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Agricultural Cooperative Credit
in South-East Asia

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Foreword

The most widespread cooperative activity in countries with which the present publication deals is agricultural credit. Credit cooperatives are farmers' own organizations which enable members to obtain short- medium- and, sometimes, long-term loans for agricultural operations. Raiffeisen's emphasis on thrift and credit cooperatives stemmed from a well-founded belief that the task of organizing and running a credit society helped to generate among members a degree of self-discipline and business acumen which were fundamental to the growth of the cooperative movement. In most countries of Asia, however, the idea of cooperative credit was introduced by government officials. The cooperative organization was projected into an environment which was characterized by widespread illiteracy, ignorance and general apathy. In many countries, the village scene was dominated by the moneylender-cum-trader, who, since a long time, occupied a monopolistic position in the villages in providing loans and in marketing farmers' crops. The moneylender did perform an important function in rural society but he often charged an exorbitant price for his services. The strength of the moneylender lay, primarily, in the fact that his decision-making was quick and elastic, his knowledge of local conditions intimate and detailed and, above all, by virtue of being a member of the village community himself, he often inspired confidence which was not easily evoked by the cooperative agency which appeared to be more of an outside agency rather than a growth from within. The sense of identification of the farmer with the cooperative society was further made difficult by the lack of intensive and intelligently conceived educational efforts which should have emphasized the member-owned aspect of the cooperative society and also explained to the farmer the reciprocal web of obligations which existed between him and his cooperative.

Over the course of years, and keeping in mind the vicissitudes through which agriculture has passed in countries of South-East Asia, cooperators have time and again considered and sought to refashion their approach to problems of cooperative credit. It is now being generally recognized that an effective system of credit must not end with credit alone; it must increasingly take cognizance of the vital continuum of credit, marketing and supply. While the interdependence of the aspects of credit, marketing and the provision of farm and other consumer requirements is easy to perceive, the building up of a matching complex of cooperative institutions with its staffing and operational implications are extremely complicated. Specialization in credit alone to the neglect, for example, of marketing has often kept the door open for an effective entry by the moneylender into the farmer's economy. The former, by providing the marketing channel, deprives the credit society of the opportunity of collecting its dues through the sale of farmer's produce. As a result, the concept of multipurpose society has been gaining ground in countries of South and East Asia. The papers by Dr. Mohinder Singh and Mr. Wanasinghe draw special attention to this significant development and spell out some of the problems which arise in operating multipurpose societies efficiently.

An important area of discussion in the publication relates to the aspect of "Supervised Credit." In rural societies where there is considerable demand for credit for consumption purposes, there is always the danger that, in the absence of supporting measures, credit given by the cooperative will not help to increase productivity on the farm, but may be frittered away on non-productive purposes. If the problem of overdues is to be avoided and if credit from a cooperative is to help the growth of the farmer's economy, it becomes essential that credit is supervised in a way that the loan is not reduced to a one-time non-productive expenditure, but rather helps to raise the productivity on the farm and thereby creates its own means of repayment. Mr. Cheriyan and Mr. Cabrera deal with this important aspect in the context of the Cooperative Movements in India and the Philippines while Dr. Brossard's paper presents a theoretical discussion of the subject.

The success of the growth of a system of supervised credit must remain, basically, a function of the educational work that a cooperative society is able to undertake for its members. The papers by Dr. Brossard and Mr. Hussain are particularly relevant in this context whereas the provision of extension services is described by Mr. Saranaga.

Finally, in several countries of the region, the savings potential of the farmers is extremely limited and the cooperative credit structure by itself has not yet been able to generate adequate finances for farming operations. Governments in several countries have, therefore, been playing an extremely important role in the supply of agricultural credit to farmers, often through the vehicle of the cooperative society. The last chapter is devoted to a discussion of this phenomenon.

The present publication grew out of two conferences which were organized by the ICA Education Centre for South-East Asia and which had as their main theme the problems of agricultural cooperative credit. These conferences were held at Lahore, Pakistan, in 1962 and at Baguio, Philippines, in 1963, in collaboration with the ICA member organizations in the two countries, namely, the West Pakistan Cooperative Union and the Central Cooperative Exchange, Inc., respectively. Most of the papers have, however, been rewritten so as to give the publication an overall balance. Some papers, such as those of Dr. Hoyndon, Mr. Cheriyan and Dr. Brossard were specially invited, while Professor Gadgil's paper, originally published by the Maharashtra State Cooperative Bank in India, has been reproduced through the courtesy of that organization. I would like to take this opportunity of thanking the authors who have so willingly put in the extra work which was required in redrafting the papers. Thanks are also due to Mr. J. M. Rana, Co-Director of our Education Centre, who was responsible for the planning and editing of the entire publication. I may conclude by expressing the hope that this publication will provide the reader an insight into a variety of approaches to problems of agricultural cooperative credit which have been developed in countries for which the ICA Regional Office and Education Centre for South-East Asia work.

S. K. SAXENA
Regional Officer

12 *May* 1967

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countries the bulk of credit is being used for supporting production along traditional lines or for meeting family expenditure —this evidently contributes hardly to the increase in land productivity. The position, however, is quite different in the agriculturally advanced countries of Asia, namely, Japan, China (Taiwan), and the Republic of Korea. In these areas, the supplies of institutional credit are relatively larger [over $ 200 per hectare of land under cultivation in Japan and China (Taiwan)], production is largely market-oriented, yields per hectare are higher, and credit institutions cover almost all farmers and meet most of their short-term credit needs for production.

Sources of Institutional Finance

Institutional finance, generally, is available through government departments (including developmental or financing institutions established by governments), commercial banks, and cooperatives. The credit available through government departments is very limited in volume and its scope is often restricted to special situations like provision of relief to victims of natural calamities and settlement of landless labourers and tenant farmers on newly reclaimed lands. Direct lending to farmers by government departments for covering expenses of current production has hitherto been limited, except in China (Taiwan) and Indonesia. In the former case, such credit sometimes has been channelled through cooperatives; in the latter case, cooperatives are reported to be the main agency through which credit is channelled to farmers.

So far as commercial banks are concerned, their main role is in the financing of trade; the credit available for supporting production is limited and is confined to estate agriculture (as in Ceylon) or to areas where production is largely for the market (for example, in some parts of Thailand). In the Philippines, a government-owned commercial bank (the Philippines National Bank) and a few government-supported private commercial banks (e.g. rural banks or development banks) have started providing short- and medium-term credit for production, but their relative importance as a source of agricultural credit is small.

Cooperative Finance—Its Main Features

Cooperatives then are the most important source of institutional credit available to the farmer. In many of the Asian countries (Ceylon, India, Japan, the Republic of Korea, the Republic of Vietnam), the agricultural credit available through cooperatives accounts for four-fifths or more of the institutional agricultural credit. In China (Taiwan), the credit directly provided by multipurpose cooperatives, called farmers' associations, accounts for about one-third of total institutional credit, and the bulk of the balance is disbursed and recovered by these cooperatives as agents of various government bureaux.

Present Status

But how are the cooperatives faring at present? To begin with, the existing organizational structure, which reflects the influence of historical, economic, and other factors, shows a few common features. At the base, there is in every country a primary cooperative which provides credit to the farmer. At the apex of the structure, there is a financing institution. In between these two levels, that is, at the district or prefectural level, there may be a district cooperative bank, a prefectural union (as in Japan), or a branch of the apex financing institution. In some countries, there also exist cooperative unions in between the primary society and the district-level financing institution which scrutinize loan applications and assist in disbursement and recovery of loans from primary societies.[2] To put it in another way, there is a three-tiered structure in India, Pakistan, and Japan; on the other hand, a two-tiered cooperative structure exists in Ceylon, China (Taiwan), the Republic of Korea, the Republic of Vietnam, and Thailand.

2 These exist mainly in areas where small-sized cooperatives predominate.

The question as to whether a two-tiered structure is preferable to a three-tiered structure assumes special significance in areas or countries where the cooperative structure has yet to be developed. In countries where the main role of a secondary institution is likely to be one of channelling to primary cooperatives funds acquired from apex institutions, it may, in some cases, be simpler, quicker, and operationally more efficient to open a branch of the apex institution at the secondary level rather than to organize a new cooperative financing institution. Moreover, the branch office of the apex institution, because of its greater prestige, may succeed more quickly and to a much greater degree in mobilizing local savings. It could help dispense with the need for special supervisory arrangements that might be considered desirable in the case of a district cooperative bank, for example, nomination of representatives of the cooperative department or apex bank on the board of directors of a secondary institution. On the other hand, an argument against establishment of the branch of an apex institution at the secondary level is that its "bureaucratic" set-up might be less responsive to the needs of a farming population and less sympathetic in dealing with their problems than a genuinely cooperative institution.

The Primary Society

At the operational level, there exixts, in every country having agricultural cooperative credit institutions, a primary cooperative to extend credit to the farmer. This unit epitomizes the vitality and service potential of the cooperative movement in a country. It is, therefore, proposed to examine the position of primary societies in some detail.

Scope of Activity

To begin with, in China (Taiwan), Japan, the Republic of Korea, and the Republic of Vietnam, the primary society is a multipurpose limited liability society which supplies credit and undertakes a number of supporting activities in the field of supply and marketing. In Malaysia, Nepal, and Thailand,[3] credit is supplied mainly through single-purpose, unlimited liability credit cooperatives. In between these two types are countries like Ceylon, India, and Pakistan where credit is supplied through single-purpose (both unlimited and limited liability cooperatives) and multipurpose limited liability societies.

In attempting to choose the most suitable type of cooperative, five points deserve special attention. First is the need, in the agriculturally less advanced countries, to change the character of credit from static to dynamic by combining it with advice on improvement of productivity and by arranging for the supply of needed agricultural requisites, such as chemical fertilizers, insecticides, and pesticides. Second is the need to assist the farmer to secure a better (or at least a reasonable) price for his produce by improving his bargaining position. Thirdly, arrangements have to be made to assist the farmer in obtaining supplies of essential goods at reasonable prices. Fourthly, repayment of loans must be ensured preferably through sale proceeds of the crops, which constitute the main means of repayment available to the farmer. Finally, the volume of business handled by a cooperative has to be adequate enough to ensure its viability. And in view of these and other considerations, the present thinking in the developing countries of the region seems to favour the multipurpose society as against the single-purpose society.

Area and Membership

Generally, a cooperative covers a distinct administrative area. Thus, in Japan, the multipurpose cooperative covers a village;[4] in China (Taiwan) and the Republic of Vietnam, the multipurpose cooperative covers a township; in the Republic of Korea, a cooperative covers a county with branches cover-

3 There also exist a few limited liability production credit societies in Thailand.

4 This was the position before the administrative reorganization involving merger of several villages. Now there is in many cases more than one cooperative per village, but these are being amalgamated to form a single multipurpose cooperative per village.

ing smaller areas; in the Philippines, a farmers' cooperative marketing association (FaCoMa) usually covers one municipality. Elsewhere the area of operation is smaller. In the case of unlimited liability societies, it is often restricted to one village (which usually has a very much smaller population than in Japan), while in the case of limited liability multipurpose societies, several villages may be served.

As regards membership, two points deserve consideration. One is whether non-farmers should be permitted to join an agricultural cooperative with full or restricted rights. While association with non-farmers (especially the business class) may help to secure substantial deposits, it is equally important to avoid control of such institutions passing into the hands of non-farmers. In China (Taiwan), Japan, and the Republic of Vietnam, efforts have been made to deal with this problem by permitting non-farmers to become associate or non-regular members without the right to elect officers. A second point is whether all the farmers in a particular locality should have the right to join a society. In this connection, it has to be remembered that if one multipurpose limited liability society is to provide credit and other agricultural requisites in a specified area, there may not be much justification for refusing membership to a person who is prepared to meet the necessary obligations regarding membership fees and share capital, and who represents a viable (or at least a potentially viable) economic unit. On the other hand, if more than one society serves an area, obviously it is not necessary to insist on throwing membership open to almost everybody.

While these considerations may apply from the viewpoint of a society, from the national viewpoint it may be desirable to ensure the maximum coverage, if the cooperatives are to play an important role in agricultural development. It is important to note here that in Japan, China (Taiwan), and the Republic of Korea, almost all the farmers are members of multipurpose cooperatives. The average membership is around 600 in Japan, around 2,500 in China (Taiwan), while in the Republic of Korea the number of farmers served per cooperative credit office is 4,214. In a number of other countries (Ceylon, India, Nepal, Malaysia, and Pakistan), the average membership per unlimited liability credit cooperative ranges between 17 and 41. However, the number of farmers served per multipurpose limited liability society varies between 90 and 200.

Financial Position and Operational Methods

Speaking generally, single-purpose societies, limited geographical coverage, small membership, meagre financial resources, and dependence on government or financing institutions for loan-funds seem to go together. Furthermore, the amount of loan which a farmer can secure from such societies is small and security requirements are often very restrictive (i.e. the pledging of property). For instance, in Ceylon, India, and Pakistan, loans have hitherto been granted on security of land, but the practice of granting short-term production loans on the basis of personal bonds and one or two sureties is being tried. In India, this practice has become more common in recent years.

In many countries, considerable time elapses (even a couple of months) between submission of an application and the grant of a loan. In some countries, this may be due to the fact that the secondary financing institution, which has to provide loan funds to the primary society, undertakes a scrutiny of each loan application through its own staff. Owing to limited turnover of business, the primary societies cannot afford to employ trained workers, and reliance is placed on honorary local workers.

The absence of supporting services (e.g. supply of agricultural requisites) makes it difficult to ensure that credit will be used for productive purposes, and the absence of any link with marketing deprives not only the cultivators of a better price but also the credit cooperative of control over one important means of recovery. Although some link can be established between separate credit and marketing societies, hitherto this type of arrangement has operated on a limited scale.

In a number of countries, where small-sized single-purpose societies predominate, the financial condition of a large number of societies is unsatisfactory. Thus, in India, out of 192,527 societies audited in 1961–62, 149,929 did not satisfy even minimum standards relating to quality of management, maintenance of accounts, levels of overdues, and adequacy of bad debt reserves.[5] In West Pakistan, 27 per cent of the unlimited liability societies were classified in 1962–63 as defunct or almost defunct.[6]

Very different is the picture presented by the *large-sized multipurpose* societies of China (Taiwan) and Japan. Speaking generally, these societies are able to attract substantial deposits, largely fixed-term,[7] and are fairly well-off financially. For instance, in Japan, over 91 per cent of the unit multipurpose cooperatives made a profit in 1959–60. Furthermore, these societies cover almost the entire farm population in their respective countries.

The procedures for sanctioning loans are simpler and quicker. In China (Taiwan), for example, the authority for sanctioning loans rests with the general manager of the primary society. He is guided in this work by the maximum credit limits fixed for each member by a credit rating committee on the basis of property owned, past repayment record, integrity, etc. The time taken to grant loans may vary from one to seven days. In Japan, also, credit limits of individuals are prepared annually, and the time taken to sanction a short-term crop production loan may vary from a few hours to a few days. In all these countries, crop production loans are advanced on the basis of one or two sureties, without collateral.

It should also be noted that the agricultural requisites needed by the farmer are supplied by cooperatives on loan[8] repayable

5 *Statistical Statements Relating to the Cooperative Movement in India,* 1962–63, Reserve Bank of India.

6 *Annual Report on the Working of Cooperative Societies in West Pakistan,* 1962–63, Government of West Pakistan, Lahore.

7 Over 60 per cent of the deposits in China (Taiwan) and Japan are fixed-term deposits.

8 In China (Taiwan) and the Republic of Korea, this is undertaken by cooperatives

generally through sale of a specified commodity, usually rice. The relatively large volume of business handled by these multipurpose cooperatives requires employment of adequate staff. Thus, in Japan, a multipurpose cooperative employs on an average 1·2 regular directors (who receive some remuneration) and 12·8 other office workers. In China (Taiwan), a farmers' association employs on an average 23·3 persons, of which 5·1 are in the credit section, 7·5 in the marketing and supply sections, 1·4 in the manager's office, and 2·4 in the administrative section. Recovery of loans is not a problem of cooperatives in these countries.

The mere existence of a large-sized multipurpose cooperative employing sizable staff is, however, no guarantee of successful working. For instance, in Ceylon, on 30 September 1963, the loans outstanding of the multipurpose and agricultural production societies stood at Rs. 24·8 million, and of this the amount overdue was Rs. 18·2 million.[9] In the Philippines, on 30 June 1960, the overdue loans of the FaCoMas were around 82 per cent of the loans matured. More recent figures of overdues are not available. However, the loans outstanding at the end of 1963 did not differ materially from the corresponding figure for 1961.[10]

In the fifties, Japan also faced the problem of improving the condition of agricultural cooperatives, and the steps taken included grant of subsidies by the government for increase of capital, increase in area of operation, merger of cooperatives, posting of resident advisors for long periods to help improve the working procedures and systems.

Some Considerations Relevant to Development of Cooperatives

In developing an appropriate cooperative credit organiza-

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as agents of the Government. In Japan, part payment of the advance sale of rice is made by the cooperatives on behalf of the government.

9 In relation to the total loans granted, the amount overdue was less than 10 per cent (vide *Administrative Report of the Commissioner of Agrarian Services for* 1962-63, pp. kk 56).

10 *Cooperative and Credit Programmes in the Philippines,* Agricultural Credit and Cooperative Institute, College of Agriculture, Philippines, 1960; *Statistical Bulletin,* Central Bank of the Philippines, Manila, December 1963, p. 123.

tion, adequate allowance must be made for the special social and economic conditions as well as for the historical background. And, owing to differences in these factors, generalizations are subject to limitations. Nevertheless, a review of development in the countries of this area brings out certain elements that may enable cooperatives to acquire the necessary vitality for playing an important role in the growth of agriculture. These are briefly set out below :

(*i*) An essential condition to produce an atmosphere of dynamic credit is that techniques for improving productivity should have been developed and convincingly demonstrated to the farmer. In other words, there should be a well-developed extension service, supported adequately by research stations, and working closely with the cooperative organization to create amongst the farmers a *demand* for improved agricultural requisites and implements.

(*ii*) The cooperatives should be able to provide adequate and timely credit to cover the production as well as essential needs for consumption on the basis of the repaying capacity of the farmer. It is equally important that the cooperatives should be able to recover loans satisfactorily, if possible through sale proceeds of crops, which constitute the main means of repayment; and, they should cover as large a proportion of the farm population as possible.

(*iii*) Multipurpose cooperatives combining credit, supply, and marketing offer a possibility of dealing with these problems in an integrated way. The experience of some countries shows that such societies have a better chance of functioning as viable units. Apart from other things, they can employ suitable staff to manage their affairs efficiently. An alternative—though somewhat less attractive in the light of the hitherto limited experience—is to have several single-purpose societies dealing with credit, marketing, and supply, and working in close coordination. However, in many countries, one reason for weak primary credit societies is their small geographical and membership coverage and limited turnover of business. In some cases, this approach may raise the problem of making three primary societies viable instead of one. And, moreover, the availability of personnel with the requisite experience is limited.

