

## Rural Credit Delivery System in Maharashtra: Some Emerging Issues

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*An investigation into rural credit delivery system in Maharashtra shows slower growth in institutional finances through commercial banks, credit cooperatives, RRBs and LDBs, particularly during the decade of 1991-2000, which is mainly due to adverse environment created by the financial sector reforms. Due to unfavourable policy framework, the entire rural credit delivery system is reduced to a moribund state. High transaction costs and poor repayment performance are the twin root causes of the moribund state of rural credit delivery system. 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. The revival of rural credit delivery system of Maharashtra also depends on strategies that are required for tackling issues such as sustainability and viability, operational efficiency, recovery performance, small farmer coverage and balanced sectoral development of the state.*

### Background

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 the era of financial sector reforms, sustainability, viability and operational efficiency of RFI are the major issues that need to be taken cognizance of in ensuring effective rural credit delivery system. However, the major problems plaguing the efficiency of rural credit delivery system are the mounting overdue<sup>1</sup> and Non Performing Assets (NPAs)<sup>2</sup> of RFI. The overdue problem of different entities of rural credit delivery structure is reported to be an all pervasive phenomenon that cuts across these different agencies (Puhazhendi and Jayaraman, 1999). As per the estimates reported by Gulati and Bathla (2002), not only the outstanding loans of various RFI operating in India grew significantly but the overdue of these financial institutions had increased considerably during the period between 1980 and 1998. The RRBs, in particular, showed maximum increase in their outstanding loans, followed by CBs. The Primary Agricultural Credit Societies (PACS) and LDBs in comparison showed the lowest increase in their outstanding loans.

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<sup>1</sup> Lack of recovery of loan results into overdues. Overdues are defined as loans and interest thereon not repaid on due dates. 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 or defaults (Gulati and Bathla, 2002).

<sup>2</sup> As per M. Narasimham (RBI 1991) Committee, the non performing assets (NPAs) are those loan advances which are marked with non payment of interest or repayment of principal or both for a period of two quarters or more during the year ending. An amount is considered as 'post due' if it is unpaid for 30 days beyond due date. The NPAs are broadly classified as sub-standard, doubtful and loss assets.