CHAPTER I
DEFINING THE PROBLEM

1.1 Introduction

Rural development is a precondition for accelerated growth of the economy. In this country, agriculture forms the cornerstone for successful rural developmental strategies. For this, it is essential that agriculture should become a self-supporting entity providing means for subsistence to the farmers and surpluses to the national economy. Even a small deficit in the production of foodgrains has a telling effect on subsistence farmers. The growth of agricultural production in our country has not been of a pattern that provides solutions or meets the essential requirements of development. The "New Agricultural Strategy"\(^1\) could not break the productivity barrier except in isolated pockets of the country. The input supply system in the agricultural sector continues to be weak. There has been an uneven pattern of growth within the farm sector in favour of resourceful farmers. In this context, politicians emphasize that two-third of our people live in abject poverty, thereby threaten the very fabric of democracy envisaged in our growth strategies. Perhaps as a reaction to this it is now conceded

\(^1\) This strategy was evolved during Fourth Five Year Plan. Main focus was to combine high yielding varieties (HYV) of seeds with a package of complementary inputs. Success of green revolution in different parts of the country has been largely attributed to this strategy.
by all concerned that balanced development of the rural sector calls for specialised programmes aimed at the vulnerable sections of the peasantry.

In the past, many experiments were conducted to evolve an integrated strategy for rural development. Prominent among them were the Community Development Programme (CDP), Intensive Agriculture District Programme (IADP), Intensive Agriculture Area Programme (IAAP). These have remained isolated and limited exercises. They could attain only marginal successes owing to limitations, such as a faulty planning frame, paucity of resources, bureaucratic delays and lack of suitable implementation arrangements. It is now realised that many of these programmes have distorted the growth potential of the farming sector because of the undue emphasis given to hitting financial targets, while production came 'at the tail end'. Willing cooperation of the people at large and their active involvement in such endeavours was lacking in all these years. Neglect of a vast majority of the subsistence farmers was a major lacuna of these programmes.

1 Community Development Programme was started in 1952 with the object of bringing about a social and economic transformation of the rural population. This was to be accomplished by combining specialist in different fields under the single command of Block Development Officer (BDO) for all round rural development.

2 IADP was introduced in 1960-61 in select few district (16) which had adequate rainfall or irrigation and basic infrastructure facilities. Increased agricultural production through concerted efforts from many fronts was the prime objective of this programme. Credit is made available to the farmers on the basis of his farm plan. IAAP was taken up in 117 districts in 1964-65. Here again, the aim was to step up agricultural production through intensive cultivation, but the method adopted was somewhat lower scale than in the package programme (IADP).
The Small Farmers Development Agencies (SFDA)\(^1\) came to be established especially for the uplift of the weaker sections. This did not provide a full solution. The bulk of Small Farmers still appeared to be non-viable entities. The smallness of the size of holding was still considered an insurmountable obstacle preventing upward mobility on the economic ladder. The breakthrough in farm technology since 1965 has repudiated this conception and raised hopes. However, so far, there is no academic consensus regarding farm size vis-a-vis productivity per se.

1.1.1 Small Farmers

Development of small farmers has become a precursor for overall progress and prosperity on the farm front. By definition, small farmers belong to the class of peasantry whose economic base is rather fragile, hence their ability to prosper depends on the effectiveness of credit support mechanism built around them. The Reserve Bank of India has been stressing the need for systematic studies in order to evolve a rational and scientific policy on the issue of medium-term loans. Further, the utility of integration of credit plans with non-credit plans relating to cropping pattern, infrastructure, technology, are increasingly recognised. It is to be understood that provision of credit is one thing and its desired impact is another.

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\(^1\) An institutional set-up constituted during Fourth Plan as recommended by the All-India Rural Credit Review Committee (1969) for assisting small farmers who are potentially viable. The aim was to improve their production potential and levels of income by adopting improved agricultural practices.
Bridging this gap will have a salutary effect in stimulating development. It is in this context that integration of development finance with a package of practices become inevitable. This underlines the need for a rational outlook and a scientific temper on the part of farmers. These factors interact to promote a much needed dynamism which in turn could bring in a saga of prosperity. Unless and until, a developmental outlook germinates in the minds of the farming community, all external stimuli would remain ineffective. There is need for an integration of human, financial and physical components in the growth process. Such harmony can be attained only when there is blending of resources and dovetailing of developmental activities on proper lines. Motivating farmers is considered as a pace setter for the development of weaker sections. A well set institutional credit agency can stimulate the process of growth even in relatively less prosperous regions. Development finance to farmers forms the nexus to initiate this process.

