

CHAPTER SEVEN

CONCLUSION, OBSERVATIONS AND SUGGESTIONS

This is a comprehensive study of credit flows availed by rural households, wherein the borrowers and loan relationships are explored. The analytical focus is on revealing the complexities of formal and informal loan markets and gender issues. The enquiry mainly deals with small size loans, availed by farming community largely engaged in crop cultivation.

The Calicut District of South India was selected as the sample district for conducting the primary survey. The most notable characteristic of the sample district was its very high literacy rate. The male and female literacy rates were 94 and 87 percent, respectively.

The sample villages were purposively selected from the sample district, namely Kodencherry and Puduppadi. Each village had population of less than twenty thousand and agriculture was the main occupation. Muslims, Christians and Hindus were the main religious communities, whereas, scheduled castes and tribes formed less than 5 percent of the population. Matrilineal pattern of society prevailed in the sample villages.

The survey covered 300 households. They were large size households, marginally having 5 to 7 members. More

than three-fourth of them lived below the poverty line. Female headed households accounted for 12 percent of the total. Primary data were collected from 350 sample borrowers. Two-third of them were small and marginal farmers or agricultural labourers. Female borrowers accounted for a little more than one-fourth of the total borrowers. This ratio is much higher than those noticed by some researchers in Gujarat. The higher literacy rate and the matrilineal pattern of society in Kerala could have made the difference. Most of the female borrowers were engaged in domestic work only, at the time of loan disbursement. Majority of the borrowers were in their early forties. More than 45 percent were Christians and Muslims came a low second (28 percent), closely followed by Hindus. Scheduled castes and tribes, accounted for little more than 5 percent.

The 350 sample borrowers availed 635 loans, which were almost equally distributed between the formal and the informal loan cases, indicating that most of them borrowed from both formal and informal loan markets. Yet, the formal loans accounted for nearly 60 percent and the informal loans for 40 per cent of the total sample loan amount of Rs. 41 lacs. This is explained by the larger loan size (Rs. 7638) in case of formal loans compared to informal loans (Rs. 5388). The average loan size of the sample was Rs. 6519. In case of formal loans the loan amount depended on the value of security and activity financed.

Around two-third of the sample loans were given for productive purposes and only one-third was given for non-productive purposes like housing and consumption. Agriculture was the main activity financed accounting for more than half of the formal and 17 per cent of the informal loans. In case of formal loans non-productive loans were little more than one-fifth. Whereas, among informal loans they accounted for nearly half of the total loans. This indicates that informal finance complemented formal finance by filling the voids in the credit flows. Formal loans were mainly given for productive purposes, whereas informal loans were largely for social and consumption purposes.

Out of the various lending agencies, regional rural banks had the highest share (45 percent) closely followed by commercial banks (43 percent). Housing board and co-operatives had less than 2 percent shares each. Land development banks accounted for 8 percent of loans.

In case of informal loans, more than half came from money lenders and less than one-third from friends and neighbours. Relatives provided just 7 percent.

Tenurewise classification revealed that short-term loans predominated both in case of formal (81 per cent) and informal loans (95 percent). Long-term loans had 17 per cent share in formal loans and were negligible in case of informal loans.

Security is the mainspring of formal lending. Hence, bulk of formal loans (86 per cent) were secured loans. Incase of informal loans, a reverse situation was observed as 93 per cent of the loans were unsecured.

Formal loans upto Rs. 25000 carried interest rates of 12 to 12.5 percent Bulk of loans being small size, this was the interest rate for most of the loans. Loans of more than Rs. 25000 carried interest of 14 to 15 percent. But they were very small in number. However, for unproductive purposes 18 to 22 percent interest was charged by South Indian Bank. Loans under Differential Rate of Interest scheme formed only 4 percent. But the actual interest burden is much higher, as in most of the loan cases under the table amounts had to be paid.

It needs to be noted that 42 percent of loans from the informal sources were interest free. 11 percent had interest of 1 to 14 percent, which is comparable with formal credit interest rates. One fifth of informal loans had interest ranging from 15 to 99 percent and for another one-fifth it ranged from 100 to 200 percent. Hence, only two fifth of loans had very high interest burden. Against this, it needs to be noted that these loans were mostly unsecured, so non-substitutable from formal sources. Thus, to those poor people who had no assets to mortgage, informal loans were the only hope for meeting their credit needs.

Gender issue is receiving attention of development planners and lending institution since last one and a half decades. Our study throw light on women's participation in banking operations. Women accounted for 27 percent of loan cases and amount as well, which is much higher than the ratios noticed in Gujarat. The loan size of women (Rs.6347) was smaller compared to that of men (Rs. 6581). It is interesting to note that women's share in loans cases was much higher in formal credit (one third), compared to informal credit (one fifth). Yet, their share in loans amount was more or less the same (around one-fourth) in both the credit markets. This is explained by the fact that women received smaller size loans from financial institutions. Women, availed loans, generally when men from the households were not eligible to borrow. Women received smaller size loans than man from the formal loan market. However, the position was reverse in informal market. Seven households, received big informal loans mainly for social ceremonies, and all except one, were female headed households.

