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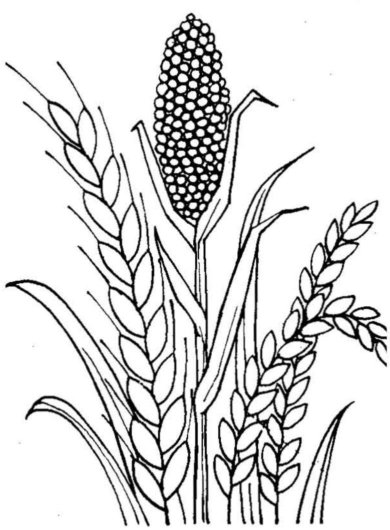

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RAPPORTEUR'S REPORT

ON

INSTITUTIONAL CREDIT FOR AGRICULTURE

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In all 53 papers have been received on the subject. The level of discussion in most papers has been fairly high.

The subject can be conveniently divided into three main parts :

1. The relation between the new strategy of agricultural development and the demand for credit.
2. Recent trends in credit co-operation, including land development (mortgage) banking.
3. The experience of commercial banks.

Topics which do not fall into any of the above categories have been treated in a miscellaneous group.

IMPACT OF GREEN REVOLUTION

A large number of papers have sought to study how the green revolution has changed the demand for agricultural credit. A paper by Mahendra D. Desai and Bharat D. Naik sums up very well the work done on this subject so far and also raises some pertinent questions. The findings and problems of the paper find adequate support from as many as 13 area studies, covering different parts of the country. Some of the area studies raise interesting methodological issues. For example, Gurdev Singh and L. C. Gupta show how to estimate short-term credit requirements for an area on the basis of farm analysis and L. R. Singh, J. P. Bhati and S. L. Jain outline a method of examining the level of use of credit and the rationale of its allocation between different farm inputs on the progressive and less progressive farms. A paper by U. S. Singh and Dayanatha Jha estimates short-term credit requirements and the impact of credit availability on farm incomes. Corresponding to each income group, a synthetic farm situation is developed and optimum farm plans are derived with the help of linear programming under limited and unlimited capital availabilities and also under current and improved technology situations.

The studies made by the Agro-Economic Research Centres on the implementation of the High-Yielding Variety (HYV) Programme in the first few years indicate that the farmers growing HYVs financed a large part of their input expenditure out of their owned resources. Consequently, the demand for credit to meet production expenses was low. It is rightly argued by the authors of area studies that such a situation might be due to the fact that most participants in the HYV Programme in earlier years were large cultivators as also the levels of use of market inputs and the adoption of cultural practices recommended for these varieties were quite low. The Programme Evaluation Organisation found that even as late as in 1968-69, the level of adoption of the core of the package of practices recommended for cultivation of HYVs of wheat, paddy and jowar was quite low. To some extent, this could be indicative of the lack of sufficient confidence in new varieties. This is observed from the limited experience of Gujarat where the class of participants in the hybrid bajra programme every year seems to consist sizably of 'new entrants' who could understandably go about cautiously in the matter of use of market inputs and adoption of cultural practices. Unless, therefore, the class of participants in the HYV Programme becomes stable, it would not be realistic to expect any significant improvement in the levels of the input use and the adoption of cultural practices.

SMALL FARMERS

The area studies clearly reveal that a large majority of relatively small farmers have not taken to HYVs. Similarly, a large number of them were also not members of credit co-operatives. The size of holding was found to be a significant factor affecting the adoption of HYVs and the membership of credit co-operatives. Small farmers who live near the borderline of the subsistence level can hardly feel enthusiastic over the new varieties which require a large outlay of cash. Besides, the risk involved in the change-over is too great for them. In order to popularise the new varieties, small and marginal farmers need sufficient institutional credit (Prasanta Kumar Bhanja). It is necessary, therefore, to change the basis of creditworthiness and enrolling small farmers as members of co-operatives. If this is not done, the spread of HYV Programmes among small farmers, who constitute the bulk of cultivators would remain slow and halting. In that case the demand for production credit for HYVs would also grow slowly.

