92

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January 12, 1979

Mr. Bruce Odell
Asia Projects Division
S.E. Asia Bureau
Agency for International Development
Washington, D.C.

Dear Mr. Odell:

I am pleased to submit, on behalf of the Public Administration Service, the contractually-required Consultant Trip Report (Mr. Donald R. Redden) per Paragraph IV of Work Order No. 15 dated 20 October 1978, IQC Contract No. AID/afr-C-1147.

Mr. Redden (Agricultural Economist and Rural Credit Specialist) participated in the World Bank Appraisal Mission (ARDC III - INDIA) and the preparation of the Mission Appraisal Report. Consultant reports to the World Bank and requested documentation are attached as enclosures.

Sincerely yours,

Theodore Sitkoff

Theodore Sitkoff
President

Encl: AID CONSULTANT TRIP REPORT w/ three (3) enclosures:

A. Field Report (Redden) To Appraisal Mission

B. Joint Report (Redden/Anema) To Appraisal Mission

C. Documentation

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CONSULTANT REPORT
to
U.S. Agency for International Development

THIRD AGRICULTURAL REFINANCE AND DEVELOPMENT CORPORATION CREDIT PROJECT (ARDC III)

Donald R. Redden, Sr. Consultant

Public Administration Service
1776 Massachusetts Ave., N.W.
Washington, D.C. 20036

January, 1979

2

ABBREVIATIONS

AID	Agency for International Development
ARDC	Agricultural Refinance and Development Corporation
CAD	Command Area Development
CB	Commercial Bank
CIDA	Canadian International Development Agency
DCCB	District Central Cooperative Bank
DPAP	Drought Prone Area Program
FSS	Farmer Service Society
GOI	Government of India
IDA	International Development Association
IRD	Integrated Rural Development
ISI	Indian Standards Institute
MFLA	Marginal Farmer and Agricultural Labor
PACS	Primary Agricultural Credit Society
PADB	Primary Agricultural Development Bank
PLDB	Primary Land Development Bank
RBI	Reserve Bank of India
RRB	Regional Rural Bank
SADU	Small Area Development Unit
SEB	State Electricity Board
SFDA	Small Farmer Development Agency
SLDB	State Land Development Bank
VDO	Village Development Officer
VEW	Village Extension Worker
R_s	Rupee (8.16: $1.00)

TABLE OF CONTENTS

I. SUMMARY AND CONCLUSIONS

i. The World Bank ARDC III Appraisal Mission (including two AID Consultants and one CIDA Consultant) reviewed and assessed the ARDC Project Request for the Third Credit. This credit would essentially continue and extend the objectives, scope, and support of ARDC I and II. The referenced Consultants were to function primarily as members of the Appraisal Mission, and secondarily, to review specific elements of interest to AID and/or CIDA. One AID Consultant was to specialize in the area of Management Information and the other (in conjunction with the CIDA Consultant) in the area of Small Farmer Credit.

ii. Agricultural lending has been a priority element of the Government of India and ARDC Credit Projects have been supportive in this effort. Appraisal reports of ARDC I and II give clear indication of the progress made to date and form the basis of continuation of these efforts through ARDC III. Special emphasis has been placed in all Projects (reflective of stated National Plan goals) on credit assistance to the Small Farmer. Consultant efforts were specifically limited to an on-site survey of progress and problems to date in the delivery of credit to the small farmer under past and current IDA/ARDC credit assistance projects.

iii. Credit assistance through institutional channels to the small farmer has steadily increased both in scope and extent of coverage. The entry of commercial banks into agricultural lending in general, and to small farmers in particular, has been of significant assistance. This expanding coverage has been further assisted by the establishment of Regional Rural Banks and a steady improvement of lending procedures to further accelerate credit availability. Indicators of this progress include the estimate that institutional credit to farmers now approaches 25% to 30% of agricultural loans, compared to 5-10% but a decade ago. Evidence of success can be (and was) quantified in significant increases in both incremental income and production tonnages of ARDC loan beneficiaries, particularly in the small farmer category.

iv. Continuing credit assistance is necessary to increase the scope and quality of coverage to the small farmers. Constraints to be addressed in ARDC III include a necessary, continued strengthening of lending institutions to include ARDC; expansion of current extension services; improvement in the infrastructure (particularly that of power), and finally, a reorganization of the primary cooperative system. The dual purpose of strengthening and extending this credit assistance program, particularly in support of small farmers, as developed for implementation under ARDC III, will be of substantial benefit in achieving the stated goals.

II. INTRODUCTION

1. The Consultant Scope of Work outlined in the referenced AID work order stated:

"The agricultural economist and rural credit specialist will review alternative credit sources available to small farmers, including informal sources. This review will include comparisons of credit terms and procedures, and an assessment of the advantages and disadvantages of doing business with each credit source.

"He will also review to the extent possible, in conjunction with others on the Appraisal mission, the financial viability of the borrowers falling under ARDC's definition of small farmer. Can such borrowers be expected to earn enough to repay their loans? Will the increased availability of reasonably priced credit lead to improvements to their agricultural productivity or financial status?"

2. In conformity with the provisions of Paragraph V of the work order which states in part: ". . . . will report and be responsible to the Mission Leader," the referenced Scope of Work, as outlined, was altered by the Mission Leader (with the prior knowledge and consent of AID/W and USAID/INDIA) to concentrate Mission appraisal efforts exclusively at the small farmer level of operation to ascertain:

a. Is IDA/ARDC credit actually getting to the small farmer?

b. Is the small farmer making effective utilization of such credit?

c. Is there an increase in production tonnages and incremental incomes in the post-loan period?

d. What constraints/deficiencies exist in the lending procedures to the small farmer at present?

3. Additive to the foregoing, AID/W expressed strong interest in the Consultant:

a. Reviewing the cost of agricultural credit with emphasis on the small farmer.

b. Reviewing the problem of "margin spread" in the delivery of credit from donor to ultimate borrower, specifically in the lending institution channels to small farmers.

c. Reviewing the current status of small farmer minor irrigation schemes.

d. Acquiring relevant documentation (for AID/W's information) as to ARDC plans/procedures.

4. In compliance with the Mission Leader requirements, the Consultant performed the directed tasks and reported findings and recommendations by submission of:

a. "Appraisal Mission Field Report" dated December 8, 1978 (Encl. A); and

b. "Small Farmer Credit Report" (ARDC III Appraisal Mission - India) dated December 22, 1978. (Encl. B)

The latter report was a joint submission (by direction of the Mission Leader) of the AID Consultant and the Canadian Economic Development Agency (CIDA) Consultant (Mr. Franz Anema). Both Consultants were given similar tasks, with Mr. Anema responsible for a survey in the State of Orissa and Mr. Redden responsible for the States of Maharastra, Kerala, and Andhra Pradesh. This Report was prepared as an Annex to the ARDC III Appraisal Report, with a summary for inclusion in the Main Report.

5. In compliance with the AID work order Scope of Work and Reporting requirements, the Consultant prepared this Trip Report which is a summary of the Mission Reports already submitted plus the additive elements of: a) the "Margin Spread," b) the Cost of Credit, and c) Small Farmer Minor Irrigation. It should be noted that the specific elements of the AID Scope of Work were fully addressed in the Appraisal Mission "Small Farmer Credit Report" (Encl. B).

6. The AID/W request for "acquiring relevant documentation" was satisfied by acquisition of pertinent documentation (single copy attached as Encl. C).

III. BACKGROUND

To place the ARDC III Credit Project in perspective, a brief summary of prior projects (ARDC I and II), with an outline of ARDC III is as follows:

A. ARDC I and II

1. The association of ARDC in IDA agricultural credit programs in India commenced in 1970 with the Gujarat Agricultural Credit Project. Since then, ARDC has been actively associated with the formulation and implementation of 36 IDA assisted projects in agriculture, comprising 11 agricultural credit, 3 seeds, 9 irrigation and command area developments, 3 dairy development, 3 horticultural, 1 integrated cotton development, 2 market yard, 2 fisheries, and 2 general lines of credit. The total amount of IDA funds to be channelled through ARDC,in respect of those projects,is estimated to be about US$868 million. Nine of the eleven individual state agricultural credit projects have been fully disbursed. The remaining two agricultural credit projects are expected to be fully disbursed during this proposed Third ARDC Credit Project,and to that extent,this credit partly replaces repeater projects in those states.

2. During March 1975, Government of India (GOI) and ARDC negotiated with IDA a credit of US$75 million for disbursement over two years on the general understanding that it would be the first in a series of credits to ARDC. The objective of the credit was for ARDC to commit specific amounts for individual schemes (appraised by ARDC and not by IDA) within an IDA-approved overall lending program. Those schemes would normally be too small for IDA to approve individually. The credit comprised: a) loans for minor irrigation; b) loans for diversified agricultural investments; c) a study on the feasibility of merging the short/medium-term and long-term cooperative credit institutions; and d) a study of the training needs of junior-level staff of SLDB,and the training of such staff with an intensive two-year training program.

3. Based on Consultant observations, progress achieved under ARDC I and II includes:

a. Generated incremental production has exceeded expectations.

b. The lending target of 50% of IDA credit to small farmers has been achieved. This total figure, however, does not reflect actual coverage on an individual State basis. Concentration of effort and resources may be achieved if individual State targets were developed.

c. The rapid expansion of commercial bank refinance through ARDC exceeded all expectations and today approaches 52% of the total with further increases almost certain. The problem of rising overdues, in some instances to dangerous levels, emphasized the need for an imposition of minimum recovery/eligibility requirements as is the case with the SLDB system.

d. The primary reason for the satisfactory project performance to date is that of ARDC. It must be observed, however, that ARDC is stretched to its capability limit at present, and there is a need of strengthening it to cope with financial growth.

B. ARDC III

1. The objectives of ARDC III are:

   a. Support GOI's Sixth Five Year Plan to increase agricultural production, to raise the standard of living of farmers, particularly small farmers and those living in less developed areas. This should be achieved through continuous and more active support, particularly in the technical field of ARDC's lending operations.

   b. Further encourage institution building:

      1) In ARDC itself by recommending changes in staffing and organization patterns and in its appraisal methods;

      2) In SLDB through intensified staff training programs;

      3) In CB through the introduction of eligibility criteria;

      and

      4) In State Groundwater Organization (SGO) through provision of additional staffing and equipment.

   c. Improve the quality of investments, particularly minor irrigation, through the establishment of a technical support system in all states.

   d. Increase small farmer participation by allocating 60% of the amount of the IDA credit to small farmers instead of 50% as in the two previous credits, and to help remove regional imbalances by the promotion of development in lesser developed states as identified in district development plans currently being drawn up by the lead banks.

   e. Ensure successful progress of the project by setting up better monitoring, supervision, evaluation, and reporting systems.

2. Project Description and Costs

a. The Project would comprise four components:

1. Minor irrigation (including land development);

2. Diversified agricultural schemes;

3. Training of staff of participating institutions (mainly SLDB and CB);

4. Equipment for State Groundwater Organization (SGO).

b. The estimated project cost[1/] is summarized below:

	Total Costs	IDA Contribution	Local and Other Contribution	IDA Contribution as a % of Total Cost
	US$ M			%
1.	524.8	200.0	324.8	38
2.	477.2	48.5	428.7	10
3.	2.0	1.0	1.0	50
4.	1.0	0.5	0.5	50
	1,005.0	250.0	755.0	25

3.

a. As originally planned, this project would be a continuation of the First and Second General Lines of Credit. It would be treated as a sector credit which would support the whole of ARDC's lending program, but for administrative purpose, it is planned to restrict IDA disbursements to certain components requiring technical input, particularly during supervisions. Those components are minor irrigation, land development, plantation and horticulture, livestock, and fisheries. With regard to deep tubewells and land development, it is planned to disburse against those components on agreement between IDA and ARDC on revised lending terms and conditions which, in the case of deep tubewells, would take place after appraisal of the Uttar Pradesh Deep Tubewell

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1/ Project costing shown is preliminary.

Project during January/February 1979, and in the case of land development, following the findings of a WB Mission which is currently looking into the reasons for slow disbursements in on-going projects having land development components.

b. US$150 Million (60%) of the credit would be allocated to small farmers as compared with 50% in ARDC I and ARDC II. Although no specific allocation would be made for disbursements in lesser developed states, the total cost of investments in those states is estimated to be not less than US$450 million (45% of total project cost).

c. Several other donors such as USAID, CIDA and KFW, have expressed interest in providing funds for this project, and individually they will be discussing lending terms and agreements with the GOI.

d. The Mission discussed recommendations with the Chairman of ARDC for essential staffing, organization, and management changes, and in principle, the recommendations were accepted; some are currently being implemented.

C. ARDC Appraisal Mission

The Consultant's work on the Mission was conducted in three phases: (1) Pre-Departure Briefings; (2) Field Work in India; and (3) Data Analysis and Report Preparation in Washington.

1. In the pre-departure phase, October 18-21, 1978, the Consultant met with representatives of AID/W (Mr. R. Nachtrieb/Mr. B. Odell, - Asia PD) and Mr. Ray Headworth (World Bank), ARDC III Appraisal Mission Leader, for orientation, briefings, and study of background materials. Appraisal Mission composition was:

1) R. L. Headworth - Mission leader

2) A. Rogerson - Project financing

3) C. Helman - Project monitoring/reporting

4) M. Barber - Minor irrigation

5) A. Stoneham - Financial institutions

6) G. Kaddar - Financial institutions

7) R. VanWagen - Training

8) G. Slade - Loan Officer

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9) L. Scott - Rural electrification

10) C. Diewald - Project economics

11) F. Anema - Small farmer credit (CIDA)

12) D. Redden - Small farmer credit (AID)

13) J. Beilby - Management information (AID)

2. Phase 2 was completed in India over the period October 23 - November 20, 1978. It consisted of initial meetings in Bombay; discussions with appropriate ARDC counterparts to prepare for field survey; initial team report (prior to meeting with Government of India); meeting with Government of India; follow-up meetings in Bombay and departure for Washington.

During the work in India, the Consultant had as official points of contact/coordination the following:

a. ARDC: (Bombay)

1) Mr. A. A. Chidambaram - Managing Director

2) Mr. K. N. Rao - Deputy Managing Director

3) Mr. R. K. Deshpande - Director, Planning/Development

4) Mr. Ahmed Raza - Programming/Evaluation

5) Mr. J. Barboze - Project Division (Maharashtra)

6) Mr. C. Rangan - Project Division (Andhra Pradesh)

7) Mr. S. Aranha - Project Division (Kerala)

8) Mr. M. Pratek - Planning and Development

b. Maharashtra: (District of Poona)

Primary Land Development Bank

1) Mr. B. N. Hande - District Branch Manager

2) Mr. V. M. Gire - Assistant Manager

3) Mr. A. V. Bartake - Chief Accountant

4) Mr. A. S. Thakur - Technical Officer

5) Mr. M. Gackwad - Loan Officer

c. Kerala: (District of Trivandrum)

1) Mr. P. K. Parthasarathy - ARDC Regional Director

2) Mr. P. K. Karunakaran - ARDC Loan Officer

3) Mr. P. Mohandas - President, SLDB

4) Mr. G. S. Nair - Agro Economist, SLDB

5) Mr. Romon Nair - President, PLDB

6) Mr. A. Nair - Secretary, PLDB

7) Mr. G. Srikumaran - Agro Economist, PLDB

8) Mr. G. Pillar - Agro Economist, PLDB

9) Mr. I. Sudakaran - SFDA - Project Officer

10) Mr. A. K. Nair - SFDA - Loan Officer

11) Mr. T. M. Menon - Commissioner for Agricultural Production

12) Mr. M. Anathanar - Additional Commissioner for Extension Services

13) Mr. T. M. Jayachandran - Director - SADU

d. Andhra Pradesh:

1) Mr. C. G. Subrahmnayan - Regional Director, ARDC

2) Mr. R. A. Ramasway - Deputy Director, ARDC

3) Mr. A. Sethurathnam - Deputy Director, ARDC

4) Mr. A. Narasimna Reddy - Managing Director - CADB (SLDB)

5) Mr. V. W. Prasad - Deputy Managing Director

6) Mr. M. Narsimhh - Plans Officer

7) Mr. N. S. Kondaiah - Chief Technical Officer

8) Mr. C. Ventsam - Director - Andhra Bank Ltd.

9) Mr. V. S. Reddy (Nalgrada) - Sub-branch Manager

10) Mr. Abdul Vahedkhan - Secretary - PADB

11) Mr. B. Shankarji - Senior Technical Officer

12) Mr. E. Narajan Reddy - Chief Accountant

13) Mr. G. Long Apoa - Supervisor

14) Mr. V. Sudhakar Reddy - Supervisor

15) Mr. G. Sukha Reddy - Assistant Agr. Officer - Dept. of Agriculture

16) Mr. Ramakrishna Kalam - Assistant Agr. Officer - Dept. of Agriculture

17) Mr. Yadgiri - Village Development Officer - Hyderabad Rural District

18) Mr. Ramili - Agr. Officer - (Village Development)

19) Mr. Anyayya - Secretary

20) Mr. Benket Reddy - (Ex-SLDB official)

21) Mr. Jayapal Reddy - Assistant Agr. Officer (Village Development)

22) Mr. Sethrmal - Assistant Agr. Officer (Village Development)

During Phase 2, the Consultant interviewed the following small farmers (on-site) working from approved loan files of the lending agency. Questionnaires (as outlined in Appraisal Mission Field Report Encl. A) were completed for each interview.

a. Maharashtra

1) Mr. Tuleram Salunkhe

2) Mr. Ohyanishwere Salunkhe

3) Mr. Indrabhan Salunkhe

4) Mr. Kanilaj Salunkhe

5) Mr. Murlidhar Salunkhe

6) Mr. Ramihandra Sonawane

7) Mr. Jognath Shitale

8) Mr. Roosahab Shitale

9) Mr. Aruind Shitale

10) Mr. Gallaudin Shialch

14

11) Mr. Moulladin Shialch

12) Mr. H. S. Harfale

13) Mr. W. G. Harfale

14) Mr. M. G. Kamathe

In additon to these individual interviews from loan files, a group of small farmers,both scheme and non-scheme (but without loan files), were interviewed for comparative purposes.

b. Kerala:

1) Mr. M. Sumanan

2) Mr. R. Sadasrivan

3) Mr. N. Balanishna

4) Mr. N. Pillai

5) Mr. P. Raslam

6) Mr. M. Sadanandan

7) Mr. L. Harris

8) Mr. M. Joseph

9) Mr. K. Shamantra

Also in this State, small farmers (12) selected at random and without loan files were interviewed.

c. Andhra Pradesh:

1) Mr. Shanker Reddy

2) Mr. Abdul Razak

3) Mr. Naryan Reddy

4) Mr. K. Lazaneah

5) Mr. B. Aryark

6) Mr. B. Venstarah

7) Mr. N. Reddy

8) Mr. G. Mallarab

9) Mr. P. Sayannd

10) Mr. B. Chandruh

11) Mr. Edge Sayanna

12) Mr. M. Jangarsh

13) Mr. G. Larmanna

14) Mr. S. Shevarsh

15) Mr. P. Hannamani

16) Mr. P. Srimay Reddy

17) Mr. G. Veneka Reddy

18) Mr. S. Chendra

19) Mr. R. Sudarshan

20) Mr. K, Shamlors

21) Mr. D. Loumamur

Farmers (9) on a Group Basis (additive to the individual interviews above) were interviewed but without loan files. During all interviews, the Consultant was accompanied by an ARDC representative plus a Bank, representative and when possible, an SFDA and/or Department of Agriculture representative.

