CHAPTER TWO

LITERATURE REVIEW

The first step of our research work involved the reviewing of literature relevant to our research topic. This exercise comprised screening of several research and expert committee reports which provided us the necessary perspective and insight for our study.

This chapter presents a brief review of selected research works. For better understanding the chapter is divided into three parts viz. formal credit, informal credit and women's access to credit.

The literature review helped us in identifying the vital issues and problems which required further investigation. It also indicated the gaps in research, which we tried to fill-up through this study.

2.1 Formal Credit Deployed at Household Level

In this section the studies reviewed by us throw light on farmers' accessibility to formal credit and the constraints and problems faced by them in availing such credit.

Sunita, Raju (1990) studied the extent of accessibility to institutional credit and the problems faced by farmers in procuring credit. A total sample of 70 farmers was studied and it was found that 86 percent of the farmers in coastal Andhra and 100 per cent of the farmers in Telengana region were dependent on institutional credit borrowed from commercial banks. Loans were given by these banks mainly against land and gold ornaments. On the other hand, it was observed that co-operative credit was unpopular as the co-operative socities linked credit with input supply system. Ten per cent of the credit given by these societies were kind loans in the form of fertilizers. On many occasions the fertilizers given by these societies were either old stocks or products which were not required by the farmers. Besides this, in coastal Andhra many of the farmers supplemented loans taken from institutional credit agencies with those taken from moneylenders. In other words, since the full credit requirement was not being met by the commercial banks some farmers had taken credit from more than one agency. P.T. George and A.K. Mukhopadhyay, (1983) also confirmed that a substantial number of beneficiaries was indebted to money lenders besides being indebted to the formal credit institutions. About 60 evaluation studies conducted by NABARD and commercial banks have revealed that more than 50 per cent of the borrowers under any scheme were under- financed. As a result of this, the beneficiaries were either forced to raise resources for meeting the difference in actual cost and the loan amount from informal agencies at much higher rate of interest or they had to settle for assets of poor quality.

Vasanthakumar J. and Singh (1987) studied the constraints to agricultural development of 300 small and marginal farmers of Coimbatore district of Tamil Nadu. It was found that the majority of the respondents reported inadequacy and non-availability of credit and complicated institutional procedures and delay in sanctioning loans as constraints. A small proportion of the respondents reported that frequent calls were needed and unauthorised charges had to be paid. While the villagers agreed that considering just the interest rate on formal credit it was much better than informal credit. However, they pointed out the other costs of credit such as (i) bribery; (ii) delay in loan disbursement because of the paper work and bureaucracy involved and (iii) lack of flexibility by official lenders at the time of repayment (Basu Kaushik, Mishra Ajit and others, 1992). It was noted that an illiterate borrower might never get to see upto 25 percent of the principal. Yet, he had to repay the whole amount and pay interest on it. All this meant that the interest rate of 18 per cent works out to be an interest rate of somewhere between 24 per cent to 57 per cent. Because of this many poor farmers prefer to borrow from rural money lenders at 213 per cent, instead of taking formal credit because in reality formal loans cost around 60 percent which is 18 per cent interest plus the cost of red-tapism.

Zia U. Ahmed (1989) found that the true cost of small bank loans at 16% taken by poor borrowers in the end amounts to double that considering time lost making multiple trips, to the banks, delays, bribes, fees, and sometimes humiliation by the authorities.

Dandekar, M.M. (1988) found that the minimum and maximum interest rates for production credit are 11.5 per cent and 15 per cent and for investment loans 10 percent and 12.5 percent. Hence, compared with the prevailing 16.5 per cent for non-priority commercial loans the rate on agricultural loans were admittedly concessional.

Several studies have been conducted to understand the phenomenon of utilisation of loan from formal financial institutions to agriculture. A study undertaken by Venkateshwarlu and Rao (1980) in Gundur district of Andhra Pradesh revealed that a very high percentage of borrowers diverted the loans from the stipulated purpose at some degree or other and the intensity of diversion increased with their farm size. The study indicated direct relationship between the farm size and agricultural credit diverted.

Panda (1985) also observed that the small farmers in both irrigated and non-irrigated regions diverted lesser percentage of credit for non-productive purposes, compared to the medium and large farmers. He also observed that this was true in case of short-term and long-term credit. Another study in Gujarat (Patel et al, 1987) also revealed that the extent of credit used for unproductive purposes was the highest for large farmers and the lowest in case of small farmers.

