CHAPTER VIII

SUMMARY OF FINDINGS AND CONCLUSIONS

In this chapter, a summary of theoretical issues discussed and findings of the empirical analysis carried out and the suggestions emanating from the findings have been outlined.

A positive discrimination in favour of poor - small and marginal farmers, agricultural labourers and rural artisans - in the credit oriented rural development programmes and schemes has been observed since late nineteen seventies in most of the developing countries including India. The organised financial institutions in these countries [Primary Agricultural Credit Cooperative Societies (PACS), Commercial Banks and Regional Rural Banks (RRBs) in the case of India] are required to involve themselves in providing loans at concessional interest rates to those people identified as poor by the state agencies or departments [like District Rural Development Agency (DRDA) in India]. The role of organised financial institutions, more specifically commercial banks, in the provision of cheap
credit has received both acclaims as well as criticisms from the economists world over.

Theoretically, one school of thought favours the involvement of such organised financial institutions in the subsidised, low interest, credit programmes for the following reasons:

i) to relieve the rural poor from the clutches of non-institutional credit sources like village money lenders, who not only charge exorbitant interest rates on poor but in the process squeeze off their productive assets.

ii) to enhance the participation of rural poor in the production process there is a need for external financial assistance as they are capital starved. By granting the poor adequate low interest rate loans to acquire new assets or to improve the utilisation of existing assets, their employment and income levels could be improved.

iii) as the utilisation of infrastructural facilities and services is found positively associated with the assets (land holdings, more specifically) of rural households, there arises a need for improving the access of the rural poor to such facilities and services by improving their asset base.
Hence, it is argued that by a change in the policy orientation of the organised credit institutions, the assetless and low-capital-base poor also can be financed adequately which will help them to become financially viable. And in the process the credit worthiness of the poor will also improve.

Contrary to the above perspective, another school of thought disfavours bringing into the scene financial institutions to provide cheap credit to the poor on the following grounds.

i) The government interference, in any form, in the banking structure is not desirable. The interest rates to be charged by the banks should be left to the market forces to decide, and not to the government. The administered structure of interest rates, under which interest rates on deposits and credit are specified and so also the mandatory allocation of credit for specific sectors with varying degrees of concessionality, will distort the banking system.

ii) As the capital is scarce in developing countries its allocation and use should base on its return. However, in the process of serving a large number of small borrowers the viability of financial
institutions may be eroded. That is, they can not allocate the capital where the returns are very high; instead, the capital is siphoned to cheap credit schemes.

iii) The special programmes and schemes could better be directed towards the improvement in the functioning of product markets and extension services and stabilisation of prices, which are, rather, more powerful in determining the economic viability of a poor person, say a small farmer, than the credit availability.

Hence, the state should not interfere in the working of financial institutions either by fixing the interest rates or by limiting their portfolio allocations.

Yet another school argues that, without disturbing property and social relations which presently prevail in the rural areas of developing countries, no amount of rural development programmes, even if they are implemented by application of business management methods and sophisticated technologies, would succeed in the upliftment of the poor. That is, gross inequalities in the distribution of land, and other assets reduce the impact of technological advances on employment and levels of living among the poor. This school of thought
is against the attitude of helping the poor with subsidies and free doles by the government and the non-governmental organisations (NGOs)/voluntary organisations.

The controversial view points apart, the empirical/field situation in the rural areas of developing countries like India is more complex and complicated. The strategies followed by the government of India, to improve the economic conditions of the rural poor, time and again, orient with the involvement of credit institutions. Prior to the nationalisation of major commercial banks in 1969, it was cooperative credit societies which were expected to play a catalytic role in the agricultural and rural development programmes. But after 1969, the commercial banks and their foster-child Regional Rural Banks (RRBs) which were established in 1975, are increasingly involved in financing the rural oriented schemes and programmes.

The perspective on which the rural development programmes are formulated and implemented in India is on the lines of "Rural Development : Sector Policy Paper" of the World Bank (1975). The paper observed that "Rural Development is a strategy designed to improve the economic and social life of a specific group of people - the rural poor. It involves extending the benefits of
development to the poorest among those who seek a livelihood in the rural areas. The group includes small-scale farmers, tenants and landless”.

In India, the thrust of rural credit policy has been on the provision of timely and adequate flow of credit, especially to meet the requirements of small and marginal farmers and the weaker sections of the society, such as agricultural labourers and rural artisans. The Seventh Five Year Plan Document (1985-90), Government of India, listed the following as the institutional credit policy:

i) To secure an increase in the total volume of institutional credit for agriculture and rural development;

ii) To direct a larger share of the credit to the weaker sections;

iii) To reduce the regional imbalances in the availability of credit;

iv) To bring about greater co-ordination between different credit institutions under the multi-agency system; and

v) To improve the recovery of institutional loans to ensure continuous re-cycling of credit.
Hence, in accordance with the above policy, a large number of rural poor oriented programmes like Integrated Rural Development Programme (IRDP) and Differential Interest Rate Scheme are under the process of implementation and the commercial banks and RRBs are taking care of the loan component; the subsidy amount is sanctioned to the beneficiary by the government through the DRDA.

