
**FLOW OF CREDIT TO SMALL AND MARGINAL FARMERS IN
MAHARASHTRA**

(Executive Summary)

**K. G. Kshirsagar
Deepak Shah**

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

PUNE 411 004

JUNE 2002

EXECUTIVE SUMMARY

Background

India has made rapid strides in agricultural sector over the past three decades, giving rise to self-sufficiency and surplus in food production. However, the problems of ever increasing population pressure on land and prevalence of mass poverty in rural areas have greatly affected the future prospects of Indian agriculture.

The prevalence of mass poverty in rural areas is mainly attributed to the backwardness of agriculture which is largely traced to the pre-dominance of small and marginal farmers and their continuous marginalisation over the years. The problems of small and marginal farmers vary from area to area. But, one of the major and common problems is the credit flow to them, which has immensely hindered the economic development of small and marginal farmers. Therefore, the major thrust of the present investigation is on evaluating the credit flow problems of small and marginal farmers with a view to assess their credit needs and find out ways and means to provide easy, and cheap credit to them from various rural lending institutions so that they are better prepared to share the responsibility of enhancing farm production in the country. The rural lending institutions not only encompass traditional formal sector credit organisations but also new generation credit organisations operating in the state of Maharashtra. Although the study is focussed upon marginal and small farmers, it also analyses the credit flow to landless, medium and large categories of farmers with a view to present a comparative position of these borrowers with respect to various qualitative and quantitative parameters taken into consideration for probing their credit experiences.

Objectives of the Study

The specific objectives of the study are as follows

1. To review the credit experiences of traditional financial institutions with respect to the vulnerable sections of the farming community (i.e. small and marginal farmer households and labour households) based on the existing and available documents in the country.
2. To document through case studies the innovative credit experiments of new generation rural financial institutions, especially in private and cooperative sectors in India, with respect to the same target group.

3. To identify and analyse the existing credit flow gaps and the reasons thereof for the same target group; and
4. To suggest measures at both economic policy level and enterprise level to ensure smooth flow of credit on sustainable basis to this group.

Methodology

Multistage stratified random sampling procedure was adopted for the selection of districts, villages and sampled households. In order to evaluate the extent of credit flow to marginal and small farmers by various lending institutions, the present study was conducted in Kolhapur and Pune districts of Maharashtra. These two districts were noticed to be true representative of traditional and new generation lending institutions. Pune district was seen to be having simultaneous functioning of both traditional and new generation lending institutions. On the other hand, Kolhapur district was seen to be predominated mainly by traditional lending institutions. From each of the selected districts, one medium size village was selected. Nonetheless, efforts were made to select those villages which had maximum number of lending institutions. While the selected village from Kolhapur district encompassed three traditional lending institutions, the village selected from Pune district was seen to comprise of one traditional and three new generation lending institutions such as SHGs. All these seven lending institutions were selected for the present investigation.

A list of households along with their landholding size was obtained from the selected villages of two sampled districts. The households were then categorized as landless (no land), marginal (upto 1 ha), small (1-2 ha), medium and above (2 ha and above) based on their landholding size. It was decided to select 25 households from each of the selected villages from the two sampled districts. Further, the selection of sampled households was done using probability proportion to landholding size (PPS) technique. However, the PPS technique was applied only to 15 members belonging to marginal and small categories as it was pre-decided to select 5 households from landless and another 5 from medium and above categories. In all, the study covered 50 households with 25 households from each sampled district.

The study is based on both secondary and primary data. The secondary data were collected from various official records and published sources. On the other hand, primary data were collected through personal interview method. However, primary data collection encompassed five different stages. The first stage of primary data

collection not only included enumeration of sampled households but also selection of households based on their landholding size. The second stage encompassed collection of information on the profile of sampled villages with respect to their characteristics/features. The third stage of primary data encompassed collection of information relating to profile of institutional lenders located in the sampled villages. The fourth stage of primary data included collection of general household information. In the fifth stage, information were collected on those aspects such as borrower's credit needs, utilization of credit, transaction cost of borrowers, etc.

Information on various aspects under stage III were collected for the period 1995/96 – 1999/2000. On the other hand, majority of the information on various aspects under stage IV and V were collected for the reference year 1999-2000.

Major Finding

1. Rural Credit Scenario of Maharashtra

An evaluation of rural credit scenario revealed much higher credit plan outlay for priority sectors such as agriculture and allied activities with activities relating to small scale industries and non-farm sectors showing the least allocation in this total credit plan outlay for the state of Maharashtra. This held also true in the case of sampled districts of Kolhapur and Pune. However, the proportionate allocations in total credit plan outlay were much higher for Pune as compared to Kolhapur district. Interestingly, crop loans accounted for nearly two-thirds share in total credit plan outlay for agriculture and allied activities. The study has also made an attempt to provide an insight into the estimates relating to potential linked credit plan (PLCP) outlays encompassing various sectors/activities for different districts and regions of Maharashtra. Among various regions, western Maharashtra showed about 50 per cent share in total PLCP outlay for the state of Maharashtra. This region also included the sampled districts for investigation. The next important regions were Marathwada and Vidarbha, each accounting for 20 per cent share in state's total PLCP outlay. The allocation for Konkan region in state's total PLCP outlay was the least. The study also showed significant growth in the number of SHGs linked with bank credit. In the state of Maharashtra, the strength of SHGs linked with bank credit is seen to have grown from as low as 424 as on March 1997 to as high as 11,148 as on June 2001. The district that has shown phenomenal growth in the numerical strength of SHGs linked with bank credit is seen to be Chandrapur. Yavatmal, Pune and Nanded districts of

Maharashtra have also shown significant increases in the numerical strength of SHGs. Now, as for the state of Maharashtra, the NABARD has drawn a medium term strategic plan to ensure linkage of at least 55,000 SHGs with bank credit by the end of 2004. In the present milieu, 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.

2. Profile of Sampled Villages and Financial Institutions

2.1 Profile of Sampled Villages:

The selected villages of this investigation differed considerably in their characteristics/features. The village with traditional lending institutions not only had very high proportion of land under agriculture with assured irrigation facilities but also seen to be marked with higher concentration of bovine heads and closer location of most of the infrastructure facilities. Contrary to this, the village with traditional and new generation lending institutions showed considerable proportion of fallow and waste land with inadequate irrigation facilities, besides showing higher proportion of female population working as agricultural and non-agricultural wage labor, and also distant location of majority of the infrastructure facilities. Nevertheless, both the selected villages were seen to have predominance of upper caste with high rate of literacy. The village with both traditional and new generation lending institutions showed higher rate of literacy with relatively higher predominance of upper caste. Thus, the village with traditional as well as new generation lending institutions was reckoned as weak so far as the irrigation status, land use pattern, infrastructure facilities, and concentration of bovine heads were concerned.

2.2 Features of Traditional Lending Institutions:

The traditional lending institutions operating in the sampled village of Kolhapur district showed higher rate of recovery on loan advances as compared to the traditional lending institution operating in the sampled village of Pune district. Further, although crop loans were seen to account for the major share in total loan advances of the traditional lending institutions operating under the umbrella of DCCBs - both in Kolhapur and Pune districts all through the period between 1995-96 and 1999-2000, this period, especially the more recent one, was also found to be marked with loan advances for more diversified activities such as construction of

house, brick industry, purchase of vehicles, gobar gas, marriage, etc. On the other hand, the traditional lending institutions engaged in loan advances for non-agricultural purposes used various kinds of collateral securities, which encompassed loan against salary, guarantors, fixed deposits, movable and immovable property, recurring deposits, and mortgage of vehicles. Nonetheless, important among these securities were loan against guarantors, movable property and cash credit as 75-80 per cent loans were extended against them. The traditional lending institution operating in both Kolhapur and Pune districts also showed faster rate of increase in their loan advances as compared to increase in their numerical strength of borrowers during the given period of time. Timely repayment of loan and simple documentation were noticed to be the major causative factors responsible for the success of various types of loans extended by the traditional lending institutions operating in both Kolhapur and Pune districts. Further, the traditional lending institutions operating in both Kolhapur and Pune districts were noticed to face major competition from commercial banks, self-help groups and to some extent from various voluntary agencies.

2.3 Features of New Generation Lending Institutions:

The new generation lending institutions encompassing various SHGs evaluated in this investigation not only showed high rate of recovery on loan advances but also very high share of loan advances for agricultural purposes, and also for animal husbandry operations. This was despite very high rate of interest (24-36 per cent per annum) involved on their loan advances. These SHGs also showed very high percentage (75-80 per cent) of their borrowers belonging to marginal category. In general, the membership of these SHGs was seen to be restricted to landless, marginal and small category of farmers. The loan advances of SHGs encompassed not only various agricultural, off-farm and non-farm activities but also some of the consumption activities. In general, various agricultural, off-farm and non-farm activities put together accounted for about 75 per cent share in total loan advances of the selected SHGs. The share of consumption activities in total loan advances of the selected SHGs was noticed to be the remaining 25 per cent. As regards the perception of SHGs about their loan product, majority of them favored their loans for agricultural and consumption purposes mainly because of their simple documentation and timely repayment of loan. These loans were also reported to have high growth potential with higher profit profile. In general, commercial banks and credit cooperatives were

alleged to be the major competitors of SHGs with least competition being faced by them from rural money lenders and to certain extent from non-bank finance companies.

2.4 Organizational and Functional Differences between Traditional and New Generation Lending Institutions:

Major differences between traditional and new generation lending institutions were noticed in terms of their membership pattern, interest rate structure, period of loan advances, distribution of loan for various purposes, and rates of recovery on loan advances. Despite excessively high rates of interest, the SHGs evaluated in this investigation showed cent per cent recovery on loan advances all through the period between 1995-96 and 1999-2000. Further, while there was no lower or upper limit for the membership of traditional lending institutions, the membership of SHGs turned out to be restricted to 10-20. Not only this, the membership of SHGs was noticed to be restricted to specific category of borrowers, which mainly included weaker sections of rural population such as landless, marginal and small categories of borrowers with marginal category showing much higher representation not only in their total membership but also in their total loan advances for various purposes. Added to this, the loan advances of SHGs for various purposes were seen to be limited to a maximum period of one year. The only similarity between traditional and new generation lending institutions was in terms of their purpose-wise distribution of loan. Both traditional and new generation lending institutions showed very high share of their total loan advances for agricultural and to some extent for off-farm activities such as animal husbandry operations. As regards loan products, majority of lending institutions, whether traditional or new generation, favored their loan advances for agricultural, off-farm, non-farm and consumption activities mainly because of their simple documentation and timely repayment. In general, voluntary agencies and commercial banks posed major competition to traditional lending institutions and credit cooperatives and commercial banks to new generation lending institutions.

3. Borrower Survey Results:

3.1 Characteristics of Respondents:

The two study villages have represented two distinct production environments which is clearly reflected in salient features of selected households. The literacy levels of males from non-microfinance village are better, while there are no

differences in the literacy levels of females from both the villages. The respondents from the traditional non-microfinance village seem to have smaller family size but have larger size of working age and actual working population. Moreover, the village has higher proportion of population dependent on agriculture. However, the higher proportion of working age members were mainly engaged in trade and services in the village having microfinance organisations. The households from non-microfinance village were having better access to energy sources, better furniture and they preferred investment in gold as well as in bonds. They were also having familiarity with important village level personnel and organisations. The other attributes such as use of modern implements, number of milch animals and annual expenditure on purchased inputs are strongest for the borrower households from the traditional village without microfinance organisations. The households from this village also tend to purchase higher proportion of their inputs on credit and are used to adjust it against the sale of their farm output. In addition to this, the annual per head income, share of income from agriculture and allied activities as well as the expenditure figures are higher for the average households from this non-microfinance village. However, the labour income and the income from trade and services are relatively higher for the households from microfinance village reflecting the availability of better opportunities for labour employment and trade related services.

The analysis across the different farm size categories revealed that the size of landholding had a major influence on the socio-economic condition of the borrower households. In terms of literacy, landless households seem to be less educated than the households from other three farm size categories. The average family size and size of working age population has a tendency to increase with the increase in the size of holding. Similarly, the quality of housing as well as its value was also directly related to the size of landholding. Larger farm households preferred investment in gold and bonds than the households belonging to other farm size categories. The larger farm households also seem to have better networking power as compared to other farm size households. The use of improved implements increased with increase in farm size. The cropping intensity was highest on marginal farm having highest per cent of area under irrigation and was observed to be lowest on medium and large farms having lowest percent of area under irrigation. The population of milch animals was found to be the highest on medium and large farms. The proportion of area under

food crops was inversely related to the size of landholding while the proportion of area under cash crops was directly related to the size of landholding. As expected, the major share of income of large farm households came from agriculture and allied activities. The share of labour income was observed to be negatively related to the size of landholding.

3.2 Credit Experiences of Sample Households

All the Sample households, except the landless sample households, have access at least to formal sources of credit. However, 36 per cent of landless households are still dependant only on informal sources. In terms of providing access to credit to maximum number of households, cooperative sector is still a dominant force. Cooperatives are also the largest suppliers of credit with 65.20 per cent and 38.19 per cent shares in all loans in non-microfinance and micro-finance villages, respectively. On the other hand, commercial banks have accounted for 21.58 per cent and 19.24 per cent shares in all loans in non-microfinance and microfinance villages. The combined percentage share of commercial banks and cooperatives in all loans is the highest for small farms (94.48 per cent), followed by marginal farms (93.60 per cent), medium and large farms (78.23 per cent) and landless households (67.71 per cent) reflecting their bias in favour of farmer households.

While no consumption loans were available from commercial banks and cooperatives in microfinance village, households from non-microfinance village utilised maximum loans from these sources for their consumption. Only informal lenders and SHGs are seen to provide consumption loans in microfinance village. The size of consumption loan was larger in non-microfinance village, may be due to their better economic condition. Landless households are seen to deal with more number of credit sources than others for their consumption loan and the quantum of their consumption loan seems to be the highest than production and human capital loans.

Cooperatives are seen to be the dominant source of credit for the production purposes in both the villages followed by commercial banks, SHGs and informal agencies. Non-micro-finance village is seen to utilize several times more production loan as compared to microfinance village. The annual production loan is noticed to have increased with the increase in the size of landholding reflecting a bias towards larger landholding categories.

Similar to consumption and production loan, the amount borrowed by the non-microfinance village for human capital is also noticed to be several times higher than the microfinance village. Non-microfinance village depend on commercial banks, cooperatives and chit funds while informal lenders and SHGs are the only sources of human capital loans in microfinance village. The landless households are noticed to be completely dependent on informal lenders, while small farmers on SHGs and medium and large farmers on chit funds for their human capital investment needs. The number of borrowers of human capital loan are noticed to be less than the number of borrowers of consumption and production loans. Expectedly, large farmers (medium and large) have borrowed more amounts as compared to other landholding categories for human capital investments.

There is complete absence of default of credit (except informal lenders and SHGs in microfinance village) in both the villages setting an immutable example to others. However, the rate of default in microfinance village for informal lenders and SHGs was observed to be 25 per cent and 6.25 per cent, respectively. In addition to this, the default rate decreases with increase in the size of landholding. The rate of default for landless households is 20 per cent and it is 12.50 per cent for SHGs for marginal farms in microfinance village. The system of credit assessment and monitoring adopted by commercial banks and cooperatives in these villages may be further studied with an objective of its adaptation in places where default is a serious problem.

Borrowers experience with cooperatives is longest with 28.67 years and 19.48 years in microfinance and non-microfinance villages, respectively. This is followed by commercial banks, informal lenders, SHGs and chit funds. The longer credit experience of households with formal credit institutions such as commercial banks and cooperatives may have led to better repayment of credit. Further, overwhelming majority of the borrowers ranging from 53.33 per cent to 87.50 per cent are noticed to be comfortable with various lending institutions. However, majority of the households seem to be not very comfortable with the chit funds operating in their village. The comfort level seems to be intimately linked with the length of experience of the borrower with respective lending institutions. The commercial banks, cooperatives and SHGs provide more comfortable working environment to their clients, thereby, retaining them for a longer periods.

Borrowers from both the villages have indicated that they have the perfect flexibility of rescheduling of loans from both formal as well as informal lending institutions. Their responses do not change even across the different landholding categories. The perfect flexibility enjoyed by the households from these villages may have helped them in building such as excellent relationship with the various lending institutions operating in the village which may have resulted in very less or almost no problem of default, which is serious threat looming large over the rural credit system in many other parts of the country.

The transactions cost of credit from commercial banks was highest of 3 per cent and 2 per cent of the loans taken by borrowers from non-microfinance and microfinance village, respectively. It was one per cent for cooperatives in non-microfinance village. Similarly, the total transaction cost of informal credit was also high in microfinance village. This indicates the relatively economical access to credit in the microfinance village. The transaction cost of credit for commercial banks and cooperatives was highest at 6 and 2 per cent, respectively, for landless households as compared to a very low cost to other landholding categories. This shows a marked bias in favour of large landholding categories in providing the cheapest access to credit. The only exception to this was the transaction cost of loans from SHGs where it was one per cent for landless and two per cent for large farm category.

It has been observed from the mode of interest collection (whether upfront or later) across the different landholding categories in both the villages that most of lending organisations collect the interest later. This indicates that the existing credit markets are working fairly good and seem to be less exploitative in nature.

Commercial banks and cooperatives require 37.50 days and 31.04 days, respectively, to process the loan in non-microfinance village. The same figures for microfinance village were 6 days and 21.50 days. The large number of days taken to process the loan by these formal lending institutions may be due to their handling of large volume of credit and clients or their less efficiency in processing the loan or both the reasons. Informal lenders require about 9-10 days and SHGs about 13 days to do the same job. The results are mixed with respect to various landholding categories.

The higher credit gap to the extent of about 18-21 per cent existed in microfinance village as compared to about 5-13 per cent in non-microfinance village. Thus, the households from traditional non-microfinance village seem to be better off as far

as the shortfall in credit is concerned. The shortfall in credit is shown by all the landholding categories. However, the shortfall in credit formal sector is observed to be the highest for the landless households and lowest for medium and large farmers, reflecting again a bias in favour of largest landholding category.

Personal guarantee and tangible collateral are the major collateral used by the traditional lending agencies. For new generation lending institutions, personal guarantee, group insurance and interlinked input purchase are the major instruments. The informal lending agencies depend on few type of collateral than the formal lending institutions.

The overall explicit interest rate in non-microfinance village for commercial banks (14.75 per cent) and cooperatives (15.52 per cent) were higher as compared to the microfinance village (11.27 and 13.50 per cent), respectively. However, the same for informal agencies was seen to be higher in non-microfinance village. The explicit interest rates for formal agencies were almost similar for landless (17.91 per cent) and medium and large farm households (17.97 per cent), while they were higher for marginal farms (18.59 per cent) and lower for small farms (15.23 per cent) than the other two landholding categories. Contrary to our expectations, the exceptionally lower interest rate for informal lending sector as compared to the formal lending institutions were observed which might be attributed to the mixing up of interest and non-interest loans together.

The value of index of recommendation for lending institutions by borrower to other for commercial banks, cooperatives and informal lenders is highest at 1.25, 1.09 and 1.83 for non-microfinance village as compared to 1.2, 1.08 and 1.50 for microfinance village, respectively, reflecting better perception of the borrower about the lending institutions in microfinance village. As per the index, the cooperatives are most favoured source of credit followed by commercial banks and SHGs. The informal lending agencies were the least preferred by the borrowers to be recommended to other households for borrowing.

Maximum number of households (17) have shown preference to shift to cooperatives followed by commercial banks (9) and SHGs (2). On the other hand, maximum number of households wish to shift away from commercial banks (13) followed by informal lenders (7) and SHGs (6). The most important reasons cited by the borrowers from both the villages for their shifting preference from current lending

institutions are high interest rates, complicated procedures, non-availability of loans for stipulated purposes and insufficient quantity of loan given/quantity offered. The same reasons are also cited by the different landholding categories. Deep thinking in respect of these most cited reasons may be essential by the various lending institutions if they wish to reform their credit practices/ procedures to retain their client base.

4. Conclusions:

(In conclusion, two differing points of view have emerged insofar as the working of traditional and new generation lending institutions are concerned. While new generation lending institutions such as SHGs have shown high rate of recovery despite having high rate of interest on loan advances, the traditional lending institutions such as cooperative and commercial banks are seen to be beset with not only low rate of recovery but also various other deficiencies such as absence of human capital investment and consumption loans, especially for illness, marriage and other contingencies, complicated procedures followed by them in terms of loan advances, their high transaction cost, delay in delivery of credit, etc. This emphasizes upon the need for both formal and informal credit agencies to have simplified loaning procedures with major emphasis on extension of credit facilities to poorer sections of the rural society.) In this sequel, efficient use of Kisan Credit Cards, group lending through SHGs, conversion of PACS into group of borrowers with joint responsibility of repayment, etc. could be the other suggestions. Further, in terms of credit facilities, the landless categories of households are seen to be neglected section of the rural society. It is to be noted that size of landholding has major influence on access to credit. Credit facilities through commercial and cooperative banks invariably depend on ownership of land. This adversely affects access to credit to the landless households. It is therefore felt that ownership of land as the criterion for the distribution of credit may be relaxed and group responsibility may be introduced by formal credit institutions. The task before rural credit institutions should be to identify the poorer groups within the landholding categories with a view to help them to rise above the poverty line by providing them access to credit. Further, despite a vast network of formal and informal credit institutions, cooperatives have still emerged as the dominant force in rural credit markets. However, in order to maintain their status as dominant force in rural credit delivery system, cooperatives need to be restructured and strengthened to meet the emerging challenges.

As for the formal credit institutions, both commercial and cooperative banks are seen to depend on tangible assets as collateral. However, it is felt that this invariably help the well endowed borrowers and adversely affect the poorer sections of the society. This practice, therefore, need to be altered and intangible assets may be considered as collateral. In fact, the major drawback of the working of formal and informal sector credit organisations is the lack of coordination among themselves. The need of the hour is therefore to enhance linkages and coordination among various financial institutions involved in extending credit to rural issues.

POLICY MATRIX

Problems Identified	Action Points	Implementing Agency
1. The shares of Western Maharashtra, Marathwada, Vidarbha and Konkan regions in total Potential Linked Credit Plan (PLCP) outlay of Maharashtra over the past few years are seen to be 50%, 20%, 20% and 10%, respectively, showing very high share of PLCP outlay for Western Maharashtra alone.	Need for increase in PLCP outlay for Marathwada, Vidarbha and Konkan regions.	State Level Banker's Committee, Mumbai; NABARD, Mumbai
2. New Generation Lending Institutions have shown high rate of recovery despite higher rate of interest (24-36 per cent per annum) on loan advances.	Need for cooperative and commercial banks to study the mechanism of new generation lending institutions in terms of their recovery of loan and interest rate structure.	State Level Bankers' Committee, Mumbai; NABARD, Mumbai; State Cooperative Bank, Mumbai
3. Lack of attention being paid by commercial and cooperative banks for loan advances for consumption purposes.	Inclusion of an element of consumption loan and quick disbursement of loan for illness, marriage and other contingencies.	State Cooperative Bank, Mumbai; various commercial Banks of Maharashtra
4. Size of landholding has major influence on access to credit	Adequate attention must be paid to landless households and farmers in terms of credit facilities. The ownership of land as the criterion for the distribution of credit should be relaxed and group responsibility may be introduced by formal credit institutions. Rural credit institutions need to identify the poorer groups within the landholding categories in order to help them to rise above the poverty line by providing access to credit.	Commercial and cooperative banks of Maharashtra; RRBs; NABARD, Mumbai.
5. Less number of livestock owned by landless, small and marginal farm households	Special attention may be paid with respect to provision of credit to landless households and also to small and marginal farmers with a view to enhance their livestock holdings.	All rural financial institutions.

6. Cooperative's as a dominant force in rural credit markers.	In order to maintain their status as a dominant force in rural credit delivery system, cooperatives need to be restructured and strengthened to meet the emerging challenges.	Ministry of Finance; Ministry of Cooperation and Agriculture; Reserve Bank of India
7. Requirement of tangible assets as collateral	Both commercial and cooperative banks require tangible assets as collateral, which invariably help well endowed borrowers leaving aside poorer sections of borrowers. This practice needs to be changed and intangible assets may be considered as collateral.	All commercial and cooperative banks; NABARD, Mumbai.
8. Absence of consumption and human capital investment loans with formal credit institutions resulting in increasing dependence of small and marginal farmers on informal lenders and SHGs.	There is need for reorganization of rural credit delivery system in order to meet the multiple needs of the farmers and landless households.	All rural financial institutions.
9. Delay in delivery of credit, complicated procedures and high transaction costs.	Some of the action point could be; simplification of loaning procedures; preparation of loan documents for 2 to 3 years; efficient use of Kisan Credit Cards; group lending through SHGs; Conversion of PACS into group of borrowers with joint responsibility of repayment.	Cooperative and commercial banks; SHGs; NABARD, Mumbai.
10. Less coordination among various lending institutions working in rural areas	There is need for enhancing linkages and coordination among various financial institution involved in supplying credit to rural masses.	Cooperatives and Commercial banks; SHGs; NABARD, Mumbai.

**FLOW OF CREDIT TO SMALL AND MARGINAL FARMERS IN
MAHARASHTRA**

**K. G. Kshirsagar
Deepak Shah**

637

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

PUNE 411 004

JUNE 2002

**FLOW OF CREDIT TO SMALL AND MARGINAL FARMERS IN
MAHARASHTRA**

**K. G. Kshirsagar
Deepak Shah**

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

PUNE 411 004

JUNE 2002

FOREWORD

The application and adoption of modern farm technology have created a large gap between the credit needs of agriculture and availability of funds with farmers in general and the small and marginal farmers in particular. The various financial institutions have played a pivotal role in meeting the increasing credit requirements of the farmers. However, yet much remains to be done and the problems of the agricultural sector have remained by and large unresolved, resulting in high levels of poverty in rural India. Further, with ever increasing number of small and marginal farmers, the problem of flow of credit to them has also become complex, difficult and gigantic. Therefore, it has become imperative to scrutinize the problems related to the credit flow to small and marginal farmers *vis-a-vis* other categories of households in rural India. In view of this, the study on flow of credit to small and marginal farmers in Maharashtra was undertaken at the behest of the Ministry of Agriculture, Government of India. Dr. K.G. Kshirsagar and Dr Deepak Shah have organized this study in Maharashtra.

The major foci of attention of this study are on the functioning of various traditional and new generation lending institutions with respect to the farming community and landless households. One of the major findings of this study is the lower transaction cost and higher recovery performance of SHGs despite their excessively high rates of interest on loan advances. On the other hand, the traditional lending institutions are seen to be beset with many problems such as lack of financing of human capital investment and consumption loans, complicated procedures, requirement of tangible assets as collateral, high transaction costs, delay in delivery of credit, etc. Moreover, the cooperatives, the dominant force in rural credit delivery system, as well as other commercial banks are seen to depend on tangible assets, which again favours the well-endowed borrowers and adversely affects the poorer sections of the society. Finally, the report has highlighted the policy matrix flowing from the analysis of the study specifically in terms of problems identified, actions suggested and the agencies responsible for taking up the necessary actions.

I hope the findings and remedial measures suggested in the report will be useful in formulating policies aimed at improving the flow of credit to small and marginal farmers in Maharashtra.

Gokhale Institute of Politics and Economics
(Deemed to be a University)
Pune 411 004

V.S. Chitre
Director

PREFACE

The prevalence of mass poverty in rural India is attributed to the backwardness of agriculture, which is largely traced to the predominance of small and marginal farmers. In spite of the predominance of small and marginal farmers in India, their role in expanding agricultural production has not been recognised explicitly. A large section of these small and marginal farmers could not make additional investment in agriculture due to their low income levels and various problems related to the flow of credit to them from different rural financial institutions. Therefore, it is essential to study their credit related problems which have direct bearings on agricultural growth and consequently on employment and reduction in poverty. In view of this, the present study is undertaken to examine the credit flow problems of various landholding categories in general and small and marginal farmers, in particular in Maharashtra.

The study depicts the credit scenario of Maharashtra and provides the main features of sampled villages, financial institutions and farmers/respondents. The study critically analyses the credit experience of traditional and new generation financial institutions under both formal and informal segments of the rural credit market with respect to vulnerable sections of the farming community. Finally, the study suggests measures to ensure smooth flow of credit on sustainable basis to this group.

We are grateful to Mr. D. K. Trehan, Economic and Statistical Adviser, Directorate of Economics and Statistics, Department of Agriculture and cooperation, Ministry of Agriculture, Government of India for his continuous support. We are also grateful to Dr. Samar K. Datta and Dr. M. S. Sriram, CMA, IIM, Ahmedabad for their guidance at various stages of the study.

We are highly indebted to Prof. V. S. Chitre, Director of the Institute for his constant encouragement and support during the course of this study.

We acknowledge with gratitude the help and cooperation received from the officers of the various financial institutions working in the study villages. We express our thanks to staff of various Banks, including NABARD for their assistance in making the information available to us.

We are very grateful to farmers interviewed for the collection of primary information, for their cooperation and help.

We express our sincere thanks to Shri S. S. Dete, Shri V. G. Kasbe, Shri S. B. Kate, Shri A. Karpe, and Shri Vithal Lokare for their assistance in data collection and tabulation. We extend our hearty thanks to Mrs. Aarti Jadhav and Mrs. Anjali Kale for their support in analysis of data and word processing of the report.

It gives us pleasure in extending our thanks to our esteemed colleagues, both faculty members and office staff, for their cooperation and support in completing the study.

