

# INFORMAL BORROWING COST OF BANKS LOAN IN AGRICULTURE SECTOR IN INDIA: A CASE STUDY OF HARYANA

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## ABSTRACT

*The agriculture and rural development are highly inter-related. Agriculture has been considered as crucial sector to generate major proportion of employment. Productive job opportunities are to be created in rural areas through development of agriculture, irrigation facilities, rural infrastructure and promotion of village and cottage industries for rural development by providing cheaper bank loan.*

*Most of the low-income households are not in a position to borrow at a higher rate of interest, the risk involved and the cost of servicing such a large number of small loans in remote and far-flung villages would necessitate the credit agencies to keep themselves at an arm's length. In an adverse situation like this, the lending agencies are generally reluctant to finance the poorer groups. Main motive of this study is to find out the main informal causes those are responsible to increase the institutional loan. In that situation bank loans should be used for improving production with the help of latest technology and inputs. Present study is totally based on primary data. Considered this way, apart from production and the investment loans help to increase production and incomes. Even schemes for infrastructure development where charges are levied have become bankable propositions.*

**Key words:** *Asset Generation, Repayment Method of Bank Loan, Borrowing cost, Households, Asset Generation, Employment Generation, Bribe, Cost of Document, Opportunity Cost, Proper Utilization, Big Farmers, Medium Farmers, Small Farmers, Marginal Farmers, Labourers, Agriculture, Allied Activity, Rural Industry, Small Business, Transport etc.*

## INTRODUCTION

The agricultural credit plays its role in capital formation and its maintenance, storage, marketing and processing activities in the economy. The demand of agriculture credit is increasing very fast. It can only be met by bank and other financial institutions. It was estimated as Rs. 750 crore rupees in 1951-52, which has increased to Rs. 60842 crore in 2005-06. This demand of credit for agriculture estimation is not real. After the nationalization of 20 banks they were hardly meet the 14.1 percent (1998-99) of agriculture credit demand. So, in the rural areas people had to go to private moneylender to fulfill their credit requirements. The moneylenders charged very high rate of interest (24% to 60 %) on it. It is obvious that one of the main objectives of nationalization of banks was to enable the banks to play a more dynamic role in agricultural production by increasing their loaning to

agriculture sector and reducing the credit gap in rural people. This gap is increasing because demand for rural credit is increasing while supply of credit is decreasing. For the development of agriculture sector, it is necessary to meet credit requirements of rural people.

## **REVIEW OF LITERATURE**

Jasmine Jaim (2012), in their study “**Total Cost of Small Entrepreneurial Credit: An Analysis on Selected Private Commercial Banks in Bangladesh**” found that traditional banking system it is not possible to get loan facilities without collateral or guarantee. In order to minimize a major cost of managing collateral –cost of security and also cost of insurance, the collateral free loan should be offered. Finance Advisor (“Finance Advisor”, 2007) urged the Bangladesh Bank and commercial banks. He also requested to take initiative to provide loans considering the project viability and payback capacity of the entrepreneurs. It would also reduce the harassment for preparing documents, visiting the legal advisor, mortgage formalities and so on.

Before thoroughly introducing the scheme, few steps can lend a hand to reduce cost of the existing process. Through eliminating some documents to prove the validity of the property which requires bribing in many steps, can reduce the cost to a great extent. Besides, undertaking responsibility of the bank to scrutinize documents by legal advisor and having the specific amount as the legal advisor fees can also trim down cost. In addition, the easiness of the process of collateral or to provide provision of collateral free loan will eventually reduce the cost of transportation. This study has revealed that lack of easy access and adequate finance are the prevailing constraints for the growth and expansion. Therefore, the banking norms, procedure and attitude regarding investing in this promising sector should be changed. The policymakers of banks should take a positive action to provide credit with lower cost, more convenience and flexibility.

By Dr. Ramesh O. Olekar (2011), in their study “Agriculture Credit: Impact Assessment” found that credit has become the *sine qua non* in the new strategy of agricultural development. The credit is said to be the life-blood of agriculture and rural development. However, credit alone is not the solution for all the problems, but a means to an end. Credit serves a useful purpose only when used for productive purposes. Credit may be easily compared to a sharp-edged knife, proper utilization of it generates usually higher productivity, thereby more prosperity, whereas its utilization deprives the borrowers of the extra income they could have earned by using it, besides retarding credit flow. Utilization of loan is one of the prime factors in the field of rural finance to boost production. Anyhow, misutilization of credit has been identified as the most severe problem in rural financing. Keeping this in view, an attempt is made here to examine the credit utilization pattern of sample borrowers. In Syndicate bank, the sanctioned loan amount is usually disbursed in installments.

