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1. Costs in relation to size of Farms.
2. Methods and Objects of Rural Surveys.
3. Problems of Rural Credit.
4. Abolition of Zamindari.

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**THE INDIAN SOCIETY OF AGRICULTURAL ECONOMICS
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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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PROBLEMS OF RURAL CREDIT

By

D. KRISHNA IYENGAR, M.A., F.R. ECON. S.

Agriculture is the basic industry. It is more important to mankind than any other industry. Both from the economic and social point of view it makes the constructive development of rural welfare imperative. In fact, agriculture is the trunk of the gigantic industrial tree, from which most of the other industries branch and these draw their sustenance from it. A nation not only draws all the food supply from agriculture, but also most of the raw-materials for the manufacture. Almost all the activities that centre in cities are so vitally related to agriculture that bankers, industrialists, and city wage earner are concerned in maintaining its growth and development.

Agriculture is more than industry. It is a way of life. The farm and farm-house are inseparable. Merchants and manufacturers do not live together; neither the employer nor the employee at the place of employment live; the architect does not dwell in his temple, nor the engineer on his bridge, nor the miner in his mines. But the farmer's work centred at his home and the farm. The life as well as the income of three-fourths of the people of the country is determined by the activities and the surroundings of the farm.* A vigorous, intelligent and wholesome rural life is essential. The quality of the farm life has not improved as the quality of life in the city and even agriculture has not kept pace with other industries. Isolation, and limited educational opportunities, religious stagnation, unprogressive methods of business and more than all insufficient capital and credit facilities have all combined to put the country at a disadvantageous and backward position.

The problems of rural credit and indebtedness go together and these lie at the very root of our rural uplift. For want of better facilities of credit, the agriculturists used to borrow from the local sowcars and money lenders and very often they borrowed money for domestic purposes and not to develop their land. The money lenders were the main source of rural credit and the defects of this system were many.

Defects of Rural Credit Supplied by the Moneylender.

The money lenders lent money for unproductive purposes and very often they debauched the cultivators with loans for any and all purposes. In fact, money lending got mixed up with personalities and parties causing feuds and factions in villages. The borrower never confined his borrowings to farming and land development, and other absolute necessities. The nature of our rural people is such that once borrowing resorted to, there was no limit. On account of this it became expensive, besides there was high rate of interest and very irregular payments. Rural people are often in the habit of buying on credit and this mixture of shopping and borrowing have become fatal to many and most of the people have run into heavy debts owing to their careless habits. Debt-ridden people cannot raise their standard of living and debt is no incentive to hard work. Under such circumstances once a man is in debt is always in debt. Cultivators often complain that they cannot cut down their expenses on family ceremonies. What a blessing it would be if there is a limit to credit even for productive purposes.†

* The Rural Community by L. Macgair, M.A.

† Better Village by T. L. Brayne.

The indebtedness of rural population has increased in the past. The following figures show the increase and the purpose for which they have been borrowed:—

Estimated by	Year.	Amount of Debt.	Remarks.
Sir Edward Maclagan ..	1911	300 crores	Basis—Nicholson's Report.
M. L. Darling ..	1925	600 „	Basis—Punjab Figures.
Central Banking Enquiry Committee ..	1929	900 „	Provincial Figures.
Agricultural Credit Department Report ..	1937	1800 „	do.

The purpose for which debts incurred was classified as follows:—

Purpose.	Percentage
Payment of old debts ..	25.1%
Purchase of land ..	13.8%
Trade ..	12.9%
Marriage and ceremonies ..	10.5%
Agricultural expenses ..	10.0%
Building houses ..	5.6%
Relief of distress ..	6.1%
Improvement of land ..	4.4%
Payment of land tax ..	3.3%
Education of children ..	1.4%
Other purposes ..	6.9%*

The following rate of interest is in vogue in different parts of the country and this will give an idea of the extent to which the cultivators are being exploited:—

Provinces	Variations of Rate of Interest.
Madras ..	from 12 to 50 %
Bombay ..	12 to 50 %
Bengal ..	10 to 37½ %
Bihar and Orissa ..	25 to 50 %
C.P. ..	25 to 50 %
Punjab ..	13½ to 75 %
U.P. ..	18 to 37½ %
Mysore ..	12 to 25 %†

It is impossible for a moneylender, trading as he does upon his private capital, supplemented by occasional borrowings to satisfy the demand for loans at any time and to any amount. He has no rule save those of his own conscience and they are variable at pleasure. His accounts are subject to no check or audit and he is apt to be swayed by greed whether of money, land or power. Since the moneylenders are not entrusted with the powers of distraint, or other summary recovery, they are put to expenses, delay and loss and they have to recoup all these from their clients.