April, 2003

K. G. Kshirsagar
Deepak Shah

CONTENTS

	Page No.
FOREWORD	i
PREFACE	ii
LIST OF TABLES	vii
<u>Chapter</u>	
I INTRODUCTION	1-7
1.1 Background	1
1.2 Need of the Study	3
1.3 Scope of the Study	5
1.4 Objectives of the Study	6
1.5 Organisation of the Study	6
II METHODOLOGY	8-12
2.1 Selection of District Villages and Sampled households/Borrowers	8
2.2 Data Collection	11
2.3 Coverage / Period of Study	12
III RURAL CREDIT SCENARIO OF MAHARASHTRA	13-21
3.1 Annual Credit Plan Under Lead Bank Scheme	13
3.2 Alternative Credit Delivery Systems – Micro Credit Innovation	17
3.2.1 SHG-Bank Linkage Programme in India:	18
3.2.2 SHG –Bank Linkages in Maharashtra:	19
3.2.3 Government of India (GOI) Policy on SHGs:	21
IV PROFILE OF SAMPLED VILLAGES AND FINANCIAL INSTITUTIONS	22-48
4.1 Broad Features of Sampled Villages	22
4.2 Broad Features of Lending Institutions	26
4.2.1 Traditional Formal Sector Credit Organizations:	26
4.2.2 New Generation Formal Sector Credit Organizations:	37
4.2.3 Comparative Performance of Traditional and New Generation Lending Institutions:	47
V RESULTS OF FIELD SURVAYS	49-89
5.1 Characteristics of Respondents	49

<u>Chapter</u>	Page N
5.1.1 Literacy Level of Borrower Households	49
5.1.2 Household Characteristics	50
5.1.3 Tangible Assets of Borrower Households	52
5.1.4 Intangible Assets of Borrower Households	53
5.2.16 Agricultural and Non-agricultural Operational Characteristics of Borrower Households	55
5.1.6 Income and Expenditure of Borrower Households	58
5.2 Credit and Its Allied Features	59
5.2.16 Access of Sample Households to Different Sources of Credit	59
5.2.2 Source-wise Composition of all Loans	62
5.2.3 Utilisation of Credit by Borrower Households	63
5.2.3.1 Consumption Loan	64
5.2.3.2 Production Loan	65
5.2.3.3 Human Capital Loan	66
5.2.3.4 Total Household Loan	67
5.2.4 Default Rates	68
5.2.5 Borrower's Working Experience with lenders	70
5.2.6 Borrower's Comfort Level with Lending Institutions	72
5.2.7 Flexibility of Rescheduling the Loan	74
5.2.8 Borrower's Total Transaction Cost	75
5.2.9 Nature of Interest Collection	77
5.2.10 Days Required For Processing the Loan	79
5.2.11 Shortfall in Loan	80
5.2.12 Collateral Applied/Extended by Borrowers	82
5.2.13 Explicit Annual Interest Rates	83
5.2.14 Recommendation for lending Institutions	85
5.2.16 Preference for Leaving / Joining the Lending Institutions	87
5.2.16 Reasons for Shifting Preference	88

<u>Chapter</u>	<u>Page No.</u>
VI SUMMARY AND CONCLUSIONS	90-102
6.1 Background and Objectives	90
6.1.1 Background	90
6.1.2 Objectives of the Study	90
6.2 Methodology	91
6.3 Rural Credit Scenario of Maharashtra	92
6.4 Profile of Sampled Villages and Financial Institutions	93
6.4.1 Profile of Sampled Villages	93
6.4.2 Features of Traditional Lending Institutions	94
6.4.3 Features of New Generation Lending Institutions	94
6.4.4 Organizational and Functional Differences between Traditional and New Generation Lending Institutions:	95
6.5 Borrower Survey Results	96
6.5.1 Characteristics of Respondents:	96
6.5.2 Credit Experiences of Sample Households	97
6.6 Conclusions	101
Policy Matrix	103-104
References	105
Appendix I	106
Appendix II	108

LIST OF TABLES

Table No	Title	Page No
1.1	Size Distribution of Operational holding in Maharashtra and India: 1990-91	2
2.1	Landholding size-wise Distribution of Households from the Sampled Villages of Kolhapur and Pune Districts	9
2.2	Landholding size-wise Distribution of Total Members of the Selected Lending Institutions from Kolhapur and Pune Districts	10
2.3	Village-wise Distribution of Sampled Households Across Various Landholding-size Categories	10
3.1	A Comparative Position of Annual Credit Plan Outlay for the Selected Districts and for the State of Maharashtra	14
3.2	Potential Linked Credit Plan (PLCP) Estimates of Exploitable Potential for Different Regions of Maharashtra for the Year 2001-02	16
3.3	Progress of SHG-Bank Linkage Programme in India	18
3.4	Progress of SHG-Bank Linkage Programme in Maharashtra	20
3.5	District-wise Number of SHGs Linked with Bank Credit in Maharashtra	20
4.1	Profile of Villages from the Selected Districts of Maharashtra	24
4.2	Profile of Institutional Lenders from Kolhapur District	30-31
4.3	Share of Large-Medium and Small-Marginal Groups of Farmers In Total Purpose-wise Loan Advances : 1999-2000	32
4.4	Ranking of Lending Institutions Perception about the Loan Product : Kolhapur District	33
4.5	Ranking of Financial Institutions According to their Extent of Competition	33
4.6	Profile of Institutional Lenders from Pune District	40-41
4.7	Share of Various Categories of Farmers in Total Purpose-wise Loan Advances : 1999-2000	42
4.8	Ranking of Lending Institutions Perception about the Loan Product: Pune District	43
4.9	Ranking of Financial Institutions According to their Extent of Competition	43
5.1	Literacy Level of Borrower Households classified Across villages with and without Micro-finance/Borrower's Landholding Status	50
5.2	Average Borrower Household Demographic Characteristics classified Across Village Type/Borrower's landholding Status	51
5.3	Specific Types of Tangible Assets Held Across Borrower Households classified by Village Type/Borrower's Landholding Status	53

Table No	Title	Page
5.4	Nature and Extent of Intangible Asset Holding of borrowing households Classified Across Village Type/Borrower's Landholding Status	54
5.5	Average Non-agricultural and Agricultural Operational Characteristics of Borrower Households classified Across Village Type	56-57
5.6	Per Head Income and Expenditure, and Percentage-wise Source of Income Across Village Type/Borrower's Landholding Status	58
5.7	Frequency Distribution of Sample Households as per Their Access to Different Sources of Credit	60
5.8	Frequency Distribution of Sample Households Across Source of Loan, Type/Borrower's Landholding Status	61
5.9	Percentage Shares of Various Lending Institutions in All Loans to Sample Borrowers Across Village Type/ Borrower's Landholding Status	63
5.10	Sourcewise Total Annual Consumption Loan (in Rs.) across Village Type/Borrower's Landholding Status	64
5.11	Sourcewise Total Annual Production Loan (in Rs.) Across Village Type/Borrower's Landholding Status	66
5.12	Sourcewise Total Annual Human Capital Loan (in Rs.) Across Village Type/Borrower's Landholding Status	67
5.13	Sourcewise Total Annual Loan (in Rs.) for All Purpose Across Village Type/Borrower's Landholding Status	68
5.14	Sourcewise Per cent Default Rates Across Village Type/Borrower's Landholding Pattern	69
5.15	Borrower's Working Experience with Lenders in Years Across Village Types/Borrower's Landholding Status	71
5.16	Frequency Distribution of Borrowers With Respect to Their Comfort Levels & with respect to Alternative Loan Sources	72
5.17	Index of Borrower's Comfort Level with Different Lending Organisations Across Village Type and Borrower's Landholding Status:	73
5.18	Index of Flexibility Enjoyed by Borrower's in Terms of Possible Loan Rescheduling Across Village Type/Borrower's Landholding Status.	75
5.19	Source Wise Borrower's Total Transaction Cost per Loan (in Rs.) Across Village Type/Borrower's Landholding Status	76
5.20	Source Wise Nature of Interest Collection (whether upfront or later) From Different Lending Organizations Across Village Type / Borrower's Landholding Status	78
5.21	Average no. of Days Taken (between application & disbursement of loan) for loan Processing per Loan Across Village Type/Borrower's Landholding Status	79

Table No	Title	Page No
5.22	Percentage Gap or Short Fall of Loan Actually Supplied From Amount Demanded by Borrower Across Village type/Borrower's Landholding Status.	81
5.23	Frequency Distribution of Collaterals Usually Applied by Borrowers Across Lender Agencies	83
5.24	Explicit Annual Interest Rate (in %) Across Village Type/Borrower's Landholding Status	84
5.25	Indices of Recommendation For Lending Institutions by Borrower to Others Across Village Type/Borrower's Landholding Status	86
5.26	Frequency Distribution of Borrowers who Want to Leave Specific Lending Institutions and the Pattern of Their Shift to the Other Institutions	87
5.27	Index of Average Importance of Various Reasons behind Shifting Preference of Borrowers from their Current Lending Institutions by Village Type and Borrower's Landholding Status	88

CHAPTER I INTRODUCTION

1.1 Background:

Agriculture is the key sector of the Indian economy. This is evident from the fact that two-thirds of its work force is engaged in agriculture. During 1998-99, agriculture and allied activities had contributed 28.5 per cent to India's gross domestic product (GDP) at factor cost of current prices (GOI, 2001). India has made great strides on the agricultural front since independence. However, Indian agriculture is plagued by ever increasingly population pressure on land, the exhausted potential of green revolution regions, low productivity and profitability and the prevalence of mass poverty in the country in general and in rural areas in particular (Misra et al 2002, Desai and Namboodin, 2001, Kalirajan et al, 2001). The prevalence of mass poverty in the rural areas is attributed to the backwardness of agriculture, which is largely traced to the predominance of small and marginal farmers. The ever increasing number of small and marginal farmers and continuously decreasing the size of landholding is a cause of serious concern for the development of agriculture and rural masses.

The available data indicate that during 1990-91, there were 106.64 million landholdings with a total operational area of 165.51 million hectares in the country (Table 1.1). The small and marginal farmers formed 78.20 per cent of the holdings and accounted for only 32.40 per cent of the area operated. On the other hand, only 8.7 per cent of the landholding belonged to medium and large farmers, they operated as much as 44.30 per cent of the area. The data on landholding distribution for Maharashtra presented in the same table indicates that the state had 9.47 million holdings covering an area of 20.93 million hectares. The small and marginal farmers represent 63.39 per cent of total holdings, but they operated only 26.76 per cent of the total area. In contrast to this, 14.16 per cent of medium and large farmers operate 45.14 per cent of total area in Maharashtra. Thus, these figures give an idea about the importance of small and marginal farmers in the rural society in general and agriculture in particular.

Table 1.1: Size Distribution of Operational holding in Maharashtra and India: 1990-91

Category	Farm Size in ha	Maharashtra			India		
		Holding (%)	Area Operated (%)	Average Size (ha)	Holding (%)	Area Operated (%)	Average Size (ha)
1. Marginal	< 1	34.58	7.73	0.49	59.40	15.00	0.39
2. Small	1 – 2	28.81	19.03	1.46	18.80	17.40	1.43
3. Semi Medium	2 – 4	22.45	28.10	2.77	13.10	23.20	2.76
4. Medium	4 – 10	12.36	32.77	5.86	7.10	27.00	5.90
5. Large	7 – 10	1.80	12.37	15.13	1.60	17.30	17.33
Grand Total	All Farms	9.47 ^a	20.93 ^b	2.21	106.64 ^a	165.51 ^b	1.55

Note: a Total holdings in million numbers.

b Area operated in million hectares

Source: Government of India, 2001.

The rural poor consist of mainly landless households, marginal farmers who cultivate very small piece of land having area less than one hectare, and small landholders cultivating land between 1 to 2 hectares. As per the estimates reported by Minhas (1974), about 75-85 per cent of all households with less than five acres of operational holdings were below the “poverty line” in India during 1960-61. In this context, Dandekar and Rath (1971) had also arrived at similar conclusions. However, farm size alone is an inadequate criterion for distinguishing poor farmers from those better off and assessing their credit needs. Net per capita income may be the only true criterion for this. But estimation of net per capita income requires very detailed inquiries with respect to earnings from agriculture and off-farm sources. In the absence of this, therefore, size of operational holdings can be considered as the only easily available criterion. However, this criterion has also limitations such as extreme regional diversity of agricultural production environment existing in the country with respect to rainfall, soil, irrigation and other factors affecting land quality, input use and outputs. These factors add to the heterogeneity of a certain landholding category. Therefore, Mahajan (2000) classified the marginal and small farmers into three categories to help estimate the economic status and the credit needs of this study group.

The first sub-category includes the weakest section of marginal farm households who can be treated as nearly landless having minimum of assets and least income.

Individuals in this category are not able to derive sufficient income from their landholdings to meet even their subsistence needs. They would have to supplement their incomes through seasonal farm and off-farm employment and would have to depend continuously on wage incomes. In absence of the regular flow of income, consumption credit during slack months is the first and foremost requirement of this sub-category. In addition to this, they may also need credit for contingent consumption, for working capital and for purchase of small productive assets like livestock. Since their productive potential is too small to meet their subsistence needs, catering to their credit needs often serves the rural poverty alleviation goal of the country.

The second-subcategory includes mainly small and marginal farmer households. Although, their main source of income is agriculture, they supplement their income through farm and non-farm employment. Some individuals of this sub-category may partly engage themselves in petty self-employment activities of hawker, vendors, etc. The main need for credit of these households is working capital to conduct production with occasional credit needs for acquiring productive assets like pumpsets, bore wells, livestock, work sheds, small tools and machines, etc. These households may occasionally face shortfalls in consumption but the traditional formal credit institutions do not cater to their consumption needs.

The relatively affluent section of small farmer households which have gone for commercial production of crops besides engaging themselves in allied farm activities are included in the third sub-category. Some households from this category may be partly engaged in rural non-farm activities. This category has a steady demand for working capital as well as for term loans, but they may face considerable access problems to traditional formal sector credit which may serve as a major hindrance for achieving the growth and diversification goals of the economy.

1.2 Need of the Study:

In order to fully understand the complex problem of providing credit to small and marginal farmers, it is essential to have several representative micro level studies before undertaking a macro level study for making robust and reliable policy generalisation at the national level. At present there are very few micro level studies that target the flow of credit to small and marginal farmers at macro level in India. Therefore, the quality of

existing macro level studies attempting to study the credit problems of small and marginal farmers suffer from a very serious inbuilt limitations. The present study is designed to remove these limitations by conducting several representative micro level studies in different states and then undertaking the macro level study in the form of a coordinated report.

The studies so far conducted in the country based on the secondary data had to be designed according to the frame of the available secondary data and could not be expanded beyond that framework creating a hurdle to reach near the truth. Moreover, the emphasis of these studies is rather quantitative than qualitative. The emphasis of the present investigation is more on qualitative rather than quantitative features of the credit experiences of small and marginal farmers.

The earlier studies treated small and marginal farmers as a single homogeneous category or at most two separate homogeneous categories, ignoring the various sub-categories among these two landholding categories. The present study attempts to remove this limitation by stratifying the small and marginal farmers.

A new dimension has been added to the rural financial system in the country with the establishment and rapid spread of new generation financial institutions in recent years. These institutions are capable of not only providing various credit related supporting services to borrowers but also they seem capable of overcoming some of the well known problems of the existing traditional rural institutions mainly because of their familiarity with the details of local conditions. The present study is formulated to cover the credit experiences of both the traditional and new generation institutions with respect to the vulnerable sections of the rural society. Therefore, even if a number of micro studies were existing on each source of credit in rural areas, initiating new studies covering the whole spectrum of the problems is bound to throw up several new facts that have important bearings on policy issues at the national level. Thus, in such a rapidly changing rural credit institutional environment of the country, the necessity of such a comprehensive study of both micro and macro level always remains a most appropriate one.

The new economic policies (NEPs) initiated in 1991 brought rapid changes in the economic scenario of the world and country. The country is passing through a very

dynamic economic development process that had posed the most difficult challenges as well as opportunities to the agricultural sector of the country in general, and small and marginal farmers in particular. Such a dynamic process will throw up host of complex issues that need to be analysed and understood for smooth development of the rural society in general and weaker sections in particular. The NEPs that demand stronger rural structure of financial institutions to support the future development process in the rural economy of India are expected to affect the resource allocation, income levels and its distribution to small and marginal farmers. Therefore, the insights that this study gives on the credit will also provide valuable information on creation of new potential opportunities for small and marginal farmers through strengthened rural credit institutions. Thus, the study is expected to understand better the credit problems of small and marginal farmers and generate information that can be directly used by policy makers in order to evolve suitable policy options for the purpose of human capital and socioeconomic development of these farmers in India.

1.3 Scope of the Study:

This study is undertaken on the recommendation of the Parliamentary Standing Committee on Agriculture (PSCA). The Committee recommended to study the problems faced by the small and marginal farmers in obtaining credit from the credit institution operating in rural areas (with a special emphasis on cooperatives) in order to formulate the strategies to ensure smooth flow of credit on sustainable basis to this group. Although the focus of the study is only on small and marginal farmers, i.e. the households owning less than 2 hectares of land, the other landholding categories such as landless households and medium and large farm households i.e. farmers operating two or more hectares of land are also included in this study so as to provide meaningful comparisons with the focus groups. The rural financial system includes the traditional institutions such as cooperatives, commercial banks, RRBs, land development banks and government departments in the formal sector and money lenders, relatives and friends, shopkeepers, traders and commission agents in the informal sectors. The new generation institutions with a focus on microfinance have also come into being in both the above mentioned sectors in the recent past. Therefore, it is essential not only to study the traditional formal and informal sectors of the rural financial system but also the new generation institutions.

It is necessary to examine the effectiveness of the new generation institutions in providing easy and cheap credit to small and marginal farmers. Hence, an attempt has been made in this study to analyse the experiences of both the traditional and new generation credit institutions in Maharashtra.

1.4 Objectives of the Study:

In this study, an attempt has been made to investigate and analyse the existing credit flow problems of small and marginal farmers in order to ensure the smooth flow of credit to this group from the rural financial institutions, in general and formal sector institutions, in particular. Main objectives of the study are as follows:

1. To review the credit experiences of traditional financial institutions with respect to the vulnerable sections of the farming community (i.e. small and marginal farmer households and labour households) based on the existing and available documents in the country.
2. To document through case studies the innovative credit experiments of new generation rural financial institutions, especially in private and cooperative sectors in India, with respect to the same target group.
3. To identify and analyse the existing credit flow gaps and the reasons thereof for the same target group; and
4. To suggest measures at both economic policy level and enterprise level to ensure smooth flow of credit on sustainable basis to this group.

1.5 Organisation of the Study:

In addition to this first chapter on introduction, there are five other chapters in the report. The chapter II on methodology discusses the selection procedures adopted for the districts, villages and sampled borrowers and provides information on type of data collected under each stage of study, period of study and coverage of study. Chapter III gives an overview of rural credit scenario of Maharashtra with a focus on annual credit plans and examines the progress made in terms of linking of bank credit with various self help groups (SHGs). The background information related to the profile of sample villages and various financial institutions is presented in Chapter IV. Chapter V provides the key features that emerged from the analysis of field survey data. This chapter is divided in two sections. The first section presents the important features of the sample households

while the second section brings out their credit experiences with various lending institutions in the recent past. Finally, the Chapter VI summarises the key findings of the study and its recommendations for the flow of credit to small and marginal farmers in Maharashtra, besides providing an insight into the policy matrix constructed based on the findings of this study.

CHAPTER – II

METHODOLOGY

The major thrust of the present investigation is on evaluating the extent of credit flow to marginal and small farmers by various lending institutions which not only encompass traditional formal sector credit organizations but also new generation formal sector credit organizations operating in the state of Maharashtra. However, it is to be noted that apart from marginal and small categories these institutions also extend credit to other weaker and affluent sections of the rural population of the state. Therefore, efforts are made in this investigation to include all the categories of borrowers. In other words, though the study is focussed upon marginal and small farmers, it also analyses the credit flow to landless, medium and large categories of borrowers with a view to present a comparative position of these borrowers with respect to various quantitative and qualitative parameters taken into considerations. The selection procedures adopted for the districts, villages and sampled borrowers along with information relating to type of data collection under each stage of study design and period/coverage of study are delineated in the subsequent sections.

2.1 Selection of Districts, Villages and Sampled Households/Borrowers:

Multistage stratified random sampling procedure is adopted for the selection of districts, villages and sampled borrowers. In order to evaluate the performance of traditional and new generation lending institutions, the present study has covered two agriculturally active districts of Maharashtra. In this sequel, Kolhapur and Pune districts are seen to be true representative of traditional and new generation lending institutions. While Pune district is seen to be having simultaneous functioning of both traditional and new generation lending institutions, Kolhapur district, on the other hand, is seen to be beset with / predominated mainly by traditional lending institutions. These two districts, therefore, have been selected for the present investigation. Further, it is also decided in the present investigation to select only one medium size village from each of the selected districts of Maharashtra. However, efforts are made to select those villages which not only have various categories of households but also encompass maximum number of lending institutions. The selected village from Kolhapur district is seen to encompass three traditional lending institutions. On the other hand, the village selected from Pune district is seen to

comprise of one traditional and three new generation lending institutions such as Self-help Groups (SHGs). All these seven lending institutions have been selected for the present investigation. A complete enumeration of the selected villages is also done with a view to have overall picture about the landholding size of each of the households.

The members of various lending institutions were seen to belong to various categories. Therefore, a list of members along with their landholding size was obtained from each of the selected lending institutions from the two sampled districts. However, household categorization was done for the entire village based on landholding size such as landless (no land), marginal (upto 1 ha), small (1-2 ha) and medium and above (above 2 ha). Information regarding distribution of households under each landholding size category for two sampled villages are provided in Table 2.1.

Table 2.1: Landholding size-wise Distribution of Households from the Sampled Villages of Kolhapur and Pune Districts

District/ Village	Landless	Marginal	Small	Medium & above	Total
Kolhapur Dist.: Village 1 (V ₁)	36	492	71	28	627
Pune Dist.: Village 2 (V ₂)	18	228	97	103	446

An attempt is also made here to provide information regarding distribution of total number of members under each landholding size category with respect to the selected lending institutions from the two sampled districts. These information are provided in Table 2.2.

It is clearly evident from Tables 2.1 and 2.2 that by and large almost all the households of sampled villages are members of one or the other lending institutions. In Kolhapur district, in particular, majority of the households are members of 2-3 lending institutions.

In accordance with the common study design, it was decided to select 25 households from each of the selected village from the two sampled districts. The selection of sampled households was done using probability proportion to landholding size technique. However, as it was pre-decided to select 5 households from landless and another 5 from medium and above categories, the PPS technique was applied only

to the remaining 15 households to be selected from marginal and small categories. The distribution of sampled households under each landholding size category is exhibited in Table 2.3.

Table 2.2: Landholding size-wise Distribution of Total Members of the Selected Lending Institutions from Kolhapur and Pune Districts

District / Lending Institutions	Landless	Marginal	Small	Medium & above	Total
Village with Traditional Lending Institutions: Kolhapur District					
KVKSS	31	478	58	20	587
KSSKS	-	-	-	-	184
KGBSS	-	-	-	-	373
Total	-	-	-	-	1144
Village with Traditional and New Generation Lending Institutions: Pune District					
KGPACS	15	207	89	96	407
Prerna Gat1	-	12	6	-	18
Prerna Gat2	3	12	-	-	15
Bhagyashree	3	11	1	-	15
Total	21	242	96	96	455

Notes: i) KVKSS = Shri Kedarling Vividh Karyakari Sahakari Seva Sanstha, Village: Donwada; Taluka: Karver; Dist. Kolhapur; KSSKS = Shri Kedarnath Sahakari Sanyukt Krishi Sanstha; Village: Donwade; Taluka: Karveer; KGBSS = Shri Krishna Gramin Bigarsheti Sahakari Pat Sanstha Maryadit; Village: Donwade; Taluka: Karveer; KGPACS = Kaman Gramin Primary Agricultural Credit Society; Village: Kaman; Taluka: Khed; Dist. Pune; Prerna Gat1 = Prerna Self-help Group 1; Village: Kaman; Taluka: Khed; Prerna Gat2 = Prerna Self-help Group 2; Village: Kaman; Taluka: Khed; Bhagyashree = Bhagyashree Self-help Group 3; Village: Kaman; Taluka: Khed.

ii) Landholding size-wise break-up of members could not be obtained for KSSKS and KGBSS.

Table 2.3: Village-wise Distribution of Sampled Households Across Various Landholding-size Categories

Household Category	Sample Size (in numbers)		
	Village with Traditional Lending Institutions	Village with Traditional and New Generation Lending Institutions	Total
Landless	6	5	11
Marginal	11	10	21
Small	3	6	9
Medium & above	5	4	9
Total	25	25	50

Note: The number of sampled households selected under marginal category from the village with traditional lending institutions were initially 12. However, it was found that one of the marginal farmers had land holding size less than 0.2 ha. This marginal farmer was at the later stage included under the landless category. This obviously had increased the number of sampled households under landless category from 5 to 6. Similarly, one of the sampled households under medium and above category from the village with traditional and new generation lending institutions was noticed to have exactly 2 acres of land. This household at the later stage was included under small category, which had reduced the number of households under medium and above category from 5 to 4.

2.2 Data Collection:

The study is based on both secondary and primary data. The secondary data are collected from various official records and published sources. On the other hand, primary data is collected through personal interview method. Further, the study encompasses five different stages of data collection as for the primary data is concerned. The first stage of primary data collection includes enumeration of sampled village households based on their landholding size. This stage also encompasses information collected on the total number of households/borrowers of each of the lending institutions located in the sampled villages and the number of sampled households selected for the present investigation. The second stage encompasses information collected on the profile of sampled villages with respect to their size of population, caste and religion-wise break-up of households, literacy rate, land utilization pattern, irrigation status, occupational break-up of working population, livestock population, and location of various infrastructure facilities. The third stage of primary data encompasses collection of information relating to profile of institutional lenders located in the sampled villages. The profile of institutional lenders includes information relating to their client profile, purpose-wise distribution of loan, default, recovery and overdue rates, and also their perception regarding the types of loan product and the extent of competition faced by them from other institutional lenders. The fourth stage of primary data includes collection of general sampled household information relating to their family size, literacy rate, educational status, occupational status, cropping pattern, tangible and intangible assets, investment/savings, livestock population, production and utilization of main and byproducts, annual income from various sources, etc. As regards the fifth stage, information are collected on those aspects such as borrower's credit needs for various purposes from various sources, utilization of credit, mapping relationship with lending institutions, mapping experiences and transaction cost of borrowers, mapping trust related experiences of borrowers, mapping pre-disbursement experiences of borrowers with the lending institutions, explicit interest rates on loans, experiences of borrowers with respect to monitoring of loan and extension services, borrower's overall impression about the lending institutions, and the reasons for borrower's preference for a particular lending institution and also the reasons for shift to other lending institutions.

2.3 Coverage/Period of Study:

Information on various aspects under stage III are collected encompassing the period from 1995-96 to 1999-2000. As for the stages IV and V, majority of the information on various aspects are collected for the reference year 1999-2000. However, in the case of credit needs and its usage, annual average figures are used encompassing the period from 1995-96 to 1999-2000.

CHAPTER – III

RURAL CREDIT SCENARIO OF MAHARASHTRA

This chapter provides some background information related to the selected sampled districts as well as for the state of Maharashtra, especially with respect to the annual credit plan prepared for various sectors by the State Level Bankers' Committee of the Bank of Maharashtra. Apart from providing an outline of district credit plan, this chapter also brings into focus the initiatives taken by the National Bank for Agricultural and Rural Development (NABARD) with respect to micro financing and the progress made by it in the state in terms of linking bank credit with various Self Help Groups (SHGs) involved in micro financing.

3.1 Annual Credit Plan Under Lead Bank Scheme:

The State Level Bankers' Committee (SLBC) generally prepares Annual Credit Plan for each district with a view to achieve overall development of various sectors and regions of the state. The block level and district 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 the selected sampled districts as well as for the state of Maharashtra are brought out in Table 3.1.

It is to be noted from Table 3.1 that the total credit plan outlay for the state of Maharashtra was Rs. 8008.92 crores in 2000-01, which stood at 15.56 per cent more than the state's previous year's credit plan outlay. 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.

Table 3.1: A Comparative Position of Annual Credit Plan Outlay for the Selected Districts and for the State of Maharashtra

(Amount in Crore Rs.)

Particulars	District						Maharashtra State		
	Kolhapur			Pune			1999-2000	2000-01	% Rise
	1999-2000	2000-01	% Rise	1999-2000	2000-01	% Rise			
1. Agriculture and Allied Activities	300.12 (55.43)	342.05 (55.33)	13.97	187.69 (74.96)	222.35 (74.56)	18.47	3757.89 (54.23)	4447.34 (55.53)	18.32
Of which - Crop loans	195.37	218.30	11.74	103.51	125.91	21.64	2467.86	2913.37	18.05
2. SSI / NFS	54.08 (9.99)	63.93 (10.34)	18.21	13.90 (5.55)	15.02 (5.04)	8.06	637.68 (9.20)	669.48 (8.36)	4.99
3. Other Priority Sector	60.59 (11.19)	81.16 (13.13)	33.95	29.59 (11.82)	35.93 (12.05)	21.43	871.24 (12.57)	1115.45 (13.93)	28.01
4. Total Priority Sector	414.79 (76.61)	487.14 (78.80)	17.44	231.18 (92.33)	273.30 (91.64)	18.22	5267.81 (76.00)	6232.27 (77.82)	18.3
Of which - Employment Guarantee and Poverty Alleviation Program	34.98	35.65	1.92	18.10	20.45	12.98	655.39	783.94	19.6
5. Non Priority Sector	126.65 (23.39)	131.03 (21.20)	3.46	19.21 (7.67)	24.92 (8.36)	29.72	1663.11 (24.00)	1776.65 (22.18)	6.8
Grand Total (4+5)	541.44	618.17	14.17	250.39	298.22	19.10	6930.92	8008.92	15.5

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.

