Rejuvenating Rural Credit Delivery System in Maharashtra of India

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Introduction

Farmers, in India, often lack capital for investment in agriculture that is so very vital for improving their agricultural production. This paucity of capital flow perforce makes them seek loans from money lending sharks at exorbitant rates of interest and often this debt-trap reduces them to penury. It becomes difficult for the farmers to come out of this debt-trap even when faced with a favourable season and a good harvest. The problem stands compounded and further exacerbated when farmers look forward to taking advantage of modern high yielding seed technology and absorbing newer methods of scientific farming which require both working capital and investment capital. Technological innovations and commercialization of agriculture have not only increased capital requirements of farmers but they are also seen as responsible for necessitating and increasing the demand for superior inputs. In this scenario, a large segment of cultivators, particularly small and marginal farmers, are not able to make additional capital investments in agriculture to reap the benefits of the green revolution due to low surplus income accruing to them. The adequacy and timely availability of credit have always played a crucial role in enabling the farmers to shift over to a technologically superior production frontier and, consequently in realizing higher productivity.

In the present milieu, commercialization of agriculture coupled with increasing requirement of credit have put a lot of onus on various agricultural financial institutions to play a pivotal role in meeting the increasing capital needs of the farmers and in ensuring timely supply of various inputs besides providing other service facilities. The diversification of agriculture over the years has further accentuated the need for the rapid development of rural infrastructure and larger flow of credit to farming community (Shivamaggi, 2000). As for the credit delivery, the entire rural finance not only encompasses credit to farming community but also the development of various farming and non-farming sectors of the economy. In general, commercial banks (CBs), Regional Rural Banks (RRBs) and credit cooperatives are the major financial institutions that provide credit to the agricultural sector at the village level. These together with Land Development Banks (LDBs) constitute the rural financial institutions (RFIs) of India. The cooperatives account for 44 per cent share in the

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rural credit flow for agriculture and 31 per cent in rural deposits in terms of network, coverage and outreach (Gulati and Bathla, 2002). The statistics reported by Shivamaggi (2000) also reveal 45 per cent share of cooperatives in total rural credit. The remaining share in total rural credit delivery is reported to be accounted for by commercial banks with the role of RRBs and LDBs being only marginal. Although the role of RFIs in credit delivery has become crucial in more recent times, particularly in the changed market conditions, the point that merits attention is how far these credit institutions will be effective in sustaining the reforms sweeping the financial sector and in coming up trumps against competition from other players as they may not have level playing reserved areas for their operations any more.

In fact, the entire decade of 1990s was full of discussion on the positive and negative impacts of financial sector reforms and their implications for the agricultural sector. In the era of financial sector reforms, sustainability, viability and operational efficiency of RFIs are the major issues that need to be taken cognisance of in ensuring effective rural credit delivery system. However, the major problems plaguing the efficiency of rural credit delivery system are the mounting overdue[1] and Non Performing Assets (NPAs)[2] of RFIs. The overdue problem of different entities of rural credit delivery structure is reported to be an all pervasive phenomenon that cuts across these different agencies (Puhazhendi and Jayaraman, 1999). As per the estimates reported by Gulati and Bathla (2002), not only the outstanding loans of various RFIs operating in India grew significantly but the overdue of these financial institutions had increased considerably during the period between 1980 and 1998 (Table 1). The RRBs, in particular, showed maximum increase in their outstanding loans, followed by CBs. The primary agricultural credit societies (PACS) and LDBs in comparison showed the lowest increase in their outstanding loans. Notably, the deposit mobilization of these credit institutions also grew significantly over the course of time. Further, while the nineties' period (1990-1998) was marked with higher growth in outstanding loans for the cooperatives as compared to eighties' period (1980-1989), the outstanding loans of RRBs were found to decline substantially in latter period as compared to the former.

Among various states of India, the RFIs of Maharashtra are reported to show the highest amount of overdues and outstanding loans over the past one decade (Gulati and Bathla, 2002). Even the proportion of overdues to outstanding loan of RFIs are substantially high in this state. According to Gulati and Bathla (2002), the proportion of overdue to outstanding loans of RFIs was more than 30 per cent in Maharashtra during 1997. The other states that fall in the category of above 30 per cent overdue as proportion of loans outstanding of their RFIs are Assam, Bihar, Jammu and Kashmir, Madhya Pradesh, Orissa and Tripura. One can observe several weaknesses insofar as the working of RFIs in Maharashtra is concerned. One of the earlier studies conducted in cooperative sector of Maharashtra has clearly shown better financial health for the institutions at the district level as compared to the primary or grass root level (Shah, 2001). It is not the cooperatives alone but there are several rural financial institutions that are beset with similar plethora of deficiencies that impede their efficient functioning. This necessitates a relook at the performance of various agricultural financial institutions operating in Maharashtra with a view to recommending, designing and framing appropriate policies to rejuvenate the existing rural credit delivery in this state.

Table 1: Deposits, Direct Loans Outstanding and Overdues of Loans for the Cooperatives, RRBs, LDBs and CBs of India From 1980 to 1998

(Amount in Crore Rupees)

Particulars/Year	1980-81	1985-86	1989-90	1993-94	1994-95	1995-96	1996-97	1997-98
Deposits								
CBs	37988	85404	-	-	-	-	-	-
RRBs	336	1714	4150	8826.51	11150.01	14187.9	18032.01	22189.23
PACS	291	653	1284	2979	2928	4555.47	2322.53	-
LDBs	20	30	-	111	122	158	163	207
Total	38635	87801	5434	11916.51	14200.1	18901.37	20517.54	22396.23
Loans Outstanding								
CBs	2326.4	7997.84	15313.29	-	-	-	25279.55	26903.01
RRBs	385.25	1747.27	3503.78	5219.7	6258.2	7470.5	8668.9	9860.61
PACS	2622.0	4419.85	6696	9399.3	9992.44	13609.1	10771.22	18175
LDBs	1697.08	2655.52	3899.21	5916.25	6816.38	6856.59	8015.88	9182
Total	7030.73	16820.48	29412.28	20535.25	23067.02	27936.19	52735.55	64120.62
Overdues								
CBs	727.02	1743.65	3625.52	-	-	-	5378.81	5678.8
RRBs	68.11	437.08	1140.18	1850.3	1765.4	1979.5	2085.6	-
PACS	1086.39	1859.66	2986.8	3160.78	3605.32	5142.39	4125.38	-
LDBs	242.6	260.77	803.2	683.08	713.93	915.44	1024.92	1230.97
Total	2124.12	4301.16	8555.7	5694.16	6084.65	8037.33	12614.71	6909.77
% age of Overdue to Demand								
CBs	47	43	51.16	42.33	40.55	38.01	36.69	33.88
RRBs	48	51	-	53.77	49.02	44.90	42.90	39.46
PACS	43	41	-	-	31.42	33.74	35.72	35
LDBs	46	45	-	43	38	39	39	40
% age of Overdue to Loan Outstanding								
CBs	31.25	21.80	23.68	-	-	-	21.28	21.11
RRBs	17.68	25.02	32.54	35.45	28.21	26.50	24.06	-
PACS	41.43	42.08	44.61	33.63	36.08	37.79	38.30	-
LDBs	14.30	9.82	20.60	11.55	10.47	13.35	12.79	13.41
Total	30.21	25.57	29.09	27.73	26.38	28.77	23.92	10.78

Source: Gulati, Ashok and Seema Bathla (2002), 'Institutional Credit to Indian Agriculture: Defaults and Policy Options', Occasional Paper – 23, National Bank for Agriculture and Rural Development, Mumbai.

The major foci of attention of this paper are on not only to review the rural credit scenario of Maharashtra but also to provide a brief overview on the rural banking sector reforms in general and on the reform initiatives in cooperative sector in particular. The entire paper is divided into two sections. While the first section brings into focus the rural banking sector reforms and reform initiatives in cooperative sector, the second section is chiefly devoted to the evaluation of rural finance in the state of Maharashtra.

