CHAPTER - II

REVIEW OF LITERATURE

Studies on poverty had been a global concern and had confronted sociologists and economists among others for centuries. In recent decades, there is a spurt of literature on poverty alleviation efforts world over, especially by financial institutions, with World Bank taking a lead. Many of these studies in India and elsewhere have been of the nature of impact studies on credit based poverty alleviation programmes.

Keeping in view the objectives of the present study, studies done in the past were reviewed under the following sections:

I. Rural Poor - their identification, characteristics and causes.

II. Institutional Credit for poor and its impact.

III. Impact of institutional credit in drought prone and other backward areas.

Section - I

1.0 IDENTIFICATION OF RURAL POOR

The most popular and widely utilised approach in measuring absolute poverty is to draw a poverty line, so that all those whose living standard is below this, are treated as 'poor'. It is perhaps Arthur Young who has used this concept in estimating poverty in
18th Century. But its first scientific definition is found in Charles Booth in his epoch making survey of East London in 1889. He suggested that poverty line may be drawn at an income level where means may be sufficient but are barely sufficient for independent life. (Desai, 1980)

The World Bank\(^1\) recommends a comprehensive measure of poverty line which is based on the cost of a minimum consumption basket, according to food necessary for a recommended calories intake; augmented by an allowance for non-food needs (such as clothing and shelter, etc.) consistent with the spending patterns of the poor.

In India, the earliest work on the poverty line was done by the study group, headed by Prof. D.R. Gadgil, appointed by Government of India in 1962. The working group took into account various recommendations of ICMR for a balanced nutritional diet and prescribed a minimum level of consumption expenditure for a household of 5 persons at not less than Rs. 100.00 per month (Rs.20 per capita) in terms of 1960-61 prices. Any family whose consumption expenditure was less than the prescribed limit, was termed as 'poor' (i.e. below poverty line).

Dandekar and Rath (1970) have concluded that, the rural poor consist predominantly of agricultural labour households and small land holders with cultivated holdings less than five acres and particularly less than 2.5 acres. According to their estimate

40 per cent of the rural population was poor, as per the poverty line estimates fixed at Rs.15/- per month per capita, using country-wise estimates of consumption expenditure for different consumer groups at a nutritional intake norm of 2250 calories at 1960-61 prices.

In 1977, the Planning Commission set up a task force on projection of minimum needs and effective consumption demand. This task force defined the poverty line as the mid-point of monthly per capita expenditure of 2400 calories in rural areas and 2100 calories in urban areas which was estimated to be Rs.49 and Rs.57 respectively at All India level at 1973-74 prices. The above base line was revised to Rs.76/- at 1979-80 prices adopted in the Sixth Five Year Plan and Rs.106/- during Seventh Five Year Plan. This formed the basis of an official definition of poverty line from time to time, which accordingly, stood at Rs.3500 during Sixth Five Year Plan (1981-85) period and Rs.6400/- during Seventh Five Year Plan period (1986-90) and Rs.11,000/- during Eighth Five Year Plan period (1992-97).

Based on the above cut off point, Planning Commission estimated that 29.9% of total population in India (32.7% of rural population and 19.4% of urban population) is living below the poverty line in 1987-88 as compared to 48.3% during 1977-78.

The above estimates of the Planning Commission has been countered by some other independent researchers like B.S.Minhas et al who put the figure at 48.7% and 37.8% respectively for rural

and urban areas of the country for 1987-88 based on the appropriate price adjustments at state level.³

The Expert Group⁴ on Estimation of proportion and number of poor headed by Late Prof. D.T. Lakadwala, constituted by Planning Commission in September 1989, to look into the Methodology for estimation of poverty at national and state level and also to go into question of redefining poverty line if necessary, had put the percentage below poverty line at 38% in 1987-88 while confirming the declining trend in the proportion below the poverty line. The expert group has also made the following recommendations regarding poverty line:

i) The poverty line recommended by Task Force (on projection of minimum needs and effective consumption demand viz. Rs. 49 and Rs. 57 at 1973-74 prices) be adopted as the baseline of All India.

ii) State specific poverty line should be estimated.

iii) Given the updated state specific poverty line and the corresponding size distribution of per capita consumption expenditure of National Sample Survey (NSS), the number of poor as percentage of total population or the poverty ratio should be calculated separately for rural and urban areas.

³. Ibid
iv) The above estimates of poverty ratio, though will provide a composite picture of number of people whose per capita consumption expenditure is below the level needed to afford the basket of commodities constituting the desired minimum does not, however, provide the state of well being of the population say their living environment (Housing, Sanitation, Amenities, etc.) or their access to services provided by public authorities which contribute to living standard. Hence, the estimates of overall poverty ratio should be supplemented with the assessment of the following aspects:

(a) Composition of poor population by region, social group, family characteristics, etc.

(b) Nutritional status of the population

(c) Health status

(d) Educational status

(e) Living environment

On the above basis, a comprehensive report on levels of living of population is to be prepared by Planning Commission.

Thus, though there are variations in estimates of calorie level and also the methods suggested by different experts for measuring poverty, but for academic interest, the procedure of
nutritional norm for drawing poverty line may be considered to be the best, objective and adequate measure of poverty especially from the viewpoint of extending institutional credit for livelihood projects. Also there is, by and large, consensus among various studies and regarding the occupational categories who fall below the poverty line as those with inadequate land such as small and marginal farmers, landless (agricultural) labourers including fishermen and tribals, rural artisans and others.

1.1 SMALL AND MARGINAL FARMERS

Government of India in the context of Small Farmers Development Agency (SFDA) programme and subsequent IRDP has defined a small farmer as a cultivator with a land holding of 2 hectares or below of unirrigated land and half of this size, if irrigated (class I irrigated); marginal farmer as a cultivator with a land holding of 1 hectare or less of unirrigated land or 0.5 hectares, if irrigated. However, in case of DPAP District, due to its low productivity of land, a larger size of holding viz. 3.00 hectares and 1.50 hectares of unirrigated or half that size if irrigated, is fixed respectively for small and marginal farmers.

The erstwhile Agricultural Refinance & Development Corporation (ARDC) for purposes of project lendings had defined small farmers in terms of pre-development net farm income of Rs.2,000/- based on 1972 prices and the same is being reviewed from time to time by its successor, National Bank for Agriculture and Rural Development (NABARD). Accordingly, the land holding size for a
small farmer will be varying from one place to another depending upon productivity of land.

Besides the size of landholding or income, there are other characteristics of small farmers which have also to be taken note of, as listed by the Committee to Review the Arrangement For Institutional Credit to Agriculture and Rural Development (CRAFICARD), 1981. The more important of these are:

(a) Utilisation of higher proportion of land for growing food for subsistence
(b) Lower proportion of marketable surplus
(c) Inability to take risks
(d) Borrowing more for consumption than for production
(e) Predominance of labour among inputs, and
(f) Inability to offer security due to smallness of the holdings and also lack of proper record of their rights.

The Agricultural Credit Review Committee (1989) estimated the number of marginal, small, medium and large farmers to the extent of 55.52, 16.08, 22.75 million respectively as at the end of June 1985.

1.2 AGRICULTURAL LABOURER

The term 'agricultural labourer' has been defined in a number of ways. According to the First Agricultural Labour Enquiry Committee (1950-51), 'Agricultural Labourers are those people who
are engaged in raising crops on payment of wages'. This definition was enlarged by the Second Agricultural Labour Enquiry Committee (1956-57), which included all those who were involved in other agricultural operations like dairy farming, horticulture, raising of livestock, bees, poultry, etc. It also introduced an income criteria and observed that an agricultural labour household is one whose main source of income should be wages from agriculture. For the operational purposes of financial assistance by banks under SFDA and IRD Programmes, Government of India has defined the agricultural labourer as a person without any land other than homestead and deriving more than 50% of his income from wages.

Agricultural labour accounts for majority of rural work force and they have very little or no productive assets, and their meagre income is derived from casual or irregular employment available in villages. They form the hardcore of rural poor and most of the socially backward classes, such as scheduled castes and tribes fall under this category. They require credit for acquisition of productive assets, such as dairy animals and for self-employment, particularly in such activities as forestry, animal husbandry, fisheries, processing, etc. It is only by financing these activities that the credit institutions can promote the interests of the agricultural labourers. The need of this group for institutional support has increased of late with the drying up of traditional source of credit as a result of the progressive release of bonded labourers from their bonds and the resort to debt relief through state action. (CRAFICARD, 1981). With the shrinkage of land and
lack of employment opportunities for artisans, the number of agricultural labourers household is increasing year by year.

