CHAPTER VIII

SUMMARY, POLICY IMPLICATIONS AND SUGGESTIONS

8.1 Design of the Study

The present study explores the possibilities and the obstacles facing small farmers in the struggle for development. The focus has been on major bottlenecks in the economy of small farmers and on the functional role of credit of different types for production enhancement. The effectiveness of credit agencies and the contributory role of SFDA has been analysed.

The core hypothesis was that investment credit is a catalyst leading to the development of small farmers and that there are merits involved in an integrated credit frame. The basic objective, thus, was to examine the nature of the link between investment and production credit and explore scope for integrated finance to small farmers. This has been attempted through a series of exercises with empirical data gathered from primary and secondary sources.

The subsidiary objectives of the study were:

I. To understand the agricultural economy of Kerala with special reference to small farms.

II. To assess the flow of funds under SFDA to small farmers and also its effectiveness in the light of stated objectives and procedures.
III. To analyse the economic and social profiles of small farmers, and bring out their implications for development.

IV. To study the structure and functioning of credit institutions and to evaluate the flow of credit they provide to small farmers.

V. To contrast the attitudes of small farmers and other concerned categories, such as bankers, administrators, and experts in matters relating to integrated finance.

Economic reasoning leads us to expect a sort of integrated rural credit frame. To enunciate this object, we had set forth six hypotheses. Testing these hypotheses and mobilising other relevant information enabled us to have a clearer view of the strengths and weaknesses of integrated finance in the area studied. By using appropriate quantitative techniques the following hypotheses were verified:

1. Investment credit is security oriented.

2. Providing both investment and production credit simultaneously leads more often to a viable income level than providing any one type of credit.

3. Investment and production credit policies are being co-ordinated.

4. In spite of institutional provisions production finance is not always linked to crop and acreage.

5. Commercial crops yield higher surplus per acre than food crops. Hence the larger the area under commercial crops greater
the chance of attaining a given income level.

6. As an investment dairying is profitable and yields quick return to the small farm families.

The multi-stage stratified random sampling procedure was followed for the selection of farmers assisted for the two activities, i.e., Minor Irrigation Works and Dairy Enterprise. The break-up of the sample consisted of 60 SFDA beneficiaries assisted by co-operatives and 30 non-beneficiaries. Another sample of 20 beneficiaries of commercial banks were also included in the analysis for the sake of comparison. Case studies of all types of institutional credit agencies operating in the study region were also made. A critical appraisal of SFDA's performance formed another important criterion base in the analysis. Further, data was gathered from six service co-operatives in order to establish a perspective of links between investment and production credit flows under the aegis of SFDA. Thus, in all, 552 farmers, i.e., 10 per cent of small farmers assisted by the co-operatives under SFDA scheme in the District were covered.

8.2 Distinguishing Features

The study is distinct from and adds to other available studies on the following grounds:

(i) Our findings are at variance with those of similar studies conducted elsewhere. The main factors that explain this stem
from the peculiar farm characteristics, like low land-man ratio, dominance of garden lands, and the sensitive socio-political-power structure prevailing in the study region. The natural endowment and the peculiar socio-economic-political base are also found elsewhere in the State.

(ii) One major emphasis was to examine the link between investment credit and production credit solely from the angle of small farmers. The sample chosen was confined to the farmers provided with investment credit under SFDA programme. In suggesting practical policies, it is of importance to take into account the views of those affected as well as the views of experts having many aspects of the problem in mind.

(iii) The study traces only the linkages between medium and short-term loans. As such, medium-term loans become a synonym for investment credit. Long-term credit has been excluded from the purview of the present analysis for reasons stated in para 7.5.

(iv) The study attempts to link together survey data with the help of broad economic analysis. The discussion refers to policies in a specific area and State.

8.3 Agricultural Setting

The agricultural economy of Kerala presents a series of contrasting features. It is rich in natural endowments and high income yielding crop combinations. These co-exist
with the lowest land-man ratio and consequent a
of the peasantry. Natural resources like water
be exploited to an optimum extent in the State.
growth of viable rural credit institutions, non
channels of credit continue to flourish in rur
Irrigation development, institutional credit, adopting
appropriate technology and management guidance are major
factors which can accelerate the economic development of
small farms in this State. From the preceding analysis, it
is clear that an integrated rural development strategy is a
prerequisite for success in farm business.

8.4 Small Farmers Development Agency

The operation of SFDA in Cannanore district has been
burdened with certain inconsistencies. The parameters for
identification have remained obscure in the selection of
farmers for the provision of assistance under SFDA scheme.
Again, the scheme activities were not taken up with proper
objective functions. No sincere effort seems to have been
made to conceive proper layout to develop schemes which
were area specific or activity specific. Practically, all
activities were superimposed on farmers, neglecting their
own willingness to nurture such ventures.\(^1\) The target
mentality of the officials led to ad hoc policy prescriptions
and hasty implementation strategies. Development schemes

\(^{1}\) See, researcher's paper, "SFDA in Cannanore : Success
and Failures," \textit{Financial Agriculture}, IX, 2, July-September
1977, p. 11.
suited to a region and the activities that were within the competence of the farmers concerned did not receive sufficient attention. Consequently, an integrated approach to develop the economy of small farmers remained wanting. For instance, dairy enterprise which was considered profitable to small holders could not generate the desired impact in the District for want of suitable infrastructure facilities for collection and distribution of milk.

