UNITED STATES

In United States, the farmers often borrow from external sources to meet operating charges of their farms and for living expenses. However, the demand for loanable funds would fluctuate in relation to changes in the aggregate level of farm income and in the relative level of farm prices. Generally, farmers in United States borrow more than usual in periods of favourable farm price ratios for expanding their operating units.¹

Sources of farm financing:

The chances of self financing within the agriculture sector is one of the significant features of United States' agriculture. Moreover, non-farm income also plays a part in certain farm finance operations. However, the capabilities

of self financing and non-farm income is difficult to measure. In the year 1965, individuals with farm income also reported off-farm income of 12.5 billion dollars and capital gains of 1.5 billion dollars, according to available data.

Additional data regarding the capacity of the farmers for self financing is given in table No. 1.

According to the table, liquid financial assets held by the farmers in terms of currency, bank deposits, and United States Boards were estimated as 15.3 billion dollars in 1969 as against 13.3 billion dollars in 1950. Currency and bank deposits constituted 40 per cent of the liquid financial assets.

Sources of External finance:

Sources of external financing can be broadly grouped under two heads namely (1) private and commercial lenders (2) Sources associated with the Federal Government. The position of major lenders in the year 1969 in terms of debt outstanding is given in table No. 2.

(a) Private or Non-Governmental lenders:

Commercial banks, Merchants and dealers, Individual lenders and Life Insurance companies are included in the category of private lenders. It was pointed out that prior to 1916 all credit furnished to agriculture was provided by these non-Governmental Lenders. However, commercial banks lead all other agencies in the volume of short-term credit to farmers. They have also supplied significant part of the farm mortgage credit.

The significance of commercial banks in farm financing is due to the fact that commercial banking system is the pillar of the United States' financial structure. In fact,
they occupy a prominent part both in the business and 
agricultural life of the communities where they are located.

The commercial banks are maintaining agricultural 
credit departments and are putting Agricultural College 
graduates in charge of this. These persons are trained in 
scientific agriculture and with a practical turn of mind. 
They help the farmers in adopting bank loans according to 
their needs and also find time with their clients to assist 
them in securing the kind of loan they need.

In United States the farmer prefers a local bank as a 
credit agency because they provide quick and uncomplicated 
loan service with minimum of red-tape. The bank would be 
easily accessible to the farmer and would be in his immediate 
trading centre. Above all, the local manager possesses 
good knowledge of his clients. On the other hand, as an 
agency to supply farm credit they have the following 
disadvantages.

1) Credit is not always available especially in depression 
   periods.

2) Interest rates and other costs tend to be non- 
   competitive and higher than would appear necessary\(^2\) and

3) Unwillingness on the part of the bankers to study the 
   various credit requirements of the farmers to provide 
   intelligent loan service.\(^3\)

However, in 1969 the banking system held 35 per cent 
of the non-real estate loans outstanding and 14 per cent of 
the real estate loans outstanding. Interest rates often 
varied 9 per cent to 10 per cent and 12 per cent to 15 per

\(\text{\footnotesize 2}\) G.W. Foster; Marc C Leager; Elements of Agricultural 
Economics, P 318.

\(\text{\footnotesize 3}\) Wilson Gee; The Social Economics of Agriculture, P.229.
usually a promissary note or a chattel mortgage.

In United States Merchant and dealers are considered as the oldest source of farm credit. They ranked first the number of farmers financed and second only to commercial banks in the volume of credit supplied. Merchant and dealers extend credit because it help them to secure business.

Loans are granted by them for short and intermediate terms. Certain production supplies may also be sold on 30 days credit while large machinery items may be purchased on a contract basis.

Security required by the merchant and dealers may be ranged from good faith to chattel mortgages. However, security requirements are not as stringent as those of the commercial banks.

Merchant and dealers offer credit on more varied terms than other institutions, though they charge high rates. High interest charges are often attributed to the fact that merchant credit is costly not only to the farmer but also to the merchant.

