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## INSTITUTIONAL FINANCE FOR AGRICULTURAL DEVELOPMENT

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### SUMMARY

This paper attempts to study the institutional finance for agricultural development. The conclusion of the first section is that notwithstanding the expansion in institutional credit, credit needs of farmers in most of the developing countries are still being met through non-institutional sources at relatively high rates of interest and supplies of institutional credit are limited. The substance of the second section is that (i) the credit available through Government departments is very limited in volume and its scope is often restricted to special situations; (ii) so far as commercial banks are concerned, their role is the financing of trade, and (iii) co-operatives are the important source of institutional credit available to the farmer. The gist of the third section is that started in the day of the British rule with a strong metropolitan bias, most of the larger commercial banks are intended to cater to trade, commerce and industry and are thus geared only to the requirements of towns and cities. Further not only are commercial banks granting a negligible percentage of their total loans to the agricultural sector but the fact remains that the percentage of loans granted for this sector is falling year by year. The co-operative banks today are catering only to barely 30 per cent of the total needs of farmers as against 3.1 per cent in 1951-52. The last section which contains the summary and conclusion highlights the role of commercial banks and the Government in the context of planned development of agriculture on progressive and profitable lines.

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## CREDIT NEEDS OF A CHANGING AGRICULTURE — A POTENTIAL AREA FOR COMMERCIAL BANK FINANCE

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### SUMMARY

The adoption of new technology of agricultural production which is capital intensive in nature would need manifold increase in capital and credit requirements. The decision of commercial banks to enter in the field for direct financing of farmers has created a new institutional agency with huge funds and banking experience. In Uttar Pradesh, the State Bank of India has started its operations. A review of its experience indicated that the bank is experiencing difficulty in the absence of factual information on net worth, repaying capacity and credit needs of farmers in different size-groups of holdings. In the background of this problematic situation, a pilot study was undertaken in the Tarai region of Uttar Pradesh. The objectives of the study are (i) to find out the net worth and the repaying capacity of farmers having small, medium and large sized holdings and (ii) to find out the credit needs of small, medium and large sized farmers and indicate the areas most appropriate to commercial bank finance. The scope of the study is confined to the Rudrapur block of the Nainital district in Tarai region of Uttar Pradesh. The method of proportional stratified sampling was adopted. The size of sample was 19 cases. The main conclusions of the study are as follows: The credit needs of the small farmers consist of credit for fertilizer, hired labour expenses, pump-set, land improvement and buildings. The potential area for commercial bank finance is provision of loans for installation of pump-sets to which these farmers gave highest priority. This will strengthen their repaying capacity. The medium sized farmers need credit for fertilizer, hired labour, tube-well, tractor, agricultural implements and buildings. The net worth and repaying capacity warrant such loans. Labour expenses, fertilizer, tube-well, tractor and buildings constitute the credit needs of large farmers. The net worth and the repaying capacity are strong enough to guarantee the loans. The findings of the study further indicated the potential in rural areas for setting up of Farm Service Units. The commercial banks can play an important role by financing such units.

FARMERS' CREDIT NEEDS AND ROLE OF COMMERCIAL  
BANKS IN FINANCING AGRICULTURE

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SUMMARY

In the history of Indian agriculture capital requirement has never been as high as it is today. With the introduction of high-yielding crop varieties, new problem of high demand for credit has come up. Limiting supply of credit by the present credit structure of co-operative societies alone may not be able to keep pace with the increasing capital needs of the commercial farmers. Hence, a multi-agency approach becomes a logical corollary. The main objectives of this paper are to analyse (1) the various credit needs of the farmers, (2) problems of commercial banks in their new venture of financing the farmers and (3) ways of assisting farmers by the commercial banks.