Under SFDA assistance for minor irrigation works, there has been significant expansion in the area double cropped under paddy. However, the Agency has failed to evolve appropriate plans to exploit water resources through lift irrigation schemes for which enough scope exists in the District, especially on river beds. Project planning and monitoring were the two aspects on which the SFDA has been ill-equipped. Furthermore, there was lack of effective coordination of SFDA activities with the District plan. For want of a realistic survey of natural resources of the area and absence of concerted action programmes to provide integrated service to farmers, neither plans nor implementing agencies were interlinked. SFDA has made little progress in its attempt to build up a sound marketing infrastructure and input supply system attuned to the needs of small farmers. Despite these drawbacks, under the dynamic leadership of two successive project officers from 1972 to 1975, the SFDA scheme had registered substantial progress in accelerating rural transformation in the District. This could be
accomplished for two reasons, viz., sound decisions and reasonable co-ordination of the activities concerned.

8.5 Economic Profile of Small Farmers

The impact of SFDA scheme in bettering the lot of small farmers could be judged through a comparison of the relative economic profiles of sample farmer groups. A comparison of main characteristics of the beneficiaries and non-beneficiaries was attempted. The flow of investment credit per household was highest for dairy enterprise group (Rs. 3159), and lowest (Rs. 253) in respect of non-beneficiary group. The proportion of small farmers received both investment and production credit did not differ much between farmer groups. However, in real terms, the ratio of non-beneficiaries was lower, as only 26 per cent of them had received investment credit outside SFDA scheme.

Income growth of the beneficiaries was related to the activities for which they were assisted. Thus, on an average, the minor irrigation works group received larger net income from crop production (Rs. 3024), and dairy enterprise group received higher net income from dairying (Rs. 1904). Having obtained lower income from both these sources, the non-beneficiary group's dependence on non-farm income sources was highest (30.43 per cent).

Farm characteristics showed that the average farm size of minor irrigation works group was larger (1.37 acres). Dairy enterprise group possessed greater farm assets per
household (Rs. 4917). Non-farm assets of minor irrigation works group were higher at Rs. 11265. Non-beneficiaries lagged behind on both these counts. The gap between production credit and working capital expenses incurred by the small farm household was as high as 59 per cent. Non-beneficiary group incurred the least amount as working capital expenses (Rs. 537), hence this gap came to only 39 per cent. In addition, actual crop loans issued by co-operatives as against estimated demand for crop loans came to only 43 per cent. These evidences suggested certain functional gaps (i.e. failure to set proper goals) in the working of crop loan scheme as it operates today. This was in agreement with our hypothesis 4 that, "production finance is not always linked to crop and acreage".

The value of assets owned by small farm households and investment credit received by them were positively related. This indicated security orientation in the flow of investment credit advanced by co-operatives (hypothesis 1). No such relationship was observed as regards the flow of production credit advanced between different asset classes. Further, there was no link between the value of assets and the volume of integrated credit flow to small farmers.

A correlation analysis revealed strong and positive correlation between total income and many other variables, such as irrigated area, food crop income, dairy income, non-farm income and value of non-farm asset in respect of both minor irrigation works group and non-beneficiary group. There
was a significant positive relation between farm size and total income received by non-beneficiary group \((r = .461)\). This showed significance of farm size as a means to acquire higher income. Investment and production credit advances showed a statistically significant relation in respect of minor irrigation works group. This explains the importance of credit in raising the income level of subsistence farmers. Absence of significant positive correlation between production credit advanced and crop acreage partially supported our hypothesis 4, viz., "in spite of institutional provisions, production finance is not always linked to crop and acreage". There was significant positive correlation between income from dairying and farm business income in all the farmer groups. This was in tune with our hypothesis 6, i.e., "As an investment, dairying is profitable and yields quick return to small farm families". Significant positive correlation between total income and expenditure levels indicated the consumption dynamism of small farm households. The overall trend in factorial interrelationships suggested security orientation in the lending policy of bankers. This was more so, as regards advances for minor irrigation works.

The cropping pattern of different farmer groups did not differ much. The benefit-cost ratio for coconut \((4.31)\) was superior to paddy local \((2.86)\). Interestingly enough, the benefit-cost ratio of HYV paddy was lower at \(2.18\) as compared to paddy local \((2.86)\). Not surprisingly, the adoption of HYV paddy by small farmers was limited to only
11.61 per cent of the area put under paddy. Farm business income of the minor irrigation works group was highest (Rs. 4066). This was followed by dairy enterprise group (Rs. 3936) and non-beneficiary group (Rs. 2414), respectively. This has been reflected in per capita income as well. Expenditure on household items of farmer groups was as high as 62 per cent. Livestock (22 per cent) and farm production (16 per cent) were the other two components of expenditure pattern of farm families.

In terms of the criteria of viability set forth in this study, a greater proportion of beneficiary groups became viable. As per criterion C (i.e., total income per household of Rs. 5134), as high as 77 per cent of the minor irrigation works and 60 per cent of dairy enterprise groups were above this level of income. As compared to this, only 40 per cent of the non-beneficiary group succeeded in attaining this income level. Further analysis of these findings reveals that many factors were responsible for the shift in income level of small farm families. Prominent among them were income from cash crops, dairying and non-farm sources. On the whole, the SFDA beneficiaries moved up in the economic ladder due to liberal assistance provided by the Agency. This became explicit from the higher average ex-post income received by beneficiary groups over non-beneficiaries at constant prices. Nonetheless, mere provision for investment credit by itself need not result in higher income, as growth process involves certain intrinsic merits in the farm
characteristic as well as managerial competence on the part of peasant proprietors. This partly explains the backlog of non-viable farm households even among those assisted under SFDA scheme. A comparison of SFDA beneficiaries assisted by commercial banks indicated no superior qualities in them. Instead, even with relatively large farm size, they received lower investment credit and also derived low income from farm business as compared with farmers assisted by co-operatives. This in a way demonstrated the effectiveness of co-operative credit to small farmers.

