CHAPTER II

LONG TERM AGRICULTURAL FINANCE IN FOREIGN COUNTRIES

Finance is the very life and blood of an enterprise in the modern world. Credit is necessarily needed both for a manufacturing industry and agriculture. It is required for purchasing the raw material, buying and setting up the machinery, paying for labour and for marketing the produce. Similarly, finance in the agricultural sector is needed for planned utilization of ground water resources, reclamation of land, development of mechanised farming, purchase of heavy tractors and costly equipments, construction of warehouses, development of animal husbandry, dairy farming, pisciculture, poultry farming and development of special crops like tea, coffee, coconut, rubber, etc. Therefore, with the growth of industries (both manufacturing and agricultural) and commerce in its wake, sprang up certain financial institutions - banks and public corporations - for meeting all the financial needs. These institutions raise long-term funds by issue of shares and floatation of debentures. It is rightly said that "Finance may be defined as the management of the value of goods and services used in business. However, since farming is a particular type of business and, at the same time, more than a business in that it is a way of living." *

Agriculture which is considered to be more than a business has always been facing varied financial problems in comparison with other industries.

The Industrial Revolution in the West gave rise to the banks and financial houses to meet the credit needs of the manufacturing industries and these institutions always considered agricultural finance as more risky, as it involved a close knowledge of a far wider clientele and a comparatively large organisation to reach the interior regions of a community. Further, agricultural finance being less fluid, the commercial banks could not afford to lock up their funds in it, as they derived them from readily withdrawable deposits. Nicholson reports, "In the 19th Century in Europe small and medium cultivation was the rule and the farmers owned the land and tilled the soil and the bulk of them were in debt and that too heavily. There was little or no waste land, so that land had to be bought or inherited, the purchase price, owing to severe competition and love for the land was extremely high, returning only a small percentage of the most diligent labour. Hence the land in itself was a very costly article and it absorbed in its mere acquisition often far more than the peasants' available capital which was supplemented, therefore, by the pressure of the population, intensive cultivation with its extensive implements created a heavy demand for capital and consequent mortgage debt."

Agriculture thus came to be looked upon as a primary industry supplying raw material to the manufacturing units. Considering the importance of agriculture for the growth of manufacturing industries, banking institutions and financing houses were evolved for supplying short, medium, and more specially long-term agricultural credit to the farmers in Europe.

Just as the Land Development Banks (formerly known as the Land Mortgage Banks) are the most popular institutions supplying long-term credit to farmers in India, the Land Mortgage Banks and other allied
institutions have been developed in the same way in almost all the European countries so as to free the farmers from the oppression and highly costly mortgage finance of the private individuals. A brief description of such institutions in West Germany, Canada, England, Switzerland, United States of America, Sweden, Australia, and Denmark is given here. All these countries have central institutions for long-term agricultural finance, which are either state-owned or state-controlled and their purposes in supplying loans to the agriculturists are almost similar in all these countries.

WEST GERMANY

Federal Republic of Germany is a country of 60 million people of whom farmers and their families make up about 4 million i.e. nearly 7 percent of the total population. In comparison with pre-war times, there are now 53 percent more persons for each unit of land which mean that domestic agricultural production covers only 63 percent of the food needs of the country. Agriculture makes up about 3.9 percent of the total value of economic production crop and livestock production is valued at about 31 billion DM a year. In addition, as a buyer of farm production needs and consumer items, the agricultural sector contributed about 21.5 billion DM in 1968-69 to the total economy. The contribution of agriculture without forestry and fishery to the gross domestic product in 1968-69 was about 10 percent higher than 1967-68. In view of the higher rates of growth in the other economic sectors, the share of agriculture in the gross domestic product in 1968-69 dropped to some 3.4 percent. In 1968-69, the number of people engaged in the agricultural sector declined by 4 percent to 2.35 million; their share in the total number of persons gainfully employed was 8.8 percent as against 9.3 percent in the previous

year. In 1970, approximately 479,000 or 36 percent of all farms with 0.5 and more hectares of farm land were full-time farms and the farmers cultivated about 72 percent of the total farm land consisting of 442,000 agricultural, 27,600 horticultural and 9,400 viticultural holdings. In this way agricultural population decreased by 10 percent as compared with the previous year. The following table indicates the total investment in agriculture:

**TABLE I**

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Gross Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farm Building</td>
<td>165</td>
<td>830</td>
<td>1000</td>
<td>1180</td>
<td>1260</td>
<td>1250</td>
</tr>
<tr>
<td>Tractor and Machinery</td>
<td>725</td>
<td>2199</td>
<td>2490</td>
<td>2460</td>
<td>2974</td>
<td>2126</td>
</tr>
<tr>
<td>Changes in Livestock Nos.</td>
<td>+412</td>
<td>+160</td>
<td>+363</td>
<td>+108</td>
<td>+236</td>
<td>+206</td>
</tr>
<tr>
<td>Total:</td>
<td>1302</td>
<td>3189</td>
<td>3853</td>
<td>3848</td>
<td>4470</td>
<td>3582</td>
</tr>
<tr>
<td><strong>Replacement Costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>760</td>
<td>1667</td>
<td>1960</td>
<td>2250</td>
<td>2446</td>
<td>2530</td>
</tr>
<tr>
<td><strong>Net Investment</strong></td>
<td>542</td>
<td>1522</td>
<td>1893</td>
<td>1598</td>
<td>2024</td>
<td>1052</td>
</tr>
</tbody>
</table>

Since 1950, agriculture had put about 48 million DM into machinery (71 percent) and buildings (29 percent) in order to respond to the technical progress of the rest of the economy. Both state and Federal Governments had given substantial help to the farmers in the form of Land subsidies, loan and interest reductions so that production might improve. It is shown in the Table II.

*The Agriculture of the Federal Republic of Germany published by the Agricultural and Home Economics Evaluation and Information service Bad Godsburg—Ministry of Food, Agri. and Forestry, Bonn, p. 32*
TABLE II
INVESTMENT IN LAND IMPROVEMENT (In Millions of DM)*

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
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<tr>
<td>Water Management and Land Improvement</td>
<td>180</td>
<td>1420</td>
<td>1880</td>
<td>2700</td>
<td>2950</td>
<td>2720</td>
</tr>
<tr>
<td>Land Consolidation</td>
<td>40</td>
<td>368</td>
<td>520</td>
<td>675</td>
<td>700</td>
<td>795</td>
</tr>
<tr>
<td>TOTAL</td>
<td>220</td>
<td>1788</td>
<td>2400</td>
<td>3375</td>
<td>3650</td>
<td>3515</td>
</tr>
</tbody>
</table>

Between June 24 and 26, 1968 the Federal Cabinet reviewed and adopted the 'Work Programme for Agricultural Policy for the Federal Government', also called the 'Agrarpogramm'. Through this programme, the agricultural law of Sept., 5, 1965 which had laid important foundations for Governmental help to agriculture was adapted to the changing needs. The goal of the modern agricultural policy formulated in this programme was to work out a reasonable compromise among the following agricultural and economic requirements—

(i) The individual farmer must have a chance to earn an adequate income and achieve an appropriate social status, whether he works in agriculture or in agriculture and industry or simply in industry.

(ii) The population must be assured of a regular food supply at reasonable price.

(iii) A fair exchange of goods with countries outside the Common Market is economically necessary. 1*

The development funds to national agricultural policy measures for the financial years 1969 and 1970 are grouped below:

contd...
1. Ibid, p. 32.
* Ibid, p. 32
1*. Ibid, p. 35
TABLE III

<table>
<thead>
<tr>
<th></th>
<th>1969</th>
<th>1970</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Million DM</td>
<td>Million DM</td>
</tr>
<tr>
<td>1. Improvement of the agrarian structure</td>
<td>1162</td>
<td>1097</td>
</tr>
<tr>
<td>2. Modernization of farm equipment</td>
<td>136</td>
<td>65</td>
</tr>
<tr>
<td>3. Agricultural social policy</td>
<td>875</td>
<td>827</td>
</tr>
<tr>
<td>4. Rationalisation of marketing</td>
<td>278</td>
<td>201</td>
</tr>
<tr>
<td>5. Improvement of income situation of the farming population and revaluation compensation</td>
<td>784</td>
<td>612</td>
</tr>
<tr>
<td>(a) Measures taken so far</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Revaluation compensation</td>
<td></td>
<td>920</td>
</tr>
<tr>
<td>Development of Fisheries</td>
<td>32</td>
<td>24</td>
</tr>
<tr>
<td><strong>Other development measures</strong></td>
<td>173</td>
<td>223</td>
</tr>
</tbody>
</table>

** From the Report by the Federal Govt. of Germany on the conditions of Agriculture - 1970, p. 23.

In addition, in 1970, there were capital market funds upto 200 million DM (in 1969, 300 million DM) and this amount had been procured from 'Deutsche Siedlung - und Landers renten-Bank' (German Settlement and Mortgage Bank of the Laender). These funds were used for structural measures. Besides, measures to improve the agrarian structure were financed from the European Orientation and Guarantee Fund.

THE GERMAN RAFFEISEN ASSOCIATION:

The German Raiffeisen Association (Deutscher Raiffeisen Verband) is a union of rural cooperatives which is based on the principles of selfhelp, local responsibility, and local administration. It encompassed the whole rural cooperative movement and its cooperatives have five million members. The rural cooperative movement played a
Central Role in the agricultural policy, principally by providing short-term and medium-term credit, allowing pooled purchase of farm production materials, and giving farmers a way to unite in marketing their products. Trade and production cooperative had a total volume of 28.3 billion DM in 1970. Mortgage banks numbered 48 and conducted a purely long-term credit business against the mortgage of land or house property. They procured the required funds by issuing their bonds. That is why Germany is recognised as the home of the mortgage bank and a highly developed system of real estate credit. Her long experience in the field and the vast development and strength of her mortgage organisation have exerted a considerable influence on other countries. Mortgage banking in Germany owes its origin to the seven years war of 1756-63 which raised Prussia politically to a great power but undermined her economy by exhausting her economic resources. The first impact of this was on land values which in turn aggravated the problem of indebtedness. Frederick, the Great, issued on Aug. 29, 1769, his famous Cabinet ordinance laying down the basis of Landschaften which has now become the model of mortgage banking over the world.

The main group i.e. 'Landschaften' (Rural real estate credit banks) held altogether 59.8 percent of the total mortgage debt in Germany. The Landschaften or Land Banks were originally formed in the Prussia in the 18th Century, immediately after the close of the Seven Year's War. Like Schulze and Raiffesisen Banks, the Landschaften were cooperative, both in their constitution and mode of operation. Some of these banks received temporary loans from the State at their formation but in the majority of the cases, they had raised

1. Banking in Western Germany by H. Ritter Shausen, p. 65.
2. Th. Throststelnsson - Mortgage of Real Estate in Germany, p. 39.
their own funds. They granted mainly loans to agricultural landowners on land and landed property. According to the Hypotheken Bankgests, credit is granted for German land only and usually applied to first mortgage not exceeding 60 percent of the building value. The value of the land at the time when the loan is given should not exceed the purchasing value established through careful investigations made by experts. In this capacity, they are limited to their local province, in which they carry on business. Besides agricultural sphere, they are also granted long-term loans to municipalities and municipal combines as well as the water and land combines. The loans are generally for economic road construction and for water economy measures of the communities and local administrative units.

