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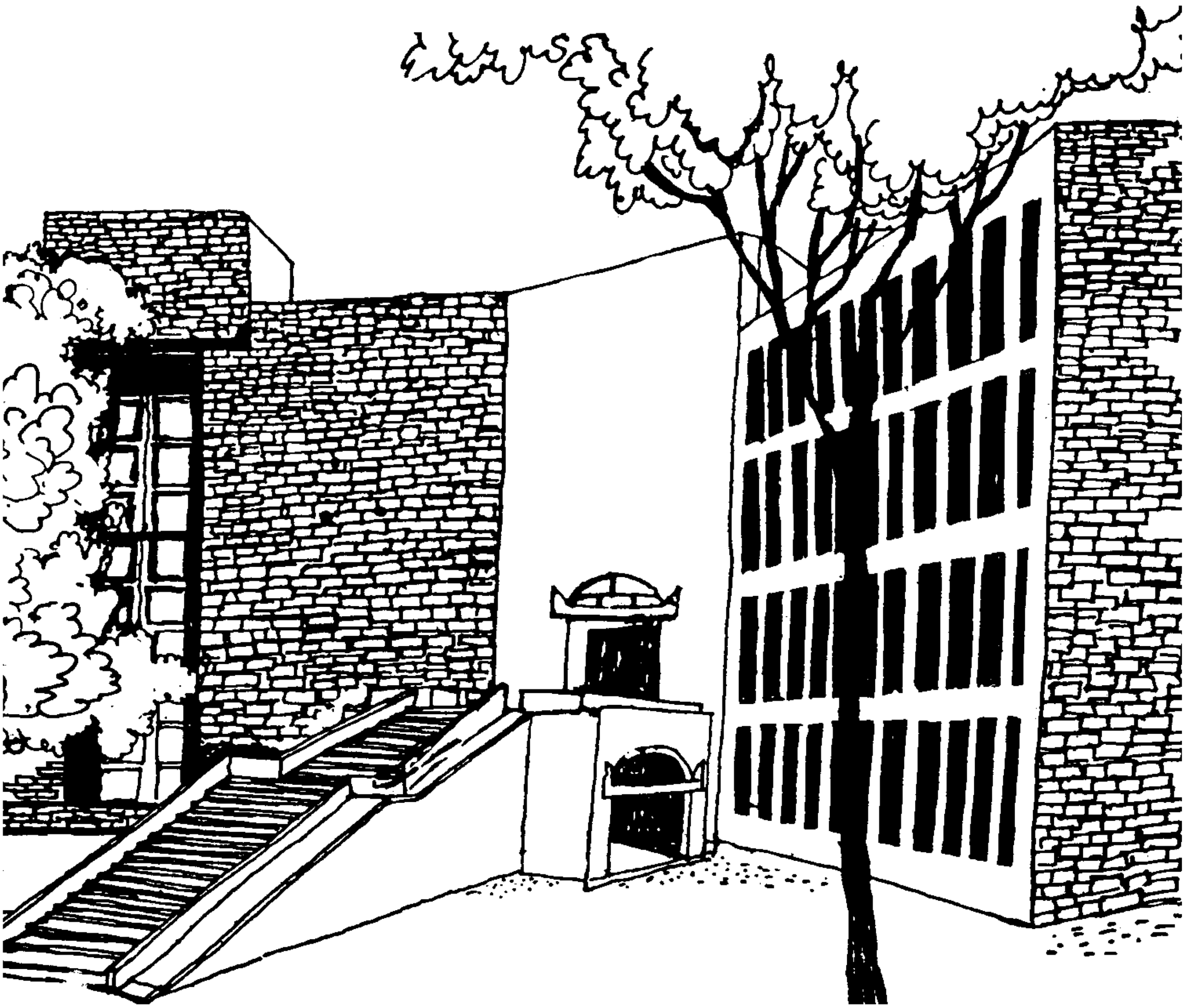
Working Paper



