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FINANCING DISADVANTAGED FARMERS IN INDIA*

by

T. S. Rao,

Research Officer, Reserve Bank of India, Bombay.

1. It is proposed to discuss in this paper the problems arising in respect of financing "disadvantaged farmers" in India, a category usually called "uneconomic" or "sub-marginal" farmers. The term "sub-marginal" farmer appears to be inappropriate in the Indian context. The concept of "margin" in economics is related to a particular conjuncture of time and circumstances such as prices, conditions of supply and demand and states of technique, so that what is "marginal" activity in any sector of the economy at one time and under one set of circumstances would be sub-marginal or supra-marginal under different conditions. There should be nothing like a permanent "sub-marginal" sector in the rest of the economy, since such a sector should sooner or later cease to operate. Since a substantial part of the Indian agricultural economy continues to operate for fairly long periods of time on a "deficit" basis, it would be rather odd to call it "sub-marginal".

Secondly it is somewhat difficult to prescribe standards for sub-marginal farms, due to the heterogeneous character of activities included under "agriculture" or farming, such as dairying, live-stock raising, rural industries etc., in addition to raising crops. The fixation of any limit such as that of the size of holding has, therefore, obvious limitations although we cannot avoid falling back upon the criterion of the size of the holding since the only possible scientific standard—that of a certain minimum income—cannot be applied due to the complete lack of data on rural incomes.

2. For these reasons it is proposed to confine this discussion to the problems of financing the following groups of farmers who may be said clearly to be "disadvantaged":—

(i) Farmers in areas affected by famine, scarcity or floods.
(ii) Farmers with "uneconomic" holdings.
(iii) Tenant farmers, cultivating holdings under given minimum sizes.
(iv) Displaced farmers—e.g., those displaced due to the partition of the country, or due to multi-purpose projects etc.

* The views expressed in this article are entirely those of the author in his personal capacity.

3. The idea of dealing with "disadvantaged" farmers as a distinct category is somewhat recent in India, the usual method being to deal with the whole agricultural community as one. But a different approach can be discovered in recent discussions, probably because the experience of the co-operative movement has clearly led to the conclusion that an identical approach to creditworthy and non-creditworthy agriculturists is impracticable, and would only endanger the structure for normal finance also. Special mention may be made here of the conclusion reached by the Gadgil Committee on Agricultural Finance that "in India it is necessary to contemplate....the specific provision necessary for periods of distress and for permanently depressed areas or communities", a conclusion supported by others such as the Co-operative Planning Committee and the Bombay Agricultural Credit Organisation Committee. For this purpose they recommended the establishment of a machinery which would supplement the activities of the normal machinery of credit without disturbing it, on the analogy of the Farm Security Administration in the U.S.A. It would therefore be useful to outline briefly the nature and activities of the Farm Security Administration, (now called the Farmers' Home Administration) before we proceed to consider the measures necessary in India.

4. The Farm Security Administration, established in 1937, consisted of (a) the Headquartors organisation at Washington (b) Twelve Regional Offices, each in charge of a few states (c) State Offices (d) District Offices—each under a district supervisor and (e) County Offices numbering more than 2000. Each County Office is staffed by a County Supervisor, a home-management supervisor and clerical staff. The county offices are directly in charge of advising farmers, preparing farm and home management plans, advancing finance, and controlling its use while the superior organisations are engaged in co-ordination, advice and helping the county office. Each county office is also advised by a County Committee consisting of local persons at least three of whom are leading agriculturists.

The basis of finance by the F.S.A. has been that although the disadvantaged farmer may not be creditworthy on his present economic position, by proper farm and home plans his income could be increased, and he could pay off loans out of such increased income while permanently improving his own standard of living. Finance and rehabilitation activities are therefore to go hand in hand. The types of loans advanced by this agency are:

(a) Rehabilitation loans (now called operating loans)—at 5 per cent interest to be given to farmers unable to get credit elsewhere, for expanding or improving their activities according to approved plans, the period of repayment being normally 5 years.

(b) Tenant Purchase and Farm Ownership loans:—to be made to tenant-farmers, *selected* on the advice of a local committee, for the purchase of approved farms, upto the full purchase value of the farm. Loans are to be repaid in a period of 40 years, an interesting feature being the provision for variable payments, larger payments being made in good years as against smaller payments in bad. The loans are made on the mortgage of land and carry interest at 3.5 per cent.

