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AGRICULTURAL DEVELOPMENT AND CO-OPERATIVE FINANCE

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The importance of credit as a factor which can restrict or accelerate agricultural development, depending on whether it is available in the right form and the right measure or not, has always been widely recognized. Equally accepted is the appropriateness of the co-operative institutions as the agency for the supply of such finance in the conditions of the Indian village. The aim of this note is to suggest and examine some of the conditions which have to be satisfied if the provision of credit is to prove effective in facilitating the process of development, then to consider the close inter-relationship of development finance which mainly takes the form of long-term and medium-term credit with the supply of short-term credit on the one side and with the provision of certain non-credit services on the other and, lastly, to draw attention to certain practical aspects of the provision of medium-term and long-term loans for developmental purposes.

The supply of adequate and timely credit is an essential pre-requisite for achieving high levels of production and rapid rates of development in the agricultural sector as in any other sphere of activity. Whether such credit fulfils the ultimate purpose for which it is provided will, however, depend on whether the process of production or development which it finances is sound in economic and technical terms and the non-financial requirements of the project are also satisfactorily met. Development programmes usually call for supply of certain goods as well as services, both in terms of technical assistance and extension. In the conditions of developing countries, associated with shortage of skilled personnel, machinery and equipment, general lack of familiarity with improved techniques, etc., the supply of such goods and services required for development which will help make credit fruitful and productive cannot be taken for granted but will have to be positively and deliberately organised by the appropriate authorities, namely, Government and agricultural credit institutions. Such an organisation for the provision of goods and services by these two types of agencies will have to be systematically planned and mutually co-ordinated so as to ensure economic and profitable use of the limited supplies. The complementarity of credit, on the one hand, and the requisite supplies and extension services, including agricultural planning, to the extent necessary, on the other, requires emphasis as it is usually assumed, with misleading over-simplification, that once availability of credit is assured, development will automatically result.

Considering the circumstances under which finance can be a fruitful factor for development, one finds that the pattern of development programmes of the individual cultivator is to some extent set by the overall context of the various major and minor schemes of general significance pursued by the public authorities such as those connected with the extension of the sources of irrigation, soil conservation, land reclamation, etc. What each cultivator does, for his part, to derive benefit from these larger works of common usefulness has, however, to

* The views expressed in this paper are entirely personal of the author and do not necessarily represent those of the institution to which be belongs.

be determined by the ability of the cultivator to use the resources made available to him. This ability depends on how he is situated financially and economically, with reference to his assets and liabilities, size and location of his holding, the nature of crops grown, his attitude towards the different alternative types of possible development and, above all, on the availability of advice to him in the matter of planning and executing development. However desirable any kind of development may be, it will not succeed unless, with reference to each farmer it is so devised and phased as to take into account his ability to utilise properly the funds supplied to him.

Another pre-condition for credit to serve as a successful aid to development relates to the nature of the farming units financed. Development can be real and sustained only if there is a continuing surplus from the farming business and this surplus helps finance that addition to its assets or productivity which is envisaged. The basic objective of developmental finance (as of all sound and progressive credit) should be to leave the farm unit better in financial and economic terms after the completion of the developmental project than before it. In other words, as a result of the schemes financed and completed, the current farm business should be raised to such level of efficiency and profitability that the farmer, after paying interest and repaying debts, should have increased his assets and his capacity to produce as well as to maintain a reasonable level of consumption for himself and his family. It, therefore, follows that development would be more fruitful in the case of those farmers who represent what may loosely be described as units which are 'economic' at the time or are to be expected to be so in due course. Otherwise, the funds provided will not have helped to promote growth and such financing may well prove harmful to the credit institution supplying the finance. This does not mean necessarily that all sub-marginal units should altogether be left out of the scheme of development credit. Care, however, will have to be taken to see that, before they are so covered, such farmers should be rehabilitated by appropriate programmes for augmenting their incomes through the provision of subsidiary employment and incomes and measures for making their farming units more economic and efficient by pooling of services and operations, etc. Schemes of this nature may in several cases involve an element of subsidy which may have to be provided out of public funds and which may be fully justified by the larger considerations of social policy in relation to such disadvantaged farmers. It is, however, important to keep this distinction clear in practice as the grant of a subsidy under such circumstances, however appropriate in relation to the aims of national planning, will be a responsibility of the Government and can form no part of the responsibility of the developmental banking organisation which should be solely guided in its operations only by considerations associated with technical feasibility and economic profitability of the schemes to be financed, the soundness of the financial position of the borrowing units and the likely improvement in it expected to result from the development schemes.

