THE INDIAN JOURNAL OF AGRICULTURAL ECONOMICS

(Organ of the Indian Society of Agricultural Economics)

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CONFERENCE NUMBER

PROCEEDINGS
of the
SIXTEENTH CONFERENCE
held at Poona, December 1955

SUBJECTS

1. REORGANISATION OF RURAL CREDIT IN INDIA.
2. INTEGRATED PRICE POLICY FOR AGRICULTURE.
3. POLICY FOR DEVELOPMENT OF THE RURAL SECTOR IN THE SECOND FIVE-YEAR PLAN.
4. TECHNIQUES OF FIELD SURVEYS IN AGRICULTURAL ECONOMICS.

Rs. 6-8-0

THE INDIAN SOCIETY OF AGRICULTURAL ECONOMICS, BOMBAY

Aims and Objects

To promote the investigation, study and improvement of the economic and social conditions of agriculture and rural life through :—

(*a*) periodical conferences for the discussion of problems ;

(*b*) the publication of papers, separately or collectively ; or in a periodical which may be issued under the auspices of the Society ;

(*c*) co-operation with other institutions having similar objects, such as the International Conference of Agricultural Economists and the Indian Economic Association, etc.

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PREFACE

The current issue of the Journal contains the Proceedings of the 16th Annual Conference of the Society held in December, 1955 at Poona. The Conference was attended by nearly 150 members and delegates from Central and State Governments, Universities and Research Institutions.

The subjects chosen for discussion at this Conference were :

1. Reorganisation of Rural Credit in India.

2. Integrated Price Policy for Agriculture.

3. Policy for Development of the Rural Sector in the Second Five-Year Plan.

4. Techniques of Field Surveys in Agricultural Economics.

An unusually large number of papers were received and read on subject 1, while on the other three subjects also, there were select contributions. The level of discussions was maintained at the usual high level. The arrangement for a tape-recorder by the Gokhale Institute of Politics and Economics has facilitated the publication of the report of the discussions.

An excursion to Walchandnagar from Poona was also arranged on the 1st January 1956 after the completion of the Conference. About 23 members took advantage of this trip. We are thankful to the Management of Walchandnagar Industries Ltd., who made necessary arrangements to receive the party and show them around the well-known Agro-industrial Centre.

We take this opportunity of thanking the Gokhale Institute of Politics and Economics, under whose auspices the Conference met. We specially record our grateful thanks to Prof. D.R. Gadgil, Director of the Institute and Prof. N.V. Sovani, Local Secretary of the Conference and to Prof. V.M. Dandekar, who had made excellent arrangements and to the Members of the Reception Committee for their generous hospitality.

26th April, 1956.

Manilal B. Nanavati

President

REORGANISATION OF RURAL CREDIT IN INDIA

S. V. AYYAR and A. RAMASWAMI

Professor of Economics & Lecturer in Economics

Annamalai University, Annamalainagar

The publication of the Report of the All-India Rural Credit Survey by the Reserve Bank has focussed our attention on a much discussed but ill-attended problem of Rural India. From the period of the publication of Nicholsons' report on Rural Indebtedness (1895) to the latest pronouncements on the subject we have been ardently planning and reconstructing the organisations for the supply of credit to the agriculturists. But upto this point our well meaning attempts at reconstruction have not borne any real fruit, the age-old system of money lending by money-lenders thrives with all its inexorable consequences.

The agriculturists who constitute 70 per cent of the population of India require three types of Credit facilities : (1) short-term credit for seasonal agricultural operations, (2) intermediate term loan for effecting temporary improvements on land and (3) long term loan for effecting permanent improvements on land.

The existing agencies for the supply of credit are (1) the Government, (2) Co-operative Credit Societies, (3) Commercial Bank, (4) Professional money-lender, (6) Brokers and Commission Agents.

The Reports on All-India Rural Credit Survey have given us statistical data about the percentage of credit requirements supplied by these agencies :

The Government through taccavi loans, the commercial banks and cooperative credit organisations together supply only 7.3 per cent of the credit requirements of the rural areas. By far the largest supply of credit flows from the money-lenders,—agriculturists and professional. They supply 69 7 per cent of the credit needs of the agriculturists. The relatives ot the agriculturists supply 14.2 per cent of the rural credit requirements and the Traders and Commission Agents 5.5 per cent.

One incontrovertibe conclusion that emerges from the statistical data supplied by the Reports is that the money-lender is rooted in the rural area as firmly as ever and that the Governmental, Co-operative and Commercial banking organisations have touched only the fringe of the problem of rural credit and that the core of the problem has not yet been touched.

Investigations conducted in the Chengleput district, Madras State, throw a revealing light on the part played by the respective credit agencies in that area. The credit needs of the district have been estimated at the rate of Rs. 40 per acre of irrigated land and Rs. 20 per acre of unirrigated land. The total credit needs have been estimated as follows : [1]

	Area in acres	Credit requirements Rs.
Total cropped area irrigated	4,31,540	1,72,61,600
Total cropped area unirrigated	2,06,582	41,31,640
Total	6,38,122	2,13,93,240

Taking into account the demand for credit for unproductive and consumption purposes the total credit need may be estimated at Rs. 3 crores.

It has been estimated that the following three agencies are able to supply only about 8 per cent of the credit requirements.

	Amounts issued in 1950-51 Rs.
1. The Government (takkavi loans)	12.50 lakhs
2. Co-operative Agricultural Credit Societies	10.14 ,,
3. Land Mortgage Banks	2.86 ,,
Total :	25.50 lakhs

From this investigation also we have to conclude that 70 to 80 per cent of the credit needs of the agriculturists are met by money-lenders and indigenous bankers and that purely private agencies like money-lenders' organisations do not form part of a well-integrated and a well-directed organisation.

INDIGENOUS BANKERS AND THEIR PRACTICES

There are even now large regions not covered by the operations of Co-operative Credit Societies. For instance, in a village near the University Campus (Sivapuri) there is the business house of an indigenous banker. It supplies almost solely the credit requirements of the village. It lends to the agriculturists on pro-note. If on the stipulated date the money is not returned, the banker persuades the agriculturists to sell the produce to his custody on that day at the market price and thus pay back the loan. Sometimes the banker himself sells the produce and claims from the agriculturists the margin deficit if any, left over.

A second method of lending is by a system known as '*Kandu Kist*' or *Thandal* system. In this system the borrower pays back the loan in equated instalments spread over a period of 100 days if the instalment is paid daily or 10 months if the instalments are paid monthly. But the '*Kandu*' loans are not very popular among

1 C. M. Jaganathan : "Mechanism of Money-lenders' Finance in Chengleput District," *Madras Journal of Co-operation*, Aug. 1954.

the agriculturists who will not be in a position to repay in regular instalments as they get their income in a lump sum during the harvest period.

Yet, a third method of lending is by '*Pokkiam*' or '*Othi*' by which money is lent out on the security of lands in lieu of which the banker enjoys the benefit of possession of property till the money is returned or till a maximum period of sixty years.[2] If after sixty years the money is not returned, the property automatically becomes the banker's property after some legal procedure. As a result of these systems there has been a regular transference of land from the agriculturists to the indigenous banker and the indigenous banker is today one of the very large land owners of the village.

The example of the indigenous banker's activities in one village may be taken as a sample of the indigenous bankers' activities in other places also.

THE AGRICULTURIST MONEY-LENDER

The agriculturist money-lender charges high rates of interest for the seasonal loans he advances. The interest usually works out at the rate of Rs. 2 to Rs. 3/8/—per cent per month or one bag of paddy of 64 Madras Measures for each '*Kandayam*' (item) of Rs. 100 lent for agricultural purposes. One *Kandayam* of loan normally runs for about 9 months i.e., the period between the sowing and harvesting.

A very common method of evasion of governmental regulations fixing the rate of interest is by advancing loans to agriculturists on mortgage of their lands by conditional sale deeds. If the loan is not repaid before a fixed date, the sale deed will be given effect to. By this method the money-lender is able to have a whip hand over the agriculturist-borrowers.

THE PROFESSIONAL MONEY-LENDER

By far the most important class of professional money-lenders in the State is the *sowcar* pawn brokers, working under Madras Pawn Brokers Act of 1948. They lend on the security of jewels and pro-notes. The *sowcars* prefer to lend in small amounts. By adopting this policy they are able to fortify themselves against risks and losses. The agriculturists also frequently go to the *sowcar* because he lends quickly and he is ready to lend on the security of a variety of movables ranging from jewels to garments.

The *sowcar's* system of accounting is very flexible. He keeps three accounts of his business : (1) Tamil accounts (2) Hindi accounts, a copy of Tamil accounts (3) Hindi account purely for his own use. The first two accounts will be at variance with the third account. This maintenance of a multiple sets of accounts is a fruitful source of evasion of laws to regulate their activities.[3]

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2 Raja Sir Annamalai Chettiar Commemoration Volume : "The Nattukkottai Chettiars and Their Banking System," p. 471.

3 C. M. Jaganathan : "Mechanism of Money-lenders' Finance in Chengleput District," *Madras Journal of Co-operation*, August 1954.

BROKERS AND COMMISSION AGENTS

Brokers, Traders and Rice Millowners supply loan to the agriculturists for seasonal requirements. There is a tacit understanding that loan will be cleared during the harvest season by selling paddy, through these agents. The agents benefit by the certainty of having a turnover of business through the borrower and they are able to collect a fairly high rate of interest in kind.

We have now analysed the working of the existing agencies which serve the agriculturists with the supply of loans. We are in a position to conclude that the money-lenders are the most important agents who supply credit facilities. They dominate the rural scene in the supply of credit facilities not because they are honest and straightforward, but because they are able to adjust their credit systems according to the weaknesses of their clients. They are not able to lift their clients to higher levels of prosperity, but they have helped them in poverty. The co-operative and governmental institutions have fixed inflexible methods of giving loans and recovering them. Hence they do not make a mark in the rural area. They have only made a surface scratch to cure very long rooted disease.

The Report of the All-India Rural Credit Survey has defined its aims about the reorganisation of rural credit supply as follows :

(1) The reorganisation should be an effective alternative to and a substitute for private agencies.

(2) It should coordinate the different, sections pertaining to short term, medium-term and long term credit but also with complementary arrangements for marketing, processing and other economic activities of the cultivation.

(3) It should disburse credit in a constructive way for the positive benefit of both producer and production and it should effectively supervise the use of credit and constantly bear in mind the borrowers' legitimate needs and interests.

(4) It should be such that it helps in the effective growth and development from the village upwards of the co-operative form of organisation.

WHY HAS CO-OPERATION FAILED ?

The Report has attached great importance to the Co-operative Organisations as agencies for solution of the rural credit problem in India. But fifty years of progress of the co-operative movement has one tell-tale fact to reveal. The co-operative movement has not progressed enough to effectively change the settled frame-work of the rural areas. The movement has not succeeded as it should have—a result of the lack of economic equality among the many whom the movement is expected to benefit ; and also as a result of the official domination. The co-operative credit or non-credit societies consist of members of differing economic status which finally reduces the efficiency of the working of the societies. The lack of progress in fifty years may be adduced to the lack of economic unity in the rural areas among the persons who become members of the co-operative organisation. Pinning our faith to co-operation only will not usher in an era of prosperity when the fundamentals for the success of the co-operative movement are not present.

NIDHIS AND CHIT FUNDS

On the other hand, the promotion of Nidhis and Chit funds will be in conformity with the spirit of the recommendations of the Report and the cherished ideals of co-operation. The Nidhis and Chit funds are the results of the indigenous attempts at co-operation. "The Nidhis or funds have had a definite gravitation towards the permanent bank receiving deposits and making loans while the Chit funds have remained as an association in which members subscribe and lend the subscription among themselves, though surplus cost may be lent out as temporary investments at the discretion of the promoters".[4] But as we find that the keynote of the Nidhi and Chit fund is mutual credit, the Nidhis and Chit funds are complementary to one another.

The Madras State has a very long record of the successful functioning of the Nidhis. The Nidhis attract deposits. They lend on personal credits and mortgage of jewellery and in some cases on the mortgage of immovable property. The loans are collected in instalments. They also lend on the security of agricultural produce.

The funds of the Nidhis are administered by the members. At the General Body meeting they elect the directors, the auditors and the secretaries. The principle of one man one vote is adopted.

But the Report of the Madras Banking Enquiry Committee (1931) has stressed the necessity for introducing uniformity in banking organisations. As a result of the recommendations Nidhis had to register themselves under the Indian Companies Act. Some of the provisions of the Act, with regard to fixation of share capital and non-withdrawal of share capital are repugnants to the age-old practices of the Nidhis. As a result of these provisions many Nidhis have closed down. Newer Nidhis satisfying the rigorous provisions of the Companies Act are difficult to be organised.

The Chit funds are mutual-saving associations among groups of villagers. Every such Chit fund will have a promoter known as '*Karaswan*'. At the end of each period—say a month—collections are made and the collection so made is given to one of the members of the Chit. The choice of the member to receive the collections may be made either by lot or by auction system. The action is a Dutch auction, the highest bidder of discount receives amount. The person who receives the amount executes a pro-note for the amount received. Failure to pay the subscription may result in the imposition of a penal rate of interest.

This system only promotes thrift among members but also enables them to get lump sums for the purchase of land, jewellery etc, for marriages, for trading

4 Report of the Madras Banking Enquiry Committee, 1931.

operations and for settling prior debts. This system is well known to most adult men and women in South India.

Personal credit is very important in a country of small holdings. The money-lender abuses his position by lending personal loans at high rates of interest. There should be special legislation for promoting and regulating the working of the Nidhis and Chit funds. Properly developed Nidhis and Chit funds can become healthy centres of economic and social progress. They are in a very advantageous position to supervise the expenditure of the borrowed amount for the purposes for which they were borrowed. They are best adopted to the habits and needs of the people of the rural areas in South India.

RECURRING DEPOSITS

In the reorganisation of rural credit we can also make use of the Post Office with its net-work of branches all over the country. At present the post offices are confining their attention to the marketing of National Plan Certificates of various denominations. No doubt, it is a very successful attempt at mobilising small savings of the rural areas. But the small savings certificates have not enough of appeal to the masses because the savings certificates bought at different dates mature at different periods. They are not able to have the benefit of a lump sum at the end of a definite period, even though they contribute to it in small instalments. "Meanwhile the Government would do well to examine the advisability of introducing the system of 4 or 7 year recurring deposits which has been so successfully worked for many decades by the 'permanent funds' in South India...The advantage of receiving, in a lump sum, the amount deposited monthly with a fairly reasonable interest thereon, is incomparably more attractive than the prospects of having to cash one's certificates month after month after 7 or 10 years as the case may be." [5] By introducing a scheme of recurring deposits through post offices we can tap small savings on a scale very much larger than what is done by the present National Plan Certificates. With the increased savings the agriculturists dependence on the money lenders or on other credit agencies for the supply of credit will diminish.

THE STATE BANK OF INDIA

The Nationalization of the Imperial Bank of India and the opening of a number of branches in the rural areas hold for the agriculturists the prospects of getting credit facilities at fair rates of interest. The network of branches will integrate the system of credit supply in the rural areas.

But no scheme of integration will be complete unless it is associated with the integration of the money-lenders and the indigenous bankers with the State Bank directly or indirectly. Even today the money-lenders and indigenous bankers are by far the most important sources of credit to the rural population. If by some method they are kept outside the pale of the State Bank and if they are allowed to ply their trade untrammelled by the coordinating influence of the State Bank, the state of affairs in rural credit supply will continue very much as in the past.

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5 The Hindu—Editorial on Small Savings, 20th October, 1955.

The Report of the All-India Rural Credit Survey has pointed out as many other earlier reports have done, that there should be a follow-up of the loans given to the agriculturists in order to verify whether they have been utilised for the purpose for which loans have been raised. The Report has envisaged a scheme of paid officials supervising the use of loans. The paid officials will face many difficulties in tracing the use of the loans ! Instead, if we are able to yoke the money-lender for the purpose, we may be successful in some degree. The money-lender is a permanent inhabitant of the village, and he is familiar with the activities and habits of individual agriculturists, and he can trail up the loan in a way which none else can do.

A system of integrating and licensing the money-lenders with the State Bank will enlist the services of the money-lenders who have played an age-long and dominant role in the rural credit supply—for a more constructive and reorganising type of activity. Incidentally, the integration and licensing will round off some of the rough edges of the money-lenders' activities for which we have been critising him in the past.

ENLIST EVERYONE FOR REORGANISATION

The Report has approached the question of reorganisation of rural credit with a strong bias in favour of co-operation. It has declared that "Co-operation has failed, but Co-operation must succeed." It is an indicator of its future policy. It has further expressed its continued faith in co-operation by another statement: "Co-operation should be treated as an organic part of 'rural development' in all its main aspects and the administration of that development should ultimately be co-ordinated with basic administration."[6]

In our task of reorganising rural credit we should not allow any fanatical faith to impede our work towards the goal of solving the problem of rural credit. We should enlist the support of every one who can possibly do some good in this work. We should not liquidate the money-lender or other agents simply because we found mistakes in their work in the past, but try to socialise their activity.

If we are able to attend to the task of reorganisation in a spirit of tolerance and try to enlist all the existing agencies for reorganising and integrating the rural credit supply our task will be lightened. If the institutionalisation of the money lender can be dovetailed to the cooperative movement, in assisting the rural economy, success will finally crown such an endeavour. If the Davis Report is any indication of our rural credit malady, the Rural Credit Survey is a valuable diagnosis. And yet the patient requires careful and continuous attention by degrees. Let it not be said that the operation was successful, but the patient died. Let us not do anything to paralyse the economic set-up in the rural areas, but try to recreate and stimulate. Rural credit supply must not create rivalries or increase agencies for corruption. Success depends not only on administrative efficiency, but on the sympathetic understanding of an essentially 'human' problem.

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6 All India Rural Credit Survey, Report of the Committee of Direction, Volume II, the General Report, p. 372.

REORGANIZATION OF CO-OPERATIVE CREDIT :

SOME BASIC PRINCIPLES AND PROBLEMS

P. N. NARASINGA RAO

Professor of Economics

Karnatak University, Dharwar

The reorganization of rural credit involves many problems, But the main problem is the development of cooperative credit. This in turn involves some problems. The problems must be solved in accordance with certain basic principles. In formulating these principles, we must bear in mind certain recent developments. For even basic principles may change.

"CO-OPERATION HAS FAILED, BUT CO-OPERATION MUST SUCCEED."

The co-operative movement was introduced in India about 50 years ago. Since then the Government has been trying to develop the movement through Commissions, Enquiries, legislation and administrative measures. But the progress achieved during the last 50 years is not very remarkable. Till now the co-operative credit societies have not played an important part in the provision of agriculural credit. The All-India Rural Credit Survey revealed "that the place occupied by co-operative credit in the rural finance of the country is even more insignificant than is ordinarily supposed".[1]

It is not neccessary to discuss here the causes of the failure of the co-operative movement. They have been fully stated and analysed in volume II of the Report submitted by the Committee. The report contains an illuminating account of the co-operative movement in India. It is clear from the account that credit co-operation has failed in India. Few persons will be inclined to challenge the findings of the Committee. But no one who knows what co-operation has done for other countries, or what it can do for India will say that we have no use for co-operation. According to the Rural Banking Enquiry Committee, although no uniform system of rural credit can be adopted, agricultural production should be financed by co-operative credit societies wherever possible: No other suitable machinery is available at the village level.[2] The Committee of Direction of the All-India Rural Credit Survey observes : "For several important reasons, borne out by the experience not only of India but of many other economically undeveloped countries, it may be regarded as axiomatic that at the rural base, that is to say, in the village itself, no form of credit organisation will be suitable except the cooperative society."[3] The record of the co-operative societies so far may be bad, but the record of other agencies is worse. In fact, we cannot think of any other agency for providing agricultural credit. Moreover, cooperation is the ideal means of saving the villager, who is now in the clutches of the money-lender. The Committee rightly says, "Co-operation has failed, but Co-operation must succeed."[4] But

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1 Report of the Committee of Direction, All-India Rural Credit Survey, Vol. II, p. 228.
2 Report of the Rural Banking Enquiry Committee, 1953, p. 49.
3 Report of the Committee of Direction, All-India Rural Credit Survey, Vol. II, p. 372.
4 Ibid, p. 372.

there is need for drastic changes in the co-operative structure. It is necessary to reorganise co-operative credit institutions from top to bottom.

"STATE-PARTNERED" CO-OPERATION

The primary co-operative credit societies in the villages are supposed to finance agriculture. But they have never been able to provide adequate credit facilities for our agriculture, mainly because their resources are meagre. They rely mostly on the co-operative central banks, which are expected to provide the necessary finance. But according to the Committee of Direction of the All-India Rural Credit Survey, the policy of these central banks is not very helpful to the rural co-operative credit societies. These central institutions are controlled by urban interests and are "inimical" to rural interests. The Committee has no hesitation in saying that lack of sympathy on the part of these institutions, the apex co-operative banks and other urban credit institutions is the "basic" cause of the failure of the co-operative movement in India.[5]

The Committee has proposed a remedy. The remedy is what it calls State-partnered Co-operation. It has proposed that 51 per cent of the share capital of the apex co-operative banks and (through them) of the co-operative central banks should be provided by the State. This will enable them to provide the required finance for the primary co-operative credit societies, which in turn will provide adequate credit for the agriculturists.[6] "The State's way of help hitherto", says the Committee, "has been to over-administer and under-finance."[7] That is why the co-operative credit institutions have not been functioning successfully. According to the Committee, there is no alternative to State-partnered co-operation. It has tried to justify State partnership on several grounds.

But it may pertinently be asked whether State-partnered co-operation is co-operation. If the State owns 51 per cent of the share capital of apex and central banks, they will become semi-Government institutions. State partnership will destroy the co-operative character of these institutions. There are other things to be considered. Suppose the State provides the major part of the capital of apex and central banks, what guarantee is there that they will pursue a more sympathetic policy towards the primary co-operative credit societies in the villages, and finance them to a greater extent than at present ? Of course, the State can lay down stringent regulations, and control the banking operations of these institutions. But that would be bad for them. Under the scheme recommended by the Committee greater interference on the part of the State is inevitable. When the State owns such a large part of the share capital it is bound to control the working of the co-operative credit institutions. It cannot be expected to pass a self-denying ordinance and refrain from interfering. State partnership implies greater control on the part of the State. The tendency to over-administer to which the Committee has referred will increase under the scheme recommended by it. One more question arises. Is the State in a position to provide the necessary capital ? As

5 Report of the Committee of Direction of the All-India Rural Credit Survey, Vol. II, p. 272.
6 Ibid, p. 364.
7 Ibid, p. 376.

the Rural Banking Enquiry Committee says, the assumption that the State would be able to raise from somewhere vast amounts of capital to be put at the disposal of agricultural institutions is unrealistic.[8] Even if it is possible to raise so much capital it would be unwise to invest it in co-operative credit institutions like the apex and the central banks.

AN ALTERNATIVE SCHEME

State-partnered co-operation is not the remedy. The remedy is to improve the working of the apex and the central banks, and to make them adopt a more helpful attitude towards the primary co-operative credit societies. Steps should be taken to secure for the rural primary co-operative credit societies greater representation on the Boards of Directors of co-operative central banks. If necessary, the Co-operative Societies Act should be suitably amended.

At present the apex bank and the central banks may not be able to raise the funds required by them through share capital and deposits alone. The necessary finance should be provided through the Reserve Bank of India.

If, as the Committee of Direction of the All-India Rural Credit Survey says, it is absolutely impossible for the co-operative central banks to change their attitude towards the village credit societies, we must seriously consider the advisability of starting a new set of co-operative central institutions. The existing central institutions may continue to be called co-operative central banks. They will finance only primary co-operative credit societies in urban areas. If necessary, the number of these central banks may be reduced. The smaller banks may be amalgamated with the bigger banks. Or some of the existing branches of these central banks may be closed, as there will be less business for them. The new central institutions to be started may be called Co-operative Banking Unions to distinguish them from co-operative central banks. The co-operative banking unions will finance the primary co-operative credit societies in rural areas. These societies will be affiliated to the banking unions. A part of the capital of the banking unions is to be provided by the village credit societies. Landowners and village money-lenders should be induced to buy shares in these banking unions. The new central institutions may be expected to be more sympathetic to the primary co-operative credit societies in the villages, because they represent rural interests. There is no reason why they should not succeed, if they receive the necessary help from the State Co-operative bank, and through it, from the Reserve Bank. Thus there will be one apex bank and two sets of co-operative central institutions. We may be inclined to dismiss the whole thing as impracticable. But it is worth considering.

NEED TO REORGANISE RURAL PRIMARY CO-OPERATIVE CREDIT SOCIETIES

The measures mentioned above, though very important, are palliatives. If there is to be lasting progress, it is necessary to reorganise and rehabilitate the primary co-operative credit societies. The need for improvement at the primary level has been emphasised by the Rural Banking Enquiry Committee. It says :

8 Report of the Rural Banking Enquiry Committee, 1953, p. 49.

"The weakness of the co-operative structure seems to lie mainly in these institutions (primary co-operative credit societies) where it comes directly into contact with the rural people rather than in the superstructure, and more thought and effort should be devoted to their development."[9]

The Committee of Direction of the Rural Credit Survey has indeed referred to the need for improving the primary co-operative societies. But according to the Committee, we must first create the conditions necessary for success. Till these conditions are created the State must provide all necessary help.[10] The larger primary societies should have a certain minimum share capital. In case it cannot raise this capital the co-operative central bank should initially contribute to the society whatever amount is required. The Committee has recommended that the State Government should make the needed finance available to the State co-operative bank (e.g. in the form of additional share capital) to enable it to provide funds for the central co-operative bank[11]. If this suggestion is implemented, the primary cooperative credit societies will come to rely on the Government for every thing, and can never stand on their own legs. They can never dispense with State help, although the Committee hopes that eventually they will be able to do so. It is true that today many of the conditions which are necessary for the success of the co-operative movement are lacking. But that does not mean that we cannot expect any progress till those conditions are created. Often it is a vicious circle, because it is only through cooperation that such conditions can be created.

So let the primary co-operative credit societies rely on themselves. Then there is some chance of progress. "Where co-operation has not always been the success it should be," says Mr. F. L. Brayne, "it is not through any defect in the system, but in its local application and in the training of the villagers in its principles."[12] In the case of co-operation progress is necessarily slow and must be slow.

To most co-operators the spirit underlying the co-operative movement is much more important than the results achieved by the movement. "Co-operation" to quote Mr. F.L. Brayne again, "is not merely a matter of registers and entrance fees. It begins in the heart, and until it begins there it can never hope to be a success."[13]

Even if we do not care for the spirit and care only for the results, it is necesary that the primary co-operative credit societies should rely on themselves, as far as possible. They should be able to raise the funds needed by them in the usual way, that is, through share capital, deposits and loans from the co-operative central bank. If the Government provides through the State Co-operative Bank whatever capital is required by the primary societies, no attempt may be made to mobilise rural savings. But the credit needs of trade, industry and agriculture cannot be met from urban savings. It is, therefore, necessary to mobilise rural savings. A few villagers may invest money in Government securities ; some may deposit

9 Report of the Rural Banking Enquiry Committee, 1953, p. 49.
10 Report of the Committee of Direction, All-India Rural Credit Survey, Vol. II, p. 376.
11 Ibid, p. 451.
12 F. L. Brayne : Better Villages, (1945 Edition), p. 152.
13 Ibid, pp. 153-154.

money with the commercial banks in urban areas. But it is only through the co-operative credit societies that the credit resources of our villages can be mobilised.

So from every point of view it is necessary to reorganise and rehabilitate the village credit societies. Today the majority of them are in a "state of suspended animation." But they should be reorganised on sound lines. Many proposals have been made in this connection. A brief reference should be made to these as some important principles are involved.

The size of the society and the area of operation have to be considered. Till now the principle followed in starting primary co-operative credit societies is "one village, one society." The majority of the village credit societies in India are of the Raiffeisen type. In theory a co-operative credit society of this type is an ideal society. But experience shows that a small village credit society which has to face competition from the money-lender cannot make much headway. "It is our considered view that the formula 'one society to one village and one village to one society' has failed in India as the basis for the organisation of co-operative rural credit."[14] It would be better to have slightly bigger societies, although the Reserve Bank of India does not seem to favour them. It is against extending the area of operation of the village credit society.[15] But it is possible to extend the jurisdiction of the village credit society without violating any of the principles of co-operation. A co-operative credit society which covers a few contiguous villages can be as truly co-operative as a society whose jurisdiction is limited to one village. It can function much more successfully than a small society. It will have greater resources. It can have a paid and competent staff instead of relying solely on honorary workers. There is wider scope for the selection of proper men to run the society.[16] Instead of having a society for each village, we should have a society for a group of villages within a radius of three to five miles. The existing primary co-operative credit societies should be reorganised on this basis.

A big credit society covering a group of villages can do much more for its members than a small society which confines itself to one village. It can undertake many functions besides the provision of credit. Many experiments have been made in this connection, and the experience gained so far shows that multi-purpose co-operative societies are much more useful and much more efficient than single-purpose societies.[17] The Reserve Bank favours multi-purpose co-operative societies.[18] A multi-purpose society can help its members in a variety of ways. It can make available to the members seed of improved quality, fertilizers, agricultural implements etc. It can help them in marketing their produce. It can engage in many more activities.[19] But one thing should be always remembered. The society should not attempt too much. Formerly, people expected the primary

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14 Report of the Committee of Direction, All-India Rural Credit Survey, Vol. II, p. 450.
15 Bulletin on Village Co-operative Banks, Published by the Reserve Bank of India.
16 Narayanaswamy and Narasimhan : The Economics of Indian Agriculture, Part I, (1948 Edition), p. 92.
17 Nanavati and Anjaria : The Indian Rural Problem, (1947 Edition), p. 410.
18 Bulletin on Village Co-operative Banks, Published by the Reserve Bank of India.
19 Narayanaswamy and Narasimhan : op. cit. pp. 94-95.

co-operative credit society to confine itself to one business, namely, the provision of credit. Now they have gone to the other extreme. They expect too much from it, just as they expect too much from the village school master by way of social service. A multi-purpose co-operative society should not engage in activities that involve much risk for the members. It carries on different kinds of business, and must follow a cautious policy.

Rural primary co-operative credit societies should be organised on the principle of limited liability. This is one of the recommendations made by the Committee of Direction of the Rural Credit Survey.[20] This is inevitable, as each society will consist of members drawn from more than one village, and also is desirable. Unlimited liability is in theory a good thing, but it has stood in the way of developing the co-operative movement. This seems to be the view of the Co-operative Planning Committee.[21] If the village credit societies are not more popular and have not enrolled more members, it is partly because they are based on the principle of unlimited liability.

