PERFORMANCE OF REGIONAL RURAL BANKS IN KERALA WITH SPECIAL REFERENCE TO SOUTH MALABAR GRAMIN BANK

By

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DECLARATION

I, hereby declare that this thesis entitled "Performance of Regional Rural Banks in Kerala with special reference to South Malabar Gramin Bank" is a bonafide record of research work done by me during the course of research and that the thesis has not previously formed the basis for the award to me of any degree, diploma, associateship, fellowship or other similar title of any other University or Society.

Vellanikkara,
June, 1986.

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CERTIFICATE

Certified that this thesis entitled "Performance of Regional Rural Banks in Kerala with special reference to South Malabar Gramin Bank" is a record of research work done independently by Mr. Viswanathan, K.U., under my guidance and supervision and that it has not previously formed the basis for the award of any degree, fellowship or associateship to him.

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Introduction

INTRODUCTION

Regional Rural Banks (RRBs) are the latest links in the process of institutionalization of rural finance in India, which in some sense can be said to have begun with the enactment of the Land Improvement Loans Act of 1883 and the Agriculturists Loan Act of the following year, which formed the basis for grant of 'Takkavi loans'. A brief account of the evolution of institutionalization of rural finance in India is attempted here first. This includes the genesis of rural banks. The objectives, organization and management of RRBs are indicated next, followed by the objectives and plan of the present study.

1. The Institutionalization process

1.1. Government finance

In India the borrowing needs of rural population were met solely by private money lenders and other non-organised agencies from time immemorial. The impoverishment of population in general and agriculturists and other rural population in particular, which resulted from the exploitative policies of the British rulers, which began after the battle of Plassey (1757), cemented the dependence of the rural population on money lenders and others for their borrowing requirements which in turn resulted in the further impoverishment of the rural population on account of the various illegal and exploitative exactions resorted to by the lenders. Over a period

of time the situation became so bad that large scale riots broke out in Bombay presidency in 1875 between the villagers on the one hand and the money lenders on the other. Perhaps these forced the government to give up its indifference and various measures were tried for relieving the situation. Thus, in 1879 Deccan Agriculturists Relief Act was passed for stipulating restrictions on alienation of land and restraining usury. In 1883 the Land Improvement Loans Act was passed which enabled the cultivators to obtain loans from the government at low rates of interest for productive purposes such as purchase of machinery and improvement of land. This was followed by Agriculturists Loan Act of 1884 which provided for government loans for current agricultural purposes (Takkavi) in areas affected by famines. With these, a beginning was made in the direction of institutionalization of rural finance.

There were a number of defects associated with the granting and recovery of Takkavi loans on account of which they never became popular with the farmer. "Very often, granting of takkavi loans depended upon the will of one person, the Collector. Often, peasants were not even aware of their existence. The loans were not given in time and there was much red tape and corruption in securing these loans. The period of loan was also not long. There was much rigidity in the collection of interest and the principal. Takkavi loans, therefore, never became popular among farmers. Except in a district here or there where the officer concerned was

energetic and sympathetic to agriculturists, the agriculturists continued to depend upon money lenders for agricultural finance".*

1.2. The co-operatives

The failure of Takkavi loans led to the search of alternatives and co-operative effort of people came to be advocated as the best alternative. In fact, co-operative movement in India itself came to be developed as the answer to the problems of rural indebtedness and rural finance. The idea of forming co-operatives for the benefit of farmers was first conceived in 1892. In that year, the Government of Madras appointed Sir Frederick Nicholson to study the agricultural and other banks in Europe and to suggest measures through which a similar movement could be organized in India. Nicholson in his report in 1895 recommended the establishment of co-operative credit societies on Raiffeisen principles. In fact, the quintessence of his recommendations were contained in the words "find Raiffeisen". Raiffeisen Societies in Europe were organized on unlimited liability basis, providing all services to the farmers. In 1901, Government of India appointed a committee which also recommended formation of co-operative societies on Raiffeisen lines. On the basis of these reports a bill was introduced in the Legislative Council and was subsequently passed in 1904. Thus, the Co-operative Societies Act

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* Desai, S.S.M. (1980). Economic History of India. Himalaya Publishing House, Bombay, pp. 60-61.

of 1904 came to be enacted with which began the co-operative movement in India.

Since the Act of 1904 gave legal protection to credit Societies alone, co-operative movement in India began as a credit movement. The Act made a distinction between urban societies on the one hand and rural societies on the other. While the urban societies were permitted to function on the principle of limited liability, rural societies could be started only on the basis of unlimited liability. The Co-operative Societies Act of 1912 remedied many of the short-comings of the Act of 1904 including the distinction between urban and rural societies with regard to liability. The Act also provided for the setting up of Central Banks. Report of the Maclegan Committee (1915) recommended the establishment of provincial Co-operative Banks to serve as apex institutions. Most provinces established these institutions in the subsequent period.

The main thrust of the co-operative movement continued to be credit as it is even today. And co-operatives came to be the sole institutional agency to finance agriculture which has been the major economic activity in rural areas. However, during the first three decades of the present century the village money lender was the main source of finance for the farmers and other rural population. Several enquiries and studies such as the report of Sir Malcom Darling (1935) and the preliminary and statutory reports of the Reserve Bank of

India (1936 and 1937) emphasized the fact that almost the entire farm advances were supplied by money lenders at usurious rates of interest and other onerous terms. The establishment of Reserve Bank of India (RBI) in 1935 with a specific role in the sphere of rural finance can be said to be another land mark in the evolution of rural finance. Section 17 of the RBI Act envisages the provision of agricultural credit by the bank either through the scheduled banks or through state co-operative banks.

A comprehensive rural credit survey was conducted by the Committee of Direction appointed by the Reserve Bank in 1951. The findings of the committee (1954) confirmed the earlier view that money lenders and others were almost the sole suppliers of rural credit. Only a little over 7 per cent of the borrowings of cultivators in the country as a whole for the year 1951-52 was supplied by institutional agencies. The contribution of co-operatives was 3.1 per cent and an almost equal per cent was in the form of government finance. As regards agricultural credit, the committee observed that it fell short of the right quantity, was not of the right type, did not serve the right purpose and often failed to go to the right people. Though the performance of co-operatives was unsatisfactory, the committee felt that there was no other effective alternative. According to the committee, "co-operation has failed, but co-operation must succeed". In order to make co-operation succeed, the committee made several

recommendations, the most important of which was the scheme of integrated rural credit with active partnership of the State. These recommendations were accepted and implemented by the Government. Co-operatives, particularly credit co-operatives made considerable progress since then.

1.3. Advent of Commercial Banks

As the name itself suggests, commercial banks in India were organized mainly to finance trade and commerce and their activities were mainly confined to the metropolitan areas and other major urban centres. Financing of rural economic activities was almost entirely the job of the operation of the unorganized money market including indigenous bankers, money lenders and traders. However, bank finance intended to traders indirectly reached to rural population also often at very onerous terms.

The technological changes that were taking place in Indian agriculture, particularly after the introduction of Intensive Agricultural District Programme (IADP) in the early nineteen sixties, considerably increased the demand for agricultural inputs purchased from the market which resulted in increase in demand for credit also. Yet,the progress and performance of co-operatives in the matter of supply of credit was not adequate enough. The All India Rural Credit Review Committee set up by the Reserve Bank in 1966 in its report submitted in 1969 found that non-institutional sources

still dominated the scene of rural credit. The performance of co-operatives in the supply of rural credit through whom most state funds for agriculture were routed, was found to be much below expectations. In the matter of mobilizing rural savings they fared still worse. "The conclusion was therefore borne in upon the government that the provision of rural credit could not be left entirely to co-operatives and that surplus loanable funds from term lending and other institutions, such as banks, should be inducted into the village economy".(1) The introduction of Social Control on banking in 1967 and nationalization of 14 major commercial banks in 1969, paved the way for drawing out the commercial banks from their almost exclusive urban orientation and making them play very important roles in the provision of rural credit and mobilization of rural savings.

In June 1969 scheduled bank's direct advances to agriculture amounted to only Rs.53.6 crores. At the end of December 1975, the amount increased to Rs.725 crores. Banks also advanced credit to other sections of the rural population, such as artisans and craftsmen, retail trade etc. Commercial banks organized a number of Farmer's Service Societies, besides participating in the scheme of assisting primary agricultural credit societies.

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(1) Ramaswamy, N.S., and Radhakrishnan, V. (1976). Banking for Rural Development. Paper presented at the Banking Seminar held on 11 December 1976 at Nedungadi Bank, Calicut.

Though banks, particularly the state owned ones, were increasingly involving themselves in rural finance, total advances of banks in rural areas at the end of December 1974 were only 5.4 per cent of all bank advances. Moreover, advances were much less than deposits from rural areas. Whereas the overall credit deposit ratio for the banking system as a whole was 71 per cent in 1974, the corresponding ratio in respect of rural, semi-urban, urban and metropolitan branches were 53, 47, 70 and 90 respectively.(2) There were also several qualitative inadequancies in the rural operations of banks. Generally, the better off sections of the rural population benefitted more from the operations of banks, because they were better equiped to take advantage of banking services and other rural development activities. The really needy small and marginal farmers and other weaker sections of the rural population did not effectively benefit. The banks found their rural operations more costly and they generally preferred semi-urban and urban areas in opening new branches and had to be goaded constantly by the Reserve Bank to open branches in unbanked rural areas.

1.4. The birth of Regional Rural Banks (RRBs)

It was in the background mentioned above that the Banking Commission (1972) mentioned the need for specialized financing institutions for the weaker sections of rural population, combining the rural orientation of the co-operatives on the

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(2) Ibid

one hand and resources and organization of commercial banks on the other. In 1975 Government of India constituted a Working Group to examine this suggestion in detail. On the basis of the recommendations of the working Group, Regional Rural Banks were created through and Ordinance issued on 26th September 1975, which was later replaced by an Act of Parliament.

2. Objectives of RRBs

The RRBs were established to combine in them the local feel and familiarity with rural problems which the co-operatives possess and the degree of business organization, ability to mobilize deposits, access to central money markets and a modernized outlook which the commercial banks have. The main objective behind their genesis was to promote the rural economy by providing credit and other facilities for the development of agriculture, trade, commerce and other productive industries in the rural areas. These banks are specially intended to lend to the weakest section of the population such as small and marginal farmers, agricultural labourers, rural artisans, small traders, self-employed persons etc. i.e., those that do not appear to have access to the commercial banks or co-operatives. As new institutions RRBs were not intended to supplant but only to supplement the other institutional agencies in the field.

3. Organisation and ownership

The Central Government is empowered to request any commercial bank called "Sponsor bank" to establish an RRB in any state or union territory. The authorised capital of each RRB will be One crore of Rupees which the Central Government may increase or reduce in consultation with the Reserve Bank and the sponsor bank subject to a minimum of 25 lakhs. Of the issued capital of each RRB, 50 per cent will be subscribed by the Central Government, 15 per cent by the concerned State Government and the balance viz., 35 per cent by the sponsor bank. There is provision for increasing the issued capital by the Board of Directors of the RRB concerned after consultation with the Reserve Bank and sponsor bank and with the prior approval of the Central Government.

4. Management

The general superintendence, direction and management of the affairs and business of an RRB is vested in a Board of Directors. In discharging its functions, it has been specifically laid down that the Board should act on business principles and should have due regard to public interest. Further, an RRB, in the discharge of its functions, will be guided by such directions in regard to matters of policy involving public interest, as the Central Government may give in consultation with the Reserve Bank. A Director will hold office for a period of 2 years. The chairman as well as the Directors are eligible for renomination.

5. Business

RRBs are required to undertake the business of

a) granting of loans and advances to small and marginal farmers and agricultural labourers, whether individually or in groups and to co-operative societies including agricultural marketing societies, agricultural processing societies, co-operative farming societies, primary agricultural credit societies or farmers service societies for agricultural farmers purposes or agricultural operations or for other related purposes.

b) granting of loans and advances to artisans, small entrepreneurs and persons of small means engaged in trade, commerce or industry or other productive activities within its area of operation.

For the purpose of Income Tax Act 1961 or any other enactment relating to any tax on income, profits or gains, an RRB will be deemed to be a co-operative society. Further, an RRB is not liable to pay tax under the Interest Tax Act, 1974.

6. Progress of RRBs

The first five RRBs were established on 2nd October 1975, and at the end of August 1984 there were 164 RRBs in the country covering 288 districts in 21 States and 2 Union Territories. Among the States, Uttar Pradesh stands first in terms of number of RRBs and number of branches at 35 and 1899 respectively. Madhya Pradesh stands second in number of RRBs

at 21 and Bihar stands second in number of branches at 1344. The performance of RRBs in expanding their network to unbanked areas has been remarkable. Thus during 1978-79 and 1979-80 RRBs opened 561 and 713 new offices of which more than 90 per cent were in wither to unbalanced centres. As on June 1984 there were 8727 RRB offices in the country. Table 1.1 shows the growth of RRBs during the past seven years.

Table 1.1. Growth of Regional Rural Banks (end of December)

	1977	78	79	80	81	82	83
1. No. of RRBs	48	51	60	85	107	124	150
2. No. of branches	1187	1753	2420	3279	4795	6191	7795
3. Deposits (Rs in crores)	33.04	74.1	123.22	199.83	336.0	502.26	678.0
4. Adv. out-standing (Rs in crores)	42.35	22.02	167.41	243.38	406.59	577.11	751.0

Source: Union Finance Ministry, quoted by Economic Times, 11(203): 4, dated 15th October 1984.

In Kerala two RRBs have been established in December 1976 viz., South Malabar Gramin Bank (SMGB) and North Malabar Gramin Bank (NMGB) with headquarters at Malappuram and Cannanore respectively. The former one is sponsored by the Canara Bank and the latter by the Syndicate Bank. Both these banks jointly cover an area of operation of the five northern districts of the State, namely Malappuram, Calicut, Wynad, Cannanore and Kasaragod.

7. Objectives of the study

The present attempt is to review the performance and progress of these RRBs in Kerala and to study how and to what extent the RRBs have fulfilled the objectives of their establishment. The specific objectives of the study are the following.

1. To review the working of RRBs in Kerala
2. To assess the extent to which they have been able to fulfil their objectives by way of extending credit to the target groups.
3. To assess the impact of finance from the RRB on the beneficiaries.
4. To point out short comings if any in the working and to suggest remedies.

8. Plan of the study

The next chapter gives a review of past research works done on rural finance and especially on RRBs elsewhere in the country. The methodology used in the study is discussed in the third chapter. Results and Discussions of the study is presented in the fourth chapter under three sections, viz., An overview of RRBs in Kerala, Analysis of short term credit and Analysis of medium term credit. The fifth chapter contains the summary of main findings of the present study.

Review of Literature

REVIEW OF LITERATURE

An extensive collection of literature which has a direct bearing on the background of the present study is cited in this chapter. It consists of the review of past works done on rural credit in general and on the performance of RRBs in particular. The reports of various expert committees appointed from time to time to examine the various aspects of rural finance are also cited wherever relevant. The chapter is divided into two sections. The first section deals with the studies on rural finance in general and the second section reviews the literature on the performance of RRBs in different states of the country.

1. Studies on Rural Finance

As the efforts to build up rural finance system in the country commenced with the adoption of co-operative societies Act of 1904, the review of literature should begin against this background.

Frederick Nicholson (1895) reported that "the future of rural credit lies with those who being of the people, live among the people and yet by their intelligence, prescience and energy are above the people". After referring to the work done by reformers like Raiffeisen who introduced a popular system of rural credit, he summed up his report in two words "Find Raiffeisen".

The report of the Famine Commission (1901) also recommended the formation of mutual credit associations. As a result of these recommendations, an Act was passed as co-operative Societies Act (1904). Within two years of the passing of the Act 800 Societies came into existence. The Act was found to be defective in certain respects, especially in the distinction made between urban and rural societies with regard to liability. To remedy these defects a new act was passed in 1912 and it is by this Act that co-operation is regulated in the country.

The Royal Commission on Agriculture (1928) opined that "if co-operation fails there will fail the best hope of rural India". The Commission concluded that "if rural community is to be contended happy and prosperous, local governments must regard the co-operative movement as one deserving all the encouragement which it lies within the power to give".

According to the Preliminary report issued in 1936 and the Statutory report issued in 1937 by the Agricultural Credit Department of Reserve Bank of India, almost the entire finance required by the agriculturists in India was supplied by money lenders, the part played by the co-operative and other agencies being negligible. As the funds supplied by the money lenders were subject to high rates of interest and other usurious practices, the reports suggested legislation for the regulation of money lending to check these malpractices.

Specific regional and functional aspects of the banking system have been examined from time to time by several expert bodies (Indian Central Banking Enquiry Committee (1931); Co-operative Planning Committee (1943); Rural Banking Enquiry Committee (1950); Committee of Direction of All India Rural Credit Survey (1951); The Travancore-Cochin Banking Enquiry Commission (1956); All India Rural Credit Review Committee (1969) and Reports of the Expert Group on Enactments having a bearing on Commercial Banks lending to Agriculture (1971).

The Punjab Land Revenue Committee (1938) opined that the unpopularity of the Government loans was due to petty exactions of the subordinate revenue staff, delay in obtaining money, the necessity of repaying on a fixed date, the failure of the Revenue Officers to take any interest in the grant of loans and little account being taken of harvest conditions and the borrowers' ability to repay when instalments were due.

The problems of credit to agriculture were examined in 1944-45 by the Agricultural Finance Sub-committee headed by Gadgil which emphasized the need for a planned approach to the provision of credit for raising crops. The Co-operative Planning Committee of 1945 emphasized the role of the co-operative movement in this connection.

The Report of the Committee of Direction of the All India Rural Credit Survey (1954) recommended the integrated scheme of rural credit. Summing up the position of co-operative

agricultural credit, the Committee observed that it fell short of the right quantity was not of the right type, did not serve the right purpose and often failed to go to the right people. The Committee felt that although the performance of the co-operatives in the sphere of agricultural credit was deficient in more than one way, the co-operative agency still remained in many aspects by far the least unsatisfactory channel of credit to the cultivator, and therefore summed up its approach in the sentence 'co-operation has failed, but co-operation must succeed'. The Committee recommended the integrated scheme of rural credit with government participation in initial years and this was accepted by the government.

The Rural Credit Survey Committee also recommended the statutory amalgamation of the Imperial Bank of India and certain state-associated banks to form the State Bank of India with an effective machinery of branches spread all over the whole country. This would by further expansion provides vastly extended remittance facilities for co-operative and other banks and thus stimulating the further establishment of such banks. This nation-wide state partnered banking institution was to be responsive to the needs of co-operatives connected with credit and especially, marketing and processing. The transformation of the Imperial Bank of India into the State Bank of India took place in July 1955.

For meeting the financial obligations placed on the

Reserve Bank in pursuance of the recommendations of the Rural Credit Survey Committee, the Reserve Bank of India Act was amended in 1955 to provide for the establishment of the two funds, viz., the National Agricultural Credit (Long term operations) Fund and the National Agricultural Credit (Stabilization) Fund.

In 1966, the Reserve Bank set up the All-India Rural Credit Review Committee in order to reassess the developments that had taken place in the field of rural credit, since 1954. The Report of the All India Rural Credit Review Committee (1969) emphasized that while reorganisation of co-operative credit should be pursued and the integrated scheme implemented vigorously, efforts should not be concentrated solely in the co-operative sector and considering the magnitude of the problem of agricultural credit, the commercial banks especially the nationalised banks, should embark on wide and intensive efforts for provision of agricultural credit. The committee viewed that the widening gap exists between supply and demand of rural credit. The total production credit requirements of farmers amounted to 20,000 million rupees in 1973-74. The requirements for medium and long term rural credit during the Fourth Plan was estimated at Rs.5,000 millions and Rs.15,000 millions respectively. To meet these requirements the Committee recommended various measures for ensuring timely and adequate flow of credit for agriculture through co-operatives and commercial banks.

The National Credit Council (1969) observed that in 1967-68 the institutional credit agencies met only about 38 per cent of the estimated credit requirements of agriculture. There was only a marginal improvement in this proportion in 1973-74.

The Report of the Banking Commission (1972) opined that in a country like India where diversities abound any single financial institution dealing with agricultural credit would not be appropriate. The Commission made out a case for specially sponsored Rural Banks based on the ground that co-operative credit societies would not be a success in every region of the country where as the opening of branches of commercial banks in rural areas has its own limitations.

While using Linear Programming techniques Subramanyam and Patel (1973) to study the impact of capital availability on farm income emphasized that the credit helped farmers of all size groups in augmenting incomes in all the zones of West Godavari District. Small farmer's borrowing ranged from 33.96 to 201.07 per cent of the available capital as compared to 9.11 to 73.05 per cent by large farms and 2.01 to 124.57 per cent by medium farms. The findings indicated that the small farms benefited more from credit than large farms and further the small farms had higher credit needs compared to medium and large farms.

Bahadur (1975) found in his study in Hyderabad district

in Anthra Pradesh that the borrowed amount per acre increased the farm productivity per acre. The credit increases were higher among large farmers than medium and small farmers. The increased additional income was higher among large farmers and small farmers and it was negligible among medium farms.

The study by Behari et al. (1975) in Uttar Pradesh showed that 62.29 per cent of the total short term credit requirement of small farmers was met by co-operatives followed by relatives and money lenders respectively. Medium and long term credit was mostly obtained from the Land Development Banks. Only few cultivators in the 2-3 ha farm size group were benefited by commercial banks.