The advances are of the nature of long-term credits over a fixed number of years, the borrower having always the option of repaying his loan at any time he likes. The advance must not exceed two-thirds of the ascertained value of the mortgaged property. The funds for granting loans are procured by the 'Landschaften' in the form of issuing mortgage bonds as well as in the form of long-term loans from Central Credit institutions (Agricultural Annuity Office) or/and (Central Institute of Reconstruction and German Deposit Central Office) and from 'Bund' and 'Lander'. The interest of the mortgage bond corresponds to the general rate of interest, i.e. at present 5 to 5 1/2 percent. The borrower may sell the bonds through 'Landschaft' bank. Each borrower is required to become the member of the 'Landschaft' at the time of being granted loan. These borrowers are thrifty and the management conscious. Being educated, they are comparatively well-organised. Germans are also hard working and as such their desire to produce more is strong and effective. These credit institutions based on real estate largely providing cheaper loans for improving ravaged by war.
The 'Landschäften' are non-profit making institutions and each association is governed by an executive board elected by the general body. The State has very little control on the working of these banks. For obtaining recovery of defaulted payments the Landschäften possess wider powers, but these powers are exercised in such a manner that the debtor is allowed to remain on the land, while at the same time he is required to clear the claims of the bank. They are empowered to sell the mortgage security without recourse to law in case of defaults by borrowers. However, such instances have been few and far between.

CENRAL AGRICULTURAL BANK:

After the First World War, inflation disrupted to a great extent the regional money and capital markets, and the regional credit institutions were not able, in consequence, to meet the demands of agriculture. The Deutsche Rentenbank was established in 1925 to fill up this important gap. It acted as a bank of banks and extended long-term credit to the basic mortgage credit system.

LANSWIRTSCHAFTLICHE RENTEN BANK:

There was a colossal and unprecedented shortage of capital in Post-war Germany. The Deutsche Rentenbank Krektnanstalt, however, survived during the Second World War period and would have resumed its former activity, but the political reasons intervened, and a new institution namely 'Landwirtschaftliche Renten Bank' with its seat at Frankfurt was established by law on 11th May, 1949 to serve the West Zone. The main functions of this bank was to grant loans on interest to credit institutions providing short-term, medium-term, and long-term loans. It was allowed to float bonds up to six times of the capital. The Board of Management of this bank consisted of the representatives of the various agricultural bodies
and also nominees of the State. It worked under the supervision of the State.

DEUTSCHE INSTITUTIONS BANK (GERMAN INVESTMENT BANK):

This special bank for providing long-term loans was established as early as 1948. It was the only institution for granting investment credits both to agriculture and industries.

In addition to these mortgage banks granting rural and urban real estate credits, there are four ship mortgage banks extending long-term credits to ship-owners. The extension of funds taken place against the issue of bonds secured by a lien on the ships encumbered. Although the Landschaften represented the oldest type of mortgage bank, there were some later developments also. Among these are stand-schaften or city mortgage banks, established in Berlin and in a number of provincial towns, which grant loans on the security of mortgage on improved real estate or of land in process of development. There were also a number of private mortgage banks, as well as savings banks and insurance companies, which lend against mortgage. While there does not appear to be any restriction for a bank granting loans on mortgage security, it is authorised institutions like 'Landschaften' which were given the privilege of issuing bonds.

CANADA

Canada is a land of contrasts. It has golden plains that stretch westward for a thousand miles and merge into a mountainous region five hundred miles wide. Canada, with an area of 3.8 million square miles, is the second largest in the world. It has about a third of the world's known fresh-water area, which formed over 6 percent of the total area of the country. About one-sixth of its land
is suitable for agriculture and its fertile land grows five times more than what is required by the present population. Agriculture is its most valuable natural asset. It also employs about a tenth of the total civilian population of Canada and it produces nearly a sixth of all exported commodities.

Wheat has long been the most important crop and livestock production accounted for the largest share of agriculture's contribution to National Income. Canada is the world's second largest exporter of wheat. The nation's agricultural output also includes foodgrains, fruits, vegetables, oilseed crops and tobacco. Commercial agriculture is carried on in every province.

Ranging in size from an average of 135 acres in Eastern Canada to 545 acres in Prairie Provinces, Canadian farms are mainly mechanised and are of several types. Farming in Canada is confined largely to narrow strips along the United States border. Of the country's total land area of 2,279 million acres, only 173 million acres are in farms of which 103 million acres are improved. About 63 million acres of the improved land was in crops each year; 10 million acres are in improved pastures; 28 million acres lay fallow in summer; and two million acres was used for other purposes.

The Atlantic Provinces of New Found Land, Prince Edward Island, Nova Scotia and New Brunswick together have 5.4 million acres of land in farms, Quebec had 14.2 million acres, Ontario 18.6 million and British Columbia 4.5 million acres. These were about nine thousand of land in farms in the Yukon and North West Territories. Productivity in agriculture continued to increase at a rate faster than that of the economy as a whole. It was on account of this reason

that government departments and colleges of agriculture rendered valuable services to Canadian farmers. The Federal Department of Agriculture maintains an extensive research establishment, operating laboratories, and experimental farms in every province. The Agricultural Rehabilitation and Development Act offers to farmers alternative uses of marginal or sub-marginal land—a rural development programme that will increase income and employment opportunities in rural areas, and conservation and development of soil and water resources. The Prairie Farm Rehabilitation Act provided for irrigation projects in drought areas of Western Canada. The Maritime Marshland Rehabilitation Act was concerned with the protection of farmland against total flooding.

INCOME:

Protection measures are provided to farmers in several ways. The Agricultural Stabilization Act aimed at stabilizing prices of agricultural commodities. The Prairie Farm Assistance Act provided assistance to farmers in the Prairie Provinces in the event of crop failures, and the Crop Insurance Act provided assistance to provinces for provincially administered crop insurance programmes. The Federal Farm Credit Corporation, the Farm Improvement Loans Act Administration, and several provincial agencies granted or guaranteed loans to farmers. Most of the farms in Canada are privately owned. Still these agricultural farms are properly assisted from all points of view by the State.

SOURCES OF LONG-TERM AGRICULTURAL FINANCES TO AGRICULTURISTS:

Several government agencies lend money to farmers to finance the purchase of land, improvement of farms, and for the purchase of agricultural equipments in order to improve the production in the agricultural sector. The credit supplying agencies are as follows:
The Farm Credit Corporation of the Federal Government is the principal source which supplies credit to farmers for long periods. The Farm Credit Act which was enacted by Parliament on July 18, 1959 established the Farm Credit Corporation as successor to the Canadian Farm Loan Board. The Corporation is self-governing Crown-corporation charged with the administration of long-term farm mortgage credit designed to meet the needs of Canadian farmers operating under modern conditions. Its operations are reported to Parliament through the Minister of Agriculture. An advisory committee of the farmers and other qualified persons appointed by the Minister advises the Corporation in respect to policy and other matters referred to it by the Minister or the Corporation.

The object and the purposes of the Corporation are to make and supervise farm loans as provided in Part I Section 9 of this Act are defined as under:

(a) take and hold mortgages on real and personal property and any other security;

(b) acquire, hold and sell and otherwise dispose of real property for its actual use in the operation and management of its business;

(c) acquire, by foreclosure or other proceedings or in any other manner, and hold any real or personal property mortgaged to the corporation and sell, mortgage, lease, or otherwise dispose of such property;

(d) engage the services of appraisers, consultants, advisers or other persons and establish branches or employ agents as may be necessary in the conduct of its business, and may make arrangements with the Director of the Veterans' Land Act for utilising the services of any person employed pursuant to the Veterans' Land Act in
the administration of this act;

(e) make compositions or schemes of arrangements, grant extensions of time and accept other security in substitution for any security held by the Corporation's agreements;

(f) take such steps and do all such things as it appears necessary or desirable to protect the interests of the corporation;

(g) prescribe forms of mortgages, agreements and other documents and execute and deliver deeds, grants, conveyances, transfers, releases, discharges or other documents as may be necessary in the conduct of its business; and

(h) generally, do many act or thing incidental or conducive to the exercise of its powers and functions and the conduct of its business.\(^1\)

Section 11 of the act indicates that the proceeds of the loan might be used for the following purposes:

"(i) to acquire land farm;

(ii) to purchase fertilisers, seeds, livestock, tools, machinery and any implements and equipment necessary for the efficient operation of the mortgaged farm;

(iii) to erect farm buildings or to clear, drain, irrigate, fence or make any other permanent improvement to the mortgaged farm or to other land used by the borrower as part of his farming enterprise;

(iv) to discharge liabilities, i.e. (a) to pay operating costs and the costs of maintaining the farmer and his family for such periods as in the judgement of the corporation is necessary for the establishment of the farming enterprise in respect of which the loan is made;

(b) to assist in the development on the mortgaged land of a secondary enterprise not being a farming enterprise;

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(v) any purpose that in the judgement of the corporation is necessary for the efficient operation of the mortgaged farm or will increase the value of the farming enterprise in respect of which the loan was to be made."

Section 16 of this act mentioned that loans would be made only to farmers, farming corporations and cooperative farm associations engaged in or shortly to become engaged in the operation of the mortgaged farm.

The Farm Credit Corporation contains authority to make two types of long-term mortgage loans available to bonafide farmers resident in Canada. Part II section 21 of this Act provides that "the amount of loan shall not exceed 75 percent of the appraised value of farm lands on the security of which the loan is made. The total amount (outstandings) of loans that may be under this part shall not exceed in the case of an individual, $40,000, in the case of two individuals carrying on a single farming enterprise $80,000 in case of three or more individuals carrying on a single farming enterprise $1,000,000 and the same amount in the case of farming corporation and cooperative farm association i.e. $1,000,000."

A loan made under section 22 would be repayable in equal or semi-annual instalments of combined principal and interest in not more than 30 years. An individual was eligible to take loan only after completing 21 years of age. The appraisal fee was $14 and paid at the rate of $10 along with application and $20 or further paid when $100 of loan was approved. Borrowers might elect to receive supervision fee of $25 per year. Borrowers could also take up insurance under the corporations group policy at the time of applying for a loan.

1. Ibid, p. 13.
Part III Sections 23 and 24 of the act provides for supervised farm loans. The amount of loan under this part to an individual could not exceed 75 percent of the appraised value of the farm lands on the security of which the loan was made. The total amount outstanding of loans might not exceed, in the case of an individuals, £ 55,000, in the case of two or more individuals £ 10,000 and in the case of corporation £ 10,000. These loans were primarily for the young farmers whose capital requirements could not be made under part II. Other conditions were the same as mentioned in the Part II.

PROGRESS OF FARM CREDIT CORPORATION IN 1969-70:

GROWTH IN INVESTMENT: The principal outstanding on about 28,000 loans taken over by the corporation from the Canadian Farm Loan Board on October 5, 1959 amounted to £ 100 million. Since that date the corporation has made more than 87,000 loans under the farm credit act, for an amount in excess of £ 1.5 billion.¹

The average size of loan increased from £ 10,846 in 1960 to £ 27,530 in 1970. At the end of December 1970, there were 68,496 loans outstanding, amounting to £ 1.1 million.²

USES OF CREDIT: The part of the funds was to refinance mortgages already held by the corporation but almost £ 1.3 billion represented new capital investment. Out of this amount, about 45 percent or £ 470 million was used for the purchase of additional land to expand existing farm units. About £ 165 million was used for improvements in the farm buildings, drainage, land cleaning, etc. Lands for purchase of units amounted to about £ 186 million. About £ 288 million was lent to repay land-mortgages, or other debts, with about £ 40 million being provided to purchase livestock and equipment.

INTEREST RATES: Initially, loans were made by the corporation at a statutory interest rate of five per cent. Currently, lending rates for new capital are fixed at one percent above the cost of funds to the corporation and this is based on the yield of long term government bonds. However, 72.4 percent\(^1\) of the principal presently outstanding to borrower was at the rate of 5 percent or less in 1969-70. The average rate of earnings on all principal outstanding was 5.55 percent compared with an average cost on the corporation outstanding borrowers of 5.94 percent\(^1\).

