CHAPTER II

Select Review of Literature and Methodology
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2.0 THE BURGEONING LITERATURE AND ITS CLASSIFICATION

The literature on rural credit delivery system and the intervention of the state in its functioning by way of regulation of rates of interest has a long tradition and goes back to the Greek and Roman times. The exorbitant rates of interest charged by moneylenders and traders and the consequent distress and economic loss suffered by the poor have been the subject of investigation and analysis by moral philosophers. During medieval times usury was discouraged as it was considered to be "trafficking in the miseries of others" and it represented a grinding of the faces of the poor in their distress. It was argued that usury involves an offence against justice. The argument rests on the distinction between those things in which use and consumption are identical and those in which they can be separated. It is the function of money to part company with its possessor; its proper use lies in its consumption or alienation. It is, therefore, pre-eminently a fungible commodity: use and consumption are inseparable (Alexander Gray, 1959). Since medieval times, with the growth in industry and service enterprises besides the developments in agriculture, the nature of financial transactions has undergone a great deal of change permitting the taking of interest in
accordance with the element of risk involved in its transaction on the part of the lender and the borrower. Throughout history ordinary agriculturists were found to be faced with a great deal of risk in production and therefore suffered losses and joined the ranks of the proletariat.

In the 19th century as well as the 20th century many of the governments even under colonial regime, have sponsored subsidized credit especially during times of famine and floods in order to provide relief to the small holders. Cooperative credit societies have been promoted to supply credit at concessional rates of interest. Due to the shortcomings and inadequacies of their functioning, commercial banks have been either nationalized or directed to make an increasing allocation of credit for agriculture and allied activities. In most cases directed credit delivery systems have undermined rural development as well as the banking and financial systems. Therefore, increasing reliance is being placed on the market mechanism as an efficient instrument for the provision of credit and its allocation. The changing patterns of intervention and regulation of rural credit market have been extensively recorded, reported, commented, debated and discussed from the angle of efficiency and equity. In this chapter a select review of the literature at different levels is undertaken to capture the broad strands of thought. The literature is classified into 4 broad groups. They are:
Group A: Theoretical, analytical and global level studies

Group B: Studies at the national and continental level

Group C: Region and sector specific studies

Group D: Area and group specific studies

The first group comprises the analytical, theoretical and structural characteristics of the rural financial market and its use and abuse. The second category of studies touch upon the rural credit situation at the regional level namely groups of countries, subcontinents and continents. Since there are significant regional and sub-regional patterns based on the nature of the economy and its level of development as well as its economic disparities in factor and product markets, region-specific studies are covered with focus on India and its different States/areas. In the last section, a few studies are taken up that deal with the directed credit programmes for the rural poor, the so-called target groups. Under this category we also look at some of the recent initiatives regarding the functioning of self-help groups and their linkage with banking system for credit access and allocation. We take up these groups of studies one after the other starting with those that figure in the first category.
2.1 GROUP A: THEORETICAL, ANALYTICAL AND GLOBAL LEVEL STUDIES

2.1.1 Rural financial markets: use and abuse

Von Pischke et al., (1983) have observed in their edited work that institutional credit occupies a pride of place as a developmental tool in development programmes of developing countries because of the anti-exploitative, easy accessibility and low cost characteristics which establish its superiority over the traditional source of funds flowing from various agencies of the unorganized sector. The organized credit was to be supervised and spearheaded by the democratic organizations like cooperatives with state partnership, patronage and specific directional thrust. Pischke's concept of fungibility throws light on the importance of substitutability of use of finance. This phenomenon is lost sight of, when evaluation of credit projects is undertaken in a routine way, focusing on the improvements or achievements on the basis of difference between the prior to and after position. It is also pleaded here that efficiency and viability of rural financial markets impinge in an environment of flexible interest rate policies rather than administered ones. A similar viewpoint is expressed by David and Richard Meyer when they assert that agricultural credit programmes are less cost effective. As a corollary to this, Pischke questions the need for specialized farm credit institutions in low income countries. Anthony Bottomely makes it clear that non-institutional agencies have a cost advantage over institutional agencies.
for small volume of lending. However, if the volume increases institutional agencies are able to realise the economies of scale. The various non-conventional policy issues focused in the volume need to be taken into cognizance, so that an integrated view of rural financial market can be developed. The size of rural financial market is increasing and the role of organized financial institutions is gaining importance all over, so that the process of mobilization of savings and purveyance of credit get institutionalized and blended with mainstream of economic development. Rural financial markets also would witness fusion and integration into both organized and unorganized ones with the increase in the size of rural financial markets. The development of rural financial markets is helpful in achieving integrated growth and equity in developing countries.

2.1.2 Inter-linked rural financial markets

Kaushik Basu’s (1984) ‘The less developed economy’ is organized into four parts. Part one deals with introduction and macro perspectives, while part two enquires into the structure of a dual economy. The third part deals with certain specific aspects of rural economy namely stagnation in backward agriculture, tenancy and efficiency, isolation and usury, and analysis of rural credit markets and a theory of inter-linked rural markets. The concluding part probes into the limits of economic analysis employed in the book. The relevant portion of the book for the present understanding is the analysis of rural credit markets and inter-linked rural markets. In the former analysis
he tests the moneylenders' risk hypothesis which asserts that moneylenders in backward regions face a positive risk of default. The crux of the hypothesis is the observed high rural rates are illusory. Though this hypothesis may be useful in some situations, it is quite inadequate as a general proposition. For a fuller explanation it is necessary to take into account the monopolistic nature of credit markets as Bottomley (1964) and K.N. Raj (1979) did. The village moneylenders' monopoly power arises from his intimate knowledge of the borrowers' circumstances. Since the moneylender in general, has access to the urban credit market, the model also explains why rural interest rates are typically above the urban rates. Since the rural credit market is fragmented into little monopolistic islands a typical case of discriminating monopoly the rural economy itself is characterized by a whole array of interest rates. The monopoly power model is open to two important criticisms. First, the criticism is applicable to monopoly analysis in general where the lender does not maximize his profit on the basis of 'all-or nothing' contracts. Secondly, the analysis presumes that the borrower always has enough money to repay a loan which is unrealistic due to widespread poverty of rural borrowers. He is then forced to repay part of the debt in terms of whatever he has; livestock, utensils or even labour. These assets are usually not marketable. The borrowers and lenders' valuation of the asset/service can be different and the lender may enter the credit market with the express purpose acquiring assets kept as a security. The issues connected with this
line are dealt with in collateral price and interest rate formation model. This model was constructed without bringing uncertainty directly into the picture. Rural credit markets may get isolated and fragmented either because the credit transactions are intertwined with some other transactions or because of hereditary connections between the agents of exchange. The author analyses the emergence of inter-linkage in terms of 'potential risk', employing partial and general equilibrium approaches and linking the endogenous variables and the response to exogenous changes in the factor and produce markets. This monograph discusses models of different degrees of generality. Non-economic issues and methodological questions receive only cursory attention. It brings together some works which are apparently different on ideological strains and shows that some of the differences in jargon of different schools, the areas of contention turn out to be smaller than generally supposed. It, therefore, serves as a bridge between different schools of thought.