Section I

Rural Banking Sector Reforms

The development of rural credit delivery system had three distinct phases. While the first phase (1904-1969) encompassed the monopoly of the credit cooperatives, the second phase (1969-1991) was marked with the induction of the commercial banks into the rural credit delivery system through their nationalisation in 1969 and the setting up of the RRBs all over the country in 1975 with a view to provide low cost banking facilities to the weaker sections of the society (Puhazhendi and Jayaraman, 1999). The third phase, concomitant with the introduction of financial sector reforms, is characterized by the transformation of credit institutions into organizationally strong, financially viable and operationally efficient units. The emphasis of the financial sector reforms is on ensuring financial health of the rural credit delivery system. It is being conceded by Puhazhendi and Jayaraman (1999) that the innovations in rural credit delivery have a favourable impact on agricultural production and in reduction of poverty mainly due to increased flow of credit to farming community. They also assert that with the acceleration in the pace of capital formation, rural infrastructure development will see a new pace and much of this effort will be directed and focused on establishing cool chains and in networking transportation and marketing channels which in turn will allow more productive and increasing amount of credit absorption from financial institutions.

It is reckoned that the planning process of our country is primarily aimed at ensuring access to credit in rural areas. Besides, it also stands at augmenting agricultural production and alleviating rural poverty, in addition to improving the efficiency of the rural credit delivery system. Although various measures initiated under the planning process have greatly improved the reach of credit institutions and been instrumental in alleviating poverty in the country, the emerging segmentation of the rural credit markets in the face of financial sector reforms unleashed under the changing post - WTO economic scenario, has brought forth newer challenges before the rural credit delivery system. The reform process not only seeks to minimize government controls on credit institutions but also imposes stringent accounting norms and gives freedom to banks from mandatory rural lending. However, in their wake, they may also create conditions not auguring well for rural development, especially for the vulnerable sections of the society. In general, as indicated by Mujumdar (1996), the reform process in the banking sector encompasses the deregulation of interest rates, dismantling of directed credit, besides improving the functioning of capital markets, including the government securities' market. However, it is being conceded by Mujumdar (1996) that the reform package in rural banking sector has adversely affected the priority sector, especially in the area of interest rates since the new interest rate structure has become highly regressive and biased against priority sector. Although the Approach Paper to the Ninth Plan (1997-2002) has accorded high priority to activities relating to agriculture and rural development, the credit policy is yet to meet to the Ninth Plan priorities and initiatives. At this juncture, the point that merits attention is: what ingredients need to be added to the credit policy to make the rural credit delivery system more effective and efficient.

Notably, the new policy regime does not play heed to several areas of rural infrastructure. For instance, while the rural infrastructure development fund (RIDF) of the National Bank for Agriculture and Rural Development (NABARD) is helping infrastructure projects to a considerable extent, there is hardly any attention given in new policy package vis-à-vis certain other concurrent issues such as the development of brand names for agricultural products, development of water saving technology and cold storage facilities, besides packaging activities, etc., which also merit attention (Shivamaggi, 2000). With a view to achieve overall rural development, Shivamaggi (2000) lays emphasis on the need to introduce employment oriented programmes in the rural credit policy such as waste land development and watershed planning. In general, Shivamaggi (2000) admits that the policy makers are yet to arrive at a banking structure and operational system that suits the credit and saving needs of agriculturists' and at the same time promotes agriculture.

Reforms in Cooperative sector

Although the reforms in the banking sector have been initiated in commercial banks much earlier (beginning 1991-92), the reform process in cooperatives have taken much longer time in initiation on account of certain limitations, viz., the need for generating a consensus among the various State Governments which govern and control cooperative credit institutions and the need to balance the interests of very many diversified groups which control, operate and guide the cooperatives. However, despite these limitations, a few major reforms have been introduced in the cooperative credit sector. The policy reforms in the cooperative credit sector have been outlined and examined by Subrahmanyam (1999).[3] While examining reforms in the cooperative credit sector, he not only delves into the positive and negative effects of the policy reforms but also suggests some new steps that need to be initiated to truly restructure and bolster the cooperative credit sector in the country. Earlier, Gadgil (1994) had delved into the future likely impact of financial sector reforms on the formal agricultural credit system. Thus, the economic viability and successful and efficient functioning of cooperatives have been the raison-d-etre of a generation of economists, especially in the aftermath of the dawn of liberalization era and consequent changes in the economic scenario.

Of late, the withdrawal of the Government regulations from many spheres of economic and business activities has enabled the use of cooperatives as an institutional set up for implementing the programmes relating to socio-economic development. The new economic policies are expected to usher in a host of such those favourable conditions as autonomy, freedom with greater accountability and changes in cooperative laws, that will eventually lead to a gradual freeing of the cooperatives. The cooperative sector in the changed economic scenario has better opportunities for expanding and diversifying its business operations relating to farm and non-farm activities in agriculture. However, some quarters fear that unhindered unleashing of market forces will subject the cooperatives to unequal competition from the private sector with no patronizing support forthcoming from the Government for their growth and development. Nonetheless, experts also concede greater growth opportunities for the non-credit cooperative organizations, especially those which are as large in their size and market reach as any of the private or multinational firms.

Insofar as the development of cooperatives in new economic environment is concerned, one of the arguments of Shivamaggi (2000) is not in favour of leaving the cooperatives alone to face up the challenges of market forces since they still require government support in their lending business and deposit mobilization. In fact, the weakness of cooperative banking lies at the primary level. In majority of the states neither the deposit mobilization nor the borrowing membership of PACS is high. For instance, during 1996-97 the borrowing membership was less than a fourth of the total membership in Uttar Pradesh (20 per cent), Karnataka (17 per cent), Assam (0.20 per cent), and Maharashtra (24 per cent). Even in Andhra Pradesh, which initiated steps to restructure cooperatives, the proportion of borrowing members was only 29 per cent. The average loan business per primary society was less than Rs.5 lakhs in West Bengal, Orissa, Bihar, UP, Maharashtra, AP and Karnataka. Thus, in general, PACS in India have shown a dismal picture. It is to be noted that while some of the states like Andhra Pradesh, Kerala, Karnataka, Bihar, Rajasthan, etc. have modified their cooperative laws, certain other states like Tamil Nadu, Gujarat and Maharashtra are yet to follow suit and initiate changes in their cooperative laws (Elumalai, 1999). The need of the hour is to truly restructure cooperatives throughout the country. This requires rewriting of the cooperative legislation on the basis of a model law to be enunciated, formulated, and legislated by the Government if India.

The future course of action should be to enable PACS to transform themselves into full-fledged rural banks in order to cater to all types of productive and investment credits at the village level. Further, the role of Government should be that of a facilitator. The Government should (i) provide incentives and disincentives through financial and other means and establish a primary cooperative development fund for this purpose; (ii) monitor the societies and check undesirable trends; (iii) audit the societies' accounts to ensure proper financial management; (iv) promote professionalism in the cooperatives; and (v) encourage a politics-free cooperative leadership by barring politicians from participation in the management of the cooperatives (Shivamaggi, 1996, 2000). Yet another suggestion of Shivamaggi (2000) is in favour of drastically cutting down the role of registrar of cooperatives and redefining this role in accordance with the obtainable situation and standard of operations.

The conditions created by the new economic policies such as ushering in of autonomy, freedom with greater accountability and changes in cooperative laws are certainly steps in the right direction for the growth and gradual freeing of the cooperative sector. Now, how efficiently and quickly the cooperatives learn the ropes of market economy and are able to compete with other sectors of the economy will depend on their inherent competitive strengths, cutting edge technological mite and productive capabilities.

Section II

Rural Credit Scenario of Maharashtra

This section provides an insight into the rural credit scenario of Maharashtra with a major foci of attention on annual credit plans (ACP), potential linked credit plans (PLCP), progress of various RFIs over time, distributional aspect of credit, micro-finance or linkage of bank credit with various self-help groups, etc. The basic idea of this section is to highlight, in general, the functioning of various agricultural financial institutions in Maharashtra with a specific focus on credit cooperatives, commercial banks, RRBs and LDBs.

ACP and PLCP Outlays

The State Level Bankers' Committee (SLBC)[4] generally prepares ACP for each district with a view to achieve overall development of various sectors and regions of the state. However, before formulating district level credit plans, block level credit plans are prepared taking into account the village surveys conducted by each of the bank branches, especially with respect to cropping pattern of the area, exploitatable potential and demand for credit for various activities. The purpose of this exercise is to achieve a balanced growth of various sectors/regions with a view to improve the socio-economic conditions of rural poor and artisans and, in general, helping the agricultural sector as a whole. Monitoring and evaluation of these plans are done periodically by the Block Level Bankers' Committee (BLBC), District Level Bankers' Committee (DLBC) and also by the SLBC. However, major guidance with respect to successful implementation of the credit plan is being ensured by the RBI, NABARD, Government of India and other apex institutions.

