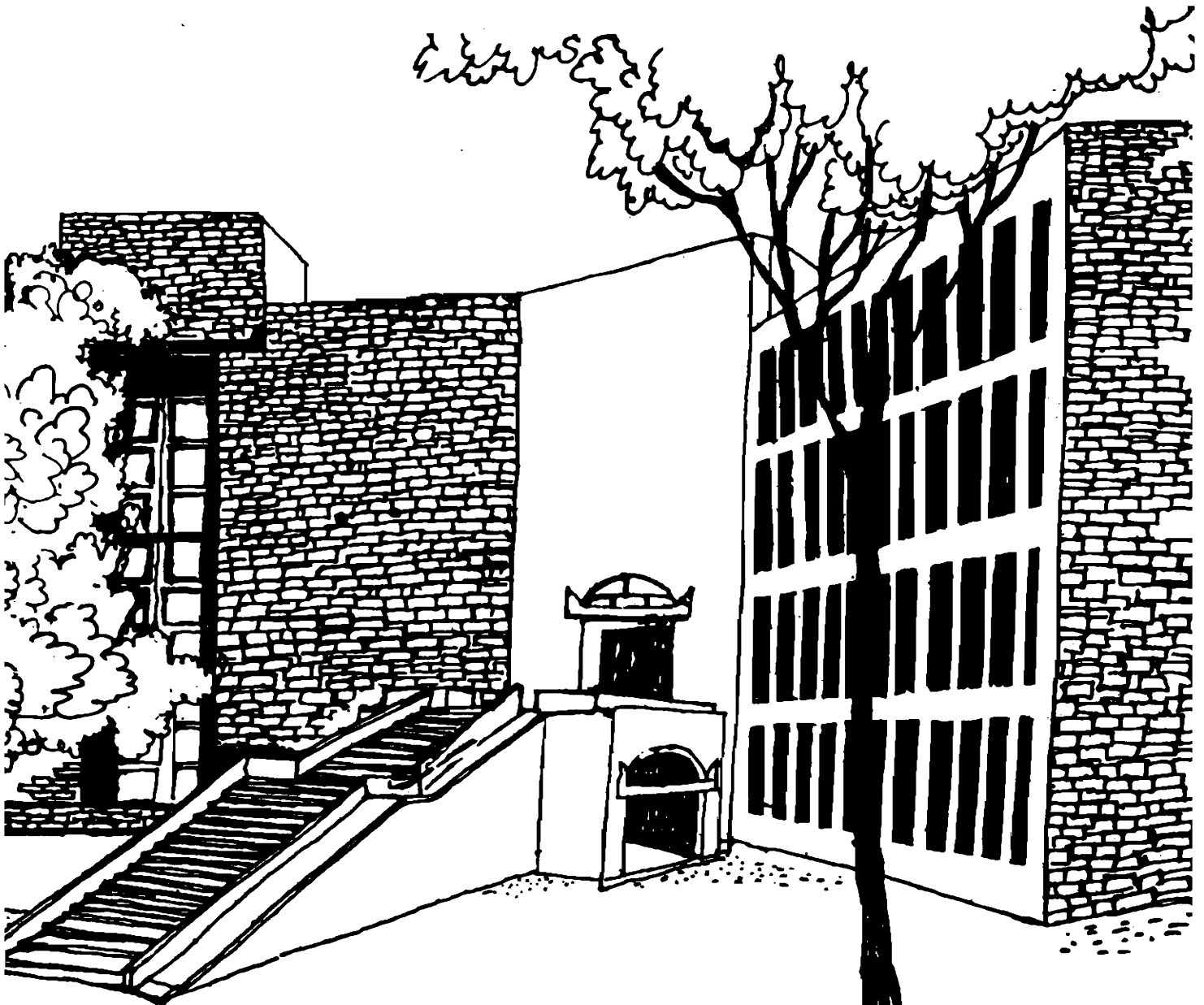




Working Paper





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CREDIT POLICY FOR SMALL AND MARGINAL
FARMERS--A SECOND LOOK

By

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CREDIT POLICY FOR SMALL AND MARGINAL FARMERS
- A SECOND LOOK*

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*The views expressed in this paper are those of author. The Indian Institute of Management, Ahmedabad, is not responsible for these views.

CREDIT POLICY FOR SMALL AND MARGINAL FARMERS
- A SECOND LOOK

1.0 Credit Policy for Small Farmers

The review of the credit policies followed by the financial institutions convinced the National Commission on Agriculture that they were not in favour of small and marginal farmers. Hence they recommended:

The existing institutions need to be equipped to be able to serve the majority of small farmers, with appropriate internal changes and new external linkages.