MEASURING PERFORMANCE OF SMALL FARMERS' DEVELOPMENT AGENCY

by

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1. Introduction

The primary objective of SFDA is to improve the economic condition of small and marginal farmers. In ultimate analysis Agency's activities must result in increase in net income of small and marginal farmers to a pre-determined level. This increase in net income should not be a one-shot affair but on permanent basis. There are, however, two main difficulties in applying the criterion of "increase in net income to a pre-determined level" to measure the performance of the Agency. Firstly, increase in net income of the farmers is a function of various external factors such as input-output prices, weather conditions, farmers' motivations and skills. Only under the assumption that all these factors are favourable, Agency's performance can be measured using the "increase in net income" criterion. Secondly, use of this criterion would involve collection of income data from each small and marginal farmer (or on sample basis) at the beginning of Agency's activities and after each year of its operation. This will be a costly and time consuming exercise especially when one desires high reliability of data.

This does not, however, mean that the performance of the Agency cannot be measured. The Agency is expected to achieve the primary objective of

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improving the economic condition of small and marginal farmers by performing certain pre-determined, specific, short-term, functional tasks. If these tasks are not handled by the Agency efficiently and effectively then the primary objective of improving the economic condition of small farmers will not be achieved inspite of favourable external environment. It is thus essential that proper operational control is exercised on the Agency through systematic monitoring of its pre-determined, short-term, functional tasks.

The purpose of this paper is to evolve certain methods of analysis and indicators for measuring the performance of the Agency and apply these to the type of data which is normally collected by all the SFDAs operating in the country. Part of such data generally find place in the quarterly and annual progress reports of these Agencies. The data used in this paper was collected from an Agency operating since 1971.

2. Functional Tasks of SFDA and Standards for Measuring Performance

2.1 Functional Tasks

There are five main functional tasks of SFDA.[1]

1. To identify the eligible small farmers, investigate and identify their problems, formulate programmes

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[1] For detailed description of functional tasks of SFDA, *see* Government of India, Ministry of Food and Agriculture, Community Development and Cooperation, *Circular* dated November 19, 1969, Reference: Small Farmers Development Agency; and copy of the letter No.11-21-69-Agri. *Circular* dated 15 May, 1970 from the above department to Chief Secretaries of State Governments providing Guidelines for the Formulation of Small Farmers' Development Agency.

incorporating suitable measures to deal with them and devise ways and means of implementing the programmes

2. To arrange services and supplies required by the eligible farmers

3. To promote the flow of short-term, medium-term and long-term credit to eligible farmers

4. To give subsidy so that the beneficiary is not burden with a load of debt which he cannot bear and repay from his incremental income

5. To draw up plans for investment and production activities to be undertaken by the supported farmers. These would be in the form of model schemes.

These functions were closely inter-related. Functions 1,2,4 and 5 must result in increase in flow of credit to small farmers which was a crucial step in improving economic condition of farmers. Enrolment of small farmers and identification of their problems was necessary so that further activities could be undertaken in a systematic manner. Giving subsidy was not the end in itself. It was to be given in very exceptional cases to really deserving small farmers. There were specific instructions that 'SFDA was not to be looked upon as an agency meant for giving subsidies to farmers'. Agency was expected to draw plans for investments and production activities so that funds from financial institutions could be directed and utilized in an organized manner.

Agency was not to extend credit from its own funds but to promote the flow of credit by providing two types of direct assistance to cooperative credit institutions: 1) out right grants as 'risk fund' proportionate to the amounts extended by credit institutions to small and marginal farmers, and 2) underwrite the cost of extra staff that may have to be employed by these institutions for additional work.

Importance given to promotion of credit flow could be seen from the pattern of expenditure of Agency's Funds suggested by the Government of India (Table 1). The maximum percentage suggested under different heads of expenditure was: Risk Fund - 50 per cent; Staff Subsidy to co-operative institutions - 10 per cent; Subsidy to small farmers - 25 per cent; Expenditure on Agency's Staff - 5 per cent; and Provision for schemes to be developed later - 10 per cent.