(Details of above are included in Encl. A.)

IV. FINDINGS

A. General Findings

Findings, in summary form, of the Consultant survey were:

1. Institutional credit assistance is getting to the small farmer through the IDA/ARDC programs.

2. Significant improvements have been made by most on-lending institutions to accelerate loan processing, approval and implementation.

3. Commercial bank participation in agricultural lending, particularly to small farmers, has increased.

4. This credit assistance has resulted in significant increases to small farmers both in post-development incremental incomes and post-development production tonnages.

5. Improvements are necessary (and recognized), particularly in institution building, to expand and strengthen credit assistance to small farmers.

B. Specific Findings

1. Crop diversification is a normal attainment in the post-development period.

2. Formal extension support (Department of Agriculture) to the small farmer was generally weak.

3. Current constraints to small farmer credit assistance include:

   a. Lending Institutions

      1) High overdues of some LDBs have created a restricted lending condition that mitigates affected banks' capability in meeting credit demands. Causes include willful default, natural disaster, government intervention (moratorium on default procedures), and ineffective management. This overdue problem was not limited to the LDB system (medium/long-term), but also plagued other institutions such as Farmer Service Societies and other primary agricultural credit societies (short-term).

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2) Particular emphasis to the LDB overdue problem was given by the Appraisal Mission. Banking discipline calls for control/criteria to ensure institution viability,even though social goals call for continuing, extensive coverage. While the refinance capability is essential (and therefore provides leverage to impose restrictions), the premise of permitting a stated rehabilitation period for problem banks to improve their recovery position has (prior to cut-off of refinance) merit. However, the alternative of continuance of even restricted levels, in a continuing, poor overdue situation, is supportive of lending for lending sake to the detriment of the program. In these instances it is believed best to serve definite notice of termination of refinance subsequent to a stated time frame (say 1 year), if no improvement is shown. The need of credit assistance is so vast, compared to available resources, that appropriate utilization of such diverted funds would not be difficult. In this period (1 year), alternate solutions for credit delivery to the possible-affected area can be made. The expansion of commercial banks (4 rural branches for each urban branch established) and the RRB could assist in meeting credit demands of those formerly served by a PLDB, if termination of refinancing is implemented.

3) Equitability of ARDC refinancing criteria applicable to both the commercial banks and the LDBs was another of the problem areas addressed by the Mission. At the present time, ARDC refinancing is predicated on a required, minimal recovery rate (65%) only to the LDB system. The concept of subjecting both systems to the same (or similiar) ARDC refinancing criteria was initially rejected (informally) by the Governemnt of India at the briefing of November 13, 1978. Stated reasons for this included the premise that commercial banks were in the program by fiat (especially to small farmers); commercial banks could and would be more profitable in other types of lending and, finally, the imposition of restrictions would be resisted and at best reduce participation. There is merit to this position, but the importance of equitability and adherence to common criteria should be accepted and implemented. Further, as to the equitability, by the same token some of the current competitive inequities hampering commercial banks in some states, i.e., payment of stamp duties, fees for various certificates, etc. which LDBs do not pay, should be removed.

b. State Governments

1) Poor records, especially land and tenancy, are a severe handicap of long-standing and are totally a government problem. Impact ranges from loan approval delays to loan denial.

2) Extension support (with a few exceptions) ranges from poor to weak. Strengthening of the Departments of Agriculture and implementation of available system (Benor) is of urgency.

3) Infrastructure development, particularly power and water, needs effective planning, management and control for phased growth and utilization. Amplification of these constraints is as outlined in the Minor Irrigation element of this report.

4) Reorganization and strengthening the PACS will not only further extend credit coverage to small farmers but provide a wider and more stable short-term base to further capitalize on medium/long term credit for on-farm investment.

c. ARDC:

The major constraint here is that current staffing and organization are finding it difficult to keep pace with ARDC's financial growth. The risk of inadequate scheme appraisal and monitoring, while considered slight to date, will increase with time, especially under the expanded role currently planned for ARDC.

Details of the findings summarized above are included in Enclosures A and B.

C. Special Findings

Additive to the General and Specific Findings relevent to the Consultant's formal scope of work as agreed with AID and the World Bank, three general areas of small farmer credit assistance were informally enunciated by AID as being of interest. They included a) Interest Margin Spread, b) Cost of Credit, and c) Minor Irrigation constraints. Data pertinent to these elements follow:

Interest Margin Spread

1. The problem of interest margin spread has been and is a continuing factor of concern and study to the GOI, RBI, ARDC and the on-lending institutions. The current ARDC margin of less than 1% cannot be stretched much

farther, but the real problem is that of the tax factor (57.75%) levied on ARDC by the GOI. Exemption from this has been sought by ARDC but denied to date.

2. Since the factor of interest rates is but one part of the total lending process, the specifics (in summary form) of ARDC's financial posture as to share capital, borrowings, fund sources, lending policies and terms, subsidies and, finally, interest rates should be reviewed. They are:

a. Share Capital and Borrowing:

1) ARDC's authorized share capital has been doubled twice from the original Rs 250M to Rs 1,000M as of June 20, 1978. At that date, paid-up share capital stood at Rs 475M (47,500 shares of Rs 10,000), held as follows: RBI 261M (54.9%); SLDB and SCB 113M (23.9%); scheduled commercial banks 89M (18.8%); other institutions 12M (2.5%). In the last few years, there has been a small but significant increase in commercial banks and other institutions' holdings relative to both RBI and the cooperative banks. ARDC and RBI's general objective is to maintain future increases in the ratio 25:50:25 for these three types of institutions, with control remaining vested in RBI.

2) By statutory provision, outstanding borrowing may not exceed 20 times paid-up capital and reserves. Under RBI's leadership, shareholders have responded favorably and promptly every year as borrowings increased. Minority shareholders are also linked with ARDC through refinance, through ARDCs substantial investment portfolio, and through their own open market purchases of ARDC bonds; and all these operations are monitored and/or regulated by RBI.

3) In addition to share capital and repayments from borrowers, ARDC raises funds from the following sources:

a) Borrowings from GOI, usually at 9 or 15 years at GOI's current public corporation on-lending rate for those maturities (6.5% to 7.0%). In recent years this source has been limited to the counterpart of IDA project funds, but GOI may in the future lend to or deposit with ARDC beyond these amounts directly or through any approved central or state agency.

b) Issue and sale of bonds guaranteed by GOI. Bonds are floated by ARDC under close RBI supervision (with regard to coupons, price, amount and timing of issue), and have been consistently oversubscribed. They currently bear a 10-year maturity and 6.0% interest at 1% discount.

c) Direct borrowings from RBI. ARDC may draw within prescribed annual limits from RBI's National Agricultural Credit (Long-Terms Operations) Funds at similar interest rates to its bond issues, but repayable in 10 equal annual installments.

As of June 30, 1978, outstanding borrowings were as follows: (i) GOI, Rs 4,276M (50.5%); (ii) Open market, Rs 2.023M (23.9%); and (iii) RBI/LTO, 2.168M (25.6%).

b. Resources:

In practice ARDC equity financing is determined by statutory rather than market considerations. Since the guaranteed dividend, presently 6.25% is distributed out of net income after tax at 57.7%, it is by far the most expensive source of finance. The level of bond financing is based on RBI's assessment of market absorbtive capacity, given a number of factors such as recent offerings, and contacts with major shareholders who are themselves obliged by law to allocate a fixed proportion of their investment holdings to this type of stock. The IDA-supported GOI credit line (ARDC II) is in fixed proportion to ARDC refinancing, and GOI acts merely as an intermediary, refinancing ARDC's current Rupee disbursements at the exact IDA reimbursement rate and bearing the exchange risk. All these sources are largely secure and predictable, at least within RBI and GOI planning horizons. The RBI (LTO) Fund is therefore used as a "tap" to accommodate projected fluctuations or rapid increases not covered by the counterpart of foreign assistance, market borrowings, or repayments from borrowers. ARDC also has a short-term bridging loan facility with RBI at Bank Rate (9%), against which it has not drawn since 1976, proof that financial resources are not a major constraint at present.

c. Lending Policies and Procedures:

1) ARDC refinances loans made by SLDB, SCB, CB, RRB and other institutions approved by GOI. It is empowered to lend directly to non-financial institutions, such as dairy or electricity corporations, but has so far elected to channel all its assistance through local banking institutions to build up their expertise. Also, ARDC is not equipped to provide the full range of banking services that corporate borrowers require in addition to term finance. On the other hand, there are already cases under consideration of very large, homogenous projects involving finance of, e.g., fruit processing plants, where there may be a net advantage in direct lending by ARDC.

21

2) ARDC refinance is totally committed on the basis of an approved scheme which is a lending program of a particular bank, in a specified area, for a particular type of loan, e.g. dug well. The scheme could cover either many individual loans or a loan to a group. ARDC action is thus limited to scheme concept, with the sponsoring agency (LDB/CB, etc.) responsible for scheme development. Subsequent monitoring and appraisal for the scheme is that of ARDC.

d. Lending Terms:

1) Proportion of Loan Refinanced. ARDC provides refinancing for both medium-term loans (three to five years) and long-term loans (up to 15 years) for approved schemes. Refinance is provided by subscription to special debentures issued by the SLDB or by loans to SCB and CB. Refinance by ARDC is between 50 and 85% of the loan amount in the case of diversified lending, reaching a maximum of 90% in the case of minor irrigation lending. The balance is provided by the banks themselves or, in the case of the LDB's, by a contribution from the state government.

2) Borrower Downpayment. ARDC stipulates various levels of minimum contribution by borrowers to the investment cost, depending on their position as small, medium or large farmers, the nature of the investment, and its aggregate cost. Only in the case of land leveling in certain command area development schemes, which sometimes needs to be done on a compulsory group basis, the borrowers' contribution is waived entirely. For minor irrigation the maximum is: small farmer 5%; medium farmers 10%; large farmers 15%. For diversified lending, the minimum downpayment varies from 5% (small farmer horticulture) to 33-1/3% in the case of certain electrification schemes. The weighted average is of the order of 8% for minor irrigation, 18% for diversified lending. Chart 1 outlines long-term borrowing/lending structure.

e. Subsidies.

During ARDC II, ARDC has been refinancing with IDA funds, loans to farmers who receive capital subsidies of 25 to 33% under the aegis of SFDA/DPAP/agencies on condition that these are routed through the banking institution (i.e., no cash is provided directly to the borrower) and that local control of subsidy distribution is judged satisfactory. Under ARDC III, the project would be extended to a wide range of directly or indirectly subsidized investments which are not targeted only at small farmers. These include various state capital subsidies (as opposed to a differential interest rate) of up to 50% for gobar gas plant (to encourage 75% experimentation) up to 33-1/3% capital subsidies for sericulture, up to 75% of investment cost for large diameter public tube-wells in Bihar and both interest and capital subsidies for fishing boats.

In practice the amounts available for such subsidies from the respective state budgets are very limited. Nevertheless, ARDC needs to establish clear guidelines on subsidies to limit the risk of inefficient or inequitable resource allocation. These could include: 1) ARDC would not re-finance loans on which capital subsidies exceeded 50%; 2) investments involving capital subsidies of up to 50% would be eligible for refinance provided the borrower was a small farmer, or a corporation for the purpose of providing services mainly to small farmers, or if the investment involved the introduction of expensive and untried technology; 3) capital subsidies would only be acceptable if the full amount was channelled through to the financing institution which would undertake to procure the investment on the borrower's behalf; and 4) ARDC would in no case accept to refinance investment supported by a capital subsidy where the calculated return to <u>total</u> project costs was less than 10%.

f. <u>Maturities</u>.

Repayments by participating banks are scheduled so as to match (approximately) repayment terms given to financial borrowers, i. e. 5 to 7 years for pumpsets, and 9 to 15 years for other minor irrigation loans. In diversified lending, maturities range from 3-5 years (livestock) to a maximum of 5 years (plantations), depending on the life of the assets, the gestation period of the investment, etc., all inclusive of a maximum grace period of 23 months. Under ARDC III, (subject to negotiation) banks would be allowed to extend the final maturity by up to two years in exceptional situations subject to ARDC approval and the 15-year maximum. ARDC is also empowered to grant short terms (seasonal credit), which it has so far done only in the case of integrated IDA-suppported crop development projects. However, participating commercial banks are always required to offer to supply the seasonal loan and work-capital requirements of their ARDC-refinanced term borrowers.

g. <u>Interest Rates</u>.

Interest to participating banks and final borrowers (subject to final negotiation) would remain unchanged at 7.5% to 8%

and 10.5% to 11%, the lower figure in each case being for minor irrigation and land development, the higher for diversified lending. This presently ensures a strongly positive rate to final borrowers (projected and current inflation 5% or less). However, the gross spread of 3% is unlikely to fully compensate for administrative expenses and provide for losses, particularly in the case of small farmers. Attempts to raise the spread without endangering ARDC or increasing the rate to final borrowers would involve substantial interference with the wider money market structure since ARDC/CBs and LDBs all derive a large share of their resources from the financial market on which they would not be able to place bonds at much less than the prevailing (6 to 6.25%) rate. A one-point reduction in ARDC's on-lending rate would virtually wipe out its gross spread on open market and GOI borrowings. Another solution which is currently being examined is to provide selected banks - - for example, out of the interest rate differential fund created under the KFW loan - - with an outright grant based on their performance against small farmer targets.

3.

a. There were various local suggestions as to these re-adjustments including that of the GOI reducing it's current 6.5%/7.0% rate to ARDC to a level of approximately 3%. In turn, ARDC could slightly increase it's current margin slice but the bulk (3-3.5%) would be passed to the on-lending institutions to encourage greater participation and cover costs. This option is based on the current GOI service charge of 3/4% for IDA funds (50 years) with a charge to ARDC of 6.5% and 7.0% for 9 years and 15 years; leaving a margin for GOI of 5-3/4% and 6-1/4% respectively. Reduction of this to 3% would permit a possible "pass-thru" of the balance to ARDC and on-lending institutions.

b. In assessing the margin currently available to ARDC, the average cost of funds/borrowing from <u>all</u> sources and not from GOI borrowing should be considered and compared with the average lending rate, the growing spread between the average lending rate,and the spread available after payment of tax (57.75%) as follows:

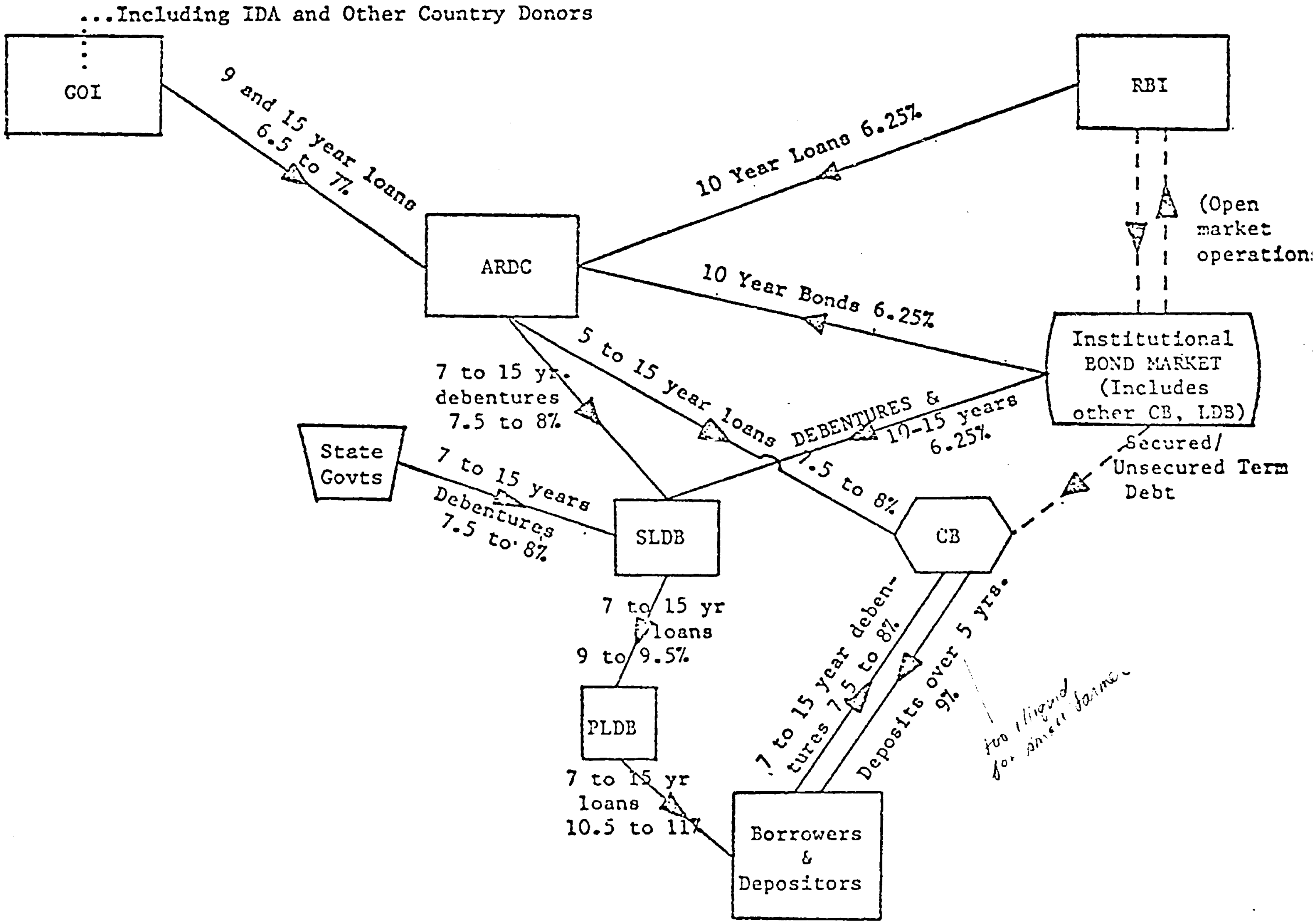
	Rates in Percentages				
	1973-74	1974-75	1975-76	1976-77	1977-78
1. Avg. Lend Rate	6.26	6.37	6.56	6.74	6.94
2. Avg. Borrow Rate	4.99	5.10	5.25	5.43	5.53
3. Gross Spread	1.27	1.27	1.31	1.31	1.41
4. Net Spread*/	0.54	0.54	0.55	0.55	0.60

*/ After taxes.

c. Another factor here is that the gross spread of ARDC is almost stationary. Due to this margin, plus high income taxes, ARDC is having trouble building adequate reserves to improve the equity base. Discussions with bank officials, especially in the field, showed general agreement that it would be desirable if ARDC had at least a 1% margin to meet operating costs expecially under their expanded role. There was little agreement in these discussions as to "how much more" would be required to permit on-lending institutions to achieve the desired goals of covering costs and expanding coverage to small farmers. Concensus was "more," expecially if diversified lending is to be given emphasis.