Farmers need credit of different types and for different purposes. These are (1) seasonal credit for meeting the various input requirements like seed, fertilizer, insecticides, and for hiring labour needed on the farm for the crops; (2) medium-term credit for buying tractor, irrigation, seed-drill, thresher, spraying machines, etc; and (3) long-term credit for land levelling and reclamation, irrigation channels, constructing cattle shed and godown, buying additional land, etc. Empirical evidence in this paper showed that for hiring labour and for buying fertilizers, 92 per cent farmers in each need seasonal credit. The percentage of farmers requiring medium-term credit for installing tube-well, purchasing pump-sets, tractors and implements was 86, 8, 79 and 39 respectively. Similarly, 16 per cent farmers needed long-term credit for levelling the farm land. The present administrative staff of the commercial banks is not sufficient to meet the credit needs of the thousands of farmers. Banks do not have technical staff trained in the production and marketing aspects of farming. Three pre-requisites for advancing loan, *viz.*, (a) returns from loan, (b) repayment capacity and (c) risk-bearing ability of farmers must be fulfilled before advancing loan. The commercial banks can help the farmers by advancing credit for the purchase of seeds, fertilizers, insecticides, etc. The banks may advance loans to the farmers for buying implements and the establishment of service stations by the banks with provisions for giving equipments and machineries on hire would greatly help the small farmers who may not be "creditworthy" to get such loans from the bank for buying these equipments and machineries. The net worth and the repaying capacity may be used as basis for advancing loans to farmers. The net worth statement may be more useful in the case of large farmers while repaying capacity may be used in the case of small farmers.

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INSTITUTIONAL FINANCE FOR AGRICULTURAL DEVELOPMENT

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SUMMARY

The growth of the co-operative movement has been uneven in the different regions in the country. As such the credit available through co-operatives for current agricultural production as well as for land development has not been adequate or well distributed in the different States. The requirements of credit for agricultural production are bound to go up to a large extent with the adoption of improved agricultural practices particularly the high-yielding varieties programme on a large scale. There will, therefore, be need to supplement credit from the co-operative agencies by additional credit from Agricultural Credit Corporations and the commercial banks. The latter will have to open more branches in the semi-urban and rural areas and train their officers for the new tasks, particularly supervision of credit. To meet the demands of the consumption finance of the very backward agriculturists the full finance scheme which is in operation in some areas in Maharashtra may be tried in other parts of the country. In the field of long-term loans for agricultural development, the land development banks in a few States and the Agricultural Refinance Corporation have made satisfactory progress. But with the urgent need for stepping up the programme following the spread of rural electrification, the commercial banks have to participate in the same on a more expanded scale than hitherto. This may be done by them by providing larger

amounts towards the debenture programme of the land development banks as well as by financing needy individuals. As linking of credit with marketing is an important condition for the expansion of co-operative credit, it is incumbent that agricultural marketing is carried out more and more on a co-operative basis. The State Bank of India and the National Co-operative Development Corporation have played useful roles in this field. However, to meet the increased demands in this sector in the near future the capital structure of the marketing societies will have to be strengthened and more financial assistance will have to be made available to them. The commercial banks can also help agricultural marketing by making advances on the security of produce pending sale.

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### MARKET AS INSTITUTION OF RECOVERY OF DIRECT FARM FINANCE BY COMMERCIAL BANKS

