CHAPTER VIII

INPACT OF CREDIT ON INCOME

Income is perhaps the most widely used indicator of development. The economic status of nations is measured in terms of their national and per capita income as the standard of livings of individuals are largely determined by their income levels.

Income has certain basic advantages over other indicators in measuring the changes in the standard of living or capturing the impact of development programmes on the borrower\beneficiary. Impact of credit on production is a broader impact indicator. As income calculation considers costs and expenditures of production, it becomes a better indicator for measuring the chanes in standard of livings of the borrowers, due to credit intervention.

For the purpose of analysis, we computed the net income of the borrower by deducting the cost of production from the gross value of production. As it was not possible to get information on the entire expenditure of the borrower for undertaking production. Only major cost items were included. For the farmers the costs include wages paid to hired labour, purchase of seeds, fertilizers, insecticides and water, sharing of crop or payment in cash to the landlord, if cultivation is done on sharing basis. Other costs include operational and maintenance charges like expenditure on fuel etc and cost of transportion.

For business and self employment the costs include payment of salaries to employed labour, cost of raw material/inputs, purchase vaue of stock of goods, major repairs and rental.

For milch cattle and other activities like camel carts and bullock carts the costs include expenditure on fodder, major repairs and veterinary expenses.

As in the earlier chapter on employment and production, the impact of credit on income is analysed on the various groups given below.

<u>Sizewise</u>

Table 8.1 shows the sizewise distribution of the incremental income.

TABLE 8.1

INCREMENTAL INCOME: SIZEWISE

(in Rs.)

LOAN SIZE GROUP	INCREMENTAL INCOME	PERCENT SHARE	AV. PER BORROWER	PER RUPEE
Small Loans (1 - 15000)	745842	47.82	4075.64	0.53
Medium Loans (15001-30000)	731184	46.88	10752.70	0.48
Large Loans (30000-Above)	82715	5.30	9190.55	0.16
TOTAL	1559741	100.00	5999.00	0.46

Source: Appendix No. II

As revealed by the above table the income to credit ratio was highest in the small size loan group (0.53) followed by the medium size loan group (0.48) and the large size group (0.16). This corroborates to the trends observed in the impact of credit on employment and production. The borrowers of the small size loan group are mostly IRDP borrowers who were from backward castes, females, or small and marginal farmers. The small borrowers have a lower cost of production as compared to the medium and big farmers and the borrowers in the business category, as they usually do not employ hired labour and spend bare minimum on the maintenance of their productive assets/ purchase of inputs.

Considering average income, it was highest for the medium loan-size group, followed by big loans and small loans. This indicates that the average income of the borrowers of the small loan-size group was very low and the present credit support to them is not sufficient to generate adequate income levels. The average incremental income for the medium-size loan group was the highest, because of lower cost-output ratio compared to the big loans group. This implies that the rate of return in agriculture starts declining beyond a point of investment unless major technological changes are introduced which unfortunately is not the case. Further, all the large-size loans are for farming purposes only, while the medium size loan group includes most of the business loans which have relatively better cost control. The average value of production and income for business was much higher than for farming which tends to increase the average incremental income for the medium-size loan group. This suggests that for increasing rural income two factors are important: first, non-farm activities need to be developed; and second agricultural development should be accompanied by major technological changes. In terms of credit policy, it implies emphasis on diversification of credit, and also that farm credit has to be made a vehicle of technological change.

The percentage distribution of incremental income for the small-and medium size loan groups was more or less equal. For the large-size loan group it was 5 percent only. The percentage distribution is largely influenced by the share of each group in the total number of borrowers and loan amount.

ACTIVITYWISE

Of all the activities income is most uncertain in agriculture, because, in spite of using the right combination of inputs, the ultimate production may fall short of expectations due to natural factors, viz bad monsoon, infection of pests, destruction by floods etc.

Table 8.2 shows the activitiywise distribution of incremental income.

Table 8.2.

TABLE 8.2

INCREMENTAL INCOME: ACIVITYWISE

(in Rs.)

ACTIVITY/ CATEGORY	INCREMENTAL INCOME	PERCENT SHARE	AV. PER BORROWER	PER RUPEE
FARMING	1012230	64.90	6659.40	0.36
BUSINESS	118239	7.58	11823.90	0.72
I.R.D.P.	429272	27.52	4380.33	1.06
TOTAL	1559741	100.00	5999.00	0.46

Source: Appendix No. III

The activitywise distribution of income as shown in table 8.2 reveals that the income to credit ratio wa highest for IRDP borrowers (Rs.1.06) followed by that of business (0.72) and was lowest for farming (0.36). About 84 percent of loans under IRDP were for milch cattle and 16 percent for petty business including tea shops, tailoring shops, camel carts and others. The majority of IRDP borrowers used only personal family labour for undertaking production. Further, in case of milch cattle, most of the borrowers maintained their cattle by fetching fodder from fields during the peak production season which lasted for 6 to 9 months in a year. Hence, the cost of production for IRDP activities was minimal. This reduced the gap between production and income. Further, most of the IRDP borrowers continued to work as agricultural labourers while some other member (children or old persons) of the family attended to the milch cattle/business. This added to the income of the IRDP borrowers, in the post loan period. Lastly, in the pre-loan period income was very low, this resulted in higher incremental income in the post-loan period.

