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AGRICULTURAL DEVELOPMENT AND CO-OPERATIVE FINANCE IN KERALA

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INTRODUCTION

Though rapid agricultural advance calls for an appropriate climate for economic development and suitable institutional changes such as land tenure reform, the prime mover of agricultural development is introduction of superior technology. This means innovations which involve both a qualitative and quantitative improvement in investment. Productivity in agriculture, as in industry, is closely related to the volume of capital employed.

The producers in a subsistence farming economy as in Kerala lack the incentive as also the means to undertake such investment on any adequate scale. It is clear that some external agency has to initiate and finance this change in the investment pattern. The co-operative agency, however suitable it may be for taking care of short-term capital needs of farmers, will find it difficult to cater to their long-term capital needs because of the inherent limitations of subsistence farming. In the circumstances the State will have to bear the brunt of investment directly making use of the co-operative machinery for select sectors in the economy where conditions appropriate for the same prevail.

AGRICULTURAL SET-UP—A SAMPLE OF SUBSISTENCE FARMING ECONOMY

The most outstanding feature of Kerala's agrarian economy is the tiny size of the average holding. More than 73 per cent of the total holdings are below 1 acre in extent. Holdings which measure over 10 acres form only 1.6 per cent of the total number and those above 40 acres just 0.2 per cent.

The second striking feature of Kerala's agrarian economy is the extraordinary population pressure. During the last sixty years the density of population rose three-fold; it is now 1,127 per square mile. In some districts it is as high as 2,500 per square mile. This has resulted in the reduction of per capita land held to 0.57 acre and cultivated land held to 0.30 acre.

The low per capita income in Kerala (it is about 85 per cent of the all-India figure) associated with small size of holdings has perhaps acted as the strongest deterrent to agricultural improvement.

There is little scope for extending cultivation in Kerala as the proportion of cultivated area to the total of cultivable area is about 87 per cent and fallow land forms only 7 per cent of it. The pressure exerted by a rapidly rising population on the excessively labour intensive system of farming has already aggravated the tendency to diminishing returns. It is thus clear that capital intensive techniques alone point to the way for raising agricultural productivity in this set-up.

A superficial view of the agricultural economy of Kerala gives one the impression that it has very strong components in a variety of crops in which the State enjoys a near monopoly. Thus Kerala contributes 98 per cent of the total output of pepper in India, 100 per cent of lemongrass, 91 per cent of rubber, 73 per cent of coconuts and 56 per cent of cardamom.

Further Kerala accounts for a substantial share of the total output of various commodities in India such as tea (12 per cent), coffee (10 per cent), bananas (17 per cent) and arecanuts (46 per cent). But these more remunerative crops are grown only in a small part of the total area of the land. For example tea, rubber, coffee, bananas, arecanuts, ginger, cashewnuts and cardamom together account for less than one-sixth of the total area.

As a matter of fact the pattern of land utilisation has remained static over a long period and there has not been any appreciable effort made to recast it in favour of more remunerative crops which can more easily take advantage of modern technology. Of the total sown area of 58 lakh acres, paddy accounts for a third, coconuts a fifth and tapioca over one-ninth. Other food crops (cereals, mangoes, vegetables, etc.) together occupy one-tenth of the cultivated area. Not only the crop pattern has remained static but also farming practices more especially the qualitative and quantitative aspects of investment in these enterprises continue to stagnate. This is clear from the fact that per acre output in respect of most of the agricultural commodities is well below the all-India figures which themselves are considerably lower than the figures relating to productivity in other countries.

Kerala has a slight advantage only in respect of rice and coconuts while the backwardness in respect of arecanuts, bananas, coffee and tapioca is striking. India is now a net importer of coconut products, arecanuts, cashewnuts and rubber. Kerala is particularly deficient in rice (the output being not more than half her requirements). These deficiencies have not provided any stimulus for technological improvements in agriculture.