The need to relate a decision on the financing of a development project to an appraisal of the overall financial position of the unit to be financed also points to the importance of taking an integrated view of the different types of credit requirements of a farmer. The credit required for cultivation operations and other short-term expenses, as also the needs in respect of medium and long-term credit on the one hand, and the overall position of the farmer as judged with reference to (a) the improvement in current earnings as well as (b) the addition to the net assets, on the other, have all to be considered as parts of one total picture, and appropriate decisions taken on this basis in regard to financing development schemes. In view of this mutual relationship between different components of the supply of credit as well as the relevance of the financial position of the borrowing units from the point of view of determining the total creditworthiness, co-ordination between the different wings of the agricultural credit structure is necessary and should be provided for institutionally.

It is not sufficient for development schemes to be restricted to cultivators in a progressive financial position but suitable means should be devised to ensure at different points that the surplus accruing from farm business is tapped and made available for financing development. Collection of savings from the cultivators in sizable amounts at or around harvest time towards share capital, thrift deposits, revolving funds, purchase of rural debentures by cultivators and the like, will be important from this point of view. This assumes urgency as well as significance in the context of the need to make the institutional structure for agricultural credit as self-reliant in the matter of resources as possible so as to enable it to meet the increasing requirements in the sector, especially in respect of medium and long-term credit.

The relationship subsisting between credit on the one hand and the other relevant services on the other, in any process of development, is reflected in the aim of combining the supply of co-operative credit with other aspects of general rural development which has been one of the objectives underlying the community development programme in force in India. The recent policy in respect of the organisation of service co-operatives is a further attempt at combining in a single popular institution, credit with the other allied services such as supply of seed and fertilizer, and drawing up of production plans. Admittedly, this is difficult enough even in respect of short-term credit but will present even more problems in the case of long-term development credit as the non-credit aspects of such programmes are relatively more complex. A hopeful pointer to the possibilities in this direction is the evidence of organised collaboration in certain States among different agencies such as the Central Land Mortgage Banks, the Co-operative Department, Agriculture Department and Special Project Authorities in the formulation of special development schemes connected with the bringing of new areas benefited by Multipurpose Projects under irrigated cultivation, raising of plantation crops, etc.

This idea of close association of credit with other aspects of development finds its full expression in the scheme of supervised credit in vogue in certain parts of Latin America. This system aims to improve production as well as welfare of the cultivating family by providing credit in close co-ordination with extension services and emphasizing in particular the supervision of the use of loans. Plans and budgets are to be prepared for farm production as well as home improvement well in advance of the sanction of credit. Though farmers of all categories are served, the supervised credit scheme is especially aimed at assisting the disadvantaged sections of cultivators to become fully creditworthy in due course. The essential feature of these systems is that they seek to provide the farmer, in addition to credit, technical assistance from a trained and competent agricultural expert who advises him, after visiting his farm, as to the kind of farming which would help him to maximise his returns and the kind of farm and home plan which would enable him to manage an economic farm operation and at the same time support a satisfactory minimum standard of living. It is obvious that two crucial preconditions for this system to work satisfactorily are that the personnel chosen should be suitably trained for the job and command farm experience and a rural background and that sufficient funds should be available to maintain the requisite number of supervisors so that each has only a limited number of families—say 50 to 100, to supervise. He has to help them in framing farm production and home improvement plans and budgets, supervise the farm operations from time to time, advise the farmer on changes in techniques of production as well as general living practices. The general approach, however, appears to have been to look upon supervised credit arrangements as a transitional measure to serve certain sections of the cultivators placed in a handicapped position and to raise them to a higher level when normal institutional credit and a general extension service would cover them and the need for the intensified and concentrated servicing and assistance envisaged under this programme will be found unnecessary. It is doubtful if the organisation and functioning of a system on these lines will be practicable in Indian conditions both in view of the large number of small farmers spread over the lakhs of Indian villages and in view of the limits set by the administrative and financial resources available with the Government or the financing institutions in our country for such purposes.