TRENDS IN DEMAND:

During 1960-61, the first full year of operation under the Farm Credit Act, the Corporation advanced \$52.3 million to 5162 farmers. The annual lending volume accelerated rapidly to the fiscal year 1967-68 when \$251.2 million was advanced to 11,559 farmers. The demand for loans had declined since that time and in the last fiscal year 5,743 loans were made for \$158 million.

LOAN APPROVALS:

The number of loans for approval under the Farm Credit Act during the Fiscal Year 1968-69 was 37 percent less than in the previous year.\(^1\) The average size of loans approved during the year, however, increased to \$27,530 and the total amount of loans approved was \$160.5 million, representing a decrease of about 23 percent from the previous year.

There was a significant decrease in the amount of funds lent to buy or to enlarge farm units (41.7 percent as against 49.2 percent in the previous year) and a corresponding increase in the percentage of funds used to make improvements on land, to buy livestock, and to pay debts.

\(^1\) Ibid, p. 13
PURPOSES FOR WHICH NEW FUNDS WERE USED

- Land Secured Debts: 9.7%
- Livestock: 2.3%
- Equipment: 1.4%
- Misc.: 1.7%
- Other Debts: 7.0%
- Permanent Improvement: 20.9%
- New Units: 15.3%
- Additional Land: 41.7%

SOURCE: Annual report of Farm Credit Corporation of Canada (1969-70)
REPAYMENTS:

Principal due and payable during the year amounted to $27.4 million* of which $22.8 million* or 83.3 percent* was paid. In addition, $14.5 million was paid on principal not due.

Interest due and payable during the year amounted to $57.3 million* of which $51.4 million* or 89.7 percent was paid.

87.1 percent* of all loans under the Farm Credit Act was in good standing at the end of the fiscal year as compared with 91.4 percent a year earlier.

FINANCING:

To finance its lending programme during 1969-70 the corporation borrowed $141 million from the Ministry of Finance at an average interest rate of 7.32 percent and repaid $68.24 million* of principal due on previous borrowings, bringing the total principal outstanding on borrowings from the Ministry of Finance to $1.079 billion* as of December 31, 1970.

The average interest rate on the Corporation's outstanding borrowings as on December, 1970 was 5.94 percent as compared with an average interest rate of 5.56 a year earlier. Paid up capital under section 12 of the Farm Credit Act was increased from $40.3 million to $43.8 million during the year.

THE FARM SYNDICATE ACT (LOANS):

Section 29 of this Act defined it as "an act to provide for the extension of credit to farm syndicates". Farm syndicate is a group of three or more farmers, the majority of whom have farming as their principal occupation, who have signed an agreement acceptable to the Farm Credit Corporation with respect to the purchase

and use of machinery, equipment or buildings which can be used profitably by them in their farming operations. A Syndicate may borrow up to 80 percent of the cost of farm machinery, building and installed equipment to a maximum of $15,000 per member or $100,000 whichever was less.

Loans are repayable by the syndicate in equal or semi-annual instalments of principal plus interest over a period not exceeding 15 years for buildings and permanently installed equipment, and 7 years for mobile machinery.

OPERATIONS UNDER THE FARM SYNDICATE CREDIT ACT DURING THE YEAR 1969-79:

During the year 1969-70, 202 loans were approved under the Act to 147 syndicates for an amount of $2,888,409 compared with a total of $1,672,232* in the previous year. This increase in lending resulted from amendments to the Act in May of 1969, making it possible for the corporation to make loans for the purchase, improvement and construction of building which could be used cooperatively by three or more farmers.

During the year, 35 loans* for $1,226,505* were approved for the construction and equipment of buildings for livestock feeder enterprises, fruit and vegetable storage and other purposes related to the production of farm products. Two thousand three hundred and thirty farmers have taken advantage of this programme since its inception in 1965.

To finance its lending programme during 1969-70, the corporation increased its outstanding borrowings from the Ministry of Finance from $3,376,500* to $4,920,500*.

After adding net earnings of £12,492* and deducting the years net loss on loans of £19,832*, there was a balance of £1,221* in the 'Retained Earning Account' at the end of the year.

FARM IMPROVEMENT LOANS:

The Farm Improvement Loans Act was passed by Parliament in 1944 to provide farmers with credit for the purchase of agricultural implements, improvement and development of farms, to improve their living conditions, the purchase of livestock, for the purchase or installation of agricultural equipment or farm electric system and for the construction, repair or alteration of farm building.

In 1969, a new loan purpose was added to enable farmers to purchase land where surplus land was available for farming.

Only the farmer was permitted to borrow. It was not necessary in all cases to be the owner of a farm in order to be eligible since, for many loan purposes, a farmer could apply if he was a tenant. He must, however, be in possession of a farm and his principal occupation must be the operation of that farm.

Farm improvement loans could be made under provisions of the Farm Improvement Loans Act by Chartered Banks and also by credit unions or other cooperative societies, trust companies, loan companies and insurance companies. The maximum loan amount for the purchase of additional land was £15,000. A maximum £15,000 also applied to loans for all other loan purposes, subject to an over-all maximum of £25,000 outstanding to a farmer at any one time under the Act. The applicant must provide a reasonable portion of the cost of the purchase or project from his own resources. The maximum period over which a farmer could repay his loan depended on the purpose for which the loan was made.
(a) 3 years for trucks and station wagons (b) 5 years for other implements and appliances (c) 10 years for livestock and agricultural equipments (d) 15 years for additional land. Thus long-term loans are sanctioned to the farmers.

ENGLAND

England is a densely populated and highly industrialised country importing half of its food requirements. Agriculture, however remains one of its important industries. Nearly 48 million acres of land was used for agricultural purposes.

In respect to long term finance, there had been no land banks such as were found in most of the countries of the world for the purpose of supplying long-term credit. The same need for such banks/institutions was not felt in England for the reason that farmers requiring credit obtained it through the ordinary banks and other sources which were available.

Owing to heavy taxation, resulting from 1st World War causing depleted incomes, owners of landed property were obliged in numerous instances to place their lands on the market for sale. The tenant farmer in many cases was then faced with the alternative of having to purchase his farm or relinquish his tenancy. The government realised its obligation to assist the farmers and with this object in view introduced 'The Agricultural Credit Act', to cope with the new situation. The Act was passed through both houses of Parliament and came into operation on 1st October 1928. To quote the preamble of the Act: "The object is to secure by means of the formation of a Company and the assistance thereof out of public funds, the making of loans for agricultural purposes on favourable terms, and to facilitate the borrowing of money on the security of
of farming stock and other agricultural assets, and for purposes
connected therewith." 1

The Agricultural Credit Act, though it did not establish
land - banks, made provision both for long-term and short-term
credits to farmers and in the granting of these facilities, the
existing banks were given the opportunity of cooperating. Now
this particular Act went much further than any previous piece of
legislation; it provided both for long-term/short-term credits.
The first part of the Act dealt with long-term credits, and was not
at first operative, as the Mortgage Company which the Act contempla­
ted and authorised was not actually in being when the Act came into
force on October 1st, 1928. Section 5, then, of Part I 1 of the
Act created what was termed an 'Agricultural Charge', that is to say,
a fixed or floating charge in favour of a bank over the whole or a
specified part of a farmer's stock and other agricultural assets.
A 'Farmer' under the Act could not be an incorporated company or a
society. A farmer was taken to be one who, as tenant or owner of an
agricultural holding, cultivated such holding for profit. But, so
that all classes, large or small, might reap whatever benefits the
new law might provide, it is laid down that "agriculture" and
"cultivation" shall be deemed to include horticulture, and the
use of land for any purposes of husbandry. This included the keeping
of or breeding of livestock, poultry, or bees, and the growth of
fruit, vegetables, and the like. The credit needs of both the small
holder and the larger farmer were brought within the ambit of the
Act. Hence agricultural cooperative societies in Britain had
evolved to meet the particular needs of Agricultural Producers.
There are at present over 1,800 such societies registered under
the 'Industrial and Provident Societies Act', with a total annual

---
turnover of 300 millions dollars.

Agricultural cooperation in U.K. began in 1867 when Edward Owen Greening, one of the leaders of consumers' cooperation, set up the Agricultural and Horticultural Associations to sell farmers' requirements by methods already worked out in Consumers' Cooperatives for the sale of domestic goods. There was, however, little growth until, Horace Plunkett, son of an Irish land-owner, began his campaign for cooperative dairying in Ireland. This led to the founding of the 'Irish Agricultural Organisation Society' and a similar society was formed in 1901, the Scottish Section becoming a separate society in 1905 and the Irish in 1922. In 1922, the Ulster Agricultural Organisational Society also began its separate existence after the creation of the Irish Free State. The movement declined in the 1920's especially in England where government financial support was withdrawn and in 1924, the Agricultural Organisation Society went out of existence. By 1930, the movement was recovering and the progress has been at a more rapid pace since 1945. In that year, the Agricultural Cooperative Association was formed and in 1953, the National Farmers Union (N.F.U.) founded the Farmers Central Organisation. In 1956, a new body emerged known as "Agricultural Central Cooperative Association" which was renamed "Agricultural Cooperative Association" in 1966. The main Central Organisations at present are four 'National Federations' – the Agricultural Cooperative Associations in England and Agricultural Organisation Societies respectively in Scotland, Wales and Northern Ireland. The Agricultural Cooperative Managers Association and the Plunket Foundation Association deal with the managerial problems of the farms.

Under the Agricultural Act of 1967, a Central Council for Agricultural and Horticultural Corporation was set up to promote and develop cooperative activities. In England, finance for the
purchase and improvement of agricultural farm was available from the Agricultural Mortgage Corporation Ltd. The Corporation's fund were derived mainly from public issues of stocks but it also received a major part of its funds from the Government.

Improvement loans for carrying out improvements to agricultural land and buildings were also available to land-owners from the Land Improvement Companies, where funds were provided privately. The amount of such loans was charged on the land and buildings in the form of a terminable rent charge. Improvement loans required a sanction of the agricultural minister.

The Agricultural Mortgage Corporation sanctioned long-term loans for the improvement of agricultural farms, under the Land Act of 1864 and 1899. Long-term loans were provided for by Part I of the Act. To give effect to the provisions of this part of the Act, there was a necessity for incorporation of a company having for its principal objects the making of loans on mortgages of agricultural land, and the making of loans under the Improvement of Land Acts, 1864 and 1899, for agricultural purposes. A Mortgage Company was, therefore, registered in November 1928 under the authority of the Act of 1928, and it opened its doors for business on January 14th, 1929, at Sone House, Bishopsgate, London, E.C. under the name of the Agricultural Mortgage Corporation, Ltd.

The Corporation announced that it was now prepared to consider applications for long-term loans, (a) against mortgages of agricultural land, and, (b) in respect of major improvements to agricultural land and buildings. The improvements for which these loans might be granted were detailed in the Improvement of Land Acts, 1864 and 1899, and particulars had been supplied to branch managers of share holding banks in the circulars issued by the Corporation. Farmers
were thus enabled to make applications for loans through the local manager of one of these banks, if possible, or through the farmers own local banker who, necessarily, would be familiar with the client farmer's particular needs.

The terms on which loans would be granted by the Corporation were as follows:

**MORTGAGES OF AGRICULTURAL LAND – PERIOD AND RATE OF ANNUITY:**

Loans for periods not exceeding 60 years were repayable by equal half-yearly instalments of principal and interest combined.

For a 60-year loan the half-yearly payment would be 2 7s.6d per 100. This payment would cover interest, repayment of loan and all charges (other than cost of valuation and stamp duty on the mortgage).

