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The average rent and taxes per acre of the locality on owned land comes to Rs. 3.00. It is found therefore a little more than 16 acres of land would maximize the profit when other factors are kept constant. But if these resources are kept constant at the arithmetic mean we would get a size a little higher than this as the arithmetic mean is greater than geometric mean.

Conclusion

From the viewpoint of minimum cost per acre and maximum profit the economic size of rice farm will lie in between 16 to 24 acres at the existing level of labour and capital use in the region stated above.

H. K. DASGUPTA*

SUPERVISED RURAL CREDIT†

Extension of credit to enable the small farmers to increase their agricultural production and levels of living is recognised to be an important plank in the system of agricultural finance. Several programmes to increase production and improve rural conditions have been undertaken. However, in almost every case the results have not been encouraging. The root cause of this malady is well-known. The marginal and sub-marginal farmers who constitute about one-third of the total farm families in India earn an income of about Rs. 175 per annum and find employment for about 100 days in the year.¹ The problems of the small and low-income farmers are so complex that they cannot be solved through simple and isolated measures. It is not merely a credit problem—though credit is a very essential part—nor merely a problem of education and extension. What is needed is an integrated programme of improvement in which credit, education and extension are combined as essential features. The basis of a sound rural credit policy is education, not only to teach the farmer better farming practices, but also to educate his entire family which must be regarded as the basic unit in rural progress. The main defect in the existing co-operative credit policy is that credit is given on the basis of the credit-worthiness of the borrowers and in amounts which are inadequate for their needs. This results in the exclusion of a large number of farmers from membership of co-operative credit society or if they are members they are restricted in availing themselves of the limited amount of credit. The co-operative policy does not directly concern itself with the improvement of the life of the whole man and his family, in short with “better farming, better business and better living.”

The importance of a good system of supervised credit hardly needs emphasis. The bases of supervised credit programme constitute a well-thought out farm plan and supervision. When the latter is efficient, it constitutes the security. Under this system, the conventional test of credit-worthiness as a basis of providing aid is dispensed with and instead, the need of the cultivator according to the production plan and his ability to repay from increased production is taken as the criterion. When production programmes are well planned and supervision is efficient, the percentage of recovery of loans seems to be high. If the outstanding

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† Rural Development and Credit Project in Delhi—An Evaluation Report covering Rabi 1957-58 to *Zharif* 1959, Indian Co-operative Union, New Delhi, 1960. Pp. 83.

1. Seminar on Planned Production Credit, Indian Co-operative Union, New Delhi, 1960, p. 6.

is not collected at maturity, it is generally due to causes beyond the control of the cultivating borrower, such as natural hazards ; it is not due to bad faith on his part.

The success of the system depends on well-trained and qualified supervisors, backed by a good extension service which is well founded in research. Hastily trained personnel may be effective only for a short period. The programme assumes the existence of an assured market. If production is increased there must be a market available for its disposal. In the absence of it, the programme is not likely to succeed. When the grant of credit goes hand in hand with technical assistance and welfare work, the potentialities of increasing the productivity of the small farmers and improving their living conditions seem to be great. The results of a single experiment conducted by the Indian Co-operative Union and reviewed in the following pages may go to prove this hypothesis ; hence there is need to undertake more experiments in different parts of the country to test the validity of this hypothesis before coming to a positive conclusion.

Two important factors to be reckoned in this connection are the cost of supervised credit programmes and the availability of funds. In addition to grant of loans both in kind and cash, supervised credit programmes involve service to individual cultivators by rendering technical assistance in the way of farm planning and supervision as also follow-up work. The interest recovered from loans may not be sufficient to cover the cost of the supervised credit staff and overhead expenses. In view of the limited coverage of families in the beginning, the average cost per family served may be prohibitive. It may also turn out that the return per family either by way of increased yields per acre or increased income may be so low as to undermine the confidence in the programme. But as against these, it should be recognised that we do not have accurate and reliable data in regard to the actual cost of supervised credit activities. Since the programme includes technical assistance and extension education in addition to provision of credit, it would be difficult to apportion the total cost to specific activities rendered. In the long run, certain activities in the programme such as technical assistance, education and extension should be considered as a capital investment in the cultivators. Viewed from this point, the social cost of improving the human agent should be distinguished from considerations of economic costs as the former has socially beneficial effects. Over a period of years, it may be expected that the costs may decline while returns may go up.