2.1.3 Undermining rural development with cheap credit

Dale W. Adams et. al., (1984) in their book "Undermining rural development with cheap credit", outline that in the past several decades large amounts of capital have flown into agricultural credit programmes in developing countries. The results of these efforts have often been disappointing due to recurring loan recovery problems, the rich getting most of the cheap loans, low interest rates discouraging local savings and deposits
and common political intrusions. Hence, many financial institutions in low-income countries are floundering. According to the authors, the reasons for these problems are, ubiquitous low-interest rate policies and improper use of financial markets. They suggested higher and more flexible interest rate and minimum attention to be given to targeting loans. The contributors to the book strongly believe that the wrong assumptions about the characteristics of 'rural financial markets' and the consequent rural development strategies adopted by policy makers and development technicians are two major factors responsible for the failure of rural credit programmes in developing countries. Credit is viewed as a productive input and policy makers think that it is possible to promote specific agricultural activities by delivering predetermined amounts of loans to farmers. Instead, credit is a part of the financial intermediation process. It is a general claim on resources highly fungible and it is costly and its use is difficult to target effectively. The authors illustrate how the currently accepted assumptions are faulty and how the important rural development policies produce undesirable and unexpected results. Rural credit programmes are often used by policy makers as a tool to grant patronage and to increase one's own political power.

2.2 GROUP B: STUDIES PERTAINING TO CONTINENTAL AND NATIONAL LEVEL

Under this category a few studies of an empirical nature undertaken by different agencies at the national level in different countries are reviewed. They pertain to a wide range of geographical locations and timings. The
economic structures and agrarian systems exhibit a great deal of variation and therefore these experiences cannot be replicated without appropriate adjustments and modifications in the design and implementations of credit policies.

2.2.1 Supply leading finance for agriculture and rural sector

Rosegrant, M.W. et. al., (1988) discuss the determination of interest rates and the supply of funds in informal agricultural credit markets to assess the conditions which might justify supply – oriented credit programmes. The benefits and costs of a Philippine government credit programme are then examined as illustrative case study. The productivity of credit is determined by access to it, availability of technology, and institutional factors, rather than by interest rates. The greatest impact of a credit programme is in making credit available. The independent effect of interest rate reduction is relatively small. It is shown that traditional credit systems are adequate in a static technological environment, but that with technological change the pace of acceptance is much more rapid if credit is financed from outside the local economy. Thus, a powerful empirical case is made for institutional credit. This implies that many governments could reduce their cost of credit, subsidy by raising interest rates, if such rates are below market rates, without increasing the risk of default or slowing of production growth. In general, a high level of subsidy to financial institutions acts as a substitute for management development and prevents banks from competing effectively in
agricultural credit markets. Subsidy in the early stage of credit markets could be instrumental in the development of financial institutions if it is directed to institutional development, including management skills.

a. Small farmers access to institutional credit: Issues of equity

Yazdani, S and Ekhlas Poor, R (1998) examine the factors affecting the amount of formal credit received by 135 Iranian farmers and its impact on production using a two stage endogenous adjustment regression method. The results indicate that factors such as: farm size, assets, education and regions have a significant impact on the amount of credit received by farmers. The results also show that credit has a positive and significant effect on production. The shadow price of credit shows that the marginal effect of credit is higher than its cost.

b. Misdirection of farm credit in Bangladesh

Md. Salim Uddin and Md. Mohin Uddin (1999) on the basis of their empirical study find that rural credit is misdirected significantly and that farm size and income level have strong relation with misdirection of credit. Interestingly, on an average, the higher the farm size and income level, the greater is the misdirection. Time lag in sanctioning and disbursement of loan, complexity of the sanctioning process, lack of supervision on the part of institutional lending agencies, pressing need of fund for other reasons and inadequacy of fund on the part of loanees mainly account for misdirection.
More supervised credit, timely monitoring, provision of adequate amount and sincerity both on the part of lenders and borrowers are vital to ensure satisfactory use of credit.

2.2.2 Institutional credit for small farmers in developing countries

a. In Thailand:

Light Foot, P and Fox, J (1983) in their paper review four aspects of Bank for Agriculture and Agricultural Cooperatives (BAAC) activities, with particular reference to North-East Thailand, the poorest region of the country. The distribution of funds spatially and by types of loans; the characteristics of farmers who have access to loans; the effects of BAAC credit on the production and income of individual borrowers and repayment – performance. The underlying theme of the paper examines to what extent BAAC policies contribute to a uni-model pattern of rural development in Thailand.

b. Informal credit market in Philippine agriculture

Sagrario, L. Floro and Pan A. Yotopoulos (1991) analyse the methods of new institutional economics to explain the behaviour of borrowers and lenders in the rural credit markets of less developed countries. They have chosen the case of Philippine agriculture for their empirical investigation. The authors identify three major schools of thought in the literature. The first one is the ‘traditional approach’ where problems of rural credit are
viewed in terms of a shortage of capital and therefore the prevalence of high rates of interest. This approach underlines the need for supply leading credit for agriculture on rural growth. The second school is termed the 'financial repression' school. This school considers the imperfect and segmented nature of rural credit markets due to government intervention which generally puts a ceiling on interest rates for the benefit of borrowers. The third school of thought is identified with that of 'new institutional economics'. This school proceeds on the assumption that market institutions are not complete and poverty limits the availability of collateral. The present work is based on the approach of new institutional economics. The authors find on the basis of their empirical investigation that credit transactions linked with the sale of output, the purchase of inputs and the like inter-linkages carry a lower rate of interest than those that are not inter-linked.

c. **Small farmers and formal credit in Pakistan**

Amjad, S (1993) analyses the factors limiting small farmer's access to formal credit in the North-West Frontier Province of Pakistan. Data from two villages of the Peshawar district were used to locate and analyse these factors. The credit programmes of the government are mostly targeted at small farmers, where the bulk of the institutional credit is going. However, small farmers are not the main beneficiaries of formal subsidized credit. Within the 'small' category, different size groups have different access to formal credit. In this study, access ratios were estimated to show this
d. Sustainable rural credit in PNG

The paper by Kannapiran (1994) considers policy measures for designing a sustainable rural credit system for small holders in Papua-New Guinea (PNG). The viability of credit services to smallholders is adversely affected by the viability of credit delivery as well as the receiving system (credit absorption and servicing capacity of small holders). Possible policy options to deal with the problems include: regulation and subsidization of credit operations in the short to medium-term; delivery of credit as a package along with other support services; provision of low cost institutional credit; rural savings mobilization; an insurance and credit guarantee scheme to cover risks; land reform; and improved infrastructure and support services.

e. Multipurpose Institutional Credit in Bangladesh

Ahmed, A and Kennedy, J (1994) analyse the impact of the existing short-term institutional credit policies on the resource allocation of farming households in general and small farm households in particular; and to
investigate the extent to which removing the existing restrictions on the use to which loans can be put will make small holdings more viable in rural Bangladesh. Linear programming models are used to study the impact of credit on farm households in the central region of Bangladesh. As a benchmark, the effects of the current government policy of permitting institutional loans for production purposes only are analysed with a "farm-only" model. Relaxation of the current policy is investigated with a 'multi-activity' household model. MOTAD programming is used to allow for risk aversion in farm planning. It is concluded that the provision of institutional credit for all purposes and flexible schedules for borrowing and repayment are crucial factors for improving the welfare of small farm households.

