INTRODUCTION

In order to ensure an overall development of all the segments of rural society, many developing countries are increasingly focusing attention on assistance to the small and marginal farmers, agricultural labourers and other rural poor especially in the recent years. In this process, these countries are expecting credit institutions to play a major role in implementing the rural development programmes including those meant for the rural poor. This realization came after the bitter experiences and failures in implementing many rural development programmes which were based on 'trickle down' theory,¹ which in turn relied primarily on a higher rate of growth in Gross National Product (GNP) of a country. This theory has been discarded by many empirical studies² and there is a growing emphasis on devising integrated programmes (covering all the sectors and sections of the people) for the harmonious development of rural areas. Most of the developing countries,
including India, are now implementing such various rural development programmes. One important component of these programmes is credit, i.e., provision of loans and subsidies through institutional credit agencies like banks and cooperative societies to enable the rural poor to undertake various productive schemes.

The envisaging of credit (investment)-oriented programmes in developing countries is based on the prevailing conditions in the rural areas of such countries on the one hand and the assumptions underlying the rural development theories on the other. Some of the important assumptions are:

1) Lack of capital for investment is one of the most important reasons for poverty in rural areas; 

2) the small farmers are efficient but poor so they need external assistance; 

3) the adoption of improved technology in agriculture, irrigation, land development and dairying, requires massive investment on the part of the farmers, but since their savings are low they are to be assisted with external institutional finance;
iv) the diversification of rural economy is often suggested as one of the means for rapid economic development (in India) which, requires deployment of more capital (both directly and indirectly) in rural areas;  

v) the rural poor are taking loans from non-institutional sources (say private money-lenders) which are costlier due to their higher interest rates. Hence, the rural poor are to be provided institutional credit (say commercial banks) with concessional interest rates;  

vi) to reduce the dominance of rich in credit cooperatives in the villages there is a need for government policy intervention;  

vii) the growing inequalities between urban and rural areas in the developing countries have been attributed to a large extent to the unequal distribution of capital investment between these two areas. Thus, a shift in government policies including credit policies from urban orientation to rural orientation is warranted to cement the gap;  

viii) to reduce the inequalities of wealth and income distribution among the rural households on the
one hand and to improve the financial position of rural weaker section on the other, there is a need for positive discrimination in the rural development policies including credit policies (say subsidy oriented programmes) in favour of poor. 12

The Food and Agricultural Organization’s (FAO) Report 13 noted that, "this situation (food and economic crisis) has been exacerbated by the fact that, while several of these countries have recorded notable achievements in agricultural production, such economic progress as they have made has largely by-passed the vast numbers of impoverished small farmers and landless agricultural labourers. The gap between urban-rural incomes – and, even more, the gap between rich and poor in rural areas – has not narrowed, but in many countries actually widened". In this context it recommended an integrated rural development programme and further suggested that the credit programmes should be formulated as an integral part of development programmes in different areas. They should be conceived as part of the development of specific substantive sectors such as food crops or animal husbandry or agro-industries. And should be part of programmes aimed at developing national and local institutions which are capable of
serving small farmers (even in the remotest part of the
country) in a number of important and related matters
such as the supply of inputs, marketing, the
stabilization of food prices, and so forth.

While reviewing the process of provision of
agricultural credit in developing countries during the
thirty year period ending 1975 the above cited report
distinguished three stages as follows:

First came the hopeful era of the fifties and
early sixties with large amounts of funds involved. But
little was known of the problems of servicing small
farmers with credit and the programme ended, broadly, in
failure.

Second, there was the “careful banking”
period, with the shift in bank portfolios to large
commercial enterprises and a consequent reinforcement of
dualism in many developing economies.

The third phase was characterized by a
willingness on the part of many governments to implement
the policies; and by the efforts of the credit
institutions to simplify the hitherto cumbersome
procedures, which were identified as necessary to bring
credit successfully to the small farm sector.
The decade after 1975 may be termed as the fourth stage, extending it on the lines of FAO report. This stage is characterized by an integrated approach towards rural development. More significantly the credit institutions are expected to cover all the rural poor (i.e. even below the small farmers like marginal farmers, agricultural labourers and rural artisans) and extend financial help to them under various development programmes. This marked a distinct shift in the attitude of the credit institutions; shift from the "asset based" lending policies to the "need based" lending policies.