Galgulikar et al. (1975) reported from Maharashtra that about 80-90 per cent of the borrowings were for working capital and the remaining was long term loans for developing irrigation facilities. The credit gap was to the extent of 66.73 per cent and 72.62 per cent in the two villages studied and this was bridgable by institutional agencies as was within maximum credit limits.

Rao (1975) worked out the average indebtedness per household in Coimbatore district of Tamil Nadu and found that it came to Rs.4572 per holding and half of it was borrowed from the Land Mortgage Bank.

Raghubanshi et al. (1975) studied the role of credit in marketing and processing problems of small farmers and showed that if the small farmers were able to borrow at 20.25 per cent interest rate per annum they would have gained Rs.26 additionally per quintal to tomato marketed. This shows that if adequate credit facilities are provided equally to small and large farmers, the small farmers would not lag behind in realising better returns.

Rai et al. (1975) after a case study on the role of institutional credit in generating farm income reported that on the borrower farms, average size of holding, the percentage of irrigated area, the area under high yielding varieties, cropping intensity, the value of capital investment per hectare including land value, per hectare input and output, net income, family labour use etc. were higher than non-borrower farms in the same study area. The ratio of additional cost to the income generated showed that a rupee of credit would generate an overall income of Rs.2.72. The ratio was highest in large sized farms followed by medium sized farms. The ratio was smallest in small sized farms due to the fact that these farms did not devote all their available credit to production expenses.

Ramaswamy and Radhakrishnan (1976) who traced the history of provision of credit for rural development by financial institutions and their growth and performance over the years,

came to the conclusion that though over a period of time their contribution to total credit requirement has increased considerably, thanks to the induced venturesomeness of the nationalised banks, the unbridged gap still remain very wide.

Singh (1977) attempted to outline a strategy for integrated use of land and other resources in the hill regions of Uttar Pradesh. Besides studying the existing cropping pattern and input use rates, the study explored the possibilities of increasing farm income and employment by optimum resource combinations by developing six alternative optimum plans. The highest increase in returns over variable costs was possible under the Sixth Plan which envisaged the use of improved crop technology, along with milch animals and poultry and relaxation of credit constraints.

Avadhani (1978) attempted a study on the non-farm business of cultivators and institutional finance. Non-farm business was so defined by the All India Debt and Investment Survey as to comprise of all economic activities covering manufacturing and repairing services, mining and quarrying trade, transport, professions and services. The study found that institutional finance for non-farm activities appear to be very negligible until 1971-72. Co-operatives and commercial banks provided only 1-2 per cent of the total finance for the purpose of non-farm business in 1951-52 and 1961-62. The advances by Primary Co-operatives and Commercial Banks for

non-farm purposes had risen substantially during the quinquennium 1971-76.

Suryawanshi et al. (1978) reported that before nationalisation commercial banks used to give agricultural loan in the form of indirect finance to the extent of 70 per cent of the total advances to agriculture. After nationalisation commercial banks made excellent progress in providing direct finance to the cultivators. The direct finance increased from 32 per cent in 1967-68 to 70 per cent in 1976 while indirect finance decreased from 68 per cent to 25 per cent of the total advances to agriculture during the same period.

The report by Kasar and Patil (1978) says that institutional credit system has met only 40 per cent of the total credit requirement of the rural population. The organisational structure and working procedure of the institutional credit agencies need to be modified for lowering the cost of credit as well as removing the anomalies in respect of security, clumsy procedure, interest rate etc. for uniformity in their functioning.

The study by Kurulkar (1978) stressed on two important aspects of co-operative credit to agriculture sector in India viz., existing imbalance in the flow of co-operative agricultural credit to various states of the country and the necessity to adopt a new policy approach towards agriculturally backward regions in various states of the country.

Dhongade and Dangat (1978) showed that though there has been a substantial expansion in the number of offices of the commercial banks after nationalisation in all the regions, some disparity existed in their expansion in different regions. The coverage of population per branch in the Greater Bombay was 7993 whereas in Eastern region it was 54,673 and in the inland western region 19,751. Large variations from region to region was reported in case of deposit accounts also.

Satpute et al. (1978) estimated the growth rates of advances, recoveries and dues of Land Development Banks by fitting a linear regression function and revealed that the advances and dues were more in the scarcity districts, where the recoveries were the lowest, which may be due to the relaxation given by the Government in years of crop failure.

After studying the dynamics of agricultural finance in case of a District Central Co-operative Bank and Land Development Bank, Kale et al. (1978) reported that the DCCB is operating in tune with the needs of the small and marginal farmers attaching more importance to short term loans.

Thiruvenkatachari (1978) stated that the Co-operative credit was not provided in tune with the overall credit requirements of the farmers and was not in time. The unrealistic nature of the rules of the co-operatives made the poor to suffer. Because of the failure of the co-operatives to meet the demand of agriculturists, private sources emerged as a main source of finance.

Desai (1978) inferred that competition among banks is necessary for the effective functioning of the commercial banks. The commercial banks are confining their lending activities to short term requirements and the credit needs are enhancing steadily due to the increasing doses of inputs and their prices.

The study by Dhawan and Kahlon (1978) concluded that the supply of credit were not sufficient even to run farming at the existing level of technology on the small farms. Credit requirements based on optimal production plans at the existing level of technology of an average model farm were estimated with and without irrigation purchasing activity. Credit need increased by 86.26 per cent without irrigation purchasing while it increased to 139.77 per cent when the irrigation constraint was relaxed in the plan. The analysis of capital and credit need showed that even in the existing plans the farmer needed 76.49 per cent of cash over their owned capital to run the farm business activity successfully. Under the improved technology without purchasing irrigation activity the farmer's credit requirement increased to 277.50 per cent over the farmer's owned capital and the same was 599.46 per cent if irrigation constraint was relaxed. Out of the total credit supplied to the farmers the share of commission agents was the highest (36.56 per cent) followed by co-operatives at 34.38 per cent. The contribution of government Takkavi loans was 19.06 per cent whereas professional

money lenders advanced only 10 per cent of the total amount.

Prem Prakash (1978) reported that institutional agencies made rapid progress in financing agriculture during the period under report. Co-operatives alone accounted for 83 per cent of total loans during the year 1973. Loans from institutional agencies declined to 68 per cent of the total loans during the year 1977. Scheduled Bank's contribution of 2 per cent of total borrowings of farmers in 1973 rose to 25 per cent in 1977.

According to Krishnaswamy (1979) the credit agency suitable for rural finance should fully identify itself with the interest of the rural economy and both organisationally and operationally it should be fully oriented to the needs of the developing rural economy. The co-operative credit satisfies all the criteria of a good system of rural credit.

Stewart et al. (1979) studied a group of farmers in the Kentucky area in the United States and observed that even with the existing farm management practices, farm incomes could be increased if sufficient capital was made available.

Grover and Singh (1983) found that about 96 per cent of the total money invested in cattle marketing by the cultivator buyers in Haryana is borrowed money. Professional money lenders contributed 42 per cent of the total borrowings while the institutional agencies accounted for 28 per cent indicating the increasing popularity of these agencies.

Pandy (1983) reported that the nationalisation of commercial banks has changed the banking scenario in the country with the effect that the concept of security oriented credit was replaced by production oriented lending. In the case of small farmer borrowers the recovery was only upto the tune of 30 per cent. The negative fund utilization, conceptual misunderstanding that the bank loans are the gift of the government, willful default and the mass lending programmes like loan mela to achieve the target for a bank under a particular scheme have all contributed to poor recovery.

The crucial role of capital in changing the existing cropping pattern on different sizes of farms was brought out clearly in a study by Patel and Gangwar (1983). While estimating the potential for the farm income and employment in the dry farming areas of Haryana, the authors found that profits on all size of farms could be increased considerably by making the required capital available.

Godse and Khankoje (1984) argued that there should be adequate study on the lending process of banking system per se to know the interlinkages and inter-relationships between the various agencies engaged in these activities. Such understanding can facilitate to identify the grey areas which need more efforts on co-ordination aspects.

Singh (1984) reported that commercial banks could meet a considerable amount of credit requirement of new agricultural technology which made agricultural production to grow

by 4 per cent annually. The share of direct advances have gone up from 1.3 per cent of total bank credit in 1969 to 13.2 per cent in March 1984 as against the target of 15 per cent by March 1985.

2. Studies on Regional Rural Banks

Since their inception several studies have been conducted on the progress and performance of RRBs in the country. In this section it is proposed to review a few relevant ones among them.

Dantwala Committee on Regional Rural Banks (1978) reported that "our review of the performance of the RRBs have convinced us that inspite of the handicaps any innovation has to face initially, within a short span of two years the RRBs have demonstrated their capability to serve the purpose for which they were established. They have established their image as a new type of institution catering to the credit needs of a class of borrowers to whom institutional credit was hither to not available".

Garg et al. (1978) reported from U.P. that RRBs have helped to mobilize rural savings to a large extent. The small/marginal farmers and agricultural labourers were the major beneficiaries. While recommending the extension programmes of the bank to continue, they pointed out that the share of credit received by agricultural labourers were small.

Batra (1979) found that through the Rural Banks are

conceived as agencies for opening alternative sources of credit for developmental needs in the rural areas of India, it was argued that credit would not automatically reach the weakest and most deserving sections of the community. For this, special efforts were suggested to be made in co-ordination with other credit institutions.

The study by Rao (1980) on RRBs in Sreekakulam district of Anthra Pradesh found that the RRB was functioning well in meeting the credit requirements of the target groups. The rate of return in almost all the activities financed were high. RRB's finance increased the cropping intensity, and a considerable increase in the asset values have recorded in certain target groups.

Kurulkar and Deogirikar (1980) on an evaluation of the role of RRB in Maharashtra showed a declining trend in the performance of RRBs in the period 1976-78 especially in the case of crop-loans received by small farmers. The share of loans received by agricultural labourers, rural artisans and other weaker sections also showed a declining trend in the same period. They recommended the RRB to reconsider its loaning policies.

The committee to Review Arrangements For Institutional Credit for Agriculture and Rural Development (CRAFICARD) (1981) was of the view that "experience as well as evidence before us show that RRBs are more suitable for the tasks in hand". The purpose-wise break up of total advances made by

RRBs show that at the end of December 1979 the loans for agricultural purposes given to small/marginal farmers and landless labourers accounted for 62.5 per cent of the total advances. Rural artisans, small traders and others got 29.8 per cent of the advances. Consumption loans formed only 0.5 per cent of the total loans.

In Tamil Nadu, Balaji (1980) found that the RRB finance had generated additional income, additional employment and increased the repaying capacity of the borrowers.

NABARD (1984) reported that during the year 1982-83 RRBs made all round progress registering a total number of 150 RRBs covering 266 districts as against the sixth plan target of 170 RRBs. During the year 1419 branches were opened of which 1400 in unbanked areas in their effort to take the banking services to the door-steps of the rural masses.

Report by Sudhakara et al. (1984) from Karnataka said that the RRB finances were not skewed towards big farmers unlike that of the Primary Co-operative Societies. RRB financing was more efficient in lending, in coverage of population and in recovery of loans. About 92 per cent of the farmers they studied indicated the timeliness in disposal of loans without undue delays. For 64 per cent of the farmers studied, the amount advanced was adequate.

Prabhu (1984) reported that in 1982 RRBs put together showed a loss. RRB's performance under the IRDP scheme was

impressive. The total number of beneficiaries increased from 4.85 lakhs in 1982 to 7.84 lakhs in 1983, indicating the progress in extending benefits by these agencies. One disappointing feature pointed out by him was that about 15 RRBs had eroded their complete share capital.

A case study of an RRB conducted by Lekshmi Narayana (1984) found that the bank could achieve the social objective of reaching the weaker sections of rural population within a span of six years. An increased number of defaulters and the pre-occupation of the bank officials in recovery work in respect of overdue loans was a problem confronting the bank.

Singh and Upadhyay (1984) studied the loan recovery problems of RRBs in Bihar and concluded that the recovery performance of RRBs declined continuously during the period 1978-80. Inadequate arrangements for recovery was the reason for low recovery according to the bank, whereas the shortage of funds due to crop failures and other unforeseen expenditures was the reason indicated by borrowers for overdues.

Satyasundaram (1984) reported that the RRBs continue to face a number of problems, particularly mounting overdues and declining profitability. At the end of December 1982 the overdues of all the RRBs amounted to Rs.128 crores which formed 22.2 per cent of the total outstanding of Rs.577 crores. Overdues in the case of 40 RRBs which completed 6 years or more worked out to 24 per cent. Eleven RRBs which had completed 5 years or more at the end of 1981 had shown losses.

The work by Sharma and Murthy (1984) on an RRB in Anthra Pradesh has revealed that a major part of the credit has gone to agriculture especially in the form of term loans. Non-agricultural activities like development of Cottage and Small Scale Industries and building up of the traditional skills of village artisans have received scant attention. While the number of borrowers belonging to SC/ST is high the credit supplied to these sections continued to be low.

3. Conclusion

The reviews on rural finance trace the historical developments in institutionalization of rural finance. It also highlighted the possibilities of increasing incomes through higher levels and more appropriate use of finance, particularly credit. Studies on RRBs are not very extensive since they came into being only in 1975. These studies generally indicates the functioning of RRBs and the useful role they are playing in the sphere of rural finance.

Materials and Methods

MATERIALS AND METHODS

This study on Regional Rural Banks is based on both primary as well as secondary data. Review of the working of RRBs in Kerala is based entirely on secondary data. The other objectives of the study are sought to be fulfilled through primary data collected from a sample of beneficiaries and non-beneficiaries in the area of operation of South Malabar Gramin Bank. In what follows, the nature and sources of secondary data used in the study are indicated first. The procedure adopted in generating primary data is then discussed. Finally, methods of analysis used in the study are explained.

1. Nature and sources of secondary data

Regional Rural Banks in Kerala had completed nine years of service to rural population at the time of our investigation which began in June 1985. In order to study the overall progress of RRBs in the State, secondary data from all the available sources were made use of. Naturally the head offices of the two RRBs in the State were the major source. Details on expansion of branch network, deposits mobilized, advances disbursed, outstandings category-wise and purpose-wise etc. were obtained from this source. Other sources of data included publications of the Reserve Bank of India and other periodicals.

2. Generation of primary data

Primary data were generated through well structured interview schedules from samples of beneficiaries of short as well as medium term loans. In respect of short term loans a sample of non-borrowers was also canvassed to serve as control. The reference period for short term loans was the year 1984-85. The reference period for medium term loan was 1982-83. This was done to allow for some gestation period for such loans.

Two stage random sampling method was adopted for the selection of beneficiaries. The first stage units were bank branches and the second stage units were the borrowing households. From the list of branches of South Malabar Gramin Bank (SMGB) four branches were randomly selected. The selected branches were Ariyallur, Edavanna, Thirunavaya and Perumpaddappu. All these branches happened to be in Malappuram district.

Data on short term loans indicated that about 99.5 per cent of these were crop loans. Lists of borrowers for short term loans were prepared for each of the four branches and from these 15 borrowers each were selected randomly. Thus, the size of this sample was 60. All of them were crop loanees. Limitations of time and other resources were the reasons for not covering a larger number of branches and larger number of borrowers. From the areas covered by selected branches, a sample of 30 non-borrowers was also taken. These were taken

randomly from lists of farmers maintained by Agricultural Development Offices of the State Department of Agriculture.

Among the purposes for which medium term loans were granted, small trade (Retail trade) was the largest single item contributing 27.7 per cent of the total amount during the reference period. Therefore, for the study on medium term loans, loans under this item alone were taken. From each of the 4 branches of the Bank selected 15 borrowers under small trade were selected randomly fo form a sample size of 60. Selection was confined to small trade so as to avoid too much of heterogenity in the sample, considering its relatively small size.

The crop loanees as well as small traders selected were post stratified into sub groups. Crop loanees were stratified according to the land area possessed by them.

Table 3.1. Sample allocation of crop loanees

Area owned	Code number of the category	Number of loanees
0-10 cents (0-0.04 ha)	1	3
11-100 cents (0.041-0.4 ha)	2	31
101-250 cents (0.41-1 ha)	3	18
More than 250 cents (More than 1 ha)	4	8
Total		60

Loanee small traders were mostly petty traders and they were post stratified into sub groups, viz. Teashop owners, stationary shop owners, grocery shop owners and others. The group 'others' included Fish traders, copra merchants, Fire wood dealers and mat traders.

Table 3.2. Sample allocation of small traders

Category	Code Number	Number of traders
Tea shop owners	1	15
Stationary shop owners	2	11
Grocery shop owners	3	11
Others	4	23
Total		60

All the selected borrowers were personally contacted and data regarding their farm income, wage income, income and expenditure particulars for the financed activities, employment particulars and their financial liabilities etc. were collected. Well structured and pre-tested questionnaires were prepared separately for crop loanees as well as small traders and used for data collection. Specimen of these questionnaires used are appended (Appendix I and Appendix II). The data collected were tabulated and subjected to statistical scrutiny.

3. Method of analysis

The methodology used for the general analysis of the RRBs in Kerala is explained first. This is followed by the methodology for the analysis of the short term credit and the methodology used for the analysis of the medium term credit.

Tabular analysis with percentages has been used to examine the general progress and performance of the two banks.

Tabular analysis with percentages has been used to analyse the use and impact of short term credit also. In addition, Linear Programming technique was employed to study the crop combinations in the existing farm plan and to see the possibility of improving the existing farm plans with existing capital as well as larger quantum of capital.

The linear programming model used was of the following form:

Maximise $2 = CX$

Subject to $AX \leqslant B$

and $X \geqslant 0$

where

X = level of activity

C = Net income per unit of activity (net margin)

A = input per unit of activity

B = input availability

The five crop enterprises found dominated in the study area viz., paddy, coconut, banana, arecanut and pepper were considered in the programming under restrictions of land and capital. Optimum farm plans under existing conditions were worked out for three farm size groups viz., 0.04 ha to 0.4 ha, 0.4 ha to 1 ha and above 1 ha among borrowers as well as non-borrowers, with the aid of computer. Optimal plans were re-worked by releasing the capital restriction at different levels.

3. . Analysis of medium term credit

In addition to tabular analysis, capital productivity analysis was resorted to in case of small trade loans. Pay back period and Internal Rate of Return (IRR) were the measures employed for assessing the productivity of the loan amount used as capital in the small trade.

Pay back period is the length of time from the beginning of the project before the net benefits return the cost of the capital investment. This method has two major weaknesses as a measure of investment worth: (1) the pay back period fails to consider earnings after the pay back period; and (2) it fails to take into consideration differences in the timings of proceeds. The computation of pay back period cannot take into account the timing of benefits. To get the actual earning power of the money, therefore, the future benefit and cost streams are to be reduced to their present worth.

Internal rate of returns is that discount rate which just makes the net present worth of the future cash flow equal to zero. It represents the average earning power of the money used in the project over the project life (Gittinger, 1976).

Internal Rate of Return is that discount rate 'i' such that

$$\sum_{t=1}^{n} \frac{Bn-Cn}{(1+i)^n}$$

where

Bn = Benefits in each year

Cn = Costs in each year

n = Number of years

4. Summary

The materials used and methods adopted for generation of data and analysis are explained in this chapter. Both primary as well as secondary data have been used in the study. Secondary data used have been obtained mainly from the two bank offices. Primary data have been generated through a sample survey of beneficiaries of short term and medium term loanees who have been selected through two stage random sampling. Mainly tabular method has been used to analyse the data. In addition linear programming and capital productivity analysis have also been used.

Results and Discussion

An Overview of RRBs in Kerala

AN OVERVIEW OF RRBS IN KERALA

The performance of the RRBs in Kerala in terms of different parameters such as number of branches, districts covered, deposits mobilized per bank and per branch, advances made per bank and per branch, deployment of credit, recovery performance, income, expenditure and earnings etc. are discussed in this section. Wherever possible, comparison is also made with the performance of RRBs in general in the country. Each of the parameters mentioned above is discussed in separate sub sections under appropriate headings viz., expansion of branches, coverage and spread, deposits, advances, deployment of credit, recovery performance, etc. Main points of this section are summarized in the final sub section.

1. Expansion of branches

The RRBs in Kerala made an impressive progress in their number of branches during the nine years, since their establishment in December 1976. The scale of branch expansion will be appreciated when it is observed that between December 1976 and September 1985, 262 branches were opened which had to compete with a network of well organised commercial banks and the co-operative banks and societies. During this period the SMGB opened 144 branches and NMGB opened 118 branches making the total number of branches of RRBs in the State 262 covering the 5 northern districts of the State.

During the first year SMGB opened 33 branches and NMGB opened 35 branches making the total 68. In the second year

the total number of branches increased to 96 registering an increase of 41 per cent. Further increase in the number of branches was brisk during the third year and fourth year particularly because of the recommendations of the Review Committee on Regional Rural Banks and the RBI's subsequent branch expansion policy[1]. As per this policy the Reserve Bank of India (RBI) gives priority to RRBs in issuing licenses to open new branches in rural areas. Within the first three years after establishment, the two banks could open more than 50 per cent of the total number of branches now in operation. The following table shows the progress of RRBs branch expansion in the State.

From the table it is clear that the total number of branches opened showed an increase year after year. However the percentage increase in the number of branches opened by RRBs in Kerala during each year showed a decreasing trend. But the percentage increase in number of branches in all India level was almost steady throughout this period. This was due to the fact that while the number of RRBs in Kerala remained two throughout the period the number of RRBs in the country was also growing along with the growth in number of branches

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1 Joshi (1984) reported that the progress in the opening of branches of new RRBs slowed down after 1976. However this was accelerated after 1978 particularly because of the recommendations of Review Committee on Regional Rural Banks and RBI's subsequent branch expansion policy. Establishment of RRBs was particularly brisk during 1981 and 1982.