Hence, misuse of credit is less when compared with co-operatives. Even then, some of them were found to have diverted the installment or have influenced the field supervisors in obtaining second and subsequent installments with the result that the amount is put to unproductive purposes.

**Need of Credit in Rural Areas:**

The main constituents of developmental role of banks in the rural sector are as follow.

- (i) All bank loans are to be part and parcel of total development programming under the national five-year plan.
- (ii) Loans are to be given for labour intensive schemes, which are helpful in generating employment.
- (iii) Loans are to be given to generate productive assets and/or to increase the existing assets particularly of land so as to reduce under-employment/ unemployment; consequently it may increase income level of rural people.
- (iv) Loans are to be given to the weaker section (marginal and small farmers, agricultural labourers, rural artisans, and members belonging to scheduled casts and scheduled tribes.) for productive purposes with some consumption component so that their productive efficiency does not suffer due to lack of adequate maintenance income.

While the banks will have to keep in mind the basic needs to assist the increased production in the context of development, which implies that the role of banks should contribute to promote various development programme and resource mobilization in the rural areas. The areas in the command of irrigation projects that require compact area approach, lift irrigation schemes which are group based and individual investment schemes like sinking of a well or purchase of pair of bullocks require different systems of handling. Development programme will also encompass investment lending to add to the productive assets or to improve the productivity of the existing assets such as development of land by leveling and bounding. Moreover it includes bank loans used for improving production with the help of latest technology and inputs. In this way, developmental efforts would call for primarily investment lending for creation of new assets and secondly for augmenting production from the existing assets as well as from additional assets created through investment lending. Considered this way, apart from production and the investment loans help to increase production and incomes. Even schemes for infrastructure development where charges are levied have become bankable propositions.

**RESEARCH OBJECTIVES OF STUDY**

Main objective of this study is to analysis the informal cost of the bank borrowing in agriculture sector. Another objective is to know the contribution of informal borrowing cost in agriculture sector.

**METHODOLOGY**

Agro-climatically, Haryana State may be divided into three regions. The first region consists of northeastern part of the state, which has assured irrigation facilities and relating fertile soils. It consists of the district of Karnal, Kurkushetra, Kaithal, Ambala, Panchkula, Yamunanagar, Sonipat and Panipat. The main sources of irrigation are tubewells and government canals. Wheat-Paddy crop rotation is mainly adopted in this region. In contrast to this Region-II, the southwestern districts of the

state consisting of Bhiwani, Mahendragarh, Rewari, Gurgaon and Faridabad which have relatively less irrigation facilities and sandy soils. It is a backward dry farming region. The main source of irrigation in this region is tubewells. The quality of most of the underground water is brackish and only in a few pockets; this water can be used for crop production. Wheat Bajra is the dominant crop rotation. Region-III, consisting of Sirsa, Fatehabad, Hissar, Jind, Rohtak and Jhajjar districts is more advanced as compared to the southwestern region but it is less developed as compared to the advanced north-eastern region. In Region-III ground water is also not fruitful for health and agriculture. Government canals are the main source of irrigation in this region. Wheat– cotton rotation dominates in this region. So the researcher select the three districts each one from each region for the research purposes.

Stratified random sampling technique has been adopted to determine the sample and composition of the sample households for the proposed study. We selected a representative sample covering the entire state. We selected three districts namely Jhajjar, Sonipat and Bhiwani focusing on present study.

The farm holdings of beneficiaries have been classified into 5 categories as landless, marginal (less than 2.5 acres), small (more than 2.5 up to 5 acres), medium (more than 5 up to 10 acres) and big farmers (above 10 acres), as per the government norm. Then a list of bank beneficiaries was obtained from the banks those had borrowed during or before 2010-11. We selected 140 households from each district randomly to give equal representation to all the districts. Thus a total 420 households of bank beneficiaries were selected randomly. Out of 420 households the number of big farmers, middle farmers, small farmers, marginal farmers and labourers were 52, 84, 98, 94 and 92 households respectively.

Initially, the collected data have been tabulated and then analyzed. For the analysis of data simple statistical techniques such as growth rate, percentage methods etc. have been used.