An examination of Table 3.1 further revealed much higher credit plan outlay for Kolhapur district as compared to Pune district. During the reference year 2000-01, Rs. 618.17 crores was earmarked for Kolhapur district and Rs. 298.22 crores for Pune district out of total credit plan outlay of Rs. 8008.92 crores for the state of Maharashtra. Further, agriculture and allied activities accounted for the lions share in total credit plan outlay for both Kolhapur and Pune districts. However, the proportionate allocations in total credit plan outlay were much higher for Pune as compared to Kolhapur district. Interestingly, out of the total credit plan outlay for

agriculture and allied activities, crop loans accounted for nearly two thirds share. In general, agriculture and allied activities accounted for 55 per cent share in total credit plan outlay for the state of Maharashtra. Such increased allocations in plan outlay is a reflection of the importance of agriculture in Government's overall policy encompassing priority sector.

An attempt is also made here to provide an insight into the estimates relating to potential linked credit plan (PLCP) outlays encompassing various sectors/ activities for different districts and regions of Maharashtra and these estimate are brought out for the reference 2001-02 in Table 3.2.

During the reference year 2001-02, the exploitable potential generated through PLCP encompassing various activities was estimated at Rs. 10695.43 crores for the state of Maharashtra. Out of this estimated figure of state's total PLCP outlay, 10.08 per cent was earmarked for minor irrigation, 0.41 per cent for land development, 0.44 per cent for dry land farming, 6.54 per cent for farm mechanization, 2.23 per cent for plantation and horticulture activities, 0.22 per cent for sericulture operations, 3.68 per cent for animal husbandry relating to dairying, 1.00 per cent for animal husbandry relating to poultry farming, 2.26 per cent for animal husbandry relating to sheep, goat and piggery, 0.22 per cent for inland fishery, 0.06 per cent for brakish water prawn, 0.26 per cent for marine fishery, 0.12 per cent for forestry and waste land development, 1.86 per cent for storage operations at market yard, 0.14 per cent for non-conventional energy sources, 12.85 per cent for non-farm sectors including small scale industries, 1.14 per cent for other priority sectors, 38.74 per cent for crop loans, 3.76 per cent for short term working capital, and the remaining 0.17 per cent for alternative credit system for self help groups. Among various regions, western Maharashtra alone accounted for around 50 per cent share in total PLCP outlay for the state of Maharashtra. This region also included the selected sampled districts for the present investigation. The next important regions were Marathwada and Vidarbha, each accounting for about 20 per cent share in state's total PLCP outlay during the given reference year. The allocation for Konkan region in state's total PLCP outlay was the least. Thus, so far as development of various activities was concerned, western Maharashtra turned out to be by far the most important region since this region attracted the major portion of the total potential linked credit plan (PLCP) outlay of the state.

Table 3.2: Potential Linked Credit Plan (PLCP) Estimates of Exploitable Potential for Different Regions of Maharashtra for the Year 2001-02

(Amount in Crore Rs.)

Sr. No.	Activity	Regions				Sampled Districts		Maharashtra State
		Western Maharashtra	Vidarbha	Marathwada	Konkan	Kolhapur	Pune	
1.	MI	599.63	197.31	256.55	24.40	79.84	49.44	1077.89 (10.08)
2.	LD	23.68	5.79	10.02	4.62	3.51	1.76	44.11 (0.41)
3.	DLF	22.21	9.55	10.25	5.16	1.98	0.65	47.16 (0.44)
4.	FM	393.44	165.24	124.87	16.39	36.75	50.7	699.94 (6.54)
5.	P&H	157.62	11.75	24.07	44.83	3.29	20.45	238.27 (2.23)
6.	SERI	11.99	5.50	6.08	0.20	0.81	1.04	23.77 (0.22)
7.	AH-D	222.29	52.72	80.50	38.11	62.36	19.41	393.62 (3.68)
8.	AH-P	64.26	6.87	14.72	21.10	3.06	16.88	106.95 (1.00)
9.	AH-SHP	81.02	36.68	60.14	63.40	6.48	12.84	241.24 (2.26)
10.	FISH-INL	5.80	11.85	4.01	1.46	0.99	0.25	23.11 (0.22)
11.	BRAKISH	-	-	-	5.51	-	-	5.51 (0.06)
12.	FISH-MAR	-	-	-	27.99	-	-	27.99 (0.26)
13.	FORWL	3.87	1.92	5.42	1.54	0.50	0.11	12.74 (0.12)
14.	SGMY	153.50	9.88	19.66	14.87	20.25	5.10	197.91 (1.85)
15.	NCES	11.21	1.55	1.10	1.27	4.19	0.88	15.13 (0.14)
16.	NFS	599.32	223.02	274.62	27.75	88.42	67.88	1374.50 (12.85)
17.	OPRSEC	582.18	323.62	276.03	296.84	96.76	58.78	1478.67 (13.83)
18.	OTHER	53.43	38.97	18.50	10.88	2.51	12.60	121.79 (1.14)
19.	CROP	2237.87	771.65	1076.80	57.60	306.00	177.63	4143.92 (38.74)
20.	WC	133.20	106.97	65.97	86.36	13.50	6.00	402.50 (3.76)
21.	SHGs	8.39	6.80	3.08	0.43	0.30	6.30	18.70 (0.17)
	TOTAL	5364.90 (50.16)	1987.65 (18.58)	2332.37 (21.81)	1010.52 (9.45)	731.49	508.16	10695.43

Source: Compiled from Official records, NABARD office, Pune, 2001-02.

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

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

3.2 Alternative Credit Delivery Systems - Micro Credit Innovation:

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).

3.2.1 SHG-Bank Linkage Programme in India:

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 1997 and 2000 is provided in Table 3.3.

Table 3.3: Progress of SHG-Bank Linkage Programme in India

(Amount in Crore Rs.)

Sr. No.	Particulars	Cumulative Position As On			
		March 1997	March 1998	March 1999	March 2000
1.	No. of SHGs Linked	8,598	14,317	32,995	1,14,775
2.	Percentage of Women Groups	76	78	84	85
3.	No. of Participating Banks	120	150	202	266
4.	No. of States/ UTs	20	21	24	24
5.	No. of Districts Covered	-	221	280	362
6.	Bank Loan	11.8	23.7	57.01	192.98
7.	Refinance	10.6	21.4	52.06	150.02

Source: Official records of NABARD, Pune.

It is to be noted that as on 31st 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 2.3 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.

3.2.2 SHG –Bank Linkages in Maharashtra:

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 3.4 and 3.5 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 district that has shown phenomenal growth in the numerical strength of SHGs linked with bank credit is seen to be Chandrapur (Table 3.5). Yavatmal, Pune and Nanded districts have also shown significant increases in the numerical strength of SHGs over the past five years. However, as for the other districts of Maharashtra, 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.

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.

Table 3.4: 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 3.5: District-wise Number of SHGs Linked with Bank Credit in Maharashtra

Sr. No.	District	March 1997	March 1998	March 1999	March 2000	March 2001	June 2001	Cumulative Total
1.	Ahmednagar	7	16	-	33	26	-	82
2.	Akola	-	2	13	102	464	-	581
3.	Amaravati	-	-	-	59	250	-	309
4.	Aurangabad	-	1	12	85	75	102	275
5.	Beed	-	-	-	59	12	9	80
6.	Bandara	-	-	17	17	473	145	652
7.	Buladhana	-	-	-	10	-	2	12
8.	Chandrapur	154	83	453	1008	2044	122	3864
9.	Dhule	-	2	39	90	90	11	232
10.	Gadchiroli	12	31	132	147	195	15	532
11.	Gondia	-	-	-	-	-	-	-
12.	Hingoli	-	-	-	-	-	-	-
13.	Jalgaon	2	-	-	148	238	89	477
14.	Jalna	2	-	-	-	11	4	17
15.	Kolhapur	12	5	10	9	6	10	52
16.	Latur	-	1	-	65	47	1	114
17.	Nagpur	-	-	-	5	1	-	6
18.	Nanded	35	46	119	226	212	4	642
19.	Nandurbar	-	-	5	-	51	-	56
20.	Nasik	57	-	-	24	17	-	98
21.	Parbhani	-	-	-	86	80	41	207
22.	Pune	98	143	133	240	255	11	880
23.	Raigad	-	-	-	35	90	-	125
24.	Ratnagiri	-	-	9	25	74	-	108
25.	Sangli	7	5	6	18	13	-	49
26.	Satara	-	-	-	-	-	-	-
27.	Sindhudurg	-	-	-	9	4	8	21
28.	Solapur	-	1	-	117	55	15	188
29.	Thane	-	2	-	36	31	22	91
30.	Osmanabad	-	-	-	67	63	11	141
31.	Wardha	-	-	-	-	50	-	50
32.	Washim	-	-	-	-	97	10	107
33.	Yavatmal	38	110	149	270	485	48	1100
	Total	424	448	1097	2990	5509	680	11148

Source: Official records of NABARD, Pune.

3.2.3 Government of India (GOI) Policy on SHGs:

As per the speech of the Hon'ble Union Minister of Finance, about 1,00,000 SHGs are targeted to be promoted in India during the year 2000-01 (NABARD Annual Report, 2000-01). In view of this target, the NABARD has 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.

CHAPTER – IV

PROFILE OF SAMPLED VILLAGES AND FINANCIAL INSTITUTIONS

This chapter mainly deals with some background information about the sampled villages selected from the sampled districts; as also with respect to various financial institutions situated/located therein. Information regarding size of population, caste and religion wise break-up of population, occupational break-up of working population, literacy rate, land classification, irrigation status, livestock population, and prevailing infrastructural facilities in each of the selected villages are provided in Table 4.1. It is to be noted that the present investigation aims at evaluating the performance of not only the traditional formal sector credit organizations but also the new generation formal sector credit organizations. While the selected village in Kolhapur district was seen to mainly comprise of traditional credit sector organizations, the village selected from Pune district not only had new generation credit sector organizations such as Self –Help Groups (SHGs) but also the traditional credit sector organizations. An attempt is made in this chapter to provide an insight into the performance of these traditional and new generation organizations in terms of their broad quantitative parameters such as the amount of loan disbursed by them to various categories of farmers, numerical strength of their borrowers, their purpose-wise disbursement of loan, default, recovery and overdue rates, etc. The village profile and the profile of the selected financial institutions over the past five years are brought out in the subsequent sections.

4.1 Broad Features of Sampled Villages:

The village selected from Kolhapur district is named as Donwade. This village has only formal sector credit organizations as the lending institutions. The village is situated 15 kms. to the west of Kolhapur, off the state highway 115. It is also 1 km. away from Kolhapur – Gaganbavda road. The total population of this village, as per 1991 census, is 2180 with 58 per cent males and 42 per cent females. Majority of the population (81 per cent) of this village belong to upper caste / forward community. The overall literacy rate of this village is relatively high among males as compared to females. The literacy rate of this village among males is found to be 67 per cent in contrast to 57 per cent among females. As for the land use pattern, while 91 per cent of the reported area of this village is found to be under agricultural use, the remaining

9 per cent either fall under non-agricultural use or under fallow and waste land not in use. This village also shows very high proportion (86 per cent) of the reported agricultural land under assured irrigation. Further, occupational break-up of this village reveals that out of the total adult male population about 44 per cent are engaged in agriculture, 7 per cent working as agricultural wage labor, 5 per cent as non-agricultural wage labor, 3 per cent in business / trade or self employed, 4 per cent employed in service, and the remaining 16 per cent are either unemployed or pensioners. As regards occupational break-up of female population, about 34 per cent of the adult female population of Donwade are engaged in agriculture, 6 per cent working as agriculture wage labor, 3 per cent as non-agricultural wage labor, another 3 per cent as self employed and the remaining 32 per cent are housewives. The distances of various existing infrastructure facilities from the village are also brought out in Table 4.1. The positions of most of the infrastructure facilities are seen to be within the radius of 1-3 kms. from the village. However, some of the infrastructure facilities such as railway station, police station, APMC sub-yard, regular market, village *haat* and cinema halls are also noticed to be located about 7 kms. away from this village. This village also shows fairly high proportion of buffalo population as compared to cows and bullocks.

The other sampled village selected from Pune district is named as Kaman. This village has both traditional and new generation lending institutions. The village is situated about 45 kms. to the north of Pune, off the Pune – Nasik road. It is also around 15 kms. from Rajgurunagar, which is the headquarter of Khed taluka of Pune district. The total population of this village, as per 1991 census, is 1660 with 42 per cent males and 58 per cent females. Thus, this village is predominated by females. This village too has very high proportion of population (87 per cent) belonging to upper caste / forward community. The overall literacy rate of this village is as high as 92 per cent among males and 83 per cent among females. The land use statistics shows that about 56 per cent of the reported area of this village is under agricultural use, 8 per cent under non-agricultural use and the remaining 36 per cent is either fallow or waste land not in use. As for the irrigation status, only 2 per cent of the reported agricultural land of this village is seen to be under assured irrigation, 34 per cent under non-assured irrigation and the remaining 64 per cent with no irrigation facilities. Thus, unlike the village of Donwade, this village shows very low proportion

Table 4.1 Profile of Villages from the Selected Districts of Maharashtra

Sr. No.	Particulars	V ₁	V ₂	Sr. No.	Particulars	V ₁	V ₂
1.	Name of - Village	Donwade	Kaman	8.	Distance from nearest infrastructure facilities in kilometers		
	- Taluka	Karvir	Khed		- Panchayat	-	-
	- District	Kolhapur	Pune		- Railway station	7.00	42.00
2.	Size of Population				- Bus route	0.50	-
	a. Adult - Male	900	786*		- Pucca road	0.50	-
	- Female	658	874*		- National highway	0.50	12.00
	b. Children - Male	366	-		- Primary school	-	-
	- Female	256	-		- Secondary school	2.00	2.00
3.	Caste and Religion Break-up				- Post office	-	2.00
	- Upper Caste	80.73	87.01		- Telephone facility	-	-
	- SC/ST/OBC	14.22	11.36		- Police station	7.00	12.00
	- Minorities	5.05	1.63		- Commercial bank	3.00	2.00
4.	Overall Literacy Rate (per cent)				- Cooperative	1.00	-
	- Male	67.14	92.00		- Safe drinking water	-	-
	- Female	57.44	83.00		- PHC / hospital	3.00	2.00
5.	Land Classification (in hectares)				- Veterinary doctor	3.00	2.00
	- Agricultural land in use	281.58	552.85		- APMC sub-yard	7.00	12.00
	- Non-Agricultural land in use		76.17		- Regular market	7.00	2.00
	- Fallow and waste land not in use	26.97	357.80		- Village haat	7.00	2.00
6.	Overall Irrigation Status of Agricultural Land				- Fair price shop	-	-
	- Assured Irrigation	241.58	12.00		- Medical store	-	2.00
	- Non-Assured Irrigation	-	186.46		- Cinema / theatre	7.00	12.00
	- Under no Irrigation	40.00	354.39		- Cable TV	-	2.00
7.	Occupational Break-up of Working Population (percentage from adult male/female)				- SHG	-	-
	a. Agriculture - Male	44.44	60.00		- Youth club / association	-	-
	- Female	34.19	70.00	9.	Livestock Population		
	b. Agricultural wage labor - Male	6.67	15.00		- Bullock	80	273
	- Female	6.08	20.00		- Buffalo	700	39
	c. Non-agricultural wage labor				- Cow	300	198
	- Male	5.00	5.00		- Sheep and Goat	-	225
	- Female	3.04	10.00		- Piggery	-	-
	d. Business/Trade/Self-employed				- Poultry	-	1400
	- Male	2.78	5.00				
	- Female	3.04	-				
	e. Service and profession - Male	3.89	10.00				
	- Female	-	1.00				
	f. Unemployed/Pensioner/Housewives						
	- Male	16.11	5.00				
	- Female	31.91	1.00				

Note: V₁ = Sampled village selected from Kolhapur district (with traditional lending institution)

V₂ = Sampled village selected from Pune district (with both traditional and new generation lending institutions)

* = including children

of reported agricultural land under assured irrigation. The occupational break-up of Kaman reveals that out of the total adult male population 60 per cent are engaged in agriculture, 15 per cent working as agricultural wage labor, 5 per cent as non-agricultural wage labor, another 5 per cent in business / trade, 10 per cent in service and the remaining 5 per cent are either unemployed or pensioners. As regards occupational break-up of female population, 70 per cent are engaged in agriculture, 20 per cent working as agricultural wage labor, 10 per cent as non-agricultural wage labor, 1 per cent in service and the remaining 1 per cent are housewives. As for the infrastructure facilities, the positions of most of the infrastructure facilities are noticed to be within the radius of 2 kms. from this village with the only aberration of railway station, national highway, police station, APMC sub-yard and cinema halls. The nearest railway station is noticed to be about 42 kms. away from the village. The distance of other infrastructure facilities such as national highway, police station, APMC sub-yard and cinema halls are noticed to be about 12 kms. away from the village. This village also shows higher concentration of bullocks as compared to cow and buffalo population. However, unlike the village of Donwade, this village also possesses sheeps and goats, besides poultry birds.

Thus, both the selected villages showed considerable differences in their characteristics/features. While the village with traditional lending institutions was found to be marked with very high proportion of land under agricultural use with assured irrigation facilities, the village having both traditional and new generation lending institutions not only showed considerable proportion of fallow and waste land not in use but also inadequate irrigation facilities. However, both the selected villages were noticed to be predominated by upper caste with very high rate of literacy. The rate of literacy was seen to be fairly high in the village with new generation lending institutions as compared to the village with traditional lending institutions. Similarly, predominance of upper caste was found to be higher in the village with new generation lending institutions than the village having traditional lending institutions. The village with new generation lending institution also showed predominance of females. Further, although in both the selected villages, agriculture was found to be the main occupation of the working population, the proportion of population engaged in agriculture to the total adult male and female population stood at much higher in the village comprising of both traditional and new generation lending institutions as

compared to the village having only traditional lending institutions. The village with traditional as well as new generation lending institutions also showed higher proportion of population working as agricultural and non-agricultural wage labor as compared to the village with traditional lending institutions. Another interesting feature of the village having traditional as well as new generation lending institutions was the very high proportion of female working population. Every adult female of this village was seen to be occupied in one or the other occupation. The selected villages also differed considerably as far as the positions/locations of various infrastructure facilities were concerned. Some of the infrastructure facilities such as railway station, national highway, police station, APMC sub-yard and cinema halls were found to be distantly located in the village with traditional as well as new generation lending institutions. The selected sampled villages also differed considerably in terms of concentration of bovine heads. The village with traditional lending institutions showed higher concentration of bovine heads as compared to the village with traditional as well as new generation lending institutions. Thus, in general, the village with traditional as well as new generation lending institutions turned out to be weak as far as the irrigation status, land use pattern, infrastructure facilities, and concentration of bovine heads were concerned.

4.2 Broad Features of Lending Institutions:

This section briefly examines the progress of various lending institutions in the selected villages, especially in terms of various quantitative parameters such as the amount of loan disbursed by them to various groups/categories of farmers, numerical strength of borrowers, purpose-wise distribution of loan, default, recovery and overdue rates, share of various groups of farmers in total loan advances, etc. Besides, it also evaluates the perceptions of the individual lending institutions in terms of various types of loan product, and also with respect to the extent of competition faced by them from other lending institutions. Information regarding the progress of various traditional and new generation lending institutions encompassing the period between 1995-96 and 1999-2000 are brought out in the subsequent sub-sections.

4.2.1 Traditional Formal Sector Credit Organizations:

As pointed out earlier, the village selected from Kolhapur district encompasses only traditional formal sector credit organizations. There are as many as three traditional lending institutions in this village with two institutions engaged in

disbursement of loan to various categories of farmers for agricultural as well as non-agricultural purposes and the remaining one engaged in disbursement of loan to all types of borrowers, especially for non-agricultural purposes. These three institutions are: (a) Shri Kedarling Vividh Karyakari Sahakari Seva Sanstha (KVKSS), (b) Shri Kedarnath Sahakari Sanyukt Krishi Sanstha (KSSKS), and (c) Shri Krishna Gramin Bigarsheti Sahakari Pat Sanstha (KGBSS). We have evaluated the performance of all these three lending institutions. Information regarding the progress of these lending institutions encompassing the period between 1995-96 and 1999-2000 in terms of their broad quantitative parameters are provided in Table 4.2.

The first lending institution named as Shri Kedarnath Vividh Karyakari Sahakari Seva Sanstha (KVKSS), was established on 2nd October, 1958 at Donwade village in Karveer taluka of Kolhapur district. It is basically a primary agricultural cooperative credit society affiliated to district central cooperative bank located at Kolhapur. The recovery rate of KVKSS is seen to be cent per cent over the last few years. And, this could be the reason as to why KVKSS falls under audit class 'A'. Generally, KVKSS advances loans to two categories of farmers, i.e., to those having land holding size below 5 acres and to those with size of land holding above 5 acres. While the first category includes marginal and small farmers, the second one encompasses medium and large farmers. These two groups of farmers are termed as '*Durbal*' and '*Sabal*', respectively. It is to be noted that the KVKSS not only advances loans for agricultural purposes but also for off-farm and non-farm purposes.

Over the past few years KVKSS has shown considerable growth in its loan advances to various categories of farmers. As can be noticed from Table 4.2, there has been nearly two folds rise in loan advances of KVKSS during the period between 1995-96 and 1999-2000. The increase in loan advances to '*Durbal*' categories of farmers has been more sharp as compared to loan advances to '*Sabal*' categories of farmers. Interestingly, while the number of borrowers under '*Durbal*' category have grown marginally, the borrowers under '*Sabal*' category remained constant over the given period of time. Another interesting observation emerging out or discernible from Table 4.2 is in term of purpose-wise distribution of loan by the KVKSS. While during 1995-96 almost entire loan by the society was disbursed for seasonal agricultural operations (SAO), i.e., crop loans, the scenario stood changed in more recent times which was seen to be marked with loan advances for more diversified

activities/purposes. In recent times, KVKSS is seen to advance loan not only for some of the off-farm activities such as animal husbandry operations, power tiller, tractor trolley and *gobar* gas, but also for certain non-farm activities like construction of house, brick industry and for the purchase of vehicles. However, crop loan still occupies the major share in total loan advances of KVKSS and this trend has been continuing ever since 1995-96 or the point of receiving information from the society on various parameters. Further, most of the loan advanced by KVKSS is seen to be cornered by '*Durbal*' category of farmers. This is evident from Table 4.3 which clearly shows the share of '*Durbal*' category of farmers in total loan advances of KVKSS for various purposes to be more than 90 per cent. As regards the perception of KVKSS about the loan product, the society had categorically emphasized upon the success of its various kinds of loans due mainly to timely repayment of loan by the borrowers and simplified procedures adopted by the society for loan advances, which in turn had led to higher profit profile to the society (Table 4.4). Short and medium terms loans of the society, especially for agricultural purposes, are also seen to be less competitive as compared to other types of loans. Further, as for the perception of KVKSS regarding other lending institutions, this society is alleged to have faced major competition from Self-help Groups and other voluntary agencies (Table 4.5). In this sequel, least competition by this society is being faced from rural money lenders and to some extent from non-bank finance companies and commercial banks.

Another primary agricultural cooperative credit society operating in Donwade village of Kolhapur district is named as Shri Kedarnath Sahakari Sanyukt Krishi Sanstha (KSSKS). This society came into being on 30th October, 1964. Like KVKSS, this society too extends loans to '*Durbal*' as well as '*Sabal*' categories of farmers. However, majority of the borrowers of KSSKS fall under '*Durbal*' category. Until 1995-96, KSSKS was ranked as a 'B' graded society. Nonetheless, from 1996-97 and onwards it is being treated/considered as an 'A' grade society. In fact, during 1995-96, KSSKS had incurred a loss to the tune of Rs. 9,631. But in 1996-97 it became a profit earning society when it had not only recovered the accumulated losses of the previous years but also earned a net profit of the order of Rs. 10,858. There was no looking back by this society in the subsequent years and in 1999-2000 it had earned a net profit to the tune of Rs 47,896, which stood at more than four times the profit earned by the society during 1996-97. The recovery rate of KSSKS is also seen to be

cent per cent over the period between 1995-96 and 1999-2000. Like KVKSS, this society also extends loans not only for various agricultural purposes but also for off-farm and non-farm purposes. Nevertheless, KSSKS is seen to extend loan for non-farm purposes only for the last couple of years. As regard the progress, during the period between 1995-96 and 1999-2000, the KSSKS has not only shown considerable rise in the amount of loan disbursed to 'Durbal' category of farmers but also with respect to numerical strength of borrowers under this category. However, the increase in amount of loan disbursed to 'Durbal' category of farmers has been more sharp than the increase in numerical strength of these categories of farmers (Table 4.2). As for the purpose-wise distribution of loan, crop loans are seen to account for the major share (70-80 per cent) in total loan advances of KSSKS during the given period of time. Interestingly, there has been steady and sharp decline in share of loan advances for animal husbandry operations in total loan advances of KSSKS during the period between 1995-96 and 1999-2000, though in absolute terms the amount of loan extended for this activity has remained by and large constant during the above period. The reason for this declining share of loan advances for animal husbandry activity could be traced in diversion of society's reasonable amount of loan for various other diversified non-farm activities such as construction of house, medical stores, purchase of vehicles and for marriages. Further, purpose-wise break-up of loans also revealed that during 1999-2000 the entire loan was advanced to 'Durbal' category of farmers for various agricultural as well as off-farm and non-farm activities (Table 4.3).

As regards the perception of the society about the loan product, simple documentation, timely repayment of loan and to some extent higher profit profile are alleged to be the major causative factors responsible for the success of the society in terms of its loan advances for various purposes (Table 4.4). Further, short and medium term loans of the society for agricultural purposes and also loans for animal husbandry operations are seen to be less competitive as compared to other types of loans. As regards perception of KSSKS about other lending institutions, this society is alleged to have faced major competition from rural money lenders and to some extent from Self-help Groups (Table 4.5). In this respect, least competition by this society is being faced from commercial banks/RRBs and non-bank finance companies. Interestingly, while KVKSS is alleged to have faced least competition from rural money lenders, KSSKS faced the major competition from these informal lenders.