2.2.3 Micro-finance Innovations

Micro-finance (MF) is defined as a package of products such as provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban, or urban areas for enabling them to raise their income levels and improve living standards (NABARD, 1999). Self-Help Groups (SHGs) have been identified as a delivery process of rural credit through which the package of services included in the MF is ensured to the targeted rural poor. Various studies suggested that the existing policies, systems and procedures as well as the savings and loan products often did not match the needs of the poor. Now, micro-finance (MF) is being considered as an innovative approach in credit delivery to the rural poor. A couple of studies on micro-finance are reviewed hereunder.
Fighting poverty with micro-finance

CIRDAP report (1999) is based on the proceedings of the seminar entitled “Sustainable Local Community Development and the Role of Micro-Credit in Rural Development” held in Bangkok, Thailand on 22-26 March 1999. It contains four parts; (i) the outline of the seminar, (ii) issues in micro-credit and sustainable local community development; (iii) highlights of the country papers; and (iv) the working group recommendations or suggestions. Two important annexes of resource papers and country reports form part of this report. The failure of the formal financial institutions to serve the rural poor has culminated in alternative systems of rural financial intermediation, such as credit cooperatives, self-help groups, other lending groups and of course, micro-credit programmes of NGOs. These group based credit systems address the problems of screening, incentives and enforcement through joint liability, peer group pressure and intensive participatory monitoring. Under this arrangement, the delivery of micro-credit, both for self-employment generation and micro enterprises development played a key role in enhancing the access of the poor to resources, incomes and employment leading to improvements in consumption and incomes of the target population.

In the countries of the Asia - Pacific region, programmes aiming at increasing the access of the rural poor to micro-credit have witnessed varying degrees of success. Exchange of information at both regional and national
levels can provide useful information in designing micro-credit programmes that incorporate specific design requirements, participation and targeting mechanisms to address the needs and demands of the rural population within a flexible approach. Valuable lessons could be learned from the experiences of other countries in respect of issues relating to poverty alleviation, sustainable community development and micro-credit programmes.

b. Micro-credit and Rural poverty: Empirical Evidence

Pallavi Chavan and R. Ramkumar (2002) present a paper, reviewing empirical evidence on NGO-led micro-credit programmes in several developing countries and compares them with state-led poverty alleviation schemes in India. The paper is divided into four sections. In section I, they bring out the context in which the NGO led micro-credit alternative has emerged in the literature and in policy making. In section II, they discuss the concept and features of micro-credit institutions, beginning with Grameena Bank. In section III, they review the available empirical evidence on micro-credit programmes and institutions in comparison with state-led credit-based poverty alleviation programmes and institutions in India based on the selected indicators. They also discuss the issues involved in the expansion and replication of Grameen type programmes and institutions across various countries. Finally in section IV, they provide a summary of findings from the review.
The study shows that micro-credit programmes have been able to bring about a marginal improvement in the beneficiaries income. However, the beneficiaries have not gained much by way of technological improvements, given the emphasis on 'survival skill'. Also, in Bangladesh the practice of repayment of Grameen Bank loan by making fresh loans from moneylenders has resulted in the creation of 'debt cycles'.

2.2.4 Studies on Indian Rural Credit System

In India, a multi-agency approach for providing working capital and assets acquisition to rural borrowers has been in operation since 1969 (Karmakar, 1999). The multi-agency approach to the rural credit delivery system arose due to challenges posed by the system at various points of time. The taccavi loans issued by the government in 1793 gave way to short-term cooperative credit institutions in 1904 and after 1929, cooperative land mortgage banks were started to help farmers redeem land mortgaged to private moneylenders. The partial nationalization of the Imperial Bank of India and the formation of a large number of new branches after 1955, coupled with the continuing failure of cooperative credit institutions, led to the nationalization of 14 largest commercial banks (comprising 90 per cent of the banking assets) in 1969 and 6 more in 1980. This led to a significant expansion of the number of rural branches for the purpose of monetising the rural economy. However, with increasing emphasis on 'priority' sector loans targeted at the poor and the weaker sections of society, Regional Rural Banks
were formed from 1975 onwards. Though formal credit institutions have made a dent in providing finance for rural households (from 5 per cent to 62 per cent in 1981), non-institutional sources of credit still play a significant role. From time to time the Reserve Bank of India and the National Bank for Agriculture and Rural Development (NABARD), State Bank of India and its subsidiaries and the other 20 nationalised banks have conducted several studies on the demand for and the supply of agricultural and rural credit. Governmental agencies have also undertaken studies on the credit delivery side as part of promoting agricultural and rural development. In what follows. We make a select review of some of these studies pertaining to the recent period with a view to understanding the policy initiatives and reforms that are taking place in the sphere of rural credit delivery system in India.

2.2.5 CRAFTICARD

CRAFTICARD (1981) examined the credit delivery system in India and made several recommendations for improving the system; and after a careful review of the views of earlier Committees, recommended the establishment of National Bank for Agriculture and Rural Development (NABARD). Accordingly, this apex bank was setup in 1982. The committee also suggested that there should be more than one organization for different purposes and arrange for co-ordination of those organizations instead of integration of different credit structures. As there was no consensus on the matters of the co-operative movement, it was agreed that a beginning might be made at the
primary level for integration of credit on a selective basis with the support and guidance of the Reserve Bank of India (RBI)/National Bank for Agriculture and Rural Development (NABARD).

The Committee visited almost all the states with a view to examining the actual field level conditions. The committee held discussions with officials and non-officials and co-operative and commercial bankers, at the block, district and state levels. In view of the urgency for policy formulation, it submitted an interim report and the draft bill on NABARD. For the field level discussions, the Committee issued a checklist of points for discussions at the block, district and state levels. The committee issued separate questionnaires, one on the national level institutions and the second on the field level credit delivery system, scheduled commercial banks, State Co-operative Banks, State Co-operative and Land Development Banks. The Committee submitted its report in January, 1981 incorporating empirical data and its analysis with its wide ranging recommendations.

The committee opined that a two-tier structure may be continued in smaller States and Union Territories, whereas the three-tier structure could remain as the general pattern for bigger States in the case of cooperatives.
It is agreed that the existing long-term co-operative credit structure, federal in some States and Unitary in others, need not be disturbed merely for bringing about uniformity.

The committee felt that the percentage shares of loans by co-operatives and Commercial banks in different States were more or less the same. Thus commercial banks' agricultural credit has been additive and has not substantially helped to fill the geographical gaps, in the availability of credit not covered by co-operatives. On the organizational, management and operational dimensions of the multi-agency approach to rural credit, it made several perceptive observations and pragmatic recommendations for the reform of the system.

