CHAPTER SIX

LOAN ANALYSIS : AN OVERVIEW

Introduction

In the forgoing chapters we have examined in details the formal and informal loans delivered to the sample households. This chapter presents an overview of the credit deployed in the households.

Dale Adams (1986) opines that a rural financial market is doing well if it provides loan to 20-25 per cent of the farmers in the country. If roughly, half of the rural firms and households in the country also have regular access to either formal or informal loans, he thinks, that the financial market is doing a remarkably good job.

In the Indian context, formal credit agencies are meeting credit needs of about 15 per cent of the total cultivators. The credit needs of the remaining are being met by the informal agencies inspite of the large scale monetization (Dandekar, 1988).

The objective of this chapter is to study the distribution pattern of formal and informal credit and to undertake comparative analysis of the formal and informal credit deployed at household level. To make the comparison meaningful we have compared the formal and informal loans using three indicators. Firstly, loan size, secondly, activities financed and lastly, their genderwise distribution.

6.1 Loan Size

In this study of 300 rural household of Calicut District of Kerala, there were 350 sample borrowers, out of them 20 (5.71 per cent) had small farms and the rest 330 (94.29 per cent) had marginal farms.

The pressure of population and subsequent subdivision and fragmentation resulted into too many uneconomic holdings. Further, 30.57 per cent of the borrowers were agricultural labourers, some of them had very tiny pieces of land.

Many inhabitants in these areas had migrated from different parts of Kerala state and occupied land illegally. Later on, they were given ownership rights by government. Out of the sample borrowers still many were in process of getting the ownership rights at the time of data collection.

The credit needs of the small and marginal farmers are mostly for working capital loans, only occasionally they may need medium term and long-term loans depending upon the crops grown. For planting rubber, areacanut and coconut

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Note : a) Small farms 2.5 to 5 acres
b) Marginal farms - less than 2.5 acres.

usually long-term loans are taken. Table 6.1 gives the sourcewise distribution of sample loans and the loan size of formal and informal loans and total sample loans.

Table 6.1 : Loan Size

(Amount in rupees)

Source	Loan Cases No.	Loan Cases Percent	Loan Amount Amount	Loan Amount Percent	Average Loan Size
1	2	3	4	5	6
Formal	319	50.24	2436950	58.87	7639.34
Informal	316	49.76	1702500	41.13	5387.66
Total	635	100.00	4139450	100.00	6518.82

(Figures in columns 3&5 are percentages to the totals of columns 2&4 respectively)

It can be observed from table 6.1 that, there were a total of 635 loan cases. Out of which 319 cases were of formal loans and 316 cases of informal loans, i.e. almost 50 per cent distribution between the two. Large number of informal loans can be attributed to the inadequacy of formal loans and ineligibility of many borrowers due to lack of ownership right for availing formal loans.

Out of the total sample loans of more than Rs. 41 lacs, table 6.1 indicates that formal loans accounted for nearly 59 per cent and the informal loans for the remaining 41 per cent. The share of formal loans in total loans was proportionately higher compared to their share in loan cases. On the other hand informal loans had lower share in credit, compared with their share in total loan cases. The difference is explained by the loan size analysis which follows.

As credit worthiness is an important aspect of formal financing, size of loan provided, depends upon the value of the asset offered as security. In the rural areas mostly land and gold ornaments are provided as collateral security for availing a loan. The second factor which influences loan size is the type of activity financed.

Table 6.1 indicates that the average loan size of the sample was Rs. 6519. The corresponding amount for formal and informal loans were Rs. 7639 and Rs. 5388, respectively. Thus, the estimates show that size of loan provided by formal sources was bigger than that of informal loans. Small size of informal finance is also confirmed by many previous studies.

We hypothesised that informal credit plays a useful role in complementing formal credit. Our findings confirm the hypothesis. Nearly half the loan cases and 41.13 percent of the loan amount was from informal sources.

