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RAPPORTEUR'S REPORT

ON

AGRICULTURAL DEVELOPMENT AND CO-OPERATIVE FINANCE

Rapporteur : SHRI V. M. JAKHADE*

The title of the subject is 'Agricultural development and co-operative finance.' The explanatory note by the Society stated that 'Finance is considered as one of the major constraints on agricultural development. This subject offers scope for testing this hypothesis through an analytical and empirical study with particular reference to co-operative finance. The problem may be studied by reference to experience in any region or any major agricultural development project such as irrigation, soil conservation, land reclamation, etc. The problem of medium and long-term finance has obviously greater relevance to the problem of development."

The number of papers received is twelve. Six of the papers discuss the problem with reference to a particular State or area. In one paper the discussion is confined to one crop only. The credit problems that may arise with the introduction of irrigation have been pointed out with reference to a small area in another paper. The remaining papers discuss the problem in a very general way. One of these however analyses it with reference to different classes of cultivators.

Shri Udaybhansinhji in his paper confines his observations to some parts of Gujarat State. He states that finance is one of the restricting factors or constraints on the development of agriculture. Growing needs of finance for agricultural development cannot be met from savings of the small and medium cultivators or borrowings from relatives or private moneylenders. Co-operatives have, therefore, an important role to play. He has presented data from case studies made by himself of three villages, three cultivators and a taluka and has concluded that co-operative finance has made a definite contribution to capital formation on land and consequently helped in raising agricultural productivity. He recommends higher allocation for and utilisation of long-term finance on a much wider scale for increasing agricultural productivity.

Dr. Bidyadhar Misra and Sarvashri A. K. Mitra and L. K. Pati have made a case study of one large-size agricultural co-operative credit society in Orissa. Data show that about two-thirds of the members borrowed from the Society. The average amount borrowed was rather small. They observe that this was due to lack of creditworthiness and reluctance to borrow, and not due to shortage of funds. A sample of members were interviewed. It was observed that a large number of them had no development programme, which was due, among others, to limited physical possibilities of improvement, small and fragmented holdings, lack of knowledge of alternative possibilities for development and of spirit of enterprise and low risk-bearing capacity.

Shri K. S. L. Panikkar in his paper focusses attention on the problems of subsistence farmers in Kerala. He concludes that the inherent characteristics of

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a subsistence economy make it extremely difficult for investment to take place in the agricultural sector on a scale adequate to bring about innovations with a view to rapid agricultural development. In his opinion, the co-operatives should restrict themselves to short-term crop financing alone. The Government should provide a break-through by creating social overheads, providing supplies, extending agricultural education and research facilities, etc.

Dr. M. Srinivasan and Shri V. Rajagopalan have presented data on working of two land mortgage banks, one rural bank, two co-operative agricultural banks, two multi-purpose societies, one central co-operative bank. They have also described the full finance scheme. Their main conclusion is that it is difficult to correlate exactly the co-operative finance made available and the development of agriculture as a resultant. This development is a result of various imponderables and specific factors cannot be singled out for particular attention. With the supply of co-operative finance, they leave the readers to assume, that there was consequent development in agriculture.

Shri M. C. Satyanarayana has discussed the credit problems of the coffee industry. The coffee growers' credit requirements are two fold: (*a*) long-term for the development of coffee estates and for purchase of machinery, (*b*) short-term for working capital. The main sources of finance are coffee curers, bankers and private moneylenders. Co-operatives play a very minor role. The Coffee Board has recently undertaken supply of development loans. The State Financial Corporations have been recently approached in this connection. The author pleads for a separate development finance corporation for coffee industry.

Shri R. N. Tewari in his paper discusses the problems that may arise with the introduction of the Chambal project in some areas of Rajasthan and Madhya Pradesh. He feels that the credit requirements of farmers—mainly medium and long-term—will go up. The cultivators are heavily indebted. They will not, under the present conditions, be able to meet the additional credit requirements. If the irrigation project is to result in agricultural development, it is necessary to make arrangements for supply of long and medium-term credit. Seasonal agricultural finance also should be made available on a larger scale.

