CHAPTER IX

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The recent policy of liberalisation and globalisation of the economy has wide ranging impact on rural credit, both on the supply and the demand sides. The phenomenal growth of rural credit in the last two decades not only needs to be continued and accelerated in future, but significant qualitiative changes have to be made. The most pertinent questions to be answered are: What is happening at the grassroots level? What are the characteristics of the borrowers and loans delivered to them? Do these characteristics have any influence on the impact of credit on the borrower's level? Does the size of loan and activity financed by loans have any influence on the impact of credit? Is the impact of credit on preferred borrowers, viz, women, self-employed and SC,ST and BCs, significant? Is it similar or different from mainstream borrowers of credit? This study makes a humble attempt to answer these.

The primary aim of this study is to measure and examine the impact of credit on the borrowers. The specific objectives are: Firstly to identify the major characteristics of borrowers and examine their relationship to the impact of credit; secondly, to examine the distribution pattern of credit for exploring its relationship to the impact of credit; thirdly, to identify the factors which have influence on the impact of credit at the borrower's level and; lastly, to make policy recommendations for improving the impact of credit on borrowers.

The profiles of the district, taluka, villages, and households are developed for providing proper perspective to the credit impact analysis and provide an insight into the environmental background which could be useful for replication of the credit intervention model in other places.

At the household level the impact is examined with reference to the borrower of the loan only. A three-stage sampling technique was adopted. Firstly, out of 12 talukas of Vadodara district one taluka was purposively selected. Secondly, from the sample taluka 10 sample villages were purposively selected. Lastly, from the smaple villages 260 borrower households were selected purposively.

The impact of credit is examined with reference to five dimensions: (i) size of loans, (ii) activity financed, (iii) gender distribution of loans, (iv) headship of the household, and (iv) class distribution of loans (ST, SC, and BCs as one group others as one group).

Three indicators are used for examining the impact of credit on the sample borrowers, namely, employment-generation, production from activity fincanced, and income of the borrower. The pre- and post-loan approach is followed for arriving at the incremental employment, production, and income. For sizewise analysis, loans are classified into three groups: small loans (Rs.1 to Rs.15000), medium loans (Rs.15001 to Rs.30000) and big loans (above Rs.30000). The activitywise analysis refers to three categories, namely, farming, business, and self-employment under IRDP. The genderwise analysis has four groups; male and female borrowers, borrowers from male headed and female headed households. Lastly, classwise analysis has backward and a general group of borrowers. Thus, in all we have 12 sample categories.

Three parameters are used for estimating the credit impact of each indicator on each category of loan. (ii) the share of each category in the incremental total, (ii) the average incremental labour hours/value of production and income per borrower, and (iii) the ratio of incremental labour hours/value of production and income to credit deployed. While the first one merely indicates the share of the category, the second one shows the overall impact on the borrower in a category and the last one indicates the efficiency of credit use in that category of loans.

The major findings of the study are summarised below:

1. Credit had positive impact on borrowers' employment, production, and income levels;

2. Credit deployment generated 1645 incremental labour hours, production worth Rs.9281, and income of Rs.5999 per borrower for the sample as a whole. Whereas credit given per borrower amounted to Rs.13115.

3. In terms of per rupee of credit deployed, 0.12 labour hours were generated, the value of production was Rs.0.70, and the

incremental income was Rs.0.46 for the sample as a whole. Out of the total credit, medimum-size loans accounted for highest share of 44 percent, closely followed by medium size loans with 41 percent, whereas large loans accounted for less than 15 percent.

4. A comparative analysis of the impact of different sizes of loans on employment revealed that small size loans accounted for highest share of incremental labour hours of 54.45 percent, followed by medium size loans with 39.36 percent, whereas the share of large size loans was only 6.19 per cent. Considering the average per borrower large size loans were best, very closely followed by medium size loans. But small size loans were way below the other two. But in case of credit to labour ratio, small-size loans were best, followed by medium size loans and large size loans.

This finding reveals that the small-size loans given under IRDP to the poor, which include women and backward classes of society, have succeeded in achieving the goal of employment-generation.

As for incremental production in terms of the average per borrower, medium loans were the best followed by large loans. But in terms of credit to production ratio small loans were the best, closely followed by medium loans. But the big loans' performance was miserable.

Lastly, comparing the incremental income, medium loans were best, closely followed by small loans, in terms of average per borrower. But the credit to income ratio was best for large loans, closely follwed by medium loans and was very miserable for small loans.

In sum, small loans had the best impact on employment-generation, production, and income in terms of the per rupee of credit deployed. Medium term loans came second. But the very little incremental income per borrower generated by small loans and the high income generation in case of medium loans suggests that for optimum benefit the size of small loans need to be increased. Policy preference should be given to medium size loans for optimizing the impact of credit on borrowers.

Activitywise analysis of loans revealed that in spite of the policy being in favour of diversification, rural credit continues to be predominantly agricultural. Out of total the sample credit 83 percent was given for farming, 12 percent for IRDP and about 5 percent for business. Further, almost all the large-size loans were farming loans. Business loans had highest averages per borrower in terms of labour, production and income. But IRDP loans which were small size loans had highest impact in terms of credit to impact ratios. It needs to be noted that the farming loans which accounted for more than 80 percent of credit had the poorest impact in terms of all the three indicators. The policy implication is, for optimization of credit impact on the borrower. The policy of diversification of credit in favour of allied and auxilliary activities and non-farming activities must be strictly implemented.

The genderwise analysis of loans indicated that formal credit continues to neglect women. Their share in total credit was only 4 percent. The per borrower averages for males was much higher than women for all the indicators. But the credit to impact ratios were higher for women than males in case of all the impact indicators, which indicates that women use credit more efficiently than men. But most of the loans given to women under IRDP were small. Therefore, the much lower income impact on women compared to males suggests that the size of loans need to be increased for uplifting the poor women. The credit policy implications are (i) women should be given medium size loans for business; (ii) women in agriculture should be given loans even if they do not have land in their names.

The FHHs are mostly those covered under the female borrowers category. Hence, the impact analysis follows trends similar to those discussed above. FHHs use credit more efficiently than MHHs. But, the per borrower impact is smaller due to the small size of loans. The policy emphasis should be on giving medium-size loans to FHHs for financing non-traditional activities. Bankers need to be innovative. Bankable schemes should be prepared to match the skills and resource-base of women and FHHs.

The SC, ST, and BC category received less than 10 percent of the total credit. The general category had much higher impact per borrower considering all the impact indicators. But the backward group used credit much more efficiently as indicated by the credit to impact ratios.

The overall credit policy implications of our study are: firstly, credit need to be diversified to non-farm activities and secondly, medium-size and not small-size loans should be increasingly given to women and the economically backward classes of society. This, besides aiming at achieving important national goals, will help in increasing the impact of credit on employment-generation, production, and income.