Similar loans could be made for the enlargement or development of existing farms, and their equipment. The objective, throughout, has been the formation of economic, family-type farms and their improvement.

Since 1946, the Farm Security Administration has been renamed "Farmers' Home Administration" and entrusted with administering "Production and Subsistence Loans" (the Emergency Crop and Seed Loans formerly administered by the Farm Credit Administration). Besides the above types of loans the F.H.A. also gives loans for installing water-facilities, and loans to veterans who want to settle down on the land. A recent development is the Farm mortgage insurance plan, according to which the F.H.A. insures loans made at 3% plus 1% commission for insurance and costs on the mortgage of farms under its supervision by other credit agencies, itself continuing to administer the servicing of mortgages and collection of payments. The emphasis continues to be on closely supervised credit to selected low-income farmers, adoption of improved agricultural practices, and early attainment of credit-worthy basis. Provision has in fact been made for the transfer of loans by refinancing with normal credit agencies when the borrower attains adequate equity in the property.

Experience even in the recent phases of war and post-war prosperity in the U.S.A. has shown that there are a large number of low-income farmers, tenants and veterans who seek the financial aid of F.H.A., and most of whom have to be refused due to the lac of funds. According to a recent study, the F.H.A. has been able to serve only 33 per cent of the applications submitted in 1948 for Rural Rehabilitation Loans, (as against 78 per cent in 1945) and only about one loan could be made out of 30 applications for Farm Ownership Loans.*

* Samual Lisa "Production and Farm Ownership Loan Programmes of Farmers' Home Administration", Agricultural Finance Review, November 1948.

5. Based on the experience in the U.S.A., some general principles may be stated.

(i) The object of financial assistance should be to help the farmer to tide over difficulties and put himself in a position to pay his way—not to keep him subsidised for ever.

(ii) Initially this would involve credit at concessional rates and on liberal terms, as well as grants in cash or kind, but the plan could be financially self-sufficient in the long run. The F.H.A. has had a most excellent record of loan repayment and economic improvement of its clients.

(iii) This involves not only finance but also complete supervision and guidance from competent personnel—crop planning, home planning and the adoption of improved methods with a view to increasing the productive capacity of the farmer, both for the market and for domestic consumption and of diversifying production. Such plans would no doubt have to be related to Indian conditions in actual application.

(iv) The plan of variable payments, relating payments to economic (i.e., price) and seasonal conditions should be adopted.

An outline of measures for India

6. We shall now attempt to outline the measures needed to build up a system of financial assistance on the model of the F.H.A. for some groups of disadvantaged farmers in India. As a preliminary step, relief from existing indebtedness would be necessary in most cases. Though the post-war position of rural indebtedness appears to be much better than ever in most areas, there is large volume of opinion that the smaller land holders, tenants and other disadvantaged classes are still heavily indebted. Legislation providing relief to agricultural debtors is already in force in most provinces, and it would be the duty of the financial agency organised to deal with disadvantaged farmers to get existing debts adjusted according to the provisions of such legislation. (Debt adjustment on a voluntary basis with the help of influential local committees is one of the activities of F.H.A. also). It would however be necessary to modify debt legislation so as to create respect for financial obligations with institutional agencies, if our aim is to create a sound system of institutional finance, and it would not be desirable to arouse expectations that all sorts of rural debt would periodically be scaled down.

Financing Farmers in Scarcity Areas

7. In areas subject to famine, drought or floods etc., an organisation which would combine operations for relief, development, and financial assistance would be needed. The same would be true of "backward" regions such as "agency" tracts.* For each province, a Rural Relief and Development Organisation directly under the control of Government should be established to deal with such areas on a territorially demarcated basis. In view of the fact that its implications, financial and otherwise, are not exactly known at present, it is suggested that such an organisation should start functioning in one district, or part of a district on an experimental basis in each Province and gradually extend its area of operations.

