CHAPTER VII

IMPACT OF CREDIT ON EMPLOYMENT AND PRODUCTION

The central theme of this research work is to measure and examine the impact of credit on rural borrowers. For this, as discussed earlier, we have identified three indicators, viz. employment, production and income. Primary data was collected by the questionnaire-cum interview method from sample borrowers as discussed in the section on methodology.

The impact of credit is analysed with respect to employment-generation and production in this chapter. The following chapter is devoted to analysis of income indicator while, in the concluding chapter the overall impact of credit on the sample borrowers is discussed and the findings of credit impact analysis are summarised.

For the purpose of impact analysis, the respondents were classified in four groups 1) actvitywise, 2) according to loan size 3) genderwise including headshipwise and lastly 4) Castewise, as defined in the earlier chapters.

We derived the following set of working hypotheses from the literature review which is tested for all the three indicators of credit impact viz. employment, production and income.

1) Credit under IRDP has higher impact on employment, and income as compared to main stream credit.

2) Credit to business generates higher production as compared to farming and self-employment.

3) Credit to women and FHHs generates higher employment, production and income as compared to men and male headed households.

4) Credit to SC, ST and BC generates higher employment, production and income as compared to the borrowers of the general category.

Section I

Impact on Employment

This section examines the impact of institutional credit on the employment levels in the area of our study. Unlike employment in the industrial and tertiary sectors the employment in agriculture is greatly influenced by the external factors and is full of complexities. The presence of disguised unemployment, seasonal unemployment and frequent activity shifts make it more difficult to capture the impact. Very often labour in agriculture is hired in peak seasons only. For rest of the year the landless agricultural labourers and casual laborers may either remain unemployed or may seek fortune elsewhere.

In this chapter we have attempted to analyse the impact of credit on employment by establishing the relationship between the borrower and loan characterstics and the incremental employment generated from the use of credit.

In spite of four decades under planned development, a vast majority of the Indian population lives in villages and is dependent on agriculture for its livelihood. Employment by industry of origin indicates that about 66 percent population is engaged in agriculture, a sector which is forced to take the burden of providing means for survival to many, in the absence of alternative avenues of employment. Hence in rural areas there is a problem of underemployment, besides unemployment.

The early plan policy and programmes made hardly any dent in the problem of unemployment. Anti-poverty programmes in the early 1950s like the Small Farmers' Development Agency (SFDA), Marginal Farmers' And Agricultural Laborers' Development Agency (MAFALDA), Drought Prone Area Programme (DPAP), Desert Development Programme (DDP), Intensive Agriculture District Programme (IADP) and many others were area and target group oriented. They aimed at improving the levels of living in the rural areas, mainly by enhancing agricultural production. The Green Revolution's success in boosting agricultural production from a low 72 million tonnes in 1965 to 105 million tonnes in a span of just three years saved the country from a major food crisis. But the majority of the rural population could not participate in this programme, for the simple reason that the Green Revolution bypassed those without any land base like the landless agricultural laborers, casual labourers and rural artisians. Even among the farmers only those who could afford modern inputs such as the HYV seeds and chemical fertilizers and had access to irrigational facilities could benefit from the Green Revolution.

In the absence of adequate credit support from the co-operative credit system, majority of the small and marginal farmers could not participate in the capital-intensive production process and hence were left out.

The failure of a major programme like the Green Revolution in erradicating poverty taught two lessons. Firstly, that rural poverty could not be tackled by increasing agricultural production only. Secondly, any major PAP could not be implemented without the availability and support of 'Development Credit' by the banking system. The Green Revolution exposed the inadequacy of the co-operatives to cope with the growing demand for agricultural credit. This led to two major policy changes, in seventies. Firstly, the focus of most of the PAPs to follow was shifted to creating alternative means of employment in the rural areas with special emphasis on creation of self-employment for improving the income levels. Secondly, it marked an end to the era of single agency system under which the co-operatives were the sole distributors of rural credit. It marked the begining of the multi-agency system, under which the commercial banks entered the rural credit system in a big way to supplement the staggering co-operativesy which were followed by the Regional Rural Banks (RRBs).