The secondary data analysis on the growth of rural credit in India shows a phenomenal growth of commercial banks and RRBs in terms of number of branches, deposits, credit disbursement, priority sector advances and coverage of small borrowers in the rural areas (Chapter III).

The mechanism by which these banks finance the rural poor can be briefly stated as below:

The specially designated agency called DRDA at the district level with the coordination of respective Block Development Offices (BDO) and help of Village Level Workers (VLWs) identifies the eligible/poor persons from the rural households by conducting an economic survey on such households.

After the survey, with the help of credit institutions (which are coordinated by the Lead Bank of the district), bankable schemes/projects are prepared
(District Credit plan). While formulating such schemes, the resource endowment/potential of a particular region, and the level and availability of infrastructural facilities are taken into account. That is, area specific, resource oriented, technically feasible and financially viable schemes are prepared.

The identified beneficiaries, in accordance with the schemes formulated (such as dairying, minor irrigation, animal husbandry, artisans development), are supplied with assets like milch cattle, sheep, goats, bullocks, bullock carts, tyre carts, tools and implements, oil engines and electric motor pumpsets. Also, under minor irrigation schemes, the financial help is extended to dig a new well, deepening of well and laying pipe line. To acquire these assets and to improve the farming activities the loans are provided by the financial institutions along with a subsidy from the government. It is sufficient the beneficiaries repay the loan component. The rate of subsidy is fixed on the basis of beneficiaries' economic as well as social status - 25 per cent for small farmers, 33 per cent for marginal farmers and agricultural labourers and 50 per cent for schedule caste agricultural labourers and women beneficiaries.
It is expected that due to the enhanced asset position and improved utilisation of existing assets, the beneficiaries' employment and income levels would increase.

The review of empirical studies (Chapter II, Section II) highlighted certain drawbacks in the implementation and in the working of the schemes specially designed for the poor. Improper identification of beneficiaries leading to misutilisation of schemes, more particularly in respect of the subsidy component, was brought out by some studies. A few studies pointed out the lack of supervision and follow-up by the block and bank officials as the reasons for the poor performance of the programmes leading to the problems of loan recovery and the overdues. These drawbacks notwithstanding, some studies did find improvement in the economic condition - in terms of assets, employment and income - of the beneficiaries after availing the loan.

The approaches followed by the earlier studies to analyse the impact of special schemes on the poor not only varied widely, but also their objectives and scope were found to be varying. A very few studies worked out the viability of the loans provided to the small borrowers. The shortcomings and drawbacks of the
earlier studies/approaches with respect to sampling, measurement, etc., were pointed out (Chapter II). Keeping in view the research gaps cited, the present study was taken up.

The study focusses on the small borrowers who have availed institutional credit and examines various aspects relating to it. To elaborate, the study has set before itself the following objectives:

(i) To study the procedures of beneficiary identification and project formulation by the banks;

(ii) To examine the accessibility of the selected small borrowers to the bank credit, infrastructural facilities and services;

(iii) To investigate into the utilisation pattern of the loans borrowed by the selected small borrowers;

(iv) To assess the changes in the economic condition of the selected borrowers between the pre-and post-loan periods;

(v) To find out the rate of return on the investments made by the small borrowers and the financial viability of the loans sanctioned to such borrowers;

(vi) To examine the loan repayment performance of the selected borrowers.
In order to conduct the present study, Coimbatore district in the State of Tamil Nadu, India was purposively selected by keeping in mind certain indicators like the relative concentration of agricultural labourers, the allotment of funds for the benefit of small borrowers and the performance in the implementation of special schemes. On the basis of similar indicators referred above two blocks out of 21 blocks in the district were selected - Madathukulam (Block I), a relatively developed area and Pongalur (Block II) a less developed area. On the basis of an analysis carried out on the credit-oriented schemes implemented for the benefit of small and marginal farmers and agricultural labourers in these two blocks, two relatively important schemes namely, minor irrigation scheme and dairy loan scheme only were taken up for the study. Under minor irrigation scheme, three types were distinguished: new well, deepening of well and oil engine.