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#### SUMMARY

On account of the availability of a wide array of high-yielding varieties and hybrids, agriculture has come to be a business proposition and now is in a position to even compete with industry. The investment advantage in agriculture is that investor commercial banks have always control on the end-products which are readily and immediately salable. Farmers are to be financed once for all during a crop season for purchasing production requisites and supporting materials and when the end-products are ready they neither require finance for marketing nor for storage at the farm's level. In contrast, in industry the sale of industrial products just after manufacture is not always sure and they are to be stored till the consumers demand them. Thus industrial products require finance not only for production but also for storage and marketing. The additional investment advantage in agriculture over industry should provide guide-lines to the commercial banks to start direct farm financing activities in the agricultural pavilion of the country. The fields most appropriate for direct farm finances are 'agricultural machinery and equipments, irrigation works, fertilizers, quality seeds, plant protection materials, and equipments,' etc. To begin with, commercial banks or the Agricultural Finance Corporation should start financing those farmers who sell their produce in bulk and that too in the regulated markets. This will enable the recovery of loans to be effected from the market functionary to whom the farmers sell their produce. The procedure to be adopted for recovery should be two-fold in nature. In the first, lender banks should lodge financial statements with the market middlemen or the co-operative marketing society stating that as soon as the debtor farmers bring their produce for sale in the market, the instalments due to them should be deducted from the sale proceeds and deposited in the concerned banks. It is doubtful if the middlemen will agree to this proposal and hence official action need to be taken for binding them in adopting this procedure. In the second, lender banks should lodge financial statements of the debtor farmers with the village co-operative only. In this scheme farmers need not go to the market for sale of their produce. Instead they may keep the produce in the farm yards provided by the Panchayat in the village itself where cleaning and grading of the produce is done by the men provided by the market. Thereafter produce is kept in the storage provided by the village co-operative from which samples are drawn, sent to the market where they are put to auction and finally sold. The purchaser thereafter is required to go to the village, take delivery from the co-operative, make payments and shift the produce to the nearby secondary market. The recovery then can be effected from the co-operative itself. The advantage in this scheme is that congestion from the market is removed and farmers assured of a reasonable price. Lastly, seed producers may be advanced loans equivalent to the cost of production or 60 per cent value on the basis of a receipt obtained from the seed processing plant. The banks should thereafter lodge financial statements of individual seed producers with the seed processing plant along with the amount to be recovered from the sale proceeds of the seeds. In this way banks can get recovery of their advances and make the farmers ready for investment in the forthcoming seed crops.

## A STUDY ON THE ROLE OF THE PROPOSED AGRICULTURAL FINANCE CORPORATION IN AGRICULTURAL DEVELOPMENT

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### SUMMARY

In this paper an attempt is made to assess the probable contributions of the proposed Agricultural Finance Corporation on agricultural development of the country. For this purpose some of the important provisions of the proposed scheme have been analysed, particularly in the context of financial needs of agricultural development. It appears that the proposed Agricultural Finance Corporation has a very ambitious programme of financing all conceivable agricultural operations. But it is not likely to have a very smooth sailing. Inadequacy of financial resources, absence of representatives from the agricultural sector in the Board of Directors of different banks, absence of bank-branches in rural areas and dearth of technical personnel will pose great difficulties for the success of the Corporation. So some suggestions have been made for increasing the financial resources of the Corporation, expansion of bank-branches in rural areas and increasing the number of technical personnel. It is hoped that if these suggestions are properly implemented, the Corporation will make a viable impact on the agricultural development of the country within a reasonable period of time.

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## THE PROBLEM OF INSTITUTIONAL FINANCE FOR AGRICULTURAL DEVELOPMENT IN INDIA — THE ROLE OF CO-OPERATIVE AND COMMERCIAL BANK

