

CHAPTER - VI

LOAN PROFILE

The access to institutional credit at the grassroot level depends on a number of factors such as borrower's ability to offer security, his/her credibility, the purpose of loan, and the presence and efficiency of the grass root agency which delivers credit. Most of these conditions are waived in respect of the supply-oriented credit provided by the institutional agencies under the poverty alleviation programmes. It cannot, however, be denied that as compared to formal credit, access to the informal credit is much easier and its supply though, at a higher cost, is prompt and free from procedural delays. A significant porportion of the demand oriented credit in developing countries is supplied by the informal sector. According to the All India Debt and Investment Survey (1981), about 37 percent of the borrowings of cultivators in India came from non-institutional sources. The scope of this study is, however, limited to the analysis of the impact of institutional credit.

One of the reasons for not including informal credit in the scope of our study is that it is used, irrespective of the declared purpose of the loan, either wholly or predominantly, for consumption purposes. Hence, it is extremely difficult to arrive at the exact porportion of loan used for productive purposes and measure the economic impact resulting from it. Though leakages

cannot be ruled out even in case of institutional credit as some proportion of the institutional credit is also diverted for consumption, the ratio is much lower compared to informal credit. Further, unlike the formal credit system, the source, cost, and term of credit in the informal sector are subject to large variations and frequent small doses of credit may be obtained by the borrower as per need. All this makes it difficult to determine as to what exact volume of credit has brought about a given level of improvement in the borrower's economic status in a given time frame.

It is actually the formal credit which aims at 'development through credit' and most of it, including credit provided even under the priority sector and PAPS, is used for productive purposes. The assesment of the impact of credit on the borrower is needed not only to reflect on the efficacy of the present credit policy, but also to help in formulating the future lending strategies. In view of these cosiderations only the formal loans were considered for assesing the impact of credit on the borrowers in the area of our study.

The main suppliers of insitutional credit to the rural sector at the grass root level are the rural branches of commercial banks, primary agricultural credit societies (PACS), regional rural banks (RRBs), and primary agriculture and rural development banks. These institutions provide productive loans for a wide variety of purposes, a high proportion of which is devoted to enhancing agricultural production. The co-operative

institutions specialise in providing different types of loans. The primary agricultural credit societies (PACS) provide short-term (Crop) loans and the agricultural and rural development banks provide only medium- and long-term loans. On the other hand, the commercial banks and RRBs provide all types of loans from a single window.

The agricultural advances provided by the commercial banks can be classified as direct and indirect. The direct advances are those provided directly to the farmers and the indirect advances are granted to agencies engaged in the supply of inputs and services to the farm sector. The direct advances can be further classified as short-term, medium-term and long-term advances depending upon their repayment period.

The short-term loans are popularly known as crop loans. These loans are provided to the farmers for meeting the cultivation expenses, viz. purchase of inputs like seeds, fertilizers and pesticides, payment of wages to hired labour, irrigation charges, and meeting expenses for the processing and marketing of crops. The size of the crop loan depends on the scale of finance fixed per acre, per crop. Thus, the crop loan system provides a mechanism for linking credit with production expenses. The crop loans are usually recovered immediately after the harvesting of the crop and the maximum period of loan normally does not exceed 12 months, except in the case of crops where the maturity period is about 18 to 21 months. The loan is to be repaid in one single instalment from the sales proceeds of the crops.

Term loans, also known as investment loans are generally granted for development purposes. There are various categories of such loans. Firstly, medium-term loans given for maintenance or replacement of existing production assets viz. repair of wells, farm houses, etc. Their tenure ranges from 2 to 5 years. Secondly, loans are given for purchase of income-generating assets, viz. digging of new wells/ tube wells, pumping sets, tractors, improvement on land, construction of cattle sheds, and redemption of old debts. Their repayment period ranges between 5 and 15 years and hence these loans are known as long-term loans.