This trend of technological stagnation is inherent in subsistence farming which is dominant in respect of major crops like paddy, tapioca, coconuts, bananas, and pepper. Even in respect of plantations (rubber, tea, cardamom, ginger, coffee) the size of the representative holding in Kerala is considerably lower than the optimum size. It is interesting to recall where holdings are large (as in the case of Kayal cultivators of Kuttanad where holdings often exceed 150 acres), the farmers are eager to step up investment and take advantage of improved agronomy. For the typical farmer however the description of farming as a way of life rather than a business proposition fits in well. The strongest deterrent to innovation, the basis of rapid development, has been the low income generated and perpetuated by subsistence farming. Not only the entire income is exhausted in routine consumption but also the utter lack of reserves intensifies the risks of innovation.

It is well known that in the agricultural sector there is a constellation of risks, natural, technical and commercial. The petty farmer struggling to eke out a precarious living from a fragmentary holding can hardly be expected to take such risks. He prefers security at a low level to pursuing profit maximisation.

ROLE OF CO-OPERATIVE FINANCE : SHORT-TERM CREDIT

Any process of production which involves a period of waiting, whether it be farming or manufacture, needs credit. The subsistence farmer needs it even more because of his utter lack of surplus and characteristic indebtedness. Co-operative credit has predominantly taken the form of short-term credit in India. Thus during 1959-60 the quantum of credit made available by primary agricultural credit societies for short-term purposes was ten times as much as the volume of medium-term loans. Advances by Central Land Mortgage Banks, the chief source of long-term credit, formed a little more than half of the aggregate medium loans.

The co-operative approach, it is well known, has the advantage of combining thrift and credit and linking credit with marketing. These can further be linked with supply. Co-operative finance is supposed to promote the effective use of loans and reduce lenders' risks by efficient supervision (the idea of built-in supervision is gaining ground). It cheapens credit by low cost management and renders societies credit-worthy. Further even if the bulk of funds is provided by another agency like the Reserve Bank or the government, the co-operative agency provides the ideal machinery to ensure adequate decentralization so that the lender is in close touch with the borrower.

It is doubtful however if co-operative short-term finance has made its full contribution to agricultural development. The bulk of the loans is used to finance the routine agricultural operations. This is generally associated with the continuance of the existing techniques of production and does not necessarily imply any substantial advance. Consumption loans as such form less than 1/12 of the total in Kerala and 1/30 in the case of India. The chances are however that the bulk of loans for other purposes and a significant part of the loans coming under seasonal operations are in fact used for consumption.

It is often thought that defective organization and ineffective supervision are responsible for the diversion of loan proceeds from productive to consumption needs. In fact the reasons for such diversion are inherent in a subsistence economy where the distinction between production needs and consumption needs rests on a slender basis. The farm budget, if there be any, is hardly separable from the home budget. Not only consumption by members of family or their dependents participating in farming operations directly or indirectly should be properly counted as production expenditure but also even the outlay on several capital items such as cattle, digging or repairing tanks, often partake the nature of consumption expenditure. As long as bare consumption needs remain unsatisfied, (in Kerala the spread of education and urban habits in the rural area has considerably widened the scope of consumption) these are bound to encroach on productive credit however vigorously such credit is supervised. Too strict an adherence to the canon of productivity would only mean the denial of credit to the needy.

The cost of co-operative credit is often camouflaged under the government subsidy. In estimating the effective cost of co-operative credit the current spread of over 4½ per cent between the concession rate at which the Reserve Bank of India lends and the final rate for the borrower as also the expenditure on co-operation in general should be taken into account.

LIMITATION OF DEMAND FOR MEDIUM AND LONG-TERM CREDIT

The stress on short-term credit and the relative neglect of long-term credit is by no means an accident in the development of the co-operative movement in India. It may be attributed to both the conditions of demand and supply of long-term finance in a subsistence economy. The demand for such funds is bound to be low where the typical farmer is concerned mainly with keeping the show going. Innovations which give rise to demand for investment call for a radical change in the outlook of the farmer from passive acceptance of status quo to aggressive craving for improvement.