In the recent past FHHs are increasing fast and have received attention of researchers. In our study they accounted for 12 percent of the sample households. The MHHs and the FHHs had almost similar family size (4.62). However, FHHs had higher concentration (more than half) in the smaller size group of 2-4 persons compared to the MHHs (less

than 40 percent). Around 70 percent of the FHHs had income below poverty line (less than Rs. 7200/-). This ratio was only marginally higher than that of the MHHs.

But the main difference was noticed in case of average household income. Considering the average income of those below poverty line the MHHs had much higher income compared to the FHHs. But in case of the households above poverty line the position was reverse. Most of the FHHs had women who worked abroad as domestic maids for some years and returned to homeland with investible surplus, thereby having additional income generated from the income earning assets.

Our loan analysis revealed that the FHHs had 14 percent of loans cases and received one-fifth of total loan amount. Interestingly the average loan size of the FHHs was much higher (Rs. 6790), compared to that of the MHHs (Rs. 6031). This was due to some FHHs having income earning assets as mentioned earlier which they furnished as security for larger size loans from informal lenders.

Our analysis of the formal and informal loans availed by the FHHs revealed the real complexities of the loan market. Out of informal loans, FHHs had 15 percent of loan cases and only 10 percent of loan amount. This clearly indicates that they mainly borrowed small loans under, the IRDP wherein, there was a special focus on women. The average loan was much smaller compared to the MHHs. The

position was reverse in case of informal loans, wherein the FHHs had 14 percent of loan cases but claimed one-fifth of loans (this was double than the formal loan ratios). The average loan size of the FHHs was more than double (Rs. 8900) compared to the MHHs (Rs. 4014). It is important to note the informal loan market availed the opportunity of credit creation generated by the inflow of earning assets created from earnings abroad. Secondly, this also shows that women find it easy to borrow from informal lenders, especially for social ceremonies. Thus, we find that the informal loan market was more responsive to the credit needs of the FHHs, whereas, formal lenders continued to side track them in their mainstream lending. In sum, our gender analysis show that women were sidetracked from main credit flows. They were provided credit mainly under IRDP.

Hypotheses Testing

With agriculture and animal husbandry accounting for nearly two third of total formal credit, hypothesis (1) is upheld by our analysis.

We observed that informal loans amounted to around 40 percent of total sample loans and were mainly given for social and consumption purposes. Hence, our hypothesis (2) is also upheld.

Our analysis revealed that only half of the informal loans were given at very high interest rate. The other half were largely given interest free and some at low interest rate. Hence, hypothesis (3) is only partially upheld.

Hypothesis (4) is also upheld, as the gender analysis revealed that women received smaller loan share and smaller size loans, compared to men.

Some women borrowers, mainly from women headed households could avail large size informal loans by furnishing security of income earning assets created from earnings abroad. Hence, Hypothesis (5) is upheld.

Hypothesis (6) is also upheld, as average formal loan size of the FHHS was smaller than that of the MHHS.

Suggestions

Financial institutions should encourage loans for self-employment, business and housing by providing policy incentives and preparing effective bankable schemes. Medium-term loans suit this need, hence, bankers should emphasize on them instead of the traditional short-term loans.

Non-priority sector loans could be provided at 3 to 4 percent higher interest rate than that charged at present which could boost the profits of lending institutions and help in increasing the inflow of funds from the commercial market, with a view to increasing the credit flow in the

rural areas. Ruralites prefer easy and dependable source of credit, rather than rational and cheap credit.

Policy incentives need to be provided for prompt repayment of loans and penalties strictly implemented for overdue loans.

Though coverage of women in the formal credit net is improving albeit at a slower rate than needed, what is the real matter of concern is the predominance of female stylised activities financed from loans and small size of loans. Bankers need to understand that women are better risk than men, as they are better at loan repayment and use of loan. There is an urgent need for gender sensitisation programmes for bankers and rural development officers of the government.

Informal credit market needs to be encouraged by state policy, for increasing the flow of rural credit. It is essential that its role of providing consumption credit for survival needs of the poor needs to be recognised and encouraged. By planned integration of the money-lenders in the financial market, they could be strengthened and made to behave in a more responsible fashion. Informal loan market provides easier access to loans and better responsiveness to credit needs of the poor and women, compared to the formal loan market. This gives an edge to the informal market over

the formal one, and also provides the justification for the former market's strengthening in the future.

The FHHs living below the poverty line had much lower average household income compared to the MHHs. They need to be given special attention by lending institutions, by recognizing their typical structure, characteristics and credit needs.

The above suggestions are made with a view to increasing the flow of rural credit in future and providing credit of the required type to the rural households.