For comparing the employment generation among various groups, two parameters are used in our study. The first is the percentage share of each group in the total incremental employment, production and income. The second is the incremental employment, production, and income generated by each rupee of

credit deployed. The first parameter is influenced by the proportion of total credit received by each borrower group. But the second is scale-free and hence more useful in assessing the impact of credit.

The impact of credit on employment was obtained in terms of additional labour hours created. Labour hours instead of man days were selected for the analysis because for most part of the year, work is available for only a part of the day to most of these borrowers who do not own any land. Hence, information related to the pre and postloan employment of the respondents was obtained in terms of working hours. The incrmental labour hours were estimated by deducting the labor hours for which the respondent worked in the pre-loan period from the labour hours for which he worked in the post-loan period.

LOAN SIZE

Contrary to the general view that incremental employment generation is directly related to the volume of credit, it is observed that larger size of loan was not associatead with a proprtionate increase in the employment. The sizewise classification of incremental labour hours and the related ratios and averages are given in table 7.1

TABLE 7.1

INCREMENTAL LABOUR HOURS: SIZEWISE

(in hours)

LOAN SIZE GROUP	INCREMENTAL LABOUR HOURS	PERCENT SHARE	AV. PER BORROWER	PER RUPEE
Small Loans (1 - 15000)	232955	54.45	1272.98	0.17
Medium Loans (15001-30000)	168377	39.36	2476.13	0.11
Large Loans (30000-Above)	26460	6.19	2940.00	0.05
TOTAL	427792	100.00	1645.35	0.12

Source: Appendix No. II

The above table shows that about 54.45 percent of total incremental labour hours generated were in the small loan-size group. The incremental labour hour-credit ratio was also the highest in this size group (0.17). The average incremental hours generated in this size group were 1273. The higher percentage share in the incremental labour hours and higher credit rupee-incremental employment ratio indicates that the small loans were most employment-oriented as they covered those borrowers whose employment potential was most under-utilized. small loans were given to small and marginal farmers, landless agricultural/causal labourers and rural artisans members of the SC, ST and BC usually under IRDP as stated earlier. Most of these borrowers are unemployed for most part of the year. It is found that there is immense potential for improvement in the employment status of the borrowers covered under the small loans.

The percentage of incremental labour hours in the medium-size loan group was of 39.36. The average incremental labour hours in this group were 2476 and the incremental labour hour-credit ratio generated was 0.11.

For borrowers of big loan size group the percentage of incremental hours in total incremental hours generated was only 6.18. Incremental labour hour to credit ratio was the lowest of all groups.

The above analysis reveals that labour hours generated per rupee of credit deployed are inversely related to loan size. It is important to note that small-size loans have the highest efficiency in generating employment compared to medium and large size loans.

Activitywise Impact

In the earlier chapters we classified the borrowers in three different categories, according to activity financed. Firstly, those who had obtained loans for farming, secondly, those who had obtained loans for persuing business, and lastly, those who had obtained loans under IRDP. Except for those who had obtained loans under IRDP, other borrowers were found to persue the same activity in the post-loan period for which they had obtained loans in the pre-loan period.

Table 7.1 shows the activitywise distribution of incremental employment and the average incremental labour hours generated in the respective activity groups:

TABLE 7.2

INCREMENTAL LABOUR HOURS: ACTIVITYWISE

(in hours)

ACTIVITY/ CATEGORY	INCREMENTAL LABOUR HOURS	PERCENT SHARE	AV. PER BORROWER	PER RUPEE
FARMING	302887	70.80	1992.67	0.11
BUSINESS	30450	7.12	3045.00	0.19
I.R.D.P.	94455	22.08	963.83	0.23
TOTAL	427792	100.00	1645.35	0.12

Source: Appendix No. III

As revealed in table 7.1, of the total incremental labour hours, about 71 percent were in farming, 7.11 percent in business, and 22 percent in IRDP. The high percent of incremental labour hours generated in farming is on account of the high percent of credit (83 percent) delivered to the farming sector. The number of borrowers was also highest (152) in farming. It also indicates that there is enough scope for the creation of additional employment in the agriculture sector. Credit creates additional demand for labour and helps in utilizing the existing potential for employment.