1.2 Development Finance

Development finance to small farmers has been an elusive concept in our agricultural development policies of the first three five year plans. It is therefore useful to define the term. The term Development Finance in this study connotes "a comprehensive approach in which investment credit blended with production credit serves to stimulate, sustain and promote the overall development of farm-family enterprise". Explained differently, the term draws attention to the regenerating process in the farm economy resulting from investments. These
Investments are partly aimed at creating growth impulses in the vulnerable sections of the peasantry. Development Finance envisages a pattern of growth with two characteristics, viz., development of an area, and higher income to the farmers. These are complementary in character.

Until recent times, development finance for small farmers was a totally new venture for credit institutions in Kerala. In fact, the Reserve Bank of India has been persistently complaining that the medium-term loans that were sanctioned to the District Co-operative Central Banks were being left unutilised. Even in 1974, more than Rs. 90 lakhs of the sanctioned credit limit remained unutilised. Evidently, there seems to be an element of contradiction between the criteria of sound investment from the point of view of banks, and from that of subsistence farmers. If banks bypass the small farmers on this ground, the multiplier effect of credit in the economy will be minimal. This will have adverse effect in the overall pattern of agricultural growth, and may enlarge the magnitude of the population below the poverty line. Broadly, in the past, small farmers were treated as non-creditworthy by financial institutions on two counts:

1) the non-viable size of their operational holdings; which was also an obstacle in qualifying for a large credit base;

2) the scattered nature of their holdings did not permit them to derive economies of scale from heavy investments.

The All India Rural Credit Review Committee observed that, "By and large, it would be correct to say that a
substantial proportion of small cultivators did not obtain co-opera­tive credit at all and those who did, receive too little for their needs. It thus underscored the need for evolving a system of institutional credit to uplift the fragile economic base of weaker sections of the rural community. In pursuance of this policy, 46 Small Farmers Development Agencies (SFDAs) and 41 projects for Marginal Farmers and Agricultural Labourers (MFALs) were initiated during the Fourth Plan period. One of the major objectives envisaged under the SFDA was the provision of investment credit to the potentially viable small farmers. This strategy was aimed at harnessing men and material through an integrated approach by strengthening the organisational structure at all levels. Towards this end, the Agency has been entrusted with the task of providing subsidies and assistance for various developmental schemes. It is often alleged that the domination of co-operatives by vested interests impair their efficiency to serve the cause of weaker sections of the society. Commercial banks also have many limitations, such as prohibitive cost of operation of the rural branches, and suitable personnel to assist weaker sections through these branches. Again, the well-known anti-small farmer bias of credit agencies hinder the flow of credit in amounts adequate to their needs. A recent study by Reserve Bank of India has found that "In many districts, the majority of small farmers indicated scope for

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1 Reserve Bank of India, All-India Rural Credit Review Committee, (Bombay : 1969), p. 563.
investment expenditure and given 'lack of credit facilities' as a reason for not implementing their plans.\textsuperscript{1} It is observed that "There was no systematic study of the medium term credit needs of the farmers to formulate loan policies. The amount advanced was generally decided in relation to the total credit limit fixed for a member and the type of security offered rather than the purposes for which loans were required."\textsuperscript{2} Against this backdrop, an empirical study would enable us to understand how far the activities under SFDA have altered the creditworthiness of the small farmers and helped them achieve higher economic status.

1.3 **Impulse for the Study**

The problems of small farmers have received worldwide recognition. There is no dearth of literature in this regard. Many of these studies have mainly remained narrative in character. The focus has been to examine the socio-economic characteristics of the economy of small farmers. One of the earlier attempts on these lines was made by G. H. Shah (1958).\textsuperscript{3} V. S. Vyas, D. S. Tyagi and V. N. Mishra (1973)\textsuperscript{4} have explored the significance of the new strategy of development for small

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2. **Ibid.,** pp. 46-47.


farmers. G. Parthasarathy (1971) discussed the issue of agricultural development and small farmers. V.R. Gaikwad (1971) made an attempt to explore policy and programme implementation for small farmers. K.K.S. Chauhan et al. (1973) made a comprehensive study to identify major bottlenecks in small farmers economy, and formulated certain criterion variables significantly contributing to the viability of small farm households. By and large, these studies were descriptive in nature. It is more important to investigate the casual relations between relevant variables, such as credit supply, input supply and related income growth. Credit being a strategic integrating factor (in the sense that input decisions depend on credit) for the small farmer's economy, the present work explores this matter.