New Men and New Methods

There is one difference between co-operation and other kinds of business. In the case of co-operation, especially credit co-operation, men are more important than methods. The success of the rural primary co-operative credit societies (and hence the success of our system of rural credit) depends mainly on the men who run these societies.T hese are the officials of the State Co-operative Department and the men employed by the primary and central co-operative credit societies. They should have the necessary qualifications, and should be keenly interested in their work. We need not expect any sacrifice from them. We need not expect them to work in the spirit of missionaries. Co-operation is not charity; it is business, although it is different from other kinds of business. But the men who are in charge of co-operative credit societies should be imbued with certain ideals. They should not take a narrow view of their duties. This is not expecting too much from them.

The methods employed in co-operation are important, although they are not as important as men. Today there is need for new methods. Let me give only one instance. Today the village credit society depends mostly on loans from the central bank. It receives very little money be way of deposits. During the year 1953-54 for instance, the deposits formed only 31.6 per cent of the working capital of the primary co-operative credit societies.[22] But a co-operative credit society should rely on deposits rather than on loans from the central bank. The villager is ignorant and illiterate. He does not know the value of thrift. Even when he saves money, he may not keep it in the village co-operative bank. It is absolutely necessary that the bank should approach every villager. Some representative of the bank must go from house to house and try to collect small savings. This method should be invariably employed when dealing with poor, ignorant and illiterate people. There is need for a paid agent with energy and drive. A co-

20 Report of the Committee of Direction, All-India Rural Credit Survey, Vol. II, p. 451.

21 Report of the Co-operative Planning Committee, 1946, pp. 23-24.

22 Statistical Tables Relating to the Co-operative Movement in India for the year 1953-54, Published by the Agricultural Credit Department of the Reserve Bank of India.

operative credit society with members spread over a few villages can afford to employ a paid agent working on a part-time or whole-time basis. (Leading members of the society should, of course, help the agent by using their influence. They should also carry on propaganda). Every primary co-operative credit society must try new methods. This will avoid stagnation, and ensure steady progress.

ROLE OF CO-OPERATIVE ORGANIZATIONS IN DHARWAR DISTRICT IN PROVIDING AGRICULTURAL CREDIT AND THEIR REORGANISATION

N. P. PATIL

Professor of Agricultural Economics
College of Agriculture, Dharwar

The district of Dharwar lies in the southernmost part of Bombay State. It is one of the four Kannada speaking districts. It is one of the important districts where co-operative movement has been firmly established. Co-operative societies in this district have been able to provde 30% of the finance required by the agriculturists, though according to the Rural Credit Survey Report only 3% of the finance is met by co-operative organizations, taking the country as a whole. The figure for the Bombay State is 16%.

In fact the co-operative movement in the Bombay State took its birth in Dharwar district. The first Agricultural Credit Society was organised at Kanginhal, on 8th may 1905, a village in Gadag taluka of the district. The district also leads in initiating and developing co-operative sale movement. The Dharwar district Co-operative Central Bank (Karnatak Central Co-operative Bank) is one of the sound financing agencies in the State. The progress of co-operative movement can be gauged from table No. 1.

TABLE I—SHOWING THE PROGRESS OF CO-OPERATIVE MOVEMENT AS ON 30TH JUNE 1954

Types of Societies	No. of Societies	No. of Members	Share capital	Reserve and other funds	Working capital
			Rs.	Rs.	Rs.
District Central Co-operative Bank ..	1	2,521	15,91,200	10,57,993	1,86,04,384
Central Non-credit Societies	2	73	51,570	44,345	5,48,506
Primary Land Mortgage Banks	4	1,904	65,696	31,848	3,97,775
Agricultural Credit Societies	753	69,021	22,95,840	24,33,747	1,17,13,205
Agricultural Non-Credit Societies	103	21,812	6,35,556	11,26,747	46,17,824

TABLE 1—(*contd.*)

Types of Societies	No. of Societies	No. of Members	Share capital	Reserve and other funds	Working capital
			Rs.	Rs.	Rs.
Non-agricultural Credit Societies	82	32,334	21,05,802	14,98,653	87,83,596
Non-agricultural Non-Credit Societies ..	132	11,435	4,45,810	4,30,643	24,62,717
Supervising Unions ..	18	776	—	—	—
District Co-operative Board	1	51	—	—	—
Divisional Co-operative Board	1	56	—	—	—
Federation of Sale Societies	1	33	—	—	—
Total	1,098	1,40,046	71,91,474	66,24,176	4,71,27,957

N.B.—The total number of Societies in the District as on 30th June 1955 are 1,120.

Agricultural Credit Societies

There are 768 agricultural credit societies including multipurpose societies as on 30th June 1955. The table No. II gives details regarding membership, share capital, loan advanced etc. during the year 1954-55 :—

TABLE II

Particulars		
Number of Societies		753
Number of Members		69,021
Loans advanced	Rs.	43,10,008
Share capital	Rs.	22,95,840
Reserve and other funds	Rs.	24,33,947
Bank Loan	Rs.	58,51,859
Deposits	Rs.	11,29,739
Working capital	Rs.	1,17,13,205

The total number of villages in Dharwar district is 1,333 out of which 1,328 villages are served by 763 agricultural credit societies which shows that 99.6% of the villages have been covered by cooperative organizations. The total rural population in the district is 10,82,582 and the total number of members of credit and multipurpose societies is 71,868 (as on 30-6-1955) which shows that 34% of the rural population is covered by these societies. Taking only the agricultural population, out of 8,04,650 agriculturists 71,868 agriculturists have the membership of these societies which shows that 45% of the agriculturists have been brought into the fold of the co-operative movement.

Though the above factual data give a rosy picture of the co-operative movement, the progress as is revealed by the Rural Credit Survey Report is undoubtedly far from satisfaction. The loans advanced are inadequate and untimely which force the agriculturists resort to private borrowing. The co-operative movement has yet to cover the entire agricultural community and to encompass all sectors of their life. The sale movement needs to be intensified and the processing co-operative organizations have yet to be established on a wide scale.

It has been generally recognised though-not universally that co-operative approach is the only way for the development of agricultural economy in our country. It is with this end in view the All-India Rural Credit Survey Committee recommended complete overhauling of the co-operative movement and their reorganisation on new lines and on sound footing. The Committee has mainly discussed the role of State, the Reserve Bank, the State Bank in reorganising Rural Credit, and the development of co-operative processing, marketing, and increasing facilities for storing and ware-housing.

Based on the recommendations of the Committee, the Government of Bombay has launched on a scheme of reorganisation of co-operative movement popularly known as the 'Pilot Scheme' The Government have selected 3 districts for the purpose, of which Dharwar is one. Under this scheme, a six year Plan has been drawn-up, the main aspects of which have been discussed here.

RE-ORGANISATION OF CREDIT STRUCTURE

The main idea behind the reorganization of credit structure is to have strong and viable units with limited liability. The programme envisages cent per cent coverage of villages and cent per cent coverage of agricultural population by agricultural credit and multipurpose societies. On this basis, the number of credit societies will be reduced to 510 and the membership increased to cover all agriculturists. Table No. III contains the main outline of the programme.

TABLE III

Particulars	1954-55 Present position	Target						Total at the end of the year 1960-61
		1955-56	1956-57	1957-58	1958-59	1959-60	1960-61	
Number of Credit and M.P. Societies ..	763	620	500	505	510	510	510	510
Large-sized M.P. Societies out of the above 510 Societies ..	10	60	85	110	135	160	178	178
Members of Credit and M.P. Societies ..	71,868	75,000	1,01,200	1,55,800	1,30,300	1,44,959	1,59,400	1,59,400
Number of Societies to be amalgamated ..	—	143	120	—	—	—	—	263
Percentage of villages to be covered ..	99.6	100	100	100	100	100	100	100
Percentage of population to be covered ..	45	50	60	70	80	90	100	100

Agricultural Finance

During the year 1953-54, the total amount of finance provided for agricultural purposes amounts to Rs. 95,01,734 and works out at Rs. 150 per member on an average. Under the Pilot Scheme, it is estimated that the financial requirements of the members would be of the order of Rs. 250 per member on an average. On this basis, the financial requirements would be as given in table No. IV

TABLE IV

Description	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Finance to be made available per member	150	200	200	250	250	250	250
Total finance to be made available in crores of Rupees ..	1.25	1.50	2.0	2.5	3.0	3.5	4.0

Thus it is proposed to make available short-term agricultural finance of the order of Rs. 4 crores by the end of 1960-61.

Agricultural co-operative organizations also provide medium term credit. So far, they have been able to provide Rs. 40 lakhs per year. Under the scheme, it is estimated that Rs. 1 crore would be required by 1960-61.

Long Term Finance

At present long term finance is met by the four Land Mortgage Banks. The total outstandings as on 30-6-1955 stand at Rs. 3,44,965 and during the year 1954-55, the banks have advanced Rs. 35,218. These banks normally finance for the redemption of old debts. The total long term financial needs of the district are estimated to be Rs. 15 lakhs. It is, therefore, proposed to reorganise Land Mortgage Banks as given in table No. V.

TABLE V

Particulars	Present position	Programme proposed for 1955-56	Position for 1956-51	Remarks
No. of Primary Land Mortgage Banks functioning	5	3	2	The Units are to be amalgamated.
Long-term finance given and proposed to be given	Rs. 3.50 lakhs	Rs. 4.50 lakhs	Rs. 15 lakhs	
Other financial assistance from Government	—	Rs. 6,000	Rs. 30,000	

Co-operative Sale Organizations

There are 15 co-operative sale societies in the district with suitable market centres. They cover almost all markets in the district. At present they handle only money crops. It is estimated that the quantity handled by them on an average comes to 10% of the marketable surplus. With a view to increase the percentage of the marketable surplus, it is proposed to reorganise them as below :—

TABLE VI

Particulars	Present position	Programme for 1955-56	Position during 1960-61
No. of Marketing Societies	15	15	15
(a) Share capital of the societies (in Rupees)	3·50 lakhs	3.50 lakhs	4.0 lakhs
(b) Share capital by Government (in Rupees)	—	1.0 lakhs	4.0 lakhs
Financial assistance required from Government for the construction of godowns	As per orders of Government		

Construction of Godowns

Under the scheme it is proposed to have a godown for every large-sized multipurpose society costing about Rs. 10,000. It is also proposed to have large and medium sized godowns at each market centre costing Rs. 40,000 and Rs. 20,000 respectively.

Processing Societies

At present, there is only one co-operative processing society (Cotton Ginning Society) functioning. The programme for the establishment of processing societies is as follows :—

TABLE VII

Particulars	Present position	Programme for 1955-56	Position in 1960-61
Type of Processing Societies :			
(a) Cotton Ginning and Processing Societies	1	2	5
(b) Rice Mills	—	1	1
(c) Spinning Mills	—	1	1
(d) Chilly Processing Societies	—	—	1
(e) Fruit Canning Societies	—	—	1
(f) Milk Processing Societies (with 10 feeder societies each)	—	—	1
(g) Groundnut Processing Societies	—	—	2
Financial Assistance required :		Rs.	Rs.
Loans	—	22,98,080	23,05,580
Subsidies :			
(a) Capital Cost	—	39,580	42,080
(b) Management Cost	—	12,640	2,54,700
Share capital contribution	—	14,75,000	25,50,000

District Co-operative Central Bank

The Co-operative Central Bank has no doubt to play an important role in the execution of the Pilot Scheme. As has already been mentioned, the bank is one of the sound financing agencies in the State. It has a working capital of nearly Rs. 2 crores. Following figures give an idea about the financial position of the Bank :-

TABLE VIII

Particulars		1954-55
No. of members—	(*a*) Individuals ..	2,512
	(*b*) Societies	997
	(*c*) Nominal members	5,908
		Rs.
Share capital	.. ..	16,46,300
Reserve and other funds	.. ..	11,19,852
Deposits	.. ..	1,70,65,926
Working capital	.. ..	1,98,32,078
Loans advanced—	(*a*) Individuals	1,39,77,493
	(*b*) Societies	1,79,75,666

N.B.—The Bank has borrowed during 1953-54 Rs. 2,10,258 from the Bombay State Co-operative Bank and Rs. 2 lakhs from the Reserve Bank of India.

In order to enable the Central Co-operative Bank to shoulder the responsibility under the Pilot Scheme, it has been proposed that Rs. 17 lakhs be provided as Government contribution towards the Share Capital of the Bank by the end of the year 1960-61.

The details of reorganisation are as follows :—

TABLE IX

Particulars	Present position	Target for 1955-56	Position in 1960-61
Number of branches and pay offices	29	30	35
	Rs.	Rs.	Rs.
(*a*) Paid up share capital from members ..	17 lakhs	17.15 lakhs	29.0 lakhs
(*b*) Contribution by Government towards share capital	—	5 ,,	17 ,,
Total owned funds	28.50 lakhs	30 ,,	62.50 ,,
Deposits	160 lakhs	162 ,,	180 ,,
Total requirements of finance	—	150.00 ,,	595.00 ,,
Outside borrowings estimated	—	75.00 ,,	460.50 ,,
Subsidies from Government for uneconomic branches	—	3,000 ,,	36,000 ,,

With a view to implement the scheme, the Government have sanctioned Rs. 3,74,925 as grants-in-aid, Rs. 7,42,275 as loans and advances by State Government and Rs. 16,33,500 as capital outlay for all the three Districts to be met during the year 1955-56.

Progress of the Scheme

The scheme was inaugurated on 2nd October 1955. It is, therefore, premature to say anything on the progress achieved by the scheme. However, reorganisation work on the following lines is going on at present :—

1. Reorganisation of small uneconomic societies into larger and economic units.
2. Converting credit societies with unlimited liabilities into multipurpose societies with limited liability.
3. Agriculturists are being financed on acre basis. Rs. 1,50,00,000 have so far been advanced.
4. Plans and estimates for the construction of different kinds of godowns have been submitted.

However, it is needless to mention that the success of the scheme depends upon the effective linking of credit with marketing and also the effective participation of the State in financing, organising and executing the plan and the earnestness of the officials and non-officials in implementing the scheme. If the scheme is successfully worked, Government is likely to extend the scheme to the whole of the State during the period of the Second Five-Year Plan.

REORGANISATION OF RURAL CREDIT IN INDIA—FARM PLANNING AS A GUIDE TO EXTENSION OF AGRICULTURAL CREDIT

K. S. Suryanarayana

Lecturer in Agricultural Economics
College of Agriculture, Osmania University, Hyderabad-Dn

INTRODUCTION

We have before us two chief aims :

1. An increase in the National Income of 5% per year and
2. Creation of new employment by way of gainful occupations or jobs for 11 million persons over the plan period.

Any policy aimed to solve our urgent problems will have to be viewed in this perspective, with a realistic approach relative to the resources and the needs of a vast country like ours. It has been acknowledged that planning will, therefore, be flexible and it cannot afford to ignore our largest single sector viz. Agriculture. With this background, this note attempts to examine the problem of rural credit, yet keeping in view the 5th of the formulated objectives of the "Draft Plan-Frame" viz, "to increase productivity in agriculture and to speed up agrarian reforms with an equitable distribution of land to peasant cultivators so as to stimulate the increase of agricultural production and purchasing power in rural areas." The scope of the paper is indicated by the sub-title.

NEED FOR REALISTIC APPROACH TO CLOSE THE CREDIT GAP

Recent emphasis on credit for farmers is obviously accentuated by the fact that the general farmer is handicapped in not being supplied with the right kind of credit, in right quantities or proportions, at the right time and place. This situation is naturally exploited to the best advantage by the traditional village money-lender. The All-India Rural Credit Survey is an eye-opener to this unhappy plight of the farmers, primarily because of the unsatisfactory credit instruments they have and the inadequate credit agencies catering to their primary needs of production as well as consumption. It emphasises the need for a scheme of reorganisation in the field of agricultural credit.

Any scheme of reorganising the rural sector should take note of the impediments, viz., the distressed nature of the cultivator and the depressed character of farming. In this sector, 93% of the credit supply has been through private agencies and institutional credit has not yet permeated to the extent desired, for obvious reasons. While the guiding principle of "potential earning capacity" has received growing acceptance, as a basis for agricultural credit, our Schemes of Agricultural Credit Reorganisation are primarily fashioned to strengthening the credit structure, presumably on a superficial weak base. They are aimed at eliminating or replacing the private indigenous agencies with a view to instituting a system of institutional credit. It is believed that an intensified system of organised credit would alleviate the distressed condition of farmers and that is expected to change the character of farming by virtue of the priorities laid for production purposes. In this regard, much faith has been placed on co-operatives strengthened adequately and oriented suitably with State participation and partnership. The lesson of the movement over half a century has however shown that "the practice of Co-operation in India has been very different from its theory."

Accordingly, the integrated scheme of rural credit is directed towards institutional development with one of the prior objectives of policy as "the creation of conditions in which co-operatives and other institutions will function effectively in the interests of rural production and for the benefit of the rural producer." On the basis of State-partnership, institutional development should extend to :

> (1) "co-operative credit, (2) co-operative economic activity, especially processing and marketing, (3) storage and warehousing and (4) commercial banking as represented by the important sector of State-associated banks."

All the measures thus far advanced are aimed therefore at fortifying the credit structure, since it is the instrument of credit that can make change of agriculture, in a stage of transition, possible with a minimum of physical and social loss. However, in reorganising agricultural credit on the "potential earning capacity" the gap between the need for effective agricultural credit and the practices of the credit organisation remains unbridged. To close this gap, use of farm planning seems to offer an aid to our credit policy. As farm planning is, in its essence, a calculus of the present and furture marginal productivity of both capital and labour on the farm, it affords a good basis for extension of agricultural credit. The need for such credit was illustrated by Prof. T.W. Schultz in his paper "How efficient is American Agriculture ?" (*Journal of Farm Economics* 29 : 644-58, Aug. 1947), which revealed significant regional variations in United States, showing the lag in production efficiency of American Agriculture in contrast to its Industry and European Agriculture.

THE RIGHT KIND OF CREDIT AND ITS PROBLEMS

A commercial loan policy, oriented to production, assumes the character of credit practices designed to provide loans on liquid assets with a rigid repayment schedule within a specified time.. Relating repayment of productive loans to purposes alone will not provide the requisite elasticity but only assures some element of flexibility in repayment periods. Such restricted application of loans does not afford the kind of credit instrument farmers need. Since farming in our country is a hazardous venture, with fluctuating insecure incomes and agriculture is still a way of living with surplus hands surviving on the margin of subsistence, sufficient inducements to production will have to be provided, as mere creation of favourable conditions for credit would not arouse their interests to the extent expected. A credit policy has, therefore, necessarily to be so designed as to meet all the needs of farmers (farm mortgage debt and non-real estate loans). It should be such as to aid adjustments in their production to the income and the growing market.

It is evident that by and large the value of farm production has been affected by the present inefficient use of farm resources and to overcome this resource-inefficiency, properly applied credit offers an effective tool. But no institutional credit agency comes forward to supply the kind of credit needed by our farmers, save the indigenous private agency under the conditions obtaining at present, accepting any type of security the farmer could provide. The experience of America has shown that private or non-institutional agencies dominated the field of farm credit till as late as 1930 and the change-over had been a gradual transformation over a period of 40 years or so. But for his exorbitant lending rates and fraudulent practices, the village money-lender satisfies almost every need of the insecure, low-income small-farmer, even in times of distress. Perhaps, it is at such high costs that our supply of farm credit would cover the attendant risk and un-certainty and it is obvious that the cheaper institutional agency (barring the State) could take its place only when agriculture gets stabilised and established. To that end, our Agriculture needs to be rationalised, which means a heavy outlay and planned drive.

Provision of the right kind of credit is a powerful lever to raise the effective economic and social output of agriculture. This raises two problems, viz., what is the right kind of credit and whether the kind of security on which such credit could be extended would meet the requirements of the banking policy, or could it be made to accept such a security ? To define the right kind of credit, it is necessary in the first place, to evolve an accurate measure of our farmer's earning capacity. It involves the technique of determining the farm resource use and efficiency. That is to say, the need is to assess what farmers are at present doing with the resources of their farms and appraise how they can and will utilise them. To evaluate the earning capacity of the farmer, is to outline the alternative developmental possibilities and estimate the earnings under each. Selection of the more promising alternatives, best suited to individual circumstances, shapes the farm plan. Thus, it incorporates a statement of the combination of enterprises, management policies and practices, and outlines capital improvements and means of financing the development of resources in the best possible way. Professors Black and Stewart in their report to Government of India, have suggested under one of the Research Projects preparation of farm plans embodying all possible permutations and combinations of resource allocation and use on given farms and presentation of such plans to individual farmers for trial or adoption. Unfortunately, our State Agricultural Services are not directed to such an end and Farm Advisory Work of this kind has yet to make a real beginning in our country, as is evidenced in the more advanced countries.

A sound farm plan carefully drawn out for implementation should normally form the criterion for advancing credit, well supported by an elastic but flexible loan policy, i.e., a phased out repayment plan as related to purposes of loans as well as earning capacity of farmers. This may come in conflict with the traditional banking practice and herein lies the need to adapt the institutional banking policy to the needs of precarious, yet dynamic agriculture. The justification to finance agricultural development plan depends more on its content and the way in which it fits the farm and the farmer. It acquires a meaning only when information is fully made available regarding the present resource use and its potentialities. Since such specific information as the soils, livestock, buildings, equipment and labour force, is not available in respect of our farms, a realistic appraisal of alternative opportunities available on given farms becomes difficult. This seems to be an apparent limitation in the use of farm planning as a basis of expansion of agricultural credit. It can however, be surmounted by a near realistic appraisal of farm potentialities through a suitable extension agency attached to the banking system. A re-orientation of the Agricultural Departmental policy would provide the needed technical intelligence. Alternatively, the desirability of creating a State Agricultural Economics Service for fixation of standards and collection of statistics for use in Farm Management Advisory Work as in United Kingdom, even as an ancillary body to the Department of Agriculture, needs careful examination. It appears to be an eventual need when the land reform legislation including land management, begins to be fully implemented.

Farm loans, if not adapted to greater flexibility in repayment plans and not adjusted to realities of production might defeat the very purpose of agricultural finance. An Agricultural Credit Policy has by necessity to be different from the conventional credit policy (of liquidity, safety and profitability) because of the long-run processes of agriculture with its violent fluctuations in short-run yields and prices which cannot be easily ignored. All along, our credit policy has laid emphasis on the supply side and now it is for us to plan to improve the qualitative demand for credit and make suitable modification in our reorganisation schemes of agricultural credit. To this end, farm planning is a pre-requisite.

In the absence of a farm plan and a carefully budgeted scheme of application, the so-called flexibility in lending operations of even the co-operatives loses its meaning. The progress of controlled credit schemes is a pointer to this. Since farm plans usually envisage a long chain of adjustments over a period of time, the supplying agency has to guarantee a continuous flow of funds as the development works gain momentum and as the plan progresses in its execution. Making loans as rapidly as needed is a good safeguard to increase efficiency and improve the economic stability of farms regardless of general price-level. In the early stages of implementation of the farm plan, the farmer needs a sort of insulation from the violent shocks of market or weather. To this, a policy of forward and parity prices provides a reasonable degree of protection.

PLANNING TOWARDS FARM REAL ESTATE

The relation between agricultural prices and costs obviously limits the repayment-prospects of a loan. In the light of recent contributions to the Theory of Value by Hotteling and others, it seems desirable to examine what items of fixed costs in farm developmental plans could as well be taken up by our State, particularly in the context of the declared objective to evolve a Socialistic Pattern of Society. The general low purchasing power of the Indian farmer is a point in contrast. There appears to be some reasonable justification to consider the entire cost of farm housing plans as a social cost which may be borne by an institutional agency like the State. In view of the vastness of the country and paucity of funds, it may be implemented in stages according to targets on the basis of priorities. For instance, farm housing plans, as a first step, may be tried on a modest scale in the Community Development and National Extension Blocks. Next, they are to be executed in new irrigation project areas, and gradually extended to intensively cultivated river valley basins and finally, to all wet and garden lands. In view of the land reform policy which aims at acquiring land from substantial holders and redistributing it among the landless, it is worthwhile to give a good start to them by settling them on built farms, similar to the practice in vogue in Agricultural Settlement Colonies and Co-operative Collective Colonies, as in Israel. Such an outlay in Agriculture will not lead to inflationary spiral, because of the fairly quick rise in out-put which may be expected. It will also create employment opportunities in this sector, otherwise chronically underemployed.

It is not a plan for one Five-Year Plan Period, but for a series of quinquennial plans. Its technological soundness needs no emphasis for, such plans would invariably aid in changing the farming structure as constituted by its size and layout and hasten the development of lands which means increased purchasing power for the farmer. In general, farm equipment may be expected to increase more rapidly than the supply of land. Although the livestock equipment of farms is conditioned by land supply on which they are to be bred, the supply of tools and machinery may be increased indefinitely, the limit being set only by the amount which the farmers can use with profit on the available land area. When this is accomplished the character of farming would be substantially changed, making possible easy extension of credit.

To illustrate the use of farm planning as a guide to extension of credit four stages of procedure may be outlined :

(*i*) making an inventory of the physical, human and financial resources of the farm, including a soil map ;

(*ii*) observing the present organisation of the farm business—acres and yields of crops, numbers and production of live-stock, production methods followed, receipts and expenses ;

(*iii*) outlining the more promising changes or alternative organisations and estimating probable receipts, expenses and net income for each; and

(*iv*) selecting the best suited alternative for development of the farm, according to the judgment and preferences of the farm-operator which finally becomes the farm plan.

The paper plans of farm development will have to be translated into reality which is made possible by supplementing farm planning with a suitable Controlled Credit Policy. There is an urgent need to find a way of bringing all of the productive factors of the economy into balance, amidst conflicting interests within the industry itself—interests of landowners and tenants as well as agricultural labourers, growers and sellers, and lenders and borrowers. The pattern and structure of agriculture depends on the purpose of agriculture, which poses an economic as well as a social problem. The only effective tool of economic growth, the credit ecomomy, presents several rigidities in the existing credit structure standing in the way of meeting the needs of agriculture. The farm plan is only a device to spell out what proper security is, and to channel the effort of the farmer into the productive work which for any loan is the only real security from all points of view. In the end, it is increased earning capacity that provides the real security and farm planning is but a means to an end. With the right kind of credit made available, through a system of mobile banks (like the *Rombongan* of Rural-Indonesia), in our rural banking structure ; planning the farm development can increase the efficiency of capital and labour and will lead to the ultimate end of economic and social stability, the twin ends of a Welfare State.

REORGANISATION OF CO-OPERATIVE CREDIT IN MADRAS STATE IN THE SECOND FIVE-YEAR PLAN

M. Srinivasan

Lecturer in Agricultural Economics
Agricultural College, Coimbatore

There are at present 10,295 agricultural credit societies in the Madras State with 9.8 lakh members on their rolls. These societies cover 49.37% of the villages and serve 21.04% of the rural population in terms of families. While the State and the Central Co-operative Banks and the Central and primary land mortgage banks in the Madras State are well established, the condition of the primary agricultural credit societies in villages require toning up and improvement so that they can play a vital role in providing agricultural finance in the context of the rural India of the future. At present, the credit supplied to agriculturists by the co-operatives in the Madras State is only about Rs. 5 crores under short term, medium term and long term. It has been estimated that the total credit requirements of the cultivators in the State are about Rs. 70 crores. With reference to these estimates the credit now provided by the co-operatives is only 7.1%. Besides there are 16 Co-operative Banks which form the pivot of the financing structure of the co-operative movement.

In pursuance of the recommendations of the All India Rural Credit Survey Committee a scheme for the development of integrated rural credit and marketing has been formulated by the Registrar of Co-operative Societies for being implemented during the period of Second Five-Year Plan. This scheme includes (1) the organisation of 375 large-sized primary credit societies and 25 rural co-operative banks on a phased programme during the plan period ; (2) the expansion of the activities of the existing village credit societies ; (3) the organisation of 30 primary marketing societies and 25 primary land mortgage banks ; (4) the reorganisation of the District Co-operative Whole-sale Stores into District Supply and Marketing Society ; (5) the large-sized societies to be formed and the existing rural credit societies will issue loans on the security of anticipated crops and also loans to ryots in economically backward areas; (6) These societies will put up godowns with the help of government loan and subsidy ; (7) The marketing societies will also put up godowns and establish processing units wherever necessary with the help of Government loan and subsidy.

As a result of the working of the scheme, it is expected that co-operatives will supply credit to ryots to the extent of Rs. 15 crores or atleast 20% of the total credit requirements of the ryots during the last year of the plan period viz., Rs. 10 crores under short term, Rs. 4 crores under medium term and Rs. one crore under long term. At least 75% of the villages would have been brought under co-operative fold and 50 % of the rural population in terms of families would be served. With a view to providing substantial owned capital to the societies State participation in the share capital of these organisations will be provided. With a view to making available the trained personnel that will be required by the reorganised co-operatives, schemes have been drawn up to expand the training facility in the State by opening more training institutions. A training institute has also been registered at Kozhikode to serve the districts of Malabar and South Kanara. The total expenditure involved in the schemes of integrated rural credit and marketing is roughly Rs. 3.03 crores. These schemes and others would involve considerable outlay in terms of finance and the Central Co-operative Banks will have to find a large part of the funds required for implementing the schemes from their own resources as well as from the Reserve Bank of India.

The above measures, proposed or already implemented are meant to bolster the primary agricultural co-operative credit societies from the administrative angle in order to convert them to "live wires" responsive to the needs of the rural populace, catering to all their wants and imparting the intimacy with their constituents which is the main asset of money-lenders-cum-traders. As the U.N. publication on Community Development Projects points out "A significant aspect of the administrative arrangements......is that it aims at the transformation of the existing general administrative structure into welfare cadres rather than at the establishment of a separate and distinct welfare administration."

TECHNICAL REORGANISATION OF RURAL CREDIT—SUPPLY SIDE

Rural credit has hitherto been based on the shaky and uncertain foundation of the mainspring afforded by the profit motive to private agencies. If money-lender legislation, moratorium on loans or debts or even scaling down was whispered about private credit tended to run dry. Mobilisation of rural savings was not actively pursued nor was there much capital formation of an appreciable size among the majority of rural folk owing to the narrowness of the gap between income and outgo. Apart from the obvious recipes of augmenting the income potential thus indirectly bolstering capital formation and of getting rid of the money-lender thraldom, the fundamental question remains unanswered, namely, the mobilisation of rural savings, however meagre they may be now and of the enlarged fruits of thriftiness later for satisfying the credit needs of agriculturists. The co-operative movement is the best means of performing this task but the record revealed by the deposits of members and non-members hitherto is a depressing one. Hence technical reorganisation of rural credit involves three elements : (a) elimination of money-lenders-cum-traders along with the expensive and uncertain credit they afford ; (b) augmentation of rural savings through increasing rural income and reducing wasteful and extravagant expenditure ; (c) mobilisation of rural savings through deposits of co-operative societies and ploughing them back into productive channels in agriculture. The first item will automatically wither away as the co-operative movement with State-partnership gains strength and the implementation of the second is the objective of the First and subsequent Five-Year Plans. Hence attention should be focussed on the 3rd item for no amount of State spoon-feeding will impart inherent strength to the co-operative movement unless it is financially strong and able to dispense with State assistance as soon as possible. This can only be done by not giving credit alone but also taking the savings made possible by the productive use of credit—in short, a policy of "give and take."