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### SUMMARY

The present problem of institutional finance is one of devising ways by which the flow of finance to the agricultural sector can be accelerated for the modernization of production process. The findings of the Rural Debt and Investment Survey shows that 85.3 per cent of the aggregate outstandings and 83.5 per cent of the aggregate current borrowings were against cultivating households. A comparative study of the findings of the Rural Credit Survey (1951-52) and Rural Debt and Investment Survey (1961-62) further reveals that the grip of agriculturist and professional moneylenders on the rural credit market continues to be firm. While the average level of current borrowings of the farm households could change only marginally from Rs. 209 to Rs. 205, the level of outstanding loans increased substantially from Rs. 363 to Rs. 472. The share of co-operative towards current borrowings increased from 3.1 per cent in 1951-52 to 15.1 per cent in 1961-62. The performance of the commercial banks has been disappointing. According to a survey conducted by the Reserve Bank of India in 1966, the commercial banks contributed only 0.2 per cent of their total advances in the agricultural sector against 88.7 per cent in the industrial sector. A close scrutiny of the data provided by the Rural Debt and Investment Survey reveals that the two highest asset groups above Rs. 10,000 who formed only 13 per cent of the rural households received 53 per cent of the co-operative loans. On the assumption that both these two asset groups belong to the agriculturist moneylender class, one shall find that this group is also the major suppliers of non-institutional credit in the rural sector to the tune of 36 per cent. The two lowest asset groups who formed 30 per cent of the rural households received only 5.1 per cent of the co-operative credit. The financial requirements of modern technology is to be superimposed over the traditional requirements. The technical committee for High-Yielding Varieties Programme appointed by the Reserve Bank of India estimated the additional financial requirements at a lower level of adoption at Rs. 80 per acre. On this basis the additional financial requirements for adopting the High-Yielding Varieties Programme on 32.5 million acres during the Fourth Plan period would be Rs. 260 crores. This gives an idea about the huge task that financial institutions are expected to perform. Rural credit in the context of our diversified socio-economic structure will require a chain of institutional agencies for promoting agricultural development. A multi-institutional approach will require gradation of various types of credit as well as the gradation of borrowers and institutions serving

them. Apart from this, the immediate task is to mobilize deposits for tapping internal resources. The commercial banks could profitably operate in the affluent sector of the rural economy. They could formulate their own area development and farm planning schemes. The co-operatives should confine their activities among the poor farmers by tying them to the programme of agricultural development. Long-term development on small farms will require association of more than one farmer and may pose organizational problems. In such cases the Panchayats could take up the task of development with the assistance received from the commercial banks on the guarantee of Agricultural Refinance Corporation. The main problem is one of bridging the gap between the actual credit requirement and the supply of credit by institutional agency. The success of institutional credit will depend upon the co-ordination and strengthening of the whole credit structure at all levels.

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### THE BOTTLENECKS OF COMMERCIAL BANKS TO MEET THE CHALLENGE OF FARM FINANCE

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#### SUMMARY

One of the main objectives of the social control of banks has been based on the ground that commercial banks have utterly neglected agriculture since Independence. Not only the commercial banks have become indifferent to the agricultural sector but also the advances of the scheduled banks to agriculture have been reduced in the recent past. The reasons for this state of affairs which are advanced by the commercial banks are the defective official policy to drive out the commercial banks from the rural sector for promoting the growth of co-operative, lack of funds at the disposal of the commercial banks to meet the needs of industry and agriculture, the uncertain and subsistence nature of farming, the lack of entrepreneurial talent to organize banking in the agricultural sector, lack of proper security and the legal and institutional obstacles that prevent the land being given as security. With the progressive growth of agriculture and the adoption of I.A.D.P. areas, commercial banking should be given a fair trial in the prosperous areas of agriculture and industry. The commercial banks and co-operative banks should co-operate with each other in financing the farm. The uncertainty and fluctuations in agriculture have been eliminated to a certain extent by increasing farm income and a favourable price policy for the agricultural product. The entrepreneurial talent should make vigorous drive for organizing banking in the rural sector by learning from the experiences of Chit Fund in Kerala. The banks should maintain staff who can mobilize the rural deposit by personal contact and advertisement. They must be able to scrutinize and follow-up the schemes for which loans have been advanced. Introduction of crop insurance and crop loan system will reduce the risks of security. The initial losses of the commercial banks for some time may be made good by the Reserve Bank of India. Farm education should be widely spread so that it can act as a process of social engineering to expand banking. In view of the above factors the expansion of the commercial banks in certain selected prosperous agricultural areas may be given a fair trial.