Credit facilities to prospective beneficiaries under the two selected schemes were found to have been implemented through commercial bank branches and/or Primary Land Development Bank operating in the two selected blocks respectively. Hence, beneficiary lists of the selected schemes were obtained from those branches for the purposes of the field investigation.
All the borrowers who borrowed minor irrigation loans for digging new well, deepening of well and to purchase oil engines from the above said institutions between 1978 and 1982, together numbering 74, (40 from block I and 34 from block II) were selected to conduct the survey. In the case of dairy scheme however, as the number of beneficiaries was very large by adopting random sampling method 187 beneficiaries (108 from block I and 79 from block II) from the three categories of borrowers, namely, small farmers, marginal farmers and agricultural labourers were selected.

The primary data collected was tabulated and analysed by using the statistical tools and methods like averages, percentages, regression analysis, and ratios and financial viability analysis. The collected data has been classified schemewise and categorywise to facilitate a comparative analysis.

To find out the impact of dairy loans on the income, employment and asset position of the selected beneficiaries, two methods have been adopted. The first one is the inter-temporal (before-after) method wherein the post-loan income, employment and asset position of the selected beneficiaries have been compared with that of their pre-loan levels. The differences found between the two points of time are attributed to the impact of
the loan. The second method is the cross-sectional analysis in which the income levels of the selected beneficiaries are compared with that of selected non-beneficiaries and the difference in income level of beneficiaries, if any, has been attributed to the impact of the financed schemes.

Further, to capture the impact of dairy loans in a comprehensive manner, the income and employment of the selected small and marginal farmers, who took dairy loans have been classified into three categories: net farm income and employment, net non-farm income and employment and net income and employment from dairying. The pre-loan levels of these three categories of income and employment are compared with that of post-loan levels to reveal the impact of dairying. Similarly, the income and employment levels of selected agricultural labourers have been classified into three types: wage employment and income, employment and income from other than wage labour and employment and income from dairying. The pre-loan position with regard to the above mentioned three categories of income and employment has been compared with that of post-loan position to find out the impact of dairy loans.

Apart from the above, a production function has been used to know the influence of selected independent variables on the milk production. And to
evaluate the financial viability of the dairy loans four criteria are used. They are, (i) Pay-back period, (ii) Net present value, (iii) Benefit-cost ratio, and (iv) Internal rate of return.

To work out the impact of minor irrigation schemes on the farm economy of the selected small and marginal farmers, the inter-temporal approach (before and after the loan) has been adopted. The changes which are observed in the case of selected variables due to the minor irrigation works undertaken by the selected beneficiaries have been attributed to the impact of such loans. The details of variables selected, the methods of computation of cost and value of output are discussed in the respective sections of the relevant chapter (Chapter VI). To measure the financial viability of minor irrigation loans two criteria: (i) benefit-cost ratio and (ii) internal rate of return, are used.

The important findings of the study are as follows:

**Dairy Scheme**

While identifying the eligible beneficiaries for dairy loans no household survey was done in both the blocks. The beneficiary lists were prepared by VLWs arbitrarily with the help of secretaries of MPCBs.
The literacy rate among the selected agriculture labourers was found to be very low compared to that of the small and marginal farmers.

The access to the MPCs, of the selected beneficiaries was fairly satisfactory. However, in one village the Scheduled Caste agricultural labourers are deliberately not allowed to become members on social considerations. This social barrier has become a major limiting factor in the way of economic improvement of such labourers.

The access of the selected beneficiaries to the bank credit for a second dairy loan or crop loans was found very low even in block I which is better placed in terms of banking facilities. Similar was the case with their access to veterinary hospitals and cattle insurance. This implies that the mere presence of financial institutions (banks, ASCS), and veterinary hospitals does not have any impact on the small borrowers unless they are made to utilise such facilities.

The overall percentage of misutilisation of dairy loan was found as 17.6. In other words, 33 out of 187 beneficiaries selected were found to have sold their milk animals at the time of field survey. Low milk yield was the reason attributed to this phenomenon. As they were supplied with low quality animals it became unremunerative and hence the sale of animals.
Returns to Investment in Dairy Scheme - Small and Marginal Farmers

Those beneficiaries who were able to continue maintaining the milch animals realised an increase in their income. The average net income from dairying has increased from Rs 360 (before the loan) to Rs 1746 (after the loan) in the case of marginal farmers in Block-I and from Rs. 227 to Rs. 835 for their counterparts in Block II. In the case of small farmers in Block-I the increase has been from Rs 457 to Rs 1531, and for their counterparts in Block II the increase has been from Rs 478 to Rs 822. The increase in income has been more pronounced in the case of marginal farmers than small farmers.

The rate of return per rupee invested is higher in the case of marginal farmers followed by the small farmers in Block I. However, it is very low in the case of small and marginal farmers in Block II. The point to be emphasised here is that when the incremental income-investment ratio is worked out for the actual loan amount sanctioned, the ratios turned out to be very low. Had they purchased the animals for the entire amount without any leakage the rate of return would have been higher than what is obtained here.
The level of income of the non-beneficiary households of both small and marginal farmers in the two blocks is found lower than the beneficiary households.