2.2 Standards for Measuring Performance Efficiency

Each Agency was provided with an outlay of Rs.150 lakhs for a period of five years. The suggested pattern of expenditure for this outlay indicates that Rs.1500 lakhs additional credit was expected to flow to small farmers (Table 2). The ratio of actual flow of credit to the expected figure provides the most crucial measure of efficiency of SFDA.

In the absence of any standards for physical achievements, the number of wells dug, pump-sets distributed, number of units of poultry, sheep, piggery, milch cattle, etc., given to small farmers canot be used for measuring the efficiency of the Agency. These could, however, be used for inter-Agency comparisons. Only under certain assumptions standards in relation to physical achievements could be fixed. For example, it could be assumed that almost none of the eligible small/marginal farmers in a region have irrigation facilities and as such need these facilities (those not having wells, need wells and pump-sets; those having wells, need pump-sets). Similarly, it could be assumed that almost all small farmers in a region need alternate sources of income (hence, poultry, piggery, etc.). Thus, ratio of number of irrigation facilities provided to total number of eligible farmers not having such facilities could be an important measure of efficiency. Similarly, the ratio of number of farmers provided with alternate sources of income to total number of farmers needing these could be another measure of efficiency.

3. Application of Performance Standards

3.1 General

The Agency under study was among the first batch of SFDAs introduced in the country in 1970-71. The scheduled period of operation of the Agency was five years (April 1971 to March 1976). Receipt and expenditure data was available for all the years upto March 1976 (Table 3). Other data was available in aggregate form for four year period ending March 1975 (Table 4).

3.2 Operational Efficiency of the Agency

3.2.1 The planned goal of the Agency was to improve the economic condition of 45,114 identified eligible small farmers in five years. The preliminary functional task was to enroll these farmers. After four years of operation the Agency was still left with the task of enrolment of 35 per cent of the eligible farmers, identification of their problems and formulation of programmes for their development.

3.2.2. In the five year period the Agency received Rs.63.30 lkahs and spent Rs.62.95 lakhs (about 42.2.per cent and 41.97 per cent respectively of the total expected outlay of Rs.150 lakhs). Considering the balance left every year (1971-72: 55.49 per cent; 1972-73: 11.05 per cent; 1973-74: 4.64 per cent; 1974-75: 17.01 per cent; 1975-76: 1.85 per cent) availability of funds was not the problem, but the efficiency of the Agency was itself limited to only about 42 per cent utilization of potential resources of Rs.150 lakhs (Table 3).

3.2.3 During the first four-year period, total credit extended to small farmers through credit cooperatives was Rs.155.10 lakhs as against the expected flow of additional credit of Rs.1200 lakhs (assuming that 4/5 of the potential credit flow of Rs.1500 lakhs would be in first four years). Thus, the efficiency of the Agency in increasing the flow of credit was only about 13 per cent. Even if we include the credit extended through commercial banks (Rs.53.34 lakhs), the total credit flow of Rs.208.44 lakhs gives an efficiency level of only about 17 per cent for the first four years of operations.

3.2.4 The long term credit extended in the first four years was Rs.97.13 lakhs against the expected credit flow of Rs.800 lakhs during this period, giving an efficiency level of about 12 per cent. Total short and medium-term credit extended during the first four years was Rs.111.31 lakhs against the expected credit flow of Rs.400 lakhs during the same period giving an efficiency level of about 28 per cent.

3.2.5 The efficiency figures in para 3.2.3 and 3.2.4 are worked out on the basis of potential flow of credit for an outlay of Rs.150 lakhs for five year period. In the first four years the Agency received Rs.46.96 lakhs (and spent Rs.44.49 lakhs). The potential flow of credit for this receipt would be Rs.469.60 lakhs (short and medium term Rs.156.53 lakhs and long-term Rs.313.06 lakhs). Even after considering this already low utilization of potential outlay, the efficiency of the Agency in increasing the flow of credit worked out to be only about 44 per cent.

