cent, 20 per cent, 20 per cent, and 10 per cent, respectively, showing PLCP

outlay for Western Maharashtra to be the highest. There is, therefore, a need to rationalize PLCP outlay for Marathwada, Vidarbha and Konkan regions. Further, there is a need for cooperative and commercial banks to study the mechanism of new generation lending institutions like SHGs in terms of their pattern of loan recovery and interest rate structure, particularly in the light of the fact that they show high rate of recovery despite higher rate of interest on loan advances. In fact, the in-house studies conducted earlier have clearly shown lower transaction costs and higher recovery performance of SHGs (Gulati and Bathla, 2002). These groups are also reported to have favourably impacted the social and economic status of their members. Further, the RFIs of Maharashtra are also seen to be beset with high levels of NPAs or overdues. There is, therefore, a need to take more stringent and cohesive measures for recovery of loans from chronic and heavy defaulters. In brief, in order to rejuvenate rural credit delivery system, the twin problems facing the system, viz., high transaction costs and poor repayment performance, need to be tackled with more fiscal jurisprudence reserving exemplary punishment for willful defaults, especially by large farmers. In fact, insofar as the rural credit delivery system is concerned, the focus should be on strategies that are required for tackling issues such as sustainability and viability, operational efficiency, recovery performance, small farmer coverage and balanced sectoral development (Puhazhendhi and Jayaraman, 1999).

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## CHAPTER – IV

### PROFILE AND CREDIT SCENARIO OF SAMPLED DISTRICTS

This chapter mainly deals with the profile and credit scenario of sampled study districts with special focus on progress of various commercial banks and credit cooperatives operating in these districts, particularly in respect of their credit-deposit position, loan advances to priority and non-priority sectors over time, demand and recovery position of their loans, etc. The chapter, thus, basically reviews the banking business of the selected districts. The chapter also attempts to evaluate disparities in crop loan advances across various talukas of the selected districts. In order to measure disparities in crop loan advances, Gini's coefficients have been computed encompassing the period between 1980-81 and 1999-2000.

#### 4.1 Profile of Sangli District

Sangli district falls between 16.46' and 17.10' North Latitudes and 73.42' and 75.40' East Longitudes. It is predominantly an agricultural district with 861 thousand hectares of total geographical area. The gross cropped area of the district stands at 749 thousand hectares. It is one of the most progressive districts of Western Maharashtra. The district comprises of eight talukas, 727 villages, eight Panchayat Samities, and 714 Gram Panchayats. As per 1991 census, the total human population of the district was 2,209 thousand persons with 1,128 thousand males and 1,081 thousand females. The literacy rate of the district, as per 1991 census, stood at 62.61 per cent.

The land utilization figures of this district reveal that out of 861 thousand hectares of total reported area, 47 thousand hectares are under forest cover, 19 thousand hectares under permanent pasture and grazing land, 35 thousand hectares are treated as other uncultivated area, 48 thousand hectares as fallow land, and 670 thousand hectares as net sown area. *Jowar* and *bajara* among cereals, sugarcane among cash crops, and groundnut among oilseeds are the major crops grown in this district. The other important crops grown in this district are paddy, wheat, and maize among cereals, cotton and tobacco among cash crops, *tur*, gram, and *moong* among pulses, and linseed (*jawas* or till) and safflower (*kardi*) among oilseeds. The district is reported to have 109 thousand hectares of net irrigated and 129 thousand hectares of gross irrigated area. Well or bore well is the

major source of irrigation in this district. Besides, lift irrigation system (L.I.S.) is another source of irrigation in this district. The average size of holding in Sangli district is 2.8 hectares with majority of the farmers having landholding size less than 4 hectares.

Sangli district is endowed with good livestock and bovine wealth. As per 1992 livestock census, this district had 2,96,986 cattle, 6,77,932 buffaloes, 2,48,297 sheep, 2,93,858 goats, and 21,79,317 poultry birds. The district also consists of 14 sugar factories, 22 spinning mills, 10,176 S.S.Is, 28,474 electrified pumpsets, and 23,800 Gobar Gas Plants. Almost all the villages and towns of this district are electrified. Besides, the district has 125 branches of commercial banks, 181 branches of cooperative banks, and 15 branches of MSCARDBs.

#### **4.2 Profile of Buldana District**

Buldana district lies between 19.51' and 21.17' North Latitudes and 75.57' and 76.49' East Longitudes. It is bounded on the North by Khandawa district of Madhya Pradesh, on the South by Parbhani district, on the West by Jalana and Jalgaon districts, and on the North East by Amravati district. The total geographical area of this district stands at 9,67,100 hectares. The gross cultivated area of the district is 6,98,300 hectares. It is one of the four districts of Amravati revenue division and falls in Vidarbha region of Maharashtra. It covers 1,404 villages with 1,273 inhabited villages, five revenue sub divisions, and 13 Panchyat Samitees. The district encompasses 13 tehsils, of which Buldana, Chkhli, Deulgaon Raja, Mehkar, Sindkhed Raja, and Lonar lie on the Balaghat Plateau, whereas the remaining seven tehsils, viz., Khamgaon, Shegaon, Sangrampur, Jalgaon Jamod, Nandura, Malkapur and Motala fall in the plain, which is the northern part of the district. The edge of the plateau is intercepted by numerous deep ravines. The soil of the seven districts falling in northern part of the district is generally deep black, which is formed by transported materials washed from the *ghat* lands. Cotton, *jowar*, groundnut, etc. are the major crops grown on this soil. The soil of the remaining six tehsils falling on the Balaghat Plateau is medium black and is suitable for growing cotton, *jowar*, pulses, and *bajara*.

The principal rivers of this district are Painganaga and Purna. The other important rivers of this district are Khadakpurna, Nalganaga, Vishwaganaga, Gyanganaga, and Banganaga. The forest cover is only 11.92 per cent of the total geographical area of the district. Gavilgad hills in the north and Agentha hills in the south are the main forest areas of this district.

As per 1991 census, the total human population of the district stood at 18,86,299 persons with 9,62,407 males (51.15 per cent) and 9,19,031 females (48.85 per cent). The district does not show much difference insofar as the rural and urban literacy rates are concerned. The rural and urban literacy rates of this district are estimated at 60.12 per cent and 67.85 per cent, respectively.

The major crops are grown during *kharif* season and the *kharif* cropped area accounts for 82 per cent of the gross cropped area of the district. Cotton, *jowar* and groundnut are the main *kharif* crops grown in this district. On the other hand, wheat, safflower (*kardi*), linseed (*jawas*), and sunflower, etc. are cultivated as *rabi* crops. Canal and wells are the major sources of irrigation in this district. All the 1,273 inhabited villages of this district are electrified. In general, the climate of this district is dry as well as hot and is considered to be healthy.

#### **4.3 Banking Business in Sangli District**

The composition of banking network in Sangli district encompasses 15 nationalised banks, four scheduled commercial banks, M.S.F.C., SDCCB, and MSCARDB. Among these, the SDCCB has the largest network of rural branches and plays a pivotal role in implementing the District Credit Plan (DCP) as well as in distributing rural credit. The implementation of DCP and the performance achieved under it, including performance under the Government sponsored schemes, are regularly monitored/reviewed in the Block Level Bankers Committee (B.L.B.C.) meetings at the block level as well as in the District Level Consultative Committee (D.L.C.C.) meetings at the district level. Periodic review of performance achieved under DCP helps in bringing on surface the strengths and weaknesses of various programmes relating to socio-economic development. Due to the concerted efforts of the members of D.L.C.C, the banking business of this district has flourished significantly over time. The passage of time has also seen implementation of several development programmes and schemes in this district. These programmes have been undertaken with the chief objective of achieving overall development of the district.

In general, the development of banking business in Sangli district has been evaluated in terms of growth trends in deposits and advances of various banks operating in this district, and also in respect of targets of loan advances to various sectors achieved by them over time. These indicators of development of banking business in Sangli district encompassing the period from 1989-90 to 1997-98 are provided in Tables 4.1 and 4.2.



**Table 4.1: Key Indicators of Development of Banking Business in Sangli District**

(Amount in lakh rupees)

Banks/Year	Branches	Share (%)	Deposits	Share (%)	Credit	Share (%)	C-D Ratio (%)
<b>Commercial Banks</b>							
1989-90	174	49.86	26386.00	71.37	17928.00	57.10	67.95
1990-91	174	49.86	29027.00	72.73	20779.00	52.93	71.59
1991-92	174	49.86	32323.90	72.49	22190.03	55.45	68.65
1992-93	167	46.91	37404.36	72.19	24575.89	45.71	65.70
1993-94	167	46.91	45107.99	69.69	25021.86	44.68	55.47
1994-95	172	47.65	50198.83	69.04	30737.57	40.16	61.23
1995-96	175	44.76	55989.14	65.30	37239.73	42.12	66.51
1996-97	175	44.42	63847.97	63.97	39075.64	43.17	61.20
1997-98	179	44.97	73394.90	68.24	39789.59	46.50	54.21
<b>Cooperative Banks @</b>							
1989-90	175	50.14	10587.00	28.63	13467.00	42.90	127.20 (85.93)
1990-91	175	50.14	10884.00	27.27	18480.00	47.07	169.79 (121.39)
1991-92	175	50.14	12269.06	27.51	17830.13	44.55	145.33 (145.33)
1992-93	189	53.09	14411.35	27.81	29191.94	54.29	202.56 (155.71)
1993-94	189	53.09	19621.24	30.31	30975.00	55.32	157.86 (119.98)
1994-95	189	52.35	22511.57	30.96	45793.73	59.84	203.42 (169.39)
1995-96	216	55.24	29748.46	34.70	51164.57	57.88	171.99 (143.54)
1996-97	219	55.58	35961.08	36.03	51449.73	56.83	143.07 (123.29)
1997-98	219	55.03	34158.36	31.76	45785.49	53.50	134.04 (106.22)
<b>Grand Total</b>							
1989-90	349	100.00	36973.00	100.00	31395.00	100.00	84.91
1990-91	349	100.00	39911.00	100.00	39259.00	100.00	98.37
1991-92	349	100.00	44592.96	100.00	40020.16	100.00	89.75
1992-93	356	100.00	51815.71	100.00	53767.83	100.00	103.77
1993-94	356	100.00	64729.23	100.00	55996.86	100.00	86.51
1994-95	361	100.00	72710.40	100.00	56531.30	100.00	105.25
1995-96	391	100.00	85737.60	100.00	88404.30	100.00	103.11
1996-97	394	100.00	99809.05	100.00	90525.37	100.00	90.70
1997-98	398	100.00	107553.26	100.00	85575.08	100.00	79.57

Source: Figures have been compiled from 'District Credit Plan (Various Years) Under Service Area Approach', District Sangli, Maharashtra.

Note: @-including loan advances of LDBs and Maharashtra State Finance Corporation (MSFC)

Figures in parentheses are C-D ratios for SDCCB Ltd.

A critical evaluation of Table 4.1 clearly shows a declining trend in share of commercial banks in total loan advances of Sangli district during the decade of 1990s. Even the share of commercial banks in total rural deposit has fallen gradually over time in this district. The cooperative banks, on the other hand, have followed a reverse trend and have shown an increasing trend not only in total loan advances but also in total rural deposits of this district. Another disquieting feature of Table 4.1 is the dwindling of credit-deposit ratio of commercial banks, which has fallen even below 60 per cent in 1997-98. Like commercial banks, the cooperative banks have also shown a declining C-D ratio during the decade of 1990s. Nonetheless, it is to be noted that this C-D ratio for cooperative banks remained well above 100 per cent all through the period between

1989-90 and 1997-98. During the given period of time, the SDCCB has shown lower C-D ratio as compared to cooperative banks in general operating in this district. Further, though the C-D ratios of both commercial and cooperative banks have fallen during the decade of 1990s, this period is also seen to be marked with a steady increase in amount of deposits and credits of these banks, which have grown by more than three folds during the period between 1989-90 and 1997-98.

**Table 4.2: Distribution of Loan Advances to Various Sectors/Purposes in Sangli District**  
(Amount in Lakh Rupees)

Banks/Years	Loan Advances	Percentage to Total Loan Advances				
		PS Advances	DA Advances	WS Advances	DRI Advances	NPS Advances
<b>Commercial Banks</b>						
1991-92	22190.03	55.52	31.29	14.65	0.62	44.48
1992-93	24575.89	51.49	29.06	14.38	0.43	48.51
1993-94	25021.86	53.63	28.21	14.69	0.49	46.37
1994-95	30737.57	48.71	25.07	10.96	0.43	51.29
1995-96	37239.73	46.36	24.18	11.11	0.71	53.64
1996-97	39075.64	46.58	24.03	8.14	0.68	53.42
<b>Cooperative Banks</b>						
1991-92	17830.13	44.31	-	1.15	-	55.69
1992-93	29191.94	55.23	44.86	6.29	-	44.77
1993-94	30975.00	60.45	49.67	16.08	-	39.55
1994-95	45793.73	49.37	40.41	15.09	-	50.63
1995-96	51164.57	49.20	41.47	16.58	-	50.80
1996-97	51854.24	53.36	41.09	16.01	-	46.64
<b>Grand Total</b>						
1991-92	40020.16	50.52	17.35	8.37	0.35	49.48
1992-93	53767.83	53.52	37.64	9.99	0.20	46.48
1993-94	55996.86	57.40	40.08	15.46	0.22	42.60
1994-95	76531.30	49.11	34.25	13.43	0.17	50.89
1995-96	88404.30	48.00	34.19	14.28	0.30	52.00
1996-97	90929.88	50.44	33.76	12.63	0.29	49.56

Source: As in Table 4.1.

Notes: 1) PS = Priority Sector; DA = Direct Agriculture; WS = Weaker Sections

DRI = Differential Rate of Interest Schemes; NPS = Non Priority Sector

2) RBI has stipulated minimum levels as follows: (i) Advances to priority sector – 40 % of total advances, (ii) Advances to agriculture – 18 % of total advances, (iii) Advances to weaker sections – 10 % of total advances, (iv) Advances under DRI schemes – 1 % per cent of total advances, and (v) Credit/Deposit ratio – a minimum of 60 %.

On the positive side, the loan advances of commercial banks to priority sectors in Sangli district remained well above 40 per cent of their total loan advances during the period between 1991-92 and 1996-97 (Table 4.2). Similarly, during the same period, the direct advances of commercial banks to agriculture also remained above 18 per cent of their total loan advances as stipulated by the RBI. Except for the year 1996-97, the advances of commercial banks to weaker sections also remained above 10 per cent as stipulated by the RBI. Nonetheless, the disquieting feature of Table 4.2 is the loan advances of commercial banks under DRI schemes, which is seen to have remained less than 1 per cent of their total loan advances all through the period between 1991-92 and

1996-97. On the hand, the cooperative banks in this district have shown relatively better performance insofar as their loan advances to priority sectors, direct loan advances to agriculture, and loan advances to weaker sections are concerned. The cooperative banks operating in this district have strictly followed the minimum prescribed limits of the RBI. Table 4.2 also shows a steady increase in loan advances of commercial banks to non priority sectors. Contrary to this, the loan advances of cooperative banks to these sectors have come down in course of time.

An attempt is also made here to provide an insight into the estimates relating to targets achieved by various banks under ACP during the period between 1990-91 and 1997-98 and these estimates, in particular for commercial and cooperative banks, are brought out in Table 4.3.

**Table 4.3: Bank-wise and Sector-wise Targets and Achievements under Annual Credit Plan (ACP): Sangli District (As on March)**

(Amount in Lakh Rupees)

Banks/Years	Agril. & Allied Activities		Small Scale Industries		Other Priority Sectors		Total		Achieve. as % of Target
	Targets	Achievements	Targets	Achievements	Targets	Achievements	Targets	Achievement	
<b>Commercial Banks</b>									
1990-91	1632.86	2212.80	341.28	292.46	749.88	1299.57	2724.02	3804.83	139.67
1991-92	1744.26	1866.18	291.12	521.00	547.03	428.23	2582.41	2815.41	109.02
1992-93	1664.26	1531.66	205.03	403.97	556.82	587.10	2426.58	2522.73	103.96
1993-94	1547.38	2036.58	437.72	449.67	439.93	618.69	2425.03	3104.94	128.04
1994-95	1912.71	2482.81	557.36	926.09	611.90	1064.60	3081.97	4473.50	145.15
1995-96	2675.00	3279.70	852.73	612.64	1077.18	1211.17	4604.91	5103.51	110.82
1996-97	3255.19	3498.05	1147.02	767.34	1482.33	1624.80	5884.54	5890.19	100.10
<b>Cooperative Banks @</b>									
1990-91	4124.68	4402.92	555.15	508.35	578.13	634.08	5257.96	5545.35	105.47
1991-92	4367.60	4663.35	636.14	419.50	1015.09	1716.47	6018.83	6799.32	112.97
1992-93	4791.85	5766.78	212.94	413.02	138.09	107.08	5142.88	6286.88	122.24
1993-94	5964.10	7472.14	592.31	771.82	170.40	187.42	6726.81	8431.38	125.34
1994-95	7600.86	9247.65	649.29	1336.11	185.99	130.65	8436.14	10714.41	127.01
1995-96	10631.42	9662.55	713.25	744.29	272.90	143.50	11617.57	10550.34	90.81
1996-97	12939.51	9825.62	814.30	694.17	339.92	280.66	14093.73	10800.45	76.63
<b>Grand Total</b>									
1990-91	5757.54	6615.72	896.43	800.81	1328.01	1933.65	7981.98	9350.18	117.14
1991-92	6111.86	6529.53	927.26	940.50	1562.12	2144.70	8601.24	9614.73	111.78
1992-93	6456.58	7298.44	417.97	816.99	694.91	694.18	7569.46	8809.61	116.38
1993-94	7511.48	9508.72	1030.03	1221.49	610.33	806.11	9151.84	11536.32	126.05
1994-95	9513.57	11730.46	1206.65	2262.20	797.89	1195.25	11518.11	15187.91	131.86
1995-96	13306.42	12942.25	1565.98	1356.93	1350.08	1354.67	16222.48	15653.85	96.49
1996-97	16194.70	13323.67	1961.32	1461.51	1822.25	1905.46	19978.27	16690.64	83.54
1997-98 (upto Dec. 97)	14580.00	10939.00	1704.00	794.00	1775.00	1262.00	18059.00	12995.00	71.96

Source: As in Table 4.1.

Notes: 1) @ - including Maharashtra State Cooperative Rural Development Bank (MSCARDB) and MSFC

2) Commercial Banks include State Bank of India (SBI), Bank of Baroda (BOB), Bank of Maharashtra (BOM), Canara Bank (CB), Central Bank of India (CBI), Corporation Bank (CB), Dena Bank (DB), Indian Bank (IB), Punjab National Bank (PNB), Punjab and Sind Bank (PSB), Syndicate Bank (SB), UCO Bank, Union Bank of India (UBI), Vijya Bank (VB), Sangli Bank Ltd. (SB Ltd.), United Western Bank (UWB), Ratnakar Bank Ltd. (RB Ltd.), Bank of India (BOI).

3) Cooperative Banks include Sangli District Central Cooperative Bank (SDCCB), Maharashtra State Cooperative Rural Development Bank (MSCARDB), and Maharashtra State Finance Corporation (MSFC).

It is clearly evident from Table 4.3 that, during the period between 1990-91 and 1996-97, the commercial banks operating in Sangli district have not only achieved their targets of loan advances set for agriculture and allied activities but also for other priority sectors. Similarly, the cooperative banks operating in this district are also seen to achieve their targets of loan advances set for agriculture and allied. However, mention may be made here that the performance of commercial banks in terms of achieving their targets of loan advances to various sectors is much better as compared to cooperative banks operating in this district. Interestingly, neither the commercial nor the cooperative banks have achieved the targets of loan advances set for S.S.Is, especially during 1995-96 and 1996-97. As a result, the overall targets of loan advances achieved by commercial and cooperative banks have fallen close to 100 per cent during these years. As for the achievement of targets of loan advances under ACP, both commercial and cooperative banks, in general, are seen to show best performance during the period between 1990-91 and 1994-95 and thereafter a deterioration in their performance in this respect is seen.

**Table 4.4: Recovery of Priority and Non-Priority Sector Advances of Commercial Banks and Cooperative Banks in Sangli District**  
(Amount in Lakh Rupees)

Year	Commercial Banks					Cooperative Banks				
	Direct Agril.	Indirect Agril.	S.S.I.	O.P.S.	Total	Direct Agril.	Indirect Agril.	S.S.I.	O.P.S.	Total
<b>June - 1990</b>										
Demand	2874.64	18.56	761.13	863.94	4518.27	3211.91	-	173.97	439.24	3825.12
Collection	1678.10	8.49	308.19	397.26	2392.04	2554.49	-	151.19	403.66	3109.32
% age	58.38	45.74	40.49	45.98	52.94	79.53	-	86.91	91.90	81.29
<b>June - 1991</b>										
Demand	1043.70	17.98	531.71	703.92	2297.31	-	-	-	-	-
Collection	517.28	10.28	227.20	311.83	1066.59	-	-	-	-	-
% age	49.56	57.17	42.73	44.30	46.43	-	-	-	-	-
<b>June - 1992</b>										
Demand	4017.44	23.26	818.93	1003.84	5863.47	4299.73	128.77	26.33	6544.49	10999.32
Collection	2165.21	17.45	203.01	381.21	2766.88	3697.90	122.67	25.18	6530.32	10376.07
% age	53.90	75.02	24.79	37.98	47.19	86.00	95.26	95.63	99.78	94.33
<b>June - 1993</b>										
Demand	4496.65	26.25	1223.91	1212.07	6958.88	5646.99	155.07	43.39	6587.21	12432.66
Collection	2407.93	17.46	327.34	499.60	3252.33	4670.22	149.42	41.68	6471.48	11332.80
% age	53.55	66.51	26.75	41.22	46.74	82.70	96.36	96.06	98.24	91.15
<b>June - 1994</b>										
Demand	4986.40	88.05	1634.33	1538.08	8246.86	6689.71	174.68	53.60	8679.59	15597.58
Collection	2892.52	32.10	605.75	689.44	4219.81	5974.89	172.75	52.50	8534.63	14734.77
% age	57.97	48.26	37.06	44.82	51.17	89.31	98.90	97.95	98.33	94.47
<b>June - 1995</b>										
Demand	4931.34	99.58	1467.99	1496.54	7995.45	9400.76	-	27.97	81.30	9510.03
Collection	2591.92	39.19	464.49	716.53	3812.13	8451.16	-	22.48	66.14	8539.78
% age	52.56	39.36	31.64	47.88	47.68	89.90	-	80.37	81.35	89.80
<b>June - 1996</b>										
Demand	5478.26	479.90	1906.93	1733.51	9598.60	11388.42	-	101.47	95.62	11585.51
Collection	3116.76	413.83	710.83	866.37	5107.79	9643.58	-	39.70	75.96	9759.24
% age	56.89	86.23	37.28	49.98	53.21	84.68	-	39.12	79.44	84.24
<b>June - 1997</b>										
Demand	3930.06	318.96	1400.05	1330.26	6979.33	11264.59	-	127.50	2317.20	13709.29
Collection	2163.77	256.86	498.14	670.27	3588.94	9532.83	-	50.30	1350.89	10934.02
% age	55.06	80.50	35.58	50.39	51.42	84.63	-	39.45	58.30	79.76

A further analysis drawn from Table 4.4 showed much better recovery performance of cooperative banks as compared to commercial banks operating in this district. During the period between 1990 and 1997, the recovery of cooperative banks operating in Sangli district is seen to be 80-90 per cent of their total advances, which include both priority and non priority sector advances. On the other hand, the recovery commercial banks, during the same period, is noticed to be 45-50 per cent of their total loan advances (Table 4.4).

In general, commercial banks operating in forward district of Sangli have shown better recovery of their direct and indirect agricultural loan advances. On the other hand, cooperative banks operating in this district have not only shown higher recovery of their priority sector advances but also their non priority sector advances. Nonetheless, the commercial banks, in particular, are seen to be marked with poor recovery of their loan advances to S.S.Is. all through the period between 1990 and 1997. In fact, in 1996 and 1997, the cooperative banks of this district have also shown lower recovery of their loan advances to S.S.Is.

Thus, as against the commercial banks, the cooperative banks operating in this district have shown relatively better performance during the decade of 1990s not only in terms of their priority and non priority sector advances but also with respect to recovery of their loans from these sectors.

#### **4.4 Banking Business in Buldana District**

The banking network in Buldana district encompasses a group of four public sector banks, two banks relating to State Bank group, two cooperative banks, two Gramin banks, and M.S.F.C. However, in general, these banks are broadly classified as commercial and cooperative banks. The key indicators of development of banking business in Buldana district encompassing the period between 1989-90 and 1998-99 are provided in Tables 4.5 and 4.6.

It is clearly evident from Table 4.5 that the cooperative banks in Buldana district have much larger network of bank branches as compared to commercial banks. Out of 238 total bank branches operating in Buldana district, the bank branches under cooperative fold account for over 55 per cent share. Although cooperative banks account for much larger share in total network of bank branches of this district, the total rural deposits of these banks are much lower as compared to commercial banks. At the same time, it is to be noted that the share of cooperative banks in total rural deposits of Buldana

district has steadily increased from 32 per cent to 42 per cent during the period between 1989-90 and 1998-99 in the face of decline in share of commercial banks in total rural deposits of this district from 68 per cent to 58 per cent during the same period. Despite lower share in total rural deposits, the cooperative banks of this district have shown higher amount of loan advances as against the commercial banks. The share of cooperative banks in total loan advances of Buldana district has grown from as low as 40 per cent during 1989-90 to as high as nearly 55 per cent by 1998-99.

**Table 4.5: Key Indicators of Development of Banking Business in Buldana District**

(Amount in lakh rupees)							
Banks/Year	Branches	Share (%)	Deposits	Share (%)	Credit	Share (%)	C-D Ratio (%)
<b>Commercial Banks</b>							
1989-90	105	44.49	8884.74	67.70	7838.26	60.06	88.22
1990-91	105	44.49	9683.52	69.30	7558.41	60.78	78.05
1991-92	105	4.49	10477.36	66.11	7942.54	53.10	75.81
1992-93	105	44.12	11625.70	65.59	8793.73	54.89	75.64
1993-94	104	43.88	14135.56	66.33	9284.91	53.17	65.68
1994-95	104	43.88	18114.77	63.55	11431.67	51.18	63.11
1995-96	104	43.88	21755.62	63.04	13012.91	50.43	59.81
1996-97	104	43.70	24554.26	59.50	15514.55	49.98	63.18
1997-98	104	43.70	25366.00	65.66	16609.00	49.55	65.48
1998-99	104	43.70	30983.00	57.96	18939.00	45.86	61.13
<b>Cooperative Banks @</b>							
1989-90	131	55.51	4238.54	32.30	5212.42	39.94	122.98 (100.83)
1990-91	131	55.51	4289.46	30.70	4876.44	39.22	113.68 (88.90)
1991-92	131	55.51	5371.35	33.89	7013.78	46.90	130.58 (103.71)
1992-93	133	55.88	6097.83	34.41	7227.81	45.11	118.53 (91.99)
1993-94	133	56.12	7176.76	33.67	8177.84	46.83	113.95 (91.60)
1994-95	133	56.12	10391.00	36.45	10905.42	48.82	104.95 (84.13)
1995-96	133	56.12	12753.00	36.96	12790.13	49.57	100.29 (82.26)
1996-97	134	56.30	16712.00	40.50	15526.50	50.02	92.91 (77.88)
1997-98	134	56.30	13267.00	34.34	16912.00	50.45	127.47 (109.85)
1998-99	134	56.30	22474.00	42.04	22360.00	54.14	99.49 (89.14)
<b>Grand Total</b>							
1989-90	236	100.00	13123.28	100.00	13050.68	100.00	99.45
1990-91	236	100.00	13972.98	100.00	12434.85	100.00	88.99
1991-92	236	100.00	15848.71	100.00	14956.32	100.00	94.37
1992-93	238	100.00	17723.53	100.00	16021.54	100.00	90.40
1993-94	237	100.00	21312.32	100.00	17462.75	100.00	81.94
1994-95	237	100.00	28505.77	100.00	22337.09	100.00	78.36
1995-96	237	100.00	34508.62	100.00	25803.04	100.00	74.77
1996-97	238	100.00	41266.26	100.00	31041.05	100.00	75.22
1997-98	238	100.00	38633.00	100.00	33521.00	100.00	86.77
1998-99	238	100.00	53457.00	100.00	41299.00	100.00	77.26

Source: Figures have been compiled from 'District Annual Credit Plan (Various Years)', District Buldana, Maharashtra.

Note: @-including loan advances of LDBs and Maharashtra State Finance Corporation (MSFC)  
Figures in parentheses are C-D ratios for BDCCB Ltd.

Like Sangli district, the commercial banks operating in backward district of Buldana have also shown a falling C-D ratio all through the decade of 1990s. The C-D ratios of commercial banks of this district have fallen from 88 per cent in 1989-90 to as low as 61 per cent by 1998-99. The cooperative banks operating in this district have also followed a trend similar to commercial banks and have shown their C-D ratio to fall from as high as 130 per cent in 1992-93 to as low as nearly 100 per cent by 1998-99. The C-D ratio of BDCCB is seen to be much lower than the overall C-D ratio of cooperative banks operating in this district. The higher C-D ratios of cooperative banks are mainly due to their higher amount of loan advances as compared to their total rural deposits. Further, the trend over the decade of 1990s also shows nearly four folds rise in rural deposits and loan advances of cooperative banks as against only 2-3 folds rise in deposits and credits of commercial banks operating in this district.

**Table 4.6: Bank-wise and Sector-wise Targets and Achievements under Annual Credit Plan (ACP): Buldana District (As on March) (Amount in Lakh Rupees)**

Banks/Years	Agril. & Allied Activities		Small Scale Industries		Other Priority Sectors		Total		Achieve. as % of Target
	Targets	Achievements	Targets	Achievements	Targets	Achievements	Targets	Achievement	
<b>Commercial Banks</b>									
1991-92	1112.18	1006.07	117.25	31.28	269.74	231.81	1499.17	1269.16	84.66
1992-93	944.86	930.21	140.51	126.06	237.68	171.21	1323.05	1227.48	92.78
1993-94	1092.14	1316.25	127.30	35.30	252.15	241.96	1471.59	1593.51	108.28
1994-95	1508.85	2073.00	235.31	112.58	303.03	531.84	2047.19	2717.42	132.74
1995-96	2041.30	2258.56	659.42	37.07	607.24	1003.35	3307.96	3298.98	99.73
1996-97	3277.43	2921.46	390.90	110.54	988.43	589.29	4656.76	3620.29	77.74
1997-98	3358.73	3411.54	338.37	134.99	1015.08	729.21	4712.18	4275.74	90.74
1998-99	3771.82	3857.10	370.02	322.59	1371.94	1379.18	5513.78	5558.87	100.82
<b>Cooperative Banks @</b>									
1991-92	1749.88	1766.13	143.85	141.58	55.00	83.51	1948.73	1991.22	102.18
1992-93	1539.69	1397.79	332.37	144.50	79.00	11.38	1951.06	1553.67	79.63
1993-94	1798.47	2073.15	348.95	88.43	138.80	4.15	2286.22	2165.73	94.73
1994-95	2037.34	2436.23	201.94	211.59	75.82	16.75	2315.10	2664.57	115.10
1995-96	3266.33	3252.30	264.25	1248.56	66.80	56.67	3597.38	4557.53	126.69
1996-97	3692.35	3112.74	252.04	235.51	89.15	13.74	4033.54	3361.99	83.35
1997-98	4450.92	3536.79	551.80	1848.79	3535.75	37.51	8538.47	5423.09	63.51
1998-99	4642.36	3982.46	374.12	4205.87	3185.75	540.92	8202.23	8729.25	106.38
<b>Grand Total</b>									
1991-92	2862.06	2772.20	261.10	172.86	324.74	315.32	3447.90	3260.38	94.56
1992-93	2484.55	2328.00	472.88	270.56	316.68	182.59	3274.11	2781.15	84.94
1993-94	2890.61	3389.40	476.25	123.73	390.95	246.11	3757.81	3759.24	100.04
1994-95	3546.19	4509.23	437.25	324.17	378.85	548.59	4362.29	5381.99	123.38
1995-96	5307.63	5510.86	923.67	1285.63	674.04	1060.02	6905.34	7856.51	113.77
1996-97	6969.78	6034.20	642.94	346.05	1077.58	602.03	8690.30	6982.28	80.35
1997-98	7809.65	6948.33	890.17	1983.78	4550.83	766.72	13250.65	9698.83	73.20
1998-99	8414.18	7839.56	744.17	4528.46	4557.69	1920.10	13716.01	14288.12	104.17

Source: As in Table 4.5.

Notes: 1) @ - including LDBs and MSFC

2) Commercial Banks include State Bank of India (SBI), Bank of Baroda (BOB), Bank of Maharashtra (BOM), Central Bank of India (CBI), Punjab National Bank (PNB), State Bank of Hyderabad (SBH), Buldana Gramin Bank (BGB), and United Western Bank (UWB).

3) Cooperative Banks include Buldana District Central Cooperative Bank (BDCCB), Lead Development Banks (LDBs), and Maharashtra State Finance Corporation (MSFC).

The targets achieved by various banks under ACP are also analysed here and an insight into these estimates encompassing the period between 1991-92 and 1998-99 is provided in Table 4.6.

An analysis drawn from Table 4.6 shows better performance of commercial banks as for the achievements of their targets of loan advances to agriculture and allied activities are concerned. On the other hand cooperative banks are seen to have performed well as far as the achievements of their targets of loan advances to S.S.Is. and other priority sectors are concerned. However, mention may be made here that the overall performance of cooperative banks in Buldana district in terms of achieving their targets of loan advances to various sectors is much better as against the commercial banks. Not only the cooperative banks have shown better performance in terms of achieving their targets of loan advances under ACP but also in respect of C-D ratio, which is seen to have been higher than commercial banks and in accordance with the norms stipulated by the RBI.

Thus, the estimates relating to banking business presented in Tables 4.1 to 4.6 reveal much better performance of cooperative banks during the decade of 1990s. The cooperative banks have performed well not only in forward district of Sangli but also in Backward district of Buldana. The credit delivery and recovery performance of cooperative banks are noticed to be remarkable in the forward district of Sangli. Nonetheless, as for the achievements of targets of loan advances to various sectors, the commercial banks of Sangli district have performed better than cooperative banks operating in this district. At the same time, it deserves mention here that both commercial and cooperative banks have shown rather poor performance insofar as their achievements of targets of loan advances to S.S.Is are concerned. This holds good in both the forward district of Sangli and the backward district of Buldana. Shrinking flow of credit to S.S.Is during the decade of 1990s is certainly a matter of concern.

#### **4.5 Disparities in Crop Loan Advances**

Among various types of loans extended by PACS, short-term crop loan is by far the most important one as farmers crop activity largely depends on it. In fact, these kinds of loans are provided to the farmers for the purchase of various inputs like seeds, fertilizers, pesticides, etc. and also for meeting expenses of labour, irrigation, etc. These loans have direct bearing on crop production and they are extended on the basis of acreage and cost of cultivation of the crops grown, subject to the repayment capacity of



the farmers. It is, therefore, essential to evaluate the distribution pattern of these loans in the selected forward and backward districts.

The distribution of crop loans is generally correlated with the gross cropped area or cropping intensity within a year. The distribution of crop loans is, therefore, evaluated on the basis of per hectare of gross cropped area across various talukas of the selected districts. The disparity in distribution of these loans is evaluated with the help of computation of Gini's coefficients and coefficient of variation (C.V.) across various talukas of the selected districts encompassing the period between 1980-81 and 1999-2000. The estimates relating to per hectare crop loan advances across various talukas, coefficient of variation in the distribution of these loans over time, and Gini's coefficients for each year across various talukas are presented for each of the selected sampled forward and backward districts in Tables 4.7 and 4.8.

**Table 4.7 : Variation in Crop Loan Advances Per Hectare of Gross Cropped Area : Sangli District**  
(Amount in Rupees)

Year	Miraj	Tasgaon	Khanpur	Atpadi	Jath	Kavathe-Mahakal	Walwa	Shirola	Dist.Avg.	Gini Ratio
1980-81	276.06	448.92	107.95	84.28	33.27	99.29	384.66	73.96	183.50	0.3988
1981-82	251.26	451.64	155.58	123.70	31.92	134.34	371.35	59.50	193.26	0.3721
1982-83	532.36	543.64	164.69	173.90	62.25	195.47	438.45	98.68	268.23	0.3383
1983-84	397.72	607.97	214.43	343.88	76.13	199.13	474.46	97.08	293.76	0.3079
1984-85	302.90	549.72	153.50	135.47	59.94	118.04	437.51	92.55	228.31	0.3776
1985-86	332.29	526.63	135.82	124.20	54.84	118.34	459.47	117.90	226.57	0.3553
1986-87	321.24	571.91	192.27	144.24	69.44	147.05	506.08	133.84	250.89	0.3266
1987-88	439.33	637.11	252.47	210.39	115.49	273.24	592.20	154.10	321.39	0.2732
1988-89	521.30	720.64	284.14	248.94	89.88	328.88	765.90	185.03	368.09	0.2747
1989-90	488.17	804.00	335.90	325.29	119.75	365.39	822.49	214.18	407.68	0.2477
1990-91	475.13	807.06	386.67	304.45	130.95	365.54	1014.78	245.91	436.23	0.2636
1991-92	747.69	953.45	501.18	311.38	161.50	468.75	965.23	311.26	545.77	0.2774
1992-93	431.32	547.16	170.06	104.92	54.13	164.60	583.25	112.94	263.64	0.3759
1993-94	1174.44	1556.31	649.37	272.97	224.38	563.05	1868.55	432.05	824.02	0.3584
1994-95	1267.69	1964.23	875.43	696.74	417.47	922.97	2483.53	595.48	1121.60	0.2899
1995-96	1507.82	2619.08	1036.32	703.47	358.14	1053.15	2542.75	592.90	1272.49	0.3181
1996-97	1352.95	1669.74	1005.31	702.02	339.82	1154.59	2389.49	570.03	1094.58	0.2584
1997-98	1617.21	1791.61	960.50	861.87	329.44	1128.75	2622.76	837.99	1191.09	0.2317
1998-99	1569.59	1697.02	912.87	790.06	267.63	932.39	1924.10	863.49	1055.62	0.2022
1999-2000	2567.92	4460.40	1141.01	1624.27	940.75	1554.60	3637.86	921.20	2078.47	0.3054
S.D.	631.96	991.90	367.30	380.99	213.20	443.18	998.97	290.68	512.78	
Mean	828.72	1196.41	481.77	414.32	196.86	514.38	1264.24	335.50	631.26	
C.V.	0.76	0.83	0.76	0.92	1.08	0.86	0.79	0.87	0.81	
1980/81-1989/90	386.26	586.22	199.67	191.43	71.29	197.92	525.26	122.68	274.17	0.3087
1990/91-1999/2000	1271.18	1806.61	763.87	637.22	322.42	830.84	2003.23	548.33	988.35	0.2772

Note: Computations are based on figures obtained from 'Socio-Economic Review' and 'District Statistical Abstract' (Various Years)

It is to be noted that the forward district of Sangli encompasses eight talukas, viz., Miraj, Tasgaon, Khanpur, Atpadi, Jath, Kavathe-Mahakal, Walwa, and Shirola. An evaluation of crop loan advances based on per hectare of gross cropped area (GCA) shows considerable variation in the distribution of these loans within the taluka over time (Table 4.7). The crop loan advances in Sangli district are estimated to have grown from Rs.274.17 per hectare of GCA in the decade 1980s to as high as Rs.988.35 per hectare of GCA in the decade of 1990s. This means that, in general, during the last two decades there has been four folds rise in crop loan advances per hectare of GCA in Sangli district. The highest variation (C.V.) in crop loan advances over the last two decades is noticed in the case of Jath taluka, whereas Miraj and Khanpur have shown relatively lower variations insofar as distribution of crop loans over time in these talukas are concerned. The crop loan advances in Jath taluka have grown from Rs.71.29 per hectare of GCA in the decade of 1980s to Rs.322.22 per hectare of GCA in the decade of 1990s. On the other hand, during the same period, this increase in crop loan advances for Miraj taluka is noticed to be from Rs.386.26 per hectare of GCA to Rs.1271.18 per hectare of GCA, and for Khanpur taluka, the increase is estimated to be from Rs.199.67 per hectare of GCA to Rs.763.87 per hectare of GCA. However, the Gini concentration ratios estimated for each year show no significant difference in the distribution of crop loans across various talukas of Sangli district during the given period of time.