The low income to credit ratio in case of farming was due to lack of irrigation and the problem of pests which adversely affected crop production particularly cotton. The highest income to credit ratio in IRDP activities, needs to be noted because it proves that investment in IRDP activities yields better income than other activities particularly when compared to agriculture. It suggests that diversification from agriculture to allied activities could be very helpful in erradicating poverty and raising income levels in the rural areas. The average income under IRDP was lowest (Rs.4380) as compared to business and farming. Farming had a higher average income (Rs. 6659) as compared to IRDP, indicating that farmers received bigger loans than those covered under IRDP. Business had the highest average incremental income (Rs.11824) indicating that the borrowers in business had bigger loans and better cost management than farmers.

The percentae share of farming in the incremental income was highest (65 percent) followed by that of IRDP (27 percent) and business (8 percent) which were similar to their percentage share in loan amount.

Genderwise

Genderwise analysis of income is very significant for establishing that financing women can also yield equally good returns. Table 8.3 shows the genderwise distribution of incremental income, related ratios and averages.

TABLE 8.3

INCREMENTAL INCOME: GENDERWISE

(in Rs.)

GENDER	INCREMENTAL INCOME	PERCENT SHARE	AV. PER BORROWER	PER RUPEE
MALE	1491154	95.60	6213.14	0.45
FEMALE	68587	4.40	3429.35	0.52
TOTAL	1559741	100.00	5999.00	0.46

Source: Appendix No. IV

As shown in the above table the income to credit ratio for women was Rs. 0.52 and was Rs. 0.45 for men. It indicates that women borrowers are more efficient in credit use than men. The figure may be influenced by the fact that while the male borrowers are distributed in all the three activities, ie., farming, business, and IRDP activities, women were mostly concentrated in IRDP activities which is associated with higher incremental income as noted earlier.

The average income for women was Rs. 3429 little more than half of that for men (Rs.6213), indicating that women received small-size loans under IRDP which generated limited incomes only.

Women shared only about 4 percent of the total incremental income. This percentage was almost similar to their share in total loans.

HEADSHIPWISE

The headshipwise distribution of incremental income had similar trends as genderwise distribution. Table 8.4 shows the incremental income distribution for the male and female heads and their related averages.

TABLE 8.4

INCREMENTAL INCOME: HEADSHIPWISE

(in Rs.)

HEAD	INCREMENTAL INCOME	PERCENT SHARE	AV. PER BORROWER	PER RUPEE
MALE	1498536	96.08	6166.81	0.45
FEMALE	61205	3.92	3600.29	0.51
TOTAL	1559741	100.00	5999.00	0.46

Source: Appendix No. VI

The table reveals that per rupee incremental income was marginally better for FHHs (Rs. 0.51) as compared to the MHHs (0.45), indicating that FHHs made better end-use of credit.

The respective averages for the male and feamle headed households were Rs. 6166 and Rs. 3600. Like women borrowers, most of the FHHs were also covered under IRDP and received small-size loans which resulted in smaller income compared to MHHs.

The percentage share of the FHHs in the total incremental income was a nominal 4 percent only.

CASTEWISE

As seen in earlier chapters, the members of SC, ST and BC were mostly covered under IRDP and received only small-size loans. But as their working potential was underutilised in the pre-loan period access to even small amounts of credit boosted their labour use significantly as stated earlier. The castewise distribution of incremental income is shown in table 8.5.

TABLE 8.5

INCREMENTAL INCOME: CASTEWISE

(in Rs.)

CASTE INCOME	INCREMENTAL SHARE	PERCENT BORROWER	AV. PER RUPEE	PER
SC,ST, & BC	290771	18.64	4038.49	1.00
GENERAL	1268970	81.36	6749.84	0.40
TOTAL	1559741	100.00	5999.00	0.46

Source: Appendix No. VI

As shown in table 8.5 the income to credit ratio for the members of the SC, ST, and BC, group was much higher (1.00) than the other borrowers (0.40), indicating that credit use for the former group yielded more than double incremental income than that of the latter. This was the result of the fact that borrowers in the former group had much lower income levels in the pre-loan period and that their cost of prodction was also lower as compared to the latter group.

The average incremental income for the SC, ST and BC group was Rs. 4038, while it was Rs. 6750 for the borrowers of the general category. The analysis reveals that in case of the former group credit generates proportionately higher income than the borrowers of the general cateory, but as this group receives small size loans their average income is much lower as compared to the borrowers of the general category. Also the poor quality of assets provided to them under IRDP tends to restrict income.

The above analysis reveals that credit to the socio-economically weaker sections of the society under IRDP generates higher income than credit under the main stream and credit to borrowers of the general category.

This upholds our hypothesis that `credit under IRDP has higher impact on income as compared to main stream credit' and that `credit to SC, ST, and BC generates higher income as compared to the borrowers of the general category.'

It also upholds our hypothesis that `credit to women and FHHs generates higher income as compared to men and male headed households.

It is important to note that our analysis reveals that the borrowers under IRDP who are mostly land less agricultural/causal labourers, members of the SC, ST, and BC, small and marginal farmers and lastly, women and FHHs receive smaller size loans, resulting in very low average income per borrower, which is not sufficient to bring about any substantial change in their levels of living. Hence, bankers need to develop viable schemes with larger loan amounts for these groups in order to remove wide spread poverty among them, and also for promoting more efficient end use of credit.