

## **Average annual credit needs of households of different socio-economic classes in Ranapur Block of Jhabua district, M.P.**

Study conducted as part of organizational training of PGDFM programme of IIFM, Bhopal in Action for Social Advancement (ASA). Bhopal in the year 2002



**Prepared by :**

**Sachin Kumar Singh**

IIInd. Year, PGDFM

Indian Institute of Forest Management (IIFM)

Bhopal

## **LIST OF ABBREVIATIONS**

AJSSS – Adim Jati Seva Sahakari Samiti  
ASA – Action for Social Advancement  
BoB – Bank of Baroda  
CBO – Community Based Organisation  
CCB – Central Co- operative Bank  
CEO- Chief Executive Officer  
DRDA – District Rural and Development Administration  
GO – Government Organisation  
GVT – Grameen Vikas Trust  
JFM – Joint Forest Management  
LAMPS – Large sized Adivasi Multi Purpose Society  
NABARD – National Bank for Agriculture and Rural Development  
NCHSE – National Centre for Housing Settlements and Education  
NGO – Non- Government Organisation  
NTFP – Non-Timber Forest Produce  
OT- Organisation Training  
RBI – Reserve Bank of India  
RRB – Regional Rural Bank  
SHG – Self- Help Group  
UG – User Group  
VA – Voluntary Association  
WDC – Watershed Development Committee

## EXECUTIVE SUMMARY

The informal money lending system has existed in rural India from the very beginning. In the present context, it shares a very large part of rural credit market. In spite of an exorbitant rate of interest, local moneylenders are considered pro-poor because of providing easy and timely loans. Despite huge network of formal bank branches, formal banks have not been able to meet the credit needs of economically disadvantaged people and mobilize their savings.'

The NABARD sponsored SHG-Bank linkage programme has strengthened the relation between the banks and people. It has helped to mobilize the savings and credit at a regular basis. The SHGs-Banks programme has been proved to be pro-bank and pro-poor. With the promotion of SHGs, transaction costs of the banks have drastically reduced. The attitude of the poor people towards the formal banking sectors has positively changed.

The study has found the same credit delivery system existing in Jhabua district. The informal credit market (local moneylenders) shares 95% of the rural credit market. The resolution passed by M.P. government to prohibit informal traditional money lending system, can be seen beautifully written on paper with half hearted attempt to exercise the law in reality. However, SHG concept has been able to carve out a niche in a credit market, although in a nascent stage.

The present study is an attempt to magnify the information base keeping in focus to understand and interpret the present credit situation in Ranapur block of Jhabua district. This will in turn help to strengthen the proposed SHG federation programme in Ranapur block.

The present study has endeavored to address the following objectives:

- *To understand and analyze the average annual credit needs of the households of different socio- economic classes of the villages of Ranapur block.*
- *To study the existing informal traditional credit delivery system.*
- *To study the impact of SHGs (Self-Help Group) of credit and savings patterns of the people in the study area.*

The study has emphasized on the collection of quantitative and qualitative information with an aim to meet well-defined set objectives. In order to get a wholesome picture of the credit situation in the project area, the focused group discussion was conducted among the villagers and in-depth interview was taken from villagers, money lenders, formal banking institutions, NGOs involved in the promotion of SHG and DRDA (in-charge of micro-finance). These primary information were substantiated through the secondary information collected from ASA library, GVT library, DRDA office and formal banking institutions.

### ***The study revealed the following information:***

- The average annual credit requirement of Ranapur block is Rs. 27,134. Marriage expenses (Notra, Mamera) account for 37% followed by fodder expenses of 31%. Because of a consecutive three years drought, per family expenditure on fodder has gone up to the extent of 20,000 per annum.
- Consumption loan (52%) is followed by production loan (48%). Here consumption loan consists of loan taken for social events, health, food grains and fodder etc. Loan taken for the

fodder has been taken as consumption because of the unproductively of livestock. Loan taken for the inputs of agriculture has been taken as production loan.

- The Bhagat movement has a considerable impact on the consumption expenditure of the respondents. It has drastically curtailed the present dowry rate from Rs 60,000 (on average) to Rs. 2200. It has brought down the dowry rate in the range of Rs.1.25 to 2200. Bhagat people refrain from liquor and meat. The case study mentioned in the report reveals more interesting aspect of it.
- Traditional moneylenders still dominate in the existing credit market. It has a share of 75% of the market followed by villagers (20%) and Central Cooperative Society (5%).
- The prevailing monthly rate of interest in informal traditional credit market is between 10% to 15%. Loan is given on crop basis not on month basis.
- Intermediary money lending system was found existing among traditional money lenders. The case study on Mr. Suriya vindicates it. Last three years of drought has compounded the migration problem.
- A very positive impact of promotion of SHG was observed among economically disadvantaged people. It has ignited the habit of regular saving (monthly or bimonthly) ranging between Rs.30 to Rs.100 per month.
- Last three years of drought has compounded the migration problem. It was found that 95% of the surveyed households had at least one member going for seasonal labour migration. If migration can be organized properly, it can prove as an effective income-generating source.

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## BACKGROUND

### 1.1 Project profile

Of the 12 community development blocks of Jhabua district, Ranapur block was chosen as a project area. The main purpose behind the selection of this block is that ASA, the client organization of this research project, is about to set up an SHG federation in Ranapur block. Under this federation, it is endeavored to join all the SHGs being promoted by different organization.

As per 2001 provisional census report, following are the demographic figures of Ranapur block:

Table 1. Provisional census report of Ranapur block

Population	91116	100%
Male	45951	50.43%
Female	45165	49.57%
Literacy	30560	100%
Female literacy	19982	65.38%
Male literacy	10578	34.61%

### 1.2 General profile of the study area

#### Caste

In order to study the credit needs of the project area, 16 villages were selected. From the surveyed villages, 80 households were interviewed for the collection of data. It was found that 88% of the sampled households were representing the *Bhil* tribe, 10% from the *bhilala* tribe and the rest 2% from the *pateliya* community. This composition helped to understand and analyze the savings and credit needs of the people from different communities. The impact study will be discussed further in detail.

#### Occupation

Irrespective of the caste, all of the respondents are involved in agriculture. As kharif (*choumasa*) crops, they grow *makka* (maize), tuar, groundnuts, urad, cotton, talli and soyabean. Makka and tuar are the main crops and also their staple foods. As rabi crops, they generally grow wheat and horse gram (*chana*). But three years of continuous drought have made it impossible to grow even one crop properly. Being asked about the two crops from the villagers, they replied “*mushkil se*

*ek fasal kar pate hain, do fasal to door ki bat hai*". Being asked about the irrigated land, they said "*piyat ki sadhan ho to piyat ki jamin ki baat karen*". i.e without the source of irrigation how can I talk about irrigated land. This drought has affected the seasonal labour migration pattern greatly.