Individual lenders consist of land lords, relatives and friends. Loans from these groups of lenders are usually on a very personal basis between the lender and the borrower. Consequently, the terms and conditions of loans would be very flexible.

Individual financing in 1969 accounted for about 60 per cent of the real estate credit. About three quarters of the land transfers were financed by the seller through the use of land contracts. It allows the seller to retain the title of the property until the loan is fully paid or until

the debt is reduced to a previously agreed upon level. Land contracts are advantageous for both the seller and the purchaser.

In United States, Insurance Companies have been a principal source of farm credit since the creation of the Farm Credit System. However, loans are provided for long-term capital investments by big companies. The period of repayment may up to even 40 years.

Life Insurance Companies traditionally have furnished about one-fifth of the farm mortgage debt. Their terms and conditions are more convenient to the borrower than one of governmental agencies. Insurance companies charges lower rates than that of the commercial banks.

Governmental lenders:

(a) The Co-operative Farm Credit System:

The co-operative farm credit system in United States is supervised by the Farm Credit Administration. There are twelve district offices of the Federal Farm Credit Administration. Each of these twelve districts consists of four major credit units located in one Central Office.

1. a Federal Land Bank,
2. a Production Credit Corporation,
3. a District Bank for Co-operatives.

The national farm loan associations and production credit associations are the organisations directly deal with the individual farmers at the local level.

Federal land bank loans are normally made through farm loan associations organised by farmers in the local community. One of the significant features of these loans is that each farmer is required to buy stocks in the association equal to
5 per cent of the face value of the loan. This arrangement is in order to tie the members more closely together with the association.

Federal land bank loans are granted for periods of 5 to 40 years. There is no legal maximum loan limit. The interest changes are ranged between 5 per cent to 8.5 per cent.

The production credit associations are locally-owned co-operatives providing short and intermediate-term loans. Loans from the associations are obtainable for almost any expenses related to farming and rural life of the people.

Loans from the associations are generally 'budgeted' loans which are disbursed in instalments as needed by the borrower members. It is significant to note that terms of the loans are determined through "loan counseling" with the borrowers. Therefore the terms of loans are more tailored with the needs of the borrowers. Further, the association exercises full responsibility for making loans and also bears the risk of loss on its loans.

Recently greater emphasis has been given on lending on the basis of cash flow analysis rather than on the basis of the borrowers collateral.

Funds for the production credit associations are provided by the Federal Intermediate Credit Banks. They are also entitled with the authority to supervise and assist the production credit associations.

Bank for co-operatives, as indicated by the name, are primarily aimed at to meet the credit needs of the co-operatives.

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5 W.G. Forster Marc C. Leager, P. 300.
They obtain funds by two sources (1) paid-in-capital, surplus, undivided profits and guaranty funds (2) the sale of debentures.

Loans from the Banks for co-operatives are not generally available to the farmers directly. However, group loans are available to form a machinery ownership co-operative.

(b) Farmers Home Administration:

It is an agency for providing supervised farm credit to agriculturists. Loans are extended only to farmers who are unable to obtain sufficient credit from other sources at reasonable rates and terms to finance their needs. At the same time borrowers are also required to accept supervision and guidance in their farm operations. Thus loans are made "to go beyond the extension of credit for a farm, a home-management plan is developed and supervision and assistance is given during the loan period".6

Loans are available for (1) Farm ownership (2) rural housing (3) farm labour housing (4) operating expenses (5) water development and soil conservation (6) opportunity loans to low income farmers.

(c) Commodity credit corporations:

The primary purpose of the corporation is to provide commodity price support to farmers through government programmes. The corporation is financed by the government and its operations subjected to changes in farm legislation.

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JAPAN

One of the important features of Japanese agriculture is that the amount of money saved by the farmers every year has been much greater than the amount borrowed by them. Consequently, a significant volume of funds has been flown out from agriculture sector into other sectors through various financial institutions. The distribution of savings by farmers is shown in table No. III. However, the proportion of subsidies and outside loans have been rising in agriculture financing.