2.2.6 Growth of Agricultural Credit and its Allocation in India

The Khusro Committee (1989) confirmed the major weaknesses of the cooperative system which umpteen previous committees and working groups, have pointed out; namely, neglect of the base level institutions, with the lower tiers looking up to the higher tiers for refinance at all levels while higher level institutions look after their own interests often at the cost of the primaries. The committee emphasized that the essence of basic features of cooperative banking system must be larger reliance on resources mobilized locally and lesser and lesser dependence on higher credit institutions. Heavy dependence
on outside funds has, on the one hand, made the members less vigilant, not treating these funds as their own and on the other, led to greater outside interference and control. Overall, this has made the cooperatives a mediocre, inefficient and static system. This is of course true, but while reiterating it, the committee forgets its own revelation, namely, that the vitality of the rural financial institutions depends on the vitality of the economy and the activities pursued by the borrowers. The fact is that agricultural credit cooperatives are essentially cooperatives of the borrowers and there is hardly any scope for raising resources except by coercive procedures. Cooperation in India has been both State sponsored and State patronized. That was one of the basic tenets of the Rural Credit Survey (RCS) committee, 1954. As already noted, 15 years after, the Rural Credit Review Committee in its report, 1969, admitted that the integrated scheme of rural credit envisaged by the RCS committee with state participation at every level of the cooperative structure, had not been pursued or implemented vigorously in all the states; this was only a polite way of saying that it had failed. The Khusro Committee has elaborated on this failure. It points out that the powers which vest in the government under the cooperative law and rules are all pervasive and the state has come to gain almost total financial and administrative control over the co-operatives, in the process, stifling their growth. Some of the unhealthy results of politicization and interference in the recovery of cooperative dues or promise to write off the dues if elected to power, and determination of
interest rates on considerations other than financial returns, i.e., with an eye on populist appeal. Such actions generate a general psychology of non-repayment, vitiating the recovery climate and jeopardizing the financial interests of credit agencies. Besides, mass super sessions are restored to on political considerations. Paradoxically, state partnership which was conceived as an effective measure for strengthening the cooperative credit institution has paved the way for ever increasing state control over cooperatives, culminating in virtually depriving the cooperatives of their democratic and autonomous character effective non-official leadership along with democratic management has disappeared altogether. The time has come to reverse this process.

But evidently, the committee did not think that the time had come to reverse the process of creating new institutions. It argued that the state apexes in credit sector and the other larger cooperative banking systems with all India Jurisdiction have yet no national bank of their own to function either as a national balancing center of the surpluses of the state systems or the larger cooperative enterprises; these functions are today done in some areas perfunctorily and in others (such as deposit holders), effectively by the commercial banks. Only national apex cooperative bank could fill the systematic gap and hopefully help build the systematic strength and cohesiveness which stems from a union of the state apexes. Hence, the committee recommended the establishment of a National Cooperative Bank of India.
2.2.7 Institutional finance for Agriculture: Issues of efficiency and equity

The study by Desai and others (1991) analyse the performance of rural institutional finance and based on that suggests measures for improving the performance. This is studied for all Rural Financial Institutions (RFIs) viz., three-tier cooperative financial institutions, cooperative land development banks, commercial banks and regional rural banks. Performance criteria are conceptualized keeping in view that institutional finance encourages private investment for agricultural development as well as financial deepening of the rural sector.

The study conceptualizes four performance criteria, viz., contributions of rural financial institutions as they relate to size and functional structure of operations, association of degree of agricultural progress and investments with the institutional finance variables and skewness in the interclass distribution of loans; loan delinquency rate of farmer level credit; viability; and scale economies in transaction costs of these institutions. The major distinctive features of this study are:

i. Loans and non-financial operations are visualized as facilitators of investment in modern inputs and assets;

ii. Size of operations are measured in constant prices;
iii. Viability of rural financial institutions is studied for an institution rather than its single activity like credit, as these institutions' products are joint and multiple in nature and the transaction costs are common to all these products; and

iv. Rural institutional credit is not merely for encouraging demand for investment goods by farmers but also for inducing supply of these goods and farm produce marketing and processing services. The study also makes useful suggestions for improving the contributions, viability and scale economies in administrative costs of rural financial institutions.

2.2.8 Intermediation between formal and informal sectors

Bell, C; Hoff, K; Hoff, K (ed.); Braverman, A (ed.); Stiglitz, J.E. (1993) construct a formal model of the interaction between the informal moneylender and institutional lender, under a variety of assumptions about the exclusivity of loan contracts and the competitive structure of the informal sector. The conclusions are drawn together in the form of four proposals for public policy, namely: the reconsideration of the role of private lenders in relation to institutions; the inter-linking of institutional credit with marketing and supply; the need to regulate the activities of the trader-moneylender; and fourthly, the limitation of institutional credit in backward areas. Indian credit policy has achieved only limited success and this can be seen in the precarious condition of many financial institutions and its limited impact in more backward areas.
2.2.9 Role of Institutional credit in Agricultural Development

Puhažendhi, V and V. Mohandoss (1994) point out that it is difficult to establish a direct relationship between credit and output as the former acts as a facilitator for adoption of commercial practices which directly influence the production performance. Hence, fitting a regression on value of output with reference to inputs and on value of inputs to credit, the results revealed that one percentage point increase in agriculture inputs contributed to 0.50 per cent growth in gross value output and one percentage point increase in short-term credit flow contributed to 0.76 per cent growth in agriculture input. The increased flow of term credit significantly contributes to the growth of private capital formation. The attempt to establish the relationship between capital formation and credit flow revealed that one per cent increase in credit flow contributes to 0.34 per cent in private sector capital formation during the period of 1970-1995.

The demand for credit in Indian agriculture is showing an increasing trend due to commercialization and diversification that has taken place in the sector over time. As against the estimated credit demand for agricultural development placed at Rs.46,000 crores during 1997-98 and Rs.54,300 crores during 2002-03 the estimated credit flow in the terminal year of Eighth Plan was of the order of Rs.26,000 crores. Hence, the additional resource gap will be Rs.20,000 crores in 1997-98 and Rs.28,300 crores in 2002-03. Under this situation of wide gap between demand and supply of agricultural credit, the
future strategies must focus mainly on the resource mobilization to meet the growing demand of credit. The resource gap is found to widen during the 10th plan (2002-07) and it is a challenging task for Rural Financial Institutions (RFIs) in meeting it.

2.2.10 Institutional Reform and Rural Poor

H.S. Shylendra's paper (1996) attempts to study as to how far the RRBs could succeed as an institutional reform in the field of rural credit, and in what way their policies have been different from those of the other institutions so as to enable the rural poor to have better access to institutional rural credit. These objectives have been examined here with reference to the functioning and performance of an RRB in Karnataka, namely Tungabhadra Gramin Bank (TGB). The TGB is the first RRB to be set up in South India in 1976. It serves the districts of Bellary and Raichur with a network of 163 branches. The objectives of this study have been fulfilled mainly by analysing the nature of the selected RRB's lending policies and practices and the pattern of distribution of its loans across different sections of the society. Along with the analysis based on data at a point of time on the distribution of credit across different households, the performance of the selected RRB is also tried to be assessed in a much more dynamic way by examining the regular or sustained access of the rural poor to it. While the lending policies of the RRB have been examined mainly by going through its annual reports and other published and unpublished records, the analysis of the distribution pattern of its loans and regular access is based on
the data derived from the survey of 197 randomly selected borrower households of the TGB. These borrower households have been selected in such a way as to represent not only the different loan purposes/ schemes/ categories but also the different agro-economic regions of the district. While the information about the borrowings of the sample households has been obtained from the loan ledgers, the socio-economic details have been collected through the household survey conducted during 1989.