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### CO-OPERATIVE CREDIT FOR AGRICULTURAL DEVELOPMENT IN ASSAM

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#### SUMMARY

Assam is beset with many problems, chief among them being modernization of her traditional agriculture. An average farmer in Assam is always in debt and as such the vicious circle of poverty, low investment and low production cannot be broken without the aid from external agency. In this respect co-operative credit agencies can contribute a lot. This paper reviews the progress of the co-operative credit movement in the State of Assam for the period from 1949-51 to 1964-65.



Up to 1960-61, the agricultural credit societies grew by leaps and bounds, but since then there has been an ebb in the overall situation. From a total of 696 primary credit societies in 1949-51, the number rose to 5,235 in 1960-61 and then fell to 5,037 in 1964-65. At the end of 1964-65, there were 4,214 dormant primary credit societies in the State. The active societies numbering 3,754 served 10,953 villages with a population of 47.79 lakhs. The position of the Central bank and the primary co-operative land mortgage banks is also found quite unsatisfactory. Out of 9 Central banks, 6 were found running at a loss, the other 3 earned a nominal profit. The liabilities of all the Central banks were in excess of assets by Rs. 121 thousand. Of the 16 primary land mortgage banks, 14 earned nominal profits of Rs. 12 thousand, while 2 banks incurred losses of Rs. 6 thousand. Thus, the entire co-operative credit structure was in a very unsound position. A case study of a primary co-operative land mortgage bank with jurisdiction over an important sub-division in Assam with an area of 1,000 square miles and population of 5.5 lakhs was made in this paper. The primary bank was acting as the agent of the Assam Central Co-operative Land Mortgage Bank at the apex level. The primary bank has a paid-up share capital of Rs. 4,255 at the end of 1966-67. But it incurred a total loss of Rs. 6,943.55 within 5 years from 1962-63 to 1966-67. This paper brings into focus the present bad shape in the co-operative credit movement in the State. There is reason to believe that this was brought about by the wide diffusion of available resources—both financial and managerial—in the State. It suggests that a process of consolidation is to be started along with the proposed Agricultural Credit Corporation. This Corporation may provide necessary leadership in bringing about the consolidation and co-ordination of different co-operative credit agencies operating in the State. With this Corporation at the apex level, each district may have a strong viable bank to supply short, medium and long-term agricultural credit through village level co-operatives. For this, the existing Central co-operative banks and primary co-operative land mortgage banks are to be amalgamated in a single institution at the district level. Moreover, co-operatives at the village level are to be organized only when there is a felt need among the farmers and adequate managerial assistance can be provided by the Department of Co-operatives.

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### AN INTEGRATED APPROACH TO FARM CREDIT (A STUDY OF THE SYNDICATE BANK LTD., MANIPAL)

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#### SUMMARY

The Syndicate Bank because of its greater rural orientation could easily launch a new scheme of farm credit even before the imposition of social control on banks. During the three-year period ending 1967, its total farm credit went up by about 8 times to Rs. 37.76 lakhs but even then it was only .81 per cent of the total advances. The purposewise distribution has shown greater preference for pump-sets and other agricultural machinery because they were easily amenable to pledge and hypothecation. In these, the Bank could also get the guarantees of the State Governments concerned. The average size of loan was as high as Rs. 3,505.80. Reading this along with two-thirds of the total advances being against pledge of tangible securities shows a bias for larger and safer investment. The main contribution of the bank, therefore, lay not in the quantum of loans given but in devising a scheme of farm financing which was based on field studies and agronomic research in the area of its operation. It has provided the necessary extension guidance to its clients and has also provided the supporting services of soil testing and spraying of insecticides and pesticides. Its programme of tapping small savings through All Women Branches and Pigmy Deposit Schemes is worthy of emulation by other banks. Because of these small savings the annual linear rate of growth in its deposits was 17.8 per cent during 1961-67, the corresponding rate for all commercial banks was 12.2 per cent. This also contributed to its better overall performance results. Therefore, tapping of small rural savings may ultimately prove to be in the interest of these banks. The study reveals that commercial banks can do a lot if they make concentrated effort in limited areas and adopt an integrated approach to farm credit. But, because of their selective and discriminative nature in picking up larger and safer clients the problem of vulnerable sections and backward areas have to be dealt with by providing some incentive subsidy to cover losses on such business.