Loans under IRDP are extended as a part of the bank's participation in the poverty alleviation programmes for ensuring adequate credit support to the poor. IRDP was initially launched by the government as a major poverty alleviation programme in 1978-79 in 2300 selected blocks all over the country and was extended to all the 5000 blocks in the country with effect from October 2, 1980. The main objective of the programme is to raise the families above the poverty line in the rural areas on a lasting basis, by providing them with income-generating assets. The programme thus envisages provision of credit for creating self-employment.

Loans are usually extended under IRDP for purchase of various income-generating assets such as milch cattle, bullock carts, camel carts, and for industry, service, and business sectors which may include loans for setting up of tailoring shops, petty business etc. These loans may have a subsidy component for various categories of borrowers, the percentage of

subsidy to total finance was fixed at 25 percent for small farmers, 33.33 percent for marginal farmers, agricultural/casual labourers and rural artisians and 50 percent for tribals. The programme stipulates that, of the total beneficiaries 40 percent should be women and 30 percent should be members of scheduled castes and scheduled tribes.

At the time of survey the rates of interest charged by the commercial banks under direct finance, for the short-term loans ranged from 11.50 percent to 16.50 percent depending on the size of the loan (the corresponding rates of interest charged by the PACS ranged from 9 to 14 percent) and ranged from 10 to 12.50 percent for term loans to agriculture for various purposes (the corresponding rates of interest for the PACS ranged from 8.50 percent to 11.50 percent). The rates of interest under IRDP for various activities ranged from 10 to 12.5 percent.

We derived the following set of working hypotheses from our literature review for examining the borrowers' access to credit:

1. Credit is mainly given for agricultural purposes;
2. women and women headed Households (WHHs) have very limited access to credit, as compared to men and households headed by men.
3. persons from lower castes have less access to credit compared to persons from higher castes.
4. IRDP has been a successful tool for achieving the policy goals of diversification and delivering credit to the neglected sections of

population, viz. women and backward classes, of the society.

The above hypotheses are tested in this chapter by using the primary survey data on borrowers and loans.

Objectives

This chapter aims at measuring the quantum of credit received by sample borrowers and examining the distribution pattern of credit. The specific objectives are:

- 1) To quantify the loan amount received by the sample borrowers and the average loan-size per borrower.
- 2) To examine the purposewise/activitywise distribution of loans.
- 3) To analyse the loans given under IRDP.
- 4) To examine the gender components of loans with respect to borrowers and heads of borrowers households.
- 5) To analyse the distribution of credit between the SC, ST, & BC borrowers and the general category of borrowers.

For the purpose of loan analysis we have divided the loans into 12 categories based on four types of loans given below:

Type of Credit -----	Category of Loans -----
1. Sizewise;	(1) Small (2) Medium (3) Large
2. Purposewise/ activitywise;	(4) Farming (5) Business (6) IRDP (self-employment)
3. Genderwise;	(7) Males (8) Females (9) MHHs (10) FHHs
4. Classwise;	(11) Backward (12) General

In each of the four types of credit we have undertaken comparative analysis of various categories of loans. For this, we have used two parameters, first, the percentage share of each category of loans in total credit and second, the average size of loan per borrower in each loan category.

The total credit delivered to 260 sample borrowers amounted to Rs.34.10 lakhs. Our analysis in this chapter examines the distribution patterns of credit with reference to loan-size, purpose/activity financed, gender of borrowers and head of borrower households and class of borrowers.

Loan Analysis

The borrowers in the area of our study obtained loans from two sources, the rural branches of commercial banks and primary agricultural credit societies (PACS). RRBs were not operational in the area of study and the branch of the agricultural and rural land development bank is situated in the Baroda city and hence, was considered inaccessible by the residents of the area. The loan analysis in this section has five dimensions, which determine the characteristics of loans. Firstly, the loans are examined with reference to the purpose/activity financed. Secondly, the average size of loans is determined. Thirdly, the gender component of loans is analysed, Fourthly, the gender of the head of the borrower household is related to loans. Lastly, the focus is on loans to backward castes and tribes.