Significant improvements in the employment level and asset position (especially livestock) of the selected small and marginal farmers in both the blocks are observed.

The production function analysis carried out revealed the significant influence of concentrates - oil cakes, cotton seed and rice bran - on the value of milk production (in the case of small and marginal farmers).

The loan repayment performance of the selected small and marginal farmers in both the blocks was found satisfactory. The percentage of beneficiaries who repaid the loan according to schedule of payment was very high (75 %) in the case of marginal farmers in block I and was low (36 %) in the case of their counterparts in block II. This percentages were 55.5 and 50 in the case of small farmers in block I and II respectively. Two factors which facilitated the loan recovery were the membership of the selected farmers in MPCS and the tie-up arrangement that existed between the MPCS and the branches of commercial banks in the study area.
Dairy Scheme and Agricultural Labourers

The impact made by the dairy scheme on the employment level and the asset position of the selected agricultural labourers was found as significant.

Mean differences between pre-and post-loan incomes and their significance tests revealed that both the sub-groups – SC labourers and 'other labourers' – in the two blocks have registered a significant (at 1 per cent level) increase in their net income from dairying. But the level varied across the blocks and social groups. In absolute terms the increase in the net income of SC labourers was Rs 303 and Rs 375 in block I and block II respectively. The corresponding figures for other agricultural labourers were Rs 428 and Rs 497.

The rate of return per rupee invested in dairy scheme was found as very low in the case of all labourers. The reasons attributed to this situation were the low milk yield and poor maintenance of the milch animals by the beneficiaries.

When the total household income of agricultural labour beneficiaries was compared with non-beneficiary households of the same category, the difference in their income was found to be considerable. Due to the higher income from dairying, the
beneficiary SC and non-SC households are better placed than the corresponding non-beneficiary households.

The results of production function analysis for the category of agricultural labourers considered together show that the selected independent variables namely, value of fodder and value of concentrates in case of beneficiaries in block I and the value of concentrates and labour expenses in case of block II significantly influenced the value of milk production.

The loan repayment performance of the agricultural labourers, particularly those belonging to SCs, was poor. That is, the percentage of cases of default was found very high in the case of above mentioned category of agricultural labourers in both the blocks. The reasons for the poor repayment performance were noted to be poor quality of the animal reflecting in low milk yield and low income, poor feeding practices and also lack of supervision by the block as well as bank officials.

Financial Viability Analysis - Dairy Loans

The financial viability analysis revealed the following: The worked out pay-back period for the dairy loan scheme varied from 3 to 4 years; however, when the
imputed costs were included in the paid-out costs, this period increased to 6 to 7 years. The IRR was higher in the case of all the three categories of borrowers but turned out as very low when the imputed costs were also taken along with the paid-out costs. The benefit-cost ratios estimated were found satisfactory for all the categories excepting agricultural labourers in block I.

The economic viability of the dairy scheme was also measured by working out the repaying capacity. When the expected net income and the actual income realised by the dairy scheme were computed and compared, it was found that only the marginal farmers in block I had adequate income and relatively better repayment capacity and these were very low in the case of agricultural labourers in the same block. In block II the repayment capacity of all the three categories of the small borrowers was found as low.

Minor Irrigation Scheme

The overall literacy rate of the selected small and marginal farmers was found as 51 per cent. Their membership in ASCBs and the utilisation of benefits of the Training and Visit System (T and V) were poor. This was mainly due to the lack of access the selected farmers had to the services of ASCS and T & V
System. Similarly, the selected farmers access to bank credit was poor. Only four out of forty farmers selected had received crop loans in block I whereas in block II none was found to have received crop loans.

In the case of all the seven farmers who have taken loans to dig new wells, the bank officials undertook the project formulation exercise before sanctioning the loans. For the rest of the schemes no such detailed advance financial analysis was done.

As far as utilisation of loan is considered, only in 2 out of the 74 cases, it was found that big farmers got oil engines in the name of small farmers.

The loan and subsidy amount sanctioned to the selected beneficiary farmers were found adequate except in the case of new well scheme. After the schemes were undertaken, the following are the changes observed:

New well scheme as well as the other two schemes enabled an increase in the area under irrigation. A significant change in the cropping pattern — in favour of commercial crops — was observed after the increase in area under irrigation. Increase in cropping intensity was comparatively more in block II compared to block I. However, the value of inputs used per hectare was more in block I than in Block II.
The studied schemes have resulted in an improvement in the income level of the selected farmers in varying degrees in both the blocks. In Block I, the percentage increase in net income is higher in the case of new well scheme; both the small and marginal farmers have realised increase in their income levels. However, in absolute terms, the net income per acre of marginal farmers who undertook new well scheme is the lowest (Rs 1556) compared to other schemes. The net income of small farmers has increased substantially in the case of new well and oil engine schemes and marginally in the case of deepening of well. On the whole, the schemes have resulted in an improvement in the income level of the sample farmers. Another striking feature is that the output-cost ratio has substantially been increased after the loan in the case of small farmers. In the case of marginal farmers, with respect to deepening of well and oil engine schemes the output-cost ratio has decreased slightly and in the case of new well scheme it has registered a marginal increase.