There is a virtual absence of household industries in the project area. There are less than 2% of households who were involved in handicraft work. The reason behind the low involvement of people in the domestic industry is low amount of monetary incentive involved in the business.

### **Migration**

Tribal farmers have long been dependent on off-farm incomes for their survival. Today migration plays a pre-dominant role in their life. Throughout the study area migration is a crucial part of rural livelihoods.<sup>1</sup> Earnings from migration are the primary source of cash income for all households surveyed. This contributes on an average more than two-third of the total cash income. However migration does not contribute to surplus cash or savings. It is a *defensive coping strategy* to cover existing debts and manage seasonal vulnerability. The earned money is mainly spent for the repayment of loans. Over 95% of households in the surveyed villages have at least one person who goes for the seasonal labour migration. There is high level of female and children participation in labour migration.

### **Education**

Less than 5% of the respondents were illiterate. It was found a difference of credit pattern between the literate and illiterate. It was found that more educated people had information and access to the formal credit sources / institutions such as the banks, credit societies etc. while the illiterate depended heavily on the informal/ traditional moneylenders.

### **1.7 Need of the study**

As mentioned earlier the Self Help Group federation in Ranapur block has been proposed to institutionalize the SHG bank linkage programme, so that the potential of microfinance through SHGs could be maximized.

In Ranapur block of Jhabua district, 609 SHGs have been formed with the help of the following organization:

Table 2. Break-up of SHGs formed in Ranapur block

Promoting agency	Number of SHGs
Janpad Panchayat	326
Women and Child Development	53
Asara	80
Grameen Vikas Trust (GVT)	110
Action for Social Advancement (ASA)	40
Total	609

It was felt by ASA that SHG federation requires a strong information base whereon a sound foundation of federation of SHGs could be built. This resulted in the genesis of the present study. The present study is an attempt to equip the concept of SHG federation with all the necessary and relevant information. This study is also an endeavor to get an overview of the income and expenditure pattern, migration pattern, credit situation existing in the rural area of Ranapur block. Since Ranapur largely represents the characteristics of Jhabua district, the study has also attempted to get a general overview of the entire district.

## OBJECTIVES AND METHODOLOGY

### 2.1 Objectives

After going through the background of the credit situation in Ranapur from the report made by ASA team, it was felt that there was a need for further investigation into the existing credit system in rural areas. Ranapur block is a tribal dominated area, where majorities of people are trapped into the vicious circle of traditional credit delivery system. In order to give a concrete shape to the need of the study, the following major objectives were set:

- To understand and analyze the average annual credit requirements of the households of different socio-economic classes of the villages of Ranapur block.
- To study the existing informal credit delivery system.
- To study the impact of SHGs (self-help groups) on the saving and credit patterns of the people in the study area.
- To examine the purpose and sources of loans.
- To understand the availability and utilization of the loan.

## **2.2 Study design**

In order to meet the objectives of the study, it has been designed in the following ways:

- Access to the published source materials obtained from the ASA and GVT library. Collection of secondary data and information from the formal banking institutions (Regional Rural Banks, Central Co-operative Bank, Bank of Baroda, Adim Jati Seva Sahkari Samiti).
- Formation of a questionnaire for (structured) household interviews to obtain detail information on income and expenditure and credit patterns of sample households
- Pre-testing of questionnaire before finalization.
- Conducting focused group discussion with the villagers.
- Getting insights from the non-government organizations and government organizations related working in the field of micro-finance
- Collating and structuring the data gathered through primary and secondary sources.

## **2.3 Sampling**

### **Selection of villages within the study area**

The study required honest responses from the people, which in turn required good rapport and trust among the respondents. During a short span of one month it was found infeasible to win trust and confidence of the villagers. Keeping this in mind, *deliberate sampling* was found effective. It was intended to select those villages within the purview of study where NGOs have made developmental interventions so that the rapport the NGO staff members can be made use of. Therefore project villages of 2 NGOs – ASA and GVT) were taken into the sample. 7 villages of ASA and 2 villages of GVT were taken for the collection of raw data. In order to make the sample more representative, 6 villages without NGO intervention were also included in the sample.

### **Selection of the Falias (hamlets)**

Households of different socio-economic categories were selected from the wealth ranking baseline information available with ASA. In rest of the villages, hamlets were chosen on the basis of information provided by the Tadvi (village headman) of the village. Out of 80 surveyed households, 30% from well-off family, 40% from poor family and rest 30% from the very poor family was selected. The list indicators used for wealth ranking is provided in the Annexure.

### **Selection of SHGs**

The concept of Self-Help Group (SHG) has made an impression in the field of rural credit delivery system. In order to study the impact of micro-credit program on the credit and savings situation prevailing in the study area, it was felt necessary to study the workings of SHGs in the present context. In order to study this, four SHGs were sampled.

### **2.4 Tools and sources of data collection**

The study used quantitative and qualitative approach to assess the average annual credit requirement of the Ranapur block. It relied on the discussions with the villagers through, Focus group discussions and the use of PRA exercises.

*Focus group discussions*- They were conducted to get the general view of the credit system and the priorities of the credit requirement and crosscheck the information provided by the moneylenders

#### **The PRA tools used in the study area:**

*Seasonal credit calendar*- To express the relation between the purpose of loan and the period of loan taken in a year. In the project area it was observed that the loan is taken season wise not month wise.

*Semi-structured interview*- To understand and analyze the average credit needs, sources of income and expenditure of each household whereby to derive at the average credit needs per annum of Ranapur block.

The key informants include:

- Villagers
- Moneylenders (fair price shop owners, big farmers, thekedars, banyas)
- Formal banking institutions (Regional Rural Banks, Bank of Baroda the lead bank, Co-operative society, Adim Jati Seva Sahkari samiti)
- NGOs working in micro-finance (ASA, GVT, NCHSE, Asara, Prayas, Samparc).

In order to cross-check the information provided by the villagers through in-depth interview and focused group discussion, moneylenders and formal banking institutions were interviewed. Visiting non-governmental organizations involved in the micro-finance activities, also helped in getting information relevant to the present study.