8.6 Social and Attitudinal Profiles of Small Farmers

Agricultural prosperity depends upon attitudes as well as aptitudes of farmers. Investment schemes if properly implemented will have a snowballing effect in raising the income level of small farm households. Right kind of social characteristics and motivation of farmers help to speed up the process of rural transformation.

Value of assets had positive links with educational level of small farm families. A greater proportion (70 percent) of non-viable small farm families were in need of consumption credit. On an average, viable families received larger sums as production finance, which had a direct impact in raising farm productivity. Managerial efficiency of the farmers also depends on the cultural ethos imbibed or inherited by them. If we analyse farmers' views on co-operative credit, a few interesting revelations emerge. Only
53 per cent of borrowers from co-operatives acknowledged their performance in the matter of the timely supply of loans. Of this, only 33 per cent felt that the amount of loan supplied by co-operatives was adequate. Easy access (51 per cent), friendly attitude (65 per cent), etc., were the other plus points recorded by small farmers with reference to service co-operatives. Interestingly enough, a good proportion (41 per cent) of small farmers were not specific regarding the credit agencies they would contact to meet their future credit needs. This is suggestive of the casual relationships that exist between small farmers and co-operatives. Even so, the small farmers maintained closer ties with co-operatives as compared to commercial banks. Friends (48 per cent) and officials (37 per cent) were the two sources through whom small farmers established their initial contact with institutional credit agencies. As it is, the link between investment and production credit appears to be rather casual and not always purposeful.

The advances from the co-operatives were heavily skewed in favour of production credit. It is significant to note here that as high as 72 per cent of small farmers were opposed to the idea of integrated credit. In contrast, 73 per cent of them agreed with the proposal for a unified credit structure for providing both investment and production credit. Risk aversion coupled with poor resource base could explain these partly conflicting reactions on the part of small farmers. Not surprisingly, as high as 59 per cent of
small farmers expressed a desire for consumption finance. These tendencies reflect the operational contradictions that are to be faced by the co-operatives in the functional scene. Hence, a flexible policy in providing integrated credit to small farmers is called for.

The idea of linking credit with marketing was favoured by a vast majority (67 per cent) of small farmers. On the question of interaction of investment credit and development prospects, the small farmers could not envisage any link between them at all. Adoption of new farm techniques by small farmers was also rather slow on account of limiting factors like insufficient irrigation (66 per cent) and high cost of fertilisers (43 per cent).

Social attributes like age, family size, education and occupational status of the farmer groups showed only marginal differences. Reading habit of small farmers of the region were good, as 76 per cent of them were in the habit of reading newspapers. More than 36 per cent of small farmers were in need of non-farm employment to augment their income levels. A greater proportion of non-beneficiaries (40 per cent) were in need of such employment.

The above analysis brings forth the fact that, social attitudes of small farmers even though significant were not as important as economic factors for farm business success. But management skills which are influenced both by social and economic factors play a crucial role in raising the income level of small farm households.
8.7 Banking Structure in Cannanore District

The institutional credit structure plays an important role in stimulating the process of growth in a region. The co-operatives were the well entrenched rural credit institutions in the District. The spread of co-operative network and economic development of an area seem to move in harmony. Investment credit from institutional agencies have increased considerably under SFDA operations, i.e. from Rs. 1.05 lakhs in 1970-71 to Rs. 62.70 lakhs in 1975-76. The flow of investment credit and production credit were found to be not significantly related. On an average, the business operation of the primaries was of the order of Rs. 2.38 lakhs. Production credit constituted as high as 91 per cent of the amount advanced by primaries. Investment credit advanced by them has been increasing steadily under SFDA activities. This enabled service co-operatives to stabilise their business functions.

Farmers owning land holdings ranging from 3 to 6 acres constituted as high as 63.65 per cent of members of the primary Land Mortgage Bank, Kasaragod. The flow of long-term credit to small farmers from the primary land mortgage bank received special consideration under SFDA operations. In respect of long-term loans, farm size was found to be positively related to the amount of loan advanced to small farmers. The period of long-term loans was not related to the purpose of loans. Long-term advances were made mostly for multiple purposes. From the above analysis, it may be
surmised that medium-term loans were more effective than long-term loans. In this way, there is a case for integrating short-term and long-term wings of co-operatives.

Role of commercial banks in rural credit supplies has been increasing in recent years. There were 123 branches of these banks at the end of December 1975 in the District. They lagged behind co-operatives both in terms of population coverage and area spread (see Tables 6.3 and 6.30). It was also observed that the commercial banks did not favour the idea of integrated credit at least in the case of small farmers, mainly due to the risk element involved therein. Further, the commercial banks were more particular in fulfilling certain minimum criterion of security while advancing loans. Even though small farmers were more prompt in their repayment obligations, the flow of production credit to them from commercial banks has remained neglected. These tendencies tempt us to conclude that the commercial banks are yet to strike a balance to determine suitable priorities in their lending programmes.

6.6 Integrated Credit to Small Farmers

Credit is the key to secure development input required by small farmers. Integrated credit to small farmers is gaining credibility in recent times. This may help in stabilising the subsistence economy which in turn may help strengthen the organisational base of institutional agencies involved in assisting them. However, integrated credit supply to small farmers need not become an end in itself.
Investment credit to small farmers received fresh impetus under SFDA scheme. A correlation analysis showed strong positive correlation \( r = .858 \) between short-term and medium-term loans advanced by the District Co-operative Central Bank, Cannanore, under SFDA scheme. The flow of investment credit for minor irrigation works and dairy enterprises were more common in the study region. But the flow of integrated credit supply has been found forged better in respect of dairy enterprise farmers group. This could partly be attributed to a fairly good milk marketing network available in the region. The farm size was found to be a more relevant factor in respect of advances for minor irrigation works.