It had been estimated that Rs. 750 crores was required for agricultural finance to make agriculture efficient. Till now, most of the money was coming from the money-lenders. The programme for co-operative development has set itself the following targets : (1) to provide short term loans to co-operatives to the extent of Rs. 150 crores by 1960-61 ; (2) to provide medium term loans amounting to Rs. 50 crores by 1960-61 ; (3) to provide long term loan to the extent of Rs. 25 crores by 1960-61. Short term loans will be for crops, while medium term loans will be for land improvement like sinking of wells etc., and long term loans for land redemption. The object is to supply 20 to 25% of the total agricultural credit through the co-operative movement at the end of the Second Five-Year Plan and this would progressively be increased to cent per cent of the credit needs of the peasants. These targets were to be achieved by enlarging the membership of the primary agricultural credit societies from 5 to 15 million. The experience of the last 50 years had proved beyond doubt that small credit societies with the restricted membership was not the answer to the village money-lender and hence the 12,000 larger-sized societies with whole-time paid managers to be established during the next five years.

The co-operatives did not pay sufficient attention to the provision of medium term agricultural credit due to the paucity of medium term resources with the Central Co-operative Banks and also due to the absence of a suitable machinery to undertake the disbursement of such loans at the primary level. The existing rural credit societies on unlimited liability basis with their weaknesses and short comings could not be expected to play the desired role in providing medium term agricultural finance promptly and adequately. Hence a separate agency called the Rural Co-operative Bank has been started in the Madras State with a target of 25 of which 19 have been started in the year. The objective is that these banks should function only as distributors of medium term agricultural finance on the security of immovable properties but also serve as an effective instrument for mobilising rural savings and canalising them for productive agricultural purposes. They will also help to increase the loan business of the Central Co-operative Banks. The Reserve Bank of India has given help in providing medium term credit for agricultural purposes at the concessional rate of interest and hence the Madras State Co-operative Bank is in a position to lend Rs. 80 lakhs as medium term advances for financing agricultural credit societies and rural co-operative banks. Out of these Rs. 80 lakhs, Rs. 40 lakhs represent the medium term loans sanctioned by the Reserve Bank of India and the remaining Rs. 40 lakhs will be issued out of the State Co-operative Banks' own resources. These loans are now available only for a period of 3 years while the ryots need 5 year loans also for some of their agricultural operations. It is to be hoped that the Reserve Bank of India will extend, in due course its medium term credit for a period of 5 years so that the agriculturists can reap the full benefit of its concessional finance.

According to the standards now in vogue, a Central Bank should have issued 65% of the total loans advanced by it during the year, for short term purposes, if it is to be eligible for being placed in class A. But, in view of the difficulties experienced in maintaining this ratio as a result of the increased demand for medium term credit for agricultural purposes the question of revising the limit for short term and medium term loans for the purpose of classification in Audit, so as to enable the Central Banks to issue more medium term loans has been taken up in the Madras State with the Reserve Bank of India.

The greatest defect of the co-operative movement hitherto has been that it has failed to mobilise or tap the savings of the rural sector especially benefited and swollen by the inflationary rise in prices during the war and postwar period. Deposits of members and non-members have played an inconspicuous and minute role in the working capital of the co-operative societies. Unless these deposits are increased and made to play the part of a revolving fund circulating within the village, the dependence of co-operative societies on extraneous help in the shape of funds mobilised from urban areas will continue. With the shrinking of urban savings due to the disappearance of the saving classes as the princes and zamindars and the impoverishment of the middle-class by increasing the rates of taxation and also owing to the prior claims of investment in industry, transport and communications with their call on urban savings, as envisaged in the Second Five-Year Plan it is obvious that co-operative societies will have increasingly to stand on their own legs.

There has been a shift of "savers" to the rural sector and hence to increase the deposits for utilisation for productive purposes will not be a difficult task. Adequate means of propaganda and publicity, launching of savings drive and campaigns as was done and being done in Great Britain, can help in achieving this objective. If necessary, the Government could consider either giving of a guarantee to these deposits on the lines of the guarantee given to the debentures issued by the Central Land Mortgage Bank or alternatively, higher and attractive rates of interests could be offered on the deposits with differentials to non-members and the State could subsidise the difference between the incentive rate and the market rate or thirdly, a deposit reinsurance scheme on the lines of that discussed in U.S.A. could be tried with State support. With either of these three measures it is hoped that the traditional suspicion of the Indian ryot, sometimes borne out by the frequency of liquidations among co-operative credit societies will be set at rest and it is felt that deposits, at present frozen underground or coiled round the necks of ladies in the shape of jewels and ornaments will thaw and wend their way to the coffers of co-operative societies.

REORGANISATION OF THE BASIS OF RURAL CREDIT—SUPPLY SIDE

Credit worthiness and possession of property have been the basis or main criterion for advancement of rural credit hitherto by both money-lenders and the co-operatives. The original idea envisaged in setting up co-operative societies was a multipurpose one embracing credit, purchase, sale, agricultural improvements, better living and promotion of thrift. Unfortunately, the Nicholsonian good intentions were still-born and swamped by the urgent, clamorous and imperative credit needs of the Indian peasantry. This undue emphasis on credit inevitably led to the exclusion of a large mass of Indian peasants who were in greatest need of credit on the ground of their uncreditworthiness. Property became the sole criterion for soliciting the assistance of co-operative credit societies and hence only the monied classes who form an insignificant minority of rural populace were able to benefit from the movement. The co-operative movement inspite of 50 years of existence has not covered all the villages in India nor has it covered all the rural families within a village nor has it catered to all the credit needs of even the minor proportion of agricultural families who are members of the primary agricultural credit societies. With the increasing institutionalisation of credit and the long term tendency for indigenous money-lenders to disappear it is obvious that the co-operative movement will have to step into the breach. As the Rural Credit Survey has pointed out the criterion for lending should be need rather than capacity to borrow thus involving a fundamental change in the attitude of co-operators. This will lead to a reorganisation in the basis of rural credit from property statements to standing crops.

As a corollary, the entire concept of co-operation should change from credit to a multipurpose one. The blinkers worn hitherto should be discarded and the entire life of the rural peasantry economic, social and cultural—should be catered to by the movement. Like the Community Projects dotting the countryside the co-operative movement should become a multifaceted, all-embracing body. Some steps have been taken since the Saraiya Committee Report of 1946 to evolve multipurpose societies and this move would now acquire increasing momentum and drive. Uni-purpose societies are alright for advanced countries with one or two felt needs at the most but in a backward country steeped in poverty with a myriad needs clamouring for attention the many-pronged attack with or without unlimited liability will be the only cure all. Thus of the 12,000 large-sized societies to be established at least 6,000 will have their own godowns for stocking seeds, fertilisers, agricultural implements, kerosene oil etc., which the farmers require. They will also have some space for keeping the produce of smaller cultivators. Thus the larger-sized societies will not be mere credit societies. It will arrange supplies and help in marketing.

A much neglected aspect of credit has been that of marketing credit. The inability of cultivators to hold back their produce at harvest time has often led to seasonal gluts with consequent catastrophic declines in prices. The experts have agreed that unless co-operative marketing and processing develop simultaneously the recovery of large amounts which are proposed to be lent through the co-operative institutions may not be realised in full. Therefore 1,500 primary marketing societies each having an average paid up capital of Rs. 50,000, half of which will be contributed by the State will be established in 1960-61. The net-work of marketing societies will be supported by a chain of 300 to 350 warehouses which will be constructed by Central and State Warehousing Corporations. The Central Ministry of Food and Agriculture is likely to receive an allotment of Rs. 25 crores from the Planning Commission for strengthening and establishing the marketing and processing co-operative societies and setting up of a chain of warehouses. A board called the National Co-operative Development Board and Warehousing Board will be established by the Government of India statutorily. It will be a policy making and promotional body. The Warehousing programme will be executed by a National Warehousing Corporation, besides 15 to 19 State Warehousing Corporations. Thus for the first time in the history of co-operative credit an attempt will be made to combine production and marketing credits, somewhat on the lines of the controlled credit system in Madras State.

REORGANISATION OF END-USE OF RURAL CREDIT OR SUPERVISED CREDIT—SUPPLY SIDE

It is a well known fact that money-lenders-cum-traders rarely bothered about the end-use of the credit which they advanced. Thus production and consumption credit were inextricably mingled together. The purpose of loan was of the least interest to the private agency and the advancement of the peasant through fruitful use of credit excited even hostility among the vested interests in the peasant's illiteracy and poverty. The cooperative credit societies followed this lackaidaisical method for a long time. The loans were disbursed after considerable delay thus scaring the agriculturists from approaching the societies except as a last resort. Especially avoidable delays have been caused by needless form filling, unnecessary shunting of loan applications to and from caused by a desire to shirk responsibility and a parsimonious attitude causing the rejection of many applications on flimsy grounds or on the contrary, a prodigal excessive liberality little tempered by responsibility. A simple flexible approach with minimum delay should be evolved with the help of the sympathetic trained staff on the lines of the Farm Security Administration and the Rehabilitation Adminstration in the U.S.A. This is an internal domestic problem and can be expected to be solved with the newly trained staff.

Misapplication of loans issued to the members of the village credit societies and diversion of funds issued for short or medium terms to long term purposes is a very common occurrence though no exact figure of such malutilisation is available. Many remedies can be suggested for improving this deplorable state of affairs. As the Rural Credit Survey points out the wholesale importation of the American Home Farm Advisers and ancillary paraphernalia is not possible nor desirable under Indian conditions. Stricter enforcement of contracts entered into while granting the loans through action against offenders and constant inspection by a roving staff of sub-Registrars and village officials and the Panchyat can remove this defect. A better method is being tried through the multipurpose society catering to the entire village populace indenting for the requirements, of their members for production—seeds, fertilisers, implements, insecticides and pesticides and consumption—salt, cloth, kerosene etc., so that the need for cash loan will not arise or can be reduced to minimum extent. Naturally the work involved will be more but the need for inspection will be less. Crop loans are the best method to ensure a wider coverage and a more adequate satisfaction of the credit needs of the ryots. This system should increasingly replace that of loans given on security of property. The dangers to be guarded against in this connection are that the crops proposed to be raised are actually raised and that the tenants or lessees coming under this system have a reasonable security of tenancy. This can be undertaken on the lines of the Tanjore Tenants and Pannayals Protection Act of 1952. The safeguard for crop loans and forecast loans lies in the introduction of a system of crop—insurance in order to diversify risks borne by co-operative credit society.

The supervision of the employment of credit will enable outstandings to be reduced to a minimum. Production credit should enable the farmer to increase the profitability of his enterprise and pay back his dues in time. Overdues are the result of lethargy in collection and have led many societies to "carey street"(liquidation). Hence prompt steps to recover outstanding and refusal to countenance renewals will obviate the incubus of overdues. If consumption and neutral credit is reduced to a minimum the rural credit structure will be placed on a sound footing. The village guides or gram sevaks as they are recruited along with the officials of the co-operative movement have a role to play in advising the agriculturists on the wise use of credit and the need to reduce sumptuary and ceremonial expenditure to a minimum. The Madras average of the percentage of overdues which was 10·94 in 1953-54 had gone up slightly to 11·2 in 1954-55. If the Co-operative Central Banks are to command the strength required for shouldering the heavy responsibilities they will have to bear in the implementation of the various co-operative schemes proposed to be undertaken in the Second Five-Year Plan, they will have to guard against the rising overdues and this will only be possible if the constituent primary co-operative credit societies do not allow themselves to be saddled with overdues in their turn. The percentage of overdues is the main yard stick with which the public, not to speak of the investors and creditors, measure the soundness and the progress of co-operative credit institutions. Deposits from members and non-members and hence the tapping of rural savings will only be possible when confidence is inspired among the village folk. Thus this perennial problem of overdues is intimately associated with supervised credit. The latter not only will increase the profitability of agriculture and the farming communities at large but also the soundness of co-operative credit societies and thus impart a reflected glory to the District Central Banks.

In this connection, the attention of co-operators is engaged with the question of reducing the rate of interest charged to the ultimate borrowers below the $6\frac{1}{4}\%$ charged at present. Two points arise in this regard. Firstly, in bringing about any change in the rate of interest, care should be taken to ensure that the primary societies have sufficient margin. For, the primary agricultural credit societies constitute the base of the credit structure and the societies should have sufficient margins in their business so that they may develop into healthy economic units. Secondly, too easy or cheap credit may act as a heady wine and lead to extravagant borrowings without any commensurate benefits. Hence, in future discussions a via media between the stick and carrot—between a deterrent and an incentive rate should be chosen and the cultivators taught to use it productively so that they can understand the benefits of co-operative credit as against private money-lender credit.

SOCIOLOGICAL REORGANISATION OF RURAL CREDIT—DEMAND SIDE

The sociological inhibitions in the field of credit have been well analysed by the Rural Credit Survey. The hierarchical structure of rural society still seems to play a dominant role to the detriment of satisfying the credit needs of disadvantaged classes and group tensions, factions, bickerings, squabbles and quarrels often result from this concentration of power in certain privileged few. The benefits of Government assistance and the advantages of co-operative endeavour accrue only to this tiny minority who are looked upon as the leaders of the village. But neither by training nor by qualifications do they deserve to be regarded as the fit leaders of the village except by the dominant community of which they happen to be members. Weaker and less powerful communities have suffered at the hands of this casteism and community spirit. Artisan classes in most villages have not benefited from co-operative or other credit because of their economic backwardness. Credit was the weapon used unscrupulously by the powerful and richer elements to keep the majority of the village folk in semi-bondage. This was specially true in Tanjore district where the Pannayals or Padiyals as the attached labour is called were lent money for marriage and lived in perpetuity as bonded serfs unable to repay the money. Only in 1952 the Tanjore Tenants and Pannaiyals Protection Act gave relief to this long suffering segment of the rural population. Hence rural credit even in private hands was biased-credit-denied to certain sectors who proved too independent and given easy access to others with a view to impound enough hewers of wood and drawers of water for the landlord and lent at extortionate rates to others to get them into economic bondage through forced sales at reduced prices to the lender. Hence the partition of the villages into powerful and weak or dominant and meek classes motivated by extraneous considerations of caste or religion or community was complete even in the hey-day of private credit. This compartmentalisation was handed over to the co-operative movement also. The Rural Credit Survey has given innumerable instances where co-operative credit was channelled to favoured elements, mismanagement was winked at on community considerations and nepotism was rife. Even an effort co-operatively conceived to improve the standard of life of the villagers was twisted out of shape to benefit the same privileged few. Hence sociological reorganisation of rural credit becomes imperative.

This is a subject outside the purview of economic theory and practice. Group tensions are being studied and education, especially with sociological emphasis will do much to eradicate group suspicions, hatreds and jealousies. The idea that all must pull their weight to lift the villages out of the morass of poverty into which they have sunk should be inculcated. This is a task for sociologists and educationists and the community project idea is an excellent one for propagating the gospel of "all for each and each for all." As the number of community projects and their coverage increase it is to be devoutly hoped that past irrelevant prejudices and suspicions will be shed to be replaced by a well knit cohesive, compact community imbued with the same ideal of village betterment. In such a society rural credit will really find its way to the needy, backward and disadvantaged elements and help to bring them up to the level of their more fortunate brethren.

It is neccessary to emphasise the importance of drawing out local initiative and leadership so that the movement could be progressively de-officialised. As Dr. Punjab Rao Deshmukh said in Patna on the International Co-operative Day on November 6th 1955, "Further there is the very material consideration that if all do not participate in work, and therefore, in wealth, those who are left out will constitute a social threat which may well prove the ruin of all. In self interest, therefore, we cannot have any other policy, but one which will involve the greatest participation of the largest number in every field of economic activitity. Such participation, moreover, has to be one which is not dragooned but voluntarily entered into on the basis of a share in the rewards proportionate to the effort and the loyalty of the member to the organisation." It can safely be stated that the movement should be increasingly a people's one headed by those in whom the people repose confidence instead of fear. The recommandations of the Planning Commission regarding people's participation should be taken into con sideration in this connection. We want not only to "find more Raiffeisens" but also more "Robert Bakewells, Arthur Youngs and Turnip Townshends" in the country. Probably the Krishi Pandits can be roped in for this purpose like the "Stakhonovites" in Soviet Russia. The intelligentia have a responsible role to play in village life in order to create villages fit for heroes to live in. The example of a key few will be followed by the many and leadership in the rural credit field consists of borrowing wisely, spending sensibly and repaying betimes. Leadership provides the clue to a successful rural credit policy.

PSYCHOLOGICAL REORGANISATION OF BORROWERS OF RURAL CREDIT—DEMAND SIDE

Owing to multifarious causes which need not be gone into here *benami* transactions, wilful misuse of borrowed funds, defalcations, refusal to pay in time and other unsocial activities abound in the field of rural credit. A psychological reorganisation is urgently needed to reorientate the peasants' outlook as regards productive use of rural credit. Many look upon credit as an easy way out of catastrophe or as means to indulgence in wasteful expenditure rather than as rehabilitator and as a stepping stone to a happy and contented future. Unlike the U.K. or U.S.A. farmers the mentality seems to be one of either conscious or unconscious dishonesty. But this is not an irremediable calamity and is due to firstly, lack of education especially in the aspects of better living parsimony and "playing the game" and secondly, due to the low income potential and consequent subsistence standard of life. There is no ingrained propensity to cheat or to be dishonest as some may aver. Hence the increase in national income, improved standard of life, and adult education in the Second and succeeding Five-Year Plans will slowly and imperceptibly effect a gradual change in the mentality of agriculturists to one of co-operation, participation and enthusiasm in community endeavour as revealed in the Community Project experiment. This can be expected to impart its effect to the rural credit field also. Better living societies and others can be expected to wean the agriculturists from profligacy and lead them to a more honest and righteous path in the credit sector.

SEARCHLIGHT ON RURAL CREDIT—PRIVATE AND CO-OPERATIVE—IN CERTAIN VILLAGES OF COIMBATORE DISTRICT

Special enquiries were made in sixteen villages in six out of ten taluks of Coimbatore district regarding the rural credit picture, the results of which are summarised in Annexure I of this paper. Some of the columns require a word of explanation. The landholders are taken only cultivating pattadars. Thus cultivating tenants are excluded from the table. Capital worth is a complicated sum of the money worth at present values of wet lands, garden lands and dry lands in the village (total area under the respective categories multiplied by their values at present) plus value of cement terraced (if any), Calicut tiled, country tiled and thatched buildings in the villages plus value of deadstock as country ploughs, bullock carts, crowbars, mamatis, sickles, handhoes, oil engines and pumpsets in the village (Number x Price) plus value of livestock as working bullocks, milch cows, dry cows, sheep, goats, pigs, poultry etc., in the village as given in the livestock census. Reliance had to be placed on figures provided by the respective village *Karnams* and hence the absolute veracity of the figures cannot be vouched for. A glance at the highlights revealed in the table show the rather deplorable and parlous state of co-operative credit and the leeway which has to be made even in such a small canvas of a nationwide picture. Thus per capita landholder loans from credit societies show a remarkable range from Rs. 100 in Sravanampatti to as little as Rs. 3-6-0 in Polavakkalipalayam. The loans worked out on a per cultivated acre basis reveal a still more depressing picture with loans varying from Rs. 11 in Tattanur to Rs. 2-2-0 in Polavakkalipalayam. An attempt has been made to work out the amount lent by co-operative credit societies, wherever existent to the capital worth of the village and the figures hardly go above 1 per cent and as low as 0.1 per cent in two of the villages studied. On the other hand, money advanced by money-lenders, wherever figures were available, show a high percentage of 17 per cent in Mannarai and 16 per cent in Poriyurgramam and does not fall below one per cent.

CONCLUSION

An attempt has been made to analyse the various aspects of reorganisation involved in imparting a "new look" to rural credit. It is a formidable and Herculean task but that should not deter reformers from attacking the problem with zeal especially since the Rural Credit Survey Report has blazed the trail recently. Rural credit, as pointed in the beginning, is an important facet of the economics of agriculture and provides one of the keys to a successful and prosperous agricultural community. It is essential that the really deserving and creditworthy should be succoured to find a better life and that the credit is not frittered away in trivialities but used constructively to climb the rungs of the agricultural ladder steadily. Rural credit, properly given, properly supervised and got back in time can lead to the three-fold motto of "better farming, better business and better living" in double quick time.

ANNEXURE I

HIGH LIGHTS OF RURAL CREDIT IN CERTAIN VILLAGES OF THE COIMBATORE DISTRICT— A COMMERCIALISED AND MONETISED REGION

S. No.	Name of Taluk	Name of village	Number of land holders	Area under cultivation	Number of money-lenders	Amount lent., Chit funds, other sources of private finance including money-lenders	Number of members of co-operative credit societies	Amount lent by co-operative societies
1	2	3	4	5	6	7	8	9
				Acres		Rs.		Rs.
1.	Gobichettipalayam.	Polavakalipalayam	1,168	1,835	8	75,000	63	4,000
						1 chit funds		
2.	Do.	Kolapalur	2,140	4,100	10	1,50,000	125	N.A.
3.	Do.	Vellankovil	358	2,382	9	1,35,000	136	N.A.
4.	Do.	Poriyurgramam	300	500	10	3,00,000	No Society	
5.	Do.	Lakkampatti	184	1,223	N.A.	90,000	239	11,247
						2 chit funds		
6.	Avanashi	Kanoor	341	3,968	20	N.A.	No Society	
7.	Do.	Tattanur	400	2,740	20	1,00,000	107	30,000 (2 societies)
8.	Erode	Avulpundurai	411	7,800	10	N,A.	Stopped functioning due to local disputes	
9.	Udamalpet	Kadathur	324	1,082	12	40,000	160	8,000
						1 chit fund		
10.	Coimbatore	Chinnathadagam	420	2,000	20	22,000	No Society	
11.	Do.	Veerakeralam	460	2,070	N.A.	50,000	115	5,000
12.	Do.	Alandurai	617	4,000	N.A.	1,00,000	Started recently	
13.	Do.	Sravanampatti	100	2,727	N.A.	N.A.	N.A.	10,000
14.	Do.	Tenkarai	493	3,262	4	3,00,000	No Society	
15.	Palladam	Mannarai	310	1,990	N.A.	2,50,000	110	10,000
16.	Do.	Kangayampalayam	80	1,700	6	20,000	166	6,000

(Contd.)

ANNEXURE I

High Lights of Rural Credit in Certain Villages of the Coimbatore District—A Commercialised and Monetised Region (Contd.)

S.No.	Name of taluka	Name of village	Capital worth of the village	Percapita land-holder loan from credit society	Per cultivated area loan from credit society	Col. 9 as % of col. 10.	Money-lenders' amount expressed in % to total capital i.e. 7 and 10
1	2	3	10	11	12	13	14
			Rs.	Rs.	Rs.	%	%
1.	Gobichettipalayam	Polavakkalipalayam	37,24,000	3 6 0	2 2 0	0.1	2
2.	Do.	Kolapalur	43,77,000	—	—	—	3.3
3.	Do.	Vellankovil	63,75,000	—	—	—	2
4.	Do.	Poriyurgramam	18,39,000	—	—	—	16
5.	Do.	Lakkampatti	43,23,000	61 0 0	9 0 0	0.2	2
6.	Avanashi	Kanoor	77,00,000	—	—	—	—
7.	Do.	Tattanur	20,80,000	75 0 0	11 0 0	1.4	5
8.	Erode	Avulpundurai	99,64,000	—	—	—	—
9.	Udamalpet	Kadathur	40,15,000	24 10 0	7 6 0	0.2	4
10.	Coimbatore	Chinna thadagam	10,00,000	—	—	—	2
11.	Do.	Veerakeralam	46,63,000	11 0 0	2 4 0	0.1	1
12.	Do.	Alandurai	68,40,000	—	—	—	2
13.	Do.	Sravanampatti	35,42,000	100 0 0	3 12 0	0.3	—
14.	Do.	Tenkarai	88,55,000	—	—	—	4
15.	Palladam	Mannarai	15,00,000	32 0 0	5 4 0	0.6	17
16.	Do.	Kangayampalayam	22,67,000	75 0 0	3 7 0	0.3	1

CO-OPERATIVE CREDIT

V. SUNDARA RAJAN

Reader in Co-operation

Faculty of Commerce, Baroda

"Co-operation has failed but Co-operation must succeed. The foremost objective of policy then becomes the positive and deliberate creation of conditions in which co-operative credit will have a reasonable chance of success."[1] This is the verdict of the Rural Credit Survey Committee on the fifty-year old co-operative movement in India.

The reputed causes of the failure of co-operative credit in this country have been discovered and rediscovered from time to time as the structural defects and functional deficiencies in the system and the absence of favourable conditions in which co-operation could succeed. In the opinion of the Committee, "The more fundamental causes of the failure are economic and socio-economic. In other words, it is in the factors which condition the cultivator's economic activity and the social background against which the activity takes place, that we believe, will be found the real explanation for the great disparity between the dimension of performance on the one hand and expectation and promise, on the other, of co-operative credit in India."[2]

In an assessment of the record of the co-operative agency in the field of rural credit in India, the points that need be emphasised are as follows. Co-operation was a gift from the government to the people. The desire of the government was that co-operation should be adopted and widely practised, because experience has shown that Co-operation is good and good more especially just for those ills and troubles which have for a long time weighed heavily upon the country ... But they felt that they must take the matter in hand, because need cried for it, in as much as there was no one else to do it—no Charles Howarth of Rochdale memory, no Vansittart Neale, no Schulze, no Luzzatti. Oppressive, steadily growing debt, backwardness of agriculture, and languishing of those varied cottage industries which mean so very much to India, lay heavily upon the land, stopping progress and preventing national well being ....It wanted genuine, creative Co-operation, not a hot-house plant, artificially forced into unprofitable vegetation to look pretty.[3]

That the official sponsorship of the co-operative movement as is sometimes regarded is one of the features which explain the inadequacy of its performance is not the point I wish to emphasise. But the point is that it did not spring from within but was foisted upon the rural folk from outside and that it has not yet been grafted into rural life as fully as to make rural life breathe the essence of it. It becomes necessary to point out the importance which Sir Horace Plunkett attaches to what he considers a fundamental principle of Co-operation, namely,

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1 All-India Rural Credit Survey : Report of the Committee of Direction, Vol. II, p. 253.
2 All-India Rural Credit Survey : Report of the Committee of Direction, Vol. II, p. 372.
3 H. W. Wolff : Co-operation in India. (1927), p. 96.

"the immeasurably more effective value of organised voluntary action than of State assistance, however essential this might be."

The development of co-operative credit in India, it has been said, has been inadequate in more than one important respect. There are large parts of the country which have hitherto not been covered ; there are vast co-operative "deserts", where the boon of co-operation has not been received. Of the total number of agricultural credit societies, 1,11,628 in 1952-53, Bombay had 10,089, Madras 17,189, Uttar Pradesh 27,821 and West Bengal 10,270, Madyha Pradesh 8,436 and Punjab 7,547. In other words, over 72 per cent of the agricultural credit societies were working in these six States. There is another aspect of the inadequacy of development. There are large sections of the agricultural population which still remain outside the movement. Even in States mentioned above the percentage of members of agricultural credit societies in relation to the total number of rural families is as follows : Bombay 17.5 ; Madras 16·6 ; Uttar Pradesh 8.7 ; Madhya Pradesh 4.0 ; and Punjab 21.0.

Co-operative credit in India in practice has not been truly educative. It has failed to inculcate the virtues of thrift and self-help. At the end of 1952-53 the owned funds of agricultural credit societies amounted to only Rs. 4.41 crores or 8.9 per cent of the total working capital. Loans from the State or Central co-operative banks or Government amounted to Rs. 25.49 crores or 51.8 per cent of their working capital. Thus the emphasis on thrift is inadequate. The owned funds and borrowings constitute a substantial portion of the working capital of primary agricultural societies while deposits form only a meagre part. Thus in the system of co-operative finance to agriculture, there has been a steady flow of funds in one direction, namely, from the apex or central financing institutions to the village credit societies.

In the Baroda District at the end of 1952-53 the total number of agricultural credit societies was 375 with a membership of 20,784. The percentage of members of the credit societies to the total rural population in the district was 2.3. The average membership of societies was 55. The average share capital per society was Rs. 2,154 and the average share capital per member Rs. 38. The average share capital per society in the Bombay State for the same year was Rs. 3,100 and the average share capital per member, Rs. 42. The owned funds of these societies have risen from Rs. 7.2 lakhs in 1948-49 to Rs. 17.0 lakhs in 1952-53 or from 34.3 to 47.0 per cent of the working capital. But the deposits have shown a different trend. Since 1949-50 there has been a fall in the amount of deposits i.e., from Rs. 12.3 lakhs to Rs. 7.8 lakhs. The average deposit per member is Rs. 36 and the average deposit per society is Rs. 2,034. The percentage of deposits to the total working capital was 21 in 1952-53.

The borrowings of the credit societies have steadily increased. Thus at the end of 1952-53 the borrowings amounted to Rs. 12.5 lakhs or 32 per cent of the working capital. Since the owned resources and deposits of the societies were not adequate to meet the increased demand for funds, the societies have had to borrow from the central bank.

The village credit society is the foundation on which the co-operative structure stands. Yet how weak it is ! We cannot build a mighty fabric on this insecure foundation. It is the good foundation which makes the secure structure. In 1915 the Maclagan Committee remarked, "We regret to have to say that the conclusion has been forced upon us that in the majority of cases, primary societies in India fall short of the co-operative ideal. Speaking generally, even allowing for the backwardness of the population, there has been found a lack of true co-operation."[4] And even after four more decades in the history of the movement, as the Rural Credit Survey Committee has observed, "......the weakest link of all in a chain which is weak at almost all points is the primary co-operative credit society. It satisfies none of the requisites of either good co-operation or sound credit. Its failure to promote thrift and savings is followed at not too great a distance by its failure to provide in the village a system of credit which is at once adequate, prompt and productive."[5] Rivalry between groups, factious spirit among the villagers, unfair practices have all marred the satisfactory working of village credit societies in India. It has been remarked that the village society is often a "ganging up" of powerful elements in the village and too often exhibits the selfish interests of those that have come to control the affairs of the society.

According to the findings of the Rural Credit Survey Committee, "the coexistence of three important facts viz., (1) the organic connexion between credit, marketing and processing, (2) the powerful urban-derived competition arrayed against co-operatives in each of these spheres, and (3) the weak rural-based structure of co-operative credit, provide in our view an important explanation why co-operative credit has by and large failed in this country."