## 2.5 Limitations of the study

- Time and distance were the major constraints for conducting survey. During one month of field survey, the study required visiting villages for primary information, micro-finance concerned NGOs (GVT, ASARA, PRAYAS ,NCHSE), formal banking institutions (RRB, Cooperative societies, Bank of Baroda) and District Rural Development Agency, Jhabua. Villages are not connected with metal road because of undulating land pattern. The normal distance between two falias (hamlets) was between 1 and 5 kms.
- Illiteracy was a hindrance in gathering the required information. Of the total 80 respondents, only 15% of the respondents were literate.
- **The data is affected by the drought situation prevalent in the project area for the last three years.**
- The language barrier was a big constraint to establish the rapport with the villagers.
- The apprehension of the villagers that the information provided may put them into trouble. Some people were scared that their identities would be revealed in front of the Sahukars, if they provide any information regarding the existing informal credit market and prevailing rate of interest. And the case of Ramia Bucha will be repeated.

Ramia Bucha is a marginal farmer of village Gavsar of the project area. Once he took loan from the sahukar at 15% monthly rate of interest . Being incited by someone, he made a complaint against the Sahukar regarding the exorbitant rate of interest. In Madhya Pradesh, informal credit delivery system is legally prohibited. Sahukar, being a powerful person, availed the present loopholes in the legal system, is Scot-free now. Thereafter, Ramia is excluded from the informal credit market. Even if he begs to get loan more than 15% monthly rate of interest , no one comes forward. He is repenting for his integrity.

## FINDINGS AND ANALYSIS

### 3.1 Sources of income

Agriculture and seasonal migration are the main sources to sustain their livelihood. They generally grow two crops in normal year. Because of erratic rainfall for the past few years, they have not been able to grow even a single crop properly. For the last three years of drought, they have not been able to meet even their basic food requirements. From the 80 households interviewed, about 43% of the households took the credit from the traditional moneylenders last year. They had to purchase food grains from the haat (local market). To supplement their basic

requirements and repay the debt, they migrate in search of labour. From labour, a person returns with the net earning worth Rs. 8000-10000 at the time of Holi. They also fetch money income from agricultural outputs. Annually they earn Rs 15,000/- from the sale of food grains. More than 95% of the respondents were found to have livestock (cow, buffalo, bullock, sheep, poultry). The income derived from them was not even sufficient to purchase fodder. Last year, some of the respondents had to take credit Rs.20,000 for the purchase of fodder. On an average, Rs 6500/- loan was taken for the purchase of fodder. Last year, 31% of the total loan taken was spent on the purchasing of fodder.

### **3.2 Sources of credit**

#### **3.21 Formal**

Formal sources of credit are those, which follow predetermined rules, which are applicable to all borrowers. Banks, cooperative societies and government departments are some of the formal sources of credit.

Formal credit agencies tend to have a much more bureaucratic form of administration. The borrower has to fill up the forms and procure certificates and other documents. It is also necessary to have a witness who gives a guarantee for the loan. These procedures are beyond the reach of understanding and reach of the villagers.

The same case was found in villages of the project area. Either respondents were unaware of the various schemes available in the formal credit system or they were apprehensive about the formalities of getting loans from them. In the project area, the formal banking sectors are:

- Central co-operative society
- Regional Rural Banks
- Large size Adivasi Multi-Purpose Society (LAMPS)
- Adim jati seva sahkari samiti
- Self Help Groups (SHGs)

**Central co-operative societies:** It mainly serves the credit needs of the farmers. It provides agricultural loans and other agriculture related loans. Following are the kind of loans provided by the societies:

**Agriculture loans or short-term loans** :- This loan is provided to purchase basic inputs of agriculture like seeds, fertilizer etc. In normal year, loan has to be paid at the interest rate of 11 percent within one year. But in the condition of abnormal period (drought, flood, epidemic), loan has to be repaid at 13% rate of interest spread over three years. One can get at maximum amount Rs. 40,000 per annum as agricultural loan. 50% of required loan is given in cash and rest 50 percent in kind (seeds, fertilizer).

The capacity of the farmers to repay the loan is predetermined on the basis of expected average price of crops produced. 50 percent of total production of crops will be assumed as a repaying capacity of all kind of loans. 70 percent of it will be taken on assumption as a repaying capacity for short-term loans. 30 percent of it will be assumed as the repaying capacity for medium term loans.

**Medium term loan:** - This loan is given for purchasing diesel pump, tractor, ox (or pair of ox) only for small farmers, milk cattle, repairing of well and well digging etc. The repayment period ranges between 3 to 5 years. If the loan amount is less than Rs. 2,00,000, then rate of interest is 14 percent and 16 percent, if loan amount is more than Rs. 2,00,000.

**Long term loan** :- this loan is given for motorcycle, jeep and construct or purchase a house. The loan repayment period is more than 5 years and rate of interest is 15 percent per annum in normal year.

The society also provides loan for consumption expenditure. This loan is disbursed through Adim Jati Seva Sahkari Samiti. This kind of loan goes to the members of the samiti only who meets certain criteria like one should not have more than 0.5 hectare land or should be landless labour or village artisan. At maximum Rs. 500 (Rs. 100 in cash, Rs 400 in kind) is given as consumption loan.

To meet the emergency needs of the people, Society also gives loan against mortgage of silver, gold etc. Normally loan taken on mortgage has to be repaid by SCs/STs at 13 percent annual rate of interest and at 16 percent annual rate of interest to be repaid by general category.

To get this loan, one has to be the member of Cooperative Society. The procedure to get membership is easy. One can get at maximum Rs. 30,000 against the prescribed mortgage in a

year. 70 percent worth of ornament is given in cash. The loan is to be repaid in a year. It is much in vogue in Ranapur block.

There are 19 branches of Cooperative Society and 71 Adim Jati Seva Sehkari Samitis in district Jhabua. In Ranapur there are 4 branches of Cooperative Society in Ranapur block. Despite of a large network of branches, it has been able to serve only 5 percent of the respondents. Through focused group discussion with the villagers, the study came out with the following reason behind the partial success of Cooperative Society:

- Lack of good rapport with the villagers.
- More target-oriented approach rather than need-oriented approach.
- Lack of motivation among the staff of bank.
- Apprehensiveness of villagers towards Cooperative Society.
- Straight-jacket approach towards the delivery of loan.

