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IMPACT OF SHORT TERM CREDIT BY RURAL BANKS: A CASE STUDY OF SOUTH MALABAR GRAMIN BANK

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Abstract This study is based on data collected from a sample of short term crop loanees of SMGB and another sample which formed the control. All the sample borrowers from SMGB belonged to the eligible groups. There was very little difference between the borrowers and non-borrowers regarding general characteristics such as farm size, family size, educational status and in the number of dependents per earner of the family. The cropping pattern followed by the sample farms did not vary much between borrowers and non-borrowers, but the cropping intensities in the borrower farms were clearly high compared to the non-borrower farms. Cost of cultivation per hectare, average labour use per hectare, use of fertilizer nutrients per hectare and farm income per hectare were found to be higher in borrower farms. There was under-utilization of crop loans and that too was more among larger size group of farmers. Repayment of loans was also not very good and the defaulters were mainly the relatively larger size group of farmers.

INTRODUCTION

Regional Rural Banks (RRBs) were established in a background wherein the co-operatives as well as commercial banks could not meet rural credit needs properly, particularly for the weaker sections. Both the later institutions experienced contradictory difficulties in respect of supply of rural credit. The co-operatives had the rural accent but did not have sufficient resources and organisational strength. On the other hand, the commercial banks had the required resource backing but not the required rural accent. RRBs were meant to meet the credit needs of the weaker sections of the rural population, namely small and marginal farmers and agricultural labourers. In Kerala two RRBs were established in 1976 and this number has not changed since then. The present study was taken up with the objective of analysing the performance of one of the two RRBs in Kerala, viz. South Malabar Gramin Bank at the beneficiary level.

MATERIALS AND METHODS

The study was made through primary data collected from a sample of beneficiaries and non-beneficiaries in the area of operation of the South Malabar Gramin Bank (SMGB). Primary data were generated through well structured interview schedules from a sample of beneficiaries of short term loans. A sample of non-borrowers was also canvassed to serve as control. The reference period was the year 1984-85.

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 SMGB four branches were randomly selected. The selected branches were Ariyallur, Edavanna, Thirunavaya and Perampadappu. All these branches happended 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 selected randomly. Thus the size of the sample was 60. All of these were crop loanees. From the areas covered by selected branches a sample of 30 non-borrowers was also taken randomly. These were taken randomly from the list of farmers

maintained by the Agricultural Development Offices of the State Department of Agriculture.

The crop loanees were post-stratified into sub-groups according to the land area possessed by them such as Group I (0-0.04 ha), Group II (0.04 - 0.4 ha), Group III (0.41 - 1 ha) and Group IV (more than 1 ha).

Tabular analysis with percentage has been used to analyse the use and impact of the short term credit.

RESULTS AND DISCUSSION

Small and marginal farmers whose farm size did not exceed two hectares, agricultural labourers and tenent farmers who did not own land were the eligible categories for crop loans as per the eligibility criteria fixed by the SMGB. The distribution of borrowers according to different farm size groups showed that the farmers in Group II and III who were 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 advancing the loans, the relatively small percentage in the first group which was predominantly agricultural labourers indicates a weak spot in their lending activity. Garg *et al.* (1978) had similar findings in Utter Pradesh.

A substantial proportion of the loan amounts was received by marginal fanners and the proportion received by agricultural labourers who form the 1st group was insignificant (Table 1). The average amount per borrower increased with size of operational holding. Though this can be considered quite unexceptional because the loan amounts 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 lending of the bank ought to be considered as biased against agricultural labourers. This is in spite of the fact that on a per hectare basis they get the highest amount, for this is the only kind of loan which they have obtained.

Cropping intensities of the sample farms were calculated as defined by Johl and Kapur (1973).

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

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 the various groups of borrowers 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 groups were 99.55 per cent, 85.18 per cent, 74.68 per cent and 96.22 per cent. This indicates that the borrowing has helped to raise the cropping intensity in those farms. High cropping intensity of the borrower farms has also been reported by Rai *et al.* (1975).

Cost of cultivation can be considered as proxy for the extent of input use in raising of crops. The average cost of cultivation per hectare of rice, cost of cultivation per plant of coconut, banana, arecanut and pepper were found to be high for the borrower group of farmers as shown in Table 2.