6.2 Activities Financed

Activities financed by formal and informal sources are different. Formal institutions usually give credit for productive activities whereas informal agencies provide credit for all kinds of purposes. We identified the activities financed by formal and informal sources. As per our analysis the activities financed are classified into following categories : agricultural operations, animal husbandry, self-employment, business, housing, repayment of old loans, and miscellaneous purposes.

Besides the data, some useful information was collected during the primary survey on various activities financed from loans which is furnished below. Loans for agricultural operations include preparing land for cultivation, planting, manuring, weeding, harvesting, irrigation, fencing, land improvements, purchasing of land, etc.

Under animal husbandry, loans taken for cattle, cattle shed and animal feed are usually included, besides cattle purchase. The number of cattle financed per loan varied from 1-3 irrespective of whether it was buffaloes, cows or goats. Maximum number of loans were taken for cows, since feeding and taking care of cows is easier and more profitable than other animals. In case of few IRDP loans the borrowers had to borrow in the first place from informal sources to build the cattle shed. Thereafter, it was repaid from the formal IRDP loan, when it was sanctioned. Some borrowers complained about the poor quality of assets provided under IRDP. One poor woman complained that she could not avail IRDP loan, as she had no contact with the sanctioning officers. Some borrowers secretly stated that they had to give a bribe of Rs. 50 to Rs. 100 to officials for processing IRDP loans.

Self employment loans were bigger in size as they were given for purchasing vehicles to be used for hiring, mostly rikshaws and jeeps. Some loans were also given for purchasing sewing machines and for handicrafts.

Loans for small business activities include running teashops, provision stores, butchery and other kinds of petty trades. A few IRDP loans were also given for small shops and business.

Housing loans were given for construction of new houses, and for making extensions or repairing the old houses.

Fresh formal loans were taken for repaying the old debts.

Loans given for miscellaneous activities include all those expenditures incurred for unproductive activities like social functions, religious and marriage ceremonies, and for consumption purposes; viz; education, clothing, visa for going abroad, hospital and medical expenses, etc. Such loans are mostly given against the security of ornaments.

Loans are classified into 7 categories / activities, of which four are productive and four are unproductive. Table 6.2 presents classifications of formal and informal loans according to the type of activity financed. Data are given on two parameters:loan cases and loan amount.

Table 6.2 : Activitywise Classification of Formal and Informal Loans.

	Formal			Informal	(Amount in rupees.)			
Activities	No. of loan cases	Amount	Average loan	No. of loan cases	Amount	Average loan	Total no. of cases (2+5)	Total amount (3+6)
1	2	3	4	5	6	7	8	9
Productive purposes								
Agricultural operations	188 (58.93)	1281800 (52.6)	6818.08	30 (9.49)	286900 (16.85)	9563.33	218 (34.33)	1568700 (37.9)
Animal husbandry	47 (14.73)	265950 (10.91)	5658.51	10 (3.16)	39000 (2.29)	3900	57 (8.98)	304950 (7.37)
Self employment	04 (01.25)	155600 (06.39)	38900.0	11 (03.48)	379500 (22.29)	34500	15 (2.36)	535100 (12.93)
Business	15 (04.70)	198200 (08.13)	13213.33	14 (04.43)	185550 (10.90)	13253.57	29 (4.57)	383750 (9.27)
Unproductive purposes								
Housing	19 (05.96)	247900 (10.17)	3047.36	25 (07.91)	169600 (09.96)	6784	44 (6.93)	417500 (10.09)
Repayment of old loan	07 (02.19)	89000 (03.65)	12714.29	08 (02.53)	44600 (02.62)	5575	15 (2.36)	133600 (3.23)
Miscellaneous (consumption)	39 (12.23)	198500 (08.15)	5089.74	218 (68.99)	597350 (35.09)	2740.14	257 (40.47)	795850 (19.23)
Total	319 (100.00)	2436950 (100.00)	7639.34	316 (100.00)	1702500 (100.00)	5387.65	635 (100.00)	4139450 (100.00)

(Figures in Parenthesis denote percentage to total)

Considering the total sample loan cases consumption loans had highest share (40.47) per cent), followed by agriculture. All other purposes had less than 10 per cent share.