On the other hand, inverse relation between size of land holdings and diversion of credit was found by Reddy and Reddy (1980) in their study of utilisation of loan amount sanctioned by the primary cooperative Agricultural Development Bank, Proddatur.

Chauhan etal. (1982) in their study in Bichpuri development block in Agra district also found that the proportion of credit diverted to unproductive uses was higher in the case of small farmers as compared to the medium and large farmers.

Balishter and Singh (1987), in their study of Bichpuri block, observed that the percentage of Commercial Bank credit diverted to unproductive purposes was the highest among marginal farmers and the lowest among large farmers. This indicated a negative relationship between diversion and the size of the landholding of the borrowers. It may be concluded that diversion of agricultural loans to unauthorised purposes was found n all type of agricultural borrowers.

2.2 Informal Credit Deployed at Household Level

Informal credit still continues to be sizeable. The selected studies reviewed in this section brings out the importance of informal credit and points out its relative advantages and disadvantages compared to formal credit.

The following set of studies show that informal credit has been playing a significant role in the total rural credit inspite of its several well known disadvantages. Sunita Raju (1990) highlighted dependence on a money lender is negatively related to the availability of institutional credit. The delay and non-availability of credit from institutional credit agencies makes the farmer more dependent on private money lenders especially in the underdeveloped regions of the state. Nearly 85 per cent of the cultivator's cash debt in Andhra Pradesh is from non-institutional agencies. One of the reasons for the dominance of non-institutional agencies is the quickness of their credit assistance through simple procedures.

The findings of Dandekar M.N. (1988) also confirm this. According to his study some specific advantages of borrowing from money lenders were , although a higher interest is charged,(a)none of the records / documents are required to be produced to them (b) loans are granted by them because of the local knowledge about the farmers. Personal contact matters the most; (c) they reside in the same village, so are available for contact all the time unlike formal agencies; (d) they are satisfied with a simple promissory note and credit is granted in a single trip. Informal sector continues to meet the bulk of credit needs of non-cultivators and 37.4% of cultivators.

Mohideen, Uduman (1991) in his survey of 11 villages of Annur block of coimbatore district highlighted that sample villages out of 11 had gone to the non-institutional sources for more than 50 percent of their credit requirements. It should be stressed that the farmers resorted to the non-institutional sources for credit for purposes like deepening of wells, construction of wells, construction of farm houses, family expenses, social functions, and medical expenses for which institutional finance was not available. Diversion of funds for consumption expenditure is more in the case of non-institutional sources (B Prasada Rao and Mohana Rao 1982).

Most loans in rural Bangladesh are still from non institutional sources. Bangladesh Bureau of statistics survey 1989 shows that in 1987, 36% of the 15 million households of Bangladesh had taken loans during that year, but 68% of them were from friends, relatives and money lenders, and only 32% were from banks, co-operatives, and helping organisations.

Kaushik Basu, Ajit Misra and others (1992) in their study of Giridih village of Bihar found that the loans from private money lenders are extremely expensive. The interest rate ranges from 43 percent per annum to about 213 percent. The interest rates in case of formal sources were generally lower in the regions which were monitised. They were high in the regions characterised by a subsitance economy and low monetization. Gauri Sreenivasan (1980) also confirms the exploitative nature of informal loan system.

2.3 Women's Access to Credit

Women's access to credit is one of the most pressing problems of the developing countries. There is enough evidence to show that providing women access to formal credit, is the first and proven policy measure for bringing women in to the main stream of economic development. However, although there are some very good studies on women's access to credit, many more are necessary to bring out the factors helping and constraining availability of credit to women. Gender issues in credit require more scientific investigation particularly based on primary data. Some important studies on women's access to credit are reviewed in this section.

Sundar, Pushpa (n d) found in a study of thirty eight branches of major banks in India that in the course of a year only 11 per cent of borrowers at these banks were women. Of the total of 325 borrowers who were women, 45 received loans due to the intervention of a social worker who guaranteed the loans and supervised repayment and 19 received loans through a special program for low-income women run by an intermediary group using a guarantee procedure. In one branch the proportion of loans given to women was higher than the average for all the branches because it was the women's branch of a nationalised bank and even in this case, for every three loans that went to women, five went to men. Moreover, the amount of credit disbursed to women was disproportionately small. Overall women constituted 11 percent of all the borrowers and received just 8 percent of the total disbursements.