There is one more disturbing trend. It is observed in recent years that while prices of foodgrains have been gradually falling, input prices have been increasing. If this trend persists, the spread of HYVs and adoption of the package of practices would be adversely affected. This too may tend to keep the demand for production credit for HYVs depressed (Desai and Naik).

ROLE OF CREDIT CO-OPERATIVES

Credit co-operatives have been assigned the pivotal role in supporting the green revolution. While the quantitative growth of credit co-operatives has been very impressive (S. G. Apte, and Tara Shukla), in qualitative terms they leave much to be desired. Apte's analysis of the increase in membership and the number of borrowing members reveals that the actual benefit of credit co-operatives (in terms of cheap credit) is going to a progressively declining chunk of their total membership. Are the fruits reserved for the hard-core members entrenched in the movement and are they being denied to those outside their fraternity? Or, is the past membership sinking in heavy overdues, making themselves ineligible to receive fresh loans and so the credit is being distributed to only the new members who are yet to follow suit? Answers to these questions, Apte rightly believes, can only be obtained by a deeper study which is urgent in view of the need for placing co-operatives on a sound footing.

Apte also draws pointed attention to the worsening position of overdues. During the past decade the overdue loans have progressively increased in all the States including the more developed ones, they have exceeded the share capital and are almost at par with the total owned funds. With the scale at which overdues are mounting up, coupled with the anxiety to pump in more and more credit, any reduction in overdues during the coming years appears totally improbable. The Co-operative Movement cannot sustain too long a situation in which the entire owned funds are getting engulfed by the overdue loans. Unless corrective measures are introduced immediately, a time might soon come, perhaps it has already come in several States, when one will find the co-operative banking structure standing on soft sands. These disturbing trends deserve to be probed in detail for determining the precise reasons thereof and for introducing stringent corrective measures.

WILFUL DEFAULTS

A study by C.L. Dadhich of the wilful default of co-operative credit in Rajasthan brings to light some interesting facts. Wilful defaulters generally fall in the following categories : (*a*) Those having a larger size of holdings; (*b*) those belonging to higher caste groups; (*c*) those having a better level of education; (*d*) those with large borrowings from co-operatives; and (*e*) those who are members or ex-members of management committees or their close associates.

The study lists four main reasons for defaults. First, some members re-lend co-operative credits so as to make profit out of the interest margins. Second, the ex-members of the managing committees and their associates want to harass the present management. In some cases, they are not certain that fresh finance would be available to them once they have repaid their dues. Third, at times there is uncertainty of fresh loans to the society by the central financing agency. Fourth, there is an element of fear about the future financial position of the society. Members do not want to be losers in case the society goes into liquidation. In another paper Dadhich presents another aspect of the problem, namely, the socio-economic factors influencing repayment of co-operative dues.

It is a well-known fact that a significant part of co-operative credit is diverted to unproductive purposes. The distribution of co-operative credit shows wide regional variations. This subject has been discussed by Tara Shukla as well as M. M. Bhalerao and Vishwa Nath. The flow of agricultural credit from the nationalised banks further accentuates these differences as such credit has also by and large gone to co-operatively progressive regions. However, Bhalerao and Vishwa Nath believe that the co-operatively advanced States such as Gujarat, Maharashtra, Tamil Nadu, Andhra Pradesh, Mysore and Punjab have not given a good account of the progress with regard to different indicators of co-operative activities during the period from 1961 to 1969 and that the position of overdues in these States has deteriorated. On the other hand, co-operatives in the backward States have been showing steady improvement in respect of mobilization of deposits, the percentage of active societies, the coverage of villages and the overdue position. The authors believe that given the necessary assistance, co-operatives in the backward States may catch up with those in the advanced States.