4. In general it was locally agreed that the issues are complex and that any subsidy or differential made available should apply equally to all lending institutions. However, it was recognized by all concerned that any contemplated adjustment or changes in the money market structure is of high risk. This problem is being reviewed in accordance with the project covenant of ARDC II and committee findings should be available by June 1979.

INSTITUTIONAL FUNDING
LENDING/BORROWING
(Long-Term)



Excludes equity finance below 5 years and smaller instit-
tions involved in term lending(RRB/SCB)

Cost of Credit

Starting with the premise that all agricultural credit programs are subsidized either through underpricing or subsidies or both, the cost of credit, particularly as related to the small farmer as the beneficiary, should be viewed from the small farmer standpoint as well as that of the lending institution.

The small farmer in India has both a formal (institutional) and informal (money-lender) source of credit available with the informal source until recent years being almost a sole source, particularly for short-term. During the Mission small farmer survey, banking sources at all levels were in general agreement that as of today, the informal source is providing an estimated 65%-70% of credit support. This is progress, as a decade ago institution credit to the small farmer was at best 5% of the total advanced. Two factors contributing to this change were the restrictive legislation enacted to curb informal lending and the entry/growth of commercial banking in agricultural credit. Estimates as to informal lending rates ranged from 26% to 36% to small farmers. Advantages of the informal source, from the small farmer viewpoint, continue to include availability of credit as needed and little difficulty as to loan procedures to include collateral requirements. The drawback of nothing but cash being advanced by informal sources remains the same with an offset as to flexibility of repayment periods. The indirect cost accruals (ie: subsidies) inherent in small farmer credit from institutional sources could not be quantified but they are attractive and significant to the small farmer.

The cost to the small farmer of obtaining institutional credit, including lost work time/travel/expenses, could not be quantified in this survey but the total is decreasing as wider coverage and simpler procedures are implemented. Suffice it to say that with institutional credit coverage, especially with the current simplification of loaning procedures, wider coverage and an improving extension system, the small farmer cost (interest and non-interest) is less than before in both time and money, especially when compared to informal source costs and benefits.

As to cost of credit to the lending institutions, the four direct cost items of funds, administration, risk and taxes have been estimated for various types of banks involved. Their costs as a percentage of total loans outstanding are as follows:

Cost Item	Cooperative Banks	Commercial Banks	Land Development Banks	Average
Funds	11.00	12.00	7.50	10.20
Administration	6.00	6.00	8.00	6.70
Risk	1.50	1.50	0.50	1.20
Taxes	0.25	1.00	----	.40
	18.75	20.50	16.00	18.50

From these figures it can be seen that substantial subsidies of various types are required to hold the over-all direct interest rate to all farmers at approximately 12%. This differential becomes even greater when placed in the small farmer direct interest range of 10.5%/11%, even before the indirect cost (total) of another estimated 1% is added to the gross.

Representatives of the commercial banks further amplified the problem of the high cost of lending to small farmers by noting factors such as the losses inherent in small loan administration; difficulty in repossession procedures; some competitive inequities vis-a-vis LDB's; and, finally, a higher rate of overdues and defaults on loans to the small farmer group, including tenants and agricultural laborers. In view of these fiscal restraints, the increase in agricultural loans by commercial banks, especially to small farmers, is significant.

Minor Irrigation

During this survey, the Consultant field contacts were all small farmers with well and pumpset loans. Constraints noted were generally related to water availability and power utilization.

A. Water

1. In general, the water problem was that of access and utilization. Groundwater development to date has been one of an enormous demand being met from available resources with little control or management. This growth is indicated by the number of wells and pumping units summarized in the following tabulation.

	1950-51	1960-61	1968-69	1973-74	1978-79*
	(000)				
DUG WELLS	3,500	4,500	5,910	6,925	7,825
PRIVATE TUBE WELLS	3	20	250	810	1,445
PUBLIC TUBE WELLS	3	8	15	20	30
ELECTRIC PUMPSETS	21	199	1,089	2,441	4,000
DIESEL PUMPSETS	66	230	721	1,753	2,750

* Anticipated Under Fifth Five Year Plan

SOURCE: Central Groundwater Board, GOI.

2. Control of this asset can only be effectively regulated (on a state basis) through legislation which is noticeable by it's absence. To date only one State (Gujarat) has enacted such legislation but it is limited to bored wells deeper than 45 meters. This is applicable to approximately 5% of all wells. No progress had been made in other States for the control of groundwater development through legislation.

3. Well spacing and density criteria were specifically included in ARDC I and then Utilized as IDA guidelines in ARDC II. It was noted during this survey that too-rigid application of these norms by some lending institutions was restricting small farmer loans. This restriction to scheme-borrowers was even more unacceptable in light of no such restrictions to non-scheme farmers. It was generally agreed that in some Districts over-development of groundwater had taken place and that there was a definite need for more stringent evaluation at the higher developed levels.

This Appraisal Mission developed guidelines for defining the level of studies required for resource evaluation relative to the level of groundwater development in any ARDC scheme area. These guidelines are:

1) If the projected net extraction in a scheme area in Year 5 is less than 50% of recoverable recharge, technical appraisal and appraisal by ARDC would be made on the basis of a taluk or block level water balance.

2) If the projected net extraction in a scheme area in Year 5 is between 50 and 70% of the recoverable recharge, the scheme will be subject to special scrutiny by ARDC at appraisal and the State Groundwater Organization (SGO) would be required to provide a block level balance as a minimum and an extraction projection of 10 years.

VA

3) If the projected net extraction at Year 5 is in excess of 70% of recoverable charge, the SGO would be required to support its evaluation with detailed hydrogeological maps, projected extraction for 15 years and an evaluation of the probable effects of draught period on water availability and farmer's capacity.

These guidelines were discussed with ARDC and the Central Groundwater Board (GOI) during this Mission with agreement reached as to the need of such an evaluation system. The matter of exact percentages applicable to each category will be a matter of further discussion for inclusion as a loan condition.

4. Water utilization by the small farmer is inefficient at present. This is in part due to: a) an unreliable power source and non-standard pumpsets; b) a primitive distribution system of high loss and low coverage and c) lack of expertise as to appropriate irrigation particularly for HYV species. Solutions to a) and b) above have been developed while c) must await strengthening of extension support, particularly for the non-scheme farmer. The scheme farmer currently has access to information/guidance available at the local institutional level.

B. Power

Power problems for the small farmer, noted in this brief survey, were in the two general categories of:

a. Availability: Delays in pumpset energization were quite common. To alleviate this particular problem, ARDC implemented the "Provision of Refinance for Energization" to fund RS 4500 (per Unit) to the State Electricity Boards for pumpset energization. The major power distribution constraint at present is the deficiency of secondary and feeder line construction to private sector water points. The problems of voltage fluctuations and outages, resulting in sporadic pump use and undue reliance on diesel generators, still persist. Current SEB planning is still limited to an intra-state basis, and responsibility is that of the state government.

b. Utilization: Pumpset installations surveyed were usually "over-engined" and inefficient. These two factors not only inhibited full loan utilization by the small farmer but negatively impacted on the basic power system. There is a recognized need for improvement of quality control of these ARDC-financed pumpsets. To assist in this problem, the Mission recommended (and ARDC agreed) guidelines for improvement of quality control of pumpset installations. The referenced guidelines are:

1) All pumps and prime movers will:

a) Be constructed of materials and designed to ISI standards;

30

b) Be provided with appropriate literature defining the equipment's type, design and capacity;

c) In the case of pumps, be provided with manufacturer's rating curves for duties under an appropriate range of discharges, working heads, and revolutions;

d) Be permanently labeled showing manufacturer's or trade name, equipment type and mark, construction serial number and basic information on capacity;

e) Be provided with a suitable performance guarantee for at least one year.

2) ARDC will reserve the right for independent checking of the manufacturer's performance claims by arranging for testing at a randomly selected sample of any unit.

3) ARDC will be satisfied that the sales agencies for any equipment are appropriately distributed and have sufficient spares and personnel to provide satisfactory after-sales service.

The next step is the acceptance and implementation of these guidelines by State Governments, SLDB's and commercial banks.

V. Recommendations

In the Appraisal Mission (Joint-Consultant) Small Farmer Credit Survey, it was found that credit constraints when taken in total, restricted the utilization of credit by the small farmer. Specific constraints were identified requiring specific solutions in a variety of functions. The bulk of these are as identified in Enclosures A and B. Additive to these specific recommendation, several general recommendation, particularly tailored to credit support of small farmers were developed in the referenced joint, Small-Farmer Credit Survey. They are:

1. Present statistical methodology used to measure small farmers; coverage should be examined in order to:

   a. Improve the reporting process with emphasis on uniformity.

   b. Reach agreement on the methods and procedures for the actual computation of small farmer coverage within relevant components.

2. Special attention should be paid to present and future ARDC staffing requirements both at Headquarters and at the field level. In particular, the following improvements should be made. (It should be noted that some of these items were addressed in ARDC I and II, with follow-on actions projected in ARDC III)!

   a. Appraisal, monitoring,and evaluation capabilities at Headquarters should be improved and facilitated by the appointment of qualified technical staff, including outside consultants, to be selected directly by ARDC management.

   b. Field office authority needs to be increased with respect to the sanction of loans and the appraisal, monitoring and evaluation of schemes. To this effect, the technical quality, as well as size of personnel,should be made commensurate with the additional responsibilities.

   c. The prime concern of field office management should be the monitoring of constraints impeding the efficient use of loans by small farmers and the maintenance of close personal and professional contacts with state government officials in order to exercise constant pressure for improvements.

3. Future ARDC evaluation efforts should concentrate, <u>inter alia</u>, on measures taken by state governments to facilitating and improve lending to small farmers. In particular, attention should be paid to the following:

32

a. Relevant legislation facilitating the flow and efficiency of credit should be examined to determine whether it actually has become operational and is being effectively implemented (e.g.,state loan guarantees and the use of post-development land values).

b. Managerial effectiveness, especially of the cooperative structure, should be evaluated to identify improvements in methods and procedures that would facilitate the flow of credit to small farmers, including the control of overdues, facilitation of loan application,and control over the end use of funds.

SMALL FARMER CREDIT
(ARDC III)
INDIA

ENCLOSURES

A. AID CONSULTANT FIELD REPORT
(December 8, 1978)

B. AID/CIDA APPRAISAL REPORT
(December 20, 1978)

C. DOCUMENTATION
(Single Copy)

34

SMALL FARMER CREDIT
(ARDC III)
INDIA

ENCLOSURE

A

AID CONSULTANT FIELD REPORT
(December 8, 1978

35

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. R. L. Headworth, Snr. Ag. Credit Specialist (Appraisal Mission Chief)

DATE: December 8, 1978.

FROM: D. Redden, Consultant, ASPAC

JBJECT: Small Farmer Survey (INDIA)
Third Agricultural Refinance and Development Project
Appraisal Mission Field Report

A. INTRODUCTION

In accordance with your verbal instructions of October 25, 1978, the undersigned made a field survey of IDA scheme small farmers in the States of Maharashtra, Kerala and Andhra Pradesh. This brief survey was structured to determine the effectiveness of such schemes to individual beneficiaries and to "talk to small farmers" for first-hand input.

In the collapsed time frame available, the survey technique included:

1. Initial contact with Regional ARDC Director/Staff for orientation and liaison to on-lending institutions and State officials.

2. Apex banks (both Land Development and Commercial) were contacted and requested to alert Primary and/or Branch level institutions to screen sanction files for Minor Irrigation loans that had been implemented and cycled more than one full year of post-development production. This was then followed by determining availability of selected farmers for interview. Constraints of time/distance were observed. Where time/distance factors precluded individual on-site surveys, a collective effort in a central location was utilized, but again working from sanction files.

3. A revised survey questionnaire reflecting the following major points of interest was utilized:

a) Size of holdings;
Type (wet/dry) (Pre-development);
Pre-development income;
Pre-development cropping.

b) Size of benefitted area.

c) Pumpset - size/cost/utilization.

d) Post-development income.

e) Post-development cropping.

f) Loan application processing (as to time/problems/development).

g) Production costs - both pre and post-development.

h) Extension assistance to include:
   i. Technical advice (well/pumpset)
   ii. Cropping patterns;
   iii. HYV technology;
   iv. Fertilizer;
   v. Pesticides.

i) Disbursement/Repayment cycling, as to availability/problems and timing.

j) Problems to include:
   i. Energization of pumpsets;
   ii. Wells (adequacy/spacing);
   iii. Marketing;
   iv. Anything else.

4. Actual survey(s) were performed by the undersigned with an ARDC representative in constant attendance; a PLDB representative (if in that chain) or a Commercial Bank representative (sub-Branch), with sanction files available to check validity/accuracy of loan application data. Where possible, local SFDA and Department of Agriculture representation was included to supply verification and/or explanations as needed. Cooperative officials (village level) were the entry point of survey.

5. Checks were then made with sources to include:

a) Agricultural Production Commissioner and other State officials as to assistance/input in support of small farmers to include extension services, production inputs, power and water resources.

b) Commercial banks and LDBs as to improvements (made/planned) in provision of credit; loan application processing, assistance to small farmers, current status and problems.

c) Surveys of non-IDA scheme farmers were made when possible for comparative purposes.

6. These techniques were implemented in the three target States in the time frame of October 25 to November 10, 1978.

B. SUMMARY

Results of this brief survey in the selected States can be summarized as follows:

1. Credit is getting to the small farmer through the IDA/ARDC program.

2. Significant improvements have been made to date to accelerate loan processing and implementation through the on-lending institutions.

3. Commercial bank participation has significantly increased.

4. Acquisition of this credit assistance has resulted in significant increases to small farmers both in post-development incremental incomes and post-development production tonnages.

5. The credit coverage to small farmers has been significantly increased bringing not only lower-cost credit but extension support to properly utilize the credit inputs and finally, it has reduced the former, almost-total farmer reliance on the high-cost money lender to an appreciable degree.

6. There are problems yet to be overcome to further simplify the system, better utilize this credit system and achieve better results but all have been identified and priorities of resolution have been established. There are recognized needs of better management, effective legislative support and improvement of operating policies and procedures which can only be addressed in a timely and coordinated fashion.

C. <u>FINDINGS</u>

a. Small farmer post-development incremental incomes were significantly higher than pre-development incomes (on average - three times).

b. Small farmer post-development production tonnages were significantly higher than pre-development tonnages.

c. Crop diversification was attained in the post-development period.

d. Wider coverage of small farmers was a progressive constant as reflected in the loan portfolios of lending institutions especially the commercial bank sector. Continued improvements in this coverage is a reasonable expectation due to spread of sub-branch offices, the additional staffing being energized and attainment of experience at the field level. A major contributing factor to this increasing coverage to small farmer is the improvement in loan application procedures by both the commercial bank and LDB facilities. Examples of this include simplification of application forms to permit faster evaluation and processing; deletion of fingerprint and photograph (applicant) requirements; better coordination among the processing agencies; acceptance of a Beneficial Occupancy Certificate (in lieu of a fully-searched land title) to expedite sanction and initial disbursement (full title search is completed later) and delegation of sanction approval nearer to the operating levels. It should be noted that there are variances as to the degree of implementing these expediting actions between the commercial bank element and the LDB element and the States surveyed.

e. Extension service support to the small farmer was generally weak. The structured Department of Agriculture support lacked sufficient staffing at field levels (Kerala - 1 agent per 3,000 farmers), but planned expansion and support is underway to correct this deficiency. At present the small farmer is being guided, for the most part, by village-level workers, successful neighbors and banking institution representatives at the field level. The growth in staffing and experience levels of the banking institutions (especially the commercial banks) will further improve such support. Implementation of the Benor technique will also accelerate improvement of this essential support.

f. Constraints to more effective utilization of small farmer credit were noted in these three States to include:

1. Pumpset installations were generally "over-engined" if viewed in the context of irrigation based on a stable and adequate power supply; an effective distribution system and engines of quality operating characteristics. In the surveyed areas power was a problem as to availability and stability; distribution systems were primitive and pumpset acquisition was too informal. The "over-engined" factor has a benefit to the small farmer as a protective factor against line surges or excessive fluctuation, and the cost differential between levels of appropriate HP versus those installed is insignificant. The negative factor (in a cumulative sense) is the excessive draw-down on available power when all units are on-line. Power "brown-outs" were almost a daily occurrence and power outtages averaged 3/4 days per month. The State Electric Boards (SEB) in question were not meeting demand requirements in a timely fashion causing delays from well completion to pump energization. This problem has been attacked through the recent ARDC program of "Provision of Refinance for Energization" in which a sum (Rs 4,500 per pumpset) for projected pumpset connection is advanced to the SEC to provide financing for extension of services in a more timely fashion. The quality and standardization weaknesses of the pumpset factor is being addressed through development of an ARDC quality control criteria (for guidance) as to pumpset acquisition. The distribution system weaknesses will be increasingly overcome as more experience is gained at the local level in extension support.

2. Scattered instances of loan denial to small farmers based on well-spacing requirements were noted. (These "norms" established years ago were relaxed to guidelines only but at the field level occasionally are still used). It aggravated scheme -- loan farmers, as private-sector wells have no such restrictions. Resolution of this problem is a matter of instituion monitoring.

3. Fragmented production input sources with varying qualities and prices of seed, fertilizer and pesticides are available to small farmers but a more structued, centralized po: ıt is in order. Rising production costs were of concern with estimates from 20% to 50% increases. The repayment capacity (from the post-development incremental income) was not threatened by this increase but margins were narrowed.

4. Poor land records were a prevalent constraint in both the acquisition of credit and the processing time required. This problem is solely that of the Government as to solution. Current solution is limited to aggressive follow-up by small farmer and the local lending institution.

5. Some lending institution constraints were noted to include:

a. The restriction of lending only on secured land by the LDBs (as opposed to land and/or assets) restricted the potential loan coverage of the LDBs; negated loans for diversified projects and closed out some potential loaners from institutional credit from the LDBs.

b. The competitive inequity of commercial banks having to pay stamp duty taxes, registration fees, non-encumbrance certificate fees, etc. versus the exemption from same by LDB, simply increased the operating costs to the commercial bank operation. A second inequity (competitively) is that of the difficulties facing the commercial banks when foreclosure action is contemplated or desirable. The present sole option is through civil court action which is costly, time-consuming and usually unprofitable. Both of these inequities should be resolved to increase loan coverage and encourage commercial bank participation.

c. Instances were noted where lending institutions were not availing themselves of the State-authorized post-development valuation (for loan purposes) nor the loan guarantee provision extended (available) from the State Government. Both factors are matters of bank (and Regional ARDC) supervision and monitoring.

d. The instances of high overdues, particularly of some LDBs (resulting in restricted lending levels) also impacted on the number and totals of loans to potential borrowers. While discipline is a basic element, it is a function of management effectiveness to close this gap. Explanation for this problem ranged from Government intervention (moratorium on default actions) to inadequate loan appraisal techniques and a reluctance to initiate default action.