The opposition of powerful private trading and financial interests has operated in a manner not only for the failure of co-operative credit but for the internal weakness and helpessness of the rural structure. It is in the rectification of this maladjustment between the rural structure and the forces of the urban economy that the real solution, according to the Rural Credit Survey Committee, lies for the success of co-operation. The help that must be rendered to co-operation—if eventually it may not only help itself but need no outside help—can only come from the State if it is to be of the requisite magnitude and of a type which will enable the co-operative organisation to withstand the pressure of opposition of vested interests. Thus through the important part of the recommendations of the Rural Credit Survey Committee runs the theme not only of State guidance and State aid but also of State partnership with co-operatives in credit, processing and marketing.

The Rural Credit Survey Committee has in the formulation of the solution attached much greater importance to the economic activity which follows production e.g. processing and marketing. And if State-partnered co-operatives would embrace credit, processing and marketing, according to the Committee, the cultivator would be enabled to make agriculture not only "a way of making a living" but also "a way of achieving a better living." But the economic activity which is more important than the others is production from the land.

4 Report, p. xvi.

5 Report, p. 228.

Agriculture which was predominantly of the subsistence type had to suffer the impact of the forces of commercialization which worked for the larger production and outflow of particular commodities—cotton, jute, etc.—either for export or for consumption by the new industries within the country. The character of the agricultural economy however remained unaltered. But what caused a severe strain to the agricultural economy as a whole was the growth of population and the increasing pressure of population on the land. The inevitable consequence of this very heavy pressure of population on limited land resources has been that land has become increasingly subdivided into smaller and smaller fragments. Over 70 per cent of the agricultural holdings in India are below 5 acres. These small uneconomic holdings have been a formidable obstacle to agricultural development. The technique of farming and the level of agricultural efficiency did not improve. This is reflected in the extremely low output per engaged person in agriculture.

Co-operative credit in the prevailing circumstances in agriculture became distorted. While in theory co-operative credit is *personal* credit based upon the character and the repaying capacity of the cultivator, in actual practice, co-operative credit tended to follow ownership of land. The result was a bias of the cooperative credit system towards the big and large cultivators.[6] Thus it became a travesty of the co-operative ideal.

Agriculture in India has suffered from a long neglect. Neither the government—the *laissez faire* policy of the government is much more in evidence here than in other economic spheres—nor the 'landlords,' a creation of the British regime in India who held over half of the cultivable area in the country, showed any interest either in the economics of land cultivation or in the ethics of improved welfare of the toiling peasantry in India. The interest of the government was awakened when during the period of the second world war the country was faced with a food famine which constituted a grave threat to the very foundation of Indian economic structure.

Since independence, the Central and State Governments have been trying to translate political freedom into economic terms and land reform takes the pride of place in their programmes of agricultural development. Agriculture has fallen greatly into arrears and the arrears in the agricultural situation must be cleared first if it should provide a basis for a fresh advance.

In their earnest desire to do justice to the cultivators of land, the governments have started the slogan, "land to the tiller" and have enacted legislation to translate it into practice. Meanwhile Acharya Vinoba Bhave has launched his "Bhoodan Yagna," a movement for the collection of land gifts from land owners and distribution of the same to the landless, thus giving them a stake in the land which they cultivate. Thus it is felt that the "land hunger" can be easily satisfied and the fruits of labour secured to those who toil on the land.

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6 A significant point which may be noted is that whereas the average borrowings from co-operatives per family in the case of big cultivators was Rs. 21.0, the relevant figures in the case of the medium cultivator and the small cultivator were only Rs. 4.7 and Rs. 1.9. Report, p. 234.

But the economics of land cultivation would remain as serious or more serious a problem than ever before. The main problem is that of size in farming as a factor determining efficiency in agriculture. If the ideal is merely the restoration of peasant farming, it could only be detriment to the cause of the farming community or to the national cause of increased production of wealth in the community.

The obvious solution to the problem in agriculture is co-operative farming. The two phases in the agricultural programme have to be pressed into a single movement—land to the tiller and co-operative farming. The Planning Commission has indeed averred that the unit of cultivation can, however, be enlarged only through co-operative farming. In fact, the development of co-operative farming is one of the essential features of the land policy in the First Five-Year Plan. The success of co-operative credit and indeed of other co-operative economic activities in the rural sector could only be ensured by the adoption of co-operative farming on a countrywide scale. There are difficulties which cannot be ignored but the difficulties must be surmounted if the co-operative pattern of agricultural economy is to be not a distant ideal but one to be attained within a short time, even in the next ten years.

Yet the progress in this direction is disheartening. The Five-Year Plan Progress Report (April-September 1954) says "Cooperative farming is not making much progress."

In Bombay, 10 Co-operative farming societies were registered. A loan of about Rs. 30,000 and a subsidy of Rs. 42,000 were sanctioned to 26 co-operatives. The total number of co-operative farming societies on 30th September 1954 was 267 with a total membership of 9,432 covering an area of about 69,000 acres.

In Pepsu, 8 co-operative farming societies were registered and in Saurashtra 6.

In West Bengal, provisions for certain concessions and facilities for co-operative farming societies have been included in the West Bengal Land Reforms Bill.

Other States have not reported progress. All States have been asked to draw up phased programmes to promote co-operative farming spread over the remaining period of the current Plan and the entire period of the next Five-Year Plan.

It becomes then the duty of both the government and the people—public co-operation counts for much in our democratic planning—to apply themselves to this mighty task of building a Rural Co-operative Commonwealth.

REORGANISATION OF CO-OPERATIVE CREDIT IN TRAVANCORE-COCHIN

E. T. MATHEW

Lecturer in Economics
University College, Trivandrum

It is proposed in this paper to examine critically the working of co-operative credit in Travancore-Cochin with a view to suggesting a few lines of reorganisation in the light of the recommendations of the Committee of Direction of the All-India Rural Credit Survey. The progress of the co-operative movement has not been even as between different States in India. While the States of Bombay, Madras and Uttar Pradesh have made considerable progress, there are others like Bihar, Orissa, Madhya Bharat, Assam, Rajasthan etc. which lag far behind. Travancore-Cochin occupies a middle position. Hence the special significance of a regional study of this nature.

ROLE OF NON-CO-OPERATIVE CREDIT AGENCIES

Travancore-Cochin is an area where the role of non-co-operative credit agencies is comparatively insignificant. The main agencies are : money lenders, indigenous bankers, traders and commission agents, commercial banks, chitties and kuries and the State.

Money-lenders

According to the Travancore Banking Enquiry Committee (1930) there were 264 prominent money-lenders in the former Travancore State.[1] These money-lenders were primarily big land owners who took up money-lending as a subsidiary occupation. Their number and the volume of business must have fallen considerably since. According to the Rural Credit Survey they had been almost completely ousted by traders and commision agents.[2] The spread of commercial banking has also contributed to their fall. Thus while in most other States in India money-lenders account for the bulk of rural credit, in this State the role of money-lenders is insignificant.

Indigenous Bankers

As regards indigenous bankers, there were only 22 of them at the time of the Banking Enquiry (1930). Their importance too has declined recently. Even at the time of the enquiry they had fallen on evil days.[3]

Traders and Commission Agents

Private traders and commission agents play a comparatively important role in the provision of rural credit in this State. According to the All-India Rural Credit Survey, borrowings from them accounted for about 29 per cent of the total

1 Travancore Banking Enquiry Committee Report, 1930 Vol. I, p. 34.
2 All-India Rural Credit Survey : Report of the Committee of Direction, Vol. II, p. 170.
3 Travancore Banking Enquiry Committee Report, 1930, Vol. I, p. 34.

borrowings in the Quilon District. Even though this can not be taken as representative of conditions throughout the State, it broadly indicates the role of private traders. It should, however, be noted that "there is a very thin line of distinction indeed between what the trader may professedly advance as 'loan' and what he may virtually advance in instalment of purchase price."[4] The agriculturist gets help from the traders only at a heavy cost.

Commercial Banks

Travancore-Cochin is one of the few States in India where commercial banks supply a relatively high proportion of about 6.6 per cent of the borrowings of cultivators. But the small and medium cultivators do not benefit to any appreciable extent by the advances of commercial banks since much the larger part of the credit goes to the upper classes of cultivators who alone have sufficient credit-worthiness according to the standards of the commercial banks. Joint Stock Banks which seek private profit and have an urban bias cannot be a proper agency for rural credit.

The 'Chitty'

It is an indigenous institution which has been of considerable help to the agriculturists in the past. The number of new *chitties* registered came to 1,752 in 1951-52 and the total number of *chitties* registered till the end of the year in all the offices was 26,611.[5] In the former Travancore State there were 3,001 *chitties* with a capital of Rs. 64.44 lakhs working at the end of the year 1948-49.[6] The *chitty* used to be a very expensive and precarious method of raising money. But with the enactment of the Travancore Chitties Act XXVI of 1120 M.E. (1944-45) and the Cochin Kuries Act VII of 1107 M.E. (1931-32), things have very much improved. Under these regulations, the former have little or no opportunity to exploit the 'indifference, ignorance, or gullibility of the subscribers.' But it still continues to be an expensive method of raising money. Further since the *chitty* provides only medium-term and long-term credit, it cannot be used as an agency for meeting the current agricultural needs of the cultivator. In most cases, it is utilised for clearing debts and to meet marriage expenses etc. Moreover, since there is no regularity and certainty about the agriculturists' income, the risk of default is considerable. All this indicates that the *chitty* cannot be a substitute for co-operative credit.

The State

The erstwhile Governments of Travancore and Cochin had been disbursing loans under the Travancore Land Improvements and Agricultural Loans Act IX of 1094 M.E. and the Cochin Agricultural Improvement Loans Act IV of 1093 M.E. During the depression in the 'Thirties arrears accumulated and in 1941 the Government of Travancore suspended these loan operations. In the post-war

4 All India Rural Credit Survey : Report of the Committee of Direction, Vol. II, p. 170.

5 Government of Travancore-Cochin : Administration Report of the Registration Department for the year 1951-52, p. 4.

6 Government of Travancore-Cochin : Administration Report of the Registration Department (Travancore) for the year 1124 M.E. (1948-49).

period short and medium-term loans were advanced by the Government of Travancore under the GMF Scheme. But since the minimum amount advanced under this scheme was Rs. 500, most agriculturists, small and medium, could not benefit by it.

DEVELOPMENT OF CO-OPERATIVE CREDIT

In 1948-49 when Travancore was integrated with Cochin the total number of societies on the register in Travancore came to 2104, their membership and working capital being 2.52 lakhs and Rs. 136.78 lakhs respectively. And in Cochin there were 540 societies with a membership of 0.82 lakhs and a working capital of Rs. 97.87 lakhs. The movement as it developed in both the States was predominently a credit movement.

The credit movement in the erstwhile States of Travancore and Cochin had certain common characteristics. First, the number of societies as well as membership were large. Secondly, the average working capital per society was relatively high. In 1948-49 it was Rs. 3,264.5 in Travancore and Rs. 6,190 in Cochin. And thirdly, a large proportion of loans was for non-productive purposes.

There were striking differences in the working of co-operative credit in the two States. First, the average working capital per member was relatively very low in Travancore, Rs. 26.6 in 1948-49 and it was relatively very high in Cochin, Rs. 62.2 in 1948-49. Secondly, while the percentage of overdues in Travancore was as high as 64.6 in 1947-48, it was only 15.9 in Cochin in the same year. Thirdly, the average amount received by a member from a society in Travancore was only Rs. 6.3 in 1947-48 while in the same year it was Rs. 26 in Cochin. Fourthly, owned capital formed 69.6 per cent of the working capital in Travancore in 1947-48. It accounted for only 38.3 per cent in the same year in Cochin.

The total number of societies on the rolls in the integrated State of Travancore-Cochin increased from 2,650 in 1948-49 to 2,815 in 1951-52, the membership from 3.30 lakhs to 3.80 lakhs and the working capital from Rs. 234.66 lakhs to Rs. 280.49 lakhs. Of the 2,815 societies, of all types, on the register at the end of the year 1951-52, 2,697 were working societies. The working societies consisted of 12 central societies including 2 central banks and one land mortgage bank, 1,628 agricultural societies including 1,163 credit societies, 1,016 non-agricultural societies, and 41 supervising unions.

AGRICULTURAL CREDIT SOCIETIES

Quite in conformity with conditions in the rest of India, agricultural credit societies form the largest single class of co-operative institutions in this State. In 1948-49 they accounted for 1,228 societies out of a total of 2,512 working societies, thus forming 48.8 per cent of the total.* But their proportion had declined to 43.1 per cent in 1951-52. The fall in their proportion is partly the result of an increase in the number of agricultural non-credit societies which include production societies, land colonisaton societies, etc., and partly the result of an increase in the number of non-agricultural societies. Assuming that a member represents an average family of five persons, 7.73 lakhs persons in the State, 8.3 per cent of the

States' population may be deemed to have come within the fold of the Agricultural Credit Movement in 1951-52.

Further, in the same year members of agricultural credit societies formed 2 per cent of the rural population of the State, the corresponding figures for Madras and Bombay being 3.2 and 3.1 respectively.[7] According to the available statistics,[8] as regards the proportion of members of agricultural credit societies to rural population, this State ranks sixth in the whole of India.

An analysis of the operations of agricultural credit societies from 1948-49 to 1951-52, reveals certain important features in credit co-operation.

Working Capital

(1) In 1951-52 borrowings by societies from external sources including deposits from non-members formed only 12.7 per cent of their working capital as against the all-India average of 49.92 per cent. On the basis of percentages, it may be argued that Travancore-Cochin is ahead of other States in this respect. But percentages can be very misleading. The fact is that, as far as this State is concerned, the relative absence of outside help meant only extremely poor business. This is evident from the fact that in 1951-52 the average amount received by members from societies was only the too meagre sum of Rs. 9.5.

(2) The average deposit per member is comparatively low being only Rs. 5.8 in 1951-52 as against Rs. 10.2 in Bombay. This is a clear index of the failure of the movement in Travancore-Cochin to promote thrift and savings which is a major task of the co-operative movement.

(3) The average working capital per member is extremely meagre. It has remained somewhat stationary for several years. In 1951-52 the average working capital per member in Travancore-Cochin was Rs. 34.47 as against Rs. 166 in Bombay, Rs. 92 in Madras, Rs. 117 in Madhya Pradesh, Rs. 111 in the Punjab and Rs. 172 in Saurashtra. The Travancore-Cochin State comes last but one in respect of average working capital per member in the list of the 23 States for which figures of average working capital per member have been computed by the Reserve Bank.[9] From the point of view of making adequate credit available to the members, this aspect is extremely significant. It clearly indicates the low volume of business done by the credit societies.

Loan Operations

(1) The average amount received by a member from a society is extremely low. It was only Rs. 9.5 in 1951-52 as against Rs. 105 in Bombay and Rs. 50 in Madras. Further it may be pointed out that there has been a steady decline in the average amount received by a member from a society since 1948-49. It declined from Rs. 11.9 in 1948-49 to Rs. 9.5 in 1951-52.

7 Review of the Co-operative Movement in India 1950-52, p. 8.

8 Ibid, p. 8.

9 Review of the Co-operative Movement in India 1950-52, p. 10.

(2) Recovery of loans has not been satisfactory. Though the percentage of overdues to outstandings had declined from 54 in 1948-49 to 30 in 1949-50, it has been on the increase since then. From 30 per cent in 1949-50, it rose to 40 per cent in 1951-52. The all-India overdues figure for 1951-52 is 25.6 per cent which is viewed as thoroughly unsatisfactory by the Reserve Bank.[10] Heavy overdues have always been the bane of the movement in this State. The following are some of the causes of heavy overdues in this State :—

First, a sizable proportion of the loans issued are for non-productive purposes, especially consumption purposes ; secondly, there is a lack of alignment of duration of credit with purpose ; thirdly, there is no appropriate machinery to supervise the use of the credit ; fourthly, indiscreet granting of loans has been the practice (often to oblige partisans of the Secretary or President of the Society) without looking into the credit-worthiness of the borrowers and lastly, undue delay in civil courts and revenue department also have stood in the way of quick realization of arrears.[11]

(3) A major portion of the total amount of loans issued, 43.3 per cent in 1951-52[12] is for periods exceeding one year but not two. We may roughly group them as medium-term loans. While medium-term credit serves a very important purpose, it should not be to the neglect of short-term credit. Short-term credit (loans for periods less than a year) accounted for only 25.6 per cent of the total amount advanced in 1951-52. The available statistics further shows that the societies have a tendency to make medium-term and long-term loans. In 1951-52, for instance, the percentage of amount advanced for periods exceeding 2 years was as high as 31.06.

(4) The proportion of the amount advanced for non-productive purposes is relatively high. It increased from 26.2 per cent in 1948-49 to 35.8 per cent in 1951-52.[13] In the absence of an appropriate machinery to supervise the use of credit it is highly probable that a higher proportion than is indicated by the returns of societies will have been utilised for non-productive purposes. In fact people have come to view the societies as agencies from whom they can easily borrow for consumption purposes. This is the main reason for heavy overdues. And this is one of the most important causes of the failure of the movement in this State.

Non-Credit Activities

Non-credit activities by agricultural credit societies which are a legacy of the war period have considerably declined in volume. The value of goods received had declined from Rs. 254.78 lakhs in 1948-49 to Rs. 153.69 lakhs in 1951-52 and the value of goods marketed from Rs. 239.35 lakhs to Rs. 158.51 lakhs.

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10 Review of the Co-operative Movement in India 1950-52, p. 12.

11 'Rural Co-operation in Travancore' : By Prof. V. R. Pillai, *Indian Journal of Economics*, January 1942, p. 494.

12 The percentages relating to period and purpose of loans are calculated from figures given in the Administration Reports of the Co-operative Department, Travancore-Cochin State.

13 Ibid.

FINANCING AGENCIES

Taluk Banks and Banking Unions

In 1951-52 there were 21 taluk banks and banking unions, a disproportionately large number, and of uneconomic size. They play only a very negligible role as intermediary financing agencies.

About 50 per cent of the societies are still outside the membership of these agencies. Out of a total of 2,697 working societies only 1,284 societies were members of taluk banks or banking unions in 1951-52.[14] They had an average working capital of only Rs. 1.28 lakhs in 1951-52. Further only 9 banks out of a total of 21 had a working capital of Rs. 1 lakh or above. There were banks with working capital as low as Rs. 6,851. Of the 1,284 member societies in 1951-52 only 945 societies received help from the taluk banks, the average amount received by a member society being Rs. 1,308. As many as eight banks did not grant any loans at all.

Central Banks

Prior to the establishment of the Travancore-Cochin State Co-operative Bank there were two central banks (The Travancore Central Co-operative Bank and the Cochin Central Co-operative Bank) functioning in the State, not as intermediary agencies as the names might suggest but as apex financing agencies in their respective areas. An examination of their working during the period 1948-49 to 1951-52 reveals the following trends.

(1) Inspite of the fact that during the period 1948-49 to 1951-52, society membership increased from 1,325 to 1,424, roughly 50 per cent of the societies were, still outside the membership of central banks in 1951-52.

(2) Owned funds amounted to Rs. 4.54 lakhs in 1951-52, forming 8.3 per cent of the working capital.

(3) The average deposits per central bank was Rs. 24.45 lakhs in 1951-52 and in this respect the State ranked fourth in the whole of India, the other States ranking higher being Bombay, Madras and Delhi.

(4) Apart from deposits, borrowings from other agencies formed only a negligible proportion of the working capital. It had declined from 4.10 per cent in 1948-49 to 1.8 per cent in 1951-52. The low proportion of borrowings indicate that as apex institutions, they had no higher financing agencies to borrow from, and that since they did not enjoy the status of an apex bank, the Reserve Bank of India did not extend to them any assistance.

(5) The total working capital of the central banks was Rs. 54.44 lakhs in 1951-52.

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14 Government of Travancore-Cochin : Administration Report of the Co-operative Department for the year 1951-52, pp. 43-44.

(6) There has been an increase in advances to both individuals, and banks and societies. But while the former increased from Rs. 2.43 lakhs in1948-49 to Rs. 3.46 lakhs in 1951-52, the latter registered a more marked rise from Rs. 41.46 lakhs to Rs, 73.39 lakhs.

(7) The average amount advanced to a society was Rs. 5,153.8 in 1951-52. Out of a total amount of Rs. 73.39 lakhs advanced to societies and banks in 1951-52 agricultural credit societies received only Rs. 2.61 lakhs.

(8) The percentage of overdues was only 7.06 in 1951-52. Their performance was extremely poor as apex banks, though they came up to the standard of working of central bank.

The State Co-operative Bank

The Travancore-Cochin State Co-operative Bank was formed on 28th January 1954 by the conversion of the Travancore Central Co-operative Bank. The State Government has subscribed Rs. 5 lakhs towards the share capital and it also participates in the administration of the Bank. It is hoped that the formation of this apex institution will open a new chapter in the history of the co-operative movement in this State.

In 1953-54, the paid-up share capital formed 24.1 per cent of the working capital and total owned funds 27.1 per cent. Deposits constituted 42.3 per cent of the working capital. The working capital of the bank was relatively low at only Rs. 29.48 lakhs. Overdues formed 27.3 per cent of the outstandings. Advances to individuals in the form of loans and overdrafts constituted only 2.2 per cent of the total advances by the Bank.

Central Land Mortgage Bank

The Cochin Land Mortgage Bank is the only co-operative land mortgage bank in the State[15] and it is a central society. The membership of the Bank which consisted of individuals only increased from 3,278 in 1948-49 to 3,872 in 1951-52, thus registering an increase of 18.3 per cent. The owned capital of the Bank increased from Rs. 1.72 lakhs to Rs. 1.81 lakhs, but as a percentage of the working capital it registered a fall from 9.9 per cent to 7.3 per cent. The average amount received by a member from the Bank was only Rs. 85 in 1951-52 as against Rs. 125.4 in 1948-49. There is considerable delay in sanctioning loans. Applications for Rs. 9.14 lakhs were pending investigation at the beginning of the year 1951-52. Fresh applications for Rs. 5.42 lakhs were received during the year. Thus, in total, applications for Rs. 14.56 lakhs were pending with the Bank. Out of this, loan applications for only Rs. 6.09 lakhs (i.e., 42 per cent) were disposed of during the year. That the State requires more land mortgage banks is evident from the preceding review.

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15 Though there are two land mortgage banks in the State, only the Cochin Land Mortgage Bank operating in the former Cochin State is a Co-operative Institution. The other, the Travancore Credit Bank operating in the former Travancore State has been registered under a separate Act.

SUGGESTIONS FOR REORGANIZATION

General Factors

The preceding analysis of co-operative credit in Travancore-Cochin reveals a multiplicity of deficiencies. The movement is weak at almost every level, the primary agricultural credit societies being the weakest link.

According to the Committee of Direction of the All-India Rural Credit Survey, the main cause of the failure of the co-operative movement in India is the urban-derived power of the village trader and the money lender (forces of private credit and private trade.) But it will not be quite true to say that co-operation has failed in Travancore-Cocin due to the competition of private urban forces. In the virtual absence of alternative sources of credit, co-operation ought to have succeeded in this State more than in any other part of India. Some probable explanations for failure may, however, be given. The character of the economy of this State does not in the strict sense create a 'demand' for rural credit. Barring plantations, the agricultural economy is chiefly of a subsistence type. And only borrowings are for consumption purposes. Secondly, there is a preference for non-official, private, informal borrowing to official, institutional borrowing. Lastly, the high percentage of literacy has only turned the people more individualistic. Any scheme of reorganization of rural credit should, therefore, reckon with these peculiarities of the socio-economic set-up of this region.

The Department should exercise caution in sanctioning new societies. The primaries should also be in charge of office-bearers who have integrity of character. The movement has miserably failed to inculcate the habits of 'thrift' among members. The system of '*kettuthengu* deposits' practised by some societies in Central and North Travancore may be recommended as an effective technique for the promotion of thrift.[16] *Kettuthengu* deposits are "a kind of pledge of the usufruct of coconut trees against the advances on loans taken from societies by the members."[17] But the *kettuthengu* should not be used merely as a system of granting loans but also as a form of thrift.

The inadequacies in the loan operations of the agricultural credit societies, can be remedied by (*a*) the adoption of a system of 'crop loans' with adequate supervision and efficient arrangement for recovery, (*b*) preventing the agricultural credit societies from granting long-term loans, (*c*) providing greater assistance through the higher financing agencies and (*d*) encouraging the incorporation of chit funds within the frame work of the larger-sized agricultural credit societies for credit needs connected with specific items of consumption as recommended by the Rural Credit Survey.

More than 75 per cent of the societies are either C class or D class societies. It would be a step in right direction if the time and energy wasted on liquidations could be utilised for the revitalisation of dormant societies.

16 Prof. V. R. Pillai : 'Rural Co-operation in Travancore,' *The Indian Journal Economics*, January 1942. p. 499.

17 Administration Report of the Co-operative Department for the year 1951-52. pp. 19-20.

The multipurpose idea however commendable it may be in theory has several limitations in this area. The fact is that the credit movement in this State has failed in the majority of cases not due to any inherent defect of the single purpose society. Most societies have failed through indifference, inefficiency, indiscreet loans, laxity in the realization of loans, lack of supervision etc. A society which has declined on account of any of these defects cannot do better under ordinary circumstances by becoming multipurpose in nature. Further, the scope for co-operative marketing, which is an important item of non-credit co-operation, in the staple commodities like rice, copra, coir, tapioca etc., is limited. "The existing facilities for marketing these products cannot be said to be very inadequate. There are local markets within easy reach of the rural population and a large class of small middlemen who are experts in their business, and who do it for a very low margin of profit, just enough to cover the wages of their labour."[18]

Co-operation has no future in this State unless there is a total change in the outlook of the people and this can come about only through proper education. Among other practical suggestions, the reduction in the number of taluk banks should be considered as desirable. In a small area like Travancore-Cochin what is really wanted is not such a large number of taluk banks which are mere apologies for intermediary financing agencies, but a central bank each at the district level. The existing taluk banks may be converted into urban banks. The question of amalgamating them into central banks does not arise under the standards set by the Reserve Bank's Standing Advisory Committee on Agricultural Credit. The State Co-operative Bank should be worked on sound lines and it should expand its working capital to serve as a useful apex bank. The Central Land Mortgage Bank should strengthen its capital structure and the State Government, if necessary, should contribute a major portion of the extra share capital. Further, it is necessary that the proposed land reforms should not contain anything which will be a hindrance to the development of a simple and effective system of land mortgage banking. There are at present no primary co-operative land mortgage banks in this State. As a preliminary step, primary banks may be started as departments of the central banks or as branches of the apex banks, at the district level. As far as possible, steps should be taken to convert the communal societies into ordinary non-communal societies.

In order to ensure better supervision, the supervising staff should be considerably strengthened. To supervise 2,304 affiliated societies, there were only 37 supervisors in 1951-52, the average number of societies under the charge of a supervisor working out to 62. The Reserve Bank of India in its recent 'Review of the Co-operative Movement' has expressed the view that even 40 societies are too much for a supervisor.[19]

The foregoing analysis of the working of credit co-operation in Travancore-Cochin has thrown into clear relief several defects of the movement, some of which are peculiar to this region while others are common to the rest of India. It is therefore important that any scheme of reorganization of rural credit should take note of the peculiar socio-economic set-up of this region.

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18 Prof. V. R. Pillai : 'Rural Co-operation in Travancore' *The Indian Journal of Economics*, January 1942, p. 499.

19 Review of the Co-operative Movement in India 1950-52, p. 194.

REORGANISATION OF RURAL CREDIT IN INDIA

M. BALASUBRAMANIAN

Lecturer in Economics

Annamalai University, Annamalainagar

Rural credit is indeed a formidable and baffling problem. A dynamic programme is undoubtedly essential. Piecemeal measures have been adopted at various times to tackle the problem of rural credit—a problem that has been with us since the days of the Deccan Riots ! The outstanding twin results of these efforts were (1) two Acts—(a) the Land Improvement Act and (b) the Agricultural Loans Act and (2) the Co-operative Movement. In 1930 when the situation worsened beyond repair, the Central Banking Enquiry Committee recommended debt relief and direct control of private money lending agencies. Since 1947, when our country attained Independence, there came measures dealing with the problem of providing easy credit to the Indian peasants and the landless workers, but the approach was mostly on the old lines. The approach was found to be very defective as it treated the problem of credit mostly in isolation and dealt with only the symptoms of the malady. In the context of the rapid programmes for rural development, this approach has been found wanting. The need for the reorganisation of rural credit is more keenly felt now than ever before.

It is not the intention here to examine the recommendations of the Report of the All-India Rural Credit Survey published by the Reserve Bank. Whereas the suggestions that refer to rapid expansion of banking and credit facilities, make quite a welcome departure from the past approach of piecemeal measures, a good deal still remains to be done, without which rural development may not get the appropriate fillip. It is in this context that the problem of rural credit, is examined here in two aspects, (1) existing credit agencies, and (2) basis of future credit policy. The underlying objective is that credit should play an active role in rural economic development.

EXISTING CREDIT AGENCIES

The following percentages give an indication of the extent to which the main agencies of rural credit contribute to the total borrowings of the cultivators :—

*Credit Agency	Proportions in the borrowings (Per cent)
1. Government	3.3
2. Co-operatives	3.1
3. Commercial banks	0.9
4. Relatives	14.2
5. Landlords	1.5
6. Agricultural Money-lenders	24.9
7. Professional Money-lenders	44.8
8. Traders and Commission Agents	5.5
9. Others	1.8
Total..	100.0

* All India Rural Credit Survey issued by Reserve Bank of India, 1954.

From the available picture of the rural credit supply shown above, what strikes us, at once, is the startling insignificance of institutional credit—credit supplied by co-operatives, the Government and the Commercial banks—and the overwhelming predominance of money lending agencies, agricultural and professional. In quantitative terms, credit supplied by co-operatives and the Government and the commercial banks is 7.3% of the total borrowings of the cultivator and even of this small proportion, a large share goes to the big land-holder in preference to the medium or small farmer. This shows the relative neglect of the credit needs of the medium and small cultivators who constitute 70% of the total and whose number would still increase as large holdings get divided as a result of either Bhoodan or land reforms. Of the remaining 92.7% of the credit now supplied in rural areas, the money-lenders and traders supply more than 70%.

As direct financiers of the agriculturists, the part played by commercial banks is utterly negligible. Agricultural production gets less than Rs. 4 out of every Rs. 100 advanced by commercial banks. Agricultural finance derived from these banks constitutes about 1% of the total borrowings of the cultivator. The advances of these banks to the wholesale trade in agricultural commodities amount to 17% of their total advances. Also what is most noteworthy is that nearly three-fourths of the total advance of all commercial banks to the wholesale trade in agricultural commodities are in respect of only three or four cash crops which are of major significance to the commercial community.