The new institutional credit system should make it possible that the flow of credit and inputs which have been hitherto going to larger farmers on a favoured basis are equitably shared between the large and small farmers. To the extent that the availability of institutional credit for agriculture is limited in relation to need, priority would have to be given to the needs of the small farmers since their more happily placed counterparts have access to credit on normal commercial terms from banks and also past surpluses lucratively deployed elsewhere.

While emphasizing the need for changing the direction of the institutional credit towards small farmers, NCA emphasized also the economic viability. They said:

The first principle of the new agricultural credit policy must satisfy that all activities financed under its aegis, for individual enterprises or projects, must have actual or potential financial viability.²

¹Govt. of India, Ministry of Agriculture and Irrigation, Report of the National Commission on Agriculture, Part XII, 1976, pp.20-21.

²Ibid., p.21.

2.0 Definition of Small Farmers

The definition of a small farmer according to Agricultural Census (1970-71) is a farmer having an operational holding between 1.0 - 2.0 ha. and a marginal farmer is one whose operational holding is less than 1.0 hectare.³ The objective in classifying the farmers with 1.0 to 2.0 ha. operational holding as small farmers was to have a basis for policy directions. The conceptualization of the small farmer is that he is the operator of a farm that gives an income less than predetermined norm of nutritional sufficiency and basic subsistence and who can be made viable through specific development schemes.⁴ The definition of viability varies from the capability to generate income covering minimum nutritional standard to the minimum customary cost of living.

3.0 Experiences of Development Strategies for Small Farmers

A study in Uttar Pradesh indicated 84 per cent of small farmers were non-viable. They had nearly 85 per cent of their operated area as irrigated area.⁵ The experiences of a decade of Small Farmers' Development Agencies to convert small farmers into viable farmers have not been very successful

³ Govt. of India, Ministry of Agriculture and Irrigation, Department of Agriculture, All India Report on Agricultural Census (1970-71), 1975, p.26.

⁴ T.V.S. Rao, "Small Farmers' Development Agencies: Some Criteria for Performance Evaluation" in Intervention for Rural Development, edited by B.M. Desai, Indian Institute of Management, Ahmedabad, 1979, pp.143-148.

⁵ S.L. Shah, "Viable and Non-viable Small Farmers in Western Uttar Pradesh and Policies for Achieving Viability" in Rural Development for Weaker Sections, Indian Society of Agricultural Economic, Bombay and Indian Institute of Management, Ahmedabad, 1974, pp.74-78.

except in few cases.⁶

Raj Krishna had noted that the small farmers' share in total farm assets (in 1971-72) was 34.5 per cent. Their share in the cultivated area was 20.9 per cent but in the net irrigated area, it was 31.4 per cent.⁷ The policies of diverting resources to small farm sector had resulted into the small farmers having a share of 33 per cent (in 1975-76) of all agricultural credit provided by the commercial banks, cooperative banks and land development banks.⁸

Many studies have shown that the farmers who are classified as small and marginal farmers have their major source of income as agricultural labour and non-farming activity. Farming is in reality not a full-time activity with them. The problem of "forced unemployment" has made a large number of small and marginal farmers "spend" time on their farms without commensurate additional income.

The development strategies of encouraging small and marginal farmers to obtain remunerative income through self-employment do not seem to have worked. In a study conducted in a very poor region of Andhra Pradesh, it was observed that paid employment was higher in case of the landless

⁶ Intervention for Rural Development Experiences of the Small Farmers' Development Agency, (ed) B.M. Desai, Indian Institute of Management, Ahmedabad, 1979, pp. 1-244.

⁷ Raj Krishna, Small Farmers' Development in B.M. Desai, (ed) /op.cit., pp.1-31.

⁸ D.K. Desai, Management in Rural Development, Indian Institute of Management (Draft Monograph), 1981, p.45.

labourer than the marginal farmer. The per worker income of the landless labourer was slightly higher than the per worker income of the marginal farmer. In case of marginal farmers, farm income included not only remuneration to labour but also to land and capital. If this portion was removed, the per worker income of the marginal farmer would be much less than the landless labourer.⁹

In a very poor tribal region of Dharampur Taluka, when an attempt was made to define a poverty line by finding out "the number of starved days per year per starved person," a revealing fact was observed that the decline in starved days over a period of five years was higher in case of landless labourers than the marginal and small farmers.¹⁰

The experiences of the past decade of the development strategies for small farmers should make us review the strategies and even the new credit policy recommended by the National Commission on Agriculture.

4.0 A New Approach - A Suggestion

It seems that in the new policy recommended by NCA, the two requirements of our economy: rapid income enhancement and fair income distribution are combined in formulating the policies for the institutional credit.

⁹D.K. Desai, op.cit., p.8

¹⁰D.K. Desai, op.cit., p.123.