### **Self-Help Group**

It is a homogeneous group of rural poor, formed voluntarily to take care of specific production activities. The members save whatever amount they could out of their earnings. The members of the SHG mutually agree to contribute to a Common Fund of the group, through their regular savings. The Common Fund is used for meeting emergency credit needs of the members for production or consumption purposes. The need of forming self-help group was felt because of the following reasons :

The concept of micro-finance has come as a savior in rural credit delivery market for economically backward people as well as formal banking institutions. It has adopted a need-based approach rather than target-based approach. It is pro-poor and avoids collaterals. It provides easy and quick (with respect to formal banks) loans to the members. Following benefits have been envisaged to the formal banks through SHG:

- The work related to the credit cycle like assessment of credit needs, appraisal, disbursal, monitoring, supervision and repayment are externalized, as these works will be taken over by the SHG with the help of NGOs.
- The externalization leads to reduction in the formal paper work and consequent reduction in the transaction cost.

- The loans granted to the SHGs by the banks are eligible for 100% refinance from NABARD on concessional rate of interest.
- By covering a large section of hitherto uncovered poor population there is a larger mobilization of small savings and greater role in meeting priority sector requirements.
- The banks provide credit to the SHG under any of the three different models of the linkage as under:

#### **MODEL-I- Direct lending to SHG**

- The bank may provide credit in bulk directly to the SHG. The SHG would in turn undertake on-lending to its members on terms agreed upon mutually among themselves.
- The quantum of credit given to the SHG should be in proportion to the savings mobilized by the SHG.
- The savings-credit ratio may vary from 1:1 to 1:4, depending upon the assessment of absorption capabilities of the SHG by the bank.
- The SHG would be liable for repayment of the loan with interest to the bank.

The loans are issued for variety of purposes. These include loans for crop cultivation, dairy, goat rearing, fishery, brick kiln, handicrafts etc. the loans for income generating activities are large in quantum and are generally issued out of bank credit, whereas loans for non-income generating activities and consumption purposes are smaller in quantum and are generally issued out of common fund of the SHG.

#### **MODEL-II- Lending to SHG through NGO/ VA**

- The bank may finance NGO/VA, which in turn finances SHG promoted by it, provided it is willing to take responsibility for repayment to the bank.
- In such cases the bank would provide credit in bulk to the NGO/VA, which would be a registered body, which will pass on this credit to SHG on the terms prescribed by bank.
- The SHG would thereafter undertake on-lending to its members on terms agreed upon mutually among themselves.
- The savings credit ratio may vary from 1:1 to 1:4.
- The NGO/VA would be liable for repayment to the bank.

### **Model -III- Direct lending to an individual member of the SHG**

- In the event of a member requiring loan of large size, then bank may directly lend to the concerned individual.
- The SHG would appraise the requirement of the individual and recommend the proposal to the bank.
- The SHG should be willing to accept the responsibility for ensuring proper end-use and timely repayment of the loan.

#### **Rate of Interest**

The rates of interest will be as under :

NABARD to Bank : 6.5%

Bank to VA/NGO : 10.5%

VA/NGO to SHG : 12%

Bank to SHG (in case of direct lending to the SHG) : 12%

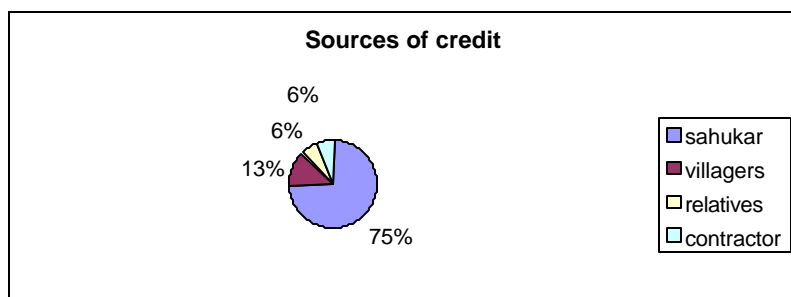
SHG to members : As decided by the members

Note: RBI/ NABARD may change the rate of interest at (1) to (4) from time to time.

### **3.22 Informal credit sources**

Informal sources include people such as moneylenders, shopkeepers, friends and relatives, where word-of-mouth has much more influence. Credit is given as per the wishes of the giver on his/her terms and conditions, looking at the repayment capability and history of the borrower. Usually, in the informal credit market, the rate of interest is quite high. Most moneylenders are small traders who sell agricultural inputs to farmers and buy the output and extend credit as part of these operations. While formal institutions hesitate to give loans to the landless laborers, moneylenders readily give them loans at any time without any formal conditions and guarantees. They are able to do this because they have other simultaneous relations with the landless. They keep landless people for work and they buy their product and sell goods to them. This enables the moneylender to have some control over them. Also, the moneylenders belong to the same geographic area, and therefore have access to information about the borrowers. The moneylenders' way of lending is generally simple. Often the loan is made on the spot, perhaps on the oral basis. The procedure is simple and quick. However, as far as informal credit delivery systems are concerned, the rate of interest is usually high.

Fig. 3 Sources of credit



### 3.23 Interest Rate existing in informal credit market

A very interesting system of interest rate was found existing in the prevalent traditional credit delivery system. In the study area, loan is taken *crop-wise (season wise) not month-wise*. Unlike the formal credit institution, the traditional informal credit system provides credit services irrespective of the purpose of the loan (consumption or production). Consequently the traditional moneylenders have comparatively higher risk involved.

Table 4. Interest rate existing in informal credit market

Rate of Interest	Collateral	Time of loan taken	Repayment period
12.5% per month.	Not required	After <i>Diwali</i> (oct.- nov.)	Till <i>Akhateej</i> (may)
50% per term of loan	Not required	After <i>Akhateej</i> (June)	After harvesting of kharif crop
3% per month.	Silver	Any time	Not fixed
None	Land	Any time	Not fixed

**The above table can be elaborated in the following ways :**

- The average rate of interest prevailing in the study area is 12.5% per month without mortgage. This rate of interest is imposed mainly on the credit given after Diwali festival and before the inception of the month of May. In the first week of month, the villagers celebrate Akhateej festival. Thus any loan taken before Akhateej will have to be repaid with 12.5% monthly rate of interest.

- If the loan is taken in October month and repaid in the month of May before the inception of Akhateej, the loan has to be repaid with 150% rate of interest. In case the loan is not repaid by March, the interest is compounded from that point onwards.
- Credit taken after Akhateej is given at 50% rate of interest without any collateral. The principal along with the interest has to be repaid by the time of Holika Dahan (in their words, danda girne ke pahle), thereafter, compound interest starts.
- With silver as collateral, the rate of interest is 3% per month. Only 75% of the value of silver is given as loan.
- If land is put on mortgage, no interest is imposed. The moneylender will use that land till the credit is repaid fully.

