

An Economic Evaluation of Agricultural Financial Institutions in Maharashtra

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This study attempts to evaluate the functioning of various rural financial institutions operating in the State of Maharashtra with major focus on the working of Credit Co-operatives, Commercial Banks, Regional Rural Banks (RRBs), Land Development Banks (LDBs) and Self-Help Groups (SHGs) extending finances to rural poor. The study shows slower growth in institutional finance through RFLs in Maharashtra during the decade of 1991-2000. The reason for slower growth in institutional finance is assigned to adverse environment created by the financial sector reforms. Mounting NPAs, high transaction cost and poor repayment performance are cited as the root causes of moribund state of rural credit delivery system in Maharashtra. Further, the study shows deterioration in financial health of credit co-operatives in the forward region and gross inefficiency in their functioning in the backward region of Maharashtra, which in turn is due to mounting NPAs of these financial institutions during the decade of 1990s. With a view to rejuvenate the entire rural credit delivery system of Maharashtra, the study categorically emphasizes upon the need to tackle the problems facing system, viz., mounting NPAs, high transaction cost and poor repayment performance, with emphasis on recovery of loans from large category of willful defaults. The study comes out with several strategies to overcome the moribund state of rural credit delivery system of Maharashtra, which not only encompass issues relating to sustainability and viability, operational efficiency, recovery performance and small farmer coverage but also balanced sectoral development.

Introduction

Farmers in India often lack capital for investment in agriculture, and depend on moneylenders for loans at adverse terms. The problem gets worse when farmers wish to take advantage of high yielding seed technology and absorb newer methods of scientific farming which require capital. The adequacy and timely availability of formal credit, therefore, have always played a crucial role in technological change and in realising higher productivity.

In general, commercial banks (CBs), Regional Rural Banks (RRBs) and Cooperatives are the main rural financial institutions that provide credit to the agricultural sector at the village level. The co-operatives account for 44 per cent share in the rural credit flow for agriculture and 31 per cent in rural deposits in terms of network, coverage and outreach (Gulati and Bathla, 2002). The statistics reported by Shivamaggi (2000) also reveal 45 per cent share of cooperatives in total rural credit. The remaining

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