(*iv*) It is important, however, that the cooperatives should function in a favourable economic and legal environment. For example, it is advantageous to reduce the risks involved in handling supplies by enabling the cooperatives, wherever possible, to handle these as agents of the development departments of the government. Again, in the case of marketing also, if the cooperatives act as agents of the government for the main food crop, or if the competition with private trade is restricted in respect of specified areas or crops, cooperatives seem to do well.[11] Similarly, it is desirable that the legal framework should be such as would enable the society to recover speedily its loans from wilful defaulters and with the least expenditure.

(*v*) Finally, it would be useful to consider the desirability of establishing, in countries where they do not already exist, national-level institutions of cooperatives responsible for assisting in the task of improving the operational efficiency of cooperatives. Such institutions could undertake : (*a*) studies of existing operational methods and procedures at national and/or regional levels in order to evolve improved methods and procedures; (*b*) to make available to the cooperatives on short-term basis—four to eight weeks—trained personnel who would study on the spot the operational methods and problems of a cooperative and suggest ways of effecting improvements; and (*c*) to assist the staff of the cooperative in the adoption of recommended practices and procedures.

11 This seems to hold good in the case of food crops. However, there are several examples of cooperatives handling efficiently the marketing of cash crops even without much support from the government.

D. R. GADGIL

Cooperative Finance in India—Some Problems

A NUMBER OF POLICY ISSUES EMERGING IN COOPERATIVE developments in India deserve serious consideration. One of these is the concept of the crop loan and its implementation. The crop loan first emerged as a device to take cooperative credit a step beyond the stage where the credit of a cultivator, whether explicitly related to the value of owned land or not, depended largely on his real assets. In the earlier system, cooperative loans were made for a twelve-month period and were renewable; the utilization question was not properly considered while advancing loans, also fairly severe limits on loans to individuals and to societies as a whole were laid down. The result was that in almost all cases the credit extended by cooperative societies did not serve fully the needs of the member. The cooperative credit system could not hope, under the circumstances, to replace the moneylender-trader system.

Crop Loan System

The crop loan system sought to transform the situation in two directions: first, by shifting the emphasis from real property to the crop as security it brought in even pure tenants as potential borrowers; and, second, by relating the size of the loan to the requirements of business, it emphasized productive purpose. At the same time, the crop loan did away with the older, highly restrictive limits on credits to individuals

Courtesy: Maharashtra State Cooperative Bank which had originally published the article in the form of a brochure.

and societies. The new basis, however, resulted in emphasis on production credit and benefited most those classes and groups whose requirements of this type of credit were relatively large. Therefore, in considering the operation of the existing crop loan system, it is necessary to distinguish between defects which are inherent in the system and those that are incidental to its operation and are hence remediable.

In relation to the latter type, the main problems are ensuring that the loan is used for the purpose for which it is granted, and that repayment is assured at the time of, or soon after, the disposal of the crop on which the loan is secured. The system of giving a large part of the loan in kind was evolved in order to ensure proper utilization.[1] The objection to the entire loan being given in cash lies in the danger that insufficient money will be utilized for production through diversion of the loaned funds to non-production needs. Finding a successful system of division of crop loans in cash and in kind presupposes the possibility of isolating the items of production inputs which are universally required and whose normal level could be generalized and incorporated into a system. It further raises the problem of ensuring timely supplies of agricultural inputs from reliable sources.

Another device to secure proper utilization of loans is through instalment payment. However, the division of a loan into cash and kind components, which are themselves given in instalments, implies a close adaptation of the division and instalments to requirements of cultivation and an efficient administration of the loaning and supply system. Thus the crop loan system, whatever its originating impulse, becomes with proper development an elaborate system which goes far in the direction of supervised credit.

As for repayments, the crop loan implies establishment of congruence between the maturity and disposal of crop and the recovery of the corresponding part of the loan. As the charge is

1 Theoretically, it should not matter if a cultivator uses any part of the total resources available to him for either production or consumption needs as long as both needs are satisfied.

on the crop, the repayment has to be closely linked with disposal of the crop. Where such linkage is possible within the overall cooperative system, the crop loan system can work fairly successfully. Where this is not so, there should at least be insistence on repayment of an appropriate part of the loan at a time not too distant from the time of the crop disposal, on the security of which the loan was extended.

Logically, a developed crop loan system thus involves a full analysis of the credit requirements of a cultivator, an appropriate administration of the cash and kind supply, and recovery through sales or immediately after. If such a system can be administered in the required detail, it would also make available data needed for its proper structuring and for continuous agricultural and operational improvements.

It has to be realized, in fact, that even in the case of the cooperative sugar factories, where all the necessary conditions are satisfied, neither is the system operated in detail nor are the data collected, analyzed, or utilized as required. The main initial contribution of the crop loan system here has been that of loosening the fetters of the older structure and enabling cooperatives to meet more fully the credit needs of the cultivators. In actual administration of the system, for the most part, the total borrowings continue to be treated as one lump sum, with little pretence at providing supply only when needed. On the other hand, recovery, instead of being tied to each crop and its disposal, is expected on the average at the end of the agricultural year.

This should not lead one to ignore the very real advance in the functioning of cooperative credit brought about by the acceptance of the concept of the crop loan. An essential objective and stage in cooperative progress is the replacement of the moneylender-trader system. An effective inroad in that system was made possible through the crop loan idea. This enabled fairly adequate credit being given to large groups, such as substantial farmers of commercial crops, and this made, in the moneylender-trader system, a dent of a size and quality which was otherwise unimaginable.

Inadequacies of the System

This partial initial success of the crop loan system has itself brought to the fore a large number of complex problems. The numerous defects pointed out in the operation of the crop loan system mostly derive from insufficient progress made in implementation.

Implementation requires that a fuller understanding of the implications of the crop loan system must be achieved among all those connected with the cooperative credit system, the borrowers as well as banking personnel who direct and conduct operations of financing agencies at all levels. Even more, it requires considerable enlargement and improvement of the staff of the financing agencies. The required collection and scrutiny of information, the preparation of elaborate individual loan papers, and the administration of loans and their recovery at appropriate periods would not be possible without this step being taken. This conclusion raises two important issues : (*i*) whether the considerably increased expenditure on staff is financially and otherwise possible for cooperative financing agencies at all levels and in all tracts; and (*ii*) whether in the future development of the cooperative credit system the administrative tasks resulting from such elaboration could all be sustained by the cooperative financing agencies alone. Before dealing with these issues, it may be useful to turn to problems outside the strict application of the crop loan system.

The report of the Committee of Direction of the Rural Credit Survey of the Reserve Bank of India, on which the present policies are largely based, did not adequately deal with certain questions. In the main, these are the problems of uneconomic farmers, the problem of consumption loans, and the problem of the cooperatively backward States. An important finding of the Rural Credit Survey Committee was that the larger and more intensively developed the agricultural production activity of the cultivator, the larger proportionately was his need for production credit. The crop loan system could, on this account, meet more or less fully the needs of the more substantial cultivators in most areas, where important commercial crops were grown. This class of cultivators usually had some resources of their own and the crop loan limit was worked out on a generous enough scale to satisfy their normal credit needs. The manner in which the share-holding contributions by cultivators to a number of processing factories in Maharashtra State were met through crop loans, indicates the extent of the margin which, on an average, was made available through crop loan limits to substantial cultivators. On the other hand, the smaller cultivator and the cultivators who grew less costly crops, because of soil or climatic conditions, did not equally benefit from the crop loan system. This was because production credit needs played a relatively small part in their total requirements of credit.

Creditworthy and Non-creditworthy Farmers

The Rural Credit Survey Committee also ignored the distinction between the creditworthy and non-creditworthy farmers which had been drawn by the Agricultural Finance Sub-Committee of 1945, thus following the example set by the Bombay State Cooperative Bank in its policy resolution of 1948. The distinction between the creditworthy and the non-creditworthy made by the earlier Committee is, no doubt, important, but it has significance only if concurrently a programme of rehabilitation for the non-creditworthy is devised and implemented by the State. In the absence of such action, the distinction loses meaning because the cooperative credit organizations themselves are in no position to undertake a rehabilitation programme or to give special assistance. The Board of the Bombay State Cooperative Bank was faced with this problem in 1948 when it came to define the amount of loan to be advanced under the crop loan system to various classes of cultivators. By linking the quantum of the loan to the acreage under crops, the Board decided not to exclude any farmer, however small. This was because the definition of a class of farmers below a certain level of holding as non-creditworthy would only have resulted in denying all credit to very large numbers of small holders. This would obviously have been unfair and contrary to cooperative developments so far. Therefore, no differentiation was made in the application of the crop loan system among the various types of cultivators by size of holding or business.

Of course, the very definition of crop loan system itself led to wide variations in the amounts of crop loan to which an individual farmer was entitled. The small holder got a loan which was related only to his small crop acreage, and, if he grew only cereal and pulses, the amount of the crop loan to which he was entitled was small indeed. It was argued that even the uneconomic farmer would be able to repay this small loan. However, not sufficient attention was given to the consequence that the credit obtained by these classes of cultivators was much inadequate. For requirements of credit other than those for agricultural production, the crop loan system made no provision; therefore, this system, however elaborately or properly administered, could not deal adequately with the credit problem of these classes of cultivators. The Rural Credit Survey did pay some attention to consumption aspects, but the recommendations it made were obviously not likely to meet the needs of the small farming community.

The Crop Loan Evaluation Committee of the Bombay State Cooperative Bank tried to surpass this difficulty by expressly including expenditure on subsistence of the farm family during the off season as a part of the overall crop loan limit. This was tantamount to broadening the concept of the crop loan and almost to changing its character. It can be argued that if a farm family incurred cash outlay to feed itself during the off season, this was as essential to growing the crop as any production expenditure. Moreover, if this necessary outlay led the family to contract debt from another credit agency, the operation of the crop loan system was put in danger. However, the acceptance of such reasoning meant adopting a view of the crop loan which related the loan to the broader requirements of the farm family rather than to the direct production credit required by the crop. Another problem raised by this procedure was that of the relation between the loan and the proceeds obtained through sale of crops. As long as the crop loan was strictly limited to the direct inputs required for growing the crop, the presumption was that the total value of the crop would be normally much higher than the crop loan limit. Once other expenditures, such as that on subsistence of the family, are counted in, the assumption can no longer be generally valid.

Consumption Needs of Farmers

If the cooperative structure is to serve fully the small or uneconomic farmer class and to liberate it from the money-lender-trader system, it must make credit available for all production and consumption needs of the farmer. However, if this is done, it is highly unlikely that the proceeds of sale of farm produce by the small farmer will cover his total requirements of credit. However, it is equally true that no alternative base is readily available. The difficulties are obvious. The small or uneconomic farmer, almost by definition, is not only an agriculturist producer but also obtains income from a variety of other sources. Neither supply nor recovery of the loan is in this case related to the comparatively simple calculations regarding type of crop grown and its returns, which can be put into average generalized forms. The problem would be less difficult, if the other resources of income could also, in some way or another, be linked with the operation of the cooperative organizations. If the supplementary income sources were, for example, livestock or artisan industry, a separate assessment of requirements and possibilities of repayments could be made for each activity and then the whole combined together. (This would, of course, require detailed individual assessment and programming.) Where the other source of income is wage income or remittance, its definition and evaluation become much more difficult. The financial problem of the weaker sections of the rural community then becomes in large part the problem of consumption finance of a wage-earning class. It is also the problem of production finance of miscellaneous activities about whom no generalized procedure can be formulated. It is thus not only fraught with more risk but also requires for administration a much more detailed and individualistic approach. In a sense, therefore, developments required for this purpose are in the same direction of supervised individual credit. Ultimately, the only development that can help substantially in this matter is a more close-knit organization of the small farmers in types of cooperative farming or cooperative bullock- or labour-sharing units, and of wage earners in labour contract societies. The only sure way of helping weaker sections of the community is trying to spread the network of cooperative production and labour activity among them.

Apart from the special needs of the small farmer, the problem of consumption credit needs now to be tackled explicitly by all financing agencies. It may be recognized that the only base for such credit is that of actual or potential savings. No system can be built in rural India on expectation of voluntary savings. However, it is now a general practice for cooperative financing organizations to make regular deductions for contributions to capital. In addition to or in part replacement of these, compulsory non-withdrawable deposits could be created. A certain measure of consumption credit could be given on the ultimate security of such deposits. Such a device is necessary even for the more substantial farmers for the period when they are not entitled to draw on production credit lines. This does not mean that the emphasis on production needs or objectives is forgotten or lessened, but that it is recognized that a credit system which claims to be universal must provide within itself for all needs in a systematic manner.

Problem of Overdue Payment

Attention may be paid, at this stage, to the problem of overdues, which is engaging greater attention in recent years. There is the problem of the failure of the crop which during the past ten years has taken on serious dimensions in parts of Maharashtra. In a number of districts, crops in certain areas have failed for a successive number of years, making full recovery of loans very difficult. It is inevitable that the greater the progress made by cooperatives towards supplying adequate finance, the greater will be the extent of non-repayment in the event of crop failure. As yet no procedures have been fully established to deal with this question. It is necessary to arrange both for proper enquiry and a prompt extension of relief in the event of a significantly serious failure of any crop. The better such a system of relief is, the more insistent can be the demand for fullest repayment in normal circumstances.

A question which has never yet been considered in this context is the possibility of a measure of relief extending beyond postponement of repayment. Cooperative banks and societies are expected to look after the weaker among their members. At present cooperative banks give rebate to good customers, and this is right. As yet they give no rebate in interest to those who have crop failure during successive years. It might serve as a valuable gesture to do something in this direction for the more serious cases. The risk fund necessary to give more substantial relief in the worst cases, to which the Rural Credit Survey Committee referred, also needs to be set up.

The other point that needs consideration in connection with overdues is the concept of complete repayment at a specified time. It was no doubt necessary in the earlier stages of the cooperative movement to guarantee that at an appropriate time in the year the cultivator got rid of his loan completely. It is proper also that the practice of fictitious repayments and early renewal be discouraged. However, when the cooperative becomes the only source of finance for a farm family and when the total loan operations become large, the question may be raised as to whether it is proper to expect that an account will be completely cleared off at one particular point in the year. It is necessary in this context to look realistically at receipts and expenditure flowing in the economy of the individual cultivator. If, during the production season, the borrowings and the production outlay of the cultivator are increasing, at the end of the production season he has not only the repayment but also the accumulated consumption expenditure needs to meet. It is well known how consumption outlays in rural India go up in the post-harvest seasons. If the cooperative system, in fact, fully finances the cultivators, the outlays on consumption needs, which he has in part to meet out of the proceeds of sales of crops, are a feature for which some allowance must also be made. Suppose, for example, that in a fully elaborate system of supervised credit, allowance is made for a certain outlay on important consumption items in addition to requirements for different production purposes. It would then happen that at no time in the year would the account ever be brought to zero. The banking account of a company with continuous production operations is never expected to be fully repaid at any one point of time. A good banker watches the accounts to see that they are active in an appropriate manner and that in the slack season, if there is one, outstandings are brought down fairly low. There is, however, no insistence on complete clearing of debts in the renewable limits. When progress is made in the direction of giving full credit and covering consumption needs together with production needs, a revised view of definition of overdues may have to be taken. The present formula of complete repayment leads to the need for making artificial adjustments in many cases, and, therefore, a more satisfactory index of the behaviour of accounts may have to be established. In this connection, it is necessary to develop proper approaches and procedures for supervising individual credit.

It will be evident from the above that I do not take an alarmist view of the increase in the volume of credit, and do not agree that it is necessary to withdraw from the crop loan concept. Current developments may have some undesirable features but these developments are basically in the right directions. At the same time, they present a challenge which can be met only by thinking out carefully in advance the principles and procedures of future action. As set out above, the main requirements are a fully elaborate implementation of the crop loan system and a comprehensive definition of cooperative credit which will take into account needs of all classes. These developments are possible only if a much more detailed administration and supervision of credit reaching down to the individual family is provided. Experiments with some variations on the crop loan theme are currently being made in some districts of Maharashtra. These relate chiefly to an increase or decrease of the crop loan limit in individual cases to bring about a closer linking of cooperative credit with marketing. This, together with an increase in the number of processing units, may encourage better performance. There is also the possibility, in some areas in Maharashtra, particularly in the areas of the cooperative sugar factories, not only to elaborate the working of the crop loan system but also to watch closely its effects on production and to use it as an incentive to greater productive effort. However, all this experimentation has scope chiefly in areas of intensive cultivation of commercial crops and will not help to solve the problems of the uneconomic farmers and of the predominantly foodgrains areas. Moreover, in these latter contexts the resources of the financing agencies, both the primary societies and the district central banks, are among the lowest.

Supervised Credit

Appreciation of this situation raises the issue of the extent to which financial agencies may be expected to act by themselves in further elaboration and experimentation. The development of a detailed system of supervised individual credit has significance not only for financial operations but also for the entire process of development planning. Therefore, all agencies must help in the process. Beginnings have been made in Maharashtra in two directions: first, in the joint planning and implementation of annual targets by the cooperative department and the cooperative banks; second, in the attempts made to coordinate fully the work of the cooperative central banks and the cooperative land development banks. But the work must go much farther. It must take in all development agencies in the field at the block and the district levels. Theoretically, something of this sort is presumably being attempted in the package district plans. In practice, very little has been accomplished anywhere. The view most widely held is that making a large loan is a development activity, while recovery is a purely financial one. Unless this attitude is changed and the total operations of the financial system are looked upon as integral to the development plan and a shared responsibility of all, no further progress appears possible. Also, it is only in this manner that the personnel required for the working of an elaborate system of supervised credit could be made available.

All the above assumes a certain minimum development of the cooperative structure. Admittedly, this is non-existent in a number of States in India. The problem of future developments in these States must be considered, at least initially, somewhat apart from the programme sketched above. It must be considered a serious lacuna in the post-rural credit survey programme and perhaps of the recommendations of the Rural Credit Survey Committee themselves that this problem was not separately tackled. The main difficulty in this context is the great weakness of the primaries. Therefore, a beginning has to be made with building the structure from the top. The situation has, so far, led merely to perpetuation of the control of the State and its officials over cooperatives at all levels. A breakthrough can only come when an alternate, more practicable approach is conceived. Although I have not sufficient knowledge of conditions in these States to think through this problem, I shall, however, put forward an idea merely to illustrate what I mean by an alternative approach. It may, for example, be taken for granted that it is impossible at this stage to build up directly cooperative primaries in sufficient numbers. If so, the district cooperative bank may be taken as the initial operative unit. The vital requirement is that a genuine cooperative organization should be built in these areas. And it should be the main task of this organization to promote, supervise, and direct the operations of primaries so that they grow up in time as genuine cooperatives.

In the transition stage, as formerly happened in all States, the district cooperative bank could deal even with individual cultivators in the absence of a proper primary structure. A good deal of improvization and unorthodoxy may be permitted, provided a genuine cooperative nucleus is created and it works to proliferate its activities. Without some such operational approach and concept, the present stalemate in many States appears likely to continue indefinitely.

