CHAPTER IX

AGRICULTURAL CREDITS
9.1 Introduction:

Agriculture is a productive occupation and as such one of the essentials of agricultural production is capital. This may be provided by the cultivator himself or like in other business, he may borrow it from some one else and repay it from the output of the field in which it has been invested. The problem of agricultural finance relates to:
i) Capital needs of the farmer;

ii) Agencies of credit; and

iii) Repayment of loans.

Thus, the All India Rural Credit Survey Committee observed that, "Agricultural is a problem when it can not be obtained; it is also problem when it can be had, but in such a form that on the whole it does more harm than good".¹

It may be said that, in India, it is this two fold problem of inadequacy and unsuitability that is perennially presented by the agricultural credit. Undoubtedly, Indian farmer is not able to make the maximum use of his time, labour and productive capacity of his land because of the lack of adequate financial facilities.

Credit Needs of the Farmer:

9.2 Productive and Unproductive Credit Needs:

The financial requirements of an agriculturist may be for the purpose of production or consumption. In other words, the credit need of the farmer can be put into two classes:

i) Credit needed for productive purposes; and

ii) Credit needed for consumption purposes or unproductive purposes.

The loans which are used in productive operations of agriculture, i.e., loans which are invested for making improvement in agriculture are called productive credit. The loans which are used for consumption purposes are called unproductive credit or consumption credit.

His productive requirements are to fulfil the needs of the cultivation of land, purchase of cattle, implements and fertilizers, provision for irrigation and better seeds, holding over grains for selling it at the apportioned time with substantial profit, etc.

In India, the main difficulty is that, the farmer borrows not only for the above needs which are of a productive nature but he borrows for consumption as well. When crops fail, he may have to borrow to make his both ends meet. Loans are also generally contracted for social purposes like birth of a child, marriage of a son or daughter and the death of an old man. Litigation too, may force the farmer to borrow. In short his unproductive requirements are for meeting out expenses on the occasion of social and religious ceremonies, litigation and festivals, etc.
Unfortunately, the farmer borrows not so much for agricultural operations as for consumption needs. Out of the total indebtedness of the cultivation in India, the larger part is due to unproductive loans. According to the Rural Credit Follow-up Survey (1959), the productive purposes accounted for 43.7 per cent and non-productive purposes for 56.3 per cent of the total borrowing in the case of rural families; and 46.6 per cent and 53.4 per cent in the case of rural cultivators and 29.9 per cent and 74.1 per cent in the case of non-cultivators. In the case of cultivators, about 32.0 per cent of the borrowings was for the capital expenditure on farm, and about 13 per cent for current expenditure on farm and about 47.0 per cent for family expenditure and the rest for non-farm expenditure.2

9.3 Credit Needs for Agricultural Purposes:

Such credit is needed for the purchase of seed, manure and fodder, payment of rent, wages, revenue, cess and other charges, irrigation of crops, hire charges of pumps and purchase of water, purchase of live-stock and effecting other land improvements; repairs of agricultural implements, machinery, transport requirements, farm houses, etc.

cattle sheds, repairs of wells and other irrigation services; laying of orchards; for reclamation of lands and construction of irrigation wells, tanks and embankments, and other capital expenditure on agriculture. 3

A study group of National Credit Council, presided over by Dr. Gadgil has stated:

"The co-operative banking system is an integrated one and because of its three-tire structure, has been unable to extend credit to agriculturists, artisans and small men in general. The three-tire system also follows a rationalised flow of resources from the metropolitan centres to the villages and combines this with fairly low costs of operations".

Before going to study the role of co-operative credits in the agricultural development, it is noteworthy to study the role of co-operative credits in traditional and modern agriculture.

In the traditional agriculture the farmers are not aware of credits from the co-operative banks and at the same time the need of credit is also low in traditional agriculture compared to modern agriculture.

3. Rural Credit Follow-up Survey, General Report (1959-60), Reserve Bank of India.
"Credit plays a relatively less important role than land and labour in traditional agriculture. Finance in traditional agriculture is used for maintenance as distinct from expansion of agricultural activities. In a tradition bound agriculture, problems of credit arise largely".  

In the modern agriculture due to the changes in agricultural techniques, the need for credits is been enhanced. For example, in a traditional agriculture generally only one crop a year used to be grown, due to lack of technology and water supply. But the modern farmer, with the increased technology and the enhanced water facility through irrigation projects, makes it possible to raise more than one crop in a year and hence in need of enhanced credit requirements.

9.4 Structure of Credit Through Co-operatives:

The following table states that the structure of credit through co-operatives:

Co-operative Credit Structure

Agricultural Credit       Non-Agricultural Credit

Short term & Medium term   Long term

State co-operative Bank   Central Land Mortgage/Development Banks

Central Co-operative Bank   Primary Bank Mortgage/Development Banks

Primary Agricultural Credit Society   Grain Banks
Co-operative Credit Societies are divided into two major categories - Rural Co-operatives whose members live in rural areas, and are engaged in agricultural and urban co-operatives operating in the town. Agricultural Credit Societies are the very foundation stone of the co-operative credit structure.

