"A decent provision for the poor is the true test of civilisation".

- Samuel Johnson

1.1 NATURE AND MAGNITUDE OF WORLD POVERTY

Poverty Alleviation has always been an important item in the agenda for the planners world over and it had been more so in recent decades. Despite economic progress, over one billion people in the developing countries with majority in Asia, are living in abject poverty, i.e. at a level much below any acceptable minimum standard of living. According to World Development Report, 1990, all those people who are struggling to survive on less than US $ 370 in a year, are considered to be living below the poverty line. Of the poor, about 939 million are in the rural areas and agriculture is their main occupation; 633 of them live in Asia, 204 million in Sub-Saharan Africa, about 76 million in Latin America and the Caribbean, and the rest 26 million in the Near East and North Africa.¹

Within these regions and countries, the poor are often concentrated not only in rural areas but more so in resource poor areas like drought prone areas etc. Numerically the most important group of rural poor consists of small farmers and landless labourers.

¹ Idris Jazairy (1993), The State of World Rural Poverty, IFAD, New York, P.1
They also belong to certain ethnic groups like the scheduled castes and scheduled tribes of India. Among the poor, the severity is more often borne by the women and the children. In many, but not all cases, low incomes go hand in hand with other forms of deprivation, such as low life expectancy, child mortality and limited access to primary education, etc.  

1.2 POVERTY ALLEVIATION STRATEGIES

In the 1950's and 1960's over all economic growth was viewed as the primary means of bringing about development, the benefit of which was expected to trickle down to all in the economy. But the experience of the developing countries proved otherwise, wherein in spite of high economic growth rates, especially in recent decades, addition to income has been unevenly distributed and failed to bring about appreciable impact in the living standards of the vast population in lower income groups.

According to McNamara (1988), "Too many people in the developing world have been able to neither contribute much to economic growth nor share equitably in its benefits. Development has passed them by. The tragedy of the absolute poor is that they are trapped in a set of social and economic circumstances that they cannot break out of, by their own efforts alone. Any successful effort to combat absolute poverty in developing countries has to do two basic things: to assist the poor to increase their productivity and assure their access to essential public services".

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Hence, a selective approach aiming ‘growth with equity’ to direct benefits to the poor, the under-privileged and the rural disadvantaged became inevitable world over in 1970s. Accordingly, different programmes, such as distribution of surplus land, public distribution of essential commodities and social services like health care, specific beneficiary targeted programmes of credit/employment (e.g. IRDP) etc. were launched in different countries under the approach. It is in this context, gradually Institutional Credit came to be recognised as an important instrument for development, with the proposition that lack of growth in respect of poor is the direct consequence of shortage of physical capital. While there is a vicious circle of lower use of capital, low productivity, low income, low savings and consequent lower capital formation perpetuating poverty operating in the rural areas, Institutional Credit is perceived as an instrument which could break this vicious circle. Among others, Brazil, India, Jamaica, Mexico, Philippines and Thailand have used agricultural credit programmes as the main component of their Rural Development/Poverty Alleviation strategies, through direct state intervention. Thus, over the years, objectives of Institutional Credit happened to be not only to eliminate the unscrupulous money lender and support intensive agriculture but also as an instrument for uplifting the rural poor.

1.3 INSTITUTIONAL CREDIT FOR RURAL POOR IN INDIA

In India, removal of poverty along with unemployment has been the central concern of the planning process for development.

3. Ibid.
Over the past four decades, various programmes have been launched to tackle this problem. Soon after independence, land reforms measures were implemented with specific objective of providing security of tenure of land to actual tiller, later on land ceiling and redistribution of surplus land, etc. were also adopted.

With the launching of First Five Year Plan in 1950-51, Community Development Programme was started for all round development of rural people. This was followed by emphasis on increased agricultural production during the Green Revolution era, viz. 1960s, through special programmes such as Intensive Agricultural District Programme (IADF), Intensive Agricultural Area Programme (IAAP), High Yielding Varieties Programme (HYVP) and Multiple Cropping Programme (MCP) and so on. However, with all these efforts, the lot of the rural poor continued and got further aggravated with the increasing population. During the Fourth Five Year Plan period (1969-74), the approach to planning got modified and specific target group oriented programmes, such as SFDA, MFAL, etc. were introduced to tackle the problem of poverty in the rural areas. Simultaneously, backward area development programmes like Drought Prone Areas Programme (DPAP) were also launched, which also contained inter alia specific beneficiary assistance component. Another noteworthy feature of these programmes was the increased involvement of institutional credit assistance which was made possible by the nationalisation of 14 major commercial banks in 1969.