In Block II the net income per acre in absolute terms is low compared to block I, the lowest being Rs 1113 in the case of small farmers who undertook oil-engine scheme. However, the percentage increase in net income per acre of them is higher (108%) and the output-cost ratio also has increased marginally. As for
as the marginal farmers are concerned the oil engine
scheme has benefitted them most; the output-cost ratio
increased from 150 to 210 between the two periods and
their net income increased to the tune of 261 per cent.

The loan repayment performance of the selected
farmers in both the blocks was found better. Majority
of them found to have repaid the loans promptly. The
regular repayments by some of the farmers were also
observed. The three important factors, among others,
that were attributed to the prompt repayment of loan
instalments by the selected farmers were: the subsidy
cOMPONENT of the loan, free/concessional electricity
charges and additional income they were able to receive
by undertaking the minor irrigation schemes. And only in
a few cases - 5 out of 38 in block I, and 2 out of 34 in
block II defaults were found. The inadequate income
was the main reason attributed for the non-repayment of
loan.

The financial viability analysis revealed the
following:

In the case of new well scheme the benefit
cost ratio was same for both small farmers and marginal
farmers indicating a positive if not very high (1.3 %)
returns from the scheme. However, the IRR is high in
the case of marginal farmers compared to the small
farmers. When the imputed cost is included, the IRR
becomes very low and at the same time benefit cost ratio also equals to one indicating the fact that the contribution of own human labour is turning the otherwise non-viable scheme into a viable activity. When the subsidy amount is included in the cost, the IRR is reduced in the case of marginal farmers indicating the importance of subsidy to the small borrowers.

Both benefit cost ratio and IRR were found high in the case of deepening of well scheme. Similarly the oil engine scheme was found as financially viable in respect of all the sample farmers concerned and it led to a higher benefit cost ratio and IRR. However, under two situations: (i) when the imputed costs were included in the cost of the scheme, and (ii) when the subsidy component was also considered as loan - the values of both benefit-cost ratio and internal rate of return got reduced. This particularly happened in the case of new well and deepening of well schemes and was conspicuous in the case of marginal farmers who undertook the above schemes.

The above findings imply that the small and marginal farmers need subsidised loans to undertake the minor irrigation schemes; and their access to the infrastructural facilities has to be improved to enable them to realise the intended benefits.
Suggestions

In the light of the above analysis and findings the following suggestions are made to improve the rural credit delivery system which in turn may narrow down the 'differential access to credit' and its effective utilisation by the small borrowers. While doing so, the recent policy changes announced both by the central and state governments with respect to rural credit structure, and the latest ideas expressed about the rural credit system by a few scholars are also kept in mind.

(i) In the process of helping the rural poor under special programmes like IRDP three agencies are involved - the DRDA, Block Development Office (BDO) and the financial institutions like commercial banks and ARBs. The DRDA draws up a programme for every year covering different types of activities and various categories of borrowers amongst small and marginal farmers and agricultural labourers. The Block level machinery is expected to conduct household surveys to identify eligible beneficiaries and formulate suitable schemes in consultation with those identified. Each beneficiary is tagged to an individual bank branch to
get necessary financial assistance. The subsidy amount to the particular beneficiary is released to the respective bank branch and the branch sanctions the loan along with the subsidy. A Purchase Committee is formed at every block level to get quality assets to the beneficiary. Thus, the scheme envisages close coordination of all the developmental agencies and financial institutions at block level.

However, during the field survey it was observed that in majority of the cases the much expected coordination among the above three major functionaries was absent. The bank branch would receive the list of beneficiaries from the block office suggesting it to sanction the loans. The bank would not be having any information or record about the beneficiaries. This happens, inspite of the fact that the bank branch has its own financial norms/scale of finance and well prepared financially feasible schemes to suit the beneficiaries. Thus, at the beginning itself the involvement of banks was found limited. Once the loan and subsidy is released and the beneficiary is supplied with an asset, the block machinery withdraws from the scene and the onus of recovering the loan falls on the bank branch. The bank has to chase the beneficiaries to recover the loan.
To avoid the above described irritant in the smooth implementation of the schemes, it is essential that there is strict adherence of the agencies to the guidelines given to them by the government. Apart from this, a suitable publicity in the mass-media about the credit schemes would help to create awareness among the rural people. The awareness created among the poor people regarding income assessment procedures, viable schemes, loan and subsidy component, utilisation of the scheme, repayment procedures, the availability of extension services and marketing facilities and the incentives would go a long way in improving the implementation and working of special schemes designed for the benefit of rural poor.

