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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-

* The views expressed here are of the author's own. The author gratefully acknowledges the valuable help and suggestions given by Shri M. L. Sudan, Research Officer.

term circulating inputs, like fertilizers, pesticides, green manuring and interculture, etc., and *specific* inputs, as those mentioned above, follow, when basic inputs have been applied. And, naturally therefore, these basic inputs acquire a top priority, but the difficulty, of course, is that their demand for resources is heavy and concentrated, and the result accrues slowly and gradually.

No treatment of the problem of agricultural development will be meaningful, if the diversities and variations so preponderant within 'Agriculture' are not realized. This is all the more important in the context of the present discussion. The farm communities, using a simplified classification can broadly be divided into three groups based on the size of their holdings. Group I, *viz.*, big farmers, with relatively higher incomes and higher savings, are by and large capable of financing these long-term capital investment projects either entirely from their own accumulated savings or with such external assistance, as would be readily available to them, because of their economic and social status, from Government, Co-operative and private sources. The problem, here, is not so much of co-operative or other forms of finance being made available to them, as that of mobilizing their own savings, creating habit of thrift and preventing the savings from going down to the drain of conspicuous consumption and of raising their levels of aspiration, and thus increasing entrepreneurial ability. The resources are there, all that the co-operative can do is to take up educative work. Here, of course, the co-operative crop and cattle insurance society would be the need of the time, and not so much the long-term co-operative finance societies/banks.

Group II of small farmers is dominated by tiny holdings of uneconomic size, often without permanent and heritable rights. Most of these farms are run in deficit, and are incapable of maintaining even a small family. These farmers, therefore, to supplement their marginal income from land, had to resort to other occupations like agricultural labour, arts and crafts and other profession. Their attachment to land, is only from the point of view of owning a stable source of income, and will be willing to leave their land, as and when they are assured of any other permanent source of income, within or outside agriculture. This group of farmers, lack long-term perspective of land development, and are relatively disinterested in creating long-term capital assets, foregoing their bare living incomes. Moreover, the very size of their holdings makes the creation of these long-term assets uneconomic and unrewarding on individual holdings. Further for projects like minor irrigation, even if they want, they can never accumulate savings enough to undertake these projects. Because due to their small landed and other property, their access to the Government or Co-operative sources of finance will also not be easy. It is also not safe for these small farmers to borrow heavily, as pointed out by Dr. C. H. Shah in his study, "Conditions of Economic Progress of Farmers": "Neither the magnitude of the debt, nor the terms of borrowing, nor the purposes for which the amounts are used, help or hinder the economic rise of a farmer as much as whether the borrowing is within the repaying capacity or beyond it. . Miscalculated investment is sometimes worse than the consumption loan ......".[1] Therefore, it is neither within their means, nor it is beneficial to take long-term loans for irrigation projects like tubewell, water pumps, etc. As for creation of other assets, these farmers can certainly take up land reclamation, soil conservation and afforestation projects, because the labour, which is relatively abundant

1. *Ibid.*, p. 19.

on these holdings can be substituted to a very large extent for capital component of these primarily labour intensive projects. The requirement of outside finance for these projects is evidently not large and because these can be taken up by family labour, are most suitable for small farms.

It can, therefore, be realized that long-term co-operative finance and for that matter, any outside finance can be of little help to small farmers. The projects like land reclamation and soil conservation can broadly be classified into two categories depending on their labour requirements. The first category will cover those which require small and diffused investment of labour and the second requiring large and concentrated doses of labour. While the former type of works can be undertaken without needing co-operative finance, the latter type will involve co-operative efforts by a number of farmers, concentrated at a particular period.[2] What is, therefore, required in case of small farmers, is not so much co-operative finance, as co-operative efforts to mobilize available labour resources at a particular time.

There is a third category of farmers, with more or less economic holdings with marginal savings, adequate family labour and manageable farm production activity. The farm operator here does not suffer from limited levels of aspirations, as some of the bigger farmers do, and the size of holdings being above the economic minimum is no hindrance in the way of increasing agricultural production.[3] However, their marginal savings can at best be relied upon to finance the needs of short-term circulating capital; and in some cases, may also, be available for partial financing of the long-term improvement projects. As regards outside finance for such farmers there could be three possible sources—Government, co-operatives and private agencies. In the case of the third source, *i.e.*, the private agencies, because of the uncertainty now being tagged with the transfer of the ownership of land as a result of several land reform measures, (some of them still underway) and also because of the various land laws passed to restrict the rate of interest and recovery of dues (in case of defaults) only from a particular type of property, there is little attraction left for the private capital to come to help. Added to this is the waning away of the personal trust, one of the important basis on which the private agencies were used to lend to the farmers. The cumulative effect of all these has been that the private agencies and even the relatives are reluctant to come forward with substantial financial help. But, due to their land owning status, two sources of finance, *i.e.*, Government and the co-operatives are open to them.