During the given period, the lowest estimated Gini Concentration ratio is noticed to be in 1998-99 and its highest value turns out to be in 1980-81. In general, the disparity in distribution of crop loan advances based on per hectare of GCA is noticed to have reduced from the decade of 1980s to the decade of 1990s as the estimated Gini ratio in this respect has come down from 0.3087 in the decade of 1980s to 0.2772 in the decade of 1990s. It could, therefore, be concluded that the disparity in distribution of crop loan has reduced in Sangli district over time with the decade of 1990s showing lower disparity in this respect as against the decade of 1980s.

As regards the backward district of Buldana, there are 13 talukas in this district, viz. Chikhli, Deulgaon, Buldana, Malkapur, Nandura, Motala, Jalgaon Jamod, Sangrampur, Khamgaon, Shegaon, Mehkar, Sindkhed Raja, and Lonar. The variation in distribution of crop loan advances within the talukas of this district over time is noticed to be much higher as compared to the talukas of Sangli district.

**Table 4.8 : Variation in Crop Loan Advances (in Rupees) Per Hectare of GCA: Buldhana**

Year	District													Dist. Av	Gini Ratio
	Chikhli	Deulgaon	Buldana	Malkapur	Nandura	Motala	Jalgaon Jarnod	Sangrapur	Khamgaon	Shegaon	Mehkar	Sindkhed	Lonar		
80-81	199.26	161.70	185.89	46.34	121.07	120.53	87.11	68.62	43.47	49.27	228.83	201.49	200.71	137.23	0.3115
81-82	199.26	161.70	185.89	46.34	121.07	120.53	87.11	68.62	43.47	49.27	228.83	201.49	200.71	137.23	0.3115
82-83	202.82	148.91	255.42	35.77	124.53	120.23	111.99	49.32	67.24	53.41	226.22	131.20	167.10	134.47	0.3135
83-84	137.44	129.88	159.04	35.48	150.97	105.69	87.74	52.31	86.06	61.33	105.65	148.89	140.29	110.74	0.2290
84-85	150.95	88.46	174.10	18.93	95.78	45.68	77.05	77.01	46.05	48.69	130.28	159.03	206.19	103.20	0.3226
85-86	158.03	91.11	152.19	34.98	108.67	53.56	93.69	111.79	55.72	58.19	142.87	211.98	167.59	112.24	0.2716
86-87	139.76	96.94	152.49	28.80	106.64	71.07	55.32	56.55	41.22	63.97	103.75	172.52	112.29	93.47	0.2708
87-88	170.14	152.46	127.15	28.97	111.52	133.94	116.46	91.79	46.80	92.80	108.01	211.75	107.51	114.31	0.2106
88-89	140.55	146.24	145.50	43.03	108.58	130.60	104.23	132.67	68.35	63.68	123.56	201.73	130.10	118.74	0.1865
89-90	157.77	128.45	113.73	33.16	119.79	51.63	82.14	98.30	51.71	82.30	137.42	285.80	133.32	114.29	0.2825
90-91	92.73	114.40	95.93	28.59	109.73	49.08	70.25	87.31	60.82	53.89	99.97	296.56	151.75	100.94	0.3033
91-92	111.94	168.06	85.87	41.89	163.68	122.25	71.32	123.28	109.90	108.41	137.17	245.06	105.68	124.23	0.2185
92-93	31.34	163.20	30.25	66.82	160.89	79.87	48.49	96.01	39.34	88.83	76.23	62.57	88.78	79.71	0.2797
93-94	127.04	257.90	134.79	55.75	221.88	133.71	127.49	138.93	169.34	101.79	162.15	229.50	96.90	156.38	0.2337
94-95	173.74	335.67	170.76	54.02	222.40	117.40	143.51	166.20	166.67	109.80	208.87	254.26	128.03	180.95	0.2516
95-96	174.41	293.52	264.56	117.41	422.02	321.55	216.12	283.36	287.01	242.40	265.64	286.78	203.57	255.40	0.1314
96-97	315.23	314.31	516.21	207.88	523.61	335.92	268.41	468.43	333.86	316.15	375.16	165.06	269.80	333.61	0.1546
97-98	261.02	532.44	571.20	208.63	556.85	347.12	213.43	349.06	403.48	301.54	420.00	175.23	276.77	345.92	0.1826
98-99	443.74	709.29	669.36	349.28	728.22	555.06	319.64	486.10	625.41	424.12	556.74	459.86	316.91	505.04	0.1423
99-00	606.13	615.07	866.78	390.12	936.43	602.84	376.06	495.37	679.93	433.15	533.58	617.28	355.27	574.69	0.1587
S.D.	128.48	180.40	221.81	108.96	241.93	164.06	92.13	152.39	195.91	127.74	143.77	120.68	75.94	140.75	
Mean	199.67	240.49	252.86	93.61	260.72	180.91	137.88	175.05	171.29	140.15	218.55	235.90	177.96	191.64	
C.V.	0.64	0.75	0.88	1.16	0.93	0.91	0.67	0.87	1.14	0.91	0.66	0.51	0.43	0.73	
80/81-89/90	165.60	130.58	165.14	35.18	116.86	95.35	90.28	80.70	55.01	62.29	153.54	192.59	156.58	117.59	0.2517
90/91-99/00	233.73	350.39	340.57	152.04	404.57	266.48	185.47	269.41	287.58	218.01	283.55	279.22	199.35	265.69	0.1385

Note: Computations are based on figures obtained from 'Socio-Economic Review' and 'District Statistical Abstract' (Various Years)

In general, the crop loan advances in Buldana district are estimated to have grown from Rs.117.59 per hectare of GCA in the decade of 1980s to Rs.265.69 per hectare of GCA in the decade of 1990s (Table 4.8), showing thereby around 2-3 folds rise in these loans during the last two decades. The highest variation (C.V.) in crop loan advances over time is noticed in the case of Malkapur taluka, whereas Lonar taluka of Buldana district has shown the least variation in this respect.

Like Sangli district, the Gini Concentration ratios estimated for each year show no significant difference in the distribution of crop loans across various talukas of Buldana district during the given period of time. During the given two decades, the lowest estimated Gini ratio is noticed in 1995-96 and its highest value turns out to be in 1984-85. In general, this district has also shown lower disparity in distribution of crop loans across various talukas during the decade of 1990s as against the decade of 1980s since the

estimated Gini ratio in this respect has come down from 0.2517 in the decade of 1980s to as low as 0.1385 in the decade of 1990s.

Interestingly, the disparity in distribution of crop loans is lower in the backward district of Buldana as against the forward district of Sangli. At the same time, it is to be noted that the amount of crop loans per hectare of GCA distributed in this district is also very low as compared to Sangli district. Not only this, the increase in amount of crop loans advances over time in this district is also not much and it is estimated to have grown from Rs.117.59 per hectare of GCA in the decade of 1980s to only Rs.265.69 per hectare of GCA in the decade of 1990s as against a sharp increase in these figures from Rs.274.17 per hectare of GCA in the decade of 1980s to as high as Rs.988.35 per hectare of GCA in the forward district of Sangli. There is, therefore, an ample scope to increase the amount of crop loan advances in the backward district of Buldana. This will certainly help the farmers not only to increase their crop production but also in terms of achieving sustained growth of agricultural sector of this district.

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## CHAPTER – V

### VIABILITY OF CREDIT INSTITUTIONS

The major foci of attention of this chapter are on evaluating the organizational, operational and financial health of central level credit institutions operating in forward and backward sampled districts of Maharashtra. The organizational, operational and financial health of these credit institutions have been evaluated in terms of changes in their membership pattern, share capital, deposits, loan advancements / distribution aspect of credit, investments, working capital, asset and liability positions, income and expenditure pattern, etc. For evaluating the performance/viability of credit institutions over time, Sangli District Central Cooperative Bank (SDCCB) and Buldana District Central Cooperative Bank (BDCCB) have been selected as the central level credit institutions operating in the sampled districts.

#### 5.1 Performance Appraisal of SDCCB

The Sangli District Central Cooperative Bank (SDCCB) was established on 28<sup>th</sup> March, 1927 with its headquarters at Sangli. At present, the Bank has a network of 208 branches in the district. As on June, 1999, the total membership of the Bank was of the order of 3391 with share capital at Rs.2182.76 lakhs, working capital at Rs.78793.13 lakhs, reserve and other funds at Rs.3168.31 lakhs, deposits at Rs.60767.63 lakhs, investments at Rs.21194.50 lakhs, and total advancement of loan at Rs.52170.12 lakhs. The basic functions of the SDCCB are organising its members into co-operatives, eliminating private unscrupulous money lenders, disbursement of various kinds of loans and providing other facilities to its societies and their members. As a matter of fact, the SDCCB has shown excellent results on every front of development. The achievements of the SDCCB in respect of broad quantitative parameters during the period between 1985-86 and 1998-99 are provided in Table 5.1.

The SDCCB showed remarkable progress in terms of all the parameters taken into account under Table 5.1. Not only the total membership but share capital, reserve and other funds, deposits, loan advances, investments, working capital and profits of SDCCB have grown considerably during the period between mid-eighties and the late nineties. Although these indicators have gone up considerably over time, there has also been slowing down in some of the indicators during the period between early- and the late

nineties as against the period between mid-eighties and the early nineties, especially in respect of reserve and other funds, loan advances, borrowings, working capital, and profit earned by the SDCCB. On the other hand, some other indicators such as membership, share capital, deposits and investments of SDCCB have grown more sharply during the period between early- and the late nineties as against the period between mid-eighties and the early nineties.

**Table 5.1: Performance Appraisal of Sangli District Central Cooperative Bank (SDCCB)**

(Amount in Lakh Rupees)

Indicators	TE 1986-87 (1)	TE 1992-93 (2)	TE 1998-99 (3)	% Change		
				2 over 1	3 over 2	3 over 1
1. Membership						
- Individual	387	376	364	-2.84	-3.19	-5.94
- Society	1516	2113	2946	39.38	39.42	94.33
- Total	1907	2489	3310	30.52	32.99	73.57
2. Branches	108	160	205	48.15	28.13	89.81
3. Share Capital	383.74	752.86	1929.24	96.19	156.25	402.75
4. Reserve and other Funds	317.33	972.34	2795.72	206.41	187.52	781.01
5. Deposits	7948.62	19595.55	54265.89	146.53	176.93	582.71
6. Loan Advances	6247.02	19953.40	46656.68	219.41	133.83	646.86
7. Borrowings	762.05	5556.57	7395.08	629.16	33.09	870.42
8. Investments	3163.70	5925.08	18911.48	87.28	219.18	497.76
9. Working Capital	10094.31	28186.97	70552.70	179.24	150.30	598.94
10. Profit	29.00	164.32	108.54	466.62	-33.95	274.28
11. Dividend Rate (%)	6	12	5	-	-	-

Source: Computations are based on figures obtained from the annual reports (various years) of SDCCB

The dividend declared by the SDCCB has also come down during the latter half as against the former/first half of the overall period considered. The decline in dividend declared is obvious to expect as the interest rates have come down sharply in more recent times. Nonetheless, slowing down in profit profile of the SDCCB is certainly a discouraging trend and a matter of concern. At the same time, it deserves mention that as the borrowings of the SDCCB have come down sharply during the period between early- and the late nineties as against the period between mid-eighties and the early nineties, it could be interpreted to mean that the dependency of the SDCCB has also come down sharply on lender's capital for its loan advances during the latter half as against the first half of the overall period considered.

### 5.1.1 Portfolio Structure of SDCCB

Assets of the SDCCB were classified into three categories: (i) current assets that included cash and balance with other banks, marketable investments and fixed deposits with bank maturing within one year, book debt including bills receivable, interest and other bills receivable, branch adjustment, short term advance, money at call and short

notice, etc., (ii) fixed assets which encompassed premises, buildings, furniture and fixtures, advances for branch building expansion, medium and long term advances, and (iii) miscellaneous assets which included purchase of shares and investments with apex bank, SBI and other financial institutions. Similarly, liabilities of the SDCCB were also categorised into three corresponding groups: (i) current liabilities that encompassed bank borrowings (short term), deposits from public (maturing within a year), interest and charges payable, saving bank deposits, bills for collection, money at call and short notice, rebate for short term borrowings, provisions and branch adjustment, etc., (ii) term liabilities which included medium and long term liabilities and fixed deposits from members, etc., and (iii) net worth that comprised of paid-up share capital, general reserve and other funds, other reserves (excluding provisions) and profit and loss account. The asset and liability positions of SDCCB have been evaluated encompassing the period between TE 1986-87 and TE 1998-99 and an annual average position of the same during the given period of time are brought out in Tables 5.2 and 5.2 (a).

It could be observed from Tables 5.2 and 5.2 (a) that current assets were the most important assets of SDCCB, constituting about 58 per cent of the total asset value of the bank during TE 1986-87, 65 per cent during TE 1992-93 and 56 per cent during TE 1998-99. Miscellaneous assets were the next important assets of SDCCB, that included mostly its investments with other financial institutions. The share of miscellaneous assets put together in total asset value of the SDCCB was found to be 26 per cent during TE 1986-87, 16 per cent during TE 1992-93 and 25 per cent during TE 1998-99. Fixed assets contributed the lowest proportions in the total asset value of SDCCB. However, the proportion of fixed assets in total asset value of SDCCB was comparatively higher during TE 1992-93 and TE 1998-99 than in TE 1986-87. In general, short term advances among current assets, medium term advances among fixed assets, and the investments of the SDCCB in general among miscellaneous assets put together accounted for the lion's share in total asset value of the SDCCB all through the given period of time. The increases in value of current and fixed assets of SDCCB were seen to be sharper during the first half as against the second half of the overall period considered. Contrary to this, miscellaneous assets of SDCCB grew more sharply during the latter half as against the former half of overall period considered. On the whole, the growth in fixed assets of SDCCB was sharper as against the growth in its current and miscellaneous assets.

**Table 5.2: Annual Average Asset and Liability Position of SDCCB**

(Amount in Lakh Rupees)

Liabilities / Assets	TE 1986-87 (1)	TE 1992-93 (2)	TE 1998-99 (3)	% Change		
				2 over 1	3 over 2	3 over 1
<b>LIABILITIES</b>						
<b>A. Current Liabilities</b>						
1. Bank Borrowings (Short Term)	236.30	4038.19	1559.13	1608.93	-61.39	559.81
2. Deposits from Public (Current Deposits)	1017.64	2087.46	5570.02	105.13	166.83	447.35
3. Interest and Charges Accrued (Payable)	475.13	276.76	885.74	-41.75	220.04	86.42
4. Branch Adjustment	11.01	152.64	676.47	1286.38	343.18	6044.14
5. Saving Bank Deposits	2210.43	5277.08	11810.14	138.74	123.80	434.29
6. Bills for Collection	25.93	128.57	247.48	395.83	92.49	854.42
7. Money at Call & Short Notice	47.38	45.16	82.34	-4.69	82.33	73.79
8. Overdue Interest Reserve (Interest Suspense)	40.03	214.85	1767.39	436.72	722.62	4315.16
9. Other Current Liabilities & Provisions	87.66	366.10	474.89	317.64	29.72	441.74
<b>Total Current Liabilities</b>	<b>4151.51</b>	<b>12586.81</b>	<b>23073.60</b>	<b>203.19</b>	<b>83.32</b>	<b>455.79</b>
<b>B. Term Liabilities</b>						
1. Medium Term Liabilities	270.77	679.58	2328.10	150.98	242.58	759.81
2. Long Term Liabilities	254.97	838.80	3507.85	228.98	318.20	1275.79
3. Other Term Liabilities (Fixed Deposits)	4679.84	12185.85	36803.40	160.39	202.02	686.42
<b>Total Term Liabilities</b>	<b>5205.58</b>	<b>13704.23</b>	<b>42639.35</b>	<b>163.26</b>	<b>211.14</b>	<b>719.11</b>
<b>C. Net Worth</b>						
1. Capital (Paid-up)	383.74	752.86	1929.24	96.19	156.25	402.75
2. General Reserve & Other Funds	317.33	972.34	2795.72	206.41	187.52	78.10
3. Other Reserves (Excluding Provisions)	7.15	6.40	6.25	-10.49	-2.34	-12.59
4. Surplus (+) or Deficit (-) in Profit & Loss A/C	29.00	164.32	108.54	466.62	-33.95	274.28
<b>Total Net Worth</b>	<b>737.22</b>	<b>1895.92</b>	<b>4839.75</b>	<b>157.17</b>	<b>155.27</b>	<b>556.50</b>
<b>Total Liabilities (A+B+C)</b>	<b>10094.31</b>	<b>28186.96</b>	<b>70552.70</b>	<b>179.24</b>	<b>150.30</b>	<b>598.94</b>
<b>ASSETS</b>						
<b>A. Current Assets</b>						
1. Cash in Hand and with Banks	347.01	1132.45	2461.40	226.35	117.35	609.32
2. Balance with other Banks	125.00	-	-	-	-	-
3. Marketable Investments (Securities other than those of Subsidiary Companies) and Fixed Deposits with Banks Maturing Within One Year	156.27	233.62	698.85	49.50	199.14	347.20
4. Book Debts including Bills Receivable (Outstanding Not More than 180 Days)	25.93	128.57	247.48	395.83	92.49	854.42
5. Interest and other Bills Receivable	149.05	469.78	1193.38	215.19	154.02	700.66
6. Branch Adjustment	3.93	-	58.05	-	-	1377.10
7. Short Term Advances	4814.57	15003.23	34129.44	211.62	127.49	608.88
8. Money at Call & Short Notice	113.33	1150.00	678.33	914.74	-41.01	498.54
9. Other Current Assets	101.56	267.54	269.86	163.43	0.87	165.71
<b>Total Current Assets</b>	<b>5836.65</b>	<b>18385.19</b>	<b>39736.79</b>	<b>214.99</b>	<b>116.13</b>	<b>580.82</b>
<b>B. Fixed Assets</b>						
1. Premises Less Depreciation (Land & Building)	21.51	60.43	96.55	180.94	59.77	348.85
2. Furniture & Fixture, Fitting, Vehicle, etc.	46.37	130.31	161.57	181.02	23.99	248.44
3. Medium Term Advance	1219.10	3827.35	8563.51	213.95	123.75	602.45
4. Long Term Advance	327.78	1235.83	4453.75	277.03	260.40	1258.76
<b>Total Fixed Assets</b>	<b>1614.76</b>	<b>5253.92</b>	<b>13275.38</b>	<b>225.36</b>	<b>152.68</b>	<b>722.12</b>
<b>C. Miscellaneous Assets</b>						
<b>1. Investments</b>						
a. FD with MSC Bank	1.00	2.40	6.50	140.00	170.83	550.00
b. FD Earmarked for Reserve Fund	91.18	240.27	522.69	163.51	117.54	473.25
c. FD Earmarked for Credit Stabilization Fund	83.25	197.37	430.77	137.09	118.26	417.44
d. FD Earmarked for Share Redemption Fund	22.00	34.75	41.00	57.95	17.99	86.36
e. FD Earmarked General	2438.33	4066.67	16533.33	66.78	306.56	578.06
2. Share Capital of PACS	7.15	6.40	6.25	-10.49	-2.34	-12.59
3. Non-Banking Assets Acquired	-	-	-	-	-	-
<b>Total Miscellaneous Assets</b>	<b>2642.91</b>	<b>4547.86</b>	<b>17540.54</b>	<b>72.08</b>	<b>285.59</b>	<b>563.69</b>
<b>Total Assets (A+B+C)</b>	<b>10094.32</b>	<b>28186.97</b>	<b>70552.71</b>	<b>179.24</b>	<b>150.30</b>	<b>598.93</b>

Source: Computations are based on figures obtained from the annual reports (various years) of SDCCB



**Table 5.2 (a): Changing Shares of Various Items in Total Assets and Liabilities of SDCCB**

(in per cent)

Liabilities / Assets	TE 1986-87	TE 1992-93	TE 1998-99
<b>LIABILITIES</b>			
<b>A. Current Liabilities</b>			
1. Bank Borrowings (Short Term)	2.34	14.33	2.21
2. Deposits from Public (Current Deposits)	10.08	7.41	7.89
3. Interest and Charges Accrued (Payable)	4.71	0.98	1.26
4. Branch Adjustment	0.11	0.54	0.96
5. Saving Bank Deposits	21.90	18.72	16.74
6. Bills for Collection	0.26	0.46	0.35
7. Money at Call & Short Notice	0.47	0.16	0.12
8. Overdue Interest Reserve (Interest Suspense)	0.40	0.76	2.50
9. Other Current Liabilities & Provisions	0.87	1.30	0.67
<b>Total Current Liabilities</b>	<b>41.13</b>	<b>44.65</b>	<b>32.70</b>
<b>B. Term Liabilities</b>			
1. Medium Term Liabilities	2.68	2.41	3.30
2. Long Term Liabilities	2.53	2.98	4.97
3. Other Term Liabilities (Fixed Deposits)	46.36	43.23	52.16
<b>Total Term Liabilities</b>	<b>51.57</b>	<b>48.62</b>	<b>60.44</b>
<b>C. Net Worth</b>			
1. Capital (Paid-up)	3.80	2.67	2.73
2. General Reserve & Other Funds	3.14	3.45	3.96
3. Other Reserves (Excluding Provisions)	0.07	0.02	0.01
4. Surplus (+) or Deficit (-) in Profit & Loss A/C	0.29	0.58	0.15
<b>Total Net Worth</b>	<b>7.30</b>	<b>6.73</b>	<b>6.86</b>
<b>Total Liabilities (A+B+C)</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>ASSETS</b>			
<b>A. Current Assets</b>			
1. Cash in Hand and with Banks	3.44	4.02	3.49
2. Balance with other Banks	1.24	-	-
3. Marketable Investments (Securities other than those of Subsidiary Companies) and Fixed Deposits with Banks Maturing Within One Year	1.55	0.83	0.99
4. Book Debts including Bills Receivable (Outstanding Not More than 180 Days)	0.26	0.46	0.35
5. Interest and other Bills Receivable	1.48	1.67	1.69
6. Branch Adjustment	0.04	-	0.08
7. Short Term Advances	47.70	53.23	48.37
8. Money at Call & Short Notice	1.12	4.08	0.96
9. Other Current Assets	1.01	0.95	0.38
<b>Total Current Assets</b>	<b>57.82</b>	<b>65.23</b>	<b>56.32</b>
<b>B. Fixed Assets</b>			
1. Premises Less Depreciation (Land & Building)	0.21	0.21	0.14
2. Furniture & Fixture, Fitting, Vehicle, etc.	0.46	0.46	0.23
3. Medium Term Advance	12.08	13.58	12.14
4. Long Term Advance	3.25	4.38	6.31
<b>Total Fixed Assets</b>	<b>16.00</b>	<b>18.64</b>	<b>18.82</b>
<b>C. Miscellaneous Assets</b>			
<b>1. Investments</b>			
a. FD with MSC Bank	0.01	0.01	0.01
b. FD Earmarked for Reserve Fund	0.90	0.85	0.74
c. FD Earmarked for Credit Stabilization Fund	0.82	0.70	0.61
d. FD Earmarked for Share Redemption Fund	0.22	0.12	0.06
e. FD Earmarked General	24.16	14.43	23.43
<b>2. Share Capital of PACS</b>	<b>0.07</b>	<b>0.02</b>	<b>0.01</b>
<b>3. Non-Banking Assets Acquired</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Miscellaneous Assets</b>	<b>26.18</b>	<b>16.13</b>	<b>24.86</b>
<b>Total Assets (A+B+C)</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

As regards liabilities, term liabilities accounted for about 52 per cent of the total liabilities of the bank during TE 1986-87, 49 per cent during TE 1992-93 and 60 per cent of the same during TE 1998-99. The current liabilities were the next important liabilities accounting for 41 per cent of the total liabilities of the bank during TE 1986-87, 45 per cent during TE 1992-93 and 33 per cent of the same during TE 1998-99. The share of net worth was seen to be 6-7 per cent of the total liabilities of the bank all through the given period of time. In general, deposits from public and saving bank deposits among current liabilities and fixed deposits kept with SDCCB by the members among term liabilities accounted for bulk of the total liabilities of SDCCB during the given period of time [Table 5.2 (a)]. Further, the overall increase in term liabilities was noticed to be much sharper than increase in current liabilities or net worth of the bank. This overall increase in term liabilities of the bank was mainly due to sharp increase in the same during the period between early- and the late nineties as compared to the period between mid-eighties and the early nineties. On the other hand, a slowing down was noticed in current liabilities and net worth of the bank during the latter half as against the former half of the overall period considered.

The portfolio management of the bank is not seen to be very encouraging as not only the proportions of short term advances of the bank have come down but the proportions of medium term advances have also remained constant during the period between early- and the late nineties. However, an increase in proportions of long term advances and reduction in the proportions of non earning assets such as bank balance during the latter half of the overall period considered are certainly some encouraging trends insofar as asset-mix of the bank is concerned.

Among the different types of liabilities, short term bank borrowings, bills for collection, provisions and branch adjustment were relatively cheaper liabilities, whereas deposits from public, interest and charges payable, saving bank deposits were relatively costlier liabilities. The decline in proportions of cheaper liabilities, particularly in the case of bank borrowings and bills and other provisions, and an increase in proportions of costlier liabilities like deposits from public and interest and charges payable are again an indication of unfavourable portfolio management of the bank during the latter half as against the first half of the overall period considered. [Table 5.2 (a)]. The only favourable trend in terms of liabilities of SDCCB is the decline in proportion of its costlier liability

like saving bank deposit during the period between TE 1992-93 and TE 1998-99 as against the period between TE 1986-87 and TE 1992-93.

### **5.1.2 Pattern of Loan Advancement of SDCCB**

The SDCCB has been extending various kinds of loans not only to PACS affiliated to it but also to various types of other societies operating in the district such as marketing societies, weavers societies, fisheries societies, industrial societies, processing societies, urban banks and societies, salary earner's societies, consumer stores, cooperative sugar factories, etc., and also for lift irrigation, grape and other orchards, and for several other purposes. With the advent of time, the SDCCB has shown considerable change in its pattern of loan advances to various societies and for various purposes, and these changes have been brought out in Table 5.3.

While loan advancement of SDCCB to some of the societies is observed to have increased sharply during the period between early- and the late nineties as against the period between mid-eighties and the early nineties, there has also been considerable slowing down or decline in loan advancement to some other societies in latter period as against the former period. Although there has been more than three folds rise in short term loans for seasonal agricultural operations (crop loans) and also in medium term loans for agricultural purposes during the overall period between mid-eighties and the late nineties, the period between early- and the late nineties as against the period between mid-eighties and the early nineties is also noticed to be marked with a decline in share of loans for SAO in total ST loan advances and also share of loans for agricultural purposes in total MT loan advances. The share of loans for SAO in total ST loan advances of SDCCB is noticed to have declined drastically from 38 per cent during TE 1986-87 to 18 per cent by TE 1992-93 with an increase in the same to 24 per cent by TE 1998-99. Similarly, the share of loans for agricultural purposes in total MT loan advances of SDCCB has come down from over 77 per cent during TE 1986-97 to only around 50 per cent by TE 1998-99. The shares of ST loans to industrial societies, salary earner's societies, urban banks and societies, and marketing societies have also come down marginally during the latter half as against the former half of the overall period considered. Similarly, the shares of MT loans to marketing societies, sugar factories, salary earner's and weaver's societies have declined during the second half as against the former half of the overall period.

**Table 5.3: Annual Average Short, Medium and Long Term Advances to Various Societies By SDCCB**

(Amount in Lakh Rupees)

Loan Advances	TE 1986-87	TE 1992-93	TE 1998-99	Share (%)		
				TE 1986-87	TE 1992-93	TE 1998-99
<b>A. Short Term</b>						
1. Crop Loans to Agril. Credit Societies	1851.36	2707.25	8047.52	38.45	18.04	23.58
2. Cash Credit for Agril. Credit Societies	3.78	12.95	12.49	0.08	0.09	0.04
3. Cash Credit to Marketing Societies	63.15	126.54	229.62	1.31	0.84	0.67
4. Cash Credit to Industrial Societies	76.65	277.59	387.46	1.59	1.85	1.14
5. Cash Credit to Weavers Societies	0.51	6.32	413.87	0.01	0.04	1.21
6. Cash Credit to Processing Societies	1435.36	6576.83	16939.37	29.81	43.84	49.63
7. Cash Credit to Urban Banks & Societies	274.92	1464.35	1213.66	5.71	9.76	3.56
8. Cash Credit to Salary Earner's Societies	555.96	2595.30	2988.94	11.55	17.30	8.76
9. Loans to Other Societies (Milk Society, Consumer Stores, etc.)	32.77	150.19	257.73	0.68	1.00	0.75
10. Dues from Societies in Liquidation	24.93	16.05	389.05	0.52	0.11	1.14
11. Loans to Individuals	380.76	956.88	2759.71	7.91	6.38	8.09
12. Inland Bills Purchase of the Above Advance Amount	114.42	113.00	490.02	2.38	0.75	1.43
<b>Total</b>	<b>4814.57</b> (75.69)	<b>15003.25</b> (74.77)	<b>34129.44</b> (72.39)	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>B. Medium Term</b>						
1. Agricultural Credit Societies	943.57	1767.95	4375.70	77.40	46.19	51.10
2. Other Societies	275.53	2059.40	4187.81	22.60	53.81	48.90
a. Industrial Societies	17.60	38.62	402.91	1.44	1.01	4.70
b. Weavers' Societies	0.44	19.07	17.22	0.04	0.50	0.20
c. Hire Purchase	38.97	268.11	238.42	3.20	7.01	2.78
d. Marketing Societies	3.45	20.77	3.91	0.28	0.54	0.05
e. Processing Societies	-	-	-	-	-	-
f. Sugar Factories	186.22	115.43	75.98	15.28	3.02	0.89
g. Other Processing Societies	12.61	90.61	926.95	1.03	2.37	10.82
h. Salary Earner's and Urban Societies	-	11.82	6.39	-	0.31	0.08
i. Kargir Societies	-	-	53.18	-	-	0.62
j. MT to MSEB	-	1300.00	2000.00	-	33.97	23.35
k. Cotton Procurement thr. MSC Bank	16.24	194.96	396.19	1.33	5.09	4.63
l. Jath Taluka SSK through MSC Bank	-	-	66.66	-	-	0.78
<b>Total</b>	<b>1219.10</b> (19.16)	<b>3827.35</b> (19.07)	<b>8563.51</b> (18.16)	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>C. Long Term Loans</b>						
1. Grape Growers	232.41	635.78	2355.05	70.91	51.45	52.88
2. Godown / Irrigation	8.49	10.63	0.69	2.59	0.86	0.01
3. Lift Irrigation	41.82	305.78	552.29	12.76	24.74	12.40
4. Pomegranate Orchard	-	12.98	1.17	-	1.05	0.03
5. Weavers Societies	-	28.83	996.25	-	2.33	22.37
6. Others (housing loan for employees, vehicle loan, dairy dev., individuals, etc.)	45.05	241.83	548.29	13.74	19.57	12.31
<b>Total</b>	<b>327.77</b> (5.15)	<b>1235.83</b> (6.16)	<b>4453.74</b> (9.45)	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>Grand Total</b>	<b>6361.44</b>	<b>20066.43</b>	<b>47146.69</b>			

Source: Computations are based on figures obtained from the annual reports (various years) of SDCCB

On the other end of the spectrum, the share of ST loans to processing societies, MT loans to industrial and processing societies, and also share of MT loans for cotton procurement through MSC Bank have gone up sharply during the TE 1992-93 and TE 1998-99 as against the TE 1986-87. The share of loans to processing societies in total ST

loan advances of SDCCB is seen to have grown steadily from 30 per cent during TE 1986-87 to 44 per cent by TE 1992-93, and further to 50 per cent by TE 1998-99. The SDCCB is also seen to be diverting a considerable amount of its MT loans to Maharashtra State Electricity Board (MSEB) during the latter half of the overall period. Nonetheless, this share of MT loans to MSEB is seen to have declined from 34 per cent during TE 1992-93 to 23 per cent by TE 1998-99.

Interestingly, most of the LT finances of SDCCB are seen to be for grape orchards. The LT advances of SDCCB for grape orchards are seen to be more than 50 per cent of its total LT advances all through the period between TE 1986-87 and TE 1998-99, through there has also been a decline in this share during the latter half as against the former half of the overall period considered. The SDCCB is also seen to be extending a considerable amount of its LT advances for lift irrigation. The advances for lift irrigation are seen to be 25 per cent of the total LT advances of SDCCB during TE 1992-93 as against only 12 per cent of the same during TE 1986-87 and TE 1998-99.

It is to be further noted that while the share of ST loans in total loan advances of SDCCB has steadily declined from 76 per cent during TE 1986-87 to 72 per cent by TE 1998-99, there has been sharp increase in share of LT loans in its total loan advances, which has grown from 5 per cent to 10 per cent of its total loan advances during the same period.

These observations are symptomatic of the fact that the SDCCB has been fast changing its pattern of ST loan advances in favour of processing societies, possibly at the expense of loans meant for agricultural purposes. This situation could be described as disquieting due mainly to the fact that farmer's crop activity heavily depends on these kinds of loans and any reduction in the same would not only affect the production of various crops grown in the district but may also lead the farmers to fall in the traps of unscrupulous private money lenders, especially in the event of inadequate loan supply to farmers by these cooperative credit institutions. This situation needs to be altered and corrective measures are required to be applied if farmer's interests have to be safeguarded.

The pattern of loan advances of SDCCB is also fast changing towards its LT advances, which have grown over 1200 per cent during the period between mid-eighties and the late nineties as against only over 300 per cent increase in its ST and MT loan advances during the same period. This trend, however, could be considered desirable as

most of the LT loans of SDCCB are extended for the development of horticulture industry, which is gaining ground in India in more recent times, and which has become the prima donna of all agricultural development of India in recent past because of its export competitiveness.

### 5.1.3 Income and Expenditure Pattern of SDCCB

The major source of income for SDCCB is the interest and discount that it earns from loans and advances and also from the deposits that it keeps with other banks and financial institutions. The other minor sources of income for SDCCB are commission, exchange and brokerage on services rendered by it to the customers, share transfer fee, dividend receipts and some other receipts. Item-wise annual average income of the SDCCB from different sources coupled with its expenditure on different items of cost are presented in Table 5.4.

**Table 5.4: Annual Average Income and Expenditure Pattern of SDCCB**

		(Amount in Lakh Rupees)					
	Particulars	TE 1986-87 (1)	TE 1992-93 (2)	TE 1998-99 (3)	% Change		
					2 over 1	3 over 2	3 over 1
	<b>Types of Income</b>						
I.	Interest and Discount	1373.84 (98.62)	4080.85 (98.89)	12951.13 (99.05)	197.04	217.36	842.70
II.	Commission, Exchange & Brokerage	10.92 (0.78)	32.91 (0.80)	104.48 (0.80)	201.37	217.47	856.78
III.	Other Miscellaneous Income (Shares Transfer Fees, Dividend Received, Other Receipts.	8.31 (0.60)	12.92 (0.31)	19.55 (0.15)	55.48	51.32	135.26
	<b>Gross Income</b>	<b>1393.07</b>	<b>4126.68</b>	<b>13075.16</b>	<b>196.23</b>	<b>316.84</b>	<b>838.59</b>
	<b>Types of Expenditure</b>						
I.	Interest Expenditure (Operating Expenditure)	1104.26 (80.96)	3222.75 (81.33)	10987.40 (84.74)	191.85	240.93	895.00
II	Establishment Expenditure	207.12 (15.18)	448.84 (11.33)	1370.54 (10.57)	116.71	205.35	561.71
III.	Miscellaneous Expenditure	52.69 (3.86)	290.77 (7.34)	608.68 (4.69)	451.85	109.33	1055.21
	<b>Total Expenditure</b>	<b>1364.07</b>	<b>3962.36</b>	<b>12966.62</b>	<b>190.48</b>	<b>227.24</b>	<b>850.58</b>
	<b>Profit Margin</b>	<b>29.00</b>	<b>164.32</b>	<b>108.54</b>	<b>466.62</b>	<b>-33.95</b>	<b>274.28</b>
	<b>Cost Concept</b>						
	Cost A	1104.26	3222.75	10987.40	191.85	240.93	895.00
	Cost B	1311.38	3671.59	12357.94	179.98	236.58	842.36
	Cost C	1364.07	3962.36	12966.62	190.48	227.24	850.58
	Profit After: Cost A	288.81	909.93	2087.76	215.06	129.44	622.88
	Cost B	81.69	455.09	717.22	457.09	57.60	777.98
	Cost C	29.00	164.32	108.54	466.62	-33.95	274.28

Source: Computations are based on figures obtained from the annual reports (various years) of SDCCB

Note: Cost A: Operating Expenses; Cost B: Operating and Establishment Expenses; Cost C: Operating, Establishment and Miscellaneous Expenses

It could be readily discerned from Table 5.4 that the income through interest and discounts was the major source of earnings for SDCCB all through the period between mid-eighties and the late nineties. However, the amount of this income was more than

two folds during the early nineties and more than eight folds during the late nineties as against in mid-eighties. Similarly, the income earned by the SDCCB through commission, exchange and brokerage turned out to be more than eight folds during the late nineties as against the mid-nineties. As for the income earned by the SDCCB from other miscellaneous sources, there was around two folds rise in the same during the period between mid-eighties and the late nineties. Very high share of income earned through interest and discounts clearly indicated the better management of cash by SDCCB all through the period between mid-eighties and the late nineties.

During the period between mid-eighties and the late nineties, interest expenses constituted the bulk of total expenses incurred by SDCCB, followed by establishment expenses and expenses incurred by SDCCB on various other miscellaneous items of cost. During the given period, the share of interest expenses tended to rise steadily in total expenses incurred by the SDCCB in the face of decline in share of establishment expenses. On the other hand, miscellaneous expenses showed an increasing share during the period between mid-eighties and the early nineties with a decline in the same thereafter. Interestingly, during the period between mid-eighties and the late nineties, the overall increase in expenditure of SDCCB was marginally higher than increase in its income.

As a matter of fact, income and expenditure pattern of any financial institution forms the basis for judging its operational efficiency. The operational efficiency of SDCCB is evaluated in this study by considering both gross income and various concepts of cost such as cost A, cost B, cost C with a view to analyze the level of profit margin over each of these costs. An analysis into the net income earned by SDCCB over cost A, cost B and cost C during all the three periods of time is also provided in Table 5.4.

The SDCCB was found to have met not only all its expenses (operating, establishment and miscellaneous expenses) during all the three periods under consideration but also seen to have generated significant amount of profit margins after meeting these expenses during these periods. The annual average net profit of SDCCB over cost A was estimated at Rs.288.81 lakhs during the mid-eighties, Rs.909.93 during early nineties, and Rs.2087.76 during late nineties. Thus, the net profit margin of SDCCB after meeting its operating expenses rose by more than six folds during the late nineties as against the mid-eighties. The annual average net profit margins of SDCCB over cost B was estimated at Rs.81.69 lakhs during the mid-eighties, Rs.455.09 lakhs during the early

nineties, and Rs.717.22 lakhs during the late nineties. The profit margin of SDCCB after meeting its all types of expenses was estimated at Rs.29.00 lakhs during the mid-eighties, which rose sharply to Rs.164.32 lakhs during the early nineties with a decline in the same during the late nineties. The profit margin of the SDCCB over cost C was estimated at Rs.108.54 lakhs during the late nineties, which was nearly three folds higher than what it was in mid-eighties. Thus, annual average profit margin of SDCCB is observed to have grown over time. These estimates and observations clearly show a considerable improvement in the operational efficiency of SDCCB during the early- and the late nineties as against in mid-eighties. However, in relative terms, the SDCCB showed higher operational efficiency during the early nineties as compared to late nineties.

#### 5.1.4 Break-even Analysis of Advances and Deposits

An attempt is made to find out the break-even levels of not only advances but also deposits with a view to analyse and understand better the profitability of SDCCB in respect of loan advances and deposits. The estimates on the variable cost incurred and income generated in respect of per hundred rupee of money spent on advances coupled with break-even point of loan advances and deposits during the three periods under consideration are given in Table 5.5.