Sources and nature of External Finance

(a) Agricultural Co-operatives:

The Agriculture co-operative system, in Japan, consists of the following components (1) Unit co-operatives (2) Co-operative union in the prefectures (3) National Federations (4) Other related organisations such as women's organisations of Agriculture co-operatives etc.

Unit co-operatives, in general, are acting as lending and deposit bodies to farmers, maintaining direct contact with them. Co-operative union in the prefectures are specialised in credit business, working as intermediate bodies.

Credit along with other services:

The co-operative financing system in Japan was established and has developed with the idea of mutual financing among the members. An essential characteristic of the system is the network of multipurpose type of

co-operatives widely spread over the rural areas. They are based on the principle that the needs of the farmers are inter-connected and can be best satisfied when served together by a single organisation. The system, therefore, has been supported by its strong marketing net-work of farm requirements.

Recently, two of the Japan's largest Agricultural Co-operatives "Zenkoren" (National purchase Federation) and "Zenhanren" (National marketing Federation) have merged into "Zen-Nor" (National Federation of Agricultural co-operatives). This brought all buying and selling co-operatives together under one central organisation. 'Zen-Nor' is the world's largest farm of co-operative buying and selling organisation having 99.8 per cent of the 5.34 million farm households in Japan as its members. The co-operatives enjoy almost a monopoly position in the sale of agricultural commodities in the country. About 80% fertilizers, 85% of agricultural chemicals 39% of machinery and 43% of the total commercial feed in Japan are sold through the co-operatives. Further more, about 94 per cent of rice 57 per cent of wheat and barley are also sold through them.

Internal Funds:

In Japan, the co-operative system has in their possession huge internal funds. Deposits form a predominant part of their funds. A significant change taken place in the recent past was the growth of business of a non-agricultural nature, on both lending and depositing. According to a survey about half of the new deposits with agricultural co-operatives


9 Business Survey on Agricultural Co-operatives made by the Central Co-operative Bank for Agriculture and Forestry in 1968.
originated from non-agricultural revenue especially from sales of farm land. Perfectural Credit Federations and the Central Co-operative Bank encourage deposits with unit co-operatives by creating a special "Reserve Fund" for protection of the deposits if necessity arises.

Loan business:

The terms of loans vary by type of loan and by individual co-operatives. In general, the period of repayment does not exceed 5 years. The annual rate of interest in 1967 were around 10 per cent annum for long-term instalment loans on deeds and 10.2 per cent for short term loans. It has been pointed out that the rates were high because of the risk in agricultural lending and due to the high cost of money available.

The co-operatives are ever engaged in lending money for non-agricultural purposes such as construction and improvement of dwelling facilities and various business other than farm operations by members.

Other financing institutions:

The role of other non-public financing institutions in agricultural financing in Japan is almost negligible. Commercial banks, on the average, lent only 0.3 per cent of their outstanding loans to agriculture. The share of mutual credit associations was higher than commercial banks which is accounted for 1.2 per cent of their outstanding credit at the end of the fiscal year 1967. However, the total of outstanding loans by non-public financing institutions to agricultural (excluding agricultural co-operatives) amounted to 149 billion yen or 0.4 per cent of the total credit at the end of 1967.

A more clear picture of the sources of borrowings by the farmers in Japan can be drawn from table No. IV.
Government measures for Agricultural Financing:

The role of Government in financing agricultural cannot be over emphasised in the case of Japan. In 1967, about 47 per cent of the total money borrowed by the farmers was subject to Government measures. The objectives of Government programmes in agricultural financing are (1) to facilitate the supply of capital to farmers and (2) to guide financing along the lines of its policy objectives. Important schemes or measures through which the Government funds are made available to the farmers are (1) credit by agricultural forestry and Fisheries Finance Corporation, (2) Agricultural modernization credit, (3) Disaster credit, (4) Agricultural improvement credit, and (5) Credit for new Settlers.