All the 260 sample borrowers together obtained loans to the

tune of Rs.3409979, in the reference years. The average loan per borrower was Rs.13115. Each category of loan is examined in terms of its share of total sample credit and the average size of loan per borrower in that category. Hence, we have two parameters for comparing the differences in various loan categories. Firstly, the percentage of shares in total credit of each loan category and secondly, the loan-size amount in each of the loan categories.

Loan Size

It is observed that the rural population had by and large access to small and medium-size loans only. Banks are hesitant to extend large-size term loans for non-farm activities, fearing that, in case of default, a large sum would be blocked. Hence, banks in the rural areas prefer thin spreading of credit for reducing such risks. Further, the size of the crop loan is related to the size of the land holding and as majority of the land holdings are of small size, most of the crop loans are of small and medium size. Most of the business loans in the area of our study were for retail shops hence they too were of small or medium size. Lastly, all the IRDP loans are small-size loans. Not a single IRDP loan was above Rs.10000. Only a few large size loans are extended to big farmers who are well endowed in terms of resources and could furnish land as security, had access to irrigation facilities and modern technology.

For the purpose of sizewise analysis of loans we classified the loans in 4 different size groups. Small-size loans ranging

from Rs. 1000 to 15000, medium-size loans of Rs. 15001 to 30000 and large-size loans of Rs. 30001 and above. Table 6.1 indicates the sizewise distribution of loans and average loan size in the respective size groups.

TABLE 6.1

DISTRIBUTION OF LOAN AMOUNT: SIZEWISE			
(in Rs.)			
LOAN SIZE	LOAN AMOUNT	PERCENT SHARE	AVERAGE PER BORROWER
Small (1 to 15000)	1392479	40.83	7609.17
Medium (15001 to 30000)	1511500	44.32	22227.94
Large 30001 And Above	506000	14.84	56222.22
TOTAL	3409979	100.00	13115.30

Source: Appendix No. II

As indicated in table 6.1, the maximum frequency of loans was in the small size group, the loans in this group accounted for 41 percent of total loan amount whereas the medium size group loans accounted for about 44 percent and the large size group for 14.84 percent of the total loan amount.

The average loan amounts for the respective size groups were Rs.7609, Rs.22228, and Rs.56222. The large size group had the highest average loan amount but had the lowest share in the total loan amount indicating the hesitency on the part of bankers to extend large-size loans.

Purposewise Analysis

As the impact of credit is closely connected with the purpose for which the loan is given, we have examined the purposewise distribution of loans. For this, we classified the loans in three broad categories namely, (i) farming loans, (ii) business loans, and (iii) loans under IRDP. Each of the first two categories form a homogeneous group as they relate to a single activity. IRDP was selected as a third category because of its relative importance as a national level poverty alleviation programme. Secondly, it has special loan characteristics. Thirdly, the activities financed are homogeneous, as most of these loans are given for petty business/self-employment to the poor. Lastly, in the context of the present economic policy subsidised and cheap credit is already under question. It is therefore very pertinent at this juncture, that the effectiveness of PAPs in eradicating poverty and improving the income levels of the beneficiaries should be assessed at the ground level. Hence, it was decided to analyse IRDP loans as a separate loan category.

According to the activitywise classification of loans, of the total number of loan cases, farming loans were about 58 percent, business constituted a nominal 4 percent and the share of IRDP loans was about 38 percent.

Table 6.2 shows the activitywise distribution of loans.

TABLE 6.2

DISTRIBUTION OF LOAN AMOUNT: ACTIVITYWISE
(in Rs.)

ACTIVITY/ CATEGORY	LOAN AMOUNT	PERCENT SHARE	AVERAGE PER BORROWER
FARMING	2840650	83.30	18688.48
BUSINESS	163500	4.79	16350.00
IRDP	405829	11.90	4141.11
TOTAL	3409979	100.00	13115.30

Source : Appendix. III

As shown in table 6.2, of the total amount of Rs.3409979 the share of farming loans was about 84 percent, 4.79 percent were business loans and IRDP loans accounted for 11.91 percent. This relatively small share in the loan amount of IRDP borrowers is explained by the very small size of loans, mostly given for either milch cattle or petty business. This data indicates that credit under the IRDP succeeded in reaching out to the poor who continued to be neglected by main stream credit.