The average amount of investment credit advanced by co-operatives to small farmers did not differ much between farm size classes. However, production credit advanced was positively related to farm size. About 30 per cent of SFDA beneficiaries received both investment and production credit from co-operatives. Significant positive correlation \( r = .085, \text{df} = 850, t = 2.49 \) between investment and production credit flows in respect of overall situation strengthened the validity of our hypothesis 3, i.e., "Investment and production credit policies are being co-ordinated". But as regards, plus group (i.e., farmers receiving both types of loans) there was a disproportionate trend in the sense that the flow of funds was arbitrary and far removed from realistic demand estimates based on technological packages. Hence
inverse correlation was observed in respect of investment and production credit flows.

8.9 Dilemma of Small Farmers

The term 'small farmer' is now synonymous with the problems of a subsistence economy. A class of independent small farmers acts as a stabilising element in the country's social edifice. The opportunities open to small farmers to secure economic development are limited. Hence a number of questions can be asked with regard to small farmer's potential for development. Is he an economic man? Is he a rational farmer? Can he innovate? Answers to these questions take us to his dilemma. The dilemma is explained below.

8.9.1 Scrappy Land Base

The major Gordian knot in the economy of small farmers is the structural impasse resulting from their farm characteristics. Too narrow a land base is the major impediment in the economy of small farmers. All other characteristics including social neglect spring from this condition. "Given other factors, the size of land holdings is the main determinant of production and surplus. It is also an important force to facilitate the use of modern technical inputs which influence the flow of output and marketable surplus."¹ The

major task before small holders is to enhance productivity per unit of land cultivated and to augment their income from allied activities. This calls for suitable crop combinations yielding greater economic returns and an appropriate organisational structure to provide integrated credit-cum-services to small farmers.

### 8.9.2 Technology, Risk and Credit

Modern technology needs to be inducted in farming practices. One of the major constraints in the adoption of new technique by small farmers is said to be the risk factor associated with such innovations. Small farmers are said to take rational decisions and it is not surprising that they are anxious to reduce the level of uncertainty in agricultural operations. "He hesitates to commit himself to an innovation which involves a high degree of uncertainty, and which offers him most special advantages in terms of his resource endowments, but commits himself readily enough in a situation of lower uncertainty and an opportunity to make use of what is probably his most underutilised resource-labour."^1 Michael G.G. Schluter and Gokul C. Parikh found that availability of

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co-operative credit was especially important for small farmers in situations involving a high degree of uncertainty. They observed that "To the extent that cooperatives follow flexible policy, they allow individuals to shift uncertainty from themselves on to an institution which is well placed to balance risks between regions and over time. To overcome risk element they argued that normal interest rate could be raised as in most cases this could make little difference to borrowing as returns on the new varieties are so high, and supply from other sources highly elastic." In this way, the service co-operatives can serve as an effective instrument in bridging the 'technology-gap' of small farms. In addition, "A crop loan insurance scheme is essential not only for the survival of the small farmers but also for the stability and well being of the co-operative credit structure." This will facilitate self-motivated involvement of farmers towards modernising their agriculture. Here lies the salvation of the poor peasants.

8.9.3 Faucity of Capital

The lack of capital is considered to be one of the most serious limiting factors in the development of small


farmers. The success of a credit programme depends on investment in assets that serve as a lever against natural and help in hazards, profitable adoption of new technology and reduction of risk. The SFDA scheme of subsidised credit became a pace setter in this process. Despite this, integrated credit supply remained neglected for want of suitable policy guidelines towards this end. If credit is to be effective in raising production and promoting the living condition of small farmers, the primary criterion should be repayment capacity. This can be satisfied only if credit provision is integrated with marketing and satisfactory arrangement for supervision of the use of the loan amount. Furthermore, it must be noted that the bulk of the capital formation in the form of farm improvements will be undertaken by family labour. The costs other than for materials will then be in the nature of living expenses. In the circumstances credit for consumption will always be a large proportion of working expenses. In this sense, consumption credit increase small farmers' efficiency.

Underemployment is another facet of small farmers economy that needs to be tackled through diverse channels, such as promotion of agro-industries, and rural industrialisation. "In the final analysis, the problem of the small farmers is not one of credit but of fuller employment and larger income at least for minimum subsistence."

1 Ibid., p. 65.
8.9.4 Social Barriers

Other critical limiting factors that torment the small farmers and limit their access to economic opportunities are the social prejudices against them. Changes in the attitude of farmers in most developing countries constitute a most important requisite for agricultural development as well as for the success of an agricultural credit program. Kinship patterns, political ties, etc., interact to shape economic transactions within the rural community. The local political structure can facilitate or inhibit the operation of credit programmes. Default in co-operative loans is a well known case in point. Competing leaderships could use loans to build or cement their followings amongst small farmers.

Attitudes are critical factors influencing the farmer's use of credit and his willingness to repay. Behavioural expectations interact to establish closer ties or tarnish the images of credit institutions. Pervasive cultural gaps between lending banks and small borrowers very often tend to promote distorted notions regarding each others viewpoint. Different images lead to diametrically opposite behavioural characteristics and nullify production incentives.

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There is urgent need to bridge this gap through suitable communication devices so that a two-way information flow becomes established to mutual advantage.

8.10 Emerging Issues

So far, we have analysed the dilemma from the angle of small farmers' economy. The other facet of the dilemma emanates from the banker's perception of the borrowers. Advancing small loans to a large number of subsistence farmers is not only risky but also a time consuming process. Again, supervision of numerous small loans is a difficult task faced by banks. Further, credit worthiness of the borrowers is important for bankers as unsecured loans pose problems of recovery. Default in repayment obligations on the part of borrowers not only cripples the operational viability of the credit agency but also ruins opportunities for further credit for the borrowers.