If a loan be desired for a shorter period, the half-yearly payment would be adjusted accordingly; for instance:

<table>
<thead>
<tr>
<th>Period</th>
<th>s</th>
<th>d</th>
</tr>
</thead>
<tbody>
<tr>
<td>50 years</td>
<td>2</td>
<td>10 0 per 100 half-yearly</td>
</tr>
<tr>
<td>40 years</td>
<td>2</td>
<td>14 2 per 100 half-yearly</td>
</tr>
<tr>
<td>30 years</td>
<td>3</td>
<td>1 11 per 100 half-yearly</td>
</tr>
<tr>
<td>20 years</td>
<td>3</td>
<td>8 7 per 100 half-yearly</td>
</tr>
<tr>
<td>10 years</td>
<td>6</td>
<td>11 7 per 100 half-yearly</td>
</tr>
</tbody>
</table>

**VALUATION:**

Loans might not exceed two-thirds of the value of the mortgaged property as certified by the Corporation's valuer.

**CHARGES:**

No charges would be made in connection with an application other than the cost of valuation and the stamp duty on the mortgage.
IMPROVEMENTS:

Loans would be made to owners for the purpose of the Land Improvement Acts.

The purposes for which loans could be granted by the Corporation under the Improvement of Land Acts were as follows:

1. Drainage, including the straightening, widening, or deepening of drains, streams and water-courses.
2. Irrigation; warping; reclamation.
3. Embarking or weir in from a river or lake, or from the sea or a tidal water.
4. The erection of groynes, sea-walls and defences against water.
5. Enclosing; straightening or fencing redivision of fields.
6. Clearing; trenching; planting.
7. The provision of cottages or small dwellings, either by means of building new buildings or by means of reconstruction, enlargement or improvement of existing buildings.
8. The erection of farm-houses, offices and out buildings and other buildings for farm purposes.
9. The erection of saw-mills, scutch mills, and other mills, water-wheels, engine-houses and kilns, which would increase the value of the land for agricultural purposes, or as woodland or otherwise.
10. Boring for water and other preliminary works in connection therewith.
11. The construction of reservoirs, tanks, conduits, watercourses, pipes, wells, ponds shafts, dams, weirs, sluices and other works and machinery for supply and distribution of water for agricultural purposes.
12. The erection of jetties, piers, and landing-places on rivers,
lakes, the sea or tidal waters, for facilitating transport of persons, and of agricultural stock and produce, and of manure and other things required for agricultural purposes.

13. The construction of markets and market-places.

14. The making of farm roads.

15. The provision of drains, pipes and machinery for supply and distribution of sewage as manure.

16. Restoration of reconstruction of farm buildings damaged or destroyed by dry-rot.

17. Structural additions to or alternations in farm buildings reasonably required, whether the buildings are intended to be let or not, or are already let.

PERIOD AND FATE OF ANNUITY:

The maximum statutory period was 40 years, but the period in any given case would be fixed by the Corporation within the period approved by the Ministry.

For a 40-year loan, the half-yearly payment would be 2 10s.4d. per 100, whilst for loans for shorter periods, the half yearly payment would be adjusted accordingly.

CONDITIONS:

Loans must be approved by the Ministry which, in most cases, was bound by Statute to satisfy itself that the proposed improvements would effect a permanent increase in the yearly value of the land in excess of the yearly amount to be charged thereon.

It is important to note that the Ministry had no power to impose Improvement charges to cover the cost of any work commenced before its approval had been given to the plans and specifications.

CHARGES:

No charges would be made by the Corporation in connection with
the application, but the applicant would have to pay the relative incidental charges of the Ministry. The amount of these charges was not large and could if desired, be included in the advance.


Intending borrowers were advised to consult the manager of any of the branches of these banks, who would be glad to give full information and would supply the requisite forms without charge.

The capital of the Corporation was £650,000 and the whole of this sum had been provided by the above-mentioned banks.

The Act empowered the Ministry of Agriculture to make advances to the Corporation, with the approval of the Treasury, for the purpose of establishing a guarantee fund. Such advances were to be limited in the aggregate to £750,000 and were not at any time to exceed the paid-up share capital of the Corporation. £250,000 of this money was paid to the Corporation on incorporation, and a further £250,000 was paid on April 30th, 1929; the balance of £150,000 was paid on April 30th, 1930. The total advance from the Government was, therefore, £650,000. This, of course, was in accordance with the provisions of the Act, since it was laid down that the amount to be advanced by the Ministry of Agriculture must not exceed the capital provided by the Banks.

With a view to enabling the Corporation to make loans on the most favourable terms, the Government had agreed to make these advances for the Guarantee Fund free of interest for a period of
60 years. The interest thereafter would be at such a rate as would not exceed the average yield on such Government funded stocks as the Treasury might from time to time determine. Further, for a period of 10 years the Government would contribute the sum of £10,000 per annum towards the administration expenses of the Corporation.

Under the Act of 1928 the Treasury was empowered to procure £5,000,000, by the underwriting of debentures which would subsequently be issued by the Corporation to provide for further moneys necessary. Such debentures would be a trustee security, and the Treasury itself had power to invest in them to the extent of £1,250,000.

The repayment of loans was spread over the period in equal half-yearly instalments which included principal, interest, and other incidental charges except cost of valuation and stamp duty on mortgages.

The Corporation had been financially assisted by the State from time to time by way of advances as well as grants. Under the Agriculture Act of 1928, the State had advanced £650,000 to provide a guarantee fund against losses on advances made by the corporation and also contributed £10,000 a year for 10 years towards expenses. Besides the Ministry of Agriculture and Fisheries under the provision of Agriculture (Miscellaneous Provisions) Act 1944, had given free grants to the Corporation amounting to £150,000, £140,000, £148,000 and £149,747 during the year 1947, 1948, 1949, and 1950 respectively which enabled the corporation to charge its advance interest rates lower than at what it was able to float debentures.

Recently introduced schemes enabled the government to support financial organisations which assisted farmers and growers and their cooperatives to raise capital, by guaranteeing loans made by Banks.
The two financial bodies concerned are Agricultural Credit Corporation (backed by U.F.U.) and Agricultural Finance Federation (backed by cooperative wholesale society and providing guarantees for cooperatives organisation) which fulfil the credit requirements of the farmers.

SWITZERLAND

In 1969-70, Switzerland had to support a population of 47,00,000 on a relatively small area of 16,000 square miles, of which 12,500 could be used for cultivation. The population density was about 290 per square mile. Since, only 20 percent of all employed persons were engaged in Agriculture, 1,000 million to 1,500 million francs worth of food and cattle fodder had to be imported each year.

In Swiss agriculture, middle-sized enterprises predominated. Of the 210,000 farms, 201,000 had an area of 50 acres or less, 8,000 had an area of 50 to 125 acres, and only 600 had an area greater than 125 acres. These farms were mainly for cattle raising and dairying, which accounted for 75 percent of the value of produce by agriculture. The cultivation of cereals, vegetables and fruits accounts for 5 to 6 percent each of the total value of crops, and potato and wine production accounted for 3.5 percent each. The total production of food was not sufficient for domestic consumption. Since the price of land was very high, the credit needs of agriculture also ran high. Agricultural indebtedness was also very high in Switzerland and it has sharply increased in the course of the last decade.

The table below, which presents two series of figures published by the Swiss Farmers Secretariat according to two different modes of cultivation, is instructive in this respect:
TABLE IV

<table>
<thead>
<tr>
<th>Capital investment in farms controlled by the Swiss Farmers Secretariat per hectare (2.47 acres) forests included</th>
<th>Capital investment in the whole of Swiss Agricultural farms.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1906/13</td>
<td>1959</td>
</tr>
<tr>
<td>Francs</td>
<td>Francs</td>
</tr>
<tr>
<td>Land</td>
<td>2338</td>
</tr>
<tr>
<td>Improvements</td>
<td>19</td>
</tr>
<tr>
<td>Buildings</td>
<td>1438</td>
</tr>
<tr>
<td>Plants</td>
<td>495</td>
</tr>
<tr>
<td>Livestock</td>
<td>545</td>
</tr>
<tr>
<td>Dead stock</td>
<td>228</td>
</tr>
<tr>
<td>Floating capital</td>
<td>377</td>
</tr>
<tr>
<td>Total assets of which owners capital</td>
<td>5440</td>
</tr>
<tr>
<td>Loaned capital</td>
<td>2394</td>
</tr>
<tr>
<td>percentage of assets</td>
<td>44</td>
</tr>
</tbody>
</table>

The figures of the first series are in reality too low, in the sense that in the farms in question, the value entered in inventory, particularly in respect of land and buildings, had gone back to several years, even to decades, or that these farms had been taken back within the family circle on specially favourable conditions.

At present, a young agriculturist wishing to buy a holding about 10 hectares (25 acres) to run it personally, has to calculate with a total expenses - chattel and floating capital not included - of 4000 to 15000 francs per hectare. The prices per area unit are the highest, whereas towards 1910, the various kinds of debts incurred by all Swiss agricultural farms accounted for 44 percent of the total assets, this figure soared to 53 percent in 1953. Today, the total 

*Swiss Agri.*—published by the Swiss Farmers Secretariat Brugg, 1962, p. 25.
debt encumbrance of Swiss agriculture exceeds approximately eight thousand million francs, a relatively high figure when compared with the figures of all other countries of the world.

SOURCES OF LONG TERM AGRICULTURAL FINANCE:

Fortunately, the agricultural credit is very well organised in Switzerland and the rate on mortgage loans fixed at 3 to 4.5 percent, according to the securities offered, is lower than almost anywhere else. Even then, there is no institution in Switzerland which deals exclusively with granting credit to agriculture. The system is based on a large number of Boards that operated on local, district, cantonal or even national levels providing capital to farmers on very favourable terms and conditions. The

THE CANTONAL BANKS:

The Cantonal Banks, part of the 1,578 banking establishments headquartered in Switzerland, are the most important especially for granting land credit. There were 27 cantonal banks in 1969-70 (with 1,067 branches) and they sanctioned nearly 53 percent of loans to agriculturists for agricultural improvements.

LOCAL LOAN BANKS:

The Local Loan Banks (Rural Credit Cooperatives system of which 1,016 are associated in a union) also occupy an important place in the system of agricultural credit. Land credits amounted to about 80 percent of the total liabilities of Swiss Agriculture. There were 86 local banks with 171 branches in 1969-70. They advanced 50 percent of their funds to agriculturists during the same period,

SAVING BANKS:

About 52.4 percent of all mortgage credit is extended by the cantonal banks, followed by the mortgage credit banks with 19.3 percent,
and the Savings Banks with 13.1 percent. These three categories together hold 85 percent of all mortgages. It is noteworthy that even the large banks, which are primarily commercial banks, invest 500 million francs in mortgages to agriculturists every year. Long term agricultural credit is organised according to the farmers' needs. The following table shows the contribution of different institutions for mortgage credit:

TABLE V

MORTGAGE CREDITS*  
(Amounts in millions of Swiss Francs)

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Amount</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cantonal Banks</td>
<td>6247</td>
<td>52.4</td>
</tr>
<tr>
<td>Savings Banks</td>
<td>1571</td>
<td>13.2</td>
</tr>
<tr>
<td>Cooperative Credit Assn.</td>
<td>621</td>
<td>5.2</td>
</tr>
<tr>
<td>Local Banks (Mortgage Credit Institutions)</td>
<td>2300</td>
<td>19.3</td>
</tr>
<tr>
<td>Other local Banks</td>
<td>619</td>
<td>5.2</td>
</tr>
<tr>
<td>Large Banks</td>
<td>524</td>
<td>4.4</td>
</tr>
<tr>
<td>Other Banks</td>
<td>32</td>
<td>0.3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>11914</td>
<td>100.0</td>
</tr>
</tbody>
</table>

After 1880, there was an effort to found cooperative societies to further the cooperative movement in the country. In 1887, several of these cooperative societies were established in the canton of Bern, based on the Raiffeisen system. Since 1911, the association of Swiss Cooperatives Societies located in Basle had its own banking department for members of the societies. It mainly granted loans to agriculturists.