Changes in the thinking and policy orientation which was observed in India during the above mentioned fourth stage received an effective support at the Annual Conference of the Indian Society of Agricultural Economics held in 1981 when it noted that special schemes designed for rural poor should not be relief-oriented but development-oriented.

**Statement of the Problem**

During the early years of institutionalisation of credit in India, the institutional credit for agriculture was viewed from the angle of protecting farmers from the grip of money-lenders. It was hardly
considered as an instrument of production enhancement. When there was an expansion of credit to the rural areas during the late sixties and early seventies, the role of giving a push to the developmental process through credit was getting increasingly realised. The credit institutions were directed to provide credit to the farmers to adopt the new strategy in agriculture.

A considerable progress has been made in the field of expansion of institutional credit in rural areas. However, the evaluation committees and commissions appointed by the Indian government and Reserve Bank of India (RBI) and also many research studies found that the institutional credit was distributed inequitably among the farmers. That is, the credit had not reached the small and marginal farmers adequately though they cultivated nearly 75 per cent of the total operational holdings. Due to this, the policy makers stressed the need for giving preference to small and marginal farmers and agricultural labourers in providing institutional credit. Thus, mere expansion of institutional credit was found to be inadequate and direct policy interventions by the government in the field of institutional credit was envisaged. This made the central government to issue special directives to give priority to small and marginal farmers both in credit disbursement and credit linked subsidies. These
policy interventions such as, Small Farmers Development Agency (SFDA), Marginal Farmers and Agricultural Labourers Development Programme (MFAL), Differential Rate of Interest Scheme (DRI), and Integrated Rural Development Programme (IRDP) had an impact in increasing the share of institutional credit to the small and marginal farmers and agricultural labourers.

The characteristics of the special programmes and schemes framed for the benefit of weaker sections made the schemes thereunder different from the normal bankable schemes in regard to viability and other principles of lending like technical feasibility, and commercial viability. These were further, prominently target-oriented, a characteristic which outweighed other considerations. Bankers often found it difficult to adjust themselves to the needs of these programmes; instead in their anxiety to minimise the probability of default, they found it much safer to lend to a small number of big borrowers than to a large number of small borrowers.

The issues that have cropped up in the recent years in the area of rural credit may be regarded as second generation problems - problems that have arisen in the wake of significant headway that institutional credit to the rural sector has already made. Important
issues are: the identification of the special features of the credit and subsidy oriented programmes, examination of the problem spots in every phase of the disposal of the credit and its utilisation; a proper evaluation of the impact the credit has made on the economic condition of small borrowers. Above all, an investment will be considered financially viable and remunerative by a small borrower if it leaves him a surplus after meeting the debt service charges. These are the issues which are to be probed further in detail, to bring about the necessary changes in attitudes and practices of rural credit institutions. Hence, the present study.

Objectives

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, infrastructure facilities and services.

Those small and marginal farmers and agricultural labourers who have received loans for productive purposes from the organized financial institutions.
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; and

vi) To examine the loan repayment performance of the selected borrowers.

The Significance and Scope of the Study

Credit alone has little or no impact on the development of agriculture or on the living conditions of rural population, although conditions might be worse without it. The aim should be to convert the static credit into dynamic credit, which means that at the end of the period the borrower has increased his assets, productive power and income. This is real development credit leading to a gradual change in the internal economic structure of the borrower household. To this effect there is a need for indepth empirical studies to provide answers to the question of how the small and marginal farmers and the agricultural labourers can be
made viable units with the help of institutional credit. As on to-day the expansion of banking to the rural areas may be said to have been achieved, in quantitative terms, but the real challenge is to bring about a success in qualitative terms. By focussing the attention on such relevant issues as accessibility of rural poor to the institutional credit; the utilisation of credit; and the impact of credit on the economic condition of the small borrowers, the present study may contribute some relevant ideas to the existing literature. Moreover, it is hoped that the testing of financial viability of the schemes undertaken by the small and marginal farmers and agricultural labourers with the help of bank loans and the results would have a wider application.

The paramount need at the present juncture is to ensure higher productivity of institutional credit and better recycling of funds. The analysis of the empirical data in this study may provide some insights into this particular aspect.

As noted by the RBI in one of its reports\textsuperscript{17}, the strength and weakness of the credit delivery system in the rural sector need to be reassessed. The present work, in a modest way, would suggest some policy measures to improve the rural credit delivery system.
Limitations of the Study

The following are the important limitations of the study:

The primary data for the study has been collected exclusively by personal canvassing of interview schedules. The data so collected are subject to what may be called the 'error of response' in some degree or other. Such errors of response are largely due to the illiteracy of most of the respondents.