**Who is Mr. Suriya and what does he do?**

Suriya is a small moneylender, besides working in a Dhaba as a waiter. He can give you loan without any collaterals provided he knows you. He will afford to give you the credit worth upto Rs.10,000 easily at the present market rate of interest. What does he do if someone comes for the credit demanding more than worth Rs,10,000. Not a big deal for him. He goes to the big moneylender, Mr.Jaggu, and borrows money from him at 5% rate of interest(monthly) and lends you at 10-12.5% monthly rate of interest. What does he say about the future in the moneylending business. He says that it will go on till the Bhils (his major borrowers) would keep pursuing their culture of marriage and other social events.

### **3.3 Purpose of credit**

#### **Production credit**

Production credit may be construed as the credit taken for the purchase of units of production. For the farmers, the units of production are seeds, fertilizers, water (piyat), labour, livestock, tractor etc. All the villagers in the study area are involved in agriculture. About 97% of the surveyed villages are taking loans more frequently from the informal credit delivery system than the formal banking systems.

#### **Consumption loan**

Consumption credit is normally defined as loans used to purchase items for consumption such as food, medicines, festival celebration and marriage. Generally, landless and small farmers' income is less than their consumption, therefore they are the main groups who require credit for home consumption. However, the majority of study shows that the amount of formal credit delivery system accessed by the marginal farmers is very low. Also, the proportion of poor

farmers who access formal banks is very low. It does not mean that they do not require loans. The reality is that they always need credit for home consumption. As they do not have any resources to provide guarantees against the loan, hence they have low accessibility to formal banking systems.

In the surveyed villages, respondents are taking loans for medicines, marriage, festival celebration, death rites, conveyance fare for seasonal labour migration and other social events.

Table 5. Purpose of loan

Purpose of Loan	Total amount of Loan	% of total loan
Production loan	1026900	48%
Consumption loan	1115850	52%
Total	2142750	100%

### Purpose of Loan

The last three years being a drought year has influenced the spending pattern of the villagers. The project area has mainly rain-fed agriculture. It has been greatly affected because of the vagary of the rainy season. With the decrease in income, the expenditure has rather increased. In order to meet their needs, they take loan from the moneylender. To repay loan they go for the labour migration. As per the above table it is clear that major proportion of the earnings is allocated to meet their consumption needs. The table given below clearly depicts the various consumption items.

Marriage consumes the highest ratio of consumption expenditure. There exists a unique system of *Notra* and *Mamera*. *Notra* is a contribution given in cash to the bridegroom by the relatives and villagers. *Mamera* is a contribution given in kind (gifts). It is a social obligation to pay *Notra* and *Mamera*. If a person does not pay *notra*, he will be ostracised from the village. Out of the 80 surveyed households, 95% of the respondents have taken loans for *notra*.

### Bhagat Vs Nagad

There are two kinds of Bhil (classified by the villagers themselves). Nagad and Bhagat are two kinds of communities, which can be found in the project area irrespective of caste and tribe.

Nagad are those who eat meat and consume liquor. The latest range of dowry in this community is Rs. 40,000- 60,000.

Bhagat are those who do not eat meat and consume liquor. In this community, the amount of dowry ranges between Rs. 1.25 and 2200 only.

In order to meet the marriage expenses, they have to approach the traditional moneylenders. In the present study, it was observed that Bhagat people spend 20% less than that of Nagad. The Bhagat are able to spend less because they do not consume liquor and meat

**Whether loan for fodder is a consumption loan or production loan?**

Fodder expenses are mounting gradually during the last three years because of the continuous drought during the last three years. According to the data collected from the last year, 31% percent of the total consumption expenditure was devoted to purchase fodder for their livestock. But this expense has not fetched even a single penny. Almost all the livestock was found unproductive. Although fodder is considered as a productive unit, getting no or marginal return from the expenses incurred on fodder, it has been taken as a consumption expenses.

Table 6. Purpose of Loan for consumption

Type of consumption	Total amount of Loan	% of total consumption loan
Marriage	612700	37%
Food	137400	10%
Health	276800	17%
Migration exp.	86000	5%
Grass	502300	31%
Total	1615200	100%