1.4 Objectives of the Study

One test of a study is whether the questions raised are fundamental or trivial. The broad question that this study tries to answer or exhaustively discuss may be framed as follows: Can credit institutions succeed in introducing a model for rural development by combining integrated credit with other input components at an appropriate level of technology? In other


words, can the income of small farmers be raised by adopting new credit policies with the minimum rather than maximum change in other relevant variables? To what extent is credit a strategic variable in the situation? And to what extent has progress in the desired direction been already achieved? While attempting to answer these questions, the study really concentrates on contrasting the provision of investment and production credit with the provision of one or other alone. This contrast is of importance because in co-operative finance the tradition is to provide the two separately. The risk, the timing of repayment, and the interest rate, etc. have become adjusted over a long period and the integration of the two forms raises problems both for the credit supplying organisations and for the borrowers. In this thesis with the help of new data collected we look at the problem from the farmers' point of view. In our sample we are mainly concerned with the integration of medium-term and short-term credit, both of which are supplied by the same organisation at the grassroot level. Under SFDA operations, investment finance has largely been provided through service co-operatives. We concentrate attention on discussing this question, and therefore organise the thesis with reference to this main objective as well as the sub-objectives listed below. From the major objectives and sub-objectives we derive convenient hypotheses for testing.

The study will have the following sub-objectives in view:

(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
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.

By using appropriate economic arguments and simple quantitative techniques, the study will endeavour to test the following hypotheses:

(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.

1.5 Methodology

Kerala has the highest proportions of small farmers and incidentally of large villages in the country. Nearly 88 per
cent of the farm holding are below 5 acres (Appendix A). The high density of population (549 per sq.km.) and progressive land reform measures pursued in the State have resulted to a large extent in an even distribution of farm holdings. The land being fairly fertile is suitable for the cultivation of very many crops. The farmers in general are literate and to that extent progressive in their outlook. However, the fragile economic structure, born of a too limited supply of land and the ravages of natural calamities especially recurring floods, has made small farm enterprise a risky venture. In the absence of a crop insurance scheme, institutional agencies were reluctant to assist the small farmers in the past many years. Capital investment in agriculture has remained an exclusive privilege of the rich farmers only. Because of this inability to commit owned resources of the required level, development finance for small farmers was not forthcoming from institutional agencies.

The Cannanore district in Kerala is one of the 46 districts in the country included under the SFDA programme launched during the Fourth Plan period (Fig. 1.1). The programme has made satisfactory progress in terms of providing assistance through institutional agencies to small farmers. In this study, we will examine certain variables which will have a bearing upon the development policies of small farmers in Kerala. These include, farm size, cropping pattern, irrigation infrastructure, subsidiary enterprises and institutional credit. The policy framework implied in the SFDA programme and the practical performance of the activities undertaken under SFDA
administration are analysed and discussed in order to reformulate the future course of action, if found necessary.

The author conducted a sample survey in order to obtain the data required to verify the hypotheses and to substantiate the arguments relevant to the objectives of the study. A multi-stage stratified random sampling procedure was followed on the lines stated below.

1.5.1 Sampling Design

Stage I: To start with, the major development activities under SFDA programme for which finance has been made available were identified. The activities considered were:

1. **Minor Irrigation**: Construction of new wells, repairing of old wells, distribution of pumpsets, etc., and

2. **Dairying**: Distribution of crossbred cows, buffaloes, and loans for the construction of cattlesheds.

The second step was to identify the talukas wherein maximum development effort has been made to channelise the flow of credit for the activities identified in step one. On this basis, Kasaragod and Hosdurg talukas came to the forefront in respect of Minor irrigation works and Dairy enterprises respectively. Following the same procedure, two blocks where such activities were concentrated viz., Kasaragod (A) for Minor Irrigation Works, and Nileswar (B) for Dairy Enterprise, were chosen for detailed investigation. Some salient features of the region studied are given in Appendix B.
The sample blocks were selected on the basis of information obtained from project officials of SFDA and credit institutions involved in promoting development in the District. This has been done on the basis of activitywise subsidy released under SFDA scheme in different blocks. The subsidy released broadly determined the flow of investment credit for these activities under the scheme.