THE SWISS AGRICULTURAL SECURITY COOPERATIVE: was established by the Swiss Farmers Union in 1921 with a view to assisting small farmers.

* Swiss Agriculture, 1969-70, p. 27
On condition that the claimant's personal character offered the necessary guarantee and that the purchase price or the lease sum was reasonable, it advanced security to the buyer or lease-holder upto a maximum of 20,000 francs for loans warranted by a mortgage or 12000 francs in case no mortgage could be constituted. With the passage of time, similar security cooperatives have been found in several cantons in Switzerland.

THE CANTONAL INSTITUTIONS OF ASSISTANCE TO FARMERS: established by the Cantons and a number of agricultural organisations with the help of the confederation at the time of the crisis in the thirties, had for the largest part modified their activities in the course of years. Today they are in a position to grant loans free of interest or at moderate interest for the layout of a farmstead, even for its acquisition.

Swiss agriculture as well as the greatest part of other sectors of its economy is not directed and managed by the State but by private persons, companies, and organisations. However, Swiss farmers have always at their disposal the advantage and advice from government agriculture experts. Their own organisations also contribute a lot to this end.

The State also finances new investments in individual farms and groups of farms by subsidies and especially by granting credits at low or no interest. The long term financial planning of the Govt. consists above all in a plan of granting new credits and the expected flow back of old credits. The whole volume of these credits (in 1969-70 was around 500 million of Swiss francs or nearly 120 U.S. Dollars) does renew itself automatically.

The Federal Government has also its long-term financial plans for the work and projects of its institutes and plants for agricultural
research and the cantons as parts of the Federal State have similar plans for their professional schools of agriculture and their counsellor service. The same is true of the financing of projects aiming at the amelioration of the over-all agricultural 'Infrastruktur' (construction of roads in rural districts, drainage, irrigation, etc.) which is done by the Federal Government and the Cantons.

Land Credits amounted to about 80 percent of the total liabilities of Swiss agriculture in 1969-70. In Switzerland, all mortgage loans are entered in the Land-Registrar Real Estate, which constitutes the security of the debtors. The real estate law provided security for capital credit and for management expenses.

BACKING OF THE RURAL CREDIT SYSTEM:

The main sources of backing are mentioned below: (a) Obligatory loan (with an average delay of 12 to 15 years from the beginning); credit contracts first of all in arrangements by the banks, with the guarantee of the state (b) land certificate, the issue of which is regulated by law. In Switzerland, there are only two centres of land certificates which are authorised to issue certificates guaranteed by mortgage for a period of 15 (minimum) to 40 (maximum) years. The purpose of these, centres is to negotiate for their associates (banking institutes) long-term credits with possibly constant and favourable interests, covered by mortgage credits; (c) Cash bonds or Cash coupons (typically Swiss means of backing) personal or to bearer, non-quoted bonds with interest coupons that can be purchased in banks at any time. (d) Blocked account (starting period three or more months or one to five years).

A Federal law was enacted on Ist Nov., 1962 concerning agricultural investment and assistance credits. The law provided for the
guarantee of credit and loans with favourable rates of interest. These funds were extended, first of all, towards backing investments which increased production, improvements, constructions, machines, etc. The Confederation made 400 million francs available for this purpose over a period of six years.

UNITED STATES OF AMERICA

In any country adequate supply of credit to farmers is one of the key factors to increase agricultural production. In United States of America credit is supplied to the farmers through The Farm Credit Administration which was created by an executive order of the President. From May 27, 1933, it provides for the consolidation within one organisation of substantially all the powers and functions of all Federal Agencies hitherto dealing primarily with agricultural credit.

The National Farm Credit setup consists of an administration or supervisory organisation in Washington - the Farm Credit Administration - and twelve district organisations, one in each farm credit district. Each district has four permanent organisations which meet the credit needs of the farmers. They are:

(a) A Federal Land Bank which makes farm mortgage loans principally through national farm loan associations;
(b) A Production Credit Corporation, which assists in organising and capitalising local production credit associations and now supervise their operations;
(c) A District Loan Bank for cooperatives, which makes loans to farmer cooperatives; and
(d) A Federal Intermediate Credit Bank, which acts as a bank of discount to supply short-term funds required by production credit associations, farmers' cooperatives, banks for cooperatives, and
other organisations, including Commercial Banks and other privately capitalised financing institutions.

These four institutions in each district are located in the same city and have the same directors but each bank and cooperative has its own offices. Unified policy assured through the single Board of Directors sitting as a coordinating body known as Council of Farm Credit Administration of the district. Coordination of activities and avoidance of duplication of personnel and facilities are secured through an Executive Officer, called the 'General Agent' nominated by the Governor and appointed by the district council, acting with the presidents of the four leading institutions as an advisory committee. The Farm Credit Administration is headed by the Governor who acts principally through the Deputy Governor, four commissioners, and various divisional heads. The Governor and the four commissioners are appointed by the President of USA and with advice and consent of the Senate.

1. FEDERAL LAND BANK:

In America, long-term farm credit is provided through specialised agencies known as Federal Land Banks. The twelve Federal Land Banks were established in 1917 under the authority of the Federal Farm Loan Act. It also consisted of a number of Federal Land Bank Associations and all loans were made through these associations. This system was created with a view to meeting a definite economic need of a permanent and dependable source of sound Farm Mortgage Credit at reasonable rates of interest and on terms especially adopted to meet the particular requirements of farmers.

CAPITAL BASE ON LAND BANKS:

The capital stocks of each Federal Bank could be subscribed by an individual, firm, corporation or by the government of any state.
of USA—The total capital stock on Dec. 1935 was $194.3 million. Of this the U.S. Govt. owned 64.2 percent. Stocks owned by the Federal Govt. did not get any dividend. Thus, all Federal Land Banks were completely owned by their borrower members since 1947. The system is on a strong financial base and has built resources that will enable it to meet any normal demand that might be made for financing farmers.1

BUSINESS OPERATIONS OF LAND BANKS:

The business of the Land Bank is to make first mortgage loans on farm properties within their respective districts. Loans may be made by Land Banks for general agricultural purposes and other requirements, such as redemption of prior debts, purchase and improvement of farm land and buildings, purchase of live-stock and other agricultural machinery, construction of a home for the owner or his family on or off the farm, etc.

SOURCE OF LOAN FUNDS:

All funds required by the Federal Land Banks to carry on their lending operations are obtained chiefly from sales to the public of consolidated Federal Farm Loan Bonds, with some interim short-term borrowings between the bond-sales. Consolidated Federal Farm loan bonds, more generally known as Federal Land Bank Bonds, are issued under the authority of the Federal Farm Loan Act. The bonds constitute the secured joint and several obligations of the 12 Federal Land Banks. The bonds are not government obligations and are not guaranteed by the government. They are secured primarily by the farm mortgages held by the Land Banks and are considered a prime investment in money markets. They are borrowed for short periods from Commercial Banks. The bonds in circulation at present have a

maturity period of 3 to 10 years and carry interest varying from 1 1/4 percent to 2 1/4 percent - a lower rate being paid for bonds of shorter maturity.

SECURITY FOR LOANS:

Federal Bank loans are secured by duly recorded first mortgages on farm land. For loans to part-time farmers, where dependable outside sources are available to typical farm operators, the home value is an important factor in making appraisals.

VALUATION OF HYPOTHECA:

Each loan must be based on a favourable appraisal report and should not exceed 65 percent of the normal value of the farm mortgaged as security plus such amount as is loaned to the applicant to purchase the required stock in the local Federal Bank Association. Before any loan exceeding $100,000 to one individual is made, the approval of the Farm Credit Administration must be obtained. The value of the farm for agricultural purposes must be the basis for appraisal and its normal earning power a principal factor. The normal earning power of a farm is estimated on the basis of farm commodity price and related costs of operation expected to represent normal conditions over a long period of years in the future. All appraisals and loan shares made under standards and regulations prescribed by the Farm Credit Administration.

PERIOD OF LOANS AND RATE OF INTEREST:

Federal Land Bank loans may be made for terms ranging from 5 to 40 years, but the largest proportion of loans was made with maturities of 20 years. The object was to tailor the loan to the borrower's needs, the debt repaying capacity of the borrower and his farm, and the durability of the farm as security for the loan.
Federal Land Bank Loans are made at reasonable rates of interest and the contract rate cannot be increased during the life of a loan. The rate of interest at present is 6 1/2 percent per annum in all districts.

REPAYMENTS OF LOANS:

Repayment plans of most Federal Land Bank loans specify a fixed number of annual or semi-annual instalments. These instalments include accrued interest on the unpaid balance plus sufficient principal to return the loan over a specified number of years.

A borrower has the privilege of repaying all or a part of his loan at any time without penalty. Federal Land Banks also accept payments to a 'Future payment Fund' for subsequent application for a loan. By making these future fund repayments, a borrower may accumulate an interest-bearing fund with which to meet instalments on his loan in the years when income was insufficient to pay the instalments. In the payment of instalments, if defaults occur due to circumstances beyond the control of the borrower, full consideration is given on an individual case basis.

TAXES AND INSURANCES:

It is the responsibility of the Land Bank Association to see that adequate insurance is maintained for the protection of the association and bank. In accordance with the terms of his mortgage, the borrower has to pay all dues and taxes assessed on his property.

DISCHARGE OF PERSONAL LIABILITY:

A member of Federal Land Bank Association does not free himself of his personal liability by mortgaging his farm. He remains liable until the mortgage is fully paid or until he is given a release by the bank.
The Federal Land Bank system has made steady and rapid progress and particularly in the 1930's Land Bank loans had enabled thousands of farmers to save their farms from foreclosure. The system is now geared to provide the farmers with a maximum of sound long-term cooperative mortgage credit. The Federal Land Mortgage Bank fully understands the problems of the farmers and helps them in solving the problems by supplying long-term loans, allowing repayment without penalty, and adjusting interest rates to meet the competitive money situation.

2. PRODUCTION CREDIT CORPORATIONS AND THE PRODUCTION CREDIT ASSOCIATIONS:

The Production Credit Corporations and the Production Credit Associations meet the local requirements of the farmers. The local associations are engaged exclusively in financing short-term production credit needs of the farmers, in competition with the commercial bank and other local lenders, with funds obtained largely by discounting the borrower's paper with the Federal Intermediate Credit Banks. In Jan. 1970, loans amounted to $1086 million which was about 20 percent of non-real estate loans to farmers and about 9 percent of the total non-real estate farm debt. These associations normally change interest from 4 to 6 1/2 percent and the time required to get a loan usually varies from one day to a fortnight.

3. THE FEDERAL INTERMEDIATE CREDIT BANKS:

The Federal Credit Intermediate Banks whose stocks were held by the United States were not authorised to lend to individual borrowers. In practice, the Production Credit Associations were the principal users of credit supplied by the Intermediate Credit Banks. The Intermediate Credit Banks, like the Land Banks, obtained funds by sale to private investors of consolidated collateral trust debentures.
4. BANKS FOR COOPERATIVES:

The Banks for Cooperatives (12 district banks and one Central Bank for Cooperatives) were initially capitalised by the United States, but are now owned in part by their borrowers. They were established to lend to eligible cooperatives engaged in marketing agricultural products, purchasing farm supplies, and the like. They financed a full range of credit needs including commodity, operating capital and physical facility loans. The greatest part of loanable funds derived from their capital and retained earnings supplemented by discounts with the Intermediate Credit Banks and more recently by the sale of debentures to private investors.