Table 4.1. Progress of branch expansion of RRBs

Year	RRBs in Kerala			RRBs in All India		
	Total No. of branches	Percentage increase over previous year	Average/ bank	Total number of branches	Percentage increase over previous year	Average/ bank
1	2	3	4	5	6	7
1977	68	--	34	1187	--	24
1978	96	41	48	1753	47	34
1979	133	38	66	2420	38	40
1980	170	27	85	3279	35	38
1981	197	15	98	4795	46	44
1982	225	14	112	6191	29	49
1983	230	2	115	7795	25	51
1984	247	7	123	--	--	--

Source: 1. Annual report - 1984 of SMGB
2. Annual report - 1984 of NMGB
3. Appendix-III

of existing RRBs. The point will be more clear when one looks into the average number of branches per bank in the State and in the country. The average number of branches per bank was growing steadily in the State and it was remarkably higher than the national average throughout the period.

Though the RBI gives priority to RRBs in issuing licenses to open new branches, the banks in Kerala are reported to be facing difficulties in getting suitable buildings and premises for running branches in the interior of the rural areas.

Kamath (1984), the former chairman of one of the banks reported that "opening of rural branches poses many problems like non-availability of suitable buildings at a reasonable rent and lack of basic infrastructural facilities. As RRBs are not permitted to advance for the construction of buildings the bank is often forced to give huge amount as rent and this eats into the profitability of the bank".

2. Coverage and spread

The two RRBs in Kerala, the SMGB as well as the NMGB have blossomed into premier banking institutions in their areas of operation within the past nine years. As a matter of policy, these two banks got established so as to cover the five northern districts of Kasaragod, Cannanore, Calicut, Wynad and Malappuram. These districts are considered socially and economically backward. The Table 4.2 shows the distribution of RRB offices in the concerned districts.

Table 4.2. Districtwise distribution of RRB offices in Kerala (as on 30-12-84)

District/ RRB	Mala-ppuram	Calicut	Wynad	Canna-nore	Kasaragod	Total
1	2	3	4	5	6	7
SMGB	66	52	16*	-	-	134
NMGB	-	-	7**	67	39	113
Total	66	52	23	67	39	247

Source: Annual Report, 1984 of SMGB and NMGB

* These offices are in South Wynad consisting of Taluks of Sultan Battery and Vythiri.

** These offices are in North Wynad covering the Manantody Taluk

During the period December 1984 to September 1985 SMGB added 10 offices to its branch net work and NMGB added 5 offices making the total of 262 RRB branches in the State as in September 1985. These 262 branches cover a population of 8009245 which constitutes 31.41 per cent of the State's population. The geographical coverage is 12958 sq.km which is 33.34 per cent of the total geographical area of the State. Of the population covered, 534607 (6.67 per cent) are scheduled castes and 147104 (1.83 per cent) are scheduled tribes. The average literacy rate of the area covered is 62 per cent. The average population covered per branch office is 32409 and the average area covered is 52.46 Sq.Km.

Basic statistical details of the area of operation of the RRB branches in Kerala are given in Table 4.3.

3. Deposits

Though the share of RRB offices in the State is only 2.95 per cent of the total number of RRB offices in the country the contribution of the State in total deposits mobilized is fairly high. Of the total deposits of RRBs of Rs.678 crores as at the end of December 1985, Rs.25.58 crores (3.77 per cent) was mobilized from the State.

Examining the performance of the two RRBs in the State individually, it is heartening to note that both of them were in the front line. As in December 1983 only 20 RRBs out of 150 in the country had a deposits of more than Rs.10 crores

Table 4.3. Basic statistical details of area of operation of RRBs

Items	Mala-ppuram	Calicut	Wynad	Canna-nore	Kasaragod	Total/ average
1	2	3	4	5	6	7
Population	2402701	2245265	553812	1930726	872741	8005245
SC	20816	161715	21130	78283	65461	534607
ST	7955	3888	95557	15139	24565	147104
Literacy (%)	60	70	57	71	55	62
Area (Sq.KM)	3548	2345	2147	3013	1905	12958
Taluks	4	3	3	3	2	15
Blocks	14	12	4	9	4	43
Panchayaths	95	77	32	123		327
Average popula-tion/branch office	34821	38711	23075	28816	22377	32409
Average area per branch (Sq.Km)	51.42	40.43	93.35	44.97	48.85	52.46

Source: Census report, 1981.

which included the SMGB as well as the NMGB. At that time the total deposit of SMGB was Rs.13.94 crores and that of NMGB Rs.11.63 crores. The total deposits made by the RRBs in the State was of the order of Rs.36.75 crores in December 1984 with a depositing clientele of 879938. The SMGB was in the forefront

with total deposits of 21.61 crores in 493522 accounts. The corresponding figures for the NMGB is Rs.15.14 crores in 386416 accounts. Table 4.4 shows the deposit position of the RRBs in Kerala at the end of December 1984.

Table 4.4. Deposits position of RRBs in Kerala as on 31-12-84)
(amount in crores)

Items	SMGB	NMGB	Total
1	2	3	4
Total deposits	21.61	15.14	36.75
No. of depositors	493522	386416	879938
Deposits/branch (in lakhs)	16.1	13.4	14.88
Deposit/account(Rs)	438	392	417

Source: 1. Annual Report - 1984 of SMGB
2. Annual Report - 1984 of NMGB

Of the total deposits of 36.75 crores, 48 per cent was term deposits, 47 per cent savings bank deposits and the rest current and contingency accounts.

The total deposits position at the end of December 1983 was Rs.25.58 crores and the increase registered during the year 1984 was of the order of 44 per cent. While considering the percentage of deposit accretion in the banking industry as a whole during 1984 (around 14 per cent) this achievement of RRBs in Kerala is praiseworthy.

Branchwise progress of RRBs in the State was far better compared to RRBs in general. Per branch deposits mobilized by the RRBs in general in the country was Rs.8.69 lakhs at the end of December 1983. The corresponding figure for the State was 11.12 lakhs, SMGB mobilizing a deposit of Rs.11.34 lakhs per branch. The growth of deposits of RRBs in the State vis-a-vis RRBs in the country can be seen from Table 4.5.

The total deposits of the RRBs in the State increased from 169.95 lakhs in 1977 to 3675.62 lakhs in 1984. During the same period the per branch deposits increased from 2.49 lakhs to 14.88 lakhs. The per branch deposits in the State remained higher than the national average throughout the period. Deposits per account in the State during 1977 was Rs.223 and it rose to Rs.328 in 1983. The corresponding figures for RRBs in general were Rs.400 and Rs.658 respectively. Similarly the average number of depositors per branch in the State was 1120 in 1977 and it rose to 3389 in 1983. The corresponding national averages were 678 and 1233 respectively. The lower amount of deposits per account and the higher number of depositors per branch in the State indicate that the RRBs in the State were more dependent on and oriented towards the poor.

In Kerala RRBs have to compete with a network of well organised commercial banks and the co-operative sector in the field of deposit mobilization, besides the post office and

Table 4.5. Deposits position of RRBs in Kerala vis-a-vis RRBs in general
(Amount in lakhs Rs.)

Year	RRBs in Kerala					RRBs in general				
	Total deposits	Number of depositors	Number of depositors per branch	Deposits per branch	Deposit per account (Rs)	Total deposits	Number of depositors	Number of depositors per branch	Deposit per branch	Deposit per account (Rs)
1	2	3	4	5	6	7	8	9	10	11
1977	169.95	76171	1120	2.49	223	3331.57	805243	678	1.38	400
1978	436.86	189392	1972	4.35	230	7486.34	1672450	954	2.81	414
1979	762.67	296027	2225	5.73	257	12321.63	2580274	1066	4.27	448
1980	1171.53	419728	2468	6.89	279	19983.33	3700537	1120	5.09	478
1981	1686.53	559325	2839	8.56	301	33599.57	3502222	1147	6.09	540
1982	2382.07	685057	3044	10.58	347	50226.38	7636145	1233	7.01	611
1983	2538.13	779585	3389	11.12	326	67800.00	-	-	8.11	658
1984	3675.62	875938	3562	14.88	417	-	-	-	-	-

Source: 1. Annual report - 1984 of SMGB
2. Annual report - 1984 of NMGB
3. Appendix III

the private money lenders. The increasing network of private money lenders are posing a great threat to the resource mobilization of the banks. The Post Office savings are felt more attractive in rural areas and they are offering a higher rate of interest. Similarly co-operatives are consolidating rural savings through various incentive schemes and also are offering higher rates of interest. Both of these agencies are existing as the major competitors in mobilization of deposits by the RRBs. In addition to all these, a serious drawback in the field of deposit mobilization is the absence of NRI accounts in the RRBs. In Kerala State deposits from Indians working abroad especially in the gulf countries is a potential source of rural deposits. This source is specifically remarkable in the northern districts where the RRBs are functioning. But the RRBs are not allowed to open NRI accounts and it is a serious drawback on these institutions in the State.

4. Advances

At the end of December 1983 the total outstanding advances of all RRBs put together was to the tune of Rs.751 crores of which Rs.46.9 crores (6.25 per cent) was the share of Kerala. Out of 150 RRBs, only 23 had outstanding advances of more than Rs.10 crores and the two RRBs of the State were among the latter. Outstanding advances per branch was Rs.20.39 lakhs in Kerala and the corresponding figure for RRBs in general was Rs.9.63 lakhs. At the end of December 1983 SMGB

had Rs.31.02 crores as outstanding loans and as against Rs.15.88 crores for NMGB.

The growth of advances made by the two RRBs in the State vis-a-vis RRBs in general is illustrated in Table 4.6.

An analysis of outstanding advances shows that the business expansion of the RRBs in Kerala was faster than their branch expansion. Between 1977 and 1982 the number of RRB offices rose from 68 to 225 showing a growth of 230 per cent. The corresponding increase in the outstanding advances per branch was to the tune of 393 per cent i.e. from Rs.244.02 lakhs in 1977 to Rs.3977.91 lakhs in 1982. For the period 1977 to 1984, the corresponding increase in the number of branches and increase in outstanding advances per branch was 263 per cent and 560 per cent respectively. During this period the number of branches increased from 68 to 247 and the outstanding advances per branch increased from Rs.244.02 lakhs to Rs.5845.79 lakhs. At the all India level the number of branches increased by 421 per cent during 1977-82 but the outstanding advance/branch increased only by 181 per cent.

Though the per branch outstanding advances in the State remained high throughout the period of analysis, the advances made per account was lower in the State throughout the period compared to the national average. The number of borrowers per branch were remarkably higher in the State throughout the period than the number of borrowers per branch on an all India

Table 4.6. Progress of advances of RRBs

Year	RRBs in Kerala					RRBs in general				
	Total advances outstanding (lakh Rs)	Total number of borrowers	Advances per branch (lakh Rs)	Number of borrowers per branch	Average amount borrowed per borrower (Rs)	Total advances outstanding (lakh Rs)	Total number of borrowers	Advances per branch (lakh Rs)	Number of borrowers per branch	Average amount borrowed per borrower (Rs)
1	2	3	4	5	6	7	8	9	10	11
1977	244.02	52652	3.58	774	463.00	3955.87	497684	3.33	419	795.00
1978	888.84	174979	9.25	1822	507.00	11761.12	1222684	6.67	697	962.00
1979	1592.72	245049	11.97	1842	649.00	16740.85	1639484	6.91	677	1020.00
1980	2410.14	313877	4.17	1846	767.00	24338.32	2116740	7.42	645	1150.00
1981	3517.66	371490	17.85	1885	946.00	40658.58	2912630	8.47	607	1196.00
1982	3977.91	319504	17.67	1420	1245.00	57710.64	3686316	9.38	575	1566.00
1983	4690.75	342555	20.39	1487	1369.00	75100.00	NA	9.63	NA	NA
1984	5845.79	360390	23.66	1459	1622.00	NA	NA	NA	NA	NA

Source: 1. Annual report - 1984 of SMGB
2. Annual report - 1984 of NMGB
3. Appendix III

NA - Not available

basis. Though this can be considered as healthy sign in the sense that they were servicing the lower strata of society, one cannot help getting the impression that they were spreading their resources more thinly than they ought to. Perhaps this may be an exercise of risk aversion on the part of the banks.

One point inference from the foregoing discussion is that the RRB offices in the State could reach a larger number of people of small means than the national average. On the national level the number of RRBs were being increased year after year and the existing RRBs were expanding their own branches. But in the State the number of RRBs remained at two and they were expanding their branch network with reasonable care for profitability. And the RRBs in Kerala recorded a higher average deposits as well as average advances per branch than the national average.

5. Deployment of Credit

The total loans and advances made by the RRBs in the State was of the order at Rs.5845.79 lakhs at the end at December 1984. The SMGB itself is in the forefront with an outstanding advance of Rs.4052.00 lakhs in 257671 borrowal accounts. The corresponding figures for the NMGB at the end of December 1984 was Rs.1793.79 lakhs and 102719 borrowal accounts.

The following table shows bankwise growth in deployment of credit in the State.

Table 4.7. Deployment of credit by RRBs in Kerala
(end of December)

Items	SMGB		NMGB		Total	
	1977	1984	1977	1984	1977	1984
1	2	3	4	5	6	7
Number of branches	33	134	35	113	68	247
Advance disbursed (Lakh Rs)	1972	2895 (46.8)	991	1441 (45.4)	2963	4336 (46.33)
Advance outstanding (Lakh Rs)	1653	4052 (145.13)	786	1793 (128.11)	2440	5845 (139.54)
Number of borrowers	35130	257671	17522	102719	52652	360390
Advance disbursed per branch (lakh Rs)	59.75	21.60	28.31	12.75	43.57	17.55
Advance outstanding per branch (lakh Rs)	50.09	30.23	22.45	15.86	35.88	23.66
Number of borrowers per branch	1064	1922	500	909	774	1457
Credit per account (Rs)	470	1573	449	1746	463	1622

(Figures in parenthesis are percentage increase in 1984 over 1977)

Source: 1. Annual report - 1984 of SMGB

2. Annual report - 1984 of NMGB

The table shows that the advances disbursed as well as advances outstanding from the RRBs in the State have grown considerably over the past individually and both put together. The growth of advances outstanding was much higher than the growth of advances disbursed. During 1977-84 the advances disbursed by SMGB, NMGB and both combined grew by 46.80 per cent, 45.40 per cent and 46.30 per cent respectively. While the growth in advances outstanding of SMGB, NMGB and both together for the same period were 145.13 per cent, 128.11 per cent and 139.54 per cent respectively. Similarly there was remarkable increase in the number of borrowal accounts between 1977 and 1980. The number of borrowal accounts rose from 52652 in 1977 to 360390 in 1984 in the State.

Advances disbursed per branch and advances outstanding per branch showed a decreasing trend. The advances disbursed per branch of SMGB was 59.95 lakhs in 1977 and it was only 21.60 lakhs in 1984. The advances disbursed per branch of NMGB fell from Rs.28.31 lakhs to Rs.12.75 lakhs during the same period. For the State as a whole the corresponding figures were Rs.43.57 lakhs and Rs.17.55 lakhs respectively. A similar trend was also noticed in the case of advances outstanding per branch. The failure of advances made to grow in the same scale as the number of branches added year after year is the reason for such declining per branch average advances.

The number of borrowal accounts per branch and the amount borrowed per account showed a positive growth trend. While the increase in the amount per borrowal account indicates a growing credit requirements of the poor, the increase in number of borrowal accounts is a good indication of the increasing popularity of these institutions in their areas of operation.

Sectorwise distribution of total advances outstanding at the RRBs in Kerala is given in Table 4.8. It shows that

Table 4.8. Sectoral distribution of outstanding advances of RRBs in Kerala (as on 30-9-1985)

Sector	Amount (lakhs Rs)	Percentage to the total
1	2	3
Agriculture and allied activities	4594.84	56.96
Industry	305.18	3.78
Tertiary	3167.16	39.26
Total	8067.18	100.00

Source: Head Office of NMGB and SMGB

of the total outstanding advances of Rs.8067.18 lakhs at the end of August 1985, Rs.4594.84 lakhs (56.96 per cent) was for agriculture and allied activities. The tertiary sector which included loans for small traders, rural artisans etc. got the rest 39.26 per cent of the total advances

which accounted to Rs.3167.16 lakhs. It is noteworthy that industrial activity received the least amount of credit and in relative terms the share was insignificant. The relatively high share of the tertiary sector is also noteworthy. Due to the high level of unemployment in the State large number of persons have taken to petty trade which require very small investment. The inflow of Gulf money which was mainly used for consumption seems to have facilitated this development. The above pattern of financing indicates that the RRBs were more interested in servicing the existing types of activities rather than encouraging new kinds of activities. To this extent, the banks seems to have failed to provide dynamism to rural economic activities which they ought to have provided.

5. Recovery performance

The recovery percentage to demand was 72 per cent in the case of SMGB, and 55 per cent in the case of NMGB in 1984. These cannot be considered not too unsatisfactory as compared to the recovery rate of about 52% in the case of direct agricultural advances as a whole in the country.

There are many factors that help in the recovery performance. First and foremost factor is the good relationship that the bank keeps with the poor customers. Often the bank staff especially the branch managers are natives of the area and they are able to exert a friendly command over the local

customers. It is felt that the local poor are obliged to repay often. The influence of money flowing to the relatives of people working in gulf countries is felt more in the northern districts of Kerala. Hence people, even though poor are able to tide over temporary liquidity problems in those areas which is another factor which ought to help a fair recovery by the RRBs. Hence, the recovery performance ought to have been better particularly in the light of the risk-aversion exercise they seem to be doing as mentioned earlier.

A disheartening point reported by the banks in this regard was the practice of mass default by the borrowers in certain areas. Borrowers of certain localities refuse to repay the loans deliberately in groups. This is said to be politically motivated and is under the impression that the loans would somehow get written off at a later date. The banks are now practising a more thorough scrutiny of the loan applications from areas that are once identified to be under mass default.

6. Income, expenditure and profit or loss position

The total income and total expenditure of the two banks made steady progress throughout their growth. The relevant data are given in Table 4.9.

Table 4.9. Income and expenditure of RRBs in Kerala (amount in lakh Rs)
(end of December)

Income/ expenditure and profit/ loss	Name of Bank	1977	'78	'79	'80	'81	'82	'83	'84
1	2	3	4	5	6	7	8	9	10
Income	SMGB	9.15	51.02	103.21	158.28	223.87	282.60	355.71	450.80
	NMGB	6.07	33.99	61.88	95.52	162.66	228.17	228.50	235.34
	Total	15.82	85.01	165.09	253.80	386.53	510.77	584.21	686.14
Expenditure	SMGB	11.58	48.88	95.12	147.68	211.22	276.82	342.49	441.30
	NMGB	8.95	34.46	62.36	94.02	159.54	206.68	215.63	245.60
	Total	20.53	83.34	157.48	241.70	370.76	483.50	558.12	686.90
Amount of profit	SMGB	-	2.14	8.09	10.60	12.65	5.78	13.22	9.50
	NMGB	-	-	-	1.50	31.20	21.49	12.87	-
	Total	-	2.14	8.09	12.10	15.77	27.27	26.09	9.50
Amount of loss	SMGB	1.83	-	-	-	-	-	-	-
	NMGB	2.88	0.47	0.48	-	-	-	-	10.26
	Total	4.71	0.47	0.48	-	-	-	-	10.26
*Number of branches earning profit		-	-	-	-	66	64	79	51
*Number of branches incurring loss		-	-	-	-	26	43	28	56

Source : 1. Head Office, SMGB
2. Head office, NMGB

* Data from only one bank is included

It can be seen from the table that the total income rose from Rs.15.82 lakhs in 1977 to Rs.686.14 lakhs in 1984. Similarly total expenditure registered an increase from Rs.20.53 lakhs in 1977 to Rs.686.90 lakhs in 1984. The SMGB could earn profits or the bank could break even within just 2 years of life and was maintaining positive net profits. The NMGB could break even only after 3 years of functioning and then it could maintain positive profits till 1983. During 1984 while SMGB made a net profit of Rs.9.5 lakhs, NMGB incurred a loss of Rs.10.26 lakhs. The reasons cited by the NMGB for the loss in 1984 were the stagnation of advances till September 1984 and the increase in establishment expenses. The stagnation of advances was said to be due to the instruction of the RBI to reduce the proportion of advances under gold loans. The bank also claimed that the establishment expenses got increased by 57 per cent during 1984.

7. Conclusions

On the basis of the above discussions on the performance of the two RRBs in the State it can be stated that their overall performance was satisfactory. The banks could cover the 5 backward districts of the State and could emerge as premier banking institution in the areas of their operation. The expansion of branches, mobilization of deposits and advances made by these banks registered steady progress throughout the past and they, in many respects ranked among

the better performed RRBs in the country. However, there appeared to be some weak spots in their functioning. The relatively low average amount of credit extended and the shortfall in recovery may be mentioned in this connection.