8. At the Provincial level, the organisation should be a Public Corporation, with an executive nominated by Government, and an advisory body consisting of representatives of the Agriculture, Revenue, Industries, Public Health, Co-operative and other allied departments, the co-operative movement, and of debenture holders. Its financial resources should consist of (a) capital subscribed by Government, (b) loans made by Government from time to time, (c) debentures raised from the public including co-operative and other institutions, and (d) grants and appropriations made for purposes of relief. The Provincial organisation should have (i) a Banking Division, sub-divided into Mortgage and Current finance departments, which would also receive deposits, (ii) a Marketing Division, (iii) a Development Division responsible for the promotion of improved agricultural and irrigational practices etc., (iv) an Industries Division, (v) and a Welfare Division in charge of health, educational and allied activities. At the district level, there should be a branch under a District Officer directly in charge of the Banking and Finance activities, assisted by other officers in charge of the different activities of the Corporation. If these officers in charge of Agriculture, Livestock, etc., are to be under the various Government departments concerned, there should be a District Relief and Development Committee, of which all the concerned district officers are members.

The units at the bottom should be multi-purpose village co-operative societies, on a limited liability basis, one for each village or small group of villages. Each group of not more than 5 societies should be in the charge of a supervisor, analogous to the County supervisor of the F.H.A. Although advised and assisted by the elected boards of the societies, the supervisor should be the executive authority with large powers, whose

* cf: Report of Agricultural Credit Organisation (Nanavati) Committee, Chapter VI for an account of such areas in Bombay Province.

advice and plans have to be followed without fail by borrowing members. It follows, therefore, that such supervisors should be chosen for their ability, honesty and tact, and should be paid adequate salaries.

It would appear necessary to amalgamate all existing co-operative agencies with such an organisation, the intermediary organisations such as Co-operative Central Banks and Primary Land Mortgage Banks being abolished* and also make it the sole channel of finance of all types for its members. It would be the duty of the organisation to (a) administer relief, mainly in kind, in famine and other emergencies, (b) make short-term operational loans, (c) make mortgage loans for farm ownership, improvement and development, (d) arrange for the marketing of produce, sale through the organisation being made compulsory for all members, (e) promote works and subsidiary industries, and (f) advise upon and closely supervise the farm and home plans of members. Under Indian conditions, the close co-operation and support of the revenue authorities would be essential for success and has to be provided for. The advances of money should be either free of interest in the case of emergency loans, or at very low rates for other purposes, repayable by convenient and variable instalments. The supply of loan finance as well as the administration of developmental and relief measures would involve expenditure largely subsidized by the State.

In my opinion, it is highly important to undertake all the necessary activities on a comprehensive plan and implement them under close supervision, in however small an area as would be permitted by the available resources and personnel. The usual practice of undertaking activities on a "province-wide" scale with negligible incidence at each point should definitely be avoided.

9. It would be difficult to make any estimate of the finances needed for such an organisation for a district, to start with. It is suggested that adequate capital by means of Government contribution, debentures etc., of the order of say Rs. 50 lakhs, to be on the safe side, should be provided for besides current appropriations for administrative expenses. Actual requirements would become apparent only with experience.

Financing "disadvantaged farmers" in "normal" areas

10. This aspect of the problem is much more complicated and of a much greater magnitude. It would involve drawing a distinction between the 'economic' and 'uneconomic' features. The best criterion, would have been an income limit, but our ability to ascertain rural incomes being

* cf: Recommendations of the Rayalaseema Co-operative Enquiry Committee.

very defective this would be unworkable. Hence rules will have to be laid down, determining the size of holdings of different types (owned, leased, or partly owned and partly leased, with reference also to the fertility of the soil, the nature of water supply, and of cropping etc. Even then, it would probably be necessary to select farmers eligible for special assistance at the discretion of the administrative officers since the number of applicants claiming assistance is likely to be enormously large.

This, in fact, is the really forbidding aspect of the problem. Its magnitude is indicated by the fact that according to the Nanavati Committee, in the Province of Bombay, out of 18,56,000 agriculturists, 9,52,000 or 53 per cent are holders of less than 5 acres of land each. In fact, holdings of less than 25 acres of land in the dry areas are all considered to be "uneconomic" units. Even if we consider only the most non-creditworthy holders—put at about half of these owning less than 5 acres—they would number nearly 5 lakhs, and if on an average each farmer needs Rs. 100 per year even for current finance, the requirements would be of the order of Rs. 5 crores. This excludes, obviously, finance needed for purchase of extra land and development, e.g., well-digging. That the problem would be equally immense in its dimensions in other provinces is apparent from the fact that in the United Provinces, according to the U. P. Zamindari Abolition Committee, 99,70,756 persons out of 1,22,78,289 or 81.2 per cent of the landholders held less than 5 acres each. Even assuming half of these persons to be totally "disadvantaged", these would number about 44.5 lakhs and need, on the above standard, Rs. 44.5 crores for current finance. The position in Madras as indicated by the figures from Dr. Naidu's report on Rural Indebtedness is that small landholders possessing less than 5 acres, and tenants would make a total of 49 or 50 lakhs. Even if half of these persons are considered definitely disadvantaged, about 25 lakhs of families would have to be porvided total financial resources of about Rs. 25 crores.