If we assume that the primary responsibility of the institutional credit is to enhance income subject, of course, to the constraint that it does not worsen the income distribution aspects which should be handled by other policy measures, the economic viability of all activities financed by the agricultural credit institutions will become the corner-stone for the policy.

It is fair that small farmers should be given priority in agricultural credit ~~vis-a-vis~~ medium and large farmers if the latter are taking undue advantage of their influence with the credit organization. Otherwise, the economic viability of the activities undertaken by the small farmers should be the guiding principle in financing small farmers.

Although the principle of economic viability is well-enunciated by NCA, in practice what has happened is the entitlement of getting credit on a favoured basis if one is classified as a small or a marginal farmer. The philosophy of "reservation" at the cost of principle of "economic viability" is becoming dominant.

At present the small or marginal farmer is defined on the basis of the size of the operational holding. Many studies have indicated that the primary source of income of a large number of small and marginal farmers is not farming and even with the provision of adequate credit the possibilities of farming becoming the primary source of income are remote. In most cases of lending to small farmers the principle of

economic viability is not observed. The provision of institutional credit to small, marginal and sub-marginal farmers has not achieved result except that a stage has come where there is grumbling for writing off such loans to small, marginal and submarginal farmers as they are not in a position to pay back these loans. The financial institutions have provided loans to small, marginal and sub-marginal farmers which on the face of it is not a viable proposition, and when the reality of non-payment of such loans occurs, we make a hue and cry as if heaven will fall if writing off of such loans is allowed.¹¹ Credit is given to satisfy the assumed policy directives. This does not help income enhancement nor does it lead to proper income distribution.

We should classify small and marginal farmers into "part-time" and "non-part-time" farmers. I do not want to call the latter category as "full time" farmers because of the problem of forced unemployment. Part-time farmers should be defined not on the basis of time spent on the farm but on the basis of income obtained from the farm. If we define that farmers who obtain more than 50 per cent of their income from sources other than their farms are all "part-time" farmers, a large number of marginal and small farmers would be classified as part-time farmers. The other qualification should be that considering the potentiality of the existing resources on the farm, if there was a possibility of increasing the contribution of farm income to more than 50 per cent of the total income through provision of adequate credit such farmers should not be called "part-time farmers". This would require operational reclassification of farmers by "development managers."

The development managers will have to take the present classification of farmers according to operational size of holding as a starting point in the scheme of reclassification. For example, if it is found that most of the farmers having less than 2.0 ha. of operational holding are "part-time" farmers except those who have wholly irrigated area of 1.0 to 2.0 hectares and "non-part-time" farmers belong mostly to the size groups of 2.0 ha. and above, the definition of small farmers will have to be changed. "Part-Time" farmers should be excluded from the category of small farmers and the upper size limit of the small farmer may have to be raised.

Arbitrarily if we classify all farmers having less than 2.0 ha. of land and not having irrigated area more than 1.0 ha. as "part-time" farmers, the all India picture of distribution of operational holdings according to this concept and resource base would be as given in Table 1.

This shows that only 20 per cent of the existing operated area is held by "part-time" farmers. Other 80 per cent of the operated area is cultivated by "non-part time" farmers. The average holding of these farmers becomes 5.61 hectares. The skewness of distribution in the "non-part time" operational holdings is reduced compared to the skewness in the existing distribution of all holdings.

If the development strategies are focussed on making the 80 per cent of the existing operated area more productive, it may be possible perhaps

Table 1: Distribution of Operational Holdings at All India Level (1970-71)

Resource Base	Part Time Farmers		Non-Part Time Farmers		Total	
	No. (000's)	Area (000 ha.)	No. (000's)	Area (000 ha.)	No. (000's)	Area (000 ha.)
Less than 1 ha.	35,682 (75.6)	14,545 (46.4)			35,682 (50.6)	14,545 (9.0)
1.0 - 2.0 ha. (excluding wholly irrigated holding)	11,513 (24.4)	16,829 (53.6)			11,513 (16.3)	16,829 (10.4)
1.0 - 2.0 ha. (wholly irrigated holding)			1,919 (8.2)	2,453 (1.9)	1,919 (2.7)	2,453 (1.5)
2.0 - 4.0 ha.			10,681 (45.8)	29,999 (22.9)	10,681 (15.2)	29,999 (18.5)
4.0 - 10.0 ha.			7,932 (34.0)	48,234 (35.9)	7,932 (11.3)	48,234 (29.7)
10.0 ha. & above			2,766 (12.0)	50,064 (39.3)	2,766 (3.9)	50,064 (30.9)
Total	47,195 (60.1)	31,374 (19.4)	23,298 (30.9)	1,30,750 (80.6)	70,493 (100.0)	1,62,124 (100.0)

Source: All India Report on Agricultural Census, 1970-71, p.26

to increase employment and income of "part-time" farmers and agricultural labourers by providing them more employment on the farms of "non-part time" farmers.¹²

The average area of 5.1 ha. per operational holding (which appears to be quite large compared to other developing countries) is somewhat illusory as a substantial portion of the operated area of the "large" holdings is not cultivated. If we take only the net sown area of the "non-part time" farmers and find out the distribution, it works out as given in Table 2. The average operational holding becomes 4.62 hectares and the skewness is further reduced.

