

Finance, Farm Resources and Organisation -  
An analytical study of the impact of  
reorganised credit on agriculture  
with reference to a district  
in Gujarat

CHAPTER - I

I N T R O D U C T I O N

The theme:

In a developing economy like India, the most basic and urgent problem is that of augmenting agricultural production for an increasing population and a rapidly expanding industrial base. But with us, agriculture far from being a prosperous industry, is in fact, one of the most depressed occupations. The principal reason behind the stagnation in agriculture would appear to be the prolonged neglect from which it has suffered. It is only recently that we are beginning to realise that agricultural development is the prime pre-requisite in any programme of economic development of a backward economy. For, expanding agricultural production on a perpetual basis, requires stepping up substantial investments over a fairly long period. One of the important factors determining levels of investment in agriculture is the supply of adequate credit on reasonable terms. The importance and necessity of finance in undertaking agricultural operations have been universally recognised. As in any other business, the cultivator has to borrow. There

is of course nothing objectionable in this, but if such financial needs are not supplied a break-through becomes difficult. Strangely enough, even when such help is made available other problems persist. One of the most suitable agencies for solving problems of agricultural finance are the cooperatives. Credit as an important tool for implementing specific programmes of agricultural development and agrarian change reached a new dimension recently. At the same time our concept of the role of cooperative organisation has also undergone a change. This thinking is not the same as our earlier orthodox approach in the middle of the nineteenth century when cooperation was intended to support a weak peasantry. One of the consequences of this is the importance now attached to the crop loan system which has become a policy plank of cooperative finance and is being increasingly favoured over <sup>a</sup>wider and wider region. Though it has not been a universal success official thinking is inclined towards assigning a larger and more ambitious role to it. Given a suitable setting, a flexible procedure and common acceptance, crop loan finance has bright prospects in times to come.

Of the states which have made an attempt to implement it, Gujarat and Maharashtra only seem to have made a success of the crop loan system. Even there, however, it is not unusual to come across areas where the implementation has not been

altogether satisfactory. This study proposes to examine the reasons of its success in some areas and its poor performance in others. A micro-level examination in depth would highlight the problems the system confronts and the changing requirements of agriculture under shifting circumstances. The experience thus gained should be useful in orienting the policy and extending the programme over wider regions.

Problem:

The cooperative movement in India during the last decade and a half has witnessed significant developments and attained a large measure of comprehensiveness. For quite some time, the cooperative credit policy had been in the process of crystallisation for evolving a pattern suited to our conditions and circumstances. It was thought that a detailed and comprehensive inquiry into the working of cooperative credit institutions in a well-developed district of Gujarat would reveal an interesting picture of the translation of the new cooperative credit policy. The new policy which has been accepted as the basis for the provision of agricultural production finance in this state, has had a good deal of experience in the eighteen years of its working. But the experimentation has not followed a static pattern. The approach was dynamic and the new cooperative policy changed hues according to the requirements of the situation. It would, therefore, be appropriate to

examine the factors behind its success in some areas and its failure in others. If it is proposed here to study the working of the reorganised credit scheme with special reference to short-term institutional production finance, that is not in order to minimise the importance of term-lending in agriculture but to restrict the scope of the examination, to sharpen the focus and to intensively examine the problems of this aspect of credit.

Approach:

The study attempts to examine the district cooperative credit structure for agriculture. It will analyse the agricultural frame-work under which the cooperatives function and see how far the frame makes for efficiency. The emphasis would be on developments of the last decade and a half during which momentous changes occurred in cooperative credit policy and its organisation. The supply of finance would be examined with reference to various size groups of farms, crops, castes and communities as well as divergent agricultural conditions. The adequacy of finance would be verified in terms of the quantum and effectiveness in the context of the repayment process. It would also be possible to evaluate the limited availability of resources as a major bottleneck to cooperative development and to ascertain whether a larger flow of funds would help develop the movement and promote agricultural change. The thesis thus seeks to examine the implementation

of the crop loan system not only with reference to the amount of loan, but also the spread over crops over time. It would be necessary to inquire whether the change in the policy about the quantum of finance was ad hoc or took place on more basic and sound considerations.