On the other hand in terms of total loan amount agriculture claimed highest (nearly 40 per cent) of loans, followed by consumption which was a low record. Self-employment, housing and business had around 10 per cent each. Repayment of old debts received minimum share of just 3 per cent. Thus, our analysis shows that more than two-third of rural credit is given for productive purposes and only one-third is for non-productive purposes. This proportion of consumption loans is justified on the ground of survival of the poor.

Table 6.2 reveals that incase of formal loans, agricultural operations had highest shares in both the loan cases and amount. Animal husbandry came second in both the indicators. The third place was occupied by miscellaneous activities in case of loan cases and housing in case of loan amount. The shares of other activities were below 10 per cent. Our analysis indicates that the policy of diversification of loans from farm to non-farm sectors has not achieved success. Loans continue to be deployed mainly in the farm sector.

In case of informal loans, the picture was very different. Miscellaneous activities accounted for highest shares, i.e. more than two third of loan cases and more than one third of loan amount. Second place was occupied by agriculture in case of loan cases and self-employment in case of loan amount. The third most sought after activity was business in case of amount and self-employment in case of loan cases.

Comparing the loan size, both for formal and informal loans, biggest loans were given for self-employment. On the other hand, in case of formal loans the smallest size loans were given for repayment of old debts and considering the informal loans they were given for miscellaneous purposes.

Table 6.2. reveals that the share of productive loans in the total formal loans was much higher (78 percent) compared to that in informal loans (52 percent). This data reveals that formal loans were mainly given for productive purposes. On the other hand nearly half the informal loans were given for unproductive purposes (consumption), against less than one-fourth of formal loans.

6.3 Gender

It was only as the women's movements in the mid 1970's first on the gender issue and then on the issue of gender and equity that an attempt was made to incorporate the questions of gender and equity into the development debate (Poona Wignaraja, 1990).

There are several studies which indicate that women's access to institutional credit is limited. A study by the

Asian Development Bank in six countries (Bangladesh, India, Indonesia, the Philippines, the Republic of Korea and Thailand) confirmed that despite the existence of several targeted credit programmes, poor women continued to rely on informal credit markets for their economic and social needs because of easy access, flexibility of re-scheduling and non-requirement of collateral. These advantages far outweighed even the exhorbitant rate of interest they had to pay to the traditional money lenders, traders and others who were part of the informal credit system. Reliance on the informal credit market further increased their dependence and permitted continuation of their exploitation in various forms.

The primary objective of our study is to examine the gender difference in rural households access to credit and loan characteristics. The specific objectives of this study are :

To measure the gender difference with reference to the following three indicators :

1 Proportion of loan cases of males and females

2 Share in credit of males and females

3 Average loansize of the two genders

Gender differentials for all these parameters are measured for the sample as a whole and with reference to formal and informal credit, separately.

Our primary survey of two villages generated genderwise data sets. Our sample comprised 635 loan cases. The total loan availed by them amounted to Rs. 4139 lacs. Data pertaining to loans given to male and female borrowers is given for formal, informal and total credit in table 6.3.

Table 6.3 : Genderwise Distribution of Credit

(Amount in rupees)

	Formal Credit			Informal Credit			Total Credit		
Gender	No. of loan cases	Amount	Average loan	No. of loan cases	Amount	Average loan	No. of loan cases	Amount	Average loan
1	2	3	4	5	6	7	8	9	10
Male	213 (66.77)	1798300 (73.79)	8442.72	253 (80.06)	1268550 (74.51	5014.03	466 (73.39)	3066850 (74.09)	6581.22
Female	106 (33.23)	638650 (26.21)	6025	63 (19.94)	433950 (25.49)	6888.10	169 (26.61)	10726.0 (25.91)	6346.75
Total	319 (100.00)	2436950 (100.00)	7639.34	316 (100.00)	1702500 (100.00)	5387.66	635 (100.00)	4139450 (100.00)	6518.82

(Figures in parenthesis denotes percentages to total)

Table 6.3. reveals that for the sample as a whole, major shares both in case of loan cases and loan amount went to males. Women accounted for around 27 percent of loan cases and credit deployed at the household level. Even the average size of loan was smaller in case of women compared to men. The average loan size for males and females were Rs. 6581 and 6346, respectively.