**Table 4.5: Break Even Level of Advances and Deposits for SDCCB**

Particulars	TE 1986-87 (1)	TE 1992-93 (2)	TE 1998-99 (3)	% Change		
				2 over 1	3 over 2	3 over 1
1. Income per Hundred Rupee Advance (Rs.)	22.30	20.68	28.02	-7.26	35.49	25.65
2. Variable Cost per Hundred Rupee Advance (Rs.)	18.15	16.73	23.85	-7.82	42.56	31.40
3. Margin per Hundred Rupee Advance	4.15	3.95	4.17	-4.82	5.56	0.48
4. Fixed Expenses (Lakh Rs.)	229.95	623.93	1838.98	171.33	194.74	699.73
5. Break Even Point (BEP) for Advance	5547.22	15762.55	44066.35	184.15	179.56	694.39
6. Break Even Point (BEP) for Deposit	7072.94	15470.99	51222.94	118.73	231.09	624.21
7. Actual Advance (Lakh Rs.)	6247.02	19953.40	46656.68	219.41	133.83	646.86
8. Actual Deposit (Lakh Rs.)	7948.62	19595.55	54265.89	146.53	176.93	582.71
9. Percentage of Actual Advance to BEP	112.62	126.59	105.88	13.97	-20.65	-6.74
10. Percentage of Actual Deposit to BEP	112.38	126.66	105.94	14.28	-20.72	-6.44
11. Percentage of BEP to Actual Advance	88.80	78.99	94.45	-	-	-
12. Percentage of BEP to Actual Deposit	88.98	78.95	94.39	-	-	-

The variable expenses and income per hundred rupee of loan advances of SDCCB were noticed to be higher during TE 1998-99 as against in TE 1986-87 and TE 1992-93. However, the margin money per hundred rupee of loan advance remained by and large same/constant during the period between TE 1986-87 and 1998-99 with a marginal decline in the same during the early nineties.



The break-even level of loan advance for SDCCB was estimated at Rs.5547.22 lakhs in TE 1986-87, Rs.15762.55 lakhs in TE 1992-93, and Rs.44066.35 lakhs in TE 1998-99. Thus, the bank granted 12.62 per cent higher loan than the break-even level during TE 1986-87, 26.59 per cent during TE 1992-93, and 5.88 per cent during TE 1998-99. A similar trend was also noticed in respect of break-even level of deposits and actual deposit of the bank. The actual deposit of SDCCB turned out to be 23.38 per cent higher than the estimated break-even level during TE 1986-87, 26.66 per cent during TE 1992-93 and 5.94 per cent during TE 1998-99.

The foregoing analysis is a pointer to the fact that the financial viability of SDCCB had decline during TE 1998-99 as against TE 1986-87 and TE 1998-99 as the break-even levels of both advances deposits were very close to actual advances and deposits during the late nineties as compared to mid-eighties and the early nineties. The financial viability of SDCCB, measured in terms of break-level of advances and deposits, was much higher during the early nineties, whereas the lower viability in this respect was noticed during the late nineties.

#### **5.1.5 Financial Ratio Analysis for SDCCB**

In order to evaluate the operational and functional efficiency of the SDCCB, various ratios have been estimated and these ratios for the three time periods under consideration are brought out in Table 5.6.

The estimates of current ratio revealed that the SDCCB was in a good position to meet its current obligations during all the three periods under consideration since its current assets exceeded its current liabilities by a comfortable margin during all these periods. Nonetheless, mention may be made that its position in respect of meeting its current obligations was relatively better during the late nineties as compared to mid-eighties and the early nineties.

It has been argued that current assets often include slow moving inventory items and other components which may not be very liquid. Therefore, to understand SDCCB's ability to pay its maturing obligations better, acid test ratio has been computed. The assets included for the computation of the acid test ratio were very liquid and encompassed cash, marketable securities and accounts receivables. It could be noticed from Table 5.6 that not only the acid test ratio of SDCCB had declined during the early nineties as against the mid-eighties, but it was also less than 1 during this period. The possible reasons for the acid test ratio of KDCCB to declined during the early nineties as

compared to mid-eighties period could be: (i) short-term bank loan being used by SDCCB to purchase fixed asset, (ii) stretching up of accounts payable by SDCCB, i.e. late payment, (iii) implementation of inventory control system that might have resulted in a reduction in the inventory needed to support dues, and (v) more liberal credit term as dictated by SDCCB to its suppliers. All these factors might have caused a decline in SDCCB' s acid test ratio during the early nineties as compared to mid-eighties period. However, the acid test ratio was again seen to increase in the late nineties and it was estimated at above 1 during this period.

It is to be noted here that a declining liquidity ratio might or might not indicate a deteriorating financial position. Some times, increasing liquidity ratio are not a good sign. Increasing liquidity ratio could mean that the firm is not efficiently managing its current assets. For instance, if a firm faces difficulty in collecting its receivables its liquidity ratio will increase.

In order to measure and better understand profitability of SDCCB, profitability ratios have been computed. Rate of return on assets and return on owner's equity have been considered as the profitability ratios in this study. The SDCCB was found to have shown a substantial improvement in its rate of return on asset during the early nineties period as against the mid-eighties period. However, this rate of return on asset of SDCCB was seen to decline sharply after the early nineties period, so much so that its value stood much below the value noticed during the mid-eighties period. Similarly, a significant improvement in return on owner's (SDCCB) equity was also noticed during the early nineties period as against the mid-eighties period. Nonetheless, like rate of return on assets, the return on owner's equity was also seen drop after the early nineties period. In fact, the value of return on owner's equity was the least during the late nineties period.

Generally, an increase in profitability ratio is considered as a good sign for the financial health of the firm. Nonetheless, this increase could also pose danger if the firm relies too heavily on debt. A further analysis will indicate whether or not a disproportionate increase in debt has caused the improvement in this ratio.

An analysis of debt-asset ratio revealed that, in general, 93 per cent of the SDCCB's assets were financed by debt during all three periods under consideration. The capitalization ratio of SDCCB was found to be 87.6 per cent during the mid-eighties, 87.8 per cent during early nineties, and 89.8 per cent during the late nineties period. In fact, this ratio indicate the proportion of permanent capital that is financed by debt. The sum of

term debt and owner's equity have represented the permanent capital. The capitalization ratio at 87.6 per cent and 87.8 per cent computed for mid-eighties and early nineties periods indicate that there is 12.4 and 12.2 per cent decline in permanent capital of SDCCB before long and medium term lender's capital is impaired during mid-eighties and early nineties periods. Similarly, the capitalization ratio at 89.8 per cent computed for late nineties period indicate that there is 10.2 per cent decline in permanent capital of SDCCB before long and medium term lender's capital is impaired. Thus, permanent capital position of SDCCB has improved considerably during the late nineties period as against the mid-eighties and the early nineties periods.

**Table 5.6: Financial Ratio Analysis for SDCCB**

Financial Ratios	TE 1986-87	TE 1992-93	TE 1998-99
<b>A. Liquidity Ratios</b>			
a. Current Ratio	1.40	1.45	1.73
b. Acid Test Ratio	1.06	0.85	1.05
<b>B. Profitability Ratios</b>			
a. Rate of Return on Asset (%)	0.27	0.58	0.15
b. Return on Owner's Equity	3.74	7.47	2.10
<b>C. Financial Leverage Ratios</b>			
a. Debt-Asset Ratio (%)	92.67	93.28	93.16
b. Capitalization Ratio (%)	87.55	87.83	89.84
c. Fixed Ratio	0.31	0.38	0.31
d. Net Capital Ratio	1.08	1.07	1.08
e. Equity Ratio	0.08	0.07	0.08
f. Equity to Asset Value Ratio	0.07	0.07	0.07
<b>D. Efficiency Ratios</b>			
a. Asset Turnover (times)	0.62	0.71	0.66
b. Accounts Receivable Turnover (times)	16.11	10.25	19.87
c. Days Advances Outstanding (days)	22.72	37.44	18.62
<b>E. Income Ratios</b>			
a. Income-Expenditure Ratio (%)	101.96	104.27	100.78
b. Gross Ratio (%)	98.09	95.91	99.20
c. Operating Ratio (%)	79.16	77.72	84.03
d. Rate of Capital Turnover	0.14	0.15	0.18
<b>F. Other Diagnostic Tools / Ratios</b>			
a. Equalization Multiplier	-	49.02	36.01
b. Income Multiplier	-	6.62	4.73
c. Marginal Efficiency of Capital	0.27	0.58	0.14
d. Debtors / Creditors Ratio	5.37	3.83	5.95

A marginal improvement in fixed ratio of SDCCB is also noticed during the early nineties period as against the late nineties. Since this ratio measures the financial safety of the business, an improvement in the same during the early nineties period could be considered as a good sign for the financial health of SDCCB during this period.

Nonetheless, it is worthwhile to mention that there is hardly any change insofar as net capital ratio, equity ratio and equity to asset value ratio of SDCCB are concerned during the entire period between mid-eighties and the early nineties.

In order to judge as to how efficiently SDCCB manages its assets, efficiency ratios have been computed. Asset turnover, accounts receivable turnover, and days advances outstanding have been considered as efficiency ratios. The asset turnover ratio is seen to be by and large constant during the entire period under consideration, though a marginal improvement in the same is also noticed during the early nineties period as against the mid-eighties or late nineties period. Generally, a decline in asset turnover indicates that the firm employs a proportionately larger level of assets to generate its finances/loan advances. A marked decline in accounts receivable turnover of SDCCB during the early nineties period as against the mid-eighties period and a sharp increase in the same after the early nineties period indicate that receivables of SDCCB had increased more than loan advances during the early nineties period and less than loan advances during the late nineties period. Given a stable credit policy, one would expect receivables to increase when loan advances increase. A further analysis of efficiency ratios shows that around 23 days loans in a year were outstanding during the mid-nineties period, 37 days in a year during the early nineties period and 19 days in a year during the late nineties period. Thus, outstanding loans were the highest during the early nineties period.

The income ratios estimated in terms of income expenditure ratio, gross ratio, operating ratio, and rate of capital turnover indicate higher income generating efficiency of SDCCB during the early nineties period as against the late nineties or mid-eighties period.

As regards the analysis of other diagnostic tools and ratios, both equalization multiplier and income multiplier turned out to be not only positive but quite high too. A relatively higher increase in working capital as compared to increase in share capital during the period between mid-eighties and early nineties and also between early- and the late nineties had led to positive high value of equalization multiplier for SDCCB. This held true for income multiplier too. As for the marginal efficiency of capital, an improvement in this efficiency for SDCCB was noticed during the early nineties period as against the mid-nineties period. Nonetheless, a decline in marginal efficiency of capital of SDCCB was also noticed after the early nineties period. As regards debtors/creditors ratio, as long as this ratio increases there is no danger to the business. However, this ratio

is seen to have declined in the early nineties from its early eighties level and then increased in the late nineties. This means, the SDCCB had set-off the falling trend in this ratio during the late nineties.

The overall analysis drawn from Table 5.6 raises several doubts about the efficient functioning of SDCCB. Though, in general, the financial health of SDCCB appears to have improved during the second half as against the former half of the overall period considered, the more recent period, i.e. the late nineties period, is also seen to be marked with declining profitability ratios, fixed ratio, asset turnover ratio, income-expenditure ratio, equalization and income multiplier, and marginal efficiency of capital of SDCCB. Although the capitalization ratio of SDCCB has given an indication that the permanent capital of this financial institution has increased over time, this increase in permanent capital of SDCCB, however, may not be considered as a sign of improvement in its efficiency since major portion of SDCCB's assets are financed by debt and this dependency on debt has marginally increased during the latter half as against the former half of the overall period. Further, there has hardly been any improvement in the net worth of SDCCB and in fact the share of net worth in total liability of SDCCB has rather declined during the latter half as against the former half of the overall period. The declining share of net worth has caused an increase in debt asset ratio of SDCCB during the latter period. Not only this, the return on owner's equity has drastically fallen during the late nineties period as against the early nineties period. Thus, it could be interpreted that the financial health and economic viability of SDCCB has declined considerably in more recent times, if the increasing trends in several financial ratios are put aside. In fact, the return on owner's equity is a function of how efficiently a firm manages its assets, the net profit margin on sales, and the degree of financial leverage. A decline in returns on equity of SDCCB could, therefore, be considered as a sign of decline in the efficiency of SDCCB in managing its assets and liabilities, and also income and expenditure pattern, especially in more recent times.

## **5.2 Performance Appraisal of BDCCB**

The Buldana District Central Cooperative Bank (BDCCB) came into being in 1962 with its headquarters at Buldana. In due course of time, this bank has shown considerable growth not only in its network of branches but also in its share capital, reserve and other funds, deposits, loan advances, investments and working capital. The

progress of the BDCCB in terms of broad quantitative parameters encompassing the period between 1984-85 and 1998-99 is shown in Table 5.7.

**Table 5.7: Performance Appraisal of Buldana District Central Cooperative Bank (BDCCB)**  
(Amount in Lakh Rupees)

Indicators	TE 1986-87 (1)	TE 1992-93 (2)	TE 1998-99 (3)	% Change		
				2 over 1	3 over 2	3 over 1
2. Membership						
- Individual	1356	1353	-	-	-0.22	-
- Society	1164	1329	-	-	14.18	-
- Total	2520	2682	2786	6.43	3.88	10.56
2. Branches	88	117	121	32.95	3.42	37.50
3. Share Capital	258.59	446.78	982.50	72.78	119.91	279.95
4. Reserve and other Funds	206.11	368.62	2385.86	78.85	547.24	1057.57
5. Deposits	2156.30	5443.78	19998.49	152.46	267.36	827.44
6. Loan Advances	2984.78	5344.31	15716.78	79.05	194.08	426.56
7. Borrowings	968.94	1483.57	3099.31	53.11	108.91	219.87
8. Investments	588.68	1473.15	6043.74	150.25	310.26	926.66
9. Working Capital	4143.39	8367.92	26849.72	101.96	220.86	548.01
10. Profit	12.41	13.69	-1388.89	10.31	-10045.29	-11091.70

Source: Computations are based on figures obtained from the annual reports (various years) of BDCCB

As discernable from Table 5.7, during the period between mid-eighties and the late nineties, the BDCCB showed remarkable growth in its reserve and other funds, deposits, investments and working capital. The major increase in these parameters of BDCCB was seen during the latter half as against the former half of the overall period considered. Nonetheless, the overall increase in its loan advances during the given period of time was seen to be much lower than increase in its deposits. As a result, the credit-deposit (C-D) ratio of this bank had fallen sharply from 1.38 during the mid-eighties to as low as 0.78 by the late nineties. Not only this, the borrowings of this bank tended to increase considerably during the period between early- and the late nineties as against the period between mid-eighties and the early nineties. The most disquieting feature emerging out from Table 5.7 is the profit profile of BDCCB. In fact, during the given period of time, the BDCCB became from a profit making to a loss making institution. The annual profit earned by this bank was estimated at Rs.12.41 lakhs during the mid-eighties period and Rs.13.69 lakhs during the early nineties period. However, after the early nineties period, this bank had incurred heavy losses, so much so that the total loss incurred by this bank was estimated at Rs.13.89 crores. Such a huge amount of loss incurred by this bank during the late nineties period is certainly a matter of serious concern. One of the major reasons for slower pace in loan advances of this bank as compared to its deposits during the latter half of the overall period could be traced in losses incurred by it during this period. It is to be noted that such huge loss incurred by the BDCCD are mainly due to substantial increase in its non performing assets (NPA) or

bad debts or overdue, which have led the fixed expenses of this bank to increase substantially during the late nineties period. However, the point that merits attention is as to how to curb such a huge loss of Rs.14 crores incurred by the BDCCB, which, in fact, might cripple the functioning of this bank in the future.

### **5.2.1 Portfolio Structure of BDCCB**

The asset and liability positions of BDCCB have been analysed for the period between TE 1986-87 and TE 1998-99 and annual average positions of the same during the given period of time are brought out in Tables 5.8 and 5.8 (a).

It could be noted from Tables 5.8 and 5.8 (a) that current assets were the most important assets of BDCCB, accounting for about three fourths of the total asset value during TE 1986-87, two thirds during TE 1992-93, and about 55 per cent of the same during TE 1998-99. These estimates clearly show a declining trend in share of current assets in total asset value of BDCCB during the given period of time. The major item of current assets were in the form of short term advances, branch adjustment and cash in hand and with bank. Fixed assets were the next important assets of the BDCCB, accounting for about 15 per cent of the total asset value during TE 1986-87, 20 per cent during TE 1992-93 and 24 per cent of the same during TE 1998-99. Miscellaneous assets were also seen to account for reasonably high share in total asset value of BDCCB. The share of miscellaneous assets in total asset value of BDCCB tended to increase sharply from 9 per cent in TE 1986-87 to 13 per cent by TE 1992-93, and further to 21 per cent by TE 1998-99. Thus, a steady decline in share of current assets during the period between mid-eighties and the late nineties was more than compensated by a sharp increase in share of fixed and miscellaneous assets with latter showing much sharper increase in total asset value of BDCCB as compared to former during this period. Medium term advances among fixed assets and FD of BDCCB with MSC Bank among miscellaneous assets showed much sharper increase.

The share of current liabilities also showed a steady decline in total liability position of BDCCB in the face of sharp increase in share of term liabilities during the period under consideration. The decline in share of current liabilities was mainly due to sharp decline in share of branch adjustment in total liability position of BDCCB during the given period. On the other hand, an increase in share of term liabilities was chiefly because of sharp increase in share of fixed deposit in total liability position of BDCCB during the same period.

**Table 5.8: Annual Average Asset and Liability Position of BDCCB**

(Amount in Lakh Rupees)

Liabilities / Assets	TE	TE	TE	% Change		
	1986-87 (1)	1992-93 (2)	1998-99 (3)	2 over 1	3 over 2	3 over 1
<b>LIABILITIES</b>						
<b>A. Current Liabilities</b>						
1. Bank Borrowings (Short Term)	617.35	475.34	1314.92	-23.00	176.63	112.99
2. Deposits from Public (Current Deposits)	272.21	735.22	4122.98	170.09	460.78	1414.63
3. Interest and Charges Accrued (Payable)	98.76	94.75	1.82	-4.06	-98.08	-98.16
4. Branch Adjustment	1326.77	2041.88	2265.51	53.90	10.95	70.75
5. Saving Bank Deposits	932.67	2134.42	5245.74	128.85	145.77	462.44
6. Bills for Collection	38.59	82.92	57.80	114.87	-30.29	49.78
7. Loan Waive Off	-	16.67	152.97	-	817.64	-
8. Overdue Interest Reserve (Interest Suspense)	56.59	81.67	471.33	44.32	477.12	732.89
9. Other Current Liabilities & Provisions	335.62	268.92	500.05	-19.87	85.95	48.99
<b>Total Current Liabilities</b>	<b>3678.56</b>	<b>5931.79</b>	<b>14133.12</b>	<b>61.25</b>	<b>138.26</b>	<b>284.20</b>
<b>B. Term Liabilities</b>						
1. Medium Term Liabilities	213.58	512.07	909.92	139.76	77.69	326.03
2. Long Term Liabilities	138.01	496.16	874.48	259.51	76.25	533.64
3. Other Term Liabilities (Fixed Deposits)	951.42	2574.15	10629.77	170.56	312.94	1017.25
<b>Total Term Liabilities</b>	<b>1303.01</b>	<b>3582.38</b>	<b>12414.17</b>	<b>174.93</b>	<b>246.53</b>	<b>852.73</b>
<b>C. Net Worth</b>						
1. Capital (Paid-up)	258.59	446.78	982.51	72.78	119.91	279.95
2. General Reserve & Other Funds	206.11	368.62	2385.86	78.85	547.24	1057.57
3. Other Reserves (Excluding Provisions)	5.64	5.64	5.64	-	-	-
4. Surplus (+) or Deficit (-) in Profit & Loss A/C	12.42	13.69	-1388.89	10.23	-10245.29	-11282.69
<b>Total Net Worth</b>	<b>482.76</b>	<b>834.73</b>	<b>1985.12</b>	<b>72.91</b>	<b>137.82</b>	<b>311.20</b>
<b>Total Liabilities (A+B+C)</b>	<b>5464.33</b>	<b>10348.90</b>	<b>28532.41</b>	<b>89.39</b>	<b>175.70</b>	<b>422.16</b>
<b>ASSETS</b>						
<b>A. Current Assets</b>						
1. Cash in Hand and with Banks	269.43	366.19	1489.59	35.91	306.78	452.87
2. Balance with other Banks	0.13	50.04	107.84	38392.31	115.51	82853.85
3. Marketable Investments (Securities other than those of Subsidiary Companies) and Fixed Deposits with Banks Maturing Within One Year	86.91	127.49	185.96	46.69	45.86	113.97
4. Book Debts including Bills Receivable (Outstanding Not More than 180 Days)	38.59	82.92	57.80	114.87	-30.29	49.78
5. Interest and other Bills Receivable	149.28	425.95	1653.00	185.34	288.07	1007.32
6. Branch Adjustment	1262.81	1792.41	1712.46	41.94	-4.46	35.61
7. Short Term Advances	2242.95	3440.83	9261.64	53.41	169.17	312.92
8. Money at Call & Short Notice	26.67	216.67	-	712.41	-	-
9. Other Current Assets	37.38	125.60	1382.38	236.01	1000.62	3598.18
10. Loan Waive Off	-	331.23	67.57	-	-79.60	-
<b>Total Current Assets</b>	<b>4114.15</b>	<b>6959.33</b>	<b>15918.24</b>	<b>69.16</b>	<b>129.73</b>	<b>286.91</b>
<b>B. Fixed Assets</b>						
1. Premises Less Depreciation (Land & Building)	66.23	86.00	131.46	29.85	52.86	98.49
2. Furniture & Fixture, Fitting, Vehicle, etc.	34.74	48.82	164.15	40.53	236.24	372.51
3. Medium Term Advance	645.64	1030.52	4125.34	59.61	300.32	538.95
4. Long Term Advance	9.86	666.01	1379.55	6654.67	107.14	13891.38
5. Hundi Discount Advance	86.30	206.91	950.26	139.76	359.26	1001.11
<b>Total Fixed Assets</b>	<b>842.77</b>	<b>2038.26</b>	<b>6750.75</b>	<b>141.85</b>	<b>231.20</b>	<b>701.02</b>
<b>C. Miscellaneous Assets</b>						
<b>1. Investments</b>						
a. FD with MSC Bank (Share Investment)	326.77	1037.56	4580.33	217.52	341.45	1301.70
b. Investments with SBI/Commercial Banks	175.00	280.11	1200.16	60.06	328.46	585.81
c. FD with Indira Vikas Patra	-	2.50	67.29	-	2591.60	-
d. FD with Kisan Vikas Patra	-	25.50	10.00	-	-60.78	-
2. Share Capital of PACS	5.64	5.64	5.64	-	-	-
<b>Total Miscellaneous Assets</b>	<b>507.41</b>	<b>1351.31</b>	<b>5863.42</b>	<b>166.32</b>	<b>333.91</b>	<b>1055.56</b>
<b>Total Assets (A+B+C)</b>	<b>5464.33</b>	<b>10349.90</b>	<b>28532.41</b>	<b>89.39</b>	<b>175.70</b>	<b>422.16</b>

Source: Computations are based on figures obtained from the annual reports (various years) of BDCCB



**Table 5.8(a): Changing Shares of Various Items in Total Assets and Liabilities of BDCCB** (in per cent)

Liabilities / Assets	TE 1986-87	TE 1992-93	TE 1998-99
<b>LIABILITIES</b>			
<b>A. Current Liabilities</b>			
1. Bank Borrowings (Short Term)	11.30	4.59	4.61
2. Deposits from Public (Current Deposits)	4.98	7.11	14.45
3. Interest and Charges Accrued (Payable)	1.81	0.92	0.01
4. Branch Adjustment	24.28	19.73	7.94
5. Saving Bank Deposits	17.07	20.62	18.38
6. Bills for Collection	0.71	0.80	0.20
7. Loan Waive Off	-	0.16	0.54
8. Overdue Interest Reserve (Interest Suspense)	1.03	0.79	1.65
9. Other Current Liabilities & Provisions	6.14	2.60	1.75
<b>Total Current Liabilities</b>	<b>67.32</b>	<b>57.32</b>	<b>49.53</b>
<b>B. Term Liabilities</b>			
1. Medium Term Liabilities	3.91	4.95	3.19
2. Long Term Liabilities	2.53	4.80	3.06
3. Other Term Liabilities (Fixed Deposits)	17.41	24.87	37.26
<b>Total Term Liabilities</b>	<b>23.85</b>	<b>34.62</b>	<b>43.51</b>
<b>C. Net Worth</b>			
1. Capital (Paid-up)	4.73	4.32	3.44
2. General Reserve & Other Funds	3.77	3.56	8.36
3. Other Reserves (Excluding Provisions)	0.10	0.05	0.02
4. Surplus (+) or Deficit (-) in Profit & Loss A/C	0.23	0.13	-4.86
<b>Total Net Worth</b>	<b>8.83</b>	<b>8.06</b>	<b>6.96</b>
<b>Total Liabilities (A+B+C)</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>ASSETS</b>			
<b>A. Current Assets</b>			
1. Cash in Hand and with Banks	4.93	3.54	5.22
2. Balance with other Banks	Neg.	0.48	0.38
3. Marketable Investments (Securities other than those of Subsidiary Companies) and Fixed Deposits with Banks Maturing Within One Year	1.59	1.23	0.65
4. Book Debts including Bills Receivable (Outstanding Not More than 180 Days)	0.71	0.80	0.20
5. Interest and other Bills Receivable	2.73	4.12	5.79
6. Branch Adjustment	23.11	17.32	6.00
7. Short Term Advances	41.05	33.25	32.46
8. Money at Call & Short Notice	0.49	2.09	-
9. Other Current Assets	0.68	1.21	4.85
10. Loan Waive Off	-	3.20	0.24
<b>Total Current Assets</b>	<b>75.29</b>	<b>67.24</b>	<b>55.79</b>
<b>B. Fixed Assets</b>			
1. Premises Less Depreciation (Land & Building)	1.21	0.83	0.46
2. Furniture & Fixture, Fitting, Vehicle, etc.	0.64	0.47	0.58
3. Medium Term Advance	11.81	9.96	14.46
4. Long Term Advance	0.18	6.44	4.85
5. Hundi Discount Advance	1.58	2.00	3.33
<b>Total Fixed Assets</b>	<b>15.42</b>	<b>19.70</b>	<b>23.66</b>
<b>C. Miscellaneous Assets</b>			
<b>1. Investments</b>			
a. FD with MSC Bank (Share Investment)	5.98	10.02	16.05
b. Investments with SBI / Commercial Banks	3.20	2.71	4.21
c. FD with Indira Vikas Patra	-	0.02	0.24
d. FD with Kisan Vikas Patra	-	0.25	0.03
2. Share Capital of PACS	0.11	0.06	0.02
<b>Total Miscellaneous Assets</b>	<b>9.29</b>	<b>13.06</b>	<b>20.55</b>
<b>Total Assets (A+B+C)</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Source: Computations are based on figures obtained from the annual reports (various years) of BDCCB

The overall increase in term liability during the given period was also faster as against the current liabilities or net worth of BDCCB. Fixed deposits among term liabilities showed faster increase as compared to medium or long term liabilities, especially during the period between TE 1992-93 and TE 1998-99. Interestingly, net worth showed a declining share in total liability position of BDCCB with decline in this share being more sharp during the period between TE 1992-93 and 1998-99 as against the period between TE 1986-87 and TE 1992-93. This declining share of net worth in total liability position of BDCCB was mainly due to heavy losses being incurred by BDCCB in more recent times.

Portfolio of BDCCB clearly indicated that during the entire period the bank could not make favourable asset-mix as not only the proportions of short term advances and branch adjustment of the current assets had steadily declined but there was also not much distinct difference in proportion of medium term advances of the fixed assets, the proportion of which, in fact, had declined during the period between TE 1986-87 and TE 1992-93 with an increase in the same thereafter. Not only this, the bank could neither reduce the proportion of non earning assets such as cash and bank balance nor able to slow down the growth of less earning assets such as marketable investments, fixed deposits with apex bank and other investments. The bank was also unable to convert its non-earning assets (cash in hand which included cash in the bank) as well as low earning assets (money lying in the current account of other bank and deposits with other banks and marketable investments) into profit earning assets (medium and long term advances and advances for branch building expansion), particularly in more recent times.

It is to be noted that for the sound financial health of any financial institution, there should be increase in proportion of cheaper liabilities and decline in proportion of costlier liabilities. However, the BDCCB, during the entire period, showed rather a reverse trend. During the entire given period, there was a steady decline in proportion of cheaper liabilities of BDCCB like short term bank borrowings, bills for collection, provisions and branch adjustment. On the other hand, the proportion of costlier liabilities of BDCCB like deposits from public and saving bank deposits had grown during the entire period between TE 1986-87 and TE 1998-99. These trends are certainly undesirable insofar as the portfolio management of BDCCB is concerned.

## 5.2.2 Pattern of Loan Advancement of BDCCB

The BDCCB has been extending loans to various societies and for various purposes since its inception. However, in course of time, there has been considerable shift in its pattern of loan advances. The changes in pattern of loan advances of BDCCB encompassing the period between 1984-85 and 1998-99 are brought out in Table 5.9.

**Table 5.9: Annual Average Short, Medium and Long Term Advances to Various Societies By BDCCB**

(Amount in Lakh Rupees)

Loan Advances	TE 1986-87	TE 1992-93	TE 1998-99	Share (%)		
				TE 1986-87	TE 1992-93	TE 1998-99
<b>A. Short Term</b>						
1. Agril. Credit Soc. (SAO) & Individuals	1742.26	1793.72	4628.62	77.68	52.13	49.98
2. Cash Credit to Gram Seva Sahakari Sanstha	44.87	27.71	17.90	2.00	0.81	0.19
3. Salary Earners Societies	189.29	584.25	895.49	8.44	16.98	9.67
4. Marketing Societies	69.35	28.53	115.60	3.09	0.83	1.25
5. Processing Societies	37.46	544.40	1749.44	1.67	15.82	18.83
6. Weavers Cooperative Society	0.39	0.28	0.04	0.02	0.01	Neg.
7. Cash Credit to Village Artisans	26.04	3.47	4.00	1.16	0.10	0.04
8. Cash Credit to Coop. Consumer Stores	3.32	20.70	10.58	0.15	0.60	0.11
9. Labour and Other Societies	0.25	0.20	0.72	0.01	0.01	0.01
10. Industrial Societies	0.54	21.86	5.16	0.02	0.63	0.06
11. Cash Credit to Dairy Societies	2.62	12.55	14.19	0.12	0.36	0.15
12. Urban Credit Society or Urban Bank (Overdraft)	7.08	39.32	129.28	0.31	1.14	1.40
13. Urban Bank (Cash Credit)	21.69	41.16	212.52	0.97	1.20	2.30
14. Cash Credit to Poultry Farm	-	0.31	1.31	-	0.01	0.01
15. Cash Credit to Printing Press	-	0.40	0.67	-	0.01	0.01
16. Composite Loan to Balutedar	-	34.30	148.62	-	1.00	1.60
17. Housing Society (Cash Credit)	-	1.00	-	-	0.03	-
18. Cash Credit to Fisheries	-	0.37	1.12	-	0.01	0.01
19. Non Agricultural Loans to Individuals	95.07	260.41	540.73	4.24	7.57	5.84
20. Dues with Individuals, Society in Liquidation and Other Dues	2.71	25.87	791.66	0.12	0.75	8.55
<b>Total</b>	<b>2242.94</b> (75.15)	<b>3440.81</b> (64.39)	<b>9261.65</b> (58.93)	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>B. Medium Term</b>						
1. Agricultural Loan to Cooperative Societies	564.41	848.75	2737.92	88.19	82.36	66.37
2. Agricultural Loan to Individuals	0.05	Neg.	Neg.	0.01	Neg.	Neg.
3. Non Agricultural Loan to Coop. Societies	44.89	117.13	1122.59	6.95	11.37	27.21
4. Non Agricultural Loan to Individuals	31.29	64.64	264.83	4.85	6.27	6.42
<b>Total</b>	<b>645.64</b> (21.63)	<b>1030.52</b> (19.28)	<b>4125.34</b> (26.25)	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>C. Long Term Loans</b>						
1. Agricultural Loan to Cooperative Societies	-	654.90	1360.21	-	98.33	98.60
2. Agricultural Loan to Individuals	0.01	Neg.	8.19	0.10	-	0.59
3. Non Agricultural Loan to Coop. Societies	9.88	11.11	11.14	99.90	1.67	0.81
4. Non Agricultural Loan to Individuals	-	-	-	-	-	-
<b>Total</b>	<b>9.89</b> (0.33)	<b>666.01</b> (12.46)	<b>1379.54</b> (8.78)	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>D. Hundi Discount Account Advance</b>	<b>86.30</b> (2.89)	<b>206.91</b> (3.87)	<b>950.26</b> (6.04)			
<b>Grand Total (A+B+C+D)</b>	<b>2984.77</b>	<b>5344.25</b>	<b>15716.79</b>			

Source: Computations are based on figures obtained from the annual reports (various years) of BDCCB

A critical analysis drawn from Table 5.9 reveals a steady decline in share of short term loans in total loan advances of BDCCB during the period between mid-eighties and late nineties. On the other hand, the shares of medium and long term loans in total loan advances of BDCCB have grown considerably during the same period. This is a clear indication of shift in pattern of loan advances of BDCCB in favour of medium and long term purposes.

Although the ST loan advances of BDCCB to agricultural credit societies has grown by more than two folds during the period between mid-eighties and the late nineties, this period is also seen to be marked with a sharp decline in share of ST loans of BDCCB to agricultural credit societies, which has come down from 78 per cent of the total ST loan advances of BDCCB during TE 1986-87 to as low as 50 per cent of the same by TE 1998-99. On the other hand, the share of ST loans of BDCCB to processing societies has grown from a meagre 2 per cent of the total ST loans during TE 1986-87 to as high as 19 per cent of the same by TE 1998-99. Similarly, the share of MT agricultural loans of BDCCB to cooperative societies has also come down from as high as 88 per cent during TE 1986-87 to 66 per cent by TE 1998-99. Contrary to this, the shares of MT non agricultural loans of BDCCB to cooperative societies and to individuals have grown from 7 per cent to 27 per cent and from 5 per cent to above 6 per cent, respectively, during the same period. However, the long term agricultural loans of BDCCB to cooperative societies have remained unaffected and these loans have accounted for the major share (about 98 per cent) in total LT advances of BDCCB during the period between early- and the late nineties. It is to be noted that during the mid-eighties period the BDCCB was extending its LT loans only to non-agricultural cooperative societies. Nonetheless, after the mid-eighties period, the BDCCB had shifted its pattern of LT advances mainly to agricultural cooperative societies.

These observations are clearly symptomatic of the fact that not only the pattern of ST and MT loans but LT loans too have changed over time with LT loans of BDCCB showing major changes after the mid-eighties period. Nonetheless, the pattern of LT loans of BDCCB remained unaffected during the period between early- and the late nineties. Further, while the shift in ST loans of BDCCB during the entire period between mid-eighties and the late nineties is seen in favour of processing societies, the shift in MT loans, on the other hand, is noticed more in favour non-agricultural cooperative societies.

Nonetheless, the decline in share of ST and MT loan advances of BDCCB to agricultural credit societies and for various agricultural purposes is certainly a matter of concern due mainly to the fact that these loans not only help the farmers to enhance their crop production but also in terms of increasing their income levels. This situation certainly needs to be altered and corrective measures need to be applied to safeguard the interest of farming community.

### 5.2.3 Income and Expenditure Pattern of BDCCB

Like SDCCB, the BDCCB had also generated major sources of its income through interest and discount that it earned from loan advances and also from deposits kept with other banks and financial institutions. The other minor sources of income for BDCCB were commission, exchange and brokerage on services rendered by it to the customers, share transfer fee, dividend receipts and other receipts. As for the expenditure, interest expenses accounted for the major share in total expenses of BDCCB. This was followed by miscellaneous and establishment expenses. The annual average income of the BDCCB from different sources coupled with its expenditure on different items of cost are brought out in Table 5.10.

**Table 4.10: Annual Average Income and Expenditure Pattern of BDCCB**

(Amount in Lakh Rupees)

	Particulars	TE 1986-87 (1)	TE 1992-93 (2)	TE 1998-99 (3)	% Change		
					2 over 1	3 over 2	3 over 1
	<b>Types of Income</b>						
I.	Interest and Discount	454.80 (94.00)	920.55 (94.81)	3446.99 (95.34)	102.40	274.45	657.91
II.	Commission, Exchange & Brokerage	24.20 (5.00)	39.08 (4.03)	137.45 (3.80)	61.49	251.71	467.98
III.	Other Miscellaneous Income (Shares Transfer Fees, Dividend Received, Other Receipts.	4.81 (1.00)	11.29 (1.16)	31.17 (0.86)	134.72	176.09	548.02
	<b>Gross Income</b>	<b>483.81</b>	<b>970.92</b>	<b>3615.61</b>	<b>100.68</b>	<b>272.39</b>	<b>647.32</b>
	<b>Types of Expenditure</b>						
I.	Interest Expenditure (Operating Expenditure)	312.65 (66.32)	630.64 (65.88)	2514.03 (50.24)	101.71	298.65	704.10
II.	Establishment Expenditure	90.64 (19.23)	191.34 (19.99)	552.64 (11.04)	111.10	188.83	509.71
III.	Miscellaneous Expenditure	68.11 (14.45)	135.26 (14.13)	1937.83 (38.72)	98.59	1332.67	2745.15
	<b>Total Expenditure</b>	<b>471.40</b>	<b>957.24</b>	<b>5004.50</b>	<b>103.06</b>	<b>422.81</b>	<b>961.62</b>
	<b>Profit Margin</b>	<b>12.41</b>	<b>13.68</b>	<b>-1388.89</b>	<b>10.31</b>	<b>-10045.29</b>	<b>-11091.70</b>
	<b>Cost Concept</b>						
	Cost A	312.65	630.64	2514.03	101.71	298.65	704.10
	Cost B	403.29	821.98	3066.67	103.82	273.08	660.41
	Cost C	471.40	957.24	5004.50	103.06	422.81	961.62
	Profit After: Cost A	171.16	340.28	1101.58	98.81	223.73	543.60
	Cost B	80.52	148.94	548.94	84.97	268.56	581.74
	Cost C	12.41	13.68	-1388.89	10.31	-10045.29	-11091.70

Source: Computations are based on figures obtained from the annual reports (various years) of BDCCB

Note: Cost A: Operating Expenses; Cost B: Operating and Establishment Expenses; Cost C: Operating, Establishment and Miscellaneous Expenses

It could be readily discerned from Table 5.10 that income through interest and discount was the major source of earnings of BDCCB during the entire period between 1984-85 and 1998-99, accounting for about 94-95 per cent of the total income of this bank during this period. The income earned by BDCCB through commission, exchange and brokerage was found to be 4-5 per cent of its total income during the same period. The share of other miscellaneous income turned out to be only 1 per cent of the total income of BDCCB. The BDCCB showed nearly two folds rise in its total income during the early nineties period and more than six folds in late nineties period as against the mid-eighties period. Obviously, the major increase in total income of BDCCB from various sources was during the period between early- and the late nineties as against the period between mid-eighties and the early nineties. Among various sources of income, income earned by BDCCB through interest and discount grew at faster rate as compared to other sources of income.

During the entire period between mid-eighties and the late nineties, interest expenses accounted for the lion's share in total expenses of BDCCB, followed by miscellaneous and establishment expenses. However, during the given period, while interest expenses showed a falling share in total expenses of BDCCB, the expenses of BDCCB on various miscellaneous items were found to rise in total expenses of this bank, especially during the period between early- and the late nineties. Like interest expenses, the establishment expenses also showed a falling share in total expenses of BDCCB, particularly after the early nineties period. The major reason for the miscellaneous expenses to show a rising trend after the early nineties period was the inclusion of NPAs of BDCCB, which had grown tremendously during the late nineties period as against the mid-eighties and early nineties period. Due to sharp increase in NPAs, this bank had incurred heavy losses to the tune of around Rs.14 crores during the late nineties period. Although BDCCB had earned an annual average profit of Rs.12-13 lakhs during the period between mid-eighties and the early nineties, this amount of profit turned out to be too meagre when compared with losses incurred by it during the late nineties period.