The Bangladesh Institute of Development studies in conducted a survey of 40 villages in Bangladesh which focussed on the issue of women's access to credit in the rural areas (cited in Hossain and Afsar, 1988). Preliminary findings from data gathered from 800 randomly selected households indicated that about 45% of the male and female respondents had access to credit in 1987, 12% from formal institutional sources, 15% from informal sources (money lenders with interest payment) and the remaining 18% from friends and family (without interest payment). Female borrowers accounted for 2.8% of total respondents with access to credit and 2.1% of the total credit made available.

Marguerite, Berger (1989) in her study of programs and institutions involved in lending to women micro entrepreneurs in Bangladesh found that characteristics of formal bank credit are often inappropriate for the needs of women entrepreneurs. So women do not even attempt to borrow from these institutions. In some cases, formal banking procedures or regulations such as requiring a women to have her husband or another male family member cosign for a loan discouraged women from applying for loans from formal lenders. Facing restricted access to formal institutions women rely heavily on informal sources.

Gauri Sreenivasan (1980) in her study of Women's saving groups in Bhangadh and Mingalpur found that the bank procedures and regulations are not only intimidating but poorely understood by the unfamiliar and or illiterate women. Moreover, the regulations often prevent a small holder access by the demands for large assets as collateral. These requirements make it particularly difficult for rural women who have few, assets in their own name. Thus, they cannot have access to credit except through their husbands (Banking the unbankable 1989 : Gupta 1987). Those families having land had taken credit for agricultural inputs and also for consumption purposes. The villagers in

Bhangadh and Mingalpur relied almost exclusively on "Darbars" for loans. They charged exorbitant rates of interest which lead to debt escalation and long term repayment. The manipulations of the records and books to extend repayment and the physical intimidation and threats to the borrowers or their guaranter to maintain payment make default or escape difficult.

Borrowing from money lenders and prawn brokers by women is also documented in India (Harris 1979), Mexico (Chinas 1973) and Nicaragua (Gillespie, 1977) among other countries project the role of NGO's in providing women with access to credit. Numerous programs have been developed to provide the poor and the smallest business with acess to financial resources. Such programs include SEWA, Working Women's Forum at Madras, India Development Service and Grams Vikas in Mulbagal block of Kolar district of Karnataka. The SEWA is a trade union registered in 1972 in Ahmedabad. It was formed to improve the lot of women working in the unorganised sector. Working Womens Forum was set up in 1975 in Madras which provides credit to the poor via non bank institutions. India Development Service and Gramas Vikas are two models evolved by two NGO's in the state of Karnataka to fulfill two prerequisites : ensuring effective credit delivery system for women and motivating them to accept and use credit.

In a number of countries around the world such innovative programs are successfully reaching women in the informal sector. Such programs include PRODEM Credit program in Quilo, Ecuador (1984) Association of Dominica Para El E SARR OLLO DE LA MICROEMPRESS A (ADEMI) (1983) Mujeres En Desarrolla Dominicana Inc (MUDE) in Dominican republic, BRAC and Gramin Bank experience in Bangladesh.

The defining features of all these programs are : simplification of lending procedures which leads to quick allocation and little paperwork, guarantee to lender which reduces the implicit costs of formal borrowing and reduce the bank cost of lending to the poor, loan amounts in sizes adequate to the small borrowers needs, training and technical assistances, etc. These programs operates successfully regarding its objective of providing credit and uplifting women above poverty line who otherwise would have to resort to informal sources with all their limitation.

Elavia and Zafar Alam (1994) in their study of Vadodara District found that out of the total 286 formal borrowers 232 (81.12 percent) were males and 54 (18.88 percent) were females during the period 1990-93. A primary survey of five hundred households were conducted in two adjoining villages of Borsad taluka in Kheda Districts of Gujarat state. Out of the total credit of Rs. 2162500, male and female shares were 85.33 percent and 14.67 percent, respectively. The average size of loans for males was Rs.7953.87 and for females was Rs.5874.

It was found that the total informal borrowers were 397. Out of which 336 (89.13 percent) were males and 41 (10.88 percent) were females. The total amount of informal loan was Rs. 1654703 of which males' share was 90.7 percent and female's share was 9.3 percent. Average loan amount for males was Rs.4466.67 and for females was Rs.3753.65.