The comparison between formal and informal loans indicated that women's share in loans cases was much higher (33 per cent) in case of formal credit compared to informal credit (26 per cent). Whereas, their share in the amount of credit was the same in case of both formal and informal credit, around (26 percent). The higher share in loan cases in case of formal credit is explained by the fact that women received mainly small size loans under poverty alleviation programme namely IRDP.

Table 6.3 reveals that with respect to average loan size males had much bigger loans compared to females in case of formal credit. The picture was reversed while considering informal credit where females had bigger loans than males. The smaller size of formal loan received by females can be related to the activities financed which were mainly for agriculture and animal husbandry. In case of agriculture, smaller size of the holding prevented women from getting big loans. All these loans were for less capital intensive activities compared to loans given to males. On the other hand, the bigger size of informal loans in case of females compared to males could be explained by cases of bigger loans taken by women for daughter's marriage, repayment of husband's previous debt, son's self employment and her obtaining visa, etc. There were seven households reporting big informal loans given to women. All these households except one were female headed households. Excluding these cases the average came down to Rs. 3490, which is much less than the average loan given to males (Rs. 5014).

Our hypothesis is that women have lesser access to credit and small size loans compared to men. This hypothesis is true in the case of formal credit. But, in case of informal sources though women's share in total credit is lower, their size of loan was much bigger than men's share.

6.4 Female Headed Households

Status of women differs according to the economic and social class to which they belong. But, when it comes to taking decisions, women have very little role, whether they are rich or poor. At the same time there exists one particular category of women who differ from all other women. These women are head of households, who take decisions and enforce them. But although women who head the households are more empowered in this respect, the FHHs are more labour starved, impoverished and poor compared to Male headed households (MHHs).

The objective of the present study is to (i) to compare the economic and demographic characteristics of FHHs with MHHs;and (ii) to measure the difference in access to credit and loan size of FHHs compared to MHHs.

There are studies showing that female headed households have smaller family size, being nuclear or single member households compared to MHHs. (Jain, Visaria, Parthasarathy, Ranadive and Danekar). According to Youseff and Hitler (1982) smaller family size may have lower earning potential, as they may not be able to draw upon human capital resources from within the household. The table below compares the family size between sample MHHs and FHHs.

Table 6.4 : Distribution of Sample Households According to Family Size

Family size	M.H.Hs No.	M.H.Hs Total members	M.H.Hs Average	F.H.Hs No.	F.H.Hs Total members	F.H.Hs Average
2-4	103 (39.16)	358	3.48	19 (51.35)	57	3.00
5-7	131 (49.81)	748	5.71	16 (43.24)	95	5.94
8-10	25 (09.51)	210	8.40	02 (05.41)	19	9.50
11 & above	04 (01.52)	46	11.5	0	0	0
Total	263	1362	4.62	37	171	4.62

(Figures in parenthesis denote percentages to total)

Table 6.4 clearly indicates that majority of the sample FHHs. belonged to the smallest (2-4 members) group. In contrast, more than half of the MHHs belonged to the bigger

(5-7 members) group. In the next bigger size group of 8 to 10 members, the proportion of FHHs was much less than MHH's.

On the other hand except in the case of 2-4 member category, FHH's average household size was marginally bigger than MHH's.

We have made a comparative study of the household income of FHHs and MHHs.