The experience of the Indian Co-operative Union (ICU) in regard to the adoption of an experimental programme of planned production credit provides some useful lessons. Report of the *Rural Development and Credit Project in Delhi* published by the ICU evaluates the results achieved during the period *Rabi* 1957-58 to *Kharif* 1959 (September 1959) under this programme in the Mehrauli Block, about 9 miles southwest of New Delhi.

The objectives and methods of this experiment are indeed laudable. Essentially, it seeks to demonstrate improved agricultural methods in the fields of farmers in an effort to increase yields of basic crops and demonstrate to them on a small-scale, planned and supervised production credit to improve their levels of income. It is important to note that the project has been specially designed to serve small farmers operating less than 15 acres and tenant cultivators. The

amount of loan advanced to each intending borrower is based on a technical analysis of each loanee's farm operations in the previous year, his production potential and ability to implement the suggested improvements with the guidance and assistance of the supervisor, cash costs of improvements, the general attitude of the cultivator towards the acceptance of the recommended practice and the loans intended to be advanced as well as his demonstrated attitude regarding past obligations and his ability or willingness or both to repay future obligations.

The Block selected for the project work is a backward tract with low average rainfall and inadequate facilities of irrigation, though it is predominantly an agricultural area with fertile soils. Dry farming is generally practised to grow two crops per year (*Rabi* and *Kharif*) on individual land holdings which are below 5 acres and fragmented. The project covered a total of 1,116 individual cultivators and their families in 14 villages out of 63 in the Block during the second evaluation period.

Under the supervised credit scheme, the proportion of recovery tends to be high. For example, 75 per cent of the loanees in the Mehrauli Project repaid, on an average, 94 per cent of the short-term loans during the second evaluation period. Similarly, under the Pilot Scheme for intensive cultivation initiated in 1957 in selected Blocks in five major paddy growing districts of Bombay State, the percentage of recovery of loans increased from about 78 per cent during 1957-58 to 84 per cent by the end of June 1959. The same is the case with the Navranga Project in Kanpur.² The proportion of overdues to outstanding was only 6 per cent in Mehrauli Project, the average amount overdue being Rs. 29 per cultivator. As regards medium-term loans, 81 per cent of the amount normally due excluding advance payment was recovered from 314 loanees at the end of September 1959. Thus on the whole, the repayment performance of the cultivators was good. Outstanding may be due to the quality of the man, his character which cannot be changed overnight. In the majority of cases of short-term loans, some advice on farm planning was given to the cultivator at the time loan was made, but supervision was given subsequently. In the case of medium-term loans, continuous guidance was given to the cultivator by the agricultural technicians and village organisers from the initial application stage until the loan was repaid. The facts presented above only reveal the nature and extent of operations of the project.

Evaluating the effects of project activities on the farm families served, the report presents the results of a study of 69 cultivators selected at random from 14 villages in the Block, which participated in the project during the second evaluation period.³ The sample families surveyed constituted 14.4 per cent of the total number of loanees participating in the programme. The size of the average family was seven and the average area operated by it was 11 acres.

An analysis of borrowing from outside sources by sample cultivators revealed that while about 38 per cent of them secured loans from outside sources prior to (1956-57) participating in the project, the percentage of loanees who borrowed from outside sources after their participation in the project activities declined

2. *Vide Seminar on Planned Production Credit, Op. cit.*, pp. 26 and 36.

3. Complete data pertaining to cropping pattern, per-acre yield, marketable farm surplus, prior indebtedness, farm income and frequency of loans were given for only 65 of the 69 sample cultivators.

to 20 per cent. Despite this encouraging trend, the average amount borrowed from outside per cultivator has, however, increased by 56 per cent from Rs. 482 in 1956-57 to Rs. 752 in 1958-59. It is possible that part of the borrowings might have been made for consumption purposes. Though alternative source of borrowing for production purposes and at a lower rate of interest was provided by the project, the average amount of borrowings from this source by the selected cultivators for both short-term and medium-term loans was only Rs. 247. The inference is that the institutional agencies have yet to make an impact on the farmers so as to induce them to participate in and undertake responsibility regarding project activities.