The overall analysis shows that out of the total loan of Rs. 3817203, 56.65 percent were formal loans are 43.35 percent were informal loans. During the period the average loan size for male was Rs. 5891.02 and for female was Rs. 4958.94.

There was an increase in the female participation rate in the formal sector compared to the informal sector as a result of an increase in the target for women under IRDP from 30 to 40 percent of total beneficiaries in 1990-91.

Hema Chavan (1993) in her study of Gujarat (Vadodara District) found that the proportion of women borrowers under IRDP programme increased from 20.95 in 1986-87 to 45.27 percent in 1989-90. It was also observed that 72.68 percent of the female beneficiaries financed under IRDP in 1986-87 was for animal husbandry.

According to the national sample survey report, the share of women in employment generated under poverty alleviation programmes in rural areas was 35.20 percent in 1991-92 and 35.22 percent in 1992-93.

Elavia and Chellani (1994) conducted a primary survey of 20 bank branches for obtaining genderwise data on banking operations in Gujarat. As on March end 1993, Women accounted for 18 percent of the borrowers and received 10 percent of the loans. Most of the women received loans under DRI and IRDP schemes, wherein small loans were given. This is reflected in the much smaller average loan amount in the case of women compared to men (Rs. 12005 for men against Rs. 5870 for women).

However, it needs to be noted that the gender differentials in average loans had been Rs. 600 during 1992-93 and Rs. 6135 at the end of March 1993. For the sample as a whole the average loan amount also increased from Rs. 6970 to Rs. 10,920

2.4 Female Headed Households (FHHs)

There have been some attempts by both individuals as well as government and research agencies to understand some of the problems faced by the FHHs. Here, the investigator attempts to bring out the status of FHHs. from the available research work.

According to the National Sample Survey Report (1992) there were 11.22 million FHHs. in India, accounting for more than 10 percent of the total households.The average size of the female headed households was 3.30.

Jean Due (1987) argured that 25 percent of the rural households which were FHHs could not benefit from the state policies. She stated that the adverse impact of the structural adjustment programs was much more on the F.H.Hs compared to the MHHs., as they have lower average per capita incomes and lower access to credit.

Parthasarathy (1982) in a survey of C.D. Block in Andhra Pradesh found a definite link between poverty and FHHs. Ranjana Kumari (1989) in her study of FHHsfound that they had a larger family size. Inspite of this, their income was lesser than other families and received hardly any credit from formal institutions. Their source of credit was money-lenders.

Sikapande (1988) in evaluating the training and visit extension system introduced in southern province of Zambia in 1983, confirmed that, FHHs had very few adult members available for farming in the household. Their crop production was lower; consequently they had smaller sales proceeds and income. Their access to credit was much less compared to other households and they were visited less by the extension agents.

2.5 Conclusion

By reviewing the literature on formal credit deployed at household level, we come to the conclusion that the credit provided by the formal financial institutions was inadequate. Inorder to meet the expenditure, borrowers had to depend on informal sources at higher rate of interest. Formal loans suffered from high transaction costs, complicated loan procedures and delay in sanctioning the loan. There were many cases of diversion of the credit to unproductive purposes.

There is very limited literature available on informal credit deployed at the household level. It is very obvious from the literature that informal credit continue to play an important role in the rural credit scene. Although it is costly, there are many advantages associated with the informal loan system, such as availability for all purposes, and quickness of their credit assistance through simple procedures.

The amount of formal credit disbursed to women was disproportionately small because of the complicated lending procedures for borrowing from the lending institutions. Women depend more on informal credit. There were many programs especially developed to provide women with access to credit. such as Self Employed Womens Association (SEWA) Ahmedabad and Working Women's Forum (WWF) Madras. There has been increase in the women's participation rate in the formal credit sector due to the targeted credit programs like IRDP.

There is hardly any literature available on FHHs. From those available literature we come to the conclusion that these households could not benefit from the policies of the government. They have larger family size, lower income and lesser access to credit compared to MHHs.

References

Afsar, Rita. n.d. Credit and Women in Development : The Bangladesh Experience". Women in Development in South Asia. PP. 218-232.

Balishter and Singh, Roshan. 1987. A study of the Farm Finances. Income and Savings of the Farmers Financed through Commercial Banks. Agricultural Situation in India. PP. 277-283.