The high proportion of farming loans in both the number of borrowers and amount of loan reflects the continuation of excessive dependence of the rural economy on agriculture and the absence of alternative means of self-employment. Most of the non-agricultural loans were provided under IRDP under the ISB component.

The average loan amount for all sample loans taken together was Rs.13115.22, while the average loan amount in the different categories of loans revealed that farming had the highest amount of Rs.18688.48, and business had Rs.16350, which was lesser than the average amount for farming loans. The average loan amount under IRDP was only Rs.4141.11 which was much lesser than that of even business loans. This was due to the small loan amount per borrower extended under IRDP, mainly for one or two milch cattle. This has far reaching implications because such small loans cannot be expected to generate adequate production and income level which is required to uplift the beneficiary above the poverty line on a sustained basis. The impact of this thin credit policy is examined in the subsequent chapters.

Genderwise Analysis

As stated earlier, our analysis revealed that women and FHHs have very little access to credit. Women are mostly covered under IRDP because of target stipulations of 40 percent of total borrowers. Genderwise classification of loan amount is shown in table 6.3.

TABLE 6.3

DISTRIBUTION OF LOAN AMOUNT: GENDER-WISE
(in Rs.)

GENDER	LOAN AMOUNT	PERCENT SHARE	AVERAGE PER BORROWER
MALES	3278249	96.14	13659.37
FEMALES	131730	3.86	6586.50
TOTAL	3409979	100.00	13115.30

Source: Appendix. IV

As shown in table 6.3, genderwise classification of the loan amount, indicated that womens' share in the total loan amount was a mere 4 percent.

Headshipwise classification of loan amount is shown in table 6.4.

TABLE 6.4

DISTRIBUTION OF LOAN AMOUNT: HEADSHIP-WISE
(in Rs.)

HEAD	LOAN AMOUNT	PERCENT SHARE	AVERAGE PER BORROWER
MALE	3289079	96.45	13535.30
FEMALE	120900	3.54	7111.76
TOTAL	3409979	100.00	13115.30

Source: Appendix No. V

The share of the FHHs in the loan amount as shown in table 6.4. reveals that it was merely 3.54 percent. The shares of women and FHHs are smaller as compared to their respective percentages in the total number of borrowers which were 7.69 and 6.53 percent, respectively.

Table 6.3 & 6.4, indicate that the average loan-size of women was almost half of that received by males. The small share and size of loans received by women as compared to men can be explained by several factors. Some of the major factors are discussed below. The problems are with both the lenders and women themselves.

Even under IRDP women obtained loans mostly for milch cattle, as they could continue to perform their traditional household roles while pursuing this activity. Women's access to farming loans is extremely poor as most of the women working on farms are considered co-workers and not farmers, because women normally do not own land in their names. Social taboos often serve as impediment in women's access to credit in most of the cases women cannot obtain loan without the permission and meditation of the male members of the family. In some cases women obtained loan only because the male members of the household had a regular income and hence were not eligible to receive loan under IRDP. Even bankers are hesitant to extend non IRDP loans to women because, they consider women as higher risks than men.

Ironically most of the FHHs are households without an adult

male member and credit to this group is vital to the very survival of such households. In case of non-availability of institutional credit they have to resort to borrowings from the informal sources of credit with interest rates as high as 36 percent per annum.

Loans to S.C., S.T. and Backward Classes

We found that the socio-economic status of the borrowers also influenced their accessibility to credit most of the members of the backward classes and the members of the scheduled castes and tribes are poor in terms of resources and without any land base. Hence, their participation in farming loans is extremely low as revealed in the earlier section. As a group, their access to institutional credit is mainly under IRDP and they received only a very small proportion of the total credit disbursed in the area of our study. Castewise classification of loans is indicated in table 6.5.