**Stage II**: The next stage was identification of villages having maximum concentration of these activities. This was done in consultation with SFDA officials and the financing banks. For this, villages in these blocks were classified according to the number of beneficiaries of the activities mentioned earlier. In this process, villages assisted under SFDA prior to 1974 were given weightage so as to have better feedback information from them. In this way, three villages with concentration of these activities from each of the blocks were identified. They are: Muttathody, Kadakam and Mundodu for Minor Irrigation (Block A), and Nileswar, Trikaripur and Cheravatur for dairying (Block B). The Service Co-operative Banks/Societies for the respective villages formed the basis for further enquiry. This was because they formed the nerve centre for the implementation of activities envisaged under SFDA scheme in these villages. This could also be justified on the following grounds:

Firstly, they constituted a major pipeline for the flow of credit under SFDA schemes;

Secondly, they alone provided credit, agricultural inputs
and services so-to-say, in a partially integrated manner;

Thirdly, the commercial banks played only minimal role under SFDA Schemes in the District; and

Finally, one of the prime objectives of the present study was to explore the existing link between investment credit and production credit in respect of small scale farmers. On this count, Co-operatives were in the forefront.

1.5.2 Selection of Farmers

The next step was to obtain a list of identified small farmers from the Co-operative Bank/Societies or from Village Extension Officers as the case may be. In Block A villages, small farmers who were provided with loans for minor irrigation works were grouped together. In Block B villages, small farmers assisted for dairying were listed. From these lists, farmers who had obtained investment credit after December 1974 were eliminated. This was done keeping in view the fact that the gestation period for such investment credit to get reflected in terms of incremental income of the beneficiaries was rather short. From the remaining lists, 30 beneficiaries for each of the two activities were randomly chosen based on probability proportional to the number of farmers for the respective villages.

From the lists of identified small farmers, non-beneficiaries were further identified for all these villages. They were grouped together for the respective blocks and 15 non-beneficiaries were chosen from each of the blocks using random
numbers. Thus our sample consisted of 60 beneficiaries and 30 non-beneficiaries, making a total of 90 farmers. In a way, the former served as an experimental group, the latter taking the place of a control group. The contrast between them helps explain how far development finance has been a catalyst in transforming the operational viability of small farm enterprise.

In these blocks, there were four branches of the lead bank (Syndicate Bank). A list of farmers assisted by these branches for the activities stated was prepared. Following similar procedures, a sample of ten farmers for each these activities were randomly chosen. The villagewise break-up of farmers selected is given in Table 1.1.

From the selected farmers detailed information, such as, farm size, cropping pattern, credit availability and utilisation, and other operational details were gathered with the help of a structured questionnaire specially designed for that purpose. The questionnaire was framed so as to cover both types of farmer respondents described above. The data gathered related to the year 1974-75. The period of survey was confined to the months June-August 1975. Personal interview of the head of the family was attempted as far as possible. This was followed by scrutiny of the records of the lending institutions so as to corroborate the genuineness of the information obtained from the respondents. Case histories of the sample farmers were examined from institutional records in order to bring out the relation between investment credit vis-a-vis production credit supplied by institutional agencies. An appropriate schedule was
Table 1.1: Proportionate Random Sample Selection of Small Farmers according to Beneficiaries and Non-beneficiaries

<table>
<thead>
<tr>
<th>Blocks/Village Co-operatives</th>
<th>Beneficiaries</th>
<th>Non-beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Sample small selected farmers assisted upto Dec. 1974</td>
<td>No. of Sample small selected farmers identified but not assisted</td>
</tr>
<tr>
<td>i. Muttathody</td>
<td>27 5 40 7</td>
<td></td>
</tr>
<tr>
<td>ii. Kadakam</td>
<td>99 17 28 5</td>
<td></td>
</tr>
<tr>
<td>iii. Mundodu</td>
<td>52 8 17 3</td>
<td></td>
</tr>
<tr>
<td>iv. Total</td>
<td>178 30 85 15</td>
<td></td>
</tr>
<tr>
<td>v. Commercial banks</td>
<td>48 10 - -</td>
<td></td>
</tr>
<tr>
<td>vi. Total (iv+v)</td>
<td>226 40 85 15</td>
<td></td>
</tr>
<tr>
<td>Block - B</td>
<td></td>
<td></td>
</tr>
<tr>
<td>vii. Nileswar</td>
<td>25 4 27 6</td>
<td></td>
</tr>
<tr>
<td>viii. Trikaripur</td>
<td>56 9 12 2</td>
<td></td>
</tr>
<tr>
<td>ix. Chervatur</td>
<td>108 17 34 7</td>
<td></td>
</tr>
<tr>
<td>x. Total</td>
<td>189 30 73 15</td>
<td></td>
</tr>
<tr>
<td>xi. Commercial banks</td>
<td>54 10 - -</td>
<td></td>
</tr>
<tr>
<td>xii. Total (x + xi)</td>
<td>243 40 73 15</td>
<td></td>
</tr>
<tr>
<td>Grand Total (vi + xii)</td>
<td>469 80 158 30</td>
<td></td>
</tr>
</tbody>
</table>

Note: Only those farmers assisted in these villages were taken into consideration.