Actually, the origin of institutional credit programmes in India dates back to 1875 when the Deccan riots broke out against
money lenders, leading to the appointment of Deccan Riots Commission by the then British Government in India, which institutionalised the age-old provision of government financial assistance to the rayats-'takkavi' - in times of need. After this, Primary Agricultural Credit Cooperative Societies patterned on German Raiffeissan Model was established in 1904. However, not much progress was achieved in the sphere of rural credit till independence. All India Rural Credit Survey Committee (1954) had estimated that the share of institutional credit in the debt owned by the rural households was just 4% in 1951-52 (comprising of 3% from cooperative banks and 1% from commercial banks) excluding Takkavi Loans, which constitute another 3%. On the recommendations of this Committee and the subsequent All India Rural Credit Review Committee (1969), several efforts have been made to strengthen cooperative banking system and increase the involvement of State Bank of India and other commercial banks in rural lending. Despite this, as of June 1967, commercial banks had penetrated only to 566 villages and that out of the institutional credit to agriculture at 39%, their share was negligible at 1%. The balance being met by cooperatives (Gadgil, 1968). It was the nationalisation of 14 major commercial banks in July 1969 (and another 6 banks in 1980), which made a real breakthrough in the sphere of rural credit through active involvement of commercial banks. Later in 1975, another institutional innovation in the form of regional rural banks with anti-poverty focus was established. The massive branch expansion by commercial and regional rural banks that followed, took banking to the nook

and corner of the country, improving the population served per bank branch from 65,000 in 1969 to 11,000 (as per 1981 Census) at the end of March 1992.\(^5\) Besides the massive branch expansion, regulations relating to 40% lending targets for agriculture and other priority sectors by commercial banks, with sub-targets for weaker sections, relaxations in respect of collateral security, margin, rate of interest, etc. have also contributed to the effective rural financial intermediation.

Thus, after 1969, whatever special programmes were launched by the Government for the benefit of rural poor, invariably involved the institutional credit agencies. Thus, beginning with SFDA, thereafter MFAL, DPAP and IRDP, all the programmes for Poverty Aleviation were a sort of a partnership effort between Government and the banks with institutional credit becoming the major instrument for bringing out such development.

Among the programmes, Integrated Rural Development Programme (IRDP) is the single largest anti-poverty programme currently in operation in the rural areas with the involvement of institutional credit. Started in October 1980, by integrating the principal contents of the then existing 3 major programmes for rural poor, viz. SFDA, MFAL and DPAP, Integrated Rural Development Programme aims at targeting the benefits for those identified families below poverty line (defined by Government of India from time to time) by way of loan from banks, coupled with capital

\[^5\text{RBI (1993) - Report on Trend and Progress of Banking, Bombay, p.36.}\]
subsidy ranging from 25% to 50% of the investment cost. Till the end of VII Plan Period (1990), the programme has covered over 35 million beneficiaries, through a credit of Rs.8474 Crores from banks along with subsidy contribution of Rs.4977 Crores from Government of India.6

Apart from the above government sponsored programmes, banks have also started in 1972, an exclusive programme for poor by way of Differential Rate of Interest Scheme, the coverage in respect of which stood at Rs.727 Crores by the end of March 1992, covering 32.02 lakh beneficiaries, of whom 51.3% were scheduled castes and scheduled tribes, and approximately two third of them have been extended in rural and semi-urban areas.7 While there is no capital subsidy in DRI scheme, the credit is provided at 4.0% per annum.

Besides Government sponsored corporations like Khadi and Village Industries Commission/Board have also floated special schemes involving institutional credit at concessional interest rate and also with capital subsidy, for specified group of poor beneficiaries like rural artisans. So also for specified purposes like marketing, processing, etc. special corporations like National Agriculture Marketing Federation (NAFED), National Cooperative Development Corporation (NCDC) and such other cooperative organisations, other than banks also extend financial assistance for cooperative institutions in the rural areas, which among others benefitted rural poor as well.