There are two papers on the crop loan system. B. J. Hinge, S.D. Patil and M. P. Dhongade point out that the scales of finance adopted by co-operatives and others have no relation to production costs and that they are not uniform. They make out a case that the scale of finance should be such that it would cover at least the average out of pocket expenditure and should facilitate the changing technology. Raghuvir Mehta argues in favour of allowing marketing societies to supply production credit. This will help to bring out more effective linking of credit with marketing, he adds. However, his main concern is that wherever such arrangements exist, they should at least not be disturbed for the sake of bringing about a uniform structural pattern.

LAND DEVELOPMENT BANKING

The changing agriculture requires large-scale investments in land and implements. At present the principal source of investment finance is the system of land development (mortgage) banks Two papers, one by P.D. Saikia and the other by J. P. Mishra and M.C. Athavale, have reviewed the progress of land development banking in Assam and Madhya Pradesh respectively and have emphasized the important role these banks would be called upon to play in the coming years. The paper by Athavale, Mishra and S. W. Bhave, again based on the experience of Madhya Pradesh attempts to measure the extent of utilization and diversion. In the light of their findings, the authors suggest certain steps to prevent diversion.

In view of the fact that land continues to be the most important security for investment credit in agriculture, there is a growing need for following a rational methodology in appraising land value. P. K. Surendranathan's paper points out the differences in the land valuation procedures currently followed by various institutional credit agencies and comes to a conclusion that the values arrived at by each of these agencies are unrealistic and far lower than the market value of land. A low valuation would act as a constraint on investment. The proper procedure for valuation is by capitalization of the net farm income as suggested by the All-India Rural Credit Review Committee. It is suggested that a specialized institute for land valuation may be set up on the lines of the Appraisal Institute of Canada or the American Institute of Real Estate Appraisers. Such an institute can develop the needed expertise on land valuation and offer consultancy services to different institutional credit agencies.

EXPERIENCE OF COMMERCIAL BANKS

Commercial banks have come into the picture for the last three years only. But they have built up a sizable portfolio of nearly Rs. 400 crores. They thus hold a good promise for the future as can be seen from the papers on the subject. After reviewing the State Bank of Patiala's successful Pilot Project in Agricultural Finance launched in two villages of Patiala district in 1968-69, Harwant Singh and A. S. Kahlon come to the conclusion that commercial banks should follow 'the area planning approach' for advancing farm credit because this would reduce the cost of their loaning operations and also help in making effective and economic recovery of their loans. It is interesting to note that there were no overdues in the villages adopted by the Bank. A similar study made by V. T. Raju, Dru Srivastava and A. S. Sirohi of the impact of Dena Bank's direct farm finance in Raipur district also ends on an encouraging note that the introduction of bank credit has helped to raise farm returns.

B. S. Murdia and B. S. Chauhan have studied the experience of Udaipur district. Noting with satisfaction the rising share of commercial banks in agricultural credit, they make many useful and practical suggestions, particularly relating to procedures. Gurbachan Singh and H. S. Sandhu have analysed the overall performance of banks in the field of agricultural finance and listed the difficulties of farmers in obtaining credit from banks. R. M. Mohana Rao has studied the problem of bank finance in relation to small farmers and confirmed the popular impression that it is large farmers who have taken the main advantage of bank credit. To bring in more and more small farmers, the author would like banks to provide extension services in relation to credit and fix some minimum share of bank finance to small farmers. The experiment of banks in providing loans directly and indirectly to the State Electricity Boards for energization of wells is analysed by B. N. Sahu. He rightly argues that such loans will encourage farmers to adopt improved farm technology, thereby raising both production and productivity. The papers on commercial bank credit appear to be in the nature of first impressions. The subject requires a close and penetrating analysis as by now banks have already come to gather a good deal of experience and know the problems confronting them.