Owing to these defects the substitution of organised credit for that of the moneylender was a necessary development of civilisation. Hence Government assistance to rural credit in several forms came into existence.

* Mr. Sathianathan's Enquiry Report, Madras.

† Central Banking Enquiry Report.

Land Improvement Loan and Other Acts.

Grant of taccavi and land improvement loans were the ancient form of State help. Taccavi advances were first issued so far back as 1793. Subsequently a number of Acts were passed in 1871, 1876, and 1879 by the Government. In 1893 the Land Improvement Loans Act was also passed. All these were intended to provide credit facilities for effecting permanent improvement in agriculture. The word 'improvement' meant to increase the letting value of the land. Land Improvement Loans Act was meant to provide long term finance and under the Agriculturist's Loans Act short term loans were granted for current agricultural needs. The taccavi advances intended to help the cultivators in agricultural operations. The annual grant of credit under these three Acts was not much. The Indian Governments on an average granted 95 lakhs of rupees of taccavi, Rs. 35 lakhs Land Improvement and 60 Lakhs Agriculturists' loans. Compared to the total indebtedness of the country these credit facilities were nothing. Besides the borrowers were reluctant to imperil their credit with the moneylender. The delay in the disposal of applications for loans, the inelastic and rigid method of collection and other minor defects in the revenue agency made these credit unpopular and a failure.

Loans granted under Land Improvement, Taccavi and Agriculturists Loan Acts in 1937-38.

Provinces.	Outstanding at the Beginning of the Year	Advances During the Year.	Collections During the Year.	Balance Outstanding.
	(in lakhs of rupees)			
Assam	7.64	.24	.31	1.59
Bengal	32.64	3.62	21.33	-9.26
Bihar	40.00	1.64	7.73	12.00
Orissa	1.98	1.15	.42	.45
N.W.F.P.	13.37	2.07	1.09	9.72
Punjab	52.17	12.24	11.39	54.84
U.P.	35.02	19.42	22.41	33.25
C.P.	60.93	7.69	11.08	58.10
Berar	6.81	8.29	4.46	1.59
Sind	50.94	.03	3.98	48.86
Bombay	63.59	9.57	9.28	66.14
Madras	84.54	9.54	10.76	83.26
Mysore	8.12	—	2.92	5.20*

Rural Credit and Co-operation.

Introduction of co-operative movement was another measure which meant to create credit to the rural population. Though the movement is not confined to rural parts yet the great bulk of societies are still rural. The co-operative Society's Act of 1904 prescribed broad principles, with an object to encourage thrift, self-help, and co-operation among rural people. Societies were classed as rural and urban. The Act of 1904 did not make any provision for societies for purposes other than the supply of credit. They were on the model of the Raiffeisen and Schulze Delitsch societies of Germany. The Act of 1912 legalised these institutions and they were classified

* The Indian Rural Problem, by Sir Manilal B. Nanavati and Prof. J. J. Anjaria, 170.

according as they are limited or unlimited. To review the progress of the movement Committees were appointed from time to time and they made suitable recommendations.

Statement showing the growth of co-operation :—

Year.	No. of Societies.	No. of Members.	Working Capital. in Rs.
1905	12,000	550,000	54,800,000
1920	28,000	1,130,000	115,180,000
1925	58,000	2,150,000	363,600,000
1930	94,000	3,690,000	748,900,000
1935	106,000	4,320,000	946,100,000
1940*	137,000	6,080,000	1,071,000,000

The Provincial Co-operative Bank is the highest body both as a provincial financing body and as an agency for mobilising the surplus funds of other societies. They attract large deposits and can obtain loans from provincial Governments. Below them there are the Central Co-operative Banks and these guide and supervise the primary societies. In 1940 there were ten Provincial Co-operative Banks and about 600 Central Co-operative Banks with Rs. 13.4 and Rs. 29 crores working capital respectively. Among the primary societies there are agricultural and non-agricultural societies. These types consist of credit societies, sale, irrigation and other kinds of societies. The Agricultural societies are Raiffeisen in character and non-agricultural societies are Schulze Delitsch. The depression of 1930 and the fall in agricultural prices have seriously hampered the growth of co-operative movement in India.

Reserve Bank and Rural Credit.

The Reserve Bank of India, as the central banking authority of the country has set up an Agricultural Credit Department and this maintains an expert staff to study the questions of rural credit and after consulting the Central and Provincial Governments and other banking organisations it co-ordinates the work of several banks that are engaged in providing rural credit. Some of the well managed co-operative banks have always found the Reserve Bank of India willing to accommodate them in times of seasonal stringency to provide rural credit to tide over emergency. Agricultural Credit Department of the Reserve Bank has advocated the institution of the multiple purpose society as the primary unit in rural parts.† The Review of the co-operative movement of the Reserve Bank observes that the movement was passing through a crucial phase and the part played by co-operation in providing rural credit has been disappointingly small. This failure is due to the insecurity of agricultural incomes and their steep fall during the depression. The movement also failed to supply the principles of co-operation to the general regeneration of the rural population.