Analysis of Short term credit

ANALYSIS OF SHORT TERM CREDIT

Data for this analysis were collected from sample beneficiaries of South Malabar Gramin Bank who took crop loans during the period from 1st April 1984 to 31st March 1985. Sixty borrowers and thirty non-borrowers were interviewed from the area selected. The results obtained and the discussions thereon are presented in this section under four sub-sections. The general characteristics of the economy of the sample borrowers in comparison with the sample non-borrowers is explained in the first sub-section. Sub-section two is devoted to explain the results of analysis of the impact of the crop loan on the cropping pattern, cropping intensity, cost of cultivation of major crops and farm income of the borrowers. Results of the analysis of credit use is the subject matter of discussion in the third sub-section and deals with aspects of resource use efficiency in the sample farms, loan utilization, credit gap and loan repayment status. The final sub-section gives a concluding note to this section.

1. General characteristics of the economy of sample farms

1.1. Land

Small and marginal farmers whose farm size did not exceed 2 hectares, agricultural labourers and tenant farmers who did not own land were the eligible categories for crop loan as per the eligibility criteria fixed by the South Malabar Gramin Bank. The distribution of borrowers and non-borrowers

according to different farm size groups is given in Table 5.1. All the sample borrowers surveyed belonged to the eligible groups.

Table 5.1. Distribution of borrowers and non-borrowers according to different farm sizes

Size groups (hectares)	Borrowers		Non-borrowers	
	Number of farms	Percentage	Number of farms	Percentage
1	2	3	4	5
I. 0-004	3	5.00	2	6.66
II. 0.041-0.40	31	51.70	12	40.00
III. 0.41-1.00	18	30.00	14	46.66
IV. 1.01-2.00	8	13.30	2	6.66
Pooled	60	100.00	30	100.00

The table reveals that farmers in categories II and III who are marginal farmers were predominant in the sample of borrowers accounting for 81.7 per cent. Another 13.33 per cent belonged to the category of small farmers. This highlights that, while as small man's bank the SMGB was trying to follow the eligibility criteria fixed for the advancing loans, the relatively small percentage in the Ist category which was predominantly agricultural labourers, indicates a weak spot in their lending activity. Garg et al. (1978) had similar findings in Uttar Pradesh.

There has been very little difference between the borrowers

and non-borrowers in the matter of ownership of land. Because the sample of non-borrowers were selected from the list of small and marginal farmers in the area. The average farm size in different size groups under borrowers and non-borrowers is given in Table 5.2.

Table 5.2. Average farm size among borrowers and non-borrowers

Size groups	Borrowers (Av. size in ha)	Non-borrowers (Av. size in ha)
1	2	3
I	0.033	0.036
II	0.238	0.265
III	0.673	0.755
IV	1.340	1.350
Pooled	0.500	0.520

The average size of operational holdings as based on the pooled data of the year 1984-85 was 0.50 hectare for the sample borrowers and 0.52 hectare for the sample non-borrowers. This indicates that there was very little difference between the overall average size of farms among borrowers and non-borrowers.

1.2. Family size

It is the level of income which influences the borrowing and repaying capacity of the borrowers and hence it can be considered as the main determinant of indebtedness. But apart from this factor, consumption spending which is a direct outcome

of the family size also considerably influences indebtedness. For, the higher the consumption level the lower is likely to be the rate of repayment and higher the burden of debt. Therefore, the distribution of family size among various size groups between borrowers and non-borrowers need to be specified. Table 5.3 shows the average size of farm family in different farm size groups among borrowers and non-borrowers in 1984-85.

Table 5.3. Average size of farm family in different size groups among borrowers and non-borrowers

Size groups	Borrowers		Non-borrowers	
	Family size/ farm	Land per capita (ha)	Family size/ farm	Land per capita (ha)
1	2	3	4	5
I	5.67	0.005	6.00	0.006
II	5.32	0.044	5.18	0.051
III	5.22	0.128	4.85	0.155
IV	5.62	0.238	5.00	0.270
Pooled	5.35	0.093	5.06	0.102

It can be seen from the table that sample farms of the two categories differed slightly in respect of their family size on a per farm basis. The mean family size was 5.35 and 5.06 among borrowers and non-borrowers respectively on a per farm basis. Though the average family size differed only slightly between borrowers and non-borrowers, there was clear evidence of wide dispersion in this regard among size groups of each

category on land per capita basis. The average size of land per capita among borrowers was 0.005 hectare in size group I, 0.044 hectare in size group II, 0.128 hectare in size group III and 0.238 hectare in size group IV. The corresponding figures for non-borrowers were 0.006 hectare for size group I, 0.051 hectare for size group II, 0.155 hectare for size group III and 0.270 hectare for size group IV. This shows that the larger the farms the larger was the land per capita. The land per capita also indicates that there was slightly more land per capita in the case of non-borrowers. The average land per capita of borrowers was 0.093 hectare and for non-borrowers it was 0.102 hectare.

1.3. Educational level

Education is considered to be an important determinant of the progressive nature of the farmer as it is supposed to affect his adoption of new innovations, his borrowing habit, ability to make judicious and intelligent use of credit and repayment of loans taken. It is often hypothesized that well educated farmer is likely to be non-defaulter because he is better aware of the pros and cons of default. Educational level of all the members of each family in the sample was considered rather than the educational level of the head of the family alone. Because in making important decisions a family performs as a single unit.

The educational profile of sample farm families is given in Table 5.4.

Table 5.4. Educational profile of sample farm families in 1984-85 (percentages)

Level of education	Size group				
	I	II	III	IV	Pooled
1	2	3	4	5	6
Borrowers					
Illiterate	23.6	21.1	15.1	17.7	19.2
Lower primary	5.8	20.6	11.7	8.8	15.5
Upper primary	17.7	13.3	18.5	13.6	14.9
High School	52.9	32.7	43.6	31.1	36.7
Above H.S. level	Nil	12.3	11.1	28.8	13.7
All	100	100	100	100	100
Non-borrowers					
Illiterate	42.9	32.4	17.3	10.0	21.1
Lower primary	8.3	34.3	16.4	30.0	22.6
Upper primary	25.0	25.3	20.9	20.0	21.6
High School	16.8	13.5	30.9	40.0	24.6
Above H.S. level	Nil	4.5	15.5	Nil	10.0
All	100	100	100	100	100

Table reveals that the percentage of literacy as well as the percentage of higher education was slightly more among borrowers. Percentage of literacy was 80.8 per cent among the borrowers and 78.9 per cent among the non-borrowers. More than 50 per cent of the family members of the borrowers had attained high school level and above education whereas the corresponding percentage for the non-borrowers was 34.7 per cent. The percentage of illiteracy was falling with increase in size group among both borrowers and non-borrowers. It is

obvious to note that none of the members among sample farm families of lowest size group had attained college education.

1.4. Earners and Dependents

A family consists of earners and dependents. The larger is the number of dependents per earner the higher will be the consumption spending relative to income which, on the other hand will curtail the availability of funds to repay the loan amount. Therefore such families will generally be reluctant to borrow. Table 5.5 reveals the distribution of earners and dependents among borrowers and non-borrowers.

Table 5.5. Distribution of earners and dependents among sample families during 1984-85

Size group	Borrowers			Non-borrowers		
	No. of earners	No. of dependents	Dependency ratio	No. of earners	No. of dependents	Dependency ratio
1	2	3	4	5	6	7
I	2.33	3.33	1.42	2.00	4.00	2.00
II	2.06	3.25	1.58	1.58	4.00	2.53
III	2.16	3.05	1.41	2.98	4.92	1.65
IV	2.50	3.125	1.25	2.00	3.00	1.50
Pooled	2.16	3.18	1.47	2.33	4.30	1.84

The distribution shows that the dependency ratio was higher in all size groups among the non-borrowers. The dependency ratio was falling with larger size groups among both borrowers and non-borrowers except in the case of size group II. The

mean dependency ratio among the borrowers was 1.47 and it was 1.84 in the case of non-borrowers. This means that each earner among the non-borrowers had to maintain larger number of dependents. The calculation of dependency ratio according to farm size group reveals that there was an inverse relationship between farm size and ratio of dependents irrespective of the category of farmers. But the farm size group II was an exception to this rule. This group showed the highest dependency ratio among borrowers as well as non-borrowers. The family members of this group were generally reluctant to go in for ordinary farm casual labour unlike the lower size group on the one hand and were not that much affluent to find a non-farm job unlike larger size groups on the other. Therefore a certain percentage of the work force of family members of this group were remaining jobless and hence as dependents. This was the reason for the increased dependency ratio for this group. Similarly, the non-borrowers were found generally non-responsive to any new innovation, were not that much dynamic unlike the members of the borrowers. Even members of their family within workable age groups were not involved in any productive employment, and hence there was more number of dependents per earner.

1.5. Family income

Households rather than individuals were used as units of measurement for two reasons. First, the household is the frame of reference for consumption decisions. Secondly, the

household acts as the economic unit on the production side rather than individuals. Each household is the firm in the production process. Morgan (1962) indicated that there is little difference between distribution measures for the household and the individual. Therefore, in the present study and in further discussions a family is treated as one farm unit.

Chauhan et al. (1972) referred to gross farm income as the value at prevailing prices of marketed as well as retained crop output and also the income from allied activities such as dairy, goats and poultry.

In the present analysis net farm income was considered as the difference between gross farm income in the above sense and the operational costs. Income from crops and allied farm activities was added together to get the total income from farm sources per annum. Income from salary/wages and similar other sources accruing to the members of the family was added together to get the income from all non-farm sources per annum. Total family income per annum is the sum of total incomes from farm sources as well as non-farm sources.

The average family income per annum of the different size groups were looked into for ascertaining the extent of farm income in the total family income of the two categories of farmers viz. borrowers and non-borrowers. The farm and non-farm sourcewise family income of the different size groups of borrowers and non-borrowers are given in Table 5.6.

Table 5.6. Sources of family income of borrowers and non-borrowers during 1984-85

Size groups	Family income - average(Rs)			Percentage of farm income to total income
	Farm	Non-farm	Total	
1	2	3	4	5
Borrowers				
Size group I	2933.30	4755.60	7688.90	38.14
II	3050.60	2478.70	5529.30	55.47
III	4456.40	2002.70	6459.10	68.99
IV	7394.00	2937.50	10331.50	71.56
Pooled	4045.70	2103.80	6149.50	65.75
Non-borrowers				
Size group I	800.00	2183.50	4583.50	17.45
II	1946.80	2450.00	4396.80	44.27
III	4828.60	3685.70	8514.30	56.70
IV	5394.00	2500.00	7874.00	68.33
Pooled	3478.30	3065.00	6563.90	53.29

As it appears from the table, the borrowers had a higher proportion of farm income in their total family income compared to the non-borrowers. The mean percentage of income from farm source in the total family income was 65.75 per cent for the borrowers and the corresponding percentage for the non-borrowers was 53.29. Among both the borrowers as well as non-borrowers, farm income was directly related to farm size except for farm size group II. For size group I more than 50 per cent of their family income was from agricultural

labour, and for this group the total family income was higher than the second group.

1.6. Borrowings

Table 5.7 gives details of borrowing by the different categories of borrowers during the year of our investigation.

Table 5.7. Details of borrowings

Land holding size group	Total borrowings (Rs)			Per cent to total RRB loan to sample	Average per borrower (RRB loan) (Rs)	Average per hectare of land holding (RRB loan)
	From RRBs	Other sources	Total			
1	2	3	4	5	6	7
I	2500.00	Nil	2500.00	2.12	833.33	25252.42
II	42270.00	Nil	42270.00	35.85	1363.55	5729.20
III	42650.00	Nil	42650.00	36.17	2369,44	3520.11
IV	30500.00	Nil	30500.00	25.86	3812.50	2845.14
Total	117920.00		117920.00	100.00	1965.33	3930.66

A substantial proportion of the loan amounts were received by marginal farmers and the proportion received by agricultural labourers who form the 1st category was insignificant. The average amount per borrower increased with size of operational holding. Though this can be considered quite unexceptional because the loans were meant to finance seasonal agricultural operations, considering the fact that these were the only loans obtained by these borrowers from RRBs, the short term

lendings of the bank ought to be considered as biased against agricultural labourers. This is in spite of the fact that on the basis of unit area of land operated they have obtained higher levels of financing. In this connection one has also to bear in mind that almost the entire short term lendings of the bank were for seasonal agricultural operations.

2. Impact of the crop loan

2.1. Cropping pattern

Venkataramanan and Prahladhachar (1980) defined an unchanging cropping pattern as a situation where the respective areas under all crops bear the same proportion to the gross cropped area over the years. The rate of growth in area under individual crops differing significantly from the rate of growth of gross cropped area was taken by them as evidence of change in cropping pattern. The above concept of cropping pattern is considered in this analysis also to study the cropping pattern with regard to different size groups in the study area and to see whether there is any significant difference between the cropping patterns followed by the borrowers and non-borrowers. With this background, the cropping pattern followed in the study area can be explained as follows.

Paddy occupies the prominent role in the agricultural economy of the study area. The first two crops are rainfed and the third crop is confined to back water areas. The average yield of paddy was higher than the state average in the

study area. The area under paddy had been declining gradually over the past several years.

Coconut is the most important commercial crop of the area. The area under coconut has been increasing steadily due to the introduction of governmental programmes like subsidy scheme of the Coconut Development Board for coconut new planting and also due to handsome returns. Productivity is higher in coastal and midland regions and also under irrigated conditions. Those who apply fertilizers properly and are providing irrigation facilities were realizing increased production.

Arecanut is an important cash crop of the area. The soil is suitable for its cultivation. The crop is generally cultivated as an intercrop in coconut gardens with mostly pepper trained on them. Pepper is an important spice crop cultivated in the area mainly grown in high and midland regions.

Banana is the major fruit crop of the area. The area under this crop has been growing steadily over the years in the area as it is the most paying seasonal crop.

The characteristic features of cropping pattern followed by sample farmers among borrowers and non-borrowers can be seen from Table 5.8.

The table reveals that there was very little difference between the cropping patterns followed by borrowers and non-borrowers. Among size groups one notable aspect of cropping pattern followed is the increase in number of plants of

Table 5.8. Cropping pattern followed in the sample farms during 1984-85

Size groups	Area in hectares of paddy or number of plants of other crops				
	Paddy (ha)	Banana (No.)	Coconut (No.)	Arecanut (No.)	Pepper (No.)
1	2	3	4	5	6
Borrowers					
I	-	366	-	-	-
II	0.06	100	16	25	25
III	0.23	175	25	160	160
IV	0.48	50	59	150	150
Pooled	0.17	129	24	85	85
Non-borrowers					
I	-	35	2	-	5
II	-	60	18	43	43
III	0.43	115	28	130	130
IV	0.65	50	44	180	180
Pooled	0.49	73	23	84	85

commercial crops like coconut and pepper in the larger size groups. Area under paddy was also larger for larger size groups. The number of plants of banana cultivated by borrowers and non-borrowers showed considerable difference especially among small size groups. The size group I among the borrowers had cultivated on an average 366 banana plants and that too on land leased in. Apart from the difference in number of plants of banana cultivated by the small size groups,

the impact of the SMGB crop loan on the cropping pattern followed in the area could not be ascertained.

2.2. Cropping intensity

Jhol and Kapur (1973) have defined cropping intensity as the ratio of area cropped to the total cultivated area and expressed as a percentage.

$$\text{Cropping intensity} = \frac{\text{Area cropped}}{\text{Total cultivated area}} \times 100$$

On the above basis cropping intensity of the sample farms were calculated and the result is presented in Table 5.9.

Table 5.9. Cropping intensity of the sample farms during 1984-85

Size groups	Average farm size (ha)	Area cropped (ha)	Cropping intensity (%)
1	2	3	4
Borrowers			
I	0.033	0.339	102.28
II	0.238	0.267	112.60
III	0.673	0.750	111.47
IV	1.340	1.419	105.97
Pooled	0.500	0.559	111.80
Non-borrowers			
I	0.036	0.020	55.55
II	0.265	0.225	85.18
III	0.755	0.714	94.68
IV	1.350	1.290	96.22
Pooled	0.520	0.510	98.07

As is evident from the table, all the size groups of borrower farms had a higher crop intensity than the corresponding size groups of non-borrower farms during the reference period. The cropping intensity of various groups of borrower farms were 102.28 per cent, 112.60 per cent, 111.47 per cent and 105.97 per cent for size groups I, II, III and IV respectively. Cropping intensities in the non-borrower farms in the same order of size group were 95.55 per cent, 85.18 per cent, 94.68 per cent and 96.22 per cent. The high cropping intensity of the borrower farms had been reported by Rai et al. (1975).

2.3. Cost of cultivation of major crops

Cost of cultivation can be considered as a proxy for the extent of input use in raising of crops. It is a measure of current farm expenditure and includes cash expenditure as well as non-cash expenditure. The cash component consists of paid out costs met by the farmer for purchase of seeds, manures and fertilizers, plant protection chemicals, etc, charges incurred for irrigation, livestock maintenance, hiring of machinery and animal labour and payments made to hired human labourers. Non-cash component is constituted by items like cost of family labour, wages of owned bullock labour, value of owned seeds and manures, etc. For these items costs are imputed costs at the prevailing market rate. Manday units of eight hours per adult is considered as one manday labour. Three women labour were taken equivalent to one manday unit. This conversion is based

on the prevailing wage rates of male and female labourers in the area i.e. Rs.30/- per day for male casual labourers and Rs.10/- per day for female casual labourers. Family labour was treated on par with casual labour for the purpose of accounting labour costs.

A work unit of 4 hours per day is taken as one bullock labour as per the convention followed in the area. Prevailing hiring charges were taken as the cost of bullock labour i.e. Rs.40 per day.

Similarly, the value of farm produced seeds and manures were imputed at the prevailing market price.

The cost of cultivation per unit area for paddy and per plant for other crops cultivated by the sample farmers is given in Table 5.10. These costs cover all the variable costs.

The average cost of cultivation per hectare of paddy, cost of cultivation per plant of coconut, banana, arecanut and pepper were found to be high for the borrower group of farmers. The average cost of cultivation of paddy per hectare was Rs.3710 for the borrowers and was only Rs.3299.73 for the non-borrowers. The increase in cost of cultivation of paddy was 13.11 per cent for the borrowers. The average cost of cultivation per plant of banana showed a remarkable difference between the borrowers and non-borrowers. For the former it was Rs.11.60 per plant whereas it was only Rs.5.73 per plant cultivated by the latter category. The increase was to the

Table 5.10. Cost of cultivation of major crops during 1984-85

Size group	Cost of cultivation of crop Rs/ha for paddy and Rs/plant for other crops				
	Paddy	Banana	Coconut	Arecanut	Pepper
Borrowers					
I	-	9.40	-	-	-
II	4796.75	9.80	18.85	9.09	1.52
III	3767.00	12.20	20.90	9.38	1.81
IV	3732.75	14.80	18.40	9.40	1.86
Pooled	3710.00	11.60	19.50	9.29	1.57
Non-borrowers					
I	-	4.46	-	-	-
II	-	7.98	16.98	8.60	1.26
III	3822.25	4.80	16.30	8.90	1.28
IV	2473.12	5.62	18.45	9.40	1.60
Pooled	3279.73	5.73	15.60	8.22	1.10

tune of 100.24 per cent. In other words the borrowers spent almost double the cost for cultivation of a banana plant than the non-borrowers. The cost of cultivation per plant of coconut, arecanut, and pepper were also higher for the borrower category than the non-borrowers, but the magnitude was not as much high as in the case of cost of cultivation of banana. The increase in cost of cultivation per plant of coconut, arecanut and pepper for the borrowers were 24.83 per cent, 13.01 per cent and 43.27 per cent respectively.

2.4. Cropwise returns

Cropwise returns per hectare of the cultivated crops were worked out for each category of borrowers as well as non-borrowers. The details are given in Table 5.11.

Table 5.11. Cropwise net returns from major crops during 1984-85

Category	Cropwise net returns in Rs/ha for paddy and Rs/plant for other crops				
	Paddy	Banana	Coconut	Arecanut	Pepper
1	2	3	4	5	6
Borrowers					
I	-	26.2	-	-	-
II	1458.7	26.7	96.88	12.12	3.65
III	1658.5	28.3	99.12	14.16	4.12
IV	1859.1	34.9	92.16	12.61	4.01
Pooled	1577.99	28.24	96.92	14.95	3.82
Non-borrowers					
I	-	9.12	-	-	-
II	-	11.96	78.67	11.77	3.41
III	811.0	10.75	86.085	12.14	4.09
IV	318.0	11.16	99.33	11.78	3.33
Pooled	463.61	11.34	83.90	11.56	3.61

For all the crops borrowers obtained greater returns than non-borrowers and in some cases the difference was quite substantial. Thus, it is evident that short term loans have helped the borrowers to augment their farm incomes.

2.5. Input use

Input use per hectare of area cultivated was analysed in terms of fertilizer nutrients. Table 5.12 gives relevant details.

Table 5.12. Extent of fertilizer nutrients used by borrowers vis-a-vis non-borrowers in 1984-85

Size groups	Borrowers (kg/ha)				Non-borrowers (kg/ha)			
	N	P_2O_5	K_2O	Total	N	P_2O_5	K_2O	Total
1	2	3	4	5	6	7	8	9
I	22.64	11.16	18.36	52.16	10.12	9.60	8.40	28.12
II	20.12	11.04	13.91	45.07	16.73	6.85	7.14	30.72
III	24.05	12.90	29.10	56.05	19.65	12.87	12.34	45.86
IV	24.61	13.08	22.12	59.81	20.78	9.48	16.17	46.42
Pooled	22.02	11.87	16.79	50.68	17.81	9.14	10.27	37.22

It is evident from the table that there was considerable difference in input use in terms of fertilizer nutrients between the borrowers and non-borrowers during 1984-1985. The borrowers had on an average used fertilizer nutrients to the tune of 36.16 per cent more than the non-borrowers. This difference in input use was more remarkable in the case of smaller size groups. It is evident from the table that availability of crop loan has helped the borrowers to increase the use of fertilizers as compared to non-borrowers.