Significant changes were observed in the cropping pattern as a result of the impact of the project programme on the cultivating families. For example, while in 1956-57, only 32 per cent of the sample families raised a mixed crop of barley and gram, by 1958-59, the percentage of families adopting this pattern increased to nearly 61 per cent. Demonstrations of improved varieties and methods of cultivation have given good results in the growing of wheat and gram mixed, sugarcane and oilseeds. It is, however, significant to note that despite the demonstration of improved practices of cultivation, there was no noticeable change in the average acreage grown in mixed crops per cultivator before and after participation. On the other hand, the average acreage under cash crops per cultivator except in the case of sugarcane showed a decline during the second evaluation period. The factors responsible for this decline should be investigated.

The impact of the programme on yields per acre was also significant. Between 1956-57 and 1958-59 the percentage increase in per acre yields of wheat was about 41 per cent, of gram 22 per cent, and barley 9.7 per cent, and of barley and gram mixed 13.6 per cent. There was, however, a decline in the per-acre yields of *bajra* crop to the extent of 20 per cent due to flooding and excessive rains during this period. The fact that the average crop yields per acre of sample cultivators in the project area were found to be higher when compared with averages for Delhi State, except in the case of *bajra* reveals the real effect of the programme on per-acre yields.

A better index of the impact of the supervised credit programme is the additional income which the cultivators could earn as a result of the implementation of the programme. The report reveals that the sample cultivators who participated in the programme had benefited much from increases in the gross and net earning from farming and off-farm income during the second evaluation period. The average annual gross farm income of all the selected families increased by Rs. 247 or by 16.6 per cent from Rs. 1,484 in 1956-57 to Rs. 1,731 in 1957-58. Average gross farm income per acre increased by Rs. 22.1, from Rs. 132.5 to Rs. 154.6 during the same period. It is noteworthy that the increase in gross farm income per farm was greater among those cultivators operating 3 to 12 acres. Cultivators operating more than 15 acres had an increase of less than Rs. 15 per acre only while those operating less than 3 acres had an increase of Rs. 70.7 per acre. Incidentally, this fact indicates the scope for increasing production and incomes on a large majority of uneconomic farms by suitable farm planning and technical guidance. The average net farm income per family increased by nearly 92 per cent from Rs. 122 in *Rabi* 1956-57 to Rs. 234 in *Rabi* 1958-59. There was

however a decline in the average net farm income during the *Kharif* season 1957-58 by Rs. 68 from Rs. 315 to Rs. 247. The cultivators receiving short and medium term loans together on an average had greater increase in farm income than those taking short-term loans only. Greater increase in farm income was reported among cultivators who received two or more short-term loans together with medium-term loans. Moreover, non-farming operations such as milk sales, livestock rearing, sale of hides and skins, etc., provided additional income to about 86 per cent of the sample cultivators, contributing to an increase of nearly 16 per cent in the average annual off-farm income of the sample loanees. It may be noted that grant of medium-term loans for the purchase of milch cattle largely helped to increase income of the cultivators from non-farming operations.

The cost of supervised credit is one of the crucial factors associated with the planning and operation. The study revealed that the cost of operation per acre of operated land in relation to supervised credit services increased by 46.6 per cent from Rs. 8.58 in 1956-57 to Rs. 12.58 in 1958-59 (for 9 months only) and the cost per loanee served increased by about 68 per cent from Rs. 78 to Rs. 131.3 during the same period. Relating changes in farm and off-farm income to the per-acre cost of operation (1955-56 base year), it was noted that during 1956-59 (33 months) for every Rs. 16 spent on recurring cost, there was an average increase of Rs. 100 in total annual gross income (farm income plus off-farm income) of the loanees. Costs as related to annual gross income also tended to decrease each year.