The RRB though meant basically for the poorer sections was found to have benefited mainly the households belonging to the better off segments of the rural society. Not only the major portion of the RRB’s loans had gone to the better off households but even the regular accessibility to the bank was found restricted mainly to them. This is found attributable to the emphasis put by the RRB on the security based lending. The system or practice of considering the individual and not the household as the borrowing unit had not only enabled the richer sections to borrow from the RRB in the name of rural poor but also had helped them to garner a major share of its loans. Though the bank had brought in a considerable number of poorer households into its ambit, their coverage is attributable more to the selection of such households by the government agencies under various poverty alleviation schemes rather than to bank’s own initiative. Incidentally, most of them have also not been able to sustain their access to the Bank. As a result the RRB was found to be serving mainly the better off section who unlike the poor are able to sustain their dealings with it.
Even though the above results pertain to a particular RRB, given the common lending policies pursued by the RRBs in the country, the following few inferences may be drawn. The RRBs which were thus created as institutional innovation for the rural poor, however, did not come out with any radically different policy or strategy to reach out to their clientele. Unlike the Grameena Bank of Bangladesh, the RRBs in India have followed mainly the established security based lending and hence, their success as an institutional innovation/reform appears to be a limited nature only. Since their basic policy has remained the same, the outcome was in no way significantly different from that of other institutions like the cooperatives and the commercial banks. This suggests that what is also important for serving the rural poor by the formal credit agencies is not their form but their policies to be reckoned with any institutional credit reform policy for the rural poor. The emphasis being laid currently on the innovative self-help group-based lending to help supplement the institutional credit agencies to reach the rural poor effectively is no doubt the result of such a reckoning.

2.2.11 Institutional credit: Equity and Efficiency

Murthy, C.S. and Durga, C (1998) present an overview of agricultural credit, and the role that the institutional sector plays in this, focusing on the situation in India. Issues discussed are equity and efficiency in institutional credit; restructuring institutional credit for equity and efficiency (homogeneity in membership and autonomy in management); the hypothesis
the paper examines; that homogeneity in membership, or more specifically, the preponderance of small borrowers, reduces overdues, and that autonomy, inherent in the high level of deposits, reduces overdues; the data examining these hypotheses, from 1992-95 for ten states for the Primary Agricultural Cooperative Societies and the reorganization of the institutional credit structure as an alternative.

2.3 GROUP C: REGION/SECTOR SPECIFIC STUDIES

Under the third category we bring together the recent contributions to different dimensions of the growth of institutional credit and its allocation among different categories of borrowers. Issues related to transaction costs as well as levels of default by size groups of borrowers as well as diversion of formal credit and the convergence of formal and informal credit delivery systems are examined. Static and comparative static gains of institutional credit are also covered in a few of the studies together with the changing theoretical underpinnings and replication of institutional mechanisms for minimising risk in credit transactions for both lending and borrowing agencies. Needless to say that the coverage of studies is highly selective in order to keep our vessel to be above the plimsoll-line.

2.3.1 Agricultural credit for small farmers: West Bengal

The study of Arun Kumar Bandyopadhyay (1984) in West Bengal is an important contribution which deals with extensively on informal credit market in the rural areas of West Bengal. The attempt to compute the rate of
interest, though simple, is worth appreciation. The author concluded that the interest rate charged by informal lenders was high and it was higher in cases where it was not explicitly mentioned in the contracts. The author considered the reasons for co-existence of multiple system of credit in commodity, labour and service market. The argument of credit as an asset of different qualities for different lenders and for different contracts could be useful in explaining the co-existence of the multiple system of credit. Comparing the formal and informal credit, the author observed that the large farmers secure cheaper formal credit and the small farmers and the landless labourers the costly informal credit.

2.3.2 Institutional Farm Credit: Gaps and Diversion in Uttar Pradesh

Balister and Roshan Singh (1981) in their study focus attention on the availability of credit and credit gap, pattern of utilization of credit and level of income and savings of farm families of different size groups in Uttar Pradesh. The results show that the farmers borrowing from commercial banks were only 17 per cent and almost all these borrowers also borrowed from co-operatives. 32 per cent of bank borrowers were mostly small and marginal farmers who also borrowed from non-institutional agencies. The availability of credit from commercial banks per hectare was higher in the case of marginal farmers (Rs.985) followed by small farmers (Rs.951) when compared to medium (Rs.989) and large (Rs.856) farmers. Credit gap was less
in the case of marginal (4 per cent) and small farmers (11 per cent) as compared to medium (26 per cent) and large (38 per cent) farmers. Diversion of credit was more in the case of small and marginal farmers.

2.3.3 Role of Informal Credit Agencies in Maharashtra

F.J.A. Bouman (1989) in his study investigates a number of formal and informal financial services in the context of rural development. He opines that there is a bias towards formal credit and argues that informal sector is equally significant in rural finance. According to him it is incorrect to argue that formal financial institutions should replace informal ones to prevent economic stagnation and to expedite efforts of eradication of poverty. He feels that the volume of rural informal finance in Asia exceeds that of the formal finance. His study is confined to Sangli district in Maharashtra, where informal agencies like moneylenders, pawnbrokers, milk collectors and other types of local self-help savings and credit associations have increased in number in recent years. He argues that deficiencies in the services of the formal sector have stimulated the appeal and activities of informal finance agents who proved better motivated and well equipped to deal with the special demands of low income rural households in a mini economy. Contrary to popular opinion, the formal sector acted as a catalyst and assisted small borrowers to participate in the development programmes.
2.3.4 Multifunctional role of RFIs in Gujarat

Desai and others (1989) in their study deal with problems of Rural Financial Institutions (RFIs) in a backward area in Gujarat. These problems are examined by an intensive study of these institutions, as well as the rural households selected from this area. The authors of the study hypothesized that the problems at both these levels arise due to mismatch in the needs for and extension of rural financial services in a backward area. While the needs are multi-functional in nature, the extension of rural financial services in a backward area is unifunctional or at best semi—multi-functional. Four of the five selected RFIs did not perform multi-functional roles and they continued with the problems of high loan overdues, losses or low viability in their operations and limited utility of their services for facilitating adoption of new agricultural technologies and optimum use of resources. The remaining selected RFIs, on the other hand, performed a multi-functional role and as a result did not have any loan delinquency, had earned profits from its operations and had facilitated adoption of new agricultural technologies and more optimal use of resources. The authors not only validate the above hypothesis but also make several recommendations for enabling various types of RFIs to undertake a multi-functional role in a mutually reinforcement manner. These recommendations pertain to both macro-rural finance policies and micro-operational policies relevant for different types of RFIs.
2.3.5 Cooperative credit and the poor in Uttar Pradesh

Singh, A.K. Bajpai, D.K. and Garia, P.S. (1993) examine the issues of access and benefits of institutional credit to the rural poor, based on a study of Sultanpur district in Uttar Pradesh, one of the most backward districts. The first part of the paper examines the financial infrastructure in the area. This is followed by a discussion of the findings of a field survey of 150 households belonging to the weaker sections from five villages in the Bhadaiyya block, covering different aspects of the indebtedness among the sample households. The final section examines policy implications emerging from the study. Although banking facilities are gradually expanding into remote rural areas, banking operations require considerable strengthening in terms of coverage and revamping in their lending policies so that they become an effective instrument of rural development and poverty alleviation. Cooperative credit was found to be weak and unsatisfactory at the grassroots level with few farmers as members. Re-organisation is urgently needed.