1.3 RURAL ARTISANS

Artisans, as a category of rural poor, though shrinking in number year by year, still are very important, considering the rural employment potential associated with them. In fact, according to Harper (1994), there is a world wide interest in such small and micro rural enterprises. Rural artisans earn their livelihood from village crafts such as carpentry, poultry, blacksmith, tailoring, etc. According to Planning Commission estimates, the traditional rural industries like Khadi & Village Industries, Handlooms, Sericulture, Coir and Handicrafts provided employment to 14 million person in 1977-78. Like the agricultural labourers, the rural artisans also lack improved or modern productive assets, though they possess some basic skills. They generally use locally available material but lack the capacity to store them when available at cheaper cost. An additional factor is the lack of an assured market for their goods. Consequently, rural artisans have to rely on wage employment to some extent. Though they may require consumption credit initially and during some periods, their real need is for investment credit (i.e. credit for acquiring modern productive assets) supported by input supplies and marketing facilities (CRAFICARD, 1981). For the purposes of financial assistance, RBI gave a definition that artisans (irrespective of location) or small industrial activities (viz. manufacturing, processing, preservation and servicing) in village or small towns
with a population not exceeding 50,000 involving utilisation of locally available natural resources and/or human skills are eligible for financial assistance.

1.4 CHARACTERISTICS OF POOR

Arora (1979) mentioned that poverty has many different aspects and all are found in varying degrees in the rural areas. Poverty in human terms mean little to eat or wear, i.e. living below the subsistence level. The most obvious meaning of poverty is low per capita income, with malnutrition, poor health, low literacy and primitive shelter. In economic terms, it signifies a propensity to consume rather than to save income and hence, it presents lower ratios of capital to labour.

Lipton (1988) had made a distinction between poor and ultra poor, in terms of their characteristics, he found sharp differences in their consumption level of food and requirements of health care, etc.

Jodha (1990) estimated with data pertaining to 1982-85 that common property resources in villages in the semi-arid belt accounted for 15-23% of the income of poor, but only 1-3% of that for the non-poor.

Bhattacharya (1991) had listed out the following characteristics of poor -

i) Poor are almost always in debt.
ii) Much of the food consumed is not provided by exchange of money but is collected freely from nature or in other ways.

iii) Cash transactions revealed extremely high fluctuations, there being days with no transactions at all and other days with big lumpsum receipt or expenditure.

According to Singh and Hazell (1993), some of the important characteristics of the poor are: On an average, in comparison to non-poor, the poor tend to be less educated, of lower caste, have large families and more children (but not more adult workers), high dependency ratio, less wealth and less access to land. The poor also tends to have poorer access to irrigated land. Poor spends relatively higher proportion (about 80%) of their total consumption expenditure on food than non-poor. However, poverty is not specific to any caste, farm size, class, level of education and source of earnings. It is distributed across socio-economic groups. It can not be generalised that those who have poor resource endowments are always poor. Besides resource base, other factors such as agro-climatic conditions and personal characteristics are also associated with poverty.

Jazairy (1993) has listed material deprivation, isolation, alienation, dependence, lack of participation and freedom of choice, lack of assets, vulnerability and insecurity as the essential characteristics of rural poor across the world.
Thus, it was clear from the studies reviewed that rural poor were heterogeneous group, with myriad problems. Their asset base is particularly low.

1.5 CAUSES OF POVERTY

The problem of poverty is as old as civilization itself. In 19th Century, it was viewed as an act of god, a curse against sinners for their vices. While 20th Century sociologists viewed poverty in terms of want and deprivation, modern sociologists and social workers, however, view it as a social stratification. To them, poverty is a wider issue - inequality, social, political and economic. But economists stress more on economic aspects and view poverty as an economic phenomena, i.e. insufficiency of income or command over resources to socially accepted minimum needs. (Desai, 1980).

If nothing else poverty had been the binding phenomena for Indian masses through time immemorial. Dadabhai Naoroji, the grand old man of freedom struggle, Mahatma Gandhi, the father of Nation have brought it up as an issue of continuing national debate during British Rule. Though the issue went below the surface during 15 years of independence, in a quest for self-reliance through rapid industrialisation etc., from early sixties, Indian economists have brought back the subject into the forefront. (Desai, 1980)

According to Naoroji (1890), poverty in India is a consequence of drain of resources from India to Britain and such other adverse British Policies. In the post-independent India, some

Tarlok Singh considers primitive technology, petty farm inheritance as the chief cause of poverty among peasants. Minhas identified inequality in distribution of land and unemployment as causes of poverty. While Dandekar and Rath, pointed out the distribution of means of production, viz. land and capital and the resultant inequalities in the distribution of income as the cause of poverty. Dantwala considered under-utilisation of human resources to be the chief cause of poverty. (Desai, 1980)

Dwivedi (1976) has underlined the concentration of economic power as the chief cause of poverty. Adiseshiah (1988) viewed the absence of assets among a considerably large number of people as the cause of poverty. While Lipton (1988) attributed urban bias in development efforts as the major reason for continuation of poverty.

The World Conference on Agrarian Reforms and Rural Development (convened by Food and Agriculture Organisation, FAO in 1979) identified inadequate access to land, leading to insufficient production and income as the chief cause of poverty among the multiple of rural poor round the globe. Besides that, the governments’ policy regarding prices of food vis-a-vis non-food items, provision of basic minimum needs like health care, education, drinking water etc., making available opportunities for alternate
employment and a combination of all those factors contribute to the continuance of the poverty.

CRAFICARD (1981) identified the lack of assets coupled with lending policies based on assets as the chief cause that leads to reduced opportunities for the rural poor to avail of credit facilities for improving their incomes. In its considered opinion, the rural poverty is also the result of an inequitable access to resources and lack of institutional backing. Hence, the capital base and the productive capacity of the rural poor will have to be improved with the help of institutional support.

In a recent study of International Fund for Agricultural Development (IFAD), Jazairy (1993) concluded that rural poverty is created and perpetuated by a number of closely interlinked socio-economic processes in varying degrees of influence. In respect of India, Exploitative intermediation by a variety of middlemen like land owners, money-lenders, traders and others and domestic policy biases in favour of urbanites, is the most intensive poverty processes in operation. The other socio-economic processes in the order of intensity are, natural cycles and disasters, marginalising the role of women in development, population pressure, poor natural resource base and degradation of environment, cultural and ethnic biases against certain groups such as tribals and others.

The IFAD study has also attempted an empirical formula to determine poverty using multiple regression exercise, with available data from 151 different countries of the world. Taking percentage
of rural population below poverty line as the dependent variables, a number of independent variables were considered in the model. The long-term debt service ratio as a percentage of exports of goods and services, Gini's co-efficient of distribution of land holding, the annual growth rate of GNP per capita, the annual rate of inflation, percentage of households headed by women in total rural households, and the percentage of rural population with access to local rural health services, were found to be significant at 95% of level of confidence.

Section - II

2.0 POTENTIAL OF INSTITUTIONAL CREDIT IN RESPECT OF POOR

World Bank (1975) opined that credit is often a key element in modernization of agriculture. Not only can credit remove a financial constraint, but it may accelerate the adoption of new technologies. Credit facilities are also an integral part of the process of commercialization of rural economy. However, no amount of credit even at the most reasonable rates, can guarantee higher productivity or incomes among rural poor. Success in this respect depends on many factors, including availability of inputs and services, sound credit policies, well managed institutions and appropriate delivery channels. Credit stands little chance of being used for productive purposes unless it is accompanied by certain other elements including the following:
a) Clear opportunities for economic gain from the adoption of new production technology or other improvements,

b) Widespread recognition and acceptance of such opportunities on the part of the farmer along with access to training in necessary skills,

c) Delivery systems which make the required inputs readily available at the time they are needed and market outlets for farm production.

Commenting upon the potential of credit to alleviate the conditions of rural poor, IFAD (1990) has listed out the following advantages:

i) Credit projects can provide the target group with financial and physical resources to which the group did not previously have access.

ii) Credit projects can reach out to the landless group, which is rarely touched by other land-based agricultural development projects. Furthermore, they can augment directly the productive asset base of the beneficiaries.

iii) Credit projects offer a convenient vehicle for demonstrating the development agency's trust in the clientele.

iv) Credit projects enable the poor to take advantage of an appropriate technology and innovation, which for lack of resources earlier they couldn't.
v) Credit projects can also help to breakdown patterns of indebtedness among poor, and can hope to put an end to the existing exploitative relationships, through command over economic resources and the increased bargaining power.

vi) Credit projects encourage the clientele to increase their inter-action with the market and to accumulate savings.

vii) Above all, credit projects can go far, towards making the poor self-reliant and thereby enhance their economic and social status.