FARM SECURITY ADMINISTRATION:

Apart from the Farm Credit Administration, there is in USA, the Farm Security Administration (now renamed the Farmers Home Administration) which is an agency of U.S. Department of Agriculture. This organisation was set up to help low-income farm families to achieve a better standard of living by offering them low-cost, long-term credit and guidance in improving farm and home practices.

The various agricultural credit systems in USA, have several financial features in common. They all have relied at one time or another upon the following device for raising loanable funds:

(1) A revolving capital fund supplied by borrowers through the purchase of stock in the amount of 5 percent of the loan.
(2) Partial or total contributions to capital by the U.S.
(3) The sale of bonds or debentures to private investors secured by the pledge of mortgages or other loan paper. Generally various farm credit agencies enjoy exemption from a variety of taxes. The Federal Land Banks, National Farm Loan Associations, and Federal Intermediate Credit Banks are exempted from Federal and State taxation except upon real estate held by them. The Banks for Cooperatives,
Production Credit Corporations and Production Credit Associations, while they have government capital, are exempted from federal and state taxation except upon their real and tangible property.

Long-term Credit had thus become a highly productive element supplied by the different credit institutions in USA with the result that the agriculture sector continues to grow and contributed a lot to national growth and per capita income.

SWEDEN

Farming in most parts of Sweden has become possible due to favourable climatic conditions and ample rains. A long tradition of plant improvement and other agricultural research, together with high fertiliser consumption, brought the average yield per acre of the main crops in line with many of the most efficient countries in Western Europe.

In 1970, Sweden's agricultural population was only 7 percent of the total population of 7-8 million. The total number of persons engaged in agriculture was about 275,000 as compared with 7,00,000 in 1950. No doubt, agricultural population has decreased, but today's farmer, in Sweden, is mainly a prime producer and his products are processed on the way to the consumer by a highly developed food industry which, to a great extent, is owned by the farmers themselves through their cooperatives and similar associations.

The number of agricultural farms with more than two hectares of croppable land was at its highest over 300,000 and remained at this level until the beginning of the 1950's, but has since fallen.

rapidly. In the period 1960-70, the number of holdings declined by 27 percent to about 160,000. Swedish farms, on the average, are rather small.

Agriculture today is still mainly a family business. About 30 percent of the total acreage of arable land is leased. The farmer's family does most of the work and in 1970, the number of permanently employed farm workers was estimated to be only 25,000.

Swedish Agriculture is highly mechanised. During the last decade about 10,000 tractors have been brought each year. Immediately after World War II, there were only 20,000 tractors in use, but by 1950 the figure had reached nearly 60,000 and in 1970 this figure reached 2000,000. Therefore farmers have been progressively disposing of their farm cattle and in 1970, 27 percent of the farms had no cattle.

On average, the rate of indebtedness is not high, but the variations are considerable. In particular, it is the young newly established farmer who has the greatest indebtedness. Agriculturist's capital requirements are increasing day by day. Hence long term loans are needed by the farmers for the redemption of old debts and for making other improvements in their agricultural farms.

SOURCES OF LONG TERM FINANCE:

Various mortgage associations were created in Sweden by landowners between 1836 and 1853 in response to the public needs, each giving mortgageable loans and issuing bonds on the German model. Their competition, however, both in Swedish and German money markets proved so detrimental to their common interest that in 1861, the Royal Mortgage Bank, now known as General Mortgage Bank (Sveriges Allmanna Hypoteks bank) was established to act as their sole representative.

1. Facts sheets on Sweden—published by Swedish Institute for Cultural Relations with Foreign Countries, p. 20.
for issuing the bonds so that a unified system of marketing the bonds for all land-credit associations in the country could be achieved. The bank was endowed with the sole monopoly of issuing bonds secured by agricultural real estate. The state handed over to it a capital stock of 8 million Kroner in Govt. bonds. By the act of 1890, this capital stock contributed by the government was increased to 30 million kroners.

The Swedish Statute Book of 1970 in its Nos. 65 dealing with the Act of the Bank specifically mentioned the objects of the Bank in Section I: "The object of the General Mortgage in Sweden is to carry on lending operations by providing loans to its participating members and to carry on other activities related thereto." 1 Its participating members are Agricultural Mortgage Societies and they are the most important institutions of supplying long-term credit to farmers in Sweden. It is a semi-government institution. The Bank grants loans to district organisations (Hytekorening) which act as intermediaries and in turn hand over to the bank the mortgages of their members equal to the amounts of loans they receive. Section 21 of the Bank's Act mentioned that 'Loans made by the bank to a society shall be repaid by means of an annual amortization (amortization loan) or by means of annual amortization for a fixed period of time and then repayment of the sum outstanding at the end of that period (compound loan)." 2

The expiry date of the loan would be determined in a manner that is consistent with the conditions attached to the 'Banks Commitments'. The credit granted by the associations must not amount to more than half the value of the land serving as security. The loans are advanced up to a period of 60 to 75 years and the borrowers are

2. Ibid, p. 2.
permitted to start paying the whole loan after a period of 10 years. The usual period of the loan is however, 30 to 40 years. The responsibility of the society laid down in section 25 of the Act that 'A society is responsible for ensuring that its debt to the bank is constantly covered by loan claims for which security exists, or by funds in a bank or by cash funds'. The borrowers have to pay, in addition, a small percentage varying from 1/2 to 2 percent on account of amortization based on the period of loan. All profits are used for reducing the charges of the borrowers or are placed in the reserve with a view to facilitating and ultimate lowering of the interest rate. The bonds of the Central Bank are trustee securities. They are redeemable at the choice of the bank after a period of 10 years. They carry an interest at 2 3/4 percent to 4 percent.

As to the capital stock of the Bank, the State placed at the disposal of the Bank a guarantee commitment for 300 million crowns issued by the National Debt Office.

The King in Council laid down the procedure to be followed in the event of liquidation of the Bank. Section 31 of the Act clarifies the position of liquidation that 'Upon liquidation, the capital stocks of the bank may be made use of only to the extent that no other assets exist which correspond to the bank's commitments'.

The Bank is administered by a board of six members. One of the members is appointed by His Majesty the King, who also appoints his members and deputy. The member and the deputy appointed by the king serve for three years. One other member and deputy who also serve for a tenure of three years are appointed by Governors of the National Debt Office. Further, three members together with the same number

1. Ibid, page 10.
2. Ibid, page 12.
of deputies are elected at the ordinary meeting of the participating members. These 5 members appointed by the Managing Director is also a member of the board. The King is the Chairman of the Board and the member appointed by the Governor of the National Debt Office is the Vice-Chairman. The remuneration of these members is determined by the King himself.

To examine the administration of the Board and the Bank's accounts, five auditors are appointed annually. This report of auditors is placed in the annual meeting for the perusal and consideration of the members. In the regulations of the bank, no alteration can be made without the consent of the government. Supervised and supported by the government, the bank commands great public confidence and its bond ranks higher as Swedish Government stock in the foreign as well as national markets.

AGRICULTURAL MORTGAGE SOCIETIES:

The most important organisations for supplying long-term finance to agriculturists in Sweden are the Agricultural Mortgage Societies. These societies, a comparatively new development in Sweden, are part of a very strong cooperative movement among Swedish farmers. There are 600 agricultural credit societies which are grouped together under 10 central associations and a common central institution, i.e. The Swedish Agricultural Credit Bank. The object of the mortgage society as laid down in Section 32 of the act within its own sphere of activity, to grant, on the one hand, long-term loans at fixed rates of interest on the security of landed property, and on the other hand, loans for agricultural and forestry purposes for the full settlement of which the state is responsible (guarantee loans), and also to carry on any other activity compatible therewith. 1 Participating members in a society are the borrowers who have received from the society either a loan

for which the society had received funds from the bank or else an advance on such a loan.

A person who possessed landed property with the right of ownership may obtain a loan from an agriculture mortgage society. A loan may be granted to a collective farm society provided it possessed office buildings for the operations of the society.

The collective value of the landed property is fixed by the mortgage society on the basis of the society's valuation rules. The loan is granted up to a maximum of 75 percent of the collateral value. The rules of repayment of loans and granting of loans are the same as are of the General Mortgage Bank in Sweden. Security for a loan to a collective farm society may be accepted as joint prior mortgage on property.

The profit of the society is used for the good of the borrowers and the society. Thus it is observed that Agricultural Credit Societies conduct a general banking business in the agricultural field, receive deposits on various accounts similar to those of commercial banks (including cheque account), and supply credit to the farmers in the form of loans, overdrafts, and the discounting of bills. The influence of the Agricultural Credit Societies has grown very extensively during the two decades of their existence, and they now offer serious competition to the traditional lenders in the field of short-term and long-term agricultural loans. The Commercial Banks and Savings Banks are also not in the position to compete these societies.

General Mortgage Bank of Sweden and Agricultural Mortgage Societies are inspected by the Bank Inspection Board and their report carries weight with the King. Therefore, the officials and members of both the organisation have to work very cautiously and impartially.
AUSTRALIA

Australia is an island continent situated in the Southern hemisphere. It is bounded on the West by the Indian Ocean and on the East by the Coral Sea and the Tahsan Sea of the South Pacific Ocean. Almost 40 percent of its territory is in north of the Tropic of Capricorn. It is the world's smallest continent and largest island.

Australia is a major contributor to the world's resources of good and clothing. About 60 percent of its production from farms and pastoral properties is being marketed to other countries. This is possible because farming is a highly mechanised industry conducted on scientific lines. Inspite of many natural odds, Australia is in a position to export its agriculture products for the simple reason that the agricultural sector enjoys the widest credit support of well-knit financial institutions.

BACKGROUND:

The flow of funds into the farming industries and the rising level of indebtedness of farmers have attracted growing interest in recent years. The rate of change in the pattern of Australian agriculture has accelerated in the last three decades. The number of rural holdings has remained almost constant at about 2,50,000* since the end of World War II. The latest Census data revealed an absolute decline in the number of paid male employees in the rural work force from approximately 1,99,000* in 1933 to 1,26,000* in 1966, a decrease that had resulted partly from the growth of industries supplying fencing, fertilisers dam-construction and other services on a contract basis. The number of employers and self-employed farm operators, however, remained fairly constant. The Volume of rural production increased by 75 percent between 1953-54

* Financing the Farm Sector - Embassy of Australia.
and 1969-70. This was achieved despite the occurrence of severe droughts in 1966-67 and 1967-68. The effects of which can be gauged from the figures showing that the total number of sheep and lambs declined by 13 million and the beef cattle by about 1 million in 1966. Rural debt in Australia increased from \$A 682,000,000 in 1954 to \$A 2087 million in 1970.¹

The decline in the total rural work force, common almost to all countries achieving relatively high living standards, has been accompanied by an increase in farmer's usage of capital equipment, purchased inputs such as fuel, fertilizers and pesticides and the introduction of new techniques. The result is that a smaller rural work force is now producing a larger output of farm products. Table given below indicates the technical developments and increase in capital used in farming.