The estimates relating to ACP show substantially high share (56 per cent) of agriculture and allied activities in total credit plan outlay for the state of Maharashtra with activities relating to small scale industries (SSI) and non farm sectors (NFS) showing the least share in this respect (Table 2). The other priority sectors are seen to account for 14 per cent and non-priority sectors about 22 per cent share in total credit plan outlay of the state. The other priority sectors such as transport, retail trade, housing, education, consumption, etc. also show a sharp increase in their allocations in total credit plan outlay during 2000-01 over that of the reference year 1999-2000.

Table 2: Annual Credit Plan Outlays for Different Regions of Maharashtra

(Amount in Crore Rs.)

Particulars	Regions (2000-01)				Maharashtra State
	Western Maharashtra	Vidarbha	Marathwada	Konkan	
1. Agriculture & Allied Activities	2478.75 (59.34)	716.89 (53.09)	1073.39 (68.36)	178.31 (19.56)	4447.34 (55.53)
Of which - Crop Loans	1562.12	452.28	852.00	46.92	2913.32
2. SSI / NFS	337.40 (8.08)	70.71 (5.24)	103.00 (6.56)	158.37 (17.38)	669.48 (8.36)
3. Other Priority Sector	437.09 (10.46)	256.94 (19.03)	175.82 (11.20)	245.62 (26.95)	1115.47 (13.93)
4. Total Priority Sector	3253.45 (77.89)	1044.52 (77.35)	1352.21 (86.12)	582.30 (63.89)	6232.48 (77.82)
Of which - Employment Guarantee and Poverty Alleviation Programme	317.47	227.17	133.02	106.28	783.94
5. Non Priority Sector	923.60 (22.11)	305.91 (22.65)	217.95 (13.88)	329.19 (36.11)	1776.65 (22.18)
Grand Total (4+5)	4176.94	1350.43	1570.13	911.46	8008.96
Per cent Increase in 2000-01 over 1999-2000					
1. Agriculture & Allied Activities	17.27	13.09	22.58	31.47	18.32
Of which - Crop Loans	15.64	15.24	24.59	15.45	18.05
2. SSI / NFS	2.42	-0.45	20.33	4.45	4.99
3. Other Priority Sector	28.23	14.12	26.39	47.85	28.03
4. Total Priority Sector	16.86	12.30	22.89	28.43	18.31
Of which - Employment Guarantee and Poverty Alleviation Programme	20.49	24.61	18.00	9.71	19.61
5. Non Priority Sector	-1.67	17.99	39.07	6.94	6.83
Grand Total (4+5)	12.18	13.54	24.90	19.74	15.55

Source: Computations are based on figures obtained from ‘Maharashtra State Annual Credit Plan’, Bank of Maharashtra, Mumbai, 2000-2001.

Notes: i) Figures in parentheses are percentages to the total plan outlay for the district/state.

ii) (a) Agriculture and Allied Activities include minor irrigation, energisation programme, land development, dry land agriculture, farm mechanization, plantation and horticulture, sericulture, fodder cultivation, animal husbandry, fisheries, forestry and waste land development, storage operations, non-conventional energy, seed project, etc. (b) Non-farm Sector (NFS)/ Small Scale Industries (SSI) include handloom/ Powerloom, tiny sector, rural cottage and village industries, rural Artisans, agro-processing, etc. (c) Other Priority Sectors include transport operations, retail trade small business, professional and self employed, educational loans, housing loans, consumption loans, etc.

Crop loans are seen to account for nearly two thirds share in total ACP outlay for agriculture and allied activities. Among various regions, the Western Maharashtra shows the highest share (52.15 per cent) in total credit plan outlay of the state, followed by Marathwada (19.60 per cent), Vidarbha (16.86 per cent), and Konkan (11.38 per cent) regions. Interestingly, Konkan region shows the least share (20 per cent) for agriculture and allied activities, whereas non-priority sectors show as high as 36 per cent share in total credit plan outlay for this region. Nonetheless, in the case of Konkan region too priority sectors have accounted for the highest share (64 per cent) in total credit plan outlay, which is mainly due to relatively higher share in credit plan outlay for other priority sectors. However, the allocations in total credit plan outlay for various sectors are seen to be as per the RBI guidelines.[5] In general, except for Konkan region, all other regions of Maharashtra have shown higher allocations for agriculture and allied activities. Such increased allocations in plan outlay is a reflection of the importance of agriculture in Government's overall policy encompassing priority sector.

The estimates relating to PLCP outlays encompassing various sectors/activities show that among various regions Western Maharashtra alone accounts for around 50 per cent share in total PLCP outlay for the state of Maharashtra (Table 3). The next important regions are Marathwada and Vidarbha, each accounting for about 20 per cent share in state's total PLCP outlay during the past five years. The allocation for Konkan region in state's total PLCP outlay is the least. Thus, Western Maharashtra turns out to be the most important region since this region attracts the major PLCP outlay of the state. Further, though, in general, there has been nearly two folds rise in PLCP outlays of all the regions of Maharashtra during the period between 1997-98 and 2001-02, the rates of growth/increases in these outlays are relatively faster for Vidarbha and Konkan regions as compared to Western Maharashtra and Marathwada regions during the same period. The PLCP estimates are available for 21 diversified activities with activities relating crop loans, non farm sector, other priority sector, minor irrigation and farm mechanization put together accounting for around 80 per cent share in state's total PLCP outlay.

Table 3: Potential Linked Credit Plan (PLCP) Estimates of Exploitable Potential for Different Regions of Maharashtra

(Amount in Crore Rupees)

Year	Regions				Maharashtra State
	Western Maharashtra	Vidarbha	Marathwada	Konkan	
1997-98	2552.87 (50.66)	912.67 (18.11)	1159.36 (23.00)	414.87 (8.23)	5039.77
1998-99	3066.47 (50.48)	1134.27 (18.67)	1353.86 (22.29)	519.59 (8.56)	6074.19
1999-2000	3577.54 (50.17)	1361.47 (19.09)	1556.79 (21.83)	635.51 (8.91)	7131.31
2000-01	4210.38 (50.21)	1624.02 (19.37)	1784.27 (21.28)	766.43 (9.14)	8385.10
2001-02	4945.71 (50.18)	1937.79 (19.66)	2048.29 (20.78)	925.13 (9.38)	9856.92

Source: Compiled from Official records, NABARD office, Pune.

Notes: i) Figures in parentheses are percentages to the total potential linked credit plan for the state.

ii) The activities for which the PLCP estimates are available include: Minor Irrgation and Energisation (MI), Land Development (LD), Dry Land Farming (DLF), Farm Mechanization (FM), Plantation & Horticulture (P&H), Sericulture (SERI), Animal Husbandry-Dairy (AH-D), Animal Husbandry-Poultry (AH-P), Animal Husbandry-Sheep, Goat and Poultry (AH-SGP), Inland Fishery (FISH-INL), Brakish Water Prawn (BRAKISH), Marine Fishery (FISH-MAR), Forestry/Waste Land Development (FORWL), Storage Godowns-Market Yard (SGMY), Non-Conventional Energy (NCES), Non-Farm Sector (NFS), Other Priority Sectors (OPRSEC), Crop: Crop Loan, Working Capital (WC), Self Help Groups (SHGs).

In fact, in the state of Maharashtra, the diversification of agriculture over the years has accentuated the need for the rapid development of rural infrastructure and a larger flow of credit. Various credit cooperatives, commercial banks and RRBs are by far the major financial institutions engaged in meeting the capital requirements for diversified activities and developing the farming/rural sector of the state. Besides, LDBs are also playing a crucial role in meeting the increasing capital needs of the farmers of this state. Although there has been multi-agency set-up for rural banking, the major institutional finance to farming community in Maharashtra comes from commercial banks and credit cooperatives.