2.3.6 Transaction and service costs of formal credit in Maharashtra

Kumbhare, S.L., et. al., (1994) discuss an approach for estimating the transaction cost and service cost for rural credit institutions and tests the method on a small sample of cooperative and regional rural banks in Thane district, Maharashtra, and South Arcot and Kamarajar districts in Tamil Nadu. Service and transaction costs are computed using the proportion of time spent by officers and clerks in mobilizing and servicing deposits and

82
loans. These costs show an inverse relationship with the volume of business. Alternatives for reducing transaction and service costs include the linking of self-help groups with credit institutions and increasing the volume of business through better planning by means of the development action plans being prepared by the cooperatives and regional rural banks.

2.3.7 Diversion of cooperative credit in Kerala

The study undertaken by Udaykumar and Gabriel Simon Thattil (2001) among Kisan Credit Card users of a primary agricultural credit society revealed that farmers with small land holdings and generally low income were getting exposed to the benefit of the kisan credit cards. The maximum amount being sanctioned to such farmers was being withdrawn to the extent of at least 75 per cent of the amount sanctioned. However, repayments which were been made were showing a low rate, disclosing the fact that farmers were finding it difficult to repay the amount withdrawn.

A major finding which would threaten the successful growth of Kisan Credit Card Scheme is the misutilisation of credit sanctioned. A large number of low income farmers were utilizing the funds for non-agricultural purposes, not originally covered under the scheme. Utilization of credit for non-productive purposes and domestic requirements, would often create problems in repayment. It is observed that when farmers have pending problems which need to be addressed urgently, credit naturally gets diverted and agricultural operations turn to be neglected initially and subsequently becomes uneconomical.
The primary issue thus would be to promote agriculture through agricultural finance when domestic issues of the farmers remain unaddressed.

Kisan Card Scheme should promote a credit scheme where in the credit requirements of the farmers address in totality. Agriculture finance cannot be seen in isolation. An important feature of agriculture in Kerala is small and medium land holdings and farmers in low and middle income brackets, for such a group 'total credit requirements' ought to be cornerstone for micro-credit delivery system.

2.3.8 Institutional credit flows in Karnataka in pre and post reform period

Adinew Abate et al., (2002) analyse the “Magnitude and Growth of Institutional Credit Flow to Agricultural Sector in Karnataka”. Their study shows that the loans and advances made to agriculture sector in the state by each financing institution, viz., commercial banks, RRBs and cooperative banks, showed a significant growth over the study period, from 1981-82 to 1998-99. Recovery performance of agricultural advances especially in the post reform period had significantly improved in commercial banks, RRBs and DCCBs lending. Only the recovery performance of PCARDBs continued to decline. The major attributes opined by respondents to the poor level of recovery performance include the announcement of debt-relief schemes by the government, mis-utilization of loans by borrowers, and willful default borrowers for various reasons. Some of these problems improved in the 1990s
and as a result recovery performance of banks showed improvement. In this regard, the government lender cooperation and coordination will improve the situation further. The government and lending institutions should take strict measures on willful and deliberate defaulters.

2.4 GROUP D: AREA AND GROUP SPECIFIC STUDIES

It is made clear by numerous studies that the benefits of development planning have not reached the poorest of the poor. In view of the persistence and concentration of rural poverty, several programmes meant for tackling it have been formulated and implemented for the small and marginal farmers, agricultural labourers especially the vulnerable section among them such as scheduled castes (SCs) and schedule tribes (STs). India is one of the pioneers in the introduction of Integrated Rural Development Programme (IRDP). This programme is now renamed as the SGSY. With its central focus on the promotion and consolidation of the DWCRA groups as well as other SHGs that are fighting the different facets of poverty especially from the credit side. Micro-finance and SHG operations are inter-linked. Several reports and journal articles are increasingly appearing on the SHG horizon. International micro-credit summits are regularly taking place for the last 5 years. We intend to have a glimpse at the emerging literature on SHGs as well as area specific institutional developments for credit delivery to the rural poor under the 4th group.
2.4.1 Asymmetric Information and the role of SHGs

Llanto, G.M (1990) discusses small borrowers imperfect access to formal credit and other financial services in the Philippines in the context of the asymmetric information existing in the rural financial markets. The existence of asymmetric information increases the transaction cost of procuring formal credit to small rural borrowers and the financial institutions and the various self-help groups in rural Philippines is presented. It is suggested that the phenomenon of inter-linkage in rural credit transactions is a mechanism for assuring access to formal credit and promoting financial discipline in the eventual borrowers. It is proposed that the state should contribute to improving the efficiency of the rural formal credit market by the provision of relevant information of the reliability of rural dwellers to the financial institutions, allocating resources to improve the credit worthiness of rural borrowers and assuring the security of loan advances to rural borrowers.

2.4.2 Group lending and risk management

The paper by Narayana, D (1992) provides an outline of rural lending in India; discusses the Indian experiment with crop insurance; relates poor loan recovery to agricultural risk; looks at risk management in relation to loan defaults; gives an account of the salient features of the group lending programme (GLP); and considers the limitations of two successful GLPs in
Thailand and Bangladesh. GLPs amount to leaving the rural population groups to be responsible for the administration of their own lending and recovery, a credit cooperative. It is shown that arriving at the right group dynamic is a difficult task, involving striking the right balance between risk management and loan recovery. The paper concludes however, that crop insurance should not be written off as a policy option in itself.

