CHAPTER I
INTRODUCTION

With the introduction of improved farm technology and the current efforts of the Government to remove the main obstacles to the development of agriculture, namely, the supply of adequate credit, the capital needs of the farmers are at an all-time high. In this context, the agricultural economists have consistently argued that the objective of credit policy in India should be such as to expand credit supply to match the requirements of different income-groups of the farmers.

Realising the potential significance of credit as an instrument of accelerating the growth rate of agricultural production and consequent increase in farm earnings, the Government and the Reserve Bank of India have taken steps to revitalise the whole credit structure with the result that the new credit policy of the Government has its repercussions on the general agricultural economy, affecting the level of farm income, family labour income and farm business income.

Simultaneously, with the widening of the scope of the facilities for the financial accommodation to different credit institutions, steps are being taken to remove the structural weaknesses and operational inadequacies of the co-operative credit structure of the country which naturally should take the place of pride as the main source of credit supply to the farmers.
The net result of the present credit has been favourable to the farmers. With the availability of credit to purchase inputs, the level of farm production has increased to a considerable extent resulting in relatively larger savings than before for investment in agriculture. How large these savings are and what proportion of that is ploughed back in farming is a question that needs a critical investigation. With the expansion in the farm business accompanied by a greater demand for credit, another question that arises for answer is to determine the magnitude of credit needs vis-a-vis the productivity of capital employed both in terms of borrowed funds and own savings.

In the light of what has been observed above, let us now examine the role of co-operatives in meeting the production credit requirements of the farmers.

Explicitly, the co-operative institutions, backed strongly by the State and Reserve Bank of India, has now been making a decisive and purposive incursion in the field of agricultural credit. The Reserve Bank of India advanced Rs. 431.37 crores as short-term loans to the State Co-operative Banks in the year 1969-70, exclusive of the outstanding amount of Rs. 27.56 crores. Medium term loan was of the order of Rs. 78.39 crores for the same year. A total sum of about Rs. 534.27 crores was also made available to the State Co-operative Banks during the year 1970-71 as short term plus medium term loans1. However, when the real contribution of co-operative is reviewed in

the context of the total needs and availability of farm finance, its role appears almost insignificant. Analysing the failure of co-operatives, the Indian Society of Agricultural Economics, in its 31st Annual Conference, March-April, 1972, at Varanasi, expressed dissatisfaction over mounting overdues and declining chunk of their memberships. It rightly pointed out "While the quantitative growth of co-operatives has been very impressive (S.G. Apte and Tara Shukla), in qualitative terms, they leave much to be desired".

It asked for deeper study which was urgent in view of the need for placing co-operatives on a sound footing.

On one hand the progress of co-operatives is not encouraging and on the other, there also exists a widening gap between the demand for and supply of credit for the Fourth-Five-Year Plan as reported by the All India Rural Credit Review Committee. It has estimated that about Rs. 2000.00 crores will be needed to meet the total requirements of short term credit in 1973-74. The total requirements of medium term and long term credit for the periods 1969-70 - 1973-74 were estimated to be Rs. 500.00 crores and Rs. 1500.00 crores, respectively.

Emphasising the role of traditional money lender, the Royal Commission on Agriculture (1923) rightly remarked that the money

lender recognises no distinction between the capital required to finance an industry and the money needed for ordinary household expenditure. The borrower also fails to distinguish in his own mind between sums borrowed for productive purposes from the expenditure of which more than equivalent returns are to be expected and those taken for current needs.

Taking into consideration the inadequacy of flow of capital in rural areas and the lack of a competitive urge to develop Indian agriculture when left to co-operative institutions by themselves, the Government of India in 1969 took a sound step by nationalising fourteen major commercial banks. It was expected that this step would enable to meet the rural credit requirements through the banking operations in rural areas under the policy supervision of the Government. Reviewing the early three years' progress of commercial banks in rural lending, the above conference asserted that although they have built up a sizeable portfolio on nearly Rs. 400.00 crores, the subject requires a close and penetrating analysis.

Another aspect of institutional financing which has remained rather unembraced, is the tacit advanced by the Government for purchase of modern inputs like fertilizers, improved seeds and

pesticides. Needless to say, this also requires a careful and scientific analysis in relation to credit operation and ultimately the resource analysis. The All India Rural Credit Survey Committee (1954) rightly observed that the record of taacvai was a record of inadequacies – inadequacies of amount, inconvenience of timing and incidental delays, inefficiency of supervision and incompleteness of coordination.

Summing up, the whole gamut of institutional financing is scattered in such a way that there exists much scope for misallocation of available limited credit. One thing common in all agencies is that because of uncertainty in repayment, the loans are extended on an institutionalized basis revolving around value of security rather than around capital productivity. Thus, in such a situation, it is deemed proper to consider all production credit available through different institutional agencies in a region as one unit, a feature which is rather wanting in earlier studies and accordingly the demand for production credit be estimated against the background of self financing under the improved farm technology as is in evidence today. In brief, the question which cropped up in the wake of the above discussion are:

Does the credit supply enable to use some inputs in more quantity which accelerates the total farm returns? As pointed out

earlier, what is the magnitude of saving which is diverted towards production on the farm? What is the productivity level of different capital inputs on the farm and from this viewpoint, whether they are allocated rationally? What is the level of important inputs which are needed in the existing farm technology to obtain an optimum return? and finally, what is the precise nature and magnitude of credit under rapidly changing saving situations on the farm?

To answer the above questions, it was considered a very timely piece of study to go deep into the process of financing for crop production in view of recent technological developments in agriculture against the background of self-financing as well as the production credit supplied through institutional resources. To be very specific, the brief objectives of the study are as follows:

Objectives:

1. The relationships that seem to exist between the level of farm technology and productivity and that of credit;
2. To find out the kind of inputs which are more elastic to the availability of production finance;
3. To examine the marginal productivity of different important inputs in general and that of credit in particular;
4. To identify the level of input use which will correspond with optimal level of production under the technology as is in evidence today; and
5. To examine the nature and extent of credit required for achieving optimal level of production.

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