Table 4.2: Profile of Institutional Lenders from Kolhapur District

Particulars	1995-96	1996-97	1997-98	1998-99	1999-2000
A. KVKSS					
I. Amount of Loan Borrowed (Rs)					
a. Large and Medium Farmers (Sabal: Above 5 Acres)	4,06,284	3,72,215	4,65,346	5,55,518	6,47,792
b. Small and Marginal Farmers (Durbal: Below 5 Acres)	14,11,041	16,75,211	22,21,424	24,59,889	29,84,133
Total	18,17,325	20,47,426	26,86,770	30,15,407	36,31,925
II. No. of Borrowers					
a. Large and Medium Farmers	15	15	15	15	15
b. Small and Marginal Farmers	185	190	195	200	210
Total	200	205	210	215	225
III. Purpose-wise Loan Disbursement (in Rs)					
Agricultural:					
a. Crop Loans	18,02,595 (99.19)	16,68,376 (81.49)	21,46,011 (79.87)	17,68,156 (58.64)	30,29,987 (83.43)
b. Medium Term e.g. irrigation	14,730 (0.81)	-	-	63,000 (2.09)	4,15,435 (11.44)
c. Farm Implements	-	-	-	-	13,650 (0.38)
Off Farm:					
a. Animal Husbandry	-	3,39,150 (16.56)	15,767 (0.59)	5,32,875 (17.67)	-
b. Power Tiller	-	-	1,84,800 (6.88)	1,11,027 (3.68)	-
c. Tractor Trolley	-	39,900 (1.95)	3,40,192 (12.66)	-	59,298 (1.63)
d. Gobar Gas	-	-	-	1,04,580 (3.47)	42,830 (1.18)
Non Farm:					
a. Housing Loan	-	-	-	1,83,750 (6.09)	-
b. Bidy Industry	-	-	-	1,24,969 (4.14)	23,713 (0.65)
c. Motor Cycle	-	-	-	1,27,050 (4.22)	47,012 (1.29)
IV. Default rate(per cent)	-	-	-	-	-
V. Recovery rate (per cent)	100.00	100.00	100.00	100.00	100.00
B. KSSKS					
I. Amount of Loan Borrowed (Rs)					
a. Large and Medium Farmers	66,020	97,224	70,981	-	-
b. Small and Marginal Farmers	10,40,558	11,90,595	13,11,004	14,59,185	20,03,461
Total	11,06,578	12,87,819	13,81,985	14,59,185	20,03,461
II. No. of Borrowers					
a. Large and Medium Farmers	5	5	5	-	-
b. Small and Marginal Farmers	109	120	120	135	145
Total	114	125	125	135	145
III. Purpose-wise Loan Disbursement (in Rs.)					
Agricultural:					
a. Crop Loans	7,80,154 (70.50)	9,49,554 (73.73)	10,82,218 (78.31)	8,60,579 (58.98)	14,79,810 (73.86)
b. Medium Term e.g. irrigation	-	-	-	-	48,295 (2.41)
Off-Farm:					
a. Animal Husbandry	3,26,424 (29.50)	3,38,265 (26.27)	2,99,767 (21.69)	2,88,914 (19.80)	3,06,401 (15.30)

b. Gobar Gas	-	-	-	-	51,920 (2.59)
Non-Farm:					
a. Housing Loan	-	-	-	52,500 (3.60)	-
b. Medical Store	-	-	-	1,45,892 (10.00)	68,217 (3.40)
c. Motor cycle	-	-	-	31,500 (2.16)	11,018 (0.55)
d. Marriage	-	-	-	79,800 (5.46)	37,800 (1.89)
IV. Default rate(per cent)	-	-	-	-	-
V. Recovery rate(per cent)	100.00	100.00	100.00	100.00	100.00
C. KGBSS					
I. Amount of Loan Borrowed (Rs.)	9,05,343	9,24,587	10,43,768	11,83,944	13,61,86
II. No. of borrowers	79	89	91	150	163
III. Type of Collateral for Loan Disbursement					
a. Loan against two guarantors	2,41,699 (26.70)	2,24,328 (24.26)	2,47,029 (23.67)	2,96,321 (25.03)	3,50,088 (25.71)
b. Vehicle loan	1,77,807 (19.64)	1,46,539 (15.85)	1,56,491 (14.99)	1,28,528 (10.86)	1,37,932 (10.13)
c. Movable Property	1,72,309 (19.03)	2,03,165 (21.97)	2,31,545 (22.18)	3,73,329 (31.53)	4,92,437 (36.16)
d. Loan against F.D.	59,613 (6.58)	91,176 (9.86)	78,982 (7.57)	99,558 (8.41)	48,393 (3.55)
e. Immovable Property	-	-	13,329 (1.28)	15,827 (1.34)	18,813 (1.38)
f. Cash Credit Loan (for 12 months)	2,09,158 (23.10)	2,39,011 (25.85)	2,90,914 (27.87)	2,29,928 (19.42)	2,75,406 (20.22)
g. Loan against Salary	9,839 (1.09)	6,987 (0.76)	7,682 (0.74)	4,082 (0.34)	3,797 (0.28)
h. Loan against Recurring Deposit under Rajlaxmi Scheme (Based on daily/monthly deposit)	34,918 (3.86)	13,381 (1.45)	17,796 (1.70)	36,371 (3.07)	35,000 (2.57)
IV. Default rate(per cent)	15.00	18.00	20.00	24.00	27.00
V. Recovery rate(per cent)	85.00	82.00	80.00	76.00	73.00

Notes: 1) KVKSS = Shri Kedarling Vividh Karyakari Sahakari Seva Sanstha, Village: Donwada, Taluka: Karver

KSSKS = Shri Kedarnath Sahakari Sanyukt Krishi Sanstha, Village: Donwade, Taluka : Karveer

KGBSS = Shri Krishra Gramin Bigarsheti: Sahakari Pat Sanstha Maryadit, Village: Donwade, Taluka: Karveer

2) Figures in parentheses are percentages to the total amount of loan disbursed

**Table 4.3: Share of Large-Medium and Small-Marginal Groups of Farmers
in Total Purpose-wise Loan Advances : 1999-2000**

(in percent)

Loan Category	KVKSS		KSSKS	
	Large-Medium	Small-Marginal	Large-Medium	Small-Marginal
Agricultural:				
a. Crop loans	6.67	93.33	-	100.00
b. Medium terms e.g irrigation	5.03	94.97	-	100.00
c. Farm Implements	-	100.00	-	-
Off Farm:				
a. Animal Husbandry	-	-	-	100.00
b. Power Tiller	-	-	-	-
c. Tractor Trolley	-	100.00	-	-
d. Gobar Gas	-	100.00	-	100.00
Non-Farm:				
a. Housing Loan	-	-	-	-
b. Brick Industry	100.00	-	-	-
c. Motor Cycle	-	100.00	-	100.00
d. Medical Store	-	-	-	100.00
e. Marriage	-	-	-	100.00

Table 4.4 : Ranking of Lending Institutions Perception about the Loan Product : Kolhapur District (Attributes : 1 for the best and 5 for the worst)

Types of Loan Product	Good Repayment	Highly Profitable	Simple Documentation	High Growth Potential	Less Competition
A. KVKSS					
Agricultural:					
a. Crop loans	1	1	1	1	1
b. Medium Term e.g. irrigation	1	2	1	1	1
c. Farm Implements	1	2	1	3	2
Off Farm:					
a. Animal Husbandry	1	2	1	1	3
b. Power Tiller	1	2	1	3	3
c. Tractor Trolley	1	1	1	3	3
d. Gobar Gas	1	2	1	3	2
Non-Farm:					
a. Housing loan	1	1	1	1	3
b. Brick Industry	2	1	2	2	2
c. Motor cycle	1	1	2	2	2
B. KSSKS					
Agricultural:					
a. Crop loans	1	2	1	1	1
b. Medium Term e.g. irrigation	1	2	1	1	1
Off-Farm:					
a. Animal husbandry	1	2	1	1	1
b. Gobar Gas	1	2	1	3	2
Non-farm					
a. Housing	1	2	2	2	2
b. Medical Store	1	2	2	5	3
c. Motor cycle	1	2	2	5	3
d. Marriage	1	2	2	5	5
C. KGBSS					
a. Loan against two guarantors	5	4	2	1	3
b. Vehicle loan	3	2	4	2	3
c. Movable Property	2	2	2	3	3
d. Loan against F.D.	1	3	1	2	3
e. Immovable Property	3	2	3	4	3
f. Cash Credit loan	3	3	3	4	3
g. Loan against Salary	1	3	1	3	3
h. Loan against Recurring Deposit	1	4	1	2	2

Table 4.5 : Ranking of Financial Institutions According to their Extent of Competition (Attributes: 1 for Highest and 5 for Least Competition)

Rival Lending Institutions	KVKSS	KSSKS	KGBSS
Commercial Bank/RRB	3	5	1
Credit Co-operative Society/LDB	-	-	-
Non-Bank Finance Company	4	5	4
Voluntary Agency	2	3	2
Self-Help Group (SHG)	2	2	5
Rural Money lender	5	1	5

Note: KVKSS: Shri Kedarling Vividh Karyakari Sahakari Seva Sanstha
KSSKS: Shri Kedarnath Sahakari Sanyukt Krishi Sanstha
KGBSS: Shri Krishna Gramin Bigarsheti Sahakari Pat Sanstha Maryadit

The third lending institution operating in Donwade village of Kolhapur district is named as Shri Krishna Gramin Bigarsheti Sahakari Pat Sanstha (KGBSS). It is basically a society dealing with loan advances to various categories of borrowers for various non-agricultural purposes and it was established nearly a decade back on 21st September, 1993. Ever since its establishment, the KGBSS has not shown any loss. During 1995-96, this society had earned a net profit to the tune of Rs. 41,744, which was seen to have increased to Rs. 54,634 in the year 1997-98, and further to Rs. 58,807 in 1999-2000. However, the status of KGBSS has changed over time from an 'A' graded society to a 'B' graded society. Falling recovery rate could be the reason as to why this society lost its status as an 'A' graded society. This is also evident from Table 4.2 which shows a steady decline in the recovery rate of KGBSS during the period between 1995-96 and 1999-2000. However, during the given period of time, this society has not only shown tremendous increase in numerical strength of its borrowers but also a reasonable increase in the amount of loan borrowed by them. It deserves mention here that KGBSS extends loan for a number of purposes, which include loan against guarantors, salary, fixed deposit (FD), movable property, immovable property, recurring deposit, and also loan against cash credit and loans for the purchase of vehicle. In general, loan against guarantors, movable property and cash credit are noticed to be by far the most important collateral securities used by the KGBSS for extending loan to various categories of borrowers. The share of loan advances against guarantors, movable property and cash credit put together is seen to be 75-80 per cent in total loan advances of KGBSS all through the period between 1995-96 and 1999-2000. The scenario obtaining over the period between 1995-96 and 1999-2000 also shows a declining trend in share of loan advances for the purchase of vehicle in total loan disbursed by the society. Similarly, the period between 1995-96 and 1999-2000 is also seen to be marked with a decline in loan against salary not only in absolute terms but also in terms of its share in total loan advances of the society. On the other hand, during the given period of time, loan against movable property has gone up significantly not only in absolute terms but also in terms of its share in total loan advances of KGBSS. Although KGBSS does not show any overdue rate during the given period of time, the period gone by is also found to be saddled with a sharp and steady increase in default rate, which has gone up from 15 per cent during 1995-96 to as high as 27 per cent by 1999-2000. Further, in response to a question on the

perception of the lender about its loan product, the KGBSS holds the view that it is only because of simple documentation, particularly in the case of loan against FD, salary and recurring deposit, that borrowers have developed faith in the society. Good repayment of loan was cited as the other major factor for the success of the society in the case of loans against FD, salary, recurring deposit and to some extent against movable property. As regards perception of KGBSS about other lending institutions, the society is reported to have faced major competition from commercial banks and various voluntary agencies. In this context, least competition by the society is being faced from Self-help Groups and rural money lenders. This also holds good to some extent in the case of non-bank finance companies.

The selected village from Pune district is also seen to encompass a traditional formal credit sector organization working under the umbrella of Pune district central cooperative bank (PDCCB). It is basically a primary agricultural cooperative credit society affiliated to PDCCB. The society is named as Kaman Gramin Karyakari Sahakari Seva Sanstha or Kaman Gramin Primary Agricultural Cooperative Credit Society (KGPACS). The progress of KGPACS during the period between 1995-96 and 1999-2000 is brought out in Table 4.6.

It is to be noted that, in general, KGPACS extends loans for seasonal agricultural operations, i.e. crop loans. However, during 1996-97 it had also extended loan for the purchase of tractors and in 1998-99 for thresher. The scenario obtaining from Table 4.6 also shows an increase in total amount of loan advances by KGPACS from 1995-96 to 1997-98 with a decline in the same thereafter. As regards borrowers, there has been considerable fluctuation in their numerical strength with the year 1997-98 being marked with the highest number of borrowers of KGPACS during the given period of time. The purpose-wise break-up of loan advances also shows the share of crop loans in total loan advances of KGPACS to be as high as cent per cent during 1995-96 and more than 85 per cent during 1998-99 and 1999-2000 with 1996-97 being an exceptional year in this scenario when 51 per cent loans of the society were extended for the purchase of tractor (Table 4.6). During 1997-98, the share of crop loans in total loan advances of KGPACS stood at 62 per cent and the remaining 38 per cent owed it to loans for irrigation purposes. Thus, crop loans by and large have accounted for the lion's share in total loan advances of KGPACS. Further, the recovery rate of loan advances of KGPACS turns out to be low as compared to the

traditional lending institutions operating in the sampled village of Kolhapur district. In general, the recovery rate of KGPACS is seen to hover at around 70 per cent during the period between 1995-96 and 1999-2000. As regards the perception of KGPACS about its loan product, the society holds the view that it is due to simple documentation and timely repayment of loan, especially in the case of crop loans, that the society has succeeded in its business (Table 4.8). Further, medium term loans of the society for irrigation purpose and loans for the purchase of thresher and tractor are noticed to be less competitive as compared to its crop loans. As for the perception of KGPACS about other lending institutions, the society is reported to have faced major competition from commercial banks and non-bank finance companies and least competition from Self-help Groups and other voluntary agencies operating in the area.

Thus, the traditional lending institutions operating in the sampled villages of Kolhapur and Pune districts have shown perceptible differences in their functioning. Major differences are noticed in terms of recovery rates of these lending institutions. The lending institutions operating in Kolhapur district have shown much higher rate of recovery as compared to the lending institutions operating in Pune district. Further, these lending institutions are also seen to differ in terms of their purpose-wise distribution of loan. Although the lending institutions operating under the umbrella of DCCBs, whether in Kolhapur or in Pune district, have shown major share of crop loans in their total loan advances all through the period between 1995-96 and 1999-2000, this period, especially the more recent one, is also found to be marked with loan advances for more diversified activities such as construction of house, brick industry, purchase of vehicles, animal husbandry operations, purchase of power tiller and tractor trolley, installation of *gobar gas*, marriage, etc. This held true in the case of both the lending institutions affiliated to Kolhapur District Central Cooperative Bank. Further, the traditional lending institution engaged in loan advances for non-agricultural purposes in Kolhapur district is also seen to use various kinds of collateral securities, which encompass loan against salary, guarantors, fixed deposits, movable and immovable property, recurring deposits, and mortgage of vehicle. However, most important among these securities are loan against guarantors, movable property and cash credit as these securities put together have accounted for 75-80 per cent share in total loan advances of this lending institution. This lending institution has also shown a declining rate of recovery during the given period of time. Another interesting

feature of the selected traditional lending institutions operating in Kolhapur and Pune districts is the faster rate of increase in their loan advances as compared to increase in numerical strength of their borrowers during the period between 1995-96 and 1999-2000. This obviously has resulted in an increase in loan amount per borrowing member during the given period of time. As regards the perceptions of the traditional lending institutions about their loan product, almost all these lending institutions hold the view that it is only because of simple documentation that borrowers have developed faith in their society, especially with respect to their loan advances for agricultural purposes. Timely repayment of loan, especially in the case of crop loan, is reported to be other major causative factor responsible for the success of these traditional lending institutions. Further, crop loans of these traditional lending institutions are also noticed to be less competitive as compared to their loan advances for other purposes. In general, various traditional lending institutions operating in the sampled villages of Kolhapur and Pune districts are noticed/reported to have faced major competition from commercial banks, Self-help Groups and various voluntary agencies. In this sequel, least competition by these lending institutions is being faced from non-bank finance companies and to some extent from rural money lenders.

4.2.2 New Generation Formal Sector Credit Organizations:

The selected village of Pune district is seen to encompass/consist of three new generation formal sector credit organizations. All these three new generation lending institutions are Self-help Groups (SHGs), which came into being in the decade of nineties. These three SHGs are named as: (a) Prerna (Gat1), (b) Prerna (Gat2), and (c) Bhagyashri Mahila Bachat Gat. In fact, these are women SHGs with minimum 10 and maximum 20 members. These SHGs have been promoted by an NGO named as 'Chetanya'. The head office of this NGO is located at Rajgurunagar, which is also the head quarters of Khed taluka of Pune district. These SHGs generally extend loans to their women members not only for various agricultural, off-farm and non-farm purposes but also for various consumption purposes at varying rates of interest ranging from 24 to 36 per cent per annum with one year time limit given to repay the loan amount. The activities of the group are normally controlled by the group leader or secretary, who not only monitors the accounts of the group but also helps in arranging the loan to its members for varying purposes. The group leader is selected for a maximum period of one year. The present investigation attempts to evaluate the

performance of all these three SHGs/ new generation lending institutions. The progress of each of these three lending institutions encompassing the period between 1995-96 and 1999-2000 is brought out separately in the subsequent sub-sections.

The first SHG, named as Prerna (Gat1), has at present 18 women members with one among them acting as the secretary of the group, who also receives some remuneration for her services/contributions to the group as the key person involved in the activities/requirements of the group. This group extends loans to its members at varying rates of interest. The rate of interest is charged at 3 per cent per month for loans below Rs. 5,000 and at 2 per cent per month for loans above Rs. 5,000. The group conducts meeting of its members every month. Generally, the members of this group are either marginal or small farmers having land holding size 1-2 hectares. If we look into the statistics provided in Table 4.6, we find that in course of time there has been sharp increase not only in the total amount of loan borrowed but also in the amount of loan borrowed per borrowing member of this group, which has grown from Rs. 3,750 during 1995-96 to as high as Rs. 12,498 by 1998-99. Interestingly, marginal farmers have accounted for the major share in total loan advances of this group.

It is to be noted that this group extends loan for varying purposes with more emphasis on crop loans and loans for pipe line and animal husbandry operations. This is also evident from Table 4.6 which shows the share of crop loans and loans for pipe line and animal husbandry operations put together to be more than 80 per cent in total loan advances of the group all through the period between 1995-96 and 1999-2000. The other purposes for which the group is seen to have extended loans are *kirana* shops, flour mills and also for certain consumption requirements such as education, illness, etc. Further, most of the loan extended by this group is seen to have been cornered by marginal category. This is evident from Table 4.7 which clearly shows the share of marginal category in total loan advances of this group for various purposes to be more than 70 per cent. Another important feature emerging out from Table 4.6 is the improvement in the recovery rate of this group, which has grown from 90 per cent during 1995-96 to 97 per cent by 1999-2000. Crop loans of this SHG and loans for animal husbandry operations have been reported to be the best mainly because of their simple documentation and timely repayment of loan (Table 4.8). These loans are also reported to be having high growth potential with higher profit profile. Simple documentation and high growth potential have also been stated to be

the major causative factors responsible for the success of its loan for pipe line. On the other hand, loans of this SHG extended for *kirana* shop and flour mills are alleged to be less competitive as compared to its loans extended for other purposes. As regards perception of this SHG about other lending institutions, the group is reported to have faced major competition from commercial banks, credit cooperatives and other voluntary agencies and least competition in this respect from rural money lenders and to some extent from non-bank finance companies.

Another SHG operating in the selected sampled village of Pune district is named as Prerna (Gat 2). This SHG has also been promoted by 'Chetanya' (an NGO) and at present it has 14 women members with 12 marginal and two landless borrowers. The membership of this SHG has grown from six during 1995-96 to 14 by 1999-2000 (Table 4.6). Similarly, the amount of loan per borrowing member has also gone up in tune with the increase in number of borrowers of this SHG. The amount of loan per borrowing member of this SHG has increased from Rs. 1,500 during 1995-96 to nearly Rs. 3,000 by 1999-2000. Although this SHG is also seen to have extended loan for various agricultural, off-farm, non-farm and consumption activities, the scenario obtaining over the period between 1995-96 and 1999-2000 reveals very high proportion of loans extended for agricultural and off-farm activities such as animal husbandry operations, which put together have accounted for 70-80 per cent share in total loan advances of this SHG. However, there has been a decline in share of loan advances for agricultural operations in total loan advances of this SHG, though in absolute terms even loan advances for agricultural operations have gone up over the given period of time. Contrary to this, the share of loan advances for consumption activities in total loan advances of this SHG has grown from 22 per cent during 1995-96 to 28 per cent by 1999-2000. It deserves mention here that most of the loan advanced by this SHG is being cornered by marginal category of borrowers. This is evident from Table 4.7 which shows the share of marginal category in total loan advances of this SHG for various purposes to be more than 70 per cent. Another important feature of this SHG is the very high rate of recovery of loan advances. The recovery rate of this SHG is seen to be cent per cent all through the period between 1995-96 and 1999-2000. Further, simple documentation and timely repayment of loan amount, particularly with respect to its loans for agricultural, off-farm and consumption purposes, are seen to be the major reasons as to why this group has

Table 4.6: Profile of Institutional Lenders from Pune District

Particulars	1995-96	1996-97	1997-98	1998-99	1999-2000
A. KGPACS					
I. Total Loan Borrowed	2,59,601	5,16,424	6,29,520	5,22,755	4,05,900
II. No. of Borrowers	77	67	83	75	69
III. Purpose wise Loan Disbursement (in Rs.)					
Agricultural:					
a. Crop loans	2,59,601 (100.00)	2,54,424 (49.27)	3,87,920 (61.62)	4,97,755 (95.22)	3,52,900 (86.94)
b. Medium Term e.g. irrigation	-	-	2,41,600 (38.38)	-	53,000 (13.06)
Non-Farm					
a. Thresher	-	-	-	25,000 (4.78)	-
b. Tractor	-	2,62,000 (50.73)	-	-	-
IV. Default Rate (%)	27.00	31.00	27.00	29.00	29.00
V. Recovery Rate (%)	73.00	69.00	73.00	71.00	71.00
VI. Overdue rate(%)	-	-	-	-	-
B. Prerna SHG, Gat 1					
I. Amount of Loan Borrowed					
a. Small Farmers	10,000	5,000	40,000	74,975	39,100
b. Marginal Farmers	50,000	33,000	51,000	1,25,000	1,25,000
Total	60,000	38,000	91,000	1,99,975	1,64,100
II. No. of Borrowers					
a. Small Farmers	4	1	3	6	6
b. Marginal Farmers	12	10	12	10	12
Total	16	11	15	16	18
III. Purpose wise Loan Disbursement (in Rs.)					
Agricultural:					
a. Crop Loan	20,000 (33.33)	17,000 (44.74)	51,000 (56.04)	55,400 (27.70)	75,000 (45.70)
b. Pipe Line	20,000 (33.33)	-	20,000 (21.98)	30,000 (15.00)	25,000 (15.23)
Off Farm:					
a. Animal Husbandry	10,000 (16.67)	21,000 (55.26)	20,000 (21.98)	80,000 (40.01)	35,000 (21.34)
Non Farm:					
a. Kirana Shop	10,000 (16.67)	-	-	5000 (2.50)	-
b. Flour Mill	-	-	-	-	10,000 (6.09)
Consumption Loans:					
a. Education & illness	-	-	-	29,575 (14.79)	19,100 (11.64)
IV. Default rate(%)	10.00	8.00	10.00	5.00	3.00
V. Recovery rate (%)	90.00	92.00	90.00	95.00	97.00
VI. Overdue rate(%)	-	-	-	-	-
C. Prerna SHG, Gat 2					
I. Amount of Loan Borrowed (in Rs.)					
a. Marginal Farmers	8,400	10,000	20,700	74,600	40,700
b. Landless	600	2000	-	800	700
Total	9000	12,000	20,700	75,400	41,400
II. No. of Borrowers					
a. Marginal Farmers	5	7	9	12	12
b. Landless	1	2	-	1	2
Total	6	9	9	13	14
III. Purpose-wise Loan Disbursement					

Agricultural					
a. Crop Loan	7,000 (77.78)	10,500 (87.50)	12,000 (57.97)	25,000 (33.16)	15,000 (36.23)
b. Compost Fertilizer	-	-	-	10,000 (13.26)	-
OH-Farm:					
a. Goat Farming	-	-	3000 (14.49)	5000 (6.63)	14800 (35.75)
b. Poultry	-	-	-	10,000 (13.26)	-
Non-Farm:					
a. Gunny Bag Manufacturing	-	-	-	20,000 (26.53)	-
Consumption Loan:					
a. Household Expenditure	-	-	3200 (15.46)	3000 (3.98)	5100 (12.32)
b. Education	1000 (11.11)	1000 (8.33)	1500 (7.25)	2000 (2.65)	2000 (4.83)
c. Illness	1000 (11.11)	500 (4.17)	1000 (4.83)	400 (0.53)	1500 (3.62)
d. House repairing	-	-	-	-	3000 (7.25)
IV. Default rate(%)	-	-	-	-	-
V. Recovery rate (%)	100.00	100.00	100.00	100.00	100.00
D. Bhagyashree Mahila Bachat SHG					
I. Amount of Loan Borrowers (in Rs.)					
a. Marginal Farmers	15,850	25,000	18,950	28,350	87,050
b. Landless	3000	1000	3000	2000	6000
Total	18,850	26,000	21,950	30,350	93,050
II. No. of Borrowers					
a. Marginal Farmers	5	7	5	9	10
b. Landless	2	1	2	1	3
Total	7	8	7	10	13
III. Purpose-wise Loan Disbursement					
Agricultural:					
a. Crop Loan	5,850 (31.03)	8,500 (32.69)	13,000 (59.23)	9,000 (29.65)	35,000 (37.61)
b. Electric Pump Pipe Live	7,000 (37.14)	7,300 (28.08)	5,000 (22.78)	8,500 (28.01)	12,000 (12.90)
Off Farm:					
a. Animal Husbandry	4000 (21.22)	9000 (34.62)	1950 (8.88)	9000 (9.89)	31,050 (33.37)
Non-Farm:					
a. Gunny Bag Making	-	-	-	6000 (19.77)	8000 (8.60)
Consumption:					
a. Illness	1200 (6.37)	700 (2.69)	2000 (9.11)	3000 (9.88)	5000 (5.37)
b. Education	800 (4.24)	500 (1.92)	-	850 (2.80)	2000 (2.15)
IV. Default rate(%)	-	-	-	-	-
V. Recovery rate (%)	100.00	100.00	100.00	100.00	100.00

Notes: 1) KGPACS = Kaman Gramin Primary Agricultural Credit Society, Village: Kaman; Taluka: Khed; Dist. Pune; SHG (Gat 1) = Prerna Self Help Group Gat 1 : Village : Kaman; SHG (Gat 2) = Prerna Self Help Group Gat 2 : Village : Kaman

2) Figure in parentheses are percentages to the total amount of loan disbursed

Table 4.7 : Share of Various Categories of Farmers in Total Purpose-wise Loan Advances : 1999-2000

(in per cent)

Loan Category	Prerna Gat 1 (SHG)		Prerna Gat 2 (SHG)		Bhagyashree SHG	
	Small	Marginal	Marginal	Landless	Marginal	Landless
Agricultural:						
a. Crop loans	20.00	80.00	100.00	-	100.00	-
b. Electric Pump Pipe Line	25.00	75.00	-	-	100.00	-
c. Compost Fertilizer	-	-	80.00	20.00	-	-
Off-Farm						
a. Animal Husbandry	25.00	75.00	90.00	10.00	80.00	20.00
b. Poultry	-	-	70.00	30.00	-	-
Non-Farm:						
a. Kirana Shop	-	100.00	-	-	-	-
b. Gunny Bag Making	-	-	100.00	-	-	100.00
c. Floor Mill	-	100.00	-	-	-	-
Consumption:						
a. Household Expenditure	-	-	90.00	10.00	-	-
b. Education	30.00	70.00	100.00	-	75.00	25.00
c. Illness	-	-	100.00	-	70.00	30.00
d. House Repairing	-	-	100.00	-	-	-

Table 4.8: Ranking of Lending Institutions Perception about the Loan Product: Pune District
(Attributes: 1 for the best and 5 for the worst)

Types of Loan Product	Good Repayment	Highly Profitable	Simple Documentation	High Growth Potential	Less Competition
A. KGPACS					
Agricultural:					
a. Crop Loans	1	3	2	2	2
b. Medium Term e.g. Irrigation	3	2	3	4	1
Non-Farm					
a. Thresher	3	2	2	4	1
b. Tractor	5	2	2	4	1
B. Prerna SHG (Gat 1)					
Agricultural:					
a. Crop Loans	1	1	1	1	3
b. Pipe Line	2	2	1	1	3
Off-Farm					
a. Animal Husbandry	1	1	1	1	2
Non Farm:					
a. Kirana Shop	2	2	3	3	1
b. Floor Mill	3	2	2	1	1
Consumption					
a. Education & Illness	3	3	1	2	2
C. Prerna SHG (Gat 2)					
Agricultural:					
a. Crop Loans	1	1	1	1	3
b. Compost Fertilizer	2	1	2	1	4
Off Farm					
a. Goat Farming	1	1	1	1	2
b. Poultry	2	1	1	1	1
Non-Farm:					
a. Gunny Bag Making	2	1	2	1	4
Consumption					
a. Household Expd.	1	1	1	1	1
b. Education	1	1	1	1	1
c. Illness	1	1	1	1	1
d. House Repairing	1	1	1	1	3
D. Bhagyashree Mahila. SHG					
Agricultural					
a. Crop Loan	1	1	1	1	3
b. Electric Pump Line	1	1	1	1	3
Off Farm					
a. Animal husbandry	1	1	2	1	2
Non-Farm					
a. Gunny Bag Making	2	1	1	1	5
b. Illness	1	1	1	1	1
c. Education	1	1	1	1	1

Table 4.9 : Ranking of Financial Institutions According to their Extent of Competition
(Attributes: 1 for Highest and 5 for least Competition)

Rival Lending Institutions	KGPACS	Prerna Gat 1 SHG	Prerna Gat 2 SHG	Bhagyashree SHG
Commercial Bank / RRB	1	2	1	2
Credit Co-operative Society	-	2	2	2
Non-Bank Finance Company	2	4	3	5
Voluntary Agency	4	2	3	5
Self-help Groups	4	-	-	-
Rural Money Lender	3	5	5	5

shown cent per cent recovery of loan over time (Table 4.8). The loans extended by this group for various purposes, whether for agricultural, off-farm, non-farm or consumption purposes, are also reported to be having high growth potential with higher profit profile. Further, various consumption loans of this group are seen to be less competitive as compared to its loans extended for other purposes. Like Prerna (Gat1), this SHG is also reported to have faced major competition from commercial banks and credit cooperatives and least competition from rural money lenders.

The third SHG operating in selected sampled village of Pune district is named as 'Bhagyashree Mahila Bachat Gat'. Like the other two SHGs, this SHG has also been promoted by 'Chetanya' (an NGO). At present, it has 13 women members with 10 marginal and three landless borrowers. In fact, the existence of 'Bhagyashree Mahila Bachat Gat' can be traced even before the genesis of SHGs. Initially, it was operating in the village as a group with 50 women members. These members had developed a 'Mutual Benefit Fund' with a view to meet their requirements at times of urgency. The fund was utilized by the members of the group for diversified purposes and the loans among them were extended at 3-5 per cent monthly rate of interest. However, because of the efforts initiated by the above NGO, later on this group was converted into SHG. The membership of this group had declined drastically after its conversion into SHG. It is also quite possible that the other two SHGs operating in the village have emerged from this group as the members in a SHG are restricted to 20. This SHG does not distribute dividend among the members. The profit earned by this SHG is reinvested to raise the funds. This SHG extends loans to its members at varying rates of interest. The rate of interest on loans is charged at 36 per cent per annum when the group utilizes its own funds to extend loan. Nonetheless, when the group arranges loan through commercial banks, the rate of interest is charged at 12 per cent per annum. On the other hand, the rate of interest is charged at 24 per cent per annum when the loans are arranged through cooperative credit societies. Thus, rate of interest depends on the agency from which the loans are arranged. Further, in the event of illness, there is immediate release of loans to the members of the group. However, for other purposes, decision about sanctioning of loan is being taken in the meeting of the members of the group, which is normally conducted on the 7th day of every month. The group extends loan for various purposes for a maximum period of one year. Information regarding progress of the group in terms of its membership,

purpose-wise distribution of loan, and also the perception of the group regarding its loan product and extent of competition from other lending institutions are provided in Tables 4.6, 4.7, 4.8 and 4.9.