2.6. Labour use

Human labour is the expensive resource in the operation of a farm. Usually the labour requirement in addition to family labour is met by hiring casual labourers. Though the total labour use in a farm is related to the size of the farm, it actually depends on the cultivation operations undertaken in the farm during a particular period.

In the present analysis the total labour used for the day to day operations in the farm was taken and the total labour used was worked out for the year under reference. For uniformity of expression female labour was converted into Manday units and the total labour use in one year was arrived in terms of 8 hours' manday units. Table 5.13 shows the variation in total labour use among different farm size groups and the split up of total labour use into family labour and hired labour.

The table shows that there existed some differences with regard to total labour use per year, both on a per farm and per hectare basis between the sample farmers of borrowers and non-borrower groups. Total labour use per farm and per hectare were high for the farmers of the borrower group. With regard to variation among size groups, the table reveals that the proportion of family labour was higher in smaller farms compared to the larger ones. This was true for both borrowers as well as non-borrowers.

Table 5.13. Average labour use per farm and per hectare in different farm size groups during 1984-85

Category	Labour use (Mandays)				Percentage of family labour to total
	Family labour use per farm	Hired labour use per farm	Total labour per farm	Labour use per hectare	
1	2	3	4	5	6
Borrowers					
I	14.65	12.35	27.00	158.82	54.25
II	9.25	11.92	21.20	89.07	43.77
III	11.69	25.71	40.40	60.02	28.93
IV	1.00	71.30	72.30	53.95	1.38
Pooled	9.14	24.89	34.03	65.69	26.85
Non-borrowers					
I	8.85	8.00	16.85	94.11	49.57
II	4.15	7.43	11.58	43.69	35.83
III	7.15	39.54	46.69	61.84	15.31
IV	0.00	37.95	37.95	28.10	0.00
Pooled	6.92	23.22	30.14	53.02	22.95

The above analysis make it clear that where the small farms would be using less of hired labour for their farm operations, the larger size groups would be depending more on hired labour for their farms. Intensity of labour use was very high in small size groups as compared to larger size groups. On a per hectare basis the borrowers used 23.89 per cent more labour for their farm operations in an year than the non-borrowers. Thus, credit has helped to provide greater employment opportunities on borrower farms.

2.7. Farm income

The analysis of farm income was done with a view to see whether there is any difference between the farm income realized by the borrower vis-a-vis non-borrower of the same farm size group. It would also highlight the relation between farm size and farm income. The net farm income from all farm sources of the sample farmers were collected, the relevant details are given in Table 5.14.

Table 5.14. Average farm income of sample farmers during 1984-85

Size groups	Farm income/farm (Rs)		Farm income/ha (Rs)	
	Borrowers	Non-borrowers	Borrowers	Non-borrowers
1	2	3	4	5
I	2933.30	800.00	22222.22	16781.10
II	3050.60	1946.80	12817.64	7346.42
III	4456.40	3828.60	6621.69	5070.99
IV	7394.00	5394.00	5517.90	3995.55
Pooled	4045.70	2913.62	8091.40	5603.10

As it appears from the table, in all size groups the farm income on a per farm basis and a per hectare basis was high in the case of borrower category of farmers. On an average, the per hectare farm income was Rs.8091.40 for the borrowers and Rs.5603.10 for the non-borrowers. The average farm income per holding for a borrower farmer was Rs.4045.70 and for a non-borrower farmer it was only Rs.2913.62. The average farm income

per farm of the borrowers was higher than the average farm income per farm per year of the non-borrowers by 38.85 per cent. This increase in farm income of borrower farmers is attributable to the returns for their increased input use and increased labour use per unit area of the farm achieved with the help of crop loan from SMGB.

3. Analysis of credit use

Productive use of loan may be defined as the use of credit exclusively for the purpose for which it is borrowed. The use of credit in part or full for any other desirable or undesirable purpose has to be visualised as diversion of credit or misutilization of credit. To assess the extent of diversion of credit and productivity of credit used, certain aspects such as average amount of credit advanced for each purpose, its productivity on different farm sizes, credit utilization, credit gap etc. were looked into and the results are given below.

3.1. Purposewise distribution of crop loans

Crop loans were issued to meet current farm expenses like purchase of seeds, manures and fertilizers, plant protection chemicals, payment for hired human and animal labour etc. including the harvesting and processing of the produce. The loans are to be repaid when the harvest of the crop for which loan is taken is over and the maximum period allowed for repayment is upto one year. The interest rate charged for these loans is 10.5 per cent per annum. Paddy, banana and coconut

were the crops for which loans were issued to sample borrowers. Table 5.15.shows the cropwise distribution of loans taken by sample farmers during 1984-85.

Table 5.15. Average amount of crop loan distributed cropwise by the SMGB during 1984-85

Size groups	Average amount of loan (Rs)			Total
	Coconut	Paddy	Banana	
1	2	3	4	5
I	-	-	833.33 (3)	833.33)3)
II	1645.41 (12)	965.60 (5)	1264.28 (18)	1363.54 (31)
III	3414.28 (7)	500.00 (1)	1825.00 (10)	2369.44 (18)
IV	4500.00 (4)	2500.00 (2)	3750.00 (2)	3812.50 (8)
Pooled	2680.21 (23)	1290.63 (8)	1584.48 (29)	1965.32 (60)

(Figures in parenthesis indicate the number of borrowers in the sample)

The cropwise distribution of crop loans shows that the crop banana got the maximum number of loans, but the average amount of loan issued was maximum for coconut. Of the sample borrowers 48.33 per cent took loans for the crop banana, 38.33 per cent for coconut and the rest for paddy. In terms of amount the highest was for coconut, followed by banana and paddy. Thus, in spite of the fact that paddy area is the

highest, borrowings for paddy cultivation was the least. This was because often relatively low net returns from paddy cultivation. The average amount of loan taken for coconut, banana and paddy were Rs.2680.21, Rs.1584.48 and Rs.1290.63 respectively. The average amount of crop loan taken by an individual borrower was Rs.1965.32 during 1984-85. As noted earlier the amount advanced as loan was found to have a direct relationship with farm size. The borrowers of group I were tenant farmers cultivating only banana on land taken for rent. It is also worth noting from the table that as the size groups become larger and larger, the loans for raising commercial crop like coconut was increasing.

3.2. Resource use efficiency

Resource use efficiency is examined through the technique of linear programming. Linear programming is a planning technique that is often helpful in decisions requiring a choice among a large number of alternatives. The programming procedure is designed to specify the farm plan which will yield maximum income given the restraints, prices and yields anticipated.

Here the attempt is to arrive at optimum crop combinations in the sample farms of borrowers as well as non-borrowers and to compare those optimal plans with the existing crop mix.

The linear programming model used was of the following form.

Maximise $Z = CX$

subject to $AX \leq B$

and $X \geq 0$

where X = level of activity

C = net income per unit of activity

A = input per unit of activity (input coefficient)

B = input availability

Five crops dominated in the cropping pattern followed in the area and these alone were considered in the farm plan. Paddy, coconut, banana, arecanut and pepper were the crops. The crop pepper was raised as an intercrop in arecanut gardens, mostly trained on the arecanut palms. Therefore this crop was not at all competing for the extremely limited resource, the land. Therefore, arecanut plus pepper was considered as a single enterprise as was done by Jayachandran (1985).

Singh (1971) has stated that in agriculture the main resource constraints may be "different qualities of land, seasonal labour supply, animal and mechanical power, fertilizers and chemicals, finance, behavioural constraints such as consumption goal, flexibility and adoption constraints and technological constraints". After examining the resource position of each group of farms in which programming was tried, land, labour and capital were identified as the major constraints.

3.2.1. Land

Both wet land and garden land were identified as separate constraints, because in the study area it was practically

difficult to use the wet land area for crops other than paddy. The constraints were put as follows:

1) Area under paddy $\leq$ wet land area

2) Area under coconut + banana + arecanut + pepper $\leq$ Garden land area.

3.2.2. Labour

As the cost of labour was included in the capital requirements of each unit of activity and as the availability of labour was not a constraint in the study area, labour as such in respect of magnitude was not considered as a constraint.

3.2.3. Capital

The average amount of working capital utilized on the sample farms of each size group during the year under reference was taken as the restriction level.

3.2.4. Production coefficients

Production coefficients are always stated in terms of the amount of input required per unit of an activity. These are otherwise termed as input coefficients. Desai (1963) suggested that the best estimate of input coefficients would be the average of input use obtained over the samples in a category. On similar lines, in the present study the input coefficients were calculated by taking the average of a resource used for each activity in each size group and computing the quantity per unit of activity.

3.2.5. Net margins

For calculating the net margins, first total variable costs for one activity on each farm was deducted from the total returns from it on the respective farm to get the net returns. The net returns for the activity in each farm in a size group and the corresponding area were separately added up and from this, the average net return per unit of activity was worked out. In the case of perennial crops the net margins per unit of activity was arrived at by calculating the average annual net present worth.

Optimal crop combinations were worked out for three farm size groups viz. 0.04 ha to 0.4 ha, 0.4 ha to 1 ha and above 1 ha group, both among borrowers as well as non-borrowers. The three groups of non-borrowers were assumed to have borrowed a quantum of money equal to the average amount of borrowing by the corresponding group of borrowers and the optimal plans were re-worked. Similarly optimal plans were also re-worked for the borrowers by increasing their capital availability 25 per cent and 50 per cent levels. The results obtained are presented size groupwise in the following tables.

From the tables it can be seen that the net margins of the optimal plans rise uniformly higher in all the size groups of borrowers as well as non-borrowers. In the size group I, the net margin of the borrowers increased from Rs.3050 to Rs.4395 (44.09 per cent) in the optimal plan. By mere reallocation of the existing resources, non-borrowers in Group I

Table 5.16. Existing and optimum crop mix for size group 0.04 to 0.4 ha (average garden land 0.21 ha)

Items	Area in hectares of paddy or number of plants of other crops			
	Existing plan	Optimal plan	Optimal plan with 25% increase in capital	Optimal plan with 50% increase in capital
1	2	3	4	5
Borrowers				
Paddy (ha)	0.06	-	-	-
Coconut (No.)	16	28	22	19
Banana (No.)	100	125	200	250
Arecanut + Pepper (No.)	25	-	-	-
Net margin (Rs)	3050	4395 (44.09)	4730 (55.08)	5066 (66.09)
Non-borrowers		(optimal plan with borrowing)		
Coconut (No.)	18	21	7	
Banana (No.)	60	100	300	
Arecanut + pepper (No.)	43	-	-	
Net margin (Rs)	2746	2896 (5.46)	4193 (52.69)	

Figures in parenthesis are percentage change over existing plan

Table 5.17. Existing and optimum crop mix for size group 0.4-1 ha (average garden land 0.52 ha)

Items	Area in hectares of paddy or number of plants of other crops			
	Existing plan	Optimal plan	Optimal plan with 25% increase in capital	Optimal plan with 50% increase in capital
1	2	3	4	5
Borrowers				
Paddy (ha)	0.23	-	-	-
Coconut (No.)	25	68	59	52
Banana (No.)	175	325	450	550
Arecanut + pepper (No.)	160	-	-	-
Net margin (Rs)	4956	10513 (112.12)	11095 (123.87)	11667 (135.41)
Non-borrowers			(Optimal plan with borrowing)	
Paddy (ha)	0.43	-	0.21	
Coconut (No.)	28	30	-	
Banana (No.)	115	725	1150	
Arecanut + Pepper (No.)	130	-	-	
Net margin(Rs)	4828	10359 (113.85)	12586 (160.68)	

Figures in parenthesis are percentage change over existing plan

Table 5.18. Existing and optimum crop mix for size group above 1 ha

Items	Area in hectares of paddy or number of plants of other crops			
	Existing plan	Optimal plan	Optimal plan with 25% increase in capital	Optimal plan with 50% increase in capital
1	2	3	4	5
Borrowers				
Paddy (ha)	0.48	0.26	0.48	0.48
Coconut (No.)	59	231	222	200
Banana (No.)	50	-	-	-
Arecanut + pepper (No.)	150	-	65	220
Net margin (Rs)	7394	23223 (214.07)	23829 (222.27)	24361 (229.41)
Non-borrowers			(Optimal plan with borrowing)	
Paddy (ha)	0.65	-	-	
Coconut (No.)	44	84	21	
Banana (No.)	50	550	1450	
Arecanut + pepper (No.)	180	-	-	
Net margin (Rs)	5394	14757 (173.58)	18287 (239.02)	

Figures in parenthesis are percentage change over existing plan

could improve.their net margin only by 5.46 per cent. But assuming they can borrow an amount of money as much as the borrowers in this group could borrow, the optimal plan worked out showed a remarkable improvement of the net margin, by 52.63 per cent more than the existing plan.

In the size group II the borrowers were able to increase their net margin from Rs.4956 to Rs.10513 (112.12 per cent) by reallocation of the existing resources. The net margin of the non-borrowers increased by 113.85 per cent in the optimal plan. With borrowing, the rise in net margin was 160.68 per cent over the existing plan.

In the largest size group (above 1 ha) analysed, the net margin of the optimal plan showed a rise by 214.07 per cent i.e. from Rs.7394 to Rs.23223 by just reallocating the existing resources. Non-borrowers of this group are also able to increase their net margin from Rs.5594 to Rs.14757 (173.58 per cent) by reallocation of the existing resources. With borrowing the net margin of the optimal plan increased by 239.02 per cent over the existing plan.

3.2.6. Utilization of resources

The resources that were left unutilized in the optimal plans of the different size group of borrowers and non-borrowers are given in Table 5.19.

Table 5.19. Resources not utilized in the optimal plans

Resources Categories	Wet land (ha)	Garden land (ha)	Capital (Rs)
1	2	3	4
Borrowers			
Size group 0.04-0.4 ha	0.06 (0.06)	0	0
Size group 0.4-1 ha	0.23 (0.23)	0	0
Size group above 1 ha	0.22 (0.48)	0	0
Non-borrowers			
Size group 0.04-0.4 ha	-	0	0
Size group 0.4-1 ha	0.43 (0.43)	0	0
Above 1 ha	0.65 (0.65)	0	0

Figures in parenthesis are available wet land for that size group

Land

From the table it is seen that all the groups of borrowers and non-borrowers garden land was completely utilized while wet land was almost left unutilized except in the case of size group III of the borrowers. In their group also only 45.8 per cent of the wet land area has been utilized. One point note-worthy here is that in all the improved plans while the area under paddy was nil or lower the number of plants of plants of banana and coconut was increasing. In other words, resources other than land got allocated to other more remunerative crops like banana and coconut. Paddy land was left fallow in all of the improved

plans. In the present analysis, had the land restriction not put separately as wet and garden land and had the land restriction put as a single unit, the paddy area also might have got alloted to more remunerative crop of banana or coconut in the improved plans. However, since the wet land is specific to paddy crop, it is not possible to raise other crops on such land without additional investment. Net margins worked out at increased capital levels suggest that it is worth using more capital. This is true of all the size groups of borrowers and non-borrowers. It is not wise to think that the entire increase in capital use should be met by borrowing because, for the larger size groups it will be possible to plough back a part of their net margin into the farm production to cause further improvements. But for smaller size group of 0.04 ha to 1 ha, the net margin at optimal plan is only Rs.4395 and may not have enough own funds to improve their farm plan further.

Capital, including borrowed funds, was also fully utilized in all the optimum plans. It appeared that capital constraint was the reason for the non-utilization or under-utilization of wet land. It was therefore decided to release the capital constraint by assuring 25% increase in borrowing. The results of this increase can be seen from Tables. Here also there was very little improvement in the utilization of wet land. This plan showed increases in income which was 55% over the existing plan for the first group, 112 per cent for the second group and 222 per cent for the third group. However, even under this

plan paddy land was unutilized except in the largest size group. In view of this, capital constraint was further released to allow for 50% increase in capital use from the existing level. Here again though there was possibility of further increase in net increases, wet land remained unutilized in all but the largest size group.

Labour

In the analysis it was assumed that labour was available as per requirement. Assuming such an unlimited availability of labour, the increase in labour requirement at the improved plans were worked out and the results are given in Table 5.20.

Table 5.20. Labour use in man days per year at improved plans

Size groups	Existing plan	Optimal plan	Optimal plan with 25% increase in capital	Optimal plan with 50% increase in capital
1	2	3	4	5
Borrowers				
0.04 ha-0.4 ha	21.26	15.57	21.51 (1.17)	25.47 (19.80)
0.4 ha-1 ha	40.40	37.05	46.10 (14.1)	53.34 (32.02)
Above 1 ha	72.73	60.76	73.48 (1.63)	74.44 (2.29)
Non-borrowers			(optimal plan with borrowing)	
0.04 ha-0.4 ha	11.58	9.82	21.11 (82.29)	
0.4-1 ha	46.69	63.54 (36.08)	104.50 (123.80)	
Above 1 ha	37.95	56.21 (48.11)	114.63 (202.05)	

Figures in parenthesis are percentage change over existing plan

In the optimal plans worked out with the existing resources, labour requirement was within the used limits in the existing plan. Except in the two large size groups of non-borrowers, all group of farmers required less labour in the optimal plan than the existing labour use. But with an assumed increase in capital by 25 per cent, the labour use increased by 1.17 per cent, 14.1 per cent and 1.63 per cent respectively in the size group I, II and III of the borrowers. When the capital was increased by 50 per cent the labour use increased correspondingly by 19.80 per cent, 32.02 per cent and 2.29 per cent. The increase in labour use was more remarkable in the case of optimal plans at non-borrowers. In the optimal plans with borrowing of the non-borrowers labour use increased from 11.58 mandays to 21.11 mandays (82.29 per cent) for size group 0.04 ha-0.4 ha group, from 46.69 mandays to 104.50 mandays (123.80 per cent) for size group 0.4 ha to 1 ha and from 37.95 mandays to 114.63 mandays (202.05 per cent) for size group above 1 ha. In a state like ours where the industrial labour opportunities are scarce and where lot of unemployment and underemployment exist creation of more labour days of employment in the agricultural sectors as a part of improving the farm plan with the help of credit is very desirable.

The above discussions show that with proper farm planning it is possible to increase the net income of borrowers with the existing level of credit. It is also possible to increase the net income of borrowers if they are willing and able to borrow.

With additional capital, over and above the existing level of borrowing by borrowers also, there is scope for increasing incomes further. Though this exercise was not repeated for non-borrowers, it stands to reason that the result would be similar. It has also been shown that with increase of credit/capital employment opportunities would increase considerably. All these indicate the potentialities of pumping in additional capital into the farming operations of small farmers in the study area, which the RRBs are doing, but the entire potentials of which do not appear to be realized for want of appropriate farm planning.

3.3. Pattern of utilization of crop loans

Borrowing is reported to be productive and non-productive depending upon the nature of its utilization for different purposes. The utilization can be full, partial or non-utilization as the amount out of the loan is used fully, partially or nil for the purpose for which loan was taken. The total and average amount of loan taken by the sample borrowers on different size groups and its utilization stat s are displayed in Table 5.21.

The analysis of utilization pattern of the loans reveals that 54.75 per cent of the amount advanced has been utilized fully for the purpose for which advanced. On an average, of the total amount advanced 14.71 per cent was completely unutilized, 11.66 per cent partially utilized and 14.71 per cent partially unutilized.

Table 5.21. Distribution of utilization status of loan among different size of farm (amount in Rs)

Size group	Total amount of loan	Average amount of loan	Amount of loan fully utilized	Amount of loan partially utilized	Amount of loan fully unutilized	Amount of loan partially unutilized
1	2	3	4	5	6	7
I	2500.00	833.33	2500.00	-	-	-
II	42270.00	1363.54	29270.00 (69.24)	2500.00 (5.91)	7000.00 (16.56)	3500.00 (8.28)
III	42650.00	2369.44	25800.00 (60.4)	4500.00 (10.55)	2850.00 (18.40)	4500.00 (10.55)
IV	30500.00	3812.50	7000.00 (22.95)	6750.00 (22.17)	7500.00 (24.59)	9250.00 (30.32)
Pooled	117920.00	1965.33	64750.00 (54.75)	13750.00 (11.66)	17350.00 (14.71)	17250.00 (14.63)

(Figures in parenthesis shows corresponding percentages to total)

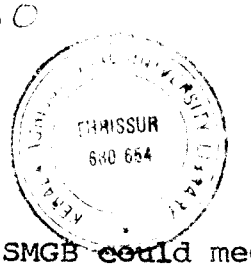
It is interesting to note that the highest level of full utilization of loan was noted among smaller size groups, the utilization rate getting lowered with larger and larger size groups. It was as low as 22.95 per cent in the highest land holding category. It shows that while some borrowers utilized the entire loan amount for raising crops, some others used the entire amount for other purposes and still others partly used the loan amount for agricultural operations and partly for other purposes. The actual purposes for which the loan amounts were used include the following. Apparently in spite of the special features of the bank like local staff and local feel, monitoring of utilization of loans is inadequate.