Most of the additional employment generated accrues either to small and marginal farmers who have fragmented pieces of land-holdings and are out of employment for most part of the year, or to the medium and big farmers which means higher employment for the landless agricultural labourers and casual laborers who are unemployed for most part of the year.

The highest average incremental hours was in the business sector (Rs.3045). This is due to the availability of full-time round-the-year employment in the business sector. It is followed by farming (Rs.1993) and IRDP (Rs.964) indicating that full-time-round the year employment was not available in farming and more so in IRDP.

An 12 percent share in the total amount of credit for IRDP generated 22 percent share of total incremental labour hours generated. It was observed that most of the borrowers under IRDP who were persuing milch cattle activity continued to work as agricultural labourers in the post-loan period also.

The incremental labour hours generated per rupee of credit deployed was highest in IRDP (0.23) followed by business (0.19) and agriculture (0.11). It indicates that credit is more employment oriented under PAPs. The reason for this is that most of the borrowers in this category are unemployed or underemployed for most part of the year in the pre-loan period. This category comprises mainly of landless agricultural/causal labourers/rural artisans who mostly belong to the SC, ST, and BC classes.

The borrowers under IRDP are perhaps the poorest of the poor and any improvement in the employment status of these borrowers helps in generating income levels, so very essential for their survival.

The plight of small and marginal farmers is only marginally better. Hence credit for purchase of inputs for production or purchase of productive assets enables these borrowers to be gainfully employed for longer periods than before. But the small loan amounts of credit given to these categories provide only limited employment generation. Thus optimum utilisation of the the working potential of these borrowers and of the factors of production at their disposal can be brought about only by providing adequate credit doses associated with viable schemes. Nevertheless, it can be said that credit did help in creating additional employment for these borrowers. In the business sector, credit and incremental hours ratio was the lowest. It may be due to the fact that most of the borrowers in the business sector in the area of our study were engaged in retail business, where the scope of additional labour, absorption was limited. In retail business large volume of transactions can be handled with the help of few hands. Hence the working hours in the post-loan period may only increase marginally over pre-loan period. This also suggests that the employment potential of those employed in the business sector was better utilised as comparaed to those engaged in other activities in the pre-loan period.

GENDER

As seen earlier a very small proportion of total credit goes to women and FHHs. Hence the proprotion of incremental labour hours generated in these borrower groups is also very small. The genderwise distribution of incremental hours and the related ratios and averages are given in table 7.3.

TABLE 7.3

INCREMENTAL LABOUR HOURS: GENDERWISE

(in hours)

GENDER	INCREMENTAL LABOUR HOURS	PERCENT SHARE	AV. PER BORROWER	PER RUPEE
MALE	405567	94.80	1689.86	0.12
FEMALE	22225	5.20	1111.25	0.17
TOTAL	427792	100.00	1645.35	0.12

Source: Appendix No. IV

The headshipwise distribution of incremental labour hours and the related ratios and averages are given in table 7.4,

TABLE 7.4

INCREMENTAL LABOUR HOURS: HEADSHIPWISE

(in hours)

HEAD	INCREMENTAL LABOUR HOURS	PERCENT SHARE	AV. PER BORROWER	PER RUPEE
MALE	406727	95.07	1673.77	0.12
FEMALE	21065	4.92	1239.12	0.17
TOTAL	427792	100.00	1645.35	0.12

Source: Appendix No. V

Table 7.3 and 7.4 reveal that the share of women and FHHs was less then five per cent in employment generation, which matches with their shares in loans deployed. The table also indicates that the employment per borrower was higher for male borrower and MHHs. However, in case of employment generated per rupee of credit deployed, female borrowers and FHHs had higher labour hours compared to their male counterparts. This is because most of the loans given to women were for milch cattle activity which is a labour-intensive activity, whereas farming and business activities for which most of the males borrowerd are comparatively less labour-intensive.

CASTE

As seen earlier, the members of the SC, ST, and BC received a very small proportion of the total credit (8.53 percent). But as the employment potential of this group is highly under-utilized in the pre-loan period, even a small percentage share in credit generated additional labour hours much higher than the group's share in credit. Table 7.5 shows the castewise distribution of incremental labour hours and the related ratios and averages.