Fig. 4 Apportionment of sources of credit

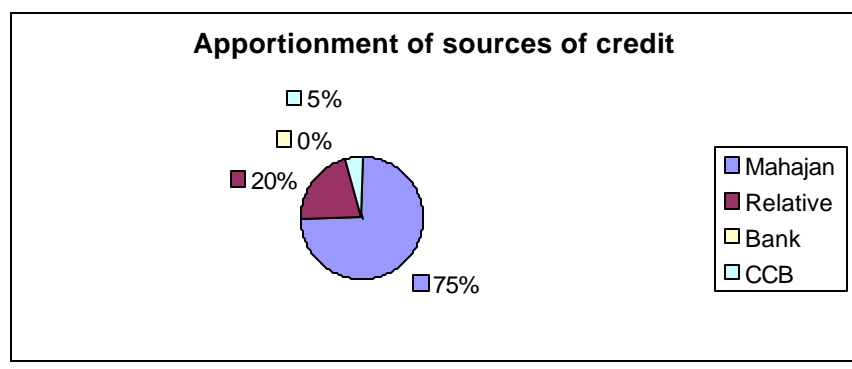
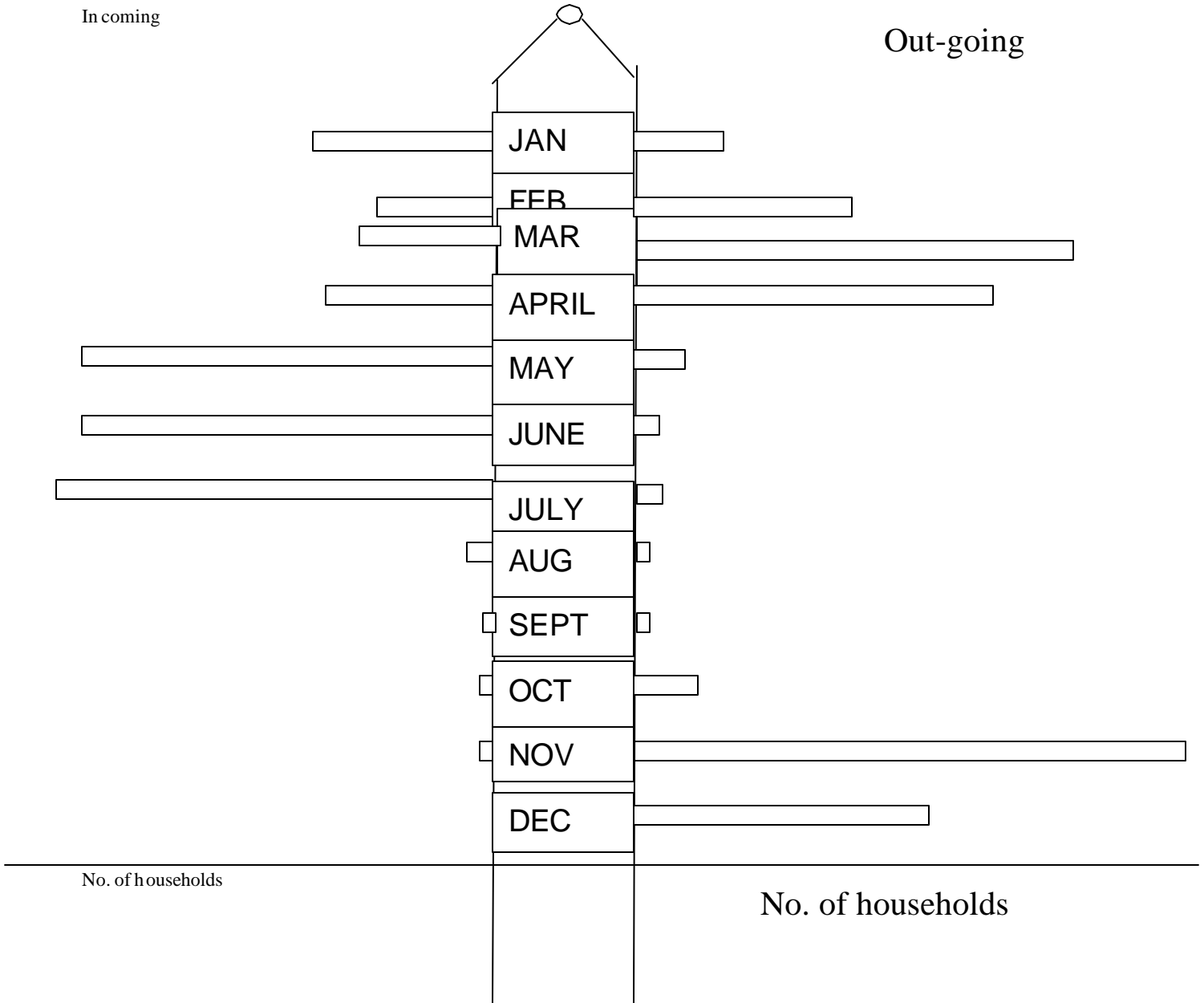


Fig.5 calendar of migration



Maximum out-migration takes place during the months of November-December (about 48%) and during March-April (42%). These two months are post-harvest months after Kharif and Rabi crops respectively. For the other months the out-migration is negligible.

As regards the season for the returning for seven months of the year i.e. January to July, there is a steady stream of returning migrants. There are two main festivals, namely, Holi and Akhateej

in the months of March and May, respectively to which the tribals attach utmost importance. Hence to attend these festivals most of the migrants return to their place of origin. Moreover, just before the inception of sowing season for Kharif crops, the migrants return back to prepare their for the in-coming monsoon.

The calendar for migration supports the view that migration takes place on account of non-availability of work on non-farm activities. Secondly, if Rabi crop is assured by the perennial irrigation the migration, which takes place during Rabi season, could be checked.

### **3.31 Credit cycle**

Except for emergencies and sickness, people need credit only during certain period of the year. This study indicates that from May to July credit is required for agricultural inputs for Kharif crops. During this period the farmers start exploring sources for purchasing good seeds and fertilizers; sometimes they require money for ploughing the field. They take loan for the above purpose. October and November are harvesting period, and till January and early February the products are marketed. At this juncture, people usually repay the major portions of their loans. In case of crop failure they have to postpone repayment of loans. In November and December, loans may be required again if the farmer is planning to take rabi crops. After Rabi crops minor repayment of loans take place. During the year, loans may also be taken out for non-agricultural purposes. From June to September when farmer has finished their food grain from the previous year and the new crops have not yet come, credit is required for food consumption. At the same time, sickness is very prevalent at this time of year due to the monsoon season. Loans are taken out in case of marriage or other religious functions which have to be performed

### **3.4 SHG intervention in the rural credit market**

If observed in wider spectrum, SHG concept sounds like a panacea for all the rural problems (political, economical and social). It has inculcated the habit of regular saving (even if small) among the rural *economically challenged* people. They have resumed their belief in a saying, ‘*money saved is money earned*’. The SHG concept has revived and strengthened the belief of group dynamism. It is trying successfully to shake the shackles put by the traditional rural credit system (*sahukars*) on the poverty-stricken villagers through exorbitant rate of interest.

In the area of rural credit, the promotion of SHGs has been a major innovation, to improve the socio-economic status of the poor, especially women. This has helped them gain better access to saving and credit facilities. SHGs are considered a solution for some of the problems of rural credit markets, which come in the way of rural poor having sustained access to formal credit agencies.

The present study is an attempt to explore and understand the functioning and performance of the SHGs being formed by the non-governmental organizations (Action for Social Advancement).

The introduction of self-help groups by various agencies has endeavored to promote micro level savings and credit system being ordained by the members (poor villagers) largely. Access to credit for rural poor is considered important from two main angles. The availability of capital may help rural people acquire new assets and technology leading to higher employment and income generation and productivity enhancement. Second, easy and timely availability of credit may also help them get out of the clutches of the traditional money lending system.

In India the formal rural financial institutions like commercial banks and regional rural banks are into the promotion of SHGs as a matter of NABARD's (National Bank for Agriculture and Rural Development) new policy of improving the institutional credit delivery system for the poor people through adopting innovative practices (NABARD 1995). The NGOs are interested in the concept of SHGs as a part of their strategy towards creating alternate peoples' institutions which can help supplement their developmental activities as well as help attain bigger goals like poverty alleviation and empowerment of women (Fernandez 1994).

Action for Social Advancement (ASA), a non-governmental developmental organization, has also developed the concept of SHGs in its project area. In the Ranapur block, there are 40 SHGs formed by ASA.

In order to study the impact of self-help group over the savings and credit pattern of the respondents, two SHGs were chosen.