Finally, some observations may be made in relation to the role of the Reserve Bank in future developments. The Reserve Bank has been an active agent in promoting the development of cooperative organizations during the last decade. It has done this according to a set pattern and through its inspecting mechanism and the terms and conditions of its financial assistance. The success achieved has been remarkable, but it appears as if the limit of advance, through these means, has been almost reached. Those who shape cooperative policy of the Reserve Bank have to address themselves to two sets of questions. First, what is the new orientation of policy to be ? This has to be decided jointly by non-official cooperative opinion and the authorities including the Central and State governments and the Reserve Bank.

The second issue, which must be determined mainly by the Reserve Bank itself, relates to the change in the approach and methods of the Bank. On this only some general observations can be made. First, it appears that it is no longer appropriate to adopt a uniform all-India policy. Possibly, even some aspects of the earlier programme, e.g. the large-sized society, were too generalized. Henceforth, different programmes of action must be evoked for different States in accordance with their existing conditions and the experiences of the last decade. This will be possible only with a changed approach on the part of the Reserve Bank of India. Today, cooperative organizations and governments of States study the Reserve Bank terms and conditions of loans only for achieving the greatest formal compliance so as to obtain the largest measure of assistance. The Reserve Bank is able to do little even if it is fully aware of the frequently large difference between reality and facade. The situation can be met only if there is real understanding between the Bank, the non-official cooperatives, and governments of States. No doubt, a framework of generally applicable terms of financial assistance will have to be retained. But within this broad frame, programmes of immediate action for each individual State or region will have to be formulated, and adjustments in the general scheme will have to be allowed in individual cases. Reserve Bank officials must have informal contacts with, and intimate knowledge of, those in charge of cooperative organizations and must be able to function in an informal advisory capacity.

DARIO B. BROSSARD

Supervised Agricultural Credit Combined with Cooperatives and Agricultural Extension

According to its constitution, FAO's third objective is "bettering the conditions of rural populations." Indeed, all the activities of FAO contribute to this end. By assisting member governments to increase production and to improve the distribution of food and fibres, to make proper use of timber resources, and to raise levels of nutrition, FAO helps in bettering the standard of living of rural populations. However, it is not sufficient to make only technical knowledge available; it is necessary also to induce rural people to participate actively in practical programmes and share in their benefits as well as in the responsibilities involved. To enable farmers to participate, it is essential to provide them with the necessary knowledge and means, by way of education, advisory services and credit, as well as to promote among them the development of rural organizations of self and mutual help.

"Bettering the conditions of rural populations" has been a challenge even for the most progressive governments of the newly developing countries where most of the population is rural. The problem of the small farmer is a very complex one to which a great variety of factors contribute; for example:

(1) Inadequate systems of land tenure, land use and land occupancy; uneconomic farming units, fragmentation of holdings and a large proportion of share-croppers, all of which

tend to minimize a farmer's net income and to stultify initiative.

(2) Chronically low output, the result of traditional, often primitive and inefficient, methods of farming.

(3) Lack of incentive to farm above subsistence level because markets for produce are either totally lacking or too distant and/or unreliable.

(4) Little knowledge of or contact with modern business methods and with banks because rural people often differ in culture and social organization from economically more advanced groups; in many cases they are even suspicious of government officials.

It might be added that poverty is normally associated with illiteracy and ignorance, thus often engendering prejudice against new methods.

Where these conditions prevail, credit cannot of itself be a remedy. It may not even be the most important requirement for economic and social improvement, but it is one important element in an integrated approach, which also covers other aspects such as advisory services for improving production, nutrition, health, home environment and, in many cases, marketing, transport, land tenure, resettlement, and farmers' organizations. Credit is an essential factor if the other approaches are to succeed. It should, however, be accompanied by an appropriate type and amount of technical supervision in order to ensure that it is effectively used to increase production and income on the one hand, and to improve living conditions on the other.

So far, the main methods employed to reach the farmers, especially the small ones, with credit facilities and make advisory services more effective and less expensive have been: (*a*) cooperative credit or multipurpose cooperatives; (*b*) local credit committees; and (*c*) supervised credit.

Credit or multipurpose cooperative societies have been successful in most of the advanced countries in Europe, the United States, and Canada; Japan also is a striking example of a sound, well-developed cooperative movement covering almost all aspects of farmer's activities and rural life. In a number of newly developing countries, particularly in Asia and the Far East, credit and marketing cooperatives are being developed under government sponsorship and guidance; and in all these countries the cooperative movement is attempting to build a self-supporting financial structure.

Rural credit committees, composed of people well known to the farmers and favourably accepted by them, have also been successful in some countries, e.g. Costa Rica. The five committee members in Costa Rica are appointed by the managing director of the agricultural bank. A representative of the bank, usually the head of its local credit agency, acts as executive officer to the committee, takes part in the discussions but has no vote. The committees themselves consider and decide on the application of loans. They receive full collaboration from the extension service.

Rural credit committees, in some cases, might be entrusted with responsibilities somewhat larger than those strictly related to their actual functions and might be the nucleus of a future cooperative organization. In this case, however, special training and guidance would be required.

In other countries, particularly in Latin America (Bolivia, Brazil, Honduras, Mexico, Paraguay, Peru), and in Asia and the Far East (India, Thailand, the Philippines) supervised credit programmes have been organized to provide, jointly, credit, farm supplies and agricultural extension (including home economics).

In India, the Indian Cooperative Union is experimenting with a small-scale programme of community development and supervised credit which has promising prospects. Also, on a much larger scale, the Government of India, with assistance from the Ford Foundation, has launched a much larger programme in each of the 15 States (Intensive Agricultural Districts Programme), which incorporates many of the basic principles and techniques of supervised credit. It seems that whenever possible the best approach for most developing countries would be a combination of the cooperative scheme, the supervised credit programme and the extension service.

The Main Features of Supervised Credit

The system of supervised credit is not an ordinary banking credit system, since it depends mainly upon education work of agricultural officers or extension workers who assist the farmer to plan and carry out his work and to market his produce; and upon home economics officers (usually women) assisting the farmer's wife in household affairs. In fact, this system of credit depends basically on the influence exercised by the field staff over the farmer, his family, and the rural community in which they live. They primarily are responsible for its success or failure.

At the initial stage of a supervised credit programme, the granting of loans is based on a "farming plan" which is prepared by the field staff in collaboration with the farmer and other members of his family.[1] The purposes of the loan are clearly described in the farming plan of each unit. In preparing such a plan, due weight is given to the relationship between size of loan, size of income and repayment possibilities, since credit granted inadequately to the proper attainment of the plan involves waste of efforts and endangers the whole programme. If the farmer's actual credit needs prove too large to be supported by his estimated increased production, other methods of assistance are required, such as an increase in the size of his farm, or a dislocation of part of the farmer's family to new agricultural areas, or to supplementary activities within or without the programme area. Later, when an increase in the farmer's income has been obtained, loans should be based on an integrated "farm plan," which also covers improvement of home, health, and nutrition.[2]

1 In countries where tradition does not allow for male supervisors to contact the entire family, and where the wife is not accustomed to discussing family problems in the presence of the husband, provision may have to be made for separate consultations in making out the farm plan. On the other hand, experience indicates that there should be some way of having the wife contribute to the plan in order that the supervised credit may be effective.

2 Farm and home planning involves: analysis of the farm and family resources

In the initial phase of a supervised credit programme, more emphasis should be given to such economic aspects, as increasing the farmer's income through introducing one or two lines of more and better production (e.g. cash crops) in order to provide a more receptive attitude and a favourable basis for social improvement. Experience has shown that once the farmer's income has increased, many other aspects of social improvement and community development can be taken up.

As the programme expands to new lines or to other regions, a few farmers, strategically placed in each area or community, are selected and a carefully drawn-up farming plan is prepared for them. These selected farms will serve as demonstration farms for the area. Group education will then gradually replace, though not eliminate, individual contacts in order that a much larger number of farmers (borrowers and non-borrowers) can benefit from the programme.

Supervised credit in general can operate without full material security given by the farmer; the type of security required by a supervised credit programme must be within the actual or potential possibility of the farmer and must be complemented by supervision and technical guidance. The use of funds is guided rather than controlled. Supervision and guidance are exercised over the borrower both as a farmer and a householder.

The repayment of the loan is related to the periods of income of the farmer and not to an arbitrarily fixed date; the schedule

determining productive capacity, testing of alternative enterprises and practices, determining the amount of credit required for introducing the improved practices and a realistic schedule of the farmer's potential to increase production and repay the loans advanced.

In other words, the farm plan serves as the basis for advising the farmer on improved agricultural techniques, as well as for deciding how much money is needed for what purposes, and, financially, how the loan will be repaid. Once the plan is drawn up and the loan is approved, the follow-up or on-the-farm supervision provides each farmer with guidance needed for putting the plan into effect and insures utilization of the loan for the purpose for which it was intended. (*The Role of the Technician in Farm Planning*, paper by Dr Allie C. Felder, September 1961, Indian Cooperative Union, New Delhi, India.)

of repayments must be carefully arranged, and the money for the purpose must come from the increased cash income derived from the implementation of the farming plan. In fact, the farming plan aims at an income sufficient to repay the loan and the depreciating capital goods, and also sufficient to provide the family with additional funds for raising the standard of living, as well as for savings or capital investment. Thus, the amount of income and the way in which it is used becomes a crucial point in both the planning and supervisory processes.

Instead of being a mere borrower, the farmer is brought under the broad educational programme which aims at improving his methods of farming, home management, and the living conditions of his family. The loans are merely a means towards an end, an instrument to assist in the basic educational work. This work is both individual and collective, since it is extended to an entire community or group of farmers, whether or not they are among the borrowers. Emphasis is put on self and mutual help as the best way to overcome various problems common to all farmers of a community. A successful education scheme can prepare a sound basis for the organization and development of cooperative societies which, in turn, after reaching a certain stage of development and experience, may take over some of the services actually performed by the supervised credit programme. The development of cooperatives not only lowers the cost involved but also gives, in the long run, a better foundation and more stability to the programme itself.

The farmer and his family, however, must be in a position to respond to, and benefit from, the programme; in other words, when they require financial and technical assistance, they must also be able to respond readily to it. In fact, supervised credit, although putting more emphasis on the social aspects of the farmer's life and his working conditions, is, in its basic concept, a programme of economic development. It is a public investment which, in the long run, is expected to bring about tangible results, though initially its benefits may be indirect only. A supervised credit programme must also select its clientele as it, like any other type of credit, should neither be confused with relief, nor should it encourage uneconomic types of farming. When proper use of existing services in the fields of cooperatives, marketing, extension, agricultural credit and community development is made, duplication is avoided, administrative costs are substantially reduced, and technical supervision is provided more economically and certainly in a more effective way.

In that a supervised credit programme offers the two services of credit and education (extension) to farmers, it is most effective when granting credit to small farmers in developing countries all over the world. Indeed, credit is often a supporting service to education. As already stated, the fundamental purpose of a supervised credit programme is not only to supply the farmer with the credit he needs and teach him better farming practices, but also to help and guide him on how to improve the living conditions of his family. The farmer and his family must be regarded as the basic unit in rural development programmes, since there can be neither rural progress nor increase in productivity when farmers are living under miserable conditions.

While the farmer's family is the working unit, the village or rural community should be the target of the programme. In each village a selected group of farmers is assisted with a view to improving their conditions and showing the local community what can be achieved with a well-prepared and coordinated plan. However, as there are some common problems which cannot be overcome through the improvement of individual farming units only, there should be, together with other welfare activities, a joint action towards the improvement of the community itself. In India and surrounding countries, there has been increasing emphasis on a village production plan which, if carried out efficiently, incorporates many of the features of the individual farming plan, such as small irrigation dams and main irrigation canals, which are considered both as a village activity and as part of the plan to support the individual efforts of farmers.

Here again, the promotion of a cooperative organization, if well planned, assisted, and guided, will perform an important collective work for the benefit of the whole community, particularly regarding marketing, storage, farm supplies, irrigation schemes, transportation facilities, as well as health, education, and recreation.

The required expenses to better the farm and the home must be financed through increased production of the farm, since if there is no increase in income, living conditions cannot be improved. However, in order to give the right assistance to the borrowers as well as to the potential borrowers in the same area, the agricultural officers or extension workers need the backing of agricultural research or at least field demonstration trials on improved farming practices, so as to enable them to carry out their advisory work with self-confidence and assurance. It should be kept in mind that the success or failure of a supervised credit programme depends on the acceptance and support of the farmers whom the programme intends to serve. On the other hand, their support will largely depend on the success or failure of the improved farming practices recommended by the agricultural officers or extension workers.

Another common problem to many countries is the lack of coordination among various government services. Very often agricultural extension, cooperative marketing and credit services, though all of them aim at helping the farmers to produce more and live better, nevertheless work without any relation to each other, and sometimes even with certain rivalry. Not infrequently, those in charge of cooperative and agricultural credit have little knowledge, training, and experience in agriculture and rural life. In such cases a clear, dynamic government policy in favour of agricultural development and the coordination of the various services concerned would be necessary in order to render a better and more effective service to the farmers and to agricultural development in general. Otherwise, the lack of a coordinated policy may result in loss of prestige, lowering of efficiency, and an increase in farmers' already existing mistrust of government officials and services.

Having regard to the problems inherent in most developing countries, as well as to the shortage of funds and trained personnel, it is advisable to start a supervised credit programme in a small, carefully selected area, on a pilot basis, which can later provide a training laboratory for personnel who will be working in other areas. After acquiring necessary experience and developing local leadership and training personnel, other areas could be taken up for similar work.[3] Such a pilot project may well provide important lessons for creating or expanding a nationwide system of agricultural credit.

Sources of Funds — The Role of Governments

The limitation of funds for agricultural development, both for capital investment and agricultural credit, is another major problem in developing countries.

The low productivity of most farmers in these countries limits the accumulation of savings which could be used for financing agriculture, and savings in the non-agricultural sectors of the economy tend to be channelled to undertakings outside agriculture. Private financing institutions are inclined to lend to more secure and lucrative types of enterprises, and show little interest in agriculture. For this reason, governments are the most important source of funds for financing agriculture, either through special public or semi-public institutions (agricultural banks, agricultural financing corporations, agricultural development banks), or by channelling government funds or at least funds guaranteed by governments through cooperative societies and/or other types of farmers' organizations. In some cases, foreign funds have also been

3 The importance of starting a new programme in a small selected area on an experimental basis, aiming at the increase of farmers' production and income, has also been stressed by the "Agricultural Production Team" sponsored by the Ford Foundation in their *Report on India's Food Crisis and Steps to Meet It*, pp. 248–9, published by the Government of India, Ministry of Food and Agriculture, and the Ministry of Community Development and Cooperation, New Delhi, April 1959.

made available in connection with foreign aid programmes (e.g. USA counterpart funds).[4]

An inquiry on how to increase the supply of funds for agricultural financing is not within the scope of this paper. It should be mentioned, however, that the promotion of rural savings can, in the long run, make a useful contribution to the increase of funds for agricultural credit to supplement funds made available by the government. Although the best methods for encouraging rural savings differ from country to country, their promotion will always be related to three main requirements: education and propaganda; the provision of incentives; and the provision of facilities which conform to the needs and conveniences of the rural people. Examples are:

(1) Direct deposits, which provide ways and means of systematic savings, especially when cooperative organizations exist which can provide for them in their bye-laws, either voluntarily, as a condition of membership, or as a lending condition in a cooperative credit society. Bank deposits have also been encouraged in many countries through rural credit agencies and/or postal savings accounts.

(2) Indirect deposits, which means deposits out of income accruing to members of a cooperative society before it is distributed. Useful amounts of savings can be accumulated by systematic provision for deposits out of proceeds of marketing farmers' produce or rebates on purchases. This is separate from provision for the building up of reserves.

(3) Share capital and reserves of cooperative societies.[5]

(4) Purchase of securities and insurance policies.

(5) Revolving capital schemes initially proposed for strengthening the financing resources of the cooperative and later maintained as an accumulated savings for the individual members.

The aim is to inculcate habits of thrift in order to increase

4 See *Sources of Funds for Agricultural Credit Institutions*, paper prepared by Paul Kohn for the Development Centre on Agricultural Credit for Africa, Addis Ababa, 1962.

5 See H. Belshaw, *Agricultural Credit in Economically Underdeveloped Countries*, pp. 69, 113, FAO, Rome, 1959.

resources not only for production purposes but also family needs in general, for example, to pay school fees or buy a sewing machine.

Marketing levies could also be considered for promoting capital formation for the benefit of individual producers, or cooperative societies, as well as for improving community life.

In any case, it should be stressed that in developing countries governments must play a leading role in the organization, financing and growth of any system of agricultural credit and in the promotion of rural savings, as well as in developing ancillary services which enhance the effectiveness of agricultural credit such as extension cooperatives and marketing. A mere increase in the quantity of funds is not likely, *alone*, to solve the problem of agricultural credit. It is a *necessary*, but not *sufficient* condition.

The broad test of an efficient system of agricultural credit will be the extent to which it promotes agricultural development by increasing the amount of capital available, by using efficiently available agricultural labour, by promoting qualitative improvements through changing attitudes and adoption of better farm techniques, and by promoting better farmers' organizations and more effective leadership.

The Role of Cooperatives in Supervised Credit Schemes

A supervised credit programme should be planned and implemented in close collaboration with the services fostering cooperative development and should be linked with existing cooperatives. Where farmers' cooperatives do not exist, their establishment should be encouraged under the supervised credit programme not only to facilitate the channelling of credit, but also to promote self-help and group work in order to enable the cooperatives, after reaching a certain degree of development, to take over management of some of the necessary services, particularly regarding marketing and storage of agricultural produce, education, supervision, and other social activities. Mexico, Brazil, and India are excellent examples, where cooperatives have been organized within programmes of supervised credit and extension activities. The field staff, both men and women, who are in direct contact with farmers and their families, can do very good work in cooperative education. For this purpose, therefore, if cooperative principles and methods are included in the curriculum of training courses for agricultural and home economics officers, a supervised credit programme can make a very important contribution to rural progress.

Furthermore, most of the technical supervision to borrowers could be done by the cooperatives themselves, after appropriate training has been given to their employees and/or members. In this way, supervision could be exercised at a much lower cost. In any case, technical and social supervision will be more effective if a supervised credit programme is implemented through a sound cooperative movement. The administrative machinery is already established and loan funds, at least part of them, may also be available. The field personnel—agricultural and home economics officers—can be selected and trained by the central body of the cooperative movement in collaboration with specialized institutions, colleges of agriculture, and appropriate government departments. The field staff would then be assigned to the primary cooperative societies which would be responsible for the programme within their area of activity. Thus it would be through the primary societies that the programme would reach the farmers whom it is intended to serve. The number of agricultural and home economics officers needed for each cooperative or group of cooperatives would depend on the physical features of the area (roads, means of transport, etc.) and the number of farmers to be served. In view of the social nature of this work, it is only fair that governments should give financial and technical help to the cooperatives to carry on such educational and advisory services.

Despite all efforts, however, there will always be some credit losses due to factors outside the control of the borrowers, such as bad weather and disease, or due to misjudgement of the attitude and productiveness of individual farmers. Until the cooperatives have built up a strong membership, cash reserve, and experience, they should not be obliged to bear any losses deriving from a programme—particularly in its first stage—which attempts to serve a large number of farmers. According to experience in some countries in Latin America, such losses may be kept to a minimum (around one to three per cent) with proper planning and supervision. In this case, a "bad debt fund" could be provided by the government during the experimental period of the programme in order to safely permit a large number of farmers to be served and to allow for accumulation of reserves by the cooperative, and while the cooperative staff and leaders gain experience.