**TABLE VI**

<table>
<thead>
<tr>
<th>Year</th>
<th>Index of volume of production</th>
<th>Gross fixed investment in primary production ($/m)</th>
<th>Sales of phosphate superphosphate in 'tons'</th>
<th>Tractors on holdings 1000</th>
<th>Area under sown grasses and clover m. acres</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953-54</td>
<td>122</td>
<td>299</td>
<td>1.8</td>
<td>171</td>
<td>23.2</td>
</tr>
<tr>
<td>1958-59</td>
<td>149</td>
<td>325</td>
<td>2.1</td>
<td>233</td>
<td>33.6</td>
</tr>
<tr>
<td>1963-64</td>
<td>174</td>
<td>513</td>
<td>3.4</td>
<td>284</td>
<td>44.2</td>
</tr>
<tr>
<td>1964-65</td>
<td>181</td>
<td>514</td>
<td>3.7</td>
<td>296</td>
<td>47.2</td>
</tr>
<tr>
<td>1965-66</td>
<td>166</td>
<td>465</td>
<td>4.2</td>
<td>301</td>
<td>48.5</td>
</tr>
<tr>
<td>1966-67</td>
<td>199</td>
<td>550</td>
<td>4.3</td>
<td>315</td>
<td>51.5</td>
</tr>
<tr>
<td>1967-68</td>
<td>175</td>
<td>N.A.</td>
<td>3.9</td>
<td>320(c)</td>
<td>54.4</td>
</tr>
<tr>
<td>1968-69</td>
<td>213</td>
<td>N.A.</td>
<td>4.1</td>
<td>324(c)</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

¹. News and Information Bureau, Bulletin Feature, Vol. 6

2. Financial Year in Australia Commence on 1st July and end of 30th June.

(a) Base Year 1936-37 to 1938-39 = 100

(b) At March 31st.

(c) Estimated
Rising costs of inputs and decreasing unit returns for a number of commodities sold on world markets have resulted in the need to increase output and productivity by changing both farm structures and farm practices. These changes have required higher capitalisation in the shape of increased investment in land improvement and technically advanced equipment, and, often, in an increased land base.

**Sources of Funds to Finance Farm Expenditure:**

Funds used by farmers for financing their business operations may be divided into two categories:

1. Internally Generated Funds
2. Borrowed Funds.

**Internally Generated Fund:**

One of the two sources, the generation of funds through the normal process of farming continues to be the most important. These funds comprise disposal of farm income (i.e. farm income plus depreciation allowances less income tax payable) and savings from incomes earned in previous years. Since 1953-54, there has been a static downward trend in the prices of all farm products considered together, whereas prices paid by farmers have increased substantially. Although the output has increased, there has been no comparable increase in farm income. Various measures taken by the government to expand Australia's exports have the effect of increasing the proportion of farmers expenditure which can be met from internal funds. These measures include:

(a) **Protection Arrangements:** Whereby goods essential for rural production are imported at preferential rates of duty if they are not available in sufficient quantities in Australia.

(b) **Supply of Fertilisers:** Superphosphate fertilisers are supplied to the farmers at reasonable prices.
(c) **Taxation Concessions**: Government provides incentives designed to promote farm investment through a number of taxation measures. Among these arrangements are the following:

(I) **Depreciation Allowances**: Farmers are permitted to depreciate many items of plant, machinery, and structural improvements over 5 years, rather than over the entire productive life of the items for income tax purposes.

(II) **Investment Allowances**: In addition to the depreciation allowances, a farmer may claim as an income tax deduction an investment allowance equal to 20 percent of the cost of certain items of plant and machinery in the year these are purchased. For these items, therefore, deductions equal to 12 percent of cost may be made over 5 years.

(III) **Capital Expenditure Deductions**: Full amount on soil reclamation, water conservation, and fencing deductible from income for computing incidence of taxation.

(IV) **Sales Tax Exemptions**: Most items of farm products are exempt from Sales Tax while others are supplied at reduced rates if purchased for farming.

The following table reveals the sources of finance available to farmers from the internal agencies:

<table>
<thead>
<tr>
<th>Year</th>
<th>Farm Income</th>
<th>Depreciation Allowances</th>
<th>Income Tax Paid</th>
<th>Disposable Incomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953-54</td>
<td>1025</td>
<td>184</td>
<td>211</td>
<td>998</td>
</tr>
<tr>
<td>1955-59</td>
<td>954</td>
<td>283</td>
<td>82</td>
<td>1115</td>
</tr>
<tr>
<td>1960-61</td>
<td>1012</td>
<td>300</td>
<td>110</td>
<td>1202</td>
</tr>
<tr>
<td>1961-62</td>
<td>939</td>
<td>308</td>
<td>118</td>
<td>1129</td>
</tr>
<tr>
<td>1962-63</td>
<td>1139</td>
<td>315</td>
<td>106</td>
<td>1348</td>
</tr>
<tr>
<td>1963-64</td>
<td>1438</td>
<td>357</td>
<td>141</td>
<td>1654</td>
</tr>
<tr>
<td>1965-66</td>
<td>1063</td>
<td>381</td>
<td>134</td>
<td>1310</td>
</tr>
<tr>
<td>1966-67</td>
<td>1373</td>
<td>420</td>
<td>158</td>
<td>1635</td>
</tr>
<tr>
<td>1967-68</td>
<td>852</td>
<td>442</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1968-69</td>
<td>1220</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>1969-70</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

*Quarterly Review of Agricultural Economics, Jan. 1968-69
Bureau of Agricultural Economics, Australia.*
BORROWED FUNDS:

Most of the agricultural farms are small in Australia. These farms need credit assistance for long periods which can be obtained from trading banks, insurance companies, pastoral companies, the Federal and the State Government agencies and the Commonwealth Development Bank. The main sources of lendings are as follows:

(I) Trading Banks: Seven private Banks and Commonwealth Trading Bank supply about 45 percent of Rural Funds obtained from institutional lenders. The Reserve Bank has directed these banks to grant preferential rates of interest to primary producers. The average rate is about 3 percent.

(II) Term Loan Fund: Accounts were established in 1962 by placing 3 percent of the deposits of each major trading bank in an account with the Reserve Bank of Australia from which fixed term loans for capital expenditure were made. Loans are sanctioned to the agriculturists for the purchase of land, for heavy equipment, building and fencing, land clearing, pasture development and herd improvement. Loans are now usually granted for 3 to 8 years, or a little longer. Advances from the term loan fund amounted to £127 million in 1968-69.

FARM DEVELOPMENT LOAN FUND:

This fund of £A.50 million which was set up in March 1966 was intended to make fixed term loans to agriculture predominantly to raise productivity. The duration of the loan was 15 years or more. Advances from this fund amounted to £55 million* in January 1969.

THE PEASTORAL FINANCE COMPANIES:

The Pastoral Financial Bodies are 'short-term lenders'. Agriculture loans were extended to farmers to cover livestock sales and property sales. They charge a high rate of interest.

* Financing the Farm Sector - Embassy of Australia.
RURAL CREDIT DEPARTMENT OF RESERVE BANK OF AUSTRALIA:

It makes advances to commodity marketing organisations and agricultural producers so as to enable them to increase their agricultural production. These loans reduced the farmers' need to go to more expensive sources for funds.

LIFE ASSURANCE SOCIETIES:

These societies act as a vital source of investment funds in Australia. The loans which these societies advance bear somewhat higher interest rates than those prevailing in trading bank overdraft.

THE COMMONWEALTH DEVELOPMENT BANK:

Major developments in the field of rural credit have been done by the 'Commonwealth Development Bank' which was established in January 1960. It supplements the existing sources of credit by providing finance for development purposes (when not available elsewhere at a reasonable rate of interest) to primary producers in the agricultural sector. The Commonwealth Bank has two departments for the provision of rural credit. One is the Mortgage Bank Department with a capital of 4 million pound provided out of the profits of the bank. The Commonwealth Development Bank may itself advance upto 1 million pound to the mortgage Bank Department, which may also obtain advances from the Commonwealth Savings Bank and the Treasurer. The object of the department is to make long-term (from 5 to 41 years) loans up to 5,000 pounds against mortgages on agricultural or pastoral land.

Loans are made for fencing, irrigation and water conservation, stocking, and purchase of land. The emphasis is on the profitability of the proposed investment rather than on the amount of security which prospective borrowers offer. Commonwealth Land Development Bank

mainly provides long term finance to the agriculturists for bringing permanent improvements in their respective forms. The Table given indicates the gross rural indebtedness to major institutional leaders and how the advances are being made:

**TABLE VI**

**GROSS RURAL INDEBTEDNESS TO MAJOR INSTITUTIONAL LENDERS** *(IN %m)*

<table>
<thead>
<tr>
<th>Year July</th>
<th>Farmers holdings of liquid assets</th>
<th>Advances</th>
<th>Pastoral Finance Bank</th>
<th>Development Bank</th>
<th>Assurance Societies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954</td>
<td>n.a.</td>
<td>384</td>
<td>110</td>
<td>10</td>
<td>14</td>
</tr>
<tr>
<td>1959</td>
<td>n.a.</td>
<td>460</td>
<td>162</td>
<td>12</td>
<td>34</td>
</tr>
<tr>
<td>1961</td>
<td>855</td>
<td>451</td>
<td>213</td>
<td>21</td>
<td>48</td>
</tr>
<tr>
<td>1962</td>
<td>952</td>
<td>479</td>
<td>208</td>
<td>35</td>
<td>51</td>
</tr>
<tr>
<td>1963</td>
<td>893</td>
<td>495</td>
<td>214</td>
<td>45</td>
<td>52</td>
</tr>
<tr>
<td>1964</td>
<td>993</td>
<td>514</td>
<td>228</td>
<td>55</td>
<td>36</td>
</tr>
<tr>
<td>1965</td>
<td>950</td>
<td>584</td>
<td>259</td>
<td>72</td>
<td>65</td>
</tr>
<tr>
<td>1966</td>
<td>943</td>
<td>650</td>
<td>250</td>
<td>92</td>
<td>75</td>
</tr>
<tr>
<td>1967</td>
<td>972</td>
<td>751</td>
<td>285</td>
<td>120</td>
<td>81</td>
</tr>
<tr>
<td>1968</td>
<td>885</td>
<td>918</td>
<td>314</td>
<td>143</td>
<td>97</td>
</tr>
<tr>
<td>1969</td>
<td>935</td>
<td>939</td>
<td>338</td>
<td>162</td>
<td>115</td>
</tr>
<tr>
<td>1970</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year July</th>
<th>ADVANCES</th>
<th>Total Gross Indebtedness</th>
<th>Net Rural Indebtedness</th>
<th>Increases in (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954</td>
<td>64</td>
<td>100</td>
<td>682</td>
<td>n.a.</td>
</tr>
<tr>
<td>1959</td>
<td>106</td>
<td>132</td>
<td>926</td>
<td>n.a.</td>
</tr>
<tr>
<td>1961</td>
<td>114</td>
<td>146</td>
<td>993</td>
<td>138</td>
</tr>
<tr>
<td>1962</td>
<td>118</td>
<td>159</td>
<td>1050</td>
<td>198</td>
</tr>
<tr>
<td>1963</td>
<td>113</td>
<td>169</td>
<td>1088</td>
<td>195</td>
</tr>
<tr>
<td>1964</td>
<td>108</td>
<td>191</td>
<td>1152</td>
<td>159</td>
</tr>
<tr>
<td>1965</td>
<td>104</td>
<td>218</td>
<td>1302</td>
<td>159</td>
</tr>
<tr>
<td>1966</td>
<td>98</td>
<td>249</td>
<td>1414</td>
<td>471</td>
</tr>
<tr>
<td>1967</td>
<td>92</td>
<td>274</td>
<td>1603</td>
<td>631</td>
</tr>
<tr>
<td>1968</td>
<td>88</td>
<td>331</td>
<td>1891</td>
<td>1006</td>
</tr>
<tr>
<td>1969</td>
<td>83</td>
<td>355</td>
<td>1972</td>
<td>1037</td>
</tr>
<tr>
<td>1970</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

* Reserve Bank of Australia, Yearly Bulletins.

(a) Includes advances from Term Loan Fund and Farm Development Loan Fund.