6. Ibid.
7. Ibid.
As a cumulative effort of all the programmes, the share of institutional credit in the debt of rural households has increased to more than 60% by 1981 (All India Ds and Investment Survey 1981-82) not to talk of subsequent accretions. In quantitative terms, the outstanding direct institutional finance for agriculture and allied activities by scheduled commercial banks (excluding RRBs) is Rs.17,031.60 Crores; by cooperative banks is Rs.10,531.10 Crores and another Rs.2,163.20 Crores by Regional Rural Banks as on June 1992. Of these, while the lendings by RRBs were exclusively to weaker sections in rural areas, viz. Rural Poor, in respect of public sector commercial banks, it aggregated Rs.10,948 Crores, over and above the credit to rural poor by private commercial banks and cooperative banks. 8

1.4 STATEMENT OF PROBLEM

Thus, the statistical position of bank lending in rural areas including for rural poor is impressive. But how far it has made a tangible impact in the working and living conditions of rural poor especially those inhabiting a drought prone area and instill in them a ray of hope amidst impoverishment is not only a matter of curiosity but also of importance from nation's point of view. Though the institutional credit has been used as an instrument for poverty alleviation in IRDP like programmes, the potential of credit to do so in the absence of adequate infrastructural support and also the existing low level of literacy and entrepreneurial skill among these poor has been doubted by many researchers. (Rath 1985, Dreze 1990). Agricultural Credit Review Committee (1989) while evaluating

8. Ibid.
the special programmes for poverty alleviation like IRDP, though optimistic about such an approach has also cautioned against the limitations of credit and advised to give priority to poor with some asset base and also to infrastructurally well developed regions. So there is a need to understand the potential and limitations of credit as the principal instrument of poverty alleviation through empirical evidence. Towards this extent, the socio-economic conditions of beneficiaries before and after financial assistance may throw some evidence. So also, comparing the improvement in the conditions of beneficiaries with that of the non-beneficiaries during the same period also will provide additional information. Cumulatively, this micro-level empirical evidence, apart from available macro-level secondary data relating to income generation in respect of all the assisted beneficiaries in the district, will categorically prove or disprove the efficacy of credit as an instrument of poverty alleviation.

Prior to taking up the question of impact, examining how many rural poor have access to credit is all the more important. Towards this objective, analysing the coverage of the rural poor under major institutional credit programme for poverty alleviation operating in the district, viz. IRDP, the data in respect of which is already available with the project authorities will be a good indicator.

Again identifying the characteristics of those beneficiaries who have crossed poverty line and those who have not including their awareness and perception about institutional credit will help
providing an index for directing the scarce credit to the best use. Additional evidence regarding the relatively successful schemes and their features including recovery performance may help formulate a better strategy for poverty alleviation through the instrument of credit. Finally, the comparison of performance of credit in relatively developed block as against less developed (within the same district) will provide policy implications for packaging institutional credit for developing backward regions.

Accordingly, the present study 'Impact of Institutional Credit on the Socio-economic Conditions of Rural Poor in the Drought Prone Pune District of Maharashtra' was conducted, with the following.

1.5 SPECIFIC OBJECTIVES

1) To assess the flow of institutional credit to rural poor in the selected district.
2) To study the awareness and perception of rural poor about institutional credit.
3) To measure the impact of institutional credit on the socio-economic conditions of the beneficiaries.
4) To compare the improvement in socio-economic conditions of beneficiaries and non-beneficiaries of institutional credit.
5) To study the repayment performance of beneficiaries of institutional credit.
6) To identify the socio-economic variables that discriminate between beneficiaries who have crossed the poverty line and those who have not.
1.6 HYPOTHESES

On the basis of the objectives of the study, the following hypotheses were formulated for empirical verification in this study.

1) There is a good flow of institutional credit to the identified Below Poverty Line families in the district.

2) Beneficiaries have better awareness and perception about institutional credit than non-beneficiaries.

3) Awareness and perception affect repayment performance of institutional credit.

4) Institutional Credit has increased the income and improved the socio-economic conditions of the beneficiaries.

5) Impact of institutional credit is better in developed block than in less developed block.

6) Beneficiaries have achieved better socio-economic status than non-beneficiaries.

7) Socio-economic characteristics of beneficiaries who have crossed poverty line are different from those who have not crossed the poverty line.

1.7 SCOPE AND IMPORTANCE OF THE STUDY

The very objective and the approach of the study, described so far, are indicative of its practical utility. Though there are several studies conducted both at macro and micro level to evaluate
the impact of IRDP and other credit linked poverty alleviation programmes, many of them have not proceeded beyond providing some statistical data on income generation, etc., to gather evidence regarding 'why some could succeed in their endeavour while many others were not?' what characteristics of the beneficiaries and that of the scheme could contribute to the success?' and so on. Moreover, there is no study which has attempted to construct a composite index by way of a credit scoring model which will be a tool for appraising future applicants for credit under poverty alleviation programmes by assigning weightages to the various success prone variables. To that extent, the study will be of immense utility to the field personnel concerned with the day today implementation of programme, besides having far reaching implications for planners and policy makers.