Again arbitrarily if we classify "non-part time" farmers having less than 4.0 ha. of land as "small" farmers and give the priority in providing agricultural credit as envisaged in the new policy recommended by NCA, the problem of handling small farmers by the institutional credit becomes manageable and the likelihood of applying the principle of economic viability in practice increases.

In case of "viable small" farmers, the strategy of project financing should be adopted. The project financing helps not only enhancing income

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The scope of increasing employment on irrigated and non-irrigated medium and large farms with improved technology and adequate credit is depicted by recent articles in Indian Journal of Agricultural Economics, Vol. xxxvi, No.2, April-June 1981.

Table 2: Distribution of Net Sown Area of "non-part time" farmers

Size Group	Irrigated		Unirrigated		Total	
	No. (000')	Area (000 ha.)	No. (000')	Area (000 ha.)	No. (000')	Area (000 ha.)
Ha.						
1.0 - 2.0	1,919 (8.3)	2,453 (2.3)	-	-	1,919 (8.3)	2,453 (2.3)
2.0 - 4.0	4,589 (19.7)	6,680 (6.2)	6,092 (26.1)	19,566 (18.2)	10,681 (45.8)	26,246 (24.4)
4.0 - 10.0	3,438 (14.7)	8,287 (7.7)	4,494 (19.3)	32,637 (30.3)	7,932 (34.0)	40,924 (38.0)
(10.0 ha. and above)	1,143 (4.9)	4,993 (4.6)	1,623 (7.00)	33,044 (30.7)	2,766 (11.9)	38,037 (35.3)
	11,089 (47.6)	22,413 (20.8)	12,209 (52.4)	85,247 (79.2)	23,298 (100.0)	1,07,660 (100.0)

but also generates much higher employment.¹³

If we accept the concept of "part-time" and "non-part-time" farmers, it is not necessary that the classification of farm according to the operational size will indicate above mentioned size limits for "small" farmers. But if as a result of adoption of such classification, if we come to a stage when we are required to redefine small farmers, we should not hesitate to do so.

The problem of "part-time" farmers should be dealt almost on par with that of agricultural labourers. The unemployment problem should not necessarily be solved through the route of self-employment. Our policies of increasing self-employment on small, marginal and sub-marginal farmers at a disproportionate cost instead of increasing wage-paid employment of landless labourers, small, marginal, and sub-marginal farmers on viable sized farms need to be reviewed.¹⁴ There are enough evidences that wage-paid employment in the existing farm structure can be considerably increased by encouraging changes in the cropping pattern.¹⁵ Not only that the wage-paid employment

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- 13 a. World Bank Report No.1325a - IN, India Appraisal of Kerala Agricultural Development Project, January 25, 1977.
b. World Bank Report No.1801a - IN, India Orissa Agricultural Development Project, Feb.9, 1977.
c. World Bank Report No.463a - IN, Appraisal of West Bengal Agricultural Development Project India, April 4, 1975.

¹⁴ D.K. Desai, op.cit., p.15.

¹⁵ Gunvant M. Desai and Michael G. Schluter, "Generating Employment in Rural Area" in Rural Development for Weaker Sections, op.cit., pp.143-152.

can be enhanced by changing the cropping pattern, but the marginal manipulations in the cropping pattern, in a region can increase agricultural productivity significantly even if fertilizer and irrigation use remain unchanged.¹⁶

5.0 Conclusion

If we concentrate on income enhancing strategy without adversely affecting the income distribution problem, it is possible to adopt the concept of "part-time" and "non-part time" farmers and encourage income and production on "non-part-time" farms by proper credit policies. This would also help increasing income and employment of "part-time" farmers and agricultural labourers and thus help solving the problem of income distribution. The credit to "large" (more than 10 ha.) farms can be treated on par with commercial loans. Priority loans for agriculture sector should be confined to small and medium "non-part-time" viable farms. The investments made in agriculture in this way would promote both agricultural growth and employment.

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C.G. Ranade, "Impact of Cropping Pattern on Agricultural Production," Indian Journal of Agricultural Economics, Vol. XXXV, No.2, April-June, 1980, pp.85-93.