Initially, the credit programme could start with a limited number of selected cooperatives which should be properly assisted and trained in carrying out their expanded activities. Then another group of cooperatives will be included in the programme, and so on, as experience is gained and results warrant.[6]

In any case, the success of a supervised credit programme will greatly depend on correct understanding by cooperative leaders and field personnel, not only of its basic aims and principles, but also of the procedures through which it is to be implemented. Such procedures should be adaptable to the changing conditions and particular circumstances of each country and of each area within a country. Therefore no fixed pattern can be set—nor should it be—since this would prevent the flexibility necessary for the work to be carried out.

Innovations

It should be emphasized that, if well planned and implemented, a supervised credit programme, combined with cooperatives and agricultural extension, will greatly contribute to changing the farmers' attitude towards innovations. It is well known that farmers tend to be conservative, with no great

6 See *New Approach to Agricultural Credit*, FAO Development Paper No. 77, Rome, 1964.

propensity to adopt technological improvements. However, they will adopt an innovation if they are first provided with the necessary financial and technical help to enable them to improve their farming skill and practices.

Changes in farmers' attitudes are necessary for agricultural development as well as for the success of an agricultural credit programme. Thus, the importance of combining credit with agricultural extension, cooperatives, marketing, and other forms of technical assistance, and in many areas with the multiplication of improved plants, seeds and livestock and the organization of farm supplies increases.[7]

Principles in the Light of FAO's Experience

A group of FAO headquarters and field specialists in supervised agricultural credit met in Rome with a view to exchanging ideas and formulating a policy for future FAO work. The following extract from some general principles laid down at this meeting will serve the purposes of this paper:

(1) A programme of supervised agricultural credit aims at solving the problems of the small and medium farmers who have generally no access to institutional credit. However, to ensure effective utilization of the human and economic resources available, it is necessary to submit such resources to selective economic and social criteria. Preference should be given to areas with good basic conditions for economic and social progress, and within the area to those farmers whose innate capacity and basic economic condition is such that they can readily respond to and benefit from the programme.

(2) A supervised credit programme can be a valuable supporting service for development plans and projects, particularly in the fields of cooperatives and marketing as well as for irrigation, land settlement, land reform, etc.

(3) A supervised agricultural credit programme should be implemented by stages, taking into account the characteristics of the area selected, the beneficiaries, the type of project, as well as the need for trained field personnel and the possible active support of cooperatives and rural leaders.

(4) At the initial stage of the implementation of a supervised credit programme, priority should be given to the economic aspect, i.e. to increase the farmer's income through one or two lines of more and better production (cash crops), thus creating incentive and a basis for social improvement.

(5) The selection and training of field personnel, as well as rural and cooperative leaders, in the basic aims of the programme and in techniques of supervision should be

7 See Belshaw, *op. cit.*, pp. 6, 34-41.

maintained constantly, in order to ensure the success of the programme and its effective development.

(6) The creation of new administrative machinery for planning and implementing a supervised credit programme should be avoided. Proper use of existing institutions and services in the field of cooperatives, credit, and extension should be made.

(7) Whenever possible, preference should be given to implementing a supervised credit programme through cooperative organizations. In this case, technical and social supervision may be made more effective and at a much lower cost.

(8) Any cooperative society can carry out a supervised credit programme of its own, within its area of activity, provided enough resources for the purpose are available, the cooperative staff and the leaders are well trained, and financial and technical support can be obtained from outside (government or private sources).

(9) Pilot projects, combining supervised credit with cooperatives (credit, marketing, farm supplies), and agricultural extension services may well provide important lessons for creating or expanding a nationwide system of agricultural cooperatives and credit.

A. F. A. HUSSAIN

Supervised Farm Credit: A Case Study in Pakistan

THE GROWING ATTENTION PAID TO ECONOMIC DEVELOPMENT in Pakistan has brought to the forefront the problems of Pakistani agriculture. Although Pakistan is still predominantly an agricultural country with considerable scope for agricultural development, agriculture is lagging far behind other sectors in development. In the two Five-Year Plans which the country has undertaken so far a major emphasis was placed on agriculture, yet the results have been extremely disappointing. A discussion of all the factors responsible for the stagnation of Pakistani agriculture would take us outside the scope of this paper. However, there is no doubt that one of the significant reasons for the slow progress of agriculture in the country is the absence of a sound system of financing both for production and marketing.

Although the requirement of rural credit in the country is difficult to estimate, there is no doubt that it is being met very inadequately at present. In studies conducted by the Socio-Economic Research Board of the Dacca University in 1956, and by the Socio-Economic Research Project, Punjab University, in 1955, it was shown that professional moneylenders in Pakistan provide little rural credit, their place being taken by "relatives and friends," "well-to-do people," shopkeepers, beparis and farias (trading intermediaries).

In East Pakistan, cooperatives provided only 0·39 to 1·41 per

The views expressed in this paper are strictly those of the author and do not necessarily represent those of the Pakistan Government, which he is serving at present.

cent of the credit in the four sub-divisions surveyed.[1] In the Punjab, where the cooperatives are better organized, they provided 14·3 per cent of the credit.[2] Credit provided by the government was also insubstantial. It formed 0·32 to 5·99 per cent of the total in the East Pakistan sub-divisions and 13·4 per cent in the Punjab. According to the recently published Report of the Pakistan Census of Agriculture which covers East Pakistan, the total indebtedness of the agriculturists in East Pakistan is about Rs. 930 million.[3] Since 1956, when the Dacca University rural credit survey was made, institutional credit has been stepped up by deliberate policy. However, institutional loans still form only about ten per cent of the total credit. The following table shows the position in East Pakistan.

AGRICULTURAL LOANS GRANTED BY INSTITUTIONS IN EAST PAKISTAN, 1960-62

Agencies	*Amount of Loan (million rupees)* 1960-61	1961-62
Government	8.5	25.0
Cooperatives	38.1	40.0
Agricultural Development Bank[4]	37.6	40.0 approx.

Government's role is, in fact, more important than the above table would suggest. The whole of the capital of the Agricultural Development Bank has been contributed by the

1 Dacca University Socio-Economic Research Board, *Report on the Survey of Rural Credit and Rural Unemployment in East Pakistan*, 1956, p. 57.

2 Socio-Economic Research Project, Punjab University, *Agricultural Credit Enquiry in Six Villages of Lahore District*, as quoted in the *Credit Enquiry Commission Report*, 1959, p. 7.

3 The number of farms is 6.1 million. Quite a few of these farms are operated jointly by more than one family. *Pakistan Census of Agriculture, Vol. 1, Final Report East Pakistan*, 1960. Government of Pakistan, October 1962, Tables 34-38.)

4 Previous to February 1961, two separate credit agencies existed, viz. the Agricultural Bank and the Agricultural Development Finance Corporation. These two organizations were merged into one, the Agricultural Development Bank, in February 1961.

Government of Pakistan and the provincial governments. The provincial governments are also participating in the share capital of cooperative banks and are giving loans to them.

So far as the terms of lending are concerned, the Dacca University survey revealed that non-monetary forms of interest predominate over monetary forms of interest, at any rate in East Pakistan.[5] Although the non-monetary forms of interest were developed partly to circumvent the Muslim religious taboo against taking interest, the monetary equivalents of the non-monetary forms of interest are in fact as high as the money rates of interest. Government and the cooperative societies lend at low rates of interest, generally below 9 per cent per annum. The Dacca University survey also revealed that most of the loans given by "friends and relatives" and "well-to-do rural people" were made either without interest or at "low" rates of interest, i.e. at 1 to 50 per cent per annum. However, loans given by moneylenders, shopkeepers, and marketing intermediaries were often found to carry interest rates of 50 to 100 per cent.[6] It is another disquieting finding of the Dacca University survey that only a small part of the total loan taken was utilized for meeting productive expenditure. For example, only 9 to 13 per cent of the loan was spent for meeting current expenses of farming, i.e. purchase of seeds and fertilizers, hire of labour, equipment, and payment of rent. Another 8 to 13 per cent was spent on capital expenditure on farming, i.e. purchase of agricultural equipment and livestock, construction or fencing for farm, and purchase of land. The substantial part of the loan, i.e. 64 to 75 per cent, was spent on family consumption, residential construction or repair, social ceremony, litigation, medical expenditure, and education.[7] In other words, whatever small amount of credit was available was used not for farm operation or increas-

5 Dacca University Socio-Economic Research Board, *op. cit.*, Ch. VII. The various non-monetary forms of interest are: payment of interest in terms of a pre-determined amount of paddy in addition to the principal, transfer of the use of land from borrower to the lender, commitment by borrower to sell crop to lender, etc.

6 *Ibid.*

7 *Ibid.*, Ch. VI and Appendix B, Tables 24(a)-(d).

ing farm productivity but for consumption purposes.

The structure of agriculture in Pakistan, particularly in the eastern wing, with small holdings, subsistence farming, inadequate means of transport and communication, and periodic hazards like floods and cyclones to which the farmers are subject, makes the problem of organizing efficient farm credit especially difficult. There is an acute requirement of credit of all types. Loans are needed not only for current production, but also for improvement of the farm, for helping in marketing and at times providing subsistence to the farmers and their families.

It is generally recognized that for organizing a sound system of farm credit, particularly short- and medium-term credit, the cooperative is the best agency. The Central Government of Pakistan some time ago made a policy declaration that Cooperation would thenceforward be recognized by the State as an economic sector besides the public and the private sectors. The Second Five-Year Plan laid great emphasis on the need for the rehabilitation and development of the cooperative movement at all levels. The Third Five-Year Plan which came into operation in 1965 provides for a considerable expansion in the size and scope of the cooperative programme.

The Cooperative Movement

The cooperative movement in the Indo-Pakistan sub-continent is nearly sixty years old. A start was made with the Cooperative Societies Act of 1904, and the movement expanded rapidly. The Cooperative Societies Act II of 1912 introduced a three-tier system in the cooperative movement: (*a*) primary societies at the base; (*b*) district banks and central unions at the secondary level; and (*c*) provincial banks at the top. There was a tremendous growth of the movement till 1929. However, the Depression of the thirties caused a virtual collapse. Due to the precipitate fall of agricultural prices and the wholesale defaults of members, cooperative banks and societies were in great difficulty and special debt legislation introduced by the provincial governments failed to ease the situation. Although measures were taken in the late 1930's to rehabilitate the movement by scaling down debts and providing fresh finance, it was only after the outbreak of the Second World War that any significant improvement was visible. In East Pakistan, where the movement had suffered the greatest setback, there was little improvement even at the time of Independence.[8]

At the time of Independence, the cooperative movement was in a moribund condition. On paper there were as many as 36,000 agricultural credit societies in the country (of which 27,000 were in East Pakistan), but the vast majority were not active. In West Pakistan, cooperative banks got a fillip after Partition due to the vacuum created in the field of commercial banks. At the instance of the government, the cooperatives began to play an important role in the finance of trade and commerce.[9] These activities have continued to be the main occupation of the cooperatives in that wing and it is only recently that rural cooperatives have been performing a significant role in the overall credit operations in West Pakistan.

The Partition produced little impact on the societies in East Pakistan. The East Pakistan Provincial Cooperative Bank was established in 1948 as the apex bank for the cooperatives in that wing, with 83 district banks as its members. A majority of these banks were running at a loss due to inadequate financial resources, poor management, and accumulation of bad debts. Then, some of the central banks were converted into central multipurpose societies and under a re-organization scheme 54 central banks were selected for development at sub-divisional headquarters under the Second Five-Year Plan. The most sweeping re-organization programme was, however, introduced with regard to the primary societies in East Pakistan. There was a wholesale liquidation of the existing

8 For an excellent short account of the history of the cooperative movement and its current problems, vide State Bank of Pakistan, *Agricultural Credit in Pakistan*, 1962, Chs. VI-IX. The present and following sections of this paper are based on this study.

9 *Ibid.*

primary agricultural credit societies, most of which had unlimited liability. In their place the government promoted the establishment of 4,000 new societies known as union multipurpose societies. A union multipurpose society has its area of operation extending to the boundaries of the union and is much larger in size and scope than the village society. It is supposed not only to provide loans and advances for agricultural operations but also to arrange for marketing of produce and supply of agricultural requisites and consumer goods. The vast majority of these multipurpose societies have limited liability.

The trend in the loan operations of the agricultural credit societies is given in the following table.

TREND IN THE LOAN OPERATIONS OF THE AGRICULTURAL CREDIT SOCIETIES[10]

Description	1948-49			1955-56			1959-60		
	East Pakistan	*West Pakistan*	*Total*	*East Pakistan*	*West Pakistan*	*Total*	*East Pakistan*	*West Pakistan*	*Total*
Loans advanced during the year (million rupees)	1.99	7.01	9.00	1.20	26.30	27.50	27.72	53.05	80.77
Loans outstanding at the end of the year (million rupees)	18.92	25.16	44.08	9.55	36.49	46.05	33.20	68.80	101.00
Overdue (million rupees)	14.62	6.63	22.26	7.26	9.80	17.06	5.52	15.33	20.86
Percentage of overdue to outstanding	77	26	50	78	27	33	17	24	21
Average outstanding loan per society	688	2,781	1,206	1,433	3,444	2,665	8,300	5,712	6,364
Average outstanding loan per member	24	100	43	15	108	48	42	156	83

The table shows that lending operations of the societies have expanded considerably in both wings of the country

10 *Ibid.*, p. 49.

since 1948–49. As compared with Rs. 27·5 million advanced in 1955–56, Rs. 80·7 million was advanced in 1959–60. This amount is, however, low on the basis of the average advance per society and per member. Thanks to the liquidation of old societies, the percentage of overdue to outstanding in East Pakistan was only 17 per cent in 1959–60. The considerable expansion of the loans of the societies has been due to the policy of the government and the State Bank of Pakistan of providing considerable finances to the provincial cooperative banks and the district banks, for channelling to the primary societies. However, there is still no evidence that the societies, particularly in East Pakistan, are really on a sound footing. The matter would require further examination.

Working of the Cooperatives

Most official reports provide an inadequate and sometimes misleading explanation of the reasons for the poor performance of the cooperatives, particularly in East Pakistan where their failure has been very pronounced. However, there are enough facts available from published and unpublished sources which make it possible to arrive at certain broadly acceptable conclusions.[11] One striking fact that emerges from an examination of the available data is that cooperatives in East Pakistan have failed to encourage thrift and mobilize rural savings to any appreciable extent. Before the re-organization of the cooperatives in the 1950's, few people cared to buy shares or deposit their savings in a cooperative. This is understandable because few cooperative societies showed a profit or declared any dividend. The money paid for a share in a cooperative society was usually lost. The same was true of deposits. With recurring losses and piling up of bad debts in the societies a depositor stood to lose not only the interest

11 The most searching evaluation of the cooperative movement in East Pakistan is provided by a team of two experts of the International Labour Office Asian Co-operative Field Mission, viz. Messrs A. H. Ballendux and R. A. Harper, who submitted a report to the Government of East Pakistan several years ago. Unfortunately, this report is not available for general use.

due but also the actual money deposited. The share capital in most credit societies was to a large extent nothing but a book entry made up of debits shown against new members who joined merely to secure a loan. Thus, the cooperative movement in East Pakistan was deprived of what should have been its major source of finance, namely, rural savings.

The position does not seem to have radically changed as a result of the re-organization. The following figures show the average working capital per society and per member for the year 1959-60.[12]

Provinces	*Number of Societies*	*Membership*	*Working Capital (in thousand rupees)*	*Average Working Capital*	
				Per Society	*Per Member*
West Pakistan	11,871	434,327	86,300	7,260	198
East Pakistan	4,000	783,052	39,804	9,952	50
All Pakistan	15,871	1,217,379	126,104	7,945	103

The table indicates how poor are the resources of the cooperatives, particularly in East Pakistan. Unless their resources can be greatly increased they will never be able to stand on their own feet.

The following table which shows the composition of the working capital of the societies in 1959-60 is also revealing:[13]

Items	*Percentage of Working Capital*	
	West Pakistan	*East Pakistan*
Paid-up capital	12.69	15.78
Reserves	21.49	3.69
Total owned funds	35.35	19.48
Deposits	17.10	1.91
Borrowings	48.70	78.59
Total outside funds	65.81	80.50

12 State Bank of Pakistan, *Agricultural Credit in Pakistan*, 1962, p. 48.

13 *Ibid.*, p. 46.

The table shows that in 1959–60 the percentage of owned funds to working capital worked out to be 35·3 per cent in West Pakistan and 19·48 per cent in East Pakistan. It should be noted that meagre though the paid-up share capital is, it contains a contribution by the government. It is apparent that the societies have not been able to promote thrift which is an important aspect of the primary credit societies as they have obtained the bulk of their funds by borrowings.

The consolidated profit position of societies in both wings of the country is as follows:[14]

Profit for the Year	*East Pakistan (hundred thousand rupees)*	*West Pakistan (hundred thousand rupees)*
1948–49	−7.14	+ 1.50
1955–56	+0.24	+ 5.41
1959–60	+3.15	+16.41

The table shows that the cooperatives have shown an increase in profits during recent years. In East Pakistan the situation seems to have greatly improved after the re-organization scheme was implemented. However, the accounting and audit of the cooperatives leave much to be desired and one cannot be certain if the profits are not exaggerated. However, considering the extent of the increase of the loan operations of the societies, profits are undoubtedly small.

Reasons for the Failure of Cooperatives

One of the main reasons for the wholesale failure of the cooperatives in East Pakistan has been their poor record regarding recoveries of loans. Even now, with the formation of larger-sized societies, there is a tendency for overdues to accumulate on short-term loans. When farmers are at the subsistence level, even when a loan is productively used, they tend to divert the entire output towards personal consumption instead of partly utilizing it for repayment of the loan.

14 *Ibid.*, p. 47.

Some experts feel that the most important reason for the failure of the credit movement is that it has attempted to organize credit societies among persons with no means at all instead of organizing among persons of moderate means. If subsistence farmers are to be assisted, it is essential that loans to them must be carefully given, their utilization properly supervised, and recovery ensured. It is not enough for the societies to possess certain statutory powers of recovery, but officials of the societies must specialize in the art of recovering loans, a function which they have neglected in the past. It has been suggested that the financing agency should not wait until the debtor comes to pay his dues but should remind him of the debt just at the time of the harvest, using a certain amount of persuasion to ensure repayment.

Previously, loans were given against security of crops or on personal security. After the bitter experience of non-repayment gained by the cooperatives, loans are currently given in East Pakistan against the security of immovable property, to the extent of 75 per cent of the value. While this method has limited loans to persons possessing some assets, it has improved the recovery record. Loans are recoverable in East Pakistan as arrears of land revenue and decrees are executed under what is known as the "certificate" procedure. However, societies are still generally reluctant to invoke these provisions for the recovery of overdues.