Bangladesh Bureau of Statistics, Survey. 1989. P.22.

Basu, Kaushik, Misra, Ajit and others. 1993. Markets, Middleman and Mahajan. Economic and Political Weekly. xxviii, PP.326-327.

Berger Marguerite. 1989. Giving Women Credit: The strength and Limitations of Credit as a Tool for Alleviating Poverty. World Development. 17 (7), PP.1017-1032.

Chauhan, T.R, Balishter and Rajkumar. 1982. Availability and Extent of Utilisation of Credit in Agriculture. Indian Cooperative Review.PP. 39-49.

Chavan, Hema. 1993. Socio economic impact of rural credit on women under integrated rural development programme. Unpublished doctoral dissertation.PP.63-65.

Chinas, Beverly. 1973. The Isthmus Zapotecs : Women's Roles in Cultral Context. New York : Holt, Rinohart and Winston.

Dandekar, M.N. 1988. Farm Credit in India. The Journal of Rural Development. 7,PP.137-170.

Elavia and Chellani. 1995. Women's Participation in Banking Operations: Evidences from Gujarat. IBA Bullettin. July. PP.9-10.

Elavia and Zafar Alam.1993. Rural Households and Credit: Some Evidences from Gujarat. Working Paper, WHODSIC, MSU, Baroda. PP.8-24.

George, P.T., Mukhopadhyay, A.K., and Raju, K.N. 1982. Multi-agency System and Credit Flow. Journal of Rural Development. 2, PP.205-252.

Gillespie, Vivian, H. 1977. Summary of Existing Information on the Role and Status of Women in Nicaragua". Report prepared for the U.S. Agency for International Development, Office of Women in Development, Washington, D.C. : International Centre for Research on Women.

Harris, Barbara. 1979. Money and Commmodities, Monopoly and Competition. Discussion Paper Prepared for the Workshop on Rural Financial Markets and Institutions." Wye College. Wye. England.

Hilhorst, Thea and Oppenoorth, Harry. 1991. Financing Women's Enterprise Beyond Barriers and Bias. Netherlands : Intermediate Technology Publications. PP. 33-84.

INSTRAW Publication. 1990. Women and Development. Women and Credit. No. 15.

INSTRAW News. n.d. Alternative Credit Programmes for Women in the Dominican Republic. International Centre for Research on Women. nd. women's Contribution to Urban Development in Ecuador : Improving Women's Acess to Credit.

Panda, R.K. 1985. Agricultural Indebtedness and Institutional Finance. New Delhi : Ashish Publishing House, PP. 18-120.

Patel, H.R., Patel, G.N., Desai, M.M. and Patel. R.M. 1987. A study of Utilisation of Farm Credit. Indian Cooperative Review. PP. 93-101.

Raju, Sunita. 1990. Fertiliser Use and Credit Market. Economic and Political Weekly. V. XXV, PP.A 82-83.

Rao, B. Prasada and Rao, Mohan. 1982. The Economic of Farm Credit Use and Source of Finance in Changing Agriculture. Waltaire. Andhra University.PP 101-106.

Reddy, T. Subbi and Reddy, C. Ramamuni. 1980. Utilisations of Loans. _Land Bank Journal_.PP. 29-37.

Srinivasan, Gauri. 1980 _Giving Due Credit : A study of women's saving group in Bangadh and Mingalpur_. PP.8-11.

Sundar, Pushpa. n.d. _Credit and finance needs of women workers_. Mimeo.

The World Bank. 1990. _Strategies for Enhancing the Role of Women in Economic Development_. Washington.

Uduman, Mohideen. 1991. _Institutional Credit and Agricultural Development_. New Delhi : Mittal Publication. PP.210-222.

Vasanthakumar, J and Singh S.N. 1987. Constraints to Agricultural Development of Small and Marginal Farmers. _Journal of Rural Development_. 6, PP.309-313.

Viswanath, Vanita. 1989. _Extending Credit to Rural Women : NGO models from South India_. working Paper No. 184. Washington D.C.

Zia U. Ahmed. 1989 Effective Costs of Rural Loans in Bangladesh. _World Development_. 17 : 3.

Parthasarathy, 1982. _Rural Poverty and Female Heads of Households. Need for Quantitative Analysis_. Paper presented at Technical Workshop on Women's Work and Employment. New Delhi.