The amount loaned by Government through different schemes are given in Table No. V.

Agricultural Forestry and Fisheries Corporation grants long-term loans for developmental purposes in agriculture, which other financial institutions cannot afforded to make. However, importance has been given for land development and structural improvements.

Terms and conditions of the loans are generally favourable for the borrowers. Repayment periods vary from 15 to 30 years and interest charges vary from 3.5 per cent to 7.5 per cent per annum.

All the other schemes are tailored to help the farmers in different ways. Among them, the 'disaster credit scheme' and Scheme of credit for new settlers are significant to note. The former is aimed to help the sufferers of natural disasters
while the later is to help new settlers in acquiring equipments and other facilities. Interest rates are low which range from 3 to 6.5 per cent per annum.

NETHERLAND

The inability of the commercial banking structure to meet the highly decentralised and varied credit requirements of the farmers and the limited scale of credit provided by other sources gave birth to the Farmers' Credit Banks in Netherland. It was a kind of co-operation based on mutual aid. The Farmers' Credit Banks have succeeded in meeting the credit requirements of agriculture in the country.

Financial stability of the Farmers' credit banks in Netherland depend upon the deposits and savings made by the country people. They considered them as their saving banks where they can always deposit their surplus money and withdraw it whenever they needed. Confidence in the Farmers Banks lies on the fact that, Membership involves unlimited liability for all the Bank's financial commitments. Therefore, each and every member of the bank is a guarantor of the bank and the financial soundness of the bank is equal to the financial capacity of its members.

Farmers Credit Banks grant credit only for productive purposes. As a result of the small operational area, the bank enjoys effective control over the use of credit. Security demanded for a loan may be either collectoral or personnel security. However, surety given by guarantors have played significant part in the development of Farmers Credit Banks in Netherland.
Farmers Credit Banks grant credit only to its members and interest charges as a rule is low. The secret of low interest charges is that they are operating at low cost. They have no need of attractive and expensive premises. In fact, some of the banks in Netherland have no building of their own, even today. In certain cases work is being done in the private house of one of the members of the Board or of the Cashier. In this case the bank is often open for a few hours in a day.

Further, the low interest charges are also for the reason that the Farmers Credit Banks do not aim at profit making. However, they have been earning a surplus after deducting their necessary costs. Significantly, any such profit will go into the Reserve Fund of the Bank, instead of distributing among the members.

The Farmers Credit Banks have developed to form an important section of Dutch Banking both as saving banks and as loan banks. Although savings can be withdrawn on demand, a portion of it remains with the bank over long periods. Consequently, the banks have taken to granting long-term loans on a limited scale. It has been pointed out when savings had begun to exceed the demand for loans, to an increasing degree, the bank also took to grant credit to the local co-operatives. The amount of loan issued by the farmers credit bank as a whole exceeds the total granted by the four largest commercial banks in Netherland taken together.

The success of the farmers credit banks in Netherland also depends upon the efforts made by the Central Banks, established by the local credit banks. As a clearing house they help the local banks to invest their surplus money in areas where the need exists. The Central Banks exercise an
amount of control over the local banks. They also maintain close watch over the administration of their representative local banks. The Central Banks work with share-capital raised from the local banks.

The farmers credit banks, beyond doubt, have made remarkable contribution towards improving the lot of the farmers in Netherland. They have made the farmer independent of loans from traders and industrialists and thereby freeing them from onerous conditions prevailed in borrowing.

FINLAND

Farmers in Finland have been in a position to finance on farm investments remarkably from their own resources. Farm forestry is one of the most important sources of non-farm income to the farmers. Important sources of external finance to agriculture are co-operatives, saving banks, commercial banks, Mortgage banks and Insurance companies.