EXERCISE IN METHODOLOGY

Some papers have tried to examine the relationship between the cost of credit and interest rates. J. S. Sharma, Bhagwati Prasad and Dinkar Rao argue that the cost of obtaining credit from the co-operatives amounting to about 12.5 per cent is very high when viewed against the fact that the Reserve Bank charges only 4 per cent. Efforts should be made to reduce the wide margin by increasing efficiency, especially of the service co-operatives, and by reorganizing the whole co-operative structure, if necessary. The cost of borrowing in respect of medium-term loans should also be lower than that of short-term finance. The paper by A. K. Giri and K. Sain attempts a comparison between rates of interest on agricultural loans supplied by the institutional agencies and non-institutional agencies, especially moneylenders in different countries. Their concept of gross interest charged by the latter is composed of such elements as the pure rate of interest or the opportunity cost of the loan, costs of loan administration, a premium for risk and the monopoly profit. In many cases, the authors point out, non-interest costs of private loans are much higher than their interest costs. Economic growth and sufficient arrangements for institutional farm loans are the ultimate means of bringing down such high rates by private agencies.

An interesting methodological attempt is made by Arunendu Mukhopadhyay to calculate the social rate of return on investment under different sizes of holdings where investment is financed by banks. R. I. Singh, D. S. Shukla and S. N. Rai make out a case for supply discrimination in respect of the quantum and the cost in favour of small farmers. V. Rajagopalan, S. Krishnamoorthy and S. A. Radhakrishnan have tried to show on what lines one can attempt formulation, evaluation and financing of a project for agricultural development. P. C. Bansil critically examines the basis of estimating farm credit requirements at the end of the Fourth Plan, 1973-74, and comes to a conclusion that total needs for agriculture and household expenses would then amount to Rs. 1,677 crores.

ISSUES FOR DISCUSSION

The following questions emerging from the papers can help to guide discussion in a purposive manner :

1. What is the precise nature and magnitude of the change in demand for farm credit consequent upon the adoption of the new strategy for agricultural development ? What are the gaps in the required information ? What improvements, if any, could be suggested for the methodology used for estimating short-term, medium-term and long-term credit requirements as also working out the relation between them ?

Taking into consideration the recent trends in the overall supply of agricultural credit, what would be the credit gap by the end of the Fourth Plan? What is the nature of this gap as regards regions and different classes of cultivators? In what directions should the policy of institutional credit allocation be changed?

What measures should be taken to remove the constraints on the demand for credit by small farmers? How far the setting up of the Small Farmers' Development Agencies can help in improving the situation?

2. Have we been able to formulate precise questions in respect of the known ills of credit co-operatives such as the relative decline in borrowing members, mounting overdues, a large-scale diversion of credit and wide regional disparities? Can we indicate what research efforts are necessary in respect of each of them? What measure should be taken to make land development banking the most effective agency for supplying investment finance to agriculture, particularly at a time like this when agriculture is undergoing a rapid transformation? How do we measure the farmer's effective cost of borrowing from credit co-operatives? What steps can be taken to reduce the wide margin between the rate of interest charged by the Reserve Bank of India and the rates charged by credit co-operatives? Should there be any rethinking on the three-tier structure of credit co-operation.

3. What types of information do we need to collect in respect of the agricultural finance work of commercial banks? Can we chart out definite research areas and suggest broadly the methodology in respect of each area? Are the commercial banks proceeding on sound lines as regards their approach, schemes and the organizational set-up? What improvements can be suggested to handle this work more effectively? What should be the basis on which the activities of commercial and co-operative banks in the field of agricultural credit can be co-ordinated? How far the Lead Bank Scheme can help in this task?

4. Can we identify the main factors influencing the rate of interest of agricultural finance? What should be a realistic structure of interest rates on farm loans? What changes are warranted in the present pattern of interest rates? Can we distinguish between the actual and effective rates of interest on farm loans? Can we then say what steps are necessary to bring down the effective rate of interest? From the point of equity, is there any case for introducing differential rates of interest in agricultural lending?