Cooperative Bank Finances

Two types of set-up, viz. one short term and the other medium term, constitute the credit cooperative structure in Maharashtra. A 3-tier system is central to the structure of both the short term and the medium term credit cooperatives. This 3-tire system consists of a Co-operative apex bank at the state level, Central Co-operative banks at the district level and of Primary Agricultural Co-operative Credit Societies (PACS) at the village level. The three tier set-up is not only meeting the credit requirements of the farmers for seasonal agricultural operations (crop loans) but also investing on farm assets that do not entail huge capital outlay. The long term co-operative credit is extended by a two-tier set-up with the Maharashtra State Co-operative Agricultural and Rural Development Bank (MSCARDB) operating at the state level and a network of Primary Co-operative Agricultural and Rural Development Banks (PCARDBs) or Urban Banks at taluka level. Though creation of farm assets is the basic objective of extending long term credit cooperative finance, it also helps the farmers in improving their farms on a permanent basis so that they have a commercially viable farm in the long run and a perennial farm enterprise. As on June, 2000, there were 20,529 PACS with a membership of 108.90 lakh and 407 PCARDBs in June 1995 having a membership of 69.33 lakhs in the state of Maharashtra. Although there has been substantial increase in the membership of credit cooperatives in the state of Maharashtra, the trend over the last two decades in terms of cooperative finances is not very encouraging in this state, especially in more recent times.

The trend over the past two decades show a slower growth in institutional finance through credit cooperatives during the decade of economic reforms (1991-2000) as against the decade preceding it (1980-1990). Not only this, the reform period is also seen to be marked with a slower growth in membership of credit cooperatives in Maharashtra (Table 4). On the other hand, the outstanding loans of these cooperatives have grown at much faster rate as compared to their loan advances during both pre-and post economic reform periods.

Table 4: Cooperative Bank Finances in Maharashtra; 1980-2000

(Amount in Crore Rupees)

Period	Cooperative Banks											
	No. of Coop. Inst./Soc.			No. of Members ('000')			Loan Advances			Outstanding Loansl		
	Apex	PACS	Total	Apex	PACS	Total	Apex	PACS	Total	Apex	PACS	Total
TE 1982/83	31	18565	18596	1109	5595	6704	3318	288	3606	1507	431	1938
TE 1990/91	34	19694	19728	1523	7910	9433	9298	929	10227	4811	1521	6332
TE 1999/00	34	20378	20412	1340	10432	11772	22195	2280	24475	15274	3456	18730
CGR (%)												
- 1980-90	1.33	-0.03[NS]	-0.03[NS]	1.01[NS]	4.90	4.33	14.47[NS]	13.64	14.08[NS]	23.97[NS]	12.59	18.50
- 1991-00	-	0.48	0.48	-1.91	3.48	2.72	7.12	9.36	9.74	13.52	9.07	12.98
- 1980-00	0.37	0.65	0.65	1.65	3.35	3.15	8.64	12.93	10.76	14.57	12.92	14.64

Source: Computations are based on figures obtained from various issues of 'Economic Survey of Maharashtra'

Notes: 1) CGR = Compound Growth Rates
2) All growth rates significant at 1 per cent level of probability
3) NS: Growth rates not significant at 1 per cent level of probability
4) Apex institutions include SCBs and DCCBs

The institutional finance through credit cooperatives in Maharashtra stood at Rs.3,606 crores during TE 1982/83, which increased to Rs.10,227 crores by TE 1990/91 and further to Rs.24,475 crores by TE 1999/00. On the other hand, the outstanding loans of these credit cooperatives increased from Rs.1,938 crores during TE 1982/83 to Rs.18,730 crores by TE 1999/00. Thus, it can be seen that the outstanding loans of these credit cooperatives have grown very close to their loan advances by the TE 1999/00. This is mainly because of faster growth in outstanding loans of these credit cooperatives as compared to their loan advances during the period between 1980 and 2000. Nonetheless, like slower growth in loan advances during the decade of economic reform, the outstanding loans of these credit cooperatives in Maharashtra have also slowed down during this period as compared to the period before the economic reforms.

Another interesting feature of credit cooperatives, particularly of PACS in Maharashtra, is the increasing trend in their share of medium and long term (MT &LT) advances and decline in their share of short term (ST) advances (Table 5). At the same time, the MT and LT outstanding loans have also grown over time in Maharashtra. The share of ST in total loan advances of PACS in Maharashtra has steadily declined from 82 per cent during TE 1985 to 76 per cent by the TE 2000. Contrary to this, the share of MT in total loan advances of PACS in Maharashtra has grown from around 17 per cent to nearly 22 per cent during the same period. Similarly, the share of LT in total loan advances of PACS in this state has grown from 0.86 per cent during TE 1985 to 4.71 per cent by TE 1990 with a decline in the same in the subsequent periods.

Table 5: Progress of PACS According to Type of Loan Advances, Recover and Outstanding Loans in Maharashtra (Amount in Crores Rupees)

Period	Loan Advances				Recovery				Outstanding Loan			
	ST	MT	LT	Total	ST	MT	LT	Total	ST	MT	LT	Total
TE 1985	280 (81.79)	59 (17.35)	3 (0.86)	342	255 (87.75)	34 (11.85)	1 (0.40)	290	381 (72.23)	140 (26.53)	7 (1.24)	528
TE 1990	594 (72.67)	185 (22.63)	38 (4.71)	817	485 (77.85)	114 (18.32)	24 (3.83)	623	739 (61.97)	388 (32.58)	65 (5.45)	1192
TE 1995	790 (80.51)	162 (16.55)	29 (2.94)	981	656 (82.51)	124 (15.64)	15 (1.85)	795	1074 (59.18)	631 (34.76)	110 (6.06)	1815
TE 2000	1902 (76.05)	543 (21.69)	57 (2.26)	2502	1567 (81.37)	325 (16.90)	33 (1.73)	1925	2122 (60.09)	1219 (34.52)	190 (5.39)	3531

Source: Computations are based on figures obtained from various issues of 'Co-operative Movement at a Glance in Maharashtra, Office of the Commissioner for Co-operation & Registrar of Co-operative Societies, Maharashtra State, Pune

Notes: I) Figures in parentheses are percentages to the total

ii) TE: Triennium Ending; ST: Short Term; MT: Medium Term; LT: Long Term

The trends in recovery and outstanding loans of PACS in Maharashtra are similar to that of their loan advances, i.e., a declining share in short term recovery and outstanding loans of PACS in the face of an increasing trend in their share of MT and LT recovery and outstanding loans during the period between TE 1985 and TE 2000. This is a pointer to the fact that in more recent times medium and long term loans have become the major foci of farm finance. Nonetheless, mention may be made here that the PACS in Maharashtra are beset with several deficiencies in their functioning. The deficiencies are noticed in respect of their law operational efficiency, high incidence of overdue, low level of recovery, distributional aspect of ST and MT loans, coverage of SC/ST members, etc. (Shah, 2001). The borrowing members per society of PACS are also reported to have come down, especially after the late eighties period. Further, despite Maharashtra being accounting for the bulk of the nation's total production and acreage under cotton crop, the share of this crop in total crop loan advances of PACS is also reported to have declined perceptibly, especially in more recent times (Shah, 2001). Even the statistics reported by Mujumdar (2001) at all-India level show a decline in borrowing farmers during the period between 1990-91 and 1995-96. However, this statistics is reported for commercial banks. In view of several deficiencies in the functioning of PACS in Maharashtra, Shah (2001) has categorically emphasised upon the need to formulate policies and evolve schemes relating to SC/ST welfare and those affecting the weaker sections of the rural community. Simplification of loan procedures and making cohesive measures for recovery of loans of chronic and heavy defaults of influential well-to-do borrowers who evade repayment despite their capacity to repay are some other suggestions extended by Shah (2001). In fact, the lackadaisical approach of PACS towards loan advances to SC/ST members and other weaker sections, and also for cotton crop calls for immediate remedial measures if Maharashtra is to continue to lead the country in the cooperative development.

Commercial Bank Finances

Despite several targets prescribed by the RBI for Public Sector Banks (PSBs)[5], these banks are reported to have defaulted merrily on majority of these targets (Mujumdar, 2001). This is evident from the fact that, during the period between 1992 and 1996, the net bank credit of PSBs to priority sectors at all-India level was well below 40 per cent. Not only this, at all-India level, the net bank credit of PSBs to agriculture and to weaker sections remained well below 18 per cent and 10 per cent, respectively, of their total advances all through the period between 1991 and 2000. This is a reflection of the fact that the two sub-targets of credit to agriculture and to weaker sections continue to remain unattained even in more recent times. Thus, agriculture in general and weaker sections in particular are grossly neglected by PSBs. However, in view of the recommendations of the Union Budget of 1996-97, which laid emphasis on the need to double the size of rural credit in the subsequent five years, the RBI had restored the priority sector credit of PSBs to the level of 41 per cent of their total advances in March 1997, and it remained well above 40 per cent thereafter (Mujumdar, 2001).