3.4. Credit gap

To ascertain the extent to which the RRB finance have been able to fulfil the credit requirements of the beneficiaries, the average credit requirement of the target groups/beneficiaries had to be worked out. In this analysis of short term loans, therefore, the credit requirement of each size group of borrowers was calculated. For this, the cash expenditure that have to be met for running the farm crop enterprises by following an average management package of practices was worked out. From this, the own funds of the farmer that can be ploughed into farming in an year was subtracted. The difference would give the credit requirement of the farmers under each size group on an average. The average credit requirement, the credit supplied and credit gap for different size group of borrowers is displayed in Table 5.22.

Table 5.22. Credit requirement vis-a-vis credit supplied by SMGB

Size groups	Cultivation expenses per year to follow a certain package	Own funds available for cultivation	Credit requirement	Credit supplied by SMGB	Credit gap	% of credit requirement met by SMGB
1	2	3	4	5	6	7
I	3600.00	700.00	2900.00	833.33	2066.67	28.73
II	3000.00	580.00	2420.00	1363.53	1056.47	56.34
III	5100.00	1170.00	3930.00	2369.42	1560.58	60.29
IV	5500.00	2060.00	3440.00	3812.50	372.50	110.82
Pooled	3990.00	960.00	3030.00	1965.32	1064.68	64.86



It is obvious from the table that the SMGB could meet only a part of the credit requirement of the borrowers in general. None of the borrowers interviewed had gone for other sources credit than the SMGB during the reference period. On the average the SMGB could meet 64.86 per cent of the credit requirements of the borrowers. The average cultivation expenses worked was Rs.3990.00 per year and the own funds averaged per borrower was only Rs.960 per year for use in the farm. Therefore the credit requirement was Rs.3030 per year per borrower and the credit supplied during the year by SMGB was Rs.1965 per borrower. The credit gap per borrower averaged to Rs.1064.67 per year.

There was found to be variation in credit requirement between the different size groups. However, credit requirement did not show any relationship to size of holding partly on account of the difference in own funds and partly on account of the difference in crops raised. An inverse relationship is observed between size of holding and credit gap and a direction relationship between land holding and percentage of credit met by SMGB. The very low percentage of credit met by SMGB in the 1st category was due to the fact that this category of cultivators leased in land (mainly for banana cultivation) but the amount lent to them was on the basis of their own land. On the contrary, for the size group II though the requirement was only Rs.2420 per borrower, the bank could finance upto Rs.1363.53 per borrower as they owned a slightly larger area

of land than the group I. The percentage of credit requirement met by the SMGB for this group was 56.34. The bank advanced 60.29 per cent of the credit needs of the size group III and for the size group IV the bank advanced more than the requirement. As against a credit requirement of Rs.3440.00 per borrower of the size group IV, they managed to get Rs.3812.00 per borrower as loan and the percentage of credit requirement met by the bank in this case worked to 110.82 per cent. This seems to be the consequence of a uniform scale of financing adopted by the bank on the basis of own land and its cropping pattern, without taking into account the extent of farmer's own funds that may be used for meeting cultivation expenses. Needless to say, if lending was on the basis of farm planning and cash flow budgetting, some of the shortcomings noticed above could have been avoided.

3.5. Repayment status

Having analysed the purposewise borrowing of the crop loans, pattern of its utilization and the disparity between requirement and the supply among different size groups of borrowers now the repayment status can be examined.

The relevant details with regard to outstandings and overdues of the loan taken by the sample borrowers is given in Table 5.23.

The table shows that on an average 35.24 per cent of the total short term loans advanced to the sample beneficiaries were repaid in time. Only part of the outstandings were due

Table 5.23. Outstandings and overdues of crop loan as on 30-6-1985

Size group	Amount advanced	Amount repaid in time	Amount outstanding	Amount overdue
1	2	3	4	5
I	2500.00 (100.00)	1750.00 (70.00)	750.00 (30.00)	-
II	42270.00 (100.00)	16450.00 (38.91)	25820.00 (61.09)	1500.00 (3.54)
III	42650.00 (100.00)	15650.00 (36.69)	27000.00 (63.31)	4500.00 (10.55)
IV	30500.00 (100.00)	7700.00 (25.25)	22800.00 (74.75)	2900.00 (12.78)
Pooled	117920.00 (100.00)	41550.00 (35.24)	76370.00 (64.76)	8900.00 (7.55)

(Figures in parenthesis are percentages to total)

for repayment. Overdue was comparatively low, only to the tune of 7.55 per cent. The repayment status, as with all other aspects, showed significant variation between different size groups. Seventy per cent of the total amount taken by the smallest size group had been repaid in time, while the respective percentages repaid in time by size groups II, III and IV were 38.91 per cent, 36.69 per cent and 25.25 per cent respectively. Whereas the proportion of the total loan amount repaid in time was decreasing with size groups, the proportion of amount outstanding as well as the proportion of overdue increased with size groups. Overdue was nil for the size group I, 3.54 per cent of the total amount for the size group II, 10.55 per cent for group III and 12.78 per cent for the size group IV. Thus percentage of overdues increased with size of holding.

In this context of increased overdues for larger size groups, the overfinancing noticed for largest group as discussed earlier.merit special attention. For any financing institution the repayment is a factor that has to be looked into while advancing a loan. It is often hypothesised that the larger farmers will be able to repay promptly. It is under this hypothesis and also as a measure of reducing the risks involved that the bank managers are more liberal towards larger farmers in lending. It is the reason for the under-financing for the really needy poor and over-financing for the less needy farmers seen in the context of credit gap discussed earlier.

But as is observed from the repayment status it is the larger farmers who are not prompt in repayment and any default on their part is likely to be deliberate and willful. Therefore, the SMGB need follow the concept of production oriented credit than the concept of security oriented credit with a little more consideration towards the poorer of the poor sections.

3.6. Reasons for not borrowing

The control group of non-borrowers were asked why they have not borrowed from the SMGB, while these banks were providing such facilities to help those people who usually have only less access to other institutions like commercial banks or co-operative societies. All the members of the sample responded sufficiently to this question. The reasons cited with the corresponding percentages of respondents are set out in the table 5.24.

Table 5.24. Reasons for not borrowing

Reasons cited	Percentage of respondents
1. Reluctance to involve in bank procedures	36.67
2. Ignorance about SMGB finance terms	30.00
3. Loan was not necessary	13.33
4. Other non-repaid loans	10.00
5. Fear of inability to repay if crop failure occurs	10.00
	100.00

Major one among the reasons cited was the reluctance of the farmers to involve in the bank procedures. Ignorance about the SMGB finance terms was the second major reason cited. Non-necessity of the loans, other non-repaid loans and the fear of inability to repay the loan were the other reasons cited for not borrowing. This group of farmers was generally less adoptive, rigid in nature and were found to be less dynamic.

4. Conclusions

The Results and Discussion on the analysis of short term credit advanced by the SMGB gave insight to the functioning of the bank in the field of agricultural finance. Based on the study of sixty short term crop loanees of the bank and thirty non-borrower farmers from the same area, the following conclusions can be drawn.

The first thing worth mentioning is that all the sample borrowers surveyed belonged to the eligible groups. There was only very little difference between the borrowersand non-borrowers regarding general characteristics such as farm size, family size, educational status and in the number of dependents per earner of the family. Though the family income varied only slightly, the percentage of farm income in the family income was high for the borrower farmers in all the size groups. The cropping pattern followed by the sample farms did not vary much between borrowers and non-borrowers, but the cropping intensity in the borrower farms were clearly high compared to the non-borrower farms. The average cropping intensity was 111.80 per cent

in the borrower farms while it was 98.07 per cent in the non-borrower farms. Thus borrowing has helped to raise cropping intensity. Cost of cultivation per hectare of paddy and per plant of coconut, banana, arecanut and pepper were high in the borrower farms. Similarly the average labour use per hectare and use of fertilizer nutrients per hectare also found to be higher in the non-borrower farms. Labour use per hectare per year were 65.69 mandays and 53.02 mandays and the amount of fertilizer nutrients were 50.68 kg per hectare and 37.22 kg per hectare in the borrower farms and non-borrower farms respectively. Farm income per hectare of borrowers was Rs.8091.40 for borrowers and for non-borrowers it was Rs.5603.10. Linear programming technique employed to study the resource use efficiency of the farms revealed that there is possibility of increasing the farm income through variations in the resource use pattern. The analysis also revealed that increased use of capital can augment the farm income substantially. The improved crop plans by the use of additional capital is capable of absorbing more labour force and hence is employment generating one.

There was misutilization of crop loans. Only 54.75 per cent of the total amount advanced to the sample farmers were used fully. Another 11.66 per cent of the total amount advanced was partially utilized. Thus, 29.34 per cent of the total amount of crop loan advanced to the 60 farmers went unutilized. Since the bank was scaling finance based on own land, it could meet only 28.73 per cent of the credit requirement of the smallest

size group studied while the bank could advance more than the credit requirement of the largest size group studied. In the sample, 35.24 per cent of the loans has been repaid in time. Only part of the outstandings were overdue for repayment and that too was only 7.55 per cent of the total amount advanced to the sample.

There was inverse relationship between percentage of timely repayment on the one hand and size of holding on the other. There was also direct relationship between percentage of advances on the one hand and size of holding on the other. Thus, the relatively better off seem to be more unwilling to repay the borrowed funds.

Analysis of Medium term credit

ANALYSIS OF MEDIUM TERM CREDIT

This section is devoted to the presentation of results and discussion on the analysis of medium term credit financed by the SMGB. In the methodology set out earlier, the separate treatment of short term credit on the one hand and medium term credit on the other was with dual purpose. Apart from the distinction on the basis of duration of loans, the classification facilitated separate analysis of agricultural as well as non-agricultural credit financed by the bank. Short term loans were in general crop loans, whereas medium term loans were for non-agricultural purposes mostly.

The bank had spread its credit net far and wide to cover almost all types of non-agricultural occupations noticed in the rural scene. The beneficiaries included rural shop keepers, self-employed artisans and the small scale industrialists.

Small trade claimed a big chunk of the bank's credit disbursed under medium term loans during the reference period (1982-83). This occupation in fact, stood top among the functional medium term loans granted, both in terms of number of accounts as well as in terms of amount. Therefore this activity was selected to represent medium term loans in the study. A sample of sixty small traders who took loans for small trade during the year 1982-83 were interviewed. The results of the study and the discussions thereon are presented in

this section. General characteristics of the sample, pattern of advances, type of business which took advance, extent of utilization, productivity of loans, impact of the bank's loan and repayment status are discussed in separate sub-sections that follow.

1. Characteristic features of the sample

1.1. Age and education

Unlike the agricultural loanees, the sample of traders were all literate, majority having at least lower primary education. Similarly majority of them belonged to comparatively younger age groups. The distribution of the sample traders according to age groups and educational status are given in Table 6.1.

Table 6.1. Distribution of traders according to age and education

Age group (years)	Number of traders	Percentage to total	Educational status	Number of traders	Percentage to total
1	2	3	4	5	6
20-30	7	11.67	Illiterate	Nil	0.00
31-40	41	68.33	Lower primary	19	31.67
41-50	9	15.00	Upper primary	26	43.33
51-60	3	5.00	High School	15	25.00
Total	60	100.00	Total	60	100.00

The youngest age noticed was 23 and the oldest 56. It can be seen from the table that 80 per cent belonged to the age group of 20-40 years and thus can be considered young. Though all of them were literate and had completed various stages of schooling, none had any education which would give them any special skills. All the traders of the sample were literate with at least lower primary education. Twentyfive per cent of them had high school education and 43.33 per cent had upper primary education. Only 31.67 per cent were left with lower primary education.

1.2. Family size

It was mentioned earlier that the selected sample of 4 branches of the SMGB happened to be in Malappuram district and hence all the beneficiaries interviewed belonged to Malappuram district. Naturally, one would expect a higher average family size in the district because of the backwardness of the district. In the present investigation though families with a size of 12 members were present in the sample, the overall average family size worked out to 5.46. The lowest family size noticed was 3 and such families were newly established families. The average family size in different groups of traders are given in the Table 6.2.

There was not much difference between the different groups of traders in the average family size. The average family size was 5.47, 5.18, 5.54 and 5.56 for tea shop owners,

stationary shop owners, grocery shop owners and others respectively.

Table 6.2. Average family size of different groups of traders

Category	Average family size
Teashop owners	5.47
Stationary shop owners	5.18
Grocery shop owners	5.54
Others	5.56
Pooled	5.46

Majority of the traders interviewed as mentioned earlier, belonged to comparatively younger age groups. A considerable number of them have got married only recently and were coming up with new family, being separated from the parental family. In addition, majority of them had more than lower primary education and all of them being literate. These might be the reasons for a comparatively lower average family size shown by the sample.

1.3. Land and other assets

The traders interviewed were depending almost completely on their trade for their livelihood. The small land holding attached to the family was the main asset for the majority. The shop or the place where the business conducted were not owned by the majority of the traders and that was either

taken on rent or was put up on public land (purampokku).

Average land area owned by the different groups of traders can be seen from Table 6.3.

Table 6.3. Average area possessed by the traders

Category	Land area possessed (ha)	Cultivated area (ha)
Teashop owner	0.095	Nil
Stationary shop owner	0.072	0.008
Grocery shop owner	0.215	0.148
Others	0.009	0.041
Pooled	0.110	0.044*

* of which 0.026 hectares is wet land

The table shows that the traders, on the average, possessed only 0.11 hectares of land area of which 0.044 hectares was the area under cultivation (40 per cent). Of the 0.044 hectare of average area cultivated 0.026 hectares (59 per cent) was wet land. Rest of the area cultivated was garden land attached to the family with crops like coconut, arecanut and banana. For none of the traders crop cultivation was a significant source of income.

1.4. Family income

Family income of the traders were assessed sourcewise

i.e., from trade and from non-trade sources. The total average family income of the different groups of traders was arrived at by adding the income from both the sources. The income from all sources, the contribution of income from the trade/business to the total income, etc. were looked into for ascertaining the importance of trade/business in the family income of the traders and thereby on their livelihood. The source-wise average family income of the different groups of traders can be seen in Table 6.4.

Table 6.4. Distribution of family income among the small traders

Category	Average family income/ annum (Rs)			% of trade source to total income
	Trade source	Non-trade source	Total	
1	2	3	4	5
Teashop owners	4053.00	540.00	4593.00	88.24
Stationary shop owners	4162.00	1472.00	5634.00	73.87
Grocery shop owners	3895.00	2024.00	5919.00	65.61
Others	2989.00	1069.00	4058.00	73.65
Pooled	3636.00	1185.00	4821.00	75.42

The table reveals that the total overall average family income of the traders was only Rs.4891 per annum of which Rs.3636 (75.42 per cent) was from the trade. The non-trade

sources included earnings of those members of family who had a job, or the wages obtained by those members of family who worked as casual labourers and the income from crop sources in case of those who had cultivable land. Thirtyfive of the traders interviewed (58.33 per cent) small trade was the only source of income for their family. Others had one or more sources of non-trade income. The general characteristics of the sample discussed above indicate that the young men who took to small trade as an avocation belonged to the lowest strata of society, who tried to take out a living through trading for want of better resources, skills and avenues of employment. The substantial flow of Gulf money which was receiving in Malappuram district and which was mainly devoted to consumption seem to have helped the growth of small trade and other businesses.

2. Pattern of small trade advances

A frequency distribution of the sample on the basis of size of loan availed of is given in Table 6.5.

The table shows that the largest number of samples have borrowed in the range of Rs.1501-2000 followed by slabs 501-1000 and Rs.1001-1500. This is yet another indicator of the bank's bias in favour of the smallest of small men. But one-fourth of the sample interviewed had borrowings of more than Rs.2500. The average amount of loans among all the samples worked out to Rs.2220. Of the loanees interviewed

78 per cent had borrowed from the bank more than once.

Table 6.5. Borrowing pattern of small traders

Loan amount slab	No. of samples		
0-500	3		
501-1000	13		
1001-1500	8	upto 2000	43
1501-2000	19	2001 to 4000	13
2001-2500	1	4001 and above	4
2501-3000	7		
3001-3500	0		
3501-4000	5		
4001-4500	1		
4501-5000	2		
*Above 5000	1		

* A single loan of Rs.12000 was noticed.

3. Type of business

Persons running small retail shops dealing in items like stationery, books, confectionary, cloth, fruits, vegetables, flowers, general provisions, grocery, mutton, newspaper, novelties, plastic articles, readymade garments, foot wear, utensils and fish vendors, hawkers etc. were given loans for small business. As per the lending norms of the NABARD/GOI/RBI the SMGB defines an eligible small trader as one whose pre-investment net family income does not exceed Rs.6500/- per annum from all known sources. The loan is advanced at

an interest rate of Rs.12.5 per cent per annum with the co-obligation of a worthy person. Co-obligation is the security by way of getting the commitment of a third party to bear the obligation of the loan amount in addition to the actual borrower. The lending agency can approach the co-obligant if the borrower fails to repay the loan.

The 60 samples covered in the investigation are distributed as in Table 6.6.

Table 6.6. Distribution of sample traders according to the trade

Name of the business	Number of samples	Percentage to the total	Newly started ones with bank finance	Percentage to the total
1	2	3	4	5
1. Tea shop	15	25.00	3	5.0
2. Stationery shop	11	18.33	4	6.66
3. Grocery shop	11	18.33	-	-
4. *Others	23	38.34	1	1.66
Total	60	100.00	8	13.33

* Include Fish merchants, firewood dealers, coconut and copra merchants, Mat traders, lime shell traders and vegetable trader.

Table shows that as much as 86.67 per cent of the business units financed were ongoing units and only about 13.33 per cent of the traders were newly established. This suggests that the bank gave weight for "experience in the line".

Advancing for trade was seen advantageous for the bank on different counts. Besides it being an important economic activity of men of small means, the bank can effectively supervise the end use, recovery is more prompt through daily collections like Nitya Nidhi Deposit Scheme (NND Scheme) and thereby bring down the rate of possible overall overdues.

The highest number of units financed in the sample was small tea shop owners followed by the petty shop keepers dealing in stationery articles and other grocery items. The rest of the sample was other miscellaneous dealers like fish merchants (both dry and fresh), fire wood dealers, coconut and copra dealers, lime shell dealers, vegetable dealers, etc. Persons engaged in these types of petty trade were those belonging to the lower strata of society and hence it can be said that the bank is concerned with the upliftment of these poor by locating new vistas of earnings for them.

4. Extent of utilization

Utilization of the loan amount for the purpose of borrowal is full, partial and nil according to the amount they use for the purpose. The utilization status of the small trade loans can be illustrated as in Table 6.7.

As it appears from the table, the full utilization of the small trade loans in the sample was 55.26 per cent of the total amount advanced to the sample. Cases where only a part of the loan amount taken is utilized for the purpose were

Table 6.7. Utilization pattern of loans advanced to small traders (Amount in Rs)

Type of trade	Amount advanced total to the sample	Amount fully utilized	Amount partially utilized	Amount fully non-utilized	Amount partially non-utilized
1	2	3	4	5	6
Teashop	24600	17300 (70.33)	2000 (8.13)	3300 (13.41)	2000 (8.13)
Stationery	21500	15500 (72.09)	2000 (9.31)	1000 (4.65)	3000 (13.95)
Grocery	31200	8000 (25.64)	2000 (6.41)	18200 (58.34)	3000 (9.61)
Others	55900	32800 (58.68)	5300 (9.48)	9500 (16.99)	8300 (14.85)
Pooled	133200	73600 (55.26)	11300 (8.48)	32000 (24.02)	16300 (12.24)

Figures in parenthesis are percentages to the total amount for the sample

categorised as partially utilized and that portion come to 8.48 per cent of the total amount advanced to the sample. Thus, of the total amount of loan advanced to the sample 63.74 per cent had been utilized for the trade purpose. The rest 36.26 per cent of the total amount advanced to the sample had been non-utilized. Trade groupwise, the utilization was maximum among stationery shop owners followed by Tea shop owners and the others. Maximum non-utilization was found among grocery shop owners. Diversion of the loan amount for other purposes like marriage, purchase of household assets and to obtain visa to Gulf countries were the reasons reported for non-utilization.

The bank's performance with regard to monitoring of the end utilization of these loans was found to be less than adequate. As the bank is expecting the recovery of these loans through daily or monthly or quarterly instalments and as the bank will be assessing the worthiness of an ongoing trade unit at the time of advancing a loan, these loanees are left with little care further. It was disheartening a closure soon after availing the loan.

5. Productivity of capital

5.1. Pay back period

Productivity of capital was analysed by employing pay back period method as well as by calculating internal rate of return. The pay back period is the length of time from the

beginning of the project before the net benefits return the cost of the capital investment (Gittinger, 1976).

For the computation pay back period the incremental capital investment as well as the incremental net benefits was considered. The incremental benefits of the reference year was assumed to continue the same for the next five years. Separate stream of costs and benefits were set apart for the first five years from the reference year and the pay back period was arrived at for each category of small traders. That period of time within which the net benefits will just cover the cost of capital investment was computed and the results are given in Table 6.8.

Table 6.8. Pay back period for different types of trade

Category	Pay back period (years)
1. Teashop	3.0
2. Stationery	4.1
3. Grocery	3.4
4. Others	3.0

As is evident from the table it takes three years or more for all the small trade business to pay back the money invested as capital. The period was maximum for stationery shop owners at 4.1 years followed by grocery shop owners with 3.4 years and then Teashop owners and miscellaneous group with 3 years each.