Regarding the co-operative as a source of long-term finance, the practice, of late, seems to be to regard co-operative loans as facile and easy, as compared to the Government whose methods of recovery are more stringent and sure. Therefore, there is a likelihood of the long-term co-operative finance being misused particularly when the financing agency (Land Mortgage Banks/Central Banks), situated too far, is incapable of providing effective supervision over the use of this credit. The situation becomes still worse if the fellow members belonging to the same socio-economic group do not report misutilization of funds because

2. "Employment of Surplus Farm Labour for Capital Construction in Agriculture," Harpal Singh, *Agricultural Situation in India*, January, 1961; see also The Problems of Co-operative Farming in India, A. M. Khusro and A. N. Agarwal, p. 64.

3. Blossoms in the Dust, Kusum Nair, Gerald Duckworth & Co. Ltd., London, 1961.

of the simple fear of becoming unpopular in the village or because of their close ethnic relations. Although, the land mortgage banks can also recover the dues, even if it has been misused from the sale of property mortgaged. The result in that case would be either ruining of the farmer, or the bankruptcy of the bank, none of which is helpful for agricultural development. The land mortgage banks can also create effective supervisory machinery of its own to see that the loan taken is properly utilized. But the administrative and operating cost of creating such a machinery afresh will make the credit operation uneconomic and prohibitive, till the size of business is very large.

The fear expressed above, in case the co-operatives are entrusted with supplying long-term finance, is supported by a recent investigation conducted in a village in Punjab. All the three borrowers of the long-term co-operative credit (including medium-term) were big farmers. One of them, used for purchasing machine, another for financing a litigation and third for purchasing a milch cattle. The direct contribution of purchasing machine was to avoid the drudgery of hard manual labour and to finish the agricultural operations in time and well ahead of others. Although, doubtlessly, it must have contributed to increased output, but as per the report, the net contribution was not significant and always perceptible. The result was that the farmer is finding it difficult to repay the instalments. The second one, although took loan for constructing a masonry well, was caught up in a litigation, and the cash at hand, taken from the co-operative, was used for fighting this up. Although, the farmer was reluctant to use co-operative loans for financing the feud. The third one, who got loan for purchasing two milch buffaloes, could purchase only one even after the lapse of 1½ years, since the loan was taken. Due to many reasons, including the non-availability of any large consuming market for raw milk, he could not earn additional cash income from the sale of milk and milk products. A large part of the milk was used for home consumption. The purchase of a buffaloe resulted only in the increased consumption of milk and milk products in the family.

On the whole, one cannot escape the impression that co-operative credit is rather being taken as easy, particularly by economically better off groups and in the event of increased output, little effort is made to restrict consumption and thus to increase savings, out of which loans can be repaid and further capital assets created. Only such an attitude can ensure continuous higher returns. Under the circumstances, it is imperative that if the Co-operative Agency is to take upon itself the responsibility of providing long-term finance in agriculture, it cannot escape from its duty of creating thrift and saving habits simultaneously. Moreover, the availability of long-term finance from co-operative should be accompanied by other developmental efforts, such as the drive for increased inputs of better and superior seed, fertilizers and pesticides, etc.; without being accompanied by these measures, investment in these basic inputs of long-term nature will not have optimum results. What is therefore needed, is an "integrated programme of agricultural development outlining basic as well as specific forms of inputs." Equally important is the fact that priority in advancing long-term loans should be given to areas, which are relatively more developed and have a better economic infra-structure already created under various development plans. In the village we studied, the availability of market for raw milk and facilities of organised and cheap transport would have given better results by inducing the third farmer to sell his milk and milk products, and to repay the loans out of the sale proceeds of these products, besides ploughing back a certain proportion of this income into agriculture.