6. The constraints attributable to the Government included the already noted weak Department of Agriculture extension support, the competitive inequities of lending institutions, the political intervention contributing to LDB overdue problems,

poor land records and the infrastructure problems of power, water and roads.

7. The constraints to small farmer lending as to ARDC was primarily a matter of staffing and support at the Headquarters and more importantly, at the field level. Augmentation of the Regional Offices as currently planned will permit faster scheme preparation/sanction; more intensive monitoring and evaluation and a stronger impact on Government coordination and requisite support.

D. SPECIFICS AS TO THE SURVEYS IN EACH STATE, INCLUDE:

1. Maharashtra
(District of Poona)

CONTACTS

	Name	Position
1. ARDC	Mr. M. Pratek	ARDC (Bombay)
2. PLDB	Mr. B. N. Hande	District Branch Manager
	Mr. V. M. Gire	Assistant Branch Manager
	Mr. A. V. Bartake	Chief Accountant
	Mr. A. S. Thakur	Technical Officer
	Mr. M. N. Gaikwad	Loan Officer

3. Small Farmers (Interviews)

	Acreage
Mr. SALUNKHE, Tuleram	2.80
Mr. SALUNKHE, Ohyanishwere	1.75
Mr. SALUNKHE, Indrabhan	1.40
Mr. SALUNKHE, Kanilaj	1.50
Mr. SALUNKHE, Murlidhar	3.00
Mr. SONAWANE, Ramihandra	1.00
Mr. SHITALE, Jognath	1.25
Mr. SHITALE, Roosahab	2.00
Mr. SHITALE, Aruind	1.90
Mr. SHIALCH, Gallaudin	1.30
Mr. SHAILCH, Moulladin	1.50
Mr. H.S. Harfale	6.00
Mr. W. G. Harfale	4.50
Mr. M. G. Kamathe	7.00
Mr. T. R. Kamathe	5.00

All small farmers were MI (pumpset) beneficiaries. Questionnaires were completed in each instance. In addition to these specific interviews, a group of 15 small farmers were assembled for interview but without the benefit of sanction fiels as a start point. This group included scheme and non-scheme farmers.

Current Status of this PLDB

Total No. Beneficiaries	Small Farmers	Marginal Farmers	Scheme Cost (Rs.)	Sanctioned (Total) (Rs.)
179	98	81	581,000	557,000

Sanctioned (Small Farmers) Rs.	Total Benefitted Area (acres)
534,000	281

Of the 19 PLDBs in the State, 9 are currently on restricted lending (to include Poona) with 10 unrestricted. To improve its position, this PLDB has taken the following corrective actions:

1. Elimination of penalty.
2. Instituted an incentive % for early repayment.
3. Seeking diversified projects.

Typical of an LDB on restrictedlending, the demand exceeded loan capability due to carry-over applications from prior years. The present recovery rate (June 30) was 59% with 65% targetted by December. Other constraints to lending in this district included power shortages/outtages, watershed potential nearing peak (5 out of 74), rising production costs and falling market prices (sugarcane). A swing to night time irrigation was being promoted but to date only 15% of users had participated. Extension support was, in general, weak. The average loan to the small farmer was Rs 6000which produced a post-development incremental income three times greater than pre-development income. Already noted general constraints were applicable in this district. Cropping patterns swung from tapioac to sugar-cane, paddy and maize through irrigation.

KERALA
(District of Trivandrum)

CONTACTS

	Name	Position
1. ARDC	Mr. P. K. Parthasarathy	Regional Director
	Mr. P. K. Karunakaran	Loan Officer
2. SLDB	Mr. P. Mohandas	President
	Mr. G. S. Nair	Agr. Economist
3. PLDB (Trivandrum)	Mr. Raman Nair	President
	Mr. A. Nair	Secretary
	Mr. G. Srikumaran	Agr. Economist
	Mr. G. Pillai	Agr. Economist

42

4.	SFDA	Mr. I. Sudhakaran Mr. A. K. Nair	Project Officer Technical Officer
5.	State Government	Mr. T. M. Menon	Commissioner of Agricultural Production
		Mr. M. Anathanar	Additional Commissioner (Extension)
		Mr. K. S. Pillai	Deputy
6.	SADU	Mr. T. M. Jayachandran	Director
7.	Small Farmers	Mr. M. Sumanan	2.58 acres
		Mr. R. Sadasrivan	1.20 "
		Mr. N. Balanishna	2.10 "
		Mr. N. Pillai	1.90 "
	(from files)	Mr. P. Raslam	2.40 "
		Mr. M. Sadanandan	1.94 "
		Mr. L. Harris	2.90 "
		Mr. M. Joseph	1.85 "
		Mr. K. Shamantra	2.35 "

Plus: A group of farmers selected at random and without files (12 in number) of which 8 were PLDB borrowers and the balance from other sources, were interviewed.

There is little crop diversification in this State from pre-development to post-development production. A State law prohibiting the conversion of paddy land to other crops contributes to this but Kerala is a food deficit State. Other crops that are expanded include coconut and banana with cocoa as an inter-crop. Intensive cropping is the order of the day in this State primarily due to density population and a land shortgage. A literate farm population plus the cropping pattern stability is an offset to the weak extension support (1 agent per 3,000 farmers) available. Higher yields, particularly in coconut (20-30%) were attributed to these minor irrigation loans. Post-development incrementals were generally higher as were post-development production tonnages. An extremely active SFDA was of assistance as to small farmer identification and provision of subsidies.

Minor irrigation schemes are comparatively new in this State as scheme preparation started in the 1976/77 time frame. To date, ARDC has sanctioned 17 such schemes of which 9 are to be implemented through commercial banks and 8 through the LDBs. An additional 13 are awaiting ARDC approval.

Energization of pumpsets has been a major problem to date in this State. Recent actions, particularly the ARDC "Scheme for Provision of Refinance for Energization" have improved this problem by advances to the State Electricity Board. This Regional Office, as noted in others, is not adequately staffed to perform all tasks to their desired level of effectiveness. Planned, additional staffing and delegation of authority will materially assist this problem. Small farmer data available is neither too precise nor uniform due to differences among the on-lending institutions and involved agencies. This problem is locally recognized.

C. ANDHRA PRADESH
(District of Shadliagar)

CONTACTS

	Name	Position
1. ARDC	Mr. C. G. Subrahmanyan	Regional Director
	Mr. R. A. Ramasway	Deputy Director
	Mr. A. Sethurathnam	Deputy Director
2. CADB (SLDB)	Mr. A. Narasimna Reddy	Managing Director
	Mr. V. W. Prasad	Deputy
	Mr. M. Narsimhh	Plan Officer
	Mr. N. S. Kondaiah	Chief Technical Officer
3. Andhra Bank Ltd.	Mr. C. Venetsam	Director
	Mr. V. S. Reddy (Nalgrada)	Sub-Branch Manager
4. PADB (PLDB)	Mr. Abdul Vahedkhan	Secretary
	Mr. B. Shankarji	Senior Technical Officer
	Mr. E. Narajan Reddy	Chief Accountant
	Mr. G. Long Apoa	Supervisor
	Mr. V. Sudhakar Reddy	Supervisor
5. State (Dept. of Agriculture)	Mr. G. Sukha Reddy	Assistant Agr. Officer
	Mr. Ramakrishna Kalam	Assistant Agr. Officer
6. Hyderabad Rural District	Mr. Yadgiri	Village Development
	Mr. Ramili	Agr. Officer
	Mr. Anyayya	Secretary
	Mr. Benket Reddy	(Ex-SLDB official)
	Mr. Jayapal Reddy	Assistant Agr. Officer
	Mr. Sethrmal	Assistant Agr. Officer

7. Small Farmers* (Interviews)

Name	Acres Wet	Acres Dry
Mr. Shanker Reddy	2	5
Mr. Abdul Razak	2	3
Mr. Naryan Reddy	2	4
Mr. K. Lazaneah	3	3
Mr. B. Aryark	2	3
Mr. B. Venstarah	0	6
Mr. N. Reddy	2	3
Mr. G. Mallarab	1	6
Mr. P. Sayannd	0	5
Mr. B. Chandruh	0	6
Mr. Edge Sayanna	0	4
Mr. M. Jangarsh	0	5
Mr. G. Larmanna	0	5

44

Mr. S. Shevarsh	0	5
Mr. P. Hannamani	4	9
Mr. P. Srimay Reddy	2	6
Mr. G. Veneka Reddy	3	3
Mr. S. Chendra	5	12
Mr. R. Sudarshan	3	16
Mr. K. Shamlors	2	4
Mr. D. Loumamur	12	5

*From sanction files (LDB/Commercial Bank)

The Commercial Banks in the State (as in other surveyed States) do not have complete equity as to competition with the LDB institutions. If the farmer borrows from a commercial Bank, stamp duties, encumbrance certificate fees, registration fees, etc. add to the cost of loaning. A competitive offset here is the LDB inability to use chattel mortgages as security, which in turn reduces potential loan availability to small farmers.

The CADB has recently introduced some measures to widen loan coverage to small farmers and encourage participation. These measures include:

(1) The share capital contribution at 6% is collected in three instalments - 3% is collected before sanction and the balance of the 3% in three yearly instalments.

(2) Evaluation fees are collected as Rs 2 per individual in the case of small farmers, whereas, for others, it is collected at Rs 15 for every Rs 100, subject to a maximum of Rs 30.

(3) A small farmer will be given a loan up to 75% of valuation of his land whereas in the case of other farmers it is 50% of the valuation of the land.

(4) In the case of small farmers, no separate down payment is insisted upon in addition to the share capital contribution payable by him.

(5) The cost of oil engine is added to the valuation of the land for purposes of determining the total valuation. This assists the small farmers to get loan for well and oil engine.

The increase in post-development incrmental incomes and production tonnages was approximately the same as in other surveyed States. Increases in production costs were also similar. The formal extension service was under-developed especially in view of the technology changes in cropping patterns in the shift from dry to irrigated agriculture. Small farmers are being guided by village development officials and others. The basic constraints hindering more rapid development noted in other surveyed States were also applicable here. The growth in agricultural lending, particularly to small farmers, by the commercial bank sector was significant. This is primarily due to an increase in rural sub-branches, simplification of loan application processing and acquired experience in this sector. The three (3) SFDAs in the State are quite active in the support of the small farmer program. It was estimated (by lending institutions) that today, lending institutions are supplying approximately 40% of utilized credit to small farmers as opposed to a 5-10% of six years.

SMALL FARMER CREDIT
(ARDC III)
INDIA

ENCLOSURE

B

AID/CIDA APPRAISAL REPORT
(December 20, 1978)

46

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. R. L. Headworth, ASPAC
ARDC III Appraisal Team Chief

DATE: December 20, 1978

FROM: D. Redden and F. F. Anema
ARDC III Appraisal Team (Small Farmer Credit)

SUBJECT: INDIA - ARDC III Appraisal Mission
Small Farmer Credit Report

Attached is our combined report on small farmer credit relevant to ARDC III. Input is based on field visits to four (4) States of India for source data from small farmers, on-lending institutions, Government officials and key officials of ARDC Headquarters and Regional Offices. As requested, this report was prepared as an Annex with summary data for possible inclusion in the Report.

Attachment

DRedden/FFAnema/bh

DRedden/bh
December 14, 1978

ARDC III

APPRAISAL REPORT

SMALL FARMER CREDIT COVERAGE

4b

ABBREVIATIONS

ARDC	Agricultural Refinance and Development Corporation
CAD	Command Area Development
DCCB	District Central Cooperative Bank
DPAP	Drought Prone Area Program
FSS	Farmer Service Society
GOI	Government of India
IRD	Integrated Rural Development
MFLA	Marginal Farmer and Agricultural Labor
PACS	Primary Agricultural Cooperative Society
PLDB	Primary Land Development Bank
RBI	Reserve Bank of India
RRB	Regional Rural Bank
SEB	State Electricity Board
SFDA	Small Farmer Development Agency
SLDB	State Land Development Bank
VEW	Village Extension Worker

TABLE OF CONTENTS

DRAFT
DRedden/bh
December 13/78

ARDC III APPRAISAL

Small Farmer Coverage

I. Introduction

The terms of reference of two members of the ARDC III appraisal mission included an examination of the impact of ARDC refinancing on small farmers. To this effect field surveys were carried out in four States (Orissa, Kerala, Andhra Pradesh and Maharashtra). Numerous small farmers were interviewed and their operations inspected. Discussions were held with the staff of ARDC regional offices, State government departments and lending institutions. In addition, available documentation and statistical material were analyzed. Although it is not possible to generalize findings based on only four States, the following conclusions may shed some light on the particular conditions surrounding ARDC lending to small farmers.

II. Conclusions and Recommendations

On-farm surveys revealed that agricultural credit is, in fact, reaching the small farmer. Encouraging improvements in farm operations were observed, particularly due to irrigation which enabled multiple and diversified cropping. Post-development production and incremental incomes increased sufficiently to feed the extended family, repay loans and accrue small savings.

The efficiency of loan utilization by the small farmer, however, seems low. In essence, efficiency is impaired by weak grass roots organization by the small farmer at the village level, inadequacy of public support services and facilities such as weak extension services and poor infrastructure and lastly, the managerial weakness of lending institutions. An attempt to measure this efficiency, particularly in quantifiable terms, is difficult but necessary. It would have to take account of a multitude of constraints derived from these essential causes, constraints which impede agricultural development in general and hinder efficient loan utilization by small farmers. Nor can causes of inefficiency, once clearly identified, be eradicated overnight. One may hope for a systematic disappearance of such constraints depending on the speed with which appropriate legislation, organizational structures and management improvements can be created and implemented.

The present trend points towards gradual improvement in the efficiency and scope of small farm lending. For example, individual loan procedures are being simplified to speed up the application process; legislation has been passed to allow state guarantees of loans insufficiently covered by mortgage; land development banks have been authorized to use the post-development value of land for mortgage purposes; subsidies can now be extended to small farmers situated outside SFDA scheme areas; the entry of commercial banks in agricultural lending has greatly increased the volume of lending especially for diversified purposes (LDBs are restricted to lending based on land mortgages, however, the Acts of SLDBs are being reviewed on a State by State basis to remove this restriction); extension services, while still quite inadequate at the present time are being organized successfully in some areas through State extension projects and the IDA National Extension Project. Perhaps most importantly, the Sixth Five Year Plan (1978/83) places the highest priority on integrated rural development by substantially increasing budgetary allocations under the newly-approved Integrated Rural Development program (IRD), with special emphasis on the small farmer. This fact, in addition to the concerns and values of individual ARDC staff members, will prove beneficial to the weaker section of the rural community.

The net result of actions taken (or planned) to date has been of direct benefit totthe ARDC/IDA scheme-loan small farmer. Not only is access to credit been widened but acquisition has been simplified and proper loan utilization has been endorsed for beneficiaries of these schemes. It can be stated that on IDA-scheme small farmer is better able to cope with and improve both income and production levels than the non-scheme small farmers.

These improvements represent significant steps foward. As outlined above, the main thrusts towards the development of the weaker sections of the rural population are centered on: the creation of an environment which motivates the small farmers to organize themselves at the grass roots level; and an increased emphasis on effective public support ranging from appropriate legislative measures (e.g. elimination of inequality among lending institutions and strengthening of extension services), and improvement in bank operation and management. Most of these measures are constraints to agricultural lending in general. However, the small farmer is particularly vulnerable to them. Corrective actions, to a great degree depends on State Government initiative, coordination and support.

It will be necessary for the ARDC to continue exercising constant pressure on State Governments to adopt measures which would increase the efficient use of loans to small farmers. This could best be achieved by ARDC official and personal contacts,making maximum use of its refinance leverage. Consequently, it is essential that the ARDC be significantly strengthened in terms of quantity and quality of staff, both at headquarters and in the field. The importance of such administrative and organizational improvements is underlined by ARDC's rapidly expanding budgetary expenditures. It is essential that an increase in supply of credit be preceded by the creation of an environment capable of absorbing credit efficiently.

Determining the level of support of small farmers requires a political decision based on the need to increase food production on the one hand and the pursuit of social justice on the other. In a country such as India where 70% of the farmers are considered small or marginal, possessing only some 20% of available land for cultivation, weights for production and social justice depend, in the final analysis, on a value judgment.

Based on historical evidence, it can be observed that medium and large scale farmers do not allow themselves to be neglected with respect to credit and other official support services. In other words, an emphasis on small farmers will not, as a direct consequence, threaten the Government's aim of increasing food production. Small and marginal farmers, on the other hand, face so many obstacles peculiar to their condition that massive support to their cause would result in only a modest step forward towards rural equality. In addition, productivity of small farms is generally considered higher than that of large farms. It would seem reasonable, therefore, that the limit of support to the small farmers should only be determined by the speed with which the numerous constraints impeding their progress can be resolved.

The use of a target for lending to small farmers (presently 50% of total lending) is fraught with difficulties. The operational validity of such a target is questionable on a number of grounds. There is first the problem of computing the statistics themselves. Statistics are difficult to obtain because of the inadequacy of information emanating from the multitude of primary lending institutions. More importantly, however, is the fact that for many investments small farmers coverage can only be estimated on the basis of the national proportion of small farmers thus allowing a wide margin of error (e.g., command area development) and others create employment rather than productive capacity based on private ownership (forestry). Thus, the computation of a percentage coverage can only be very approximate, leaving substantial room for error and flexibility in presentation. In this respect, it might be useful to establish agreed methods and procedures for the actual computation itself.

The second major problem with the establishment of a target percentage is related to the investment purposes included in the package. Coverage could be made to look very favorable or unfavorable depending on the types of investments used as a base for the calculation. For example, if farm mechanization and storage are excluded (as is the case with the percentages calculated in ARDC's latest Annual Report) the small farmer ' coverage is made to look better than it is. If it is decided to confine the percentage to specific investment purposes which benefit small farmers relatively more than other purposes excluded from the package, it would say very little about the program as a whole.

A last major problem with the use of a coverage target is that it only serves to measure the success of a given development strategy without being able to actually define one. In the final analysis, the pursuit of a given percentage target is entirely dependent on the resolution of the various administrative and organizational constraints impeding the progress of the small farmer. It is, however, not necessary to conclude that a percentage target is futile. It does serve to create a certain degree of pressure to bear the special needs of small farmers constantly in mind. But it should be recongized that a development strategy should be based, first and foremost, on the eradication of fundamental constraints. This might require, at least initially, special emphasis on administrative and orgzniational matters, areas where the ARDC might play a useful, albeit often indirect, role.

Based on the foregoing, the main recommendations are the following:

1. Present statistical methodology used to measure small farmers' coverage should be examined in order to:

   a. Improve the reporting process with emphasis on uniformity;

   b. Reach agreement on the methods and procedures for the actual computation of small farmer coverage within relevant components.

2. Special attention should be paid to present and future ARDC staffing requirements both at Headquarters and at the field level. In particular, the following improvements should be made. (It should be noted that some of these items were addressed in ARDC I and II, with follow-on actions projected in ARDC III):

a. Appraisal, monitoring and evaluation capabilities at Headquarters should be improved and facilitated by the appointment of qualified technical staff, including outside consultants, to be selected directly by ARDC management.

b. Field office authority needs to be increased with respect to the sanction of loans and the appraisal monitoring and evaluation of schemes. To this effect, the technical quality as well as size of personnel should be made commensurate with the additional responsibilities.

c. The prime concern of field office management should be the monitoring of constraints impeding the efficient use of loans by small farmers and the maintenance of close personal and professional contacts with State government officials in order to exercise constant pressure for improvements.