In the face of growing need of rural credit especially after the technological breakthrough in seed, fertilizer, technology and expansion of irrigation, it is realized that their own finance and co-operative, alone would not be able to meet credit requirements and it is necessary to adopt a multi agency approach to rural lending. So that banks were nationalized at various times. The banks may play a significant role in the rural development in India as well as in Haryana.

#### **Asset Generation:**

Asset generation has been related directly or indirectly with the rural development. It is evident from the fact that as rural development takes place, it facilitates the pace of higher standard of living through enhancing income levels as well as job opportunities. Therefore, higher level of asset generation implies higher level of rural development and vice-versa.

#### **Repayment Method of Bank Loan:**

Repayment may also affect the rural development. If people repay their respective loans through new loans then there will be hardly any possibility to enhance rural development, because such type of

practices are only the transfer of money from one hand to other hand, if people repay the loan through generating incomes, it depicts that people are engaged in productive activities, which in turn, will induce the pace of growth for rural development.

### Borrowing cost:

Per Rupee Borrowing Cost = Total Borrowing Cost / Total loan

Borrowing Cost = Cash Money + Expansion to Preparing Document with Fair + Cost of Living the Work (Opportunity Cost) (Rs. 100 per day)

The table no 1 shows that out of total sample households 25.24, 31.90, 25.72 and 17.14 percent households are those who have taken loan in range of Rs.0-25000, Rs.25001–50000, Rs.50001-100000 and above Rs. one lakh respectively. The table depicts that the highest percentage (31.90%) of households who have taken loan comes in the loan range of Rs.25001–50000. While, the lowest percentage (17.14%) lies in the loan range of Rs. above one lakh.

Table-1: Category-wise Bank Loan of Households in percentage

Category	0-25000	25001-50000	50001-100000	Above One Lakh	Total
Big Farmers	7.69	11.54	46.15	34.62	100
Medium Farmers	14.28	26.19	40.48	19.05	100
Small Farmers	30.61	32.65	18.37	18.37	100
Marginal Farmers	31.91	31.91	23.41	12.77	100
Labourers	32.60	47.83	10.87	8.70	100
Grand Total	25.24	31.90	25.72	17.14	100

Source: Fieldwork (2011).

The table no 2 is related with the data pertaining to average amount of loan category-wise and bank-wise. The table exhibits that for the sample as a whole average loan comes out to be Rs.80695. Out of total sample; the highest average amount of bank loan (Rs.312000) comes from the category of others. And the lowest average amount of bank loan (Rs.54507) is associated with the category of agriculture.

Table-2 Category-wise/Purpose-wise Average Amount of Bank Loan of Households

Category	Agriculture	Allied Activity	Rural Industry	Small Business	Transport	Others	Total
Big Farmers	80000	94545	500000	175000	374500	-	132269
Medium Farmers	51111	62667	249500	163333	216333	500000	95190
Small Farmers	65000	95714	192500	81250	99714	299000	91367
Marginal Farmers	50882	39722	112500	64000	187500	199000	65404
Labourers	20000	70188	-	17105	80000	250000	42565
Grand Total	54507	69703	229857	57703	172118	312000	80695

Source: Field work (2011).

- (i) In Agriculture -we included Seed& Fertilizer and agriculture equipment: Bullock-cart, Horse-cart, Tube well, Engine oil, Electricity motor, making a well and other equipment etc.
- (ii) In Allied Activities- we included all animal husbandry: Dairy, Sheep and Goat, Poultry farm, Pig farm, Gardening/Flowering Fishery etc.
- (iii) Rural Industry- we included Atta-Chaki, small Factory, making marble tiles, Dharm-Kanta, Kholu of Sugar-cane, Ice factory etc.
- (iv) In Small Business - we included all types of Shop & extension of business as raw materials, all type of Street Hawker, cycle & rickshaw etc.
- (v) In Transport - we included Bus, Track, Tempo and Jeep, Four wheelers, Auto etc.
- (vi) In others- we included Non Productive as lick, House, Two-wheeler, Juicer of Sugar-cane, Chaki & Gandasa for house use, other consumption goods etc

Table-3: Amount-wise/Category-wise Per Rupee Borrowing Cost of Bank Loan

Category of Amount	Borrowing Cost	Category	Borrowing Cost
0-25000	0.074	Big Farmers	0.022
25001-50000	0.065	Medium Farmers	0.042
50001-100000	0.052	Small Farmers	0.058



Above one Lakhs	0.035	Marginal Farmers	0.052
Total Cost	0.048	Labourers	0.074
-	-	Total	0.048

Source: Fieldwork (2011).