8.10.1 Integrated Frame

No doubt, the problems of small holder subsistence farmers are complex and diverse, defying easy solution. Precisely for this reason, there is need for closer interactions between credit institutions, extension agencies and the farmers concerned. The missing links which are of critical importance in consolidating the gains of SFDA activities in the region included absence of appropriate infrastructure facilities and extension services that are attuned to the needs of small farmers. If secure marketing
channels are not available, then the whole purpose of small farm credit may be defeated. The "Kettuthengu system"* is to be made more popular as there is ample scope for establishing credit-market linkage on these lines. "The objectives of the integrated functions are to encourage coordinated efforts to provide links and support between one function and another, to develop concentration of energy to mobilise and marshall capital resources and assets, personnel and expertise."¹ It is contended that with suitable changes in resource allocation, and technological temper, fresh avenues for investment will gather momentum in rural areas. This in turn will enable credit institutions to enhance their business functions. In the ultimate analysis, greater cohesion in the flow of funds to promote asset formation by small farmers, and operational flexibility on the part of rural development agencies are essential requisites in order to stimulate the process of growth in a rural setting. "Rural neglect is, in the end, not only a matter of inadequate allocation of resources or the failure to boost productivity as also of the inequitable distribution of rural assets and incomes."² Thus, resource augmenting strategies to reduce

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* Contractual renting out of coconut garden lands for a specific period to the service co-operatives by farmers to fulfill their repayment obligations in respect of loans taken.


² The Times of India, May 4, 1977.
income disparities in rural areas are a precondition for successful inception of rural development programmes.

6.10.2 Self-Reliance

The major object of agricultural credit should be to make small farmers more productive. This in turn should lead to structural changes in the lending agencies. Advances in agricultural prosperity spring from a system which makes credit self-liquidating and induces viability in farm operations. Entrepreneurship qualities are to be infused in small holders so that productive innovation could be inducted in the rural community without the possible gap in rural income flows. The ultimate object should be to promote self-help capabilities of small farmers so as to enable them to embark on a self-sustaining economy. "The success of the special institutions will largely depend upon how much (effort) they will take to make their clients self-reliant. There is a danger of weaker sections increasingly depending upon these institutions, thereby institutionalising dependence rather than self reliance." ¹

Thus, evolving an appropriate institutional structure to meet the credit requirements of the weaker sections is a subject of controversy even today. Despite publicised policy prescriptions regarding lending programmes, feasibility and security continue to be decisive factors before bankers. And

bankers are yet to experiment with risk financing and a systems approach to lending.

8.10.3 Viability

The present study has focussed the issue of viability of small farmers vis-a-vis viability of credit institutions. Viable credit programmes for small farmers remain a tricky issue even today. Despite much exhortation and frequent pleas for reorganisation of financial institutions, there is scarcely any marked changes in their lending priorities. To a large extent, credit agencies operate in isolation and mostly keep aloof from encouraging a consortium approach to lending programmes. There is hardly any attempt to forge an effective link between investment and development. The prime emphasis continues to be credibility of the borrowers rather than credit worthiness of investment activities. However, land based lending programmes are gradually being abandoned by the banks.

8.10.4 Resource Base

An appalling conclusion that emerges out of the study underscores the core of the problem of land ownership. Distortions in this regard promote greater inequality in the flow of credit. Institutional rigidities wither away once economic disparities are brought to the minimum. This egalitarian move should lead to an eventual marriage between credit and technology at an appropriate level. Once this bridge is built up, fresh impetus for growth gather momentum and a built-in surplus in small farmer's economy slowly
emerges. As far as the farmers of Kerala are concerned, the major impediments to development has been that of too limited a land base and consequent weaknesses, rather than want of suitable rural credit agencies as such. Hence, optimum combination of men and material should receive greater attention.

8.10.5 Economic Reasoning

In the light of the above discussion, we shall revert to the following propositions which have been supported by data but also stand on the basis of a priori economic analysis.

1. Our findings revealed that property relationship (i.e., assets possessed) was all important as security for the flow of institutional credit. In a way this supports the theoretical proposition that productivity of small farms cannot be raised unless the link between property (asset) and credit was broken.

2. Theoretically a proper adjustment of purpose, duration and cost is possible only in a system of integrated finance. Furthermore, integrated finance can take into account the consumption needs of farm families, and also could be linked with any envisaged technological progress. Our data broadly supports this premise as those farmers became viable because of integrated flow of credit.

3. Theory suggests that traditional institutional arrangements and historical accidents would prevent
the emergence of a proper rural credit market. Consequently, investment and production credit agencies function in isolation. To co-ordinate these two wings, a system of integrated credit becomes inevitable. In the realm of facts we find that small farmers wanted a unified credit agency but did not support the idea of integrated finance.

4. Lastly, theory leads us to expect that moving up in the agricultural ladder by adding commercial crops and dairying to food crops or even specialisation in these activities and consequent cost reduction is likely to be stimulated by a scheme of integrated credit. This was found to be true in our situation, especially as regards dairy activity.¹

8.11 Implications of Integrated Finance

Integrated credit as a harbinger for evolving an appropriate credit delivery system is yet to gain credibility among small holders. This is because, small farmers are not convinced regarding the efficacy of integrated credit,² as the multiplier effect from credit flows to income growth is a long drawn process. And, for historical reasons, the credit delivery system continues to be split up between various types of agencies. At present, the period of loan determines the agency to be contacted by the farmers. Thus, in the co-operative set-up, there exists two clearly defined wings, viz., long-term credit wing (Land Development Banks),

¹ Profitability of dairy enterprise to small farmers has also been established by an earlier study conducted in the Sangli district of Maharashtra. See researcher's paper "Small farmers-Choice of agro-enterprises," The Economic Times, October 14, 1973.
² See Table 5.3.
and short/medium-term credit wing. The latter are known as
the District Co-operative Central Banks and primaries at
the grassroot level. These wings function in isolation. On
this count, the Committee on Land Development Banks observed
that, "coordination between the short-term and long-term
structure is altogether absent". It results in splitting
up of security for loans, delays in disbursement, and diffi­
culty in supervision of the end-uses of credit. Viewed
against this background, the Hazari Committee had recommended
the integration of the two credit wings to counteract these
tendencies stated above.