As for institutional finance to farming community, the commercial banks in Maharashtra have also not shown encouraging trends. The trend over the past two decades shows a slower growth in rural institutional finance through commercial banks during the decade of economic reforms as against the pre-economic reform period (Table 6). The commercial banks in Maharashtra have not only shown slower growth in their loan advances and deposits but also decline in their credit-deposit (C-D) ratio during the period of reforms as against the pre-economic reform period. However, mention may be made here that though the rural C-D ratio of commercial banks in Maharashtra has come down from 72 per cent during TE 1982/83 to 65 per cent by the TE 1999/00, it is still well above the minimum prescribed limit of 60 per cent as stipulated by the RBI.

Table 6: Rural Deposits and Credits of Commercial Banks in Maharashtra

(Amount in Crore Rupees)

Indicators	Triennium Ending			CGR (%)		
	1982/83	1992/93	1999/00	1980-90	1991-2000	1980-2000
Rural Deposits	381	1964	5145	19.05	14.40^{NS}	16.28
Rural Credits	274	1457	3346	17.08	12.28^{NS}	14.91
CD Ratio (%)	71.91	74.18	65.03	-	-	-

Source: Computations are based on figures obtained from various issues of ‘Economic Survey of Maharashtra’

It is to be further noted that in Maharashtra the outstanding loans of indirect finances of commercial banks have grown at much faster pace as compared to their outstanding loans of direct finances to farmers (Table 7).

Table 7: Progress of Distribution of Outstanding Advances of Scheduled Commercial Banks to Agriculture in Maharashtra Vis-à-vis India

(Amount in Crore Rupees)

Period	FDFI		LEEBEW		OTIF@		DFF		Total	
	No. of Ac.	AO	No. of Ac.	AO	No. of Ac.	AO	No. of Ac.	AO	No. of Ac.	AO
Maharashtra										
1980	2649	18	1105	33	83396	90	485350	254	574500	395 (11.05)
TE 1985	4416	11	5012	69	51141	113	906131	572	966700	765 (10.02)
TE 1990	2458	16	176	44	20940	105	1548068	1388	1571642	1553 (10.06)
TE 1995	4557	24	2454	212	13541	175	1577661	1819	1598212	2230 (10.10)
TE 2000	2859	115	9256	386	21879	2241	1217692	3182	1251686	5924 (14.06)
India										
1980	36700	206	12010	145	1085002	433	8501469	2789	9635181	3573
TE 1985	50135	325	38119	392	639520	695	13582102	6220	14955262	7632
TE 1990	44514	363	54823	484	606412	645	20665098	13950	21370846	15442
TE 1995	45271	389	69127	923	314821	860	20486449	19916	20915667	22088
TE 2000	58477	1455	71915	1589	178850	6095	16810610	33001	17119839	42140

Source: Computations are based on figures obtained from various issues of 'Statistical Tables Relating to Banks in India, Department of Banking Operations and Development for the RBI, Bombay'

Note: Figures in Parentheses are shares of Maharashtra in India's total Outstanding Loans
@-includes loans to farmers through Primary Credit Societies
FDFI: Finance for Distribution of Fertilizer and other Inputs; LSEBEW: Loans to State Electricity Board for Energization of Well, etc.; OTIF: Other Types of Indirect Finance; DFF: Direct Finance to Farmers; AO: Amount Outstanding

Table 7 also shows an increasing trend in share of Maharashtra in total outstanding loans of all scheduled commercial banks of India, which has grown from 10 per cent during TE 1985 to as high as above 14 per cent by the TE 2000. These trends are certainly not very encouraging insofar as the commercial bank finances to farming community in Maharashtra are concerned. Despite the recommendations of the R.V. Gupta Committee, appointed in 1997, which encompass several changes in commercial bank's documentation, loan appraisal parameters, operational procedures and loan product with built-in liquid saving product, the rural credit delivery through commercial banks in Maharashtra has grown at lower pace, especially during the 1990s.

In order to realize high and sustained growth of GDP, Mujumdar (1998) has categorically emphasized upon the need for the PSBs to support priority sectors irrespective of whether there exist credit target or not. As regards rural credit delivery, the Ninth Plan Approach Paper is categorical on priority sector advances. As per Ninth Plan Approach Paper, "Greater credit flow will be ensured to meet the investment requirements of the farming community for stepping up the growth of production. Efforts will be made to ensure timely and adequate availability of credit, particularly to small and marginal farmers and tribal farmers at reasonable rates so as to enable them to make investments necessary for higher production"[*Approach Paper to the Ninth Five-Year Plan (1997-2002), p.56, 1996*].

The Ninth Plan, therefore, not only recognizes the role of priority sectors in the future growth of the economy, but it also categorically emphasizes upon the imperative of enlarging the flow of credit to these sectors. Hence, one of the suggestions of Mujumdar (1998) is in favour of following such future credit policies which fall in line with the Ninth Plan priorities, and which need to be implemented without any further delay.

Regional Rural Bank Finances

Notably, in the wake of economic liberalization now underway in India, the banking sector in general and Regional Rural Banks in particular are experiencing sweeping changes. Although RRBs have played a predominate role in supplementing the efforts of the Government in eradicating poverty by dispensing credit under Government sponsored programmes, their erosion in profitability and the poor sustainability is causing much concern. The policy regime under which they performed contributed greatly to this state of sorry affairs. In fact, RRBs were initially set-up in India in 1975 as low cost bank with the prime objective of meeting the credit requirements of rural poor. Though these rural financial institutions have created awareness for banking practices amongst the rural masses, in course of time they appeared to have lost their initial image of low cost bank (Deshpande, et.al., 1998). A review of performance of RRBs over the past one decade or so show an estimated aggregated amount of loss to the tune of Rs.15.86 crores incurred by 130 RRBs in 1984-85, which is seen to have grown to Rs.621.00 crores incurred by 162 RRBs in 1991-92 and further to as high as Rs.3047.87 crores incurred by 152 RRBs in 1996-97. Due to huge accumulated losses and operational deficiencies, the very survival of RRBs is now at stake and it has become a matter of concern. In order to strengthen the organizational structure of RRBs, several committees were constituted from time to time.[6] Among various committees, the recommendations of Bhandari Committee are noteworthy. This Committee had evolved a forward looking policy framework, which mainly revolved around: (a) comprehensive restructuring of select 49 RRBs including financial assistance to them, (b) Memorandum of Understanding between RRBs and their Sponsor Banks, (c) freedom to select 70 RRBs from Service Area Obligations in view of their inadequate business so as to provide them broader business base, (d) relocation of loss making branches and opening extension counters, (e) expansion and diversification of loan portfolio by allowing Non Target Group and Non Priority Sector and rural housing finance, (f) widening of avenues of profitable investment and surplus non-SLR funds, and (g) strengthening Board of Directors of RRBs by induction of professionals as GOI nominees (Deshpande et.al., 1998). Majority of these policies were seen to have emanated from the financial sector reforms initiated during 1994-95.

It is to be noted that considering the dismal performance of RRBs and their weak structure, Government of India (GOI) unleashed in the first phase its financial sector reforms in 1994-95 and embarked upon an ambitious plan of revamping initially 49 out of a total of 196 RRBs with the aim of improving their profitability besides launching several other policy reforms aimed at improving their functional efficiency. In the second phase, based on the recommendations of Basu Committee, another batch of 68 RRBs were brought under restructuring during 1995-96. As a result of these revamping efforts, 40 RRBs were reported to have shown profits (Capoor, 1998). Although various policies relating to restructuring and revamping of RRBs were introduced in the first and second phase of financial sector reforms, the policy relating to granting of permission by the RBI to RRBs to invest in non-target avenues like shares and debentures of corporates, units of mutual funds, bonds of public sector undertakings, etc. was severely criticized by Mujumdar (2001) as this had paved the way for a reverse flow of funds from the rural to the urban sector.