3.2.6 No specific data were available from the progress reports regarding number of eligible small farmers requiring irrigation facilities and alternate sources of income. We assume[2] that a) all the 45,114 eligible farmers needed

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2 To get correct measures of efficiency level the following minimum information is required:

a) Number of farmers requiring irrigation facilities (separate figures for wells and pump-sets).

b) Number of different farmers provided with wells out of those requiring wells.

c) Number of different farmers provided with pump-sets out of those requiring pump-sets.

d) Number of farmers requiring alternate sources of income (separate figures for milch cattle, poultry units, etc.).

e) Number of different farmers provided with at least one of the alternate sources of income.

Since it is possible that some farmers may get all the possible services while some may be left out altogether, it would be necessary to get distribution of farmers according to nature of services received and number of times services (such as credit) received during the period of operation of the Agency.

the irrigation facilities, b) four-fifth of these would be covered in the first four years, c) 1469 dug wells were provided to different small farmers out of which 840 also received pump-sets, d) all the 45,114 eligible farmers needed alternate sources of income, e) four-fifth of these would be covered in the first four years, and f) 1475 milch cattle, 43 poultry units, 830 sheep units, and 73 piggery units were provided to different farmers, and 320 different artisans were helped.

Under these assumptions the efficiency level of the Agency in the first four years in terms of extending irrigation facilities was about 4 per cent, and in terms of extending alternate sources of income was about 8 per cent.

3.2.7 About 42 per cent utilization in five year period of the potential resources of Rs.150 lakhs (cf. 3.2.2) provides only a false level of efficiency in the sense this aggregate figure hides the actual distribution of expenditure under different heads. The pre-dermined pattern of expenditure of the funds provided to the Agency provides a norm against which actual pattern of expenditure needs to be tested. The deviations from the pre-determined norms would indicate annual variations in the priorities decided by the operating level as well as level of efficiency achieved each year under different heads of expenditure (Table 5). It could be seen that:

(i) Every year there were tremendous variations from the stated norms for each head of expenditure, indicating lack of operational controls.

(ii) The deviation was the highest in case of 'subsidy'. The stated norm for 'subsidy' was 25 per cent.of total expenditure, while the Agency spent 76.35 per cent. This, inspite of the very clear directions from the Government of India that "the subsidy has to be given in very exceptional case" and that 'the SFDA is not to be looked upon as an agency for giving subsidies to farmers'.

(iii) The Agency had less expenditure (13.17 per cent) than stated norm for 'subsidy' only in 1971-72. However, this year 55 per cent of the receipt remained un-utilized indicating that if the Agency had strictly followed the norms of expenditure under 'subsidy', every year there would have been heavy under-utilization of receipts which were already low compared to potential resources available to the Agency.

(iv) In contrast to high percentage expenditure on "subsidies" the Agency spent in five years in all only 8.81 per cent under "Risk Fund" as against the stated norm of 50 per cent. Risk Fund was directly linked with flow of credit from credit cooperatives and other institutions. The low expenditure under "Risk Fund" means either insufficient efforts on the part of the Agency to formulate programmes and contact credit agencies to increase the flow of credit towards the farmers, or lack of cooperation on the part of credit institutions.

(v) Since flow of credit from the cooperative credit institutions was below the pre-determined level, the staff subsidy to these institutions was also below the stated norms. Thus, the opportunity for strengthening these organizations was lost.

(vi) The Agency's expenditure on staff was twice the stated norm.

(vii) Its expenditure on planning and formulation of new schemes was nil, indicating lack of efforts and creativity.