2.1 COMMITTEES ON INSTITUTIONAL CREDIT

Realising the potential of credit, several comprehensive studies have been undertaken by the authorities, to enhance the flow of institutional credit to rural poor. The first comprehensive study of Institutional Credit for Agriculture attempted in India, viz. All India Rural Credit Survey Committee (1954) found that 93% of the total amount borrowed by cultivators was from non-institutional sources and contribution of cooperatives, Government and commercial banks, was of the order of just 3.0, 3.0 and 1.0 per cent respectively. The Committee also found that, of the total borrowing by cultivators, roughly 50% was for family expenditure, 28% for capital expenditure on the farm, and 10% for farm expenditure. The rest was for non-farm business expenditure, and other purposes. The relatively larger proportion of the borrowings of big cultivators, however,
was from institutional agencies while the dependence of the medium and small cultivators on private agencies was much greater. The Committee made far reaching recommendations for strengthening of Cooperative Credit System in the country through state participation, reorganisation of the cooperatives at all levels, etc. Implementation of the Committee's recommendations made a sea change in the availability of institutional credit for agriculture/rural economy.

The Second comprehensive study of institutional credit made by the All India Rural Credit Review Committee (1969), found that there is marked increase in the cooperative credit between 1951-52 and 1967-68 (from a meagre Rs.24 Crores to Rs.500 Crores). However, there was a lag in dispersal of credit in the cooperatively backward states of Assam, Bihar, Orissa, West Bengal, Rajasthan and Jammu & Kashmir. In other parts of the country too, there were weaknesses in co-operative banking system by way of low deposits, high overdues and general lack of business, like management, etc. Recognising such weaknesses but the need for increased requirement of finance for agriculture in the wake of green revolution technology, the Committee underlined the importance of multi-agency system for rural credit, involving commercial banks and emphasised that credit must be made easily accessible to the small farmers by granting to them loans equal to the full entitlement of the crop-wise scales of finance; and by preferential treatment vis-a-vis large farmers in the rates of interest charged, contribution to the share capital of the cooperatives, dispersal of loan in kind and at appropriate time, etc. The Committee sounded that if the fruits of development continued to be denied to large sections of rural community while prosperity accrues to some, the resulting
tensions, social and economic, may not only upset but even frustrate the national efforts to step up agricultural production. As a corrective measure, the Committee recommended Special Pilot Programmes, called the Small Farmers Development Agencies, one in each state, to identify the problems of small but potentially viable farmers and help them with inputs, services and credit. With necessary supportive grant from Government of India, SFDAs were to channel institutional credit from banks for the first time to identified target groups, viz. small farmers. Most of the recommendations of the Committee were accepted by Government and included in the Fourth Five Year Plan and programmes like SFDA, MFAL, were launched with active involvement of institutional credit agencies.

The third comprehensive study of Institutional Credit by CRAFICARD (1981) while emphasising the need for strengthening the institutional credit system through formation of 'NABARD' has observed that, many of the poor can be brought into the mainstream of economic development through credit worthy programmes. The pattern of indebtedness showed that consumption loans form a large part of the rural poor. Also loans for medical and educational expenses and ceremonial demands accounted for a substantial portion of debt, while production loans were often a small fraction of indebtedness. The Committee was of the opinion that the credit worthiness of the programme by itself is not sufficient unless the growth of income generated by the programme, over a period of time takes care of the initial non-productive indebtedness and puts the family on its feet.
The fourth and latest of the series of comprehensive study of Institutional Rural Credit system was made by the ACRC headed by Prof. A.M. Khusroo (1989), according to which, the institutional credit has been extended to a very large number of borrowers, who are first generation members of the banking system with shifted loyalties from non-institutional money lenders and pawn brokers. But the money lenders and other informal lenders have not gone away yet (the last All India Debt and Investment Survey, 1981-82 put their share at 39%) though their rate of interest is lower than before. The institutional credit system has still a long way to go before it can be said to be extensively used or begin to change the weak structure of the agricultural economy.

Besides, diagnosing the main problems confronting the institutional credit system and giving recommendations relating to strengthening of co-operatives, merger of RRBs with the sponsor commercial banks for effective credit delivery, etc. the committee has made projections relating to the credit demand from agriculture and rural sector by the turn of the century. It has visualised that the rural credit system will have two borrowing categories to be served - the larger category functioning with market orientation and the relatively smaller category of well-specified, low-income segments and socially weaker sections of the society. In its considered opinion, the surplus generated in the economy as well as in the credit system from the efficient operation of the larger category should go to meet some of the costs and if, and to the extent necessary, some specific subsidies for the low income category.
2.2 TARGET GROUPS FOR BANK FINANCE:
PRIORITY SECTORS & WEAKER SECTIONS

One of the objectives of social control over banks and subsequent nationalisation of major banks in 1969 was to ensure that credit was channelled to various sectors of the economy in accordance with the national planning priorities. This, inter alia, implied flow of credit to sectors which were hitherto neglected.

It was emphasized that commercial banks should increase their involvement in the financing of two priority sectors, viz. Agriculture and Small Scale Industries as a matter of priority. The description of the priority sectors was formalised in 1972 and RBI issued guidelines indicating the scope of items to be included under various categories of priority sectors.\(^5\) As on date, the term priority sector includes advances to agriculture, small scale industries, small road and transport operators, retail trade, small business and professional and self employed persons, education, housing for weaker sections and consumption.\(^6\) Originally, a target of 33.0% of total outstanding of commercial banks was envisaged for lending to priority sectors which was subsequently increased to 40% to be achieved by April 1988. The same was surpassed by the commercial banks on the stipulated date.

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Within priority sectors, to ensure adequate credit flow to weaker sections, sub-targets were kept. Krishnaswamy Working Group (1980) defined the term 'weaker sections' as 'the underprivileged sections of the society'. Their weakness may be either financial or social as in case of scheduled castes and scheduled tribes. Accordingly, for the purposes of bank lending the group proposed that the weaker section in the agriculture would comprise small and marginal farmers with land holdings of 5 acres or less and landless labourers and persons engaged in other allied activities where borrowal limits for such activities do not exceed Rs.10,000/-. In respect of small industries, the group decided that all small scale industries with limits upto and inclusive of Rs.25,000 should be treated as weaker sections.

Subsequently, Ghosh Committee (1982) enlarged the scope of definition of weaker sections to include the following:

1. Small and marginal farmers, landless labourers, tenant farmers and share croppers.
2. Artisans, village & cottage industry
3. IRDP beneficiaries
4. Scheduled Castes and Scheduled Tribes
5. DRI beneficiaries

A sub-target of 10% of the total outstanding of commercial banks credit is to be extended to this sector. The same had been surpassed as on date.
Later, in the context of the scheme for providing bank credit to meet consumption needs of the poorer sections of the society by commercial banks implemented since 1976, the scope of the definition of the term "weaker sections" was amended by Government of India to include "All IRDP beneficiaries, small and marginal farmers, landless agricultural workers, rural artisans and other people of very small means like carpenters, barbers and washermen who form an integral part of the village community".

While the Khusroo Committee had stated simply that the target for financing weaker sections and the rural poor should be reasonable to the extent the commercial banks system can bear, the subsequent committee headed by Narasimham (1990) has categorically suggested that the directed credit programmes should cover a 'redefined priority sector' consisting of the small and marginal farmer, tiny sector of industry, small business and transport operators, village and cottage industries, rural artisans and other weaker sections. The Committee proposed that the credit target for this 'Redefined Priority Sector' (which more or less correspond to the 'existing weaker sections'), henceforth be fixed to 10 per cent of aggregate bank credit. The recommendations had, however, been not yet accepted by Government of India for implementation.

2.3 CREDIT FLOW TO RURAL POOR

In global perspective, FAO (1990) has estimated that, the flow of institutional credit to the agricultural sector in general and
to the small farmers in particular, has been greater in those countries where there is greater dependence on agricultural markets, inputs and technology. That way in Asia, there had been an impressive increase during the decade 1979-89 in the flow of institutional credit in most countries including India. This was largely made possible due to rapid expansion of the role of commercial banks in rural credit and other supportive policy initiatives such as compulsory stipulations to lend to identified priority sectors, weaker sections, provisions for guarantee-cum-risk funds to enable the banks to lend to weaker sections without requiring collateral security, coordination of activities of the financial institutions with district development agencies of the government, availability of refinance facilities and so on. Whereas in sub-Saharan African countries, in terms of both institutional credit for agriculture and the share of rural poor therein, there is very little progress during the last decade, largely due to a poor growth of agricultural sector itself and also lack of supportive policies to enhance the flow of institutional credit for the purpose. The position is not much different in Latin America too, wherein the institutional credit has not reached beyond 15 to 20% in the whole region, and much low in some countries.