(ii) With respect to dairy loans the recovery rate was very high wherever there existed a close coordination or a tie-up arrangement between the bank branch and the MPCS. This is a clear example showing how an effective cooperation between two agencies brings fruits to all concerned. This should be emulated by the district, block and village level functionaries with respect to other schemes too in all the places.

(iii) Provision of quality animals ensures higher income to the beneficiary. To a beneficiary who successfully utilises the first loan, a second loan can also be sanctioned to enhance his income further.
(iv) Only a viable economic activity which is likely to raise the income level of the beneficiary on a lasting basis should be taken up for implementation. The emphasis should be on financing one or two schemes in which the beneficiary has a genuine interest. This will ensure a better utilisation and improved returns from the scheme.

(v) Though the demand curve for milk is always steep upwards right (i.e. along with a continuous increase in the price of milk) in Coimbatore district and ensures a fair income to those who possess milch animals, the undue emphasis given to the dairy scheme in the rural poor oriented special programmes should be avoided. The reason is that the supply of good quality milch animals on a sustainable basis to the prospective beneficiaries is not possible. Therefore, calf rearing scheme should be encouraged, for it is a natural concomitant of dairy development scheme.

(vi) Future availability of good quality milch animals depends upon the importance attached to calf rearing at present. As per the District Credit Plan, Coimbatore district, by rearing two Heifer calves the beneficiary can get a net income of Rs 5000 to Rs 6000 after 20-24 months time. That is, the value addition curve has much steeper upward slope after about 10 to 12 months in the case of cross-bred calves.
(vii) For the proper utilisation of dairy scheme and calf rearing, the feed supply and veterinary services have to be ensured. The genetic quality of livestock can be improved by increasingly resorting to maintenance of the cross-bred calves. Training the beneficiaries in management of milch animals and milk production practices assumes significance as the cross-bred animals are more prone to diseases. In otherwords, the risk involved in rearing cross-bred calves and milch animals is very high compared to the traditional breeds. Increasing facilities for vaccination and cattle health services would reduce such risks to a great extent.

(viii) The emphasis placed here on the calf-rearing scheme as well as milch animal scheme is not merely on the basis of beneficiaries' point of view but also from the view point of district economy as a whole. That is, the Livestock Census\(^2\) of Coimbatore district for the years 1982 and 1987 reveals that the total number of cattle has declined from 4,86,616 in 1982 to 3,35,287 in 1987 (-38 \%). The number of buffaloes has declined from 2,07,788 in 1982 to 1,54,245 in 1987 (-25.77 \%). Also it is estimated that the fodder production in the district showed a deficit of 1.58 million tonnes in the case of dry fodder and 1.21 million tonnes in the case of green fodder\(^3\). Therefore,
the district administration can either take up efforts to increase green fodder production besides improving the genetic quality of milch animals or can completely give up calf rearing programme. That is, it is economically unfeasible to rear cross-bred heifer calves under fodder shortage situation as observed by NABARD\(^4\).

(ix) Without fodder base and regular feed supply it is highly difficult to maintain milch animals. And it was observed that the cost of animal feed has increased much faster than the price of milk and milk production during the last ten years.\(^5\) So, by increasing the production of cattle feed by encouraging such industries on a large scale on a priority basis, it would not only be possible to ensure feed supply but also to reduce the cost of feed.

(x) The identification of diversified schemes would base on the resource potential/endowment of the blocks on the one hand and the existing occupational pattern of the beneficiaries on the other. Then only the schemes implemented assure an increase in the employment and income to the beneficiaries.

(xi) The percentage of landless households has been one of the highest in Tamil Nadu, 19.13, next only to Maharastra having 21.24, while that at all-India
level has been 11.33. Apart from this, what we observed during the field survey in the selected blocks calls for an increased outlay on non-land based schemes, that is, the exodus of both agricultural labourers and marginal farmers to the nearby cities and towns as construction workers. Hence, the identification of non-land based schemes assumes more significance.