It has been rightly pointed out by nearly all commissions and committees formed to study the problems of Cooperation that the failure of the movement has been largely due to a lack of training and education in cooperative principles and an absence of leadership within the movement. Primary societies have generally been managed by untrained honorary staff. Even now with re-organized multipurpose societies in East Pakistan, most of which employ paid secretaries, there is a reluctance to pay the officials adequately. Books and accounts have not been properly kept because of a lack of trained accountants and auditors. Indeed, there has been inadequate supervision at all levels. The State Bank of Pakistan, in a recently published *Action Plan*[15] for East Pakistan, has drawn up a comprehensive programme for training of cooperative workers and adequate staffing of cooperatives at all levels by suggesting the establishment of two specialized services.

Although we have devoted our attention so far to the primary cooperative societies, because these are mainly concerned with the subject-matter of our discussion, the organizations at the higher level, namely, the district banks and the apex bank, have also important roles to play. The position of the district banks also leaves much to be desired.

The following table[16] shows the position of the cooperative central banks. Their own funds, of which a part comes from the government, are small compared to their outside liabilities.

DISTRICT COOPERATIVE BANKS IN EAST PAKISTAN

(hundred thousand rupees)

Items	1948-49	1955-56	1959-60
Paid-up share capital	46.38	46.25	30.28
Reserves	124.14	108.72	19.01
Total owned funds	170.52	154.97	49.29
Deposits	116.03	116.90	46.80
Borrowings	121.28	106.68	249.57
Total outside liabilities	237.31	223.58	296.37
Ratio of owned funds to outside liabilities	1:1.4	1:1.4	1:6.1
Advances	179.38	100.23	284.41
Societies, individuals	0.07	6.14	3.62
TOTAL	179.41	100.37	288.03

The position appears more favourable than it actually is. The drastic reduction in deposits in 1959–60 as compared to 1955–56 has been due mainly to the exclusion from the books of district cooperative banks of deposits by persons residing outside Pakistan. Overdues in 1959–60 amounted to Rs. 505 million, which is 111 per cent of the owned funds and 19 per cent of the total advances. The bad and doubtful debts

15 State Bank of Pakistan, *Action Plan for the Development of the Cooperatives and Cooperative Training in East Pakistan,* 1962.

16 *Ibid.*, pp. 59-61.

constituted 16 per cent of owned funds and 3 per cent of the total advances. Until recently, the banks were not able to show any profit and even in 1959–60 they made a profit of only Rs. 135,000. This, however, does not reflect the true position of the banks as almost all district cooperative banks are managed by the Cooperative Department of the East Pakistan government and their salaries continue to be paid by the government. The position of the apex bank, the East Pakistan Provincial Cooperative Bank, is no better. Although the bank has considerably expanded its loan operation in support of government policy, the ratio of its owned funds to outside liabilities (deposits and borrowings) amounts to 1:6. In spite of the considerable financial and administrative support given by the government, the bank has not been making any profit in recent years. During 1959–60, the bank actually showed a loss of Rs. 195,000.[17] Every year the bank finds it difficult to repay the advances it receives from the State Bank for short-term loans to the cooperatives. The provincial government which guarantees this loan has to come to the rescue of the cooperative bank by making advances out of its own resources.

Supervised Credit: A Recent Experiment

The brief account given above indicates that, although the cooperative movement in East Pakistan has been revamped in recent years and although much effort is currently being made to improve and expand its organization, the movement is still hardly on a sound footing. Although emphasis was to be on supervised credit, in practice very little is being done in this direction. A significant development has, however, been taking place over the past three years in Comilla, a region of East Pakistan. It is still considered a pilot project and, therefore, not integrated into the regular cooperative movement. This experiment, in spite of the brief period it has been in operation, appears to be a development with enormous possibilities. In the remaining part of the paper, an attempt will be made to

17 *Ibid.*, Ch. IX.

describe the main functions of the project, evaluate the results achieved so far and point out how far the lessons derived from the experiment provide guidelines for a healthy development of the cooperative movement in other areas of East Pakistan.

The Comilla cooperative experiment was undertaken by the Pakistan Academy for Village Development under the dynamic leadership of its Director, Mr Akhtar Hameed Khan. The progress of the project is detailed in three annual reports issued so far and is also featured in the Academy's monthly and annual reports.[18] It appears that, while the government took the cooperatives for granted and sought to improve their operations by a drastic policy of re-organization, the Comilla experiment made a deep study of the problem of rural development in general, and arrived at the cooperative solution as a result of careful analysis.

The Basic Problem and Solution

A study of the rural economic situation at Comilla revealed that the peasants were struggling with small holdings and that all the land which could be farmed was being worked. Nevertheless, often the land remained uncultivated due to a lack of winter rainfall. However, in East Pakistan water was plentiful during all seasons either in the rivers or in the subsoil. Either low lift pumps could raise the water from the rivers or large bore tube-wells could secure the water from the ground to provide irrigation and enable farmers to raise an additional crop. However, if water were to be led to each plot, it was obvious that a cooperative effort by all the farmers of a village was needed. Solving the problem by ordering a compulsory consolidation of holdings was ruled out. Instead, it was decided to "leave the fields alone and get people to cooperate" which eventually would achieve the same objective.[19] A

18 The most significant reports are: H.W. Fairchild and M.Z. Hussain, *A New Rural Cooperative System for Comilla Thana, 2nd Annual Report*, July 1962; Akhtar Hameed Khan and M.Z. Hussain, *A New Rural Cooperative System for Comilla Thana, Third Annual Report*, July 1963; Pakistan Academy for Rural Development, *4th Annual Report*, June 1962 May 1963.

19 Fairchild and Hussain, *op. cit.*, p. 11.

close study of other agricultural problems also led to the conclusion that a cooperative system could increase production and income in the Thana.[20] For successful cooperation it was not necessary to pool lands in the sense of collectives. "However all other factors of production, such as planning, capital, machinery, irrigation, and human skill could be pooled. The cooperative would make it possible to provide the big tools of production to even the small producer. It would enhance both his ability and his incentive to produce."[21]

Then, the problem was to decide what type of cooperative system would be really suitable. Village cooperatives had failed because members possessed very little business ability or knowledge of the principles of democratic operation. The secondary cooperatives had failed because they could not secure the cooperation of the village people. The solution, it was felt, "was to organize a central cooperative organization with efficient management and sound business skill, and then to facilitate its operations with small village groups."[22]

A village primary interest group might operate informally in the beginning, but would be formed into a cooperative society before long. This Comilla type of Cooperation is, however, completely different from the traditional type of primary cooperative society which has failed so dismally. First, the business affairs of the Comilla village cooperatives are to be handled by the central organization. Secondly, the village society will have an organizer from within the village, selected by the group, who will regularly undergo a course of training provided by the central organization. After he has been taught, he returns to the group and teaches. Thus, two institutions were set up in the Comilla experiment: one, the Central Cooperative Association; and the other, the Thana

20 The Comilla experiment is limited to the Comilla Thana, which is an administrative area composed of 13 unions (excluding the town area) and covers an area of roughly 107 sq. miles. The population in the Thana including the urban area in the last census (1961) was 217,646.

21 Fairchild and Hussain, *op. cit.*, p. 12.

22 *Ibid.*

Training Centre, where the organizers of the village groups attend adult school once a week.

The Thana Training Centre has become a highly effective means of imparting training in skills lacking in the villages, without which cooperatives cannot succeed. It trains selected members of the village cooperative in the art of management and planning, the accountant, the progressive farmer, and the machine operator. These persons attend classes only once a week, but they are required to attend continuously. The Thana Training Centre also demonstrates improved practices at the centre and supervises demonstrations throughout a large number of villages.

The Role of the Supervisor

A central figure in the Comilla project is the organizer. "He is the democratically elected manager of the village society, who teaches his village neighbour new social and economic modes, the tedious tasks of combined planning, pooling of capital, joint marketing, and shared use of machines. . . . He has a twofold duty: to be a faithful servant of the group, honest and industrious, and a loyal agent of the central association, guarding it from the blind cupidity of shifty members. Evidentally, it is an arduous job which requires strength of character and a broad view; also, if properly performed, it consumes most of his time."[23] Originally, it was hoped that the organizers would be paid by the societies. As this did not materialize, the central association has now decided to pay a small remuneration to the organizers plus a commission of one per cent on loans collected by them. As the volume of work grows, the organizers will probably have to be specialized full-time employees, fully remunerated for their work.

A striking difference from the previous type of cooperative is that before a cooperative can be accepted as an academy pilot project, it must fulfil a set of ten fairly stringent conditions. It has an obligation to: (*i*) organize itself and later become a

23 Khan and Hussain, *op. cit.*, p. 17.

registered cooperative society; (*ii*) hold regular weekly meetings of members; (*iii*) select an organizer and send him to the academy once a week for training; (*iv*) keep proper and complete accounts; (*v*) do joint production planning; (*vi*) use supervised village production credit; (*vii*) adopt improved agricultural practices and skills; (*viii*) make regular cash and in-kind savings deposits; (*ix*) join the central cooperative association; and (*x*) hold regular member education discussion. In spite of these conditions, and in spite of the fact that a society had to pass through a trial period before it was accepted, a few societies were organized and included in the pilot project. In the first year and a half, 46 primary village cooperatives were organized with a total membership of more than two thousand. Currently, the number of cooperatives has increased to 131 with a total membership of nearly 4,500. Of these 131 societies, 112 are agricultural societies and 19 are non-agricultural societies.

The Central Cooperative Association

The Central Cooperative Association at Comilla is headed by a project director who is assisted by a deputy director. There are four sections under the overall control of the project director. These are: (*i*) administration section; (*ii*) field supervision section; (*iii*) storage and merchandizing section; and (*iv*) machinery repair and movement section.

The field supervision section is the liaison unit between the Association and the member-cooperatives. The line of command from the Central Association to the primary cooperatives consists of (*i*) the project director, (*ii*) the deputy project director, (*iii*) the inspectors, (*iv*) the supervisors, and (*v*) the organizers. The first four of these categories are employees of the Central Association, the fifth, the organizer, is the employee of the village cooperative. However, the supervisors and organizers are both villagers. The overall policies of the Association are determined by the managing committee, headed by the chairman, who is the Director of the Academy. Only two cooperative societies are represented in the managing committee of nine members. This is probably realistic as management skills are still to develop in the villages and it is most important that the Central Association be able to operate a large business successfully. As time goes on there will be a case for more representation of the primary societies in the managing committee.[24]

Supervision and control of the member-cooperatives is effected chiefly through the field supervision section. The actual supervision is done by persons designated as "inspectors," who are trained government servants, experienced as workers in the village AID programme which has now been discontinued. It is the task of the inspector to assist in the training programme by taking classes for the organizers and supervisors, discussing practical problems with them and helping them perform well in the villages. The supervisor is a particularly successful organizer and is paid by the Central Association to help the organizers in his area. Usually he supervises four village societies in addition to his own. He continues to serve as the organizer of his own village cooperative. The supervisor tends to become more of a specialist than the organizer. He spends more of his time on cooperative business than the organizer.[25]

One of the important achievements of the Central Association in Comilla has been the maintenance of proper records both for itself and for the member-cooperatives. Attempts to maintain proper records and accounts at the village level have proved unsuccessful because of a lack of trained accountants in the villages who could be paid adequately out of the societies' resources. Records and accounts are now maintained at the Central Association by accountants, appointed on the basis of one for five village cooperatives. These accountants are also trained by the Association in weekly classes. The organizer in the primary cooperative also keeps simple records of receipts and expenditures. Each week the accountant visits the village to bring the society's books

24 Fairchild, *op. cit.*, pp. 24-6.

25 *Ibid.*, pp. 27-8.

up to date. The services of the accountant are ultimately paid for by the village by having three per cent service charge added to each loan. The cooperative department of East Pakistan maintains auditors with the Association to check the books of the primary member-cooperatives and of the Central Association.

In the original scheme it was contemplated that the credit needs of the primary cooperatives would be met by the existing district cooperative banks. However, it was found that many of them had poor financial resources and were merely acting as the agents of the State Bank, unable to administer a system of supervised credit which was the keynote of the Comilla experiment. Hence, in 1961-62, the Central Association decided to take up banking functions. It became the banker to the cooperative societies. The Central Association was able to persuade an important scheduled bank to establish a branch at the Association headquarters, to act as its bankers and also give it a line of credit. The involvement of a commercial bank in rural credit is something unprecedented in East Pakistan. The decision of the bank to do so was largely influenced by the sound business practices which the Central Association had been able to inculcate in the cooperatives and as a result the exceptionally good recovery record for the cooperatives. This aspect will be discussed further in a subsequent section.

Extension Work

Apart from the organizer, another key individual in the Comilla cooperative programme is the model farmer. It is obvious that Cooperation and agricultural extension must go hand in hand. The model farmer is drawn from the village cooperative as a person of intelligence with an ability to learn and to practise new methods. He attends classes once a week at the Thana Training Centre in agronomy, plant protection, fisheries, and animal husbandry. Another important part of his training consists of practical demonstration. Over 100 model farmers took their training last year and what they learnt was conveyed to nearly 5,000 cooperative members by way of weekly meetings in the villages. After the harvest of the Amon crop (winter crop) in 1962, a survey revealed that more than 1,500 cooperative members had adopted the improved methods and increased their yields by more than 50 per cent as compared with the previous year.[26]

In the current year, the scope of the Comilla project has been expanded by including two new categories of trainees: Imam teachers (persons in charge of mosques) and women. It has now been accepted as cooperative policy that every child of a member must go to school and every adult member must learn to read and write. A natural and economic solution to the problem was found by bringing the Imams within the purview of the programme by recruiting them as teachers in the village school and adult education centre. The school and the adult centre is often housed in the mosque and their maintenance is now the responsibility of the cooperatives. The children attend school in the morning while the adults attend in the evening. Altogether 120 Imams were selected, and the Thana Centre undertook to train them as teachers and also to assist them to improve their own theological and general knowledge. By June 1963, schools with an enrolment of 5,000 children and 1,000 adults had been started. It appears that this programme offers hope of achieving universal literacy within a foreseeable period, whereas the ambitious programme sponsored by the department of education to achieve the same objective could not be fully implemented so far due to financial difficulties.[27]

Last to be brought into the picture were the women as, due to the conservative outlook of the people, one had to move rather cautiously in this direction. Even now the programme is confined to 14 villages only. The response has been most encouraging. To quote the report of the experiment, "unexpectedly, the women are not only willing to come out of the village to the training centre, they are very punctual

26 Khan and Hussain, *op. cit.*, p. 18.

27 *Ibid.*, pp. 18-9.

and loyal. They are steadfast learners whether it be reading and writing, hygiene, kitchen gardening, or care of children, cattle or poultry. Most unexpected is their deep interest in economic activities, like cooperative loans or savings, on trading in rice or spinning or sewing for profit." Here is a development which has immense possibilities for releasing human energy for development which is at present lying dormant and is being wasted.

Savings

The cooperatives in the past had never been able to promote thrift and the members had never made any deposits. The Comilla project made a sharp and welcome break with this dismal tradition. To quote the 1963 report: "The Comilla cooperative project has tried to build a sound system of rural credit based on principles of regular thrift deposits, group planning, adoption of improved methods and productive investment."[28] Continuous training has helped in inculcating the principles, and their practice has been ensured by effective supervision. The organizer working through the weekly village meetings has become an effective agency for promoting understanding as well as practice of thrift. The organizer collects the thrift deposits regularly and helps prepare the production plan. The production plan and the growth of the society's deposits are examined by the Central Association which fixes a loan ceiling. The main criteria of credit-worthiness are considered to be regularity of deposits, adoption of improved methods, good plans of investment, and punctual repayments. Deposits of the members are held as collateral for the loan given to the society.

So great is the emphasis on regular savings in the Comilla project that before a society is registered and becomes eligible for a loan from the Central Association, it is kept on probation for a period of four to six months, during which period it must show a satisfactory increase in deposits. Due to this requirement every member saves some cash every week and also

28 *Ibid.*, p. 23.

something in kind after harvest. Each society has fixed a minimum limit of saving for its members and if a member does not save anything for four consecutive weeks without valid reason he is generally removed from membership.

The member brings his savings to the weekly meeting and deposits it with the organizer. Each member has a pass book and each transaction is recorded in it. When the supervisor has collected the savings of the members, he deposits the amount in the bank of the Central Association when he comes to attend the weekly meeting. Each society has also a pass book in which all transactions are recorded. As an additional safeguard, the society's account is operated jointly by the organizer and the deputy project director. The accounts of the societies are written up and checked weekly by the accountant of the Central Association. The records of receipts, payments, and vouchers are maintained by the organizer who passes them on to the accountant. The closing balance of each member is also announced in the weekly meeting. The inspector who visits the societies from time to time also checks the account when he visits. These checks are quite effective and, therefore, possibility of misappropriation is slight.

Three per cent interest rate on deposits is allowed. Although withdrawal is permissible, this must be justified in a weekly meeting.[29]

In-kind Savings

The members are also encouraged to save in kind. Traditionally, the peasants had to sell their crop immediately after harvest to pay landlords and moneylenders. This generally led to a steep fall in prices after harvest. The purpose of in-kind saving is to prevent this price-fall and also to accumulate capital for investment. For in-kind saving, a storage system is essential. The Comilla project encouraged the village cooperatives to set up traditional grain storage sheds (known as *gola*) for their own use. The villagers were at first reluctant

29 *Ibid.*, pp. 54-5.

to deposit their paddy in the cooperative *gola,* but when they realized the value of storage the idea caught on. Paddy deposits, against which 60 per cent of the value is given as a loan, generally bring a good margin of profit. The difference in price at harvest time (December–January) of the principal crop and at about the middle of the year often exceeds 40 per cent.

But the importance of the *gola* is not primarily to even out fluctuations of price and provide a better return to the cultivator, but to promote savings which it permits under the control and guidance of the cooperative itself. "The money from the individual sales of grain used to be spent mostly for consumption items. The sale of grain from cooperative *golas,* in contrast, goes in large part into productive investment. The *gola* is the guidance system which puts investment into orbit within the village."[30] During 1961–62, a total of 3,228 maunds of paddy and 542 maunds of rice were stored in *golas* by 28 societies which previously stored hardly anything on a cooperative basis. The total value of this grain was Rs. 70,000.