TABLE 6.5

DISTRIBUTION OF LOAN AMOUNT: CASTE-WISE (in Rs.)			
CASTE	LOAN AMOUNT	PERCENT SHARE	AVERAGE AMOUNT
SC, ST & BC	291202	8.54	4044.47
GENERAL	3118777	91.46	16589.24
TOTAL	3409979	100.00	13115.30

Source: Appendix No. VI

Table 6.5 shows that about 91.46 percent of the total loan amount went to the borrowers of the general category and only about 8.53 percent went to the borrowers from the backward castes and members of the scheduled castes and scheduled tribes. This small loan share of the latter group of borrowers appears more dismal when related to the proportion of this group in total borrowers, which was more than three times higher (27.69 percent). The average loan amount of Rs. 4044 per member of the SC, ST and BC group was less than one-fourth of the average loan amount (Rs. 16589) of borrowers of the general category.

Other Observations

From personal discussions with the respondents we could gather some very important information on the process of credit deployment. In case of IRDP loans it was found that beneficiaries were identified usually by village-level workers of community development blocks and bankers were not consulted. In some cases the beneficiaries had incomes above poverty line, which flouted the primary objective of IRDP. Secondly, IRDP loans were provided by banks under pressure of achieving the policy targets. This often led to neglect of proper scrutiny of the loan proposal and loans were given without checking the viability of the activity financed.

We observed that bank officers lacked innovative approach. This was reflected in financing of traditional activities and no

attempt was made to identify bankable schemes for other activities which had good scope in the region.

Another important observation was that banks are eager to lend to those borrowers who are members of marketing and other such cooperatives since these borrowers route the sale of their products through cooperatives and banks can make direct arrangement for repayment of loans with these cooperatives. This ensures timely repayment of loans to the bank and also a steady income to the borrower. But, on the other hand, it also restricts credit flows in places where service co-operatives do not exist.

Most of the sample borrowers reported that the loan amount usually fell short of their requirements, particularly under the crop-loan system. This is because revision of crop-loans is a policy matter and involves procedural delays. Most of the beneficiaries under IRDP also felt that the loan amount was not adequate for purchasing good milch cattle and felt that the unit cost needed to be revised upward. The poor quality of assets adversely affects income-generation and defeats the sole purpose of improving the borrowers' economic position.

Besides the factors mentioned above the borrowers' access to mainstream credit at the grass-root level is influenced by other factors such as: (1) attitude of the branch manager and the bank's staff towards risk financing and in reaching potential borrowers, (2) availability of the infrastructural facilities supporting the activity for which the loans are demanded, (3)

presence of cooperative societies in the village, and (4) the role by the Gramsabha/Panchayat or Gram-Mandli or any other organisation at the local level for co-ordinating the lending and borrowing activities of the local bank branch and the potential borrowers.

Conclusion

The 260 sample borrowers received Rs.34.10 lakhs of credit in the study period. The average loan per borrower was Rs.13000. The small and medium-size loans predominated accounting for 85 per cent of total credit. The average size of small loans was Rs.7609 and of medium loans was Rs.22228 respectively.

Activitywise distribution of loans revealed that 83 per cent of total credit was given for farming, indicating that the policy of diversification of credit has achieved very little success. Credit under IRDP accounted for 12 per cent of total credit. But the average loan-size under IRDP was extremely small (Rs.4141), being less than one-third of the sample average.

Women and WHHs received less than 4 percent of total credit. These shares were smaller compared to their proportion in total borrowers ranging between 6 to 8 per cent. Further, women received only half the size of loans received by men and most of them were for female stylised activities like milch cattle.

Loans to SC, ST, and backward classes as a group accounted for just 9 per cent of the total credit and the average loan-size of this group was less than one-fourth of the general loan

category.

The above analysis upholds our hypotheses that credit continues to be predominantly agricultural and women, SC, ST, and backward classes continue to be neglected by the lenders. Further, IRDP has been a successful tool for achieving the goals of diversification of credit and for reaching credit to women and socially and economically backward classes of society.