4. Measuring Effectiveness of Agency's Performance

According to norms, an outlay of Rs.150 lakhs was expected to result in flow of additional credit of Rs.1500 lakhs to be spent on various activities leading to improvement of economic conditions of about 50,000 small farmers. This means an additional credit flow of Rs.600 per farmer per year. Net return of this additional investment can be a matter of conjecture. Twenty per cent net return on this additional investment of Rs.600 per year would give each of the 50,000 farmers (or farm families) an additional income of Rs.120 per year, that is, Rs.10 per month, or about two days of additional wages per month at the prescribed rate of Rs.5 per day. If the number 50,000 stands for farm families or households (each with an average size of five). The additional credit flow would provide an additional per capita per month income of Rs.2 to each of the 50,000 farm families.

Out of the total outlay of Rs.150 lakhs, only Rs.37.50 lakhs (25 per cent of the total outlay) was expected to go directly to the eligible small farmers as subsidy. This amounts to Rs.15 per year per farmer or

Rs.1.25 per month per farmer (or farm family). A net return of 20 per cent of this amount would further add Rs.3 per year to each farmer's income.

Thus, theoretically, with an outlay of Rs.150 lakhs for five year period the net increase in the income of each of the 50,000 farmers (families) would be Rs.123 per year or Rs.10.25 per farmer (family) per month or Rs.2.05 per capita per month.* This will be the highest standard of effectiveness an Agency can be expected to achieve under the most ideal conditions - full and most efficient utilization of resources, and farmers' production activities operating under absolutely "no risk" conditions. In the present case even this expected, extremely low increase in an average small farmer's income could not be achieved due to extremely low efficiency of the Agency.

Theoretically, at 20 per cent return on Rs.240.74 lakhs (Rs.208.44 lakhs loan advances and Rs.32.30 lakhs subsidies in four years). The average increase in the income of 45,114 small farmers of the region would be Rs.21.34 per year as against the expected figure of Rs.123. This gives an effectiveness level of 17 per cent which is the same thing as mentioned in para 3.2.3.

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* Exlcuding the net return on Rs.123 of the first and subsequent year, if this increase in income occurs at the end of first and subsequent years.

The 20 percent return on Rs.240.74 lakhs gives a total possible contribution of Rs.12.04 lakhs per year to income of 45114 farmers. This was achieved at a cost of Rs.3.05 lakhs per year (risk fund to cooperatives; managerial cost and establishment cost; total for four years - Rs.12.19 lakhs). Thus, on an average, the cost to the country of increasing the income of a small farmer by Rs.100 per year came to Rs.25 per year.

In the absence of data pertaining to actual increase in the net income of each of the eligible farmer (farm family), it is not possible to find out the actual effectiveness of SFDA approach in improving the economic condition of small farmers. However, considering the outlay in relation to magnitude of the task and considering the extremely low efficiency of the Agency, serious doubts can be raised about the effectiveness of SFDA. Only manyfold increase in the outlay and in operational efficiency would improve the economic condition of small farmers to an appreciable level. Operational efficiency could be improved by strict monitoring of the performance against stated norms and standards. In the absence of increased outlay and efficiency, alternate strategies for improving economic condition of small farmers would have to be evolved.

Table 1: Suggested Pattern of Expenditure of the Funds Provided to the Small Farmers' Development Agency

		Suggested maximum percentage
A. RISK FUND		
1) Land development bank (3 per cent of advances)		20.00
2) Central Banks and primary societies (short and medium-term) at 9 per cent of additional advances		30.00
	Total	50.00
B. STAFF SUBSIDY TO CO-OPERATIVE INSTITUTIONS, ETC.		
1) Central Bank		2.00
2) Primary Societies		1.00
3) Land Development Bank		1.50
4) Dairy and Poultry Societies		1.50
5) Marketing Societies		2.00
6) Agro-Industries Corporations, etc.		2.00
	Total	10.00
C. SUBSIDY		
1) Failed Wells		5.00
2) Dairy and Poultry		5.00
3) Transport of Inputs		5.00
4) Marketing and Processing Units		5.00
5) Custom Service Units Equipment		5.00
	Total	25.00
D. AGENCY STAFF		5.00
E. PROVISION FOR SCHEMES TO BE DEVELOPED LATER		10.00
	Total	15.00
		100.00
F. HOUSE RENT FOR OFFICE	Not exceeding Rs.300 per month	

Source:

Government of India, Ministry of Food, Agriculture, Community Development and Co-operation (Department of Agriculture), Enclosure to the letter No.11-21-69 Agri. Cr., dated 15 May 1970 to Chief Secretaries of State Governments providing guidelines for the formulation of Small Farmers' Development Agency.