Capital Stock and Reserve Fund

The Central Association has built up a capital stock in a number of ways laid down in the bye-laws of the Association. First, each member cooperative society pays its first membership fee by purchasing Rs. 50 in capital stock. Second, each member society retains its membership by purchasing Rs. 50 in capital stock annually thereafter. Third, a member society is paid dividend on its capital stock in the form of additional capital stock. Fourth, capital stock equal to five per cent of any loan applied for must be purchased before the loan can be given. And fifth, a capital stock purchase service charge of five per cent of the loan principal is made on all loans collected.[31]

In a rural economy like Comilla Thana, where there are various types of production risks including those from natural disasters, it was felt quite early that the village societies must

30 Fairchild and Hussain, *op. cit.*, p. 37.

31 *Ibid.*, p. 39.

build up sufficient reserve funds to make it possible to reduce interest charges which normally cover all risks. The rules for the cooperatives, therefore, laid down that "each loan given shall be secured by the reserve fund of the member cooperative invested separately outside the business of the member cooperative. If a cooperative has no reserve fund or one less than 25 per cent of the loan being applied for, one must be created at the time of giving a loan from the Association. This will be done by subtracting five per cent of the principal of the loan when the loan is given and depositing it in the Association in the name of the member cooperative; this practice of deducting five per cent from the principal of each loan given shall be continued until the member cooperative shall have accumulated a sum in the reserve fund account equal to 25 per cent of the value of the outstanding loans plus loans currently being applied for from the Association."[32]

These measures have led to a steady accumulation of capital and deposit although not as much as was anticipated. The cumulative deposit of cooperative members in the accounts of the societies with the Central Association during 1962–63 came to Rs. 147, 341 for agricultural and Rs. 83,262 for non-agricultural societies. After withdrawals, the balance was Rs. 69,525 and Rs. 14,653 respectively. The share capital of the Central Association is now Rs. 32,150. Besides, the village societies have accumulated share capital and reserve funds.[33]

There are several reasons for the slow increase of deposits in cash as well as in kind. First, most of the farmers are still indebted to the moneylenders and they are trying to pay off these debts or redeem their lands which they mortgaged with their surplus instead of putting it in deposits. Secondly, some find the three per cent rate given on savings account unattractive and the rules for withdrawal cumbersome, and prefer to invest directly in more attractive channels. A development which has surprised many is the very large expansion in the personal accounts of the villagers which has taken place in

32 *Ibid.*

33 Khan and Hussain, *op. cit.*, p. 23.

the branch of the commercial bank established at the headquarters of the Association. This shows that the banking habit is growing among the villagers, although all the money is not being placed with the cooperatives. There is no doubt that the rate of capital formation will increase as the primary societies become solvent, pay off their old debts, and increase productivity.[34]

Short-Term Loans

The provision of loans to cooperative members under expert guidance is probably the most important feature of the Comilla programme. In order that the loan operations really contribute to modernization of the rural economy and are not dissipated on useless purposes, as was the rule with cooperatives in the past, an elaborate system of loan application, loan approval, and loan supervision has been worked out.

The first step in the administration of supervised loan in Comilla is the fixation of a maximum loan limit for the society. As this is a most vital decision, it is taken by the managing committee of the Central Association. A number of factors are taken into account in fixing the limit: deposits of the society, productive capacity, previous loan repayment record and such intangibles as "cooperative spirit" or ability of members to work together. The managing committee has on the whole been rather conservative in the matter of fixing the limit.

The second important step in establishing a system of supervised credit is the preparation of a joint production plan by the society. The production plan must show the purposes for which the loan is required and the return which is expected to obtain. No standard form is prescribed as the idea is to stress the planning process itself as a valuable training for the members. This idea is well stated in the words, "Finding out what you *have*, finding out what you *want*, and then figuring out *how* to get from where you are to where you are trying to go."[35]

34 *Ibid.*, pp. 55-6.

35 Fairchild and Hussain, *op. cit.*, p. 40.

The stress is laid on group planning. In other words, farmers who are able to participate in the plan congregate, discuss, and work out the details under the leadership of the organizer. A group planning session is often a lively and prolonged meeting. All necessary data are marshalled, objectives clarified, the means to be adopted in achieving the objectives thoroughly discussed and a decision taken after removing the errors and inconsistencies. Before the session ends, the plan is written up in finalized form, signed, stamped, and made ready for transmission to the Central Association. Although the plans drawn up by the primary cooperative societies may not be particularly sophisticated, they often contain simple, practical ideas, and accomplish their purpose, which is to have the cultivators consider their farms as a business enterprise. There is no doubt that, as time goes on and more technical as well as planning ability is acquired, the cooperatives will be able to put forward more sophisticated plans.[36]

A thorough scrutiny is made of the plan by the supervisor and the inspector, who examine all details. If they are satisfied, they help the organizer to draw up a loan application in proper form, and submit it together with the production plan to the Central Association. When the loan application is received by the Association, it is formally examined by the inspector and the thana agriculture officer, and then passed on to a higher official in the field supervision section for further review. After the project director finally approves the request, he makes out a cheque to the organizer of the cooperative in question.

However, this is only the beginning in the process of supervised credit. The society does not receive its loan in cash but rather by a cheque deposited in an account, which is operated jointly by the organizer and the deputy project director. Each time the society needs money to carry out its production plan, it has to prove to the inspector that the previous withdrawal was used in accordance with the plan and the proposed withdrawal would also further the completion of the plan.

36 *Ibid.*, pp. 40-1.

The constant communication between the inspector and the organizer makes it possible to impose a certain discipline, improve the plan, resolve bottlenecks, and ensure continuous planning.[37]

The Central Association does not pay ready cash but makes bulk purchases of fertilizers, seed, etc., and arranges direct payment from the account of the society.

Apart from making requisites available to the societies at low cost, this provides a check on the society's expenditure.

Repayment

Efficient collection of loan is one of the most fundamental factors to guarantee success of a cooperative. What distinguishes the Comilla system of supervised credit from that of the older type of societies is its exceptionally high repayment record. Collecting loans is the major responsibility of the supervisors and inspectors, who generally visit at harvest time to ensure that grains sufficient to repay loan and interest are deposited in the cooperative *gola*. In the past year, more than 50 per cent of the repayments were made by depositing crops. Grain deposited is valued at the current market rate but sold only when the market price rises reasonably high, which is generally six months after harvest. The Central Association realizes its loan with interest and the balance of profit, if any, goes to the society which credits the members in proportion to their crop deposits.

In the year ended June 1963, loans totalling Rs. 177,875 had been issued to the societies. Of this, Rs. 160,275 had been realized by June. Against the totals due, there was a crop deposit, the market value of which amounted to Rs. 28,200.[38]

Although the interest rates charged were generally 12 per cent per annum, this was a small price to pay considering that returns in the form of higher yields averaged 30–50 per cent (less certain costs) and the moneylender would in any case have charged 60–100 per cent interest.

37 *Ibid.*, p. 42.
38 *Ibid.*, p. 58.

The bye-laws of the Association contain strict provisions for the security of the loans which, if followed, virtually guarantee loan collection. Each loan must be backed by four forms of collateral: "first, the loan is guaranteed by a mortgage on land, a lien on valuable property, or a marketing agreement on future production; second, each borrower must get three co-signatories to endorse his note; third, the reserve fund of the member cooperative is held as collateral; and, fourth, each loan is guaranteed by the reserve fund of the Central Association."[39] Although these are stringent conditions, they seem to be fully justified in view of the dismal record of repayment by the cooperatives in the past.

Other types of Loans

The Comilla programme of supervised credit also covers loans for a number of other purposes. These include in-kind grain loans, loans for purchase of milch cows, for release of mortgaged land, for construction of godowns and *golas,* for installation of tubewells for drinking water, loans for marketing operations, purchase of machinery, and loans against pledged paddy and rice.

Consumption Loans

In the lean period which occurs a few months before harvest many farm families have to borrow for buying foodstuffs. Previously, they went to the trader or moneylender who loaned grain with the stipulation that they return $1\frac{1}{2}$ maunds (1 maund=42 lbs.) of paddy at harvest time for each maund of paddy borrowed. Now the Central Association advances the grain during the critical period, the amount to be returned is 1-1/8 maunds of paddy for each maund borrowed. Not only does this greatly benefit the farmers but also it enables the Association to build up a stock for future loans. Grain loans totalling 1,060 maunds of paddy, 404 maunds of rice, and 86 maunds of wheat have been made to 39 cooperatives so far. The loans which became due after the *Amon* (winter)

39 *Ibid.*, p. 43.

harvest have been repaid 100 per cent.[40] Loans are also given to cooperatives for buying milch cows for dairying by members, with repayment to be made in monthly instalments over a year to 18 months. From March 1962 to February 1963, a total of Rs. 12,100 was issued in loans to five societies. Out of this, nearly Rs. 7,200 had been already repaid by June 1963, the balance to be realized in regular instalments.

Medium-Term Loans

Initially, the Comilla Project confined itself to short-term loans for productive purposes. Many society members who have had land mortgaged to moneylenders were anxious to borrow from the Association to redeem their lands. They have had to pay an exorbitant rate of interest (often in kind) on their old loans, which often took up a large part of their surplus. At first, the Association did not consider it safe to invest money for liquidation of old debts and no money was issued for this purpose. However, as the societies persisted in their request for this type of loan, and as the Association gained more experience, it was decided to give loans for the release of land to registered societies up to 50 per cent of their loan limit. This is a medium-term loan to be repaid in three years, usually in annual instalments after each harvest. So far an amount of Rs. 60,270 has been given as loan to 26 societies.[41]

A cooperative society must have a *gola*, i.e. a grain store house, to aid the collection of loans in kind. Members also want to build up a stock to serve as collateral and to deposit their savings in grain in the society's *gola* for sale when the price rises. Previously, in the absence of cooperatives, men of small means were unable to afford their own storage. Now the society's godown meets this essential need. The Central Association provides funds necessary for construction of the godown with five-year loans; the societies repay these loans by charging storage fees to members. So far loans totalling Rs. 6,325 have been advanced to three societies for this purpose.

40 Khan and Hussain, *op. cit.*, p. 58.

41 *Ibid.*, p. 59.

The societies remain responsible for the care and custody of the godowns, and loss due to pilferage in handling has been negligible.[42]

Loans for installation of drinking water tubewells have been made by the Central Association to the cooperatives on a medium-term basis to be repaid in three years. Much more ambitious is the Comilla programme for installation of wide-bore tubewells for irrigation purposes. Although marked success has been achieved in installing these tubewells, they have not yet passed the experimental stage. As they are much more expensive than the drinking water tubewells, they are being installed with government grant, being not yet considered a project suitable for the cooperatives. However, where irrigation is being provided, the cooperatives are charging fees to members for the use of the water.[43]

Loans for Marketing Purpose

Traditionally, the farmer meets his farm expenses out of his income, pays his workers in grain or in cash after selling the grain, and waits till harvest time to buy clothes and other necessaries. The land revenue agent also collects the dues at harvest time. There is, therefore, a pressure to sell grain at harvest time, which brings down the prices precipitately. However, members of the cooperative in Comilla can deposit grain in the cooperative *gola* and get 60 per cent of the value as loan to meet liabilities. The society borrows from the Central Association by pledging the stock. When the grain is sold in more favourable conditions, the farmer is able to pay back the loan and interest by selling only a part of his stock. He may take back the surplus for his own consumption or, by selling the entire stock, derive a good profit on the operation.[44]

Marketing

Marketing has been considered an integral part of the

42 *Ibid.*

43 *Ibid.*, pp. 59-60.

44 *Ibid.*

Comilla cooperative programme. It is obvious that, while cooperative credit and improved methods will help the farmer in increasing production substantially, the farmer will have little incentive to produce if he cannot realize a good price for his produce, or if he has often to pay too high a price for consumer goods of doubtful quality.

The Central Association aims at helping the members of the cooperatives to get the best price for their produce and to acquire the goods they need at the lowest possible cost. A marketing section of the Central Association was set up with functions to "study market price and provide marketing information to the cooperatives; search out the best possible market and organize sale of members' produce at the best available price; arrange bulk purchase of consumer goods and to supply the same to the member cooperatives at wholesale prices; and ultimately link marketing with credit."[45]

By collecting market information, the Central Association has been able to get the best possible returns by transporting the goods to markets at some distance instead of dumping them locally. This has also helped in raising local price. The consumer stores set up in the villages have also greatly expanded their business and have on the whole been quite successful, functioning on the basis of loans granted by the Central Association which are guaranteed by the cooperative societies. These loans are also mostly disbursed in kind in the form of goods supplied to the stores by the Central Association.

Use of Machinery

The Central Association maintains a pool of agricultural machinery: tractors, power pumps, rice hullers, and threshers, to be rented to the village cooperatives at pre-determined rates fixed for hourly, daily, or seasonal use. The charges are realized in advance.

Although tractors and power pumps have been in use for some time, their adoption has not grown to the extent anticipated, due to reasons which are at the same time technical,

45 *Ibid.*, Ch. XVI.

economic, and psychological. First, the right type of tractor, which is suitable for monsoon as well as winter cultivation, has not yet been introduced. Second, where peasants have been able to raise two crops, there has been a reluctance on their part to grow a third crop for fear that this would decrease the soil's fertility. This has prevented an optimum utilization of tractors and pumps. Third, up till now surface irrigation proved inadequate because of insufficient supply of surface water. However, wide-bore tubewells which may solve the problem are at present being installed. Fourth, though the Central Association maintains a machine repair shop, the facilities need to be considerably improved. It is now the policy to encourage the societies to buy their own pumps, and loans will be made available for the purpose.[46] There is no doubt that with better roads, with a stepped-up programme of rural electrification, and with plans to increase tubewells and irrigation canals, the use of machines is likely to increase rapidly.

The Rural Works Programme

The above description of the Comilla project tells only part of the story. Our major concern here has been with the cooperative aspect of the experiment. However, the developments in Comilla will be imperfectly appreciated if no mention was made of the rural works programme which has been taken in hand during the last few years. Rapid rural development like any other development requires the building of infrastructure. Because large areas of the Comilla Thana have been subject to floods in previous years, the Thana council, set up under the present constitution through the union councils, prepared a three-year plan to control floods by deepening *khals,* building dykes and regulators. The plan also envisaged linking villages with main roads and markets. The government made a grant of Rs. 387,000 for the year 1962–63. The first phase of the programme was successfully completed, a triumph of the civil administration's ability to mobilize villagers on a

46 *Ibid.*, p. 61 and Ch. XIV.

massive scale, through the union councils, to carry out the work. The system of roads which was built, crude though it was, linked many isolated villages and opened them to the traffic of trucks, carts, and rickshaws. The deeper drainage channels and embankment saved large areas from inundation. And this achievement was due, in no small measure, to the effective system of training which is now provided at the academy to officials of all levels connected with rural development.

The impact of the works programme was twofold: it protected agriculture and it provided employment to labourers. The cooperatives reaped the benefits of the investment in the shape of large deposits of paddy, timely repayment of loan, and accumulation of savings.[47]

However, the scope of the works programme in future is enormous. The system of roads and drainage needs to be greatly strengthened. Every village needs a continuing source of irrigation water and cheap power. Already, agencies like the Water and Power Development Authority are planning projects which will bring water and electricity to several hundred villages. Two million rupees have been allocated to the Comilla project area for the 1963-64 programme, which will make it possible to execute a far larger programme.

Conclusion

The experience of this brief period makes it impossible to predict the future course of development of this project with complete confidence. However, enough results are visible to adopt an attitude of guarded optimism with regard to the experiment.

The progress achieved by the cooperatives has been uneven. There are many societies in Comilla which could be improved. But judged against the background of the thoroughly disreputable performance of cooperatives in the past, even the least successful of the cooperatives at Comilla can be considered

47 *Ibid.*, pp. 12-3; Pakistan Academy for Rural Development, *An Evaluation of the Rural Public Works Programme, East Pakistan*, 1962-63.

successful. The Comilla Central Association and its member cooperatives are now self-supporting institutions. The Thana Training Centre is, however, a governmental institution and is financed by aid from government and foreign sources. But the benefits of the training provided by the Centre for overall rural development cannot possibly be estimated in monetary terms.

The cooperative project in Comilla has been successful not merely because a major emphasis has been placed on supervised credit, but because it is part of a comprehensive programme of rural development. This programme, as the Director of the Pakistan Academy for Rural Development points out, "includes not only modernization of agriculture but improvement of local administration, of the educational system, and of the position of women. The academy has undertaken experimental work with union councils, schools, youth clubs, and groups of women. A team of Japanese experts is working with extraordinary success to introduce improved paddy culture by means of supervised field demonstrations. The cooperative experiment is supported by, and in turn supplies a strong basis for, the other development projects. In isolation, its success might well be not only more limited but also more doubtful."[48]

The concepts underlying the integrated approach in Comilla are as follows: "(*a*) rural administration ensures roads and drainage; (*b*) this encourages village cooperatives and agricultural improvement; (*c*) village cooperatives ensure effective servicing and training; (*d*) the Central Association provides credit, both short-term and medium-term (for purchase of capital equipment like tubewells), and helps in planning aid to the village cooperatives; (*e*) the Central Association assists in generating capital and increasing production through credit based on production plans and through training and servicing, and so opens up new avenues for investment in improved methods of farming; (*f*) the Thana Council's

48 Akhtar Hameed Khan, *Progress Report on the Comilla Cooperative Project, June 1962*, p. 4.

Training Centre ensures dissemination of new skills; and (*g*) village cooperatives become good media for diffusion of new ideas and methods."[49]

The Comilla experiment will in the near future be tried in three other Thanas. The results of the experiment in other areas will demonstrate conclusively how far the progress achieved in Comilla is due to some peculiar factors available only in Comilla, e.g. the personality of the present Director of the Academy or to the soundness and practicability of the underlying concepts. If it is the latter, we may expect a general expansion of the programme to cover the whole of East Pakistan and possibly the whole of the country. The effect of such a programme would be inestimable from the standpoint of rural as well as the general social and economic development of the country.

49 Pakistan Academy for Rural Development, *Fourth Annual Report, June 1962 May 1963*, p. 85.

PABLO N. MABBUN

Agricultural Cooperative Credit in the Philippines

THE PHILIPPINES IS PREDOMINANTLY AN AGRICULTURAL country with more than 70 per cent of its population (approximately 29,000,000 in June 1963) living in rural areas. The number of farms is estimated at about 1,650,000 and the area under cultivation is approximately 6,000,000 hectares. About 53 per cent of the farmers are owners, 37 per cent are tenants, 10 per cent are part-owners, and 0·3 per cent are farm managers. It is estimated that farmer-owners cultivate about 60 per cent, part-owners, 8 per cent; tenants, 27 per cent; and managers, 5 per cent of the total farm land area.

The average size of individual farms is about 4 hectares for owners, 3 hectares for part-owners, and 2·5 hectares for tenants. Considered on the basis of cultivated land, about 52 per cent of all farms are under 2 hectares and account for nearly one-fifth of the cultivable land. About 22 per cent of these farms are less than one hectare in size.

Rice is the staple food of about 70 per cent of the population, while corn is the staple food of about 20 per cent. The rest of the population use root crops, such as sweet potato, cassava, *gabi*, and others as their staple food. The national average rice production is low, about 29 cavans per hectare. Other major crops are coconuts, sugarcane, abaca, corn, tobacco, and pineapple.

Past Attempts to Provide Credit to Farmers

The government has long realized the need for rural credit facilities to meet the farmers' demand for funds. Within the last sixty years, government-sponsored efforts to expand agricultural credit have assumed various forms and have been subject to constant and continuous changes, testifying to the inadequacy or unadaptability of the applied measures. These measures have not been at all successful in achieving their declared purposes; but the cumulative story of their fortunes and failings affords a case study of the mistakes to be avoided and the course to be pursued in planning a new programme.

The first official attempt to tackle the problem of agricultural credit was made by the Philippine Commission in 1907. The Commission tried to induce private capital to invest in an agricultural bank by offering a guaranteed annual income of five per cent on investment to individuals or corporations willing to organize a bank for agricultural purposes. No one was attracted by this offer.