The position in respect of India is much better as evidenced by the latest All India Debt and Investment Survey (1981-82) which had put the share of institutional credit in indebtedness of rural households at 61.0% as compared to a just 70.0% in 1951-52. While the share of cultivator households stood at 63.3%, that of
non-cultivator household was just 36.7% as on June 1981. The flow of funds in rural areas showed a high correlation with the average value of assets per household. The variation was so wide that for the asset group upto Rs.1000 the share was just 9.1%, whereas for the asset group of Rs.5 Lakh and above, it was as high as 95.0%.

CRIFCARD (1981) had estimated that loans to small farmers (less than two acres) and other weaker sections accounted for 31.5% of the outstanding credit as at the end of June 1978 and 38.5% of the loan issued in 1977-78 by scheduled commercial banks and cooperatives. Subsequently, Khusroo Committee (1989) had reported that only about 30% of the families in all have demanded or have obtained access to institutional credit, while the share in respect of small and marginal farmers with landholding of less than 2 hectares, is about 42% of the total institutional credit as on June 1986. Further, agricultural advances account for 41.5% in terms of amount (outstanding at Rs.9483 Crores) and 65.3% in terms of number of accounts of priority sector. Of the direct agricultural advances of Rs.5251 Crores (as at July 1985), 37% in terms of number of accounts and 62% of amount outstanding was term loans and the balance being short term loans. Of the term loan, small and marginal farmers account for 68.2 in terms of number of accounts and 33.3% outstanding credit.

2.4 POSITION IN MAHARASHTRA

Pathak and Sadakkadulla (1991) found that consequent to
increase in number of bank branches and their deposits, there has been a steady increase in advances of rural and semi-urban branches of both commercial as well as cooperative banks in the state. About 75% of the loan advanced by commercial banks and 25% by cooperative banks, were term loans, intended for acquiring productive assets for increasing the income level of the people. The rest are short-term production loans. There has been increase in per capita credit (commercial and cooperative and regional rural bank together) in the state as a whole and also in each district during the period June 1981 and June 1991. The state average (excluding Greater Bombay) of per capita credit, at the end of June 1991, was Rs.1409 while Pune District ranked first with Rs.3627 in the State.

2.5 FACTORS AFFECTING ACCESS TO CREDIT

Turan (1989) has found that there is a large flow of institutional credit in areas which are more developed and as such have greater absorption capacity. The institutional credit per operational holding were also higher in relatively developed district and vice versa.

Kailas (1990) concluded that mere existence of credit institutions does not guarantee their benefits to small farmers. The supply level of credit, lower bargaining strength of small farmers vis-a-vis larger farmers, the procedural formalities coupled with corrupt practices of officials, etc. work adversely against the rural poor's access to credit. The smaller size of landholdings, the
informal and oral nature of tenancy contracts, illiteracy and lower caste status also has an adverse effect on the access to formal credit institutions by the rural poor. Some of these factors also contributed to higher transaction costs with the formal lending and delay the distribution of credit. The higher transaction costs not only increase the effective rate of interest but also deter the potential small borrowers from approaching these institutions for credit.

2.6 OVERALL ECONOMIC DEVELOPMENT OF RURAL POOR

There are macro level studies on the plausible effect of various policies in overall economic development of poor. Ahuliwalia (1978) based on time series All India data of 1956-57 to 1973-74 demonstrated an inverse relationship between rural poverty and agricultural production per capita of the rural population.

Using data for the years of similar weather between 1963 and 1983, few other studies have also brought out strong association between agricultural growth and poverty reduction in states of Andhra Pradesh, Gujarat, Haryana and Punjab (Dev. et al 1991).

Gaiha (1985) had added a further dimension to the above argument by stating that though rural poverty was causally linked to the level of agricultural production, it is the fluctuations on consumer price front that determines the fortune of the population below the poverty line.

Mandal and Lakshmanaswamy (1989) have argued that the shift
in India’s Rural Development Policy from growth to growth with equity during seventies and eighties has resulted in the reduction of percentage of population in absolute poverty in India, when compared to preceding growth decade. Using data between 1970-71 and 1983-84, they demonstrated a decrease in the percentage of rural population in poverty to the extent of 14.8 (All India) and in varying degrees of reduction in all other states excepting Assam.

Kakwani and Subba Rao (1992) have concluded that looking at the entire period 1973-74 to 1986-87, the aggregate rural poverty has declined substantially. The incidence has declined from 60.6% to 41.5% and the severity (i.e. the gap between an average poor person’s income and the poverty line) from 18.8% to 10.5%. Even the absolute number of poor declined by about 37 million. These figures demonstrate the commandable achievement of both growth and direct poverty alleviation efforts made during the period. Thus, according to them, growth programmes and Anti-poverty programmes, viz. the trickle down and pull up - are not substitutes but complementary in nature.

2.7 EFFECTIVENESS OF CREDIT BASED POVERTY ALLEVIATION PROGRAMMES

Though credit is widely used as an instrument of poverty alleviation, in IRDP like programmes, there is no consensus among the researchers on its rationale.

According to Rath (1985), going by the very meagre percentage of people who had actually crossed poverty line through
assets provided to them under the IRDP and the doubt relating to its sustainability over the later years, the strategy of helping the poor in rural society to get over poverty with the help of assets given to them is largely misconceived. Only a small proportion can be helped in this manner. Putting more burden on this approach will discredit the line of attack, generate wastage, corruption and ultimately cynicism. In a multi-pronged attack on rural poverty, this approach has a legitimate place, but it can not be the mainstay of such a programme. Instead creation of massive wage employment opportunities, both in private and public sectors, should be a major strategy for poverty eradication.

Whereas Dantwala (1985) argues other way stating that though the results may not have been commensurate with the efforts, but that does not prove that the strategy of generating assets for poor and upgrading their skills is wrong.

Indira Hirway (1985) in a rejoinder to the above debate, has stated that the role of IRDP can not be undermined. In an economy with 62.52% of working force in self-employment, the IRDP kind of approach has to be important. The question is not whether IRDP approach will deliver goods or whether wage employment strategy will work. What is needed, however, is a total approach that integrates the various strategies systematically, in a complimentary fashion. According to her, strengthening the planning component, through a single planning body at district level is the only way to solve the problem.
Dev et al (1991) reviewing a number of evaluation studies on IRDP concluded that "perhaps the mistake in such programme has been to target it to the poorest. Capital by itself does not make an enterpreneur and certainly the poorest have too little skills to become successfully self-employed. Hence, such programmes have a better chance to succeed, if directed to the not so poor and the benefits may trickle down to the poorest in due course."

Gaiha (1991) reviewing two sets of simulation results with a view to designing an effective anti-poverty strategy have opined that "among the various anti-poverty interventions, wage employment generating programmes like Rural Works Programme has the greatest effect on rural poverty, over a period of time. However, in certain areas with favourable conditions for self-employment, programmes such as IRDP may also be potentially effective in poverty alleviation. There again if the participants were motivated, assets were not divisible and careful appraisal procedures were followed, the IRDP investments even among the poorest viz. marginal farmers and agricultural labourers improve substantially."

Sadakkadulla (1993) reviewing institutional credit programmes for poverty alleviation in ten South and South East Asian countries concluded that "while the purely supply led subsidised credit programmes pushed through by governments, have resulted in taking them as dole by the poor (as the case of IRDP in India, Masagana 99 in Philippines, etc.) tightening of control by way of demand based
credit, through adequate supervision, through self-help groups, often at commercial rates of interest tried in other programmes (such as Loan for landless from Grameen Bank of Bangladesh, Credit for micro poor by Bank Kredit Keklamatan, Indonesia etc.) were largely claimed as success stories. The experience of these also indicated that what matters to rural poor is not the concessional rate of interest, (though their rates are certainly advantageous as compared to those charged by informal lenders) but timely availability of credit on a continuous manner.

Concluding the debate, Agricultural Credit Review Committee (ACRC) (1989) recommended the following as an effective anti-poverty strategy through credit:

i) A master list of the poor in each block should be drawn up through a process of identification at one go. After screening out those who have to be assisted only by Social Security Programmes (old, infirm, disabled) the master-list should be made available to each bank branch in respect of its area of operation.

ii) Priority in assistance may be given by the bank to those who have some asset base, either of land (small and marginal farmers) or of skill (artisans, or others specially trained in some line of activity).

iii) The remaining ones would be those, mostly belonging to 'destitude' and 'very very poor' categories, who will not be able to cross the poverty line, except in few cases, with assistance under IRDP alone. For them, it will be necessary that they be assisted under both the wage employment and self-employment
programme simultaneously. For those who may have no capability altogether of handling an asset of any kind and, therefore, will have to be looked after entirely under the wage employment programme.

iv) The targets for IRDP should be higher in blocks with better potential and better infrastructure availability, whereas in poorer blocks, the targets for wage employment programmes should be comparatively larger. The same applies to states with less developed states getting larger allocation under wage-employment programmes.

v) The selection of beneficiaries under both kinds of programmes will have to be done in a planned and calculated way by the DRDA and banks jointly so that those who are assisted either or both these programmes do manage to cross the poverty line and are out of the reckoning of poverty.