There is a variety of cooperative institutions whose credit functions overlap, though their fields are marked out. This functional conflict among cooperative institutions arises from overlapping of activities and jurisdictions and has great significance for cooperative loan policy. An assessment of this nature will also throw up policy issues for future guidance. In view of the problem of overlapping of activities of various cooperative bodies, it is necessary to examine the relations as they shape between the credit and other institutions at different tiers and performing different functions.

#### Contribution of the study:

The Reserve Bank of India undertook a credit survey which was followed by periodic resurveys to check up on original findings and assess trends. These surveys are of a general nature in that they do not relate problems to specific situations, nor do they dissect problem at the grass roots level. Even though the revised credit policy envisages integration of credit and marketing, no reliable assessment of its achievements is available to the student of the subject. It is

the purpose of this study to make a modest but hitherto untried attempt in that direction and to relate finance and its application to farm inputs or to resource application generally. More particularly, it seeks to find out whether crop loan and its quantum leads to better tillage, higher holding capacity in marketing of agricultural produce, increased production and productivity and whether all these factors taken together lead to better incomes. An attempt to ascertain how far finance is a bottleneck to a total change would be equally rewarding. It would also be the purpose of the study to size up the nature and extent of other farm resources that flow into agriculture and the structural changes in the farm economy arising from a restructuring of inputs beginning with a larger flow of institutional finance. The most prevalent view, of course, has been that finance is the chief impediment to all progress in agriculture in India and once the flood-gates of credit are opened progress will emerge like day after night.

The task of evaluation of the crop loan system is far from simple or straight-forward. The evaluation of the success of the crop/<sup>loan</sup>system is an arduous task. That is why, probably, limited work in the field has hitherto been done. The use to which the loan is put is one of the approaches. Here again in a developing and essentially subsistence agriculture purposes strictly not able to exploit the channels of application of the crop loan might be either inevitable or

essential in the interests of loaning itself. Overdues too would reflect on the efficacy of crop loan of supervisory credit. Another way of measurement is the degree of the successful linkage of loan with marketing. The marketing society will report back the market disposal by the borrower through it to the credit institution. Here again one may describe the failure as one of integration and not of the loan system if the marketable surplus disposal by the borrower through the cooperative marketing society is limited. A third way of looking at the crop loan system is through the marketing end under which the farmers agree to sell their crops through specialised marketing bodies and borrow funds which will be a part of the anticipated crop price and use the funds for consumption and cultivation. The same procedure will apply in the case of other marketing cooperatives like the fruit and vegetables growers' and sugarcane cultivators' societies. The study will make an attempt to find out whether the crop loan system with its supposed integration of credit and marketing is more efficacious or whether the other system where the credit flows through the marketing channel is more useful for the success of cooperative credit. The merits and demerits of both would be examined and an endeavour would be made to ascertain whether the pattern could bear adjustments for the greater success of the cooperative loaning and marketing arrangements.

The study by an individual is naturally circumscribed by the limitations of finance, time and resources at one's command in making it exhaustive and detailed in coverage. This, therefore, would be a modest attempt at examining and assessing the crop loan system in the facets that are indicated above.

Region:

The reference of the study is the Surat district in Gujarat. The area reflects a variety of agricultural conditions, crops, farms and farmers. Cooperatives in this district were established from very early times. The district has been in the forefront of the cooperative movement right from its inception and had a band of enthusiastic and devoted cooperators who provided the requisite cooperative leadership. The cooperative institutions of the district are of various types and achievements and have demonstrated the efficaciousness of the movement when circumstances are favourable. The cooperative credit and marketing structure of the region has attained a certain measure of maturity and may be claimed to offer a model to the rest of the country.

Cooperation and response of the local people in the study was spontaneous which helped the writer to collect exhaustive data for the study. Surat, moreover, is one of the pioneer IADP districts under which finance explodes the

agricultural investment package to promote rapid agricultural growth, particularly to rapidly augment food production. The cooperative crop loan system in its new role in this special programme would, therefore, highlight further its newer potentialities as well as the problems it will confront. The district ranks highest in cooperation of agricultural activities. An intensive study of such a district will unfold lessons to other parts as well as to the cooperative movement as a whole to better and better equip itself to serve agriculture. This is particularly relevant as there is uneven growth of cooperation in the country and because of its prime role in bringing about agricultural change in India in improving the living standards of its rural people.