Shri Harpal Singh discusses the problem in relation to three categories of cultivators, *viz.*, big, economic and small. According to him the big cultivators have savings which could, if need be supplemented by loans and advances from banks or private credit agencies. They need education in thrift and saving habit and raising entrepreneurial ability. Their need is for co-operative crop and cattle insurance, not so much for long-term finance by co-operatives. In the case of small part-time farmers, there is no long-term perspective of land development. The small size of holdings puts a limitation on creating long-term capital assets. Furthermore, the financial outlay involved in respect of projects like minor irrigation being large, it is beyond their capacity to raise the needed funds by borrowing for this purpose. They should therefore undertake only labour intensive projects. Long-term finance is of no use to them whether from co-operative or Government. Thus not co-operative finance but co-operative efforts are required. The economic farmers may be able to provide for short-term finance from their savings as also for servicing of medium and long-term loans. The author referring to certain weaknesses in the co-operative structure concludes that co-operatives have no special merit for being entrusted with the role of disbursing long-term credit. This function can better be performed by the Government with its elaborate agencies engaged in revenue, agriculture and extension functions.

Shri Sailesh Kumar Bose after reviewing the development of co-operative movement over the last decade, in the light of available data, observes that great expansion has taken place in the co-operative movement. The long-term advances for permanent improvements have not developed *pari passu* with short and medium-term loans. While both agricultural credit in general and co-operative credit in particular are admittedly inadequate for getting the best results in terms of productivity, credit plans have to be closely related to and based upon production plans.

In the light of the explanatory note, referred to above and the problems raised in the papers submitted, the following issues may be discussed in the group:

Is finance the major restraint on agricultural development ?

Is co-operative agency the most suited for provision of credit of all types to agriculturists ? Do the Government agency or non-co-operative less-profit seeking banking agencies provide more effective and efficient alternative ?

Are the existing types of co-operative agencies in a position to supply different types of credit requirements of different crops/projects/regions ? If not what types of alternative agencies may be set up ?

What has been the utility of existing co-operative agencies in helping agricultural development ?

What are the pre-conditions for effective use of co-operative finance for development ?

SUMMARY OF GROUP DISCUSSION

Chairman : SHRI V. M. JAKHADE

The first problem which was taken for consideration by the Group was : What constitutes agricultural development ? and therefore which types of credit may be taken into consideration ? Some of the participants were of the view that all activities which result in creation of capital assets, which raise agricultural productivity may be considered as development and therefore, the discussion may be confined to 'medium and long-term credit' alone. A pertinent question was raised, whether a replacement of the traditional method of rice cultivation by an advanced one, or a change from dry to wet cultivation, or a shift from cultivation of foodgrains to cash crops, did not form part of agricultural development ? If yes, then the finance for purchase of improved seeds or fertilizers formed part of finance for development. The group agreed that the discussion might not be confined to developmental finance, *i.e.*, medium and long-term finance but should cover all types of finance which helps in agricultural development.

The next issue discussed was whether finance is the major constraint on agricultural development. It was pointed out that mere availability of finance did not promote agricultural development; what was required was a careful study of potentialities for development of a region and availability of new and improved techniques of cultivation. On the other side, it was pointed out that even the available knowledge was not being utilised in many areas for want of finance. With the required types of finance being made available, cultivators had undertaken programmes for development on their own. It was stated that co-operation was lame without agriculture and that agriculture was blind without co-operation. Regarding finance as a constraint it was pointed out that under the existing co-operative credit organisation, if two pre-conditions were satisfied, namely, that there was a technically sound programme of agricultural development and that there was an institutional agency in existence which was entrusted with its implementation, finance for seasonal agricultural operations, *i.e.*, short-term finance need not be a limiting factor. In regard to the medium-term finance, it may not be equally liberally available as the short-term finance. Still if there were technically sound and economically feasible programmes of investment, finance may not be a major restraint on the execution. So far as the long-term finance was concerned, considering the nature and types of investment, within the existing co-operative set up it may prove to be a major restraint; and, therefore, new institutions would have to be organised.

Another issue discussed was : Is co-operative agency the most suited for provision of credit of all types to agriculturists ? Do Government agency or non-co-operative less-profit seeking banking agencies provide more effective and efficient alternative ? There was almost an unanimity amongst the participants that co-operative form of organisation was the most suitable for agricultural sector and that its development must be encouraged. It was pointed out, however, that the development of co-operatives had been uneven in different areas and that the benefits had not percolated to all classes of cultivators. Research studies may be undertaken to study causes of these drawbacks and that efforts should be made to remove them. Another point raised in this connection was that of the sub-marginal farmers. These farmers have a chronically deficit economy and therefore provisions of short-term finance merely by co-operatives may not solve their basic problem. What is required is a scheme of rehabilitation. It was pointed out that in view of the large numbers of such farmers in India, such a scheme may not be financially a practical proposition. To remove the basic defect namely, the smallness of the size of holdings, efforts may be directed towards group action, like co-operative farming, etc.