The table no 3 shows that per rupee borrowing cost has been recorded as Rs.0.048. The highest borrowing cost brings out to be Rs.0.074 in the amount category of Rs.0-25000. While, the lowest cost (Rs.0.035) has been recorded in the amount category of Rs above one lakh. The table further shows that big farmers and labourers have the lowest (Rs.0.022) and the highest (Rs.0.074) per rupee borrowing cost respectively. It means big farmers have the lowest per rupee borrowing cost and the labourers have the highest per rupee borrowing cost.

The data pertaining to activity-wise borrowing cost have been presented in table 4. The table exhibits that per rupee borrowing cost comes out to be Rs.0.022, Rs.0.078, Rs.0.031, Rs.0.064, Rs.0.036 and Rs.0.018 for the agriculture, allied activities, rural industry, small business, transport and others respectively. The allied activities have the highest per rupee (Rs.0.078) borrowing cost. While the category of others has the lowest (Rs.0.018) per rupee borrowing cost. The big farmers have the lowest (Rs.0.022) per rupee borrowing cost. While the labourers have the highest (Rs.0.074) per rupee borrowing cost.

Table-4: Category-wise/Purpose-wise Per-Rupee Borrowing Cost of Bank Loan

Category	Agriculture	Allied Activity	Rural Industry	Small Business	Transport	Others	Total
Big Farmers	0.150	0.015	0.020	0.055	0.025	-	0.022
Medium Farmers	0.020	0.098	0.023	0.037	0.032	0.012	0.042
Small Farmers	0.018	0.100	0.036	0.077	0.051	0.017	0.058
Marginal Farmers	0.021	0.101	0.066	0.072	0.034	0.028	0.052
Labourers	0.083	0.081	-	0.082	0.073	0.024	0.074
Grand Total	0.022	0.078	0.031	0.064	0.036	0.018	0.048

Source: Field work (2011).

- (i) In Agriculture -we included Seed& Fertilizer and agriculture equipment: Bullock-cart, Horse-cart, Tube well, Engine oil, Electricity motor, making a well and other equipment etc.
- (ii) In Allied Activities- we included all animal husbandry: Dairy, Sheep and Goat, Poultry farm,Pig farm, Gardening/Flowering Fishery etc.
- (iii) Rural Industry- we included Atta-Chaki, small Factory, making marble tiles, Dharm-Kanta,Kholu of Sugar cane, Ice factory etc.
- (iv) In Small Business - we included all types of Shop & extension of business as raw materials,all type of Street Hawker, cycle & rickshaw etc.
- (v) In Transport - we included Bus, Track, Tempo and Jeep, Four wheelers, Auto etc.
- (vi) In others- we included Non Productive as lick, House, Two-wheeler, Juicer of Sugar-cane, Chaki & Gandasa for house use, other consumption goods etc.

The table 5 contains the data regarding the components of borrowing cost. The table shows that out of total borrowing cost of bank loan, the highest amount goes in terms of bribe to bank employees. On an average it comes out to be 2.21 %age of total loan. It constitutes the highest percentage (2.21%) of the total loan. In case of document preparation average amount of cost has been found. It is 1.77 percent of the total loan. The average amount of opportunities cost (work living cost) comes out to be 0.77 percent of the total loan which is the lowest cost component in total borrowing cost. It has been noted that bribe to bank employees constitute the highest percentage to the total loan.

Table-5: Category-wise/Purpose-wise Borrowing Cost of Bank Loan in percentage

Category	Bribe to Bank Employees	Cost of Document Preparation	Opportunity Cost	Total
Big Farmers	0.87	1.10	0.20	2.17
Medium Farmers	1.73	2.00	0.46	4.19
Small Farmers	2.50	2.47	0.79	5.76
Marginal Farmers	3.11	1.01	1.07	5.19
Labourers	3.46	2.04	1.88	7.38
Grand Total	2.21	1.77	0.77	4.75

Source: Field work (2011).



- (i) In cost of document preparation- we included Fair plus other expenses as fees of Patwari, fees of Doctor and other documents fee etc.
- (ii) In opportunity cost- we included cost of the living work (Rs. 100 per day).
- (iii) Bribe to bank employees- we included that amount which was given to bank employees to take loan.