Undoubtedly, the major part of resources of RRBs is generated through deposits. Nonetheless, too much dependence on deposits and lack of attention paid to loan advances is certainly a disturbing phenomenon. In course of time, the RRBs in India have shown a drastic fall in their credit-deposit (C-D) ratio. The C-D ratio of RRBs at all-India level has come down from 123 per cent during 1981 to as low as 43 per cent by the TE 2000 (Table 8). The fall in this ratio is more sharp in the state of Maharashtra, which has come down from 148 per cent during 1981 to 55 per cent by the TE 2000. It is to be noted that in Maharashtra, as on March 2000, there were 582 branches of RRBs with Marathwada region accounting for around 50 per cent share in total numerical strength of these bank branches of RRBs. The decline in C-D ratio of RRBs is mainly due to diversion of substantial portion of their resources in investments instead of lending in rural areas. It should be recollected here that the chief objective of setting up of RRBs was the effective coverage of small and marginal farmers, landless labourers, rural artisans, etc. with a view to enhance their productive capabilities. The decline in their lending business is a clear cut reflection of deviation of RRBs from the objectives they were initially formed.

Table 8: Progress of Deposit and Credit of Regional Rural Banks (RRBs) in Maharashtra Vis-à-vis India

(Amount in Lakh Rupees)

Period	Maharashtra			All-India		
	Deposit	Credit	CD Ratio (%)	Deposit	Credit	CD Ratio (%)
1981	557	824	147.94	33147	40682	122.73
TE 1985	1724	2034	117.40	97075	107492	110.73
TE 1990	8851	10709	120.99	353554	321839	91.03
TE 1995	22757	17373	76.34	861931	528835	61.35
TE 2000	75492	41562	55.05	2685412	1152160	42.90

Source: Computations are based on figures obtained from various issues of 'Statistical Tables Relating to Banks in India, Department of Banking Operations and Development for the RBI, Bombay'.

It has been asserted by Shivamaggi (2000) that the major problem faced by RRBs in India is the lack of staff motivation and specialization despite local recruitment of their staff. The poor performance of RRBs greatly owed it to their hurriedly recruited and trained staff that not only lack exposure in dealing with a large number of small-term/ composite loans but also in terms their weak knowledge to deal with bank accounts, seek assistance and guidance at each stage of loan application to its recovery. One of the suggestions of Shivamaggi (2000) is, therefore, in favour of placing all the employees of RRBs in the rural banking cadre (RBC) with a view to make them employees of both the RRBs and their sponsor banks, and, hence, helping them to expand their career prospects, as in the case of general banks. Personal career growth prospects of the employees of RRBs will not only motivate them to work efficiently but also in terms of improving the overall viability of these rural financial institutions.

Land Development Bank Finances

Long term cooperative finance is provided through Land Development Banks (LDBs). These banks have passed through three distinct stages of development. The period between 1929 and 1954 represented the first stage when these banks were termed as land mortgage banks (LMBs). The major objective of LMBs during this stage was to rescue the farmers out of the clutches of private money lenders. The second stage began when in view of the recommendations of the All India Rural Survey Committee (1951-54) these banks started concentrating on extending long term finances for productive purposes in the farm sector with the aim of meeting the objective of planned development envisaged under the first Five Year Plan initiated in 1951 (Kumar and Dixit, 1998). The beginning of third stage was marked when in the light of the recommendations of Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) in 1980 the LDBs expanded their lending operations by extending credit for non-land based and for non agricultural activities; and at the latter stage their activities also encompassed finances for non farm sectors. During this stage, these LDBs were termed as Cooperative Agriculture and Rural Development Banks (CARDBs). Of late, the loans of LDBs are extended not only for land-based productive activities, viz., minor irrigation, farm mechanization, plantation and land development but also for several other activities, which are, in general, subsidiary to agriculture like poultry, dairy, piggery, sheep rearing, fishery, sericulture, etc. (Kumar and Dixit, 1998). The non-farm sector encompass loans to agricultural labourers, rural artisans and small rural enterprises. Thus, the coverage of non-farm sectors and finances for non-land based purposes have certainly broad-based the activities of LDBs in more recent times.

In general, the flow of finances through LDBs encompass activities relating to agricultural production sub-system (APS), agricultural input distribution sub-system (AIS), agricultural produce marketing and processing sub-system (AMPS), and also long-term finance to members of LDBs for the purpose of purchase of tractor and its accessories, minor irrigation, milch and draught animal purchase, etc. The loans to members of LDBs for long term purposes are provided against the mortgage of their lands. Although the overall performance of LDBs in India is satisfactory, they still have to do a lot of catching up to improve the condition of rural India. The major problem crippling the functioning of LDBs is the mounting amount of overdues and their outstanding loans, which have grown dramatically in more recent times.[7]

In the state of Maharashtra, the loan advances of LDBs have not only declined sharply during the period of reform but also working capital of these banks fell marginally during this period (Table 9). The membership of LDBs of Maharashtra has also grown at slower rate during the period between 1991 and 2000 as against the period between 1981 and 2000. Even the recovery of loans and share capital base of LDBs have weakened during the reform period. Nonetheless, it is to be noted that the outstanding loans of LDBs in Maharashtra have grown at slower pace during the period between 1991 and 2000 as against the period between 1981 and 2000 (Table 9).

Table 9: Progress of Maharashtra State Cooperative Land Development Banks (LDBs)

(Amount in lakh Rupees; Membership in thousands)

Period	Membership	Share Capital	Owned Funds	Borrow-ings	Working Capital	Loan Advances	Loans Recovered	Loans Outstanding
TE 1985	827	3743	7173	31182	44405	5651	2710	30627
TE 1990	926	4531	11922	48045	66685	8932	3846	49245
TE 1995	1111	7184	14766	68076	107311	13668	6089	82328
TE 2000	1189	9752	54633	109438	144262	4875	8641	99690
CGR (%)								
- 1981-00	2.79*	9.34*	13.18*	9.38*	6.07*	0.54	7.75*	9.21*
- 1991-00	1.65*	7.07*	38.61*	8.79*	-0.27	-18.53	6.83*	5.64*

Source: Computations are based on figures obtained from various issues of 'Co-operative Movement at a Glance in Maharashtra, Office of the Commissioner for Co-operation & Registrar of Co-operative Societies, Maharashtra State, Pune

In order to tackle the problem of overdue of LDBs, certain suggestions have been extended by Kumar and Dixit (1998), which mainly revolve around creation of greater coordination among ST, MT and LT loans and streamlining the operations of LDBs, checking the diversion and misuse of LDB's credit, effective supervision of loan product, strengthening the share capital base, and mobilizing deposits and debentures through more innovative deposits and debenture schemes. Another important suggestion in this context is in favour of launching intensive membership drive with a view to increase the coverage of these long term financial institutions. Some of the agricultural and rural development banks (ARDBs), popularly known as LDBs, have already taken initiatives in these directions.

Micro Credit Innovations

It has been noticed that despite vast expansion of banking network in India, a significant section of rural poor continue to remain outside the folds of traditional institutional finance. The dependency of this section of rural population is more on informal sources due mainly to ready and quick disbursal of credit. In fact, a very puzzling characteristic of the Indian rural credit market is the thriving and simultaneous co-existence of the formal and the informal sectors. Lenders, in the formal sector, constitute credit institutions managed or regulated by the Government, whereas, the informal credit sources generally include professional money-lenders, relatives and friends, traders and landlords. In many parts of the country, the informal sector of credit is more dominant than the formal sector (Gill, 2000). This is also corroborated from the findings of the All India Debt and Investment Survey, 1992 which shows the share of informal sector in rural debt to be as high as 36 per cent.

Thus, in the midst of apparent inadequacies of formal financial institutions and their failure to serve and protect the interest of rural poor despite their phenomenal outreach, an informal segment comprising of small groups of rural poor began to mobilize capital and savings of their members and used these resources among their members on a micro scale. These groups were termed as Self Help Groups (SHGs). The lending procedures of these groups were not only simple but also effective due to small amount of loans involved in the process. Since the concept of SHGs was relatively new, NABARD undertook the task of studying the functioning of SHGs in India as well as in other countries. In this sequel, in 1988-89, NABARD had made an attempt to conduct a survey of 43 non-government organizations (NGOs) spread over 11 states in India. The objectives of this survey were not only to study the functioning of SHGs but also to find out possibilities of linking bank credit with SHGs with a view to mobilize rural savings and improve the delivery of credit to the poor (NABARD, 1995). Findings of this investigation encouraged NABARD to launch a pilot project in 1991-92 which involved linkages between banks and SHGs.[8] The SHG-bank linkage programme got a real boost when, in April 1996, RBI had recommended the banks that lending to the SHGs should be considered as an additional segment under priority sector lending. Thus, in view of this recommendation, lending to SHGs was integrated with the mainstream credit operations of the banks. The NABARD has been propagating, promoting and financing the SHG-Bank Linkage programme since 1992 (NABARD, 1998).