Table 1. Details of borrowings

Land holding size group	Total borrowings, Rs			Percent of total RRB Loan to sample	Average per borrower (RRB loan Rs)	Average per hectare of land holding (RRB loan Rs)
	From RRBs	Other sources	Total			
1	2	3	4	5	6	7
I	2500	Nil	2500	2.12	833	25252
II	42270	Nil	42270	35.85	1364	5729
III	42650	Nil	42650	36.17	2369	3520
IV	30500	Nil	30500	25.86	3813	2845
Total	117920	Nil	117920	100.00	1965	3931

Table 2. Cost of cultivation of major crops during 1984-85

Size group	Cost of cultivation of crops Rs/ha for rice and Rs/plant for other crops				
	Rice	Banana	Coconut	Arecanut	Pepper
Borrowers					
I	-	9.40	-	-	-
II	4796	9.80	18.85	9.09	1.52
III	3767	12.20	20.90	9.38	1.81
IV	3732	14.80	18.40	9.40	1.86
Pooled	3710	11.60	19.50	9.29	1.57
Non-borrowers					
I	-	4.46	-	-	-
II	-	7.98	16.98	8.60	1.26
III	3822	4.80	16.30	8.90	1.28
IV	2473	5.62	18.45	9.40	1.60
Pooled	3279	5.73	15.60	8.22	1.10

The average cost of cultivation of rice per hectare was Rs 3710 for the borrowers and was only Rs 3299 for the non-borrowers. The increase in cost of cultivation of rice 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 tune of 100.24 per cent. The costs of cultivation per plant of coconut, arecanut, and pepper were also higher for the borrower categories than for the non-borrowers, but the magnitude was not as much high as in the case of cost of cultivation of banana.

Cropwise returns per hectare of the cultivated crops were worked out for each category of borrowers as well as non-borrowers. For all the crops, bor-

Table 3. Cropwise net returns from major crops during 1984-85

Size group	Crop wise net returns in Rs/ha for paddy and Rs/plant for other crops				
	Rice	Banana	Coconut	Arecanut	Pepper
1	2	3	4	5	6
Borrowers					
I	-	26.20	-	-	-
II	1458	26.70	96.88	12.12	3.65
III	1658	28.30	99.12	14.16	4.12
IV	1859	34.90	92.16	12.61	4.01
Pooled	1577	28.24	96.92	14.95	3.82
Non-borrowers					
I	-	9.12	-	-	-
II	-	11.96	78.67	11.77	3.41
III	811	10.75	86.08	12.14	4.09
IV	318	11.16	99.33	11.78	3.33
Pooled	463	11.34	83.90	11.56	3.61

rowers obtained greater returns than non-borrowers and in some cases the difference was quite substantial. This is attributable to the increased input use by the borrower farmers using their crop loans from the SMGB. It therefore, implies that the short term loans have helped the borrowers to augment their farm incomes. Borrowers had, on an average, used fertilizer nutrients to the tune of 36.16 per cent more than the non-borrowers. Similarly, on a per hectare basis the borrowers used 23.89 per cent more labour for their farm operations in the year than the non-borrowers.

The analysis of utilization pattern of the loans revealed that only 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. 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. Apparently, inspite of the special features of the bank like local staff and local feel, monitoring of utilization of loans was inadequate.

An inverse relationship was observed between size of holding and credit gap and a direct relationship between land holding and percentage of credit met by SMGB. A very low percentage of credit could only be met by SMGB in the first category because this category of cultivators had only leased-in land (mainly for banana cultivation) but the amount lent to them was on the basis of their own land. It was also seen that larger farmers were able to get credit from SMGB more than their requirement. 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. Need-

less to say, if lending was on the basis of farm planning and cash flow budgetting, some of the short-comings noticed above could have been avoided.

An examination of the repayment status of the SMGB loans showed 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 was due for repayment. Over-due was comparatively low only to the tune of 7.55 per cent. Increased overdues were seen for larger size group of farmers, for which category over-financing was noticed earlier. For any financing institution the repayment is a factor that has to be looked into while advancing a loan. It is often hypothesized 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 seems to be more liberal towards the larger fanners in lending. 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 wilful. 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.

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