The intensive agricultural district programme, popularly known as the Package Programme—which was introduced in India over an year ago—is an attempt to combine intensive effort in the matter of farm planning, services and supplies, with fairly wide coverage of population and villages, though only in a few districts selected for the purpose. Provision is made under the scheme for sufficient technical and supervisory staff and supplies so as to help production to be more efficiently organised as well as carried out and the expectation is that for all farmers covered by the scheme, individual and detailed production plans will be drawn up and the supply of credit as well as other facilities in accordance with the requirements as envisaged in these plans will be provided. Arrangements are also made for the activities ancillary to credit and essential for getting the best value for the produce from the point of view of the cultivator and the assured recovery of the production loan from the point of view of the lending agency; thus, great importance is attached to the activization of the existing marketing societies and the organisation of new ones as also the construction of godowns wherever necessary. In the implementation of this programme, agricultural specialists, staff from the co-operative department, paid personnel of co-operative financing banks and non-official co-operators are all to work in close co-ordination. It is perhaps too early as yet to assess the achievements of this programme which aims to provide in one package all the elements required for achieving increased agricultural production but it may be said that this is one of the most hopeful lines of experimentation now in progress in the direction of making agriculture go forward on lines indicated by scientific planning and supplying credit to the cultivator jointly with the other aids to increased production and development. If successful, this programme should, in due course, be reproducible over most parts of the country, at least in respect of its more important features such as the supply of credit on the basis of production plans, disbursement of credit in the form of supplies of seed and fertilizer, conformity of lending and recovery to the seasonal pattern set by the crops raised, etc. It is, however, a point of interest that the

Package Programme does not appear to accord the same emphasis to long-term development as for immediate gains in production, though it is conceded that the latter ought to be an essential accompaniment to the plans for the former. Some thought has sometimes been given to the question of medium-term requirements of the package cultivators, but, by and large, the problems connected with the undertaking of minor or major works of development for individual farms, and the supply of the credit required for them in particular, have yet to be tackled as part of the wider programme of improving their agricultural business. This appears important because, for several farms, significant gains in output and income and improvement in the financial position of the unit can be brought about only by certain medium or long-term development schemes such as those connected with the digging of irrigation channels, purchase of oil engines or sinking of wells, increasing the size of holding, etc., even though some increase in production can be brought about merely on the basis of assured supplies of seed, fertilizer, etc. Gains in the agricultural sector to be truly impressive and sustained, and for the programme of improving the position of agriculture in the economy under the Plans to be effective and dynamic, it appears necessary that greater attention is devoted to the examination of those items of development of a medium-term or long-term nature which will help make a farm progressively profitable.

Development finance can be broadly considered as of two categories : medium-term credit for 3 to 5 years provided by the short-term credit structure and long-term credit provided for longer periods by the land mortgage banks. Much has no doubt been heard of the large requirements of Indian Agriculture in regard to medium-term credit and some efforts have been made to augment the supply of the funds available for these purposes. That the efforts, however, are relatively of modest dimensions can be seen from the fact that the medium-term loans outstanding to the central co-operative banks in the country at the end of 1960-61 were only Rs. 20.19 crores. In actual fact, moreover, it is doubtful, for more than one reason, if there has been any significant performance in this respect. It is not certain, in the majority of the cases, that the medium-term loans are actually used for the purposes for which they are provided. This happens not only because the supervision over the use of the loan is slack but also because the medium-term loan is often really intended for short-term purposes and the demand is put forward under the label of a medium-term loan mainly in view of the convenience derived from the spreading of repayment over a longer period. This reflects the danger that funds made available for developmental purposes may be frittered away to meet current deficits, unless the supervision over their use is efficient and strict and there are also specific and technically sound development programmes which will raise the general economic and financial position of the farm unit.