2.4.3 Lending to the poor through NGOs and SHGs

Arora, S.S. et. al., (1996) argue that improving access to credit facilities will do very little by itself to improve the lot of the rural poor. Rural areas of India have recently seen the removal of many 'loss-making' branches. A recent workshop held in Bangalore concluded that the poor are a good credit risk, having a high propensity to save if opportunity and motivation are given; better access to credit is more important than reducing its cost; NGO's and self-help groups are able to mobilize group savings, provide group guarantees as a substitute for collateral, and achieve high repayment rates on loans; banks can meet the credit needs of the poor by using NGOs and self-help groups as financial intermediaries; and that there should be general support by international organizations, donor and local governmental for institutional strengthening of NGOs, for the formation of self-help groups engaged in credit management, and for the linkage of such groups with commercial banks. The authors examine the importance of credit availability, and conclude that the importance in credit provision is through the self-reliance and self-help of the poor.
2.4.4 Role of NGOs and Micro-credit in Gujarat

Shylendra, H.S. (1999) in his paper examines the functioning and performance of the self-help groups (SHGs) promoted by two leading non-governmental organizations in Gujarat, India, namely the Self Employed Women's Association (SEWA) and Aga Khan Rural Support Programme (AKRSP). Both NGOs have implemented the concept of SHG fairly successfully, although some limitations could be observed in certain aspects of design and functioning. SEWA's implementation of savings and credit SHGs is of an extensive type whereby SEWA is trying to reach out to more and more self-employed women as well as help SEWA Bank to extend its coverage. Unlike SEWA, the approach of AKRSP is of an intensive type: existing village level cooperatives have been encouraged to adopt the concept of SHG internally to reap its benefits for improving their credit delivery system. The study reveals that SHGs are capable of playing an effective role as financial intermediaries for the poor. Besides helping members in mobilizing considerable funds through small savings, SHGs have been able to tap external funds quite significantly to meet the increased credit needs of their members. However, in both cases, the need for better deployment of members' savings by the SHGs could be seen, with regard to lending, a major feature observed is their extremely simple procedures. As a result, members have found SHGs superior to other sources of credit, both formal and informal. At the same time, the SHGs are able to attain high loan recovery rates. It is concluded that NGOs can play a major role in the successful promotion of SHGs.
2.4.5 Rural Credit and Self-help groups

It was thought that credit provided by informal lenders (registered/unofficial moneylenders, commission agents, traders, landlords, etc.) was exploitative and expensive for small farmers and their hold needed to be counteracted by extending low interest institutional credit. These were the major reasons for providing cheap institutional credit to rural borrowers especially the vulnerable groups and weaker sections (Karmakar, 1999).

An account of the vast quantitative expansion of rural credit delivery system, several pitfalls of its operation began to appear leading to undermining the very foundations of rural financial institutions. Repayment of loans became a major problem. Agricultural credit overdues at the borrowers level amounted to Rs.7,569 crore, constituting 26 per cent of the outstanding loans and 53 per cent of the demand at the end of June 1990. A multiplicity causes on the internal and external front are often put forward to explain the persistence and accumulation of overdues.

Karmakar brings to light the several misconceptions about rural credit. According to him, it is a claim on resources rather than an input. Fungibility of finance is often ignored. Cheap credit is considered to be a means for helping the rural poor and nationalized banks are the channels of its supply. Low interest rates are supposed to offset price distortions and transfer income to the rural poor. Most of these assumptions and approaches have led
to the failure of the rural credit delivery system, weakening the health of the financial institutions and therefore, the rationale of reforms in the banking and financial sector of the 1990s.

Karmakar makes a brief review of the agricultural credit review committee (ACRC, 1989), Narasimham Committee (1991), and Gupta Committee (1998), to provide a background for his study. He makes an analysis of financial transactions and risks, costs and margins which are the difference between the costs and incomes of the financial institutions for different categories of banks. Then he proceeds to an analysis of rural credit at the cross-roads and examines the role of non-institutional sources with reference to Dharwad district of Karnataka. The credit requirements to tribal people especially in the tribal areas of Orissa are explored against the background of exploitation and land alienation caused by traders, moneylenders on the one hand and displacement of tribal habitations by development agencies especially in the field of mining and metal based industrialization. Credit for the rural non-farm sector, rural women, micro enterprise development are also covered. The role of self-help groups in general and with reference to India and the emerging bank linkages are analysed. The SHGs seem to offer the easiest and most economical method of enabling the rural poor to contribute their might to the rural economy through social mobilization as it happened in the case of Bangladesh, Thailand and Indonesia. NABARD is trying to replicate some of these through micro-credit delivery institutions in India.
2.4.6 Mistargeting of Micro-credit

Subrahmanyam (1999) in his paper, argues that the potency of micro-credit as anti-poverty programme is now widely recognized. Considering the past trials and tribulations of micro-credit programme, the paper scans the emerging models for the effective delivery of micro-credit. It also presents different methods employed for identification, screening, segregation and selection of eligible clientele under micro-credit programme. It then raises two fundamental issues; (i) why is it that micro-credit is unable to reach the hardcore poor? and (ii) why is it that the implementing agencies are unable to prevent the encroachment of non-target groups into the areas earmarked for the poor? It presents some evidence on the mis targeting in Grameen Bank and BRAC micro-credit programmes. While describing the ‘tense balance’ between the target group and the non-target group on the one hand, and between the government and the NGO/micro-finance institutions on the other, the paper suggests that there is a need for future research to find satisfactory solutions to these issues.

2.5 THE CASE FOR THE PRESENT STUDY AND METHODOLOGY

There are many studies on institutional credit for agriculture and rural development and we have reviewed a few of them. Most of them deal with credit as a productive input and analyse the static and dynamic effects of
institutional credit and make out a case for its allocation to the target groups and proper utilization of credit. The global level studies are undertaken by multilateral funding and development agencies. Studies at the national and regional level are also plentiful. But at the local level such studies are not only small in number but also their coverage in terms of geographical areas and operational areas of the credit delivery system are limited. New innovations on the supply side of credit are emerging in collaboration with the financial institutions, NGOs and SHGs on the one hand and reforms relating to directed credit programmes on the other. There seems to be a counter revolution in the domain of the rural credit supply characterised by less intervention by the state leaving more space for the market mechanism to operate by itself as advocated by neoclassical school of economics. In view of this, there is a strong case for undertaking empirical studies on area specific and group specific basis to understand the functioning of the credit market in terms of institutional credit flows, their utilization and cost for different categories of borrowers. Even if a loan is given in kind such as bags of fertilizer, the goods provided can generally be sold and converted into cash if the borrower desires. Thus loans in kind or in cash can be used to buy any good or service available to the borrower in the market. Additionality, substitution and diversion are terms that define some of the problems fungibility poses for credit projects. Additionality is the difference between what happened under a project and what would have happened without it. At
the farm level, additionality is very difficult to measure and therefore, we will not go into its analysis. Substitution and diversion are inter-linked. In fact, diversion is a more extreme form of substitution. Diversion occurs even in well administered programmes. For one thing the close supervision of thousands of rural borrowers is very costly. Diversion takes many forms and it enters area of activities which were not intended at the time of contracting the loan. The focus on fungibility of credit process lays more emphasis on how intervention in rural financial markets affects lender behaviour, vitality and the overall operations of rural financial markets. In this research work we propose to examine the extent of substitution and diversion of current borrowings of our sample units, purposes of diversion, some of their determinants such as asset status, income level, loan size and education level etc., inter-linkages of markets and their effect on diversion and default in the selected villages. It is also in the nature of gap filling. To the best of our knowledge, there are no studies of this nature of institutional credit. The specific objectives of the study are as follows:

2.6. OBJECTIVES OF THE PRESENT STUDY

1. To describe the trend and progress of institutional credit in Guntur district.

2. To examine the sources, size and cost of credit by different categories of sample households.
3. To estimate the extent of substitution and diversion of institutional credit by categories of borrowers and to analyse the determinants thereof.