Design of field work:

The field investigation was conducted in 1966. In all, ten villages were purposively selected for case study. In selecting them care was taken to see that they collectively reflected the agricultural conditions in the district. The geographical distribution, crop types and conditions and the nature of farming communities had to be taken into account in making the selection. The district for the purpose was divided into five main crop regions.

<u>Crop category</u>	<u>Region</u>
(1) Sugarcane and plantains	Villages of Choryasi, Bardoli and Kamrej
(2) Vegetables and fruits	Villages of Palsana, Bardoli, Kamrej and Choryasi
(3) Jowar and cotton with progressive communities	Olpad
(4) Jowar and cotton with backward communities	Maḥuva, Vyara, Mangrol and Valod
(5) Coarser grains and forests with tribal population	Songadh, Mandvi, Nizar and Ucchal

These crop regions were checked and recast where necessary in consultation with the local officials and non-officials of the district. From each of these five regions two villages were selected on the basis of the factors earlier enumerated.

The next stage of inquiry was the selection of 25 cultivators from each of the ten villages on the basis of the size of land holding which made a total of 250 cultivators. The farm families selected included the members of cooperatives. In addition to the credit cooperatives, the cotton sale societies, fruits and vegetables growers' societies and sugarcane cooperatives also provide finance against future sale of produce through them. This causes overlapping of functions leading to the evolution of a credit structure which is peculiar to the district. Any study, therefore, of the crop

loan system has to keep this pattern in mind and select the areas of study accordingly. To meet this requirement a census of all the families in the selected villages was undertaken, with an emphasis on the membership of cooperative organisations. A consolidated list of all the member-cultivators on the basis of operational holding was prepared in an ascending size of holdings. A higher weightage was given to the last two groups as the universe of cultivators in these groups was found to be comparatively small, yet significant from the point of view of assimilation of the benefits of finance by resource base. The holdings were grouped in the following size groups.:

1	-	5	Acres
5	-	10	Acres
10	-	25	Acres
25	-	50	Acres
50 acres and above			

The formula employed to pick out the sample was:

$$N_1 + N_2 + N_3 + 3(N_4 + N_5) = 25 (r)$$

$N_1$  = Number of cultivators in each class

$r$  = Number to be selected

The number of cultivators in each group was drawn with the help of random tables.

In all five schedules were canvassed to collect information. The first schedule comprised of the census of the rural families in the villages to select cultivators for detailed investigation. The second schedule pertained to a study of general conditions of the village in whose contours cooperative institutions have to function. The study of primary credit societies was made on the basis of the third schedule. The fourth schedule was employed to study marketing cooperatives and the fifth schedule was intended for canvassing among farmers who were members of cooperatives of different types.

Plan of the thesis:

The thesis consists of seven chapters. The Introduction details the object and scope of the inquiry as well as the method and design of the study. Chapter II examines the regional background of the district. The discussion of circumstances leading to the origin of cooperatives of all types and those pertaining to credit, as well as the progress attained in India and Gujarat at various stages is covered in Chapter III. Chapter IV covers the evolution of cooperative credit policy. Chapter V analyses the data of the selected villages of inquiry and the selected societies for their detailed working. The detailed working of the reorganised credit scheme for the selected farm families is attempted in Chapter VI. The concluding Chapter VII brings together the

findings and attempts conclusions relating to the cooperative credit policy. It also poses a few problems for possible guidance in future policy formulations.

Momentous changes have taken place in the economic life of our country and particularly in the rural economy during the post-Independence period but more chiefly during the plan era. The new agrarian scene exhibits changes which are both structural and organisational. All these changes again brought in their wake changes of various other kinds and it is, therefore, not easy to pass a final judgement on how far the agrarian structure that has emerged has led to increased production and improved productivity. To examine the impact of all these programmes on agriculture is, however, not germane to our purpose. While we study the impact of the scheme of reorganised agricultural credit, we should also know the agrarian pattern that has emerged and the working of the cooperatives. The study has, therefore, been attempted in the diverse types of farm organisation, varying agrarian conditions and farm resources obtaining in agriculture to highlight the constraints under which cooperatives function.