An analysis, using various components of costs, showed positive returns/profit over cost A and cost B, which included interest expenses and interest plus establishment expenses, respectively. Nonetheless, when the profit of the bank over cost C was computed, which, apart from interest and establishment expenses, also included

miscellaneous expenses, the bank became from a profit making to a loss making institution, particularly during the late nineties period. Thus, the operational efficiency of the bank during the latter half was seen to be adversely affected and the bank became an inefficient one during this period.

#### 5.2.4 Break-even Analysis of Advances and Deposits

The estimates relating to variable cost incurred and income generated per hundred rupee of loan advance coupled with break-even levels of loan advances and deposits during the three periods under consideration are provided in Table 5.11.

The variable expenses and income per hundred rupee of loan advances of BDCCB were seen to have grown steadily during the period between TE 1986-87 and TE 1998-99. Similarly, the margin money per hundred rupee of loan advance of BDCCB has also grown steadily over time. The major increase in income and variable cost per hundred rupee of loan advance is seen during the period between early- and the late nineties as against the period between mid-eighties and the early nineties. On the other hand, margin money of this bank per hundred rupee of loan advance grew relatively more sharply during the first half as compared to second half of the overall period considered.

**Table 5.11: Break Even Level of Advances and Deposits for BDCCB**

Particulars	TE 1986-87 (1)	TE 1992-93 (2)	TE 1998-99 (3)	% Change		
				2 over 1	3 over 2	3 over 1
1. Income per Hundred Rupee Advance (Rs.)	16.21	18.17	23.00	12.09	26.58	41.88
2. Variable Cost per Hundred Rupee Advance (Rs.)	11.38	12.60	17.15	10.72	36.11	50.70
3. Margin per Hundred Rupee Advance	4.83	5.57	5.85	15.32	5.03	21.12
4. Fixed Expenses (Lakh Rs.)	131.74	283.76	2308.37	115.39	713.49	1652.22
5. Break Even Point (BEP) for Advance	2739.93	5105.54	39200.95	86.34	667.81	1330.73
6. Break Even Point (BEP) for Deposit	1973.44	5197.12	49568.28	163.35	853.76	2411.77
7. Actual Advance (Lakh Rs.)	2984.78	5344.31	15716.78	79.05	194.08	426.56
8. Actual Deposit (Lakh Rs.)	2156.30	5443.78	19998.49	152.46	267.36	827.44
9. Percentage of Actual Advance to BEP	108.94	104.68	40.09	-4.26	-64.59	-68.85
10. Percentage of Actual Deposit to BEP	109.27	104.75	40.34	-4.52	-64.41	-68.93
11. Percentage of BEP to Actual Advance	91.80	95.53	249.42	-	-	-
12. Percentage of BEP to Actual Deposit	91.52	95.47	247.86	-	-	-

The break-even level of loan advances for BDCCB was estimated at Rs.2739.93 lakhs in TE 1986-87, Rs.5105.54 lakhs in TE 1992-93, and Rs.39200.95 lakhs in TE 1998-99. On the other hand, the actual loan advances of this bank were Rs.2984.79 lakhs in TE 1986-87, Rs.5344.31 lakhs in TE 1992-93, and Rs.15716.78 lakhs in TE 1998-99. Thus, the bank granted 8.94 per cent higher loan than the break-even level during TE 1986-87 and 4.68 per cent during TE 1992-93. However, during TE 1998-99, the actual loan advance of BDCCB was much lower than the breakeven level and a deficit in this loan to the tune of around 60 per cent was noticed during this period. A similar trend was

also noticed in respect of break-even level of deposits and the actual deposit of the bank. The actual deposit of BDCCB turned out to be 9.27 per cent higher than the estimated break-even level during TE 1986-87 and 5.23 per cent during TE 1992-93 with a deficit in this deposit estimated at 60 per cent during TE 1998-99.

The foregoing observations are pointer to the fact that the financial viability of BDCCB had declined sharply during the late nineties period as against the mid-eighties and early nineties periods. The major reason for higher break-even levels of loan advances and deposits could be traced in excessively high fixed expenses incurred by BDCCB during the late nineties period. As pointed out earlier, the BDCCB showed very high levels of NPAs during the late nineties period and these NPAs were included in the fixed expenses of BDCCB. This had obviously led the fixed expenses of this bank to increase substantially, which in turn had led to very high break-even levels of loan advances and deposits of BDCCB. Obviously, the viability of BDCCB, measured in terms of break-even levels of advances and deposits, was adversely affected during the late nineties period. The gaps between break-even levels of loan advances and deposits and the actual loan advances and deposits are estimated to be so high that it may not be possible for this bank to bridge these gaps by attracting enough deposits to make its loan advances, at least for several years in the near future.

### **5.2.5 Financial Ratio Analysis for BDCCB**

Five different categories of ratios have been estimated with a view to analyse the operational and functional efficiency of BDCCB and these ratios for the three time periods under consideration are brought out in Table 5.12.

The estimates of current ratio revealed that the BDCCB was in a good position to meet its current obligations during all the three periods under consideration since its current assets exceeded its current liabilities during all the three given periods. As for the acid test ratio of BDCCB, a steady increase in the same was noticed during the given periods of time. However, mention may be made here that this type of increasing liquidity ratio (acid test ratio in particular) may not be a good sign for BDCCB as it could also mean that the BDCCB is not efficiently managing its current assets if it is facing difficulty in collecting its bills receivables.

As for the profitability ratios, the trend discernable from Table 5.12 is certainly very discouraging. During the period between mid-eighties and the late nineties, not only the BDCCB has shown a sharp decline in its rate of return on assets but its return on



assets is also seen to be negative during the late nineties period. Added to this, the return on equity of BDCCB is also seen to have declined sharply during the given period of time, so much so that the estimated rate of return on the equity of BDCCB is found to be negative during the late nineties period. Thus, not only the rate of return on asset and return on owner's equity have shown a falling trend but they have also acquired a negative value during the late nineties period.

**Table 5.12: Financial Ratio Analysis for BDCCB**

Financial Ratios	TE 1986-87	TE 1992-93	TE 1998-99
<b>A. Liquidity Ratios</b>			
a. Current Ratio	1.13	1.18	1.14
b. Acid Test Ratio	0.98	1.10	1.48
<b>B. Profitability Ratios</b>			
a. Rate of Return on Asset (%)	0.24	0.13	-4.37
b. Return on Owner's Equity	2.67	1.62	-67.77
<b>C. Financial Leverage Ratios</b>			
a. Debt-Asset Ratio (%)	91.13	91.81	93.00
b. Capitalization Ratio (%)	0.73	0.81	0.86
c. Fixed Ratio	0.64	0.56	0.55
d. Net Capital Ratio	1.10	1.09	1.08
e. Equity Ratio	0.10	0.09	0.08
f. Equity to Asset Value Ratio	0.09	0.08	0.07
<b>D. Efficiency Ratios</b>			
a. Asset Turnover (times)	0.55	0.52	0.55
b. Accounts Receivable Turnover (times)	12.80	8.66	5.71
c. Days Advances Outstanding (days)	28.62	42.85	67.73
<b>E. Income Ratios</b>			
a. Income-Expenditure Ratio (%)	102.75	101.37	81.66
b. Gross Ratio (%)	97.35	98.65	131.86
c. Operating Ratio (%)	64.58	64.95	69.00
d. Rate of Capital Turnover	0.09	0.09	0.13
<b>F. Other Diagnostic Tools / Ratios</b>			
a. Equalization Multiplier	-	22.45	34.50
b. Income Multiplier	-	8.67	6.99
c. Marginal Efficiency of Capital	0.32	0.16	-4.46
d. Debtors / Creditors Ratio	3.02	3.81	6.29

An analysis of debt-asset ratio revealed that about 91-93 per cent of the BDDCB's assets were financed by debt during all the periods under consideration. The capitalization ratio of BDCCB was found to be very low and it was estimated at less than 1 per cent during all the three time periods under consideration. This is a clear indication of very weak permanent capital position of BDCCB during the given period. The BDCCB is seen to be completely dependent on lender's capital. The extent of this dependency on lender's capital is seen to be 99 per cent as BDCCB's own capital stands at only 1 per cent of the total capital meant for finances.

The financial safety of the business of BDCCB, measured in terms of fixed ratio, has also come down during the given period. Similarly, net capital ratio, equity ratio and

equity to asset value ratio of BDCCB have also marginally fallen during the given period of time.

As for the efficiency ratios, although the estimated value of asset turnover of BDCCB has, by and large, remained unaffected during the given period between mid-eighties and the late nineties, the estimated value of accounts receivable turnover is seen to be adversely affected with the passage of time. The estimated value of accounts receivable turnover of BDCCB has steadily declined from 12.80 times during the mid-eighties to 8.66 times during the early nineties, and further to 5.71 times by the late nineties. Not only this, the estimated number of days of loans outstanding has shown a reverse trend over time, which has grown from 29 days in a year during the mid-eighties to 43 days in a year during the early nineties, and further to 68 days in a year during the late nineties. Thus, the efficiency of BDCCB in managing its assets has come down sharply during the period between mid-eighties and the late nineties.

The income ratios estimated in terms of income-expenditure ratio, gross ratio, operating ratio and rate of capital turnover indicate lower income generating capacity of BDCCB during the late nineties period as against the mid-eighties and the early nineties period.

As regards the analysis of other diagnostic tools and ratios, the estimated value of equalization multiplier shows higher increase in working capital in relation to share capital of BDCCB during the period between early- and the late nineties. On the other hand, the estimated value of income multiplier reveals lower increase in working capital in relation to gross income of BDCCB during the same period. Thus, while equalization multiplier of BDCCB has grown during the latter period, there has been declining trend in its income multiplier during the same period.

The marginal efficiency of capital of BDCCB has also come down sharply in course of time, so much so that its value is estimated to be negative during the late nineties period. Interestingly, the debtor/creditor ratio of BDCCB has increased sharply during the given period of time. This is perhaps the only positive feature of BDCCB.

The overall analysis drawn from Table 5.12 reveals inefficient functioning of BDCCB during the early nineties period in general and during the late nineties period in particular. In fact, the mounting NPAs or overdue or bad debt of BDCCB during the late nineties period have adversely affected majority of the estimated ratios during this period. Not only the permanent capital position of BDCCB is noticed to be weak during the late

nineties period but its dependency on debt for its finances has also sharply increased during this period. Further, there has hardly been any improvement in the net worth of BDCCB and in fact the share of net worth in total liability of BDCCB is noticed to have sharply declined during the period between mid-eighties and the late nineties. The declining share of net worth has caused an increase in debt asset ratio of BDCCB during this period. Added to this, the return on equity of BDCCB has not only drastically fallen but it has become negative during the late nineties period as against the mid-eighties or early nineties period. The rate of return on asset and marginal efficiency of capital of BDCCB have also shown a drastic fall during the period between early- and the late nineties as against the period between mid-eighties and the early nineties.

All these foregoing disquieting trends clearly indicate non-viable functioning of BDCCB during the more recent times. Further, the negative value of return on equity of BDCCB noticed during the late nineties period clearly indicate inefficiency of BDCCB in managing its assets and liability, and also income and expenditure pattern.

Undoubtedly, both SDCCB and BDCCB have shown a decline in their financial health and economic viability during the late nineties as against the early nineties period. Nonetheless, this deterioration in financial health witnessed particularly during the second half of the overall period is seen to be more pronounced in the case of BDCCB as not only various financial ratios estimated for this bank have declined during this period but majority of them are seen to be beset with negative values, especially during the late nineties period.

The mounting NPAs or overdue of BDCCB, noticed during the late nineties period, have grossly affected the functioning of this bank. They have not only affected various estimated financial ratios but also break-even levels of loan advances and deposits of this bank. Because of substantially high NPAs, the fixed expenses of BDCCB have been adversely affected, which in turn have grossly affected the break-even levels of loan advances and deposits of this bank, so much so that there has been huge gap between the break-even levels of loan advances and deposits and the actual loan advances and deposits. The deficit between actual and the break-even levels are so high (about 60 per cent) that it is well-nigh difficult for BDCCB to overcome this situation. The mounting NPAs of BDCCB have also affected the profit profile of this bank during the late nineties period. The proportions of actual advance and deposits to their break-even levels of SDCCB have also come down during the latter half as against the former half of

the overall period considered. Nonetheless, mention may be made here that there is no deficit between actual and break-even levels of loan advances and deposits of SDCCB during this period. Thus, while BDCCB has shown gross inefficiency in its functioning during the latter half of the overall period, the SDCCB, on the other hand, showed only deterioration in its financial health during this period.

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## **CHAPTER – VI**

### **GENERAL FEATURES AND CREDIT EXPERIENCES OF SAMPLED FARMERS**

There are several positive and negative features of the credit institutions operating in the forward and backward sampled districts of Maharashtra. The presence of these credit institutions have not only influenced the socio-economic and other features of the sampled farmers but also their credit experiences with these institutions. This chapter, therefore, places an onus on analysing and comparing the broad quantitative and qualitative features/parameters of the members of credit cooperatives and the beneficiaries of commercial banks operating in the sampled districts. The quantitative parameters of the members of credit cooperatives and beneficiaries of commercial banks that are brought into comparison mainly include their family particulars, education level, land use and cropping pattern, general borrowing position, sources of loan for crop and other enterprises, etc. On the other hand, the qualitative parameters have mainly encompassed the responses of these members/beneficiaries of credit cooperatives / commercial banks, particularly with respect to their degree of awareness about the facilities being extended by these credit institutions and the constraints perceived/faced by them in availing such facilities. This chapter also attempts to evolve strategies and measures for the overall improvement and development of credit institutions, aside from seeking beneficiary/member producer's suggestions and responses for the smooth functioning of these credit institutions. With a view to present the findings of field level survey encompassing sampled farmers, this chapter is broadly divided into two sub sections. While the first section compares the credit experiences and other characteristics of the sampled members of credit cooperatives with that of the beneficiaries of commercial banks drawn from the forward district of Sangli, the second section is completely devoted to bring into focus similar kind of comparisons for sampled farmers drawn from the backward district of Buldana. The basic idea of this chapter is, therefore, to evaluate the functioning of various credit institutions operating at the grass root level, particularly in terms of the facilities extended by them to their members/beneficiaries and the constraints faced by them in extending such facilities. This will help in analysing and

identifying strength, weaknesses, opportunities and threats to these credit institutions operating in the sampled districts.

### **6.1 Results of Field Surveys Conducted in Sangli District**

Undoubtedly, in due course of time the SDCCB has shown phenomenal growth in its various performance indicators. Similarly, the commercial banks operating in Sangli district have also expanded their network of branches over time. However, the questions that may merit consideration are: how far the societies affiliated to SDCCB and various commercial banks are successful in infusing the farmers into the adoption of modern/scientific techniques of farming and how efficiently they have come forward to render various types of facilities to their member farmers/beneficiaries? What are the constraints perceived by these societies (PACS)/commercial banks in rendering various facilities and what corrective measures need to be applied to infuse them to function efficiently? What are the motivational forces, opportunities, strengths, weaknesses and potential threats to these credit institutions in delivering their services effectively and efficiently? No discussion on credit sector development will be complete without going into these very many questions. This section, therefore, compares the credit experiences of sampled members of credit cooperatives with that of the beneficiaries of commercial banks. It also compares the responses of sampled farmers with respect to the facilities being extended by these institutions and the problems faced by them to avail such facilities. Besides, it also compares the family particulars, educational status, land holding and cropping pattern, etc. of the sampled farmers with a view to assess their general socio-economic characteristics.

#### **6.1.1 Family Size and Composition of Sampled Farmers of Sangli District**

The information relating to average size of family and their age-wise and sex-wise break-up encompassing various categories of sampled members of credit cooperatives and the beneficiaries of commercial banks of Sangli district is presented in Table 6.1.

It could be readily discerned from Table 6.1 that the members of credit cooperatives had lower family size as compared to the beneficiaries of commercial banks. The average size of a family consisted of around five persons in the case of members of credit cooperatives and nearly seven persons insofar as the beneficiaries of commercial banks are concerned. In both the cases, the male members in the family dominated and their proportion was seen to be 55 per cent of the total family size.

**Table 6.1: Details of Family Particulars of Sampled Farmers in Sangli District**

Household Category	Male				Female				Total family members
	Less Than 5 years	5-15 years	More than 15 years	Total	Less than 5 years	5-15 years	More than 15 years	Total	
<b>Members of Credit Cooperatives</b>									
Small	0.25	0.50	1.91	2.67	0.08	0.42	1.75	2.25	4.91
Medium	0.20	0.60	2.40	3.20	0.60	0.40	2.00	3.00	6.20
Large	0.67	1.00	1.67	3.33	-	-	1.67	1.67	5.00
Overall	0.30	0.60	2.00	2.90	0.20	0.35	1.80	2.35	5.25
<b>Beneficiaries of Commercial Banks</b>									
Small	0.47	0.53	2.40	3.40	-	0.47	2.00	2.47	5.87
Medium	0.27	0.25	3.50	4.75	1.00	0.75	3.25	5.00	9.75
Large	1.00	1.00	2.00	4.00	-	3.00	2.00	5.00	9.00
Overall	0.46	0.50	2.60	3.70	0.20	0.65	2.25	3.10	6.80

Further, in both the cases, the medium category of farmers were seen to have larger family size as compared to other categories of sampled farmers. Interestingly, the members of credit cooperatives as well as the beneficiaries of commercial banks showed higher proportion of their family members in the above 15 years age category. This held true among both male and female members. This is an indication of larger proportion of workforce available with the family.

### 6.1.2 Educational Status of the Sampled Farmers of Sangli District

The information relating to educational status of various categories of members of family of both members of credit cooperatives and beneficiaries of commercial banks is brought out in Table 6.2.

**Table 6.2: Education Levels of Sampled Farmers in Sangli District**

Category	Yet to go school	Illite-rate	Lite-rate	Literate											
				Primary		Middle		H.S.		Inter		Graduate & above		Total	
				M	F	M	F	M	F	M	F	M	F	M	F
<b>Members of Credit Cooperatives</b>															
Small	0.33	0.50	4.08	0.25	0.67	0.50	0.50	0.42	0.33	0.50	0.25	0.58	0.08	2.25	1.83
Medium	0.80	0.40	5.00	0.20	0.40	0.80	0.40	1.00	0.80	0.40	0.20	0.60	0.20	3.00	2.00
Large	0.67	1.00	3.33	0.33	0.33	0.67	0.33	1.33	0.33	-	-	-	-	2.33	1.00
Overall	0.50	0.55	4.20	0.25	0.55	0.60	0.45	0.70	0.45	0.40	0.20	0.50	0.10	2.45	1.75
<b>Beneficiaries of Commercial Banks</b>															
Small	0.47	1.20	4.20	0.60	0.53	0.60	0.60	0.67	0.47	0.60	0.07	0.07	-	2.53	1.67
Medium	2.00	0.50	7.25	-	0.50	0.25	1.00	1.50	1.25	1.50	1.00	-	-	3.50	3.75
Large	1.00	1.00	7.00	3.00	2.00	-	2.00	-	-	-	-	-	-	3.00	4.00
Overall	0.80	1.05	4.95	0.60	0.60	0.50	0.75	0.80	0.60	0.75	0.25	0.05	-	2.75	2.20

It could be seen from Table 6.2 that the members of credit cooperatives had more literate members in their family as compared to beneficiaries of commercial banks. This held particularly true in the case of members who had attained education above graduation. The male literacy was also seen to be higher among the members of credit cooperatives as against the beneficiaries of commercial banks.

Interestingly, the literacy levels among the medium category of sampled farmers of credit cooperatives and both medium and large categories of sampled farmers among the beneficiaries of commercial banks were seen to be higher as compared to other categories of sampled farmers. This is an indication of the fact that the medium category of farmers among the members of credit cooperatives and medium and large categories of farmers among the beneficiaries of commercial banks were better equipped to take effective managerial decisions as compared to other categories of sampled farmers.

### **6.1.3 Land Use Pattern of the Sampled Farmers of Sangli District**

The economic and social progress of the farmers largely depend on the size of their operational holdings. Keeping in view the significance of land resources, it was thought essential to show the land use pattern of the sampled farmers belonging to both members of credit cooperatives and the beneficiaries of commercial banks. The land use pattern of these sampled farmers is presented in Table 6.3.

In the case of members of credit cooperatives, the average size of operational holding stood at 1.03 hectares for small category, 2.63 hectares for medium category and 6.08 hectares for the large category (Table 6.3). In general, the average size of operational holding for the average category of farmer of the members of credit cooperatives stood at 2.19 hectares. Among the members of credit cooperatives, the intensity of cropping was seen to be higher on the farms of medium category of farmers, followed by small and large categories of farmers. In general, the intensity of cropping on the average size of farm of the members of credit cooperatives was worked out at 134.20 per cent. Further, the cropping intensity of unirrigated area was higher as against the irrigated area, particularly in the case of small and large categories of members of credit cooperatives. All the categories of sampled farmers among the members of credit cooperatives showed higher proportion of their operational land holding under *kharif* season as against the *rabi* season. On the other hand, summer cropped area and area under vegetables and orchard turned out to be negligible for these sampled farmers. The



members of the credit cooperatives also showed reasonable area under perennial crops. The perennial crops were seen to be grown on irrigated land.

**Table 6.3: Land Holding Account of Sampled Farmers in Sangli District (in Hectares)**

Particulars	Small			Medium			Large			Overall		
	IR	UIR	Total	IR	UIR	Total	IR	UIR	Total	IR	UIR	Total
<b>Members of Credit Cooperatives</b>												
Owned land	0.64	0.39	1.03	0.94	1.69	2.63	2.07	7.02	6.08	0.93	1.26	2.19
Leased in land	-	-	-	-	-	-	-	-	-	-	-	-
Leased out land	-	-	-	-	-	-	-	-	-	-	-	-
Operational Holding	0.64	0.39	1.03	0.94	1.69	2.63	2.07	4.02	6.08	0.93	1.26	2.19
Uncultivated land	0.01	0.02	0.03	-	0.02	0.02	-	0.02	0.02	0.004	0.02	0.02
Barren land	0.01	0.01	0.02	-	0.07	0.07	0.33	0.40	0.73	0.06	0.08	0.14
Land under misc. tree & crops	0.01	-	0.01	-	-	-	-	0.07	0.07	0.003	0.01	0.01
Net area cultivated	0.62	0.36	0.98	0.62	1.60	2.22	1.73	3.53	5.27	0.79	1.15	1.93
Area Under Kharif	0.27	0.40	0.67	0.44	1.60	2.04	0.47	4.07	4.53	0.34	1.25	1.59
Area Under Rabi	0.19	0.09	0.28	0.26	0.52	0.78	0.60	0.87	1.47	0.27	0.31	0.58
Area Under Summer	0.01	-	0.01	0.02	-	0.02	-	-	-	0.01	-	0.01
Area Under Perennial Crops	0.30	-	0.30	0.44	-	0.44	0.73	-	0.73	0.40	-	0.40
Gross Cropped Area	0.77	0.50	1.27	1.16	2.12	3.28	1.80	4.93	6.73	1.02	1.57	2.59
Cropping Intensity (%)	124.19	138.89	129.59	187.10	132.50	147.75	104.05	139.66	127.70	129.11	136.52	134.20
Area Under Orchard	0.02	-	0.02	-	-	-	-	-	-	0.01	-	0.01
Area Under Vegetables	0.01	-	0.01	0.02	-	0.02	-	-	-	0.01	-	0.01
<b>Beneficiaries of Commercial Banks</b>												
Owned land	0.92	0.09	1.01	1.54	1.29	2.83	1.40	6.60	8.00	1.06	0.66	1.72
Leased in land	0.04	-	0.04	-	-	-	-	-	-	0.03	-	0.03
Leased out land	-	-	-	-	-	-	-	-	-	-	-	-
Operational Holding	0.96	0.09	1.05	1.54	1.29	2.83	1.40	6.60	8.00	1.10	0.65	1.75
Uncultivated land	0.04	-	0.04	0.05	0.02	0.07	-	-	-	0.04	Neg.	0.04
Barren land	0.01	-	0.01	0.03	0.25	0.28	-	1.60	1.60	0.01	0.13	0.14
Land under misc. tree & crops	-	0.01	0.01	-	-	-	-	-	-	-	0.01	0.01
Net area cultivated	0.91	0.08	0.99	1.47	1.01	2.48	1.40	5.00	6.40	1.05	0.51	1.56
Area Under Kharif	0.57	0.15	0.72	0.43	1.11	1.54	0.60	5.40	6.00	0.55	0.60	1.15
Area Under Rabi	0.45	-	0.45	0.45	-	0.45	1.00	-	1.00	0.48	-	0.48
Area Under Summer	0.01	-	0.01	-	-	-	0.01	-	0.01	0.01	-	0.01
Area Under Perennial Crops	0.27	-	0.27	0.94	-	0.94	0.40	-	0.40	0.41	-	0.41
Gross Cropped Area	1.30	0.15	1.45	1.81	1.11	2.92	2.00	5.40	7.40	1.44	0.60	2.04
Cropping Intensity (%)	142.86	187.50	146.46	123.13	109.90	117.74	142.86	108.00	115.63	137.14	117.65	130.77
Area Under Orchard	0.10	-	0.10	0.04	-	0.04	0.40	-	0.40	0.10	-	0.10
Area Under Vegetables	0.01	-	0.01	-	-	-	-	-	-	0.01	-	0.01

As regards the beneficiaries of commercial banks, the average size of operational holding was estimated at 1.05 hectares for the small category, 2.83 hectares for the medium category, and 8.00 hectares for the large category with an overall average size of operational holding estimated for the average category of farmer at 1.75 hectares. Among the beneficiaries of commercial banks, the intensity of cropping was found to be higher

on the farms of small category, followed by medium and large categories. The intensity of cropping on the average size of farm of the beneficiaries of commercial bank was estimated at 130.77 per cent. Further, for these categories of farmers, the intensity of cropping, in general, was seen to be higher on irrigated area as against the unirrigated area. Like members of credit cooperatives, all the categories of sampled farmers among the beneficiaries of commercial banks showed higher proportion of their operational land holding under *kharif* season as against the *rabi* season. The large category of beneficiaries of commercial banks also showed reasonable area under orchards and perennial crops. Similarly, a substantial area of medium category of beneficiaries of commercial banks was also seen to be under perennial crops.

Thus, as against the beneficiaries of commercial banks, the members of credit cooperatives not only showed higher operational land holding but also higher intensity of cropping on their farms. Nonetheless, in general, while the beneficiaries of commercial banks showed larger proportion of their operational land holding under assured irrigation, this proportion of area under assured irrigation was lower for the members of credit cooperatives as they had more area under rainfed conditions.

#### **6.1.4 Cropping Pattern of the Sampled Farmers of Sangli District**

An analysis into area allocation under different crops provides us an indication of the significance of the crops grown under the existing agro-climatic conditions and also farmer's preference for the crop under such conditions. In general, the cropping pattern of irrigated area differs from the cropping pattern of unirrigated area. While on one hand, high value commercial crops are usually grown under irrigated conditions, low density subsistence crops, on the other hand, are grown under rainfed conditions. The information on area under different crops grown on the sampled farmer's field for different categories of members of credit cooperatives and beneficiaries of commercial banks is given in Table 6.4.

The crops that dominated the cropping pattern of various categories of members of credit cooperatives of Sangli district were hybrid *jowar*, groundnut and *moong* in *kharif* season and *jowar* and wheat in *rabi* season. The other important *kharif* crops cultivated by the members of credit cooperatives were *bajra*, *tur*, tobacco and to some extent soybean. Sugarcane was seen to be cultivated as perennial crop. In fact, sugarcane dominated the cropping pattern of all the categories of sampled members of credit cooperatives with large categories of sampled farmers showing much larger area under

sugarcane cultivation as compared to other categories of sampled farmers. Large categories of members of credit cooperatives also showed substantial area under hybrid *jowar*, *bajra*, *moong* and *tur* among *kharif* crops and *jowar*, in particular, among *rabi* crops.

**Table 6.4: Cropping Pattern of Sampled Farmers in Sangli District**

(Area in Hectares)

Crops	Small			Medium			Large			Overall		
	IR	UIR	Total	IR	UIR	Total	IR	UIR	Total	IR	UIR	Total
<b>Members of Credit Cooperatives</b>												
<b>Kharif</b>												
Hy. Jowar	0.02	0.13	0.15	-	0.22	0.22	-	2.20	2.20	0.01	0.46	0.48
Bajara	-	0.08	0.08	-	-	-	-	0.60	0.60	-	0.14	0.14
Maize	-	-	-	0.10	0.08	0.18	-	-	-	0.03	0.02	0.05
Vegetable	0.008	-	0.008	-	-	-	-	-	-	0.005	-	0.005
Cotton	0.03	-	0.03	0.08	-	0.08	-	-	-	0.04	-	0.04
Groundnut	0.15	0.04	0.19	0.24	0.30	0.54	0.40	-	0.40	0.21	0.10	0.31
Soybean	0.05	0.03	0.08	-	0.02	0.02	0.07	-	0.07	0.04	0.023	0.06
Moong	0.02	0.06	0.08	-	0.56	0.56	-	0.47	0.47	0.01	0.25	0.26
Udid	-	-	-	-	-	-	-	0.13	0.13	-	0.02	0.02
Tur	-	-	-	-	0.06	0.06	-	0.67	0.67	-	0.12	0.12
Tobacco	-	0.06	0.06	-	0.36	0.36	-	-	-	-	0.13	0.13
<b>Rabi</b>												
Jowar	0.06	0.09	0.15	0.04	0.48	0.52	0.20	0.80	1.00	0.08	0.29	0.37
Gram	0.01	-	0.01	0.04	0.04	0.08	0.07	-	0.07	0.03	0.01	0.04
Wheat	0.11	-	0.11	0.18	-	0.18	0.27	0.07	0.33	0.15	0.01	0.16
Sunflower	-	-	-	-	-	-	0.07	-	0.07	0.01	-	0.01
<b>Summer</b>												
Chilly	0.008	-	0.008	0.02	-	0.02	-	-	-	0.01	-	0.01
<b>Perennial</b>												
Sugarcane	0.29	-	0.29	0.44	-	0.44	0.73	-	0.73	0.39	-	0.39
Grapes	0.02	-	0.02	-	-	-	-	-	-	0.01	-	0.01
<b>Beneficiaries of Commercial Banks</b>												
<b>Kharif</b>												
Hy. Jowar	0.18	0.15	0.33	0.19	0.40	0.59	0.60	-	0.60	0.20	0.19	0.39
Bajara	-	0.05	0.05	-	0.41	0.41	-	5.00	5.00	-	0.37	0.37
Maize	0.07	-	0.07	-	-	-	-	-	-	0.05	-	0.05
K. Jowar	-	-	-	-	0.20	0.20	-	-	-	-	0.04	0.04
Paddy	0.07	-	0.07	0.04	-	0.04	-	-	-	0.06	-	0.06
Groundnut	0.11	-	0.11	0.10	0.05	0.15	-	0.40	0.40	0.10	0.09	0.13
Soybean	0.07	-	0.07	0.10	-	0.10	-	-	-	0.07	-	0.07
Vegetable	0.007	-	0.007	-	-	-	-	-	-	0.005	-	0.005
Moong	0.03	0.01	0.04	-	-	-	-	-	-	0.02	0.008	0.03
Matki	-	-	-	-	0.05	0.05	-	-	-	-	0.01	0.01
<b>Rabi</b>												
Jowar	0.02	-	0.02	0.06	-	0.06	0.40	-	0.40	0.05	-	0.05
Gram	0.05	-	0.05	0.10	-	0.10	0.20	-	0.20	0.07	-	0.07
Wheat	0.38	-	0.38	0.29	-	0.29	0.40	-	0.40	0.36	-	0.36
<b>Summer</b>												
Maize	0.01	-	0.01	-	-	-	0.01	-	0.01	0.01	-	0.01
<b>Perennial</b>												
Sugarcane	0.17	-	0.17	0.90	-	0.90	-	-	-	0.31	-	0.31
Grapes	0.10	-	0.10	0.04	-	0.04	0.40	-	0.40	0.10	-	0.10

The cropping pattern of various categories of beneficiaries of commercial banks was seen to be by and large similar as that of the cropping pattern of the members of credit cooperatives. Nonetheless, the list of crops grown by the sampled members of credit cooperatives was much longer as they were cultivating certain crops like tobacco, chilly, wheat and sunflower which were not seen in the list of crops grown by the sampled beneficiaries of commercial banks. On the other hand, the sampled beneficiaries of commercial banks were cultivating some of the crops like paddy and grapes, which were not seen to be cultivated by the members of credit cooperatives. In general, hybrid *jowar*, *bajra* and to some extent groundnut had dominated the cropping pattern of the beneficiaries of commercial banks in *kharif* season and wheat in *rabi* season. Sugarcane was seen to be cultivated as perennial crop by small and medium categories of beneficiaries of commercial banks with medium category showing very high proportion of their net cultivated area under sugarcane cultivation. Grape was seen to be cultivated by all the categories of sampled beneficiaries of commercial banks.

Thus, the sampled members of credit cooperatives and beneficiaries of commercial banks did not show much difference insofar as their cropping pattern was concerned. Nonetheless, while some of the additional crops like tobacco, chilly, wheat and sunflower were cultivated by the members of credit cooperatives, some other additional crops like paddy and grapes found their place in the cropping pattern of the beneficiaries of commercial banks. In general, hybrid *jowar*, *bajra*, and to some extent groundnut had dominated the cropping pattern of both members of credit cooperatives and the beneficiaries of commercial banks in *kharif* season. Wheat was the major *rabi* crop cultivated by the beneficiaries of commercial banks. Sugarcane was seen to be cultivated as perennial crop by all the categories of the members of credit cooperatives and the beneficiaries of commercial banks. Although majority of the crops of the members of credit cooperatives were cultivated on both irrigated and unirrigated area, the proportion of area under unirrigated conditions for these crops stood at much higher as compared to proportion of area under irrigated conditions. The beneficiaries of commercial banks followed a reverse trend and majority of their crops were cultivated on irrigated area. Sugarcane and grapes were seen to be cultivated on irrigated area by both members of credit cooperatives and the beneficiaries of commercial banks.

### **6.1.5 General Borrowing Positions of the Sampled Farmers of Sangli District**

The sampled members of credit cooperatives were seen to borrow loans not only from their concerned PACS but also from commercial banks. Similarly, the beneficiaries of commercial banks were also seen borrow loans from their concerned commercial banks and credit cooperatives, i.e., PACS. The borrowing status of different categories of members of credit cooperatives and the beneficiaries of commercial banks has been evaluated and compared in this study for the period between July 1992 and June 1999 and the analysis of the same is brought out in Tables 6.5 (a) and 6.5 (b).

During the entire between 1992 and 1999, the members of credit cooperatives were seen to borrow only crop loans from their concerned societies (PACS). The amount of crop loans borrowed by various categories of sampled farmers differed significantly during this period. Although a considerable fluctuation in amount of crop loans borrowed by various categories of members of credit cooperatives was seen during the period between 1992 and 1999, the small categories of farmers, in general, showed higher amount of crop loans borrowed by them during this period. The amount of crop loans borrowed by small category of farmers varied marginally from Rs.925 in 1992 to Rs.1,467 in 1998 with a sudden increase in the same to Rs.7,875 in 1999. The repayment performance of small category of borrowers was seen to be remarkable between 1992 and 1998 as they hardly showed any outstanding loans during this period. However, during 1999 the amount of outstanding loans of small category of borrowers increased sharply with the increase in amount of crop loans borrowed by them during this year. As against the small category, the medium category of borrowers showed lower variations in their amount of crop loans borrowed from PACS. The amount of crop loans borrowed by medium category of members of credit cooperatives increased from Rs.700 in 1992 to Rs.2,200 in 1997 with a decline in the same to Rs.1,900 in 1999.

The medium category of borrowers did not show any outstanding loan during the entire period between 1992 and 1999 with 1997 being an aberration in this scenario when they showed Rs.342 as outstanding crop loans. The large category of members of credit cooperatives showed the least variation in amount of crop loans borrowed by them during the entire period between 1992 and 1999 with 1993 being an exception in this scenario when they had borrowed crop loans to the tune of Rs.4,333 . Most of the crop loans borrowed by the large category of farmers was seen to be repaid during the given period

of time. In general, the amount of crop loans borrowed by an average category of members of credit cooperatives increased from Rs.855 in 1992 to Rs.5,300 in 1999.

During the year 1994, the small category of members of credit cooperatives were also seen to borrow loans from commercial banks for the purchase of tractor. Similarly, in 1992, the medium category of members of credit cooperatives had also borrowed loans from commercial banks for the purchase of thresher. These were long term loans and the annual rate of interest on these loans were marginally higher as compared to crop loans. The repayment of these term loans was seen to be spread over 5 installments in 5 years as against the crop loans which were repaid within a year and involved only one installment.

**Table 6.5 (a): General Borrowing Position of Members of Credit Cooperatives: Sangli District**  
(Amount in Rs./Household)

Particulars	1992	1993	1994	1995	1996	1997	1998	1999
<b>Loans from PACS</b>								
<b>Small</b>								
Purpose <sup>@</sup>	01	01	01	01	01	01	01	01
Amount borrowed / H.H	925.00	1008.33	1050.00	733.33	775.00	950.00	1466.67	7875.00
Type / tenure of loan	-----12 months-----							
Annul interest rate (%)	12-13	12-13	12-13	12-13	12.5-14	12.5-14	13-14	12-15
No. of installment	-----one installment-----							
Amount in each Inst.	1036.75	1130.08	1178.83	826.67	878.00	1075.71	1668.25	11104.13
Total amount repaid (Rs )	1035.58	1128.92	1177.67	808.83	859.17	1074.67	1666.17	6139.00
Outstanding loan (Rs )	1.17	1.17	1.17	17.83	18.83	1.04	2.08	4965.13
<b>Medium</b>								
Purpose <sup>@</sup>	01	01	01	01	01	01	01	01
Amount borrowed / H.H	700.00	800.00	1700.00	500.00	500.00	2200.00	700.00	1900.00
Type / tenure of loan	-----12 months-----							
Annul interest rate (%)	12	12	12	13-14	13-14	13-14	13-16	13-16
No. of installment	-----one installment-----							
Amount in each inst.	784.00	896.00	1904.00	569.00	569.00	2505.00	803.00	2183.00
Total amount repaid	784.00	896.00	1904.00	569.00	569.00	2163.00	803.00	2183.00
Outstanding loan	-	-	-	-	-	342.00	-	-
<b>Large</b>								
Purpose <sup>@</sup>	01	01	01	01	01	01	01	01
Amount borrowed / H.H	833.33	4333.33	-	-	500.00	500.00	500.00	666.67
Type / tenure of loan	-----12 months-----							
Annul interest rate (%)	12	14	-	-	14	14	13	13
No. of installment	-----one installment-----							
Amount in each Inst.	933.33	6311.3	-	-	570.00	570.00	565.00	753.33
Total amount repaid (Rs )	933.33	5333.33	-	-	570.00	570.00	533.33	753.33
Outstanding loan (Rs )	-	977.97	-	-	-	-	31.67	-
<b>Overall</b>								
Purpose <sup>@</sup>	01	01	01	01	01	01	01	01
Amount borrowed / H.H	855.00	1455.00	1055.00	565.00	665.00	1195.00	1130.00	5300.00
Type / tenure of loan	-----12 months-----							
Annul interest rate (%)	12-13	12-14	12-13	12-14	12.5-14	12.5-14	13-16	12-16
No. of instalment	-----one installment-----							
Amount in each Inst.	958.05	1848.74	1183.30	638.25	754.55	1357.18	1286.45	7321.23
Total amount repaid (Rs )	957.35	1701.35	1182.60	627.55	743.25	1271.05	1280.45	4342.15
Outstanding loan (Rs )	0.70	147.40	0.70	10.70	11.30	86.12	6.00	2979.08

Note: @ - 01 : Crop Loan; 02 : Cattle Loan; 03 : Pipe Line; 04 : Drip Irrigation; 05 : Buffalo; 06 : Grape Cultivation; 07 : Tractor

Contd....Table 6.5 (a): General Borrowing Position of Members of Credit Cooperatives: Sangli  
(Amount in Rs./Household)

Particulars	1992	1993	1994	1995	1996	1997	1998	1999
<b>Loans from commercial bank</b>								
<b>Small</b>								
Purpose	-	-	Tractor	-	-	-	-	-
Amount borrowed / H.H	-	-	12500.00	-	-	-	-	-
Type / tenure of loan(months)	-	-	60	-	-	-	-	-
Annul interest rate (%)	-	-	13.5	-	-	-	-	-
No. of installment	-	-	5	-	-	-	-	-
Amount in each installment.	-	-	17980.44	-	-	-	-	-
Total amount repaid (Rs )	-	-	16666.67	-	-	-	-	-
Outstanding loan (Rs )	-	-	1313.77	-	-	-	-	-
<b>Medium</b>								
Purpose	Thresher	-	-	-	-	-	-	-
Amount borrowed / H.H	5400.00	-	-	-	-	-	-	-
Type / tenure of loan(months)	60	-	-	-	-	-	-	-
Annul interest rate (%)	14	-	-	-	-	-	-	-
No. of installment	5	-	-	-	-	-	-	-
Amount in each installment.	7864.84	-	-	-	-	-	-	-
Total amount repaid (Rs )	6500.00	-	-	-	-	-	-	-
Outstanding loan ( in Rs )	1364.84	-	-	-	-	-	-	-
<b>Large</b>								
Purpose	-	-	-	-	-	-	-	-
Amount borrowed / H.H	-	-	-	-	-	-	-	-
Type / tenure of loan(months)	-	-	-	-	-	-	-	-
Annul interest rate (%)	-	-	-	-	-	-	-	-
No. of installment	-	-	-	-	-	-	-	-
Amount in each installment.	-	-	-	-	-	-	-	-
Total amount repaid (Rs )	-	-	-	-	-	-	-	-
Outstanding loan (Rs )	-	-	-	-	-	-	-	-
<b>Overall</b>								
Purpose	Thresher	-	Tractor	-	-	-	-	-
Amount borrowed / H.H	1350.00	-	7500.00	-	-	-	-	-
Type / tenure of loan(months)	60	-	60	-	-	-	-	-
Annul interest rate (%)	14	-	13.5	-	-	-	-	-
No. of installment	5	-	5	-	-	-	-	-
Amount in each instalment.	1966.21	-	10788.26	-	-	-	-	-
Total amount repaid (Rs )	1625.00	-	10000.00	-	-	-	-	-
Outstanding loan (Rs )	341.21	-	788.26	-	-	-	-	-

Note: @ - 01 : Crop Loan; 02 : Cattle Loan; 03 : Pipe Line; 04 : Drip Irrigation; 05 : Buffalo; 06 : Grape Cultivation; 07 : Tractor

As indicated earlier, the beneficiaries of commercial banks were also borrowing loans from PACs, apart from loans from the concerned commercial banks. However, the loans borrowed by them from PACS was mainly for seasonal agricultural operations (SAO), i.e., crop loans. These beneficiaries of commercial banks had borrowed crop loans from PACS during each year of the entire period between 1992 and 1999 [Table 3.5(b)]. This is an indication of the fact that the beneficiaries of commercial banks were also the members of credit cooperatives. Further, it deserves mention here that while the

small category of beneficiaries of commercial banks were borrowing loans from commercial banks for all the purposes, which included even crop loans, the medium and large categories of these beneficiaries of commercial banks mainly borrowed loans from the concerned commercial banks for medium and long term purposes. The loans borrowed from commercial banks by the small category of beneficiary of commercial banks encompassed those activities/purposes such as for SAO, purchase of cattle, laying dawn of pipe line, drip irrigation and for the purchase of tractor. The amount of loans borrowed by them from commercial banks obviously fluctuated significantly over time, which increased from as low as Rs.333 during 1993 to as high as Rs.15,544 during 1999.