In the focused group discussion with the group members, it was noted that they are very clear about the future spending. Being asked about the utilization of the collective saving, the answer was that they would spend money to build a house, deepen a well, purchase a land, send children to school and purchase ornaments. The following aspects have come to the fore through discussion with female SHG:

- They have started to interact with the banking personnel.
- They feel economically empowered.
- They have say in the household decision.
- The concept of SHG has been able to inculcate the habit of regular saving in them.
- SHG has worked as a safety vault for them to keep the saved money away from the drunkard husband/ son.
- They feel seasonal labour migration as a major constraint. Some of the group members have to go out for labour at a regular basis because of limited productive units/ employment. Thus unable to attend SHG meeting. But after returning from the labour, they deposit the savings in aggregate. With this hope that they would save enough money to make families future better.
- They also acknowledge that some day they will break free of the constraints put by the traditional moneylenders.
- No one has ever thought of being defaulters (as usually happens in the case of loan taken from formal banks) of loan received from the SHG. It is the peer pressure, which works against the repayment of loan.

*Jai ma Kali Mahila Samooh* is a female group in Khangella village. This group was started on 12th of July, 2001. There are 14 members in this saving group. They are saving Rs.50 per month. Sumitra and Bhura are the president and secretary of this saving group. Meeting is held monthly under the supervision of group worker being recruited by ASA with the suggestion of the group members. An educated person is selected as a group worker. Mr. Prakash is the group worker, currently doing graduation.

He gives technical guidance (book keeping) and motivational support to the members. But now he has imparted all the technical skills required to maintain the accounts to the literate member of the group. Sumitra (she is a graduate) has learnt all the required skills to maintain the SHGs related accounts. Now Dinesh only checks the proceedings of the meeting at the end of the meeting. Few members of the group go to the bank to deposit the saving collected during the meeting conducted monthly.

The entire saving of the group till date is Rs 8400/-. In the month of march, 2002 they took the loan Rs 18400 through the external source ie. bank. This money has been distributed equally among the group. They have taken loan for different purposes. The loan amount has been used to buy a pair of ox, to contribute in the marriage and to purchase a piece of land.

Thus for the political, social and economical empowerment of women, the SHG may prove as an effective medium.

## CONCLUSIONS

As it is cleared that informal moneylenders play a dominant role in the rural credit market. In the surveyed area, the study found that the local moneylenders, friends and their relatives meet 95% of rural credit needs. Despite the large networks of Cooperative society, Regional Rural Banks and other commercial banks, they fulfill only 5% of the credit needs. No doubt the villagers have got the financial assistance from the formal banks, but only the economically, socially and politically strong people are benefited from the subsidized loans. In the project area, it was observed that Patel, tadvi and educated people have taken loan for tractor, motorcycle, agricultural inputs etc. but have not repaid loan taken three years back. They have taken loans thinking that it will not be repaid. This kind of attitude has resulted in a bad image in front of the banks. The banks felt that disbursing loans in the rural credit market is uneconomical.

In 1992, National Bank for Agriculture and Rural Development initiated an SHG-Bank linkage programme. It proved to be pro-poor as well as pro-bank approach. The introduction of this programme has drastically reduced the transaction costs involved with the rural credit market as well as recollected the savings of the rural people which mainly goes in the pocket of local moneylenders.

The study was conducted with a view to achieve the following objectives:

- To understand and analyze the average annual credit needs of the households of different socio- economic classes of the villages of Ranapur block.
- To study the existing informal traditional credit delivery system.
- To study the impact of SHGs (self-help Group) of credit and savings patterns of the people in the study area.

Focused group discussion, interviews with the villagers, local moneylenders, formal banks and NGOs involved in the promotion of micro-finance proved to be useful to meet the objectives.

The present study helped to highlight the following salient features:

- The impact of Bhagat movement on the consumption habit of the sampled villages.
- The impact of three years of continuous drought period on the credit requirement of the households.
- The role of SHGs in rural credit delivery system.

### **Implications of the study**

The present study has given an overview of the credit situation in the Ranapur block. The findings derived during the study not only reflect credit needs of the project area but also reflect the condition of that area where Bhil community is dominant. The study will work as an information base for the SHG federation to be set up in the project area.

### **RECOMMENDATIONS**

Based on the survey done in the study area and data gathered through primary and secondary sources, the study has endeavored to sum up with the following points:

#### **Promotion of SHGs**

The promotion of SHG has inculcated the habit of regular saving among the group members of the SHG. It has tried to bring about a sea change in the savings and credit pattern in the village society. Initially people were hesitant to join SHG with the perception that the promoting agency will run away with the money (saved). It has given a ray of hope to the poor to get rid of the traditional moneylenders.

In the study area it was observed that people save paltry amount (Rs.30 to Rs. 100) but at a regular basis. The male community has duly acknowledged the saving habit of women. It has been proved that they are the real household managers who do an optimum utilization of resources at her disposal. The social, political and economic empowerment of women seem to be more feasible through SHG.

They have started to manage their consumption expenditure through the common fund created through SHG. It has reunited the bond between the poor and formal banks. Under the SHG linkage programme, NABARD has financed the banks to take initiative to form SHG or help those NGOs who are engaged in the promotion of SHG. Thus the households are supporting their production credit needs financed externally by the formal banks under the aegis of NGOs.

The promotion of SHG by NGOs has considerably curtailed the formal paper work and consequently reduced the transaction costs.

The work related to the credit cycle like assessment of credit needs, appraisal, disbursal, monitoring, supervision and repayment are externalized, as these works will be taken over by the SHG with the help of NGOs.

### **Revival of Handicrafts**

The handicraft works done by the Bhil are widely appreciated. Looking at the market potential of handicraft, it should be duly encouraged. In the sampled villages people are involved in this act but at a marginal scale. The NGOs and other government organization have promoted it as an income generating activity, but not on a mass scale. It will help to maintain the indigenous traditional knowledge.

### **Grass land management**

In the study area, it was found that the people took 32 percent of the entire loan to purchase fodder. This expense is mounting by and by because of less rain. They are compensating this expense with the loan taken from traditional moneylenders. A timely intervention is required with joint support of community and NGOs.

### **Promotion of Bhagat movement**

During the study it was found that conversion of *Nagat* into *Bhagat* sect has influenced the credit requirements of the villagers considerably. The consumption loan has drastically come down because of very low dowry rate (Rs.1.25 to Rs. 2200), no consumption of liquor and meat. Thus expenses on the social events have come down. In the villages like *Gavsar* and *Budhasala* , a number of *Bhagat* people can be seen. Thus it has lessened the burden of consumption loans usually borrowed from the local informal money lenders. But this movement needs to take place at a mass scale.