11. Confronted with a problem of such huge dimensions in every province, it would appear that it is really useless to consider any attempt at its solution at all. But now that in almost all provinces, agrarian legislation calculated practically to oust the private moneylender, who has been the main source of finance to small cultivators and tenants, is being enacted, the problem cannot be evaded. The solution, to my mind, appears to lie along two lines: (a) reconsideration, and consequent modification of agrarian legislation so as to enable to money-lender to operate again, although his activities would be controlled so as to prevent usurious practices; and (b) initiating measures to build up, and expand gradually the institutional framework needed to finance a major part of disadvantaged farmers in the "normal tracts" also.

12. For providing institutional finance to this sector of the rural population a special rehabilitation and development branch of the Co-operative Agency or of the State Agricultural Credit Corporation, which may already be engaged on the supply of credit to creditworthy agriculturists should be created; with clearly ear-marked funds. The supervisory staff of this branch, consisting of highly capable persons should be posted in selected villages to carry out concentrated work on a model scale to begin with. Attempts should be made to select the most promising persons among small farmers and tenants, who should be assisted to:

(a) enlarge the size of farms by purchase or lease on fair terms of land, and consolidation of existing holdings;

(b) increase productivity by improved methods of cultivation and irrigation;

(c) acquire and maintain a proper herd of livestock, for operational or dairying purposes; and

(d) adopt subsidiary industries and produce articles such as vegetables, eggs and honey for home consumption and sale.

Loans at concessional rates of interest, on convenient and liberal terms should be given through a special branch of the co-operative financing agencies such as Central Banks and their branches or Land Mortgage Banks on the recommendation of the supervisor, and disbursed through him. Such a branch would operate on the lines of the Government Agency Department of the Rural Bank of New South Wales in Australia, disbursing and collecting funds on behalf of Government who would also bear the costs of operation. It would be necessary to compel the adoption of production plans as recommended by the supervisor and to prohibit borrowing from any other agency.

13. As already noticed, the financial resources needed for this line of activity would indeed be immense; and they would mostly have to be provided by Government. To begin with, activity can only be started on a limited scale in selected centres, and from among the applicants in such Centre, each supervisor would have to select a limited number which may be increased according to experience, consitent with effective suprvision. Assuming that 100 such supervisors would be employed to start with in a province, a capital structure of at least Rs. 50,000 per supervisor and the administrative costs of the organisation, would have to be provided. It would therefore appear that in each province, capital to the extent of Rs. 50 lakhs and annual expenses of at least Rs. 5 lakhs will have to be provided to begin with and gradually increased. It would be desirable to

merge this service later on with the Rural Relief and Development Organisation set up for scarcity areas, and establish a single agency on the model of the F.H.A.

Displaced persons

14. The problems of persons who would be displaced as a result of multi-purpose projects such as the Damodar and Mahanadi projects now taken up should be studied in advance, and proper plans for their rehabilitation formulated. It is not proposed to go into these in detail here, but it is suggested that the Corporations set up for such projects should also be charged with the financial responsibility of rehabilitating displaced agriculturists within their regions.

15. The resettlement of refugees, on the other hand, is a current responsibility of some provinces and of the Central Government. A Rehabilitation Finance Corporation has been set up, but this appears to be concerned largely with urban refugees who are to be resettled in industry or trade. There appears to be need, in those provinces where agriculturist refugees are being settled, for special financial agencies similar to those suggested for scarcity areas to be set up particularly for the benefit of small peasants with limited resources.

Conclusion

16. The problem of disadvantaged farmers would probably have to be dealt with, in the long run, by a drastic reduction in their numbers by the transference of population from the land to non-agricultural employment and by large development projects, and by comprehensive measures designed to bring about an increase in agricultural productivity. Adequate arrangements for financing a large number of disadvantaged farmers would, however, continue to be needed for a long time to come, and an attempt has been made in this paper to discuss some of the implications of this problem and the machinery appropriate to its solution.