CREDIT, ESPECIALLY CO-OPERATIVE CREDIT FOR  
AGRICULTURAL DEVELOPMENT

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## SUMMARY

Agriculture in India has to be developed within a short span of time. Credit facilities are, therefore, to be expanded to enable the cultivators to undertake different measures, necessary to boost agricultural production. Credit requirement as estimated may be around Rs. 1,500 to 1,600 crores in 1970-71. The co-operative credit agency although its performance in qualitative aspects has not been too satisfactory, is the only agency among institutional agencies which can play the major role in the matter of meeting credit requirements of cultivators. It is expected to meet about 50 per cent of the total credit requirement. To be a prompt and efficient lender, it has to tone up its management and improve its operation.

The commercial bank is the other institutional agency which was incidentally never too interested in financing agriculture. Now under social control measures, this agency is showing some interest in agriculture. The development is to be welcomed. The co-operative agency is expected to provide only 50 per cent or slightly more of the total credit requirement (for production purposes) and the rest is to be met by other agencies as far as possible. The total amount of advances to be made by the commercial banking agency is not yet known. But it is unlikely that these banks will make huge advances to agriculture in the beginning. The area of operation of the co-operative credit agency and the commercial banking agency may be demarcated and co-ordinated under a Co-ordination Committee, represented by members from each agency. Such a Co-ordination Committee has been however already set up. Broadly speaking, while the co-operative credit agency may cater to comparatively small cultivators and provide short-term credit, commercial banks may restrict their activities mainly among medium and large cultivators who are creditworthy for medium and long-term loans. Besides financing directly, the commercial banking agency can provide finances to agriculture indirectly by way of purchase of debentures, etc. The role of non-institutional agencies, especially moneylenders, is still very crucial in rural economy. Even with the expansion of activities of the co-operative credit agency, as high as 70 per cent of credit requirement of cultivators was met by these non-institutional agencies in 1961-62. In the foreseeable future, it appears to be unlikely that institutional agencies will be able to provide the entire credit requirements of cultivators. It is opined that a vacuum would be created if the private moneylenders are made to disappear from the field of rural credit. It is however not to advocate for private moneylenders but to highlight the bare fact with a view to adopting a pragmatic approach to the provision of credit. The point is to stress the need of the co-operative agency to be more efficient and resourceful in order to be able to oust the private moneylenders who charge high rate of interest and sometimes unscrupulous by nature. In conclusion it may be said that as no single institutional agency is in a position to meet the entire credit requirement, a multi-agency (institutional) approach to the provision of credit is the most appropriate one in the light of the urgent financial need for India's agricultural development.

## WORKING OF AGRICULTURE CO-OPERATIVE CREDIT

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## SUMMARY

If the programme of the new strategy is earnestly implemented, agriculture would become more capital intensive and the need for credit is bound to increase. At present, the credit needs of the farmers are met by the moneylenders, co-operatives and other semi-public institutions. The co-operatives and other semi-public institutions supply the credit at the economic rate of interest. On the other hand, the bulk of credit which comes from moneylenders and traders is far expensive as well as exploitative. According to the Dantwala Committee Report, the short-term credit requirements may be of the order of Rs. 1,200-1,300 crores in 1970-71; while the requirements of medium-term credit and long-term credit were estimated at about Rs. 1,000 crores and Rs. 800 crores respectively during the Fourth Plan period. Visualizing the vast credit needs and abilities, commercial banks have been pressed to share the burden and bear the responsibility in the interest

of the country. There are two primary considerations for commercial banks in making farm loans available to cultivators, namely, (a) service to borrowers and (b) risk involved in making loans.