Poor household is identified on the basis of annual income of all members from all sources during the reference year from all economic activities they were engaged in. Poverty line is taken at Rs. 7200/ per annum. The following table presents comparative data of the income of MHHs and FHHs.

Table 6.5 : Distribution of Sample Households According to Income.

(Amount in rupees)

Income group	Sample households			Income		Average Income	
	M.H.Hs	F.H.Hs	Total	M.H.Hs	F.H.Hs	M.H.Hs	F.H.Hs
1	2	3	4	5	6	7	8
Above Rs. 7200	84 (31.94)	10 (27.03)	94	1161000	194500	13821.43	19450
Below Rs. 7200	179 (68.06)	27 (72.97)	206	454850	56500	2541.06	2092.59
Total	263	37	300	1615850	251000	6143.91	6783.78

Note : Income of the households in the year of availing the first loan.

The sample households are divided into two groups according to income levels, viz,above poverty line and below poverty line.

The table indicates that the incidence of poverty was almost equal among both MHHs and FHHs. However, the proportion of FHHs below poverty line was marginally higher. A very interesting fact emerged from our studythe average income of FHHs above poverty line is much higher than that of MHHs, being Rs.19450 and Rs.13821, respectively. The reason for higher average income for FHHs was that many of the women heading the F.H.Hs worked earlier in gulf countries as housemaids, and on return to the native place purchased some income earning assets. On the other hand, in MHHs women's freedom to go abroad for work was limited.

In this section, the distribution of loan cases and credit between the MHHs and FHHs is examined.

The following table presents the data on loans availed by MHHs and FHHs as a whole separately for formal and informal sources.

Table 6.6 : Distribution of Credit

Amount in rupees

	Formal			Informal			Total loan cases	Total loan amount	Total average loan
	Loan cases	Loan amount	Average	Loan cases	Loan amount	Average			
1	2	3	4	5	6	7	8	9	10
MHHs	271 (84 95)	2193350 (90.00)	8093.54	277 (87.66)	1111800 (65.30)	4013.71	548 (86.29)	3305150 (79.85)	6031.29
FHHs	48 (15.05)	243600 (10.00)	5075	39 (12.34)	590700 (34.70)	15146.15	87 (13.7)	834300 (20.15)	9589.66
Total	319 (100)	2436950 (100)	7639.34	316 (100)	1702500 (100)	5387.65	635 (100)	4139450 (100)	6518.82

(Figures in parentheses denote percentages to total)

Table 6.6 indicates that the share of FHHs in sample loan cases and amount were 13.7 and 20.15 percent, respectively. This is indeed impressive. Table 6.6 indicates that MHHs had a predominant share in both loan cases and amount. But surprisingly, FHHs share in the informal loan amount was nearly 3 1/2 times higher than their share in formal loan amount. That is, more than one third of informal sample loans went to FHHs which is indeed an impressive share, more so because their share in loan cases was much smaller (only 12 percent).

Table 6.6 indicates that the average size of loan of sample households was Rs. 6518. The FHHs had a much higher average size loan compared to MHHs. This can be explained by the fact discussed earlier that there were some cases of earning received from abroad by FHHs invested in productive assets, which boosted their income and in turn the credit availed by them. However, considering the formal loans MHHs had a much bigger loan size than FHHs , but in case of informal loans the reverse position existed.Hence we conclude that FHHs mainly recieved informal loans of big size.

We hypothesized that FHHs have less access and smaller size loans compared to MHHs. Our findings reject the hypothesis.

6.5 Conclusion

Our credit analysis is focussed on estimating the rural credit received by sample rural households and examining the distribution pattern of credit, sources wise, purpose wise, genderwise and headshipwise.

Our sample comprised of 635 loan cases and they received credit amounting to Rs. 4.14 lacs. The loan cases were distributed almost equally between the formal and informal lending sources. Yet, the share of formal credit was bigger (nearly 60 percent) than that of informal credit. The difference is explained by bigger average loans in formal credit, compared to informal credit. The sample loansize was Rs. 6519 and for formal and informal credit it was Rs. 7639 and Rs. 5387, respectively. This analysis suggest that rural credit comprises mainly small loans and informal credit continues to play a significant role in meeting credit needs in the countryside.