The table no 6 contains data regarding utilization of bank loan. The table shows that only 34.10 percent amount of bank loan is used in asset generation. Per rupee asset generation comes out to be Rs.0.341. It is noted that the medium farmers have generated the highest per rupee asset (Rs.0.425) from the bank loan. While the laborers generated the lowest per rupees asset (Rs.0.143) from bank loan.

Table-6: Category-wise Average & Per-Rupee Asset Generation from Bank Loan

Category	Asset Generation	Per-Rupee	Asset Generating Households in % age	Employment Generation in % age
Big Farmers	38.96	0.390	50.00	15.38
Medium Farmers	42.52	0.425	76.19	16.67
Small Farmers	29.71	0.297	77.55	29.79
Marginal Farmers	38.39	0.384	68.09	36.96
Labourers	14.30	0.143	58.70	32.65
Grand Total	34.10	0.341	67.62	27.62

Source: Field work (2011).

In Small Business - we included all types of Shops, all type of street Hawkers, cycles & rickshaws etc.

The table also exhibits that out of total sample households 67.62 percent households generated the asset from bank loan. The highest percentage (77.55%) of asset generating households comes from the category of small farmers. And the lowest percentage (50.00%) of asset generating household's lies in the category of big farmers.

The table further exhibits that out of total sample households only 27.62 percent households are those who generated direct employment from bank loan. It has been found that the category of labourers and big farmers has the highest (36.96%) and the lowest (15.38%) percentage of employment generating households.

The table no 7 depicts that out of total sample households only 38.10 percent households used the bank loan properly. Proper use of bank loan means that 90 percent or above of loan is used in the purpose for which it was taken. The category of small and big farmers has utilized the bank loan properly as 42.86 percent and 26.92 percent, which is the highest and the lowest percentage respectively.

The table also shows that out of total loan 63.93 percent amount is used properly in small business. The highest (76.92%) and the lowest (42.86%) percentage of amount properly utilized lies in the category of small and big farmers respectively.

Table-7:Category-wise/ Purpose –wise Average Proper Utilization/ Misutilisation of Bank Loan

Category	Small Business	Proper Utilization	Mis- utilised	Proper Utilizing Households	Income Generating Households
Big Farmers	42.86	31.96	68.08	26.92	53.85
Medium Farmers	59.18	30.24	69.76	40.48	42.86
Small Farmers	76.92	31.78	68.22	42.86	48.98
Marginal Farmers	62.50	38.71	61.29	42.55	44.68
Labourers	69.23	20.68	79.32	32.61	52.17
Grand Total	63.93	31.43	68.57	38.10	48.10

Source: Field work (2011).

The table depicts that out of total loan only 31.43 percent the sample households utilize amount properly. Marginal farmers and laborers made the highest (38.71%) and the lowest (20.68%) proper utilized amount respectively. While, (68.57%) rest of the amount of total loan has been mis-utilised by the households. The highest (79.32%) percentage of miss-utilized amount comes from the category of laborers. While the lowest (61.29%) percentage of mis-utilised amount lies in the category of marginal farmers. The table further also shows that big farmers have the highest average amount of properly utilized bank loan.

Table-8: Source-wise Repaying Methods of Households for Bank Loan

Category	Defaulter (1)	New-Income (2)	New-Loan (3)	Sold Assets (4)	Others (5)	Total (2+3+4+5)	Total
Big Farmers	38.46	19.23	19.23	7.70	15.38	61.54	100
Medium Farmers	38.10	28.57	9.52	4.76	19.05	61.90	100

Small Farmers	34.69	22.45	12.25	10.20	20.41	65.31	100
Marginal Farmers	25.53	25.53	12.77	17.02	19.15	74.47	100
Labourers	71.74	10.87	10.87	6.52	00	28.26	100
Grand Total	41.90	21.43	12.39	9.52	14.76	58.10	100

Source: Fieldwork (2011).

Note-Figures in the bracket represent percentage to total.

New Income-Income generated from the bank loan.

New Loan-Loan taken by households without repayment of previous loans and replaces it, to previous loan.

Other-It includes sold crops, sold tree, sold animals' etc.