It is to be noted that this group has shown sharp increase not only in its loan advances but also in its membership during the period between 1995-96 and 1999-2000. Interestingly, loans extended for various agricultural purposes have accounted for the major share in total loan advances of this group all through the period between 1995-96 and 1999-2000. However, there has been steady decline in the share of loan advances for agricultural purposes during the given period of time. Further, animal husbandry is noticed to be another important major off-farm activity for which the group extends loans. However, there has been considerable fluctuation in the amount of loan extended for animal husbandry activity during the period under consideration. Similarly, loans extended by this group for various consumption purposes have also fluctuated over time. The last couple of years of the given period are also found to be marked with loans extended by this group for non-farm activity such as gunny bag making. Interestingly, marginal category of borrowers are seen to account for the major share (more than 70 per cent) in total loan advances of this group (Table 4.7). This holds good for all types of loans extended by the group. Another important feature of this group is the cent per cent recovery of loan all through the given period of time. Further, loans extended by the group for various purposes are also reported to be having high growth potential with higher profit profile mainly because of their timely repayment (Table 4.8). On the other hand, the reason as to why members have developed faith in the group has been traced in simple documentation for various kinds of loans. Further, consumption loans of this group are reported to be having less competition as compared to its loans extended for other purposes. As regards perception of the group about lending institutions, this SHG is reported to have faced major competition from commercial banks and credit cooperative societies and least competition in this respect from non-bank finance companies, rural money lenders and other voluntary agencies (Table 4.9).

The forgoing observations clearly brings us closer to the fact that there is not much difference in the performance of the selected SHGs so far as their recovery rates and distribution of loans for various purposes are concerned. Interestingly, all the three selected SHGs have shown by and large cent per cent recovery rates on loan

advances all through the period between 1995-96 and 1999-2000. This is despite very high rate of interest involved on loan advances. Another common feature of these SHGs is the very high share of loan advances for agricultural purposes and also for animal husbandry operations. All the three selected SHGs have shown more than 70 per cent of their total loan advances for agricultural purposes and animal husbandry operations. This trend is found to hold good all through the given period of time. Further, although it is widely believed that SHGs generally advance loan for consumption purposes, this proposition is not found to hold good in the present investigation as all the three selected SHGs have shown the share of consumption loan in their total loan advances to be less than 25 per cent all through the period between 1995-96 and 1999-2000.

The selected SHGs have also shown similarity in terms of their membership/borrowers and the amount of loan borrowed by them. The borrowers of the selected SHGs are seen to be or fall under either marginal and small category or landless and marginal category. However, the dependency of these SHGs is seen to be more on marginal than on other category of borrowers as majority of their borrowers belonged to this category. The marginal category of borrowers are also seen to account for the major share (more than 70 per cent) in total loan advances of these SHGs for various purposes.

In general, the selected SHGs are seen to extend loan for those diversified activities such as for seasonal agricultural operations (crop loans), pipe line for electric motor, and for compost fertilizer among agricultural activities, for various animal husbandry operations among off-farm activities, for kirana shop, flour mill, and for gunny bag making among non-farm activities, and for household expenditure, education, illness, etc. among various consumption activities. Further, as regards the perceptions of these SHGs about their loan product, majority of them have favored their loans for agricultural and consumption purposes mainly because of their simple documentation and timely repayment of loan. These loans are also alleged to be having high growth potential with higher profit profile. Consumption loans, in particular, are also reported to be having less competition as compared to loans extended by these SHGs for other purposes.

Another interesting common feature of these SHGs is in terms of their perception regarding the extent of competition faced by them from other lending

institutions. All the three selected SHGs have cited commercial banks and credit cooperatives as their major competitors with least competition being faced by them from rural money lenders and to certain extent from non-bank finance companies.

4.2.3 Comparative Performance of Traditional and New Generation Lending Institutions:

In all, the present investigation has covered seven lending institutions, with four traditional and three new generation, and evaluated their performance on various operational/functional front. These lending institutions have shown some differences so far as their organization and functioning are concerned. Major differences between traditional and new generation lending institutions are noticed in terms of their membership pattern, interest rate structure, period of loan advances, distribution of loans for various purposes, and rates of recovery on loan advances. New generation lending institutions (SHGs), in particular, have shown excessively high rates of interest (24-36 per cent per annum) on loan advances for various purposes. However, despite high rate of interest, these lending institutions have managed to recover their loan advances as all the three SHGs evaluated in this investigation have shown almost cent per cent recovery of loan all through the the period between 1995-96 and 1999-2000.

Another distinguishing feature between traditional and new generation lending institutions is in terms of their membership. While there is no lower or higher limit for the membership of traditional lending institutions, the membership of SHGs turns out to be restricted to 10-20 with 10 lower and 20 higher limit. Further, while traditional lending institutions have shown loan advances to all the categories of borrowers, the loan advances by new generation lending institutions are seen to be restricted to specific category of borrowers, which mainly include weaker sections of rural population such as landless, marginal and small category of borrowers with marginal category showing much higher representation in their total membership as compared to other category of borrowers. Marginal category of borrowers have also shown very high share in total loan advances of these new generation lending institutions. Further, loan advances of new generation lending institutions, whether for agricultural, off-farm, non-farm or consumption purposes, are seen to be limited to a maximum period of one year.

The only similarity between traditional and new generation lending institutions is seen to be in terms of their purpose-wise distribution of loan. Both traditional and new generation lending institutions are seen to extend loan for various agricultural, off-farm and non-farm activities. However, apart from the above activities, the new generation lending institutions are also seen to extend loans for various consumption purposes. Another similarity/common feature between traditional and new generation lending institutions is the very high share of their total loan advances for agricultural purposes and to some extent for off-farm activities such as animal husbandry operations.

As regards the perceptions of these lending institutions about their loan product, majority of the selected lending institutions, whether traditional or new generation, have favored their loan advances for various agricultural, off-farm, non-farm and consumption activities mainly because of their simple documentation and timely repayment. The agricultural and consumption loans of new generation lending institutions are also alleged to be having high growth potential with higher profit profile. Further, in general, while traditional lending institutions are alleged to have faced major competition from voluntary agencies and commercial banks, the new generation lending institutions have cited credit cooperatives and also commercial banks as their major competitors. In this sequel, rural money lenders have posed least competition to the selected lending institutions, whether traditional or new generation. Thus, traditional and new generation lending institutions have shown difference as well as similarity so far as their organization, operation and structure are concerned.

CHAPTER V

RESULTS OF FIELD SURVEYS

The credit to small and marginal farmers is a diversified and complex subject. To enhance the understanding of this subject a field survey was undertaken in selected two districts of Maharashtra. The field study results related to the salient features of selected villages, financial institutions and pattern of lending by the major lending organisations in and around these study villages were presented in earlier chapter. The other results from the field study are presented in this chapter. This chapter is presented in two sections keeping in view the specific objective of the study. The first section presents the important features of the sample households while the second section brings out their credit experiences with various lending institutions in the recent past. For purpose of analysis, formal credit is defined to include not only commercial banks, RRBs, and co-operatives, but also SHGs and NBFCs which are under statutory control in one way or the other.

5.1 Characteristics of Respondents

As mentioned earlier, the two study villages represent two distinct production environments. These differences are also clearly reflected in the main characteristics of respondents described in this section.

5.1.1 Literacy Level of Borrower Households

Education is an important factor that affects the decisions of the households. Table 5 presents sex-wise and important age group-wise literacy levels of borrower households across various land holding categories in two study villages. It is revealed from Table 5.1 (Part a) that although the literacy level of males from villages without the presence of formal micro-finance organisations are better, there are no differences in the literacy level of females. However, it may be mentioned here that the mere presence of the formal micro-finance organisations, often in recent years, may not change the earlier resource endowment pattern observed in micro-finance villages.

In respect of different farm size categories, landless households seem to be less educated than the other three farm size categories of households (Table 5.1, Part b). This may be due to their poor economic condition and their dependence on wage

Table 5.1: Literacy Level of Borrower Households classified Across villages with and without Micro-finance/Borrower's Landholding Status

Part a Variables	Village type	
	Villages w/o micro-Finance	Villages with micro-finance
1. Index of male education (MEDU)	3.56	2.72*
2. Index of female education (FEDU)	2.36	2.32
3. % of male literacy within 12-18 years of age (PCMLIT)	88.33	67.83**
4. % of female literacy within 12-18 years of age (PCFLIT)	65.07	66.67
5. % of overall literacy within 12-18 years of age (PCLIT)	77.55	70.14

Part b Variables	Borrower's landholding status			
	Landless	Marginal	Small	Medium & Large
1. Index of male education (MEDU)	2.55**	3.05	3.56	3.67
2. Index of female education (FEDU)	1.91**	2.19	2.67	2.89*
3. % of male literacy within 12-18 years of age (PCMLIT)	60.61*	83.73	87.96	76.39
4. % of female literacy within 12-18 years of age (PCFLIT)	45.45**	60.79	87.96	80.56
5. % of overall literacy within 12-18 years of age (PCLIT)	60.00**	73.44	87.20	78.39

Note: MEDU and FEDU vary within (1-6) with 1=Illiterate, 2=Literate, 3=SSC, 4=Graduate, 6= Post-graduate.

* and ** stand for cases where the mean differences are statistically significant under one-tailed t test at 5% and 10% levels of significance, respectively.

earnings for subsistence. Interestingly, small farm households in the age group of 12-18 years of age have the best education levels than all other farm size households in the same age group.

5.1.2 Household Characteristics

An attempt has been made in Table 5.2 to examine the differences in average borrower household demographic characteristics. The respondents from the village without the presence of micro-finance organisations seem to have smaller family size but larger size of working age and actual working population (Table 5.2, Part a). Moreover, the households from the village without micro-finance also have higher percentage of working age family members mainly engaged in agriculture and as

wage labour. However, the percentage of people involved in trade and services are found to be higher in the village with micro-finance than the village without it.

Table 5.2: Average Borrower Household Demographic Characteristics classified Across Village Type/Borrower's landholding Status

Part a Variables	Village type	
	Villages w/o micro finance	Villages with micro finance
1. Household size in numbers (HSIZE)	5.84	6.56
2. Size of working age population (WPOP)	4.96	4.52
3. Nature of household extension (EXT)	1.36	1.36
4. % of working population within 12-60 age group (PCWORK)	75.23	72.82
5. % of actual working population (PCWORK1)	90.85	70.58*
6. % of working females within 12-60 age group (PCFEM)	47.13	51.60
7. % of working age members mainly engaged in agriculture (PCAGR)	73.31	41.49*
8. % of working age members mainly engaged as wage labour (PCWG)	42.03	28.06**
9. % of working age members mainly engaged in trade & services (PCTS)	8.59	20.00**
10. % of unemployed working age members (PCUN)	5.61	0.00*
11. % of boys within 6-12 age group going to work (PCBOY6)	-	-
12. % of girls within 6-12 age group going to work (PCGRL6)	-	-
13. % of boys within 12-18 age group going to work (PCBOY12)	4.00	6.00
14. % of girls within 12-18 age group going to work (PCGRL12)	-	-

Part b Variables	Borrower's landholding status			
	Landless	Marginal	Small	Medium & large
1. Household size in numbers (HSIZE)	4.91*	6.00	8.00	6.44
2. Size of working age population (WPOP)	4.00	4.81	5.11	5.11
3. Nature of household extension (EXT)	1.36	1.33	1.56	1.22
4. % of working population within 12-60 age group (PCWORK)	73.06	79.00	65.04	72.58
5. % of actual working population (PCWORK1)	91.99	80.57	62.87	85.11
6. % of working females within 12-60 age group (PCFEM)	49.55	46.83	54.02	50.42
7. % of working age members mainly engaged in agriculture (PCAGR)	25.65*	61.46	59.56	84.58**
8. % of working age members mainly engaged as wage labour (PCWG)	58.05*	30.62	25.73	26.54
9. % of working age members mainly engaged in trade & services (PCTS)	30.26*	11.25	12.49	3.70
10. % of unemployed working age members (PCUN)	5.63	2.78	2.22	0.00
11. % of boys within 6-12 age group going to work (PCBOY6)	0.00	0.00	0.00	0.00
12. % of girls within 6-12 age group going to work (PCGRL6)	0.00	0.00	0.00	0.00
13. % of boys within 12-18 age group going to work (PCBOY12)	0.00	11.90	0.00	0.00
14. % of girls within 12-18 age group going to work (PCGRL12)	0.00	0.00	0.00	0.00

Note: * and ** stand for cases where the mean differences are statistically significant under one-tailed t test at 5% and 10% levels of significance, respectively.

A cross category comparisons of demographic features of borrower households reveal that the average family size as well as the size of working landless households is the smallest than the households belonging to all other farm size categories (Table 5.2, Part b). This implies that the average family size and size of working age population has a tendency to increase with the increase in the size of holding. However, the percentage of actual working population is highest in landless farm households. For obvious reasons, the percentage of working age members mainly engaged in agriculture is highest for highest farm size category while it is lowest for lowest farm size category. As expected, the landless households have the highest percentage of working age population mainly engaged as wage labour. Similarly, they not only have highest percentage of working age members mainly involved in trade and services but also have the highest percentage of unemployed working age members.

5.1.3 Tangible Assets of Borrower Households

The general economic well being and the credit worthiness of a household is determined to a large extent by the ownership of assets. The various types of tangible assets held by borrower households are classified according to village and landholding category and these are presented in Table 5.3 Part a and b.

A perusal of Table 5.3, Part a shows that the various indices of tangible asset holding which includes both productive and unproductive assets are higher for the respondents from the village without the presence of the micro finance organisations. The exception to this is the index of deposit holding with various lending agencies which is marginally higher for the village with micro-finance organisations. All the households from non-microfinance village are seen to invest in gold. Moreover, 76 per cent of the households from the same village made an investment in bonds. However, the phenomenon of household investment in bonds was rare in the village with micro – finance organisations.

In respect of different farm size categories, the various indices presented in Table 5.3 Part b indicate that they are stronger for medium and large farmers and relatively weaker for households belonging to the landless category. However, this is not true for the index of dwelling which is inversely related to the quality of house. The index of dwelling is highest for landless households (3.18), as it covers not only the physical features but also the qualitative features of ownership and control. Thus,

the results indicate that the quality and value of dwelling is positively related to the landholding size of the household.

Table 5.3: Specific Types of Tangible Assets Held Across Borrower Households classified by Village Type/Borrower's Landholding Status

Part a Variables	Village type	
	Villages w/o microfinance	Villages with microfinance
1. Type of dwelling house index (DWEL)	2.40	2.72
2. Energy use index (ENERG)	1.00	0.72*
3. Type of furniture use index (FURNI)	1.00	0.72*
4. Type of luxury items used index (LUX)	0.72	0.60
5. Index of deposit holding with Post Office /Banks/ Coops/NBFCs/Chit Funds/SHGs(DEPO)	0.80	0.84
6. Index of investment in gold (GOLD)	1.00	0.96
7. Index of investment in bonds(BOND)	0.76	0.08*

Part b Variables	Borrower's landholding status			
	Landless	Marginal	Small	Medium & Large
1. Type of dwelling house index (DWEL)	3.18*	2.57	2.22	2.11
2. Energy use index (ENERG)	0.82	0.90	0.78	0.89
3. Type of furniture use index (FURNI)	0.91	0.81	0.78	1.00
4. Type of luxury items used index (LUX)	0.55	0.67	0.78	0.67
5. Index of deposit holding with Post Office/Banks/Coops/NBFCs/Chit Funds/ SHGs (DEPO)	0.64	0.86	0.89	0.89
6. Index of investment in gold (GOLD)	1.00	1.00	1.00	0.89**
7. Index of investment in bonds(BOND)	0.09*	0.52	0.44	0.56

Note: As DWEL varies from 1 to 6, a higher value indicates costlier and self-owned rather than hired dwelling house. ENERG, FURNI, LUX, DEPO, GOLD, BOND - each one of them varies from 0 to 1 Indicate absence or presence of electricity or gas connection costly furniture, luxury items, deposits, gold ornaments, and bonds, respectively, in the family.

5.1.4 Intangible Assets of Borrower Households

Similar to tangible assets, intangible assets are also believed to influence the access of household to credit. Therefore, the nature and extent of intangible asset holding of borrowing households are also analysed by considering the type of village and various farm size categories. The results of this analysis are presented in Table 5.4 Part a and b.

Table 5.4: Nature and Extent of Intangible Asset Holding of borrowing households Classified Across Village Type/Borrower's Landholding Status

Part a Variables	Village type	
	Village w/o microfinance	Villages with microfinance
1. Index of ownership of intangible assets (INTAN)	0.72	0.76
2. Extent of ownership of intangible assets (INTAN1)	2.48	1.52
3. Extent of familiarity with important village personnel (FAM)	4.24	4.08
4. Index of familiarity with gramsevak/extension officer (EXTEN)	0.96	0.88

Part b Variables	Borrower's landholding status			
	Landless	Marginal	Small	Medium & Large
1. Index of ownership of intangible assets (INTAN)	0.45**	0.67	1.00	1.00
2. Extent of ownership of intangible assets (INTAN1)	1.18	1.48	3.22	3.00
3. Extent of familiarity with important village personnel (FAM)	3.64*	4.14	4.56	4.44
4. Index of familiarity with gramsevak/extension officer (EXTEN)	0.82	0.90	1.00	1.00

Note: While INTAN and EXTEN vary from 0 to 1, indicating the degree of access to local level organisations and to local extension facilities, respectively, INTAN1 and FAM vary from 0 to 6, respectively, indicating the breadth of local connections and familiarity.

The study village where there is no presence of micro-finance organisations such as SHGs have a history of strong presence of other traditional formal lending institutions such as cooperatives, commercial banks, etc. This is reflected in Table 5.4, Part a where the extent of ownership of intangible assets and familiarity with village level organisations seem to be far superior than the village with micro finance. This indicates that the micro finance organisations and SHGs have to work hard to make their presence felt by enhancing their networking of village level institutions.

Table 5.4 Part b makes abundantly clear the generally superior networking power of larger farm households which may facilitate them to have better access to credit. These indices are naturally most strong for marginal, small and medium and large farm households and most weakest for households from landless categories.

5.1.5 Agricultural and Non-agricultural Operational Characteristics of Borrower Households

Agricultural sector dominates in providing the employment and livelihood to the majority of the population. Therefore, it will be interesting to see the various agricultural and non-agricultural characteristics of the selected borrower households. The results are presented in Table 5.5.

The data presented in Table 5.5 (Part a) show that the households in the village with micro-finance organisations display some favourable features relating to operational area, gross cropped area, area devoted to food crops, cropping intensity, number of bullocks per ha, etc. However, all other attributes are relatively strong for the households from village with no micro finance organisations. These attributes include ownership of property, use of modern implements including irrigation and transport equipments, milch animals, irrigated area, GCA devoted to cash crops, yield of paddy and value of produce per ha. Moreover, the incidence of interlinked credit against input purchases and output sale are also high for the traditional non-microcredit dominant village.

An examination of the average characteristics of non-agricultural and agricultural operations of borrower households across the different farm size categories reveals that the use of improved implements increased with increase in landholding size of the households (Table 5.5, Part b). Similarly, the households having larger farm size were also using their own irrigation implements rather than the hired ones. The index of nature of transportation equipment owned ranges from 0.82 for landless households to 1.44 for small, medium and large households reflecting the relatively better position of the larger farm households in the ownership of transportation equipments. The average size of operational holding was 0.58, 1.53 and 2.95 ha for marginal, small and medium and large farm households, respectively. The percent of irrigated area decreased with farm size. The cropping intensity, an indicator of how intensively the land is being used, was highest on marginal farms having higher percent of area under irrigation and was lowest on medium and large farms having lowest percentage of area under irrigation. The population of milch animals was found to be the highest on medium and large farm-size households. The

Table 5.5: Average Non-agricultural and Agricultural Operational Characteristics of Borrower Households classified Across Village Type

Part a Variables	Village type	
	Villages w/o micro-finance	Villages with micro-finance
1. Nature of ownership of property (SOWN)	1.84	1.68
2. Use of modern implements (MODO)	1.16	0.52**
3. Irrigation implements (IRRO)	0.88	0.48
4. Nature of transportation equipment owned (TRANS)	1.24	0.96
5. Operational area in ha. (AREA)	0.90	1.21
6. Gross cropped area in ha. (GCA)	0.93	1.83*
7. % irrigated area (PCIR)	75.22	23.34*
8. Cropping intensity (CROPINT = GCA/AREA)	1.11	1.75*
9. No. of bullocks per ha.(PBULL)	0.46	0.76
10. No. of milch animals per head (PMILK)	0.56	0.13*
11. No. of goats, sheep, pigs & poultry birds per head (PMEAT)	0.30	0.24
12. Annual expenditure in Rs. On purchased inputs per ha. of GCA (PTINPUT)	19613.09	3929.37*
13. % of GCA devoted to food crops (PCFOOD)	28.43	59.16*
14. % of GCA devoted to cash crops (PCCASH)	51.57	20.84*
15. Price of paddy realised in Rs/kg. (PADP)	4.33	4.00
16. Price of wheat/kg (WHTP)	9.00	6.25*
17. Yield of paddy in kgs/ha (PADY)	6412.75	1180.00*
18. Yield of Wheat in kgs/ha (WHTY)	3416.67	2416.67
18. Yield of edible oilseeds in kgs/ha (EDIY)	1483.20	1454.07
19. Yield of pulses in kgs/ha (PULY)	0.00	500.00
20. Value of all produce in Rs./ha. of operational land (PVPROD)	97374.03	15487.42**
21. Value of produce in Rs./ha. of GCA (PVPROD1)	64743.63	7903.70*
22. Value of by-product/ha in Rs./ha of operational land (PVBPROD)	80.00	0.00
23. Value of by-product/ha of GCA (PVBPROD1)	80.00	0.00
24. % of inputs purchased out of credit (PCINPUT)	53.35	11.39*
25. % of credit adjusted against sale value of output (PCOUT)	12.31	0.83**
26. % of credit adjusted against sale value of by-product (PCBOUT)		-

Note: As SOWN is 0 if no property is owned, 1 if property is owned jointly and 2 if property is individual owned, a higher value means a larger order of individualistic ownership of property. Similarly, MODO and IRRO vary from 0 to 2, a higher value indicating a higher order of ownership (here a value of 1 means only hired equipment) of costly agricultural equipment like power tiller, tractor and thresher, and irrigation equipment like pump set, respectively.

Table 5.5: Average Non-agricultural and Agricultural Operational Characteristics of Borrower Households classified by their Landholding Status

Part b Variable Type	Borrower's Landholding Status			
	Landless	Marginal	Small	Medium & Large
1. Nature of ownership of property (SOWN)	1.91	1.67	2.00	1.56
2. Use of modern implements (MODO)	0.09*	0.81	1.11	1.56*
3. Irrigation implements (IRRO)	0.00*	0.67	1.11	1.11
4. Nature of transportation equipment owned (TRANS)	0.82	0.95	1.44	1.44
5. Operational area in ha. (AREA)	0.02*	0.58	1.53	2.95*
6. Gross cropped area in ha. (GCA)	0.02*	0.91	2.22	3.31*
7. % irrigated area (PCIR)	0.00*	67.88	60.65	54.75
8. Cropping intensity (CROPINT = GCA/AREA)	1.00	1.57	1.45	1.12**
9. No. of bullocks per ha. (PBULL)	0.00**	1.23	0.19	0.34
10. No. of milch animals per head (PMILK)	0.34	0.26	0.21	0.72*
11. No. of goats, sheep, pigs & poultry birds per head (PMEAT)	0.33	0.26	0.18	0.32
12. Annual expenditure in Rs. On purchased inputs per ha. of GCA (PTINPUT)	2409.09*	15718.72	10693.28	15080.98
13. % of GCA devoted to food crops (PCFOOD)	1.82*	58.39	55.33	49.51
14. % of GCA devoted to cash crops (PCCASH)	7.27*	41.61	44.67	50.49
15. Price of paddy realised in Rs/kg. (PADP)	0.00	4.71	4.00	4.00
16. Price of wheat/kg (WHTP)	0.00	6.00	6.00	8.00**
17. Yield of paddy in kgs/ha (PADY)	7500.00	5612.57	6283.33	3712.50
18. Yield of wheat in kgs/ha (WHTY)	0.00	2833	2000	3000
19. Yield of edible oilseeds in kgs/ha (EDIY)	1420.00	1450.48	1478.33	1560.74
20. Yield of pulses in kgs/ha (PULY)	0.00	0.00	0.00	500.00
21. Value of all produce in Rs./ha. of operational land (PVPROD)	6545.45	100644.03	32794.03	37873.95
22. Value of produce in Rs./ha. of GCA (PVPROD1)	6545.45	55247.17	28647.24	36240.81
23. Value of by-product/ha in Rs./ha of operational land (PVBPROD)	0.00	95.24	0.00	0.00
24. Value of by-product/ha of GCA (PVBPROD1)	0.00	95.24	0.00	0.00
25. % of inputs purchased out of credit (PCINPUT)	9.09*	39.79	34.14	41.71
26. % of credit adjusted against sale value of output (PCOUT)	0.00	10.75	11.24	0.19
27. % of credit adjusted against sale value of by-product (PCBOUT)	0.00	0.00	0.00	0.00

Note: As in Table 5.5 Part a.

analysis also reveals that the proportion of area under food crops was inversely related to the size of holding while the proportion of area under cash crops was directly related to the size of landholding. This implies that food crops are an important component of cropping pattern on small farm while non-food crops are an important component of the cropping pattern on large farms.

5.1.6 Income and Expenditure of Borrower Households

Per head income and expenditure and sources of income are the important attributes that play a vital role in determining the flow of credit to any household. The village-wise data on these attributes is given in Table 5.6 Part a, while the data across the different farm-size categories for the same attributes are displayed in Table 5.6 Part b.

Table 5.6: Per Head Income and Expenditure, and Percentage-wise Source of Income Across Village Type/Borrower's Landholding Status

Part a Variables	Village Type	
	Villages w/o Microfinance	Villages with Microfinance
1. Annual per head income in Rs. (PY)	14849.55	5913.07
2. % of income from agriculture & % allied activities (PCAGR)	73.31	41.49
3. % of labour income (PCLAB)	12.35	30.90
4. % of income from trade & services (PCTSR)	9.58	27.61
5. Per head annual provisional expenses in Rs. (PPROVI)	3652.21	3204.63
6. Average annual per head expenses on purchase of durable assets in Rs. (PCDUR)	20.02	15.31

Part b Variables	Borrower's Landholding Status			
	Landless	Marginal	Small	Medium & Large
1. Annual per head income in Rs. (PY)	7638.33	10423.29	8752.69	15264.50
2. % of income from agriculture & % allied activities (PCAGR)	25.65	61.46	59.56	84.58
3. % of labour income (PCLAB)	39.38	21.84	11.39	9.65
4. % of income from trade & services (PCTSR)	25.95	16.70	26.85	5.77
5. Per head annual provisional expenses in Rs. (PPROVI)	3977.27	3035.76	2899.47	4202.78
6. Average annual per head expenses on purchase of durable assets in Rs. (PCDUR)	12.73	17.44	22.53	19.35

The annual per head income of Rs. 14850 is more than double in the traditional non-microfinance dominant village than the per capita income of Rs. 5913 in the micro-finance village (Table 5.6, Part a). The average households from the non-microfinance village were also deriving higher proportion of their annual income (73.31 per cent) from agriculture and allied activities than the households from the microfinance village. However, the labour income and the income from trade and services are relatively higher for the households from the microfinance village. This shows the availabilities of better opportunities for labour employment, trade and services in the microfinance village.

Across the various farm size categories, the highest annual per head income was recorded by medium and large farmers, followed by the marginal, small and landless households. The share of income from agriculture and allied activities increases with landholding categories except marginal differences in marginal and small farm size groups (Table 5.6 Part b). It is lowest at 26 percent for average landless households while it is highest at 85 percent for medium and large farm households. Obviously the share of labour income is negatively related to the size of landholding. The share of income from trade and services is the highest for landless households (25.95 percent), while it is the lowest for the most powerful landholding group (5.77 percent). In general, it is observed that the average annual per head expenditure on purchase of durable assets increased with increase in farm size with an exception of a medium and large farm size category.

5.2 Credit Experiences of Sample Households

This section deals with the credit and allied features of the sample borrower households by taking into account their village and size of landholding. An attempt has been made here to discuss the nature and extent of household borrowing sources of credit, composition of credit, rate of interest, cost of credit, default rates and the credit experiences of borrower households. It is primarily a tabular analysis that aims at highlighting the village-wise and holding size-wise credit differentials observed in the study areas.

5.2.1 Access of Sample Households to Different Sources of Credit

The access of sample households to different sources of credit can be highlighted with the help of Tables 5.7 and 5.8. The results presented in Table 5.7

indicate that 84 per cent of the borrower households from the micro-finance village have access to only formal sources of credit as compared to 68 per cent of sample household from the non-microfinance village. There is no difference in the number of households availing the loans only from informal sources of credit in both the villages. However, 24 per cent of sample household from non-microfinance village have access to both the sources of credit-formal and informal – as compared to only 8 per cent of sample households from microfinance village. It seems that the borrower households are well served by various credit sources as all the sample households from both the study villages have access to credit.

The overall picture shows that three fourth of sample borrower households have access to formal sources of credit, followed by access to both the formal and informal sources of credit. This implies that majority of the sample households from study villages continue to depend on formal sources in so far as their credit needs are concerned.

As regards the access to various sources of credit for households from different farm size categories is concerned, maximum number of sample households from all farm size categories are seen to depend only on formal credit sources (Table 5.7). However, it is interesting to note that 36 per cent of landless households still depend on informal sources for their credit needs. This shows that the formal

Table 5.7: Frequency Distribution of Sample Households as per Their Access to Different Sources of Credit

Access to Source of Credit	Village type		Borrower's landholding status				Total
	Villages w/o micro-finance	Villages with micro-finance	Landless Households	Marginal Farmer households	Small farmer households	Medium & large farmer households	
No access to any source of credit	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0
Access to only formal credit	17 (68.00)	21 (84.00)	6 (54.55)	18 (85.71)	9 (100.00)	5 (55.56)	38
Access to only informal credit	2 (8.00)	2 (8.00)	4 (36.36)	0 (0.00)	0 (0.00)	0	4
Access to both informal & formal credit	6 (24.00)	2 (8.00)	1 (9.09)	3 (14.29)	0 (0.00)	4 (44.44)	8
All households	25	25	11	21	9	9	50

Note: Figures in parentheses represent percentages of column total.

credit institutions are not able to satisfy the credit needs of the sizable number of households from the economically weakest sections of the society – the landless households.