(b) Excludes movements in indebtedness to hirepurchase companies, private lenders and trade creditors. Includes liquid assets in the form of deposits with major trading banks and pastoral finance and farmers holdings of Commonwealth Securities.
On account of proper financing of agriculture by these institutions, agriculture in Australia has made some headway. The family type farm has made for stability and this farm is also instrumental in instilling its members with certain social traits like initiative and independence.

However, the resources of Commonwealth Development Bank has to increase in order to improve the economic conditions of the farms. Where low-income agriculture exists, these financing agencies meet the requirements of the farmers to a greater extent. Hoffman and Hume in their recent work said that the difference in farm and non-farm incomes in Australia came nowhere to what prevails in USA. The Australian Bureau of Agriculture Economics in its recent report pointed out that the farm adjustment programme possibly involving a credit organisation providing loans over longer terms than generally available now might be a way to help farmers to improve their income and prospects by acquiring more land.

It may be seen from the details given above that the various financing agencies supplying agricultural credit in Australia have contributed immensely in the development of agriculture leading to a corresponding increase in agricultural production and the country's national income.

DENMARK

Denmark is one of the smallest countries in Europe. If the distant Faroe Islands and Greenland are not included, the 43,000 square kilometers (16,600 sq. miles) of Jutland and the Islands represent only about 3,000-th part of the world's land area. It is slightly larger than the Netherlands or Switzerland and somewhat smaller than Eire. Denmark had about 4768,000 inhabitants in 1970.

The population density was approximately 112 square kilometers (190 per sq. mile). About three quarters of the total population lived in towns or in urban areas. About a quarter lived in rural areas and half of these were directly engaged in farming. The farming population had dropped from 21 percent* of the total Danish population to 10 percent* (about 490,000*) in 1970. Family workers on their own farms have dropped from 185,000 employed full time in 1950 to about 136,000 today. Danish agriculture today meets the requirements of about 16 million people for livestock products as against 10 million in 1950.

One third of the total agricultural production was consumed in Denmark and the remaining two-thirds were exported. About 50 percent of the total food exports full went to E.F.T.A. countries (England 42 percent) and 26 percent to E.E.C. countries. The rest went to other countries with USA as the largest among these customers taking 10 percent. About $950 million were brought home last year by agricultural exports.1

The minimum sized Danish farms i.e. farms between 10 and 60 hectares had 70 to 75 percent of agricultural farms. These farms were normally owned by the farmers and they were to a large extent formed by one family without hired labour.

No doubt, Denmark was the exporter of food-products, still agricultural turnover was low. It was true that agricultural farming in general, demanded a high rate of capital investment in relation to turnover than other trades and industry because of the high value of land, slow rate of agricultural production and the seasonal limitations on use of specialised equipment and machinery. The high percentage of owner farmers (95 percent) in Denmark and their need for finance for land-improvements and dwelling houses also led to

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* Agriculture in Denmark Annotated Statistics - 1970, p. 5.
1. Ibid, p.3.
higher demand for borrowed capital.

SOURCES OF LONG TERM AGRICULTURAL FINANCE IN DENMARK:

Long-term investments are financed basically by the bond-issuing credit associations, often supplemented by a loan from local banking organisations. The credit association loans are supplemented by a loan from the seller and special loans for stocking the farm are obtained from the saving banks. The loans are for periods varying from 10 to 60 years. Organised mortgaging of real estate in Denmark is undertaken by the credit associations (kreditforeningen) which grant loans secured by the first mortgage and by the second-mortgage associations (Hyphenkforenings) which grant loans secured by the second mortgage. Important sources of supplying long-term finance to agriculture are given below:

FIRST MORTGAGE CREDIT ASSOCIATIONS:

With a view to encouraging organisation of credit association and ensuring their efficient working, an Act was passed in 1850 which granted certain privileges to credit associations, the fundamental one being the right to issue bearer bonds transferrable without stamp duty. In return, the credit institutions were required to have joint responsibility of their debtor members, statutorily limited to the loans in relation to the valuation of the real estate, mortgaged, compulsory amortization of the loans, and obligation to maintain cover of the bonds.¹ The original Act of 1850 was consolidated by the addition of supplementary provisions from time to time and at present associations are governed by Act No. 109 of 7th April, 1936. The Credit associations are organised as societies of which each mortgage becomes a member by taking a loan. The associations are democratic institutions, being governed by a Board of Management elected at their annual meetings. They are under

¹ Th. Thorstensson, Mortgage of Real Estate in Denmark, p. 5.
the general supervision and control of the Ministry of Housing.

Credit associations are legally empowered to grant loans up to 60 percent of the marketable value of the property. The actual limit is however lower, depending on the market trends. At present it is about 50 percent. The loans are given in the forms of bonds.

The borrowers have to choose the series out of which they wish to have the loans. There are separate series carrying interest at 3, 3 1/2, 4, 4 1/2 and 5 percent and the selection of the series is based upon the prevailing market conditions. Most of the loans have been taken out of the series carrying 4 and 4 1/2 percent.¹

The borrowers sell the bonds at current prices on their own account. When the bonds are issued, an amount of not less than 1 1/2 percent of the loan (as provided in the bye-laws of the association) has to be paid into the reserve and administration funds of the association. There is no share capital as such in the credit associations. Besides the liability of the loan, which is personal and complete, the mortgager also assumes joint responsibility for the debts of other members of the association.

The loans are amortized in accordance with rules previously fixed for each single series. The maximum period of loans, according to the Act, is 60 years but several associations have for practical purposes restricted the period of loans to 40 years. The average duration of the first mortgage credit association loans was 45 years. About one third were 60 year loans, two-fifths, 40-45 year loans, one fifth 30 year loans and the remaining 10 year loan. Before the war, the majority of credit association loans had a time limit of 60 years. The bonds had a maturity corresponding to the maturity of loans. The borrower, besides paying this half-yearly or yearly instalment, has the right to repay the loan in advance in

¹ Ibid, p. 7.
part or full by handing over to the association the bonds of the same series and bearing the same rate of interest as those received by him when taking out the loan. The bonds of the credit associations are not guaranteed by the state, except the bonds of the associations specially organised for small holders whose interest coupons carry State guarantee. The bonds of all credit associations are however, trustee securities.

It is an important principle of the whole system of credit associations that the relation between the debtor and creditor can be terminated by the debtor only and this applies to the mortgagors as well as to the associations. The mortgagor may repay his loan and the association may redeem its bond but cannot require the bond to be redeemed in any other way than by amortization which, corresponding to the amortization of loans, takes place by purchase or by drawing bonds at par. The bonds in circulation thus do not exceed the loans covered by the mortgage deed. Occasional differences between the bonds in circulation and loans do occur, when funds are deposited with the National Bank pending purchase of bonds from the market or withdrawal of bonds at par.

There are at present 28 cooperative societies/organisations on a national scale and 16 of them are agricultural societies. There are 13 credit associations and the first of which was established in 1851. Out of them five are exclusively for advancing loans on landed estates, four for advancing loans on house properties, three for mixed purposes and one for advancing loan to industrial organisation.

SECOND MORTGAGE ASSOCIATIONS:

The function of the second mortgage associations do not differ materially from the functions of the credit associations except that they advance loans on the second mortgage of the properties
inclusive of the amount of the loan secured by the first mortgage. In 1969-70 these associations were eight in number. Their loans were limited to 75 percent of the value of the properties inclusive of the amount of the loan secured by the first mortgage. They generally restrict their advances against such properties which yield steady income and can be disposed of easily in case of need such as dwellings, offices, stores, etc. In all other respects, such as joint liability of the members, contribution to the reserve and administrative funds, amortization of loans, issue and repayment of bonds, etc., their working is on similar lines to credit associations. In view of the risk involved, they are, however, more conservative. Their working, as in the case of credit associations, is supervised by the government. The second mortgage normally works with loans of 20 to 40 years duration.

THIRD MORTGAGE ASSOCIATION:

These associations are for new building projects and agriculture, granting loans up to 70 percent, are organised as cooperative societies or limited liability companies, with a bank or other financial institutions contributing guarantee capital as supplementary security. The maximum amount of loans advanced by the third mortgage association legally and in practice is 75 percent. They sanction loans for a maximum period of 45 years.

THE REAL ESTATE CREDIT FUND OF DANISH AGRICULTURE:

Established in 1960, grants loans for 6 to 30 years for purchase of land, buildings, machinery and livestock against security of up to 70 percent of the market value of the property. The Fund, a private Foundation, managed by a Board.

There are The Purchasing Associations of Small Farmers and The Purchasing and Finance Associations of Farmers Union which
sanction loans to farmers for a maximum period of 10 years at the market rate of interest. Commercial Banks have recently started sanctioning medium-term loans to the farmers but they play a more important indirect part by financing the farmers, suppliers and customers. A very few private agencies supply credit to farmers in Denmark and 85 percent of Danish Agriculture debts are funded debts, and half of these are to the bond-issuing institutions. 1

The following tables show the agriculture's assets and liabilities and the distribution of liabilities and interest payment by different credit institutions:

**TABLE VII**

**AGRICULTURE'S ASSETS AND LIABILITIES** *(In Million 

<table>
<thead>
<tr>
<th></th>
<th>1950-54</th>
<th>1960</th>
<th>1969</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture's capital at market value</td>
<td>2306</td>
<td>3483</td>
<td>5959</td>
</tr>
<tr>
<td>Mortgage Liabilities</td>
<td>695</td>
<td>1088</td>
<td>2570</td>
</tr>
<tr>
<td>Other Current Liabilities</td>
<td>93</td>
<td>190</td>
<td>511</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>789</td>
<td>1258</td>
<td>3021</td>
</tr>
<tr>
<td>Mortgage in percent of market value</td>
<td>30</td>
<td>31</td>
<td>42</td>
</tr>
<tr>
<td>Total liabilities in percent of market value</td>
<td>34</td>
<td>37</td>
<td>51</td>
</tr>
</tbody>
</table>

**TABLE VIII**

**DISTRIBUTION OF LIABILITIES AND INTEREST PAYMENT** *(1969-70)*

<table>
<thead>
<tr>
<th>Distribution of liabilities</th>
<th>Effective interest payment percent per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage credit assn.</td>
<td>969</td>
</tr>
<tr>
<td>Second Mortgage assn.</td>
<td>110</td>
</tr>
<tr>
<td>Credit fund</td>
<td>134</td>
</tr>
<tr>
<td>Saving Banks</td>
<td>207</td>
</tr>
</tbody>
</table>

1. The financing of Danish Agriculture, by J. Skovbock, Compiled in Agriculture in Denmark, p.208.
** Ibid, p.18.
contd...

<table>
<thead>
<tr>
<th>Other Banks</th>
<th>62</th>
<th>2.05</th>
<th>9.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Treasury</td>
<td>120</td>
<td>3.94</td>
<td>3.60</td>
</tr>
<tr>
<td>Private</td>
<td>909</td>
<td>30.07</td>
<td>7.39</td>
</tr>
<tr>
<td><strong>Mortgages total</strong></td>
<td><strong>2511</strong></td>
<td><strong>83.07</strong></td>
<td><strong>7.54</strong></td>
</tr>
<tr>
<td><strong>Other liabilities</strong></td>
<td><strong>511</strong></td>
<td><strong>16.93</strong></td>
<td><strong>10.23</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3022</strong></td>
<td><strong>100.00</strong></td>
<td><strong>8.00</strong></td>
</tr>
</tbody>
</table>

The above mentioned tables indicate that agriculture's total liabilities have doubled since 1964 and different credit institutions are actively financing the agriculturists.

Statistics go to show that the credit system was an extremely valuable element in Danish Farming Organisation. It has made possible the financing of a large number of efficient farms owned by the farmer himself. The principle of farm ownership has ensured to the Danish Community the maximum use of the capital from outside the industry that is invested in farming.