In 1908, the government established the "Agricultural Bank of the Philippine Islands" with a capital of one million Pesos (₱1,000,000).[1] From its inception up to 1916, when it was merged with the newly organized Philippine National Bank, the Agricultural Bank had extended an aggregate of ₱5,082,560 in loans. But limited capital, which was quickly frozen in long-term loans, lack of trained personnel, and absence of rediscounting facilities, gradually reduced the effectiveness of the bank in meeting the needs of agricultural development.

In 1915, the government, encouraged by the success of cooperatives in Europe, made use of another form to provide credit to the farmers, particularly to the small farmers. Act No. 2508, otherwise known as the "Rural Credit Law," authorized the establishment of a system of agricultural credit cooperative associations to operate and function under accepted cooperative principles and practices. This Act was the culmination of a series of attempts by Filipino leaders since 1907 to introduce in the country the system of cooperative credit. The law was inoperative for a year, until an amendment to the Act placed it under the Bureau of Agriculture. A Rural

1 3 Pesos = 1 US. $.

Credit Division in the Bureau of Agriculture was formed to supervise the implementation of the Act.

By 1939, after twenty-three years of operation, these agricultural credit cooperative associations could report that only 35,041 members out of a total membership of 105,084 had availed themselves of the facilities. The supervision of these associations had also been shifted from the Bureau of Agriculture to the Bureau of Commerce in 1933, and to the National Cooperatives Administration in 1941. The records showed that there were 571 associations organized in 43 provinces.

Then, the war caused the destruction of their records and the loss of their assets. Today, the records of the Cooperative Administration Office (successor of the National Cooperatives Administration) still show 144 of these associations which are being kept alive only as account records of unpaid debts. Actually, in terms of operation, none is now active.

In 1919, the Rice and Corn Fund was set up under Act No. 2818 which appropriated one million Pesos (₱1,000,000) for loans to farmers through the rural cooperatives organized under Act No. 2508 for the purpose of promoting and increasing the production of rice and corn. The fund became the chief source of capital for the agricultural credit cooperative associations. Since then, the fund has undergone several changes in name: in 1936, it was changed to Agricultural Cooperatives Fund to include marketing cooperatives along with agricultural credit cooperatives in its sphere of operations, and, in 1940, it was renamed as National Cooperative Fund and was placed under the National Trading Corporation.

Meanwhile, in 1916, the government, from its experience of the Agricultural Bank organized in 1908, created the Philippine National Bank with a capital of twenty million Pesos (₱20,000,000). The bank's charter provided for the granting of loans for agricultural, industrial, and commercial purposes. It could extend loans to farmers against mortgages on titled lands for a term not exceeding twenty years. While this bank is in existence, its activities in the agricultural field are limited, because the bulk of its business is in commercial loans.

In 1924, the so-called Guanco Act (Act No. 3154) was passed, authorizing the establishment of agricultural banks with a minimum capital of ₱50,000. Only one bank was organized under this Act and this was short-lived; it was the Agricultural Bank of Pangasinan.

In 1930, the credit problem of small farmers was still an issue of such national concern that Governor-General F. Davis, in a letter addressed to private banks and other financial institutions, affirmed that "one of the main difficulties confronting the small farmer appears to be his inability to obtain adequate credit facilities without paying a very high price for them." A Rural Bank Commission was subsequently created "to study and recommend the best way of effectively extending greater credit facilities to small farmers," with the Philippine National Bank assuming the central role in this problem.

In 1931, the Philippine National Bank was authorized by Act No. 3895 to regulate the creation and operation of Rural Credit Associations, and by companion measure, Act No. 3896, to organize rural banks. The Philippine National Bank was invested with superior powers to control and supervise these cooperative credit societies and private rural banks. Nevertheless, only seven associations were organized under Act No. 3895, and only two rural banks under Act No. 3896, and none is in operation today. The Philippine National Bank does not even possess any records of their pre-war operations because these were destroyed during the war.

In 1939, the Agricultural and Industrial Bank was established to meet the demand for long-term capital funds. With a capital of one hundred and fifty million Pesos (₱150,000,000), the Agricultural and Industrial Bank, during its two and a half years existence, granted about ₱ 24,000,000 in loans to 10,235 farmers and about ₱4,000,000 for industrial purposes. Its assets were absorbed by the Rehabilitation Finance Corporation (RFC) set up immediately after the war.

In 1940, the government set up the Commodity Corporations to deal with the particular problems of certain key industries such as abaca (NAFCO), coconut (NACOCO), and tobacco (TATOCO). These Corporations also engaged in lending, mostly marketing loans, to stabilize commodity prices. The war reduced their operations, but today they are once again being re-organized and revitalized.

After 1945, there was a need to establish a financial institution that could meet the tremendous demand for credit for the rehabilitation of industries damaged during the war, and for capital goods for the further development of the national economy. The answer to this was the establishment in 1947 of the Rehabilitation Finance Corporation (RFC) with a capital of three hundred million Pesos (₱ 300,000,000) all subscribed by the government. Since it started operation on 2 January 1947, until it was renamed the Development Bank of the Philippines in 1958, this Corporation has granted an aggregate of more than ₱ 300,000,000 in loans to over 25,000 farmers. Most of these loans are long-term, running for a period of ten years. Today, this Corporation has branches and agencies in most of the provinces. Its capital has recently been increased to two billion Pesos (₱ 2,000,000,000), indicating the increasing demand for its services.

Two small country banks have recently been organized under the terms of the General Banking Act (Republic Act No. 337): the first, organized in 1950 as a Savings and Mortgage Institution is in Calape, Bohol; the other organized in 1951 and operating as a commercial bank is in Tanauan, Batangas. Both banks are meeting the credit needs of the surrounding towns (including the credit needs of some farmers) in addition to serving those in the area in which they are established.

In 1952, Congress passed Republic Act No. 720 which authorized the setting up of private rural banks, particularly in places where there were no branches of the Philippine National Bank. Although the basic capital of these rural banks comes from private investors, the government extends financial assistance when, in the opinion of the Monetary Board of the Central Bank of the Philippines, such a bank cannot start operations with the private capital it has accumulated. This financial assistance takes the form of subscription to the capital stock of the rural bank in preferred shares purchased by the Development Bank of the Philippines (formerly the Rehabilitation Finance Corporation) from funds given to it for this purpose. The amount of such assistance is equal to the capital paid up by private investors. The rural banks are established and operated under rules and regulations promulgated by the Credit and Loans Department of the Central Bank of the Philippines.

The rural banks are authorized to extend loans to both small farmers cultivating not more than fifty hectares and rural enterprises and industries. By requiring titles, other than Torrens Titles, as security, the rural banks follow normal banking procedures in making loans. There are at present more than two hundred of these banks throughout the country serving small farmers who have property to offer as security for loans.

The Agricultural Cooperative Credit Programme

It has been stated above that the Philippine National Bank and the Development Bank of the Philippines are the two largest sources of credit for farmers. But these credit institutions are restricted by their charters to extend loans only to farmers who have Torrens Titles to their lands and permanent improvements thereon. Even the newly organized rural banks are not allowed by regulations of the Central Bank of the Philippines to grant loans without security in the form of mortgages on land, agricultural implements, and/or work animals.

The facilities of these credit institutions, therefore, are not within the reach of the large majority of farmers—the small farmers who either are tenants or own farms of less than one hectare to five hectares. The small farmers owning small areas have not been able to obtain sizeable loans for their own needs, when they use their land holdings as security, since they can obtain a maximum equivalent to only sixty per cent of the appraised value of their land holdings; likewise, the tenants have not been able to obtain any loans because they have nothing to offer as security.

This, coupled with experience of pre-war agricultural cooperative credit, provoked Congress into passing Republic Act No. 821 in 1952. This law authorized the creation of a government financing agency called the Agricultural Credit and Cooperative Financing Administration (ACCFA) with a revolving capital of one hundred million Pesos (₱100,000,000). Formally established on 9 September 1952, after a Board of Governors of seven members was inducted into office by the President of the Philippines, Mr Elpidio Quirino, the ACCFA actually started its field operations in February 1953. Its objectives, as set forth in Republic Act No. 821, are as follows: (*a*) to extend liberal credit to small farmers to release them from the clutches of rural usury and eventually from crushing debt; (*b*) to promote the organization of cooperatives among farmers for greater unity of effort in production, processing, storage, and marketing of their produce; (*c*) to establish an orderly and systematic producer-controlled marketing machinery so that profits of agriculture may be retained by the farmers through the medium of their cooperative associations; and (*d*) to place agriculture on a level of equality with other industries.

In pursuit of these objectives, a major function of the ACCFA has been to promote the establishment of Farmers' Cooperative Marketing Associations, which are called, for short, FaCoMas.

Organizational Structure of ACCFA

The head office of the Agricultural Credit and Cooperative Financing Administration (ACCFA—later on reconstituted as Agricultural Credit Administration, ACA) is at Manila. At the end of May 1961 (before its structure began to be undermined by investigations), it had 34 provincial and four area offices, with a staff of 972, of which more than 600 were field personnel.

At the municipal level there were, at the end of May 1961, a total of 526 Farmers' Cooperative Marketing Associations (FaCoMas) covering 12,910 villages (barrios) and comprising 303,438 farmers as members. These FaCoMas had a total authorized capital of nearly 31 million Pesos (₱30,897,200), of which about 7 million Pesos (₱6,698,102) had been paid up. These associations are affiliated with ACCFA and serve as the link between ACCFA and the farmer for both credit and marketing activities. There is only one FaCoMa in each municipality. Generally, each barrio elects one director to the Board of Directors of a FaCoMa, which is the governing body of the association. The Board of Directors elects its officers (President and Vice-President), adopts its articles of incorporation and bye-laws, and seeks affiliation with ACCFA. It appoints the association's secretary-treasurer and manager in consultation with ACCFA.

At the barrio or village level, there is a loan committee consisting of at least three members elected by FaCoMa members from among themselves. The director of the FaCoMa from the barrio acts as the chairman of the loan committee. This committee scrutinizes applications for membership and loans, supervises the use of the proceeds of loans issued by the FaCoMas, and assists the ACCFA in the collection of loans. Applications for crop production and farm improvement loans are initiated at the barrio level while applications for commodity and facility loans are initiated by the marketing association. The office work of the barrio loan committee is performed by its chairman.

The functions of FaCoMas include examination of loan applications, disbursement of loans obtained from ACCFA, collection of loans (with the help of the barrio loan committee), provision of warehousing facilities (and possibly processing facilities), marketing of members' produce, and purchase of goods needed by members. Sales may be effected by the associations, either directly to retailers in the locality or through cooperative stores. When a cooperative store has been set up by the marketing association, it undertakes to purchase on a wholesale basis the goods needed by members. One fact deserving notice here is that the FaCoMas guarantee the repayment of loans granted to their members.

In addition to FaCoMas, two other important links in the marketing structure are the provincial (or district) federations of FaCoMas and, at the apex, the Central Cooperative Exchange, Inc. The provincial federations of FaCoMas are organized with a view to ensuring better coordination of activities and the strengthening of bargaining positions. They also undertake marketing and processing for affiliated associations, procure needed goods, pool transport and maintenance services, and coordinate publicity.

The Central Cooperative Exchange, Inc. assists FaCoMas or federations of FaCoMas in procuring needed agricultural supplies and consumer goods as well as in selling surplus agricultural products. By doing this, it strives to maintain quality standards for the produce of FaCoMas. The Central Cooperative Exchange deals with FaCoMas directly in areas where no federations exist, but the principal aim is to let the federations handle all marketing operations at the provincial level, and to confine the activities of the Central Cooperative Exchange to marketing problems at the national level. Pending organization of FaCoMa federations in all areas, the Central Cooperative Exchange may designate a particular FaCoMa to do the work of a federation in an area where none exists. In furtherance of its marketing activities, the Central Cooperative Exchange has constructed a cold storage plant in Manila and has set up a tobacco redrying plant at a cost of 4.5 million Pesos.

Purposes, Duration, and Terms of Credit

It was decided by the Board of Governors of ACCFA that the credit available from ACCFA should be disbursed to small farmers through cooperative marketing associations organized and operated by themselves. The following are several reasons why the Board of Governors established this policy:

(1) The granting of loans on the basis of character requires

joint liability. The farmers to be granted loans by ACCFA through their cooperative marketing associations will be jointly liable for the loan extended to each.

(2) The ACCFA desires to train the small farmers to appreciate the proper use of credit. This end can be attained only through the supervised use of the proceeds of loans extended to the farmers. Using loans for the purposes for which they are granted can be checked by the ACCFA field personnel through the help of the members of the loan committee for each barrio.

(3) The small farmers, needing cash just after harvest, usually have been forced to sell their crops to middlemen at low prices. Because farmers act individually and compete with one another in selling, they have had no bargaining power. However, after they are organized, they will not have to sell immediately after harvesting because they will obtain advances from the ACCFA on products deposited in the warehouses of their associations. The products will be kept by the associations until prices are advantageous to farmers. In this way farmers will increase their incomes by selling their produce in a systematic manner through their cooperative marketing associations.

(4) The ACCFA also desires to see the small farmers gradually build up capital from their own resources. Members in a cooperative marketing association are required to buy shares of capital stock in their association. The minimum share is five Pesos (₱5). In addition, every farmer who receives a loan from ACCFA, through his cooperative marketing association, is required to invest in shares of capital stock of his association ₱ 5 for every ₱ 100 issued to him. In this process, the ACCFA expects to see the FaCoMas eventually become independent, self-sustaining, and self-sufficient organizations, capable of meeting, with their own resources, the credit and other needs of their members.

The credit available from ACCFA may be divided, in accordance with the purposes for which it is granted, into the following general types of loans.

(*a*) *Crop Production Loans.* These loans may be used for the preparation of land, for the purchase of seeds and fertilizers and for subsistence. Generally, crop production loans cover a period of nine months (from the time of planting to harvesting), and are released in instalments immediately before they are needed for the specific purposes stated in the loan applications. The actual amount of a crop production loan is determined from a farm programme accompanied by a budget for farm operations. The farm programme and budget indicates the time a particular crop is to be planted and harvested, gives the area of the applicant's farm, and shows the average production of the farm during the previous three years. It then estimates the expenses to be incurred for the specified farm operations and the expected production and income; the difference between the expected income and expenses will indicate the amount of the loan.

To secure a crop production loan, a farmer has to pledge his crop under a marketing contract to his FaCoMa; the maximum possible amount of the loan is 60 per cent of the value of the pledged crop, provided this amount is within the favourable balance between the income from expected production and the estimated expenses as shown in the budget submitted with the loan application. (The pledging of a farmer's crop to the FaCoMa implies that the pledged production is encumbered in favour of the association; any loan advanced by the FaCoMa on account of the marketing contract constitutes a preferential lien on the produce of the farmer for the duration of the contract.) The interest rate charged by the ACCFA to the FaCoMa is seven per cent per annum. Since the FaCoMa collects a service charge of five per cent on crop production loans, the effective rate of interest payable by borrowers is twelve per cent per annum. The uses of the proceeds of such loans are checked by the members of the Loan Committee.

(*b*) *Farm Improvement Loans.* These loans are intended to cover the cost of work animals, farm implements, and equipment. The loans are granted on security of the crop and item purchased. The amount may be as high as the full value of the crop pledged (or the residual, in case a crop production loan has also been secured). In the case that both crop production and farm improvement loans are secured, the total amount must not exceed 2,000 Pesos. Loans obtained for purchase of draught animals (*carabaos*, buffaloes, or other cattle) are repayable in three annual instalments, while those for farm implements and equipment are to be repaid within one year. The interest rate and charges on farm improvement loans are the same as those on crop production loans. To ensure the proper use of the proceeds of such loans, the ACCFA as much as possible purchases the items and delivers them to the borrowers.

(*c*) *Commodity Loans*. These loans may be obtained by farmers who deposit their produce in the warehouses of their FaCoMas. The maximum limit for such loans is eighty per cent of the current market value of the commodity deposited. All existing crop production and farm improvement loans are first recovered before such loans are granted. The usual period for these loans is 120 days, and the interest rate chargeable by ACCFA to the FaCoMa is six per cent per annum. In addition to this the FaCoMa levies a service charge of two per cent, so that the effective rate of interest paid by the borrower is eight per cent per annum.

The commodity loans were a means of ensuring the collection of the crop production and farm improvement loans issued. They were very effective for this purpose so long as borrowers deposited their pledged produce in the warehouses of their FaCoMas. However, when laxity in the processing of applications for loans and in the supervision of the uses of loans issued became prevalent after 1958, the effectiveness of the commodity loans as means of collecting crop production and farm improvement loans dwindled to almost nothing.

(*d*) *Facility Loans*. Two types of loans from ACCFA are available to the Farmers' Cooperative Marketing Associations (FaCoMas). These are the facility loans and the merchandise loans. The facility loans may be obtained by FaCoMas from the ACCFA for the construction of a warehouse or rice mill, or for the purchase of a large irrigation pump or refrigeration and other equipment. The limit for these loans is eighty per cent of the value of the facility to be constructed or equipment purchased, though it may be increased to one hundred per cent if the warehouse built is of concrete or steel, or the equipment to be purchased is of steel. Repayment of such loans is in annual instalments for a period, which varies according to whether the equipment or facility is permanent, semi-permanent, or movable. For permanent facilities and equipment, the period is ten years whereas for semi-permanent or movable facilities it is less. The interest rate charged to the marketing association by ACCFA is eight per cent per annum, and the association levies a service charge of two per cent per annum. if the loans are granted to individual farmer members.

The facility loans were originally intended to enable the FaCoMas to provide their members with adequate storage and processing facilities for the efficient marketing of their produce. This original objective was successfully attained within the first five years of operation of the ACCFA. However, after five years, for reasons difficult to trace, the ACCFA administration became lax and careless, allowing the managements of many of the FaCoMas to enter into speculations. The FaCoMas run by such ambitious managements became careless in processing loan applications, lax in the supervision of the uses of the proceeds of loans, and even did not exert efforts in the collection of loans. The expansion of the capacities of the warehouses required more and larger loans from ACCFA which the administration of the financing agency could not very well deny. These large loans as well as a great number of crop production, farm improvement, and commodity loans became difficult to collect. Many of the farmers were able, through laxity on the part of the ACCFA in processing loan applications, to obtain loans far beyond their capacity to repay. This was also true with the FaCoMas which obtained facility loans to expand the capacities of their warehouses.

The result is that by 1962 the ACCFA was said to have had no more funds with which to extend further credit assistance even to deserving farmers.

(*e*) *Merchandise Loans.* These loans are granted to FaCoMas to enable them to purchase the produce of members who desire to sell outright or to procure commodities needed by members for domestic use. The loans are for a period of one year and the interest charged by ACCFA is seven per cent. The FaCoMas add to this a service charge of two per cent, so that the members pay an effective rate of interest on such loans of nine per cent per annum.

These loans were stopped after two years of existence, because they become a very convenient tool of unscrupulous FaCoMa managers for speculation and graft.

Total Loans Released by ACCFA

During a period of about eight and a half years (1952 to 31 May 1961), ACCFA had released in loans of the various types cited above the total of ₱ 190,021,977 of which ₱ 111,800,499 was collected, leaving an outstanding unpaid balance of ₱ 78,221,477. The distribution of these figures according to type of loans is shown below.