Another important point brought out in this connection was that in respect of tribal and other backward areas the problem of development cannot be solved by merely setting up of co-operative organisation. A comprehensive and all-sided programme of development has to be undertaken by Government. At the other end, there are plantations, which are well organised. Their financial needs can be met by commercial banks or by organizations set up especially to cater to their requirements.

Another issue discussed was the utility of existing co-operative institutions in helping agricultural development. In this connection it was emphasized by some participants that studies on the marginal value product of co-operative finance and effects of external as well as internal capital rationing had to be undertaken. It was also pointed out that the requirement of capital should not be calculated at the existing level of technique; if the new techniques were to be adopted, some of the studies made pointed out that the capital requirements would be much larger.

Regarding the utility of co-operative institutions, it was generally agreed that they have made substantial progress during the last decade particularly in the sphere of short-term credit. However, in regard to the medium and long-term finance, their performance has fallen short of expectations for various reasons particularly the procedural ones. This point was particularly mentioned in regard to the package programme areas. In this context a speaker made out a point that the rate of growth of co-operatives should not be accelerated as it may result in their capacity remaining unused. This, however, was a caution against setting up co-operatives without proper preparatory work. Another point made was that the co-operatives have been fostered mainly for the purposes of supplanting the private moneylenders. It was pointed out that the Rural Credit Survey report which laid down the basic policy of co-operative development has never used this term "supplanting of moneylenders." It has emphasized the need for creating alternative agency strong enough to withstand the competition from the private agencies.

The credit requirements for cultivation of some crops, *e.g.*, plantation crops being of a special nature, it was agreed that the co-operatives under the existing organizational set up may not be in a position to meet them. It was considered necessary to set up institutions which would be able to supply these requirements in an adequate measure on reasonable terms and conditions.

It was evident that co-operative finance—whether short-term, medium-term or long-term—would be fruitful if only certain conditions favourable for its use existed in the given situation. Thus short-term finance should be accompanied by the availability of such inputs as manures, fertilizers, improved seeds, technical guidance, etc., apart from such basic inputs as irrigation and transport facilities. Finance alone will not act as a lever of development unless the physical and technical inputs which the finance is merely to bring into position are present. In order to ensure that finance results into the actual inputs, supervision over the use of finance provided becomes necessary. In medium and long-term finance, the need for close supervision is all the greater since there is a greater temptation for the cultivator to utilise medium and long-term finance for short-term purposes or even for non-productive purposes, on account of the facility of the spread over of repayment. In the case of long-term finance, the financial and technical feasibility of the purpose will have to be examined with greater care, as the harm to be done by misuse will be greater.

A point of criticism of co-operative organizaton made was that there were cases of double financing because of the existence of a number of agencies within the same area. It was pointed out that the functional division among the different types of co-operative societies, *viz.*, credit, marketing, processing, etc., had been laid down clearly in the Integrated Scheme of Rural Credit. In some regions because of special circumstances in which some co-operatives developed the functional division was not observed. Efforts were being made to remove this defect.

Another point raised was that the rates of interest charged by the co-operatives were high and therefore should be brought down by removing the intermediary institutions like the central co-operative banks. It was pointed out that the rates charged by the co-operatives were very much less than those by the private money-lenders and traders, even if the illegal deductions and other charges made by them were not taken into account. But more important than this was the point that finance should be made available to the cultivators in adequate amounts at proper time at reasonable rates, if agricultural development was to be ensured. Moreover, the three tier system of co-operative organization was based on co-operative principles and financial stability of the co-operative structure.

From the point of co-operative development a point was made out that under the existing Indian conditions, the large number of sub-marginal farmers need to be rehabilitated. This function should be undertaken by the Government. As soon as they were rehabilitated the co-operatives would come forward to provide them with all types of finance. In regard to plantations, orchards, etc., their financial requirements were very special. Although in the long-run they were financially sound and creditworthy, under the existing organizational set-up they could not be financed adequately on terms suitable to them. It was, therefore, very necessary that a new institution needed to be set up to meet their special credit requirements.