Viewed against these tests of long-term agricultural finance which are crucial not only for the repayment of the loan, but also for ensuring a continuous growth in agriculture is the fact that there is a concerted drive to divorce the co-operative credit institutions from its essential business aspect, and driving these closer to the aspect of social reform and justice, performing the functions of helping the weakest in the society. Under such circumstances, the demand for long-term finance from the co-operatives from the underdeveloped regions will be irresistible, and is likely to get priority over the relatively developed regions of the country. Added to this, the second difficulty with the co-operatives is that with the presently available field staff of the co-operative department, simultaneous action to increase inputs of fertilizers, better seeds, pesticides and interculture is beyond their comprehension. It was under these pressing circumstances that the Agricultural Production Team was constrained to remark, "we have found that the co-operative banks and primary societies are not familiar with agricultural programme being conducted in their areas, nor are they acquainted with their agricultural technicians."[4]

On the other hand, the co-operative organisations make disproportionate promises to advance credit which are later on not fulfilled.[5] And, as has already been said before, there are more chances of co-operative credit being misused. The cumulative effect of all these factors is to make the long-term co-operative credit incapable of fulfilling its avowed mission.

It is none too surprising, therefore, that Dr. C. H. Shah, after analysing the causes of progress and decline of 36 farm families comes to the conclusion, "The analysis of families on the basis of agencies to which they owed their debt does not show any relationship with the progress and decline of the families....".[6] And as appears from the example of a village we studied, there is neither any magic nor any automaticity that whatever is done on co-operative basis, is best and something which should be preserved at all costs. In fact, co-operatives can claim no special merit for being entrusted with the role of disbursing long-term credit. The function can better be performed by the Government with its elaborate agencies engaged in revenue, agriculture and extension functions.

4. Report on India's Food Crisis and Steps to Meet it, April, 1959, p. 38.
5. Harpal Singh, 'Preparation of Production Plans for Farmers', I.A.D.P., Aligarh, U.P.
6. Conditions of Economic Progress of Farmers, p. 20.

AGRICULTURAL DEVELOPMENT AND LONG-TERM CO-OPERATIVE FINANCE IN SOME PARTS OF GUJARAT

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With the growing and pressing need to conserve and augment the country's foreign exchange resources so as to facilitate imports of plants and equipments for larger capital formation in the nation's industrial sector, much greater stress than ever before is being laid these days on the importance of stepping up India's agricultural production. Considerably higher production from agricultural land would be the only answer to the twin problems of food shortage and inadequate surpluses for earning foreign exchange as it would not only offset the need for foodgrains imports but would create surpluses; and the raw material requirements of industries dependent on agricultural produce would be so fully met from them that the resultant increase in the industrial output would open up a large scope for the export of finished goods and foreign exchange earnings. In order to raise the level of production to fulfil the above conditions, agriculture should be developed in proportionately larger dimensions and intensity. For a development of this nature, the present attitude, means and modes governing the country's agriculture in general would need to undergo a fundamental change. It should no longer be regarded and in practice treated merely as a means of subsistence of the farming community—and nothing further. The country has now much greater and far reaching expectations from its cultivable land resources; and their total utilisation should now brook no further delay. Agriculture should not only be growth-oriented but viewed and developed as an industry to be geared up for maximum exploitation of the total production potential of the land. Applications of technological skill, labour and capital in unprecedented measures will have to be made on farming units if the hitherto dormant resources of the country's agricultural land are to be stirred up and optimum results secured with the aid of prudent and planned management.

In the way of fresh reorientation for growth, lack of correct outlook, non-employment of right type of practices and means in the process of production as well as non-availability of adequate resources of land, labour and finance generally act as severe restricting factors. They will have to be overcome to secure agricultural development of the magnitude envisaged. When one takes into consideration the extent and implications of these limitations, one can easily come to the conclusion that inadequacy of finance is one of the major restricting factors or constraints on the development of agriculture. Employment of better techniques and improved methods of cultivation as well as applications of larger quantums of labour for extensive and intensive development would inevitably entail higher costs—particularly in the initial stages. Hence, the cultivator should be ensured of a provision of an enduring nature for adequate finance before he is expected to launch upon a programme of agricultural development on the contemplated scale.

Credit requirements of the farmer are usually met either (1) through drawals upon whatever little savings he has been able to make, (2) with the help of accommodation secured from relations or moneylenders, (3) through in-