TABLE 7.5

INCREMENTAL LABOUR HOURS: CASTEWISE

(in hours)

CASTE	INCREMENTAL LABOUR HOURS	PERCENT SHARE	AV. PER BORROWER	PER RUPEE
GENERAL	362347	84.70	1927.38	0.12
SC,ST, & BC	65445	15.30	908.96	0.22
TOTAL	427792	100.00	1645.35	0.12

Source: Appendix No. VI

Table 7.5 shows that the SC, ST, and BC classes as a group had 15 percent of the total incremental hours which was much higher than their share in credit. This reflects the immense potential for employment-generation among the members of this group. As stated earlier most of the members of this group are agricultural/casual labourers; they are unemployed for most part of the year. Thus even small doses of credit to this section has sizeable impact on employment-generation, Per rupee generation of additional labour hours was much higher for the backward category compared to the general category. This indicates that credit is highly employment-oriented for this under-privileged section of the population and it can help in meeting their survival needs.

Conclusion :

The above analysis confirms our hypothesis that 'Credit under IRDP has higher impact on employment as compared to main stream credit', as the credit to incremental labour hour ratio was higher for IRDP borrowers, than for borrowers under farming and business.

Our hypotheses that 'Credit to women and FHHs generates higher employment compared to men and male headed households' and that 'Credit to SC, ST and BC generates higher employment as compared to the borrowers of the general category' are also upheld as the credit to incremental labour hours ratio was higher for women, FHHs and SC, ST, and BC borrowers as compared to their respective counterparts.

The analysis of the relationship between credit and its impact on the employment-generation in the various activities with different loan sizes and on the borrowers of different gender and socio-economic characteristics reveals that additional employment-generation among these categories is greatly influenced by their employment status in the pre-loan period, the purpose of loan, and the borrower's ability to fully utilize his/her employment potential.

SECTION II

Impact On Production

In section I of this chapter we analysed the impact of credit on employment. This section examines the impact on production. Increase in employment must be accompanied by a proportionate rise in production and income of the borrower. Only then, will the credit lead to development.

Credit is the vital link between the factors of production and production itself. Institutional credit in India is provided primarily for productive pusposes, with the primary objective of raising employment, production, and income levels of the borrowers. Put to proper end use, credit is the vital input for creating production where none existed before. Though credit itself does not produce anything, it helps in making available essential inputs necessary for production. Apart from the traditional factors of production, land, labour, capital, and organisation, a wide variety of other factors influence production. Since most of the institutional credit in India is provided under 'credit alone' approach, borrowers face two major constraints to production: i) those related to the availability of modern inputs and ii) those related to the lack of infrastrutural facilities. Most of the borrowers in rural areas obtain loans for agriculture or allied activities. Further, most of the ryral population is near or below the poverty line and can barely make the two ends meet . Hence, there is little scope for business in rural areas. Also due to invasion of

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role in increasing prouction. In this section we analyse the impact of credit on production of sample borrowers.

IMPACT ON PRODUCTION

For the purpose of analysis we estimated the value of production in the post-loan period and obtained incremental production by deducting the pre-loan production from it. The value of production was obtained by multiplying the quantity of production with the prevailing market prices in the pre and post-loan periods. We chose to express the production parameter in monetary terms to make it comparable with the credit and income variables. The incremental value of sales has been taken as the the value of production in case of business and self-employment.

Comparative analysis of the impact of credit on production of the borrowers of various categories is undertaken on lines similar to section I.

LOAN SIZE

In the earlier chapter on the impact of incremental production, we had seen that the borrowers in the small-size loan group had a higher potential for generating employment, than those in larger loan-size groups. The corresponding figures for the incremental value of production indicate a similiar trend for the incremental production. The sizewise distribution of incremental production is shown in table 7.6

TABLE 7.6

INCREMENTAL VALUE OF PRODUCTION: SIZEWISE

(in Rs.)

