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COFFEE DEVELOPMENT AND FINANCE

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Adequate and timely finance is a great necessity for the development of any industry including agriculture. In a plantation industry like coffee, heavy investments are involved for opening of coffee estates, and for building up labour lines and purchase of machinery, etc. The amount of finance needed is relatively large compared to other annual crops, and hence the development of coffee industry depends to a large extent on the availability of financial facilities.

In order to appreciate the financial needs of the coffee industry, it may be necessary to give here a few details regarding the nature of investments involved in developing the coffee estates. Coffee cultivation in India is generally localised in the hilly tracts of the malnad areas in the three Southern States of Mysore, Madras and Kerala. For opening up of new coffee estates, it becomes necessary to clear the jungles, prepare the soil, dig up pits, supply the seedlings and create necessary shade and give adequate manuring, etc. The coffee plant takes a period of nearly 4 to 5 years to come to full bearing in the case of *Arabica* and 8 years in the case of *Robusta*. Till such time as the coffee plants come to full bearing, they will have to be tended with all due care and without any expectations of returns during this period. Besides these, it is necessary to have adequate building facilities to house the labour and staff, to erect store rooms, drying yards, etc., and to purchase essential machinery like sprayers, pulpers and transport vehicles. It may also become necessary to lay out estate roads and link roads connecting the main roads and incur such other capital expenses. Even after the coffee has come to full bearing, there is great need for working capital in order to maintain the estates in a proper condition by attending to the necessary cultural operations like manuring, spraying, weeding, etc. The coffee trees have to be looked after with great care if they are to yield properly and any neglect during any particular year, may result in damage to the crop and the estate and it may be difficult to make good the loss of any one year shortly thereafter. Considering all these things, the need for the availability of adequate finances would be very clear.

The requirements of finance for coffee estates may be generally divided into two categories :

(i) Long-term financing for the development of coffee estates for undertaking new plantings or replantings, for purchase of machinery, etc.

(ii) Short-term financing because of the need for working capital for the estates. Coffee is an annual crop and income from coffee can be expected once a year. Till then, the coffee estates will have to be maintained. The labourers will have to be paid wages, the manure has to be purchased and applied, etc. For all these purposes, working capital is very necessary.

Nature of the Industry

It may also be necessary to state at this stage certain peculiar features of the coffee industry in order to be able to appreciate properly its financial needs. In the Indian coffee industry, the small holder predominates. Out of 42,663 registered estates as on 31-7-1960, 41,242 estates were below 25 acres in extent. Among the 1,421 estates above 25 acres in extent, there are some company-owned estates but a majority of them are private-owned. The question of financing the coffee estates is also linked up with the nature of their ownership.

Sources of Credit for the Coffee Industry

So far as the coffee industry is concerned, the planters usually look to the following sources for their financial needs, apart from their own savings or resources: (1) Coffee curers ; (2) Bankers ; (3) Private moneylenders.

The coffee curers have been a traditional source of credit to the coffee estates since a long time. They not only provide working capital but also arrange for supply of spraying chemicals, fertilizers and other estate requisites and undertake certain other services also for their clients. For the money that is lent to the planters, they charge an interest and sometimes also a finance commission. Of late, banks have also become an important source of credit to the estates. Their services are confined to the lending of money only at certain rates of interest. The private moneylenders also are a source of credit to the private planters, but they charge a heavier rate of interest. The co-operative societies also have lent money to the coffee estates but their role does not seem to be a dominant one so far. Among the 25 pool agents of the Board (who are also curers) only three of them are co-operative societies.

Coffee and Other Agricultural Crops

Compared to the other agricultural crops, coffee and other plantation crops stand out as a distinct class by themselves. Coffee is a perennial crop requiring larger amount of capital investment and waiting. In many coffee plantations, coffee is mixed up with other crops like tea, rubber, pepper, bananas, etc. So far as coffee industry is concerned, the grower is not now burdened with marketing of his produce, whereas in the case of other crops, marketing is generally the responsibility of the growers themselves. In the case of coffee, the Coffee Board, a statutory organisation set up under the Coffee Act, is charged with the functions of marketing of the coffee received into the pool, both in the internal and export markets and the growers are required to deliver to the surplus pool all their produce less certain small quantities allowed to them by the Board for their domestic use and seed purposes. The Board stores, cures wherever necessary, grades and sells the coffee and makes payments to the planters in accordance with the quality and quantity of the coffee delivered by them into the pool. The small growers receive from the Board outright payments while for the large growers, payments are made by instalments, usually spread over 12 to 18 months.

Development of Coffee Industry since 1950-51

Table I shows the area and production of coffee in India and also the payments received per point.