Data on the cost of cultivation, maintenance expenses of milch animals, income from different crops, income from dairying, employment in dairy enterprise, etc. for different years may not be precise/accurate, specially if they are to be furnished for the past years in view of the fact that majority of the selected small and marginal farmers and almost all the agricultural labourers do not maintain accounts. It is for this reason a pilot survey was conducted and on the basis of that the structured interview schedule was finalised. Wherever possible the data collected (price of animals, cost of inputs, milk yield, quantity and value of agricultural output and wages) have been cross-checked for their accuracy.
The Chapter Outline

The contents of this thesis have been presented in eight chapters. Following this introductory chapter (Chapter I) which has dealt with the research theme, researchable issues, objectives, significance, and scope of the study, in the second chapter a review of theoretical issues and empirical studies pertaining to the present exercise has been carried out. The structure and growth of institutional credit in India and to a limited extent in Tamil Nadu have been briefly analysed in the third chapter. The fourth chapter is devoted to explain the methodological framework of the study, that is, about the selection of study area and sample, methods of data collection, concepts used and methods of data analysis. The returns to investment in dairy scheme are analysed in the fifth chapter. In the sixth chapter the returns to investment in minor irrigation schemes are dealt with. The financial viability analysis of both dairy scheme and minor irrigation schemes is taken up in the seventh chapter. And in last chapter a summary of findings and conclusions are presented.
Notes and References

One of the development strategies advocated to develop the poor countries was massive capital investment in core sectors of the economy, instead of investing meagre amounts in all the sectors. This was expected to increase the growth rates of not only those sectors which received huge capital investment but also of other sectors, due to the working of spread effects in the economy. This theoretical line of thinking placed emphasis primarily on increasing the production (GNP) rather than on equitable distribution.

For details, among others.

a) Belshaw Horace, Agricultural Credit in Economically Undeveloped Countries, FAO, Agricultural Studies, No. 46, Rome, FAO. 1959.


c) A report by ILO summarises this point, and states, "a series of development studies since the early seventies has concluded that aggregate growth by itself has not led to redistribution of assets or incomes, and the condition of the poor has remained much the same since the era of developmental effort started. Growth and social change must, therefore, go together and direct attention should be given to the removal of poverty. It was only in the late seventies that in many countries special programmes for poverty alleviation such as cash doles, special schemes for employment promotion, or other target-group oriented programmes were launched." International Labour Organisation, Fighting Poverty: Asia's Major Challenge, New Delhi, Asian Employment Programme (ARTEP), 1986, p.7.

3. More elaborate and critical treatment of this kind of assumptions about rural credit can be seen

a) Von Pischke J D, Dale W Adams, and Gordon Donald (Eds), Rural Financial Markets in Developing Countries- Their Use and Abuse, Johns Hopkins, Baltimore, 1983 and


5(a) Schultz, T W *Transforming Traditional Agriculture*, Yale, 1961.


6(a) Belshaw H, *Op. Cit.* and


7 Since the late sixties (under special developmental programmes), various state governments have spent large sums of money on animal husbandry, poultry, forestry, and logging and fishing, particularly with a view to improving the economic condition of the relatively weaker section of the rural population.

8(a) Lipton, Michel, "Agricultural Finance and Rural Credit in Poor Countries", *World Development* 4(7), 1976, pp 543-53, and


9 For more details, among others,

a) Rao, C H H "Farm Size and Credit Policy", in Tokhi M R and Sharma D P (Eds) *Rural Banking in India*, New Delhi, Oxford, 1975(b), and,

10 This type of argument was put forward, among others, by:


11. Many field investigations have revealed that the so called 'Green Revolution' in India has resulted in widening the gap in the distribution of income and wealth between the big and small farmers in rural India. Notable among them are


12 Among others refer:


c) Ratnam N V "Restructuring Panchayat Raj Institutions is the only Remedy", Kurukshetra, 32(1) Annual Number, October 1983, pp. 8-12.


14 For example, Integrated Rural Development Programme (IRDP) was introduced in 1978 in India.

15 Detailed analysis can be seen in

a) Tendulkar, Suresh D, Rural Institutional Credit and Rural Development: A Review Article, Indian Economic Review, 18(1), Jan-June 1983, pp. 101-37, and,