3. Future ARDC evaluation efforts should concentrate, inter alia, on measures taken by State Governments to facilitate and improve lending to small farmers. In particular, attention should be paid to the following:

a. Relevant legislation facilitating the flow and efficiency of credit should be examined to determine whether it actually has become operational and is effectively being implemented state loan guarantees.

b. Managerial effectiveness, especially of the cooperative structure, should be evaluated to identify improvements in methods and procedures that would facilitate the flow of credit to small farmers, including the control of overdues, facilitation of loan application and control over the end use of funds.

c. The organizational and operational effectiveness of PACS, as well as the scope of their function, to ensure that steps are taken to successfully complete the present reorganization process and enlarge their scope of operation with emphasis on, inter alia, the supply of inputs, storage and marketing.

III. Five Year Plan 1978/83

The effectiveness of ARDC's coverage of small and marginal farmers depends greatly on the policies of both the Government of India and the State governments. ARDC policies are first and foremost influenced by the priority accorded to agricultural development on the national level. It will, therefore, be useful to examine the official GOI proposals in this respect as they appear in the 6th Five Year Plan covering 1978/83.

In the new Five Year plan, the agricultural sector is accorded the highest priority with special emphasis on the development of the small and marginal farmers and the landless laborers, especially the scheduled caste and scheduled tribe families. Public sector outlays on agriculture and rural development will be doubled compared to the previous five year plan, i.e. Rs Rs 182.5 billion for 1978/83 as against Rs 85.2 billion for the previous five years (see Annex 1). It is expected that, by adopting an annual growth rate of 4% for the agricultural sector as a whole, internal supply and demand of various agricultural commodities will be balanced by the end of the five year period (see Annex 2).

In addition to direct budgetary allocations for agriculture and rural development, the Government of India contemplates a substantial increase in the volume of institutional credit. i.e. a doubling of existing levels of credit in three years (existing levels of rural credit in 1977/78 are estimated to be about Rs 16.5 billion for short-term loans, Rs 2.35 billion for medium-term and Rs 4.10 billion for long-term loans). The main channel would continue to be the cooperative credit stru re, while commercial banks are expected to assume an increasingly important supplementary role. Consequently, the refinancing operations of the ARDC would be considerably expanded and diversified in the years to come.

The Government recognizes that "the share of small and marginal farmers, tenants, agricultural laborers and share croppers in cooperative as well as commercial banks' lending is only about one third". A major objective is therefore, to earmark "an increasingly larger share for the weaker sections". To be successful in this pursuit, however, it would be necessary to significantly strengthen the existing short/medium term credit structure along the following lines:

1. Reorganization of primary agricultural credit societies into strong and viable multi-purpose units on the model of Farmers' Service Societies or LAMPS, so that farmers, artisans and the self-employed get all the services at one point.
2. Efficient management of the reorganized societies by professionally trained full-time paid managers/secretaries.
3. Simplification of the loaning procedures and arrangements to issue passbooks with authorized credit limits to farmers, artisans and self-employed to facilitate the supply of credit according to their periodic requirements.
4. Reduction of overdues in the cooperative institutions for which vigorous steps should be taken by the State governments.
5. Greater reliance of commercial banks on financing primary credit societies.

(It should be noted that although PACS are not an element in the IDA/ARDC refinance scheme, the indirect factor of improvement in short term lending enhancing and accelerating the use of investment loans in medium and long term credits is of importance to the total credit program.)

The most promising concrete evidence of special support to the weaker sections of the rural population appears to be the establishment of a well defined program for integrated rural development. This initiative is in addition to the previously established SFDA, MFAL and DPAP programs for small farmers and could be considered both an intensification and elaboration of these programs.

The implementation of the Rural Intensification Program will initially be confined to 2,000 blocks out of 3,000 presently covered by SFDA, DPAP and CAD schemes. During each year of the five year plan another 300 blocks will be included so that at the end of the plan period a total of 3,500 blocks will have been covered. Since the total number of blocks in India is approximately 5,100, the remaining 1,600 blocks will be included in the scheme during the next five year plan starting in 1983.

The Rural Intensification Program, aimed at the weater section of the population, is intended to be formulated at the grass roots level. To this end, voluntary agencies who are engaged in social and developmental work and are close to the people will be encouraged to become intimately involved in the decision making process. The basic aim of the program is the development of the primary, secondary and tertiary sectors. The primary sector programs essentially include those presently pursued by the SFDA, DPAP and CAD, i.e. agriculture, animal husbandry, fisheries and forestry. The secondary sector includes village and cottage industries, small scale industries, skill formation and supporting services. The tertiary sector development will entail the creation of facilities for organized marketing, processing and allied activities. It is intended, however, that maximum emphasis under the new program be on the primary sector.

The Rural Intensification Program will be in addition to the individual SFDA, DPAP and CAD programs already in existence. Assistance under these programs varies considerably from program to program (see Annex 3). It is intended that these differences be abolished in the blocks selected under the intensification program and that the different components eligible under either the SFDA, DPAP or CAD be included in the new proposal. Assistance will, therefore, be uniform in the selected blocks (see Annex 4).

Budgetary support for the intensification program, in addition to provisions under the existing SFDA, DPAP and CAD programs will amount to Rs 500,000 for each block selected. This amount will be almost entirely provided by the Government of India except in the case of blocks selected from the DPAP areas where State governments are expected to contribute Rs 100,000 with Rs 400,000 support from GOI.

SFDA, DPAP and CAD Programs

The introduction of the Rural Intensification Program under the present 6th Five Year Plan (1978/83) is intended to supplement the activities of a number of Agencies established earlier. These Agencies will continue to function under the new plan and it is, therefore, useful to indicate briefly the nature of their activities.

Small Farmers Development Agencies (SFDA) and Marginal Farmers and Agricultural Laborers Agencies (MFAL) were established under the Fourth Plan. The specific aim of these agencies is to help the poorer members of the rural community. They are organized under the Societies Registration Act, have their own governing body made up of district officials, their own budget financed jointly by the State Governments and GOI, and a considerable freedom of choice of activities. Their primary task is to identify small and marginal farmers, arrange to implement agricultural development projects through cooperative societies and commercial banks (they do not disburse loans themselves), increase the farmer's scope for subsidiary occupations and raise the standard of supporting services and facilities. Asid ~rom the promotional aspect of their work, the Agencies' main impact on small and marginal farmers is the allocation of various subsidies for which identified individuals are eligible (see Annex 3). In the Fifth Plan, the two schemes of SFDA and MFAL were merged into one.

The Drought Prone Area Program (DPAP) was initiated in 1970-71. The basic objective of the DPAP is to overcome the ill effects of drought and scarcity in vulnerable areas with specifc reference to small and marginal farmers and landless agricultural laborers. Although the DPAP was principally designed as an area development program, the individual beneficiary approach along SFDA lines has been adopted.

The Command Area Development program (CAD) was introduced in 1974 in response to the great need for irrigation facilities. The main objective of the program is to improve water conveyance and drainage systems. In addition, emphasis is put on various on-farm development activities with special reference to the weaker sections of the rural population.

To further support small farmer needs, Farmers Service Societies were organized in 1954. In addition to credit extension, these societies are expected to provide technical assistance and production support. Emphasis was to be on the weaker sections of the area. By 1977, 346 FSS's had been established of which 200 were sponsored by commercial banks and 146 by cooperatives. It is intended to further expand this network by having each Regional Rural Bank form 20 FSS as retail outlets wit- an annual target disbursement (each) of Rs 200,000. Problem areas to date in this system include competition with local PACs, not providing a full range of envisoned services, not meeting target levels and running approximately the same high levels of overdues as the PACS.

Aside from problems directly related to the efficiency of India's agricultural credit structure as they affect small farmers, the major difficulty of the SFDA, DPAP and CAD programs has been with respect to the small farmer's definition (see Annex 5). Originally the defintion was based on acreage (5 acres irrigated land or 2.5 acres irrigated land for small farmers, 2.5 acres unirrigated or 1.25 acres irrigated land for marginal farmers). This definition gave rise to serious excesses in that it did not take account of non-farm income nor did it allow flexibility for differences in agro climatic conditions. These deficiencies have, to some extent, been overcome by adjustments to the original definition. However, the point of departure for the identification remains acreage (rather than income converted to acreage norms as in the case under the ARDC definition) and will, therefore, retain some degree of artificiality. In addition, constant vigilance is required to exclude ineligible farmers (e.g. those with large off-farm incomes, or with large but fragmented holdings) from the programs.

A recent decision by GOI to allow capital subsidies (25% and $33^{1}/3$%) to small farmers for minor irrigation in areas not covered by the SFDA, DPAP and CAD programs has been a small yet important step towards rural equality. It will greatly assist the coverage of the weaker sections of the rural community by motivating small farmers to obtain credit for minor irrigation. (This decision does not apply to diversified lending).

IV. ARDC Lending

A. Small Farmers

According to available statistics, approximately 48% of total cumulative disbursements by the ARDC has gone to small farmers as of March 1978 as shown in the following table:

62

FINANCE TO SMALL FARMERS**

Purpose	Category	Total disbursement Rs (0,000,000)	Disbursement to small farmers: Amount	Disbursement to small farmers: No. of Accounts	Percentage
Minor irrigation	(a) IDA Projects	315.9	102.7	136960	33
	(b) ARDC I	112.5	62.4	83387	55
	(c) ARDC II	58.0	31.0	42520	55
	(d) SFDA/MFAL schemes	28.7	28.7	71575	100
	(e) Other schemes	164.4	93.0	232475	57
	Total	679.5	317.8	566917	47
Diversified purposes	(a) IDA projects*	10.4	4.6	30450	44
	(b) ARDC I	10.5	4.0	5293	38
	(c) ARDC II	9.0	3.4	4547	38
	(d) SFDA/MFAL schemes	2.9	2.9	6300	100
	(e) Other schemes @	66.7	41.4	138167	62
		99.5	56.3	184757	57
	GRAND TOTAL	779.0	374.1	751674	48

* Land development only.
@ Excludes Farm Mechanization and Storage
** Provisional as on March 31, 1978

Source: ARDC, Annual Report 1977/78.

63

Under both ARDC I and II it was agreed that at least 50% of the amount of the IDA credit should benefit small farmers. This target has been achieved under ARDC I where 55% of minor irrigation and 38% of diversified lending went to small farmers, producing a weighted average of 54%. It is not yet possible to ascertain how successful ARDC II is in reaching this level.

Benefits to small farmers differ according to the investments made. It is no simple task to compute an overall coverage percentage based on individual categories in the refinancing portfolio. As the following breakdown suggest, small farmers credit coverage in many categories can only be estimated.

1. Minor irrigation benefits small farmers probably more than any other purpose in terms of percentage average. Close to 70% of all refinancing of minor irrigation schemes is directed towards the small farmer.

2. State Electricity Boards receive funds which are, among other things, used for energization of wells constructed by small farmers. ARDC estimates that about 50-60% of refinancing to to SEB would benefit such farmers.

3. Land Development (including CAD) for irrigation purposes benefits the total area covered, irrespective of the status of the farmer. Since, on a nationwide basis, 70% of agricultural holdings is considered small, one may assume that some 60-70% of total investments for this purpose are directed towards the small farmer.

4. Soil conservation and land reclamation cover all farmers within the project area. As in the case of CAD, the small farmers benefitting from the investment fall between 60-70%.

5. Farm mechanization refers mainly to the financing of tractors. The program benefits primarily big farmers in view of the relevant feasibility criteria to justify the large investment.

64

6. Plantation and Horticulture programs include investments which could be taken up by small farmers (e.g. coffee, citrus, coconut, cashew nuts). However, considering the small farm size and the need to grow food crops, normally small farmer's participation in these programs is small, say between 20-30%.

7. Sheep breeding and dairy development projects are undertaken by a large number of small farmers to supplement farm income. Some 60% of beneficiaries fall in the category of small farmers and landless laborers who might purchase one or two milch cattle or a unit of sheep.

8. Fisheries refinancing consist of marine and inland schemes. With respect to marine fishery projects, one may estimate that roughly 10-20% of the mechanized boats program benefits small fishermen participating on a group basis. Loans to small traditional fishermen for outboard engines, plus equipment, represent only a small proportion of the total program. Inland fishery schemes refer largely to the development of fish farms and purchase of fish food. These loans are given on a group or cooperative basis and a sizeable number, say 50-60%, benifits fish farmers living below the poverty line.

9. Storage and market yards are undertaken by private entrepreneurs, state-owned warehousing corporations or agricultural produce market committees. The program provides only an indirect benefit to small farmers, e.g. by obtaining a better sales price for their produce.

10. Forestry programs are implemented by state-owned forestry corporations. These programs have a tremendous social impact on

improving income levels of the community below the poverty line by providing employment opportunities related to forestry operations.

11. Gobar gas plant support dairy economics and make available improved quality of organic manures for agriculture. Gobar gas plants being of various capacities could benefit both small and larger farmers. However, a minimum herd of 5-6 cattle is required to make them operational. Small farmers are expected to participate in this new program but coverage will probably not be more than 25-30% of the total investment.

12. Other programs include the following: Piggery development is to be undertaken mostly in north-eastern states for the benefit of tribal people. It is estimated that some 80% of the beneficiaries would be from the weaker sections of the community. Poultry investments have, thus far, not greatly benefitted the small farmer. This is intended to be changed, however, under the 6th Five Year Plan which envisages more active involvement of small farmers on a cooperative basis. Bullock and camel carts projects benefitting small farmers will be undertaken but will represent only a very modest portion of the total program.

During the coming years, emphasis will continue to be placed on minor irrigation thus ensuring a high proportion of small farmers beneficiaries. There is a genuine concern among ARDC staff that special attention be paid to the weaker section of the rural community, a concern shared by the GOI in its five year plan 1978/83. One may expect, therefore, that continued efforts will be made in that direction.

B. Lesser Developed States

In its pursuit of social equality, the ARDC not only emphasizes support to the small farmer but pays attention to the growth of the lesser-developed states. AS the following table indicates, there is a long-term upward trend with respect to proportionate coverage.

ARDC Disbursements to lesser developed States* (as a percentage of total ARDC Disbursements)

Up to 30 June, 1969	9.4%
1969-72	22.1%
1972-73	18.7%
1973-74	31.4%
1974-75	42.5%
1975-76	37.3%
1976-77	45.6%
1977-78	48.3%
Up to 30 June, 1978	38.0%

*Uttar Pradesh, Madhya Pradesh, Bihar, Orissa, West Bengal, Rajasthan, Himachel Pradesh, Yammu and Kashmir, Assam, but excluding the north eastern region where the amount of refinancing is minimal.

Source: ARDC Annual Report 1977/78.

Total cumulative disbursements to these lesser developed States, up to June 1978, is approximately 38%. Whether or not this is an adequate proportion can very roughly be judged on the basis of the percentage of landholdings in these state against total landholdings in India. The All India Report on Agricultural Census 1970-71 indicates that out of total holdings of about 70 million, approximately 43 million, or 61% are in the lesser developed states. On that basis, present coverage of these states cannot yet be considered adequate even though the present trend is encouraging. Lending in these States is obstructed by numerous constraints inherent in less developed regions primarily that of weak lending institutions as well as a preponderance of small farms, large fragmentation of holdings, a cautious mentality of potential beneficiaries, lack of proper extension services and inadequate infrastructure facilities. In other words, one cannot expect adequate credit coverage of the less developed States to be proportionate to their share of total landholdings until these constraints are eliminated.

The ARDC is conscious of the need to correct regional imbalances and has proposed a lending program for 1978/83 of about 47% of the total for Uttar Pradesh, Madhya Pradesh, Bihar, Orissa, West Bengal and Rajasthan. For the north eastern region disbursements for the period are projected to be Rs 59M as against Rs 38M disbursed since inception. Lending to the lesser developed states has shown an encouraging trend during the last seven years, and projections for the future seem positive. It is fair to assume that the ARDC will make all possible efforts to correct the imbalances depending on the effectiveness of State goverments in removing administrative and infrastructural obstacles.

V. Initiatives and Constraints examined in the field

A. A field survey performed in four States (Orissa, Maharashtra, Kerala, and Andhra Pradesh) showed the potential of a number of important initiatives to facilitate the delivery of agricultural credit. EVen though these initiatives will benefit all farmers, they are of particular importance to the small farmer who is especially vulnerable. The more important intiatives noted during this field survey include the following:

1. The relatively recent involvement of commercial

banks in rural development has significantly increased small farmers coverage, particularly for civersified purposes.

2. The recent esta' 'lishment of Regional Rural Banks, whose particular staffing pattern permits closer contact with the rural poor, might prove a welcome supplement to commercial bank activity. These banks to date, numbering 48, are established in 16 States and have 767 branches with a disbursement total of Rs 1.95 billion are assisting in the goal of wider credit coverage of rural areas.

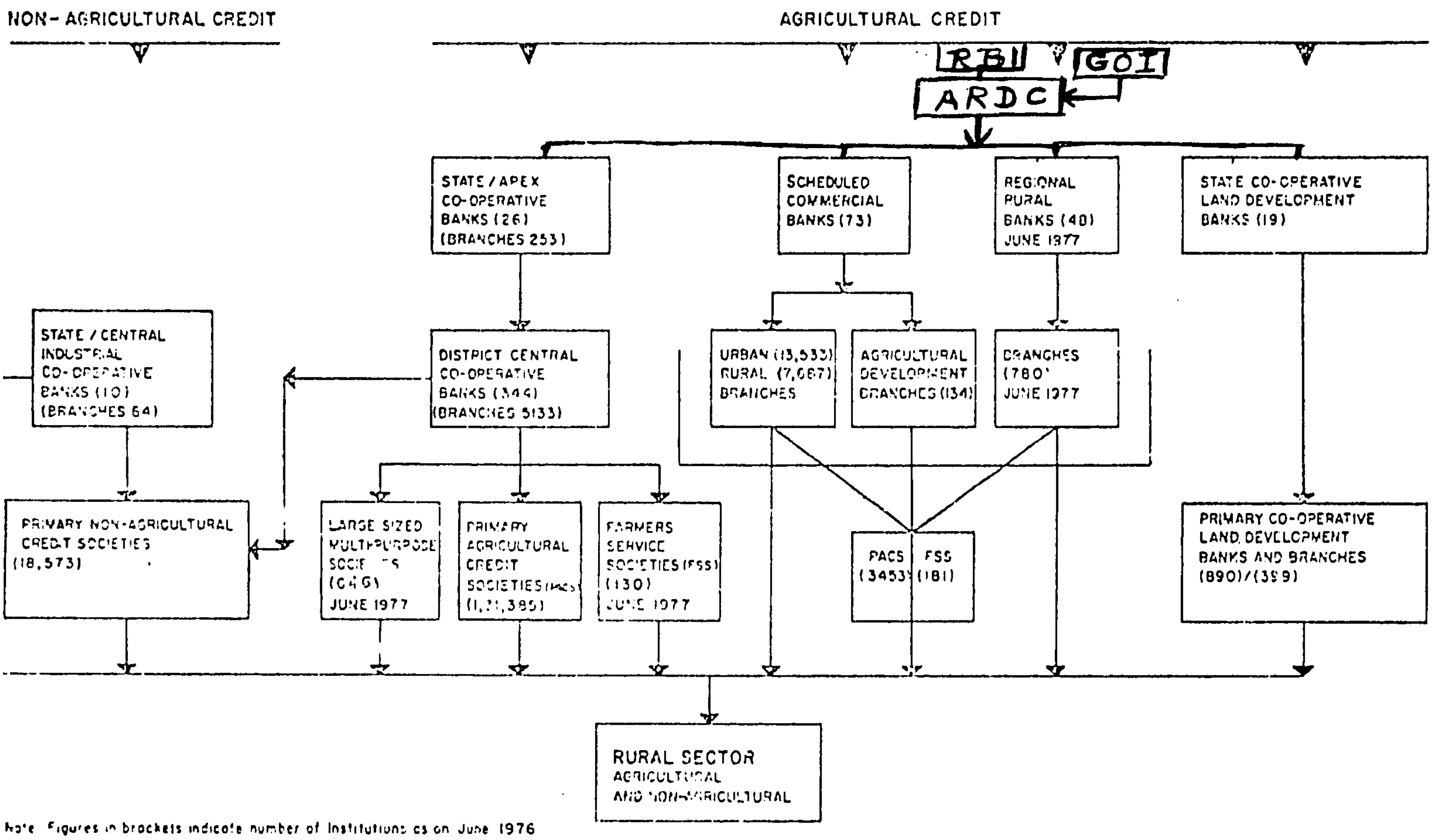
3. While in three of the four States surveyed extension support was weak, the Benor system of technical support is starting to bear fruits in Orissa, revealing important benefits that can be derived from the system.