Purposewise analysis of sample loans indicated that agriculture had the biggest share of loans (neraly 40 percent), miscellaneous loans given mainly for social ceremonies and consumption came a low second (one-fifth), followed by self employment, housing and business accounting for around 10 percent each. Agriculture and animal husbandry claimed nearly half the credit. On the whole, 70 percent of credit was deployed for productive purposes and the remaining 30 percent for unproductive purposes.

Considering the number of loan cases which is a proxy for reaching out of credit agencies to the needy, miscellaneous loans had highest share, followed by agriculture. Loans for business and self-employment were very limited.

Comparing the formal and informal credit cases we found that highest share was of agriculture (nearly 60 percent) in former and of miscellaneous loans (nearly 70 percent) in the latter. Similar picture emerged in case of credit amount distribution, also. But, the respective shares were smaller (53 and 35 percent).

Interestingly, incase of informal credit, self-employment came second after miscellaneous loans with an impressive share of 22 percent. Credit given for non-productive purposes accounted for 47 percent of informal credit, and only 22 percent of formal credit. It needs to be noted that informal credit had more equitable distribution pattern compared to formal credit. Further, informal credit was largely given for consumption and self-employment purposes for which formal credit was not easily available. Thus, informal credit played a significant and complementary role to formal credit in meeting credit needs of ruralities.

Gender analysis of credit showed that as expected males had a predominent share both in loan cases and credit. Female borrowers accounted for a little more than one-fourth of credit and loan cases. Even the female's share in credit amount was similar in case of formal and informal credit considered seperately. But, in taking the loan cases females share in formal credit was much higher (one-third) compared to informal credit (one-fifth). It is very satisfying to find that formal credit is reaching women folk in increasing numbers. This success can be attributed to the success achieved in targeting women under the IRDP, more important is the focus on poor women.

Size analysis of loans showed that sample loans were mostly small-size. The average loan amount per case was just Rs. 6519. The average loan size of males was higher than that of loans made to females. This was also true in case of formal credit. But, considering informal credit the position was reverse. This is explained by very big loans taken by few females borrowers, which pushed up the average. If these are excluded, other females had smaller size informal loans than men.

Our findings uphold our hypothesis that women have smaller share and smaller size loans than men. But it needs to be noted that the share of women is no longer pathetic as it was one-fourth.

FHHs are receiving increasing attention of researchers in the recent past. We undertook comparative analysis of MHHs and FHHs of our sample focussing on family size, household income, access to credit and loan size. We found that almost half of the MHHs had family size ranging from 5 to 7 persons, whereas half of the F.H.Hs were concentrated in the smaller family size of 2 to 4 persons. Further, the proportion of F.H.Hs was around half of that of MHHs in the bigger family size group of 8 to 10 persons. Around two-third of the sample households were below poverty line. The proportion was slightly higher in case of FHHs compared to MHHs. Thus, our hypothesis that FHHs had smaller family size and household income compared to MHHs is upheld by our analysis.

The FHHs had much lower shares of loan cases and amount. For the sample as a whole the share of FHHs in loan cases and amount was 13.7 and 20.15 percent respectively. Their share in loan cases was marginally higher (15 percent) in case of formal loans, whereas, in loan amount this share in informal loan was nearly three and a half times higher (35 percent) compared to the formal loans (10 percent).

In sum, FHHs were mainly dependent on informal credit. Considering the average loan size, FHHs had bigger loan size than MHHs for the sample as a whole and for informal credit. But in case of formal credit the position was reverse. Thus, our hypothesis that FHHs received lesser credit than MHHs is rejected. But our indepth analysis suggests that the formal credit system discriminates against FHHs, and the informal credit system was more dependable and friendly towards them.

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