2.8 IMPACT ON INCOME AND POVERTY LEVEL

Using micro level data, there are several impact studies of All India nature. Many of the studies relates to the evaluation of the impact of IRDP, the major poverty alleviation programme involving institutional credit.

RBI (1984) based on a nation-wide field study on implementation of IRDP covering 869 beneficiaries in 16 states of the country came out with the finding that the assistance provided under the programme has resulted in a progressive shift in real incomes in respect of 362 beneficiaries (i.e. 50%). Among the beneficiaries whose income has increased, 124 beneficiaries (viz.17%) have been able to cross the poverty line.
NABARD (1984), Institute of Financial Management Research (1984), Programme Evaluation Organisation of Planning Commission (1985) put the percentage of sample households which have registered incremental income as 82.0%, 84.2% and 88% respectively. Of them, percentage of sample households which have crossed the poverty line were 47.0% (according to NABARD study) and 49.0% (according to PEO study) whereas IFMR have not reported any specific figure. While there is some degree of convergence in the results, it is significant that the RBI estimates are considerably lower than the rest. This is largely because of the discounted values of incremental income of beneficiaries at current prices by 27% in order to arrive at their real incomes at 1981, by RBI study, while other studies have not done that exercise (Gaiha, 1990).

Government of India has conducted concurrent evaluation of IRD Programme since 1985. According to third round completed between January and September 1989, (covering 1440 beneficiaries per month in 36 districts all over the country) additional income was generated out of asset acquired through the scheme in 70% cases. In all 28 per cent of beneficiaries have crossed the poverty line.

Arunkumar (1984) has concluded that only in one out of 10 families assisted under IRDP, the programme has created a sizable and perceptible impact on their income and standard of living. In respect of another 64% families, initial poverty gap was either increased, remained same or bridged to extent of 30% only after the assistance, and the chances of these families crossing poverty
line, was found to be negligible in the absence of concerted efforts for doing so. In case of another 11% families where the poverty gap was bridged to the extent of 31 to 50% only, chances of crossing poverty line was remained meagre. However, the chances of success in respect of another 12% families where the poverty gap had been narrowed down to the extent of 51 to 80% were good. Those families will be able to cross the poverty line with passage of time, provided they are given continued back-up financial support for sustenance of the activities pursued.

Palande (1985) based on a research study in Shrirampur Taluka of Ahmednagar District covering a sample size of 442 families in 10 villages, concluded that as a result of IRDP, the number of families below poverty line declined, and the number of families in the income groups of Rs.3501/- to Rs.5000/- and above Rs.5000/- increased upto 74 and 9% respectively in small farmers category, 56 and 9 per cent in marginal farmers category and 1 per cent each in landless labourers and village artisans categories.

State Bank of India (1985) has conducted impact studies of IRDP in its 10 lead districts located in different parts of the country and found that out of the 1000 beneficiaries contacted, as many as 503 (50.3%) recorded an increase of over Rs.1000/- in their annual family income. In case of 217, (i.e. 21.7%) of the beneficiaries, the increase recorded was more than Rs.2,000/-. The average annual family income increased from Rs.3027 in the pre-assistance period of Rs.4399 in the post-assistance period, recording on an average of Rs.1372 or 45% per beneficiary family.
Indian Bank (1991) based on a study conducted in six of its lead districts in Tamil Nadu and Union Territories of Pondicherry, covering a random sample of 700 beneficiaries of IRDP has concluded that, nearly 32% of the BPL families financed has crossed the poverty line. The average post assistance income from the activity financed was at Rs.2524 forming 38.4% of the total income from various sources.

Madhura Swaminathan (1988) based on a study in West Bengal villages reported that 52% of beneficiaries who have received IRDP assistance experienced a relatively long term improvement in their economic status, in terms of new productive assets and/or a higher level of earnings.

Reviewing several evaluation studies on IRDP by institutions and individual researchers, Seventh Five Year Plan had concluded that the number of persons who had crossed poverty line (of Rs.3500/- fixed during Sixth Plan Period) was around 40.0 per cent, although additional income have accrued in case of 85 to 90% of beneficiaries.

2.9 SUSTAINABILITY OF INCREASED INCOME

While the immediate income increases of assisted beneficiaries in general was found to be satisfactory, how far it was sustainable, was the question put forward in certain studies.

Madras Institute of Development Studies (1980) based on evaluation of IRDP, and related programmes in two drought-prone
districts of Tamil Nadu, came to the conclusion that, small and marginal farmers who were provided assets under these schemes, do not often have the economic strength to derive optimum benefits from such investments; their inability to incur expenditure necessary to maintain milch or draught cattle for instance, is limited. In many cases, indebtedness of the beneficiaries had increased due to supplementary borrowings from money lenders, which had become necessary to maintain the cattle or repay the institutional loans.

Gopestake *et al* (1987) making a comprehensive assessment of IRDP and other government sponsored credit schemes for livelihood, in Madurai Region of Tamil Nadu, reported that a significant proportion of borrowers do not derive lasting economic benefits from participation in these schemes. In their findings, livestock loans disbursed under IRDP generally had a small and temporary impact on the income level of beneficiaries.

Madhura Swaminathan (1988) concluded that the poor gained temporary relief from subsidy which served as a net transfer. In addition, a large number of households benefitted from an increase in income level. The sustainability of a new and higher level of income was also not uniform across households. Long run benefits, in the form of an addition to their productive asset base, accrued to approximately 50 per cent households that received IRDP assistance.

Pulley (1988) in a follow-up survey of IRDP beneficiaries in Uttar Pradesh had reported that, the retention of IRDP assets
fell by about 30% in the third and by 40% by fourth years after the loan was received. Initial income level of the beneficiary is one likely determinant of asset retention. The poorest households had the lowest (46%) retention rate while the less indigent groups had a better (64-75%) performance.

2.10 IMPACT ON EMPLOYMENT

Chawla et al (1983) while evaluating impact of DRI scheme, found that the institutional credit extended under the scheme had become instrumental in increasing family's employment status to a certain extent. In fact, after obtaining loan, no family was totally unemployed. According to the study, before obtaining loan, about half of the sample families had got annual employment of less than 300 days. While after availing loan, about 28% of them got employment for 365 days, i.e. at least one manday of employment per family. It also found that credit was instrumental for increasing the number of employment days per family, in respect of 236 families (i.e. 15.8%). However, in about 58% of cases, there was no perceptible change in number of days of employment.

SBI Study (1984) had indicated that on an average, the number of mandays of employment generated per family, taking both the principal as well as subsidiary occupations together, increased by 78 per cent in all the ten districts where the study was conducted. However, in six districts, viz. Koraput, Bastar, Gulbarga, Chanoli, Palanari and Badgaon, the increase in employment in terms of average mandays was lower than sixty days.
The insignificant increase in employment generation was due to large scale disposal of assets (in Koraput), inability of the beneficiaries to fully utilise the asset provided (e.g. Plough bullocks in Bastar) and inability of the assets to provide continuous employment, etc.

Planning Evaluation Organisation (1985) based on data collected from sample households of IRDP beneficiaries had worked out that the average increase in employment in respect of tertiary sector schemes was of the order of 51.75 per cent. For the primary sector schemes, it was 50.61 per cent and only 35.18 per cent for secondary sector schemes. Within primary sector, the increase in employment per household ranged between 9 to 56 per cent for agricultural schemes, from 23 to 105 for animal husbandry schemes and from 20 to 162 per cent in respect of subsidiary occupation schemes. In the case of sample beneficiaries covered under secondary sector schemes, the increase in employment was as high as 184% in hill areas, upto 10 per cent in other areas. The increase in employment per household in respect of tertiary sector schemes was between 43 per cent to 66 per cent in general, but was of the order of 32 per cent in tribal areas.

Khatkar et al (1987), in a study conducted at Haryana, found that the employment generation was found to be more in case of marginal farmers followed by landless respondents, mainly due to continuance of practice of hiring out human labour as well as camel and cart services and acquisition of sheep enterprise which was observed as the highest labour absorbing activity. In respect of
small farmers, however, no significant improvement was noticed mainly due to less hiring out of labour and services for wages.

Study by Binswanger (1989) had pointed out that the effect of commercial banks and overall rural credit on non-farm output and employment had been large and so large indeed that agricultural wages have also risen.