As for long-term finance, land mortgage banking in India, in the context of the heavy burden of indebtedness with which the cultivator was saddled following the depression of the thirties, had the initial aim of funding such debts and providing for their repayment over a long period, so that in respect of current needs the cultivator would be eligible for institutional credit, without facing continuous pressure for the repayment of old and heavy debts owed to the private credit agencies. Even this was achieved only to a small extent, as various factors such as those connected with mortgageable rights in land, the availability of long-term funds and procedural difficulties set severe limits to any large-scale long-term lending by co-operatives. With the changes in the agricultural conditions in recent years, land mortgage banking is undergoing a new reorientation in the purposes of its operation. With the many major and minor works of irrigation undertaken by the State, the reclamation of land for cultivation in certain areas, and the new relations in land ownership and cultivation resulting from the various measures of land reform which have thrown up several new sections of cultivators with an abiding interest in their holdings, there are many further steps to be taken by the cultivator to see that his farm benefits from these developments and these operations, in turn, invariably require long-term development finance. The cultivator may have to dig a canal for irrigation connecting his farm to the main channels or install an oil engine or take steps for converting his dry cultivation to wet or purchase a new piece of land to make his holding more economic or bring under cultivation land which was previously common waste or raise plantation crops which usually will call for heavy investment, and so on. The proportion of loans for 'productive' purposes such as these, made by co-operative land mortgage banks has shown an increasing trend in recent years, while those for repayment of prior debts are declining in importance. The new type of loan also calls for better and more efficient supervision accompanied, wherever possible, by technical guidance by personnel trained for the purpose. These are problems which are still to be faced and solved by most of the land mortgage banking institutions which are yet to make even a significant beginning in respect of their lending operations. The long-term loans outstanding to those institutions at the end of 1960-61 were only Rs. 36.61 crores. Though the figure exceeded the plan target for the year, it is pitifully low in relation to the gigantic task of long-term development that awaits the country.

Experience has shown that development financing of the long-term variety raises its own special problems, arising from the nature of the operation it seeks to finance. Thus, in some cases of plantation crops, no repayment of principal can be expected for an initial period of some years while in others the need is for the loan repayment to be spread over a longer period than is customary. This, in turn, has implications for the manner in which the funds are raised, for while on the one hand, the period for which loan is required is extended, the preference of the money market, on the other, is increasingly for debentures of shorter maturity. This, again, calls for institutional support for the floatation of special debentures for these purposes which may have to be larger than is the usual case, so as to make up for the short-fall or absence of public subscription and it may even be necessary for a special agency to be set up for the purpose, especially when these existing institutions are not financially so constituted as to undertake investment in such debentures. Another aspect of development credit under such conditions may be that the scale of financing may have to be related not to the existing value of the land offered in mortgage but to its anticipated value after the completion of the improvement or development which is being financed. To minimise the risks inherent in such a situation from the point of view of the lending bank and to stimulate the flow of such finance, one way out which has been thought of is that of the Government guaranteeing the lending banker to the extent of the difference between the existing value and anticipated value of the hypotheca.

Recognizing these and other special problems arising in the long-term financing of agricultural development, the Third Five-Year Plan envisaged the establishment of a special development finance corporation for agriculture and relevant legislation has already been introduced in the Parliament. The financing by this institution will be restricted to the long-term and, where relevant, medium-term needs of cultivators under schemes which will be easily identifiable with reference to certain special features such as long period of repayment with certain initial rest, fairly large investment in financial terms, the association of the individual schemes with a significant project of irrigation or other development in a particular area, close technical and administrative supervision by the appropriate authorities of Government, etc. If worked successfully on the lines envisaged, the new organisation will help to give a much needed stimulus to the execution of numerous schemes of agricultural development of individual cultivators which have now become possible, thanks to the various national schemes of irrigation, land reclamation, etc.

In conclusion, it only needs to be emphasized that there are many conditions which have to be satisfied if the development finance is to prove successful in its impact so that there is no wastage of valuable financial resources. Thus, supervision, financial and technical, the provision of other services by an extension machinery, proper working out of costs and detailed planning of new projects, are all necessary to ensure that the finance so provided is not misdirected and to ensure that it pays its way in the long run.

AGRICULTURAL DEVELOPMENT AND LONG-TERM CO-OPERATIVE FINANCE

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Starting from a miserably low level of inputs in the farm economy, the hope of developing agriculture rests on the programme of input intensification. Ironically enough, barring the fixed and traditional forms of inputs, *i.e.*, land and family labour, the vicious circle of low income, low savings and consequent low investment makes it difficult to embark upon the programme of input intensification, from internal resources as most of the farms are being operated marginally and sub-marginally. Reliance is, therefore, placed on the external sources of finance, to augment meagre domestic savings, if any. Even then, in most of the underdeveloped economies like that of India, the availability of external finance is likely to fall short of the requirements, and therefore, by the sheer force of circumstances, the investment of this external capital has to be selective and in stages. Considering this competitive nature of the avenues of investment, the inputs can broadly be divided into two types—*basic* inputs, such as irrigation and soil conservation, which not only contribute to increased agricultural productivity by themselves, but determine to a large extent the levels and the relative efficiency of other short-

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