The data pertaining bank-wise and source-wise repaying methods of households for bank loan is presented in the table 8. The table shows that out of total sample households 41.90 percent households are defaulters. It is noted that the category of labourers has the highest (71.74%) percentage and the category of marginal farmers has the lowest (25.53%) percentage of bank defaulter households. Being a huge numbers of defaulters the situation is very serious for the banking system. Out of total sample households 58.10 percent households are repaying the bank loan. The category of marginal farmers has the highest (74.47%) percentage of repaying households. Category of labourers has the lowest (28.26%) percentage of repaying households. The source of new income has the highest (21.43%) percentage in the repayment of bank loan. While the source sold asset have the lowest (9.52%) percentage. It is good for the bank.

## MAIN FINDINGS OF THE STUDY

The agriculture and rural development are highly inter-related. Agriculture has been considered as crucial sector to generate major proportion of employment. Productive job opportunities are to be created in rural areas through development of agriculture, irrigation facilities, rural infrastructure and promotion of village and cottage industries for rural development by providing cheaper bank loan.

In the rural areas most of the households are illiterate and tradition bound. Adding to this difficulty is the uncertainty about farm production owing to dependence on rainfall and weather conditions. All these factors mean that where as many of the low-income households are not in a position to borrow at a higher rate of interest, the risk involved and the cost of servicing such a large number of small loans in remote and far-flung villages would necessitate the credit agencies to keep themselves at an arm's length. In an adverse situation like this, the lending agencies are generally reluctant to finance the poorer groups.

In the rural areas most of poorer sections, do not have adequate assets base to improve their productivity and income. The first task of any credit institutions is therefore, to assist these target

groups to acquire and build up their land and non-land based assets. But we found that informal borrowing cost of farmers is very high but it is less than from informal money market. For the development of rural people it is necessary to reduce the informal borrowing cost. Unless poor farmer will not capable to improve their financial condition. It has proved that a huge number of farmers are adopting the loan methods to repay their previous bank loan. It is a very dangerous situation in rural areas and due to this reason they are taking steps of suicide.

**Borrowing Cost:**

We find that per rupee borrowing cost has been recorded as Rs.0.048. The highest borrowing cost brings out to be Rs.0.074 in the amount category of Rs.0-25000. While, the lowest cost (Rs.0.035) has been recorded in the amount category of Rs above one lakh. The table further shows that big farmers and labourers have the lowest (Rs.0.022) and the highest (Rs.0.074) per rupee borrowing cost respectively. It means big farmers have the lowest per rupee borrowing cost and the labourers have the highest per rupee borrowing cost.

The data pertaining to activity-wise borrowing cost have been presented. Study find that allied activities have the highest per rupee (Rs.0.078) borrowing cost. While the category of others has the lowest (Rs.0.018) per rupee borrowing cost. The big farmers have the lowest (Rs.0.022) per rupee borrowing cost. While the labourers have the highest (Rs.0.074) per rupee borrowing cost.

We find that bribe given by households to bank employees constitutes the high percentage of total loan. However, a household gives on an average Rs.1782 of bribe for bank loan. The study also finds that out of total borrowing cost of households 2.21 percentages is as a bribe amount. The study also finds that on an average informal borrowing cost of bank loan has 4.75% in total bank loan cost that is very high and inverse effect on farmer.

**Bank Defaulters:**

We find that, 41.29 percentage households are as a bank defaulter. It is not good for the financial health of banks. Being a huge number of defaulters the situation is very serious for the banking system. We also find that highest percentage of defaulters (71.74%) lies from the category of labourers and lowest (25.53) from marginal farmers. It happened mainly because beneficiaries think that government would again write-off their bank loans. The higher percentage of defaulters in labour class shows that loan which was given under anti-poverty programme and without mortgage was not being repaid. Because, marginal farmers feel shame in the society, as they are found more conscious about their social status.

**Asset Generation:**

The present study finds that, out of total loan, households generate 34.10 percentage assets from loan. It also finds that 67.62 percentages households, who generate the asset from bank loan. Further, households generate on an average Rs.40697 assets. It shows that beneficiaries have relatively more

positive attitude towards development. Due to given bribe for loan they misutilised bank loan in non-productive loan.

**Proper Utilization of Bank loan:**

The study finds that out of total sample 38.10% household's proper utilized bank loan. In absolute amount it is Rs.68250. While in case of small business it came 63.93 percentage of total loan. Main cause of low proper utilization is high borrowing cost (4.75%) of bank loan.