The three kinds of risks mentioned earlier dampen the inducement to invest. The impetus to investment should come from the general climate of economic development and reform of land tenure which assures that the returns from investment will accrue in full to the investor. Efficient arrangements for the profitable disposal of the increased output are no less essential. The demand for long-term credit for the purpose of developing agriculture has remained weak in a predominantly subsistence economy in the absence of the above favourable conditions. The success of co-operation, it is said, depends on the existence of felt needs. Despite the efforts put in by the Community Development Blocks in the direction of agricultural extension work the ryot's resistance to and ignorance of agricultural innovations have not been eliminated. While the needs for short-term credit is felt acutely the need for long-term credit to improve investment has yet to be created. In the circumstances when the supply of short-term credit is inadequate, long-term loans are likely to be diverted.

If a co-operative society is to retain its solidarity the members thereof should have a permanent interest in its activities. In respect of short-term credit its repeatability ensures a continuity of interest. The linking of credit with marketing reinforces it. In the case of long-term credit the recipient loses his interest soon after he gets the loan, his association with the society being confined to the role of repayment. The description of co-operation as self-help rendered effective by organisation will no longer apply to such a society.

LIMITATIONS OF SUPPLY OF MEDIUM AND LONG-TERM CREDIT

The supply side bristles with even greater difficulties. It is clear that the size of funds required will be prohibitively large. Lack of saving or any taxable surplus in the subsistence sector along with the general disinclination of the savers in other sectors to lend to farmers and the drain of savings to other sectors from agriculture make it inevitable that the State provides the bulk of credit. The co-operative which is employed to dispense long-term credit, will experience considerable difficulties. Short-term needs are relatively more easily assessed; even if errors are committed, these could be corrected later. In the case of long-term loans (other than those made for the clearance of prior debt) considerable difficulties will be felt in properly assessing the land, estimating the productive potential of the improvements and in supervising effectively and continuously the varied operations connected with investment. Further, the borrower will have to be helped with not only expert advice at every stage but also the supplies and organisation required. While the linking of marketing with credit will ensure to some extent an increase in the repaying capacity of the borrower in the case of short-term loans there is no corresponding mechanism in respect of long-term loans,

In Kerala the bulk of long-term loans is given for debt redemption. There is no reason to believe that excepting for the paltry sum of Rs. 1.37 lakhs allotted to land improvements any significant part of the modest sum of Rs. 10 lakhs was used for effective investment in 1959-60.

ROLE OF THE STATE

The question naturally arises; if the bulk of funds should emanate from government, if the government have to bear the responsibility for creating appropriate conditions for the use of long-term credit (including the demand for it), if the use of credit has to be organised, assisted and supervised mainly with governmental help and if even then it may not be possible to ensure that innovations are adopted on the scale adequate for bringing about rapid agricultural development, would it not be more desirable for government to shoulder the primary responsibility for agricultural development, assigning a secondary role to co-operative finance?

In a subsistence farming dominated economy of unusually tiny holders and explosive population pressure the government should provide an initial break-through so that the economy can be developed to take off stage when sufficient income will be generated to ensure the process of self-sustaining growth.

Such a break-through would mean first of all the creation of social overheads like irrigation, power and transport. It means arrangement for flood control and drainage, soil conservation and afforestation. No less important is the supply of improved seeds, fertilizers and better tools. Special mention has to be made of agricultural research and education, extension and training in respect of improved cultural practices. The construction of warehouses, protection of crops from pests and diseases, crop insurance and the establishment of regulated markets are some of the more important of the other measures on which public outlay has to bear the brunt. These are no doubt being undertaken now but they should be intensified and made in such a manner that the need for separate long-term loans is reduced.

AGRICULTURAL DEVELOPMENT AND CO-OPERATIVE FINANCE

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The present paper is the result of study of the working of 9 co-operative institutions selected from six different types with particular reference to the types and size of credit made available for agricultural development purposes. The main findings of this study are briefly summarised below.