Chawla and Bhat (1990) evaluating the impact of IRDP had concluded that the scheme has provided a supplementary part time occupation to the beneficiary households.

2.11 IMPACT ON CONSUMPTION EXPENDITURE, NUTRITIONAL STATUS & STANDARD OF LIVING ETC.

As nutrition is one of the important limiting factor in a poor family as evident by several studies (ICRISAT 1988, World Bank 1989) besides low level of consumption expenditure or standard of living evaluating the impact on this front has been attempted in many studies.

Using raw data drawn from 25th (1970-71), 32nd (1977-78) and 38th (1983) rounds of National Sample Survey (NSS), Liebermen (1989) has estimated that, real monthly per capita expenditure in the lowest two rural deciles increased by a modest 11% (0.83% annual growth rate) during 1970-71 to 1983 interval. For the rural population as a whole, monthly per capita expenditure grew by 13.0% (0.97% annual growth rate). There were also groupwise differences to the extent that mean expenditure was 14% and 28% lower for rural
scheduled castes and tribes respectively than for the entire population. There were differences in the consumption levels of different occupational groups as well. The rural households primarily depend on labour market earnings are typically much poorer than the largely self-employed. Agricultural labourers in Bihar, Orissa and M.P. many of whom have tribal or scheduled caste backgrounds have especially low monthly per capita expenditure. Those in the lower rural deciles typically allocate 70% or more of total expenditures to food. Surveys, in the semi-arid villages routinely monitored by ICRISAT have found mean calorie intake in landless labour and small farm households to be substantially lower than in medium and large farm units. Within the poor families malnutrition was all the more prevalent among children and women. The malnutrition amongst the poor involves not only caloric deprivation but also serious deficiencies in consumption of proteins and micro-nutrients. This form of malnutrition was found to affect young children, adolescent girls, pregnant and nursing women most acutely.

SBI study (1984) has reported 33.0 per cent increase in average monthly family expenditure in the post-assistance period. This was true even in respect of districts (like Koraput) where the income generation or repayment of loan was poor. This indicated that a sizable part of the increase in income was used by the beneficiaries for increasing consumption levels.

Khatkar et al (1987) found that income and family expenses had increased significantly in all the categories of poor after
availment of loan. There was more increase in case of small farmers followed by marginal farmers and landless labourers. It was also found that the landless people had utilised relatively higher proportion of their income for consumption purposes followed by marginal and small farmers.

Indian Bank Study (1991) reported that out of the incremental income 68% was spent on food, 14% on social ceremonies and other purposes, 9% on clothing, 6% on medical assistance and 3% on education.

Kadur and Kausik (1992) had reported that the pattern of consumption expenditure of the IRDP beneficiaries supported the Engels law.

2.12 IMPACT ON SAVINGS, INVESTMENT AND ASSET POSSESSION, ETC.

Though generally it is believed that poor do not have the potential to save, several recent studies which had analysed the income utilisation pattern have provided evidence to the contrary.

Desai (1980) reported that incremental income out of farm credit was utilised for purposes like crop production, land improvement etc. in case of landed categories. The investment pattern also indicated that investment in sources other than agriculture include shares, savings certificates, bank deposits and insurance, etc.
Bank of India (1975) study in Sholapur District has found that, roughly about 8 per cent of the additional income realised by the borrower-farmers had gone into saving mainly in the form of bank deposit, about 6% had been used for purchase of precious metals, the traditional mode of saving in the rural areas and about 7 per cent had been used to raise the standard of living through improvement of residential houses and purchase of durable goods.

Alamgir (1978) in a study in Bangladesh has shown that rural savings and investment is influenced by income, wealth, land tenure, external resources, taxation, demography, price levels, rural market structure, technology, last but not the least, rural credit. The relative importance of these factors varies according to the circumstances under study.

SBI (1984) study found that there was perceptible improvement in the assets position of the beneficiaries. The average total assets per family increased by more than the average assistance received by them under IRDP, indicating some diversion of incremental income for assets acquisition.

Khakkar et al. (1987) had indicated that as the income of rural poor had increased due to IRDP, it had also induced savings as revealed by positively widening of gap between income and family expenses after assistance.

So also, Thapa et al. (1992) drawing upon the practical experience in 8 Asian countries including India, has concluded that
poor people in developing countries especially those without adequate access to productive land or paid employment, support themselves with a number of self-employed activities in trade, services, crafts and petty manufactures, as well as in agriculture. These poor have a high propensity to save if opportunity and motivation are given to them besides continuous access to institutional credit even if at high interest rates.

2.13 IMPACT ON CROPPING PATTERN, INTENSITY, ETC.

Another dimension on which impact of institutional credit may be measured, especially in the case of landed categories is, the increase on cropping pattern towards high value crops, cropping intensity, etc. and several studies had reported such impacts.

Bank of India (1975) study indicated that bank finance for minor irrigation, especially in a drought prone district like Solapur, had resulted in increase of cropping intensity from 61.5% to 110.3% in three years. Marked shift in cropping pattern towards commercial crops from 23% to 37% was also reported because of bank finance. The above impact also had resulted in adoption of new technology, employment, income, all leading to an improved standard of living.

A study by National Cooperative Land Development Banks Federation (1984) in Andhra Pradesh, indicated that increase in high value cropping pattern viz. paddy area, has increased from 7 to 37% in Mahabubnagar District, a drought prone area, and from
17 to 47% in case of Chittoor District. So also cropping intensity has registered an increase from 121 to 147 in Mahabubnagar and 121 to 163 in Chittoor District, after availment of term loans for agriculture, in respect of small and marginal farmers.

Tyagi and Pandey (1984) based on a study in Haryana had reported that technology alone contributed relatively more on mechanised and partially mechanised farms, as compared to capital component. But the contribution of capital component on bullock operated farm was the highest, and that of the technology lowest. Furthermore, the interaction effect of capital and technology are though substantially high in all the 3 categories of farmers, its contribution was the highest on bullock operated farm. It signified the fact that credit can play its dynamic role only in conjunction with agricultural production technology, i.e. in presence of credit absorption capacity.

Nayak et al (1985) reported based on a study in the Malaprabha command area of Karnataka that, availability of credit influences both cropping pattern and cropping intensity. The provision of short term and long term credit with irrigation potential results in shifting of cropping pattern in favour of cash crops. The effect of change in cropping pattern with quality of increased credit was more among small and medium farmers.

2.14 IMPACT ON SOCIAL STATUS ETC.

A series of studies conducted by National Institute of Rural Development (NIRD), Hyderabad reviewed by Padmanabhan (1992)
had revealed that the implementation of IRDP has conferred social benefits to the beneficiaries. The increase in income and economic status has augmented their social status. Possession of an ox has resulted in improvement in their social status and their contact with bank and block officials has yielded a more respectable position to them in society. In a few cases, this has placed them in a position where they could extend help to other members of their community and friends. A majority of beneficiaries perceived the improvement in their social status as one of the real achievements of IRDP.

2.15 IMPACT ON INDEBTEDNESS AND REPAYMENT PERFORMANCE OF BENEFICIARIES

Ultimately it is the repayment of past dues that is what matters to the bankers, as that alone leads to recycling of funds, thereby enabling the poor to have continued access to credit. Unfortunately, the experience of institutional credit programmes in general and IRDP in particular, has not been much encouraging in this regard.

Dadhich (1977) after a detailed study of Cooperative Banks in Rajasthan has identified the following socio-economic factors as influencing the repayment. There is a strong positive association between repayment and middle caste growing of commercial crops, cultivation as main occupation and irrigation. Whereas there was no association between the land owned, amount borrowed, level of literacy of the borrowers, and the repayment performance of beneficiaries. The study also revealed that 23.5% of overdues were
on account of wilful default, 8 to 14% were due to inadequate stabilisation arrangements in case of failure of crops and the rest of the overdues were attributed to the incompetent management on the part of borrowers.

On the question of increasing rural indebtedness, Hebbar (1989) quoting All India Debt and Investment Survey figures, has stated that in the post-independence period, the total borrowings in cash and kind of rural households nearly doubled from Rs.1956 crores in June 1961 to Rs.3848 crores as at the end of June 1981. Though there has been a perceptible decline in the share of the non-institutional sector in the provision of rural credit during the last two and a half decades or so, viz. 92.7% in 1951-52 to 38.8% in 1981-82, they are still occupying a pivotal position in catering to the credit needs of the rural people.