LOAN SIZE	INCREMENTAL PRODUCTION	PERCENT SHARE	AV. PER BORROWER	PER RUPEE
1 - 15000	1122777	46.53	6135.39	0.81
15001-30000	1166136	48.32	17149.05	0.77
30000-Above	124203	5.15	13800.33	0.24
TOTAL	2413116	100.00	9281.21	0.70

Source: Appendix No. II

As shown in the table 7.6 incremental production to credit ratio was highest for the small loan group (0.81) and slightly lower for medium-size loans (0.77), whereas for big loans it was much smaller (0.24). The main reason for higher incremental production of small loans, is the extremely low production levels of the borrowers of this size group in the pre-loan period. As stated earlier, the borrowers in the small loan-size group are either marginal and small farmers or members of the SC, ST, and BC who worked as agricultural labourers in the pre-loan period. Most of these borrowers are economically poor and had similar socio-economic characterstics in the pre-loan period. They have either no land/asset base or have very small pieces of land. Most of these borrowers are not able to purchase inputs or obtain

productive assets without any financial support. Hence, credit support to these borrowers provided them an opportunity for utilizing their unutilized or underutilized labour and land/assets for production.

The percentage share in total production (48.32) and the average incremental production (17149) was highest for the medium-size loans groups followed by large size loan groups. However, when we consider the production to credit ratio, the small loan group topped closely followed by medium loans and the big loans were way below the others.

ACTIVITYWISE

An analysis of the incremental production in the various acivities revealed that the incremental value of production per unit of credit was highest for the borrowers of the business loans and lowest for farming. Table 7.7 shows the activitywise distribution of the incremental production.

TABLE 7.7

INCREMENTAL VALUE OF PRODUCTION: ACTVITYWISE

(in Rs.)

ACTIVITY/ CATEGORY	INCREMENTAL PRODUCTION	PERCENT SHARE	AV. PER BORROWER	PER RUPEE
FARMING	1507423	62.47	9917.25	0.53
BUSINESS	340285	14.10	34028.50	2.08
I.R.D.P.	565408	23.43	5769.46	1.39
TOTAL	2413116	100.00	9281.21	0.70

Source: Appendix No. III

As shown in table 7.7 the incremental production to credit ratio was highest in the business sector, followed by IRDP, and was lowest for farming loans. Further, production per borrower was highest in business, followed by farming and IRDP. This suggests that the business sector used credit more efficiently for productive purposes than farming and IRDP. This can be attributed to the fact that production in business sector is usually not subject to wide range of fluctuations on account of external and natural factors, as in the case of agriculture and allied activities. Business output is more influenced by the traditional theory of production which describes production as an input-output relationship. In business what matters is the cost of factors of production and the marketable value of the product. Hence it can be said that in business sector the relationship between credit and production was not influenced by

uncontrol able natural facotrs which influenced production in the other two categories.

IRDP had the second highest incremental production per unit of credit. It shows that production in allied activities is less infuenced by nature than in agriculture. However, as reported by most of the borrowers in the area of our study, substandard quality of milch cattle provided to the IRDP borrowers and inadequacy of grazing grounds adversely affected production. In case of farming, the most important reasons for compartively low production levels were lack of irrigation facilities and pests (white fly) which destroyed cotton crops. Further, most of the farmers could not purchase required quantity of inputs because of under-financing.

Business had the highest average at Rs. 34028.50, inndicating that the business turn over was not affected by external factors as in case of agriculture and allied activities.

The average incremental production was not so high in farming at Rs. 9917.25, suggesting that the pre-loan production of most of the farmers was also not good because of lack of irrigation and the problem of pests.

The average incremental production was lowest in IRDP (Rs.5769) because the borrowers under IRDP had obtained loans for one or two milch cattle leading to moderate production per borrower. The percentage share of incremental production was highest in farming (62 percent) because not only was the number of loans highest in farming, but it also had the highest

percentage share in the total loan amount. The perentage share of incrmental production for business was 14. It was 23 percent for IRDP. For the last two activities the proportionate share in incremental production was higher than their share in the total credit.

GENDER

The share of women in the incremental production is very significant as it reflects women's contribution to production and their ability to use credit for generating production. In the area of our study most of the women obtained loans mainly for milch cattle and a few of them obtained loans for farming and for ISB under IRDP. Table 7.8 shows the genderwise distribution of incremental production, related ratios and averages.

TABLE 7.8

INCREMENTAL VALUE OF PRODUCTION: GENDERWISE

(in Rs.)