8.11.1 Assumptions

Now let us look into the assumptions underlying the
scheme of integrated credit to small farmers.

(1) Integrated credit assumes that the farmers
will need investment credit at frequent
intervals. This appears to be an overrated
assumption especially in respect of small
farmers. For them integration of farming
with family and environment is of more
significance. Their subsistence economy
seldom gives scope for investment at frequent
intervals.

1 Report of the Committee on Co-operative Land Develop­
ment Banks (Chairman: P. Madhavadas; Bombay: Reserve Bank
of India, Agricultural Credit Department, 1975), p. 330.
(2) Integrated credit scheme assumes that technically feasible and economically viable and socially acceptable investment schemes are already identified. And also that suitable supporting organisations, infrastructure facilities and management skills on the part of farmers are there. However, these assumptions are far removed from practical realities in the rural sector.

(3) Lastly, the emphasis on integrated credit to small farmers is a lopsided one as it ignores the farmers own viewpoint. As observed earlier, the study has revealed that a vast majority (72 per cent) of small farmers were not even convinced regarding desirability of integrated credit being supplied to them. May be the fragile economic base is not conducive to promote fresh borrowings for the fear of failure in investment attempted. This aspect should not be overlooked in any policy frame aimed at small farmers' future well being.

8.11.2 Farmers' Preferences

Theoretically it is possible to envisage an integrated credit system as an ideal option. But this need not necessarily become the best practical alternative. Admittedly,
small farmers are handicapped on many counts and yet do not desire integrated credit. The complexity of this apparent paradox should be realised. Many invisible socio-cultural factors prevent institutional reforms in the short-run.

"Development means action through a programme with the accent on man, enabling him to progress, raising him up from his condition of beast of burden or instrument of production and giving him the opportunity to live a full life."¹ The process has to be slow and steady depending upon the absorption capacity of the farmers concerned and the necessary infrastructure being built around them. Existing realities in rural scene does not show much promise in this direction. From institutional angle, even the basic issue of viable primaries has remained unresolved for the past many years. Many policy measures to reorganise them have proved futile. The question to be asked is whether a unified credit structure should become an end in itself or a means to an end. The object should aim at infusing strength and help progress of the farmers concerned. If past experiences are any indication, fully integrated finance has been a bane on the freedom of farmers to innovate and experiment within their competence. In this sense, integrated credit supply appears to be more of a theoretical exercise rather than a practical solution per se. For instance, in respect of crop loan scheme, it has been found that wherever the kind

components were insisted upon, progress was rather tardy even on credit front. This brings into focus the inherent contradictions between integrated credit frame as envisaged by bankers and independent attributes of the farming community at large. "While one can conceptually think of integrated development, one does not start in a complete vacuum, nor can one start always with a completely integrated view of the entire programme for all time to come. The unfortunate fact about growth is that it does not take place in an unbalanced manner. And, therefore, the best that one can do is to see that the least unbalanced possibility is being exploited."1

The phenomenon of integrated credit supply to farmers is still an elusive concept for want of necessary political will on the part of policy-makers and suitable organisational support to get it implemented. The idea behind integrated credit is apparently sound from the bank's point of view. However, the small farmers whom it is supposed to benefit is yet to be convinced regarding the efficacy of such an innovation. The present study revealed that a vast majority of small farmers (73 per cent) expressed in favour of a unified credit structure for providing both investment and production credit at one contact point. At the same time they did not want (72 per cent) to have a policy frame to

provide integrated credit through a unified credit structure. Thus the chasm between banks’ view on security in its lending operation and the farmer’s ability to take risks has yet to find a practical solution. Further, it is being observed that political leadership is less inclined to appreciate the economic rationality argument put forth by banking experts for the integration of the two wings of the co-operative credit structure. Still further, the politically sensitive co-operative leadership is vehemently against any proposal to merge the two credit wings mainly due to vested interest of the leaders in these organisations. "Co-operatives may be analysed by economists as economic institutions, which they are, but they could not be brought into existence, still less flourish without some kind of political support or facilitation."1 Here lies the rub. Hence, credit policies that are not within the horizon of political consensus are unlikely to succeed, nay get implemented, however sound the economic rationale behind them may be.

Further, it is to be understood that the small farmers are afraid of incurring large debts to institutional agencies. They hesitate to make heavy investment because of the fragile economic base. The absence of preference for integrated credit may also be due to the fact that risk aversion tends to increase as the resource base becomes smaller. Until,

risk insurance becomes part and parcel of investment programmes, integrated credit supply to small holders will remain an exercise on paper.

8.11.3 The Way Out

From the above discussion it follows that the epoch of integrated credit to small farmers turns out to be an illusory or at least a futuristic concept. There is no denying the fact that effective blending of credit is an ideal condition for success in farming. If we look at investment from with an eye to preserving the health of the financing agency, advancing large sums to weaker sections in an unco-ordinated fashion may turn out to be a risky venture. Furthermore, there is need for fundamental changes in the cultural ethos, value system and environment of small farmers. Hence, the move toward integrated credit has to proceed at a slow pace. To start with, investment in irrigation works should be given priority. After the lapse of a few years, the same set of small farmers could be assisted (along with others covered earlier) for dairying, so that income generation through investment multiplier will gather momentum.