An examination of the Table 5.8 revealed that 92 per cent of the borrower households from traditional non-microfinance village were having access to cooperatives as compared to only 24 per cent households from microfinance village. However, relatively more number of households were having access to commercial banks in microfinance village than the non-microfinance village. Nevertheless, the access to formal sources of credit was equally available to households from both the villages. It is interesting to note that the informal finance organisations existing in one

Table 5.8: Frequency Distribution of Sample Households Across Source of Loan, Village Type/Borrower's Landholding Status

Part a Source of loan	Village type		Total
	Villages w/o micro-finance	Villages with micro finance	
1. Commercial banks & RRBs	4 (16.00)	11 (44.00)	15 (30.00)
2. Coops(PACS & LDBs)	23 (92.00)	6 (24.00)	29 (58.00)
3. Informal lenders	6 (24.00)	4 (16.00)	10 (20.00)
4. SHGs	0 (0.00)	16 (64.00)	16 (32.00)
5. NBFCs	0 (0.00)	0 (0.00)	0 (0.00)
6. Chit Funds	3 (12.00)	0 (0.00)	3 (6.00)
7. Total formal	23 (92.00)	23 (92.00)	46 (92.00)
8. Total informal	8 (32.00)	4 (16.00)	12 (24.00)

Part b Source of loan	Borrower's landholding status				Total
	Landless	Marginal	Small	Medium & large	
1. Commercial banks & RRBs	2 (18.18)	6 (28.57)	4 (44.44)	3 (33.33)	15 (30.00)
2. Coops(PACS & LDBs)	4 (36.36)	12 (57.14)	6 (66.67)	7 (77.78)	29 (58.00)
3. Informal lenders	5 (45.45)	3 (14.29)	0 (0.00)	2 (22.22)	10 (20.00)
4. SHGs	2 (18.18)	8 (38.09)	3 (33.33)	3 (33.33)	16 (32.00)
5. NBFCs	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)
6. Chit Funds	1 (9.09)	0 (0.00)	0 (0.00)	2 (22.22)	3 (6.00)
7. Total formal	7 (63.64)	21 (100.00)	9 (100.00)	9 (100.00)	46 (92.00)
8. Total informal	5 (45.45)	3 (14.29)	0 (0.00)	4 (44.44)	12 (24.00)

Note: Informal lenders include friends, relatives, shops and local moneylenders, while total informal also includes chit funds. Total formal, on the other hand, includes the rest, which are under statutory control of one type or the other. Figures in parentheses indicate percentages of the total sample size (i.e., 50).

village are providing access to more number of sample households than the access provided by commercial banks and RRBs to sample households in both the villages put together. It is to be noted that cooperative sector is still a dominant force in providing access to maximum number of sample households.

All the sample households, except the landless sample households, have access atleast to formal sources of credit. However, about 64[@] per cent of landless households have access to formal sources of credit indicating that the rest may have to depend only on informal sources for their credit needs. It is to be noted that the access to credit from SHGs is also in favour of farm holding categories as compared to landless category.

5.2.2 Source-wise Composition of all Loans

The relative shares of different lending agencies in total loans given to sample borrowers are presented in Table 5.9. While cooperatives are the largest suppliers of credit to sample households, their relative share is more (65.20 per cent) in all loans in non-microfinance village as compared to microfinance village (38.19 per cent). The commercial banks and RRBs are accounted for 21.58 and 19.24 per cent of total lending in the non-microfinance and microfinance village, respectively. They are the second largest credit providers having 21.41 per cent share in the total loans. However, it is interesting to note that the recently established SHGs have surpassed the commercial banks and RRBs by providing more credit to sample households in microfinance village.

In case of share of various lending agencies in loans to different landholding categories, it can be observed from Table 5.9 that although the commercial banks and RRBs and cooperatives provide credit to all the landholding categories, they seem to have bias in favour of the farmer households. The combined percentage share of commercial banks, RRBs and cooperatives is highest for small farms (94.48 per cent), followed by marginal farms (93.6 per cent), medium and large farms (78.23 per cent) and lowest for landless households (67.71 per cent). Informal lenders and chit

[@] It may be noted that the sum total of percentage figures in parenthesis in the last two rows doesn't add up to 100 for the simple reason that the number of people having access to formal sector credit is not the same as those having access to the informal source, though, there is overlap between the two groups. To facilitate interpretation, therefore, we have shown the relevant numbers having access to particular source of credit in parenthesis in this table as well as in several subsequent tables.

Table 5.9: Percentage Shares of Various Lending Institutions in All Loans to Sample Borrowers Across Village Type/ Borrower's Landholding Status

Part a Source of loan	Village Type		
	Villages w/o Micro-finance	Villages with micro finance	All
1. Commercial banks & RRBs [pcbank]	21.58	19.24	21.41
2. Coops(PACS & LDBs) [pccoop]	65.20	38.19	63.26
3. Informal lenders[pcinfor]	4.86	8.49	5.12
4. SHGs[pcshg]	0	34.09	2.44
5. NBFCs[pcnbf]	0	0	0
6. Chit Funds[pcchit]	8.36	0	7.76
7. Total formal[pcfor]	86.78	91.51	87.12
8. Total informal[pcinfor]	13.22	8.49	12.88

Part b Source of loan	Borrower's landholding status				
	Landless	Marginal	Small	Medium & large	All
1. Commercial banks & RRBs [pcbank]	35.16	5.70	6.11	33.67	21.41
2. Coops(PACS & LDBs) [pccoop]	32.55	87.91	88.37	44.56	63.26
3. Informal lenders[pcinfor]	23.44	3.53	0	5.56	5.12
4. SHGs[pcshg]	4.95	2.85	5.52	1.56	2.44
5. NBFCs[pcnbf]	0	0	0	0	0
6. Chit Funds[pcchit]	3.91	0	0	14.64	7.76
7. Total formal[pcfor]	72.66	96.47	100	79.80	87.12
8. Total informal[pcinfor]	27.34	3.53	0	20.20	12.88

funds are important sources of credit not only to landless households but also to medium and large farm households. They together account for 27.34 per cent for landless households and 3.53 per cent for marginal households and 20.20 per cent for medium and large farm households. Small farmers do not borrow from informal credit market existing in the village. The percentage share of SHGs is higher for landless, marginal and small farm categories as compared to the largest farm size category. The share of NBFCs in all loans to sample household categories is zero reflecting that they may not be existing/operating in the study villages.

5.2.3 Utilisation of Credit by Borrower Households

The emphasis of this sub-section is primarily on analyzing the magnitude and pattern of utilisation of credit for consumption, production and human capital by the sample borrowers in two study villages. The results of this analysis are presented in Tables 5.10 to 5.13.

5.2.3.1 Consumption Loan

The utilisation of loan for regular consumption, contingent consumption and purchase of material consumption assets are included in the consumption loan. Table 5.10, Part a, shows significant difference in the sources of consumption loan in microfinance and non-microfinance villages. While no consumption loans were available from commercial banks and cooperatives for the sample households from micro-finance village, the households from non-microfinance village utilised maximum loans from these sources for their consumption. Households from non-microfinance village also borrowed considerable amount from informal sources for their consumption expenditure. Informal lenders and SHGs are the only sources of consumption loans for microfinance village. The total size of consumption loan from commercial banks, cooperatives and informal lenders is much higher in the non-microfinance village. This may be attributed to its better economic condition than the microfinance village.

Table 5.10: Sourcewise Total Annual Consumption Loan (in Rs.) across Village Type/Borrower's Landholding Status

Part a	Village type	
	Villages w/o micro-finance	Villages with micro-finance
Bank	5000 (1)	0 (0)
Coop	13600 (5)	0 (0)
Informal	12000 (3)	1800 (2)
SHG	0 (0)	1200 (4)
Nbfc	0 (0)	0 (0)
Chit	600 (3)	0 (0)

Part b	Borrower's landholding status			
	Landless	Marginal	Small	Medium & Large
Bank	5000 (1)	0 (0)	0 (0)	0 (0)
Coop	1400 (1)	1000 (1)	4000 (2)	7200 (1)
Informal	1400 (2)	1000 (1)	0 (0)	11400 (2)
SHG	100 (1)	600 (2)	500 (1)	0 (0)
Nbfc	0 (0)	0 (0)	0 (0)	0 (0)
Chit	600 (1)	0 (0)	0 (0)	0 (0)

Note: Figures in parentheses indicate number of households, which have access to respective sources.

It is observed from part b of Table 5.10 that the landless households depend on more number of credit sources for their consumption loans. On the other hand,

large farmers are observed to depend only on cooperatives and informal lenders. Though in small amount, SHGs provide consumption loans to all the landholding categories except the medium and large farm size category. Big farmers (medium and large) have not borrowed any amount of loan from SHGs and chit funds for their consumption expenditure. Relatively the quantum of credit requirement of landless households seem to be the highest for consumption than for the other purposes.

5.2.3.2 Production Loan

Cooperatives are the dominant source of credit for the production purposes in both the villages. However, more number of sample households depend on cooperatives for their production loans in non-microfinance village than the micro-finance village (Table 5.11, part a). Similarly, commercial banks have supplied production credit to both the villages but this supply of credit is seen to be relatively less for households in microfinance village. Informal lenders and chit funds are also important sources of production credit in non-microfinance village but they do not provide any production credit to households from microfinance village. Nevertheless, SHGs extend production credit support to largest number of borrowers in micro-finance village. The total as well as the average annual production loan utilised by the sample households from non-microfinance village are several times more than the microfinance village. However, some of the loans obtained from institutional sources by the sample households in non-microfinance village may have been diverted to consumption needs.

In terms of the source-wise total annual production loan across the landholding size categories, the size of production loan from formal as well as informal sources increased with the increase in the size of landholding (Table 5.11, Part b). The total production credit supplied by the cooperatives and commercial banks varies considerably across the landholding categories. Cooperatives are the major sources of production loans followed by commercial banks and RRBs. Although these institutions seem to have some bias in favour of households having agricultural land, it needs to be noted here that they are serving better than the informal sources. The quantum of annual production loan is relatively less but the

Table 5.11: Sourcewise Total Annual Production Loan (in Rs.) Across Village Type/Borrower's Landholding Status

Part a	Village Type	
	Villages w/o micro-finance	Villages with micro-finance
Bank	68000 (2)	5440 (10)
Coop	223040 (22)	10800 (6)
Informal	5800 (2)	0 (0)
SHG	0 (0)	8340 (14)
Nbfc	0 (0)	0 (0)
Chit	20000 (3)	0 (0)

Part b	Borrower's landholding status			
	Landless	Marginal	Small	Medium & Large
Bank	400 (1)	2400 (4)	21640 (4)	49000 (3)
Coop	3600 (3)	126440 (12)	41000 (6)	62800 (7)
Informal	1800 (1)	4000 (1)	0 (0)	0 (0)
SHG	660 (2)	3600 (6)	880 (3)	3200 (3)
Nbfc	0 (0)	0 (0)	0 (0)	0 (0)
Chit	0 (0)	0 (0)	0 (0)	20000 (2)

Note: Figures in parentheses indicate number of households, which have access to respective sources.

SHGs seem to be serving to all the landholding categories in microfinance village. On the other hand, chit funds seems to be exclusively supplying production loans to largest category of sample households in non-microfinance village.

5.2.3.3 Human Capital Loan

The human capital investment loans included the money borrowed for education, training, marriages, medical treatments, etc. The amount borrowed by the sample households from the non-microfinance village is several times higher than the households from microfinance village and they are dependant for human capital loans on commercial banks and RRBs, cooperatives and chit funds. However, commercial banks and cooperatives don't provide any support for human capital investment loans to the sample households from microfinance village. Therefore, they are left with no options but to borrow from informal lenders and SHGs, though the amount of loan given by SHGs is very small. In general, the number of sample households borrowing loans for human capital investment seems to be relatively less than the number of sample households borrowing loans for consumption and production.

Table 5.12: Sourcewise Total Annual Human Capital Loan (in Rs.) Across Village Type/Borrower's Landholding Status

Part a	Village type	
Source of loan	Villages w/o micro-finance	Villages with micro-finance
Bank	6000 (1)	0 (0)
Coop	2000 (1)	0 (0)
Informal	0 (0)	600 (2)
SHG	0 (0)	100 (1)
Nbfc	0 (0)	0 (0)
Chit	10000 (3)	0 (0)

Part b	Borrower's landholding status			
Source of loan	Landless	Marginal	Small	Medium & Large
Bank	0 (0)	6000 (1)	0 (0)	0 (0)
Coop	0 (0)	2000 (1)	0 (0)	0 (0)
Informal	400 (1)	200 (1)	0 (0)	0 (0)
SHG	0 (0)	0 (0)	100 (1)	0 (0)
Nbfc	0 (0)	0 (0)	0 (0)	0 (0)
Chit	0 (0)	0 (0)	0 (0)	10000 (2)

Note: Figures in parentheses indicate number of households, which have access to respective sources.

The landless households are completely dependant on informal lenders, while small farmers on SHGs, and medium and large farm size households on chit funds for their human capital investment needs (Table 5.12, Part b). The marginal sample households received the human capital loan from commercial banks, cooperatives and informal lenders. The total as well as the annual average human capital loan greaely varies across the different landholding categories, but the largest farm size category have borrowed larger amounts as compared to other landholding categories.

5.2.3.4 Total Household Loan

The total loan comprises the consumption loan, production loan and the loan borrowed for human capital investment. The average as well as the total amount of loan borrowed from all sources were higher in the non-microfinance village as compared to microfinance village (Table 5.13). The cooperatives gave Rs. 2,38,640 as total loan to 28 sample households in non-microfinance village as compared to only Rs. 10,800 to 6 households in microfinance village. As compared to SHGs, the amount of total loan given by commercial banks and RRBs is high in non-

microfinance village but the total number of households served by them are less than the aggregate number of households in both the villages. The number of borrowers from informal lenders is almost equal in both the villages. On an average, higher amount of loan was given by informal lenders to households in non-microfinance village. Although the average size of total household borrowings varies across the sources, on an average commercial banks and cooperatives provide the largest amount of loan in that order in non-microfinance village. In microfinance village, cooperatives and SHGs are the first and second major sources of credit, respectively.

Table 5.13: Sourcewise Total Annual Loan (in Rs.) for All Purpose Across Village Type/Borrower's Landholding Status

Part a Source of total loan	Village Type	
	Villages w/o micro-finance	Villages with micro-finance
Bank	79000 (4)	5440 (10)
Coop	238640 (28)	10800 (6)
Informal	17800 (5)	2400 (4)
SHG	0 (0)	9640 (19)
Nbfc	0 (0)	0 (0)
Chit	30600 (3)	0 (0)

Part b Source of total loan	Borrower's landholding status			
	Landless	Marginal	Small	Medium & Large
Bank	5400 (2)	8400 (5)	1640 (3)	69000 (4)
Coop	5000 (4)	129440 (14)	23700 (8)	91300 (8)
Informal	3600 (4)	5200 (3)	0 (0)	11400 (2)
SHG	760 (3)	4200 (8)	1480 (5)	3200 (3)
Nbfc	0 (0)	0 (0)	0 (0)	0 (0)
Chit	600 (1)	0 (0)	0 (0)	30000 (2)

Note: Figures in parentheses indicate number of households, which have access to respective sources.

As discussed earlier, maximum number of households from different landholding categories were dependent on cooperatives, followed by SHGs and commercial banks. As expected, the average amount of loan given by SHGs is smallest as compared to other sources. It may be noted that only small farm households are exclusively dependent on formal sources for their credit needs, the explanation of which may need further probing.

5.2.4 Default Rates

The problem of default of credit has become a more serious concern in last few decades and has affected the health of credit delivery system in the country.

Repayment of loan is an essential condition for the better health of the credit system. The institutional credit sources in these villages provide an imitable example in this regard. There is complete absence of default of formal credit (except SHGs in micro-finance village) in both the villages (Table 5.14, Part a). Their efforts may be appreciated and are worthy of emulating by others. The remarkable feature of non-microfinance village is the zero default rate of any credit source in this village. This clearly shows the perfect interaction among the borrowers and lenders in this village. However, the rate of default for informal lenders and SHGs was observed to be 25 and 6.25 per cent, respectively, in microfinance village.

Table 5.14: Sourcewise Per cent Default Rates Across Village Type/Borrower's Landholding Pattern

Part a Source of loan	Village type			
	Villages w/o Micro-finance	N Max=25	Villages with micro finance	N Max=25
1. Commercial banks & RRBs [dbank]	0.00	4	0.00	11
2. Coops(PACS & LDBs) [dcoop]	0.00	23	0.00	6
3. Informal lenders [dinform]	0.00	6	25.00	4
4. SHGs [dshg]	0.00	0	6.25	16
5. NBFCs [dnbfc]	0.00	0	0.00	0
6. Chit Funds [dchit]	0.00	3	0.00	0
7. Total formal [dform]	0.00	23	4.35	23
8. Total informal [dnform]	0.00	8	25.00	4

Part b Source of loan	Borrower's landholding status							
	Landless	N Max=11	Marginal	N Max=21	Small	N Max=9	Medium & Large	N Max=9
1. Commercial banks & RRBs [dbank]	0.00	2	0.00	6	0.00	4	0.00	3
2. Coops(PACS & LDBs) [dcoop]	0.00	4	0.00	12	0.00	6	0.00	7
3. Informal lenders - [dinform]	20.00	5	0.00	3	0.00	0	0.00	2
4. SHGs [dshg]	0.00	2	12.50	8	0.00	3	0.00	3
5. NBFCs [dnbfc]	0.00	0	0.00	0	0.00	0	0.00	0
6. Chit Funds [dchit]	0.00	1	0.00	0	0.00	0	0.00	2
7. Total formal [dform]	0.00	7	4.76	21	0.00	9	0.00	9
8. Total informal [dnform]	20.00	5	0.00	3	0.00	0	0.00	4

The pattern of default rate of credit across the landholding categories indicate that it decreases with the increase in the size of landholding. The rate of default for landless households is 20 per cent and it is 12.50 per cent for SHGs for marginal farms in microfinance village. Except this, even in microfinance village also there was no default for any source of credit from the households belonging to small, medium and large landholding categories. Finally, it is to be noted here that the system of credit assessment and monitoring used by commercial banks and cooperatives existing in these villages may be further studied with an objective of its adoption in similar places where default is a serious problem.

5.2.5 Borrower's Working Experience with lenders

The data related to working experience of borrower households with lending institutions in two study villages presented in part a of Table 5.15 show that it varies drastically between two villages and across the various lending agencies.

The experience of borrower households with the cooperative banks was observed to be longest with 28.67 years in microfinance village and 19.48 years in non-microfinance village. The borrower's working experience with commercial banks and RRBs varied from 5.09 to 10.50 years for microfinance and non-microfinance villages, respectively. The longer credit experience of households with formal credit institutions such as commercial banks and cooperatives might be the reason for better assessment and monitoring of credit. This in turn has resulted in zero default rate in both the villages. The borrowers have equal number of years of experience (6.5 years) with SHGs and informal lenders in microfinance village. In non-microfinance village, they have 1.67 and 5.33 years of working experience with informal lenders and chit funds, respectively.

In terms of various landholding categories, households from all the categories have longest experience of working with cooperatives ranging from 12.25 years for landless category to 24 years for medium and large farm category. Besides this, the Table 5.15 b also indicates that the last two categories of farm households have longer experience than the households from the first two categories. The landless households have longest experience of (19 years) working with commercial banks and RRBs. However, it was only 4.5, 6.00 and 3.00 years, respectively, for marginal, small and medium and large farm size categories. The marginal farmers have shortest experience of working with informal lenders (2 years) followed by landless

Table 5.15: Borrower's Working Experience with Lenders in Years Across Village Types/Borrower's Landholding Status

Part a Source of loan	Village type			
	Villages w/o Micro-finance	N Max=25	Villages with micro finance	N Max=25
1. Commercial banks & RRBs [wbank]	10.5	4	5.09	11
2. Coops(PACS & LDBs) [wcoop]	19.48	23	28.67	6
3. Informal lenders [winfor]	1.67	6	6.5	4
4. SHGs [wshg]	-	0	6.5	16
5. NBFCs [wnbfc]	-	0	-	0
6. Chit Funds [wchit]	5.33	3	-	0
7. Total formal [wfor]	19.48	23	12.04	23
8. Total informal [wnfor]	2.87	8	6.5	4

Part b Source of loan	Borrower's Landholding Status							
	Landless	N Max=11	Marginal	N Max=21	Small	N Max=9	Medium & Large	N Max=9
1. Commercial banks & RRBs [wbank]	19	2	4.50	6	6.00	4	3.00	3
2. Coops(PACS & LDBs) [wcoop]	12.25	4	21.42	12	24.33	6	24.00	7
3. Informal lenders [winfor]	3.80	5	2.00	3	-	0	5.50	2
4. SHGs [wshg]	9.50	2	4.25	8	8.33	3	8.67	3
5. NBFCs [wnbfc]	-	0	-	0	-	0	-	0
6. Chit Funds [wchit]	5.00	1	-	0	-	0	5.50	2
7. Total formal [wfor]	11.14	7	13.95	21	19.00	9	20.33	9
8. Total informal [wnfor]	4.20	5	2.00	3	-	0	5.50	4

households (3.8 years) and medium and large farm households (5.5 years). Similarly, they have also shortest experience of 4.25 years working with SHGs followed by small (8.33 years), medium and large (8.67 years) and landless households (9.5 years). Relatively, less working experience of landless and marginal farm households with informal lenders and SHGs, respectively, may have resulted into some defaults.

5.2.6 Borrower's Comfort Level with Lending Institutions

The level of comfort as perceived and expressed by the sample borrowers with different lending agencies ranged between 1 and 5. Here level 1 indicates that the borrowers are most comfortable, while level 5 indicates that the borrowers are least comfortable with the concerned lending agency. Table 5.16 shows that overwhelming majority of the borrowers (ranging from 53.33 to 87.50 per cent) are comfortable with various lending agencies such as commercial banks and RRBs, cooperatives, informal lenders and SHGs. However, majority of the households seem to be not very comfortable with the chit funds operating in their village.

Table 5.16: Frequency Distribution of Borrowers With Respect to Their Comfort Levels and with respect to Alternative Loan Sources

Source of Loan	Comfort level					Total
	1*	2	3	4	5	
Bank	5 (33.33)	3 (20.00)	3 (20.00)	-	4 (26.67)	15
Coop	19 (65.51)	3 (10.35)	1 (3.45)	4 (13.79)	2 (6.90)	29
Infor	6 (66.67)	1 (11.11)	1 (11.11)	-	1 (11.11)	9
Shg	11 (68.75)	3 (18.75)	1 (6.25)	-	1 (6.25)	16
Nbfc	-	-	-	-	-	-
Chit	-	1 (33.33)	-	-	2 (66.67)	3

* The numbers are ranks on a scale of 1 to 5 with 1 = Fully agreed and 5 = totally disagreed
 Note: Figures in parentheses represent percentages of row total

The borrower's comfort level across the two study villages varies from lending agency to agency (Part a, Table 5.17). However, the comfort level seems to be intimately linked with the length of experience of the borrower with the respective lending institutions. The households from non-microfinance village are observed to be more comfortable with commercial banks and RRBs than the households from micro-finance village as they have longer experience of working with those credit institutions. Similarly, the households from microfinance village having longest working experience of 28.67 years with cooperatives are more comfortable with it than the households from non-microfinance village. Similar conclusions can be reached by studying the level of comfort and the length of experience of borrowers with informal

lenders working in two study villages. The borrower's experience with chit funds seems to be relatively less comfortable.

Table 5.17, Part b gives the information regarding the borrowers comfort levels across the different landholding categories. A perusal of this table reveals that landless households having 19 years of working experience with commercial banks and RRBs are observed to be more comfortable with them than the largest landholding category having three years of working experience and the level of comfort also three. The index for small and marginal farmers for the same credit source – commercial banks and RRBs - is 2.5 and 2.67 having 6.00 and 4.50 years of working experience, respectively.

Table 5.17: Index of Borrower's Comfort Level with Different Lending Organisations Across Village Type and Borrower's Landholding Status:

Part a	Village type	
	Villages w/o micro-finance	Villages with micro-finance
1. Commercial banks & RRBs [cbank]	2.50	2.73
2. Coops (PACS & LDBs) [ccoop]	1.78	2.17
3. Informal lenders [cinfo]	2.00	1.50
4. SHG [cshg]	0.00	1.56
5. NBFCs [cnbfc]	0.00	0.00
6. Chit funds [cchit]	4.00	0.00
7. Total formal [cfor]	1.26	2.17
8. Total informal [cnfor]	3.00	1.50

Part b	Borrower's landholding status			
	Landless	Marginal	Small	Medium & Large
1. Commercial banks & RRBs [cbank]	2.50	2.67	2.50	3.00
2. Coops (PACS & LDBs) [ccoop]	2.25	2.08	1.17	1.86
3. Informal lenders [cinfo]	1.50	1.33	0.00	3.00
4. SHG [cshg]	1.00	1.12	2.67	2.00
5. NBFCs [cnbfc]	0.00	0.00	0.00	0.00
6. Chit funds [cchit]	2.00	0.00	0.00	5.00
7. Total formal [cfor]	1.43	1.48	2.22	2.00
8. Total informal [cnfor]	1.75	1.33	0.00	4.00

In respect of cooperatives, borrowers from small farm category are most comfortable who have longest working experience of 24.33 years with the cooperatives. This comfort level is followed by medium and large farm households (comfort level 1.86 and working experience 21.42 years), marginal farmer (comfort level 2.08 and working experience 21.42 years) and landless households who have

comfort level of 2.25 and working experience of 12.25 with the cooperatives. Landless households seems to be most comfortable with SHGs as they have longest experience of working with them than the other farm size categories. However, it may be mentioned here that similar kind of positive relationships were not observed for informal sources including both informal lenders and chit funds. Thus, it may be concluded that the formal lending institutions such as commercial banks and RRBs, cooperatives and SHGs provide comfortable working environment to their clients, thereby, retaining them for longer periods. As compared to formal sources, borrowers observed to be less comfortable with informal lending sources, may be due to their high interest rates.

5.2.7 Flexibility of Rescheduling the Loan

If the loss of income or lower returns occurs from the investment made with the use of credit, the borrower can not repay the loan and the borrowings may result into default. The default may also occur due to wilful non-repayment of the loan. Under such circumstances, instead of foreclosing the defaulted loan, the recovery of loan from the borrower is rescheduled. The rescheduling of loan gives borrower the time to recover from the losses, if any, and repay the loan in subsequent periods as per the new schedule. The sample households were asked to reveal whether in general their loans were rescheduled or not if they are not able to repay the loan on time due to one or the other reason. Their responses are presented in Table 5.18, Part a and b.

The responses of the borrower sample households are unique in the sense that the borrowers from both the village have indicated that they have the perfect flexibility of rescheduling of loans from both formal as well as informal lending institutions. Their responses do not change even across the different landholding categories. It may be inferred from these unique results that the perfect flexibility enjoyed by the households from these villages may have helped them in building such an excellent relationship with the various lending institutions operating in the village which may have resulted in very less or almost no problem of default which is a serious threat to the survival of the formal rural credit system in other parts of the country.

Table 5.18: Index of Flexibility Enjoyed by Borrower's in Terms of Possible Loan Rescheduling Across Village Type/Borrower's Landholding Status.

Part a Source of loan	Village type			
	Villages w/o Micro-finance	N Max=25	Villages with micro finance	N Max=25
1. Commercial banks & RRBs[xbank]	-	0	1.00	3
2. Coops(PACS & LDBs) [xcoop]	1.00	10	1.00	5
3. Informal lenders [xinfor]	-	0	1.00	4
4. SHGs [xshg]	-	0	1.00	14
5. NBFCs [xnbfc]	-	0	-	0
6. Chit Funds [xchit]	-	0	-	0
7. Total formal [xfor]	1.00	10	1.00	20
8. Total informal [xnfor]	-	0	1.00	4

Part b Source of loan	Borrower's landholding status							
	Landless	N Max=11	Marginal	N Max=21	Small	N Max=9	Medium & Large	N Max=9
1. Commercial banks & RRBs [xbank]	1.00	1	-	0.00	1.00	1	1.00	1
2. Coops(PACS & LDBs) [xcoop]	1.00	1	1.00	7	1.00	2	1.00	5
3. Informal lenders [xinfor]	1.00	2	1.00	1	-	0	1.00	1
4. SHGs [xshg]	1.00	1	1.00	7	1.00	3	1.00	3
5. NBFCs [xnbfc]	-	0	-	0	-	0	-	0
6. Chit Funds [xchit]	-	0	-	0	-	0	-	0
7. Total formal [xfor]	1.00	4	1.00	13	1.00	6	1.00	7
8. Total informal [xnfor]	1.00	2	1.00	1	-	0	1.00	1

Note: The variables xbank, xcoop, etc. varies between 0 (in cases where loan is not at all rescheduled) and 1 (when loan is perfectly rescheduled).

5.2.8 Borrower's Total Transaction Cost

Borrower's total transaction cost varies across the different lending institutions in two study villages, as shown in Table 5.19, Part a. The Table shows that the transaction cost of credit from commercial banks and RRBs was the highest at 3 per cent of the loans taken by the borrowers of non-microfinance village. It was 2 per cent for the borrowers of microfinance village. Similarly, the total transaction cost of cooperatives was higher in non-microfinance village. Apart from this, the total transaction cost was higher even for informal sources of credit in non-microfinance village. This clearly indicates the relatively economical access to credit in the microfinance village.