### **Inception of migration support programme**

Unfavorable agricultural condition and lack of off-farm income generating sources have made the seasonal labour migration inevitable. Almost 95% of the surveyed households was found having atleast one member migrating for labour. A substantial amount of worth Rs. 5,000 is fetched from migration during the stay of 5 months. The present daily wage rate is between Rs. 50 to Rs. 100. Thus seen carefully, one gets the total monthly wages between Rs.1500 to Rs.

3,000 per capita. They have to spend a big chunk of their wages on food and on other items. A local NGO, has come forward with *Migration Support Programme* to impart information related to the potential places to get work, wage rate existing in different work places and migration shelter providing food at a nominal rate and temporary residence facility. Migration loan may also be provided under this programme to arrange for the traveling expenses.

### **Organization of informal money lenders**

The presence of traditional moneylenders can be easily felt by the given details. They provide 3/4th of the total loan. With the empirical evidence, it sounds impossible to erase the system altogether by making law to legally prohibit the informal credit delivery system. Instead, this existing system could be given a concrete legal shape under the regulation of government machinery. From the past we have learnt that formal banking institutions have not been able to mobilize the small savings made by poor people and meet their credit needs owing to the huge transaction costs and risks involved with the recovery of loan.

### **Enhancing awareness level**

In the course of study it was felt that villagers are still not awarded about the existing LAMPS and different scheme of Cooperative Society or misguided by the local moneylenders. The system of Cooperative union needs to be revamped and redefined. They (union staff) should be motivated to create awareness level pertaining to the different credit schemes of the Cooperative Society. All the NGOs should also create the minimum awareness level regarding formal banking services through workshops.

## **4.1 Suggestion for future research**

Although it was tried the level best in the present study to give a holistic view of prevalent credit scenario in Ranapur block, it was felt during the study that the following points are needed to be seen in the wider perspective:

- A legal aspect and its implication on the informal local money lending was required to be highlighted properly. But time and resource did not permit the study to touch upon the nuances of the impact of law made to ban the informal credit system in Madhya Pradesh.
- A study of credit requirement according to the different community ( Bhil, Bhilala, Pateliya, Lavana ) could have given more lucid picture of credit situation in the project area.
- Visiting more SHGs would have given a broader perspective about its long-term viability.

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**Checklist for household interview**

APL / BPL

## 1. General information

- Name of respondent:
- Age:
- Caste:
- Male/female
- Education:
- Number of members in the family:
- Main occupation:
- Land under cultivation:
- Source of irrigation (If any)
- Irrigated area:

## 2. Sources of income

Source	Quantity	Rate	Income (Rs)
Agriculture			
Maize			
Cotton			
Groundnut			
Soyabean			
Udad			
Tuar			
Chana			
Wheat			
Any other			
Poultry			
Milk			
Goatry			
Service			
Labour*			
In village			
Migration			
Any other			

Take note of kind of work/s

3. Savings and investments

- How much are you able to save in a year?
- Where do you keep the surplus/ extra cash?
- At home
- With relatives
- Bank account
- With any other safeguard
- In which form do you keep your surplus / do you invest in purchase of assets (check: silver, land, equipments, livestock etc.)
- Why do you not deposit you savings in the bank?

4. Expenditure

- What are the major heads of expenditure?

Check: Agricultural inputs, working capital for enterprise, medical treatment, purchasing livestock, daily expenses, food grain, festivals, marriages, gifts, other ceremonies, house construction, house repair, travel for migration etc.

- What are the inputs required for agriculture?

Check: Seed, fertilizer, insecticide, irrigation, labour

- Where do you obtain the inputs?

5. Information on credit – needs and sources

- For which kind of expenses do you need to borrow from others?
- History of credit for the last two years?

Time	Purpose	Amount (Rs)	Source	Rate of interest	Loan term	Repaid/ not repaid	Other conditions such as collateral

check: Advance against labour payments, within community (in village as well as other villages, in-kind/credit purchases.

- Where do you sell the produce?

5.4 Do you sell the produce the same trader who provides the inputs? Do you always repay loans in cash?

## **Checklist for service providers**

### **1. Moneylenders**

- Villages served
- Under what terms and conditions do they provide loans – collateral/security, term of loans, expected repayment (one time/installments)?
- What is the rate of interest – with security, without security?
- Does the rate of interest depend on the kind of credit?
- Does the rate of interest depend on the individual?
- How do they decide the RoI?
- Do they give the loans in cash or in kind or both? Get the details .
- What do they do if loan is not paid timely
- Do they write-off the loan?
- Do they maintain the book of accounts for the financial transaction?
- What purposes do you give the loans for?
- Other details
- Name
- Address
- Other business/occupation

### **2. Formal credit institutions**

- Bank/ Cooperative Society
- What are the different schemes under which loans are provided to the rural people?
- Terms and conditions for each of them.
- Repayment rate under different schemes.
- Is the process of getting loans complex?
- When do they write-off the loans?
- Do they provide loan for the consumption purposes?
- Number of loan defaulters in the sample villages.

## **Checklist for Focus Group discussion**

- Seasonality calendar depicting time of requirement for different types of loans – consumptive and productive and the time when most repayments are done.
- What are the different sources of credit available to the people?
- Preference ranking of the different sources, with reasons against each of them?
- What problems they you face in dealing with the formal institutions – banks, societies, any other.
- What problems do they face in dealing with the informal moneylenders?

### Questions for women

- What work do you do, other than housework?
- Do you keep some cash income with you?
- If not who maintains the cash in the family?
- How do you meet the routine household expenses?
- When you are in need of credit do you personally go to seek for the loan?
- Do you have say in decisions on major expenses in the household?

### Name of the villages surveyed

Matasula, Uberao, Daabtalai, Rethalunja RatBudhasala, Bhoothera Padaliosa, Kaniavani Badi, Gavsar, Dotad, Lambela, Nagankhedi, Nad, Kalapan

### Indicators used for Wealth Ranking / selection of sample households

Category	Indicators
Well-off	Availability of food grains for 9-10 months in a year Possess 10-12 kg of silver-made ornaments Fertile land (piyat ki jamin) adjacent to the pond, well. Healthy and productive livestock. Possess sources and tools of irrigation Easy access to loans from sahuikars and banks as well. Surplus crop production Pucca or semi-pucca house.
Poor	Unfertile land. Less field. Small house. Trapped in the debt. Migrate for the livelihoods Less piyat ki jamin. Involved in the bickering in the village. Availability of food grains for 5-6 months.
Very poor	No livestock. Few sources of income. Little recognition in the village. 80% livelihood from the migration. Out for the migration for 8-9 months.