As more and more farmers take to improved farm practices and adopt new technology the need for purchased inputs like fertilizers, hybrid seeds pesticides, farm implements, etc., will grow consequently, expenses for farm production will go up and there will be a corresponding increase in the credit requirements of the farmers, to meet the additional costs of innovation, and new technology in agriculture production. Credit alone may not induce the farmers to adopt new technology it depends on other variables like profitability, risk, uncertainty, price, etc. Availability of credit will however facilitate the introduction of modern technology.

9.5 Co-operative Banks:

There has been some progress in the sphere of co-operative credit much remains to be done. After an extensive study of the rural credit situation, the Rural Credit Survey Committee has come to the conclusion that "Co-operation have failed but they must succeed". In order to create conditions for success
of the co-operatives the committee suggested the Integrated Credit Scheme (ICS). The cardinal features of that well known scheme are:

1) State Partnership with co-operatives to strengthen their financial position.

2) Creation of viable primary societies.

3) Integration of credit, marketing and processing activities.

4) Establishment of a nationalised Commercial Banks in agricultural credit, and

5) Introduction of the crop loan system by the co-operatives to make credit production oriented.6

The Co-operative Banks are advancing credit not only in cash but also in various ways or systems.

1) Crop Loan System:

Both the Rural Credit Survey Committee, and the Committee on Co-operative Credit have emphasised the need for a switch over to a crop loan system, as a means of making credit broad based and production oriented. The important features of crop loan systems are:

a) determination of the quantum of loan in relation to the production out lay and repaying capacity;

b) disbursement of a substantial portion of the loan in kind.

c) seasonality in the advancing and repayment of loans

d) advancing of loans against the security of the crop rather against title to land, and

e) 'streamlining of procedure for sanction and disbursement.'

The crop loan system has been adopted initially in the package districts and later in other areas as well.

2) Farm Plans:

Another system of providing credit to the farmers is the farm plan system. It was expected that number of farm plans would be drawn up by the extension agency.

3) Distribution of Inputs:

Instead of giving credit in cash to the farmers the co-operatives are providing inputs to the farmers. They are fertilizers, hybrid seeds, etc. By providing inputs to the co-operatives are helping to increase agricultural production.
4) Linking Credit with Marketing:

Another important system which follows by the co-operative is linking credit with marketing. It is a suitable method to recover the credit. The Integrated Rural Credit Scheme advocated by the All India Rural Credit Survey Committee in 1954 aimed at strengthening credit and marketing, by providing adequate finance by the co-operatives to the farmers. The system is useful for recovery of the loans on the one hand and by assuring other advantages fair price to the farmer so as to encourage him to sell his surplus through marketing society on the other.

Weaknesses of Agricultural Credit Societies:

1. Non-viable units. The All India Rural Credit Review Committee, 1969 has stated "A large number of primary agricultural credit societies are neither viable nor even potentially viable and must be regarded as inadequate and unsatisfactory agencies for dispensing production-oriented credit". 7

2. Dormancy of Societies.

7. All India Rural Credit Review Committee, (1969), P.201.
4. Inadequacy of credit provided.
5. Defective loan policies.
6. Inadequate supervision.
7. Absence of thrift, and
8. Neglect of small farmers.

**Suggestions for Strengthening Agricultural Co-operatives:**

1. Programme of Re-organisation and revitalisation.
2. Relaxation of limits on area and population.
3. Societies should develop into rural banks.
4. Strengthening of owned funds.
5. Emphasis on deposit mobilisation.
6. Effective supervision and audit.
7. Effective management.
8. Elimination of vested interests.
9. Better service to small farmers.
### Table 9.1
Agricultural Loans Distributed by various Banks in Andhra Pradesh