Having analysed the pay back period for different categories of traders, it will be of interest to compare the pay back period with the repayment period for these type of loans. Though repayment period can be 36 months for small trade loans, for quite a large number of traders in the sample the loan repayment period was limited to 20 months. There were also sample units with the repayment period extending over and above 20 months upto a maximum of 36 months. As we have seen, in all the types of trade units studied the pay back period was minimum 3 years and even more in certain other cases. Hence, as an agency inclined more towards development motive rather than profit motive, the bank ought to extend the repayment period for small trade loans to 36 months or more.

5.2. Internal Rate of Return (IRR)

The computation of pay back period was by using undiscounted cash flows of future dates. That measure fails to take into account the timing of benefits. To get the actual earning power of the money, therefore, the future benefit and cost streams are to be reduced to their present worth. Measure of internal rate of return achieves this objective.

Internal rate of return is that discount rate which just makes the net present worth of the future cash flow equal zero. It represents the average earning power of the money used in the project over the project life (Gittinger, 1976).

For the computation of IRR also it was assumed that the

benefits and costs of the reference year will continue to be the same for the next five years. Here also stream of costs and benefits were set apart for five years. Net benefits of each year were worked out. By trial and error method it was to arrive at that discount rate 'i' such that

$$\sum_{t=1}^{n} \frac{B_n - C_n}{(1+i)^n} = 0$$

where,

Bn = Benefits in each year

C_n = Costs in each year

n = Number of years

By trial and error method it was difficult to arrive at a unique discount rate (i) such that the net present worth equalled to zero exactly. Therefore an interpolation method was employed where in two interest rates were arrived, one giving a positive net present worth near to zero and another giving a negative net present worth near to zero.

The rule for interpolating the value of the internal rate of return lyingbetween discount rates too high on the one side and too low on the other is

$$\text{Internal rate of return} = \text{Lower discount rate} + \text{Difference between the discount rates} \times \frac{\text{Present worth of cash flow at the lower discount rate}}{\text{Absolute difference between present worths at the two discount rates}}$$

The results obtained in the analysis are given in Table 6.9.

Table 6.9. Internal rate of return for different trades

Category	IRR (%)
Teashop	22.86
Stationery	20.43
Grocery	26.90
Others	26.92

It is seen that the IRR was more than 20 per cent in all the types of trade financed by the bank. The IRR was maximum at 26.92 per cent for the category others followed by grocery shop owners, tea shop owners and stationery shop owners with IRR 26.90 per cent, 22.86 per cent and 20.43 per cent respectively. The small trade loans being used in these trades were advanced at an interest rate of 12.5 per cent per annum by the bank. Hence it appears that, as the earning power of the money used in the business is more than its cost in the shape of interest payment, trade purposes seen in the rural scene.

5.3. Sensitivity analysis

Reworking an analysis to see what happen for the productivity of an investment under changed circumstances, is termed sensitivity analysis. Here in the computation of IRR it has assumed that the present costs and benefits continue to be the same for next 5 years. Now the attempt is to see how sensitive is the trade's IRR to an increase in working

costs or a fall in the income. Hence the IRR for each group of traders was worked out again under two assumed conditions of a 10 per cent rise in costs as well as a 10 per cent fall in income. The results obtained are given in Table 6.10.

Table 6.10. IRR assuming rise in costs and fall in income

Category	Original IRR (%)	IRR at 10% rise in costs (%)	IRR at 10% fall in income (%)
Teashop	22.86	20.25	17.67
Stationery	20.43	16.54	13.64
Grocery	26.91	23.48	20.36
Others	26.72	23.24	20.21

The analysis shows that IRR was more sensitive to a fall in income than a rise in working costs of the same rate.

6. Impact of the loan

Before analysing the impact of the loan on the business as such, the quantum of bank credit in the total working capital was calculated. The total working capital at the time of borrowings were considered by measuring it in terms of stocks of inventories. Then the incremental investment, incremental income, incremental turnover etc. were worked out as on the date of interview. Table 6.11 shows the borrowings of each category and the value of inventories at the time of borrowings (1982-83).

Table 6.11. Average value of inventories and average amount of borrowings of sample small traders

Category	Average value of inventories	Average amount of loan	% of loan amount to inventories
1. Teashop	5200.00	1640.00	31.53
2. Stationery	6100.00	1950.00	31.96
3. Grocery	8750.00	2850.00	32.57
4. Others	2000.00	2430.00	121.50

The average amount of loans advanced were only small proportions of the average value of inventories reported in case of Teashop owners, Grocery shop owners and stationery shop owners. The respective percentage of loan to total inventories were 31.53 per cent, 32.57 per cent and 31.96 per cent respectively. In the case of the group others, the stock at inventories will be varying from time to time because the materials dealt by them were either seasonal in character or highly perishable. These group as mentioned earlier were dealing in items like fish, coconut and copra, vegetables, fire wood, etc. That is why only for these groups, the amount of loan was higher than the stock of inventories at the time of borrowings.

The levels of incremental investment, turnover, income and employment generated based on the data collected are presented in Table 6.12.

Table 6.12. Impact of bank finance on small trade (Rs. per year)

Category	Incremental investment	Incremental turnover	Incremental income	Incremental expenses		Net incremental income	Incremental employment days/year
				Interest	Others		
1	2	3	4	5	6	7	8
Teashop	2000.00	9600.00	1200.00	240	310	670.00	31
Stationery	2400.00	10200.00	1475.00	350	590	585.00	59
Grocery	3000.00	14500.00	1885.00	420	600	865.00	60
Others	2500.00	8000.00	1330.00	360	150	820.00	15
Pooled	2448.00	9995.00	1430.00	330 + 353=683		747.00	35

Though there had been individual cases of full as well as partial non-utilization of the loan taken for small trade, on an average for all the categories of traders in the sample the incremental investment was greater than the average loan amount for that category. The gap between the incremental investment and the amount of loan taken was filled by own funds. For the group Teashop owners, the average incremental investment was Rs.2000 as against the average amount of Rs.1640 as loan taken. Stationery shop owners had an average incremental investment of Rs.2400, the average amount of loan taken by them being only Rs.1950. Grocery shop owners and the miscellaneous group others had incremental investment vis-a-vis average amount of loan in the order of Rs.3000, Rs.2850 and Rs.2500, Rs.2430 respectively.

Any incremental investment is expected to result in an incremental turnover especially if the incremental investment is made in the business stock. In the present sample, as was mentioned earlier, 86.67 per cent of the small traders were having ongoing small trade units and hence the incremental investment was made in the business stock. Incremental yearly turnover in the business was worked out for individual traders and was averaged for the group. The average incremental turnover in rupees per year for the different groups were Rs.9600, Rs.10200, Rs.14500 and Rs.8000 for teashop owners, stationery shop owners, grocery shop owners and others respectively.

The gainful impact of the bank loan on the small trade was two fold, viz., the additional gainful employment generated as well as the incremental net income generated due to the additional investment. In this regard the SMGB loan to the small trade had positive impact. All the traders who invested the loan amount in the business had realized an additional gainful employment generation as well as an incremental net income covering the additional expenses incidental to the loan being used in the business. On an average the small trader loans created incremental employment opportunity of 39 man days.on an incremental investment of Rs.2448/-. Though this may be low, this is due to the fact that bulk of the loan was for running businesses rather than for new ones. Hence incremental income may be a better index of the impact of the loan. On an average incremental net income was Rs.747/-

and it worked out to 30.51 per cent of incremental investment. Thus the bank finance has contributed substantially to step up the income from the non-agricultural establishments also.

The incremental income generated due to the additional investment was analysed in terms of the gross income per rupee of investment. The rate of gross incremental income to incremental investment will serve as a quick estimate of productivity of the loan. The relevant details are shown in Table 6.13.

Table 6.13. Gross incremental income vs incremental investment (Rs)

Category	Incremental investment	Gross incremental income	Gross income investment ratio
1	2	3	4
1. Teashop	2000.00	1220.00	0.610
2. Stationery	2400.00	1475.00	0.614
3. Grocery	3000.00	1885.00	0.628
4. Others	2500.00	1330.00	0.532
Pooled	2448.00	1430.00	0.584

The table reveals that for all category of small traders, each rupee of incremental investment generated a gross income of more than 50 per cent of the investment per annum.

The gross income investment ratio was 0.584 for the sample on an average. The ratio was maximum for the grocery shop

owners at 0.628 and it was the lowest for the miscellaneous group with 0.532.

A measure of the contribution of incremental income for the total family income of the sample traders was worked out. The information with regard to the proportion of incremental net income in the total family income of the different groups of traders are set out in the following table.

Table 6.14. Incremental net income vs total income of small traders

Category	Total family income/ annum (Rs)			Incremental net income	(5) as a % of (2)	(5) as a % of (4)
	Trade source	Non-trade source	Total			
1	2	3	4	5	6	7
Teashop	4053.00	540.00	4593.00	670.00	16.53	14.58
Stationery	4162.00	1472.00	5634.00	585.00	14.05	10.38
Grocery	3895.00	2024.00	5919.00	865.00	22.20	14.61
Others	2789.00	1069.00	4058.00	820.00	25.40	20.20
Pooled	3636.00	1185.00	4821.00	747.00	20.98	15.48

Perhaps a better indicator of the impact of bank finance would be a comparison between pre-investment and post-investment incomes. Assuming that incomes from non-trade source would be the same, table 6.15 shows pre-investment and post-investment incomes.

Table 6.15. Pre-investment and post-investment income of sample traders

Category	Pre-investment incomes	Post-investment incomes	Percentage of increase
Teashop owners	3923	4593	17.08
Stationery shop owners	5049	5634	11.59
Grocery shop owners	5054	5919	17.12
Others	3238	4058	25.32
Pooled	4077	4824	18.32

Percentage increase in income ranged from 11.59 to 25.32 and averaged at 18.32. It may be of interest to note that the pre-investment incomes as stated above were generally higher than the Rs.700/- per capita per annum than adopted under IRDP, with the exception of the category 'others'. However, even after taking account of the incremental incomes due to arriving from loans extended by the RRB, their per capita incomes in 1985 were generally below the poverty line of Rs.1290/- per capita income per annum adopted in the seventh plan. Thus, the small traders in general can be said to be belonging to the poor sections of the population.

The analysis of proportion of incremental net income to the total family income as well as to the income from trade source shows that of the total family income of the sample

traders 15.48 per cent was additional net income accruing to the productivity of the loan used in the business. In the income from trade source alone, for the sample traders, the contribution of additional net income was 20.98 per cent. The proportion of incremental net income in the total family income was largest for the miscellaneous group of other traders at 20.20 per cent and it was the lowest for the stationery shop owners at 16.38 per cent.

7. Repayment status

The performance of the sample traders in repaying the SMGB loans are illustrated on Table 6.16.

Table 6.16. Repayment of SMGB loan by the sample small traders

Trade	Amount taken	Amount repaid in time	Amount outstanding	Amount overdue
1	2	3	4	5
1. Teashop	24600	21450 (87.19)	3150 (12.81)	2800 (11.38)
2. Stationery	21500	21500 (100)	Nil	Nil
3. Grocery	31200	26400 (84.61)	4800 (15.39)	4000 (12.82)
4. Others	55900	48500 (86.76)	7400 (13.24)	4500 (8.05)
Pooled	133200	117850 (88.47)	15350 (11.53)	11300 (8.48)

Repayments of the small trade loans taken by the sample traders during 1982-83 were satisfactory. Of the total amount of Rs.133200 advanced to the 60 sample traders, Rs.117850 (88.47 per cent) was repaid within the repayment period. Amount of outstanding loans as on June 1985 was Rs.15350 (11.53 per cent) of which Rs.11300 (8.48 per cent) were overdue.

A notable point here is that none of the ongoing business units were found to be defaulting in repayment. Overdue loans were found to be owned by either closed business units or by persons who did not actually enter into the business. Still, the repayment performance of small trade loans was not bad. A fairly good percentage of timely repayment was due to the timely deposit collection schemes like Nitya Nidhi Deposit Scheme. With the help of this scheme the trade loanees were able to repay the loans with less burden. More over, these traders were found to be prompt in repaying so that they can avail of fresh loans easily.

8. Conclusion

The discussions on the analysis of medium term credit presented in this section can be concluded on the following lines. Firstly, the analysis of medium term credit actually served the purpose of analysis of non-agricultural advances from the SMGB. Small trade advances which dominated among the non-agricultural advances provided new vistas of gainful

employment to many of the young people belonging to the poorer strata. Teashop owners, stationery shop owners, grocery shop owners and a miscellaneous category of traders dealing in items like coconut, copra, vegetables, fish, lime shell etc. represented the sample of sixty small traders taken. Of the total amount of loan advanced to the sample 63.74 per cent were utilized for the purpose of borrowal. Productivity of the loan being utilized in the small trade were analysed using measures of pay back period and IRR. Pay back period was found to be minimum three years, and even more comparing this with the repayment period for the small trade loan, there seems to be need for increasing of the repayment period of these type of loans to at least 36 months. In all the trades IRR was more than 20 per cent which was far greater than the cost of capital.

Summary

SUMMARY

Regional Rural Banks (RRBs) came into being as the latest links in the process of institutionalization of rural finance in the country. They were meant to provide credit and other facilities especially to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in rural areas by combining in them the local familiarity of the co-operatives and also the financial superiority and managerial competence of commercial banks. The two RRBs in Kerala, viz., North Malabar Gramin Bank (NMGB) and South Malabar Gramin Bank (SMGB), came into being in the first phase itself as early as in December 1976. Nine years have elapsed since their establishment in the State when the present study on the performance of RRBs in Kerala with special reference to South Malabar Gramin Bank was undertaken between June and December 1985. This chapter addresses itself to the primary task of summarising the major findings of the study. The specific objectives of the study were the following:

1. To review the working of RRBs in Kerala
2. To assess the extent to which they have been able to fulfil their objectives by way of extending credits to the target groups
3. To assess the impact of finance from RRB on the beneficiaries.
4. To point out shortcomings if any in the working and to suggest remedies.

The study is based on both primary as well as secondary data. Relevant secondary data from two RRBs in the State and other sources like Reserve Bank of India were collected and analysed to study the overall performance of the RRBs in the State. Detailed study of performance was based on primary data collected from sample borrowers of short term and medium term credit from SMGB.

I

A review of the working of the two RRBs in Kerala based on secondary data revealed that the performance of the two RRBs in the State was satisfactory. The banks could cover the five backward districts of the State and could emerge as premier banking institution in the areas of their operation. With a net work of 262 branches as in September 1985, they could cover 33.34 per cent of the State's territory and 31.41 per cent of its population.

Deposit mobilization by the RRBs in the State was praise-worthy. They could come among the top twenty RRBs out of 150 RRBs in the country by mobilizing more than Rs.10 crores as deposits. Compared to the RRBs in the country, the two RRBs in Kerala mobilized deposits in larger number of accounts per branch with smaller amounts per account. This indicate that the RRBs in the State were more dependent on and oriented towards the poor.

Absence of provision to open deposit accounts of non-resident Indians (NRI account) is a major drawback of the

RRBs in the State in the field of deposit mobilization. Since there is a great potential for this type of deposits in areas where the RRBs are now functioning in the State, a policy revision allowing RRBs to open NRI accounts also will add much to the business of these institutions in the State.

In making advances also the two RRBs in the State ranked among the first 23 RRBs out of 150 RRBs in the country during 1983. Together they had outstanding advances of more than Rs.10 crores at that time, constituting 6.25 per cent of the total outstanding advances of RRBs. The growth of advances was faster than the growth in number of branches. Between 1977 and 1984, while the number of branches increased by 263 per cent, the outstanding advances swelled by 560 per cent. The number of borrowal accounts per branch was higher and the amount advanced per account was lower in the State compared to RRBs in general. Low amount per account appeared to be due to risk aversion on the part of bank officials.

Of the total outstanding advances in September 1985, 56.96 per cent had gone to agriculture and allied activities, 3.78 per cent for the industrial sector and the rest 39.26 per cent for the tertiary sector. Almost 99.5 per cent of the short term advances was crop loans.

The recovery of advances made by the two RRBs in the State was found to be not too unsatisfactory. The recovery percentage to demand was 72 per cent for the SMGB and 55 per cent for the NMGB in 1984. Among the factors that helped to

fetch a better recovery the rural accent of the bank staff and their familiarity of local people was found to be the major one. Better financial liquidity position of the beneficiaries due to sources of income like remittances from Gulf countries also helped the banks to experience a fair recovery. A disappointing phenomenon noticed in this connection was a practice of mass-defaulting by the beneficiaries in certain localities. This practice of non-repayment in masses is deliberate and that too are said to be politically motivated. RRBs in Kerala were making net profits from the 3rd year onwards, but together they showed a net loss during 1984 due to the loss occurred for the NMGB.

II

Short term credit issued by the SMGB was studied using data collected from a sample of sixty borrowers. All of them happened to have borrowed for seasonal agricultural operations. A sample of 30 non-borrowers were also contacted to form control. The samples were post classified into groups based on land held. It was found that there was little difference between the borrower and non-borrower farmers with regard to the general characteristics of farm size, educational level, number of dependents per earner of the family and the annual family income.

The analysis revealed that the crop loans had gone entirely to the deserving target groups. Marginal farmers followed by small farmers and then agricultural labourers were

the major beneficiaries. But the share of loans received by agricultural labourers as a group was rather low.

Cropwise distribution of loans showed that banana was the crop which got maximum number of loans followed by coconut and then paddy. Banana cultivation, though resource intensive, was found to be highly profitable. Many of the crop loan beneficiaries of the SMGB were cultivating banana on land taken on rent. Cropping intensity was higher in all the farm size groups of borrowers than the corresponding groups of non-borrowers.

Cost of cultivation per unit of major crops cultivated by the borrowers was higher than the non-borrowers. Labour use per hectare of farm size was 22.05 per cent more for borrowers than non-borrowers. Similarly, on an average the use of fertilizer nutrients was 36.16 per cent more by the borrowers than the non-borrowers. The borrower cultivators realized a farm income of 44.40 per cent more than the non-borrower cultivators on a per hectare basis. This difference in cost of cultivation, input use and farm income is attributable to the better level of technology that the borrower cultivators could employ with the help of the SMGB loans.

Linear programming technique employed to study the resource use efficiency of the sample farms revealed that resource use efficiency was much better on borrowing farms than non-borrowing ones. There is scope for increasing the net incomes

of all the size group of farms by mere reallocation of the existing resources. In majority of the improved plans while the area under paddy got reduced, the number of plants of banana got increased. Improved plans at increased levels of capital also showed that there is a possibility of further increasing the farm income by use of additional capital. Net margins, at 25 per cent as well as 50 per cent enhanced levels of capital, got geared up correspondingly. This, suggested positive impact of increasing the amount of loan advanced by the bank and the need for doing so. Moreover the improved farm plans by the use of additional capital was found to absorb more labour force than as compared to the existing plan. In the case of borrowers it was found that if they had borrowed and applied additional capital, they could have increased their incomes substantially.

Though the crop loans are supposed to be production oriented, the scale of finance was found to be implicitly security oriented. While the bank was not at all insisting the land as a security, they were found to be financing only in proportion to the land owned by the borrowers. This is as a measure of risk aversion on the part of the branch managers. Hence an anomaly could be seen that as the smaller farmers failed to get their minimum credit requirement on the one hand, the comparatively better off farmers were able to get their credit requirement in full or even more. If the bank was strictly adhering to norms of production oriented credit this anomaly could have been avoided.

The utilization of crop loans was lesser among larger farm size groups. For the sample as a whole full utilization of crop loan was 54.75 per cent of the total amount while it was only 22.95 per cent for the largest size group analysed. Thus while there was misutilization of borrowed funds, the extent of misutilization were more among the relatively better off borrowers. The repayment performance of the larger size groups were also found to be lower than the sample average. These indicated the inadequacy of monitoring of credit use on the part of the banks.

III

The analysis of medium term credit issued by the SMGB was done using the data collected from the sample small traders. The study revealed that the bank was financing a wide variety of non-agricultural rural activities especially petty rural trade, and thus helping a large section of down-trodden rural population to increase their earnings. Teashop owners, stationery shop owners, grocery shop owners, and a miscellaneous category of traders dealing in items like coconut, copra, vegetables, fish, limeshell etc. represented the sample of sixty small traders taken.

The pattern of advance for small trade showed that the larger number of traders in the sample have borrowed in the range of Rs.1500 to Rs.2000 followed by Rs.501 to Rs.1000 and Rs.1001 to Rs.1500.

Utilization status of small trade loans was similar to the utilization status of crop loans. The full utilization in the sample was 55.26 per cent of the total amount advanced to the sample. There was partial utilization also in certain cases making the proportion utilized for the stated purpose to 63.74 per cent of the total amount advanced to the sample. The rest 36.26 per cent of the total amount advanced was misutilized. It is possible to avoid misutilization of loans advanced for small trade if the bank can monitor the utilization of these loans little more effectively.

Productivity of the loan being utilized in the sample trade were analysed using measures of payback period and Internal Rate of Return. Payback period was found to be minimum three years and even more. Comparing this with the repayment period for the small trade loans, there seems to be need for increasing the repayment period of these type of loans. In all the trades IRR was more than 20 per cent which was far greater than the cost of capital to the borrowers.

The amount of loan obtained formed only around 30 per cent of the total value of inventories. With the borrowings the small traders made an incremental investment of Rs.2448 which generated an incremental net income of Rs.747 per annum and additional gainful employment of 35 mandays. The incremental net income of the borrower small traders formed 20.76 per cent of their trade income and 15.74 of their total family income. The incremental investment/income ratio was 0.584.