4. Steps are being undertaken to simplify and accelerate the individual loan application process (see Annex 6).

5. Legislation has been passed to overcome a number of obstacles impeding the progress of small farmers. The measures include legislation to allow State guarantees of loans insufficiently covered by mortgage and authorization for LDB's to use the post development value of land for mortgage purposes. These ~~sures represent small yet significant stepts forward. It has been observed, however, that they have not yet led to appreciable changes in the operation of lending institutions. (For example LDB's in Orissa do not avail themselves of state guarantees nor use the post-development value.of land for mortgage purposes).

6. Access to lending institutions has been a recognized problem of long standing. To expand the credit availability in the rural areas considerable effort has been expended to widen this coverage. The increasing share of agricultural credit being delivered by commercial banks, the growth of regional rural banks and emphasis on the multi-agency input system are all results of this program. Rural credit channels in India are as shown.

INSTITUTIONAL CHANNELS OF RURAL CREDIT IN INDIA



Note Figures in brackets indicate number of Institutions as on June 1976

8. In spite of these improvements, many constrains remain. These constrainsts have an impact on total agricultural credit. However, they have a particularly serious effect on the small farmer who is more vulnerable than other beneficiaries.

1. General:

Constraints of a general nature include such deficiencies as poor land records, lack of effective groundwater control, inadequate infrastructure particularly roads and power, and others. These general problems are widespread, well known and of longstandi.. duration.

2. Specific:

It was observed during this survey that some specific constrainst are of particular relevance to small farmer coverage, both in terms of the efficient use of the loan amount and the level of lending itself. They include:

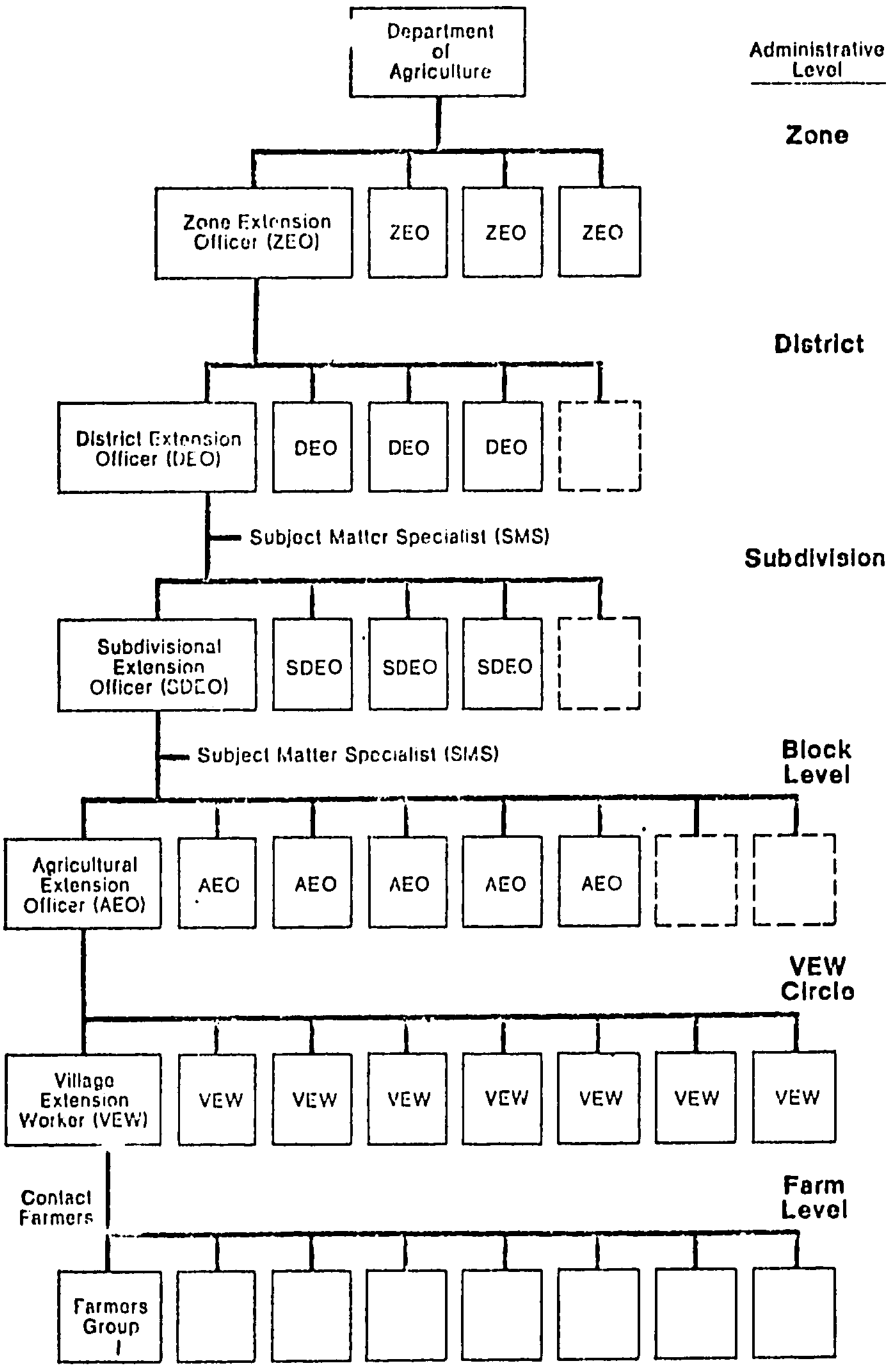
a. Extension Services

Formal extension services are weak in three of the four states surveyed (Maharashtra, Kerala, and Andhra Pradesh). Farmers in these states are mainly dependent on neighbors and possible support from representatives of the local lending institutions. Orissa, where the Benor system has recently been implemented with encouraging signs of success, shows a refreshingly different picture. Farmers obtain valuable advice at regular intervals on cropping patterns and methods which appear to have a significant impact on the efficiency with which loans were used.

One of the major contributing factors to the ineffectiveness of the formal extension system was the fragmentation of resources, specifically, extension agents. The traditional system placed this task as part of the Community Development Program down to the village level. Predictably the agricultural extension agent spent most time and effort on non-agricultural tasks. In recognition of this and other system weaknesses, the Government of India and IDA agreed to introduce the Training and Visit System (Benor) for agricultural extension support. To date six States have introduced this system in the last two years with promise of success. These States include: Assam, Orissa, Bihar, West Bengal, Madhya Pradesh and Rajasthan. Three additional States (Gujarat, Haryana and Karnataka) have completed project accord with IDA for similar projects. The States of Andhra Pradesh and Maharashtra have indicated strong interest in such a project.

This plan calls for specialization of extension agents solely to agricultural-related elements of assistance in an organized and controlled fashion from State level through the District and Block levels to the Village Extension Worker and ultimately, the farmer. Control will be that of the Department of Agriculture. IDA funding will support training costs, vehicles (motorcycles/bicycles for individuals on personal secured loan) and housing for areas where none is available. The organization pattern of this Intensive Extension Service (on a State basis) is as shown.

Organization Pattern of Intensive Extension Service in One of the States in India



Source: Agricultural Extension: The Training and Visit System. Daniel Benor and James Harrison.

b. Institutional Lending Constrainst:

Institutional lending constraints noted during this field survey with an immediate impact on small famrers include the following:

1) The inability of the LDB institutions to date to utilize chattel mrotgages as collateral not only restricts lending to small farmers in need of such loans but has also restricted the growth and viability of these institutions.

2) The restricted lending levels imposed on LDB's with high overdues, though justifiable as a banking discipline, inhibits the institutions capability of meeting demand requirement.

3) Poor management practices including cumbersome loan application procedures, tardy implementation of default procedures, defective evaluation and appraisal techniques all contribute to poor performance of some LDBs, resulting in inadequate support to the small farmers and poor recovery rates to the banks.

4) The higher operating costs of the commercial banks (versus the LDB) are in part due to the competitive inequity of payment of stamp duties, encumbrance certificate fees and registration fees. This added cost factor (along with other costs) possibly dampens the support of the small farmers by the commercial banks.

5) The overall weakness of the cooperative credit structure, especially at local levels, contributes materially to ineffective credit coverage of small farmers. Not only do PACs suffer from organizational weaknesses (a fact well recognized and presently being addressed) but their functions could also be significantly expanded to include supply of farm inputs and basic consumer requirements to include storage and marketing

c. Grass Roots Organization

Another specific constraint to small farmer development, noted in this survey, is a deficiency in the mobilization of small farmers through village-level organizations. While the flow of credit is facilitated by the organizational efforts of the PACs and the SFDAs, there was little or no indication in the surveyed States (other than Kerala) that the farmers themselves were organized at the village level independent of credit-oriented institutions. The absence of such a grass root structure deprives lending/agencies institutions of the capability to work to and through structured contact points, not only representative of a small farmer but composed of small farmers. Conversely, the absence of such organization requires the farmer to rely mainly on individual initiative in coping with credit agencies. Grass roots organization could also facilitate the dissemination of agricultural information and initiate collective local action.

In recognition of this deficiency, the Sixth Five Year Plan has placed renewed emphasis on the role of voluntary organizations to energize these local groups. Specific elements of this Plan place additional emphasis on women in development at the village level to assist the growth of farmer responsiveness to available assistance.

ARDC III

SMALL FARMER CREDIT COVERAGE

VI.

APPENDICES

1. Public Sector Outlays on Agriculture and Rural Development

2. Demand and Supply Projections of Agricultural Commodities

3. Pattern of Assistance for various Schemes under DPAP, SFDA and CADA

4. Schemes that can be taken up under the program for Intensive Development of Blocks

5. Definition of Small Farmers

6. Loan Application Processing

   A. Orissa

   B. Kerala

PUBLIC SECTOR OUTLAYS ON AGRICULTURE AND RURAL DEVELOPMENT

Sector	Outlay	
	Fifth Plan (1974-79)	Sixth Plan (1978-83)
	(Rs. Millions)	
I. AGRICULTURE AND ALLIED ACTIVITIES	3,109	58,000
Agricultural research and Education	2,100	4,250
Land Reforms and Consolidation of holdings	1,630	3,500
Soil Conservation & Land Reclamation	2,210	4,500
Food	1,230	1,500
Animal Husbandry and Dairying	4,380	8,250
Fisheries	1,500	4,000
Forestry	2,060	4,500
Investment in agricultural financial institutions	5,200	10,000
Community Development and Panchayati Raj	1,270	1,500
Cooperation	3,760	4,750
II. RURAL DEVELOPMENT	11,930	28,000
Special programs for rural development	5,370	15,500
Command Area Development	2,060	4,500
Hill and Tribal Area Development	4,500	8,000
III. IRRIGATION AND FLOOD CONTROL	42,260	96,500
Major and Medium Irrigation	30,890	72,500
Minor Irrigation	7,920	17,250
Flood Control	3,450	6,750
GRAND TOTAL	85,280	182,500 1/

1/ Sub-sectorwise break-up is only indicative and would be further refined in consultation with the States, Union Territories and Central Ministries.

Source: GOI Sixth Five Year Plan (1978-1983).

DEMAND AND SUPPLY PROJECTIONS OF AGRICULTURAL COMMODITIES

	Commodity	Unit	Level of production in 1977-78 (anticipated)	Expected demand for 1982-83	Production Possibilities 1982-83	Annual Compound Growth rate (%)
1.	Total foodgrains	Million tons	121.00	140.48 to 144.48	140.5 to 144.5	3.61
2.	Sugarcane	Million tons	156.90 to 160.00	188.00	188.00	3.28
3.	Jute and Mesta	Million bales (each of 180 kgs.)	6.76 to 6.9	8.69	8.56	4.41
4.	Cotton	Million bales (each of 170 kgs.)	6.43 to 6.8	9.25	8.15 to 9.25	6.35
5.	Oilseeds (of which 5 major oilseeds)	Million tons	10.0 9.2 to 9.3	12.45	12.5 11.2 to 11.5	4.56 4.34

Source: GOI Sixth Five Year Plan (1978-83).

ANNEX 3

PATTERN OF ASSISTANCE FOR VARIOUS SCHEMES UNDER DPAP, SFDA & CADA

Name of the Scheme	PAP	SFDA	CAD
1	2	3	4
IRRIGATION			
(i) Medium Irrigation	100% Central grant-in-aid	Not included	Not included
(ii) Minor irrigation (State works)	100% Government outlay	-do-	-do-
(iii) *Individual beneficiary schemes*			
(i) Individual minor irrigation works	25 & 33⅓% Government assistance for small and marginal farmers	25 and 33⅓% assistance for small and marginal farmers	25 and 33⅓% for S.F. & M.F.
(ii) Community irrigation works including drainage	50% Govt. assistance	50% central assistance	50% Central assistance
(iii) Inputs	25 and 33⅓% on cost of potassic and phosphatic fertilisers for S.F. & M.F.	25 and 33⅓% on cost of potassic and phosphatic fertilisers for M. F. only	Not allowed.
(iv) Agricultural demonstration	Rs. 500 per hect. on inputs.	Rs. 200 per demonstration over the project period	Not allowed
(v) Implements	25 to 33⅓% Govt. assistance for S.F. and M.F. respectively	25 to 33⅓% Central assistance for S.F. marginal farmers respectively.	Not allowed
(vi) Storage Bins	-do-	-do-	Not allowed
(vii) Land development/soil and water conservation	25% Govt. assistance to all farmers.	25% to 33⅓% Central assistance to small and marginal farmers respectively.	25 and 33⅓% to small and marginal farmers respectively or the pattern followed in the State.
(viii) Distribution of milch animals	25 to 33⅓% Govt. assistance to small and marginal farmers and agricultural labourers respectively	-do-	Not included
(ix) Distribution of other animal sheep, goats, pigs, poultry, duckery, etc.)	-do-	-do-	-do-
(x) Horticulture	-do-	-do-	-do-
(xi) Plough bullock bullock-carts/camels/camel-carts	-do-	-do-	-do-
(xii) Fisheries	25% Govt. assistance for fishing nets	-do-	-do-
(xiii) Sericulture	25% Govt. assistance for mulberry cultivation to small & marginal farmers	-do-	-do-
(xiv) Farm Forestry	Cost of planting material to be borne by Government	-do-	-do

1	2	3	4
NFRASTRUCTURE DEVELOPMENT			
(i) Seed farms	100% Govt. assistance	Not included	Not included in Central sector
(ii) Training	Full cost of organisation training course Govt. assistance	-do-	-do-
(iii) Godowns	100% cost borne by Govt.	Not included	-do-
(iv) Mandies	Rs. 3 lakhs per Mandi on ad hoc basis	Rs 4 lakhs for 4 regulated markets as Central assistance	
(v) Soil Conservation	100% through Govt.funds	Not included	-do-
(vi) Fisheries	100% through Govt. funds	-do-	-do-
(vii) Veterinary dispensaries	100% through Govt. funds	-do-	-do-
(viii) AI Centres	-do-	-do-	-do-
(ix) Breeding farms	-do-	-do-	-do-
(x) Chilling centres collection centres	-do-	50% Central grant in-aid, limited to Rs. 2 lakhs per unit	-do-
(xi) Feed Mixing Plant	-do-	Not included	
(xii) Development of pastures	-do-	-do-	-do-
(xiii) Fodder Banks	-do-	-do-	-do-
(xiv) Afforestation	-do-	-do-	-do-
(xv) Fish Farms	-do-	-do-	-do-
(xvi) Cold storage	-do-	-do-	-do-
(xvii) Equipments	-do-	Not included	100% loan by centre for purchase of equipments for land development.
(xviii) Transport vehicles	-do-	Not included	Not included
(xix) Link Roads	Not included	Not included	-do-
(xx) Agro & Forest based industries	-do-	-do-	-do-
(xxi) Extension staff	100% through Govt. funds	-do-	Full cost borne by the State Govt.
(xxii) Administration (including surveys)	-do-	100% Central grant-in-aid	50% by the State & 50% by Centre
UPPORT TO INSTITUTIONS			
(i) Risk fund cover	6% on short and medium term loans to the primary coop. societies/Central cooperative societies / central coop. Bank and 2% on long-term loans to Land Devp. Banks.	6% on short and medium term loans to the primary coop. societies/central coop. Banks and 25% on long-term loans to land Devp. Banks.	Not included
(ii) Non-overdue cover loan to weak Cooperative Banks	Rs. 10 lakhs	Rs. 10 lakhs	-do-
(iii) Equity, capital and debenture support	Share capital loan to small and marginal farmers upto 4 shares	Share capital loan to small and marginal farmers upto 4 shares	50% by the Centre and 50% by the States.
(iv) Debt redemption	Not included	Not included	Not included
(v) Managerial subsidy	Allowed for farmers services societies	Allowed for farmers services societies	-do-

INTEGRATED RURAL DEVELOPMENT

Schemes that can be taken up under the programme for Intensive Development of Blocks

I. INDIVIDUAL BENEFICIARY SCHEMES

1. Individual Minor Irrigation Works

1.1. This covers dugwells, shallow tubewells, boring and deepening of wells, renovation of old wells, rahats, pumpsets, electric motors, diesel engines, pump houses, cost of energisation of pumpsets, etc., which are owned and operated privately by individual cultivators.

