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IMPACT OF INTEREST RATES CHARGED BY THE LAND
DEVELOPMENT BANKS FOR SHEEP/GOAT REARING
ON THE ECONOMY OF THE BORROWING FARMERS

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The diversified lending by land development banks have led to liberal lending for dairy, poultry, sheep, goat rearing, horticulture, fisheries etc. With the production oriented system of lending, this class of lending has assumed significance. Such lending has gained importance in aiding small and marginal farmers as it generates luc-rative subsidiary income.

Bank loans from land development banks are available for sheep/goat rearing and development, as they are integrated activity allied to agriculture. Credit facilities are extended for the purchase of sheep/goat with subsidy and at concessional rate of interest. The repayment period varies from 5 to 6 years and instalments are recovered half yearly or annually according to the convenience of the borrowers.

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Tamil Nadu State Land Development Bank had an outlay of Rs.127.962 lakhs for sheep rearing and Rs.10.500 lakhs for goat rearing in the year 1987-88 out of its total outlay of Rs.1238.324. This paper is based on a field enquiry conducted in Manapparai Taluk of Trichy District, Tamil Nadu, which comes under the Drought prone area programme.

Objectives of the enquiry

The present enquiry has the following specific objectives.

1. To examine the extent of utilisation of concessional rate of interest for sheep/goat.
2. To assess whether the concessional rate of interest has increased the income of the borrowers.

Methodology

Out of the total 67 borrowers, twenty five borrowers have been selected under random sampling method. Relevant particulars were collected through a schedule. Besides 10 other borrowers were interviewed.

Characteristics of the sample population

In the sample population taken eight borrowers do not have any land, 7 borrowers have lands upto 2.5 acres, 5 borrowers have lands between 2.5 and 5 acres and 5 borrowers have lands more than 5 acres.

The scheme

Under this scheme the loan amount is Rs.6,500/- for sheep rearing consisting of 20 ewes and one ram and for goat rearing consisting of 10 ewes and one ram the loan amount is Rs.3,600/-.

The rate of interest for both the scheme is 10% per annum. Normally the borrowers are small and marginal farmers. Landless labourers are also entitled for the loan. One third of the amount is subsidy. The period of loan is 5 years. The repayment schedule is prepared once in a year. One year gestation period is permitted.

The enquiry reveals that only seven borrowers out of the twenty five have utilised the loan for the purpose. Thus 28% of the borrowers alone have actually utilised the loan amount and 72% of the borrowers who have got the loan have diverted the loan amount either for consumption or for some other purpose.

At a time when the land development banks are facing heavy overdues, it is unfortunate that the liberalised and diversified loaning of the land development bank is misutilised.

A closer scrutiny of the borrowers reveal that eight of the borrowers do not have land at all, 7 borrowers have land upto 2.5 acres, 5 borrowers have lands between 2.5 and 5 acres and 5 borrowers have land over and above 5 acres. Of the 18 borrowers who have diverted the loan amount 7 of them belong to the category of number one, who do not own any land, four of the borrowers who have diverted the loan amount owned lands of 5 acres or more, 7 of the borrowers who have diverted the loan amount have land upto 5 acres.

It is interesting to note that ^{seven} out of the eight borrowers who do not own land have diverted the loan amount and 4 out of the 5 borrowers who own 5 acres and above have diverted the loan amount. Comparatively the small farmers owning upto 2.5 acres and medium farmers owning between 2.5 and 5 acres are better as 4 out of 7 in the former category and 3 out of 5 in the latter category have diverted the loan amount. However the analysis gives only a dismal picture.

How far the interest rate is beneficial could be studied only with reference to the borrowers who actually use the loan and not those who have misutilised the loan amount.

With reference to the borrowers who have actually utilised the loan amount, accretion of assets was calculated. In the case of goat rearing, in a year, the assets have increased on an average from Rs.3600/-

to Rs.6500/- taking into consideration the value of the sold goats also. Increase in percentage is 80.55. But in the case of sheep rearing the asset accretion is found to be less. Asset worth Rs.6500/- after a year on an average has increased to Rs.8095/-. Increase in percentage in this case is 24.54.

Reasons for comparatively high increase in the asset value of the goat is due to more number of off-springs they beget and in short-intervals. Whereas in the case of sheep the off-springs are limited and the duration of begetting the young ones is longer.

It should be noted that the interest rate is the same whether the borrowing is for goat rearing or sheep rearing. In fact a borrower for the goat rearing scheme at 10% interest gets comparatively higher returns than a borrower for sheep rearing.

This leads up to the point that interest rate with-in a scheme is more beneficial to one class of borrower than the other.

We may conclude that in any scheme of lending for different classes of borrowers with-in the scheme there is a need for adjustment in the interest rate charged.

As in this case where there is a justification for different interest within a scheme in every class of lending depending on the purpose and return

on investment, slight adjustment in interest rates is warranted.

Yet another point that emerges is that to a borrower who genuinely uses the amount for the designed purpose and also makes prompt repayment should be given some concession for his honesty and regularity. This may prompt others to follow suit.

AIA/-