The SHG Linkage programme received wider acceptability during 1997-98 when 30 commercial banks, 101 Regional Rural Banks, 17 co-operative banks and 265 NGOs spread over 19 states and two Union Territories had participated in such a linkage programme. The main objective of the NGOs was to promote and nurture SHGs and act either as facilitators or both facilitators and intermediaries in effecting linkages between SHGs and banks. The progress of SHG-Bank Linkage programme has been quite impressive over the past few years. The information on progress under SHG-Bank Linkage Programme encompassing the period between 1992-93 and 1999-2000 is provided in Table 10.

Table 10: Progress of SHG-Bank Linkage Programme in India

(Amount in Crore Rs.)

Year	No. of SHGs Linked	Cumulative	% age of Women Groups	No. of Participating Banks	No. of States/Uts	No. of Districts Covered	Cumulative Bank Loan	Cumulative Refinance
1992-93	255	255	NA	NA	NA	NA	0.29	0.27
1993-94	356	620	NA	NA	NA	NA	0.65	0.46
1994-95	1,502	2,122	NA	NA	NA	NA	2.45	2.29
1995-96	2,635	4,757	NA	NA	NA	NA	6.06	5.66
1996-97	3,841	8,598	76	120	20	NA	11.84	10.65
1997-98	5,719	14,317	78	150	21	221	23.76	21.38
1998-99	18,678	32,995	84	202	24	280	57.07	52.06
1999-2000	81,780	1,14,775	85	266	24	362	192.98	150.13

Source: Official records of NABARD, Pune.

With the inclusion of SHG linkage as a normal lending activity of the banks under priority sector from 1996-97, the approach of SHGs as a mechanism for socio-economic development/ empowerment of the rural poor has gained wider recognition and importance. The progress has been gathering momentum due mainly to the cost effectiveness of the SHG channel to reach the poor segment of the rural population.

In the state of Maharashtra, the number of SHGs linked with bank credit have grown significantly over the past five years. This could be witnessed from Tables 11 and 12 which clearly show the strength of SHGs linked with bank credit to grow from as low as 424 as on March 1997 to as high as 11,148 as on June 2001. Initially, only 11 districts of Maharashtra were covered under the SHG-Bank linkage programme. However, in due course of time, more and more districts were covered under the folds of this programme. At present, all the 33 districts of Maharashtra are covered under the SHG-Bank linkage programme. The region that has shown phenomenal growth in the numerical strength of SHGs linked with bank credit is seen to be Vidarbha (Table 3.12). Western Maharashtra and to some extent Marathwada have also shown significant increases in the numerical strength of SHGs over the past five years. However, so far as Konkan region is concerned, linking of SHGs with bank credit has been a more recent phenomenon. Due to initiation of SHG-Bank linkage programme, there have been perceptible and wholesome changes in the living standards of the members of SHGs, especially in terms of their ownership of assets, savings and borrowing capacity, income generation activities and levels of income.

Table 11: Progress of SHG-Bank Linkage Programme in Maharashtra (Amount in Lakh Rs.)

Sr. No.	*Particulars*	*Cumulative Position As On*			
		March 1997	March 1998	March 1999	March 2000
1.	No. of SHGs Linked	424	872	1,969	4,959
2.	Bank Loan	76.9	154.9	378.98	929.89
3.	Refinance	66.27	138.66	360.14	904.44
4.	No. of Districts Covered	11	17	20	29

Source: Official records of NABARD, Pune.

Table 12: Region-wise Number of SHGs Linked with Bank Credit in Maharashtra

Regions	March 1997	March 1998	March 1999	March 2000	March 2001	June 2001	Cumulative Total
Western Maharashtra	183	172	188	687	649	136	2015
Vidarbha	204	226	764	1618	3965	332	7109
Marathwada	37	48	131	588	500	172	1476
Konkan	-	2	14	97	395	40	548
Total	424	448	1097	2990	5509	680	11148

Source: Official records of NABARD, Pune.

As per the speech of the Hon'ble Union Minister of Finance, about 1,00,000 SHGs were targeted to be promoted in India during the year 2000-01 (NABARD Annual Report, 2000-01). In view of this target, the NABARD had set its mission to link a minimum of 5,000 SHGs with bank credit in the state of Maharashtra during the year 2000-01. The NABARD has also drawn a medium-term strategic plan to ensure linkage of at least 55,000 SHGs with bank credit by the end of 2004. In order to accelerate the pace of SHG-Bank linkage programme, the NABARD has also devised district-specific and location-specific strategies in view of available potential, resources and prevailing constraints. Now, more emphasis is placed on those aspects such as involving NGOs as active partners in the formation of SHGs, capacity building of the members of SHGs or their group leaders, and sensitization of bankers. Further, the NABARD has also taken an initiative to create 'Micro-Finance Development Foundation'(MFDF). The MFDF is expected to provide financial, technical and other assistance for experimenting with various models encompassing credit delivery innovations. The Foundation will also help NABARD to link SHGs with bank credit, besides providing capacity building support to NGOs and other institutions engaged in such programmes. Under MFDF, provisions are also made to utilize funds for conducting studies and undertake research relating to micro-finance, dissemination of information amongst the various players in the system, etc. The Foundation also includes mobilization of monetary and other requisite resources from various organizations with a view to develop expertise in micro finance. It is expected that with the increasing involvement of banking system as well as NGOs the micro-credit movement will get further fillip in the years to come.

Rejuvenation of RFIs

The RFIs of India are reported to show a steady increase in their outstanding loans all through the period between 1980 and 1997 (Gulati and Bathla, 2002). High transaction cost for funds and lower financial margins are the two major factors behind non-payment of rural loans and accumulation of overdues of RFIs in India. However, the estimates relating to various RFIs of Maharashtra show a slower growth in their outstanding loans (OL), overdue from direct advances (DA) and bad debt in agriculture during the period between 1991and 1997 as against the period between 1980 and 1990 (Appendix 1). At the same time, the proportion of overdue to OL of RFIs of Maharashtra has grown at much faster rate during the reform period as against the pre-economic reform period. The reform period also shows increasingly high growth of Maharashtra's share in total overdue and bad debt in agriculture of RFIs in India.

The slower growth in institutional finances through commercial banks, credit cooperatives, RRBs and LDBs, particularly during the decade of 1991-2000, is mainly due to adverse environment created by the financial sector reforms. As pointed out by Mujumdar (1999), the new policy regime of financial sector reforms has grossly neglected the rural credit delivery system. Due to unfavourable policy framework, the entire rural credit delivery system encompassing rural branches of commercial banks, cooperative credit institutions and RRBs is reduced to a moribund state (Mujumdar, 2001). Mujumdar (1996) while lauding the financial sector reforms also felt that the exaggerated importance given to developing institutions has resulted in "putting the core issues of the financial system, like improving the rural credit delivery system, on the back- burner". He criticized the blind dependency on market forces, irrespective of their macro-economic implications. Mujumdar (2001) has also shown concern for the shrinking flow of financial resources to agriculture, both in terms of investment and working capital. In fact, the public investment in agriculture is reported to be declining (Thamarajakshi, 1999). Between 1992 and 1997, only 8 per cent of the total public investment went to agriculture, and the actual investment in this sector fell about 40 per cent short of the planned level.

High transaction costs and poor repayment performance are the twin root causes of the moribund state of rural credit delivery system (Mujumdar, 2001). With a view to revive the agricultural credit delivery system, there is need to adopt innovative approaches like linking of Self-Help Groups (SHGs) and Non-Government Organizations (NGOs) with mainstream financial institutions. Such linkages are reported to have not only reduced transaction costs but also ensured better repayment performance. One of the recent studies conducted in Maharashtra has shown cent per cent recovery of loans through SHGs despite having excessively high rates of interest (24-36 per cent per annum) on their loan advances (Kshirsagar and Shah, 2002).