Rural Credit and Land Mortgage Banks.

For the supply of long-term rural credit, and for the liquidation of past debts and improvement of land, the establishment of Land Mortgage Banks was found to be most suitable. The first Bank of this kind was organised in 1920 in the Punjab. Then it spread to Madras and Bombay and other provinces and States. The first bank was established in Madras in 1929 and in Bombay 1935. Bengal had only five banks by the end of 1940. The Reserve Bank review has pointed out that these banks have been too much concerned with the redemption of old debts, and too little with the improvement of agriculture by providing rural credit.

* Our Economic Problem. Wadia and Merchant, 200.

† Reserve Bank Review of Co-operative Movement, 24.

The following statement shows the operation of Land Mortgage Banks in India in 1941-42:—

Provinces.	No. of Societies.	Loans	Loans	Loans
		Advanced.	Outstanding.	Overdue.
		Rs.	Rs.	Rs.
Madras	119	4,040,114	263,78,791	110,950
Bombay	17	558,398	3,881,208	89,992
Bengal	9	34,120	656,080	43,455
Punjab	10	93,271	928,848	573,272
Mysore	65	961,705	1,573,387	6,848
Baroda	2	145,525	787,400	474
Cochin	1	274,750	1,829,700	20,665

There are several forms of societies which are trying to provide rural credit. Among them the primary societies both credit and non-credit, agricultural and non-agricultural societies are important. Agricultural non-credit societies are of several kinds, such as marketing and crop loan societies better-living, better farming and irrigation societies. There are also crop-protection, colonisation, crop and cattle insurance societies. The co-operative movement has helped a great deal to a lowering of the interest rates in rural parts. It has encouraged the virtue of thrift self-help among villagers to some extent. On the whole it did not produce originally expected results. It has failed to afford sufficient rural credit and did not deal with the villager as a whole in respect of all his requirements. Co-operative action; in the west, has proved how it can transform the whole human being, his personality, character, attitude to the community and to life. "Roughly outlined in this way the rural co-operative society is seen not only as a factor in technical progress and material well being: it is seen also to be instrument of economic organisation of vocational training and discipline, a centre of spiritual life, and general education a cell in the new social tissue, which is re-establishing or carrying on that vital, solid cohesion and systematic collective defence which family feeling, neighbourliness and the tradition of mutual help kept alive in the old village community."*

In the light of the above observation is not the achievement of co-operation in India too small? When the co-operative movement in the West has evolved into a movement of rural reconstruction, can it not do the same in India also? It is said that in India we have the foundation for the growth of co-operation through the village Panchayats. It is through them the problem of rural credit should be solved. Let us consider briefly the nature, type and the organisation of institutions of rural credit that are suitable to the country.

Rural Credit Organisations.

The rural credit must be sanative and educative. It should be cheap and facile. It ought to be a credit which shall be so obtainable that the act and effort of obtaining it shall educate, discipline and guide the borrower. It should be granted to those who have learned to think, to plan, and to save. The method of providing it must teach the lessons of self and mutual help. It must be safe not merely in eliminating the dangers of usury but the promotion of facilities for saving, the encouragement of banking, and the inculcation of the true object, uses and limits of credit; To be brief, the development of the essential national virtues of thrift, foresight, and self-help through institutions organised for these ends.

The conditions on which the rural credit can profitably be obtained by the cultivator are summed up by Sir Frederick Nicholson as follows:—"Absolute proximity of lender and borrower; complete security to the lender as regards the title of the property offered, its freedom from prior encumbrances, the recovery of his capital and

* Co-operative Action in Rural Life. International Labour Office.

interest at due date in convenient amounts, with facilities for enforcing such recovery in case of arrears, thorough safety and facility to the borrower, in his ability to obtain cheap loans at any time to an amount proportionate to the security he can offer, and upon terms which will be so equitable in themselves, so convenient as regards repayment, so free from all risks of deliberate entanglement, so based upon published rule, so devoid of any tendency to discount necessity or urgency otherwise than by an equitable insurance, that he can calculate on reaping the full fruit of his prudence and find in credit a powerful auxiliary to his productive powers and stability."