The drawbacks of the private money lending agencies operating in rural areas—their various malpractices and a consequent high cost of credit—have inspired various measures to find a substitute for these agencies and also for the clamping of direct controls over their activities during the last seven decades. Even today these known drawbacks are responsible for a severe antipathy towards them. Such direct controls as are in force today have not proved very effective because it is difficult to get material evidence regarding the subtle devices—devices like unconditional sales of land instead of mortgages, pawning of valuables, prior deductions, smaller payments than the book amounts—used by the human ingenuity engaged in the supply of or demand for rural credit, to flout the good intentions of the Government laws. But on the other hand we find, to an extent, an increase in the cost of credit provided by the private agencies with the increased addition to their risks of lending.

THE BASIS OF FUTURE CREDIT POLICY

If credit is to play a more positive and dynamic role in rural development, the system of credit must be strengthened at all levels and co-ordinated not only internally in relation to the different institutional sectors pertaining to the short term, medium term and the long term credit, but also with complementary institutional arrangements for marketing, processing, and other economic activities of the cultivator. Credit should be granted at a reasonable rate of interest for sufficiently long periods commensurate with the length of agricultural operations which it is designed to facilitate. The period and rate of interest of the different types of loans should be related to the purposes for which they are applied.

All legitimate short term credit requirements of the cultivators must be met immediately and in the case of the medium and long term loans the productive loans might be accorded high priority. Besides this, positive "curbs" might be applied by fixing very low limits for unproductive loans.

(a) Credit Limit

The credit limit has been fixed so far mainly on two bases—(1) the money value of such physical assets as farm land and (2) production. Both these methods are defective in some aspects and do not go far enough to meet the farmer's current and development needs. The first basis is defective because (1) cultivators who do not own land are left out ; (2) those who own lands but do not cultivate are in many cases encouraged to take credit for other than productive purposes and (3) this method makes no distinction between growers of cheap crops and costly crops. The second method is devoid of these defects in the first, but since the second method—crop loan—is determined today on the basis of flat rates for different crops, crop loans are rigid, take only the historical views of the cause and consequently leave little margin if any for development.

In the matter of loans for the purchase of durable physical assets of a productive type, the credit limit might be fixed only in relation to the value of such assets that may be kept in the possession of the borrower while its ownership might vest in the lending agency till the borrower clears the amount due.

For the short term farm requirements, the crop loan basis should be the rule. However, if a cultivator who is a landless farmer requires loan for such projects as repair and construction of wells and major land improvement, he should be given loan only on the basis of cost, under the guarantee given by the owner of the particular piece of land, and if the cultivator who is the owner of the land also wants loan for such purposes, he may be granted the loan, of course, on the basis of cost against the mortgage of his land.

Consumption loans should be discouraged as far as possible, though they may not be excluded. Current consumption needs, however may be met easily if the credit limit on the basis of crop loan is fixed liberally to include the wages of the family.

Credit limit for loans to meet requirements for unproductive social requirements as ceremonies, must be kept low and fixed as a decreasing proportion of owned land cultivated by the owner or the guarantor as the case may be. There should be a strong attempt to curb this sort of expenditure.

(b) Terms of Credit

If the rural credit is for the development of the agricultural industry, at all levels, it must adopt a "discriminating policy" in some form regarding different classes of farmers. The danger in such a policy, if any, would be very much limited, if the credit agency is associated with the borrower at all stages. Farmers of different status viz., big farmer with a surplus budget, medium farmer who is able to balance the budget on the whole, over a series of good and bad years with some difficulty and small farmer with chronic deficit should be served differently. Discrimination must be (1) in favour of small farmer with low repaying capacity, and (2) in regard to the extent of the loan in relation to the expenditure involved and repayment of loan. Discrimination regarding the class of the farmer can be arranged according to the area of land cultivated or according to the total value of the product. It is not necessary that all farmers who need help should be encouraged, unless the need is very urgent and indispensable. Farmers having fairly large holdings, two or three times the economic holding, need not be given any loan ! Those with holdings slightly, or somewhat greater, than the economic holding, deserve to be helped to the extent of part of the cost. Those with holdings less than the economic holding might be granted loan equivalent to the full cost of cultivation.

Equally necessary for our examination are the terms for the repayment of loans. At least in the case of repayment of loans by uneconomic holders, there should be a general rule that (1) the repayment of a productive debt should begin after the benefit begins to accrue and (2) the instalments of loan should be spread over the period equivalent to the life of the asset concerned. The repayment period of 1 to 5 years in the case of all medium term loans should come under the new arrangement very near to 10 years or more, because then only the annual strain on the part of the small cultivator who desires to purchase improved and costly but more durable assets would not be heavy. In the case of a farmer who makes use of the loan for the purchase of land, instalments equivalent to the annual rent—a little more or slightly less—might be fixed.

REORGANISATION OF CO-OPERATIVE SCHEME

The problem of reorganisation of rural credit is a big enough task. There should be a complete reorganisation of the co-operative structure on certain lines. The principle of State-partnership at all levels of the co-operative structure is a pre-requisite for the adequate success of the co-operative organisation. As regards the extent of State-partnership and the details of reorganisation, generally a certain degree of flexibility is both necessary and desirable since conditions differ from State to State. Any variations should, however, be such that they do not conflict with the basic objectives of co-operative development underlying the integrated scheme of rural credit.

The Reserve Bank should shoulder certain specific responsibilities calculated to enable it to play its due role in the reorganisation of the co-operative structure and also enlarge and facilitate the supply of credit through it. A National Agricultural Credit (Long Term Operation) Fund, is to be set up by the Reserve Bank and the amount in the Fund will have to be applied exclusively for the making of loans and advances to State Governments for subscribing to the share capital of co-operative credit societies, for the making of medium term loans to State Co-operative Banks for agricultural purposes and for the making of long term loans and advances to Central Land Mortgage Banks.

National Agricultural Credit (Stabilisation) Fund should be set up by the Reserve Bank, the amount therefrom being applied exclusively for the making of medium term loans and advances to State Co-operative Banks to enable them to convert short term credit into medium term credit whenever necessary owing to drought, famine or other like calamities.

The State Governments in co-ordination with the Government of India and with the Reserve Bank and with their assistance, should take necessary steps for ensuring planned and speedy progress in the development of co-operative credit, marketing and processing other economic activities including cottage and small scale industries, establishment of storage and warehousing and provision of trainning facilities.

Along with the assumptions, by the State Governments, of responsibilities involved in this co-ordinated programme of development it is necessary that the Central Government and the Reserve Bank should afford the requisite assistance for the successful implementation of the schemes.

Since the resources, required for development purposes, must ultimately come from the savings of the people, the commercial and co-operative banks would, besides providing credit facilities have to function as primary agencies through which the country's saving could be mobilised. State participation in such a scheme is essential to create the feeling of confidence which would help to attract such savings.

Extensive expansion for banking facilities, particularly in rural areas, is not likely to be undertaken by banks which have primarily to look after the interests of their shareholders. Therefore it is inevitable that an institution over which the State has effective control should be organised. That is the main consideration which influenced the plan for the establishment of a State Bank which is expected to set up branches not only at district head-quarters but also in the sub-divisions. This bank would not only finance co-operatives and marketing societies but also a large number of medium sized industries to be started in the rural areas for tackling the problem of unemployment. If this State Bank is to be successful, redtapism and centralisation should be reduced to the mnimum. Agriculturists have to undergo a long and laborious procedure to obtain Takkavi loans and loans for sinking wells. They are also subjected to a lot of official harassment. No useful purpose would be served if the State Bank is going to be a replica of the old system of red-tapism.

It is wrong to think that by merely nationalising the Imperial Bank, the States would achieve the objective of providing easy or adequate rural credit. The Imperial Bank was primarily a commercial bank and it did not concern itself with rural credit. Is the new State Bank to function merely as a banker to the co-operative banking institution in the country ? If this is so, it is difficult to understand why the Reserve Bank has not been able to function in that way when it has the authority to do so, and when the whole country is clamouring for the provision of rural credit facilities. If the Reserve Bank has not been able to function satisfactorily adequately, the new State Bank would also not be able to achieve the purpose easily unless it develops a new orientation.

The present staff of the State Bank of India, is accustomed to only commercial banking of the British type and has no experience of rural banking. The new

State Bank, therefore, must have one wing for commercial banking and another for the supply of rural credit. The Bank should not be turned into a mere department of the Finance Ministry but should work as a public institution in the real sense of the term.

To sum up : If credit is to play a more positive and dynamic role in rural development, the credit system should be re-organised as the basis of a major State-partnership. There should be not only State guidance and State aid, but also partnership with co-operatives in providing credit facilities, marketing etc. The unified institution catering to diverse credit needs should operate at village levels and also provide limited banking facilities. The policy of such institutions should be "Discriminating" in character with a definite bias in favour of the small-holder and the cultivator. The re-organisation has to have a definite social purpose and must be developed with understanding and sympathy.

REORGANISATION OF RURAL CREDIT THROUGH CO-OPERATION AT THE PRIMARY LEVEL (WITH SPECIAL REFERENCE TO ORISSA[1])

D. D. JENA

Lecturer in Economics

Government College, Sambalpur (Orissa)

Reorientation of Rural Credit in India on the basis of co-operative organisation of rural people is no longer a debatable question. The recognition by the Planning Commission that the design of economic development should be from 'village upwards,' shows the present indispensibility of the co-operative system in the achievement of India's defined economic ideal,—"that the village may become a vital, progressive and largely self governing base of the structure of national planning and the existing social and economic disparities resulting from property, caste, and status may be obliterated."[2] Thus co-operative pattern of village management is accepted as a part of state policy and therefore the problem relating to the reorganisation of rural credit has to be handled not merely with the objective of replacing the money lender or to break his scandalous monopoly, but it has to be accepted in the much wider context of a planned economic development of India. As such, the problem of future policy in respect of rural credit boils down to this : "Co-operation has failed, but co-operation must succeed. The foremost objective of policy then becomes the positive and deliberate crea-

1 Some of the observations made in this paper relating to Orissa are based upon certain relevant facts derived from a sample enquiry conducted by the writer into the conditions of agricultural marketing in Orissa.

2 First Five-Year Plan of India, Larger edition, p. 197.

tion of condition in which co-operative credit will have a reasonable chance of success."[3] It must succeed because on it depends the success of the State Policy which is guided by the ideals laid down in the Constitution. Thus the goal of our sacred Constitution is staked in the success of the co-operative system. Under the situation therefore any effective re-organisation of rural credit through a co-operative system should never be allowed to be impeded by the orthodox interpretation of the meaning and principles of co-operation that are now obsolete in the context of our projected economic set up.

The position analysed above, puts on the State not only the onerous responsibility of creating the necessary ground for the effectiveness of the co-operative credit organisation, but also the bu:den of participating in the organisation and guiding them towards the determined goal. It is in this changed context, that the Committee of Direction, All-India Rural-Credit Survey, in their 'integrated scheme' have advocated a major State-partnership in the co-operative system of rural credit. The acceptance, by the Government as well as the Co-operators, of the basic principles and the lines of re-organsation underlying the "integrated scheme' and, in particular, major State-partnership as a means of re-organising and developing the co-operative instituion, no doubt marks the opening of a new era in the development of rural credit. In the context of planned economic development and a socialistic pattern of society, State-partnered and State-controlled co-operative credit is the most appropriate approach. With this basic assumption we shall examine the conditions prevailing in Orissa with a view to emphasise certain important aspects of the future line of re-organisation.

CONDITIONS IN ORISSA

"Leaving individuals aside, one comes across villages and particularly backward areas, peopled by aboriginal tribes which, on the whole, do not provide a congenial soil for co-operative credit."[4] This may well be taken as the true state of affairs in Orissa. According to the 1951 census, rural population in Orissa constitutes 97 percent and agricultural population covers 80 per cent of the total population. The State has a very large percentage of backward population including scheduled tribes and scheduled castes which approximately number 98 lacs out of a total population of 146 lacs, thus constituting 62 per cent of the total population. Only 15 per cent of her population know how to read and write, this section mostly belonging to the non-agricultural classes. The co-operative movement during the last fifty years of its progress in the State has been able to bring under its banner only 2 per cent of the population as against the all-India figure of 19.2 per cent. For meeting the credit needs of the farmers, there are at present nearly 6,000 primary agricultural credit societies for Orissa's 60,000 villages ; but about 60 per cent of this number have no function today except to add dignity to the official records.[5] Further, this numerical strength of the co-operative credit organisation loses all its significance when it is confronted with the fact that it has been able to contribute not more than one per cent of the genuine

3 All-India Rural Credit Survey Report, 1954, Vol. II, p. 372

4 V. L. Mehta, *Indian Journal of Economics*, 1942, pp. 600-1

5 The Committee ofDirection, All-India Rural Credit Survey reported that 58 per cent of the primary credit societies studied by them in Orissa did not advance any credit during 1949-51—The General Report, p. 232.

credit needs of its members. Appalling illiteracy, abject poverty and the miserable inactivity of the existing units are largely responsible for lack of interest and enthusiasm for the movement from within. Considering the situation, Shri K.D. Mudaliar observed that, "In any case, in the present state of affairs in Orissa, it is vain to expect the societies to carry out the duty satisfactorily."[6] This statement holds good for many years to come. In view of the peculiarity of conditions prevailing in the State, re-organisation on strictly co-operative basis will ordinarily be a futile attempt. But in the context of the assumption that we have made earlier in this paper, positive and deliberate conditions have to be created by the State, for 'there is no real alternative to the adoption of the co-operative basis for an effective organisation of rural credit in India.' Under this necessity if co-operative basis has to be accepted, it is obvious that much greater State-partnership and a greater degree of State control and guidance will be needed in attempting the reorganisation. With this assumption and keeping in view the root causes of the failure of co-operative credit here, the important features of the future pattern may be indicated.

FUTURE LINES OF DEVELOPMENT—EFFECTIVE MEMBERSHIP EDUCATION

One of the important causes of the past failure of the movement in Orissa is the lack of an effective education programme and therefore it has to be recognised that implementation of such a programme now is of paramount importance. While dealing with the subject, Dewan Bahadur Mudaliar observed, "It is essential that the Oriya Raiyats should realise that there is an economic ill and that the co-operative method offers a remedy for it. Each member must realise what a co-operative society stands for, how it is managed and what his privileges and responsibilities are."[7] To achieve this prime requisite, it may be necessary to create a separate branch in the State Department of Co-operation which may undertake a Co-operative Extension Scheme. Under it, in each sub-division, one propaganda officer not below the rank of a gazetted officer with sufficient knowledge of the relevant subjects, may be appointed to attend to the preparatory work for at least six months in each area, in order to create a genuine desire amongst the villagers for a society. Besides, the situation calls for an extensive educational scheme whereby it may be necessary to introduce co-operation as a subject of study, right from the primary stage of general education for creating a co-operative bias.

STRUCTURE AND FUNCTIONS

A close study of the economic condition of Orissa's rural population and particularly of the backward and tribal classes reveals that the primary credit societies can never be effective unless they are constituted on multipurpose basis with a large degree of State control at the initial stage. "Co-operation has so far not succeeded to the desired extent because it has not been an integrated movement and it has little chances of success unless this defect is set right through a reorganisation of this movement along multipurpose lines. For such a re-organisation it is necessary to take into account the classes of pople we have to deal with

6 Dewan Bahadur K. D. Mudaliar : Report on the Condition of the Co-operative Movement in Orissa, 1938, p. 132.
7 Op. Cit, p. 134.

and to adapt our policy accordingly."[8] This statement has the largest bearing on Orissa. The backward classes here are honest, prompt in repayment of loans and loyal to all organisations provided they derive real benefit from them. Modern methods of cultivation and cultivation of very common crops, weights and measures, are foreign to them. In all their dealings, particularly in their sales and purchases, they are regularly deceived. *Mandis* or regulated markets, even weekly markets are quite few and are situated at a very long distance from one another. Here prompt and cheap credit will not achieve its purpose unless the co-operative society approaches the whole man and brings his entire life within its ambit. The existing multipurpose societies, though weak and in need of immediate rehabilitation, have won considerable popularity among the backward classes of the agency areas in the districts of Koraput and Phulbani. The single purpose idea, an exclusive credit society, does not meet with general acceptance and therefore it will be prudent to accept the multipurpose society, on grounds of policy. A multipurpose society really has a very fertile ground in such areas. Societies so organised, may be large enough to coincide with the area of operation of the Gram Panchyats and this will amply satisfy the recommendations of the Committee of Direction, All-India Rural Credit Survey regarding the size and functions of the primary societies. When so constructed, the societies have to be provided with adequate trained personnel and the other special advantages like guarantees and subsidies etc., as specially recommended in the All-India Rural Credit Survey Report, so that these may undertake efficiently the new tasks facing them.[9]

LINKING CREDIT WITH MARKETING

The next question is whether we should have two separate organisations at the primary level for credit and marketing. From the point of view of the farmer, credit for production and sale of the produce are so closely related that divorcing one from the other would be highly injurious and once we advocate multipurpose societies on grounds of policy, the second important function of a village unit should be the marketing of the produce of its members. This, we believe, is the sound principle regarding an effective linking of credit with marketing. In this connection the policy recommended by the framers of the 'integrated scheme' of rural credit may be reviewed here. Conscious of the need for a close and effective link between credit and marketing functions, the Committee recommend that there should be two primary societies—one to grant loans for raising crops and the other to sell the produce to recover the loans. The primary marketing societies should be established at wholesale market or at Taluk centres and "the primary agricultural credit society will act as an agent for the sale of the produce at the nearest co-operative marketing societies, assemble the produce of its members, supervise and if necessary arrange for the transportation of the produce."[10] Let us see how the formula makes the desired link effective and efficient. Loans by the primary credit society, as envisaged in their scheme, would have to be granted against crops and therefore the lender's interest in the proper and efficient sale of the crops becomes vital. This vital interest of the lender is to be taken

8 Sir Manilal B. Nanavati and Anjaria : The Indian Rural Problem, 4th Edition. pp. 444-445.

9 Vide "Role of Government in Special Contexts", the General Report, p. 476.

10 Ibid, p. 454.

care of not by itself but by a separate institution. Again viewed from the standpoint of our rural borrower, particularly the ignorant and illiterate medium and small cultivators, the position becomes this : Their sole aspiration is to get their produce sold in the most efficient and profitable manner. So they would naturally welcome their intimate association with all the efforts of the selling organisation in regard to the sale of their produce. But this organisation, as envisaged in the 'integrated scheme' will be established at the distant *mandis* or in case of Orissa, *mandis* being rare, at the far off Taluka centres, and the produce will be transported from the villages to these taluka centres for sale. This, from the point of view of all the parties concerned, seems to be unsatisfactory, and is likely to be inefficient. Even granting that the farmer's produce is sold in an efficient manner, he is yet suspicious and this easily impairs his loyalty to the co-operative organisation. On the other hand, the integration of the two functions in the village credit societies themselves besides eliminating these short-comings would achieve certain positive benefits. The society will be affiliated to the Central Co-operative Bank for financial accommodation and to the District Marketing society for marketing the produce. And when the extra benefits ("adequate provision of trained personnel for performing various technical functions" etc.) recommended in the All-India Rural Credit Survey Report for a primary marketing society, are placed at its disposal, the primary credit society will acquire greater financial, technical, and administrative strength. Further, by undertaking processing at this level, it may provide a by-employment to the villagers. This arrangement is eminently suitable in the backward areas and specially in Orissa where the rural population is very backward and medium and small cultivators constitute the largest majority. Rice is her main crop which occupies about 81 per cent of the total cultivated area and she sends out about a million tons of rice per annum to the neighbouring States. For effective pooling, milling, and marketing of rice it may be necessary, in addition to the methods suggested above, to establish branch offices of District Marketing Societies at the central places of each Thana area, with financial subsidy from the State Government.

SUPERVISED CO-OPERATIVE CREDIT

An effective reorganisation is sought for providing cheap, prompt, and adequate supply of credit with the ultimate aim of improving our agricultural production. So the success of this re-organisation, depends upon the realisation of this end or else it becomes a scheme for controlling the money lender's business. It is perhaps with this assumption that the Committee of Direction, All-India Rural Credit Survey, while laying down the principles of reorganization recommend, State partnership, including financial partnership in co-operative rural credit "in order that such credit may not only be expanded and strengthened, but expanded and strengthened for the positive purpose of production and for the positive benefit of the rural producer."[11] Therefore it is absolutely necessary to provide adequate safeguards so that this 'positive purpose' is realised. Otherwise cheap credit when easily obtained will do more harm than good to our ignorant farmers, who

11 Credit accompanied by technical assistance is essentially "supervised credit" and it is in this sense that the expression is used with reference to Indian conditions. The concept of "supervised credit" should not be confused with the methods and the procedures that are followed in the U.S.A. and else-where for achieving the ends of supervised credit.

does not know the correct technique and appropriate methods of improving production. In this context, it is well to remember Sir Frederick Nicholson's observation that, "Credit is a remedy, but like many remedies it is also a dangerous poison, a double edged tool, a consuming as well as a comforting fire." In our underdevloped economy and specially in backward regions like Orissa, the farmers are essentially marginal and submarginal and credit, unless accompanied by adequate technical assistance, will definitely become a "consuming fire," leave aside the achievement of the 'positive purpose of production.' The 'Grow More Food Loans' granted extensively in recent years have well established this devastating aspect of cheap credit. In Orissa, as elsewhere, these loans were granted to the farmers for extension and improvement of agriculture and the loan administration was entrusted to a department that had nothing to do with agricultural methods and techniques. The District Loan Officer granted loan after scrutinizing the needs of the applicants. To ensure the success of this scheme, safe-guards provided against the misuse of loans were a subsidy to the farmers on completion of their projects and a penal interest for any wrong and misuse of loans. Now this enthusiastic scheme has created a crisis in Orissa, for recovery of these loans, not-withstanding the six-year old effort of the authorities, is found to be an impossible proposition. Our findings now have convinced us that these loans cannot be recovered at all, without causing a serious economic disaster in the State. The farmers did attempt to improve their production through these loans but all their enterprise turned into a loosing concern, not because the loans were misused but because in the absence of proper technical guidance these were wrongly used for which the ignorant farmers are not entirely responsible. In the context of these facts and experiences no future scheme for extending credit facilities can be wise unless credit and technical assistance go together. Mr. J.J. Wilkey, a foreign expert in credit administration believes that "the All-India Co-operative rural credit programme will provide a valuable and effective force to the rate of progress on rural development which is already considerable but which if it continues to accelerate satisfactorily will require a comprehensive rural credit and a technical guidance programme joined together by necessity of their dependence on each other for great effectiveness."[12] Where farmers are ignorant, it is all the more necessary to combine credit and education for increasing production or else credit is really a subsistance grant. Provision of technical aid along with credit does not lay any undesirable burden on the State. Pursued through a phased programme and attempted on the zonal basis, it can be harmonised with the existing financial and economic resources of the State. The situation so analysed, calls for a re-examination of the stand taken by the Committee of Direction, All-India Rural Credit Survey in regard to "supervised credit."

These are the minimum conditions that claimed the most determined effort on the part of the State for a fruitful reorganisation of rural credit.

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12 *All-India Co-operative Review*, June 1955, p. 126. Also, Chester C. Davis, Consultant to the Ford Foundation, Report on Rural Credit in India.

ROLE OF FARM CREDIT IN DEVELOPMENT PROGRAMMES

DOMENICO VIGGIANI

Istituto Nazionale Di Economia Agraria, Rome, Italy

It is generally recognized that credit is one of the most important means of improving the conditions of life in the underdeveloped areas, and that farm credit has a particularly significant part in promoting economic development. It is essential, however, that this outstanding instrument of progress be used in suitable forms and conditions, and above all else that credit facilities, even when granted on specially favourable terms, should never be mistaken for a form of subsidy or charitable assistance.

In Southern Italy, the programme of economic development in the agricultural sector, is being implemented by means of a plan of public and private investments which is strictly co-ordinated with the land reform. In this programme, farm credit plays an outstanding part, and the Italian experience may prove useful to other countries which are faced with similar problems.

The object of this paper is to bring into relief some of the principal problems of farm credit as they appear when a special credit organization, governed by a particular system of legal provisions aimed at facilitating credit assistance to farmers, is entrusted with the financing of the productive development of agriculture in an economically backward territory, as part of a programme of combating its chronic depression. Accordingly the discussion is of a credit organization intended to promote production, and not to finance consumption. The assumption is also of conditions in which there exists a legislation on farm credit and a system of credit institutions working in this field which are called upon to co-operate in the carrying-out of the development programme.

PROBLEM OF RESOURCES

The problem of obtaining the financial resources for the provision of credit facilities presents particular difficulties in the underdeveloped zones because of the shortage of capital for investment and of the slowness of the process of saving. On the other hand, the need for long, medium and short-term financing assumes imposing proportions. Within the terms fixed for the execution of the development programme, it is necessary to secure capital investments to an extent capable of achieving a substantial improvement in the conditions of the zone.

Besides, the problem of securing capital for investment is rendered more complex as the granting of credit must be made on conditions, in respect of duration and costs, well adapted to the nature of the investments to be financed and to the other essential requirements. Therefore, the necessary capital must be obtained at modest costs and, to a considerable extent, for fairly long periods, so as to permit the borrowers to await the returns on the capital invested and to extend the repayment over a more or less considerable number of years.

Such being the essential characteristics, both quantitative and qualitative, of capital resources necessary for securing an adequate provision of credit facilities, the greater part of the capital needed, and especially that necessary for long-term investments, has to be found by the State, which has to provide not only for the financing of public works, but also for capital advances for the carrying-out of private projects. One of the basic problems of any programme of agricultural development in economically backward zones thus consists in the relation between the available amounts of public and private capital ; and as the latter is always insufficient to meet the needs of economic development, the problem has to be solved by having recourse to subsidies and to credit, by which the modest resources of the farmers can be supplemented.

METHODS OF FINANCING

As to the manner in which the available financial means should be placed at the disposal of the farmers, when the territory concerned is already equipped with agricultural credit institutions, the State is in a position to choose between the granting of loans directly to the farmers and the advancing of funds through intermediate institutions which, in their turn, provide for the opening of credits to the farmers. This choice is naturally strictly dependent upon the decision as to who should bear the risks of the credit operations. If the risks are entirely borne by the State, the activity of the credit institutions is practically reduced to the actual handling of the incoming and out-going money and to administrative services, as the responsibility for all the decisions in the operations has to be reserved to the State as the provider of funds and the bearer of risks.

If, on the other hand, the State confines its activity to the provision of funds alone, while the credit institutions shoulder the risks of the operations, the credit apparatus appears in its proper role of provider of credit facilities to the farmers. This second form of distribution of finance has been adopted in Italy, and it seems generally to be preferable to the direct granting of credits by the State for quite a number of reasons. Apart from the costs of the service being lower when it is entrusted to an already existing organization well informed as regards the conditions of the locality and other considerations, such an arrangement has the advantage of avoiding the danger of the farmers confounding the provision of productive credit facilities by the State for public relief. Moreoever, this method would put the farmers in direct business contact with credit institutions which, in future, shall have to finance them in the course of their ordinary farming activities. It enables the credit institutions to develop their own financial operations, providing out of their own funds for the current financing and equipment of local farming, with whose real needs and conditions they are in a position to have a closer and better acquaintance.

The exceedingly important aspect of the credit problem is indeed the question of the *proper relations between long-term financing and medium-and short-term credit facilities*, a problem which has an enormous bearing in the development of economically backward territories. In fact, it is a matter of frequent experience that a farm which was in a position to equip itself to perfection, thanks to the facility of long-term credit facilities, finds great difficulty in the conduct and the consolidation of its business because of the shortage of working capital and of stocks, which can be provided through short-term credit facilities only.

It is a matter of common knowledge that the granting of credit for the development of agriculture in the economically backward regions is a business involving *great risks*. This, indeed, is one of the considerations, perhaps the most important, adduced in favour of the direct granting of credit by the State. Some experts would however hold the view that precisely for that reason, it would appear more expedient to have recourse to farm credit institutions ; but, for these operations, the credit institutions should have the guarantee, at least partial, of the State, to the extent to which the operations are carried out with funds advanced by the latter. In substance, such a guarantee is equivalent to the direct liability of the State for the risks. Such a system, no doubt, does not alter or resolve the basic economic problem viz., limiting the granting of advances to productive investments, capable of securing the repayment of the loans, an adequate profit and an increase in net national income. But in some cases the system has the merit of inducing the credit institutions to expand their activities and to intervene in those cases when important and costly works, involving high risks, have to be carried out to ensure the economic and social success of the development programme.

Even when the State intervenes directly in the financing of the farmers, the organizations entrusted with the actual granting of credit are bound to adopt principles and methods of operation similar to those applied by the credit institutions, whenever the latter have to resolve properly the economic problem of financing the development of agriculture. Hence, it is held that, in the zones in course of development, the financing problems have to be faced in exactly the same manner by the special State credit organizations and by the common farm credit institutions, private, public or semi-public, irrespective of whether the risks are shouldered by the State or borne by the credit institutions themselves, with a partial guarantee of the State.

It is generally recognized that the granting of credit for the constitution and development of small family farms with a low income capacity, to which actually belong the farm holdings created under the land reform legislation, should be operated directly by the State, through specially constituted public organizations. This view is essentially right and is certainly appropriate to the real needs of this particular type of farm. Quite apart from the great economic risks involved in the financing of such farms, which only the State can bear in view of the predominantly social objects of the land reforms, the direct intervention of the State in this case is necessary because the provision of credit facilities is closely connected with that of technical assistance. Moreover, in the case of such small family farms financial and technical assistance cannot be confined only to the agricultural activities of the farmers but has to be extended to the family which lives on the proceeds of the holding ; and this assistance requires forms and procedures which cannot be applied by the common farm credit institution. In Italy, the task of such assistance to the family farms created in the course of the land reform is entrusted to the organizations constituted for the carrying out of the reform.

RISKS IN FARM CREDIT

The more risky nature of agricultural credit operations under a programme of economic development is due not only to the uncertainties and the risks generally common to this particular kind of activity but to other factors, which increase and intensify the usual risks. As a matter of fact, it is necessary to assume that all the farms having recourse to credit facilities in a given region are more or less homogeneous, with the result that the prudential rule of distributing risks among business units engaged in different productive activities cannot be observed. Moreover, credit assistance has to be extended to a great number of farms, because the restriction of credit to the farms offering a high degree of security would reduce the financing operations to a small fraction of the farms in need of financial assistance, and limit that assistance precisely to those farmers who, being better provided with capital resources of their own, are in lesser need of it. As a general rule, in the zones in course of development, long-term credits are needed not so much for the improvement of the existing systems of farming but rather for their transformation. From the purely economic viewpoint of the particular farmer, investment in the transformation of his farming system is preferable to the alternative investment in improvements when the former succeeds in increasing the net returns compared with those obtained by way of improvements. Considered from the point of view of the community, and therefore also from that of the State which undertakes a development programme, the problem presents itself in terms of the increase of social income for the whole of the zone concerned, that is, in terms of an increase in the total remuneration obtained by the labour and capital employed in the agriculture of the zone.