Given the hypotheses, the present study has thrown up certain issues which will have wider policy implications. A deeper critical look at these findings undermines the need for viable organisational systems to recoup the small farmers' economy. These should be association of farmers themselves. By this arrangement, the burden of security from
the angle of small farmers and the risk factor from the viewpoint of bankers are brought to the minimum. This will accelerate the flow of integrated credit to small farmers. The model thus chosen should essentially be co-operative in character for reasons stated in the Yela model. (See below.)

Further, the flow of integrated credit will remain incomplete unless suitable technological packages are integrated into farming system. For this, the credit input needs to be transformed into physical resources. The rate of change in this process should suit the conditions of small farms. Since viability is more likely to be achieved under a system of integrated credit, slow progress on this front need not deter us in evolving sound credit policies.

The limited scope of the crop loan scheme based on the criteria of crop and acreage has seldom found a satisfying solution in the face of an ever growing demand for consumption finance by small farmers. Moreover, credit requirements for agro enterprises received scant attention from credit agencies except under the SFDA scheme. To a large extent, the flow of integrated credit on a revolving basis can bridge this gap.

In retrospect, it can be concluded that, time is not ripe to embark on an integrated credit scheme on a mass scale. As a precondition for such an effort, farmers self-help capabilities have to be developed fully. This is possible only when an organisational base is built up around
them. It becomes obvious that a co-operative model such as the Yela programme which could be organically linked to the service co-operatives at the grassroot level seem to be an appropriate choice for small holders. Herein, all the farmers in a compact area would act jointly in the procurement and timely application of inputs, and adoption of other improved farm practices. This ensures optimum utilisation of scarce resources at their command and also integration of various activities and functionaries that are engaged in rural development. As we shall see below, this also fulfils the preconditions as envisaged under an efficient system of agricultural credit.

3.12 The Yela Model

The Yela approach to agricultural development is slowly emerging as an effective method of promoting viability of small scale farms in Kerala. Stated simply, it is a production programme, primarily oriented towards upliftment of small farmers in a compact area and is essentially a programme of co-operative action, pooling of resources and working on a common plan. This model brings in the much needed cohesive set-up to organise small farmers’ fragmented activities into group farming activities that will be economically viable. It facilitates easy flow of inputs and other services on a package basis. Small farming operations are by their nature inefficient, and the only hope for increased productivity would be a shift towards large scale organisation of activities however owned.
Under the Yela programme, small farmers in a compact area are brought together under the yoke of an 'Yela Committee' consisting of farmers, extension specialists and representatives of rural credit agencies. They help to resolve many intricate local problems faced by farmers through group effort. In this way, a viable organisational base is established. It serves as a forum for free exchange of information between rural development agencies on the one hand, and farmers, on the other. Systematic planning and execution of joint ventures ensure optimum utilization of scarce farm resources to attain increased productivity of small farms. Paddy yields have more than trebled in those areas brought under Yela Scheme. Diffusion of new technique becomes easier to introduce under this model. The accent is on the group approach, and on the provision of required inputs and technical know-how. The 'Yela Committee' provides an effective management apparatus as it involves all important local functionaries to integrate management apparatus as it involves all important local functionaries to integrate the factors of production.

Turning to institutional leadership, only an organisational set-up which is free from exploitation of its clientele, and also sufficiently flexible to meet the varied needs of individual peasants can succeed in ensuring speedy rural transformation. Such an organisation essentially has to be

1 The Economic Times, September 9, 1974.
Also see, "Green Revolution : Andoorkonam Way," Agricultural Situation in India, XXIV, 4, July 1969, p. 303.
co-operative in character. Dr. M. S. Swaminathan observes that "Cooperative management of certain aspects of agriculture without interfering with the individuality of the land holding was exceedingly important if the cost of production was to be reduced and productivity improved." Against this backdrop, strengthening of existing service co-operatives into viable development units should receive immediate attention. From this it follows that the success of the Yela Model of agricultural development is closely linked to a sound co-operative structure which could be tailored to meet all the needs of farmers in an area. This in turn would help rejuvenation of the co-operative apparatus as well. Furthermore, the apparent dichotomy between banks' notion regarding the credit worthiness of small farmers and the non-viability of small holdings will wither away once joint farming under the Yela Model becomes a credible entity. Thus, promotion of self-help through mutual help should form the basis of a viable rural development strategy.

8.13 Rural Credit: A Policy Frame

Rural development is the consequence of an integrated action programme. Credit can become a causative element in this process. The system of rural credit pursued so far has many limitations. The choice of an appropriate institutional agency is still clouded in confusion. Of late, a multi-

1 The Times of India, August 18, 1977.
pronged approach has gained credibility. New agencies have been created to fill in the vacuum wherever found necessary. Despite justification for the entry of commercial bank branches in rural areas, they often duplicate the efforts of the co-operatives. Lacking the 'rural touch' in their operational style, rural branches mostly serve to siphon off rural deposits into urban investments. "The history of rural credit reads like a grotesque tragedy. Committee after committee probed into the agony of the farmer and did suggest remedies, but what the economist recommended the politicians undid and it is a sad commentary on the country's credit system that notwithstanding planning of the last two and half decades (or because of it!), the poor rural farmer continues to flounder in the clutches of the moneylender."¹

Even today, credit policies are mostly superimposed without considering the adaptability of the institutional set up to changing needs. The intricacies involved in respect of mass lending programmes are seldom explored. The credit worthiness of small farmers remains an imposing constraint confronting bankers despite repetitive emphasis and conscientious pleas for a liberal outlook in meeting the needs of weaker sections. The major snag obviously stems from potential risks involved in such ventures. In a developing economy of our size, where problems of poverty overwhelm every other

problem, new concepts must be developed in regard to risk financing to ensure a broad based growth that benefits the large mass of people.