Repayments of the loans taken by the sample traders were satisfactory. Of the total amount of Rs.133200 advanced to 60 sample traders, Rs.117850 (88.47 per cent) was repaid within the repayment period. Amount of outstanding loans as on June 1985 was Rs.15350 (11.53 per cent) of which only Rs.11300 (8.48 per cent) were overdue. None of the ongoing units were found to be defaulting in repayment. Overdue loans were found to be owned by either closed business units, or by persons who did not actually enter into the business. A fairly good percentage of timely repayment was due to the tiny deposit collection schemes like Nitya Nidhi Deposit Scheme of the bank.

IV

In spite of some drawbacks in their working, RRBs in Kerala proved themselves as effective channels at rural credit during the past 9 years since their establishment. During the investigation it was observed that the successful functioning of RRBs in Kerala was in no small measure attributable to the committed services of the bank staff majority of them being in the younger age groups. The rural bank staff are paid, as a matter of government policy, on par with the State Government staff so as to avoid the high cost of operations experienced by commercial banks in rural areas. This has been creating a good deal of dissatisfaction among the staff of RRBs. Extending the remuneration package in commercial banks to the RRBs also may seriously endanger their viability (many of them are

in the red even now). A practical via media appear to be to fix certain quotas to RRB staff in respect of direct recruitments in commercial banks.

The short history of RRBs in Kerala has coincided with a period of rural prosperity in the State, brought about mainly on account of fortuitous circumstances. It was a period during which rural Kerala shared the fortunes of the Gulf States on account of the oil price hike. The better than average performance of RRBs in the State could be at least partly due to this. That phase is now getting over and therefore in order to at least maintain their levels of performance, they have to create adequate internal strength.

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Appendices

APPENDICES

APPENDIX I

KERALA AGRICULTURAL UNIVERSITY

COLLEGE OF HORTICULTURE

VELLANIKKARA

Department of Agricultural Economics

Schedule of farm survey

1. Name and address of beneficiary:

2. Extent of Holdings

Sl. No.	Particulars	Wet land (cents)	Garden land (cents)	Dry land (cents)	Total (cents)	Remarks
1.a)	Area owned (+)					
b)	Area leased out (-)					
c)	Area leased in (+)					
d)	Net area operated					
2.a)	Area under buildings					
b)	Area under wells etc.					
c)	Area under wastes					
d)	Total area not cultivated (a+b+c)					
3.	Net area cropped 1d-2d					

3. Size of the family and income from sources other than Agriculture:

Sl. No.	Name	Sex	Age	Education	Occupation		Annual income		Remarks
					Main	Subsidiary	Main	Subsidiary	
1									
2									
3									
4									
5									

4. Cropping pattern

Sl. No.	Name of crop	Variety	Area		No. of plants/ trees (for perennials and annuals)
			Irri-gated	Unirri-gated	
Seasonal					
1.					
2.					
3.					
Annual					
1.					
2.					
3.					
Perennial					
1.					
2.					
3.					

5. Household expenditure

Sl. No.	Particulars	Qquantity in kg/per Day/Week/Month/Year	Rate per unit	Total amount per year	Remarks
A. Good					
1.	Rice				
2.	Tapioca				
3.	Wheat				
4.	Pulses				
5.	Sugars				
6.	Oils				
7.	Milk				
8.	Meat				
9.	Fish				
10.	Egg				
11.	Vegetables/ Fruits				

B. Clothing & Footwear

C. Rent

D. Fuel & lighting

E. Education

F. Medicine

G. Travel

H. Recreation

I. Beverages

J. Taxes

K. Tobacco

L. Liquor

M. Others if any

6. Cost of cultivation during the year

Sl.No.	Name of crop	Variety	Area (in cents)		No. of trees/ plants for annuals and perennials	Preparatory cultivation			Remarks
			Irrigated	Unirrigated		No. of bullock pairs	Hours worked per day	Amount	
1	Seasonal								
	1.								
	2.								
	3.								
2	Annual								
	1.								
	2.								
	3.								
3	Perennial								
	1.								
	2								
	3.								

PREPARATORY CULTIVATION

No.	Men							Women						
	Family			Hired				Family			Hired			
	Hrs. worked per day	No.of days	Amount	Hrs. worked per day	Wage rate	No.of days	Amount	Hrs. worked per day	No.of days	Amount	Hrs worked per day	Wage rate	No.of days	Amount
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Seasonal														
1.														
2.														
3.														
2. Annual														
1.														
2.														
3.														
3. Perennial														
1.														
2.														
3.														

SEEDS AND SOWING

Name of crop	Variety Qty.	Cost	Men						Women					
			Family			Hired			Family			Hired		
			Hrs. worked per day	No. of days	Amount	Hrs. worked per day	Wage rage	No. of days	Amount	Hrs. worked per day	No. of days	Amount	Hrs. worked per day	Wage rate	No. of days	Amount
1. Seasonal																
1.																
2.																
3.																
2. Annual																
1.																
2.																
3.																
3. Perennial																
1.																
2.																
3.																

FERTILIZERS AND MANURES

Name of crop	Fertilizers			Manures			Application									
							Men						Women			
							Family			Hired			Family			Hired		
	Name	Qty	Cost	Name	Qty.	Cost	No. of hrs. worked per day	No. of days	Amount	No. of hrs worked	Wage rate	No. of days	No. or hrs. worked	No. of days	Amount	No. of Hrs. worked	Wage rate	No. of days	Amt.
1. Seasonal																			
1.																			
2.																			
3.																			
2. Annual																			
1.																			
2.																			
3.																			
3. Perennial																			
1.																			
2.																			
3.																			

PLANT PROTECTION

Name of crop	Name of chemical	Qty.	Cost	Labour for application													
				Men						Women							
				Family			Hired			Family			Hired				
				No. of hrs. worked per day	No. of days	Amount	No. of hrs worked per day	Wage rate	No. of days	Amount	No. of hrs worked per day	No. of days	Amount	No. of hrs. worked per day	Wage rate	No. of days	Amount
1. Seasonal																	
1.																	
2.																	
3.																	
2. Annual																	
1.																	
2.																	
3.																	
3. Perennial																	
1.																	
2.																	
3.																	

After cultivation operations

Name of crop	Men						Women					
	Family			Hired			Family			Hired		
	No.of hrs worked per day	No.of days	Amount	No.of hrs. worked per day	Wage rate	No. of days	Amount	No.of hrs worked per day	No. of days	Amount	No. of hrs worked per day	Wage rate	No. of days	Amount
1. Seasonal														
1.														
2.														
3.														
2. Annual														
1.														
2.														
3.														
3. Perennial														
1.														
2.														
3.														

Irrigation

Name of crop	Fuel cost	Men						Women					
		Family			Hired			Family			Hired		
		No.of hrs worked per day	No. of days	Amount	No. of hrs worked per day	Wage rage	No. of days	Amount	No. of hrs. worked per day	No. of days	Amount	No.of hrs. worked per day	Wage rate	No.of days	Amount
1. Seasonal															
1.															
2.															
3.															
2. Annual															
1.															
2.															
3.															
3. Perennial															
1.															
2.															
3.															

Harvesting

Name of crop	Men							Women						
	Family			Hired				Family			Hired			Output	
	No.of hrs worked per day	No. of days	Amount	No. of hrs worked per day	Wage rate	No. of days	Amount	No. of hrs worked per day	No. of days	Amount	No. of hrs. worked per day	Wage rate	No. of days	Amount	Main product	Biproduct
1. Seasonal																
1.																
2.																
3.																
2. Annual																
1.																
2.																
3.																
3. Perennial																
1.																
2.																
3.																

9.(a) Past borrowings at the beginning of the reference period

Sl. No.	Source	Amount outstanding	Purpose	Security	Interest rate	Amount overdue

(b) Borrowings during the reference period

Source	Credit required	Credit availed	Credit gap	Time of obtaining date/ month	Type of loan	Purpose	Security	Interest rate	Repayment schedule			Amount overdue
									Period	Amount repaid	Amount outstanding	

7. Farm income

Sl. No.	Name of the farm product	Gross output				Quantity purchased				Quantity sold				Amount realized by sale			
		Main product		Bi-product		Main product		Bi-product		Main product		Bi-product		Main product		Bi-product	
		Qty.	value	Qty.	Value	Qty.	Value	Qty.	Va-lue	Qty.	Va-lue	Qty.	Va-lue	Qty.	Va-lue	Qty.	Value
1.																	
2.																	
3.																	

8. Monthly cash flow statement

Items	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Inflow												
Farm source												
Non-farm source												
Outflow												
Farm source												
Non-farm source												

10. Details of short-term loan availed from R.R.B.

Crop	Time of obtaining	Loan amount			Nature of kind portion								
		Cash	Kind	Total	Seed			Fertilizer			Plant protection		
					Name	Qty.	Value	Name	Qty.	Value	Name	Qty.	Value

Security	Interest rate	Repayment period	Amount repaid	Amount outstanding	Amount overdue

11. Utilization of the loan taken from R.R.B.

Name of crop	Amount of loan	Seed		Fertilizer		Plant protection		Labour charge		Others	Additional output by utilizing the loan
		Qty.	Area	Name	Area/ Qty. applied	Name	Area/ Qty. applied	Men	Women		

12. Reasons for default if any:

1. Failure of crop	Yes/No
2. Fall at price	Yes/No
3. Non-receipt of income from other sources	Yes/No
4. Diversion income for unproductive purposes	Yes/No
a) Marriage/allied ceremonies	
b) Entertainment	
c) Loss by theft, Robbery, accident etc.	
5. Diversion of income to settle other loans	Yes/No

13. Problem faced by farmers if any

1. Getting in right time
2. Getting required amount
3. Official delays

14. Suggestions for improvement

APPENDIX II

KERALA AGRICULTURAL UNIVERSITY
COLLEGE OF HORTICULTURE
VELLANIKKARA

Department of Agricultural Economics

Schedule of small trade survey

1. Name and address of the trader :
2. Location of business :
3. Name of RRB from which loan was taken :
4. Family size and income from non-trading sources:

Sl. No.	Name	Age	Sex	Education	Occupation		Monthly income		Remarks
					Main	Subsidiary	Main	Subsidiary	
1.	Respondent								
2.									
3.									
4.									
5.									
6.									
7.									
8.									
9.									
10									

5. Extent of holdings

Sl. No.	Particulars	Wet land (cents)	Garden land (cents)	Dryland (cents)	Total (cents)	Remarks
1.a)	Area owned (+)					
	b) Area leased out (-)					
	c) Area leased in (+)					
	d) Net area operated					
2.a)	Area under building					
	b) Area under wells etc.					
	c) Area under wastes					
	d) Total area not cultivated (a+b+c)					
3.	Net area cropped (1d-2d)					

6. Household expenditure

Sl. No.	Particulars	Quantity in kg/per Day/Week/Month/Year	Rate per unit	Total amount per year	Remarks
A.	Food				
1.	Rice				
2.	Tapioca				
3.	Wheat				
4.	Pulses				
5.	Sugars				
6.	Oils				
7.	Milk				
8.	Meat				
9.	Fish				
10.	Egg				
11.	Vegetables/fruits				

B. Clothing & foot wear

C. Rent

D. Fuel & lighting

E. Education

F. Medicine

G. Travel

H. Recreation

I. Beverages

J. Taxes

K. Tobacco

L. Liquor

M. Others, if any

7.a) Past borrowings outstanding as on 1-4-1982

Source	Purpose	Amount outstanding	Security	Interest rate	Amount overdue

---

7.b) Borrowings during the reference period (1-4-82 to 31-3-83)

Source	Amount	Purpose	Security	Repayment schedule			Amount overdue
				Period	Amount repaid	Amount out-standing	
1. RRB		Initial capital					
		Working capital					
		Others					

8. Utilization of medium term loan taken from RRB

Name of business	Amount of loan	Initial investment			Working capital			Remarks
		Cost of material	Labour charge	Others	Replenishment	Labour charge	Others	

9. Total sales turnover of commodities

Major items	Quantity transacted Daily/Weekly/Monthly	Price per unit	Net returns
Business I			
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
etc.			
Business II			
1.			
2.			
3.			
4.			
5.			
6.			
7.			
8.			
etc.			

10. Monthly details of trading

Items purchased/ sold	January		February		March		April		May		June		July		August		September		October		November		December	
	Q	P	Q	P	Q	P	Q	P	Q	P	Q	P	Q	P	Q	P	Q	P	Q	P	Q	P	Q	P
I. Purchases																								
1.																								
2.																								
3.																								
4.																								
5.																								
6.																								
7.																								
8.																								
9.																								
10.																								
II. Sellings																								
1.																								
2.																								
3.																								
4.																								
5.																								
6.																								
7.																								
8.																								
9.																								
10.																								
etc.																								
III. Monthly total turnover																								
IV. Net returns																								

11. Performance of activities

i) a) Entirely by family members :

b) Entirely by permanent labourers:

c) Entirely by casual labourers :

d) Combinations of a, b & c (specify) :

ii) 1. No. of family members engaged

2. No. of hrs. per day engaged

3. No. of days per week engaged

4. No. of casual labourers engaged

5. No. of hrs. per day engaged

6. No. of days per week engaged

7. Wage rate

8. No. of permanent labourers engaged

9. Monthly salary

iii) Various charges/costs incurred

1. Labour charges

2. Fuel charges

3. Panchayat/Municipal taxes

4. Weighing balance license fee etc.

5. Transportation charges

6. Other service charges if any (specify)

12. Expenditure incurred by beneficiary in obtaining the assistance:

1. Travel and other incidentals/ (prior to receipt of assistance) Rs.

2. Loss of work Rs.

3. Miscellaneous and others Rs.

Total

==========

13. Extent of time lag

1. Approximate time taken from application to sanction (No. of days)
2. Approximate time taken from sanction to receipt of the benefit (No. of days)
3. Approximate time taken from receipt of the benefit and utilization of the services (No. of days)
4. Specify the seasons for the delay in utilization

14. Information about the RRB assistance

1. Engagement before starting the business
2. How could you know about the RRB assistance
3. How was the linkage with the bank established
4. Bank's attitude towards the borrowers

15. Reasons for default if any

1. Lack of adequate business
2. Non-availability of working capital for periodic replenishment
3. Diversion of Income for unproductive purposes
   a) Marriage/allied ceremonies
   b) Entertainment
   c) Loss by theft, accident etc.
4. Diversion of income to settle other loans

16. Suggestions for improvement:

APPENDIX-III

1. Growth of Regional Rural Banks (end of December)

	1977	'78	'79	'80	'81	'82	'83
1. Number of RRBs	48	51	60	85	107	124	150
2. Number of borrowers	1187	1753	2420	3279	4795	6191	7795
3. Deposits (in crores)	33.04	74.1	123.22	199.83	336.00	502.26	678.00
4. Advances outstanding (in crores)	42.35	22.02	167.41	243.38	406.59	577.11	751.00

2. Operating results of RRBs	1976	'77	'78	'79	'80	'81	'82
a) Number of RRBs functioning	40	48	51	60	85	107	124
b) Number of banks earning profits	26	27	22	37	56	62	48
c) Amount of profits (Rs. in thousands)	1092	3342	6388	14735	22772	31268	35267
d) Number of RRBs incurring losses	14	21	29	23	29	45	76
e) Amount of losses (Rs. in crores)	251	2668	5445	6284	10358	22158	56198

3. Classification of RRBs on the basis of their deposits as on December 31, 1983:

Deposits	No. of RRBs
More than one crore	42
1 to 5 crores	60
5 to 10 crores	28
More than 10 crores	20
	150

(contd.)

4. Classification of RRBs on the basis of advances as on December 31, 1983:

Outstanding loans	No. of RRBs
More than 1 crore	47
1 to 5 crores	52
5 to 10 crores	28
More than 10 crores	23
	150

5. Recovery percentage to demand:

Recovery percentage to demand	No. of RRBs
More than 80 per cent	4
More than 70 per cent upto 80 per cent	8
More than 60 per cent upto 70 per cent	16
More than 50 per cent upto 60 per cent	18
More than 40 per cent upto 50 per cent	17
Upto 40 per cent	10

Source: Union Finance Ministry. Quoted by Prabhu, A.N.(1984) RRBs in the Red. Econ. Times, 11(203): p. 4.

6. Statewise offices of Regional Rural Banks (as on March 31, '84)

State	Number of RRBs	Number of branches	Number of districts
1. Anthra Pradesh	12	607	17
2. Arunachal Pradesh	1	1	4
3. Assam	5	166	10
4. Bihar	17	1325	27
5. Gujarath	7	122	11
6. Haryana	2	168	5
7. Himachal Pradesh	1	81	3
8. Jammu and Kashmir	3	210	10
9. Karnataka	8	622	13
10. Kerala	2	238	4
11. Madhya Pradesh	20	878	35
12. Maharashtra	7	178	13
13. Manipur	1	12	8
14. Meghalaya	1	16	3
15. Mizoram	1	1	3
16. Nagaland	1	1	7
17. Orissa	9	591	12
18. Punjab	3	18	6
19. Rajasthan	13	516	26
20. Tamil Nadu	1	116	2
21. Tripura	1	61	3
22. Uttar Pradesh	35	1808	43
23. West Bengal	8	477	16
Total	159	8213	281

Source: Report on Trend and progress of Banking in India, 1983-84: p. 64-69.

PERFORMANCE OF REGIONAL RURAL BANKS IN KERALA WITH SPECIAL REFERENCE TO SOUTH MALABAR GRAMIN BANK

By

VISWANATHAN. K. U

ABSTRACT OF A THESIS

submitted in partial fulfilment of the requirement
for the degree

Master of Science in Agriculture

Faculty of Agriculture
Kerala Agricultural University

Department of Agricultural Economics
COLLEGE OF HORTICULTURE
Vellanikkara - Trichur

1986

ABSTRACT

Regional Rural Banks were established with the main objective of developing the rural economy by providing credit facilities for the development of agriculture, trade, commerce, industries and other productive industries in the rural areas, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. The rationale for a specialized institution oriented to rural credit follows the identification of a specific regional and functional gap in the existing institutional credit structure. The new institutions were not intended to replace but to supplement the other institutional agencies in the field.

In Kerala two RRBs viz. North Malabar Gramin Bank at Cannanore and South Malabar Gramin Bank at Malappuram were established in December 1976. The specific objectives of the present study were

1. To review the working of RRBs in Kerala.
2. To assess the extent to which they have been able to fulfil their objectives by way of extending credit to the target groups.
3. To assess the impact of finance from RRB on the beneficiaries.
4. To point out shortcomings if any in the working and to suggest remedies.

The study was conducted in two parts. In the first part, available secondary data on the functioning of the two RRBs in Kerala during the past were collected from the head offices of the two banks and also from other published sources like RBI periodicals and journals. Overall aspects like expansion of branches, mobilization of deposits, advances made, income, expenditure and profit/loss position and deployment of credit to various sectors were the points looked into in this analysis. The second part of the study is based on data from the beneficiary level and is confined to the beneficiaries of SMGB. To examine the functioning of the bank at primary level among different groups, both short term and medium term loans were studied separately. This classification envisaged the study of agricultural and non-agricultural advances of the SMGB separately because majority of the short term loans were crop loans whereas majority of the medium term loans were small trade loans. A sample of sixty crop loanees and sixty small trade loanees selected through two stage random sampling were personally contacted and data were collected using well structured interview schedules prepared separately for both the categories. In order to serve as control in respect of short term loans another sample of 30 non-borrower farmers were also interviewed from the same area. Information regarding family status, family income and its sources, cropping pattern and intensity, cost of cultivation of major crops, input use pattern etc. were collected from the sample farmers. Details

of type of trade, incremental investment and turnover, incremental income and its contribution to family income etc. were the points concentrated in the case of small traders.

The study revealed that the overall performance of the RRBs in Kerala was satisfactory. The banks could cover the five backward districts of the State and could emerge as premier banking institution in the areas of their operation. The expansion of branches, mobilization of deposits and advances made by these banks made steady progress throughout the past and they in many respects ranked among the better performed RRBs in the country. Relatively low average amount of credit per borrowal account extended and a shortfall in recovery are points to be mentioned as weak spots noticed in their functioning.

The analysis of crop loans suggested that the loans had gone only to the eligible categories though the share received by agricultural labourers were less. The borrower farmers had a high cropping intensity, had used higher doses of inputs especially labour and fertilizer nutrients and had been realizing higher farm income per hectare compared to the non-borrowers. Linear programming analysis of the farms revealed that borrower farms had much better resource use efficiency than non-borrowers. The existing crop combinations was less than optimum in all the farms. There is possibility of increasing their net margins by mere reallocation of the existing resources.

Crop plans worked at enhanced levels of capital (at 25% and 50% more than the existing) showed that the net margins could be profitably increased by employing more capital. Improved plans were also able to absorb more labour force, indicating clearly the employment generating capacity of capital.

Besides the agricultural sector, the SMGB finance was found to opening vistas for higher earnings for a good number of young people of the weaker sections. Small trade was one of such ventures which dominated in number as well as in amount advanced. The small trade loans had resulted in incremental investment and hence in incremental turnover in all the categories of trade studied. The small traders with the borrowings had an average incremental investment of Rs.2448 which generated an incremental net income of Rs.747 per annum and an additional gainful employment of 35 mandays per annum.

To conclude, RRBs in Kerala fared better than their counterparts in general in the rest of the country in terms of overall performance. They were found to be generally adhering to the objectives for which they were created.