As it often happens that the considerations concerning the increase in the social income of the zone do not agree with the interests of the several local farmers, the State, in securing the execution of its programme, has to impose on the farming landowners certain liabilities in respect of transformations to be carried out, while, at the same time, it grants them subsidies which reduce the cost to them of the necessary investments and make the transformations economically attractive to the private owners.

From the point of view of the farm credit institutions concerned, while the granting of subsidies, by integrating the auto-financing capacity of the landowners, reduces their need of credit accommodation, the imposition of the liability of transformation, generally involving thoroughgoing and costly works, increases considerably the quantitative and qualitative risks inherent in the financing business. As a matter of fact, such liabilities extend to almost the whole of the farms in the zone concerned, and the transformations are not infrequently of such a nature that, while they ensure a higher total return on the labour and capital employed, they are not precisely what the private farmer would have chosen as best suited to increase his own net income from his land.

The risks involved in the credit business in the zones of development are thus aggravated by the nature of the works to be financed and by the fact that, involving the passage to systems of farming often unknown in the locality before, the transformation is very uncertain as to its possible economic results. Even if the technical requirements of the new systems of farming to be financed were known in advance, and if the professional capacity of those responsible for the transformation were generally adequate, the credit institutions would still have to face the great uncertainty concerning the possible influence upon the market of the increase in the supply due to the expanded production of the farms transformed by the programme of development.

Finally, another factor which increases the risk is the separation of ownership from the operation of the farms, very widespread in the economically backward regions. This separation between owner and operator creates a situation in which the return on the capital invested largely depends on persons other than those who have actually contracted the loan and who are legally responsible for its repayment.

Having seen some of the most important problems of agricultural credit within the framework of development programmes, let us now see under what conditions and by what technical and organizational means credit can be made to work most efficiently and the credit institution can provide credit accommodation without incurring excessive risks and without threatening the very existence of the farms having recourse to borrowing.

ROLE OF THE STATE

The functions of the State in a programme of economic development are generally very important and varied. In so far as agricultural credit is concerned, it would appear necessary for the State to ensure the stability of the currency, to formulate an adequate agricultural policy and to impose upon the farmers, interested in the programme, liabilities in repect of agricultural transformation and improvement which, within the limits of possibility, would not trespass upon their right to undertake the execution of works economically productive for the community, and profitable to the individual farmer.

A *policy of monetary stability* would appear essential for the successful working of farm credit in the zones in course of development, though there is a current of expert opinion according to which development programmes cannot be financed without recourse to a process of inflation. Monetary devaluation may benefit agriculture under certain conditions but in the long-run, inflationary measures have an unfavourable effect upon agriculture and upon farm credit activities apart from the disastrous consequences for farming of unavoidable subsequent deflation. A policy of monetary stability, by rendering more secure long-term investments, favours the influx of private capital as a supplement to the funds advanced by the State. It provides a basis for judgment concerning the results of private initiative and prepares the ground for future economic progress which, even if slow to come, is more certain under stable conditions.

In order to make farm credit really efficient it is absolutely necessary, moreover, that there be adopted, within the general framework of an economic policy suited to the needs of the country, a sound and well-conceived *agricultural policy*. Such policy should favour private investments in agriculture and provide for the profitable disposal of the products obtained as a result of the development programme. There is, indeed, no point in inducing and helping the farmers to carry out improvements and transformation projects if the execution of such projects does not produce the expected benefits. The policy should ensure the success of financial assistance and prevent the productive credits granted to numerous farms becoming an unbearable burden of debt for the borrowers.

A third essential condition of the successful working of farm credit consists in the observance of the rule that *in the elaboration of programmes of development and in the imposition of liabilities with regard to agricultural transformation upon the farmers, due consideration be given to the suitability of the systems of farming to the particular conditions of the zone concerned and to the necessity for the farmers to undertake, on their farms, those transformations and improvements only as would increase their returns.* In fact, the imposition of liabilities too costly and too slow in providing a return on the outlay does not only reduce the possibilities of efficient farm credit organization, but also greatly increases the costs of production of the farms and does not permit them to consolidate their position and to hold their own in competition on the market.

TECHNICAL AND ORGANISATIONAL METHODS

It now remains to examine, in the light among others of the Italian experience in that field, the technical and organizational methods by which the institutions entrusted with the operation of credit can best contribute to the carrying-out of the improvements and transformations in agriculture without incurring themselves or imposing upon the community, risks too heavy to be assumed and capable of making of the financial facilities offered a kind of unproductive charitable assistance.

While under ordinary conditions, the extent of credit to be granted is being determined in relation to the value of the security offered, as a more or less important percentage of such value, in the financing of development work such determination cannot, as a rule, rest upon the estimate of the present value of the security offered alone. The estimations cannot, indeed, be based upon the determination of the price the farm would probably fetch on the market at the present moment and of the security this may be deemed to offer, but must take into account the value of the security the same farm is likely to offer after its transformation and of the probable increase in the returns it promises to yield. All these are data which are not easy to estimate in advance, while their importance in the decision about the credits to be granted for development purposes is fundamental.

The *efficient organization and working of the credit apparatus* is an essential condition of the success of financial intervention. The slowness of the procedures, especially when due to an excessively complex process of investigation of the credit capacity of prospective borrowers, does not contribute to the establishment between the parties to the transaction of a real spirit of co-operation, and may even be definitely hostile, especially in the case of short-term credits, to the success of the enterprise or of the operation for which credit accommodation is needed.

Among the ways by which the risks involved in the granting of long-term credits might be reduced it is essential to consider *the system of paying-out the* *sums advanced in instalment.* It is a matter of common knowledge that, in the case of agricultural improvements and, particularly, of the transformation of the systems of farming, the actual investments extend over a certain period, not infrequently over a number of years, and the person undertaking works of such kind, while wanting to be sure of the necessary financial resources being made available for their execution, does not actually need the whole amount of the advance in a single lump. The system of paying-out the money advanced by instalments, while it permits to the credit institutions concerned to watch the actual utilization of the funds by the borrowers enables the latter to save on the interests which otherwise would have to be paid on capital lying idle pending its actual investment.

In order to meet the credit requirements of the farmers it does not suffice to lower the rates of interest on the loans, as it is necessary to adapt to the needs of the case the other conditions of credit accommodation as well. Thus, as far as the duration of the credit operations is concerned, the common preference of the credit institutions for relatively short-term advances should somehow be brought to some sort of agreement with the need of the farmers to avoid being burdened with high annual amortization charges, by means of *adapting the duration of the loans to the character of the investments to be financed*, that is, to be more precise, by granting shorter or longer term advances according to the shorter or longer period needed for the investments to bear fruit.

In this connection, considering that all improvements, and more particularly, all agricultural transformations, are never immediately capable of yielding a return, and that the income derived from them increases gradually over a period of years, it may prove advisable to adopt systems of service and repayment of loans which provide for an initial period of some years during which the charges are limited to interests only or even allow the repayment to take place at gradually increasing rates for a more or less long period, after which these rates become fixed. Such adaptations may be exceedingly useful to the farmers, the first few years following the transformation being always a difficult period to go through. A still greater favour may be granted to the farmers by exempting them, for the few initial years, even from the payment of interests, which are later made payable by instalments in addition to the rates of repayment of capital.

The practical success of the farm credit institutions or of the other organizations entrusted with similar services within the framework of agricultural development programmes, also depends, as this may be seen from the foregoing exposition, upon the credit institutions having at their disposal an adequate staff of agricultural experts whose technical functions should include, over and above the appraisal of the farms as security for the loans, the examination of the projects of improvement and transformation to be financed, the control over the actual employment of the funds advanced, the ascertainment of the situation of the debtor farms and the technical advice and assistance to the farmers who need it in carrying-out the projects. Since, after all, the best security for the sums advanced consists in their efficient utilization.

The functions of agricultural credit institutions in the less advanced territories cannot, naturally, be confined to the financing of transformation projects, but are bound to extend to all those activities which can facilitate and accelerate the process of development and contribute to the success of the transformation itself. In order to achieve this object, the credit orgnization has to provide, beside the collection of farm products and beyond the financial assistance to the several farms, for the profitable disposal of the produce. An adequate level of agricultural prices is, indeed, an essential condition of the success of agricultural improvement and transformation and incidentally, for the repayment of the advances. Such success depends, among other factors, upon a just appraisal of the future market situations ; and it is essential, therefore, that the credit institutions promote and develop their economic studies and investigations with a view to provide the informations necessary for proper business orientation.

THE ROLE OF THE STATE BANK OF INDIA IN THE REORGANIZATION OF RURAL CREDIT IN INDIA

G. B. KULKARNI

Professor of Commerce
Sydenham College of Commerce and Economics, Bombay

THE ESTABLISHMENT OF THE STATE BANK OF INDIA

After enquiring into and analysing the problem of rural credit in India, the Committee of Direction, All-India Rural Credit Survey drew attention to the enormous magnitude and seriousness of the problem and recommended an Integrated Scheme for a complete reorientation of rural life in general and rural financial organization in particular. While explaining the main features of the Integrated Scheme, the Committee emphasized the need for not only State-guidance and State-aid but State-partnership with co-operatives in credit, processing, marketing etc. They further recommended, as a part of their scheme, the creation of one strong, integrated, State-sponsored and State-partnered Commercial Banking Institution for the extension of banking facilities on a large scale, more particularly in the rural and semi-urban areas and for diverse other public purposes. The Government of India accepted in principle this recommendation of the Committee and by passing a special Act in May 1955 established the State Bank of India on 1st July, 1955.

OBJECTS

Extension of Banking Facilities

It is well known that most of the Indian banks and their branches are located in the cities and bigger towns and there are quite a large number of towns and bigger villages, still short of banking facilities. There are at least about 100 district towns which do not have a branch of any large bank. The State Bank of India is expected to extend banking facilities to these areas through its own branches and by giving encouragement to other banks, old as well as new. The State Bank is required, by the Act, to open 400 branches during the next 5 years (1955-1960) at places which do not possess any or adequate banking facilities at present. This extension of branch banking, especially under the auspices of a State-partnered bank, will increase public confidence in the banking system as a whole.

Help in the Reorganization of Rural Credit

The State Bank of India will provide vastly extended remittance facilities for co-operative and other banks and will also encourage the further establishment of such banks in the rural areas. In the field of rural credit the Bank will follow as far as possible a sympathetic and favourable loan policy and a policy that will fall in line with the broader national economic policies.

Mobilization of Resources

By developing directly and indirectly the banking habit in the relatively undeveloped areas, the Bank will also help the mobilization of resources of these areas for development purposes.

SHARE CAPITAL

The State Bank of India has an authorised capital of Rs. 20 crores divided into 20 lakhs of fully paid-up shares of Rs. 100 each and this authorised capital can be further increased by the Government of India, though all shares will have to be of Rs. 100 each and fully paid-up. The issued capital is Rs. 5,62,50,000 divided into 5,62,500 shares of Rs. 100 each. This issued capital is exactly equal to the issued and paid-up capital of the Imperial Bank of India which has now been taken over by the State Bank. The issued capital may be increased by the Central Board of the State Bank and this will have to be done when the various State-associated banks will be absorbed—but the Reserve Bank of India will always hold at least 55% of the issued capital of the State Bank and no increase in the issued capital beyond Rs. 12.5 crores can be made without the previous sanction of the Central Government.

The denomination of each share is and will be Rs. 100 and every share is and will be fully paid-up. This is quite a salutary provision of the Act as compared to the composition of the capital of the Imperial Bank of 75,000 fully paid shares of Rs. 500 each and 1,50,000 part paid shares of Rs. 125 (paid-up) each. The holders of one-third of the capital of the Bank will no longer enjoy two-thirds of the voting power. The denomination of the share is fixed at Rs. 100 as against Rs. 125 recommended by the Rural Credit Surevey Committee, probably because Rs. 100 is a more convenient denomination. Shares are freely transferable, except that the Reserve Bank cannot transfer any shares so as to reduce its holdings below 55% of the capital of the State Bank. No person—except the Reserve Bank, a Corporation, an Insurance Company, a Local authority, a Co-operative Society and a Trustee—can hold more than 200 shares and no one, except the Reserve Bank, can exercise voting rights beyond 1% of the issued capital. The shares of the State Bank are included in the list of trustee securities and approved securities.

The shareholders of the Imperial Bank have been granted compensation at the rate of Rs. 1765-10-0 for fully paid-up share and Rs. 431-12-4 for a partly paid-up share, in addition to the dividends, declared or undeclared, due to the share-holders. The compensation could be in cash, Government of India securities (at market prices) and /or the shares of the State Bank (at prices fixed by the Reserve Bank) ; but no share-holder could get payment in cash beyond Rs. 10,000 and unless he informed the Reserve Bank within 3 months after July 1955 of his desire to be paid in cash. The rate of compensation which was fixed at the last 2 years' average market value of the Imperial Bank shares, as well as the method of paying that compensation were thus quite fair to the shareholders. The price of the State Bank shares to be issued in lieu of the compensation was, however, fixed by the Reserve Bank at Rs. 350 each, as against its face value of Rs. 100 each. This would mean that the Reserve Bank would lose Rs. 15-10-0 in exchanging for one fully paid-up share of the Imperial Bank 5 shares of the State Bank and would gain Rs. 22-14-8 in exchaning for 4 partly paid-up shares of the Imperial Bank 5 shares of the State Bank. Moreover, one feels that for setting up good conventions in the semi-public institution and for keeping itself in line with the broad national policy, the Reserve Bank should have fixed the price of these shares at about par with a fixed dividend at about 4 or 5% instead of fixing the price at a premium of Rs. 250 with a more or less implied understanding to maintain the dividend at about Rs. 14-16 per share, which was the Imperial Bank's rate.

MANAGEMENT

The management of the State Bank is entrusted to the following 3 bodies :—

1. *The Central Board* consisting of a Chairman and a Vice-Chairman appointed by the Central Government on the advice of the Reserve Bank and the Central Board ; 6 directors elected by the private shareholders of the Bank ; 8 directors to be nominated by the Central Government in consultation with the Reserve Bank to represent, as far as possible, the interests of commerce, industry, banking and finance (2 of these directors having special knowledge of the working of co-operative institutions) ; 1 director to be nominated by the Central Government ; 1 director to be nominated by the Reserve Bank ; and not more than 2 Managing Directors appointed by the Central Board with the approval of the Central Government. With a view to introducing new blood in the organization, the six elected and the eight nominated directors will retire after the specified time limit.

2. *A Local Board* will consist of all such of the 6 elected or 8 nominated directors as are ordinarily resident in the area and a maximum of 4 additional persons to be elected by the shareholders (as per the Branch Register) or nominated by the Central Government in consultation with the Reserve Bank.

3. *A Local Committee* may be constituted by the Central Board for any area consisting of such number of members as it may deem desirable. A Local Board

and a Local Committee shall exercise such powers and perform such functions and duties as the Central Board may assign.

A person who is a Director, Promoter, Agent or Manager of any banking company cannot be a member of any of the three executive Bodies of the State Bank. Similarly a Government servant or an employee of the State Bank other than the Chairman, Vice-Chairman or Managing Director is prohibited. Nor can an insolvent, a lunatic or a convict be appointed a member. Members of Parliament and State Legislatures are also disqualified. An elected director has to hold shares of the State Bank of a nominal value of at least Rs. 5,000 and an elected member of at least Rs. 1,000. The Chairman or the Vice-Chairman may be removed from Office by the Central Government after consulting the Reserve Bank ; a Managing Director may be removed from Office by the Central Board with the approval of the Central Government ; the Central Government, after consulting the Reserve Bank, may remove from Office any of the 8 nominated directors ; and the share holders, other than the Reserve Bank, holding not less than 50% of the share capital concerned may replace an elected director of the Central or the Local Board by electing another person by a majority of votes.

BUSINESS OF THE STATE BANK

1. The State Bank will act as the agent of the Reserve Bank of India, if appointed by the latter, at all places where the Reserve Bank has no branch and the State Bank has one, the terms and conditions of the agency work being agreed upon between both the Banks or fixed by the Central Government.

2. The Bank may advance loans and cash credits against trustee securities, debentures of local authorities and shares and debentures of limited companies approved by the Central Government, goods hypothecated, bills of exchange, promissory notes etc., an exception being made in the case of the Central, State or any other Government approved by the Central Government to which the Central Board of the Bank may advance money without any specific security.

3. It can work as an agent of a co-operative bank.

4. It can underwrite stock, shares, debentures or other securities in which it is authorised to invest its funds.

5. It can undertake executor and trustee work.

6. It can engage in foreign exchange business.

7. It can acquire the business of any banking institution on the terms and conditions agreed between it and the directorate of the banking company concerned and approved by the Reserve Bank ; the consideration for such acquisition may be paid in cash and/or shares of the State Bank.

8. It can borrow money for the purposes of its business and give security for the borrowings.

9. And the Bank can transact any other business that may be entrusted to it by the Act and all such other business as may be subsidiary or incidental to all the aforesaid business.

Prohibited Business

The following business is prohibited to the Bank.

1. Granting of loans for more than six months, except as otherwise provided in the Act.

2. Granting of loans against its own shares.

3. Granting of loans against the security of immovable property.

4. The financial accommodation made available to a single individual will not exceed a specified amount.

5. The "Two Signatures Rule" will be adhered to.

6. The duration of the bills to be discounted will be not more than 15 months in respect of bills drawn for financing seasonal agricultural operations and not more than 6 months in respect of other bills.

Thus, the State Bank like its predecessor the Imperial Bank is to function as an essentially commercial banking institution. Modifications and adaptations have, however, been made for enabling the State Bank to play its role in the field of rural finance and to absorb, if and when necessary, other banking institutions in the Country.

FUNDS, ACCOUNTS AND AUDIT

The State Bank shall maintain an Integration and Development Fund to be built up out of the dividend payable to the Reserve Bank on 55% of the State Bank's shares and any such contribution as the Reserve Bank or the Central Government may make from time to time. This Fund is to be used exclusively for the purposes of meeting any losses that may arise in the course of expansion and meeting any other losses or expenditure approved by the Central Government in consultation with the Reserve Bank. The State Bank shall have a Reserve Fund also.

The account books of the Bank, which will be properly kept, will be closed and balanced on 31 December every year and the affairs of the Bank shall be audited by two auditors who will be apponted by the Reserve Bank in consultation with the Central Government. In addition to having at all reasonable times access to the books, accounts and other documents of the Bank, the auditors may also employ accountants or other persons for investigating the accounts, these expenses being borne by the State Bank. The Central Government may appoint at any time such auditors as it thinks fit to examine and report on the accounts of the State Bank. The balance sheet etc., will be discussed by the shareholders of the Bank in the annual general meeting, to be held before the end of February every year. Thus the provisions regarding accounts, audit etc., have been quite elaborate and mentioned in sufficient details as required by the special character of the State Bank.

CONCLUSIONS

The establishment of the State Bank of India is undoubtedly a right step taken in the direction of extending banking facilities in the comparatively undeveloped rural and semi-urban areas and with a view to making the problem of rural finance easier of solution. The Bank will certainly strengthen the Indian banking system especially after it absorbs the State-associated banks and some smaller commercial banks and after it develops a banker-customer relationship with the co-operative banks. The conversion has also helped the removal of certain anomalies in the share holding and voting rights of the shareholders of the Imperial Bank.

However, the conversion has given, or will give rise to some important problems and repercussions, the significance of which should not be lost sight of. Firstly, the conversion of the Imperial Bank of India, the biggest of the Indian private commercial banks into the State Bank of India gave rise to an element of business uncertainty due to the fears of nationalization of commercial banking. There was and there is also a danger that bureaucratic rigidity may lead to a decline in the standard of efficiency and the range of service. Undue interference by Government and the pressure of political forces may adversely affect the business of the Bank. And despite the statutory provisions as well as the policy announcements subsequently made by Government for allaying these fears, the deposits of the Imperial Bank declined, as soon as the Government of India decided in December, 1954 to convert it into a State-partnered institution for the purposes of undertaking pioneering (and profitless) banking activities.

Secondly, there arose serious legal difficulties in the conversion of the foreign branches of the Imperial Bank of India. It is necessary that both the debtors and the creditors as well as the Governments of the foreign countries concerned should accept the State Bank as a successor to the former Imperial Bank ; and even if they do, it would take a good deal of time for completing all the necessary formalities. Morever, the conversion of a private bank into a State-partnered institution may reduce the confidence of the foreign customers and unless all the foreign customers and foreign Governments concerned are favourably disposed, some of the foreign branches may, indeed, have to be closed down.

Thirdly, with the gradual absorption of the State-associated banks, both the amount of compensation to be paid to the shareholders of these banks as well as the salaries and allowances payable by the State Bank to the officers and other employees of these banks will increase. Although it has been announced that the basis adopted for fixing the compensation for the shares of the Imperial Bank cannot be regarded as a precedent for fixing the compensation for the shares of the State-associated banks, it would be very difficult to make it applicable. Similarly, when the officers and employees of the State-associated banks will be employed by the State Bank, they will have to be paid, in most cases, higher salaries and allowances, according to the scales of the State Bank, which will further increase the cost of the service and/or reduce the profits of the Bank, unless the same staff can be used for handling an increased volume of business, at the same and/or new offices. Further, there may be some loss to the State Bank in taking over the assets of the State-associated banks at their book values and in paying compensation to such members of their staff as may have to be discharged.

Fourthly, it is rather surprising that after providing for bad and doubtful debts, depreciation, dividend equalization etc., which are usually provided for by all banking companies and except fixing the rate of dividend at 4% on some of the shares to be issued to the Reserve Bank of India in lieu of those transferred to the former shareholders in payment of the compensation, the State Bank is free to declare any dividend, the rate of dividend being determined by the Central Board of the Bank. In a semi-public institution such as the State Bank, one should have expected a a ceiling on the rate of dividend (at 5/or 6%).

Fifthly, as the extension of banking facilities is going to take the form of conversion into branches of the 100 non-banking Treasuries located at district headquarters and 300 non-banking sub-treasuries located at sub-divisional centres, the co-operative as well as the commercial banks operating at these places at present are likely to be adversely affected by the competition of the State Bank, unless the State Bank secures for itself entirely new business altogether, which is not likely. If the State Bank is to increase public confidence in the banking system as a whole and if it is to secure an effective co-ordination of its activities with the co-operative banking system at all the levels possible, the State Bank will have to keep itself out of this competitive business by fixing less favourable terms and conditions to its depositors as well as borrowers. Further, in converting a non-banking treasury into a banking office and in opening new branches, the State Bank will have to avoid being over-enthusiastic and will have to follow a cautious policy of expansion. Before extending its activities at any place, the Bank will have to enquire carefully into the extent of the existing banking facilities as well as the future prospects for banking business at that place, so as to find out the justification or otherwise, for as well as the extent of the banking subsidy.

And finally, it is doubtful how far the State Bank will help the solution of the problem of rural credit in India. Neither the extension of banking facilities in the rural areas nor the provision of increased remittance facilities to the co-operative banks alone is likely to help much, so long as the majority of farmers have little money to deposit with these branches and can seldom offer a security acceptable to a banker. The role of the State Bank will, therefore, be really effective in the field of rural finance only after all the other phases of the development programme of the Integrated Scheme are put into operation and bear fruit and after an effective agricultural bill market comes into being. One wonders, therefore, whether it would not have been appropriate and desirable—and it may not be too late even now—to convert the Imperial Bank of India into an Agricultural Credit Corporation of India.

AN APPROACH TO THE PROBLEM OF RURAL CREDIT

C.H. Shah And Tara Shukla*

Lecturer in Agricultural Economics
School of Economics & Sociology, University of Bombay, Bombay

The problem of rural credit has many aspects. Of them, we would confine our discussion to those that pertain to the point where the institutional credit comes in direct contact with the borrower. The stress on the institutional credit replacing private credit is fully endorsed. The problems relating to the elimination of the latter have only been incidentally touched. Attempt is made here mainly to study the problem of making institutional credit more acceptable. Even in regard to the latter there can be two sets of problems; (i) administrative, and (ii) policy making. In preference to the former the problems that pertain to the credit policy pursued by the co-operative societies have been selected for study. They have been dealt with in the background of the measures recommended in the Report on Rural Credit Survey, Vol. II.

It is accepted that the complexity of problem of rural credit is largely rooted in the preponderance of the small farmer in Indian Agriculture and the rural credit is to be oriented to suit his needs, which implies extending credit to less and less creditworthy borrowers. Increased business risk and positive efforts on the financial front to expand the borrowing capacity of the borrower would be two inevitable adjuncts of it.

THE PROBLEM

The following observations from the Report on the Rural Credit Survey, Vol. I (Summary) summarise broadly the problem of agricultural credit.

The value of land owned amounts to Rs. 7,000 and Rs. 2,000 per family for upper and lower strata respectively. The credit requirements for them are Rs. 1,300 and Rs. 800 respectively.

The average debt per family is Rs. 210. Current annual borrowings range between Rs. 100 and 300.

Of the current borrowings, only 15% are required for current expenditure on farm, about 50% are required for family expenditure and roughly 28% for capital expenditure on farm. Family expenditure includes construction and repairs of buildings, purchase of durable consumer goods as clothes, utensils etc., death and marriage ceremonies, and medical, educational and litigation charges.

Bulk of the current borrowings for the current farm and non-farm business expenditure are repaid during the year. Besides, bulk of the borrowings during the Kharif season are repaid around the Kharif harvest period. On the whole, repayments constitute nearly 25% of each of current borrowings and outstanding debts. Compared to the debt-repayment requirements annual repayments amount to one third.

* Mrs. Tara Shukla is *Research Fellow in the School of Economics & Sociology, University of Bombay, Bombay.*

Whereas the larger proportion of farmers would use additional credit for current expenditure on manure and intensive tilling than on seed, the expenditure data show higher expenditure on seeds than on manures, indicating a margin of manure needs remaining unsatisfied.

The above observations point to few facts that the average Indian farmer does not observe such classification of needs as short-term, medium-term and long-term. For him there are only two types of needs, (i) inevitable and (ii) desirable. He includes in the former expenditure on current consumption and long-term family expenditure. The latter comprises of current and long-term productive investments. He concentrates on the former and economises on the latter.

The reliable figures regarding farm production value per cultivator are difficult to obtain. The Reserve Bank figures are about half of what would be the average on the overall data. Both total accumulated debts as well as current borrowings are much lower compared to either the value of land or the value of farm production on the basis of available data. The low borrowings may be partly due to the fact that the small scale of the farm enterprise and small social overheads make additional productive investment difficult. With successive Five-Year Plans this drawback may be gradually removed.

It is, however, general experience that the borrowings of the members of co-operatives especially from small farmers soon reach the borrowing limits on the basis of the value of land. Inadequacy of loan is one of the major complaints. Probably low cost of co-operative loans enables the borrower to expand borrowings rather rapidly.

The other drawback is that the current borrowings include a substantial portion of non-productive long-term needs and the farmer finances them largely out of short-term credit and arranges repayments accordingly. This is necessitated because the private agency—the only opening for him for such loans—is costly, and longer the duration of debt greater would be the rate of accumulation because of heavy interest charges. The result of it is curtailment of short-term as well long-term productive investments and postpone maintenance of assets. Besides, debt assumes cumulative character. Further borrowing requirements show greater rigidity at lower income levels.

APPROACH TO THE PROBLEM

Expansion of Credit

The approach to the problem can be two-fold. To popularise institutional credit, all the legitimate credit needs of the farmer will have to be covered through institutional agencies. The order of priorities between consumption and production needs for the farmer being difficult to alter, more lenient basis will have to be adopted for the latter, *i.e.*, production credit.

The recommendations in the Report on Rural Credit Survey stress the need to cover all credit requirements but the arrangements made are inadequate. For instance, they provide the mutual benefit chit fund to meet what they term 'specific consumption needs' such as expenses on marriages etc. In view of small money savings about Rs. 4 per family and money lendings of Rs. 42, latter being concentrated entirely among upper strata, against an average of Rs. 90 per family spent on specific consumption needs, the mutual benefit savings scheme would be inadequate. In a depressed farm economy 'first saving, then spending' is difficult to carry out. The co-operatives, therefore, will have to provide loans for these purposes.

The second problem is of expansion of borrowing capacity so as to cover all legitimate needs. The major recommendation in this connection is adoption of the crop loan system.

The adoption of the crop loan system recommended for short-term credit in place of the present system of credit based on legal title of ownership in land is an improvement, in so far as it extends credit to tenants, but it is difficult to say that this benefit would be realised by the small farmer to a proportionately larger extent. The lands leased-in are observed to be in close relation with lands owned by cultivators.

That apart, the new system does not correct the basic malady in the present system, long and medium-term credit needs being financed from short-term credit. No doubt, the introduction of crop loan system in Bombay has enabled a rapid expansion of credit, which can easily be seen from table No. 1.

TABLE 1-ADVANCES BY PRIMARY AGRICULTURAL SOCIETIES

(Rs. in crores)

Year	Bombay	India
1946-47	1.70	9.03
1947-48	2.22	10.45
1948-49	3.29	14.04
1949-50	5.29	17.99
1950-51	6.90	22.90
1951-52	8.12	24.21

But what is relevant to note is that the comparatively substantial amounts borrowed under the new arrangement have been employed in liquidating the past debt. Short term production as well as consumption needs got only 50 per cent of loan allocation. Table No. 2 below indicates this trend.

TABLE II

Purpose—Duration	Amount borrowed from co-operatives for this purpose—duration as per cent to total borrowing of credit from all agencies for this purpose—duration	
	India	Bombay
Agricultural		
Short-term	11.3	42.1
Long-term	2.4	5.0
Non-Agricultural		
Short-term	0.5	—
Long-term	—	—
Consumption		
Short-term	2.2	7.9
Long-term	0.9	2.9
Repayment of old debts	8.7	21.5
Other purposes	2.4	12.5

It is true that in the Bombay State the new system was instituted specifically for this purpose to meet the situation created by the Bombay Debt Relief Act. Since in essence the crop loan system is short-term one, dues outstanding for a long period under this system would have a paralysing effect on the co-operative organization and credit supply.

The amount that would be loaned out under the crop loan system to individual farmers may be considered adequate to cover medium-term loans if we presume that the farmer meets his consumption requirement from stock and not from loans. But the same difficulty will be experienced as is experienced when crop loans are used for debt retirement. Besides, most of the medium-term loans are used for replacement of old and worn out assets or for somewhat extensive repairs. Both these uses hardly add to the repaying capacity of the borrower. The financial commitments beyond the current repaying capacity without means to expand the latter would inevitably result in accumulation of overdues. The crop loan is thus not only inadequate for the purposes for which it is intended or for which it is used but also being in essence a short-term loan used in practice for medium and long-term needs limits borrowing capacity and makes difficult repayment.