Table 2: Estimate of Expected Flow of Additional Credit to Small Farmers

			Rs. in lakhs
1.	Total Outlay (Expenditure)		150.00
2.	Maximum permissible expenditure on Risk Fund*		
	a) To LDB (at 20 per cent of total expenditure)		30.00
	b) To Central Bank and primary cooperative societies (at 30 per cent of total expenditure)		45.00
		Total	75.00
3.	Expected Flow of Additional Credit from:		
	a) LDB on the basis of Risk Fund of Rs.30 lakhs (at 3 per cent of advances)		1000.00
	b) Central Bank and primary cooperative societies on the basis of Risk Fund of Rs.45 lakhs (at 9 per cent of additional advances)		500.00
		Total	1500.00

* See Table 1

Table 3: Small Farmers Development Agency, Under Study: Yearwise Receipt and Expenditure from 1970-71 to March 1976

(In rupees)

Period	Receipts		Expenditure	
From January to March 1971	a) Government grants (17.12.1970)	290900.00	Expenditure on establishment and administration	8713.85
			Closing balance	282186.15
		290900.00		290900.00
From April 1971 to March 1972	a) Opening balance	282186.15	a) Subsidy to SFs.	73309.36
			b) R.F. to coops.	87060.47
	b) Government grants (15.9.71)	500000.00	c) Share loan to SFs	29790.00
			d) Managerial cost	21300.00
			e) Establishment and administration	136700.77
				348160.60
			Closing balance	434025.55
		782186.15		782186.15
From April 1972 to March 1973	a) Opening balance	434025.55	a) Subsidy to SFs.	1320019.43
			b) R.F. to coops.	95594.30
			c) Share loan to SFs	138240.00
	b) Government grants (9.11.1972)	1500000.00	d) Managerial cost	64975.00
			e) Establishment and administration	107765.35
	c) Interest on deposits	6793.01		1726594.08
			Closing balance	214224.48
		1940818.56		1940818.56
From April 1973 to March 1974	a) Opening balance	214224.48	a) Subsidy to SFs	620802.03
			b) Subsidy to SCs	163160.00
	b) Government grants (17.7.73)	1000000.00	c) Risk Fund to SCs	90784.06
			d) Share loan to SFs	89910.00
			e) Managerial cost	61000.00
	c) Interest on deposits	2604.77	f) Stipend to trainees	17822.63
			g) Establishment and administration	116871.41
				1160350.13
			Closing balance	56479.12
		1216829.25		1216829.25

Table 3(contd.)

Period	Receipts		Expenditure	
From April 1974 to March 1975	a) Opening balance	56479.12	a) Subsidy to SFs	617790.77
	b) Interest on deposits	4306.22	b) Subsidy to SCs	105000.00
	c) Refund of share loan for SCs	41874.50	c) Risk Fund to SCs	190313.32
	d) Govt. grants	1350000.00	d) Share loan to SFs	14130.00
			e) Managerial cost	106599.00
			f) Stipend to trainees	39767.14
			g) Establishment and administration	131971.82
				1205572.05
			Closing balance	247087.79
		1452659.84		1452659.84
From April to March 1976	a) Opening balance	247087.79	a) Subsidy to SFs	1497565.05
	b) Interest on deposits	16900.01	b) Risk Fund to SCs	94003.70
	c) Refund of share loan from SCs	16730.20	c) Stipend to trainees	53462.19
	d) Govt. grants	1600000.00	d) Share loan to SFs	51960.00
			e) Establishment and administration	149016.34
				1846007.28
			Closing balance	34710.72
		1880718.00		1880718.00
Abstract of receipts and payments from inception upto March 1976	a) Government grants	6240900.00	a) Subsidy to SFs	4129486.64 (65.24)
	b) Interest on deposits	30604.01	b) Subsidy to SCs	268160.00 (4.24)
	c) Refund of share loan	58604.70	c) Risk Fund to SCs	557755.85 (8.81)
			d) Managerial cost	253874.00 (4.00)
			e) Stipend to trainees	111051.96 (1.75)
			f) Share loan	324030.00 (5.12)
			g) Establishment and administration	651039.54 (10.28)
				6295397.99 (99.44)
			Closing balance	34710.72 (0.55)
		6330108.71		6330108.71 (99.99)