"The broad test of an efficient system of agricultural credit will be the extent to which it promotes agricultural development by increasing the amount of capital available and the efficient utilisation of agricultural labour, by promoting qualitative improvements and innovations through changing attitudes encouraging the use of better farming techniques, and promoting better farmer's organisations and more effective leadership."¹ Looking through this angle, the co-operatives are well placed to harness men and resources to attain a higher income level and promote local leaders who are responsive to the needs and aspirations of the farming community to usher in an era of rural progress.

It is emphasised over and again that the co-operatives have an edge over other agencies in serving the cause of rural poor. "Nothing is so important in this country as the revitalisation of the co-operative structure at the base level. The solution of the rural problem lies in taking steps in this direction."²

Having identified the organisational structure, it is important to plug the loophole in its operational styles.

¹ New Approach to Agricultural Credit, Loc. Cit.
Essentially, co-operatives suffer from organisational weaknesses thrown up by inefficient management and also due to the stranglehold of vested interest based on wealth, kinship pattern, political patronage, etc. Hence, what is required is to liberate co-operatives from these power groups and to reformulate their functions to make them more effective instruments of social change.

8.14 Suggestions

(1) The present policy to treat investment as synonymous with long-term credit must be discarded. Instead, the purpose for which loans are advanced should determine whether loans are productive or not. Thus the period of loan should become a dynamic element capable of being altered depending upon the circumstances of the borrowers, amount of loan involved, activities that are taken up, etc. Because of complex procedures that are followed while advancing long-term loans, majority of small farmers seldom come forward to avail of such facilities. Hence it is suggested medium-term loans having flexible repaying schedule be introduced on a mass scale. The Hazari Committee also touched upon this issue when it observed that "Loans for the same investment purpose would have to be treated on the same footing irrespective of the period of loans, as the period of loan will vary according to the repaying capacity of the individual and not according to the purpose of investment."¹

This suggestion is sound and valid. It brings in greater flexibility in the lending programmes of credit institutions in order to fulfil their socio-economic objectives.

(2) In consonance with medium-term loans with a flexible repaying schedule, the investment priorities need to be delineated depending upon specific needs. The dichotomous character of the existing credit delivery system in the co-operatives should be discontinued. The approach should be to strengthen the resource base and enhance business operations of a unified credit structure at the grassroot level. In this context, the recommendations made by the Hazari Committee and state level committees for the integration of two credit wings, i.e., long-term and short-term, should receive immediate attention of the authorities concerned.

(3) Another matter which comes in the way of integrated finance to small farmers emanates from the growing demand for consumption finance. The intricacies involved in this process are many and defy easy institutional solution. Hence, the choice on the pattern of credit drawals should be left to the discretion of small farmers themselves as pumping in more credit for the sake of integration may lead to serious imbalances in the small farmers' economy, until they acquire the necessary skill and competence expected of them. The failure of small farmers to appreciate integrated credit supply needs to be probed further. It
should be pointed out that besides covering the risk factor involved in this process, an attempt at improving the educational and social standing of members will have a salutary effect, promoting greater awareness among small farmers regarding the advantages that may accrue.

The amount of loans advanced should be based on realistic estimates of investment and production credit needs for different farming classes depending upon suitable production plans. Imputed value of family labour and essential consumption needs of the farm families are to be compensated under such estimates. However, while advancing loans, greater flexibility may be shown toward farmers with productive investment opportunities. Furthermore, subsidies could be provided according to the level of income of small farm household on a tapering basis. That is to say that the rates of subsidy should be reduced as the level of income of farm households increases. The merit of this strategy is that it takes into account the relative income differences within the farming community and thereby promote greater equity in the flow of funds.

(4) Development agencies like OFDA should provide an effective organic link between banks and small farmers. A viable agricultural production technology within the competence of small farmers and appropriate to the condition of small farms has to be evolved and popularised. They should be brought under the fold of Yela Programme. This
will enable formulation of viable farm production plans, easy access to institutional support and technical services. Further it helps evolving sound parameters for identification of potentially viable small holders and to devise suitable norms in assisting them.

Dry farming technology for small and marginal farmers in rainfed areas is one of the important aspects that has not received sufficient attention in the study region. Efforts should be directed towards this end.

(5) The impasse caused by resource constraints in the case of small farmers could be overcome only through integrated joint ventures. For this a comprehensive approach to on-farm technological improvement is called for. "Development of agriculture increasingly requires a Project Approach which envisages not only credit facilities for investment and working capital but also for development of the infrastructure necessary for its successful implementation, including assured processing and marketing facilities."

Piece-meal efforts as made under SFDA will be of little use in the absence of a well equipped development agency to monitor the total spectrum of rural development. In the prevailing situation, inter-departmental co-ordination has been meagre for want of authority at lower rungs. The operation of SFDA's has demonstrated in clear terms that

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development planning will not succeed in unco-ordinated compartmentalised systems. In this context, the suggestions set forth by S. Paul to evolve an 'Integrated Rural Development Agency'\(^1\) armed with wider powers, having suitable technological packages deserve serious consideration. To accomplish this, SFDA should be reconstituted on the above model. As a first step towards this end, an 'Yela Development Authority' should be constituted in every village to meet the diverse needs of small farmers, such as technical advisory functions, input supplies and services. They should be organically linked to the Integrated Rural Development Agency at the higher level so as to monitor rural progress on a sustaining basis.