Co-operative Village Banks

To fulfil all the above requirements of thrift and credit the organisation of co-operative village banks seems to be the best agency for the supply of rural credit. They are not formed by capitalists. The leading principles followed in them are thrift, self and mutual help. Money is carefully saved and carefully spent. These banks will be an association of men each influencing the other in the direction of prudence and productivity so that the bank satisfies not merely the postulates of proximity and facility, but pre-eminently that of safety. The advantages of these banks are many. Their ability to excite local confidence, exact knowledge of their clients, power of making smallest loans, ability to provide cheap credit, capacity of acting as village granaries preventing fraudulent defaults, their tendency to group themselves into unions for mutual development, instruction, inspection, and audit, and their steady educative influence in matters of thrift, association, and self-help—all these try to create a tendency to develop high forms both of individual capacity, of public life and of national character.

To avoid the repeated pitfalls in the co-operative movement, Nicholson prescribes five essential conditions for the organisation of these institutions and they are: the Bank must take up the whole village within its ambit; it should aim at including every one in the village; there must be great adherence to essential principles of co-operation; there must be constant dealings and continuous touch with the members; and concentration on a few selected areas should be aimed at rather than wide diffusion and multiplicity. These are in brief the main demarcations on which the village bank should work and should be the main source of rural credit.

The bank can take up each one of the problem of rural life and try to find out in what manner, it can assist the villager by limiting his expenditure and increasing his income. For example, let us suppose the villager gets inadequate return from his crop. The first thing necessary is to make him get better income with less expenditure. To do so, he requires better seed, better manure, better implements and better cattle. The bank can render help in all these by making wholesale purchase and distribution. When the bank assists its members in the improvement of economic position the tendency to adhere to the institution would be great. In this way, every aspect of rural life and rural problem can be solved by the joint action of the members. When efficient production of crop has been organised, the question of marketing would become important and then establishment of subsidiary occupations and so on. All these problems can be successfully solved by the bank in course of time.

Conclusion

The problem of rural credit is a complicated and difficult one like any other village problem, but it is not insurmountable. Any remedy can not produce spectacular results in a short time. The institution of village banks of an all round character would bring about a far reaching improvement in village life. The writer is in perfect agreement with Sir Frederick Nicholson when he says that "it is not in great schemes or institutions not even in specially granted privileges, that success lies, but in the

unassuming labours which starting simple ideas, simple aims, and simple facts overcome each difficulty as it arises and perfect the systems which shall be found suitable to the needs of the country. Success can only arise from the long-continued practical efforts of zealous men who, while in the details of every method yet tried can yet live among the people vivifying them with their own spirit and intelligence, energise them with some of their own enthusiasm and with them work out in actual fact even though on the humblest lines."

In India, we have the foundations for the growth of local self-government institutions like the Village Panchayats and these have been recognised as village units through which all rural uplift measures can be put through and effective improvement can be brought about. The institution of village banks are most suitable bodies for the supply of rural credit. With the advent of National Government both in the Centre and Provinces, one can expect the right kind of collaboration between the Government and the Co-operative movement, making possible through legislation and financial resources, the supply of rural credit and thereby the revival of an agricultural prosperity of the country.

RURAL CREDIT AND INDEBTEDNESS IN KOLHAPUR STATE

BY

RAO BAHADUR DR. P. C. PATIL, I.A.S. (RETIRED).

With a view to get some idea of the rural credit and indebtedness in the State twenty seven villages, 9 in each of the main rainfall zones, were investigated in October 1946. Since farmers do not keep any kind of accounts, we had to keep only a few items in view *i. e.*, the amount of debt and the kinds of loans. Short notes, as to why debts are larger or smaller in each group and why particular kind of credit prevails in particular group, are attempted.

In the absence of accounts we have not attempted to find how the loans were utilized. Except the co-operatives and the Gul-brokers, others do not inquire into or care to know whether the loans are meant for productive purposes, consumers goods or social purposes.

Really speaking the farmer should not incur debt for any other purpose than productive purposes, such as purchase of land, farm equipment (as implements, bullocks, machinery, etc.) for meeting the operating costs (as fuel-oil for engines, manure and feed), and if necessary loans on the lien of farm produce for immediate needs.

Most farmers in the State cannot make sufficient farm income, after paying the farm expenditure including land assesment or land rent, to meet the family needs (as clothing, footwear, oil, salt, chillies, etc.); much less can they meet the occasional heavy expenses on account of social and ceremonial purposes. As a result the farmer has to borrow money for productive as well as unproductive purposes and generally he runs into and remains in debt. Occasionally, due to failure of a particular money crop as cotton, ground-nut or sugarcane in other countries or in other parts of India there are boom periods for a particular crop. General boom periods for agriculture, to our observation, synchronize with or are the results of great wars.

For a long time, before the World War I, the Deccan farmer was heavily indebted and land was passing into the hands of non-agriculturists, such as Marwadis and professional men and savkars. Matters came to head and riots broke out. Circum-