Note: Figures shown in parentheses indicate percentage

Table 4: Avilable Data from the Progress Reports of the Agency Under Study for Four Period (1970-71 to March 1975)

S.No.	Items		Progress upto March 1975	
1.	Total number of eligible small farmers identified		45,114	(100)
2.	Number of eligible farmers enrolled		29,269	(65)
3.	Number of eligible farmers yet to be enrolled		15,845	(35)
4.	Number of cases for which programmes formulated		27,742	
5.	Expenditure*			
	a) Risk Fund	Rs.	557755.85	(8.31)
	b) Staff subsidy to coop. institution, etc.		253874.00	(4.00)
	c) Subsidy to small farmers**		4832728.60	(76.35)
	d) Expenditure on agency staff		651039.54	(10.28)
	e) Provision for schemes to be developed later		00.00	(0.0)
		Total	6295397.99	(99.44)
		Balance	34710.72	(0.56)
		G. Total	6330108.71	(100)
6.	Total Flow of Credit (Rs.)			
	a) From cooperatives			
	Short-term		28.70	lakhs
	Medium-term		29.27	"
	Long-term		97.13	"
		Total from Coops.	155.10	"
	b) From Commercial Banks			
	Short-term		33.07	"
	Medium-term		20.27	"
		Total from Commercial Banks	53.34	"
		G. Total	208.44	"

Suggested Pattern of Expenditure of the Funds Provided to the Small Farmers' Development Agency, Actual Expenditure and Deviations from the Norms

Head	Suggested maximum percentage	Jan. to Mar. 1971	71–72	72–73	73–74	74–75	75–76	Total	Deviations from norms Col. 2-9
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
A. RISK FUND									
1. LDB (3 per cent of advances)	20								
2. Central Bank and primary Societies (short and medium terms at 9 per cent of additional advances)	30								
Total	50	–	11.13	4.92	7.46	13.10	5.00	8.81	-41.19
B. STAFF SUBSIDY TO COOP. INSTITUTIONS, ETC.	10	–	2.73	3.35	5.02	7.34	–	4.00	- 6.00
C. SUBSIDY									
1. Failed wells	5								
2. Dairy and Poultry	5								
3. Transport of inputs	5								
4. Marketing and processing units	5								
5. Custom service units equipment	5								
Total	25	–	13.17	75.13	73.28@	53.47@	85.23@	76.35@	+51.35
D. AGENCY STAFF	5	2.99	17.48	5.55	9.60	9.08	7.92	10.28	+ 5.28
E. PROVISION FOR SCHEME TO BE DEVELOPED LATER	10	–	–	–	–	–	–	–	-10
G. T. Total	100	2.99	44.51	88.95	95.36	82.99	98.15	99.44	
Un-utilised resources (Balance)		97.01	55.49	11.05	4.64	17.01	1.85	0.56	-0.56
Total		100.00	100.00	100.00	100.00	100.00	100.00	100.00	
Actual Receipts in Lkahs (Rs.)	150.00	2.90	7.82	19.41	12.17	14.53	18.81	63.30	-86.70

@ Including stipend to trainees and share loan.