**Table 6.5 (b): General Borrowing Position of Beneficiaries of Commercial Banks: Sangli District**  
(Amount in Rs./Household)

Particulars	1993	1994	1995	1996	1997	1998	1999
<b>Loans from commercial bank</b>							
<b>Small</b>							
Purpose	02;03	06	01;02	01;07	01;03;05	01;04;03;05	01;04;05
Amount borrowed / H.H	333.33	1400.00	1933.33	1433.33	5139.07	7571.47	15544.53
Type / tenure of loan (months)	60	60	12-60	12-60	12-48	12-60	12-60
Annul interest rate (%)	13	14	14	12	14-18	14	12.5-18
No. of installment	-----one installment-----						
Amount in each installment.	473.62	2039.03	2393.87	19612.83	6760.53	9855.96	20448.49
Total amount repaid (Rs )	-	-	2326.67	16120.00	4985.33	4260.00	11857.81
Outstanding loan (Rs )	473.62	2039.03	67.20	3492.83	1775.19	5595.96	8590.68
<b>Medium</b>							
Purpose	02	-	-	-	05;07	-	04
Amount borrowed / H.H	2000.00	-	-	-	53750.00	-	7331.25
Type / tenure of loan(months)	60	-	-	-	36-84	-	12
Annul interest rate (%)	16	-	-	-	16-18	-	16
No. of installment	3	-	-	-	1-7	-	1
Amount in each installment.	12217.47	-	-	-	91829.91	-	8504.25
Total amount repaid (Rs )	11000	-	-	-	29425.00	-	8504.25
Outstanding loan (in Rs )	1217.47	-	-	-	62404.91	-	-
<b>Large</b>							
Purpose	04	-	-	-	-	-	-
Amount borrowed / H.H	24000.00	-	-	-	-	-	-
Type / tenure of loan(months)	60	-	-	-	-	-	-
Annul interest rate (%)	14	-	-	-	-	-	-
No. of installment	5	-	-	-	-	-	-
Amount in each installment.	34954.85	-	-	-	-	-	-
Total amount repaid (Rs )	20000.00	-	-	-	-	-	-
Outstanding loan (Rs )	14954.85	-	-	-	-	-	-
<b>Overall</b>							
Purpose	02;03	06	01;02	01;07	01;03;05	01;04;03;05	01;04;05
Amount borrowed / H.H	1850.00	1050.00	1450.00	1075.00	14604.30	5678.60	13124.65
Type / tenure of loan(months)	60	60	12-60	12-60	12-84	12-60	12-60
Annul interest rate (%)	13-16	14	14	12	14-18	14	12-18
No. of installment	1-5	1	1	1	1	1	1
Amount in each installment.	4546.45	1529.27	1795.40	14709.62	23436.38	7391.97	17037.22
Total amount repaid (Rs )	3200.00	-	1745.00	12090.00	9624.00	3195.00	10594.21
Outstanding loan (Rs )	1346.44	1529.27	50.40	2619.62	13812.37	4196.97	6443.01



Contd....Table 6.5 (b): General Borrowing Position of Beneficiaries of Commercial Banks: Sangli  
(Amount in Rs./Household)

Particulars	1992	1993	1994	1995	1996	1997	1998	1999
<b>Loans from PACS</b>								
<b>Small</b>								
Purpose	Crop loan							
Amount borrowed	2300.00	2366.67	2700.00	3733.33	3500.00	4166.67	4033.33	4633.33
Type / tenure of loan	12 months							
Annul interest rate (%)	12	12-12.5	12-12.5	12-14	12-14	13-14	13-14	13-14
No. of installment	one installment							
Amount in each installment.	2576.00	2650.67	3025.00	4222.00	3958.67	4732.00	4578.00	5259.67
Total amount repaid	2576.00	2650.67	3025.00	4206.67	3914.00	4536.67	4534.67	5053.00
Outstanding loan	-	-	-	15.33	44.67	195.33	43.33	206.67
<b>Medium</b>								
Purpose	Crop loan							
Amount borrowed	5125.00	5625.00	9375.00	10200.00	10125.00	10125.00	10625.00	10900.00
Type / tenure of loan	12 months							
Annul interest rate (%)	12.5-14	12.5-14	12.5-14	12-14	14	14	13-15	13-15
No. of installment	one installment							
Amount in each installment.	5803.13	6373.13	10648.13	11626.50	11542.50	11542.50	12096.25	12407.50
Total amount repaid	5803.13	6373.13	10648.13	11614.00	11530.00	11530.00	12096.25	12382.50
Outstanding loan	-	-	-	12.50	12.50	12.50	-	25.00
<b>Large</b>								
Purpose	Crop loan							
Amount borrowed	20000.0	20000.00	20000.00	20000.00	20000.00	20000.00	20000.00	20000.00
Type / tenure of loan	12 months							
Annul interest rate (%)	12	12	12	14	14	14	15	15
No. of installment	one installment							
Amount in each installment.	22400.0	22400.00	22400.00	22800.00	22800.0	22800.00	23000.00	23000.00
Total amount repaid	22400.0	22400.00	22400.00	22800.00	22800.00	22800.00	23000.00	23000.00
Outstanding loan	-	-	-	-	-	-	-	-
<b>Overall</b>								
Purpose	Crop loan							
Amount borrowed	3750.00	3900.00	4900.00	5840.00	5650.00	6150.00	6150.00	6655.00
Type / tenure of loan	12 months							
Annul interest rate (%)	12-14	12-14	12-14	12-14	12-14	13-14	13-15	13-15
No. of instalment	one installment							
Amount in each instalment.	4212.63	4382.63	5518.38	6631.80	6417.50	6997.50	7002.75	7576.25
Total amount repaid	4212.63	4382.63	5518.38	6617.80	6381.50	6848.50	6970.25	7416.25
Outstanding loan	-	-	-	14.00	36.00	149.00	32.50	160.00

However, the repayment performance of the small category of beneficiary of commercial banks, particularly in respect of loans received by them from commercial banks, was seen to be quite unsatisfactory as these categories of borrowers showed huge outstanding loans during each year of the entire period between 1992 and 1999. The medium category of borrowers of commercial banks were seen to have borrowed loans from commercial banks only during 1993, 1997, and 1999, particularly for the purchase of cattle/buffalo, tractor and drip irrigation. The medium category of beneficiary of

commercial banks also showed considerable outstanding loans due to commercial banks, particularly during 1997. The large category of beneficiary of commercial banks had mainly borrowed loans from commercial banks for drip irrigation in 1993 and thereafter they did not borrow any loan from commercial banks. The amount of outstanding loans of large category of beneficiary during 1993 was seen to be quite high.

In general, the amount of loans borrowed by the beneficiaries of commercial banks from their concerned commercial banks had increased from Rs.1,850 in 1993 to as high as Rs.13,125 by 1999. The outstanding loans of these beneficiaries of commercial banks due to their concerned commercial banks had increased from Rs.1,346 in 1993 to as high as Rs.6,443 by 1999.

The small and medium categories of beneficiaries of commercial banks showed a steady increase in the amount of crop loans borrowed by them from PACS during the period between 1992 and 1999. While the small category of borrowers showed an increase in their crop loan borrowings from Rs.2,300 in 1992 to Rs.4,633 in 1999, this increase in crop loan borrowings for medium category of borrowers was seen to be from Rs.5,125 to Rs.10,900 during the same period. On the other hand, the amount of crop loans received from PACS by large category of borrowers was seen to be constant at Rs.20,000 during the given period of time. Thus, the amount of crop loans borrowed is seen to have increased with the increase in land holding size of the beneficiaries of commercial banks. In general, small and medium category of borrowers showed about two folds rise in their amount of crop loan borrowings from PACS during the given period of time. Further, during the entire period between 1992 and 1999, the repayment performance of crop loans of all the categories of borrowers of the beneficiaries of commercial banks was exemplary as there was hardly any outstanding crop loans due to PACS, particularly in the case of medium and large categories of borrowers.

Thus, the entire analysis on borrowing status of sampled farmers drawn from Tables 6.5 (a) and 6.5 (b) brings us closer to the fact that during the entire given period the amount of crop loans borrowed from PACS by the beneficiaries of commercial banks was higher as compared to the members of credit cooperatives who had also received crop loans from their concerned PACS. However, this scenario had an exception in 1999 when the small category of members of credit cooperatives had borrowed substantially high amount of crop loans from PACS. At the same time, the outstanding crop loans of this category of borrower due to PACS during this year was also too high. In general,

both members of credit cooperatives and beneficiaries of commercial banks showed exemplary repayment performance insofar as the crop loans received by them from PACS was concerned. However, the repayment of medium and long term loans received by these members of credit cooperatives and beneficiaries of commercial banks was not very satisfactory as majority of them showed quite high amount of outstanding loans due to commercial banks. But, mention may be made here that there were only few borrowers of medium and long term loans and that during the entire period between 1992 and 1999 the frequency of medium and long term borrowings was also too low, particularly in the case of members of credit cooperatives. Not only this, the amount of medium and long term borrowings of the sampled farmers from commercial banks was also not much. This is an indication of the fact that both members of credit cooperatives and beneficiaries of commercial banks were chiefly dependent on short term borrowings as against the medium and long term borrowings. This dependency on short term borrowings was seen to be higher in the case of members of credit cooperatives as compared to the beneficiaries of commercial banks.

#### **6.1.6 Member's/Beneficiary's Perception About the Functioning of PACS/ Commercial Banks in Sangli District**

This section evaluates the attitude and perceptions of the sampled farmers not only with respect to their credit experiences with the concerned credit institutions but also in terms of overall functioning of these credit institutions. It basically concentrates on the perceptions of the sampled farmers with respect to the facilities provided by these institutions and also the constraints perceived by them in availing such facilities through their concerned credit institution. Some data, opinions and available information on sample farmers have been sampled to ascertain their degree of awareness about the facilities being extended by their credit institutions. The responses of the sampled farmers with respect to enhancement of productive capabilities have also been recorded, besides recording their suggestions for the smooth functioning of these credit institutions.

##### **6.1.6.1 Criteria/Conditions and Reasons for Becoming Members of PACS and Beneficiaries of Commercial Banks in Sangli District**

The sampled farmers were asked to indicate their perceptions regarding the criteria and reasons for becoming the members of PACS/beneficiaries of commercial banks. This made the sampled respondents to come out with as many as six criteria /conditions and 12 reasons for becoming the members of PACS/beneficiaries of

commercial banks. The criteria and reasons cited by the sampled farmers have been enlisted in Table 6.6. While the conditions were laid down by the concerned credit institutions, the reasons were sampled farmer's own. The most important criteria / conditions in this respect were: (a) a farmer should have a 7/12 land holding certificate, (b) should be above 18 years of age; (c) he must be a share holder and (d) must be a resident of the same village. The other conditions were: (e) no objection certificate (NOC) from other financial institutions and (f) a minimum of five per cent share with the concerned credit institution. As high as 95 per cent of the sampled members of credit cooperatives and 60 per cent of the beneficiaries of commercial banks aired their view in favour of having awareness about the first criterion enlisted in Table 4.6 for becoming the members of credit cooperatives/ beneficiaries of commercial banks. The member's / beneficiary's awareness and response in terms of second and third criteria was seen to be about 40 per cent. As regards the fourth, fifth and sixth criteria, not many members of credit cooperatives / beneficiaries of commercial banks were seen to be aware of these criteria. In general, medium category among the members of credit cooperatives and large and medium categories among the beneficiaries of commercial banks showed greater awareness about the criteria / conditions for becoming members of credit cooperatives or beneficiaries of commercial banks.

At the time of survey the sampled farmers were requested to state as to how they were motivated to become members / beneficiaries of the concerned credit institution. Though many reasons weighed in favour of the credit institutions operating in the selected sampled areas, the respondents were asked to elucidate only the most prominent ones among them. Interestingly, very few members of credit cooperatives and beneficiaries of commercial banks came out with various reasons for becoming members of concerned credit cooperatives or the beneficiary of commercial banks. The most prominent reasons for becoming members of credit cooperatives or beneficiaries of commercial banks were: (a) the availability of loans from these credit institutions for various purposes, which, in general, included loans for land development, loans for various crops, fertilizer and other inputs, loans for grape cultivation, pipeline and drip irrigation, loans for purchase of cattle, buffalo, tractor, etc., (b) lower rates of interest involved on most of the loans extended by these credit institutions, (c) limited requirement or submission of documents for the disbursement of loan, (d) availability of loans for seeds and fertilizer inputs on subsidized rates, and (e) availability of ST, MT and LT loans for various purposes.

**Table 6.6 : Member's / Beneficiary's Perception Regarding Criteria and Reasons for Becoming Members of PACS / Beneficiary of Commercial Bank: Sangli District**

Criteria / Reasons	Credit Co-operative				Commercial Bank			
	S	M	L	O	S	M	L	O
(in per cent)								
<b>Criteria</b>								
a. Possession of land holding - certificate 7/12	91.67	100.00	100.00	95.00	53.33	75.00	100.00	60.00
b. Must be 18 years of age	25.00	60.00	66.67	40.00	33.33	50.00	100.00	40.00
c. Must be a share holder	33.33	40.00	33.33	35.00	26.67	75.00	100.00	40.00
d. Must be native of the same village	8.33	20.00	-	10.00	13.33	-	-	10.00
e. Must have 5% minimum share amount	8.33	20.00	33.33	15.00	6.67	-	-	5.00
f. NOC from other financial institutes	-	20.00	-	5.00	-	-	-	-
<b>Reasons</b>								
a. Loans available on low interest rate	16.67	40.00	33.33	25.00	6.67	25.00	-	10.00
b. Loans available for land developing	8.33	-	-	5.00	33.33	-	-	25.00
c. Loans available for fertilizer and crops	25.00	60.00	66.67	40.00	40.00	100.00	-	50.00
d. Loans available for grape cultivation	-	40.00	-	10.00	13.33	-	-	10.00
e. Submission of limited documents	25.00	20.00	-	20.00	-	-	-	-
f. Availability of ST loans from PACS and MT and LT from commercial banks	8.33	-	-	5.00	13.33	-	-	10.00
g. Membership necessary for election purpose	16.67	-	33.33	15.00	6.67	-	-	5.00
h. Reasonable rates of interest on loans from PACS	25.00	20.00	-	20.00	6.67	50.00	100.00	20.00
i. For availing seed / fertilizer on subsidized rates	8.33	40.00	-	15.00	-	-	-	-
j. Loans available for the purchase of buffalo, cattle and for the purchase of tractor	8.33	-	-	5.00	33.33	50.00	-	35.00
k. Loans available for pipeline & drip irrigation	-	-	-	-	6.67	-	-	5.00
l. No restriction on loan limit ( 5% amount deducted from crop-loan)	-	-	33.33	5.00	-	-	-	-

As against the beneficiaries of commercial banks, the members of credit cooperatives were seen to be more favourably inclined towards above reasons for becoming members of their concerned credit institution. In general, 25 per cent of the sampled respondents among the members of credit cooperatives were seen to be in favour of receiving loans from their concerned credit institution at lower rates of interest, 40 per cent among them favoured their credit institution because of extension of loans by them for various crops, fertilizer and other inputs, 20 per cent among them also favoured their credit institution due to limited submission of documents required for extension of loans.

As for the beneficiaries of commercial banks, 50 per cent among them favoured their concerned credit institution because of extension of crop loans by them and also for fertilizer, seed and other inputs; 25 per cent among them were in favour of receiving loans for land development, and 35 per cent among them favoured their credit institution due to extension of loans by them for the purchase of cattle, buffalo, tractor, etc. Medium

and large categories of members of credit cooperatives and small category of beneficiaries of commercial banks were seen to be more favourably inclined towards these reasons for becoming members/beneficiaries of their concerned credit institutions. In general, about 20 per cent of the members of credit cooperatives and also 20 per cent beneficiaries of commercial banks favoured their credit institutions for the latter's extension of loans at reasonable rates of interest. Similarly, 15 per cent of the members of credit cooperatives also favoured their credit institution for the latter's extension of loans for seed, fertilizer and other inputs on subsidized rates.

#### **6.1.6.2 Sampled Farmer's Response Regarding Advantages and Disadvantages of Loans from PACS and Commercial Banks in Sangli District**

The sampled members of credit cooperatives and beneficiaries of commercial banks had indicated various advantages and disadvantages of their concerned credit institutions. These advantages and disadvantages of the credit institutions have been carefully coded and the same have been brought out in Table 6.7.

While members of credit cooperatives came forward with different advantages and disadvantages of taking loans from their concerned credit cooperatives as well as from commercial banks, the beneficiaries of commercial banks had also cited several advantages and disadvantages of taking loans not only from their concerned commercial banks but also from PACS.

The members of credit cooperatives were seen to cite several advantages of seeking loans from commercial banks, which mainly encompassed provision of loans by these financial institutions for longer period or long term purposes, larger amount of availability of loans from them, availability of loans by them at subsidized rates for certain purposes, and timely disbursement of loans by them. At the same time, these members of credit cooperatives also showed their dissatisfaction or concern for availing loans from these commercial banks mainly due to higher rates of interest involved in their loan advances, lengthy procedures followed by them in terms of disbursement/extension of loans, more documental proof required by them to make loan advances and non cooperative nature of the officials of these credit institutions in terms of extension of loans. The members of credit cooperatives had cited higher transaction cost as another disadvantage of taking loans from commercial banks. This stems from the fact that the total expenditure incurred by the members of credit cooperatives on Rs. 1 lakh loan was to the tune of Rs.5,000. In general, large category of members of credit cooperatives showed more dissatisfaction in terms of seeking loans from commercial banks.

**Table 6.7: Sampled Farmers Responses Regarding Advantages and Disadvantages of Taking Loans from PACS and Commercial Banks (in per cent)**

Code	Members of Credit Cooperatives				Code	Beneficiaries of Commercial Banks			
	Small	Medium	Large	Overall		Small	Medium	Large	Overall
<b>Loans from Commercial Banks</b>									
<b>Advantages</b>					<b>Advantages</b>				
1.	33.33	40.00	66.67	40.00	1.	6.67	-	-	5.00
2.	-	40.00	33.33	15.0	2.	13.33	-	-	10.00
3.	8.33	-	-	5.00	3.	40.00	100.00	100.00	55.00
4.	-	-	-	-	4.	13.33	25.00	-	15.00
5.	8.33	-	33.33	10.00	5.	13.33	25.00	-	15.00
<b>Disadvantages</b>					<b>Disadvantages</b>				
1.	8.33	20.00	66.67	20.00	6.	6.67	-	-	5.00
2.	8.33	20.00	33.33	15.00	7.	33.33	50.00	-	35.00
3.	8.33	20.00	66.67	20.00	8.	6.67	-	-	5.00
4.	8.33	20.00	-	10.00	9.	-	25.00	-	5.00
5.	8.33	-	-	5.00	<b>Disadvantages</b>				
					1.	20.00	75.00	100.00	35.00
					2.	60.00	75.00	-	60.00
					3.	40.00	75.00	-	45.00
					4.	-	25.00	-	5.00
					5.	6.67	-	-	5.00
					6.	-	25.00	-	5.00
<b>Loans from PACS</b>									
<b>Advantages</b>					<b>Advantages</b>				
1.	33.33	20.00	-	25.00	1.	33.33	-	-	25.00
2.	58.33	100.00	33.33	65.00	2.	20.00	25.00	-	20.00
3.	25.00	20.00	66.67	30.00	3.	20.00	25.00	100.00	25.00
4.	-	40.00	33.33	15.00	4.	26.67	25.00	100.00	30.00
5.	-	-	33.33	5.00	5.	-	75.00	-	15.00
6.	16.67	-	-	10.00	6.	6.67	50.00	-	15.00
7.	33.33	-	33.33	25.00	7.	6.67	75.00	100.00	45.00
8.	8.33	-	-	5.00	8.	-	25.00	-	15.00
9.	-	-	-	-	<b>Disadvantages</b>				
10.	8.33	-	-	5.00	1.	6.67	25.00	-	10.00
11.	-	20.00	-	5.00	2.	40.00	25.00	100.00	40.00
<b>Disadvantages</b>					<b>Disadvantages</b>				
1.	25.00	100.00	-	40.00	3.	6.67	50.00	-	15.00
2.	16.67	-	-	10.00	4.	-	50.00	-	10.00

Code: I - Members of Credit Cooperatives: *Loans from Commercial Banks: Advantages:* (1) Availability of long term loans; (2) Loans available in large amounts; (3) Availability of loans on time; (4) Loans available to small holders; and (5) Availability of subsidy. *Disadvantages:* (1) High interest rates on loan advances; (2) Demand of more documents; (3) Lengthy procedure involved in granting of loan; (4) non-cooperation; and (5) High transaction cost. *Loans from PACS: Advantages:* (1) Availability of crop loan facility; (2) Reasonable rates of interest; (3) Availability of loans on time; (4) Availability of fertilizer and seeds on subsidized rates; (5) Availability of ST loans; (6) Availability of MT loans; (7) Demand of limited documents; (8) Availability of dividend from PACS; (9) Payment in easy / reasonable installments; (10) Cooperative nature; and (11) Deal with multiple activities. *Disadvantages:* (1) Non-availability of LT loans and (2) Limited amount of loans.

II - Beneficiaries of Commercial Banks: *Loans from Commercial Banks: Advantages:* (1) Availability of ST loans from Dena Bank / Bank of India; (2) Availability of loan on time; (3) Availability of LT loans; (4) Availability of loan for agriculture and land development, including drip irrigation, pipeline, etc.; (5) Availability of 30 % subsidy on loan; (6) Increase in crop production due to loan; (7) Provision of deposit in bank; (8) Availability of loan for any business/occupation/activity; and (9) Availability of loans for purchase of high priced assets. *Disadvantages:* (1) High rates of interest on loan advances; (2) Lengthy procedures involved in terms of sanctioning of loans; (3) Submission of more documents; (4) Delay in disbursement of loans; (5) Compulsion of two guarantors; (6) Requirement of NOC from Talathi/Society and LDB. *Loans from PACS: Advantages:* (1) Availability of loan on time; (2) Loans available on low rates of interest; (3) Availability of loan during each year; (4) Reasonable rates of interest on ST loans; (5) Reasonable rates of interest on crop loans; (6) Availability of loans for various purposes; (7) Submission of limited documents; and (8) Provision of crop insurance. *Disadvantages:* (1) Higher rate of interest on MT loans; (2) Non-availability of LT loans; (3) Deduction of 5 % from loan amount; and (4) Non-availability of loan for drip irrigation.

The members of credit cooperatives had also cited certain advantages of taking loans from their own concerned PACS. The advantages in this respect were in terms of: (a) availability of crop loan facility, (b) reasonable rates of interest on loans, (c) availability of loans on time, (d) availability of loans for seed, fertilizer and other inputs on subsidized rates, (e) availability of ST and MT loans for various purposes in general, (f) limited requirement of documents for the disbursement of loans, (g) availability of dividends, (h) reasonable installments in terms of repayment of loans, (i) cooperative nature of the officials while extending/sanctioning loans, and (j) provision of loans for multiple activities/purposes. At the same time, these members of credit cooperatives had also indicated a couple of major disadvantages of their concerned PACS, which mainly encompassed non availability of loans for long term purposes and limited amounts of loan available from them for various purposes.

From the point of view of the beneficiaries of commercial banks, there were several disadvantages of seeking loans by them from their concerned commercial banks, which mainly encompassed provision of loans from these banks for various long term purposes, provision being granted by them to their beneficiaries to open a bank account to deposit their money, timely disbursement of loans by these banks for various ST, MT and LT purposes, provision of loans from them for drip irrigation, pipeline and for other agricultural purposes, provision of loans for certain purposes on subsidized rates, and also provision of loans from these banks to their beneficiaries for the purchase of high priced/value assets. However, certain disadvantages of availing loans from their concerned banks were also cited by the beneficiaries of commercial banks, which, in general, revolved around high rates of interest on their loan advances, lengthy procedure being followed by them in terms of sanctioning of loans, demand for more documental proof by them while sanctioning loans, delay in disbursement of loans, compulsion of two guarantors and demand for NOC from talathi/society or LDBs while sanctioning loans.

Like members of credit cooperatives, the beneficiaries of commercial banks had also indicated certain advantages of availing loans from PACS. According to the beneficiaries of commercial banks, availability of loans on time, reasonable rates of interest on crop loans, provision of crop insurance facility, provision of loans for multiple purposes, limited requirement of documents while sanctioning loans, and availability of loans on year to year basis were some of the major advantages of availing loans from PACS. On the other hand, these beneficiaries of commercial banks also showed their



dissatisfaction with respect to loans being offered by various PACS. The dissatisfaction in this respect were in terms of limited amounts of ST and MT loans, non availability of LT loans, deduction of 5 per cent from total loan amount, which was termed as service charges/transaction cost, and non availability of loans for the purchase of drip irrigation set, tractor, etc.

Thus, the entire analysis drawn from Table 6.7 brings us closer to some major advantages and disadvantages of availing loans from PACS and commercial banks. While availability of crop loan facility, reasonable rates of interest on loans, availability of loans on time, availability of loans for fertilizer, seed and other input on subsidized rates, provision of dividend, reasonable installments in terms of repayment of ST and MT loans, cooperative nature of the officials, demand for less documental proof for the disbursal of loan, availability of loans for multiple purposes, etc. turn out to be some major advantages of availing loans from PACS, there are also some disadvantages in this respect, which mainly revolve around non availability of loans from them for long term purposes, limited amounts of ST and MT loans, and non availability of loans from them for drip irrigation, tractors, etc. Both members of credit cooperatives and beneficiaries of commercial banks have favoured PACS for the latter's positive role being played in terms of various facilities extended by them to their customers. The dissatisfaction shown by the members of credit cooperatives, particularly in terms of non availability of certain loans and limited amounts of loans, may not be considered as a matter of concern as these facilities are extended by commercial banks.

The advantages of availing loans from commercial banks are seen to be in terms of availability of loans from them not only for LT purposes like drip irrigation, tractor, etc. but also for ST and MT purposes, and also with respect to loans being offered/provided by them for various business activities and for the agricultural development in general. The members of credit cooperatives and the beneficiaries of commercial banks have also favoured commercial banks for the latter's provision of loans for certain purposes at subsidized rates, besides their extension of loans for the generation of high priced assets. Timely availability of loans for certain purposes is cited as the another positive feature of commercial banks. However, high rates of interest on loan advances, requirement of more documental proof for the extension of loans, delay in disbursal of loans in majority of cases, higher transaction cost, non cooperative nature of the staff/officials of various commercial banks, and compulsion of two guarantors at the

time of sanctioning of loans are noticed to be some of the major disadvantages of availing loans from these banks. The beneficiaries of commercial banks have shown more dissatisfaction in this respect as against the members of credit cooperatives. Interestingly, among the selected sampled farmers, medium and large categories of members of credit cooperatives and beneficiaries of commercial banks have shown more dissatisfaction in this respect as against the small category. Similarly, the responses of medium and large categories are seen to be more favourable in terms of availing loans from PACS as against the small category.

### **6.1.6.3 Impact of PACS and Commercial Banks on Productive Capabilities in Sangli District**

The responses of the sampled members of credit cooperatives and beneficiaries of commercial banks in terms of increase or decrease in their productive capabilities due to extension of loans from their concerned credit institutions are brought out in Table 6.8.

Majority of the members of credit cooperatives firmly believed that their credit cooperatives had catalytic effect in improving the productivity of crops grown and also in increasing the use of fertilizer. This was particularly confirmed by the small and medium categories of members of credit cooperatives. A section of sampled respondents/members of credit cooperatives also believed that extension of loan facility by their society had induced them to use more pesticides, improved seeds, and also in terms of irrigation facilities. The responses of small and large categories were more favourable in terms of increased use of pesticides and small and medium categories insofar as increased use of improved seeds was concerned.

A significant section of the beneficiaries of commercial banks had also the opinion that their concerned banks had a positive impact not only in respect of increasing the utilization of inputs such as fertilizer, improved varieties of seeds, pesticides, etc but also in increasing their crop production and asset position. These views were particularly aired by medium and large categories of beneficiaries of commercial banks. Some small and medium categories of beneficiaries of commercial banks also opined that the loan offered by their concerned banks had helped them to use more improved machinery and irrigation facilities. At the same time, it is to be noted that some of the respondents/members of credit cooperatives as well as beneficiaries of commercial banks were not so forthcoming about their view and chose to reserve their comments on the utility and impact of the credit cooperatives and commercial banks on their economic position.

**Table 6.8: Impact of PACS and Commercial Banks on Productive Capabilities of Sampled Farmers: Sangli District**

(in per cent)

Questions:	Co-operative				Commercial Bank			
	S	M	L	O	S	M	L	O
<b>I. Do you think that the availability of credit from PACS / Commercial Bank has increased your Productive capability ?</b>								
a. Yes	91.67	80.00	66.67	85.00	86.67	100	100	90.00
b. No	-	-	-	-	13.33	-	-	10.00
If yes, please state in what way.								
a. Productivity of grown crops increased	91.67	80.00	66.67	85.00	66.67	75.00	100	70.00
b. Use of fertilizers increased	83.33	80.00	66.67	80.00	66.67	100	100	75.00
c. Use of pesticides improved	8.33	-	33.33	10.00	20.00	50.00	100	30.00
d. Adoption of improved/HYV seeds increased	16.67	20.00	-	15.00	13.33	50.00	100	25.00
e. Irrigation facilities increased	16.67	-	-	10.00	6.67	25.00	-	10.00
f. Use of machinery improved	-	-	-	-	6.67	25.00	-	10.00
g. Farm assets increased	-	-	-	-	26.67	25.00	-	25.00
<b>II. Is the community is general being benefited by the PACS/Commercial Bank ?</b>								
a. Yes.	41.67	40.00	66.67	45.00	33.33	25.00	100	35.00
b. No.	58.33	60.00	33.33	55.00	66.67	66.67	-	65.00
If yes, what steps being taken by the PACS/Commercial Bank for the benefit of the community ?								
a. Helped in opening up of ration/fair Price shop	41.67	40.00	66.67	45.00	-	-	100	5.00
b. Helped in opening up of fertilizer shop	8.33	-	33.33	10.00	-	-	-	-
c. Helped in opening up of cloth shop	8.33	-	-	5.00	-	-	-	-
d. Helped in improving economic condition	-	-	-	-	13.33	-	-	10.00
e. Helped in providing fertilizers on subsidized rates	-	-	-	-	-	6.67	-	5.00

A significant section of the members of credit cooperatives and some of the beneficiaries of commercial banks also firmly believed that the community, in general, was benefited because of the positive role being played by their society or concerned commercial banks. They firmly believed that these credit institutions had helped not only to open fair price, fertilizer and cloth shops in their villages but also helped them to obtain various inputs on subsidized rates, which in turn had improved their economic position.

#### **6.1.6.4 Member's/Beneficiary's Suggestions and Suggested Measures for Strengthening the Society/Commercial Bank Finances in Sangli District**

The respondents, whose impressions had been sought on the functioning/working of the credit societies/commercial banks, were further probed to find out if they had any particular suggestions to make to further improve the functioning of the society/concerned commercial banks. While majority of the respondents favoured the

provision of loan facilities for various purposes, a few of them were critical about their concerned credit institution's reluctance to provide loans for various social ceremonies like marriages, purchase of medicines and for medical treatment, purchase of diesel for tractor, etc.; they also demanded a reduction in rates of interest on ST, MT and LT loans and increase on the limits of such loan advances. In all, fourteen suggestions regarding smooth functioning of the societies as well as the commercial banks could be elucidated from the sampled members of credit cooperatives and beneficiaries of commercial banks and Table 6.9 gives fairly good account of all these suggestions of the sampled farmers.

**Table 6.9 : Sampled Farmer's Suggestions for Strengthening the Society (PACS) / Commercial Bank Finances in Sangli District**

	Suggestions	(in per cent)							
		Co-operative				Commercial Bank			
		S	M	L	O	S	M	L	O
1.	The society/banks should also provide loan for meeting expenses such as marriage, social ceremonies, medical expenses, house repair, etc. In the absence of such loan facilities, the farmers often fall in the trap of private money lenders.	66.67	60.00	33.33	60.00	66.67	75.00	100.00	70.00
2.	The society/banks should extend loans for purchasing diesel for tractor and also make provision of hiring tractor on rental basis. They should also increase finance limit on ST, MT and LT loan advances. The limit on personal loan should also be increased and interest rates on such loans should be reduced.	41.67	60.00	66.67	50.00	53.33	75.00	100.00	60.00
3.	There is need to increase limit on crop loan. There should also be a provision of insurance for member.	16.67	40.00	33.33	25.00	-	-	-	-
4.	PACS should help in opening up of a shop relating to plant protection measures	8.33	-	-	5.00	-	-	-	-
5.	Provision of L.T. loan from PACS for various business activities and for the purchase of tractor	25.00	40.00	33.33	30.00	33.33	100	100	50.00
6.	Cloth shop/Control shop should be opened by PACS	16.67	-	-	10.00	13.33	50.00	-	20.00
7.	There should be a provision of loan for horticultural activities	8.33	-	-	5.00	-	-	-	-
8.	Loan should be provided for irrigation facilities	8.33	-	-	5.00	-	25.00	-	5.00
9.	Seed & fertilizer shop should be opened by PACS	-	-	33.33	5.00	-	-	-	-
10.	An element of subsidy should be involved on loan advances for the purchase of cows and buffaloes	-	-	-	-	6.67	-	-	5.00
11.	There should be provision of loan from commercial banks for non farm business	-	-	-	-	-	25.00	-	5.00
12.	There should be provision of loans from commercial banks for bore well & pump sets	-	-	-	-	6.67	-	-	-
13.	Commercial banks should extend more cooperation in term of extension of loans	-	-	-	-	-	25.00	-	5.00
14.	PACS should provide loans for digging well / pipeline/ bore, etc.	-	-	-	-	-	-	100	5.00

Through their suggestions majority of the sampled members of credit cooperatives sought provision of loan for the purchase of diesel for tractor and also lowering down of rates on interest on ST and MT loans. They also demanded an increase in the finance limits on personal loan and a reduction in rate of interest on such loans. A significant section of members of credit cooperatives, particularly small and medium farmers also demanded provisions of loan for various social ceremonies such as marriages and also towards meeting expenses of medicines and for medical treatment. A section of small category of members of credit cooperatives aired their view in favour of opening up of shops relating to plant protection measures by the PACS. This section of small category also aired their view in favour of opening up of cloth shop/fair price shop by the concerned PACS. On the other hand, large category of members of credit cooperatives were in favour of opening up of various shops by their concerned PACS, particularly those dealing with sale of seed and fertilizer on subsidized rates. A section of members of credit cooperatives also demanded provision of L.T. loan from PACS for various business activities and for the purchase of tractor. Provision of loans from PACS for various horticultural activities was another suggestion extended by the members of credit cooperatives.

Like members of credit cooperatives, a significant section of beneficiaries of commercial banks sought provision of loans from their concerned banks for various social ceremonies such as marriages and also towards meeting expenses of medicines and for medical treatment. This section of beneficiaries of commercial banks were also seen to be in favour of receiving loans for purchasing diesel for tractor, besides favouring an increase in finance limits on ST, MT and LT loan advances, and also on personal loans. A reduction in rates of interest on these loans was another suggestion put forward by the beneficiaries of commercial banks. Provision of loans for cows and buffaloes on subsidized rates, provision of loan for non farm business activities, provision of loans for digging well / pipeline/ bore, etc. from PACS, and more cooperative nature of commercial banks in terms of extension of various kinds of loans were some other suggestions extended by the beneficiaries of commercial banks.

Thus, the suggestions of the sampled members of credit cooperatives and beneficiaries of commercial banks, in general, revolved around extension of various types of those facilities that were not covered by their concerned credit institution. These facilities included provisions of loan for the purchase of medicines and for medical

treatment, purchase of diesel for tractor, and also loan provisions for various social ceremonies such as marriages, functions, etc. A hike in the limits on personal loan and also on ST, MT, and LT loans and a reduction in the rates of interest on such loans, provision of loans for various farm inputs on subsidized rates, provision of tractor on rental basis to the smaller categories of farmers, an insurance scheme for the farmer members, etc. were among the other suggestion of the sampled respondents. Some of the members of credit cooperatives were also seen to be in favour of extending their suggestions relating to opening up of various types of shops by their concerned PACS, which mainly included cloth shops, fair price shops, shops dealing with sale of seed and fertilizer on subsidized rates, and shops relating to plant protection measures. Similarly, some beneficiaries of commercial banks also demanded provision of loans for digging wells / pipeline/ bore wells, etc. from PACS, and also cooperation from their concerned commercial banks in terms of extension of various kinds of loans.

## **6.2 Results of Field Survey Conducted in Buldana District**

This section not only compares the family particulars, educational status, land holding and cropping pattern of the sampled members of credit cooperatives with that of the beneficiaries of commercial banks but also their credit experiences with their concerned credit institution operating in Buldana district of Maharashtra. Besides, it evaluates the responses of sampled farmers with respect to the facilities being provided by their concerned credit institutions and various types of problems faced by them in availing such facilities. It also extends suggestions of the respondents with respect to smooth functioning of their concerned credit institution.