Agricultural Credit Review Committee (1989) estimated that as against the recovery in respect of direct agricultural advances by public sector banks at 57.4% for the year 1986-87, the recovery rates under IRDP of these banks for the same year was just 45.3%. The Committee pointed out that the recovery position of PACS and LDBs is relatively better off than that of commercial banks. The recovery is the lowest in RRBs lower than 50% and the general trend has been towards deterioration over the years. As a whole, the overall recovery status of all agencies is far from satisfactory. The main reasons for non-recovery of loans under IRDP were inadequate income generation and tight repayment schedules. The
increased income derived from the assets under IRDP eroded due to compelling obligation to meet family expenses as well as repayment of old private debts.

Indian Bank Study (1991) revealed that the overall recovery in terms of collection to demand as of June 1988 was 37.6%. Among the sectors, 49.0% was in case of allied activities, 41.3% in case of village and cottage industries, 33.9% in case of agriculture and 26.1% under tertiary sector. There again repayment was found to be better when assets were intact. Out of total loan accounts closed, nearly 75% of the accounts belonged to cases where assets were intact and remaining 25% of the accounts belong to cases where assets were not intact. Loan accounts were also found to be regular in operation in case of SC/STs and women when compared to other categories.

Shete (1992) evaluating the experience of agricultural loan recoveries in various developing countries including India has concluded that among the factors that facilitate prompt recovery of agricultural loans in most countries, those relating to pre-disbursement stages like adequacy of credit, credit in kind, ensuring timely input supplies, close supervision, well equipped and trained staff and availability of all kinds of credit facilities at one window are the most important factors. Rescheduling of loans where required and crop insurance facilities were also important steps. Some of the special measures taken for facilitating loan recovery are, the agricultural identity card as introduced in Sri Lanka, and intensive educational campaign for proper use of funds.
by borrowers as in Philippines, provision of infrastructure, farm support prices and extreme penalty for wilful defaulters as in China, group loan responsibility system through formation of self-help groups as in Bangla Desh and several other Asian countries in the recent past.

Commenting upon the indebtedness at micro-level IFAD Study (1993) observed that, as many as 60% of tribal families of Andhra Pradesh are in debt to non-tribal trader money lenders. Most borrowing is for consumption, for buying of food grains during lean season and for social expenses. The tribals do their best to maintain this link, by repaying their debts on time but when their surplus is inadequate, they are forced to further borrowings. The result is a permanent debt trap, exorbitant rates of interest (50% to even 100% p.a.) and obligatory sale of commodities at low price to traders.

2.16 IMPACT AGAINST NON-BENEFICIARIES

A comparison of the socio-economic conditions of beneficiaries against non-beneficiaries (as control sample) provide a glaring evidence of impact of credit.

Kohinkar (1982) evaluating the impact of institutional credit on farmer's economy has concluded that the borrower groups were economically better off than non-borrower groups, as evidenced by the larger farm assets, durable household goods as well as greater returns from farm and non-farm occupations.
A study of IRDP conducted in (1984) by Government of Tamil Nadu had revealed that -

(1) While the family composition is more or less similar in both categories, the beneficiary families had 71% of their adults in employment as against 61% in non-beneficiary families.

(2) While wage employment figures more prominently contributing 45.5% of total income in the non-beneficiary income profiles, in respect of beneficiary family, it was contributing only 19.0%.

(3) The income per capita average per annum for the non-beneficiary families were around half the level of the beneficiary families.

(4) Both the consumption levels as also the pattern of consumption have undergone little change among non-beneficiary families unlike their beneficiary counterparts.

(5) indebtedness and asset level was also favourable in respect of beneficiaries as against non-beneficiaries.

2.17 CHARACTERISTICS OF SUCCESSFUL BENEFICIARIES AND SCHEMES

More than the actual impact, it is identifying the factors which made it success, which is all the more important in shaping future policy for poverty reduction through credit.

In this connection, Oster (1978) reported that education increased one's chance of escaping poverty. The study further
revealed that this may be due to the fact that education was positively correlated with a number of other factors including ability, motivation, etc. which themselves independently affected the income.

Subbarao (1985) stated that initial income position of selected beneficiary household was the most dominant factor in enabling the crossing of poverty line.

Sadakkadulla et al (1982) reported that analysing of data relating to the individual beneficiary schemes implemented in the DPAP district of Ramanathapuram, revealed that the awareness of the schemes among the beneficiaries was good in general. However, their attitude towards the schemes differed between the scheme areas which have registered success and the scheme areas which have reported failure. The study identified the following factors, which can contribute to the success of any development scheme in an area:

(a) Interest on the part of the officials both in the implementation and follow-up stages of the scheme,

(b) Peoples' conviction about the suitability of the scheme to the particular area,

(c) Infrastructural facilities to support the scheme,

(d) Availability of inputs to sustain the scheme,

(e) Proper appraisal of the benefits of the scheme to the people through educational efforts prior to the implementation of the scheme.
A study by Chawla, O.P. et al (1983) on the Impact of DRI Scheme had revealed the following:

(i) Weak socio-economic, educational and occupational backwardness of the poor, was the major constraint in the successful implementation of the scheme.

(ii) Though the scheme intensified and diversified, the economic activities of borrowers, improper identification, lack of proper supervision were contributing to unsatisfactory results.

PEO (1984) study reported that the highest incremental income per household was reported in case of tertiary sector schemes followed by secondary and primary sector schemes respectively. Within the sectors, 92.6% of the beneficiary households provided with subsidiary occupation schemes like sericulture, fisheries, etc. were able to cross the poverty line, due to larger income generating nature of such schemes. Next to this, tertiary sector schemes emerged as having better income generating potential since nearly 68% of the households covered under this type of schemes were able to cross the poverty line. Similarly, 54% of households covered under secondary sector schemes were able to cross the poverty line.

Hanumantha Rao (1988) reviewing IRDP schemes reported that in terms of income generation, performance of secondary and tertiary sector activities particularly the latter has been better than the primary sector activities especially among low income households.
A study of rural poor by Singh et al (1990) conducted in Puri District of Orissa revealed that among all the variables considered in the discriminant analysis, per capita income and productive assets among rural artisans and small farmer households, and number of working days among landless labour households emerged as strong discriminating variables influencing the household's economic status above or below the poverty line.

Indian Bank Study (1991) revealed that the higher the size of investment, more the incidence of crossing of poverty line. For any given size of investment, the crossing of poverty line was reported rapid in poor beneficiaries when compared very very poor beneficiaries.

Padmanabhan (1992) reviewing the various evaluation studies of IRDP conducted by National Institute of Rural Development, in different regions of the country, noticed considerable variation in the extent of income generated among beneficiaries. The capital output ratios (ICOR) are found to be sensitive to location, beneficiary category and their managerial abilities, and the scale of investment.

The relevance of subsidy to the credit linked poverty alleviation programmes was examined by Dinesh Chandra (1991) who concluded that it will not be advisable to do away with the capital subsidy and replace it by an interest subsidy which neither benefits the borrower nor the banker nor the development policies of the Government. The subsidy, if it is to continue, will have to remain a capital subsidy paid at the initial stage to the beneficiary. It
can be temporarily suspended or scaled down in the areas which are prone to its misutilisation and the proofs for which exist through persistent poor recovery record. In the regions, where such schemes have been successful, there should be no hesitation in increasing the loan amount of the projects to be undertaken by the beneficiaries and a corresponding increase in the subsidy amount in the project cost to encourage the entrepreneurs of weaker sections to take up bolder and more spirited projects.

George et al (1988) after examining the alternative forms of subsidies has come to the conclusion that subsidy must be construed in developing countries, like India more as an instrument promoting risk-taking attitude of the farmers than anything else. Among the various forms of subsidy, reduction in input prices seems to be the most appropriate subsidy measure for enabling the farmers take the maximum risk. Whereas any further reduction in the interest rates is quite difficult and also the benefits of such reduction will be unfairly cornered by larger landholders unless applied very discriminately. So also the policy of higher support price for output will benefit the larger farmers who have larger marketable surplus. Credit subsidy too is not helpful to the real targets of marginal and small holders, as the institutional credit to a large extent do not reach them, due to their smaller holding, larger incidental cost of borrowing and other malpractices prevalent at various levels in disbursement of credit and subsidy.
Gopestake (1987) has listed out the arguments for and against subsidy as under. While on efficiency grounds, the subsidy is important to help new enterprises establish themselves in competition with existing producers, they attract ineligible borrowers to schemes intended for poor, create opportunities for consumption and many encourage misinvestment as well. Further commenting on the poor impact of loans for livelihood in general, he has observed that-

(i) over expansion of lending to a particular activity when compared to its potential demand and also availability of supportive infrastructure;

(ii) relative vulnerability of small household enterprises when compared to large commercial enterprises, with need to face the fall in output prices;

(iii) thin line dividing the household budget with the enterprise budget many a time forcing the closing down of the project and so on as the causes of poor loan impact and large scale project failures.