One of the recent welcome developments in rural credit has been the establishment of the Rural Infrastructure Development Fund (RIDF) instituted by NABARD with the objective of advancing loans to state governments and state-owned corporations for hastening ongoing projects, mainly those related to medium and minor irrigation, soil conservation, watershed management, etc (Mujumdar, 1998). However, it is also being conceded by Mujumdar (2001) that the utilization of this fund is dismal at only 30 per cent. One of the further disquieting features of RFIs in Maharashtra has been the high proportion of NPAs to total assets, particularly of RRBs and SCARDBs, which are estimated to hover around 36-48 per cent during the mid-to late nineties. One of the reasons for such high incidence of NPAs of RFIs has been the familiar practice of debt forgiveness, which eroded repayment and allowed defaulters to scot free with no deterrent reprimand. Political interference in issues of prudent fiscal management has got a lot to do with this unfortunate scenario.

Conclusion

The new generation lending institutions like SHGs show high rate of recovery despite excessively high rates of interest on their loan advances. They also show lower transaction cost as compared to other lending institutions. This makes it necessary for credit cooperatives and commercial banks to study the mechanism of new generation lending institutions in terms of their pattern of loan recovery and interest rate structure. The in-house studies conducted earlier have clearly shown lower transaction costs and higher recovery performance of SHGs (Gulati and Bathla, 2002). These groups are also reported to have favourably impacted the social and economic status of their members. Further, the RFIs of Maharashtra are also seen to be beset with high levels of NPAs or overdues. There is, therefore, a need to take more stringent and cohesive measures for recovery of loans from chronic and heavy defaulters. In brief, in order to rejuvenate rural credit delivery system, the twin problems facing the system, viz., high transaction costs and poor repayment performance, need to be tackled with more fiscal jurisprudence reserving exemplary punishment for willful defaults, especially by large farmers. In fact, insofar as the rural credit delivery system is concerned, the focus should be on strategies that are required for tackling issues such as sustainability and viability, operational efficiency, recovery performance, small farmer coverage and balanced sectoral development (Puhazhendhi and Jayaraman, 1999).

Notes

1. Lack of recovery of loan results into overdues. Overdues are defined as loans and interest thereon not repaid on due dates. The financial health of banking business heavily depends on recovery of loans. Of the total amount of loan due at different points of time, some of it is recoverable and some irrecoverable and the latter often turns into bad debt or defaults (Gulati and Bathla, 2002).

2. As per M. Narasimham (RBI 1991) Committee, the non performing assets (NPAs) are those loan advances which are marked with non payment of interest or repayment of principal or both for a period of two quarters or more during the year ending. An amount is considered as 'post due' if it is unpaid for 30 days beyond due date. The NPAs are broadly classified as sub-standard, doubtful and loss assets.

3. In broader terms, the major reforms/steps initiated during the period from 1991/ 92 to 1997/98 in Cooperative Credit Sector are seen to revolve around : (a) relaxation in branch expansion policy, (b) liberalization and relaxation in Credit Authorization Scheme, (c) permission to SCBs to introduce STOCKINVEST and Currency Chest Branches, (d) 'some additional' scheme to SCBs under National Level Consortium arrangement for financing, (e) a policy decision to permit SCBs on case by case to

subscribe to the Public Sector Bonds, (f) assistance to SCBs from Cooperative Development Fund by NABARD to ensure proper Management Information System and to conduct research studies, (g) deregulated interest rates on advances and deposits by SCBs / DCBs, (h) preparation of Development Action Plans and entering into MOUs at the instance of NABARD, (i) applicability of Prudential norms to SCBs / DCCBs , and (j) relaxation in extending finance to individuals with a view to provide avenues for broader deployment of the resources.

4. The SLBC is a recognized forum and it not only coordinates the activities of Bankers, NABARD, various departments of the state Government, development agencies, NGOs, etc. but also ensures effective implementation of various schemes relating to flow of credit to poverty alleviation programmes, besides helping to achieve the targets envisaged in the ACP. The members of this forum have a unique system of evaluating their own performance. The activities of the convener of SLBC not only encompass collection of meaningful performance related data but also facilitation of meaningful discussion on important issues and arriving at a consensus for effective implementation of various development programmes, besides ensuring flow of credit, in general, to different sub-sectors of the economy. The forum regularly meets and interacts with a view to ensure effective discharge of their respective role in terms of achieving the objectives envisaged in the State Credit Plan. This also helps in ensuring timely credit flows towards various programme aimed at employment generation.

5. In terms of directed credit, the Reserve Bank of India (RBI) has stipulated several targets for Public Sector Banks (PSBs). These encompass a minimum of: (a) 40 per cent of net bank credit to priority sectors, (b) 18 per cent of total advances to agriculture, (c) 10 per cent of total advances to weaker sections, (d) one per cent of net bank credit under differential rate of interest (DRI) scheme, and (e) maintenance of a 60 per cent of a credit-deposit ratio. Among these targets, (b) and (c) are the two sub targets of (a), i.e., 18 per cent of net bank credit to agriculture and 10 per cent to weaker sections with an overall 40 per cent of net bank credit to priority sectors.

6. The most important among these committees were Kelkar Committee, Agricultural Credit Review Committee (ACRC) under the Chairmanship of Prof. A.M. Khusro (1989), Committee on Financial System (1992) under the Chairmanship of Shri M. Narasimham, and Committee on Restructuring of RRBs (1994) under the Chairmanship of Dr. C. Bhandari.

7. The overdues of Primary Cooperative Agriculture Rural Development Banks (PCARDBs) at all-India level is reported to have grown from Rs.196.43 crores in 1987 to Rs.435.20 crores in 1995 (Kumar and Dixit, 1998). Earlier, while reviewing the report of Agricultural Credit Review Committee, Shivamaggi (1993) had also cited overdue as the major problem facing the LDBs. This is despite the fact that the loans extended by LDBs not only help in creating productive assets but also in terms of generating adequate incremental income to the farmers.

8. The linkage between banks and SHGs is a mechanism for channeling credit to the poor on a sustained basis. There are numerous potential advantages involved in the linkages between banks and SHGs with NGOs acting as facilitators or financial intermediaries. From the banks point of view, the advantages of linkage approach between banks and SHGs include reduction in transaction cost, mobilization of small savings, assured and timely repayment of loan leading to faster recycling of funds, opportunity for expansion of business and coverage of poor clientele, and prospects of future quality clients. In this process, NGOs not only act as bridge between banks

and the poor and perform their role as financial intermediaries in unbanked and backward areas but they are also propagators of innovative credit delivery approaches. The efforts of NGOs develop thrift habit among the poor and provide them access to large quantity of finance. The efforts of NGOs in linking banks with SHGs also provide freedom, equality, self-reliance and empowerment among the members, besides making them available consumption/ production credit at their door-steps. This in turn helps the members of SHGs to have a window for access to better technology and upgradation of their skills. The NGOs also help SHGs to have access to various promotional assistance, besides scaling up of their operations.

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Appendix 1: Some Broad Performance Indicators of Rural Financial Institutions (RFIs) of Maharashtra vis-à-vis All-India (in Crore Rupees)

Period	Outstanding Loan (OL)			Overdue from DA			Overdue as % of OL		Bad Debt in Agriculture		
	Mah.	India	Share	Mah.	India	Share	Mah.	India	Mah.	India	Share
TE 1982	842.12	7326.36	11.49	294.99	2157.95	13.74	35.65	29.72	46.97	244.44	19.30
TE 1990	3084.77	25940.29	11.85	812.76	6712.71	12.03	26.13	25.65	112.01	771.98	14.50
TE 1997	3521.57	34579.59	10.67	1536.03	8912.23	17.10	44.56	26.36	185.84	1054.68	17.54
CGR (%)											
- 1980-90	16.12*	15.21*	0.91	13.47*	14.22*	-2.97	-3.92*	-1.89*	11.78*	15.65*	-3.11*
- 1991-97	-1.02	2.01	-2.97	9.99	1.00	7.92*	10.12*	-0.99	4.91	-2.11	7.17*
- 1980-97	10.51*	10.75*	-0.22	11.75*	10.13*	1.45	1.11	-0.56	10.12*	10.83*	-0.65

Source: Computations are based on figures obtained from: Gulati, Ashok and Seema Barhla (2002), 'Institutional Credit to Indian Agriculture: Defaults and Policy Options', Occasional Paper – 23, National Bank for Agriculture and Rural Development, Mumbai

Notes: CGR = Compound Annual Growth Rate; DA = Direct Advances