In many respects, the success of a farm credit system depends on an integrated and firmly laid technical and agricultural extension service, such as demonstration of improved agricultural practices on an individual and group basis, as well as insect and rodent control, orderly marketing, tractor service, and extension education activities designed to organise representatives of the loanees into a village advisory committee. The project also rendered some of these services such as providing arrangements for marketing of produce, tractor services, etc. It has made an attempt to discover the extent to which education and home science, farm management research and welfare activities could best be utilized to serve a basic programme of supervised credit. There is awareness among the cultivators of the efficacy of these services towards increasing farm income. To a limited extent, it demonstrated that the supervised credit technique could be applied to rural industries successfully. Training programmes in supervised credit were also initiated to discover the human, educational and organisational requirements for an effective course for training personnel in this field. In addition to these activities, the project undertook to provide legal and other technical advice to the farming co-operatives affiliated to the Union.

A fundamental consideration is the nature of agency which would continue to carry on the various activities in the area when the project comes to an end. Developmental work involves continuous care and attention to detail in the implementation and continuance of accepted programmes. It is noteworthy that the Indian Co-operative Union has accepted in principle the need to transfer the project activities and responsibilities to the villagers themselves gradually, represented in a local democratic association (co-operative society). This is good as far as it goes. However it does not provide for an agency at higher levels which would assist and guide the primary societies in the promotion of their activities.

A point to note in this connection is that the working of the co-operative societies in India is far from satisfactory as is borne out by the large proportion (80-90 per cent) of societies which are either inoperative or weak. This is because they pay undue attention to mere provision of finance but very little attention to other aspects of production in agriculture. Unless the production aspect of the societies is properly organised, provision of finance alone will be of little value.

There is another point. We have never tried to make the co-operative movement as a genuine people's movement. It is my contention that the societies in a small area like a taluka should form a federation or a union for their mutual benefit. It is only then that the weak and the strong societies could work for mutual good. There is, therefore, the need to set up such a local organisation which will continue to implement the project activities. In fact, it will add to the strength of the co-operative movement itself, if the Indian Co-operative Union undertakes, through such unions, the work of an intensive study of the economic condition of the members and helps them to develop their latent skills or to give economic security by supplying, within certain limits, production resources which the members by themselves cannot acquire. The co-operative movement will thus get a status of its own and an organisation that will cater to the multiple needs of the people.

The effectiveness of supervised credit depends upon the extent to which the extension service is employed, a factor which is limited by the availability of funds. The experimental research project also encounters many problems. To mention only a few, difficulties of procurement of improved seeds in adequate quantity, inadequate and improper storage facilities, vagaries of monsoon and lack of competent agricultural technicians and of facilities for provision of in-service training in the supervised credit technique are some of the obstacles that stand in the way of the project programme making a fuller impact on the cultivating families. Despite these difficulties, the project has made an attempt to show that the small farmer with relatively small land holdings is a good credit risk. The combination of adequate technical guidance and finance for agricultural production is an effective method for small farmers to secure increased yields and income from the adoption of improved agricultural practices.

It should not be forgotten that this project programme represents only a temporary rural rehabilitation service. Once a farm family has been firmly set on its own, and is able to carry on by itself, the rehabilitation work should be extended among other families. At the same time, care should be taken to see that the families which have been covered earlier, are given all possible aids to improve their production programmes. It appears difficult to introduce this kind of project organisation all over the country and all at once. In this connection, it may be noted that the Mehta Committee on Co-operative Credit (1961) recommended risk insurance of loans advanced by co-operative credit institutions to all classes of cultivators including the marginal and sub-marginal cultivators, landless tenants, etc. It is however regrettable that the question of how to increase production was never dealt with by the committee. A pre-condition for the success of the scheme is a well organised and effective administrative machinery including adequate technical personnel of a very high calibre, who would be available for preparation of production plans and family budgets of individual culti-

vators. In this rehabilitation programme pilot projects should be started at selected villages in different regions of the country for financing the marginal and non-creditworthy cultivators including the small farmers on the basis of agricultural production plans under the supervision of highly qualified staff. They should be supported by agricultural extension services of the Government and a well organised union of societies, representing the best workers in the locality, with Government help for the projects to speedily work up development on a co-operative basis. This way the results would be more abiding and solid and may serve as a guide for future development on a wider basis. Provision of credit demands close study and much intensive effort. In the beginning, setbacks are liable to occur. Success is however possible; the pre-conditions to success are knowledge experience and zeal and above all, a deep and intimate understanding of the farmer and the local conditions of his art.

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