Section - III

3.0 CHARACTERISTICS OF IMPOVERISHMENT IN DROUGHT PRONE AREAS

Drought Prone areas are those which are chronically associated with problems, such as high periodicity of drought occurrence, low and erratic distribution of rainfalls less percentage
of irrigated areas etc. These are also places which are generally associated with low level of development, limited scope of agricultural growth, prevalence of small holdings and lack of viable infrastructure to stimulate economic growth. The risk in drought prone area is so high that often fear of crop failure act as a barrier to both demand for credit and adoption of technology. The stress on poor family in a drought prone area is heavy due to the above high environmental risks. Generally, 4 types of loans are required by different classes of farmers in these areas: (Gupta, A.K. and Manu Shroff, 1990) -

(a) Survival loans required to mitigate hardships caused during period of stress as a result of natural or social factors.

(b) Loans required urgently for reasons which could be wholly or partly avoided or postponed (e.g. marriage) given better socio-cultural environment.

(c) Loans for improving productivity

(d) Very small loans required to meet occasional deficits in cash flow because of very low level of income.

Public policy for rural development in India has shown an increasing concern for amelioration of poverty with specific reference to such regions which have been bypassed by the development thrust of post green revolution era. As the present study was undertaken
in a drought prone area, some of the earlier studies in this regard has been reviewed in the subsequent paragraphs.

Mehra (1971) while discussing the need of planning for the poor in drought prone areas, pointed out that except for some scarcity relief operations from time to time, these areas could not compete with relatively better of parts of the country and pockets even within the district, for attracting plan investments and as a result remained in the "plan shadow".

Patel, K.V. (1978) analysing the farm structure and resource use in drought prone areas, from the view point of institutional credit for development, concluded that, both the diversification of farm enterprises and the intensification of farm activities are not only technical possibilities, they are sound, economic propositions as well. The availability of irrigation facilities, not only helps intensification of cultivation; but also it is very complimentary to the diversification particularly for the small farmers. The study also highlighted the significance of the package approach for farm development. The investment in irrigation becomes more rewarding when the farmers simultaneously undertake suitable cropping pattern and other important elements of farm technology such as fertiliser, pesticides, etc. The adoption of new farm technology not only increases scope for further employment of labour, it also, at the same time, rendered the labour more productive. There was a huge gap between the total investment and working capital requirement for intensifying the activities and diversifying the enterprises of an average farm on the one hand
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and the amount of investment and working capital presently available with it on the other, thereby signifying scope for institutional credit, to bridge the gap.

Sadakkadulla (1980) based on an evaluation study of DPAP in Ramanathapuram District, Tamil Nadu, has reported that, there is intra-district variation within the district by way of net sown area, percentage area under food crops, reliable sources of irrigation, industrial and infrastructural development, etc. The involvement of institutional credit was restricted to a few schemes like milch animal, sheep rearing, etc. While Bajra, Chillies, Groundnut, and Sugar cane crop recorded a positive growth rate in productivity over a period of time, most other crops registered only a negative growth. People's attitude towards drought was such that in the absence of rain, neither government nor people could do anything. Consequently, the tendency of small and marginal farmers in the district was such that they always looked for some menial jobs in secondary and tertiary sectors in preference to farming. Even dry farming was found to be profitable provided adequate capital was there to invest upon it.

Gupta (1983), based on a study in the Drought Prone Ahmednagar District of Maharashtra, has listed out the major parameters of poverty problem in drought prone districts as under-

(1) Extra-ordinary, intra-district disparity in agricultural productivity and credit flow, with larger concentration of credit in irrigated regions;
(ii) Poor availability for sheep, goat, craft and village industries,

(iii) Uncertainty of weather making agriculture risk prone,

(iv) Repeated droughts causing serious losses of bullock and other meagre assets of poor,

(v) Pressure on land coupled with constrained availability of grazing land affecting livestock production, even though average size of holding is large but productivity of which is poor.

(vi) Extremely limited irrigation potential implying the need for looking for developmental alternatives in the rainfed context only viz. dry farming and non-farm enterprises. He further recommended that, in these regions rather than encouraging finance for only cattle, sheep or goats various combinations of these should be financed as portfolio.

3.1 DIFFERENTIAL IMPACT IN BACKWARD AND DEVELOPED REGIONS

The experience of poverty alleviation programmes involving credit was by no means uniform in the country. In general, the performance of these programmes has been better in the relatively developed regions which are well provided with infrastructure and where the level of awareness among beneficiaries is also high. Even in the less developed areas, the performance has been satisfactory
wherever special efforts have been made for undertaking the necessary follow up measures.

PEO (1985) study, distributed its sample over seven different areas, viz. tribal areas, hill areas, agriculturally developed areas, agriculturally less developed areas, desert areas, areas with good administrative infrastructure to assess the differential impact, if any, of IRDP. The results by way of the highest incremental income indicated that in areas where basic infrastructural facilities were adequate or in areas which were agriculturally developed, there was better scope for raising incomes through tertiary sector activities. Based on the analysis, it recommended that there is a need for a comprehensive review of the viability of on-going schemes specific to the areas including their integration with the local plans of the district and blocks. It is also necessary to ensure that the benefit schemes devised are area specific so that they are not only more suitable to the conditions prevailing in different areas but also enhance the productivity and return of the investment undertaken for the purpose.

Hanumantha Rao (1992) evaluating IRDP in U.P. for the period October 1985 and September 1986 concluded that infrastructurally backward regions like Himalayas and Eastern region showed a smaller net increase in income attributable to IRDP. For infrastructurally developed region, nearly two third income was from IRDP asset.

Gopal and Ramulu (1989) had reported based on a comparative study of IRDP in A.P. that macro-level data suggested that the
districts which are relatively more advanced, showed better performance than the districts which are backward and situated in less developed regions. An analysis of micro-level data at the district level and below also exhibited a similar trend. The blocks which are relatively better off, attracted the scheme and loans more than the blocks which are backward and under-developed. The village and beneficiary-wise data also revealed that the better among the members of the target group located in irrigated belt took advantage of these schemes. The scheme-wise and beneficiary-wise performance revealed that minor irrigation schemes which are land-based - have given a better account of themselves than the non-land-based schemes. The non-land based schemes like cart and bullock and sheep proved beneficial only where the members owned some land. The most disadvantageous is the agricultural labourers, particularly of the under-developed regions. In most of the cases, they have not been able to utilise the schemes and have diverted the loan amount for consumption and other purposes. Based on the analysis, they concluded that the better off regions and the beneficiaries have built in gravitational pull. The policy has a propensity to respond to the better off conditions rather than create those conditions for effective implementation of the scheme.

A study by Chawla and Bhat (1991) on IRDP in a relatively less developed block (Auras) of U.P. against a relatively more developed block (Mhow) of M.P., however, indicated that, performance of IRDP was not different to a significant extent in these blocks with different development level, though numerically
the scheme contributed to the well being of 59% of the beneficiaries in the former as against 65% in respect of the latter. The loan recoveries effected in both the blocks were more or less same. In both the blocks, it was relatively better off households including the ineligible families who had secured the loans; and this was more true of Mhow Block where households were in any case was better off than households in Auras block. The authors concluded that the possible explanation for the observed phenomenon could be that the terms of credit being same especially the subsidy element leading to corruption, financing of a single buffalo in the place of one plus one unit for viability etc., whatever the other good features of the programme environment is off-setted and the performance is levelled down to a common base line result.

The three dimensional views presented above clearly indicate that there were several studies made both at macro and micro level relating to different aspects of institutional credit and its impact on rural poor both in India and abroad. There are no consensus in opinion about the effectiveness of institutional credit in respect of poor. Many, however, are of the apprehension that inspite of massive financial support and reported success, institutional credit programmes for rural poor have not succeeded in sustaining the increased levels of income and thereby permanently lift them above poverty line.

Some of the recent researches on poverty alleviation world over are mainly concentrated upon - (a) role of informal rural credit
Institutions, (b) effective rural financial intermediation through Self Help Group mechanism, (c) gender issues and people's participation in credit based development programmes, (d) cost of credit especially for the financial institutions, and (e) effective targeting of institutional credit to potential regions and persons, etc.

On the whole, there was gap in literature relating to a comprehensive study which can apart from evaluating the impact of institutional credit on rural poor, can also suggest an effective strategy keeping in view the success prone variables concerning the individuals, schemes and the region. So an attempt has been made to make such a comprehensive impact study with futuristic angle, based on primary data in the drought prone Pune District of Maharashtra. Though the study was confined to the Pune District, it obviously had relevance and significance to the administering of institutional credit in not only other districts/states of India, but also in similar regions elsewhere in the developing world.