1.2. The assistance that is now available under DPAP, SFDA and CAD is similar being 25 per cent of the capital cost as subsidy for small farmers and 33-1/3 per cent of the capital cost as subsidy for marginal farmers. The scale of subsidy is already uniform and no change is necessary.

1.3. However, the ceiling per individual under SFDA is Rs.3,000/- whereas it is Rs.4,000/- under DPAP since the cost of individual minor irrigation works in DPAP areas is higher. This difference may, however, continue. For CAD where no ceiling has been specifically laid down, it may be Rs.3,000/- as under SFDA.

2. Community Irrigation Works, including Drainage

2.1. Community Irrigation Works consist of deep tubewells and big diameter dugwells with pumpsets, lift irrigation schemes on river, nalla, etc.

2.2. The scale of subsidy under all the three programmes available at present is 50 per cent of the cost apportionable to the small and marginal farmers in the ayacut.

2.3. Subsidy on community irrigation works is allowed subject to the following conditions :-

a) the work should be owned and maintained by a cooperative society, a panchayat or a corporation for the benefit of small and marginal farmers;
b) more than 50 per cent of the beneficiaries of such community irrigation works should be small/marginal farmers;
c) while fixing the water charges, a concessional rate should be fixed for the small/marginal farmers for a period of five years to ensure that the benefit of subsidy on the capital cost is passed on to them.

Water rate is made up of two components :-
a) recurring charges; and
b) interest and repayment of the loan

The first charge should be equitable for all the farmers. The second charge should be proportionate to the loan apportionable to each farmer on the basis of his holdings and subsidy paid on behalf of SF/MF.

d) the subsidy should at 50 per cent of the cost apportionable to small and marginal farmers, based on the ayacut possessed by them.

This scheme may be taken up under the Intensive Development of Block Programme.

3. Failed well subsidy

3.1. SFDA and DPAP at present provide for a subsidy upto Rs.1,000/- per well to meet the cost of wells that have failed to yield any water for irrigation. This scheme also may be taken up under the new programme.

3.2. Subsidy to the extent of Rs.1,000/- per well, or the actual cost incurred, whichever is less, may be provided for such failed wells, subject to the condition that the water available is so little that the well has to be abandoned as a source of irrigation.

4. Inputs

4.1. At present subsidy for inputs is available only for potassic and phosphatic fertilisers under both DPAP and SFDA.

4.2. While in DPAP this subsidy is available for small farmers and marginal farmers at the rate of 25 per cent and 33-1/3 per cent of the cost, under SFDA it is available only to the marginal farmers at the rate of 33-1/3 per cent. Under CAD this is not allowed at present. Subsidy for potassic and phosphatic fertilisers should be made available to both small farmers and marginal farmers at the rate of 25 per cent and 33-1/3 per cent respectively under the scheme for intensive development of blocks.

4.3. No subsidy should, however, be allowed for other inputs like seeds, pesticides, nitrogenous fertilisers, etc.

5. Agricultural Demonstrations

5.1. At present under DPAP, Rs.500/- per hectare is allowed as the cost of inputs for each demonstration. Under SFDA it is Rs.200/- per demonstration for an area of one quarter to one-half of an acre. The assistance on the SFDA pattern may be adopted in the new scheme. Demonstrations taken up under the scheme for Intensive Development of Blocks should conform to the guidelines inAnnexure III. In other areas covered by the three special Programmes also, these guidelines may be adopted.

5.2. Uniform norms for demonstrations have been drawn up and these may be seen in Annexure III.

5.3. Assistance should, however, be available for one full crop rotation. Demonstration should be taken up only on the plots of small and marginal farmers.

6. Implements

6.1. At present under DPAP and SFDA subsidy for implements is provided at 25 per cent and 33-1/3 per cent of the cost to small and marginal farmers respectively. Such subsidy is not available under CAD programme. It should be provided under the CAD programme also.

9/

6.2. Subsidy can be made available for this item under the new scheme for Intensive Development of Blocks but it should be limited to only those improved implements/equipments, which have been identified as such by the Director of Agriculture of each State.

7. Storage Bins

7.1. Subsidy is at present available under DPAP and SFDA at the rate of 25 per cent and 33-1/3 per cent of the cost for small farmers and marginal farmers respectively. It is not available under CAD Programme. It should be made available on the same scale under CAD programme also.

7.2. This scheme may be taken up under Intensive Development of Blocks. The State Governments should ensure that the State Agro-Industries Corporations or dependable manufacturers undertake the manufacture of such bins.

8. Land Development/Soil conservation

8.1. In this respect the position varies under the three ongoing special programme. Under DPAP 25 per cent of the cost is made available as subsidy to all the participating farmers on all items like contour-bunding, graded bunding, land-levelling, bench terraching, surface drainage, wind breaks, shelter etc. Under SFDA subsidy at the rate of 25 per cent and 33-1/3 per cent is made available to small and marginal farmers respectively. Under CAD Programme either 25 per cent and 33-1/3 per cent for small and marginal farmers respectively or the pattern normally followed for such programmes by the State Governments is allowed in respect of land levelling, land shaping and water channels.

8.2. 25 per cent and 33-1/3 per cent of the cost may be made available to small farmers and marginal farmers respectively under all the three programmes and in the selected blocks in the new programme. No subsidy should be available for big farmers.

8.3. There should also be insistence that these works should be taken up on an area basis, to conform to a water-shed. The plans for such a scheme should be drawn up by competent technical experts and the implementation of the schemes should also be properly supervised in order to get the desired result.

8.4. Recently a technical group in Government of India had gone into the question of soil conservation works in dry areas. A copy of the guidelines prepared by this group may be seen in Annexure-IV.

9. Soil reclamation and improvement

SFDA allows subsidy for reclamation of saline and alkaline lands. Subsidy is permissible on soil amendments like gypsum, pyrites, lime etc. at the usual rates. DPAP and CADA may also provide for similar assistance. This scheme may be taken up under the new programme.

10. Distribution of milch animals

10.1. Both under DPAP and SFDA 25 per cent of the cost is given as subsidy to small farmers and 33-1/3 per cent to marginal farmers and agricultural labourers. There is no provision for this in CADA. This should be included in CADA also.

97.

10.2. Two milch animals may be supplied to each beneficiary, the second animal being supplied as soon as the first goes dry. This will ensure uninterrupted income from sale of milk and consequently enable the beneficiary to pay the loan instalments regularly.

10.3. It is also essential that the beneficiaries are given adequate training in the feeding and maintenance of their animals as also in the prevention of diseases. Such training programmes can be organised by the district-level animal husbandry/veterinary officers at suitable places.

10.4. For the purpose of procurement and distribution of milch animals, it will be advisable to constitute a purchase committee consisting of a representative each of the administering agency, the financing institution, veterinary department of the State Government and the farmers. Such a practice is already being followed in the SFDA areas.

10.5. This scheme of distribution of milch animals can be taken up under the new scheme of development of blocks programme.

11. <u>Special Schemes for cross-bred heifer and other livestock production programmes</u>

11.1. The Ministry of Agriculture and Irrigation, in the Department of Agriculture have during the Fifth Plan, circulated schemes of special livestock production programmes for benefitting small/marginal farmers and agricultural labourers. These schemes can also be taken up in the Blocks selected for Intensive Development, out of the outlay provided for this programme. The details of the schemes are indicated below.

11.2. In accordance with the recommendation of the National Commission on Agriculture, a Centrally sponsored scheme for giving assistance to small/marginal farmers and agricultural labourers for rearing of cross-bred heifers from 4th month to 28th month, was included in the Fifth Plan. Further, a Central Scheme for giving assistance to small/marginal farmers and agricultural labourers for rearing and developing poultry, sheep and pigs had also been included in the Fifth Plan. 267 projects covering 181 districts in different States have been taken up - 98 projects under cross-bred calf rearing programme, 68 under poultry, 50 under piggery and 51 under sheep production programme. In a particular district, more than one programme has also been taken up.

11.3. These programmes are on a subsidy-cum-loan basis. Under the cross-bred calf rearing programme, the identified beneficiaries in the small and marginal farmers category are given feed subsidy @ 50 per cent and agricultural labourers @ 66-2/3 per cent towards the total cost of feeding the cross-bred calf from the 4th month to the 28th month. The subsidy is given in kind.

11.4. Under other programmes, the identified beneficiaries are encouraged to set up production units of appropriate size. For poultry production, units are of 50 to 100 layers and under pig production the unit size is 3 sows.

11.5. In respect of poultry, piggery and sheep production programmes, the identified small farmers are given subsidy @ 25 per cent of the capital investment required for setting up the production units and marginal farmers and agricultural labourers at the rate of 33-1/3 per cent. The remaining amount of loan is arranged from institutional sources.

11.6. The average capital investment for a pig production unit of 3 sows is Rs.1,700, for poultry unit of 50 layers the capital investment is Rs.2,350 and for sheep production of 20 ewes and 1 ram, the capital investment is estimated at Rs.6,000/-. For feeding cross-bred calves from the 4th month to the 28th month, the average subsidy is estimated at Rs.950. In the identified projects, assistance to 5,000 families for rearing cross-bred calves, 3,000 families for starting poultry production units, 500 families for starting pig production units of 3 sows each and 3,000 families for starting sheep production programmes are contemplated.

11.7. In the identified project areas, technical inputs and services are made available to the identified beneficiaries in a packaged programme. The selection of beneficiaries of the programme is done from the small/marginal farmers and agricultural labourers, identified by the SFDA or DPAP agency. The agricultural labourers, marginal farmers and small farmers are given priority in that order under the composite livestock production programmes.

11.8. For implementation, coordination and monitoring of these programmes, a special project cell is set up at State Headquarters in the Directorate of Animal Husbandry. At the project and sub-project level also, exclusive technical staff is provided so as to assure timely and personalised supply of technical inputs and services to the identified beneficiaries.

11.9. In those blocks where the above mentioned scheme is operating, attempts should be made to take full advantage of the scheme for the benefit of the target groups. The idea is to make all the schemes operating in any particular area, supplementary and complementary in nature and all of them specially directed towards the twin objectives of employment and production.

12. <u>Cross-bred cattle through Bharatiya Agro-Industries Foundation, Urlikanchan, Pune</u>

A scheme using the frozen semen technology has been drawn up to produce cross-bred heifers. The technical services are provided by the Bharatiya Agro-Industries Foundation, Urlikanchan. A subsidy of Rs.150/- for each successful conception will be available under the scheme. The money, however, will be passed on directly to BAIF. The scheme can also be linked up with the Food for Work and Social Forestry Programmes. Instructions issued in this regard may be seen in Annexure V. This scheme is to be taken up on a pilot basis only in the States of Uttar Pradesh, Gujarat, Orissa and Maharashtra.

13. <u>Distribution of other animals (sheep, goats, pigs, poultry, ducks etc</u>

Subsidy at the rate of 25 per cent to small farmers and 33-1/3 per cent to marginal farmers and agricultural labourers is available both under DPAP and SFDA at present. It is not available under CADA at present. It should be provided under CADA also. This scheme can be taken up under the new programme.

14. <u>Plough bullocks/bullock-carts, camels/camel-carts</u>

Both under DPAP and SFDA subsidy at the usual rate of 25 per cent for small farmers and 33-1/3 per cent to marginal farmers and agricultural labourers is available. This should be provided under CADA also.

15. Horticulture

Assistance for the cost of seedlings, inputs, land-levelling, digging of pits, garden tools and appliances, fencing etc. under this scheme is given to individual cultivators. A minimum area of one-fourth of an acre is recommended. Subsidy is available at the rate of 25 per cent of the total cost to small farmers and 33-1/3 per cent to marginal farmers, both under DPAP and SFDA. Similar subsidy is not available under CADA and may be provided for. This scheme can be taken up under the new programme.

16. Custom service

Subsidy on custom hire charges can be provided under the new scheme to identified beneficiaries. In many areas, the State Agro-Industries Corporation, the State Agriculture/Soil Conservation Department or any other approved custom service centre provides custom service to farmers. Subsidy on such charges can be provided to small and marginal farmers at the rate of 25 per cent and 33-1/3 per cent respectively.

17. Fisheries

17.1. Under DPAP 25 per cent of the cost of fishing nets is provided. Under SFDA subsidy is available at 25 per cent to small farmers and 33-1/3 per cent to marginal farmers and 50 per cent to the cooperative towards the cost of fingerlings, nets, boats, manures and fertilisers. Subsidy is also allowed for desilting or reclamation of tanks if the tanks are given on lease by Panchayats to fish farms for a minimum period of ten years. No assistance is provided for this under CADA.

17.2. Assistance on an uniform basis should be made available under the programme for Intensive Development of Blocks. This may be 33-1/3 per cent of the total cost towards items such as nets, fingerlings, boats, etc. to individual fishermen. Where assistance to a fishermen's cooperative is provided, the scale of subsidy may be 50 per cent of the cost. Similar assistance on an uniform basis may be made available under all the three special programmes in other areas also.

18. Sericulture

At present 25 per cent of the cost of mulberry cultivation is made available to small and marginal farmers under DPAP. Under SFDA subsidy at the rate of 25 per cent to small farmers and 33-1/3 per cent to marginal farmers is made available on mulberry plants, cuttings, rearing appliances, rearing sheds, equipment for silk reeling and training of farmers. No assistance is provided for under CADA. The SFDA pattern may be followed under the new programme for Intensive Development of Blocks.

19. Farm Forestry

At present under DPAP the entire cost of planting material is borne by the Government. Under SFDA subsidy at the rate of 25 per cent and 33-1/3 per cent is made available to the small and marginal farmers respectively. No assistance is provided under CADA. The pattern of assistance followed by DPAP may be followed under the new programme also, for lands owned by individuals.

20. Bee keeping

Under SFDA and DPAP subsidies are provided to small and marginal farmers at the rate of 25 per cent and 33-1/3 per cent respectively on the capital cost of items like bee-hives, honey extractor, etc. Under the new programme for Intensive Development of Blocks, bee-keeping can be taken up on the above lines, wherever scope for this activity exits.

II. INFRA-STRUCTURE DEVELOPMENT

21. Soil conservation

Soil conservation on government lands is allowed only under DPAP at present and has not been taken up under SFDA or CADA. In the new programme for Intensive Development of Blocks, soil conservation on government lands may be taken up, with 100 per cent assistance. Such soil conservation works, however, should be taken up only on a watershed basis. The guidelines already indicated earlier (Annexure IV) should be followed.

22. Nurseries

DPAP at present allows financing of forest nurseries. Raising of such nurseries can be taken up under the new programme.

23. Artificial insemination centre

Among the three programmes which have been discussed, only DPAP provides 100 per cent assistance for setting up and strengthening of artificial insemination centres. Under the new programme for Intensive Development of Blocks, subsidy for artificial insemination centres may be made available; but this should be restricted only to those areas where the cross-breeding programme in collaboration with the Bharatiya Agro-Industries Foundation is taken up.

24. Chilling/collection centres

DPAP finances this fully while SFDA gives a grant-in-aid to the extent of 50 per cent of the cost limited to Rs. 2 lakhs per cooperative society. Assistance on the SFDA pattern can be given under the new Programme for Intensive Development of Blocks. This should be confined only to those areas which are not covered by Operation Flood - II.

25. Transport vehicles

DPAP provides 100 per cent assistance for transport vehicles like trucks for marketing societies, milk tankers for dairies, etc. SFDA provides 50 per cent subsidy to cooperatives for transport vehicles for collection of milk, eggs, etc. CADA does not provide any assistance for this purpose. In the new programme for Intensive Development of Blocks, assistance may be given only for small vehicles like three-wheelers for the specific purposes of strengthening marketing arrangements, transportation of milk, etc. This assistance should also be confined only to these areas which are not covered by Operation Flood-II.

26. Training

Training of the beneficiaries, who are introduced to new skills, new occupations, or modern technology is an important component of the programme for Intensive Development of Blocks. The full cost of the training of beneficiaries may be provided out of this programme. Training, however, should be conducted only in courses organised in Gram Sewak Training Centres, Farmers Training Centres, Krishi Vigyan Kendras and Agricultural Universities.

27. Others

Other items of infra-structure development like seed farms, godowns, regulated markets, veterinary dispensaries, breeding farms, feed-mixing plants, development of pastures, fodder banks, afforestation, fish farms, cold storages, equipment, extension staff, etc. should not be financed out of the outlay for the new programme for Intensive Development of Blocks.

III. SUPPORT TO CREDIT INSTITUTIONS

28. Interest-free share-capital loans

28.1. Both SFDA and DPAP provide an interest free share capital loan to small and marginal farmers upto the value of four shares or Rs. 40/-. This can be financed out of the programmes for Intensive Development of Blocks.

28.2. The money should not be passed on to the individuals directly but should be placed at the disposal of the primary agricultural credit societies for enrolment of the identified beneficiaries. The loan is repayable in two years and may be collected from the beneficiaries through the agricultural credit society. It should be ensured that the beneficiaries who are enrolled as members, take advantage of this facility to get loans from the agricultural credit society.

29. Managerial subsidy

The SFDA and DPAP provide for managerial assistance to the technical staff of farmers Service Societies and large-sized Multi-Purpose Societies (LAMPS) in tribal areas, on a tapering basis for a period of three years. The tapering scale is 100 per cent in the first year, 75 per cent in the second and 50 per cent in the third year. Such a subsidy can be provided under this programme for Intensive Development of Blocks to Farmers Service Societies (FSS) and Larged-sized Multipurpose Societies (LAMPS) in tribal areas.

30. Others

The SFDA and DPAP provide for assistance to identified weak Central Cooperative Banks for meeting the deficit in non-overdue cover. They also contribute to the risk fund of the Central Cooperative Banks and the Primary Cooperative Credit Societies in proportion to loans advanced by them to the identified beneficiaries. Assistance for non-overdue cover and risk fund contribution may continue to be provided under the outlay for the special programmes of SFDA and DPAP. This can be provided under CADA also, which at present does not have this component. The funds intended for Intensive Development of Blocks, however, should not be utilised for these purposes.

Source: Guidelines for Intensive Development of Blocks.
Vol. 1. GOI.

DEFINITION OF SMALL FARMER

The definitions of small farmers currently existing are briefly as follows:

1. Government of India: The definition by the GOI to be adopted by the SFDA splits up the rural poor into small farmers and marginal farmers and is based primarily on acreage norms with some refinements based on income:

   a. Small farmers are cultivators with landholdings below five acres. In case of Class 1 irrigated land as defined in the land ceiling legislation, the ceiling will be 2.5 acres.

   b. Marginal farmers are cultivators having landholdings up to 2.5 acres. In case of Class 1 irrigated land as defined in the land ceiling legislation of the State, the ceiling will be 1.25 acres.

These two definitions have been refined to include the non-farm income of small and marginal farmers: (1) farmers with non-farm income exceeding their farm income may be excluded from SFDA/MFAL programs; (2) farmers with non-farm income above Rs 200 per month are to be excluded from SFDA/MFAL programs; (3) farmers (i.e. landowners) not engaged in cultivation themselves may also be excluded from the programs.