As far as minor irrigation scheme is concerned, the following are a few points and suggestions that can be postulated:

(xii) Except in a few pockets, digging of new wells in block II is an uneconomic proposition as the ground water potential of the block is already over-tapped. Wherever ground water units are available, digging of wells and deepening of existing wells could be undertaken but with an increased scale of finance as the labour charges have increased and the water table has declined not only in this block but also in the district as well. Further, some portion of the area of this block receives canal water supply in alternate years, that too, of course, depending upon the water level in the Aliar Reservoir Project. The poor maintenance of supply channels was observed during the field survey. This can be avoided to increase the area under irrigation and also for the efficient utilisation of the scarce water.
In block I, there is still much scope for both digging new wells and for deepening of existing wells as per ground water surveys. It has been reported that around 1500 more new wells/digging of the existing ones are possible in this Block. This indicates that there is good scope for further minor irrigation activities. The scale of finance should be increased for all the minor irrigation schemes - new well, deepening of well, oil engine, electric motor pumpset, laying pipe lines - as the cost of materials as well as labour charges have increased over the years.

(xiii) At present the electricity is supplied at free of cost to the farmers (for irrigation purposes) of Tamil Nadu. Earlier, only the small and marginal farmers availed this facility (free electricity supply) and the other farmers paid electric charges on the basis of horse power of their motor pumpset (Rs 100 per h p per annum, payable in two instalments). With electricity supply being free to all the categories of farmers, it benefitted not only the large and medium farmers to a great extent, but also increased the loss of Tamil Nadu Electricity Board (TNEB), as well. (There are other reasons to the loss of TNEB like transmission loss). Crippled with deficit, the TNEB has now introduced a new scheme by which any farmer who
wants to get an electricity connection for the electric motor pumpset fitted to the well has to deposit Rs 20,000 with the TNEB. Thus, even if a small or a marginal farmer is financed along with subsidy to dig a new well and/or to purchase an electric motor pumpset, getting the electricity connection becomes extremely difficult due to the above policy. To avoid this situation the following is the suggestion made:

The imposition of power tariff has to be restored. The removed electricity meters of pumpsets should be refitted, otherwise, the amount of electricity consumed goes unaccounted. The new electricity charges can be levied on the basis of a slab system to benefit the genuine small and marginal farmers and at the same time to make the medium and large farmers to pay for the use of electricity, a scarce input. For example, the slab system can be (tentative) of the following type on an annual basis:

For the first 1000 units - free
Second 1000 units - 5 paise per unit
Third 1000 units - 10 paise per unit
Fourth 1000 units - 15 paise per unit
Fifth 1000 units - 20 paise per unit
and above 5000 units - 25 paise per unit
This will put an end not only to the indiscriminate use but also to the inequality in the supply of electricity to the farmers.

(xiv) The access of the small borrowers to the banks, ASCSs, MPCSs, veterinary services, cattle insurance schemes, extension programmes and marketing facilities cannot be improved by merely establishing them in the rural areas as revealed by the present study. It is necessary that all the restrictions and obstacles (both social and economic) in the way of utilising those services by the poor should be removed. This requires imparting of awareness among the rural poor about the availability of services and their significance.

(xv) The repayment performance of the small borrowers can be improved by the following: (a) phasing out loan instalments, (b) follow up services, (c) arranging marketing facilities, and (d) taking stringent measures against those who default.

(xvi) Recently it has been reported that the RBI is contemplating on, among other things, modification of rural banking structure, increasing interest rates on agricultural loans, reducing the allocation for priority sector lending and effecting changes in the directed programmes of rural credit.
While, any step to improve the rural banking structure is most desirable, the increase in agricultural lending rates, reduction in priority sector lending and credit oriented programmes may lead to undesirable consequences. The increase in lending rates may force the farmers, especially the small and marginal farmers, to move towards the non-institutional sources like money lenders. It has been observed that an increase in the rate of interest for the purpose of equating supply and demand is likely to affect the loan quality by reducing the probability of repayment. That is, the high-quality borrowers will seek credit elsewhere or depart from the market altogether, leaving only borrowers who are more likely to default on their obligations.

The expected reduction of priority sector lending from the existing 40 per cent to 10 per cent may reduce the quantum of credit available to the sectors like agriculture from the organised financial institutions. The announcement that the ten per cent allotted under priority sector lending will exclusively be earmarked to the small and marginal farmers may sound well, but at the same time, the mechanism should be fool-proof to ensure that only those farmers who are eligible will get such loans. The credit rationing, with a reduced outlay, is going to be a real challenge in the years to come.
Instead of abolition of directed rural credit programmes, which may further deprive the rural poor, the quality of rural lending can be improved.

In accordance with the national mood, there is a proposal from some quarters for bank denationalization in the country. This idea is put forward to stall the decline in the profitability of the banks and other evils that plague the banking industry. The suggestion here is that, without going into the details of it, the shortcomings in the banking system can be removed by taking effective steps within the existing framework. Denationalisation of banks will take back to pre-1969 type of situation wherein the rural people may not get adequate credit from the banks.