To raise the basic borrowing capacity of the cultivator, in addition to the crop loan system, an attempt should be made to confine as far as possible long-term needs and short-term needs to the respective types of borrowings. Since the terms of repayment hold the key to credit expansion, easier instalments for the long-term consumption and farm replacement needs would go far in achieving the objective. At this stage, it may be noted that even the broad classification of loans on the basis of repayment period, namely, less than 15 months, 15 months to 5 years, above 5 years for short, medium and long-term respectively works out harshly in some cases. The provision regarding short-term credit repayment may be considered in general satisfactory. The exception would be in regard to garden crops for which the period between input and outturn is larger than 15 months. The difficulty arises regarding the medium-term loans, particularly borrowed for purchase of both draught and dairy cattle ; whereas, on an average, both the types of animals live beyond 10 years the borrower would be required to repay the loans within less than half that period. This would necessarily limit his aggregate borrowing capacity. Because of sufficiently longer period prescribed for retirement of long-term loans such difficulty would not arise in most of the cases of long-term credit. As a matter of fact, there can be only two classifications: (*i*) short-term credit for the period of one harvest or one agricultural year and little longer, and (*ii*) longer term needs. In the second category the period for retirement of loan may be prescribed according to the nature of investment and the period for which it would yield income. There might be, therefore, more than two sub-categories in the second category.

The second requirement to facilitate expansion of credit is separation of production loans from the rest of the loans. This is a difficult task. In the first place, there is no such clear-cut distinction in some of the uses. However, certain production uses can be well marked out *e.g.*, construction of a well, bunds or soil conservation etc. While matching the credit limit with borrowings such loans may be excluded from the latter. The direct effect of this would be an increased incentive to borrow for productive purposes without impairing the credit requirements for usual needs.

Integrated Loans

In the new recommendations for long-term loans the ownership of land as the basis and the Land Mortgage Banks as the agency have been retained. If specific consumption needs are to be covered by long-term loans this arrangement could be quite suitable. Whereas this arrangement fulfils the requirements of administration and security and management of the finance it handicaps the operation of loans, due to the slow process of loan advancement in the Land Mortgage Banks. It is necessary to integrate the assessment of credit-worthiness for all types of needs together. The administrative bifurcation necessary for sound finance may start from the level taluka upward. At village level where the co-operatives come in direct contact with the borrower the assessment of the needs and disbursement of credit may be integrated into one agency.

Discriminatory Credit

It is difficult to see how discriminatory credit can be avoided altogether. The Rural Credit Survey Report discarded it on practical grounds. Despite this difficulty, the Report was constrained to admit discrimination principle in the context of short-supply and rationing of credit. It has recommended that if the credit supply is to be rationed, it may be done so in favour of the small and the medium farmers. However, it did not suggest the practical basis of doing so. The fear of co-operative credit being in short supply is likely to prove real not in distant future in view of the planning, the extensive land reforms and the liberalization of credit suggested. Further, the need for discriminatory credit is also felt to tilt the developmental tempo in favour of the small farmer who under the present land and production distribution patterns, is not likely to benefit adequately. The proportion of fresh investment needs to value of landed assets in the case of the small farmer has been observed to be one-third against one-fifth in the case of the big farmer. Besides, money savings and lendings by farmers too belong to a substantial extent to big and large cultivators. To mobilize these savings and divert them into productive investments it is necessary that these farmers are offered comparatively less liberal loans if not less lenient terms of repayment.

The principles of discriminatory credit may be spelt out. Since the terms of repayment hold the key to the assessment of the borrowing capacity, they can be the convenient bases to discriminate either among borrowers' classes or credit uses. The use of assessment of credit limit for discrimination may be necessary only if the current supply falls short of the current demand for credit. Since under crop loan system, it would be necessary to measure the gross earnings of an intending borrower, a graded scale of borrowing limit may be fixed with the borrowing capacity varying inversely with income levels in case the discrimination in the upper limit is to be instituted. Similarly, as regards medium and long-terms loans, credit limits may be fixed in varying proportions of value of land owned for different classes of farmers.

In addition to the difficulty regarding sorting out farmers belonging to different grades—which is less difficult to overcome—it may be feared that the discriminatory credit may place unduly heavy responsibilities and powers in the hands of those who are less capable and equipped to handle them. This too, cannot be an insurmountable obstacle. It can be obviated through suitable administrative checks which are likely to be effective with the provision of group societies in place of present arrangement of one society for the village.

Once the principle of discriminatory credit is granted, it need not be restricted necessarily to discrimination between different sections of the farming community. It may be extended usefully to discriminate between more and less productive uses. It may also be used to encourage joint borrowing and joint use of credit by weaker sections of the farming community.

Reserves and Insurance

The rapid expansion of credit which would cater increasingly to the needs of less and less creditworthy farmers, might undermine the business security of the co-operatives. To buttress the business security of co-operative lendings, the Reserve Bank Report recommends creation of various types of reserves, through State-aid at least in the initial stages. This State-aid would be in addition to the State contribution to the share capital of co-operatives. The aggregate of reserves mainly to assure the security of co-operatives would be in the neighbourhood of Rs. 10 crores within five years. It is difficult to compute what the total requirements for finance would be if crop and cattle insurance are to be undertaken for the country as a whole. It may be quite beyond the present capacity of the co-operative movement. But in view of the fact that the substantial credit needs of members of co-operatives would be met by the societies the business returns should be assured to them to avoid the eventuality of liabilities proving burdensome to them due to freak monsoon or nature's unkindness to cattle. The reserves which would protect only one of the contracting parties, would thus protect both of them and create an atmosphere in which many marginal cultivators would be drawn into the co-operative fold.

It might be argued, why fritter away the energy and resources to cover the fields where success is less guaranteed, when the task in the fields where success is more secure is itself stupendous. The shortage of technically trained persons is much greater than even financial scarcity. Further, it would be argued that the data we have, are insufficient to calculate the risk involved and lastly, the premium may be beyond the paying capacity of the beneficiaries.

What is stressed here is the close link between co-operative credit and insurance. It is not necessary that the coverage of the both co-operative credit and insurance should be co-extensive from start to finish. More concentrated efforts may be made for insurance by restricting it to a more manageable size of the region. Regarding data, the expert opinion is now converging on the view that the available data provide minimum basis to start the scheme of crop insurance. The position regarding cattle statistics is not so good. The losses incurred are heavy in regard to premature deaths of cattle and they shatter the entire economy of the small farmer and push him down the agricultural ladder.

The general provision for veterinary services and breed improvement may provide some relief but its specific help to the individual farmer will be limited when related to the impending loss arising from cattle death. Hence it would be better to start with cattle insurance, especially for draught cattle. In the context of liberal credit at cheaper rate of interest, cost of premium cannot prove a heavy obstacle.

CONCLUSION

Borrowings on the whole are very low and sufficient margin exists to expand them provided fruitful investment opportunities are available. The demand for loan can be expanded by better terms for long-term specific consumption needs and placing productive loans outside the normally determined credit limit. The period of repayment for production loans may be as close as possible to the period of accruals of income from the investment. To mobilize savings accruing to the upper strata and to encourage greater developmental tempo among small farmers it would be worthwhile to adopt discriminatory credit. Discrimination may relate mainly to period of repayment and when the current supply runs short of current demand for credit, discrimination in fixing upper credit limit may be operated. The discrimination principle may be extended to credit uses in favour of more productive schemes. Instead of attending mainly to buttressing business security it would be more paying to insure returns to borrowers in whose liabilities the liberal additions are intended to be made. The practical difficulties in regard to both the latter schemes are not likely to prove insurmountable.

RATE OF INTEREST IN REORGANISATION OF RURAL CREDIT

S. THIRUMALAI

Editor

Agricultural Economist, Bombay

The object of this paper is to stimulate thought and focus discussion on a specific problem of the significance of the rate of interest in the reorganisation of rural credit. The problem is analysed in three parts : (1) the concept of Interest in Agricultural Economics which provides the theoretical base ; (2) the problem-situation in India, viz., the position and trend in rate of interest and (3) rate of interest in the scheme of reorganisation of rural credit, with reference to the recommendations in the Report of the Rural Credit Survey.

THE CONCEPT

The concept of the rate of interest evolves from the changes in fundamental factor-supplies, viz., land, labour and capital and in product demands that arise with development.[1] The relationship between the conditions of adjustment

[1] The analysis does not extend to the sphere of the general theory of interest.

of agricultural production to these changes in factor-supplies and product demands determines the measurement of the rate of interest. To simplify the analysis, the changes in the two really important factor-supplies in agriculture, land and labour are not considered here, though they have an effect on the rate of interest. The factor-supply in capital alone and its elasticity in agriculture are examined to bring out the economic and financial characteristics of agriculture. The latter determine the rate of interest.

Economic Characteristics of Agriculture

The fundamental economic characteristic of agriculture is its instability. The attributes of this instability may be and are actually common to the economy as a whole. But there are some attributes which are specific to agriculture. The chief of these is the highly inelastic nature of the demand and supply schedules. The physical and environmental factors cause large and abrupt shifts in the demand schedule at frequencies which have no regular or determined cycle. Consequently, the economics of agriculture has a distinct purpose and is primarily concerned with exploring ways of improving the economic organisation by reducing the factors of instability and where this does not seem to be possible, by reorganising the economy to the instability. This would show that the theory of economic organisation evolved in micro analysis, for the functions of particular firms and households, often expressed as problems in valuation and methodology, is not applicable to conditions in agriculture. In agricultural economics, research should go beyond the mere organisation of farming and rural households ; no doubt, these should not be neglected, as they are important. But the factor-and product-markets cannot be assumed away as is the practice in regard to the theory of a firm. In adjusting agriculture to economic development, the conditions under which the factor-markets function and the performances of the latter are of crucial importance. The social and political processes which impinge on the conditions of operation of the factor-markets cannot also be left out of the study. It should be, therefore, recognised that the rate of interest in agricultural economics is not merely the rate of return to the factor-supply capital under assumed conditions of organisation of the market for that factor. The rate of interest in this sphere of study, on the other hand, actually indicates the financial characteristics of the business of farming and the state of organisation of the capital market for this purpose.

There has been no definitive study of the particular behaviour of the business of farming to the inducements of organisational changes in the structure of the capital market for agriculture. If there is complete statistical or factual vacuum in any sphere of agricultural economics, it is on the data, which either governmental or professional research agencies have failed to produce, on rewards to factors used in farming and on how these rewards compare to those received by comparable factors in other sectors of the economy, and data on the personal distribution of income within agriculture. These data are basic to the analysis of the efficiency in agriculture. The few studies on yield and price uncertainty in agriculture which are available cannot be relied upon for a scientific analysis ; they can at best be taken as the best hypothesis or guesswork in explaining the behaviour of trends in agricultural efficiency in relation to changes in the factor-rewards. Having made the position clear thus far, the capital market for agriculture is examined in general.

Capital Market in Agriculture

The important and assumed role of capital is that of a powerful agent in inducing economic development. The capacity and efficiency of the capital market to adjust to economic development is indicated by the allocation of capital of optimum demand. An index or measure of this capacity and efficiency is provided by the rate of return to capital, that is interest, at different sources of demand viz., agriculture, industry, etc. Agriculture is an area of economic organisation where there is no dependable knowledge on such a fundamental matter as the rate of return to capital at the margin and on the average produce in agriculture. Are there margins where the rate of return is high at, say, 20 to 30 per cent and are there margins where the rate is as low as, say, 2 to 3 per cent? Obviously the characteristics of economic organisation in agriculture admit of both the situations. But we lack the relevant data and the criteria for analysing and interpreting them. Even the bare skeleton of the assets both physical and financial of agriculture is not known except for a few countries such as the U. S. A., and the U. K. In the under-developed area of the East (Middle, South and Far), there is not even a rough guesstimate of capital formation in agriculture and the rate of return to capital which should be considered as effective in inducing development. In the absence of "meaningful studies that bring time-series and cross sectional data to bear on this problem, it is not possible to compare the returns to capital used in agriculture in various areas and types of farms with the returns to capital in other sectors of the economy."[2] But on observation we take it to be a fact that in agriculture where many of the farms are far below the optimum size, the inputs of capital employed are too few when compared to the inputs of labour employed. The general inference is that capital is not efficient in agriculture, measured by the rate of return and a diversion of investment to agricultural demand cannot be had at a rate of return comparable to that in the other sectors of the economy. And even a higher return may not induce efficiency until the economic organisation in agriculture is adjusted to the normal functioning of the capital or loanable funds market serving the economy.

Experience of Organised Agriculture

The experience of the U. S. A. where the economic organisation in agriculture is adjusted to the operations of the capital market, indicates that "within the frame-work of present institutions and practices, farmers who hire funds from outside sources in order to establish a firm are more likely to obtain sufficient capital to do this by renting rather than by borrowing. Furthermore, ownership of a farm results in the farm family bearing a much larger share of the economic uncertainty that lies ahead than it does when the farm real estate is being rented."[3] In evaluating the effects of renting and of borrowing upon the size of the farm, measured in terms of the physical assets under the control of the operator, it has been observed that 1) the capital structure of large-unit agriculture is characterised by relatively high outside interests (landlord and creditor), and 2) those outside interests are largely those of investors who operate as part of a relatively broad capital market. Small-unit agriculture, on the other hand, appears to be

2 T. W. Schultz : The Economic Organisation of Agriculture, p. 362.
3 Op. Cit, p. 305.

financed to a greater extent by operator's equity, supplemented by credit from local lenders, notably commercial banks.

Inferences

From this experience, the significant inferences drawn on the capital market serving agriculture are : (1) the capital supply in agriculture, internal and external, is scarce; therefore, it is rationed by the conditions of the institutional organisations ; (2) this scarcity and rationing of capital acts as a barrier to transfer of investment into agriculture which is essential for economic development ; (3) the need for capital transfer to agriculture will be less to the extent that a) the terms of trade in agriculture are favourable, (*b*) the population in agriculture have a low rate of reproduction and there is no shift in the occupational distribution, (*c*) the techniques of production remain stationary or are improved slowly and (*d*) the relative prices of factors (inputs) vary within narrow margins and therefore there is little or no substitution of capital for labour.[4]

The above financial characteristics of agriculture provide the assumption that if agricultural efficiency should improve through a transfer of capital, then it is not the rate of interest that would determine the improvement but the adjustment of the whole capital market, viz., the increasing stock of capital to the requirements that characterise agriculture at different periods under the determined institutional organisation and set standard of efficiency.

Problems in Adjustment

Inspite of the very incomplete and fragmentary nature of existing information, it is generally accepted on the basis of trends observed that the capital market for agriculture has not adjusted itself to the economic organisation in agriculture. The allocation of capital and the responsiveness of the rate of interest in increasing efficiency are restricted to those few parts of agriculture which are situated favourably to the centre of economic development in other sectors of economic organisation than the large area which lie at the periphery. The problems in adjustment are either to increase the capacity and efficiency of the capital market to adjust or reduce the necessity for these adjustments. It is in the former approach that the rate of interest should logically be assumed to have significance. But as conditions are, in the under-developed areas the chances of success for the first approach do not exist. Therefore, the rate of interest as a factor in influencing capital transfer into agriculture and therefore, of its efficiency at the margin of the productive unit is almost not significant. The problem in adjustment lies in the direction of designing measures which would increase the incomes in agriculture without the need of applying the principles of capital allocation. That is, in the process of reorganising the agricultural economy, through institutional and other changes, the supply of the factor, capital should not depend on the fundamental principle of the return in agriculture. The observed income effects upon "investments" in agriculture justify this departure from an accepted and valid principle of capital allocation on the básis of return. A preferential treatment of agriculture in this respect arises chiefly from

4 Ibid.

1) the need for transfer of capital to agriculture with the purpose of adding to new physical assets (improved technique) and the inherent characteristics of the economic organisation in agriculture which do not satisfy the test of factor-return, and (2) the uncertainty in price-movements of agricultural products. Price uncertainty has a significant control over the present 'compass of capital rationing' in agriculture and has resisted productive efficiency by inducing farmers to function at a low standard of technique and resources. Additional resources may be available, and if applied may improve substantially the efficiency of the farm and the operators. But the uncertainty considerations of the price-factor have a strong impact on the choice of utilising additional resources. Additional inputs of labour are preferred because they are flexible, and are 'safe' against price-uncertainty. That is the conclusive reason why farmers are not induced to employ machinery, equipment, fertiliser, buildings, etc. Can this cost of price-uncertainty resulting in inefficiency be reduced by a mere adjustment in the capital market through the ruling principle of the rate of interest ? That is the crucial question in our discussion.

PROBLEM-SITUATION IN INDIA

In the background of the theoretical base of the significance of the rate of interest in capital formation in agriculture, the problem-situation in India may be now examined. The economic characteristics of agriculture are that of an 'under-developed economy'. The rate of reproductivity of the agricultural population is comparatively high. There is a growing surplus population in agriculture. The actual population employed in agriculture forms only 69 per cent of the total in agriculture. The operating units are small and the majority are below the standard requirements of even 5 acres under the prevalent technique. The technique of agriculture has not changed or is changing very slowly. There is capital starvation for 70 per cent of the agricultural population who are declared to be non-creditworthy under the existing institutional set-up of organised capital supply. The capital allotment to agriculture is not organised except for 30 per cent of the population and 7 per cent of the annual requirements under working capital alone of Rs. 750 crores. The developmental capital is rationed on the demands and returns in the other sectors of the economy according to allotted priority which has not been determined purely on economic criteria and the importance of agriculture as a primary factor in increasing the rate of investment and the national income under planning.

The pattern of credit supply, under these conditions, as reported by the Committee on Rural Credit Survey (1954), is as follows : The private credit agencies, viz., professional money-lenders, relatives, traders and landlords supply about 93 per cent of the total amount borrowed by cultivators. The combined contribution of Government and the Co-operatives is about 6 per cent of the total, the balance of 1 per cent being spared by the commercial banks. Loans from 'relatives' account for nearly 14 per cent of the reported borrowings of cultivators, all of such loans being interest free. The concern is with the rate of interest of 86 per cent of the borrowings, of which 79 per cent is from the private agencies. The trends of rates of interest in the private credit system, unorganised credit and the institutional credit system or organised credit should indicate the effectiveness of the service of the capital market to agriculture in India. The basic facts as disclosed by the Rural Credit Survey confirm the inferences drawn in the first part that organised capital market can satisfactorily serve only organised agricultural economy.

Trends in Interest Rates

It is a recorded fact that the private agencies of credit do not exercise much restraint on themselves in regard to the rates of interest, charged for the loans advanced to the agriculturist-borrowers. The proportion to the total borrowings of cultivators from private credit agencies as bare a rate of interest of 25 per cent or more is reported to be as high as 70 per cent in Orissa, 49 per cent in Tripura, 40 per cent in West Bengal and Himachal Pradesh. 29 per cent in Uttar Pradesh and 27 per cent in Bihar. Borrowings at interest rates of 50 per cent or above account for as much as 64 per cent in Jhabua, 30 per cent in Tripura, 27 per cent in Malda, 13 per cent in Hazaribagh, 10 per cent in Karaput and 9 per cent in Nainital. It is not necessary to go into the investigation of various questionable practices alleged in the business of money-lending, which further increased the burden of the interest rates. The point for examination is whether charges made by the private credit agencies really constitute the element of interest in the precise definition of the term on the advances made by these agencies to the cultivator-borrowers. The advances as such are not often related to either the security which the borrowers offer or can offer or the purposes for which the advances are to be used or the period within which repayments of the advances could be secured. It is the factor of uncertainty about the return of the amounts advanced, which depends on the particular characteristics of farming of the individual borrower and his other circumstances which determine the purposes of borrowing. It is with reference to these conditions of borrowing that whether the rates of interest charged by the private agencies are on the high side should be examined. Actually the inference is that the charges made by the private agencies of credit are not truly in the nature of interest. They combine various factors which are taken into account in the estimation of the capacity of the individual borrower, whose conditions are familiar to the lender.

It may be useful to mention here the rates of interest which have been considered as reasonable or economic. This is indicated by the provisions relating to maximum rates of interest chargeable on debts declared eligible for adjustment under the Money-lending Legislation passed in different States. Uttar Pradesh has fixed $4\frac{1}{2}$ per cent on secured and 6 per cent on unsecured portions of outstanding debt. In Madhya Pradesh the rate was 7 per cent for secured debt and 10 per cent for unsecured debt. In Madras the interest was not to exceed 5 per cent and the maximum rate on all debts scaled down was $6\frac{1}{4}$ per cent. In Bombay 12 per cent was the rate fixed for pre- 1931 debts, 9 per cent for those incurred between 1931 and 1939 and 6 per cent for subsequent debts. The Rural Credit Survey has compiled the statistics to show that Money-lending Legislation has had little effect on what the cultivator is actually charged as interest by the money-lender. The following table illustrates the position[5] :

5 Report of the All India Rural Credit Survey, Volume II, p. 174.

State	Maximum stipulated interest rate*	Amount borrowed from traders and commission agents, agriculturist-money-lenders, professional money-lenders and landlords at rates higher than the stipulated maximum as percentage of the total borrowings from these agencies (excluding borrowings at unspecified rates)
	Per cent	Per cent
Assam	12½	14
Bihar	12	88
Bombay	12	19
Madhya Pradesh	18	67
Madras	5½‡	86
Orissa	12	86
Punjab	12½	34
Uttar Pradesh	24	29
West Bengal	10	88
Hyderabad	9	83
Mysore	12	10
PEPSU	12½	65
Travancore-Cochin ..	12†	12

* Refers to simple interest on unsecured loans generally as the legal position stood in 1951.
‡ According to the Madras Agriculturists' Relief Act, 1938.
† Refers to secured loans.

The proportion of borrowings at rates higher than the stipulated maximum was around 85 per cent in West Bengal, Bihar, Madras, Orissa and Hyderabad, and about 65 per cent in Madhya Pradesh and PEPSU. On the question of rates of interest chargeable by the private agencies of credit and ineffectiveness of the legislation to control these rates, the Committee of the Rural Credit Survey have observed that " there is no reason for denouncing the money-lender. The real point is not what the money-lender does but what the State has omitted to do." It might be added that the rates of interest have shown such variations only because that capital supply could not be had under alternative conditions. It is not only the State but even the institutional agencies have not been able to substitute a more adequate means of satisfying the credit needs of the agriculturists The recommendation of the Rural Credit Survey on this question is that the rates of interest prescribed in different States should be revised in a realistic manner. It is obviously futile to expect the money-lender to charge an interest, which is lower than that prescribed as the maximum for co-operative societies and other institutions. The only result of such a provision will be to secure enforcement which is difficult enough in any case much more difficult.

The position in the organised sphere of credit, viz., the agencies of co-operatives, the State and the commercial banks may be examined. The latest Report for 1952-53 on the co-operative movement in India published by the Reserve Bank observes that only in some of the States, where the co-operative movement is relatively well-developed it has been possible to provide finance by the primary agricultural societies, at moderate rates of interest to members. In many of the States, such as Assam, Madhya Pradesh, Punjab, Uttar Pradesh, PEPSU, Rajasthan and Manipur the lending rates of primary societies are as high as $12\frac{1}{2}$ per cent and in one case 18 per cent. The reasons for this state of affairs have been explained to be (1) the failure of co-operative societies to raise enough local deposits ; (2) small and uneconomic size of central banks in some States which have to retain high margins between the borrowing and lending rates and (3) the inadequate expansion of the co-operative movement on sound lines. The normal rates of interest of agricultural credit societies have varied from 3 per cent to $12\frac{1}{2}$ per cent.

The rates of interest charged by Government vary from State to State. More than 90 per cent of the amounts lent were at rates varying between 3 and 5 per cent in Punjab, PEPSU, Vindhya Pradesh, Bhopal and Travancore-Cochin. The amounts lent at rates between 5 and 6 per cent were more common in Tripura, Saurashtra, Bombay and Mysore. While in Hyderabad, Assam and Bihar loans at $6\frac{1}{4}$ per cent interest rate were predominant, in Madhya Pradesh about 23 per cent of the loans were given at $7\frac{13}{16}$ per cent rate of interest. These data should be sufficient to indicate that even the agency of the State has had to vary the rates of interest according to the conditions pertaining to different regions and to the status of the borrowers. In the case of the commercial banks, the rates of interest for advances have varied between $5\frac{1}{2}$ per cent and 7 per cent against pledge of agricultural products and $3\frac{1}{2}$ per cent and 9 per cent against hypothecation of the products and 5 and 7 per cent against real estate.

It is clear that the rates of interest in the organised sphere of credit have also not been uniform or have any bearing on the return in agriculture, which should be the main determinant of the supply of capital to agriculture. In the organised sphere of agricultural credit, co-operatives occupy the primary and prominent place. Therefore, the position in regard to the rates of interest in this sphere may be examined in detail. It is often observed that while the Reserve Bank of India supplies funds at $1\frac{1}{2}$ per cent, the ultimate borrower gets the same amount at $6\frac{1}{4}$ per cent. Nearly $3\frac{1}{4}$ per cent is thus distributed amoung a hierarchy of co-operatives from the Apex banks to the small primary agricultural credit society. In order to understand the position in the proper perspective the rural credit set-up of the co-operatives may be noted. The funds reach the agriculturist through the Apex Bank, the Central Bank and the Primary Credit Society. The margins allotted to each are 1 per cent for the Apex Bank, 2 per cent for the Central Bank and $1\frac{3}{4}$

per cent for the Primary Credit Society. Unless this three-tier system of rural co-operative credit is reduced to two or even a direct single credit agency, it would not be possible to supply credit to the agriculturist at rates below $6\frac{1}{4}$ per cent under the existing conditions. Therefore, assuming that the existing set-up in the co-operative credit agency will be maintained it should be noted that the margin which the primary credit societies receive is $1\frac{3}{4}$ per cent. Even at this margin many of the societies are reported to be making loss and even those societies which show a small profit are just able to have a precarious existence due to their small turnover and uneconomic operations. Considering the importance of the primary credit society in the strengthening of the co-operative system itself at the level of the village the margin of $1\frac{3}{4}$ per cent should not be considered as high. The risks attendant on any type of rural finance in a sub-marginal agricultural economy are the same either to the private agency or to the organised agency. The chances which render a borrower against being prompt in repayment or even solvent remain the same. In the case of the Central banks, they are indifferent to perform the credit service just at cost plus margin basis of 1 per cent ; they borrow at $3\frac{1}{2}$ per cent on an average, sometimes at $3\frac{3}{4}$ per cent, 4 per cent or even $4\frac{1}{2}$ per cent. Considering the fact that the advances from the Reserve Bank can only be limited and that a large part of funds will have to be garnered by the Central banks from rural savings, the margin of 1 per cent should be considered as the minimum efficiency rate. The review of the trends in interest rates without any comments on the problems should bring out significantly that the rate of interest does not in any way affect the propensity of the borrower to increase his efficiency in agriculture.

RATE OF INTEREST

It should now be possible to draw some conclusions on the significance of rate of interest in the proposed reorganisation of rural credit through the strengthening of the co-operative movement with State participation. The problem in reorganisation of rural credit is one of transferring capital to agriculture, even under conditions which would not be justified by the principle of economic return on investment. How this could be achieved and through what institutional machinery is the second problem. In understanding these problems it should be made clear that it is the adequacy of rural credit rather than the low interest rate which claims attention, whether it be in the co-operative sphere or in the commercial joint-stock sphere of banks or the private money-lending agencies under regulation. The primary necessity is one of improving the operational agency of agriculture through the organisation of a credit machinery which would satisfy the economic and financial characterisitcs of agriculture. Chester C. Davis in his Report on Rural Credit in India has expressed the approach appropriately with reference to the co-operative movement :

"Over-emphasis on getting loans to the cultivator at the lowest possible interest rate has retarded the capital growth of the co-operatives, and restricted their ability to serve the borrower and help him use the money he borrows to improve his income and economic position. By no means has enough importance been attached to the steady accumulation of capital at the primary level, no matter how difficult it is to save. These two factors alone increase the present difficulty in restoring strength and growth to the societies. Another way of increasing owned capital through collection of interest charges, ample enough to enable the societies to add systematically and quickly to their reserves, has been made difficult in India by insistence on getting credit to farmers at an interest rate scaled down to the lowest possible fraction, even supported to some extent by public subsidy. The question needs to be thought out whether there are not at least two considerations more important in co-operative credit than the lowest possible interest cost to the ultimate borrower. One is the important objective of giving the co-operative society margin enough so that it can build up the owned capital in which the borrower-member, of course, has an equitable share. The other consideration is the desirability of providing the society with means to be of real service to the member-borrower, so that it can give him credit when he needs it, and assist him to use it productively."

The crucial question, as J.C. Ryan has put it, is whether the emphasis should be on cheaper and lower interest rates or a stable co-operative financial structure. The question may be widened in scope whether the rate of interest has any significance at all under the present agricultural conditions in India and whether the problem is not one of building up a financial structure that would provide the basis for improving the efficiency of agriculture through a transformation of the economic organisation. A mere reduction of interest rates is not of much significance to the small producers. The reduction in interest cost will not in any way affect his budgetary position. What is required is the strengthening of this budgetary position by the provision of adequate finance both for developmental and seasonal purposes, according to periods of requirement and use. The popular notion of cheap money policy as argued out by Ryan has no application to the sphere of agricultural economics.[6]

As indicated earlier in the concluding portion under 'Concept of Interest,' one way of overcoming the type of restrictive influence of capital rationing in agriculture is to design measures, that would reduce the necessity of transfer of capital under normal monetary standards. The Government, State or the institutional organisations should assume the risks of the agriculturist-borrower and formulate a scheme of guarantee loans which would meet the purposes of the agricultural economy. There are a number of devices which may be used to raise and release funds for new capital ventures as well as for working capital; but to do so would require a well-organised central credit system separately intended for agriculture. It is beyond the scope of this paper to indicate in any detail the methods of satisfying the capital needs in agriculture and the organisational set-up that would be required. But the basis of reorganisation of rural credit should be a Central Agricultural Bank, which should be the focal agency for the whole rural credit system within the country.

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6 *The Madras Journal of Co-operation*, August 1955.