**Bank Loan Repayment:**

The study finds that 58.10 percentage households repay their bank loan from the source of asset generation, income and employment generation through bank loan.

A very crucial finding of the study is that 12.39 percentage households repay the bank loan from the source of new loan. While 21.43 percentage households repay the bank loan from the source of new income. Main reason of bank defaulter is getting loan through bribe and using it in non income generating activities.

**SUGGESTIONS AND IMPLICATIONS:**

**First**, it is generally observed that almost one to three months is taken in sanctioning the loan. Five percent of households have reported that fifteen to thirty days were taken. Forty-two percent households have reported that thirty to sixty days were taken and twenty eight percent households have reported that above two months were wasted respectively in taking the sanctioned amount of loans. Most of the households have pointed out that the rural households victimized due to procedural difficulties, as the majority of the households (47%) are illiterate. There are procedural delays, harassment and arbitrariness in disbursement the amount of loans.

The government has tried to stream line the procedures, yet the situation does not seem to have improved much. As per instructions of RBI, no loan proposal should be kept pending with the bank for more than 15 days, and within the prescribed period of two weeks the concerned bank branch should clear the case.

It is therefore, 82 percent households suggested that loans and security norms should be simplified for attracting more and more needy and deserving households towards the bank finance. The banks should take lenient view of this problem of the households and deal with sympathetically with a human approach. They have also to complete the legal formalities in preparing some documents to be filed with their applications.

**Secondly**, it has also been observed that, the given loans are misused by a number of households. Out of total disbursed loans to the sample household's only 34.10 percent bank loans are used in asset generation. It shows that asset generated by the bank loan beneficiaries is very low level. They avail credit to undertake some specific schemes but in reality, they did not utilize the same for concerned purpose. The basic purpose of providing financial assistance is to produce productive assets and to

increase productivity of existing assets particularly of land and to reduce unemployment and bring about a sufficient spurt in their income so that they may cross the poverty line. But instead of generating or purchasing assets they misuse the amount of loans.

In order to prevent misuse of bank loans, out of total households 11 percent suggested that more loan should be given for productive and labour intensive schemes, loans must be given to groups in place of individuals, and most of loan should be given in kind in form of inputs (fertilizers and raw-materials). Twenty three percent households suggested that banks should introduce the provision of post credit supervision. So they should maintain a close and continuous touch with the beneficiaries, because responsibility of banks does not come to end by just advancing the loans.

**Thirdly**, it has found that 13 percent households admitted for giving bribes for bank loan. Bribes has highest contribution in informal borrowing cost and it may be a caused for defaulter for bank loan. It also promote to the farmers for mis-utilising bank loan.

**Fourthly**, it has also been observed that the numbers of bank branches in the rural areas are inadequate. So that it is requirement in rural areas to open more bank branches by banks.

For the rural development it is necessary to increase the contribution of new income and asset generation in the recovery of bank loans. So that banks should increase productive job opportunities, which are to be created in rural areas through development of agriculture, allied activities, irrigation facilities, rural infrastructure and promotion of village and cottage industries (SSI).

## **CONCLUSION**

The concept of informal borrowing cost is very broad. We cannot consider all the components of informal borrowing cost in present study. So, there are some limitations of present study. Therefore we have taken some indicators for informal borrowing cost, which are mentioned earlier. On the basis of these indicators we draw conclusions of our study. In principle, if the asset, income and employment generation, proper utilization of bank loan, etc. are not satisfactory, it would show the higher informal borrowing cost in rural areas.

Though the credit is only one of the components of rural credit delivery system designed to bring about rapid socio-economic changes along with rural development, it is never the less a very crucial component. But cost of credit is a measure component. A component is as important as the right dose of medicine for a patient. The illness is a sign of deficiency in the body, which has to be remedied. For the patient's recovery the right dose of medicine at the right time is vital. Too much medicine can be harmful while too little can delay recovery. And for this, the patient has to trust the doctor implicit. A poor patient cannot afford costly medicines and if the medicine is not taken he/shemay die.

At last on the basis of above information we can conclude that borrowing cost of banks loan have the higher contribution in rural area.



However, it has been found that bank bribe to bank employees has constituted the highest proportion in total borrowing cost. It is a dangerous situation for the banks. Therefore, it is a need of as loan to minimize the proportion of bribe in total borrowing cost. It is necessary for providing conducive platform to avail the banking facilities properly.

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