GENDER	INCREMENTAL PRODUCTION	PERCENT SHARE	AV. PER BORROWER	PER RUPEE
MALE	2296138	95.15	9567.24	0.61
FEMALE	116978	4.85	5848.90	0.88
TOTAL	2413116	100.00	9281.21	0.70

Source: Appendix No. IV

Tables 7.9 shows the headshipwise distribution of incremental production, related ratios and averages.

TABLE 7.9

INCREMENTAL VALUE OF PRODUCTION: HEADSHIPWISE

(in Rs.)

HEAD	INCREMENTAL PRODUCTION	PERCENT SHARE	AV. PER BORROWER	PER RUPEE
MALE	2285874	94.73	9406.89	0.69
FEMALE	127242	5.27	7484.82	1.05
TOTAL	2413116	100.00	9281.21	0.70

Source: Appendix No. V

As shown in table 7.8 and 7,9 production per unit of credit was higher for women (Rs. 0.88) and FHHs (Rs.1.05) as compared to that of men (Rs. 0.61) and MHHs (Rs. 0.69). This shows, that, women utilize credit more efficiently than men. But the average amount of incremental production was Rs.9567.24 for men and Rs.9407 for MHHs. It was Rs.5849 for women and Rs.7485 for FHHs which indicates that in spite of higher efficiency in the use of credit, women could not achieve high production levels then men. This can be attributed to the fact that women received only small-size loans mainly under IRDP. Womens' and FHHs' share in total amount of loan was only about 4 percent. But their contribution to incremental production was about 5 percent.

CASTEWISE

In the earlier chapter on the impact of credit on incremental employment we have seen that as a group, the members of SC, ST, and BC were better users of credit in terms of employment-generation than the borrowers of general category. This trend continued for incremental production as well. Table 7.5 shows the castewise distribution of the total incremental production, incremental production per borrower, and the ratio of production to credit.

TABLE 7.10

INCREMENTAL VALUE OF PRODUCTION: CASTEWISE

(in Rs.)

CASTE	INCREMENTAL PRODUCTION	PERCENT SHARE	AV. PER BORROWER	PER RUPEE
GENERAL	2078738	86.14	11057.11	0.66
SC,ST, & BC	334378	13.86	4644.14	1.14
TOTAL	2413116	100.00	9281.21	0.70

Source: Appendix No. VI

The above table shows that the SC,ST, and BC group had much higher production to credit ratio compared to the general group of borrowers. This is explained by the fact that the former is associated with either no production or with very low production level in the pre-loan period in the absence of credit support. Hence, credit given to these borrowers triggers off

their participation in the production process and results in higher incemental values as compared to the members of the of the general category who were better off in terms of employment and prducttion levels in the pre-loan period.

The lower average incremental production in the case of the SC, ST, and BC (Rs.4644) as compared to the general category (Rs.11057) indicates the lower production levels resulting from the small-size loans provided mainly under IRDP for labour-intensive activities. The percentage share of the two groups was 14 and 86, matching the trend of their shares in the total loan amount.

Conclusion

The above analysis upholds our hypothesis that `Credit to business generates higher production as compared to farming and self-employment', as the ratio of credit to incremental production was higher in business as compared to farming and IRDP.

Our hypotheses that `Credit to women and FHHs generates higher production as compared to male and male headed households' and that `Credit to SC, ST and BC generates higher production as compared to the borrowers of general category' are also confirmed as the credit to incremental production ratio is higher for women, FHHs and SC,ST, and BC borrowers than their respective counterparts.

Our analysis in this section leads to the following conclusions:

1) the output to credit ratio was highest in the case of small loans, closely followed by medium loans. It needs to be noted that borrowers of big loans have much lower productive efficiency compared to borrowers of small and medium size loans.
2) Credit deployed has added to value, by creating output where there was none (for example, in case of IRDP loans) and by increasing production in existing economic activities (viz farming and business). Credit given to business is most productive. IRDP loans came second followed by farming loans.
3) Contribution of females and FHHs to production was higher than males and MHHs. The gender differential was much higher in case of FHHs due to a very low production base. 4) The production ratio for SC,ST, and BC borrowers was almost double than that of other borrowers. This was, again, due to low pre-loan production base.