DISCUSSIONS

V. M. DANDEKAR, *Gokhale Institute of Politics and Economics, Poona*

All of us agree that the problem of rural credit is indeed a very old problem. I am not sure, however, whether we have noticed the difference in the title of the subject and the emphasis which has recently come about. I suppose, a few years ago, more or less the same problem was discussed under the name of rural indebtedness, something which was undesirable, something which must be eliminated. We are now discussing the same problem under the title of rural credit, something which must be expanded and extended. I do not know when exactly this change came about. I think I should tell you that personally to me it came as a sudden revelation when I was working in the Rural Credit Survey. As a member of the Technical Committee, I had a hand in the drafting of the questionnaire, the field work and the tabulation, and I must confess that for quite a while I was looking at it as a problem of indebtedness. Then we had the questionnaire, and the field work and I was responsible for some of the initial tabulations. 75 districts were tabulated and we had before us the level of indebtedness, as I used to think in those terms then, in the several districts. Then one fine morning when I reached the Reserve Bank, I discovered that low level of indebtedness was bad, and we started boosting up those districts which showed high level of indebtedness. I think it is necessary to be clear about what exactly was undesirable in the problem of indebtedness as we discussed it in the olden days and what is it that is desirable in the problem of credit which we now want to extend and expand. I do not want to go into it because I know that the difference is pretty clear to all of us. Nevertheless, I may suggest that probably the most undesirable thing in the old problem of indebtedness was that the cultivator was being crushed under the growing burden of indebtedness. That is probably because he borrowed money which he was not capable of repaying. I wish to point out that there is a similar danger in the new extension of credit. There is a danger of extending credit and making loan which the cultivator may not be able to repay. The difference is, of course, that in the olden days the loans were made by private moneylenders who stayed in the village and who had the physical and social power over the cultivator and who could crush him under the burden of debt. Under the new agency what is likely to happen is that we might neglect or connive at the default of repayment. What I wish to point out is that even as the burden of growing indebtedness under which the cultivator is physically and financially crushed is undesirable, so the habit of making defaults in repayment if it grows is bad enough, as thereby the cultivator is morally degraded. I think there is great need to protect the cultivator from loans which he may not be able to repay.

There is one other particular point which struck me namely the relation between the various legislations for land reform at present in progress in most of the States and the problem of rural credit. I think I am broadly right in saying that the problem of rural credit has been so far discussed more or less detached from the equally all pervading problem of land reform. There is, therefore, need to discuss the problem of rural credit in relation to the problem of land reform. I wish to point out that there are really two different aspects, one short term aspect and another of longer term, in which the various land reform legislations will affect any programme of rual credit. I believe that it is now more or less accepted that the landlord will be compensated, whenever the land is handed over to the cultivator. I need not go into particulars of legislation in this or that State. But the principle, I suppose, is now universally granted. For instance, in Bombay State, next year we shall have a Tillers' Day and within a few months of that every cultivator and tenant will be asked whether he wants to purchase the land which he is actually deemed to have purchased, and in case he is not able to purchase he will be evicted from the land. You will, therefore, see that in a very short period a large amount of capital will be needed by the cultivators to purchase the lands from their landlords. And unless this capital is immediately provided for, there is a great danger of eviction of the tenants from the land with all the coercive power of government. There is also another aspect about which I am not personally very clear ; it seems to me at present, generally speaking, agriculture is in need of capital in the form of credit, but exactly at this time, the land reform legislation which provides compensation for the landlord will transfer the capital which is generated or which will be generated in agriculture into the hands of persons who are likely to invest it in non-agricultural occupations. Thus a large amount of capital in agriculture will actually go out of agriculture. Therefore, I suppose there is an urgent need to think of these problems and relate the programme of agricultural credit directly at government level or at the level of the Reserve Bank or the State Governments with the respective programmes of land reforms in various States.

The long term aspect to which I referred to was that with the several land reforms we are in fact going to freeze land as an asset. One can cultivate land but one cannot do anything else with it. If this is going to be really so, we must revise our concept of an asset of an agriculturist and as to what is meant by creditworthiness of an agriculturist. If we take out land you will see that most of the other assets of an agriculturist are really perishable. Livestock is perishable and crops are uncertain, both in their yield and in their prices. Therefore, what I think is that even though we may have transitional arrangements such as that a cutivator cannot mortgage his land with a private moneylender but that he may mortgage it with a co-operative society, ultimately we shall have to revise our concept of assets of an agriculturist ; and if, as I suggest, they are really perishable, we shall have to relate a programme of rural credit with some kind of insurance, livestock and crop insurance, with which the cultivators' assets which are perishable and uncertain will be protected ;otherwise, there is a danger of making advances and loans which will be really uncovered by any dependable assets.

V. L. MEHTA, *All India Khadi and Village Industries Board, Bombay*

It is kind of you to have called upon me to speak for a while on this subject of the reorganisation of the rural credit in India. But I do so with very great hesitation. Because during the last few years I have been more or less out of touch with the working of the system of agricultural credit, co-operative or otherwise, in our country ; but I cannot forget the fact that for more than three decades, nearly 35 years of my life, I had something to do with the provision of agricultural credit on a co-operative basis in Bombay State, and as a student of the subject, when you called upon me to say a few words I could not disobey your orders, although the picture which I will place before you may not be something which fits in with the state of things as they obtain in our country today. The first question, Sir, I wish to ask myself is where do we go on to from here ? We have had discussions on this subject for over last half a century. Discussions took place even earlier on the subject of agricultural credit. And I believe the greatest service that the All-India Rural Credit Survey Committee have done is to raise a few specific questions and to reply to them, very definitely and very specifically and indicate a policy that could form part of a programme of planned development. What are those questions and what are the replies, which we as practical economists should consider and discuss? The first point that has been made out in the Report of the Rural Credit Survey Committee is that in our country we want an institutional agency for the provision of agricultural credit and that institutional agency should be an agency which has its roots in the village. This is a conclusion which several students of the subject came to years and years ago. The Rural Credit Survey Committee deserves our thanks for pointing out after a very impersonal, impartial and objective survey of the subject, that this is the line which we should accept. And that we should not attempt to rehabilitate the individual private lender, nor should we attempt to provide credit either directly through the State or through centralised organisations, such as were advocated for establishment not only in the early years of this century but even so recently as in 1930 when Mr. Manu Subedar, in his minority report, of the Indian Central Banking Inquiry Committee suggested the establishment of an agricultural mortgage bank as the best medium for the provision of agricultural credit in India. One conclusion, therefore, that the Rural Credit Survey Committee propounded, which I think we should accept, is that the institutional agency should be one which is in direct touch with the persons whom it seeks to serve ; and therefore, it will not serve our purpose if we attempt to provide credit through a central organisation covering a district, the whole of a State, much less the entire country. I would not go into the question of what the size of this institution should be. Personally, I believe a certain amount of flexibility is necessary in deciding what should be its size and the size will depend very much on the local conditions, more so the agrarian conditions, the social structure, and the educational level of the people.

Now this is one of the propositions which the Rural Credit Survey Committee enunciated that has to be accepted. To my mind, there is another proposition which the Rural Credit Survey Committee enunciated, which I believe equally claims our attention particularly when we are thinking in terms of providing rural credit through a village organisation, which if we are to go by the experience of other countries, has necessarily to be of the co-operative type. As a student of co-operation, the first lesson I was taught or the first lesson I learnt was that co-operation and State aid are incompatible. The Rural Credit Survey Committee deserves our gratitude for pointing out that whatsoever be the line of action that might have served in the past in other countries in the world and whatever might have been the relationship decided upon between the State and co-operative organisations in the context of other economies or for purposes other than agricultural credit, in the context of our economy and for the provision of agricultural credit through co-operative agency, State aid was not to be ruled out but on the contrary, might have to be welcomed. I remember, if I might indulge in personal reminiscences, of the kind of discussions that used to ensue between co-operators in India and one of the individuals who was responsible for the introduction of the co-operative movement in India—although he never visited India—Mr. Henry Wolfe that for a co-operative institution to get State aid was something which was almost unthinkable and that State aid if allowed and extended to co-operative institutions would have thoroughly demoralising effects. I believe, the Rural Credit Survey Committee for the first time takes the view that co-operation and State aid are not incompatible, and that in the conditions as they obtain here in our country State aid is not only to be ruled out but that unless there is State aid, State-sponsoring and even State-partnership, it is unlikely that we shall be able to provide the credit facilities, which our agricultural industry needs if we are to go on to a progressive economy. That is the second proposition that the Rural Credit Survey Committee has enunciated to which we must fix our attention, to which I would like to lend my whole-hearted support.

There is then a third proposition to which I would draw attention. In the past in the discussions that ensued between working co-operators and officials or those whose ideas and concepts of cooperations were drawn from the study of co-operation as it had developed abroad, the view was held that agricultural credit societies should stand by themselves and that there was no organic relationship between the function of providing credit and the other economic functions connected with the life of people, the agricultural communities, such as the supply of agricultural requisites or the marketing of agricultural produce. I remember, that I used to argue in the very old days, over thirty years ago, that in this field we have to learn some lessons from the *sawkar*. It may be that the *marwadi* is not the salvation of India—a view of that was advocated by a very distinguished foreign missionary in the course of an article which I had the honour of publishing years ago—it may be that the *sawkar* is not the salvation of India but then there were certain methods which were pursued by the *shroff* or the *sawkar*, and certain safeguards which the *sawkar* introduced in his system of lending from which we had to draw a lesson and which we could, subject to the principles that we folllow in the practice of co-operation, suitably adopt. I think that the Rural Credit Survey Committee enunciates, again almost for the first time in the history of discussions on this subject in India, this very important principle that credit and marketing particularly are very closely interlinked ; and that it may not be possible to develop agricultural credit unless at the same time an equally vigorous drive is launched for the development of the marketing of the produce which is turned out by the agriculturist with the aid of the credit which they derive from their credit agency.

That takes me to, what I believe should be, my last point, namely, the question of the security for the kind of credit that is extended to the agriculturist. Writers of the various papers presented to this Conference have drawn attention to the various aspect of the subject of agricultural credit as it has been expounded in the Report of the Rural Credit Survey Committee. As Dr. Dandekar pointed out, our conception of the type of security against which the institutional agency would and should lend in future has to undergo a transformation. It has to undergo this transformation for various reasons particularly because of the operation of the new agrarian legislation, like the one we have in Bombay, that guarantee certain rights to the tenants as also, of the legislation such as has been adopted in North India, for the abolition of the Zamindari system. Some day we may also have to take account of the fact that in most States, either directly or indirectly, ceilings will be imposed on the extent of the land that might be held by an individual. All this means that the kind of security and the extent of the security that an agriculturist-borrower will be in a position to offer, will be very different from the kind of security on which Mr. Manu Subedar in his minority report built up his entire thesis. The Rural Credit Survey Committee points out that on account of the small size of cultivation that predominates in our country, the primary security for the lendings of the institutional agency, should not be the land but should be the productive capacity of the borrower. This, again, represents a certain revolution in our ways of thinking among the co-operators in India, because, as has been pointed out by several of the speakers who preceded me, the type of lending which is most common in India even amongst the co-operative institutions, is the lending on the security of land either directly or indirectly.

These are some of the propositions to which we must fix our attention before we decide where we go on. There is one last point which I should like to make and that is to what extent a planned programme of development can be worked out for a movement which is essentially voluntary in character. Personally, I am not a believer in any type of forced development, particularly forced development in the field of co-operation. At the same time, I believe that it is possible with the adoption of methods of democratic planning to prepare a programme which may lead us to a line of development for which we can secure the acquiescence and, if possible more than the acquiescence, the active support and participation of the people. For this purpose, I believe, it is necessary that the State should throw in all its weight and not only sponsor but support the movement financially, and to the extent that it is necessary administratively. But I believe that when this programme is evolved and drawn up, all possible care should be taken to see that the service of the federal and other co-operative agencies are utilised to the maximum possible extent, and that at each one of these stages, those who constitute the organisation are made responsible for the actions they take. If this is done and if we follow the methods and principles of decentralised administration and working, and if at the same time, simultaneously, we take very active steps to promote education in the principles and practice of co-operation, both for the co-operators and for the public in general, I have every hope, that on the basis of the democratic planning we shall be able to prepare a programme of planned development for the provision of credit for the agricultural industry in India and also for the rural industries allied to it.

P. N. DRIVER, *College of Agriculture, Poona*

As I was just now listening to my teacher in co-operation Shri Vaikunthbhai Mehta, I felt I should raise one important point for the future development of co-operative credit which we have been discussing in this Conference. I think there can be no doubt whatsoever that, if credit is to be given, it must be given on co-operative lines. We have discussed this question for many years now—nearly a quarter of a century. There can be little doubt that even communist countries which believe in violence and dictatorship can do nothing without the aid of co-operative movement. Whether we go towards socialism or not, I have no doubt whatsoever that under every kind of '*ism*', the co-operative movement is bound to be there and credit will have to be supplied through the co-operative movement alone. But there is a very important point in the functioning of co-operative credit which has made me rather nervous. Is the country ready for expansion of co-operative credit to-day, without being reorganised so far as land tenure is concerned?

It has been my feeling that the expansion of co-operative credit should have come after a settlement of the problem of land tenure. In the absence of the settlement of the problem of land tenure, of the problem of the shape and kind of farms that we will have tomorrow, we are taking for granted in the present expansion of rural credit that the peasant proprietory system in India is quite all right and it can develop. I have always held the view that land tenure cannot be static in any country. As a country's population increases there must also be changes in its land system. Land tenure problems have reached such a stage in India and in other countries of south-east Asia, that what is required *first* is a radical re-organisation in the matter of the type of farm and farming operations we are going to have. In India we have not solved this problem, we have only shelved the problem and shelved it by taking up first the problem of reorganisation of credit. I personally, therefore, feel that though co-operative credit will have to be necessary and co-operation is undoubtedly essential, we may fail in our programme of the expansion of rural credit if we try to introduce credit on a large scale in an industry which to-day is a deficit industry. To-day we have no clear cut idea as to how far Indian agriculture is a deficit industry. What data do we have to-day, for arriving at proper ideas of economic holdings, for example? On what grounds are we distributing small patches of land in India among very small cultivators who do not have the capital to cultivate it ? I see hasty attempts to distribute land when actually the amount of land in India is so little, compared to our growing population, that we require a radical reorganisation of the land problem first. Therefore, though I do agree with the idea of expansion of credit based on the co-operative movement, I may be permitted to make it clear that we are likely to fail in the present attempt. One of the speakers this morning raised a very important question. We are giving loans after taking mortgage of land and things like that. In co-operative credit in India during the last fifty years we have gone round in a complete circle. We began with the idea of giving loans on personal credit and when that has failed we have come round to giving credit only when we take some security from the farmer. There is an amendment in the Bombay Co-operative Society's Act which shocks me since it makes it necessary for people who give co-operative credit, to take part of the land as mortgage from the farmer concerned. If such amendments could be introduced in our Co-operative Act, this means we have reached a stage when co-operative credit has ceased to be co-operative. We have landed ourselves in a lot of complications during the last twenty-five years. I do not want to go into details of the problem. I am only saying that now we have reached a stage when we are taking security from the farmer before giving loans. Well, in the attempt to expand co-operative credit on co-operative lines, I only hope we shall not forget the meaning of true co-operation. If we cannot adhere to the true meaning of co-operation in India to-day, then surely, other difficulties must be solved first before we go forward in the expansion of co-operative credit. I do not think I should take more of your time. I know I cannot be dogmatic in this matter nor am I indeed dogmatic. I am only raising this question, this doubt, this hesitation, this fear, so that we may not have again the same disappointment in the next twenty years which we have had in the development of co-operative credit in the last quarter of a century.

D. G. KARVE, *Reserve Bank of India, Bombay*

I feel inclined to say a couple of words which would express two feelings that are uppermost in my mind whenever I think of this subject of rural credit and its reorganisation. The first point is the need to be aware of the urgency of the problem. I quite appreciate the feelings of hesitation bordering on nervousness which my friend Prof. Driver has expressed. But on the other hand, there are feelings which are evoked by something else that, I am sure he is aware, is going on in the country. That something else is a planned programme of rural development. Now whether we should have waited for a credit reorganisation till the land system was reorganised is a question which falls into insignificance by the side of the other question whether we should have waited for a planned system of development in this country till all the institutional pattern has been set right according to our ideals of what is right. In the meanwhile, the programme of planned rural development is on the march. We have our own feelings about the limitations of this programme. But all the same, I am quite sure that it is within the knowledge of all of us, that there is a programme of rural development which is publicly sponsored, which is actively assisted both with regard to the technical advice and also with regard to the availability of resources which are necessary to benefit by this technical advice. Now the position is that a programme which is countrywide and which brings within the physical reach of the cultivator, technical advice and resources and leaves him without resources of credit says almost automatically that only those who can afford can take advantage of this programme, and we know who can afford, those who are, you might say, the upper ten per cent of the holders of land, they alone will benefit from this. Now do we want that. From my standpoint even that is not so important. Because there is this another aspect to which Prof. Driver has drawn attention, namely, land reform.

Now for those of us who are thinking in terms of agricultural development and reorganisation of agricultural credit, it is no use raising in the course of a discussion on credit reorganisation the merit of a land policy which has been based on the recognition of the value of peasant proprietorship. A large part of the land reform programme is based on the idea that the best can be done by accepting a starting point, I want to underline these words starting point because one does not know where one will end from that starting point. It seems to have been accepted now that the starting point of land reform is to create peasant proprietors. Now that means that the prevailing pattern of land holding will be of small holders. Now if the small holders have to participate in this programme of agricultural development, provision has to be made to carry credit to them. If credit is to be carried to them, naturally the question of security arises. And if this security is land, not only is its size limited but even the nature of this security has been considerably altered by the restrictions on the transfer of lands. Now here again, we are not today in a position to change the content of land reform legislation to the extent of making free transferability of land as an essential feature of peasant proprietorship. In fact, I want to say not only to Prof. Driver and one or two others who have already participated, but generally I want to say that our attitude towards the whole evolving structure of credit has to keep pace with the evolving structure of society. What is being built is not a structure of co-operative credit in a complex where ideas of voluntary action, where ideas of property, where ideas of free transferability can be assumed, as though they exist ; they do not exist and it is not a matter of regret that they do not exist, because their gradual passing away is a part and parcel of a new patern of society that is emerging. And unless the implications of this happening round about us is fully realised, we will not be able to really reconstitute the credit aspects of society to suit the new requirements. Therefore, as I say, the small holding is to be taken as a part of the new pattern. But I am sure that such a keen student of the whole subject of the land tenure like Prof. Driver, will find that if you put these two things together, that the holding is small, there is no right of transfer, it really means that though possession is private use, more and more will be public. I want to emphasise this point rather specifically. The possession of land being in the hands of private individuals, its transferability is restricted to suit a specific purpose. Transferability is not restricted to just limit what has been given with one hand with the other, but because of the recognition of the fact that the distribution of land among a large number of holders is a part of a social and economic plan. As a social plan it makes for a maximum possible insurance against instability. Economically it creates in the largest number of people an incentive in agricultural industry. Therefore, it is in conext of a larger number of small holders, whose interest in land is recognised for a social purpose of stability and also the economic purpose of development that credit will have to adjust itself. Now given this approach, I am quite certain that the proposed credit reorganisation is on right lines.

I entirely agree with Shri Vaikunthbhai, that in this matter, there are so many variations from State to State, or almost from district to district that one and the same set pattern cannot be said to be necessarily desirable all over, but the broad lines of the proposal of the Rural Credit Survey Committee becomes inevitable, unless you want to reduce the usefulness of the development programme. Here again there are these two aspects : it is not only that in the absence of suitable credit reorganisation, advantage of the development programme will be taken only by the better to do. That to my mind nowadays is much less important matter. The distributional aspect today, in the context of the national plan, important as it is is much less important because if we push forward with the productive aspect of the national development plan, we will be creating conditions where the distributional aspect can be more easily adjusted. If the production end of the development plan depends, to a large extent, on an increasing number of small holders, unless credit is carried to them with assurance and on reasonable terms, the whole production purpose of the development plan will be in danger. Therefore, some provision for carrying credit to the large number of small holders has to be made. Now this can only be made through channels which are either institutional or through the state. It is futile to expect that with a restricted tenure of this type and with the prevailing small size, it will be possible for either the caste, the panchayat or for the joint faimly by itself, to cater to the credit needs. To the extent to which private agencies can meet this need, by all means they are free to do so. In fact I do not think that either in our economy as a whole, or in this reorganisation of credit that is being suggested, there is either the desire or the hope, that private agencies will cease to exist. It is not an objective of our economic policy, that the private agency should cease to exist. To the extent to which within the framework of social policy, social legislation, private agencies find it possible to meet the requirement, they are quite free to do so. But neither the purposes of the developmental plan nor the purposes of social policy, can afford to be dependent on private agency. Therefore, the only two agencies that we can think of are institutional agencies and State agencies.

Now nobody except perhaps a few who desire a totally socialised society, will welcome something which is exclusively, and in an unmodified form, a State distribution of credit. What little experience we have even of such things as the *tagai* loan, shows that the distribution of credit through the State both from the standpoint of choice of persons who are selected for the receipt of this credit, the amount loaned out, the consideration that weighs with the State department, howsoever it may be oriented to the new economic purpose, are not always likely to be so relevant to the proper use of the loans as they are likely to be if the loans are distributed through an agency whose principal concern is with an economic purpose. So with regard to recovery. Loans to be recovered by State agencies and loans to be recovered through a credit agency: that makes a world of difference. Now I have very often checked this in my tours all over the country ; you know it is usually said that there are heavy arrears of loans of co-operative societies. I, therefore, made enquiries wherever I went to find out what are the overdues of the *tagai* loans made, and if the overdues of the co-operative societies were, let us say, even in the worst case 30 per cent or 40 per cent, it is by no means an exception for the *tagai* loans to be in arrears to the extent of 80 per cent or 90 per cent. Even higher percentages are not unknown. And this is almost inevitable in an order of political relationship, where the common citizen naturally looks anything that he gets out of the government as something which is a part of his rights of citizenship. So unless that which is an economic purpose is channelled through an appropriate economic institution of the society, both in the choice of the client and the use of and recovery of the loans, we will find that the purposes of development will not be realised.

All this amounts to really one conclusion, that if we take into account of the change in nature of the society in which we are living, if we take into account that a development programme has been adopted by us, if we take account of the fact that there are inevitable limitations in using the State itself as the agency for the distribution of credit, naturally the agency will have to be what we have come to call co-operative. Though I must say very frankly, our ideas about co-operation also have to change. On one subject for the last four or five years I have been trying to repeat myself before various gatherings so that I might be able to exchange ideas on that particular view of mine. The essentially voluntary character of cooperation was a concomitant of the essentially voluntary character of the society. Now when everything was to be by virtue of the great principle of individual freedom voluntary in character, naturally co-operation also was considered to be a voluntary association. Take the Company Law legislation which has recently passed through the legislature. How many companies, even today, leave alone tomorrow and the day after, be said today to be acting voluntarily. Right from the issue of the capital to use of the capital raised, production or particular articles, their movement, their sale, the relation between capital and labour, what aspect of the so-called private industry is today private? What aspect of the so-called voluntary sector of our economy is voluntary? Therefore, let us not ride this principle of voluntary character to a stage where we forget that we are no longer the privileged section of an economy, in the rest of which the voluntary principle has already been given away. But this is not to deny the virtue of voluntariness. Therefore, to the extent possible the purposes of the developmental plan should be carried out by an organisation which will be able to work voluntarily. After all, though the principle of voluntary action has been given up at some stages and in some form, the principle of a free and democratic government has not been given up. Therefore it involves this basic idea that to the maximum possible extent, the choice of means and the choice of individual ends can be left to the people who are affected to the maximum possible degree by a certain function. That is why the recommendation has now found considerable favour, namely, that though the State resources must be made available in support of the developmental programme, if it has to produce the maximum possible result, these resources should be passed through an organisation of the people themselves, strengthened both financially and from the standpoint of the personnel, to the extent necessary.

I would draw attention, not only of this Conference but through you in particular, of the people who matter in each State, to the fact that the State resources are also public resources. And their channelling through the co-operative organisation does not by itself create a right for the government to order about the co-operative organisation ; though it does create for the society a right to ensure that the purposes and the manner of the utilising of those resources are in conformity with or are compatible with the national plan. That is why, by and large, the suggestion has been made that though State resources will be available at all stages of the reorganised credit structure, State representation and State regulation will be confined only to the highest level, levels like the apex co-operative institutions, where even persons like Vaikunthbhai can be mere managing directors. Any influence that the State has to excercise on the co-operative sector of credit if it is exercised on that level, it is not an external influence, it is not likely to be an arbitrary influence, it can only be an invitation to share commonly a responsibility which belongs to both. Now if, therefore, State interference, State regulation or State association, is confined to the topmost level it may not be objectionable. Now some of my friends from other States have often complained that it is all right for you people in Bombay and to a certain extent in Madras to say that after all Government resources are our resources, and our policy is government policy in the sense that either they convince us or we convince them, and we go ahead using public resources without surrendering our freedom of choice of means. They seem to feel diffident about it. I am not prepared to accept for Bombay or for any of its sector any claim for inherent superiority. After all things have to change, but if in each State the regulatory relationship between the State and the reorganised credit structure, is limited at the topmost level, the chances are that all further penetration of policy, direction and resources will take place through the relationship of the apex institution, with the district institution, and from the district institutions to the individual institutions. There are no doubt very many other aspects of this problem, but I thought that one or two on which I feel a little strongly, may be brought to your notice.

D. R. GADGIL, *Gokhale Institute of Politics and Economics, Poona*

Shri Vaikunthbhai set the example in coming to the dais even though unprepared. I had to follow. But I feel free to confess that I just cannot deal with this question, the many questions that have been raised, within the time that may appear reasonable at this time of the day. There are a few points which I shall just note. There has been very general misunderstanding in one or two respects of the recommendations of the Rural Credit Survey Committee. One of the two major points of the misunderstanding seem to be what has been called the abolition of the moneylender. I do not think that there is anything regarding the abolition of the moneylender in the whole of that Report. Actually, there are some minor recommendations regarding the modification of the money-lending legislation. But it is not proposed that the private agencies shall be dealt with in any other manner than by a strengthening of the co-operative agency. That is all that has been proposed. So all this hypothetical talk of what will happen if the moneylender is abolished before the co-operative is not there, is just misplaced. All that is meant is that if you make the co-operative better, the moneylender will recede in the background, as we have recorded in the Report that he has already receded somewhat in the background in some States. In other States in which you are not able to do that, the moneylender will not recede in the background.

That is one thing which is quite clear. The other thing is talk about the moneylender being brought in a sort of system. Now that again is very clear that the whole evidence is that the moneylender—all his qualities—are those in relation to his ability to deal informally with the cultivator. Informal dealings are the least subject to any kind of regulation. So that the moment you regulate the moneylander his real qualities are gone, that is, his informal dealings. His informal dealings are dangerous socially speaking. But you cannot have at the same time the moneylender's good qualities, the qualities which are supposed to be good in the sense of operating in the economic *laissez faire* sphere, good qualities in that sense, and yet have a licensing system. That is just impossible.

The third point about which also there is a certain amount of misunderstanding is the role of the State Bank. The State Bank was brought in the Rural Credit Survey Committee's Report, so to say, through an indirect approach. In one sense, if you properly interpreted the terms of reference, you could have said, that the recommendations regarding the State Bank did not fall within the terms of reference directly ; they came through realisation that until an integrated banking structure, is built up for the whole of the country, the framework necessary for the operation of a co-operative credit, marketing, warehousing system, of the type we envisaged, would be impossible. And therefore, the State Bank is not supposed to operate in the rural co-operative field except in a supplementary manner. Take for example, the marketing credit ; this is work which the State Bank is doing ordinarily and if in a particular context, the co-operative financial structure is not so developed, it can supply all the marketing and warehousing finance for the co-operatives ; the State Bank may undertake that. In no other sense is the State Bank visualised as competing with, in the sense of doing the same kind of business that the co-operative credit agency is expected to do.

Those three, Sir, are misunderstandings. My last point is regarding the future. Because it is quite clear that the whole set of recommendations are based on the present land distribution and organisation. I realise the importance of points raised by Prof. Driver, Dandekar and others, regarding what of the future. The only answer there again appears to me fairly logical. If you are visualising the future, as one in which a plan of development is continuously operating with targets of all kinds involved, broken down into regional and other targets, where the crucial control points are in the hands of the State and the planning authority, and the targets are reached through the operations in the proper private enterprise sector, that is the small unit sector, of small individual units, or somewhat larger sized co-operative units, organised both in a horizontal and vertical set of arrangements ; if that is the sort of structure we are visualising, then the whole of this security problem and its importance recedes into the background. Because such a system will not operate, cannot operate, unless your planning techniques are so developed, that through the appropriate inducement, and through certain restraints, or certain disincentives also, you are able to make the private and the co-operative units, fulfil the plan to a substantial extent ; quite obviously, if you are trying it in a democratic planning, you will have to allow for much more leakage, so to say, in the system than in an authoritarian planning. But given a certain amount of leakage, the sort of restraints that I can see are not going to be the security type of restraints, they are the other types of restraints, that the modern land legislation is bringing in; the type of restraints which say that you keep on in cultivating possession as long as you are efficient. If you are not efficient then you cannot keep on in cultivating possession which even in the English Town and County Development Act, is the principle which is boldly accepted.

Now I think that when you give credit, when you give State assistance, when you give all kinds of other either safeguarding or protective measures, which allow the private economy, the constituents of the newly defined private economy, to operate in certain ways,the appropriate incentives and disincentives have to be there. It is no longer a question of selling out the man, but it is the question of telling him firmly, that unless you behave, unless you produce so much, and give up the appropriate portion, you cannot be kept in cultivating possession. The leakages come here, through the fact that in this sort of proceeding you will have to wait for a year or two. It is not the authoritarian system compelling each farm or each co-operative to do in a certain manner but it is a system democratic which says that we expect the panchayats, the co-operatives, all the other organisations to behave in this way, and if they fall below a certain efficiency performance, then we will have to take certain action relating to them. In this context, Sir, the whole of the present structure, the security structure will become inappropriate. It will really have to be changed. The plan will remain the same as it is. The procedure will be the same. Actually we may have to keep on using the same terms. We will talk of the panchayat, we will no doubt talk of the co-operative, we will talk of the bank, we will talk of a ware-house ; but in each context, even that of banking, Sir, the problem will have changed. Already Mr. Varde is getting extremely anxious as to what he is doing, whether he is operating on behalf of the Government, to what extent he is operating on behalf of Government, to what extent, for instance, he should offer his banking security, to a project of a sugar co-operative merely on grounds that the Government has sponsored that project. Well, there is nothing on the ground for him as a banker to look at. Actually, when in a number of cases he has given these securities, as a banker he has had nothing to look at. But in the new context, if he is implementing, as a State associated co-operative bank, the programme of government, such as of sugar co-operatives, then if each party is behaving appropriately, that is, if the sugar co-operative board is behaving according to rules, and is not really infringing rules which the Government has laid down as a policy, and so forth, as long as that is fulfilled, he as a banker—it is not taking a risk—has merely to reorient his stand ; he now behaves as a banker in a planned co-operative economy. And the appropriate gestures there, the restrictions and models and patterns of behaviour are different.

I think that is the broad answer that is to be given to the problems raised by Prof. Driver, and Prof. Dandekar. Prof. Driver's problem was really a problem of synchronisation. It is quite obvious that all these things are moving together ; again because of the democratic planning, they are not all moving together with a complete synchronisation. That is quite obvious. The lags are there. There will always be more lags in democratic planning. But I believe that the pressures are developing, so that as one goes ahead, pressures develop in other sectors so that willy-nilly the other is made to go ahead also.