In order to account for agro-climatic differences the GOI prescribed in March 1977, acreage limits for drought prone areas in 7 out of 13 states as follows:

> "The parameter fixed for identification of a small farmer is 1.5 hectares in irrigated areas and 7 hectares in dry areas of arid zones and 1.5 hectares in irrigated areas and 3 hectares in dry areas of semi-arid zones. However, in certain districts of arid zones in Rajasthan, such parameter has been fixed at 10 hectares. The 7 States are Andhra Pradesh, Gujarat, Haryana,

Jammu and Kashmir, Karnataka, Maharashtra and Rajasthan. The remaining six States are Bihar, Madhya Pradesh, Orissa, Tamil Nadu, Uttar Pradesh and West Bengal where the existing definition for small farmers as applicable in SFDA programs is being adopted in DPAP areas".

2. Reserve Bank of India: The Reserve Bank of India relates the definition of a small farmer to income acreage and loan amount. In addition, the definition is adjusted with respect to the intermediary credit channel, i.e. commercial banks and cooperative banks.

With respect to commercial banks, particularly for the purpose of the scheme of differential rates of interest, the following borrowers would be eligible for a 4% loan:

- family income from all sources not exceeding Rs 3,000 per annum in urban areas or semi-urban areas and Rs 2,000 per annum in rural areas.
- land holding not to exceed 1 acre in case of irrigated land and 2.5 acres in case of unirrigated land.
- loan amount not to exceed Rs 1,500 for working capital and Rs 5,000 for term loan.

When the Credit Guarantee Corporation scheme was extended to include small farmers, the latter were defined with reference to the limit sanctioned, i.e. Rs 2,500 maximum towards a crop loan and Rs 5,000 maximum towards a term loan.

The "Small Farmers Window" announced by the Reserve Bank of India in December 1977, specified that loans to small farmers, i.e. direct individual loans not exceeding Rs 2,500 whether short, medium or long terms, would be eligible for refinance from the Reserve Bank at 9% on condition that final borrowers are not charged more than 11%. The difficulty with a definition based on loan amount lies in the fact that anyone, rich and poor, could avail himself of the applicable privileges. Therefore, in May 1978, the Reserve Bank of India stipulated that the "Small Farmers Window" applies only to small farmers as defined earlier on the basis of income and acreage.

With respect to cooperative banks, the Reserve Bank of India has stipulated, since 1971, that a specified portion of short term lending through cooperative banks should go to small farmers (normally 20%) as defined as those holding less than 3 acres of land, irrigated or not irrigated. This norm was later refined to take into account, *inter alia*, agro climatic conditions and cropping patterns. Therefore, norms change from district to district, but it appears that by far the largest number of districts apply a criteria of ownership of less than 5 acres, see below:

Norm	No. of districts
2.5 acres	3
3 "	59
5 "	192
6 "	2
7.5 "	85
8 "	7

3. Agricultural Refinance and Development Corporation: The definition of a small farmer in use by the ARDC is well known to the World Bank as it is the latter who devised it for use under IDA/IBRD project schemes. The definition is as follows:

- "Small farmer" shall mean any farmer cultivating land providing pre-development net return to family resources to such farmer and his family not exceeding Rs 2,000 based on 1972 prices.

91

- For the purpose of determining the said net return, the following criteria shall apply -

a. land shall include all land actually cultivated by the farmer notwithstanding the fact that ownership of such land may rest in one or more persons;

b. "net return to family resources" shall mean gross family income from the land less costs actually incurred/including cash value of the farmer's own input, including seed, fertilizer, hired human labor, feed consumed by family bullocks, irrigation charges, land revenue, interest on crop loan and rent on leased land); and

c. the amount of the current year shall be arrived at by applying the current price index of the All -India Agricultural Laborers Index for the state in which the land is located to the relative amount indicated.

On the basis of the above income norm, conversion is made to an acreage norm for each state and district.

In addition, ARDC refinancing in SFDA/MFAL areas will be based on the definition of small farmers used by these agencies and, in areas other than those covered by SFDA/MFAL and where ARDC schemes are not under implementation, the definition adopted by the central cooperative bank in question can be followed.

4. Other Definitions

a. Regional Rural Banks, recently created to serve small farmers, have adopted the ARDC defintion.

b. National Cooperative Union of India produced a draft report early in 1978 which tentatively endorsed the ARDC norms with exception that the pre-development net return to the farmer should be Rs 2,400 rather than Rs 2,000 at 1972 prices. The rationale for this increase is to cover also the basic necessities like clothing, medicines and social needs. Like ARDC, the reports recommend conversion to acreage based on agro-climatic conditions prevalent in various parts of the country.

5. Comments

The multitude of definitions of the main target group is, of course, utterly confusing. This has been recognized during a meeting held by the various agencies concerned at the end of August 1978. During that meeting it was unanimously agreed that one definition would be ideal. The ARDC definition was considered the most accurate. It does nevertheless not seem likely that the GOI would be ready and willing to abandon its own laboriously adjusted definition in favor of the ARDC practice. The issue will be further discussed at a future meeting, but one may expect that no revolutionary changes will be adopted.

One may identify three types of norms: a) income, b) acreage, and c) loan amount. The norm using loan amount is based on the faulty assumption that only small farmers borrow small amounts. This is not true as astute rich farmers could also set themselves up as small farmers and borrow small amounts on preferential conditions.

The norm based on landholdings exclusively reveals the wrong belief that size determines income regardless of agro-climatic conditions. This mistake has belatedly been realized and minimum acreage adjusted on the basis of soil fertility, rainfall, etc. The starting point, i.e. acreage, remains faulty, however, unless one adjusts it to a common denominator (income) which could satisfy minimum calorie requirements. In that case it would clearly be preferable to define a small farmer starting with basic food requirements leading to acreage.

The norm based on income levels is rational (as its starting point is minimum calories requirements) and comprehensive (covering both landed and landless classes). The ARDC/IDA developed a system whereby acreage norms are established in different agro-climatic districts based on a pre-determined income. This system combines the social justice obtained by adopting an income norm with administrative convenience. The accuracy of the minimum income level of the ARDC definition could be improved through a re-examination of (a) Rs 2,000 figure at 1972 prices, and (b) the degree to which income levels and acreage norms ought to be adjusted on a state by state basis.

With respect to the Rs 2,000 figure, it has been determined on the basis of the consumption pattern prevalent in 1960/61. One may question whether the consumption pattern of some 18 years ago remains the same today. In fact it can be shown that the pattern to satisfy minimum calorie requirements has changed over time. This means that the minimum income requirement of 1960/61 to consume 2,250 calories per day (the lowest threshold acceptable) extrapolated to 1978 on the basis of the All-India Agricultural Labor Index would produce a somewhat different minimum income figure than if the latter were based on the consumption pattern prevalent say in 1973 (using the national sample survey). This latter figure would, in fact, produce a lower minimum income level in 1977/78 than the one based exclusively on a 1960/61 extrapolated consumption pattern (Rs 2,893 as opposed to Rs 3,076 for 1977/78). It would seem, therefore, that a periodic updating of the minimum income requirement on the basis of consumption pattern (say every five years) is useful.

In addition to a re-examination of the Rs 2,000 figure, attention should be paid to inter-State differences in the cost of living. The income requirement to satisfy a minimum calorie intake is not necessarily the same throughout India. Figures are available to derive the All-India average minimum income figure on a state by state basis, thus providing a more accurate small farmer's definition based on the special consumption pattern prevalent in each separate state.

It would be useful to introduce these two changes in the ARDC definition at a further stage, as they would lead to a more accurate identification of the small farmer. This is not being done, however. The ARDC will update its acreage norms on the basis of a new all-India minimum income level of Rs 3,000 extrapolated by applying the 1977 All-India Agricultural Laborer Price Index to the 1972 Rs 2,000. Statewise figures are as shown in the following table:

Income Equivalent of Rs 3,000 - Percentage increase/decrease over income equivalent of 1977

State	Income equivalent of Rs 2,000 1977	Percentage deviation from national average of Rs 3,000 1977
ndhra Pradesh	3,100	+ 3.3
ssam (including Manipur, Tripura)	3,000	-
ihar	3,000	-
ujarat	2,800	- 6.7
ammu and Kashmir	3,700	+23.3
arnataka	3,200	+ 6.6
erala	3,000	-
adhya Pradesh	3,000	-
aharashtra	2,800	6.7
rissa	3,000	-
unjab (including Himachal Pradesh, Haryana, Delhi, etc.)	3,000	-
ajasthan	3,100	+ 3.3
amil Nadu	3,300	+10.0
ttar Pradesh	2,900	- 3.3
est Bengal	3,200	+ 6.6
ll India	3,000	

Loan Application Processing

(Orissa/Kerala)

A. ORISSA

Land Development Banks

In order to understand the causes of the rather long delays involved in the processing of a loan through a LDB, it would be useful to go through the application procedure as it applies in Orissa.

1. The initial application form is filled out by the farmer with the aid of the concerned supervisor of the PLDB. The application form, which contains information on aspects such as purpose, landholding, crops produced, income earned, etc., forms the first of five or six basic forms required before the loan can be approved.

2. The supervisor then prepared a report in which he essentially verifies the information supplied to him by the farmer and, in addition, comments on the farmer's previous borrowing, his repayment record, anticipated farm improvement and similar concerns. This report constitutes the second essential document of the application.

3. Simultaneously with the preparation of the supervisor's report, the land evaluation officer attached to the PLDB (a government officer serving under the Registrar of Cooperative Societies) prepares a document in which he verifies the value of the land. This value needs to be established for mortgage purposes.

4. The fourth document to be prepared (only in the case of diversified lending, i.e. not when it concerns minor irrigation) covers technical aspects (e.g. in relation to land shaping,

plantation). It is produced by an expert provided under the auspices of the SLDB in collaboration with the concerned technical department of the State Government. All documents mentioned above are completed more or less simultaneously, with the Secretary of the PLDB acting as co-ordinator.

5. The legal officer provided through the SLDB will examine the land documents of the prospective borrower in order to verify the title (at this stage the title will not be searched for encumbrances; ownership will simply be established). This report will go to the Secretary of the PLDB who, armed with all documents thus far prepared, will go to the Board of Directors of the PLDB concerned to obtain the approval of the loan.

6. As soon as approval has been granted, the farmer is invited to the PLDB's office to register a mortgage bond. The Cooperative Societies Act provides that the PLDB Secretary plus the land evaluation officer together can register the mortgage so that a trip to the registration office is avoided and the process expedited. A copy of the mortgage bond is then sent to the registration office to be recorded in their books.

7. Up until this point no serious delays in the processing of the loan application are encountered. The next step is the preparation of what is called the "encumbrance certificate" i.e. a document stating that the land is free of encumbrances. It represents the last document required to complete the process and it is also the main cause of the often long delays because of the normally complicated title search.

8. Once the encumbrance certificate is obtained the first instalment of the loan is paid by the PLDB Secretary, who, subsequently, forwards all papers to the manager of the respective SLDB branch for approval and reimbursement.

Delays in the loan application average some two months and might be considerably longer if the title search is complicated. The Orissa State Government has initiated four excellent measures to expedite the mortgage procedure, thereby resolving the major bottleneck in the whole process. They are:

a. the creation of a "land charge";

b. the permission (with respect to minor irrigation only) to advance a first instalment up to Rs 600 before the receipt of the encumbrance certificate;

c. the requirement of the applicant's signature only;

d. the establishment of a land title card index system.

The Orissa Cooperative Societies Act has recently been amended to allow a farmer, at the time of application, to sign a charge against his land which will have the same legal force as an officially executed mortgage document. The effect of this measure would be that the non-encumbrance certificate is no longer required before a loan instalment can be made, but can be obtained at a later date. Should it turn out that the land is in actual fact encumbered contrary to what the farmer stated, drastic legal action would be taken. Presidential assent for this amendment has been obtained, and it will go into effect shortly. Orissa is unique with respect to this legislation. In fact, it appears that the central government intends to distribute copies of this legislation to other states for information. It will clearly be a time saver since not only will the delay in obtaining an encumbrance certificate no longer obstruct the payment of advances but the bond registration under step 6 will become superfluous.

In anticipation of the above mentioned amendment to the Act, and in recognition of the urgent need for minor irrigation, the Orissa Government has allowed an advance to the applicant of up to Rs 600 - with respect to minor irrigation only - before the receipt of the encumbrance certificate. This advance will pay preparatory work of well construction in anticipation of another instalment several weeks hence.

The third time-saving device concerns cases where land is owned jointly by a number of individuals although it has not been split up legally (e.g. where five brothers inherited a piece of land, each owning a part which is not severed legally from the whole). Previously, an individual in such a situation would have to obtain signatures of all co-owners in order to mortgage his portion of the land. The time involved proved often prohibitive. Recent legislation now provides for the requirement of the applicant's signature only, which facilitates the process enormously.

A mortgage card index system was started on a pilot basis a year ago as part of IDA's agricultural development project in the State. It attempts to update and combine land titles and encumbrances in a card index system which would thus greatly expedite the title search. The system seems to work satisfactorily and is now expanded in order to gradually cover the whole state.

Cooperative Banks

Some five years ago it was decided in Orissa that intensive use should be made of cooperative banks, not only for short term production lending, but also for medium term investment lending. To this end, cooperative banks were recently empowered tolend up to 8 years, with respect to ARDC approved schemes.

This term is sufficient to finance the main type of investment, i.e. minor irrigation. As a consequence, Orissa is the state where cooperative banks have received more than 3/4 of all ARDC refinancing to this type of institution.

For a short term loan, a farmer would have to be a member of the imary society and will receive his loan on the basis of personal surety. Much before the start of the new crop season for which short term credit is normally required (e.g. before the kharif season) the primary society establishes a list of farmers, their holdings, their crops and their likely financial requirements. This list is forwarded to the DCCB for approval so that credit for seasonal inputs is available when the need arises. As far as the farmer is concerned, there is, therefore, no delay.

With respect to medium term loans, mostly for minor irrigation, the farmer can borrow with a minimum delay up to Rs 3,500 without a land mortgage requirement. The security would only be a chattel mortgage on the pumpset. Beyond Rs 3,500 however, a land mortgage would be required causing the same type of delays as with LDB lending. Not surprisingly, most lending occurs below the Rs 3,500 level.

Commercial Banks

Commercial banks are perhaps the most efficient with respect to the issuance of loans, particularly where it concerns long term lending. They are empowered to lend short, medium and long term. The lending authority of branch managers is sufficiently high to allow approval on the spot. For short term loans, the personal surety of the farmer is accepted. For medium and long term loans a land mortgage is required. However, similar to the legislation recently passed in Orissa to allow LDBs to accept a charge against the land in anticipation of the non-encumbrance certificate, commercial banks have been empowered to accept a sworn statement by the farmer to the effect that the land is free of encumbrances. At this point funds could be released. The official mortgage will then be registered afterwards.

KERALA

LOAN PROCESSING PROCEDURES
(CLMB)

Procedure in Processing of Loan Applications

1. A person desirous of taking a loan from the bank must become a member of the bank by payment of the requisite shareholder fee. After becoming a member, he purchases a loan application form at a cost of Rs 1. This, along with title documents of the property intended as security with other connected records is then given to the Secretary for filing. Fee payments include membership fee, legal fee, fees for obtaining encumbrance certificate if the amount exceeds the concession limit (e.g., loans up to Rs 2,000 no E.C. fee is charged). From Rs 2,000 to Rs 5,000, half the E.C. fee is paid and the full fee is charged on loans above Rs 5,000.

2. The bank then writes two letters, one to the village officer and the other to the Sub-Registrar concerned requesting the following details as to the property offered as security for the loan:

(a) Possession certificate, evidencing proof that the property is in the sole possession and enjoyment of the person who is the applicant. Kudikidappu Certificate, ceiling area certificate, copy of Thandapperu Register to show that mutation has been affected in favor of the applicant and it still is subsisting in his name, copy of basic tax register and three sketches of the property with boundary demarcation, extent in survey number, subdivision number and latest payment of tax receipt. The details called for from the Sub-Registrar Office is 13 years encumbrance of the property in the form of a certificate to verify whether there are any charges subsisting over the property and whether the property is free of encumbrance and the bank will get the first charge over it. Both these letters are given to the loanee for delivery to the addressees to expedite the processing.

(b) The Secretary then forwards the file to the bank's Legal Advisor for legal opinion as to whether the property is free of any other charges and can be accepted as security for the loan. For this the Legal Advisors are paid legal fees of different nature for their legal works. Charges vary from a minimum of 7 rupees to a maximum of 50 rupees. This fee is also levied from the applicant at first along with administration charges and later on paid to the Legal Advisor after the file gets sanctioned by the Board of Directors.

(c) The whole file (if the Legal Officer files a "no objection" certificate) is then transferred to the Valuation Officers and Agricultural Officers for valuation and preparation of technical enquiry report. Loan amounts up to Rs 10,000 are handled by the Agricultural Officer of the bank who also prepares the Technical Enquiry Report in all files. Loans from Rs 10,000 to Rs 30,000 are handled by Valuation Inspectors from the Cooperative Department. When the valuation work and preparation of Technical Enquiry Report are completed, the file is resubmitted to the Secretary for final processing.

(d) The fully processed loan application file, with all other required records from the concerned sections, along with both the supervisor's and Secretary's note of the amount specified the loan sanction order (and recommended by both Agricultural icer and Valuation Inspector for sanction based on farm visits is then placed in the Board meeting of the Governing body for final sanction and disbursement.

i. If the amount does not exceed Rs 10,000 and comes with the power of delegation, the Board has the power to sanction and the sanctioned files are then given to the document writer for preparation of draft mortgage bond and later for registration of original mortgage bond.

ii. If the amount exceeds Rs 10,000 the usual procedure is to forward the file to the Central Land Mortgage Bank, Regional Office for final sanction by the Regional Manager.

(e) The finally-sanctioned file by the Regional Manager is then transmitted to the concerned Primary Land Mortgage Bank for registration of mortgage bond after fulfilling the conditions (if any) specified in the loan sanctioned order. The duly registered mortgage bonds from the Primary banks are then forwarded to the Regional Office for payment by drafts for disbursement to ultimate borrowers by way of individual checks.

SMALL FARMER CREDIT
(ARDC III)
INDIA

ENCLOSURE

C

DOCUMENTATION

1. ARDC ANNUAL REPORT (1977-1978)
2. ARDC PROGRESS REPORT (June 1978)
3. ARDC CREDIT PROJECT (ARDC III)
4. ARDC STATE PROJECT (1978)

    (Karnataka/Bihar/Kerala/Tamil Nadu/Andhra/Pradesh/Maharastra)

5. ARDC EVALUATION REPORTS

    (Maharastra/Haryana - Minor Irrigation)

6. RESERVE BANK OF INDIA ANNUAL REPORT (1977-1978)
7. AGRICULTURAL CREDIT SCHEMES - Commercial Banks
8. REGIONAL RURAL BANKS - India (1978)
9. PROGRESS/TRENDS OF INDIAN BANKING (1977-1978)
10. SMALL HOLDERS FARM DEVELOPMENT (1978)
11. SPECIAL AGRICULTURAL DEVELOPMENT UNITS (SADU) (1978)
12. AGRICULTURAL EXTENSION - BENOR (1977)
13. APPRAISAL REPORT - WB COMPOSITE EXTENSION PROJECT (1978)