**Table 5.19: Source Wise Borrower's Total Transaction Cost per Loan (in Rs.)
Across Village Type/Borrower's Landholding Status**

Part a Source of loan	Village type			
	Villages w/o Micro-finance	N Max=25	Villages with Micro-finance	N Max=25
1. Commercial banks & RRBs [banktc& pbanktc]	775.00 (0.03)	4	250.00 (0.02)	2
2. Coops(PACS & LDBs) [cooptc& pcooptc]	481.79 (0.01)	14	16.33 (0.00)	3
3. Informal lenders [winfor]	113.33 (0.01)	3	17.50 (0.01)	2
4. SHGs [wshg]	-	0	66.64 (0.01)	14
5. NBFCs [wnbfc]	-	0	-	0
6. Chit Funds [wchit]	335.00 (0.00)	2	-	0
7. Total formal [wfor]	615.31 (0.01)	16	82.33 (0.01)	18
8. Total informal [wnfor]	202.00 (0.01)	5	17.50 (0.01)	2

Part b Source of loan	Borrower's Landholding Status							
	Landless	N Max=11	Marginal	N Max=21	Small	N Max=9	Medium & Large	N Max=
1. Commercial banks & RRBs [banktc& pbanktc]	345 (0.06)	2	340 (0.01)	2	1130 (0.01)	1	1100 (0.00)	1
2. Coops (PACS &LDBs) [cooptc& pcooptc]	115 (0.02)	2	760 (0.01)	7	167.50 (0.01)	4	143.50 (0.00)	4
3. Informal lenders [winfor]	86.67 (0.01)	3	15 (0.01)	1	-	0	100 (0.01)	1
4. SHGs [wshg]	62.50 (0.01)	2	25.71 (0.00)	7	65 (0.01)	2	166 (0.02)	3
5. NBFCs [wnbfc]	-	0	-	0	-	0	-	0
6. Chit Funds [wchit]	-	0	-	0	-	0	335 (0.00)	2
7. Total formal [wfor]	174.17 (0.02)	6	386.25 (0.01)	16	321.67 (0.01)	6	362.00 (0.01)	6
8. Total informal [wnfor]	86.67 (0.01)	3	15 (0.01)	1	-	0	256.67 (0.00)	3

Note: Figures in parentheses represent borrower's transaction cost per rupee of Loan.

While examining the total transaction costs across the borrower's landholding status for different lending agencies, it was observed that commercial banks and RRBs had the highest transaction cost for lowest landholding category – the landless category. It was whopping 6 per cent of the loan taken. Even the transaction costs for

cooperatives were also highest at 2 per cent of credit obtained by landless households. Thus, the transaction cost of credit from formal lending institutions was highest for landless category among all the landholding categories. Specially, these lending institutions have marked bias towards the largest landholding category in providing the cheapest access to credit. The only exception to this was the transaction cost of loan from SHGs. The proportion of total transaction cost of SHGs was highest for the largest category of landholding, thus favouring the other landholding categories. The results of this analysis should be viewed with caution because they are based on the estimates of the borrowers and the non-monetary costs and transaction costs from the lender side are not included in this exercise.

5.2.9 Nature of Interest Collection

Generally, the rate of interest is also taken as the measure of cost of credit. The cost of credit of various financial institutions depends upon the nature of interest collection by the respective lending institutions. If the interest is paid upfront by the borrower, not only the relative cost of credit will be high but also it will adversely affect the productivity of the credit. Details regarding the nature of interest collection (whether upfront or later) by the different lending organisations across village type and borrower's landholding status are presented in Table 5.20 (Part a and b).

It has been observed from the part a of Table 5.20 that formal credit institutions such as commercial banks and cooperatives collect interest later in both the study villages. While all the lending organisations in microfinance village charge the interest later, the informal lenders and chit funds from non-microfinance village follow the practise of charging the interest upfront.

The mode of interest collection by various sources across the borrower's landholding status indicates that marginal and small farmers are not charged the interest upfront but being collected later by all the lending organisations operating in both the villages (Part b, Table 5.20). However, the interest from landless households was being collected upfront by the informal lenders and chit funds. Overall, the mode of interest collection observed across the different landholding categories reflects that the present credit markets operating in study villages are relatively less exploitative in nature and are working fairly good.

Table 5.20: Source Wise Nature of Interest Collection (whether upfront or later) From Different Lending Organizations Across Village Type / Borrower's Landholding Status

Part a Source of loan	Village type			
	Villages w/o Micro-finance	N Max=25	Villages with Micro-finance	N Max=25
1. Commercial banks & RRBs [bankup]	0.00	4	0.00	11
2. Coops(PACS & LDBs) [coopup]	0.00	23	0.00	6
3. Informal lenders [inforup]	0.04	6	0.00	4
4. SHGs [shgup]	0.00	0	0.00	16
5. NBFCs [nbfcup]	0.00	0	0.00	0
6. Chit Funds [chitup]	0.12	3	0.00	0
7. Total formal [forup]	0.00	23	0.00	23
8. Total informal [nforup]	0.16	9	0.00	4

Part b Source of loan	Borrower's landholding status							
	Landless	N Max=11	Marginal	N Max=21	Small	N Max=9	Medium & Large	N Max=9
1. Commercial banks & RRBs [bankup]	0.00	2	0.00	6	0.00	4	0.00	3
2. Coops(PACS & LDBs) [coopup]	0.00	4	0.00	12	0.00	6	0.00	7
3. Informal lenders [inforup]	0.09	5	0.00	3	0.00	0	0.00	2
4. SHGs [shgup]	0.00	2	0.00	8	0.00	3	0.00	3
5. NBFCs [nbfcup]	0.00	0	0.00	0	0.00	0	0.00	0
6. Chit Funds [chitup]	0.09	1	0.00	0	0.00	0	0.22	2
7. Total formal [forup]	0.00	7	0.00	21	0.00	9	0.00	9
8. Total informal [nforup]	0.18	6	0.00	3	0.00	0	0.22	4

Note: The variables BANKUP, COOPUP, etc. varies between 0 (later) and 1 (upfront).

5.2.10 Days Required For Processing the Loan

Timely disbursement of credit helps to reduce the cost of credit as well as it enhances the returns from its investment. Relatively less time taken by the lending agencies also reflects on their procedural simplicities and efficiency. Considering the importance of the subject, it has been considered necessary to examine it in greater detail. The results of this exercise are presented in Table 5.21, Part a and b.

Table 5.21: Average no. of Days Taken (between application & disbursement of loan) for loan Processing per Loan Across Village Type/Borrower's Landholding Status

Source of loan Part a	Village type			
	Villages w/o Micro-finance	N Max=25	Villages with Micro-finance	N Max=25
1. Commercial banks & RRBs [bankdy]	37.5	4	6.00	11
2. Coops(PACS & LDBs) [coopdy]	31.04	23	21.50	6
3. Informal lenders [infordy]	9.17	6	10.50	4
4. SHGs [shgdy]	-	0	13.50	16
5. NBFCs [nbfcdy]			-	0
6. Chit Funds [chitdy]	19.33	3	-	0
7. Total formal [fordy]	33.54	23	16.40	23
8. Total informal [nfordy]	0.75	8	0.75	4

Source of loan Part b	Borrower's landholding status							
	Landless	N Max=11	Marginal	N Max=21	Small	N Max=9	Medium & Large	N Max=9
1. Commercial banks & RRBs [bankdy]	28.00	2	10.50	6	9.25	4	20.00	3
2. Coops(PACS & LDBs) [coopdy]	16.50	4	31.17	12	36.67	6	26.14	7
3. Informal lenders [infordy]	10.60	5	4.00	3	-	0	16.00	2
4. SHGs [shgdy]	16.50	2	13.50	8	9.67	3	15.33	3
5. NBFCs [nbfcdy]	-	0	-	0	-	0	-	0
6. Chit Funds [chitdy]	5.00	1	-	0	-	0	26.50	2
7. Total formal [fordy]	20.03	7	24.11	21	29.05	9	26.74	9
8. Total informal [nfordy]	0.60	5	0.67	3	-	0	1.00	4

Part a of Table 5.21 depicts the picture with regard to average number of days taken by various lending agencies for processing of loan across the village type. It is very clear from the table that formal institutions in non-microfinance village take more than a months period (33.54 days) to process the loan. However, it takes only

half of the days required in non-microfinance village (16.40 days) to do the same job for the same institutions. Specially, the time taken by commercial banks and RRBs is highest (37.50 days) for non-microfinance village as compared to the lowest period (6 days) required to process the loan by the same bank in microfinance village.

The number of days taken by cooperatives for processing the loan are observed to be 31.04 days and 21.50 days in non-microfinance and microfinance villages, respectively. The maximum number of days taken to process the loan by commercial banks and cooperatives in non-microfinance village may be due to their handling of large volume of credit and clients or their less efficiency in processing the loan or both the reasons. In this sequel, informal lenders require about 9 and 10 days in non-microfinance and microfinance villages, respectively. This shows that in general informal lenders are relatively much faster than the commercial banks and cooperatives in processing the loans. SHGs require about 13 days to do the same job.

Details regarding the average number of days taken for processing the loan across the different landholding categories have been presented in part b of Table 5.21. The table shows that the time required to process a loan varies widely across the different landholding categories and lending institutions. The commercial banks have taken 28 days to process the loans of landless household, which is a longest period among all the landholding categories. However, it is quite encouraging to note that the co-operatives have taken only 16.5 days to process the loan of landless households which is the shortest period for any landholding category. It is longest for small farms (36.67 days), followed by marginal farms (31.17 days) and medium and large farms (26.14 days). The average number of days required for loan processing by informal lenders were 10.6, 4 and 16 days for landless, marginal and large farm households reflecting that they are more streamlined for processing the loan than the cooperatives and LDBs. Similarly, the SHGs are also faster than cooperatives in processing the loans but their results are mixed with respect to various landholding categories.

5.2.11 Shortfall in Loan

It is often argued that borrowers face several problems such as access to credit, delay in processing of loans, the cost of transaction, rescheduling of loan, defaults, etc. Added to this is another problem, i.e., the shortfall between credit demand and credit supply, which may be termed as credit gap. The information

regarding the gap between credit demanded and the amount of loan actually supplied across village type and borrower's landholding status is given in Table 5.22, Part a and b.

Table 5.22: Percentage Gap or Short Fall of Loan Actually Supplied From Amount Demanded by Borrower Across Village Type/Borrower's Landholding Status.

Part a	Village type			
	Source of loan	Villages w/o Micro-finance	N Max=25	Villages with Micro-finance
1. Commercial banks & RRBs [bankgap]	11.90	4	6.97	11
2. Coops(PACS & LDBs) [coopgap]	12.86	23	18.89	6
3. Informal lenders [inforgap]	3.33	6	20.83	4
4. SHGs [shggap]	-	0	15.75	16
5. NBFCs [nbfcgap]	-	0	-	0
6. Chit Funds [chitgap]	6.67	3	-	0
7. Total formal [forgap]	13.17	23	17.99	23
8. Total informal [nforgap]	5.00	8	20.83	4

Part b	Borrower's landholding status							
	Source of loan	Landless	N Max=11	Marginal	N Max=21	Small	N Max=9	Medium & Large
1. Commercial banks & RRBs [bankgap]	30.00	2	5.16	6	8.33	4	0.00	3
2. Coops(PACS & LDBs) [coopgap]	15.00	4	12.57	12	19.94	6	11.25	7
3. Informal lenders [inforgap]	10.00	5	17.78	3	-	0	0.00	2
4. SHGs [shggap]	14.71	2	17.20	8	7.69	3	20.63	3
5. NBFCs [nbfcgap]	-	0	-	0	-	0	-	0
6. Chit Funds [chitgap]	0.00	1	-	0	-	0	10.00	2
7. Total formal [forgap]	21.34	7	13.92	21	17.08	9	13.46	9
8. Total informal [nforgap]	10.00	5	17.78	3	-	0	5.00	4

As can be noticed from Table 5.22, part a, the gap in credit provided by commercial banks was about 7 and 12 per cent for microfinance and non-microfinance villages, respectively. However, the shortfall in loans provided by cooperatives was observed to be higher (18.89 per cent) in microfinance village than

in non-microfinance village (12.86 per cent). The minimum (3.33 per cent) and maximum (20.83 per cent) shortfall in loans was observed in the case of informal lenders in non-microfinance and microfinance village, respectively. On the whole the higher credit gap to the extent of about 18 and 21 per cent existed in microfinance village for the credit provided by the total formal and informal institutions, respectively, as compared to about 13 and 5 per cent for non-microfinance village. Thus, the households from traditional non-microfinance village seem to be better off as far as the shortfall in credit is concerned.

While reviewing the landholding category-wise shortfall in credit provided by different lenders, it was observed that there was highest proportion (30.00 per cent) of credit gap for the lowest landholding category. On the other hand, there was no credit gap for the largest category of farm households for the loans provided by the commercial banks and RRBs. The shortfall in credit provided by co-operatives vary between 11.25 per cent for medium and large farmers to 19.94 per cent for small farmers. The cooperative credit shortfall figures were found to be 15.00 and 12.57 per cent for landless and marginal farm households, respectively. Informal lenders have provided as much credit as demanded by the medium and large farmers. However, they have supplied 10.00 and 17.78 per cent less credit than the amount demanded by the landless and marginal farm households. The shortfall in loan supplied by SHGs was 14.71, 17.20, 7.69 and 20.63 per cent for landless, marginal, small and medium and large farm households, respectively. Although all the landholding categories have shown a shortfall in credit, this shortfall is noticed to be the highest for the landless households and lowest for the medium and large farmers. In case of informal credit, the shortfall is noticed to be lowest again for medium and large farm households followed by landless and marginal farm households. Thus, it seems that the medium and large farm households had relatively lower shortfall in credit as compared to households from other lower landholding categories.

5.2.12 Collateral Applied/Extended by Borrowers

Collateral can be defined as a security pledged for the repayment of a loan. The frequency distribution of collateral usually extended by borrowers across the various lending agencies is presented in Table 5.23. It can be observed from the table that personal guarantee and tangible collateral constitute the two major types of collateral used by the traditional lending organisations. Interlinked input purchase,

group guarantee and interlinked output sale seem to be coming up as collateral in recent years. Personal guarantee, group guarantee, and interlinked input purchase are the major kinds of collateral being used by the new generation of lending institutions (SHGs) while providing credit to their customers. The informal lenders seem to

Table 5.23: Frequency Distribution of Collaterals Usually Applied by Borrowers Across Lender Agencies

Source of loan	Personal Guarantee	Group Guarantee	Inter Linked Input Purchase	Inter Linked Labour sale	Inter Linked Output sale	Tangible Collateral	Total no of collateral
1. Commercial banks & RRBs	13	0	6	1	1	11	14
2. Coops (PACS & LDBs)	29	0	13	0	2	27	29
3. Informal lenders	3	0	0	0	0	2	4
4. SHGs	9	8	6	0	0	0	16
5. NBFCs	0	0	0	0	0	0	0
6. Chit Funds	2	0	1	0	0	1	2
7. Total formal	41	8	23	1	3	31	44
8. Total informal	5	0	1	0	0	3	6

depend only on personal guarantee and tangible collaterals while the chit funds look for the personal guarantee, interlinked input purchase and tangible collaterals to safeguard their loans. Thus, it may be concluded that personal guarantee and tangible collateral are the major collateral used by the traditional lending agencies, while interlinked input purchase, group guarantee and interlinked output sale are the newly found collateral in recent years. For new generation lending institutions, personal guarantee, group guarantee and interlinked input purchase are the major collateral. The depending of informal lending agencies on various collateral is noticed to be less than the formal lending institutions.

5.2.13 Explicit Annual Interest Rates

While examining the explicit annual interest rates presented in Table 5.24, part a, across the village type and lenders, it was observed that the rates of explicit interest were higher by about 2 to 3 per cent for commercial banks and cooperatives in non-microfinance village as compared to microfinance village. The explicit interest rates were 14.75 per cent and 11.27 per cent for commercial banks and 15.52 per cent and 13.50 per cent for cooperatives in non-microfinance and microfinance village, respectively. The explicit interest rate for SHGs was 27.75 per cent, which turned out

to be the highest for any lending agency in microfinance village. Similarly, the explicit interest rate for chit funds was observed to be the highest at 32 per cent in non-microfinance village. The overall explicit interest rate for formal institutions seems to be higher in microfinance village while the same for informal agencies seems to be higher in non-microfinance village.

Table 5.24: Explicit Annual Interest Rate (in %) Across Village Type/Borrower's Landholding Status

Part a Source of loan	Village type			
	Villages w/o Micro-finance	N Max=25	Villages with micro-finance	N Max=25
1. Commercial banks & RRBs [bankint]	14.75	4	11.27	11
2. Coops(PACS & LDBs) [coopint]	15.52	23	13.50	6
3. Informal lenders [inforint]	2.33	6	0.00	4
4. SHGs [shgint]	-	0	27.75	16
5. NBFCs [nbfcint]	-	0	-	0
6. Chit Funds [chitint]	32.00	3	-	0
7. Total formal [forint]	15.83	23	19.59	23
8. Total informal [nforint]	9.06	8	0.00	4

Part b Source of loan	Borrower's landholding status							
	Landless	N Max=11	Marginal	N Max=21	Small	N Max=9	Medium & Large	N Max=9
1. Commercial banks & RRBs [bankint]	13.50	2	10.33	6	13.50	4	13.33	3
2. Coops(PACS & LDBs) [coopint]	16.00	4	15.42	12	14.67	6	14.43	7
3. Informal lenders [inforint]	2.80	5	0.00	3	-	0	0.00	2
4. SHGs [shgint]	24.00	2	31.50	8	24.00	3	24.00	3
5. NBFCs [nbfcint]	-	0	-	0	-	0	-	0
6. Chit Funds [chitint]	60.00	1	-	0	-	0	18.00	2
7. Total formal [forint]	17.91	7	18.59	21	15.23	9	17.97	9
8. Total informal [nforint]	7.30	5	0.00	3	-	0	9.00	4

Note: BANKINT, COOPINT etc. are the interest rates for the various sources.

Comparison of explicit interest rates across the different landholding categories revealed that the interest for commercial bank was the highest (13.50 per cent) for landless households and small farmers as compared to 10.33 per cent for marginal and 13.33 per cent for medium and large farm households (Table 5.24, Part b). The explicit interest rate for cooperatives was observed to be decreasing with increase in landholding size. It is highest at 16.00 per cent for landless households followed by 15.42, 14.67 and 14.43 per cent for marginal, small and medium and large farm households, respectively. The explicit rate of interest of 31.50 per cent only

for the marginal households when all other landholding categories have equal explicit interest rate of 24 percent for SHGs could be due to source of credit to SHGs having relatively higher interest rate. Overall, the explicit interest rates for formal agencies are almost similar for landless (17.91 per cent) and medium and large farm households (17.97 per cent). They were higher for marginal farms (18.59 per cent) and lower for small farms (15.23 per cent) than the other two landholding categories. Contrary to our expectation, the exceptionally lower explicit interest rates for informal lending sector as compared to the formal lending institutions were observed. This may be attributed to the mixing up of interest and without interest loans together.

5.2.14 Recommendation for lending Institutions

The borrowers were asked to reveal their preference for various lending agencies to be recommended to other households. Their responses are converted into a index of recommendation which ranges from 1 (best borrower perception, maximum recommendation) to 5 (worst borrower perception, minimum recommendation). The results of this exercise are given in Table 5.25, part a and b.

A cursory glance at the part a of the Table reflects that the value of index for commercial-banks, cooperatives and informal lenders is higher at 1.25, 1.09 and 1.83 for non-microfinance village as compared to 1.20, 1.08 and 1.50 for microfinance village, respectively. The lower value of indices in both the villages for commercial banks and cooperatives as compared to the informal lenders indicates the borrower's preference for formal credit institutions. Among the formal credit institutions, the lower index for cooperatives in both the villages signals the borrower's preference for it rather than commercial banks and SHGs for recommendation to other households. However, the preference for SHGs over the informal lenders in microfinance village is being indicated by the borrowers. To conclude, cooperatives were the most favoured source of credit followed by commercial banks, and SHGs. The informal lending agencies were the least preferred by the borrowers to be recommended to other households for borrowing.

With regard to various landholding categories, except small farmers, the households from all landholding categories seem to have best borrower perception and therefore maximum recommendation for the commercial banks. However, the value of index was observed to be 1.33, 1.08, 1.00 and 1.07 for landless, marginal, small, medium and large farmers, respectively, indicating the higher preference of

Table 5.25: Indices of Recommendation For Lending Institutions by Borrower to Others Across Village Type/Borrower's Landholding Status

Part a Source of loan	Village type			
	Villages w/o Micro-finance	N Max=25	Villages with micro-finance	N Max=25
1. Commercial banks & RRBs [bankrem]	1.25	2	1.20	5
2. Coops(PACS & LDBs) [cooprem]	1.09	22	1.08	6
3. Informal lenders [inforrem]	1.83	3	1.50	3
4. SHGs [shgrem]	-	0	1.44	16
5. NBFCs [nbfcrem]	-	0	-	0
6. Chit Funds [chitrem]	3.67	3	-	0
7. Total formal [forrem]	1.34	22	1.63	23
8. Total informal [nforrem]	3.10	5	1.50	3

Part b Source of loan	Borrower's landholding status							
	Landless	N Max=11	Marginal	N Max=21	Small	N Max=9	Medium & Large	N Max=9
1. Commercial banks & RRBs [bankrem]	1.00	1	1.00	3	2.00	2	0.50	1
2. Coops(PACS & LDBs) [cooprem]	1.33	3	1.08	12	1.00	6	1.07	7
3. Informal lenders [inforrem]	0.83	3	3.00	2	-	0	1.50	1
4. SHGs [shgrem]	0.75	2	1.94	8	1.00	3	1.00	3
5. NBFCs [nbfcrem]	-	0	-	0	-	0	-	0
6. Chit Funds [chitrem]	4.00	1	-	0	-	0	3.50	2
7. Total formal [forrem]	1.25	6	1.71	21	1.33	9	1.28	9
8. Total informal [nforrem]	1.83	3	3.00	2	-	0	2.83	3

Note: The variables BANKREM, COOPREM, etc. are the simple averages of two indices [namely recommending a source to the friend (brt), source for which guarantee can be given (brec), each of which varies from 1 in case of best borrower perception to 5 in case of worst borrower perception. Obviously, the average indices reported here assume fractional values between (1,5).

the upper two larger landholding categories for cooperatives than the lower two landholding categories. All the landholding categories, except the marginal farmers, would like to recommend the SHGs to other households for borrowing. On the whole, sample households would prefer to recommend the formal lending institutions to other households rather than the informal lending agencies.

5.2.15 Preference for Leaving / Joining the Lending Institutions

In the previous sub-sections we had discussed the borrower's ratings of various lending institutions and their preference for recommendation to other households for borrowings. The present sub-section aims to discuss the borrowers own preferences regarding their attitude towards the various lending institutions based on their past experience and their preferences for other lending institutions, if they wish to move away from their current credit sources. The sample household responses are arranged in a matrix form and are presented in Table 5.26.

Table 5.26: Frequency Distribution of Borrowers who Want to Leave Specific Lending Institutions and the Pattern of Their Shift to the Other institutions

Shift Leave	Bank	Coop	Informal	Shop	SHG	NBFC	CHIT	Total
Bank	- (0.00)	11 (84.62)	0 (0.00)	0 (0.00)	2 (15.38)	0 (0.00)	0 (0.00)	13
Coop	1 (100.00)	-	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	1
Informal	2 (28.57)	5 (71.43)	-	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	7
Shop	0 (0.00)	1 (50.00)	1 (50.00)	-	0 (0.00)	0 (0.00)	0 (0.00)	2
Shg	6 (100.00)	0 (0.00)	0 (0.00)	0 (0.00)	-	0 (0.00)	0 (0.00)	6
Nbfc	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	-	0 (0.00)	
Chit	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	-	

Note: Figures in parentheses represent percentage phases of row totals.

The Table 5.26 shows that out of 50 sample households, 13 households would like to move away from commercial banks and RRBs and maximum of them (11 households) would like to join the cooperatives and rest two of them would like to shift to SHGs for their future credit requirements. Only one household seems to be not happy with cooperatives and would like to shift to commercial banks and RRBs. In a

similar way, as many as 17 clients of informal lenders wanted to shift away from them, five of them want to join cooperatives and remaining two have shown their preference for commercial banks. The two customers of shopkeeper-lenders want to leave them. One of them want to shift to cooperatives and another one want to shift to informal lenders. It is surprising to note that as many as 6 clients of SHGs have shown preference for leaving the SHGs and all of them want to shift to commercial banks and RRBs. To conclude, maximum number of households have shown preference to shift to cooperatives followed by commercial banks and SHGs. On the other hand, maximum number of households wish to shift away from commercial banks followed by informal lenders and SHGs. The reasons for their attitude are discussed in the following sub-section.

5.2.16 Reasons for Shifting Preference

The index of average importance of various reasons behind shifting preference of borrower from their current lending institutions varies between 0 (in case of least cited reasons) and 1 (in case of maximum cited reasons). As can be noticed from Table 5.27, the possible reasons which are expected to affect the borrower's shifting preference are high interest charged (INTER), complicated procedures (COMPLI), non-availability of loans for stipulated purposes (PURD), insufficient quantity of loan given/offered and other terms and conditions (TERMS, OTHER).

Table 5.27: Index of Average Importance of Various Reasons behind Shifting Preference of Borrowers from their Current Lending Institutions by Village Type and Borrower's Landholding Status

Part a Source of Loan	Village type	
	Villages w/o micro-finance	Villages with micro-finance
INTER	0.64	0.43
COMPLI	0.73	0.29
PURP	0.41	0.21
INSUF	0.45	0.36
TERMS	0.41	0.00
OTHERS	0.09	0.29

Part b Source of loan	Borrower's landholding status			
	Landless	Marginal	Small	Medium & Large
INTER	0.33	0.80	0.40	0.43
COMPLI	0.33	0.60	0.60	0.71
PURP	0.22	0.40	0.20	0.43
INSUF	0.33	0.40	0.40	0.57
TERMS	0.22	0.40	0.00	0.14
OTHERS	0.11	0.20	0.00	0.29

Note: Variables INTER, COMPLIetc. vary between 0 (in case of least cited reason) and 1 (in case of maximum cited reason).

A close look at the part b of Table 5.27 reveals that the most important reasons cited by the different landholding categories are the same as identified in the two study villages. To repeat, they are high interest rates, complicated procedures, non-availability of loans for stipulated purposes and insufficient quantity of loan given/offered. Deep thinking in respect of these most cited reasons on the part of the various lending institutions may be essential, if they wish to reform their credit practices/procedures to retain their client base.

CHAPTER-VI

SUMMARY AND CONCLUSIONS

6.1 Background and Objectives

6.1.1 Background

India has made rapid strides in agricultural sector over the past three decades, giving rise to self-sufficiency and surplus in food production. However, the problems of ever increasing population pressure on land and prevalence of mass poverty in rural areas have greatly affected the future prospects of Indian agriculture.

The prevalence of mass poverty in rural areas is mainly attributed to the backwardness of agriculture which is largely traced to the pre-dominance of small and marginal farmers and their continuous marginalisation over the years. The problems of small and marginal farmers vary from area to area. But, one of the major and common problems is the credit flow to them, which has immensely hindered the economic development of small and marginal farmers. Therefore, the major thrust of the present investigation is on evaluating the credit flow problems of small and marginal farmers with a view to assess their credit needs and find out ways and means to provide easy, and cheap credit to them from various rural lending institutions so that they are better prepared to share the responsibility of enhancing farm production in the country. The rural lending institutions not only encompass traditional formal sector credit organisations but also new generation credit organisations operating in the state of Maharashtra. Although the study is focussed upon marginal and small farmers, it also analyses the credit flow to landless, medium and large categories of farmers with a view to present a comparative position of these borrowers with respect to various qualitative and quantitative parameters taken into consideration for probing their credit experiences.

6.1.2 Objectives of the Study

The specific objectives of the study are as follows

1. To review the credit experiences of traditional financial institutions with respect to the vulnerable sections of the farming community (i.e. small and marginal farmer households and labour households) based on the existing and available documents in the country.

2. To document through case studies the innovative credit experiments of new generation rural financial institutions, especially in private and cooperative sectors in India, with respect to the same target group.
3. To identify and analyse the existing credit flow gaps and the reasons thereof for the same target group; and
4. To suggest measures at both economic policy level and enterprise level to ensure smooth flow of credit on sustainable basis to this group.

6.2 Methodology:

Multistage stratified random sampling procedure was adopted for the selection of districts, villages and sampled households. In order to evaluate the extent of credit flow to marginal and small farmers by various lending institutions, the present study was conducted in Kolhapur and Pune districts of Maharashtra. These two districts were noticed to be true representative of traditional and new generation lending institutions. Pune district was seen to be having simultaneous functioning of both traditional and new generation lending institutions. On the other hand, Kolhapur district was seen to be predominated mainly by traditional lending institutions. From each of the selected districts, one medium size village was selected. Nonetheless, efforts were made to select those villages which had maximum number of lending institutions. While the selected village from Kolhapur district encompassed three traditional lending institutions, the village selected from Pune district was seen to comprise of one traditional and three new generation lending institutions such as SHGs. All these seven lending institutions were selected for the present investigation.

A list of households along with their landholding size was obtained from the selected villages of two sampled districts. The households were then categorized as landless (no land), marginal (upto 1 ha), small (1-2 ha), medium and above (2 ha and above) based on their landholding size. It was decided to select 25 households from each of the selected villages from the two sampled districts. Further, the selection of sampled households was done using probability proportion to landholding size (PPS) technique. However, the PPS technique was applied only to 15 members belonging to marginal and small categories as it was pre-decided to select 5 households from landless and another 5 from medium and above categories. In all, the study covered 50 households with 25 households from each sampled district.