### **6.2.1 Family Size and Composition of Sampled Farmers of Buldana District**

The information relating to average size of family and their age-wise and sex-wise break-up encompassing various categories of sampled members of credit cooperatives and beneficiaries of commercial banks of Buldana district is brought out in Table 6.10.

A critical evaluation of Table 6.10 revealed a relatively lower family size of the beneficiaries of commercial banks as against the members of credit cooperatives, though the average size of a family in both the cases, in general, was noticed to be around six persons. Further, in both the cases, the male members in the family were seen to dominate the female members. This is evident from the fact that the proportion of male

members in the family was 55 per cent of the total size of the family in the case of both members of credit cooperatives and the beneficiaries of commercial banks.

**Table 6.10: Details of Family Particulars of Sampled Farmers in Buldana District**

Household Category	Male				Female				Total family members
	Less Than 5 years	5-15 years	More than 15 years	Total	Less than 5 years	5-15 years	More than 15 years	Total	
<b>Members of Credit Cooperatives</b>									
Small	0.56	0.67	1.89	3.11	0.11	0.60	1.78	2.44	5.55
Medium	0.57	0.29	2.28	3.14	0.29	0.29	2.00	2.57	5.71
Large	0.75	0.75	2.75	4.25	0.50	0.50	2.50	3.50	7.75
Overall	0.60	0.55	2.20	3.35	0.25	0.45	2.00	2.70	6.05
<b>Beneficiaries of Commercial Banks</b>									
Small	0.27	0.73	1.82	2.82	0.18	0.27	1.64	2.09	4.91
Medium	0.60	-	1.60	2.20	1.00	-	1.60	2.60	4.80
Large	1.75	0.75	2.75	5.25	1.00	0.75	1.75	3.50	8.75
Overall	0.65	0.55	1.95	3.15	0.50	0.30	1.65	2.50	5.65

It could be also noted that the average size of a family increased with the increase in land holding size of the sampled farmers. However, this held particularly true in the case of members of credit cooperatives. It could be further noted that the members of credit cooperatives and the beneficiaries of commercial banks showed higher proportion of their family members in the above 15 years age category. This is obviously an indication of larger work force available with the family in both the cases.

## 6.2.2 Educational Status of the Sampled Farmers of Buldana District

The details regarding educational status of various categories of members of credit cooperatives as well as the beneficiaries of commercial banks are brought out in Table 6.11.

**Table 6.11: Education Levels of Sampled Farmers in Buldana District**

Category	Yet to go school	Illite-rate	Lite-rate	Literate											
				Primary		Middle		H.S.		Inter		Graduate & above		Total	
				M	F	M	F	M	F	M	F	M	F	M	F
<b>Members of Credit Cooperatives</b>															
Small	0.66	0.67	4.22	0.67	0.11	0.56	0.44	0.55	0.11	0.56	0.22	-	-	2.44	1.78
Medium	0.86	0.71	4.14	0.43	0.71	0.43	0.43	1.00	0.42	0.57	-	0.14	-	2.57	1.57
Large	1.25	0.75	5.75	0.75	1.25	-	0.50	1.75	0.50	0.75	-	-	0.25	3.50	2.25
Overall	0.85	0.70	4.50	0.60	1.00	0.40	0.45	0.95	0.30	0.60	0.10	0.05	0.05	2.70	1.80
<b>Beneficiaries of Commercial Banks</b>															
Small	0.36	1.36	3.18	0.64	0.36	0.45	0.27	1.00	0.27	0.18	-	-	-	2.27	0.91
Medium	1.20	0.60	3.00	0.20	0.20	0.80	1.20	0.40	-	0.20	-	-	-	1.60	1.40
Large	2.75	1.00	5.00	0.50	0.75	0.75	1.00	0.75	-	0.25	-	0.50	-	3.00	2.00
Overall	1.00	1.10	3.50	0.50	0.40	0.60	0.65	0.80	0.15	0.20	-	0.10	-	2.25	1.25

A careful examination of Table 6.11 clearly showed higher literacy levels among the members of credit cooperatives as against the beneficiaries of commercial banks. This held particularly true in the case of members who were seen to attain education above intermediate level. The male literacy was also found to be higher among the members of credit cooperatives as compared to the beneficiaries of commercial banks. Interestingly, the proportion of literate members in the family was seen to be higher among the small category of members of credit cooperatives as well as the beneficiaries of commercial banks. A further evaluation of Table 6.11 also revealed a decline in proportion of literate members in the family with the increase in land holding size of the beneficiaries of commercial banks. On the other hand, the medium category of members of credit cooperatives had shown the least proportion of literate members in their family as compared to other categories of members of credit cooperatives. Nonetheless, mention may be made here that since small category of both members of credit cooperatives and beneficiaries of commercial banks had shown higher proportion of literate members in their family as compared to other categories, this category was obviously better equipped to take effective managerial decisions as compared to other categories of sampled farmers.

### **6.2.3 Land Use Pattern of the Sampled Farmers of Buldana District**

The land use pattern of various categories of sampled farmers encompassing both members of credit cooperatives and beneficiaries of commercial banks is presented in Table 6.12.

Table 6.12 clearly shows a considerable difference between the land use pattern of the members of credit cooperatives and the beneficiaries of commercial banks of Buldana district. In the case of members of credit cooperatives, the average size of operational holding was estimated at 1.47 hectares for the small category, 3.09 hectares for the medium category and 6.60 hectares for the large category with an overall average size of land holding estimated at 3.21 hectares for the average category of members of credit cooperatives. Among the members of credit cooperatives, the intensity of cropping was seen to be the highest on the farms of large category of farmers, followed by small and medium category. Interestingly, while the medium and large categories of members of credit cooperatives showed higher cropping intensity on their irrigated area, the intensity of cropping for the small category of members was higher on their unirrigated



land as against their irrigated land. In general, the intensity of cropping on the average size of farm of the members of credit cooperatives was estimated at 115.12 per cent. Due to higher cropping intensity of irrigated area on the farms of medium and large category, the overall cropping intensity was also higher for irrigated area. Further, all the members of credit cooperatives showed substantially high proportion of their operational land holding under *kharif* season. Interestingly, the members of credit cooperatives were neither seen to grow any vegetable nor any perennial crop on their farms.

**Table 6.12: Land Holding Account of Sampled Farmers of Buldana District (in Hectares)**

House Hold No.	Small			Medium			Large			Overall		
	IR	UIR	Total	IR	UIR	Total	IR	UIR	Total	IR	UIR	Total
<b>Members of Credit Cooperatives</b>												
Owned land	0.30	1.51	1.47	0.63	2.51	3.14	1.10	5.50	6.60	0.58	2.66	3.23
Leased in land	-	-	-	-	-	-	-	-	-	-	-	-
Leased out land	-	-	-	-	0.06	0.06	-	-	-	-	0.02	0.02
Operational Holding	0.30	1.51	1.47	0.63	2.46	3.09	1.10	5.50	6.60	0.58	2.64	3.21
Uncultivated land	-	0.03	0.03	-	0.10	0.10	-	0.15	0.15	-	0.08	0.08
Barren land	0.01	0.05	6.33	-	0.17	0.17	-	0.05	0.05	0.01	0.09	2.92
Land under Misc. Tree & Crops	-	0.03	0.03	-	0.16	0.16	-	0.30	0.30	-	0.13	0.13
Net area cultivated	0.29	1.39	1.68	0.63	2.03	2.66	1.10	5.00	6.10	0.57	2.34	2.91
Area under kharif	0.13	1.55	1.68	0.46	2.14	2.60	1.00	5.00	6.00	0.42	2.45	2.87
Area under Rabi	0.18	0.07	0.25	0.35	0.05	0.40	0.60	0.30	0.90	0.31	0.12	0.43
Area under summer	-	-	-	-	-	-	-	-	-	-	-	-
Area under Perennial Crops	-	-	-	-	-	-	-	-	-	-	-	-
Gross cropped area	0.31	1.60	1.91	0.80	2.20	3.00	1.90	5.35	7.20	0.80	2.56	3.35
Cropping Intensity (%)	106.9	115.1	113.7	127.0	108.4	112.8	172.7	107.0	118.0	140.3	109.4	115.1
Area under orchard	-	-	-	-	-	-	-	-	-	-	-	-
Area under vegetables	-	-	-	-	-	-	-	-	-	-	-	-
<b>Beneficiaries of Commercial Banks</b>												
Owned land	0.07	1.22	1.29	0.86	2.33	3.19	1.30	4.90	6.20	0.52	2.23	2.75
Leased in land	-	-	-	-	-	-	-	-	-	-	-	-
Leased out land	-	-	-	-	-	-	-	-	-	-	-	-
Operational Holding	0.07	1.22	1.29	0.86	2.33	3.19	1.30	4.90	6.20	0.52	2.23	2.75
Uncultivated land	-	0.05	0.05	0.01	0.04	0.05	-	0.25	0.25	0.01	0.08	0.09
Barren land	-	-	-	-	0.11	0.11	-	0.30	0.30	-	0.09	0.09
Land under Misc. Tree & Crops	-	0.01	-	0.01	0.04	0.05	-	0.10	0.10	0.01	0.03	0.03
Net area cultivated	0.07	1.16	1.24	0.84	2.14	2.98	1.30	4.25	5.55	0.50	2.03	2.54
Area under kharif	0.07	1.13	1.20	0.60	1.62	2.22	1.20	4.25	5.45	0.43	1.90	2.33
Area under Rabi	0.04	0.04	0.08	0.28	-	0.28	1.00	-	1.00	0.30	0.02	0.32
Area under summer	-	-	-	-	-	-	-	-	-	-	-	-
Area under Perennial Crops	-	-	-	0.24	-	0.24	0.10	-	0.10	0.08	-	0.08
Gross cropped area	0.11	1.20	1.31	1.12	2.14	3.26	2.30	4.25	6.55	0.80	2.05	2.05
Cropping Intensity (%)	157.1	103.5	105.7	133.3	100.0	109.4	176.9	100.0	118.0	160.0	101.0	112.2
Area under orchard	-	-	-	0.24	-	0.24	0.13	-	0.13	0.08	-	0.08
Area under vegetables	-	-	-	0.08	-	0.08	0.25	-	0.25	0.07	-	0.07

As for the beneficiaries of commercial banks, the average size of operational holding was worked out at 1.29 hectares for the small category, 3.19 hectares for the medium category and 6.20 hectares for the large category. In general, the average size of operational land holding for the average category of beneficiaries of commercial banks was estimated at 2.75 hectares. Like members of credit cooperatives, the intensity of cropping was seen to be higher on the farms of large category, followed by small and medium category of beneficiaries of commercial banks. Further, all the categories of beneficiaries of commercial banks showed higher intensity of cropping on their irrigated area as against the unirrigated area. The intensity of cropping on the average size of farm of the beneficiary of commercial banks was estimated at 112.20 per cent. The beneficiaries of commercial banks also showed substantially high proportion of their operational land holding under *kharif* season as against the *rabi* season. The medium and large categories of beneficiaries also showed a reasonable area under perennial crops as well as under orchards and vegetables.

Thus, the members of credit cooperatives have not only shown higher operational land holding but also higher intensity of cropping on their farms as against the beneficiaries of commercial banks. Although the intensity of cropping was noticed to be higher on irrigated area of both members of credit cooperatives and the beneficiaries of commercial banks, in relative terms the proportion of area under assured irrigation stood at much lower for the beneficiaries of commercial banks as compared to the members of credit cooperatives. The large category of beneficiary of commercial banks showed very high proportion of their operational land holding under assured irrigation as against the small and medium categories of beneficiaries of commercial banks.

#### **6.2.4 Cropping Pattern of the Sampled Farmers of Buldana District**

The information on area under different crops grown on irrigated and unirrigated farms of both sampled members of credit cooperatives and the beneficiaries of commercial banks is brought out in Table 6.13.

It could be readily discerned from Table 6.13 that cotton, hybrid *jowar*, *moong*, *udid*, and to some extent *tur* and soybean were the major crops that dominated the cropping pattern of members of credit cooperatives during *kharif* season, whereas gram and wheat occupied the major proportion of their total cultivated area during *rabi* season. In fact, cotton was seen to be cultivated by all the categories of members of credit cooperatives, particularly under rainfed conditions or on unirrigated area. Similarly, these

members of credit cooperatives were also seen to cultivate various other crops like hybrid *jowar*, *moong*, *tur*, soybean, gram, etc. on unirrigated area or under rainfed conditions. However, the cultivation of wheat by these sampled farmers was seen only on irrigated area. A further analysis of Table 6.13 also revealed an increase in area under majority of the *kharif* and *rabi* crops with the increase in land holding size of members of credit cooperatives. Some of the crops like maize and sesame were found to be cultivated by large category of members of credit cooperatives, particularly under rainfed conditions.

Table 6.13: Cropping Pattern of Sampled Farmers of Buldana District

(Area in Hectares)

Crops	Small			Medium			Large			Overall		
	IR	UIR	Total	IR	UIR	Total	IR	UIR	Total	IR	UIR	Total
<b>Members of Credit Cooperatives</b>												
<b>Kharif</b>												
Hy. Jowar	-	0.27	0.27	-	0.37	0.37	0.35	1.05	1.40	0.07	0.46	0.53
Maize	-	-	-	-	-	-	-	0.15	0.15	-	0.03	0.03
Cotton	0.13	0.69	0.82	0.17	0.91	1.09	0.15	1.75	1.90	0.15	0.98	1.13
Groundnut	-	0.02	0.02	-	-	-	-	-	-	-	0.01	0.01
Soybean	-	0.04	0.04	0.17	0.06	0.23	-	0.50	0.50	0.06	0.14	0.20
Moong	-	0.26	0.26	-	0.48	0.48	0.10	0.90	1.00	0.02	0.47	0.49
Udid	-	0.09	0.09	0.09	0.17	0.26	0.35	0.25	0.60	0.10	0.15	0.25
Tur	-	0.18	0.18	0.03	0.14	0.17	0.05	0.25	0.30	0.02	0.18	0.20
Sesamum	-	-	-	-	-	-	-	0.15	0.15	-	0.03	0.03
<b>Rabi</b>												
Jowar	-	0.02	0.02	-	-	-	-	-	-	-	0.01	0.01
Gram	-	0.05	0.05	0.09	0.05	0.14	0.25	0.30	0.55	0.08	0.11	0.19
Wheat	0.18	-	0.18	0.26	-	0.26	0.35	-	0.35	0.23	-	0.23
<b>Beneficiaries of Commercial Banks</b>												
<b>Kharif</b>												
Hy. Jowar	-	0.15	0.15	0.20	0.28	0.48	0.35	1.00	1.35	0.12	0.32	0.44
Bajara	-	-	-	-	-	-	-	-	-	-	-	-
Maize	-	-	-	-	0.08	0.08	-	-	-	-	0.02	0.02
K. Jowar	-	-	-	-	-	-	-	-	-	-	-	-
Cotton	0.07	0.61	0.68	0.40	0.60	1.00	0.15	2.25	2.40	0.17	0.93	1.10
Tur	-	0.15	0.15	-	0.18	0.18	0.05	0.35	0.40	0.01	0.20	0.21
Soybean	-	0.04	0.04	-	-	-	-	-	-	-	0.02	0.02
Brinjal & Chilly	-	-	-	-	-	-	0.20	-	0.20	0.04	-	0.04
Moong	-	0.15	0.15	-	0.44	0.44	0.35	0.40	0.75	0.07	0.33	0.40
Udid	-	0.03	0.03	-	0.04	0.04	0.10	0.25	0.35	0.02	0.08	0.10
<b>Rabi</b>												
Wheat	0.04	-	0.04	0.10	-	0.10	0.70	-	0.70	0.19	-	0.19
Gram	-	0.04	0.04	0.10	-	0.10	0.25	-	0.25	0.08	0.02	0.10
Onion & Chilly	-	-	-	0.08	-	0.08	0.05	-	0.05	0.03	-	0.03
<b>Perennial</b>												
Banana	-	-	-	0.24	-	0.24	0.13	-	0.13	0.08	-	0.08

The crops that dominated the cropping pattern of various categories of beneficiaries of commercial banks of Buldana district were cotton, *moong*, hybrid *jowar* and *tur* in *kharif* season and wheat and gram in *rabi* season. The other important *kharif*

crops cultivated by the beneficiaries of commercial banks were *brinjal*, chilly, soybean and maize. Medium and large category of beneficiaries were also seen to have a reasonable area under banana cultivation. Some of the medium category of beneficiaries were also found to cultivate onion and chilly during *rabi* season. In fact, the beneficiaries of commercial banks of Buldana district were cultivating majority of *kharif* and *rabi* crops under rainfed conditions. These beneficiaries of commercial banks also showed an increase in area under most of the crops with the increase in their land holding size.

The foregoing evaluation clearly shows the predominance of cotton, *moong*, hybrid *jowar* and wheat in the cropping pattern of both members of credit cooperatives and the beneficiaries of commercial banks. The other less important crops cultivated by these sampled farmers were *tur*, *udid*, soybean and maize. In fact, the general cropping pattern of the members of credit cooperatives and the beneficiaries of commercial banks was in favour of cultivation of cotton, *jowar*, *moong*, *udid*, *tur*, soybean and maize in *kharif* season and wheat and gram in *rabi* season. And, these sampled farmers did not show much difference as far as their cropping pattern in general was concerned. However, some of the vegetable crops like *brinjal*, onion and chilly and also fruit crop like banana found their place in the cropping pattern of beneficiaries of commercial banks of Buldana district.

#### **6.2.5 General Borrowing Positions of the Sampled Farmers of Buldana District**

The members of credit cooperatives and the beneficiaries of commercial banks borrowed loans not only from their concerned credit institution but also from other financial institutions. While the members of credit cooperatives were found to borrow loans from their concerned PACS as well as from commercial banks, the beneficiaries of commercial banks also borrowed loans not only from their concerned banks but also from PACS. The borrowing positions of different categories of members of credit cooperatives and the beneficiaries of commercial banks encompassing the period between 1992 and 1999 are brought out in Tables 6.14 (a) and 6.14 (b).

As for the general borrowing position, the members of credit cooperatives of Buldana district were seen to be in favour of receiving crop loans. Although majority of the members of credit cooperatives borrowed crop loans from their concerned PACS, some of them were also found to borrow such loans from commercial banks. These members of credit cooperatives showed a sharp and steady increase in their amount of crop loans received from PACS over time. During the period between 1992 and 1999, the

increase in amount of crop loans received from PACS was seen to be from Rs.433 to Rs.2833 in the case of small category, Rs.1643 to Rs.6357 for medium category and from Rs.5500 to Rs.9500 for the large category of members of credit cooperatives. The average category of members of credit cooperatives showed an increase in their amount of crop loans borrowed from PACS from Rs.1870 in 1992 to Rs.5400 in 1999. This gives an indication of nearly three folds rise in amount of crop loans borrowed by these members of credit cooperatives from their concerned banks during the given period of time.

**Table 6.14 (a): General Borrowing Position of Members of Credit Cooperatives: Buldana District**  
(Amount in Rs./Household)

Particulars	1992	1993	1994	1995	1996	1997	1998	1999
<b>Loans from PACS</b>								
<b>Small</b>								
Purpose	01	01	01	01	01	01	01	01
Amount borrowed / H.H (Rs.)	433.33	788.88	1522.22	1388.88	1588.88	1833.33	2222.22	2833.33
Type / tenure of loan	12 months							
Annul interest rate (%)	12-13	12-13	12-15	12-13	14 -15	14 -15	14 -15	14 -15
No. of installment	one installment							
Amount in each installment	494.44	892.89	1721.22	1568.33	1807.44	1980.00	2548.88	3377.77
Total amount repaid (Rs )	494.44	892.89	1401.78	1568.33	1807.44	1980.00	2548.88	3250.00
Outstanding loan (Rs )	-	-	319.44	-	-	-	-	127.77
<b>Medium</b>								
Purpose	01	01	01	01	01	01	01	01
Amount borrowed / H.H	1642.86	1785.71	2071.43	2842.86	2285.71	4071.43	5142.86	6357.14
Type / tenure of loan	12 months							
Annul interest rate (%)	12 - 13	13	13	12 - 13	13-14	13-15	13-15	13-15
No. of installment	one installment							
Amount in each installment.	1853.57	2017.86	2340.71	3230.28	2587.14	4620.71	5872.85	7262.86
Total amount repaid	1853.57	2017.86	2340.71	3230.28	2587.14	4620.71	5872.85	7262.86
Outstanding loan	-	-	-	-	-	-	-	-
<b>Large</b>								
Purpose	01	01	01	01	01	01	01	01
Amount borrowed / H.H	5500.00	5500.00	5500.00	7250.00	7250.00	8000.00	10000.00	9500.00
Type / tenure of loan	12 months							
Annul interest rate (%)	13	13	13	13 - 14	13 - 14	14	13 - 15	13 - 15
No. of installment	one installment							
Amount in each installment.	6215.00	6215.00	6215.00	8222.50	8247.50	9120.00	11418.75	10851.25
Total amount repaid (Rs )	6215.00	6215.00	6215.00	8222.50	8247.50	9120.00	11418.75	10851.25
Outstanding loan (Rs )	-	-	-	-	-	-	-	-
<b>Overall</b>								
Purpose	01	01	01	01	01	01	01	01
Amount borrowed / H.H	1870.00	2080.00	2510.00	3070.00	2965.00	3850.00	4800.00	5400.00
Type / tenure of loan	12 months							
Annul interest rate (%)	12-13	12-13	12-15	12-14	12-15	13 - 15	13-15	12-15
No. of installment	one installment							
Amount in each installment.	2114.25	2351.01	2836.79	3480.85	3368.35	4332.25	5486.24	6232.25
Total amount repaid (Rs )	2114.25	2351.01	2693.05	3480.85	3368.35	4332.25	5486.24	6174.75
Outstanding loan (Rs )	-	-	143.74	-	-	-	-	57.50

Contd...Table 6.14 (a): General Borrowing Position of Members of Credit Cooperatives: Buldana  
(Amount in Rs./Household)

Particulars	1992	1993	1994	1995	1996	1997	1998	1999
<b>Loans from commercial bank</b>								
<b>Small</b>								
Purpose	Crop loan							
Amount borrowed / H.H	-	-	333.33	333.33	444.44	555.56	555.56	666.67
Type / tenure of loan(months)	12 months							
Annul interest rate (%)	-	-	14	14	14	14	14	14
No. of installment	one installment							
Amount in each installment.	-	-	380.00	380.00	506.67	633.33	633.33	760.00
Total amount repaid (Rs )	-	-	380.00	380.00	506.67	633.33	633.33	760.00
Outstanding loan (Rs )	-	-	-	-	-	-	-	-
<b>Medium</b>								
Purpose	-	-	-	-	-	-	-	-
Amount borrowed / H.H	-	-	-	-	-	-	-	-
Type / tenure of loan(months)	-	-	-	-	-	-	-	-
Annul interest rate (%)	-	-	-	-	-	-	-	-
No. of installment	-	-	-	-	-	-	-	-
Amount in each installment.	-	-	-	-	-	-	-	-
Total amount repaid (Rs )	-	-	-	-	-	-	-	-
Outstanding loan (in Rs )	-	-	-	-	-	-	-	-
<b>Large</b>								
Purpose	Crop loan							
Amount borrowed / H.H	2500.00	2500.00	2500.00	2500.00	3750.00	3750.00	5000.00	6250.00
Type / tenure of loan (months)	12 months							
Annul interest rate (%)	12	12	13	13	13	13	13	12
No. of installment	one installment							
Amount in each installment.	2800.00	2800.00	2825.00	2825.00	4237.00	4237.00	5650.00	7000.00
Total amount repaid (Rs )	2800.00	2800.00	2825.00	2825.00	4237.00	4237.00	5650.00	7000.00
Outstanding loan (Rs )	-	-	-	-	-	-	-	-
<b>Overall</b>								
Purpose	Crop loan							
Amount borrowed / H.H	500.00	500.00	649.99	649.99	949.99	1000.00	1250.00	1550.00
Type / tenure of loan(months)	12 months							
Annul interest rate (%)	12	12	13 - 14	13 - 14	13 - 14	13 - 14	13 - 14	12 - 14
No. of installment	one installment							
Amount in each installment.	560.00	560.00	736.00	736.00	1075.50	1132.50	1414.99	1742.00
Total amount repaid (Rs )	560.00	560.00	736.00	736.00	1075.50	1132.50	1414.99	1742.00
Outstanding loan (Rs )	-	-	-	-	-	-	-	-

An increase in amount of crop loans was also seen with the increase in land holding size of the members of these credit cooperatives. The repayment performance was seen to be remarkable, particularly in the case of medium and large category of members as there was no outstanding crop loans with them during the entire period between 1992 and 1999. In fact, it was only in the case of small category of members that a marginal amount of outstanding crop loans due to PACS was noticed in 1994 and 1999.

Although some of the small and large categories of members of credit cooperatives were also borrowing crop loans from commercial banks, the amount of crop loans borrowed by them from these banks turned out to be very low as compared to the

amount of such loans received/borrowed by them from PACS. In general, the amount of crop loans borrowed by these members from commercial banks had increased from Rs.500 in 1992 to Rs.1500 in 1999. These members of credit cooperatives also did not show any outstanding crop loans due to commercial banks during the entire given period.

During the given period between 1992 and 1999, the beneficiaries of commercial banks were found to borrow loans from their concerned banks for varied purposes, which not only included crop loans but also loans for goat keeping, drip irrigation, cloth, grocery and other retail shops, auto purchase, and also for readymade cloth manufacturing. The annual rates of interest on these loans obviously had varied, though within the range of 12-15 per cent per annum. Although the amount of loans borrowed by small category of beneficiary from their concerned banks was lower as compared to medium and large categories of beneficiaries, this category showed larger variation in their amount of loans borrowed during the given period of time. During the period between 1992 and 1999, the amount of loans borrowed from commercial banks was seen to increase from Rs.727 to Rs.3273 in the case of small category of beneficiary, Rs.1400 to Rs.2815 for medium category, and from Rs.5000 to Rs.18750 for the large category of beneficiary. This is an indication of the fact that the amount of loans borrowed by these beneficiaries from their concerned banks increased with the increase in their land holding size. The large category of borrowers showed substantially large amount of loans borrowed by them from their concerned banks. In general, the average category of beneficiaries showed an increase in their amount of loans borrowed from their concerned banks from Rs.1749 in 1992 to Rs.6254 in 1999. Among various categories, the repayment of loans borrowed from commercial banks during the given period was not seen to be very satisfactory in the case of small category of beneficiaries. Even the large category of beneficiaries showed considerable outstanding loans due to commercial banks in 1996, 1997 and 1998. Similarly, medium category of beneficiaries also showed a substantial amount of outstanding loans due to commercial banks in 1999.

All the beneficiaries of commercial banks were also found to borrow crop loans from PACS. The amount of crop loans borrowed by these beneficiaries from PACS had increased from Rs.536 in 1992 to Rs.1227 in 1999 in the case of small category, from Rs.180 in 1992 to Rs.1600 in 1999 for medium category and from Rs.7500 in 1992 to Rs.11250 in 1996 for the large category. In general, the increase in amount of crop loans borrowed by these beneficiaries from PACS had increased from Rs.1804 in 1992 to

Rs.2575 in 1999. This is an indication of the fact that the amount of crop loans borrowed by these beneficiaries from PACS was not very high as compared to loans borrowed by them from their concerned banks. Interestingly, non of the beneficiaries of commercial banks showed any outstanding crop loans due to PACS during the entire period between 1992 and 1999.

**Table 6.14 (b): General Borrowing Position of Beneficiaries of Commercial Banks:  
Buldana District**

(Amount in Rs./Household)

Particulars	1992	1993	1994	1995	1996	1997	1998	1999
<b>Loans from commercial bank</b>								
<b>Small</b>								
Purpose	01	01; 02; 03	01; 02	01; 03; 04	01; 04	01; 05	01	01; 04
Amount borrowed / H.H	727.27	2090.91	1818.18	2954.55	2227.27	2227.27	1818.18	3272.73
Type / tenure of loan (years)	1	1-3	1-5	1-3	1-3	1-5	1	1-5
Annul interest rate (%)	12	12-14	12	13-14	13-14	13-15	12-15	12-15
No. of installment	1	1-3	1-5	1-3	1-3	1-5	1	1-5
Amount in each installment.	814.55	2369.09	2036.36	3359.09	2530.00	2537.73	2063.64	3729.55
Total amount repaid	814.55	1823.64	1927.27	1890.00	1408.18	1610.45	1906.82	2440.91
Outstanding loan	-	545.45	109.09	1469.09	1121.87	927.27	156.82	1288.64
<b>Medium</b>								
Purpose	01	01	01; 05	01	01	01	01	01; 06; 07
Amount borrowed / H.H	1400.00	3400.00	8600.00	6200.00	9400.00	11800.00	11800.00	2815.20
Type / tenure of loan (years)	1	1	3	1	1	1	1	1-5
Annul interest rate (%)	13	12-13	12-15	12-13	12-14	12-15	13-15	12-15
No. of installment	1	1	3	1	1	1	1	1-5
Amount in each installment.	1582.00	3824.00	9760.00	6982.00	10638.00	13362.00	13438.00	32145.18
Total amount repaid	1582.00	3824.00	9310.00	6982.00	10638.00	13362.00	13438.00	16269.00
Outstanding loan	-	-	450.00	-	-	-	-	15876.18
<b>Large</b>								
Purpose	01	01	01	01	01	01; 08	01; 06	01
Amount borrowed / H.H	5000.00	6250.00	6250.00	7500.00	10000.00	21452.00	42000.00	18750.00
Type / tenure of loan (years)	1	1	1	1	1	1-3	1-5	1
Annul interest rate (%)	12	13	13	14	12-14	12-15	14-15	14-15
No. of installment	1	1	1	1	1	1-3	1-5	1
Amount in each installment.	5600.00	7062.50	7062.50	8550.00	11362.50	22812.81	40997.50	21475.00
Total amount repaid	5600.00	7062.50	7062.50	8550.00	8550.00	8275.00	26550.00	21475.00
Outstanding loan	-	-	-	-	2812.50	4537.81	14447.50	-
Remark						6000 (1/2 <sup>th</sup> subsidy)	24500 (1/4 <sup>th</sup> subsidy)	
<b>Overall</b>								
Purpose	01	01; 02; 03	01; 02; 05	01; 03; 04	01; 04	01; 05; 08	01; 06	01; 04; 06; 07
Amount borrowed / H.H	1750.00	3250.00	4400.00	4675.00	5575.00	8465.40	12350.00	6253.80
Type / tenure of loan (years)	1	1-3	1-5	1-3	1-3	1-5	1-5	1-5
Annul interest rate (%)	12-13	12-14	12-15	12-14	12-14	12-15	12-15	12-15
No. of installment	1	1-3	1-5	1-3	1-3	1-5	1-5	1-5
Amount in each installment.	1963.50	3671.50	4972.50	5303.00	6323.50	9298.81	12694.00	14382.55
Total amount repaid	1963.50	3371.50	4800.00	4495.00	5144.00	5881.25	9718.25	9704.75
Outstanding loan	-	300.00	172.50	808.00	1179.53	1417.56	2975.75	4677.80

Note: @ - 01 : Crop Loan; 02 : Cloth Shop; 03 : Kirana Shop; 04 : Goat Keeping; 05 : Retail Shop; 06 : Drip Irrigation; 07 : Auto Purchase; 08 : Readymade Cloth Manufacture



Contd....Table 6.14 (b): General Borrowing Position of Beneficiaries of Commercial Banks:  
Buldana District

(Amount in Rs./Household)

Particulars	1992	1993	1994	1995	1996	1997	1998	1999
<b>Loans from PACS</b>								
<b>Small</b>								
Purpose	Crop loan							
Amount borrowed	536.36	672.72	763.64	790.90	836.36	909.09	954.55	1227.27
Type / tenure of loan	12 months							
Annul interest rate (%)	12-13	12-13	12-13	12-13	12-13	12-14	12-15	12-15
No. of installment	one installment							
Amount in each installment.	603.09	755.81	854.54	890.09	941.45	1030.90	1092.73	1196.81
Total amount repaid	603.09	755.81	854.54	890.09	941.45	1030.90	1092.73	1196.81
Outstanding loan	-	-	-	-	-	-	-	-
<b>Medium</b>								
Purpose	Crop loan							
Amount borrowed	180.00	180.00	180.00	180.00	400.00	600.00	900.00	1600.00
Type / tenure of loan	12 months							
Annul interest rate (%)	14	14	14	15	15	15	15	15
No. of installment	one installment							
Amount in each installment.	203.40	203.40	203.40	207.00	460.00	960.00	1155.00	1240.00
Total amount repaid	203.40	203.40	203.40	207.00	460.00	960.00	1155.00	1240.00
Outstanding loan	-	-	-	-	-	-	-	-
<b>Large</b>								
Purpose	Crop loan							
Amount borrowed	7500.00	7750.00	8250.00	10000.00	11250.00	6750.00	7500.00	7500.00
Type / tenure of loan	12 months							
Annul interest rate (%)	12	12	12	14	14	14	15	15
No. of installment	one installment							
Amount in each installment.	8437.50	8717.50	9322.50	11300.00	12762.50	7672.50	8525.00	8525.00
Total amount repaid	8437.50	8717.50	9322.50	11300.00	12762.50	7672.50	8525.00	8525.00
Outstanding loan	-	-	-	-	-	-	-	-
<b>Overall</b>								
Purpose	Crop loan							
Amount borrowed	1839.99	1965.00	2115.00	2480.00	2810.00	2000.00	2250.00	2575.00
Type / tenure of loan	12 months							
Annul interest rate (%)	12-14	12-14	12-14	12-14	12-14	13-14	13-15	13-15
No. of instalment	one installment							
Amount in each instalment.	2070.05	2210.05	2387.55	2801.29	3185.30	2341.50	2594.75	2673.25
Total amount repaid	2070.05	2210.05	2387.55	2801.29	3185.30	2341.50	2594.75	2673.25
Outstanding loan	-	-	-	-	-	-	-	-

Note: @ - 01 : Crop Loan; 02 : Cloth Shop; 03 : Kirana Shop; 04 : Goat Keeping; 05 : Retail Shop; 06 : Drip Irrigation; 07 : Auto Purchase; 08 : Readymade Cloth Manufacture

The foregoing evaluation of general borrowing position of the sampled farmers during the given period of time shows two differing scenarios. While the beneficiaries of commercial banks were borrowing loans from their concerned banks for multiple purposes, which not only included crop loans but also loans for goat keeping, drip irrigation, cloth, grocery and other retail shops, auto purchase, readymade cloth

manufacturing, etc., the members of credit cooperatives, on the other hand, borrowed only crop loans from their concerned PACS as well as from commercial banks. Contrary to this, some of the beneficiaries of commercial banks were not only borrowing crop loans from their concerned banks as well as from PACS but also loans for varied other purposes from their concerned banks. The beneficiaries of commercial banks were, therefor, availing the benefit of ST, MT and LT loans. Nonetheless, the amount of crop loans borrowed from PACS by the beneficiaries of commercial banks was smaller as compared to the crop loans received by them from their concerned banks. As for the repayment of crop loans, both members of credit cooperatives and beneficiaries of commercial banks showed satisfactory performance as there was hardly any outstanding crop loans due to PACS or commercial banks during the entire period between 1992 and 1999. However, the repayment of medium and long term loans received by the beneficiaries for various purposes from their concerned banks was not very satisfactory as majority of the beneficiaries showed substantial outstanding loans due to their concerned banks during the given period between 1992 and 1999. This held particularly true in the case of small category of beneficiaries of commercial banks. Large category also showed a substantial amount of outstanding MT and LT loans due to their concerned banks in 1996, 1997 and 1998. Similarly, medium category of beneficiaries showed substantial amount of outstanding loans due to their concerned banks in 1999. Thus, while the members of credit cooperatives were chiefly dependent on ST loans, i.e., crop loans, the beneficiaries of commercial banks not only borrowed crop loans but also loans for various other MT and LT purposes. The dependency on MT and LT loans was seen to be higher in the case of large category, followed by medium and small category of beneficiaries. In other words, the dependency on MT and LT loans increased with the increase in land holding size of the beneficiaries of commercial banks.

#### **6.2.6 Member's / Beneficiary's Perception About the Functioning of PACS/Commercial Banks in Buldana District**

In this section, the responses/opinions of the sampled farmers of Buldana district have been evaluated with respect to the criteria and reasons for becoming members/beneficiaries of their concerned financial institutions and the role of these credit institutions in respect of increasing their productive capabilities, besides recording their suggestions for the smooth functioning of these credit institutions.

### **6.2.6.1 Criteria /Conditions and Reasons for Becoming Members of PACS and Beneficiaries of Commercial Banks in Buldana District**

The sampled members of PACS/beneficiaries of commercial banks of Buldana district were seen to cite eight criteria/conditions and 11 reasons for becoming members/beneficiaries of their concerned credit institutions. The responses of sampled farmers with respect to these criteria and reasons have been brought out in Table 6.15.

Although the conditions were laid down by the concerned credit institutions, the sampled farmers had their own reasons to become members/beneficiaries of these credit institutions. The major criteria / conditions laid down by the concerned credit institutions for their membership were: (a) a farmer should be in possession of 7/12 land holding certificate, (b) should be above 18 years of age, (c) must be a share holder, (d) must be a native of the same village, (e) must have minimum 5 per cent share with the concerned credit institution; (f) he must produce NOC from other financial institutions with respect to loan facility; (g) his name should be included in the list of economic backward class in case of applying for subsidy; and (h) he must have minimum Rs.250 as bank balance to retain his account with the bank. Among these criteria, the first three and also the sixth one enlisted in Table 6.15 assumed larger significance and turned out to be most important criteria as about 40-50 per cent of the sampled members of credit cooperatives and beneficiaries of commercial banks responded in favour of having an awareness of these criteria laid down by their concerned credit institutions for membership. In general, small and medium categories among the members of credit cooperatives and all the categories of beneficiaries of commercial banks showed greater awareness about these four major criteria for becoming members/beneficiaries of their concerned credit institutions. Further, since only a small number of beneficiaries obtained subsidy on loans due to their economic backwardness, the response in respect of this criteria laid down by the commercial bank was very low. Similarly, the response of the beneficiary with respect to keeping a minimum Rs.250 as bank balance to retain an account in the bank was also very low as only few medium category of beneficiaries had opened an account in their concerned commercial banks. The responses of the sampled farmers with respect to other criteria were negligible. Interestingly, many among the members of credit cooperatives and beneficiaries of commercial banks were unaware of several conditions laid down by their credit institutions with respect to membership despite the fact that these members/beneficiaries were availing loan facilities from these credit institutions.