1.8 DEFINITIONS OF IMPORTANT TERMS

1. Impact :

It refers to overall change or profound effect in the working and living conditions of the beneficiaries resulting (wholly or partly) from a project/programme.

2. Institutional Credit :

Loans obtained from commercial and cooperative banks.

3. Poverty Line :

Planning Commission has defined it as that level of income (expenditure) which is sufficient for keeping a family at the subsistence level of existence, measured in terms of basic nutritional requirements, equal to 2400 calories per person in rural areas. The monetary
equivalent is worked out at Rs.6400 per annum during VII Plan period and this level is referred to as 'Below Poverty Line' (BPL) in this study.

4. Rural Poor:
All those, whose family income level is below the poverty line, are called rural poor. In general, small and marginal farmers, landless labourers and rural artisans come under this category, and the definition given for them in IRD Manual is adopted in the study.

(a) Small Farmers: Pune being a DPAP District, a cultivator with an unirrigated land holding of 3 hectares or below, is a small farmer and half this size, if irrigated.

(b) Marginal Farmers: Pune being a DPAP District, a person with a land holding of 1.5 hectares or below unirrigated land, is a marginal farmer or below 0.75 hectare irrigated land.

(c) Agricultural Labourers: A person without any land other than homestead and deriving more than 50% of his income from agricultural wages.

(d) Rural Artisans: A person who takes up activities in rural areas utilising locally available resources and/or human skills, such as carpenter, blacksmith, goldsmith, barber, tailor, etc. All those who have undertaken ISB activities under the scheme have been classified under this category.
5. **Beneficiaries:**
Persons among the identified below poverty line (BPL) list of families, who have received benefit of institutional credit under any of the schemes, such as IRDP, DRI, KVIB, etc.

6. **Non-Beneficiaries:**
Persons among the identified BPL list of families who are yet to receive the benefit of institutional credit.

7. **Drought:**
It is defined as "the period of dryness due to lack of rain". Operationally, Indian Meteorological Department has defined 'drought' as "a situation occurring in any area where the annual rainfall is less than 75 per cent of normal".

8. **Drought Prone Area:**
The region where the drought is a recurring phenomena. For this study, the areas where centrally sponsored Drought Prone Areas Programme (DPAP) is in operation is taken as drought prone area.

9. **Subsidy:**
It is referred to the financial incentive by way of grant offered by the Government to the beneficiaries so that they can take advantage of the institutional credit programmes with limited repayment liability.
10. Project:

It is an economic activity on which investment is made at present, in expectation of returns in future. In the present study, financial assistance by way of loan, with or without subsidy extended under IRDP, DRI and KVIB programmes are taken as projects.

11. Region:

The term 'Region' is closely associated with the concept of area or space. The region can mean agro-climatic region, drought prone region depending upon particular feature of the area. For policy and planning purposes, administrative units like states, districts and talukas may be treated as region.

12. Development:

Development is more or less viewed synonymous with the extent of infrastructural development in the region in the study.

13. Awareness:

It is the knowledge regarding certain things or matter. In the present context, knowledge about the Institutional credit programmes.

14. Perception:

It is the way each person processes the raw data received from environment into meaningful pattern.
15. **Sector:**

It is a division of the economy.

(a) Primary sector includes agriculture, forestry, fishery and generally encompasses rural activities.

(b) Secondary sector involves manufacturing, processing of raw materials into finished products.

(c) Tertiary sector involves services required by the primary and secondary sectors. The broad term 'services' includes business.

1.9 **DETAILS OF CHAPTER ORGANISATION**

The thesis is divided into seven chapters and each chapter has been devoted to a clear exposition of the various aspects of the main theme. The objectives and rationale for the study, are discussed in the first chapter. A review of the past studies on the subject is presented in chapter two. The methodology adopted for the investigation (data collection and analysis) is described in the third chapter. Chapter four provides the background information to the study area and the institutional credit programmes in operation there. The results and discussions of the study have been presented in chapter five. While the summary and conclusions find a place in chapter six, Chapter seven is exclusively devoted to detailed recommendations for an effective poverty alleviation strategy through institutional credit, including a credit scoring model for screening future BPL applicants for institutional credit. This is followed by Bibliography and Interview Schedule.