4. To assess the micro-credit operations of SHGs in terms of resource mobilization and allocation at the sample villages.

2.7 CORRESPONDING HYPOTHESES

i. The trend and progress of institutional credit do not show significant variation in the rural economy of Guntur district.

ii. The sources, size and cost of credit do not significantly differ among different categories of sample households and between sample villages.

iii. The extent of substitution and diversion of institutional credit and the determinants of diversion of credit do not exhibit significant variation between groups and villages.

iv. The levels of savings and credit mobilisation and allocation do not differ significantly between groups and sample villages.

2.8 SAMPLING FRAME AND SAMPLING UNITS

For the purpose of our empirical investigation, Guntur district has been purposively chosen out of the 22 rural districts of Andhra Pradesh due to considerations of familiarity and convenience. Further, of the 3 revenue
divisions, two divisions i.e., Tenali and Narasaraopet (NRT) divisions have been purposively selected as they represent the delta belt and the newly emerging delta belt of the district. It needs hardly to be stated that any district is not a homogeneous unit like the country. Hence, geographical and geoclimatic conditions differ significantly. There are 18 Revenue Mandals (RMs) in Tenali division and 20 RMs in NRT division. One mandal from each division is chosen randomly. Vemuru mandal from Tenali division and Karempudi mandal from NRT division figure in our study. Chavali (CVL) village from Vemuru mandal and Chintapalli (CTPL) village from Karempudi mandal are randomly selected. The households of the village are divided into two groups i.e., borrower and non-borrower households because our study is concerned with borrower households of institutional credit only. Further, the borrower households are classified into two groups. They are (a)cultivator households and (b) non-cultivated households. Cultivator households are classified into 4 groups on the basis of operational holding. Non-cultivator households are classified into two groups namely agricultural labourers and all others, who are designated for convenience as rural artisans. This designation is justified because this group mostly consists of traditional artisan households. A sample of 12 borrower households from each size group is selected. Table 2.1 provides particulars of the stratified selection of our sample households.
### TABLE 2.1

**SELECTION OF SAMPLE AT THE VILLAGE LEVEL**

<table>
<thead>
<tr>
<th>Mandal/Village</th>
<th>Vemuru Mandal (Chavali Village)</th>
<th>Karempudi Mandal (Chintapalli Village)</th>
<th>Total sample borrower households</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size group (Acres)</td>
<td>Total borrower households</td>
<td>Sample</td>
<td>Total borrower households</td>
</tr>
<tr>
<td>(i) Cultivators</td>
<td>492</td>
<td>48</td>
<td>335</td>
</tr>
<tr>
<td>(a) Large farmers (10.0 above)</td>
<td>43</td>
<td>12</td>
<td>37</td>
</tr>
<tr>
<td>(b) Medium farmers (5.0-10.0)</td>
<td>115</td>
<td>12</td>
<td>78</td>
</tr>
<tr>
<td>(c) Small farmers (2.5-5.0)</td>
<td>148</td>
<td>12</td>
<td>94</td>
</tr>
<tr>
<td>(d) Marginal farmers (0-2.5)</td>
<td>186</td>
<td>12</td>
<td>126</td>
</tr>
<tr>
<td>(ii) Non-cultivators</td>
<td>179</td>
<td>24</td>
<td>123</td>
</tr>
<tr>
<td>(a) Agricultural labourers</td>
<td>125</td>
<td>12</td>
<td>87</td>
</tr>
<tr>
<td>(b) Rural artisans</td>
<td>54</td>
<td>12</td>
<td>36</td>
</tr>
<tr>
<td>Total (i+ii)</td>
<td>671</td>
<td>72</td>
<td>458</td>
</tr>
</tbody>
</table>

A uniform sample size across categories namely 12 borrower households is justified in order to make inter-group comparison meaningful. The sample arrived at is disproportionate to the size of the group. Nevertheless, because of homogeneity and cohesiveness within each group, comparison on the basis of equal number of sampling units is considered to be meaningful. Five self-help groups (SHGs) out of 21 from Chavali village of Vemuru mandal and five out of 22 SHGs from Chintapalli village of Karempudi mandal are randomly chosen and studied. Thus, the present study has two categories of ultimate sampling units namely 144 borrower households and 10 self-help groups.
2.9 DATA BASE

Data for the present study are drawn from both secondary and primary sources. The publications of the World Bank, RBI, NABARD and the rest of the banking system provide a valuable source of data for any study dealing with rural banking and financial system. Ours is not an exception. The publications of the Government of India such as the economic survey and statistical abstracts constitute an indispensable source. The district manuals and abstracts provide a wealth of information as also the annual reports of agencies like DRDA. Primary data are drawn from our sample units with the help of a structured schedule. Canvassing a structured schedule among the rural households and groups is an education by itself. It is rather impossible to elicit reliable information without cross checking it from the local functionaries and elders. It was possible for the researcher to get the cooperation of the people concerned because of continuous and sustained efforts made sometimes leading to situations of desperation. The sole objective was to draw reliable data as they constitute the foundation of any structure of empirical study. Towards this end, the technique of participant observation which is a popular method employed in anthropological and sociological investigations is resorted to. Also focus group discussions were held to capture of underlying realities behind the quantitative information gathered from the structured schedules. Participant observation and focus group discussion were employed extensively while dealing with the operations of self-help groups (SHGs).
2.10 ANALYTICAL TOOLS AND TECHNIQUES

Raw data by itself may not and will not serve the purpose on hand. Data processing and analysis are the logical steps. Analytical skills and statistical tools provide the sophistication that is needed to draw meaningful conclusions. The usual descriptive statistical measures are liberally employed. Advanced statistical tools are sparingly used due to the limitations of quantitative data base itself. Description, which is the traditional as well as the modern tool is resorted to with all the power that goes with it.

2.11 LIMITATIONS

Field investigation is confined to two villages, 144 borrower households which are stratified into 6 categories and 10 SHGs only. The sample could not be enlarged due to the several constraints of time and money on the part of a single research scholar, who had to carryout the work without any financial support from any agency.

Time series data could not be generated and therefore, historical method could not be used. The emphasis of the study is on cross-sectional data and analysis. Therefore, our method is one of statics rather than dynamics. The findings and conclusions of the study are area specific as well as time specific and cannot be generalized.
2.12 CHAPTER SCHEME

The thesis is organized into 6 chapters. The opening chapter is an exploration into the different facets of the problem of rural credit.

The second chapter is concerned with the select review of literature and methodology.

In the third chapter, a brief profile of the agricultural economy of the district with emphasis on the institutional credit delivery system is presented.

The fourth chapter deals with sources, size and cost of credit to different segments of borrowers.

The extent of diversion and substitution as well as determinants are dealt with in chapter five. Micro credit through SHGs is also analysed in it.

The last chapter presents a summary of findings and conclusions.
REFERENCES:


36. Ibid.