The co-operative banking system which is highly developed in Finland provides more than 50 per cent of the total credit outstanding at the end of 1967. The share of saving banks and commercial banks are 35 per cent and 11 per cent respectively. Credit sources of agriculture and its share in the total outstanding credit is shown in table VI.

The Co-operative Banks:

The co-operative banking system consists of the central
bank and the local co-operative banks, spread throughout the country. Co-operatives in Finland follow the 'Raiffeisen principles'.

The co-operative banks acquire money from their central banks and redistribute it among the members. They also act as intermediaries for government credit to agriculture. Membership of the bank is open to anybody irrespective of profession.

The central bank acts as the central financial institution of the co-operative banking system. It receives deposits from the co-operatives and loans from the government. The bank provides direct loans to co-operatives and various other private and public organisations.

In addition, co-operative banks have a central union. It conducts advisory, supervisory and staff training activities including international activities related to co-operation.

Long-term loans are granted by the Land Industry Real Estate Bank, a subsidiary of the Central Bank.

Deposits constitute a major part of the money resources of the local co-operative banks. Out of the total money resources of 2900 million marks at the end of 1967, deposits alone constitute 2300 million marks. Loans from central banks including state funds form only 600 million marks.

Interest charges were on an average 7.9 per cent per annum for ordinary loans on notes. However, a higher rate was charged (8.4 per cent) for cheque account loans. Guarantees and real estate mortgages were popular forms of security.

The Savings Banks are the second important sources of agriculture finance. Loans from the saving Banks are usually
of long-term nature. Loans are granted for constructing farm dwellings and buildings, purchasing farm land or supplementary land and for the purchase of machinery etc.

Role of Government in Financing Agriculture:

Government as a source of finance plays vital role in Finnish agriculture. Agriculture including fisheries and forestry received about 77 per cent of the total outstandings at the end of 1967. Funds are being channeled through different financial institutions. The share of different finance institutions in distributing government credit for agriculture is given in table No. VII. It has been pointed out that the cooperative banks received 67 per cent of the government credit followed by the saving banks (27.4 per cent) and the mortgage banks'(5.4 per cent).

Loans granted by the government under various acts is shown in table No. VIII.

Government loans are chiefly meant for buildings and land purchases. However, loans for structural improvements have been increasing in the recent past. While implementing the loan measures, utmost importance has been given in maintaining self-supporting farms. Thus the prime motive behind government finance to agriculture has been the formation of economic and viable units of farm holdings.

Terms and conditions for government loans are highly favourable to the borrower. The period of repayment is varied from 10 to 31 years. Repayment period of loans for farm chattels are fixed from 2 to 5 years. Interest rates for government loans are as low as 1 per cent to 3 per cent per annum except for chattel loans for which, it is 3 per cent.
The foregoing description of agricultural finance in the selected countries shows certain inherent features of farm finance. First, in all the four countries, the co-operative institutions are the most important agency to deal with the problem of agricultural credit. Even in United States, the co-operative system is fast developing in agricultural sector at the cost of the commercial banks and other agencies which are traditionally been considered as the champions in agricultural lending. It seems that in these countries both the government and the farm community have realised the fact that the problem of agriculture finance could only be solved through mutual aid and by institutions of their own concern.

Secondly, it is significant to note that the financial soundness of the co-operatives, which is the root cause of their success, depends upon the huge amount of deposits acquired from the farmers. The co-operatives could inspire the farm-community to deposit their surplus funds with them by providing all sorts of services to the farmers. On the other hand, the farmers have full confidence in the co-operative institutions and consider them as their own saving banks.

Thirdly, the role of government as an agency to supply credit is of great significance. The government funds through different programmes and schemes reach the needy sections of the farm community. These loans aimed at improving the efficiency of the farmers in order to make the farmers credit-worthy. In fact, these loans are
long-term loans with less interest charges.

Lastly, the psychology, outlook and attitude of the farmers had been the corner stone of the success of the co-operatives in these countries.