So far farmers have received total assistance from commercial banks to the tune of Rs. 400 crores. The new chapter in the history of commercial banks have just started. Commercial banks may provide short-term credit, medium-term or long-term credit to the farmers. The superiority of co-operative/commercial bank over the other lending agency encourages the farmer to accept fruitful opportunity, stimulates expansion which is profitable and sound. The present analysis is the outcome of the field investigation conducted by us in 1967 in the Bhilwara district of Rajasthan. It was observed that most of the societies were formed in haste at the instance of the Government officials in order to achieve the fixed targets. Consequently, the societies were formed by vested interests and also by those people who were willy-nilly in joining the co-operative society. It was found that at many places, traders and moneylenders had paid the share capital of the members (in some cases with their consent and in some cases without their consent). Besides this, the members had reported that about 50 per cent of the co-operative money was channelized through moneylenders and traders in order to repay their loans under the constant threat. Thus, the real beneficiary of co-operative money had been moneylenders rather than farmers. What is needed in the near future is that the membership of moneylenders and traders and also of unwilling members should be restricted. Further as the loan was not given in kind (50 per cent), the chances of diversion of loan were being perpetuated; therefore, the loan should be given in kind. In addition to this, the credit should be supplied in time, otherwise the co-operative aid would be utilized for other than the legitimate purpose. The future line of action of the Central bank should be to cover the small farmers rather than the bigger farmers. The loan policy of the commercial bank should be based on the crop loan system of the total credit needs. There should be perfect co-ordination between commercial banks and co-operative banks in order to avoid overlapping. Further, the best Marketing societies in the Bhilwara district were dealing in iron-sheets, sugar, pipes, coal, etc., like other traders in *mandi*, thereby suggesting that the very object of marketing societies had been forfeited. Moreover, co-ordination among the various official and semi-official agencies was not of a high order; even efficiency in the Government and co-operative bank's official was lacking. This is the right time for the authorities to correct the things in the right way. One should bear in mind that efficiency and smooth co-ordination is the king-pin of success.

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## INSTITUTIONAL FINANCE FOR AGRICULTURAL DEVELOPMENT

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### SUMMARY

Like Industry, there is excess capacity in agriculture also, and programmes of agricultural development should include the utilization of this excess capacity which is defined as land yielding less than its technical potential. In such case, mechanization of agriculture becomes a crucial factor. In spite of all the criticism, it is emerging in the form of tractor power and being utilized in certain farm operations only. Factors which motivate the farmer to purchase tractor are mostly economic but social factors also become important. Farm mechanization is capital intensive methods of production and needs considerable amount of capital for a longer period. The requirement of capital vary from Rs. 11,500 to Rs. 31,000 depending on the types of tractor, its accessories and other power attached with the farm. On an average, approximately Rs. 17,500 is required to purchase a tractor, cultivator, harrow, thresher and tube-well boring. Besides this, a part of total investment, *i.e.*, 10 per cent will permanently be needed. Funds available to farmers come from mainly two sources : (a) own savings and (b) borrowing. On the 60 per cent sample farms, funds were available from own savings and on 40 per cent borrowing from Government, cane co-operative societies and co-operative land development banks, the former two agencies finance to the extent of 50 per cent of the required capital and the latter to the extent of full requirement. It is argued in this paper that any development programme which is socially desirable and technically possible be made financially feasible and for that the following desiderata should be satisfied. (1) Financial means must be sufficient to make necessary payments. (2) It is imperative to keep the cost of financing as low as possible. (3) Timing of loan, conditions of repayment and other terms should be suited to the convenience of the borrower and not lead to social embarrassment. The land development bank fulfils all the above criteria and may be entrusted to advance loan on the basis of top priority for agricultural development. Besides, the land development bank should encourage the habit of thrift and saving in rural areas by means of deposit and other financial investments.