**Table 6.15 : Member's / Beneficiary's Perception Regarding Criteria and Reasons for Becoming Members of PACS / Beneficiary of Commercial Bank: Buldana District**

(in per cent)

Criteria / Reasons	Credit Co-operative				Commercial Bank			
	S	M	L	O	S	M	L	O
<b>Criteria</b>								
a. Possession of land holding - certificate 7/12	55.56	57.14	25.00	50.00	40.00	60.00	40.00	45.00
b. Must be 18 years of age	55.56	42.86	25.00	45.00	50.00	60.00	40.00	50.00
c. Must be a share holder	44.44	42.86	25.00	40.00	40.00	20.00	40.00	35.00
d. Must be native of the same village	-	-	-	-	-	20.00	-	5.00
e. Must have 5% minimum share amount	11.11	-	-	5.00	-	-	-	-
f. NOC from other financial institutes	11.11	14.29	25.00	15.00	30.00	60.00	40.00	40.00
g. Inclusion of borrowers name in the list of economic backward class for subsidy	-	-	-	-	10.00	-	-	5.00
h. An initial deposit of Rs.250 for opening an account	-	-	-	-	-	20.00	-	5.00
<b>Reasons</b>								
a. Loans available on reasonable interest rates	33.33	14.26	25.00	25.00	30.00	20.00	60.00	35.00
b. Availability of crop loans	88.89	71.43	75.00	80.00	60.00	80.00	80.00	70.00
c. For selling cotton, green card is needed, that is obtainable if a farmer is member of PACS/CB	33.33	28.57	25.00	30.00	-	20.00	-	5.00
d. Availability of loans on time	22.22	14.26	25.00	20.00	20.00	-	-	10.00
e. Availability of loan for seed/fertilizer and also for the purchase of goats	-	-	-	-	10.00	-	-	5.00
f. Provision of loan under IRDP scheme	-	-	-	-	30.00	-	-	15.00
g. Submission of limited documents	-	14.26	-	5.00	-	-	-	-
h. Availability of ST loans from PACS and MT and LT from commercial banks	-	-	-	-	-	20.00	20.00	10.00
i. Membership necessary for election purpose	-	-	-	-	-	20.00	-	5.00
j. For availing seed / fertilizer on subsidized rates	-	-	25.00	5.00	-	-	-	-
k. Loans available for pipeline & drip irrigation	-	-	-	-	-	-	20.00	5.00

It is further interesting to note that majority of the sampled members of credit cooperatives and beneficiaries of commercial banks had cited availability of crop loan facility as the major reason for them to become member/beneficiary of their concerned credit institution. About 80 per cent of the sampled members of credit cooperatives and 70 per cent of the beneficiaries of commercial banks were seen to be in favour of these facilities being provided by their credit institution. Reasonable rates of interest on loans was cited as another major reason by them to become members/beneficiaries of their concerned credit institution. The beneficiaries of commercial banks responded more favourably in this respect as compared to the members of credit cooperatives. It could be noted that majority of the sampled farmers were cotton growers. These cotton growers required green card to sell their produce, which was obtainable if the farmer was member of PACS or beneficiary of commercial bank. Obviously, several members of credit

cooperatives and in particular medium category of beneficiaries of commercial banks responded in favour of this reason for them to become members/beneficiaries of their concerned credit institution. A reasonable section of sampled members of credit cooperatives had also cited timely availability of loan as the other reason for them to become members of their concerned PACS. The other less important reasons for becoming members of credit cooperatives or beneficiaries of commercial banks were: (a) the availability of loans from these credit institutions for seed/fertilizer and for goat keeping, (b) limited submission of documents for the disbursement of loan, (c) availability of loan for seeds/fertilizer on subsidized rates, (d) provision of loan under IRDP scheme, (e) availability of ST, MT and LT loans for various purposes, and (f) availability of loans for pipeline and for drip irrigation. Interestingly, some medium and large categories of beneficiaries also aired their view in favour of membership of PACS for election purposes.

In general, majority of the sampled members of credit cooperatives and beneficiaries of commercial banks favoured their credit institutions for the latter's extension of crop loan facility, reasonable rates of interest on these loans, timely disbursement of loans, provision of loans for various ST, MT and LT purposes, and subsidized rates of interest on certain loans.

#### **6.2.6.2 Sampled Farmer's Response Regarding Advantages and Disadvantages of Loans from PACS and Commercial Banks of Buldana District**

The sampled members of credit cooperatives as well as beneficiaries of commercial banks were seen to indicate several advantages and disadvantages not only of their concerned credit institutions but also of other financial institutions. The members of credit cooperatives had indicated different advantages and disadvantages of availing loans from their concerned PACS and also from commercial banks. Similarly, the beneficiaries of commercial banks had also cited numerous advantages and disadvantages of availing loans not only from their concerned banks but also from PACS. These advantages and disadvantages of the credit institutions have been carefully coded and the same have been brought out in Table 6.16.

A critical evaluation of Table 6.16 revealed more advantages than disadvantages of various credit institutions operating in the sampled backward district of Buldana. The members of credit cooperatives were found to indicate various advantages of availing loans from commercial banks, which not only included provision of loans by these banks

for long term purposes but also availability of larger amounts of such loans. These members of credit cooperatives were seen to cite several other major advantages of availing loans from the commercial banks, which mainly encompassed such facilities like timely availability of crop loans by these financial institutions, their lower rates of interest on certain loans, flexibility in their limits on loans for the purchase of fertilizer and other inputs, and flexibility being granted by them in terms of repayment of loans. The large category of members of credit cooperatives were forthcoming more favourably in terms of these advantages of availing loans from commercial banks. A section of members of credit cooperatives, particularly large and medium categories, also showed their dissatisfaction or concern in respect of availing loans from the commercial banks, especially because of their high transaction cost, higher rates of interest charged by them on certain loans, delay in disbursement of loans, excessive documental proof required by them for certain loans, and lack of cooperative nature of the staff of these banks while sanctioning loans.

Several advantages of availing loans from their own concerned PACS were also cited by the members of credit cooperatives. The major advantages in this respect revolved around availability of crop loan facility from PACS, reasonable rates of interest on such loans, availability of these loans on time, availability of loans from PACS for fertilizer/seeds at subsidized rates, availability of ST and MT loans from them for various agricultural purposes, limited requirement of documents by these PACS while sanctioning loans, and availability of dividend and *Kisan Credit Card* from these PACS. Majority of the sampled members of credit cooperatives were seen to air their view in favour of reasonable rates of interest on loans extended by PACS and availability of these loans on time. Limited requirement of documents while sanctioning loans was cited by most of the members of credit cooperatives as the other major advantage of availing loans from these PACS. On the other hand, these members were found to indicate certain disadvantages of their concerned PACS, which mainly encompassed non-availability of LT loans from these PACS, limited amounts of loans sanctioned by them, deduction of 5 per cent by them from the loan amount as share capital, non-availability of loans for all types of fertilizers, and the restriction extended by them to purchase fertilizer from a particular agency. The dissatisfaction in terms of non-availability of LT loans from PACS was more among medium category. Nonetheless, in general, large category showed more dissatisfaction insofar as the disadvantages in availing loans from PACS were concerned.

**Table 6.16: Sampled Farmers Responses Regarding Advantages and Disadvantages of Taking Loans from PACS and Commercial Banks: Buldana District (in per cent)**

Code	Members of Credit Cooperatives				Code	Beneficiaries of Commercial Banks			
	Small	Medium	Large	Overall		Small	Medium	Large	Overall
<b>Loans from Commercial Banks</b>									
<b>Advantages</b>					<b>Advantages</b>				
1.	11.11	14.29	25.00	15.00	1.	45.45	80.00	50.00	55.00
2.	-	-	25.00	5.00	2.	18.18	-	25.00	15.00
3.	11.11	-	25.00	10.00	3.	36.36	40.00	50.00	40.00
4.	-	-	25.00	5.00	4.	18.18	-	-	10.00
5.	11.11	-	-	5.00	5.	18.18	20.00	-	15.00
6.	11.11	-	-	5.00	6.	45.45	60.00	-	40.00
<b>Disadvantages</b>					<b>Disadvantages</b>				
1.	-	14.29	-	5.00	7.	-	20.00	-	5.00
2.	11.11	14.29	25.00	15.00	8.	36.36	40.00	50.00	40.00
3.	-	-	50.00	10.00	9.	9.99	-	-	5.00
4.	-	14.29	-	5.00	<b>Disadvantages</b>				
5.	-	-	25.00	5.00	1.	9.09	20.00	-	10.00
					2.	27.27	20.00	25.00	25.00
					3.	45.45	60.00	50.00	50.00
					4.	-	-	25.00	5.00
					5.	-	20.00	25.00	10.00
<b>Loans from PACS</b>									
<b>Advantages</b>					<b>Advantages</b>				
1.	11.11	-	25.00	10.00	1.	45.45	-	50.00	35.00
2.	55.56	57.14	50.00	55.00	2.	36.36	40.00	-	30.00
3.	44.44	85.71	50.00	60.00	3.	27.27	20.00	25.00	25.00
4.	-	-	50.00	10.00	4.	9.09	20.00	-	10.00
5.	-	14.29	25.00	10.00	5.	9.09	-	-	5.00
6.	55.56	71.43	25.00	55.00	6.	9.09	20.00	-	10.00
7.	11.11	14.29	25.00	15.00	7.	18.18	20.00	25.00	20.00
<b>Disadvantages</b>					<b>Disadvantages</b>				
1.	33.33	42.86	25.00	35.00	1.	9.09	-	25.00	10.00
2.	22.22	-	25.00	15.00	2.	27.27	40.00	-	25.00
3.	11.11	14.29	25.00	15.00	3.	-	20.00	25.00	10.00
4.	11.11	-	25.00	10.00	4.	27.27	40.00	-	25.00

Code: I - Members of Credit Cooperatives: *Loans from Commercial Banks: Advantages:* (1) Availability of long term (LT) loans; (2) Loans available in large amounts; (3) Availability of crop loans on time; (4) Loans available on lower rates of interest; (5) No restriction on loan amount for purchasing fertilizer; and (6) Not much restriction for repayment *Disadvantages:* (1) High interest rates on loan advances; (2) Demand of more documents; (3) Lengthy procedure involved in granting of loan; (4) non-cooperation; and (5) High transaction cost. *Loans from PACS: Advantages:* (1) Availability of crop loan facility; (2) Reasonable rates of interest; (3) Availability of loans on time; (4) Availability of fertilizer/seeds on time at subsidized rates; (5) Availability of ST/MT loans for agricultural purposes; (6) Demand of limited documents; and (7) Availability of dividend from PACS and Availability of Kisan Credit Card. *Disadvantages:* (1) Non-availability of LT loans; (2) Limited amount of loans; (3) Deduction of 5 per cent from loan amount as share capital; (4) Non availability of loans for all types of fertilizers and restriction for purchasing fertilizer from a particular agency.

II - Beneficiaries of Commercial Banks: *Loans from Commercial Banks: Advantages:* (1) Reasonable rates of interest on loans; (2) Availability of loan on time; (3) Availability of LT loans; (4) Availability of loan under IRDP scheme; (5) Availability of crop loans and for various inputs like seed, fertilizer, etc.; (6) Provision of subsidy on loan to backward classes; (7) Provision of deposit in bank; (8) Availability of loan for the purchase of goats and other animals; and (9) Reasonable number of instalments in terms of repayment of loan. *Disadvantages:* (1) High rates of interest on loan advances; (2) Delay in disbursement of loans; (3) Submission of more documents; (4) Compulsion of two guarantors; (5) Minimum deposit of Rs.250 at the time of opening the bank account. *Loans from PACS: Advantages:* (1) Availability of crop loans and loans for various inputs on time; (2) Loans available on low rates of interest; (3) Availability of loan at the time of nrrd; (4) Availability of green card for selling cotton; (5) 1/4<sup>th</sup> subsidy is available if loan is repaid on time; (6) Availability of loans from PACS for various purposes; and (7) Submission of limited documents. *Disadvantages:* (1) Restriction for purchasing seed/fertilizer; (2) Non-availability of LT loans; (3) Deduction of 5 % from loan amount; and (4) Restriction on loan amount.

From the point of view of the beneficiaries of commercial banks, provision of loan for LT purposes, reasonable rates of interest on ST loans, timely availability of loans, availability of loans under IRDP scheme, availability of crop loans and also for various inputs like seed, fertilizer, etc., provision of subsidy on loans to backward classes, provision of loan for goat keeping and for the purchase of other milch animals, reasonable number of installments in terms of repayment of loans, etc. were some of the major advantages of seeking loans from their concerned commercial banks. However, these beneficiaries had also indicated certain disadvantages of seeking loans from their concerned commercial banks, which mainly revolved around high rates of interest on their MT and LT loans, delay in disbursement of loans, demand for more documental proof by them while sanctioning loans, compulsion of two guarantors/surety at the time of sanctioning loans, and their compulsion to maintain Rs.250 as minimum bank balance to retain an account in the bank. In fact, majority of the sampled beneficiary of commercial banks had cited lengthy procedure and excessive paper work as the major drawbacks of these commercial banks.

Since some of the beneficiaries of commercial banks were also seeking loans from PACS, they had also cited certain advantages and disadvantages of availing loans from these PACS. The advantages of availing loans from PACS were in terms of: (a) their timely provision of crop loans and loans for various inputs, (b) reasonable rates of interest on their loans, (c) provision of green card by them to the farmers, (d) provision of subsidy on loans, and their limited paper work in terms of sanctioning of loans. The disadvantages in this respect were in terms of: (a) their restriction to purchase seed/fertilizer from a particular agency, (b) non-availability of LT loans from them, (c) their deduction of 5 per cent from the loan amount as share capital, and (d) limited amounts of their loans.

Thus, from the point of view of members of credit cooperatives and beneficiaries of commercial banks, both PACS and commercial banks are beset with several advantages as well as disadvantages or deficiencies. The PACS are favoured by both members of credit cooperatives and beneficiaries of commercial banks mainly because of their provision of crop loans, reasonable rates of interest and timely availability of their loans, availability of loans by them for various inputs like seeds, fertilizers, etc. on time, provision of dividend to their members, provision of subsidy by them on certain loans, and their provision of *Kisan Credit Card* and green card to their members for selling



cotton, etc. At the same time, these members of credit cooperatives and beneficiaries of commercial banks have also shown some dissatisfaction mainly because of inability of PACS to provide loans to them for LT purposes, limited amounts of loans of these PACS, their deduction of 5 per cent from loan amount as share capital, non-availability of loans from them for the purchase of all types of fertilizers, and their restriction to purchase seeds/fertilizers from a specific agency.

The commercial banks are also favoured not only by their own beneficiaries but also by the members of PACS, mainly due to their provision of loans for LT purposes, larger amounts of their loans, timely availability of crop loans by them and reasonable rates of interest on these loans, reasonable number of installments and flexibility in terms of repayment of their loans, their provision of loans for goat keeping and for the purchase of other milch animals, etc. However, excessive paper work of commercial banks while sanctioning loans, delay in disbursement of their loans, their high rates of interest on MT and LT loans, high transaction cost, their compulsion of two surety or guarantors at the time of sanctioning loans, their compulsion to maintain a minimum Rs.250 as bank balance to retain account, and non-cooperative nature of their staff are noticed to be some major disadvantages of availing loans from commercial banks. The medium and large categories of beneficiaries of commercial banks have shown more dissatisfaction in this respect as against the small category. In fact, among various disadvantages cited by the sampled farmers, the non-availability of LT loans from PACS, their limited amounts of loans or limits sanctioned on loans, their restriction with respect to purchase of fertilizer from a specific agency, the delay in disbursement of loans of commercial banks, excessive paper work of these banks, their high transaction cost, and their compulsion of two guarantors at the time of sanctioning loans require special attention of various policy makers or those who are concerned with the development of farming community in general and flow of credit to them in particular.

#### **6.2.6.3 Impact of PACS and Commercial Banks on Productive Capabilities in Buldana District**

The productive capabilities have been assessed in terms of increase in productivity of crops grown on farms of sampled farmers, increase in their use of fertilizer, pesticides, irrigation, etc., adoption of improved varieties of seeds and use of improved machinery by them, etc.

The responses of the sampled members of credit cooperatives and beneficiaries of commercial banks of Buldana district in terms of increase or decrease in their productive capabilities due to extension of loans from their concerned credit institutions are brought out in Table 6.17.

**Table 6.17: Impact of PACS and Commercial Banks on Productive Capabilities of Sampled Farmers: Buldana District**

Questions:	(in per cent)							
	Co-operative				Commercial Bank			
	S	M	L	O	S	M	L	O
<b>I. Do you think that the availability of credit from PACS / Commercial Bank has increased your Productive capability ?</b>								
a. Yes	100.00	85.71	100.00	95.00	81.82	100.00	100.00	90.00
b. No	-	14.29	-	5.00	18.18	-	-	10.00
If yes, please state in what way.								
a. Productivity of grown crops increased	100.00	85.71	100.00	95.00	63.64	100.00	100.00	80.00
b. Use of fertilizers increased	77.78	85.71	100.00	85.00	54.55	100.00	100.00	75.00
c. Use of pesticides improved	77.78	71.43	75.00	75.00	45.45	80.00	50.00	55.00
d. Adoption of improved/HYV seeds increased	33.33	28.57	-	25.00	36.36	60.00	50.00	45.00
e. Irrigation facilities increased	-	-	-	-	-	20.00	25.00	10.00
f. Use of machinery improved	11.11	-	-	5.00	-	-	-	-
<b>II. Is the community is general being benefited by the PACS/Commercial Bank ?</b>								
a. Yes.	-	-	-	-	18.18	-	-	10.00
b. No.	100.00	100.00	100.00	100.00	81.82	100.00	100.00	90.00
If yes, what steps being taken by the PACS/Commercial Bank for the benefit of the community ?								
a. Availability of loan facility for the purchase of tractor, harvester, cattle, buffalo, etc. has been instrumental for the overall development of the village	-	-	-	-	18.18	20.00	-	15.00
b. Helped in improving economic condition of the weaker section of the society	-	-	-	-	18.18	-	-	10.00

The responses of sampled members of credit cooperatives and beneficiaries of commercial banks were seen to be favourable in terms of increase in productive capabilities as majority of them firmly believed that the extension of loan through their concerned credit institutions had not only increased the productivity of crops grown on their fields but such loan facilities also helped them to use more fertilizer and pesticides on their farms. However, the responses of various categories of members of credit cooperatives were more favourable in this respect as against the beneficiaries of commercial banks. A significant section of medium and large categories of beneficiaries of commercial banks also believed that the loan facility from their concerned bank had helped them to use/adopt improved varieties of seeds/HYV seeds. A section of small and medium categories of members of credit cooperates also held similar kind of opinion. A

small section of medium and large categories of beneficiaries of commercial banks were of the view that the loans extended by their concerned banks had improved irrigation facilities. Nonetheless, mention may be made here that majority of the members of credit cooperatives and some of the beneficiaries of commercial banks chose to reserve their comments on the utility and impact of the credit cooperatives and commercial banks on the adoption of improved varieties of seeds/HYV seeds by them or increasing use of irrigation or improved machinery by them. Interestingly, none of the members of credit cooperatives believed that the community, in general, was benefited due to the lone facility extended by their concerned PACS. However, a small section of beneficiaries of commercial banks firmly believed that the availability of loan facility for the purchase of tractor, harvester, cattle, buffalo, etc. from their concerned banks had been instrumental for the overall development of the village. A few small categories of beneficiaries of commercial banks also held the opinion or believed that the provision of loans for various purposes from their concerned banks had not only improved their economic conditions but also of the weaker sections of the society in general.

#### **6.2.6.4 Member's / Beneficiary's Suggestions and Suggested Measures for Strengthening the Society/Commercial Bank Finances in Buldana District**

The suggestions of the sampled members of credit cooperatives encompassed provision of those facilities from their concerned credit institutions that were either absolutely missing from them or were extended by them with certain restrictions or at lower magnitude. Majority of the these members of credit cooperatives demanded provision of loans from their concerned PACS for the purchase of medicines or for meeting medical expenses and also a rise/hike in limits on ST and MT loans extended by them (Table 6.18). Medium and large categories of members were found to be more favourably inclined towards these facilities. A significant section of medium and large categories of members were also seen to be in favour of receiving various inputs like seed, fertilizer, pesticides, etc. from their concerned society rather than receiving loans for these inputs. Majority of the small category and some of the medium category of members of credit cooperatives were found to be in favour of taking stern/severe action against defaulters. This was certainly a welcome suggestion as this might enable the society to function more efficiently. A reasonable number of members of credit cooperatives also sought provision of LT loans from their concerned PACS, especially for the purchase of tractor and for other business activities. Lowering down the rates of

interest on ST loans, an increase in amount of crop loans, removal of restriction with respect to purchase of fertilizer from a particular agency, introduction of an element of subsidy on various kinds of loans, provision of loans for digging well/bore well and for pipeline, etc. were some other suggestions put forward by these members of credit cooperatives (Table 6.18). A section of medium and large categories of members of credit cooperatives were also in favour of opening up of fair price shop/control shop/ration shop by their concerned PACS.

**Table 6.18 : Sampled Farmer's Suggestions for Strengthening the Society (PACS) / Commercial Bank Finances in Buldana District**

	Suggestions	(in per cent)							
		Co-operative				Commercial Bank			
		S	M	L	O	S	M	L	O
1.	The society/banks should also provide loan for meeting medical expenses.	55.56	57.14	50.00	55.00	45.45	60.00	50.00	50.00
2.	The society/banks should also increase finance limit on ST, MT and LT loan advances.	44.44	85.71	50.00	60.00	36.36	40.00	50.00	40.00
3.	Crop insurance scheme should be introduced and limit on crop loans should be increased	11.11	14.29	-	10.00	9.09	-	-	1.00
4.	There should be provision of loan for digging well/bore well and pipeline	22.22	14.29	25.00	20.00	9.09	20.00	-	10.00
5.	Provision of L.T. loan from PACS for various business activities and for the purchase of tractor	33.33	28.57	25.00	30.00	45.45	20.00	25.00	35.00
6.	Action should be taken against defaulters. This will improve the efficiency of the society.	55.55	14.29	-	30.00	-	-	-	-
7.	Instead of providing loans for fertilizer, pesticides, etc., these inputs should be provided by the PACS at the village level.	22.22	42.86	50.00	35.00	9.09	-	-	5.00
8.	Interest rates on various ST loans should be brought down	11.11	-	25.00	10.00	-	-	-	-
9.	There should not be any restriction with respect to purchase of fertilizer from a particular agency	11.11	-	-	5.00	-	-	-	-
10.	PACS should start control shop/ration shop	-	28.57	25.00	15.00	-	-	25.00	10.00
11.	There should be provision of loan for the purchase of bullock cart	-	-	-	-	9.09	-	-	5.00
12.	There should be some amount of subsidy on loan	11.00	-	-	5.00	-	20.00	-	5.00
13.	These commercial banks should not demand more documents as this increases the expenditure of the borrower.	-	-	-	-	18.18	20.00	25.00	20.00
14.	The PACS should not deduct 5 per cent from the loan amount	-	-	-	-	-	-	25.00	10.00
15.	The commercial banks should not compel the farmers to sign a particular declaration at the time of sanctioning loans.	-	-	-	-	-	-	25.00	10.00

Like members of credit cooperatives, the beneficiaries of commercial banks had also extended their suggestions with respect to smooth functioning of their concerned banks. Through their suggestions a significant section of the beneficiaries of commercial banks sought provisions of loans from their concerned banks for medical treatment, provision of loans from PACS for LT purposes, and flexibility in terms of limits on

various ST, MT and LT loans of their concerned banks. Some of the large category of beneficiaries were in favour of opening up of fair price shop through their concerned banks. This section of beneficiaries also showed their concern for the five per cent deduction from the loan amount by the PACS. They were also not in favour signing any document at the time of seeking loans from their concerned banks. A reasonable number of beneficiaries of commercial banks were in favour of reducing the number of documents that were demanded by their concerned banks while sanctioning loans. They believed that excessive documents demanded by the commercial banks tended to increase the expenditure of the borrower.

In general, the major suggestions of the members of credit cooperatives and the beneficiaries of commercial banks were in favour of provision of loans from their concerned credit institutions for medical treatment and flexibility in terms of limits on ST, MT and LT loans, besides extending their suggestions for the provision of LT loans from PACS. In fact, as against the beneficiaries of commercial banks, the members of credit cooperatives were more critical in extending their suggestions with respect to smooth functioning of their concerned PACS.

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## **CHAPTER – VII**

### **SUMMARY AND CONCLUSIONS**

#### **7.1 Background**

The planning process of our country is primarily aimed at ensuring access to credit in the rural areas. Besides, it also stands at augmenting agricultural production and alleviating rural poverty, in addition to improving the efficiency of the rural credit delivery system. Although various measures initiated under the planning process have greatly improved the reach of credit institutions and been instrumental in alleviating poverty in the country, the emerging segmentation of the rural credit markets in the face of financial sector reforms unleashed under the changing post-WTO economic scenario has brought forth newer challenges before the rural credit delivery system. In fact, the entire decade of 1990s was full of discussion on the positive and negative impacts of financial sector reforms and their implications for the agricultural sector in particular. The reform process in the banking sector today encompasses the deregulation of interest rates, dismantling of directed credit, besides improving the functioning of capital markets and government securities' market. The emphasis of the financial sector reforms, in general, is on ensuring financial health of the rural credit delivery system. However, the reform package in rural banking sector is reported to have adversely affected the priority sector, especially in the area of administered interest rates since the new interest rate structure is alleged to be highly regressive and biased against priority sector.

The introduction of financial sector reforms coupled with increasing commercialization of agriculture and consequent increasing requirement of credit have put increasing onus on various agricultural financial institutions to play a more pro-active and pivotal role in meeting the increasing capital needs of the farmers and in ensuring timely supply of various inputs, besides providing other service facilities. In this veritable scenario, sustainability, viability and operational efficiency of rural financial institutions (RFIs) are the major issues that need to be taken cognisance of in ensuring effective rural credit delivery system. In fact, the major problems plaguing the efficiency of rural credit delivery system are the mounting overdues' and Non Performing Assets (NPAs) of RFIs. Needless to mention that the mounting overdues' can paralyse the whole gamut of agricultural credit structure and the financial sector reforms.

Among various states of India, the RFIs of Maharashtra are reported to show the highest amount of overdues and outstanding loans over the past one decade so much so that the proportion of overdues' to outstanding loans of RFIs in Maharashtra during 1997 was reckoned at more than 30 per cent. The viability and efficient functioning of RFIs, in fact, depend on as to how efficiently the RFIs manage their asset position, income and expenditure pattern, recovery of loans, deposit mobilization, etc. As a matter of fact, the poor performance of cooperatives owes a great deal to their inability in mobilizing adequate deposits, their managerial weaknesses and over riding dominance of vested interests in their functioning. The past performance indicate that both commercial banks and agricultural credit cooperatives have performed rather unsatisfactorily, not only spatially but temporally too. The present study, thus, seeks to comprehensively evaluate the organizational and operational structure of not only commercial banks but also various credit cooperatives of Maharashtra, both at primary and central levels. The scope of the study stretches further to the evaluation of issues related to organizational and financial viability of these agricultural financial institutions, besides examining the impact of these institutions on the beneficiaries. The study seeks to provide policy implications with respect to deposit mobilization, granting of loans, distributional aspects of credit, judicious and rational use of funds, etc., besides evaluating the strength and weaknesses of the agricultural financial institutions of Maharashtra.

## **7.2 Objectives of the Study**

The study has been conducted with three major objectives:

1. To examine growth trends in various performance indicators of agricultural credit institutions.
2. To assess financial viability of agricultural credit institutions in respect of income and expenditure pattern, break-even analysis of advances and deposits, pattern of distribution of loan, recovery and overdues', etc.
3. To evaluate the impact of agricultural financial institutions on beneficiaries, particularly in respect of their general borrowing position, use of inputs, productivity enhancements, etc. and also assess the responses of the beneficiaries in terms of facilities extended by their concerned credit institutions and the constraints faced by them in availing such facilities.

## **7.3 Methodology**

The present study was limited to two districts of Maharashtra – one forward and another a backward category one. The forward and backward districts were identified through composite index method and the parameters included in the construction of composite index were cropping intensity, irrigation intensity, operational land holding,

number of commercial banks, per capita and per hectare bank credit to agriculture, loan advances of PACS and commercial banks and their outstanding loans, etc. Based on these indicators, the total composite score of each district was computed. The districts showing scores above 100 were treated as forward and districts with scores below 100 were considered as backward. This procedure helped to develop a scale for ranking all the forward and backward districts of Maharashtra. The district of Sangli showed the highest score on the scale developed for forward districts. On the other hand, the district of Buldana showed one of the lowest scores on the scale developed for backward districts. These two districts were selected for the present investigation with a view to evaluate the performance of both commercial banks and credit cooperatives in these districts.

The procedure for the selection of talukas in the selected districts was little different than selection of districts in the state. The selection of talukas encompassed parameters such as number of PACS, their membership, share capital, working capital, owned funds, and number of borrowers per society. Based on these parameters, standard and total scores were calculated for each taluka and a scale was developed for ranking all the talukas of the selected districts. The talukas of Miraj and Walwa from Sangli district and Malkapur and Mehkar from Buldana district were finally selected for the present investigation as they scored high on the scale.

Stratified random sampling procedure was adopted for the selection of villages/societies and the beneficiaries of concerned PACS and commercial banks. From each selected taluka, two villages were selected randomly with one village falling under the purview of credit cooperatives and the other one encompassing the beneficiaries of commercial banks. From each selected village encompassing credit cooperatives, one PACS was selected randomly. Thus, the study covered four villages from each district with two being the beneficiaries of commercial banks and the other two being the members of PACS. In all, the study encompassed eight villages.

As regards selection of members of credit cooperatives and beneficiaries of commercial banks, a list of members and beneficiaries along with their land holding size was obtained from each of the selected PACS and also from the concerned commercial banks encompassing their beneficiaries in the selected villages. The members and beneficiaries were then categorized as small (upto 2 ha), medium (2-4 ha) and large (above 4 ha) based on their land holding size. It was decided to select 10 members from each of the four selected PACS and 10 beneficiaries from each of the four selected



villages encompassing beneficiaries of commercial banks. Nonetheless, these 10 members/beneficiaries selected from each village/society belonged to different categories and they were selected on the basis of probability proportion to land holding size technique. In all, the study covered 40 members of the society under the umbrella of agricultural credit cooperatives and 40 beneficiaries of commercial banks.

#### **7.4 Data Collection and Reference Year**

Primary data from the members of PACS and beneficiaries of commercial banks were collected on the well structured pre-tested schedule by personal interview method. An in-depth information related to family particulars, land use and cropping pattern, loan distribution pattern, recovery, overdues' and outstanding loans, etc. was collected from each of the sampled members/beneficiaries. The perceptions of the members/beneficiaries were also ascertained with respect to the facilities being extended by their concerned credit institutions and the constraints perceived by them in availing such facilities. In addition to the collection of primary data, secondary data related to various performance indicators such as asset and liability position, income and expenditure pattern, share capital, working capital, deposits, pattern of loan distribution, recovery of loans, etc. were also collected from the district level credit institutions. Besides, information on priority and non-priority sector advances, targets and achievements under various programmes, etc. were also obtained from various data sources and official records. While primary data on relevant aspects were collected for the reference year 1998-99, the secondary data encompassed the period from 1984-85 to 1998-99. Suitable tools and techniques were used to analyse both secondary and primary data.

#### **7.5 Major Findings**

##### **7.5.1 Rural Credit Scenario of Maharashtra**

The rural credit scenario of Maharashtra was evaluated with major foci of attention being on the annual credit plan outlays for various sectors, potential linked credit plans for various regions of the state, progress of various rural financial institutions over time, distributional aspect of credit, linkages of bank credit with various self-help groups, etc.

##### **7.5.1.1 Annual Credit Plan Under Lead Bank**

An evaluation of rural credit scenario revealed much higher credit plan outlay for priority sectors such as agriculture and allied activities. In this context, activities relating to small scale industries and non-farm sectors were found to receive least allocations in

the total plan outlay for the state of Maharashtra. The other priority sectors such as transport, retail trade, housing, education, consumption, etc. showed a sharp increase in their allocations in total credit plan outlay over time. Crop loans accounted for nearly two thirds share in total credit plan outlay for agriculture and allied activities. Among various regions, the Western Maharashtra showed the highest share (52.15 per cent) in total credit plan outlay of the state during 2000-01, followed by Marathwada (19.60 per cent), Vidarbha (16.86 per cent), and Konkan (11.38 per cent) regions. In general, except for Konkan region, all other regions of Maharashtra showed higher allocations for agriculture and allied activities. Such increased allocations in plan outlay is a reflection of the importance of agriculture in Government's overall policy encompassing priority sector.

#### **7.5.1.2 Potential Linked Credit Plan (PLCP) Outlay for Maharashtra**

The estimates relating to PLCP outlays encompassing various sectors/activities showed that among various regions Western Maharashtra alone accounted for around 50 per cent share in total PLCP outlay for the state of Maharashtra. The next important regions were Marathwada and Vidarbha, each accounting for about 20 per cent share in state's total PLCP outlay during the past five years. The allocation for Konkan region in state's total PLCP outlay was the least. Thus, Western Maharashtra turned out to be the most important region since this region attracted the major PLCP outlay of the state. Further, though, in general, there had been nearly two folds rise in PLCP outlays of all the regions of Maharashtra during the period between 1997-98 and 2001-02, the rates of growth in these outlays were relatively faster for Vidarbha and Konkan regions as compared to Western Maharashtra and Marathwada regions during the same period.

#### **7.5.1.3 Cooperative and Commercial Bank Finances**

Although there are multi-agency set-ups in rural banking, the major institutional finance advanced to farming community in Maharashtra was observed to come from commercial banks and credit cooperatives. As for cooperative finances, the trend obtaining over the past two decades was not very encouraging since it showed slower growth in institutional finance through credit cooperatives during the decade of economic reforms (1991-2000) as against the decade preceding it (1980-1990). Moreover, the reform period was also seen to be marked with a slower growth in membership of credit cooperatives in Maharashtra. As against this, the outstanding loans of these cooperatives grew at much faster rate as compared to their loan advances during both pre- and post-economic reform periods.

Another interesting feature of credit cooperatives, particularly in respect of PACS in Maharashtra, was the increasing trend in their share of medium and long term (MT & LT) advances and decline in their share of short term (ST) advances. At the same time, the MT and LT outstanding loans of these credit institutions were found to grow over time in Maharashtra. This is a pointer to the fact that in more recent times medium and long term loans have become the principal foci of farm finance. However, the PACS in Maharashtra are seen to be beset with several deficiencies in their functioning. The deficiencies noticed were in respect of their law operational efficiency, high incidence of 'overdues', low level of recovery, distributional aspects of ST and MT loans, coverage of SC/ST members, etc. The borrowing members per society of PACS were also found to have come down, especially after the late eighties period. Further, despite Maharashtra being accounting for the bulk of the nation's total production and acreage under cotton crop, the share of this crop in total crop loan advances of PACS was found to decline perceptibly, especially in more recent times.

As for institutional finance to farming community, the commercial banks in Maharashtra also could not show encouraging trends. The trend over the past two decades exhibited a slower growth in institutional finance through commercial banks during the decade of economic reforms as against the pre-economic reform period. Even the credit-deposit (C-D) ratio of commercial banks in Maharashtra was seen to come down during the period of reforms as against the pre-economic reform period. However, despite this decline in C-D ratio of commercial banks, it still remained well above the minimum prescribed limit of 60 per cent as stipulated by the RBI. Further, in Maharashtra the outstanding loans of indirect finances of commercial banks grew at much faster pace as compared to their outstanding loans of direct finances to farmers. An increasing trend in share of Maharashtra in total outstanding loans of all scheduled commercial banks of India was also noticed, which was observed to grow from 10 per cent during TE 1985 to as high as above 14 per cent by the TE 2000.

These trends are obviously not very encouraging insofar as the finances advanced to the farming community in Maharashtra by the commercial banks are concerned.

#### **7.5.1.4 Regional Rural Bank Finances**

The major part of resources of RRBs is generated through deposits. Nonetheless, too much dependence on deposits and lack of attention paid to loan advances as observed in this study was certainly a disturbing phenomenon. In course of time, the RRBs in India

were found to show a drastic fall in their credit-deposit (C-D) ratio. The C-D ratio of RRBs at all-India level was seen to come down from 123 per cent during 1981 to as low as 43 per cent by the TE 2000. The fall in this ratio was more sharp in the state of Maharashtra as it came down from 148 per cent during 1981 to 55 per cent by the TE 2000. The decline in C-D ratio of RRBs was mainly due to diversion of substantial portion of their resources in investments instead of lending in rural areas.

The decline in the share of loans lent to farmers by the RRBs is a clear cut reflection of the deviant ways indulged in by the RRBs, of late, defeating the primary objectives with which these were initially formed.

#### **7.5.1.5 Land Development Bank Finances**

In the state of Maharashtra, the loan advances of LDBs were not only found to decline sharply during the period of reform but also working capital of these banks fell marginally during this period. The membership of LDBs of Maharashtra was found to grow at slower rate during the period between 1991 and 2000 as against the period between 1981 and 2000. Even the recovery of loans and share capital base of LDBs was found to weaken during the reform period. Nonetheless, it is to be noted that the outstanding loans of LDBs in Maharashtra grew at slower pace during the period between 1991 and 2000 as against the period between 1981 and 2000.

#### **7.5.1.6 Micro Credit Innovations**

The NABARD has been propagating, promoting and financing the SHG-Bank Linkage programme since 1992. This Linkage programme received wider acceptability during 1997-98 when 30 commercial banks, 101 RRBs, 17 co-operative banks and 265 NGOs spread over 19 states and two UTs had participated in such a linkage programme. The main objective of the NGOs was to promote and nurture SHGs and act either as facilitators or both facilitators and intermediaries in effecting linkages between SHGs and banks. In the state of Maharashtra, the number of SHGs linked with bank credit and their finances and refinances have grown significantly over the past five years. At present, all the 33 districts of Maharashtra are covered under the SHG-Bank linkage programme. The region that has shown phenomenal growth in the numerical strength of SHGs linked with bank credit was found to be Vidarbha. Western Maharashtra and to some extent Marathwada also showed significant increases in the numerical strength of SHGs over the past five years. However, so far as Konkan region is concerned, linking of SHGs with bank credit was observed to be a more recent phenomenon. Due to initiation of SHG-

Bank linkage programme, there have been perceptible and wholesome changes in the living standards of the members of SHGs, especially in terms of their ownership of assets, savings and borrowing capacity, income generation activities and levels of income.

#### **7.5.1.7 Overdue and Outstanding Loans of RFIs**

High transaction cost for funds and lower financial margins are the two major factors behind non-payment of rural loans and accumulation of overdues of RFIs in India. However, the estimates relating to various RFIs of Maharashtra showed a slower growth in their outstanding loans (OL), overdue from direct advances (DA) and bad debt in agriculture during the period between 1991 and 1997 as against the period between 1980 and 1990. At the same time, the proportion of overdue to OL of RFIs of Maharashtra was found to grow at much faster rate during the reform period as against the pre-economic reform period. The reform period also showed increasingly high growth of Maharashtra's share in total overdue and bad debt in agriculture of RFIs in India.

#### **7.5.2 Credit Scenario of Sampled Districts**

The credit scenario of sampled study districts was evaluated with special focus placed on the progress of various commercial banks and credit cooperatives operating in these districts, particularly in respect of their credit-deposit position, loan advances to priority and non-priority sectors over time, demand and recovery position of their loans, etc., and also with respect to disparities in crop loan advances across various talukas in the selected districts.

##### **7.5.2.1 Banking Business in Sangli District**

The composition of banking network in Sangli district encompasses 15 nationalised banks, four scheduled commercial banks, M.S.F.C., SDCCB, and MSCARDB. Among these, the SDCCB was found to have the largest network of rural branches which played a pivotal role in implementing the District Credit Plan (DCP) as well as in distributing rural credit. An evaluation of banking business showed a declining trend in share of commercial banks in total loan advances of Sangli district during the decade of 1990s. Even the share of commercial banks in total rural deposit was found to gradually fall over time in this district. The cooperative banks, on the other hand, exhibited a reverse trend following an increasing trend not only in total loan advances but also in total rural deposits of this district. Another disquieting feature was the dwindling of credit-deposit ratio of commercial banks, which was found to fall below 60 per cent in

1997-98. Although cooperative banks also showed a decline in their C-D ratio over time, this C-D ratio for cooperative banks was well above 100 per cent all through the period between 1989-90 and 1997-98. On the positive side, the loan advances of commercial banks to priority sectors in Sangli district remained well above 40 per cent of their total loan advances during the period between 1991-92 and 1996-97. Similarly, during the same period, the direct advances of commercial banks to agriculture also remained above 18 per cent of their total loan advances as stipulated by the RBI. Yet another disquieting feature was the loan advances of commercial banks under DRI schemes, which remained less than 1 per cent of their total loan advances all through the period between 1991-92 and 1996-97. On the other hand, the cooperative banks in this district have shown relatively better performance insofar as their loan advances to priority sectors, direct loan advances to agriculture, and loan advances to weaker sections are concerned. Notwithstanding the foregoing, it is pertinent to note here that the performance of commercial banks in terms of achieving their targets of loan advances to various sectors is much better as compared to cooperative banks operating in this district.