<table>
<thead>
<tr>
<th>Year</th>
<th>Multi purpose co-operative credit</th>
<th>Primary Co-operative Central mortgage banks</th>
<th>A.P. Co-Op. Central Agricultural Co-operative Central Development Banks</th>
<th>Total Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956-57</td>
<td>86,453</td>
<td>3,390</td>
<td>7,468</td>
<td>94,311</td>
</tr>
<tr>
<td>1957-58</td>
<td>1,15,119</td>
<td>3,355</td>
<td>8,569</td>
<td>1,278,443</td>
</tr>
<tr>
<td>1958-59</td>
<td>1,42,940</td>
<td>3,698</td>
<td>8,631</td>
<td>1,552,083</td>
</tr>
<tr>
<td>1959-60</td>
<td>1,74,997</td>
<td>4,666</td>
<td>13,914</td>
<td>1,935,76</td>
</tr>
<tr>
<td>1960-61</td>
<td>1,69,457</td>
<td>5,303</td>
<td>17,552</td>
<td>2,123,12</td>
</tr>
<tr>
<td>1961-62</td>
<td>2,13,693</td>
<td>7,284</td>
<td>33,089</td>
<td>2,540,66</td>
</tr>
<tr>
<td>1962-63</td>
<td>2,97,292</td>
<td>7,593</td>
<td>31,673</td>
<td>3,369,50</td>
</tr>
<tr>
<td>1963-64</td>
<td>2,51,143</td>
<td>9,767</td>
<td>41,695</td>
<td>3,025,05</td>
</tr>
<tr>
<td>1964-65</td>
<td>2,16,487</td>
<td>12,427</td>
<td>44,069</td>
<td>2,729,83</td>
</tr>
<tr>
<td>1965-66</td>
<td>1,63,275</td>
<td>13,808</td>
<td>1,27,916</td>
<td>3,749,96</td>
</tr>
<tr>
<td>1966-67</td>
<td>1,84,203</td>
<td>19,685</td>
<td>1,05,617</td>
<td>3,095,65</td>
</tr>
<tr>
<td>1967-68</td>
<td>2,40,177</td>
<td>25,966</td>
<td>1,28,380</td>
<td>3,945,23</td>
</tr>
<tr>
<td>1968-69</td>
<td>2,50,890</td>
<td>31,493</td>
<td>1,93,757</td>
<td>4,841,40</td>
</tr>
<tr>
<td>1969-70</td>
<td>2,65,181</td>
<td>81,546</td>
<td>2,06,821</td>
<td>5,535,48</td>
</tr>
<tr>
<td>1970-71</td>
<td>2,87,401</td>
<td>67,294</td>
<td>1,98,080</td>
<td>5,529,55</td>
</tr>
<tr>
<td>1971-72</td>
<td>2,72,918</td>
<td>62,125</td>
<td>2,05,533</td>
<td>7,307,46</td>
</tr>
<tr>
<td>1972-73</td>
<td>3,16,120</td>
<td>81,383</td>
<td>1,05,707</td>
<td>5,970,10</td>
</tr>
<tr>
<td>1973-74</td>
<td>3,15,017</td>
<td>1,12,469</td>
<td>1,46,198</td>
<td>4,613,98</td>
</tr>
<tr>
<td>1974-75</td>
<td>4,45,446</td>
<td>1,18,085</td>
<td>2,23,591</td>
<td>7,228,64</td>
</tr>
<tr>
<td>1975-76</td>
<td>7,35,079</td>
<td>2,97,058</td>
<td>3,54,685</td>
<td>13,855,29</td>
</tr>
<tr>
<td>1976-77</td>
<td>9,99,498</td>
<td>3,34,976</td>
<td>X</td>
<td>6,364,30</td>
</tr>
<tr>
<td>1977-78</td>
<td>9,42,042</td>
<td>4,22,209</td>
<td>X</td>
<td>6,278,74</td>
</tr>
<tr>
<td>1978-79</td>
<td>9,57,464</td>
<td>5,93,072</td>
<td>X</td>
<td>6,941,89</td>
</tr>
<tr>
<td>1979-80</td>
<td>10,07,356</td>
<td>5,60,349</td>
<td>X</td>
<td>6,241,39</td>
</tr>
<tr>
<td>1980-81</td>
<td>12,98,152</td>
<td>7,11,471</td>
<td>X</td>
<td>6,955,12</td>
</tr>
<tr>
<td>1981-82</td>
<td>13,79,041</td>
<td>4,83,360</td>
<td>X</td>
<td>6,276,90</td>
</tr>
<tr>
<td>1982-83</td>
<td>18,67,084</td>
<td>6,93,861</td>
<td>X</td>
<td>6,856,38</td>
</tr>
<tr>
<td>1983-84</td>
<td>22,99,324</td>
<td>6,29,140</td>
<td>X</td>
<td>6,529,69</td>
</tr>
</tbody>
</table>

Source: Statistical Abstracts - Andhra Pradesh.

X: Not available.
From the table 9.1 we notice that credit advanced to farmers through different co-operative banks is increasing at good rate. The credit advanced to farmers serves as a capital to purchase costly inputs to modernise agriculture.

The fragile frame work of agriculture in the state can be strengthened by sound financing system. Not only co-operative banks but also commercial banks must help the farmer to transform this tradition bound agriculture in to commercial enterprise.

**Table - 9.2**

Growth Rates of Agricultural Credits in Andhra Pradesh

<table>
<thead>
<tr>
<th>Unit</th>
<th>Regression coefficient</th>
<th>Growth rate</th>
<th>t observed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multipurpose co-operatives</td>
<td>0.101847</td>
<td>0.102214**</td>
<td>14.4105</td>
</tr>
<tr>
<td>Primary Agricultural Credits</td>
<td>0.230409</td>
<td>0.259115**</td>
<td>33.0161</td>
</tr>
<tr>
<td>Total Credits</td>
<td>0.143876</td>
<td>0.154742**</td>
<td>25.7136</td>
</tr>
</tbody>
</table>

** Statistically highly significant.
The growth rates of agricultural credits are highly significant. The increase in the total credits during the period of study in the state is 15.47 per cent and unit wise multipurpose co-operatives, primary agricultural credits, it works to 10.22 per cent, 25.91 per cent respectively.