The study is based on both secondary and primary data. The secondary data were collected from various official records and published sources. On the other hand, primary data were collected through personal interview method. However, primary data collection encompassed five different stages. The first stage of primary data collection not only included enumeration of sampled households but also selection of households based on their landholding size. The second stage encompassed collection of information on the profile of sampled villages with respect to their characteristics/features. The third stage of primary data encompassed collection of information relating to profile of institutional lenders located in the sampled villages. The fourth stage of primary data included collection of general household information. In the fifth stage, information were collected on those aspects such as borrower's credit needs, utilization of credit, transaction cost of borrowers, etc.

Information on various aspects under stage III were collected for the period 1995/96 – 1999/2000. On the other hand, majority of the information on various aspects under stage IV and V were collected for the reference year 1999-2000.

6.3 Rural Credit Scenario of Maharashtra

An evaluation of rural credit scenario revealed much higher credit plan outlay for priority sectors such as agriculture and allied activities with activities relating to small scale industries and non-farm sectors showing the least allocation in this total credit plan outlay for the state of Maharashtra. This held also true in the case of sampled districts of Kolhapur and Pune. However, the proportionate allocations in total credit plan outlay were much higher for Pune as compared to Kolhapur district. Interestingly, crop loans accounted for nearly two-thirds share in total credit plan outlay for agriculture and allied activities. The study has also made an attempt to provide an insight into the estimates relating to potential linked credit plan (PLCP) outlays encompassing various sectors/activities for different districts and regions of Maharashtra. Among various regions, western Maharashtra showed about 50 per cent share in total PLCP outlay for the state of Maharashtra. This region also included the sampled districts for investigation. The next important regions were Marathwada and Vidarbha, each accounting for 20 per cent share in state's total PLCP outlay. The allocation for Konkan region in state's total PLCP outlay was the least. The study also showed significant growth in the number of SHGs linked with bank credit. In the state of Maharashtra, the strength of SHGs linked with bank credit is seen to have grown

from as low as 424 as on March 1997 to as high as 11,148 as on June 2001. The district that has shown phenomenal growth in the numerical strength of SHGs linked with bank credit is seen to be Chandrapur. Yavatmal, Pune and Nanded districts of Maharashtra have also shown significant increases in the numerical strength of SHGs. Now, as for the state of Maharashtra, the NABARD has drawn a medium term strategic plan to ensure linkage of at least 55,000 SHGs with bank credit by the end of 2004. In the present milieu, 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.

6.4 Profile of Sampled Villages and Financial Institutions

6.4.1 Profile of Sampled Villages:

The selected villages of this investigation differed considerably in their characteristics/features. The village with traditional lending institutions not only had very high proportion of land under agriculture with assured irrigation facilities but also seen to be marked with higher concentration of bovine heads and closer location of most of the infrastructure facilities. Contrary to this, the village with traditional and new generation lending institutions showed considerable proportion of fallow and waste land with inadequate irrigation facilities, besides showing higher proportion of female population working as agricultural and non-agricultural wage labor, and also distant location of majority of the infrastructure facilities. Nevertheless, both the selected villages were seen to have predominance of upper caste with high rate of literacy. The village with both traditional and new generation lending institutions showed higher rate of literacy with relatively higher predominance of upper caste. Thus, the village with traditional as well as new generation lending institutions was reckoned as weak so far as the irrigation status, land use pattern, infrastructure facilities, and concentration of bovine heads were concerned.

6.4.2 Features of Traditional Lending Institutions:

The traditional lending institutions operating in the sampled village of Kolhapur district showed higher rate of recovery on loan advances as compared to the traditional lending institution operating in the sampled village of Pune district. Further, although crop loans were seen to account for the major share in total loan advances of the traditional lending institutions operating under the umbrella of

DCCBs - both in Kolhapur and Pune districts all through the period between 1995-96 and 1999-2000, this period, especially the more recent one, was also found to be marked with loan advances for more diversified activities such as construction of house, brick industry, purchase of vehicles, gohar gas, marriage, etc. On the other hand, the traditional lending institutions engaged in loan advances for non-agricultural purposes used various kinds of collateral securities, which encompassed loan against salary, guarantors, fixed deposits, movable and immovable property, recurring deposits, and mortgage of vehicles. Nonetheless, important among these securities were loan against guarantors, movable property and cash credit as 75-80 per cent loans were extended against them. The traditional lending institution operating in both Kolhapur and Pune districts also showed faster rate of increase in their loan advances as compared to increase in their numerical strength of borrowers during the given period of time. Timely repayment of loan and simple documentation were noticed to be the major causative factors responsible for the success of various types of loans extended by the traditional lending institutions operating in both Kolhapur and Pune districts. Further, the traditional lending institutions operating in both Kolhapur and Pune districts were noticed to face major competition from commercial banks, self-help groups and to some extent from various voluntary agencies.

6.4.3 Features of New Generation Lending Institutions:

The new generation lending institutions encompassing various SHGs evaluated in this investigation not only showed high rate of recovery on loan advances but also very high share of loan advances for agricultural purposes, and also for animal husbandry operations. This was despite very high rate of interest (24-36 per cent per annum) involved on their loan advances. These SHGs also showed very high percentage (75-80 per cent) of their borrowers belonging to marginal category. In general, the membership of these SHGs was seen to be restricted to landless, marginal and small category of farmers. The loan advances of SHGs encompassed not only various agricultural, off-farm and non-farm activities but also some of the consumption activities. In general, various agricultural, off-farm and non-farm activities put together accounted for about 75 per cent share in total loan advances of the selected SHGs. The share of consumption activities in total loan advances of the selected SHGs was noticed to be the remaining 25 per cent. As regards the perception of SHGs about their loan product, majority of them favored their loans for agricultural

and consumption purposes mainly because of their simple documentation and timely repayment of loan. These loans were also reported to have high growth potential with higher profit profile. In general, commercial banks and credit cooperatives were alleged to be the major competitors of SHGs with least competition being faced by them from rural money lenders and to certain extent from non-bank finance companies.

6.4.4 Organizational and Functional Differences between Traditional and New Generation Lending Institutions:

Major differences between traditional and new generation lending institutions were noticed in terms of their membership pattern, interest rate structure, period of loan advances, distribution of loan for various purposes, and rates of recovery on loan advances. Despite excessively high rates of interest, the SHGs evaluated in this investigation showed cent per cent recovery on loan advances all through the period between 1995-96 and 1999-2000. Further, while there was no lower or upper limit for the membership of traditional lending institutions, the membership of SHGs turned out to be restricted to 10-20. Not only this, the membership of SHGs was noticed to be restricted to specific category of borrowers, which mainly included weaker sections of rural population such as landless, marginal and small categories of borrowers with marginal category showing much higher representation not only in their total membership but also in their total loan advances for various purposes. Added to this, the loan advances of SHGs for various purposes were seen to be limited to a maximum period of one year. The only similarity between traditional and new generation lending institutions was in terms of their purpose-wise distribution of loan. Both traditional and new generation lending institutions showed very high share of their total loan advances for agricultural and to some extent for off-farm activities such as animal husbandry operations. As regards loan products, majority of lending institutions, whether traditional or new generation, favored their loan advances for agricultural, off-farm, non-farm and consumption activities mainly because of their simple documentation and timely repayment. In general, voluntary agencies and commercial banks posed major competition to traditional lending institutions and credit cooperatives and commercial banks to new generation lending institutions.

6.5 Borrower Survey Results:

6.5.1 Characteristics of Respondents:

The two study villages have represented two distinct production environments which is clearly reflected in salient features of selected households. The literacy levels of males from non-microfinance village are better, while there are no differences in the literacy levels of females from both the villages. The respondents from the traditional non-microfinance village seem to have smaller family size but have larger size of working age and actual working population. Moreover, the village has higher proportion of population dependent on agriculture. However, the higher proportion of working age members were mainly engaged in trade and services in the village having microfinance organisations. The households from non-microfinance village were having better access to energy sources, better furniture and they preferred investment in gold as well as in bonds. They were also having familiarity with important village level personnel and organisations. The other attributes such as use of modern implements, number of milch animals and annual expenditure on purchased inputs are strongest for the borrower households from the traditional village without microfinance organisations. The households from this village also tend to purchase higher proportion of their inputs on credit and are used to adjust it against the sale of their farm output. In addition to this, the annual per head income, share of income from agriculture and allied activities as well as the expenditure figures are higher for the average households from this non-microfinance village. However, the labour income and the income from trade and services are relatively higher for the households from microfinance village reflecting the availability of better opportunities for labour employment and trade related services.

The analysis across the different farm size categories revealed that the size of landholding had a major influence on the socio-economic condition of the borrower households. In terms of literacy, landless households seem to be less educated than the households from other three farm size categories. The average family size and size of working age population has a tendency to increase with the increase in the size of holding. Similarly, the quality of housing as well as its value was also directly related to the size of landholding. Larger farm households preferred investment in gold and bonds than the households belonging to other farm size categories. The larger farm households also seem to have better networking power as compared to

other farm size households. The use of improved implements increased with increase in farm size. The cropping intensity was highest on marginal farm having highest per cent of area under irrigation and was observed to be lowest on medium and large farms having lowest percent of area under irrigation. The population of milch animals was found to be the highest on medium and large farms. The proportion of area under food crops was inversely related to the size of landholding while the proportion of area under cash crops was directly related to the size of landholding. As expected, the major share of income of large farm households came from agriculture and allied activities. The share of labour income was observed to be negatively related to the size of landholding.

6.5.2 Credit Experiences of Sample Households

All the Sample households, except the landless sample households, have access at least to formal sources of credit. However, 36 per cent of landless households are still dependant only on informal sources. In terms of providing access to credit to maximum number of households, cooperative sector is still a dominant force. Cooperatives are also the largest suppliers of credit with 65.20 per cent and 38.19 per cent shares in all loans in non-microfinance and micro-finance villages, respectively. On the other hand, commercial banks have accounted for 21.58 per cent and 19.24 per cent shares in all loans in non-microfinance and microfinance villages. The combined percentage share of commercial banks and cooperatives in all loans is the highest for small farms (94.48 per cent), followed by marginal farms (93.60 per cent), medium and large farms (78.23 per cent) and landless households (67.71 per cent) reflecting their bias in favour of farmer households.

While no consumption loans were available from commercial banks and cooperatives in microfinance village, households from non-microfinance village utilised maximum loans from these sources for their consumption. Only informal lenders and SHGs are seen to provide consumption loans in microfinance village. The size of consumption loan was larger in non-microfinance village, may be due to their better economic condition. Landless households are seen to deal with more number of credit sources than others for their consumption loan and the quantum of their consumption loan seems to be the highest than production and human capital loans.

Cooperatives are seen to be the dominant source of credit for the production purposes in both the villages followed by commercial banks, SHGs and informal agencies. Non-micro-finance village is seen to utilize several times more production loan as compared to microfinance village. The annual production loan is noticed to have increased with the increase in the size of landholding reflecting a bias towards larger landholding categories.

Similar to consumption and production loan, the amount borrowed by the non-microfinance village for human capital is also noticed to be several times higher than the microfinance village. Non-microfinance village depend on commercial banks, cooperatives and chit funds while informal lenders and SHGs are the only sources of human capital loans in microfinance village. The landless households are noticed to be completely dependent on informal lenders, while small farmers on SHGs and medium and large farmers on chit funds for their human capital investment needs. The number of borrowers of human capital loan are noticed to be less than the number of borrowers of consumption and production loans. Expectedly, large farmers (medium and large) have borrowed more amounts as compared to other landholding categories for human capital investments.

There is complete absence of default of credit (except informal lenders and SHGs in microfinance village) in both the villages setting an immutable example to others. However, the rate of default in microfinance village for informal lenders and SHGs was observed to be 25 per cent and 6.25 per cent, respectively. In addition to this, the default rate decreases with increase in the size of landholding. The rate of default for landless households is 20 per cent and it is 12.50 per cent for SHGs for marginal farms in microfinance village. The system of credit assessment and monitoring adopted by commercial banks and cooperatives in these villages may be further studied with an objective of its adaptation in places where default is a serious problem.

Borrowers experience with cooperatives is longest with 28.67 years and 19.48 years in microfinance and non-microfinance villages, respectively. This is followed by commercial banks, informal lenders, SHGs and chit funds. The longer credit experience of households with formal credit institutions such as commercial banks and cooperatives may have led to better repayment of credit. Further, overwhelming majority of the borrowers ranging from 53.33 per cent to 87.50 per cent are noticed to

be comfortable with various lending institutions. However, majority of the households seem to be not very comfortable with the chit funds operating in their village. The comfort level seems to be intimately linked with the length of experience of the borrower with respective lending institutions. The commercial banks, cooperatives and SHGs provide more comfortable working environment to their clients, thereby, retaining them for a longer periods.

Borrowers from both the villages have indicated that they have the perfect flexibility of rescheduling of loans from both formal as well as informal lending institutions. Their responses do not change even across the different landholding categories. The perfect flexibility enjoyed by the households from these villages may have helped them in building such as excellent relationship with the various lending institutions operating in the village which may have resulted in very less or almost no problem of default, which is serious threat looming large over the rural credit system in many other parts of the country.

The transactions cost of credit from commercial banks was highest of 3 per cent and 2 per cent of the loans taken by borrowers from non-microfinance and microfinance village, respectively. It was one per cent for cooperatives in non-microfinance village. Similarly, the total transaction cost of informal credit was also high in microfinance village. This indicates the relatively economical access to credit in the microfinance village. The transaction cost of credit for commercial banks and cooperatives was highest at 6 and 2 per cent, respectively, for landless households as compared to a very low cost to other landholding categories. This shows a marked bias in favour of large landholding categories in providing the cheapest access to credit. The only exception to this was the transaction cost of loans from SHGs where it was one per cent for landless and two per cent for large farm category.

It has been observed from the mode of interest collection (whether upfront or later) across the different landholding categories in both the villages that most of lending organisations collect the interest later. This indicates that the existing credit markets are working fairly good and seem to be less exploitative in nature.

Commercial banks and cooperatives require 37.50 days and 31.04 days, respectively, to process the loan in non-microfinance village. The same figures for microfinance village were 6 days and 21.50 days. The large number of days taken to process the loan by these formal lending institutions may be due to their handling of

large volume of credit and clients or their less efficiency in processing the loan or both the reasons. Informal lenders require about 9-10 days and SHGs about 13 days to do the same job. The results are mixed with respect to various landholding categories.

The higher credit gap to the extent of about 18-21 per cent existed in micro-finance village as compared to about 5-13 per cent in non-microfinance village. Thus, the households from traditional non-microfinance village seem to be better off as far as the shortfall in credit is concerned. The shortfall in credit is shown by all the landholding categories. However, the shortfall in credit formal sector is observed to be the highest for the landless households and lowest for medium and large farmers, reflecting again a bias in favour of largest landholding category.

Personal guarantee and tangible collateral are the major collateral used by the traditional lending agencies. For new generation lending institutions, personal guarantee, group insurance and interlinked input purchase are the major instruments. The informal lending agencies depend on few type of collateral than the formal lending institutions.

The overall explicit interest rate in non-microfinance village for commercial banks (14.75 per cent) and cooperatives (15.52 per cent) were higher as compared to the microfinance village (11.27 and 13.50 per cent), respectively. However, the same for informal agencies was seen to be higher in non-microfinance village. The explicit interest rates for formal agencies were almost similar for landless (17.91 per cent) and medium and large farm households (17.97 per cent), while they were higher for marginal farms (18.59 per cent) and lower for small farms (15.23 per cent) than the other two landholding categories. Contrary to our expectations, the exceptionally lower interest rate for informal lending sector as compared to the formal lending institutions were observed which might be attributed to the mixing up of interest and non-interest loans together.

The value of index of recommendation for lending institutions by borrower to other for commercial banks, cooperatives and informal lenders is highest at 1.25, 1.09 and 1.83 for non-microfinance village as compared to 1.2, 1.08 and 1.50 for microfinance village, respectively, reflecting better perception of the borrower about the lending institutions in microfinance village. As per the index, the cooperatives are most favoured source of credit followed by commercial banks and SHGs. The

informal lending agencies were the least preferred by the borrowers to be recommended to other households for borrowing.

Maximum number of households (17) have shown preference to shift to cooperatives followed by commercial banks (9) and SHGs (2). On the other hand, maximum number of households wish to shift away from commercial banks (13) followed by informal lenders (7) and SHGs (6). The most important reasons cited by the borrowers from both the villages for their shifting preference from current lending institutions are high interest rates, complicated procedures, non-availability of loans for stipulated purposes and insufficient quantity of loan given/quantity offered. The same reasons are also cited by the different landholding categories. Deep thinking in respect of these most cited reasons may be essential by the various lending institutions if they wish to reform their credit practices/ procedures to retain their client base.

6.6 Conclusions:

In conclusion, two differing points of view have emerged insofar as the working of traditional and new generation lending institutions are concerned. While new generation lending institutions such as SHGs have shown high rate of recovery despite having high rate of interest on loan advances, the traditional lending institutions such as cooperative and commercial banks are seen to be beset with not only low rate of recovery but also various other deficiencies such as absence of human capital investment and consumption loans, especially for illness, marriage and other contingencies, complicated procedures followed by them in terms of loan advances, their high transaction cost, delay in delivery of credit, etc. This emphasizes upon the need for both formal and informal credit agencies to have simplified loaning procedures with major emphasis on extension of credit facilities to poorer sections of the rural society. In this sequel, efficient use of Kisan Credit Cards, group lending through SHGs, conversion of PACS into group of borrowers with joint responsibility of repayment, etc. could be the other suggestions. Further, in terms of credit facilities, the landless categories of households are seen to be neglected section of the rural society. It is to be noted that size of landholding has major influence on access to credit. Credit facilities through commercial and cooperative banks invariably depend on ownership of land. This adversely affects access to credit to the landless households. It is therefore felt that ownership of land as the criterion for the

distribution of credit may be relaxed and group responsibility may be introduced by formal credit institutions. The task before rural credit institutions should be to identify the poorer groups within the landholding categories with a view to help them to rise above the poverty line by providing them access to credit. Further, despite a vast network of formal and informal credit institutions, cooperatives have still emerged as the dominant force in rural credit markets. However, in order to maintain their status as dominant force in rural credit delivery system, cooperatives need to be restructured and strengthened to meet the emerging challenges.

As for the formal credit institutions, both commercial and cooperative banks are seen to depend on tangible assets as collateral. However, it is felt that this invariably help the well endowed borrowers and adversely affect the poorer sections of the society. This practice, therefore, need to be altered and intangible assets may be considered as collateral. In fact, the major drawback of the working of formal and informal sector credit organisations is the lack of coordination among themselves. The need of the hour is therefore to enhance linkages and coordination among various financial institutions involved in extending credit to rural issues.

POLICY MATRIX

Problems Identified	Action Points	Implementing Agency
1. The shares of Western Maharashtra, Marathwada, Vidarbha and Konkan regions in total Potential Linked Credit Plan (PLCP) outlay of Maharashtra over the past few years are seen to be 50%, 20%, 20% and 10%, respectively, showing very high share of PLCP outlay for Western Maharashtra alone.	Need for increase in PLCP outlay for Marathwada, Vidarbha and Konkan regions.	State Level Banker's Committee, Mumbai; NABARD, Mumbai
2. New Generation Lending Institutions have shown high rate of recovery despite higher rate of interest (24-36 per cent per annum) on loan advances.	Need for cooperative and commercial banks to study the mechanism of new generation lending institutions in terms of their recovery of loan and interest rate structure.	State Level Bankers' Committee, Mumbai; NABARD, Mumbai; State Cooperative Bank, Mumbai
3. Lack of attention being paid by commercial and cooperative banks for loan advances for consumption purposes.	Inclusion of an element of consumption loan and quick disbursement of loan for illness, marriage and other contingencies.	State Cooperative Bank, Mumbai; various commercial Banks of Maharashtra
4. Size of landholding has major influence on access to credit	Adequate attention must be paid to landless households and farmers in terms of credit facilities. The ownership of land as the criterion for the distribution of credit should be relaxed and group responsibility may be introduced by formal credit institutions. Rural credit institutions need to identify the poorer groups within the landholding categories in order to help them to rise above the poverty line by providing access to credit.	Commercial and cooperative banks of Maharashtra; RRBs; NABARD, Mumbai.
5. Less number of livestock owned by landless, small and marginal farm households	Special attention may be paid with respect to provision of credit to landless households and also to small and marginal farmers with a view to enhance their livestock holdings.	All rural financial institutions.

6. Cooperative's as a dominant force in rural credit markers.	In order to maintain their status as a dominant force in rural credit delivery system, cooperatives need to be restructured and strengthened to meet the emerging challenges.	Ministry of Finance; Ministry of Cooperation and Agriculture; Reserve Bank of India
7. Requirement of tangible assets as collateral	Both commercial and cooperative banks require tangible assets as collateral, which invariably help well endowed borrowers leaving aside poorer sections of borrowers. This practice needs to be changed and intangible assets may be considered as collateral.	All commercial and cooperative banks; NABARD, Mumbai.
8. Absence of consumption and human capital investment loans with formal credit institutions resulting in increasing dependence of small and marginal farmers on informal lenders and SHGs.	There is need for reorganization of rural credit delivery system in order to meet the multiple needs of the farmers and landless households.	All rural financial institutions.
9. Delay in delivery of credit, complicated procedures and high transaction costs.	Some of the action point could be; simplification of loaning procedures; preparation of loan documents for 2 to 3 years; efficient use of Kisan Credit Cards; group lending through SHGs; Conversion of PACS into group of borrowers with joint responsibility of repayment.	Cooperative and commercial banks; SHGs; NABARD, Mumbai.
10. Less coordination among various lending institutions working in rural areas	There is need for enhancing linkages and coordination among various financial institution involved in supplying credit to rural masses.	Cooperatives and Commercial banks; SHGs; NABARD, Mumbai.

References

- Dandekar, V. M. and N. Rath, 1971. "Poverty in India: Dimension and Trends", *Economic and Political Weekly*, January 2-9, 1971.
- Desai Bhupat, M and N. V. Namboodiri, 2001. *Organisation and Management of Rural Financial Sector*, Oxford and IBH Publishing Co. Pvt. Ltd. New Delhi.
- Gill, Anita 2000, *Rural Credit Market's: Financial Sector Reforms and the Informal Lenders*, Deep and Deep publications Pvt. Ltd., New Delhi.
- Government of India 2001. *Agricultural Statistics At a Glance. 2001*. Agricultural Statistics Division, Directorate of Economics & Statistics, Department of Agriculture & Cooperation, Ministry of Agriculture, Government of India, New Delhi.
- Kalirajan, K. P., G. Mythili and U. Sankar, 2001. *Accelerating Growth Through Globalization of Indian Agriculture*, Macmillan India Ltd, New Delhi.
- Mahajan, Vijay, 1999: *A Framework for Building Sustainable Rural Financial System (RFS) for India*, Paper presented at National Symposium on "Building and Managing Organisation for Rural Development in the New Millenium", held at Institute of Rural Management, Anand, December 13-14, 1999.
- Minhas, B. S. 1974. *Rural Poverty, Land Distribution and Development Strategy: Policy, Poverty and Income Distribution in India*, Srinivasan and Bardhan (eds), Statistical Publishing Society, Calcutta.
- Mishra, B; G. C. Kar, and S. N. Misra, 2002, *Agro-Industries and Economic Development: A Vision for the 21st Century*, Deep & Deep Publications Pvt. Ltd; New Delhi.
- National Bank for Agriculture and Rural Development (NABARD) (1995), *Report of the working Group on Non-Government Organisations and Self Help Groups: Mumbai*

**ANNEXURE I: COMMENTS ON DRAFT REPORT BY DESIGNATED CENTRE
FOR MANAGEMENT IN AGRICULTURE**

**TITLE OF THE STUDY: FLOW OF CREDIT TO SMALL AND MARGINAL FARMERS
IN MAHARASHTRA**

AUTHORS: K.G. KSHIRSAGAR and DEEPAK SHAH

**ORGANIZATION: AGRO-ECONOMIC RESEARCH CENTRE, GOKHALE INSTITUTE
OF POLITICS AND ECONOMICS, PUNE**

SUBMISSION OF REPORT FOR COMMENTS: JULY 2002

DATE OF RECEIPT OF COMMENTS: 10 – 3 – 2003

1. COMMENTS ON INTRODUCTION:

Chapter 1 gives the Introduction to the study. The chapter is well written and places the problem in proper perspective. The data given in Table 1.1 is useful and relevant.

2. COMMENTS ON METHODOLOGY:

Chapter 2 details the methodology. A look at the way in which samples were drawn for the study, it appears that there was a deviation from the methodology that was suggested by IIMA (page 8-10). The methodology had suggested doing an enumeration of the entire village from those select borrowers for the sample. However, in the case of Maharashtra study the sample seems to have been drawn from borrowers of the existing institutions in the area – and at least in one village from the borrowers of only one institution. This sampling plan may not capture the experiences of the small and marginal farmers in general, but only those who have been borrowing from formal institutions. Therefore the data may be biased in favour of those who have been at some point clients of the formal institutions. This is a significant issue that needs to be looked into. However, on page 11 the report indicates that the households selection were done on the basis of enumeration and the respondents encompassed the other borrowers. These two parts of the chapter seem to be contradicting each other. So, it would be better to state exactly how the sample was selected and if any bias mentioned above was seen or not.

3. COMMENTS ON CHAPTER 3:

Chapter 3 deals with the rural credit scenario of Maharashtra. The chapter is very apt and focussed on the scenario in Maharashtra with special emphasis on the districts from where the data were collected. This helps in putting the environment for rural credit in perspective. The authors should be commended for being focussed and precise.

4. COMMENTS ON CHAPTER 4:

Chapter 4 deals with the profile of the sample villages and the financial institutions. The chapter is well written and captures the major features of the sample villages and the financial institutions existing in the area. However, it would have been better to divide this chapter into two parts – first the features of sample villages, which could have been followed by the chapter on results of field surveys and then the profiling of the financial institutions could have done in a different chapter. This would help the readability of the report to a great extent.

5. COMMENTS ON CHAPTER 5:

Chapter 5 discusses the results of the field survey. The field survey has interesting findings – some of which include the difference between the villages with and without microfinance. It is evident (p 60) that villages without microfinance have a greater dependence on informal credit. The inference could be that microfinance is filling in the space that was formally occupied by informal credit. However, this needs to be examined more closely. But the more startling finding is that even microfinance does not really reach out to landless category, thereby opening up the question of how to serve this huge unserved market. Also the finding that the default rates in the non-microfinance village are lower (zero) than the microfinance village is an interesting finding (p 70). It would have been interesting if this factor was probed further to draw out lessons for other institutions. The study also makes an important observation about transaction costs being lower in microfinance village (p 77). This finding is not counter-intuitive. Similarly the other findings pertaining to access preference and other factors are very useful. The team has to be complimented for doing an excellent job on data gathering and appropriate analysis and presentation.

6. COMMENTS ON CHAPTER 6 AND GENERAL OBSERVATIONS:

Chapter 6 presents the summery and conclusions. The chapter captures the gist of the report. However, there could have been more concrete recommendations as a result of such a good study. The policy matrix listed in p 103 and 104 is certainly useful.

Over and above what is contained in the report, it would have been useful to undertake a couple of case studies on the lending institutions, particularly in the village where the default is zero could have enriched the current study. We hope that this experience can be captured at some date and shared with the other interested centres.

I am quite happy to have read the report and I have no hesitation in saying that the work is of good quality.

**ANNEXURE II : ACTION TAKEN BY AUTHORS ON THE COMMENTS OF THE
DESIGNATED CENTRE FOR THE STUDY ENTITLED "FLOW OF
CREDIT TO SMALL AND MARGINAL FARMERS IN
MAHARASHTRA"**

The authors are thankful to the reviewer for the keen interest taken and the suggestions extended by him. The suggestions have been taken care of at length and replies to these comments are given as follows:

1. Since Chapter 1 does not require any revision, no action is taken on this chapter. However, we must thank the reviewer for his positive comments on this chapter.
2. The methodology provided in Chapter 2 is as per the common study design suggested by the coordinating centre (IIMA) and there is no deviation in this respect. The sample households have been drawn from the entire villages of the sample districts and not from a particular society as stated earlier. The contradiction in statements have been removed and appropriate changes have been made. However, it is to be noted that in the sample villages of both the districts majority of the households were members of 2-3 societies within the village. The information relating to landholding size-wise distribution of all the households of the sampled villages of Kolhapur and Pune districts have now been interwoven in this chapter.
3. We must also thank the reviewer for giving compliments to us in writing Chapter 3, which is stated to have precisely focussed the rural credit scenario of Maharashtra.
4. We must once again thank the reviewer for praising us in writing Chapter 4, which is stated to be well written and captures the major features of the sample villages and the financial institutions existing in area. However, one of the suggestions of the reviewer on this chapter is to divide this chapter into two parts, i.e., first highlighting the features of sample villages in this chapter and then providing the profile of the financial institutions in the chapter on field survey. In doing so, the whole manuscript / draft will be disturbed. In fact, the information relating to broad features of sampled villages and lending institutions provided in this chapter are as per our earlier discussion.
5. As stated by the reviewer, Chapter 5 on field survey provides interesting findings / observations. The reviewer has once again extended compliments to us for data gathering and appropriate analysis and presentation of results. We must thank the reviewer for the compliments.
6. The recommendations provided in Chapter 6 on 'Summary and Conclusions' are adequate.

Finally, the reviewer has suggested us to undertake a few case studies at some date on the lending institutions, particularly in the village where the default is zero and share the experience with the interested centres. Such studies will certainly be undertaken in future as a separate project.

April 30, 2003

K.G. Kshirsagar
Deepak Shah