TABLE I

Sl. No.	Season	Planted area under Coffee in Acres			Production of Coffee in Tonnes			Final payment made per point on 50 Kg. basis (in Rs. & nP.)
		<i>Arabica</i>	<i>Robusta</i>	Total	<i>Arabica</i>	<i>Robusta</i>	Total	
(1)	(2)	(a)	(b) (3)	(c)	(a)	b) (4)	(c)	(5)
1.	1950-51	167075	61554	228629	15511	3382	18893	2.22
2.	1951-52	168021	67422	235443	14621	6955	21576	2.72
3.	1952-53	168340	71739	240079	12944	10999	23943	2.28
4.	1953-54	168721	77578	246299	23105	6924	30029	2.80
5.	1954-55	167321	85365	252686	16425	9002	25427	2.35
6.	1955-56	162040	92409	254449	22968	12060	35028	2.53
7.	1956-57	160686	99715	260401	29872	12700	42572	2.78
8.	1957-58	164215	104257	268472	29775	14715	44490	2.47
9.	1958-59	167136	105162	272298	25580	21335	46915	2.45
10.	1959-60	174075	120854	294929	32290	17450	49740	2.24
11.	1960-61	————	N. A. ————	————	39445	28575	68020	2.00
12.	1961-62(e)	————	N. A. ————	————	28900	16400	45300	Not finally paid

(e) Estimates; Source: Coffee Board.

It may be seen from Table I that the production of coffee in India has increased considerably during the fifties. The increase in the area in the case of *Arabica* is not so marked while there has been certain increase in the area under *Robusta*. This shows that the development of the *Arabica* coffee is mainly due to intensive cultivation and the adoption of high yielding and disease resisting strains of seeds evolved by the Research Department of the Board. Till the year 1958-59, the value paid per point was quite attractive and this was a great incentive to the coffee growers to develop their coffee estates. There was an increase in the Indian production, consumption and also in the export of coffee during this period. The finance needed for this development came partly from the resources of the planters and companies themselves and also through the various financing agencies. Finance was not a constraint on the development of estates as far as one could see. The main reason for this was the attractive prices received by the growers owing to the benefits of the co-operative marketing and favourable market conditions abroad.

Since 1959-60, the world production of coffee increased and was far in excess of the world consumption. Hence the price in the foreign markets for coffee declined. Indian coffees were no exception to this general rule. Although the internal market was steady, and did not show such a fall as was found in the external market, the final value received by the growers in recent years has shown a decline particularly in the year 1960-61. As a result of this decline, the financial facilities also began to shrink. The curers and bankers began to restrict the loan facilities to the planters and at present the industry is in a great difficulty in getting adequate and timely finances, not only for the development of the coffee estates but even for the working expenses.

Board's Development Loans

Since October 1956, the Board has launched certain schemes for increasing the production of coffee in India and with a view to assisting mainly the small planters for development of their estates. The important schemes relate to the loans meant for the intensive cultivation of the coffee estates and for providing pulpers and spraying machines in the coffee estates and the supply of good seed and setting up of demonstration plots.

Although these schemes were not availed of to the extent expected by the coffee estates in certain years, they are tending to become popular of late. The Board is also assisting in the financing of the bigger coffee estates by noting the liens of the hypothecation of the crops on the pool payments due and also by lending monies to the small growers on the hypothecation of their crops. Table II shows the present position with regard to the loans given by the Coffee Board Development Department. It may be noted that loans totalling over Rs. 33.5 lakhs were made to 534 applicants as on 15th August, 1962.

TABLE II—NUMBER AND AMOUNT OF LOANS SANCTIONED FOR COFFEE DEVELOPMENT

Year	State							
	Mysore		Madras		Kerala		Total	
	No. of Loans	Amount Rs.	No. of Loans	Amount Rs.	No. of Loans	Amount Rs.	No. of Loans	Amount Rs.
1956-57	151	7,44,571	23	1,39,165	6	36,750	180	9,20,486
1957-58	11	94,431	1	14,000	1	6,330	13	1,14,761
1958-59	17	1,10,797	4	37,750	2	7,469	23	1,56,016
1959-60	73	5,53,602	12	1,40,671	78	2,55,911	163	9,50,184
1960-61	87	9,12,598	10	54,940	58	2,44,082	155	12,11,620
Total	339	24,15,999	50	3,86,526	145	5,50,542	534	33,53,067

Source : *Indian Coffee*, September, 1962.

The lack of financial facilities in the estates has assumed a very serious proportion during recent years owing to the shrinkage of credit. This felt-need of the coffee estates has been given expression to recently on the floor of the Legislative Assembly in Mysore State and it was emphasized therein that there was need for setting up a separate agricultural financial corporation for the development of agriculture, particularly coffee and other foreign exchange earning crops. Recently, the State Financial Corporations have been approached to consider the question of giving the long-term loans for the development of the coffee estates. Thus, the services of the Government and statutory bodies have been indented upon by the planters owing to the non-availability of credit in full measure from the usual private sources. This problem is bound to exist till such time as the coffee prices improve once again to better levels. The indications are that the prices in the year 1961-62 may be better than those of the previous season.

The experience of the coffee industry shows that availability of adequate and timely financial facilities is a great necessity for the development of the coffee industry. When the returns to the growers were quite favourable and high, there was available to the planters adequate finance and financial difficulty was not mentioned as any bottleneck for the development of the coffee estates. When the conditions of the coffee industry came to be affected by the decline in the world level of coffee prices, the financial facilities shrank and affected the development of the coffee industry inasmuch as the production in 1961-62 and 1962-63 was smaller compared to that in 1960-61. The role of the Government and statutory bodies in financing the development of coffee estates—both for long-term and short-term—has been appreciated more and more in recent years. If by their services, adequate finances become available to the coffee industry the development may also resume but ultimately the question of development depends not only on the availability of financial facilities but also on the continued prevalence of remunerative prices.