Source: Village Extension Office in respective villages/service co-operatives.
used for this purpose. It is often argued that attitude to
development of farmers is an important factor making for farm
progress. In order to understand this phenomenon, 60 small
farmers were interviewed with the help of a structured ques­
tionnaire specially designed for that purpose.

To perceive the overall pattern of working of the service
co-operatives in these blocks, a mailed questionnaire was posted
to all of them, i.e., thirty societies. This questionnaire
sought information on general characteristics, such as composi­
tion of members, lending pattern, input supply system. Fourteen
replies were received which constituted a sample of 47 per cent
of the service co-operatives operating in these blocks. This
gave an integrated impression of co-operative performance in
the study region.

A case study of the Primary Co-operative Land Mortgage
Bank, Kasaragod was made. This bank has its operational juris­
diction in both the sample blocks. It has been done to gain an
impression of the nature and involvement of Land Mortgage Banks
in assisting small farmers. A fixed proportion of 20 small
farmers provided with term loans between 1971-72 and 1974-75
were randomly selected (Table 1.2). This enabled us to analyse
certain limiting factors involved in financing weaker sections.

Discussions were held with officials in charge of SFDA
operations, financing banks, progressive farmers, village
leaders, etc. This helped to rationalise primary and secondary
data gathered so as to draw inferences as perceived through
varied channels. Further details regarding medium-term and
Table 1.2: Random Selection of Small Farmer Borrowers of the Primary Co-operative Land Mortgage Bank, Kasaragod

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of small farmer borrowers</th>
<th>Sample chosen</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971-72</td>
<td>86</td>
<td>20</td>
<td>23.3</td>
</tr>
<tr>
<td>1972-73</td>
<td>92</td>
<td>20</td>
<td>21.7</td>
</tr>
<tr>
<td>1973-74</td>
<td>132</td>
<td>20</td>
<td>15.2</td>
</tr>
<tr>
<td>1974-75</td>
<td>80</td>
<td>20</td>
<td>25.00</td>
</tr>
<tr>
<td>Total</td>
<td>470</td>
<td>80</td>
<td>17.0</td>
</tr>
</tbody>
</table>

Source: Primary Co-operative Land Mortgage Bank, Kasaragod.

Short-term loans advanced by the six Service Co-operatives functioning in sampled villages were gathered. About half the number of farmers assisted as on 30-3-1976 under the yoke of SFDA Scheme from each of sample societies were chosen on a random basis. The sample size ranged from 69 to 284 between co-operatives in direct proportion to the number assisted. In all, data from a sample of 852 farmers were gathered from the records of the co-operatives. This constituted around 10 percent of small farmers assisted by co-operatives under SFDA Scheme (i.e. 9209) in the District. Through this, the link between investment and production credit has been obtained and is set forth in this work.

1.6 Limitations of the Study

Essentially, the study was of an exploratory nature. Hence, it combined primary and secondary sources of data to
verify the objectives indicated. Data were gathered through multiple-channels and sources. Further, the scarce resources at the disposal of the researcher delimited the scope of this investigation. The methodology followed and tools employed in the analysis of the data also stand on an experimental plane. These involve certain merits as well as demerits of their own and also reflect the limitations of the data base. We have made use of summary descriptive statistics wherever that was found useful.

1.7 Chapter Scheme

The thesis is divided into seven major chapters. We have begun Chapter I with defining the problem. We have outlined the critical problem areas on which this research is focused. In Chapter II, Agricultural Economy of Kerala is discussed. The conceptual foundations of SFDA and the performance of the SFDA in Cannanore district are given in Chapter III. Then we discuss the Economic Profile of Small Farmers: Beneficiaries under SFDA and also non-beneficiaries (Chapter IV). Social profiles of small farmers is dealt in Chapter V. The structure and operational efficiency of the credit institutions in the area studied are examined in Chapter VI. Here we make a detailed analysis of the activities of the District Co-operative Central Bank and Service Co-operatives (Section A); the Kasaragod Co-operative Land Mortgage Bank (Section B), and the role of Commercial Bank, especially the lead bank (Section C). The pros and cons of the integrated credit to small farmers are explored through a series
of objective statistical exercises (Chapter VII). In the last chapter, we review and summarise the findings as well as policy implications thrown up by this study. Appendices A to M add further evidences on matters that are partly covered by these chapters.
Fig. I. 1: Map of Cannanore District

Reference:
- Railway
- State highway
- Local Road

@ Taluk headquarters