The political involvement in the conduct of "Loan Melas" and agricultural debt relief has reduced the loan recovery of financial institutions. This has eroded the lendable resources of many banks. Keeping away the political interference would make the banks serve better in the rural areas.

Finally, the question of viability of loans sanctioned to the small borrowers has to be answered.

Theoretically, two opposite views have been put forward:
(a) When subsidised loans are given to small borrowers that would help them to become economically viable; and

(b) If a bank goes on expanding its credit facilities to a large number of small borrowers its viability will be at stake.

The results of the present study suggest that subsidy is an essential component which helped the schemes undertaken by the small borrowers to become financially viable. Implied in this is that without subsidy the benefit-cost ratio and internal rate of return would be very low. Therefore, subsidy is indispensable while sanctioning loans to small borrowers.

However, it was observed that subsidy has become a source of misutilisation and/or exploitation. That is, in some cases the subsidy was adjusted with the loan to show a good recovery performance; in a few cases the officials misappropriated the subsidy amount and the milch animals were purchased only for the loan component, thus, low quality animals (low milk yield) were supplied to the beneficiaries. The PEO study (1985) also reported some cases of misappropriation of the subsidy amount with the connivance of the bank and block officials. It suggested that the government may
explore the possibility of introducing suitable checks and procedures to prevent such malpractices.

A suggestion to avoid this type of misutilisation of subsidy is as follows:

Instead of subsidy the full amount can be sanctioned as a loan. And to give an incentive to the beneficiary to be regular in repayment, say once three fourth or two third or half of the amount is repaid - depending upon the economic/social status of the beneficiary - the remaining amount can be written off, as shown below:

<table>
<thead>
<tr>
<th>Category of Borrowers</th>
<th>Loan amount (in Rs)</th>
<th>Incentive (in %)</th>
<th>Incentive (in Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Small Farmers</td>
<td>4000</td>
<td>25</td>
<td>1000</td>
</tr>
<tr>
<td>2 Marginal Farmers and agricultural labourers</td>
<td>4000</td>
<td>33</td>
<td>1333</td>
</tr>
<tr>
<td>3 Agricultural labourers who belong to SC &amp; ST category</td>
<td>4000</td>
<td>50</td>
<td>2000</td>
</tr>
<tr>
<td>4 Women beneficiaries</td>
<td>4000</td>
<td>50</td>
<td>2000</td>
</tr>
</tbody>
</table>

Once a small farmer repays Rs 3000, the marginal farmer and agricultural labourers Rs 2667 and beneficiaries belonging to SC or ST or women Rs 2000, then the remaining amount can be declared as written off. That is, the loan is subsidised at a later stage.
This method has some distinct advantages: One is, unless the beneficiary repays the stipulated amount, he/she will not be permitted to avail the subsidy component and this becomes a binding on his/her part forcing him/her to repay the amount at the earliest—a conditional loan. Secondly, the beneficiaries may not easily allow a portion of the loan amount to be taken away by the middlemen as it happens in the case of subsidy. Finally, only those beneficiaries who have genuine interest in the schemes will come forward to take up these loans thus, keeping out those who have ill-designs to misuse the subsidy. As a result, the casual handling of the schemes, particularly at the lower level represented by VLWs, would be halted.

In conclusion, viewed from the right perspective, and as hoped by Gadgil, if the package of practices developed under NABARD’s "Pilot Project for Improving the Credit Delivery System" (adequate field staff, greater mobility for field visits, regular interface between borrowers and bank staff, training of bank staff and technical advice to borrowers) is globally adopted, which may be feasible due to wider interest margins, there could be a perceptible improvement in the quality of formal lending to small borrowers and in their loan recovery.
Notes and References


2 This information and other statistics pertaining to Coimbatore district were taken from Ramasamy C and Chinnadurai, M. "Agricultural Economy: Problems and Prospects", (Paper presented at a Seminar on Economic Development of Coimbatore District, held at Bharathiar University, Coimbatore on 22nd March, 1993).

3 Ibid.


5 Based on the field data.


8 Yngve Gustafsson, Gunnar Jacks and Lars Y. Nilsson Bengt Teranger, in their *Project Report on Water Resources and Water Supply in Coimbatore District*, Stockholm, Department of Land Improvement and Drainage School, 1970, pointed out that.... Deepening of wells from time to time and the excavation work has been going on since 1920s. During the forty years period from 1928-29 to 1968-69, it was found that the average lowering of water table was to the extent of 16.5 metres. (p. 5).... The sinking of more new wells, increased density of open wells, indiscriminate deepening and installing deep bore wells in an attempt to capture the maximum quantity of ground water resources have come to cause damage to farming in Coimbatore. This is particularly so in areas devoid of any river course and built up irrigation dams and Coimbatore district has very few natural storage magazines and consequently surface water storage hardly exists.