#### **7.5.2.2 Banking Business in Buldana District**

The banking network in Buldana district encompasses a group of four public sector banks, two banks relating to State Bank group, two cooperative banks, two Gramin banks, and M.S.F.C. Although cooperative banks accounted for much larger share in total network of bank branches of this district, the total rural deposits of these banks were much lower as compared to commercial banks. At the same time, it is to be noted that the share of cooperative banks in total rural deposits of Buldana district showed steady increase from 32 to 42 per cent during the period between 1989-90 and 1998-99. Despite lower share in total rural deposits, the cooperative banks of this district showed higher amount of loan advances as against the commercial banks. Interestingly, both commercial and cooperative banks operating in backward district of Buldana were found to show a falling C-D ratio all through the decade of 1990s. However, despite this fall, the C-D ratios of cooperative banks remained substantially higher than the C-D ratios of commercial banks. The higher C-D ratios of cooperative banks were mainly due to their higher amount of loan advances as compared to their total rural deposits. The loan advances and deposits of cooperative banks were found to grow four folds during the decade of 1990s as against only 2-3 folds rise in deposits and credits of commercial banks observed during this period. Further, the overall performance of cooperative banks

in Buldana district in terms of achieving their targets of loan advances to various sectors was much better as compared to the commercial banks. The cooperative banks not only showed better performance in terms of achieving their targets of loan advances under ACP but they were found to have better C-D ratios as well, even compared to commercial banks and in conformity with the norms enunciated by the RBI.

### **7.5.2.3 Disparities in Crop Loan Advances**

The distribution of crop loans was evaluated on the basis of per hectare of gross cropped area and the disparity in the distribution of such loans was analysed with the help of computation of Gini's coefficients and coefficient of variation (C.V.) across various talukas of the selected districts encompassing the period between 1980-81 and 1999-2000. The disparity in distribution of crop loans was noticed to be lower in the backward district of Buldana as against the forward district of Sangli. At the same time, the amount of crop loans per hectare of GCA distributed in this district was also very low as compared to Sangli district. Not only this, the increase in the amount of crop loan advances over time in this district was also not observed to be of a very high order and it rose from Rs.117.59 per hectare of GCA in the decade of 1980s to only Rs.265.69 per hectare of GCA in the decade of 1990s as against a sharp increase in these figures from Rs.274.17 per hectare of GCA in the decade of 1980s to as high as Rs.988.35 per hectare of GCA in the forward district of Sangli.

There is, therefore, an ample scope to increase the amount of crop loan advances in the backward district of Buldana. This will certainly help the farmers not only to increase their crop production but also in terms of achieving sustained growth of agricultural sector in this district.

### **7.5.3 Viability of Credit Institutions**

The study attempts to evaluate the organizational, operational and financial health of central level credit institutions operating in both forward district of Buldana and backward district of Sangli. For evaluating the performance/viability of credit institutions over time, Sangli District Central Cooperative Bank (SDCCB) and Buldana District Central Cooperative Bank (BDCCB) were selected as the central level credit institutions operating in the sampled districts.

#### **7.5.3.1 Portfolio Structure of SDCCB**

The portfolio management of SDCCB was found to be not very encouraging as not only the proportions of short term advances of the bank fell but the proportions of

medium term advances also remained constant during the period between early- and the late nineties as against the period between mid-eighties and the early nineties. However, an increase in proportions of long term advances and reduction in the proportions of non earning assets such as bank balance during the latter half of the overall period considered are certainly some encouraging trends insofar as asset-mix of the bank is concerned. Among the different types of liabilities, short term bank borrowings, bills for collection, provisions and branch adjustment were relatively cheaper liabilities, whereas deposits from public, interest and charges payable, saving bank deposits amounted to relatively costlier liabilities. The decline in proportions of cheaper liabilities, particularly in the case of bank borrowings and bills and other provisions, and an increase in proportions of costlier liabilities like deposits from public and interest and charges payable were again an indication of unfavourable portfolio management of the bank during the latter half as against the first half of the overall period considered. The only favourable trend in terms of liabilities of SDCCB was the decline in proportion of its costlier liability like saving bank deposit during the period between TE 1992-93 and TE 1998-99 as against the period between TE 1986-87 and TE 1992-93.

#### **7.5.3.2 Pattern of Loan Advancement of SDCCB**

With the advent of time, the pattern of loan advancement of SDCCB to various societies was found to change considerably. While the share of loans for SAO in total ST loan advances of SDCCB fell rather drastically from 38 per cent during TE 1986-87 to 18 per cent by TE 1992-93 with an increase in the same to 24 per cent by TE 1998-99, the bank was observed to increase its share of ST loans to processing societies from 30 per cent during TE 1986-87 to 50 per cent by TE 1998-99. The share of loans for agricultural purposes in total MT loan advances of SDCCB also came down from over 77 per cent during TE 1986-97 to only around 50 per cent by TE 1998-99. The SDCCB was seen to divert a considerable amount of its MT loans to Maharashtra State Electricity Board (MSEB) during the latter half of the overall period. Nonetheless, this share of MT loans to MSEB was found to have declined from 34 per cent during TE 1992-93 to 23 per cent by TE 1998-99.

#### **7.5.3.3 Income and Expenditure Pattern of SDCCB**

The profit margin of SDCCB after meeting its all types of expenses was estimated at Rs.29.00 lakhs during the mid-eighties, which rose sharply to Rs.164.32 lakhs during the early nineties with a decline in the same to Rs.108.54 lakhs during the late nineties.



Thus, annual average profit margin of SDCCB observed to have grown over time. These estimates and observations clearly showed a considerable improvement in the operational efficiency of SDCCB during the early- and the late nineties over the mid-eighties. However, in relative terms, the SDCCB showed higher operational efficiency during the early nineties as compared to late nineties.

#### **7.5.3.4 Break-even Levels of Advances and Deposits for SDCCB**

The SDCCB granted 12.62 per cent higher loan than the break-even level during TE 1986-87, 26.59 per cent during TE 1992-93, and 5.88 per cent during TE 1998-99. A similar trend was also noticed in respect of break-even level of deposits and actual deposit of the bank. The actual deposit of SDCCB turned out to be 23.38 per cent higher than the estimated break-even level during TE 1986-87, 26.66 per cent during TE 1992-93 and 5.94 per cent during TE 1998-99. Thus, the financial viability of SDCCB had declined during TE 1998-99 as against TE 1986-87 and TE 1992-93 consequent to break-even levels of both advances and deposits becoming very close to actual advances and deposits during the late nineties as compared to mid-eighties and the early nineties.

#### **7.5.3.5 Financial Ratio Analysis for SDCCB**

Though the financial health of SDCCB appeared to have improved during the second half as against the former half of the overall period considered, the more recent period, i.e. the late nineties period, was found to be marked with declining profitability ratios, fixed ratio, asset turnover ratio, income-expenditure ratio, equalization and income multiplier, and marginal efficiency of capital of SDCCB. Although the capitalization ratio of SDCCB gave an indication that the permanent capital of this financial institution had increased over time, this increase in permanent capital of SDCCB, however, might not be considered as a sign of improvement in its efficiency since major portion of SDCCB's assets were financed by debt and this dependency on debt had marginally increased during the latter half as against the former half of the overall period. Further, hardly any improvement in the net worth of SDCCB was observed and in fact the share of net worth in total liability of SDCCB had rather declined over time. The declining share of net worth was instrumental in causing an increase in debt asset ratio of SDCCB during the latter period. This apart, the return on owner's equity had also drastically fallen during the late nineties period as against the early nineties. Thus, it could be interpreted that the financial health and economic viability of SDCCB had considerably declined in more recent times, ignoring increasing trends in several financial ratios. In

fact, the return on owner's equity is a function of how efficiently a firm manages its assets, the net profit margin on sales, and the degree of financial leverage. A decline in returns on equity of SDCCB could, therefore, be considered as a sign of decline in the efficiency of SDCCB in managing its assets and liabilities, and also income and expenditure pattern, especially in more recent times.

#### **7.5.3.6 Portfolio Structure of BDCCB**

Portfolio of BDCCB clearly indicated that during the entire period the bank could not make favourable asset-mix as not only the proportions of short term advances and branch adjustment of the current assets had steadily declined but there was also not much distinct difference in proportion of medium term advances of the fixed assets, the proportion of which, in fact, had declined during the period between TE 1986-87 and TE 1992-93 registering an increase in the same thereafter. In addition, the bank could neither reduce the proportion of non earning assets nor able to slow down the growth of less earning assets. The bank was also unable to convert its non-earning assets as well as low earning assets into profit earning assets, particularly in more recent times. Further, during the entire period between TE 1986-87 and TE 1998-99, the BDCCB showed a steady decline in proportion of cheaper liabilities like short term bank borrowings, bills for collection, provisions and branch adjustment. On the other hand, the proportion of costlier liabilities of BDCCB like deposits from public and saving bank deposits had grown during the entire period between TE 1986-87 and TE 1998-99. These trends are certainly undesirable insofar as the portfolio management of BDCCB is concerned.

#### **7.5.3.7 Pattern of Loan Advancement of BDCCB**

Although the ST loan advances of BDCCB to agricultural credit societies had grown by more than two folds during the period between mid-eighties and the late nineties, this period was also marked with a sharp decline in the share of ST loans of BDCCB to agricultural credit societies. During the same period, the share of ST loans of BDCCB to processing societies had grown considerably over time. The share of MT agricultural loans of BDCCB to cooperative societies had also come down with the passage of time. Contrary to this, the shares of MT non-agricultural loans of BDCCB to cooperative societies and to individuals had grown sharply over time. These trends are symptomatic of shift in pattern of loan advances of BDCCB.

### **7.5.3.8 Income and Expenditure Pattern of BDCCB**

Although BDCCB had earned an annual average profit of Rs.12-13 lakhs during the period between mid-eighties and the early nineties, this amount of profit turned out to be too meagre when compared with losses incurred by it during the late nineties period. In fact, the BDCCB had earned positive returns only over cost A and cost B and when the profit of the bank over cost C was computed, the bank was reduced to a loss making institution from a profit earning one, particularly during the late nineties period. Thus, the operational efficiency of the bank during the latter half was adversely affected and the bank became an inefficient one during this period.

### **7.5.3.9 Break-even Levels of Loan Advances and Deposits of BDCCB**

The break-even level of loan advances for BDCCB was estimated at Rs.2739.93 lakhs in TE 1986-87, Rs.5105.54 lakhs in TE 1992-93, and Rs.39200.95 lakhs in TE 1998-99. As against this, the actual loan advances of this bank were Rs.2984.79 lakhs in TE 1986-87, Rs.5344.31 lakhs in TE 1992-93, and Rs.15716.78 lakhs in TE 1998-99. Thus, the bank granted 8.94 per cent higher loan than the break-even level during TE 1986-87 and 4.68 per cent during TE 1992-93. However, during TE 1998-99, the actual loan advance of BDCCB was much lower than the breakeven level and a deficit in this loan to the tune of around 60 per cent was noticed during this period. A similar trend was also noticed in respect of break-even level of deposits and the actual deposit of the bank. The actual deposit of BDCCB turned out to be 9.27 per cent higher than the estimated break-even level during TE 1986-87 and 5.23 per cent during TE 1992-93 with a deficit in this deposit estimated at 60 per cent during TE 1998-99.

### **7.5.3.10 Financial Ratio Analysis for BDCCB**

The mounting NPAs or overdue or bad debt of BDCCB during the late nineties period had adversely affected majority of the estimated ratios during this period. Not only the permanent capital position of BDCCB was noticed to weaken during the late nineties period but its dependency on debt for its finances had also sharply increased during this period. The share of net worth in total liability of BDCCB was also noticed to have sharply declined during the period between mid-eighties and the late nineties. The declining share of net worth had caused an increase in debt asset ratio of BDCCB during this period. Added to this, the return on equity of BDCCB had not only drastically fallen but it became negative during the late nineties period as against the mid-eighties or the early nineties period. The rate of return on asset and marginal efficiency of capital of

BDCCB had also shown a drastic fall during the period between early- and the late nineties. All these disquieting trends clearly indicate non-viable functioning of BDCCB during the more recent times. Further, the negative value of return on equity of BDCCB noticed during the late nineties period clearly indicates inefficiency of BDCCB in managing its assets and liability, as also its income and expenditure patterns.

#### **7.5.4 Results of Field Survey**

The results of field survey mainly encompass credit experiences of sampled farmers with their concerned banks and also strength and weaknesses of various credit institutions operating in forward and backward districts of Maharashtra.

##### **7.5.4.1 Credit Experiences of Sampled Farmers of Sangli District**

The sampled members of credit cooperatives as well as the beneficiaries of commercial banks of Sangli district were found to seek loans from both PACS and commercial banks. The general borrowing position of these sampled farmers was seen to be dominated by crop loans. During the period between 1992 and 1999, the amount of crop loans borrowed from PACS by the beneficiaries of commercial banks was higher as compared to the members of credit cooperatives who had also borrowed crop loans from their concerned PACS. However, this scenario had an exception in 1999 when the small category of members of credit cooperatives had borrowed substantially high amount of crop loans from PACS. In general, both members of credit cooperatives and beneficiaries of commercial banks showed exemplary repayment performance insofar as crop loans received by them from PACS were concerned. However, the repayment of medium and long term loans received by these sampled farmers was not very satisfactory as majority of them showed quite high amount of outstanding loans due to commercial banks. But, mention may be made here that there were only few borrowers of medium and long term loans and that during the entire period between 1992 and 1999 the frequency of medium and long term borrowings was also too low. This aside, the amount of medium and long term borrowings of the sampled farmers from commercial banks was also not much. This is an indication of the fact that the sampled farmers were chiefly dependent on short term borrowings as against the medium and long term borrowings. This dependency on short term borrowings was seen to be higher in the case of members of credit cooperatives as compared to the beneficiaries of commercial banks.

There were certain advantages and disadvantages of availing loans from PACS and commercial banks. While availability of crop loan facility, reasonable rates of

interest on loans, availability of loans on time, availability of loans for fertilizer, seed and other inputs at subsidized rates, provision of dividend, reasonable installments in terms of repayment of ST and MT loans, cooperative nature of the officials, demand for less documental proof for the disbursal of loan, availability of loans for multiple purposes, etc. were among some of the major advantages of availing loans from PACS, this was associated with some distinct disadvantages, as manifest in non availability of loans for long term purposes, limited amounts of ST and MT loans, and non availability of loans for drip irrigation, tractors, etc. The advantages of availing loans from commercial banks were in terms of availing loans for LT purposes like drip irrigation, tractor, etc. aside from ST and MT purposes, as also for various business activities and for the agricultural development in general. However, high rates of interest on loan advances, requirement of more documental proof for the extension of loans, delay in disbursal of loans in majority of cases, higher transaction costs, non cooperative nature of the staff of various commercial banks, and compulsion of two guarantors at the time of sanctioning of loans were found to be major deterrents for availing loans from these banks.

Majority of the members of credit cooperatives firmly believed that their credit cooperatives had catalytic effect in improving the productivity of crops grown by them and also in increasing their use of fertilizer. A significant section of the beneficiaries of commercial banks were also of the opinion that their concerned banks had a positive impact not only in respect of increasing the utilization of inputs such as fertilizer, improved varieties of seeds, pesticides, etc but also in increasing their crop production and asset position. Some members of credit cooperatives also believed that the community, in general, was benefited because of the positive role played by their concerned credit institution.

#### **7.5.4.2 Credit Experiences of Sampled Farmers of Buldana District**

Two differing scenarios emerged insofar as the general borrowing position of sampled farmers of Buldana district was concerned. While the beneficiaries of commercial banks sought loans from their concerned banks for multiple purposes, which not only included crop loans but also loans for goat keeping, drip irrigation, cloth, grocery and other retail shops, auto purchase, readymade cloth manufacturing, etc., the members of credit cooperatives, on the other hand, borrowed only crop loans from their concerned PACS as well as from commercial banks. Nonetheless, the amount of crop loans borrowed from PACS by the beneficiaries of commercial banks was smaller as

compared to the crop loans received by them from their concerned banks. As for the repayment of crop loans, both members of credit cooperatives and beneficiaries of commercial banks showed satisfactory performance as there was hardly any outstanding crop loan due to PACS or commercial banks during the entire period between 1992 and 1999. However, the repayment of medium and long term loans was not very satisfactory as majority of the beneficiaries showed substantial outstanding loans due to their concerned banks during the given period between 1992 and 1999. Thus, while the members of credit cooperatives were chiefly dependent on ST loans, i.e., crop loans, the beneficiaries of commercial banks not only borrowed crop loans but also loans for various other MT and LT purposes.

The PACS were favoured by both members of credit cooperatives and beneficiaries of commercial banks mainly because of their provision of crop loans, reasonable rates of interest and timely availability of loans, availability of loans for various inputs like seeds, fertilizers, etc. on time, provision of dividend to their members, provision of subsidy extended by them on certain loans, and their provision of *Kisan Credit Card* and green card to their members for selling cotton, etc. At the same time, these members of credit cooperatives and beneficiaries of commercial banks had also shown some dissatisfaction over inability of PACS to provide them loans for LT purposes, inadequate and limited amounts of loans, their deduction of 5 per cent from loan amount as share capital, non-availability of loans from them for the purchase of all types of fertilizers, and their restriction to purchase seeds/fertilizers from a specific agency.

The commercial banks on the other hand were not only favoured by their own beneficiaries but also by the members of PACS, mainly due to their provision of loans for LT purposes, larger amounts of their loans, timely loan advancements and reasonable rates of interest on these loans, reasonable number of installments and flexibility in terms of repayment of these loans, their provision of loans for goat keeping and for the purchase of other milch animals, etc. However, excessive paper work of commercial banks while sanctioning loans, delay in disbursement of their loans, their high rates of interest on MT and LT loans, high transaction costs, their compulsion of two surety or guarantors at the time of sanctioning loans, their compulsion to maintain a minimum Rs.250 as bank balance to retain account, and non-cooperative nature of their staff were viewed as some of the major disadvantages of availing loans from commercial banks.

Interestingly, majority of the members of credit cooperatives and some of the beneficiaries of commercial banks chose to reserve their comments on the utility and impact of the credit cooperatives and commercial banks on the adoption of improved varieties of seeds by them and/or increasing use of irrigation or improved machinery by them. None of the members of credit cooperatives believed that the community, in general, was benefited due to the lone facility extended by their concerned PACS. However, a small section of beneficiaries of commercial banks firmly believed that the availability of loan facility for the purchase of tractor, harvester, cattle, buffalo, etc. from their concerned banks had been instrumental for the overall development of the village.

### **7.6 Policy Implications**

1. An important aspect of PACS operating in the state of Maharashtra that merits attention is the changes that took place over time with respect to their coverage of SC/ST members. With the passage of time, not only a steady decline in the proportion of SC/ST members to the total membership was observed but the loan share of SC/ST in total loan advancement of PACS also fell. There is, therefore, a need to formulate policies and evolve schemes relating to SC/ST welfare and those affecting the weaker sections of the rural community. Simplification of loan procedure and making cohesive measures for recovery of loans of chronic and heavy defaults of influential well-to-do borrowers who evade repayment despite their capacity to repay are some other important issues that require urgent attention. In fact, the lackadaisical approach of PACS towards loan advances to SC/ST members and other weaker sections, and also for cotton crop calls for immediate remedial measures if Maharashtra is to continue to lead the country in the cooperative development. [Attn.: The Maharashtra State Co-operative Bank Ltd., Mumbai; and Office of the Commissioner for Co-operation and Registrar of Co-operative Societies, Maharashtra State, Pune]

2. Although RRBs have played a predominate role in supplementing the efforts of the Government in eradicating poverty by dispensing credit under Government sponsored programmes, their erosion in profitability and the poor sustainability is causing much concern. The policy regime under which they performed contributed greatly to this state of sorry affairs. The major problem faced by RRBs in India is the lack of staff motivation and specialization despite recruitment of local staff. The poor performance of RRBs can be attributed to their hurriedly recruited and trained staff that not only lacked exposure in dealing with a large number of small-term/ composite loans but also in terms of their

weak knowledge of dealing with bank accounts, seeking assistance and guidance at each stage of loan application and its recovery. One of the suggestions of Shivamaggi (2000) was, therefore, in favour of placing all the employees of RRBs in the rural banking cadre with a view to make them employees of both the RRBs and their sponsoring banks, and, hence, helping them to expand their career prospects, as is the case in general banks. Personal career growth prospects of the employees of RRBs will not only motivate them to work more efficiently but also improve the viability of these rural financial institutions. **[Attn.: Reserve Bank of India (RBI), Mumbai; National Bank for Agriculture and Rural Development (NABARD), Mumbai]**

3. The flow of finances through LDBs encompass activities relating to agricultural production sub-system (APS), agricultural input distribution sub-system (AIS), agricultural produce marketing and processing sub-system (AMPS), and also long-term finance to members of LDBs for the purpose of purchase of tractor and its accessories, minor irrigation, milch and draught animal purchase, etc. Although the overall performance of LDBs in India is satisfactory, they still have to do a lot of catching up to do to improve the condition of rural India. The major problem crippling the functioning of LDBs is the mounting 'overdues' and the outstanding loans, which were observed to grow more dramatically in recent times. This is despite the fact that the loans extended by LDBs are aimed at not only helping in creating productive assets but also in terms of generating adequate incremental income to the farmers. In order to tackle the problem of 'overdues' of LDBs certain suggestions were put forth by Kumar and Dixit (1998), which mainly revolved around creation of greater coordination among ST, MT and LT loans and streamlining the operations of LDBs, checking the diversion and misuse of LDB's credit, effective supervision of loan product, strengthening the share capital base, and mobilizing deposits and debentures through more innovative deposits and debenture schemes. Another important suggestion in this context was in favour of launching intensive membership drive with a view to increase the coverage of these long term financial institutions. Some of the agricultural and rural development banks (ARDBs), popularly known as LDBs, have already taken initiatives in these directions. **[Attn.: Reserve Bank of India (RBI), Mumbai; National Bank for Agriculture and Rural Development (NABARD), Mumbai]**

4. In order to accelerate the pace of SHG-Bank linkage programme, the NABARD has also devised district-specific and location-specific strategies keeping in view the



available potential, resources and prevailing constraints. The NABARD has also taken an initiative in creating 'Micro-Finance Development Foundation'(MFDF). The MFDF is expected to provide financial, technical and other assistance for experimenting with various models encompassing credit delivery innovations. Under MFDF, provisions are also made to utilize funds for conducting studies and undertake research relating to micro-finance, dissemination of information amongst the various players in the system, etc. The Foundation also works towards mobilization of monetary and other requisite resources from various organizations with a view to develop expertise in micro finance. It is expected that with the increasing involvement of banking system as well as NGOs, the micro-credit movement will gain further momentum in the years to come. [Attn.: **National Bank for Agriculture and Rural Development (NABARD), Mumbai**]

5. An evaluation of banking business reveals much better performance of cooperative banks during the decade of 1990s. The cooperative banks have performed well not only in forward district of Sangli but also in the backward district of Buldana. The credit delivery and recovery performance of cooperative banks were found to be remarkable in the forward district of Sangli. Nonetheless, commercial banks were found to have an edge over co-operative banks in meeting and exceeding targets of loan advances to various sectors in Sangli district. However, both commercial and cooperative banks showed rather poor performance insofar as meeting targets of loan advances to S.S.Is were concerned. This held good for both the forward district of Sangli and the backward district of Buldana. Shrinking flow of credit to S.S.Is during the decade of 1990s is certainly a matter of concern. [Attn.: **State Level Bankers' Committee, Mumbai; SDCCB, Sangli; BDCCB; Buldana; MSCARDB, Mumbai; MSFC, Mumbai**]

6. The passage of time has also seen considerable change in pattern of ST loan advancement of SDCCB in favour of processing societies, possibly at the expense of loans meant for agricultural purposes. This situation could be described as disquieting due mainly to the fact that farmer's crop activity heavily depends on these kinds of loans and any reduction in the same would not only affect the production of various crops grown in the district but may also lead the farmers to fall in the trap of unscrupulous private money lenders, especially in the event of inadequate loan supply to farmers by these cooperative credit institutions. This situation needs to be altered and corrective measures are required to be applied if farmers interests have to be safeguarded. The

pattern of loan advances of SDCCB is also fast changing towards its LT advances, which were found to grow over 1200 per cent during the period between mid-eighties and the late nineties as against only over 300 per cent increase in its ST and MT loan advances during the same period. This trend, however, can be construed as desirable since most of the LT loans of SDCCB are extended for the development of horticulture industry, which is gaining ground in India in more recent times, and which has of late become the backbone of all agricultural development of India because of its export competitiveness. [Attn.: SDCCB, Sangli]

7. Notably, in due course of time, the pattern of loans advances of BDCCB has shifted considerably. While the shift in ST loans of BDCCB during the entire period between mid-eighties and the late nineties was in favour of processing societies, the shift in MT loans, on the other hand, was more in favour non-agricultural cooperative societies. Nonetheless, the decline in share of ST and MT loan advances of BDCCB to agricultural credit societies and for various agricultural purposes is certainly a matter of concern due mainly to the fact that these loans are aimed at not only helping the farmers in enhancing their crop production but also in terms of increasing their income levels. This certainly calls for remedial and corrective measures to safeguard the interest of the farming community. [Attn.: BDCCB, Buldana]

8. The BDCCB showed higher break-even levels of loan advances and deposits due to excessively high fixed expenses incurred by it during the late nineties period. The higher fixed expenses were mainly due to very high levels of NPAs as these got included in the fixed expenses of BDCCB during this period. Obviously, the viability of BDCCB, measured in terms of break-even levels of advances and deposits, was adversely affected during the late nineties period. The gaps between break-even levels of loan advances and deposits and the actual loan advances and deposits were estimated to be so high as making it difficult for the bank to bridge these gaps and attract enough deposits to augment its financial viability to sustain a future that lasted many years in future. [Attn.: BDCCB, Buldana]

9. In order to improve the functioning of credit institution, the suggestions of the sampled respondents were also sought. The suggestions of the sampled respondents of Sangli district, in general, revolved around those kind of extension services which were not provided by their concerned credit institution. These facilities included provisions of loan for the purchase of medicines and for medical treatment, purchase of diesel for

tractor, and also loan provisions for various social ceremonies such as marriages, functions, etc. A hike in the limits on personal loans and also on ST, MT, and LT loans and a reduction in the rates of interest on such loans, provision of loans for various farm inputs at subsidized rates, provision of tractor on rental basis to the smaller categories of farmers, an insurance scheme for the farmer members, etc. were among the other suggestions of the sampled respondents. The major suggestions of the sampled respondents of Buldana district were in favour of provision of loans from their concerned credit institutions for medical treatment and flexibility in terms of limits on ST, MT and LT loans, besides extending their suggestions for the provision of LT loans from PACS. In fact, as against the beneficiaries of commercial banks, the members of credit cooperatives were more critical and forthcoming in providing their suggestions with respect to smooth functioning of their concerned PACS. [Attn.: RBI, Mumbai; NABARD, Mumbai; SDCCB, Sangli; BDCCB, Buldana]

10. The estimates show considerable regional variations insofar as PLCP outlays for these regions are concerned. The shares of Western Maharashtra, Marathwada, Vidarbha and Konkan regions in total PLCP outlays of the state over the past few years were observed to be 50 per cent, 20 per cent, 20 per cent, and 10 per cent, respectively, showing PLCP outlay for Western Maharashtra to be the highest. There is, therefore, a need to rationalize PLCP outlays for Marathwada, Vidarbha and Konkan regions. [Attn.: State Level Bankers' Committee, Mumbai; NABARD, Mumbai]

### **7.7 Conclusions**

The slower growth in institutional finances through commercial banks, credit cooperatives, RRBs and LDBs, particularly during the decade of 1991-2000, is mainly due to adverse environment created by the financial sector reforms. Due to unfavourable policy framework, the entire rural credit delivery system encompassing rural branches of commercial banks, cooperative credit institutions and RRBs is reduced to a moribund state. It is to be noted that high transaction costs and poor repayment performance are the twin root causes of this moribund state of rural credit delivery system. With a view to revive the agricultural credit delivery system, there is a need to adopt innovative approaches like linking of Self-Help Groups (SHGs) and Non-Government Organizations (NGOs) with mainstream financial institutions. Such linkages are reported to have not only reduced transaction costs but also resulting in better repayment performance.

One of the recent welcome developments in rural credit has been the establishment of the Rural Infrastructure Development Fund (RIDF) instituted by NABARD with the objective of advancing loans to state governments and state-owned corporations for hastening ongoing projects, that is, mainly those relating to medium and minor irrigation, soil conservation, watershed management, etc. However, the utilization of this fund was observed to be dismal at only 30 per cent. One of the further disquieting features of RIFs in Maharashtra has been the incidence of high proportion of NPAs to total assets, particularly with respect to RRBs and SCARDBs, and it was estimated to hover around 36-48 per cent during the mid-to late nineties.

An analysis encompassing central level credit cooperatives operating in forward and backward districts of Maharashtra also revealed deterioration in their financial health due to mounting NPAs or overdues'. It is to be noted that both SDCCB and BDCCB showed a decline in their financial health and economic viability during the late nineties as against the early nineties period. Nonetheless, this deterioration in financial health witnessed particularly during the second half (between TE 1992-93 and TE 1998-99) of the overall period (TE 1986-87 and TE 1998-99) was found to be more pronounced in the case of BDCCB as not only various financial ratios estimated for this bank had declined during this period but majority of them were seen to be beset with negative values, especially during the late nineties period. The mounting NPAs or overdues' of BDCCB, noticed during the late nineties period, had grossly affected the functioning of this bank. They had not only affected various estimated financial ratios but also break-even levels of loan advances and deposits of this bank. Because of substantially high NPAs, the fixed expenses of BDCCB had been adversely affected, which in turn had grossly affected the break-even levels of loan advances and deposits of this bank, so much so that there had been huge gap between the break-even levels of loan advances and deposits and the actual loan advances and deposits. The deficit between actual and the break-even levels were so high (about 60 per cent) that it was well-nigh impossible for BDCCB to overcome this situation. The mounting NPAs of BDCCB had also affected the profit profile of this bank during the late nineties period. The proportions of actual advance and deposits to their break-even levels of SDCCB had also come down during the latter half (between TE 1992-93 and TE 1998-99) as against the former half (between TE 1986-87 and TE 1992-93) of the overall period considered. Nonetheless, mention may be made here that there was no deficit between actual and break-even levels of loan advances and

deposits of SDCCB during this period. Thus, while BDCCB had shown gross inefficiency in its functioning during the latter half of the overall period, the SDCCB, on the other hand, showed only a general deterioration in its financial health during this period.

One of the reasons for such high incidence of NPAs of RFIs has been the familiar practice of debt forgiveness, which eroded repayment and allowed defaulters to go scot free with no deterrent reprimand. Political interference in issues of prudent fiscal management has got a lot to do with this unfortunate scenario. There is, therefore, a need to take more stringent and cohesive measures for recovery of loans from chronic and heavy defaulters. In brief, in order to rejuvenate rural credit delivery system, the twin problems facing the system, viz., high transaction costs and poor repayment performance, need to be tackled with more fiscal jurisprudence reserving exemplary punishment for willful defaults, especially by large farmers. In fact, insofar as the rural credit delivery system is concerned, the focus should be on strategies that are required for tackling issues such as sustainability and viability, operational efficiency, recovery performance, small farmer coverage and balanced sectoral development (Puhazhendhi and Jayaraman, 1999).

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## POLICY MATRIX

Sl. No.	Problems Identified	Action Points	Implementing Agency
1.	The estimates show considerable regional variations insofar as Potential Linked Credit Plan (PLCP) outlays for Western Maharashtra, Marathwada, Vidarbha, and Konkan regions are concerned. The shares of Western Maharashtra, Marathwada, Vidarbha and Konkan regions in total PLCP outlay of the state over the past few years are seen to be 50 %, 20 %, 20 %, and 10 %, respectively, showing PLCP outlay for the Western Maharashtra to be the highest.	There is need to rationalize/increase PLCP outlays for Marathwada, Vidarbha and Konkan regions.	State Level Banker's Committee (SLBC), Mumbai; NABARD, Mumbai
2.	The new generation lending institutions like SHGs show high rate of recovery despite excessively high rates of interest on their loan advances. They also show lower transaction cost as compared to other lending institutions.	There is need for cooperative and commercial banks to study the mechanism of new generation lending institutions in terms of their pattern of loan recovery and interest rate structure.	State Level Banker's Committee (SLBC), Mumbai; NABARD, Mumbai; State Co-operative Bank, Mumbai
3.	In the state of Maharashtra, not only the institutional finance but the membership of credit cooperatives have slowed down during the decade of economic reforms as against the decade preceding it. As against this, the outstanding loans of these cooperatives have grown at much faster rate as compared to their loan advances during both pre- and post economic reform period.	The twin problems of credit cooperatives relating to slower growth in their institutional finance and membership and higher growth in their outstanding loans need to be tackled.	State Cooperative Bank (SCB), Mumbai
4.	The PACS have also shown a decline in their coverage of SC/ST farmers, besides showing a fall in their loan advances to them. Further, despite Maharashtra accounting for the bulk of the nation's total production and acreage under cotton crop, the share of this crop in total crop loan advances of PACS has come down perceptibly over time.	The lackadaisical approach of PACS towards loan advances to SC/ST members and other weaker sections, and also for cotton crop calls for immediate remedial measures if Maharashtra is to continue to lead the country in the cooperative development.	The Maharashtra State Co-operative Bank Ltd., Mumbai; Office of the Commissioner for Co-operation and Registrar of Co-operative Societies, Maharashtra State, Pune

5.	Like credit cooperatives, the commercial banks, RRBs and LDBs in Maharashtra have also shown slower growth in their institutional finance during the decade of economic reforms. There has also been an increasing trend in share of Maharashtra in total outstanding loans of all scheduled commercial banks of India, which has grown from 10 % during TE 1985 to 14 % by TE 2000.	The commercial banks, RRBs and LDBs of Maharashtra need to tackle the slow growth of their institutional finance, particularly in more recent times. Besides, they should slow down the growth of their outstanding loans.	RBI, Mumbai; All the Commercial Banks of Maharashtra
6.	Lack of staff motivation and specialization despite local recruitment of staff are the twin problems faced by RRBs. The poor performance of RRBs can be attributed to their hurriedly recruited and trained staff that not only lack exposure in dealing with a large number of small-term/ composite loans but also in terms of their weak knowledge of dealing with bank accounts.	The employees of RRBs should be placed in the rural banking cadre (RBC) with a view to make them employees of both the RRBs and their sponsoring banks. This will help them to expand their career prospects, which in turn motivate them to work more efficiently. This will improve the viability of RRBs.	Reserve Bank of India (RBI), Mumbai; NABARD, Mumbai
7.	The major problem crippling the functioning of LDBs in Maharashtra is the mounting 'overdues' and the outstanding loans, which have grown more dramatically in recent times. This is despite the fact that the loans extended by LDBs are aimed at not only helping in creating productive assets but also in terms of generating adequate incremental income to the farmers.	There is need for the LDBs to create greater coordination among their ST, MT and LT loans, streamline their operations, check the diversion and misuse of their credit, supervise the loan product, strengthen the share capital base, and mobilize deposits and debentures through more innovative deposits and debenture schemes.	Reserve Bank of India (RBI), Mumbai; NABARD, Mumbai
8.	The disparity in distribution of crop loans, measured with the help of Gini's coefficients, is noticed to be lower in the backward district of Buldana as against the forward district of Sangli. At the same time, the amount of crop loans per hectare of GCA distributed in this district is also very low as compared to Sangli district.	There is an ample scope to increase the amount of crop loan advances in the backward district of Buldana. This will certainly help the farmers not only to increase their crop production but also in terms of achieving sustained growth of agricultural sector in this district.	State Cooperative Bank (SCB), Mumbai; Buldana District Central Cooperative Bank (BDCCB) Ltd., Buldana
9.	Both commercial and cooperative banks operating in forward district of Sangli and backward district of Buldana have shown shrinking flow of credit to S.S.Is during the decade of 1990s.	There is need for the commercial banks and credit cooperatives to increase the flow of credit to S.S.Is in Sangli and Buldana districts of Maharashtra.	All the Commercial Banks of Buldana and Sangli Districts; SDCCB, Sangli; BDCCB, Buldana

10.	In due course of time, the pattern of ST loan advances of both SDCCB and BDCCB has shifted in favour of processing societies and MT loans of BDCCB in favour of non-agricultural cooperative societies.	This certainly calls for remedial and corrective measures to safeguard the interest of the farming community.	SDCCB, Sangli; BDCCB, Buldana
11.	The BDCCB has shown higher break-even levels of loan advances and deposits due to excessively high fixed expenses incurred by it during the late nineties period. The higher fixed expenses are mainly due to very high levels of NPAs as these got included in the fixed expenses of BDCCB during this period. This has adversely affected the viability of BDCCB. A deficit to the tune of 60 % is noticed in actual advances and deposits as compared to break-even levels of advances and deposits of BDCCB.	There is need for the BDCCB to recover its overdues' and outstanding loans and, thus, reduce its NPAs which has adversely affected its profit profile.	BDCCB, Buldana
12.	The major suggestions of the sampled respondents of both Sangli and Buldana districts were in favour of provision of loans from their concerned credit institutions for medical treatment and flexibility in terms of limits on ST, MT and LT loans, besides extending their suggestions for the provision of LT loans from PACS.	Both commercial banks and credit cooperatives should find possibilities to extend loans for meeting medical expenses and also in terms of relaxing limits on their ST, MT and LT loans.	All the Commercial Banks of Sangli and Buldana district; SDCCB, Sangli; BDCCB, Buldana
13.	Complicated procedure in terms of loan advancement, delay in disbursement of loan, high transaction costs, and high NPAs are noticed to be the major problems of commercial banks.	The commercial banks should simplify their loan procedures and make cohesive measures for recovery of loans of chronic and heavy defaults of influential well-to-do borrowers who evade repayment despite their capacity to repay.	Reserve Bank of India (RBI), Mumbai; NABARD, Mumbai; All the Commercial Banks of Maharashtra
14.	Various RFIs of Maharashtra have shown a slower growth in their outstanding loans (OL), overdue from direct advances (DA) and bad debt in agriculture during the period between 1991 and 1997 as against the period between 1980 and 1990. At the same time, the proportion of overdue to OL of RFIs of Maharashtra have grown at much faster rate during the reform period as against the pre-economic reform period.	The RFIs of Maharashtra, in general, need to tackle their problems relating to overdues' and outstanding loans.	All Rural Financial Institutions of Maharashtra



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**ANNEXURE I: COMMENTS ON DRAFT REPORT BY DESIGNATED AERC UNIT,  
VALLABH VIDYANAGAR, GUJARAT**

**TITLE OF THE STUDY REPORT: AN ECONOMIC EVALUATION OF AGRICULTURAL  
FINANCIAL INSTITUTIONS IN MAHARASHTRA**

**AUTHOR: DEEPAK SHAH**

**ORGANISATION : AGRO-ECONOMIC RESEARCH CENTRE, GOKHALE INSTITUTE OF  
POLITICS AND ECONOMICS, PUNE**

**REPORT RECEIVED FOR COMMENTS: 18-10-03**

**COMMENTS SENT ON: 3-11-03**

**1. DETAILED COMMENTS ON THE METHODOLOGY FOR THE STUDY:**

**The methodology adopted in the study for fulfilling the objectives is adequate.**

**2. COMMENTS ON THE ADEQUACY AND QUALITY OF COVERAGE OF EACH  
OBJECTIVE OF THE STUDY:**

**Each objective of the study is clearly spelt out. The adequacy and quality of each  
objective is satisfactory.**

**3. COMMENTS ON THE PRESENTATION OF GET UP ETC.:**

**After going through the report, it is noted that presentation of report is good and  
praiseworthy.**

**4. OVERALL VIEW ON THE ACCEPTABILITY OF THE REPORT:**

**Overall study report is noteworthy. Since the report covers each objective very well  
with good presentation, the report be accepted by the Ministry of Agriculture & Co-  
operation, Government of India.**

**ANNEXURE II: ACTION TAKEN BY THE AUTHOR ON THE COMMENTS OF  
THE DESIGNATED CENTRE FOR THE STUDY ENTITLED**

**“AN ECONOMIC EVALUATION OF AGRICULTURAL  
FINANCIAL INSTITUTIONS IN MAHARASHTRA”**

The author is thankful to the reviewer for the keen interest taken by him in carefully going through the report. The replies to each of the comments are given as follows:

1. **COMMENTS ON METHODOLOGY: No Revision Required**
2. **COMMENTS ON THE ADEQUACY AND QUALITY OF COVERAGE OF OBJECTIVES:**  
**No Revision Required**
3. **COMMENTS ON THE PRESENTATION OF GET UP ETC.:**  
**No Revision Required**
4. **OVERALL VIEW ON THE ACCEPTABILITY OF THE REPORT:**

The report has been recommended for acceptance in the present form as it does not require any revision.

November 12, 2003

Deepak Shah