## INSTITUTIONAL FINANCE FOR AGRICULTURAL DEVELOPMENT

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## SUMMARY

The paper attempts to assess the performance of co-operative credit in the light of requirements of cultivators particularly in the context of the New Strategy for agricultural development in the Fourth Five-Year Plan. It is found that co-operatives have neither the resources nor the organizational and technical expertise to tackle the formidable credit problems faced by agricultural development. The ineffectiveness of commercial banks in agricultural financing is analysed and the causes for the same dealt with. The unique role played by the Syndicate Bank is shown in detail leading to the future role of commercial banks in financing agricultural development. The role of the Agricultural Finance Corporation, its objectives and problems it is likely to face are discussed. The norms of institutional finance in agricultural development are briefly referred to and the need for co-ordinated and harmonious working of the triumvirate is emphasized to ensure a prosperous agriculture.

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 PROBLEMS OF CO-ORDINATION BETWEEN DIFFERENT  
AGENCIES FINANCING AGRICULTURE

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## SUMMARY

The present paper is based on a sample survey of ten villages in the district of Darbhanga (Bihar) covering a ten-year period 1954-64. Different agencies which supply agricultural finance are unco-ordinated and some of them also jealous of one another. Governmental regulations do not bind them and the weapons of credit control of the Reserve Bank cannot touch them. Co-ordination is very essential but there are several problems. The agencies have contradictory motives, finances have to be made available for consumption needs also, a huge amount of finance will be required, moneylenders are egoistic and individualistic and that loans in kind can be handled properly only by the unco-ordinated agencies which work with economic as well as non-economic motives. As such no attempt at co-ordination should be made. The State should undertake to meet all essential development works itself and try to cover the whole or part of the costs from agriculturists as betterment levy. The most important task is to make agriculture a paying industry which can be done by scientific cultivation and transfer of excess rural population to other sectors.

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 INSTITUTIONAL FINANCE FOR AGRICULTURAL DEVELOPMENT

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## SUMMARY

Credit is said to be the life-blood of agriculture and the need for timely and adequate farm finance is obvious. Agricultural finance poses a big challenge to the institutions of credit, particularly the co-operatives, under the existing conditions of planned agricultural development. That this development would depend upon the availability of short, medium and long-term credit goes without saying. Although the progress made by the institutions of credit has been quite encouraging,

yet it is not adequate. This is because of the fact that these institutions carry in their train of operation a number of defects with regard to recovery, security, procedures, rate of interest and overdues due to diversion of loans, etc. Some of the remedial measures are prompt and efficient collection of loans at due dates, linking of credit with marketing, personal security of the farmer, simple procedures for credit transactions, reasonable rates of interest both to the lender as well as the borrower, availability of loan at the right time, in the right manner, in adequate quantity and proper supervision, etc. There is need for their intensification and expansion if the co-operatives are to achieve the success expected of them. A new scheme of crop loans has recently been introduced to overcome the drawbacks present in the earlier co-operative loan system. But unfortunately, even the crop loan scheme has not been a success due to its quite different operation in the field from what actually the scheme envisages. The average cost of cultivation on the basis of traditional level of cultivation is a misleading idea. It is, therefore, suggested that the actual cost of cultivation on the basis of improved level of technology should be taken as the criterion for fixing up the scale of finance. What is more important is that the scale of finance should be decided by the trained agricultural graduate—not the planners with unrealistic aims. The crop loan scheme should also rid itself of baneful influences such as personal, social and political influence. There is therefore every need to reorient the whole scheme on the lines suggested here. Further, the credit needs of the farmers are considerable and the co-operatives are finding it difficult to finance agricultural needs fully. It is, therefore, important that the commercial banks should also enter the field of farm credit. Fortunately, the Syndicate Bank is the solitary example in India which has done pioneering work in agricultural credit on scientific lines. This healthy example needs to be emulated by other banks. However, the co-operatives and the commercial banks should function in a complementary fashion. This will bring an effective break-through in Indian agriculture.

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