(Figures in Million Pesos)

Type of Loan	*Loans issued*	*Collection*	*Balance Outstanding*
Crop production	61.26	36.79	24.47
Farm improvement	21.22	8.66	12.56
Commodity	12.18	37.29	4.88
Merchandise	41.09	25.91	15.18
Facility	24.28	3.16	21.12
TOTAL	190.02	111.81	78.22

Recovery of loans up to the fiscal year 1955–56 had been satisfactory. After that year, however, the recovery of loans became steadily more difficult due to a number of causes, among which were the trading activities of the FaCoMas in

Virginia leaf tobacco, and the selling of subsidized fertilizers by ACCFA and the FaCoMas to the farmers. These activities, which were entrusted to the ACCFA by the Philippine Congress, were not originally conceived in the ACCFA law, Republic Act No. 821. The Virginia tobacco price-support programme, outlined in the Republic Act No. 1194, the fertilizer programme set forth in Republic Act No. 1609, the rice and corn programme under the Republic Acts Nos. 2080 and 2300, and others, were all implemented by ACCFA. Consequently, this financing agency strained the major part of its resources in order to carry out these programmes at the expense of equally vital activities called for under its original charter. However, could it not have been possible for ACCFA to avoid plunging itself into all these activities? The Board of Governors and the administration of the ACCFA could have protested against the dumping in their laps of these responsibilities by Congress on the ground that the implementation of the agricultural credit programme as outlined in Republic Act No. 821 was already a gigantic undertaking. But to our best knowledge no such protest at the time was aired from either the ACCFA Board of Governors or its administration.

Financial Resources

The Agricultural Credit and Cooperative Financing Administration, as already stated earlier in this paper, is still in dire need of more capital in order to continue its major functions—the provision of credit, marketing of agricultural produce and supplying commodities to farmers, through their cooperative marketing associations. Additional capital, amounting to one hundred and fifty million Pesos (₱150,000,000) has been promised by the present Administration. It is not known, however, whether any part of this sum has already been released, because there have been delays on account of the re-organization of the government agencies having direct concern over the credit and other needs of the farmers, as outlined in the newly approved Land Reform Code (Republic Act No. 3844). Under this re-organization, the ACCFA will lose some of its former functions, particularly that of promoting the establishment of farmers' cooperative marketing associations, which another agency, the Agricultural Productivity Commission, has absorbed. The ACCFA has also been renamed Agricultural Credit Administration (ACA for short) and its main function is to provide credit to farmers through their cooperative associations. It is hoped that the farmers' cooperative marketing associations will continue to be used as the agencies through which loans are issued to farmers and at the same time will handle the marketing of members' produce.

If this hope is realized, there will be a need to federate the FaCoMas into provincial federations to make their marketing functions more effective and economical. It will also be necessary to strengthen the finances of the Central Cooperative Exchange, Inc. in order to enable it to be more effective in handling the marketing of farm produce of the provincial FaCoMas federations on the national level, as well as in procuring the farm supplies needed by the FaCoMas to improve the production of their members.

Features of the ACCFA Credit Programme

The highlights of the agricultural cooperative credit programme as implemented through ACCFA may be summarized as follows:

(1) It grants loans, through cooperative marketing associations, on the basis of the repaying capacity of the farmer and not on the basis of land or any other assets owned.

(2) In earlier years, its activities were concentrated in the high tenancy rice-growing areas, the original intention being to test the soundness of the programme there for at least five years. Now it extends to most parts of the country.

(3) It adopts an integrated approach to credit and marketing problems and has set up suitable administrative machinery to support its marketing and farm supply activities.

(4) It utilizes local knowledge and talent at the village level—through loan committees—for initial scrutiny of loan

applications, for supervision of the use of credit with the help of ACCFA field staff, and for collection of loans.

(5) Its aim is to provide adequate credit for most of the farmers' credit needs by granting loans for crop production, subsistence, and purchase of draught animals.

(6) So far as possible, loans are granted in kind, and are made available in a suitable number of instalments.

(7) Loans to farmers are granted through FaCoMas, and the collective liability aspect is made clear to the farmer members. The collective liability of a FaCoMa is, however, limited to share capital subscribed and other assets owned.

PRRM Experiment

It has been stated earlier that under ACCFA policy only one farmers' cooperative marketing association (FaCoMa) was allowed to be established in a municipality. Since a municipality in the Philippines covers from 10 to 60 barrios (villages), each barrio having from 100 to 600 or more families (500 to 3,000 or more persons), the area covered by a FaCoMa is large. Moreover, the minimum size of membership of a FaCoMa is 200 farmers. This number was chosen to ensure sufficient volume of produce from the members for economic marketing operations. From the standpoint of the administration of credit, however, this large size of a cooperative is not desirable, because the members may not know one another. Thus, collection of loans, granted mainly on the basis of the borrowers' character, is difficult. For effective administration of credit, based principally on the character of the borrowers, a small cooperative confined within a barrio, where everybody knows each other, is desirable. It is this principle, coupled with farmers' sad experience with the FaCoMas, that led the Philippine Rural Reconstruction Movement (PRRM) to organize and assist small credit cooperatives in the barrios. One credit cooperative (called credit union for lack of a better name) is established by the PRRM in each barrio under the Raiffeisen principles.

The steps taken towards the organization of a barrio credit union are: first, the Rural Reconstruction Worker (RRW), who is a college graduate with at least a bachelor's degree, goes from house to house in the barrio for at least two years and tries to pick out among the community leaders those most suitable to be officers of a credit union. Satisfied that there is a sufficient number of qualified persons to become officers, the next thing for the RRW to do is to inform the people that there will be a meeting at a fixed date. The RRW invites the technical expert of the PRRM on cooperatives to speak at this meeting and explains to the people the advantages, as well as the principles and practices, of a credit cooperative. This general meeting is followed by a series of small group meetings where further discussion on credit cooperatives takes place. When the people have been sufficiently indoctrinated and have signified their desire to form a credit cooperative, another general meeting is arranged by the RRW. At this meeting, the technical personnel of the PRRM on cooperatives will discuss the provisions of the bye-laws of a credit cooperative. Emphasis will be given to the duties and obligations of members in the cooperative society. Then the procedure of incorporation is also taken up. This meeting will also be followed by a series of small group meetings at which further explanation and clarification of details in the bye-laws will be done by the RRW.

When the RRW is satisfied that the people in the barrio have had sufficient information about credit cooperative and that they thoroughly understand the duties and obligations of membership, he starts enlisting members, collecting from them membership fees of one Peso each and initial deposits of at least five Pesos each. As soon as the RRW has enlisted fifty farmers to be members and collected a reasonable amount of deposit from them, the organization meeting will be arranged. At this meeting, where the technical staff of the PRRM in cooperatives are present, the officers (members of the Board of Directors and the members of the different committees) of the credit cooperative are elected. The bye-laws of the society will also be drawn up to prepare for its registration with the government agency concerned—the Cooperatives Administration Office. Following the registration of the cooperative is the installation of its officers, after which it may begin operating.

To protect the members' interests, all officers of the credit cooperative having to do with funds are bonded. The books of the society are frequently examined by the Cooperatives Administration Office auditors, in addition to frequent checks performed by the PRRM, through the RRW and the staff of its Cooperatives Department.

The promotion of the credit cooperatives in the barrios by the PRRM started only in 1959. Progress has been slow on account of the difficulty of convincing the barrio people, who have had sad experiences with the FaCoMas, of the advantages that a credit cooperative can bring to them. Moreover, an adequate understanding of cooperative principles and practices on the part of the people is necessary to ensure the success of the credit cooperative they will organize and operate. This means that considerable time and effort must be employed in giving cooperative education to the people before the formal organization of the credit cooperative takes place. And this cooperative education must be continuous as the operation of the cooperative society is carried on, if its success is desired.

Progress of the Experiment

At the end of 1963, or during a period of about five years, the PRRM had organized and registered with the Cooperatives Administration Office twenty-one credit unions, with 1,471 members, ₱ 63,966 in total deposits, ₱74,202 in assets, and ₱11,848 in net savings. These credit unions issued loans to their members in the total amount of ₱196,240, of which ₱131,444 or about 67 per cent has been repaid at the time the report was submitted. The cumulative progress of the credit cooperative project of the PRRM is shown in the table on the next page.

CUMULATIVE YEARLY PROGRESS OF THE PRRM CREDIT COOPERATIVE PROJECT

Description	1959	1960	1961	1962	1963
Credit union registered	8	13	15	19	21
Number of members	293	542	780	1,017	1,471
Total deposits (pesos)	8,109	20,642	31,900	41,501	63,966
Amount of loans issued (pesos)	14,241	39,506	69,218	116,570	196,240
Amount of loans repaid (pesos)	10,421	23,867	45,789	78,053	131,444
Total assets (pesos)	10,618	25,861	35,824	47,206	74,202
Total income (pesos)	924	3,395	5,816	9,932	16,603
Total expenses (pesos)	422	1,410	2,098	3,558	4,755
Net savings (pesos)	502	1,985	3,718	6,374	11,848

Purpose of Loans

The credit unions extend loans to their members largely for the following purposes: for purchase of seeds, fertilizer, agricultural tools and implements, and draught animals; for financing home-plot gardening, piggery and poultry projects; for paying school fees of children in schools; for purchase of medicines; for payment of old debts; and for subsistence. The loans for production purposes have helped in the proper implementation of the "Mimimum Additional Income Project" (MAC) of the PRRM Livelihood Department. Members of the credit unions who have borrowed for financing home-plot gardening, poultry and swine projects have increased their family income considerably. The loans from credit unions have also enabled the children of their members to continue schooling without interruption caused by lack of money to pay the fees.

The credit unions have also taught and are still teaching the people in the barrios the value of thrift and saving. This knowledge is spreading steadily among the barrio people, which means that membership in the credit unions is expected to increase also. It is hoped that the time will come when the people of the barrios, assisted by the PRRM, will be able to depend for their credit needs upon their own credit unions, using their own savings. The credit unions have also been found to be effective agencies to maintain improvements introduced in the barrios by the PRRM fourfold approach to rural reconstruction—literacy education, health improvement, better living through improvement in food production, and development of civic consciousness—through self-government and active peoples' organizations. In barrios where strong credit unions have been established, the programme started by PRRM continues to be carried on through the active support of the members. Because the PRRM is purely a private organization dependent entirely upon voluntary contributions from civic-spirited business organizations and individuals, it has to develop the credit unions of self-sufficient type.

Experience with this type of credit unions has demonstrated the effectiveness of a small-size association from the standpoint of credit administration. People knowing each other in the barrio trust one another and as a consequence no one will voluntarily destroy that confidence. Thus, repayment of loans in the barrio credit unions has been more satisfactory compared with the record of the large FaCoMas.

Problems of Agricultural Cooperative Credit

There appears to be a growing tendency to view the problem of agricultural credit as an integral part of the complex problems of agriculture which have to be dealt with in order to break the vicious circle of "poverty, rack-renting, usury, and debt." It has been recognized that the attack must be on a scale commensurate with (*a*) the magnitude of the problems involved and (*b*) the need for effective impact on the rural situation within a reasonably short period. An effort on such a scale, however, is possible only if the governments concerned play an active part. Yet, though governmental support may be necessary and even indispensable, it is equally important that the organizational structure for dealing with credit problems should retain flexibility of operation and should succeed in enlisting the support of participating members. These needs can probably be met effectively by the cooperative structure, if it is suitably reoriented to meet the needs of the situation and actively supported by the government. Some of the problems encountered in developing an agricultural credit system are as follows.

Problem of Securing Adequate Operating Funds

In the Philippines, the ACCFA has obtained the major part of its funds from the government (from appropriation and from the Central Bank of the Philippines). It has also been suggested that the government should meet part of the administrative expenses of ACCFA, at least during its initial years of operation. The ACCFA, as related earlier in this paper, has had difficulties arising from the failure of the government to provide enough funds to effectively implement its programme. Also political rivalry in government often causes delay in the allocation and release of funds. The experience of the PRRM, a purely private organization, with credit unions in the barrios it assists, indicates that the working capital of small credit cooperative societies can be accumulated from deposits of members. Although the process of building up sufficient capital may be very slow, strength lies in the fact that it comes from the painful process of saving on the part of the members, and is not released without careful consideration.

Supervision of Credit

A decision must be taken as to how much supervision is needed over the use of loans and which agency ought to take the responsibility for this work. Should supervision of the use of credit be linked with extension work or should it be confined merely to ensuring proper utilization of loans?

Selection and Training of Personnel

There is need for a corps of trained administrators, if the credit system is to rely on cooperatives. As adequate qualified staff is often not generally available, steps should be taken to train personnel. It is necessary to determine the qualifications required of candidates for different posts—field organizers, secretaries, treasurers and managers of individual cooperative societies, managers of various departments of the credit institution, etc.—also the manner of selecting personnel, and the type of training necessary at different stages such as before and after selection and in-service training.

In the Philippines, the ACCFA has had a one-month pre-employment training course for its field staff, who are all university graduates. Following selection on the basis of a competitive examination, prospective employees undergo a two-week intensive training course and are thereafter assigned to field service for a six-month probationary period. There are also prescribed qualifications for secretary-treasurers and managers of the FaCoMas. The FaCoMas are eligible for a subsidy of 50 Pesos per month towards the salary of a secretary-treasurer who is selected by ACCFA from a panel of names submitted by the association. A two-week training course for managers and secretary-treasurers has also been organized by ACCFA. In addition, special seminars have been held for different types of field personnel. With a view to assisting FaCoMas in improving their business efficiency, ACCFA had appointed a management and market analyst in each province, and a four-week seminar for these experts was organized by ACCFA early in 1957.

The PRRM also gives a six-month training course for its field personnel (RRWs), who are all university graduates. This training course is open to qualified applicants, who, during the course, live at the Centre in Nieves, San Leonardo, Nueva Ecija, about 10 kilometres north of Manila. During the last two months of training, the selection of prospective Rural Reconstruction Workers (RRWs) is done through competitive examination. Those who are selected then go to live in the barrios where they are trained to be multipurpose workers. They must demonstrate improved methods of rice culture, the application of fertilizer, how to construct and install sanitary toilet bowls, how to immunize chickens and pigs from diseases. They teach illiterates, organize the barrio council, as well as the Men's, Women's, Youths' Rural Reconstruction Associations, and guide their members to take active part in community improvement projects.

Procedure Governing the Grant of Loans

Another purpose of institutional credit is to ensure a proper balance between the need to observe procedures and to maintain proper records, on the one hand, and of quick disposal of loan applications, on the other. While the need for following proper procedures is unquestionable, it is also true that credit unduly delayed may mean credit denied. This raises procedural issues, such as determining the administrative level at which the power to sanction loans (particularly crop production loans) should be exercised, and the types of organizational arrangement necessary for studying and streamlining operational procedures. In this context, two innovations of ACCFA may be of interest.

One is that the authority for sanctioning loans has been delegated to provincial directors, and the paper work connected with securing loans has been reduced appreciably. In addition, FaCoMas are generally required to forward applications for crop production loans in batches of fifty or more. Applicants are advised regarding the latest date they may submit their loan requests.

The second method adopted by ACCFA is to divide members of FaCoMas into three categories: (*a*) new, (*b*) privileged, or those who have repaid loans in full, and (*c*) non-privileged or defaulters. The privileged are eligible for advances pending final approval of their loan applications. The time required by privileged members to obtain advances is about one week, compared with one or two months for others to secure loans.

Contribution of Agrarian Reform

There are marginal and sub-marginal farmers—their holdings may be small or fragmented, rents they pay may be excessive, their accumulated debts may be beyond their repaying capacity, and the interest rates they pay may be usurious. It may be necessary in such cases to undertake land reform measures such as consolidation of holdings, reductions in rent, resettlement of farmers with uneconomic holdings in new areas, and increase in employment opportunities outside agriculture. Such measures, however, involve many considerations, including the practicability of using cooperative farming to offset the disadvantages of uneconomic holdings, the feasibility of using legislative compulsion to bring about consolidation of fragmented holdings, and the desirability of fixing ceilings on land held for "personal cultivation."

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H. S. WANASINGHE

Link-up between Cooperative Credit, Production and Marketing in Ceylon

From the post-war cooperative experiences in Southeast Asia, the need to establish a link between agricultural cooperative credit, production, and marketing is becoming increasingly clear. Only if these three aspects are properly coordinated, will the cooperative movement be able to contribute significantly towards increases in agricultural production and productivity.

The social and economic conditions vary from country to country. The degree and form of integration of the various facets of the cooperative movement will, therefore, have to depend on the local situation. Two important factors to be considered in this connection are: (1) existence and type of government price support schemes for agricultural products and (2) organization of the apex agricultural credit institutions.

Keeping these facts in mind, it might be useful to compare the experiences of the different countries in this region and, for this purpose, the experiences of Ceylon in effecting a link-up between credit, production, and marketing will be discussed below.

Background Information

Ceylon has an estimated population of 11,030,000 (1964) with an average rate of annual increase of 2.8 per cent. Of the "occupied population" in the country, 23.2 per cent find employment in the export agricultural sector, whereas 29.8 per cent are employed in the non-export agricultural sector. The average per capita income for the country as a whole is Rs. 617 (Rs. 4.75 = 1 U.S.$) while the average in the rural areas is estimated to be approximately half this figure.

Agriculture accounts for the income of 40 per cent of the rural families. The percentage of tenant cultivators in the country is half that of owner cultivators.

Total land under cultivation in the country is approximately 3,500,000 acres out of a total of 6,700,000 acres estimated to be cultivable. Pride of place in agriculture is given to the export agricultural sector. The three principal export commodities—tea, rubber, and coconut—account for 590,000, 670,000, and 1,100,000 acres respectively. In the non-export agricultural sector, rice, which is the staple diet of the country, is the most important crop and accounts for 1,200,000 acres.

In the export agricultural sector, production and marketing is still predominantly in the hands of the large capitalist enterprises and the crops are cultivated mainly as plantation crops. Though there are, especially in rubber and coconut, large numbers of small holders, only in coconut has the cooperative movement made any significant headway.

It is important to keep in mind that, in the non-export agricultural sector, the State provides price support, in the form of guaranteed prices, for rice as well as for a large number of other subsidiary crops.

The Guaranteed Price Scheme for rice started in 1947 and the prices offered were as follows:

Year	*Price per Bushel of Unmilled Rice (in rupees)*
1947-49	6
1949-52	8
1952 onwards	12

The other crops for which Guaranteed Price Schemes are operated by the government are: maize, millet, sorghum, toor dhal, cotton, mustard, ginger, chillies, green gram, tamarind, black pepper, cow pea, groundnuts, turmeric, coffee, potatoes, and onions. These guaranteed prices are reviewed annually. The price support scheme has been used deliberately as a production-incentive for the different crops on which emphasis is laid at different times. It is important to remember that cooperative organizations are the accredited agents of the government for collection of the different agricultural commodities under the Guaranteed Price Scheme.

Another background factor of importance is the enactment by the government in 1958 of the Paddy Lands Bill which secured the rights of the tenant cultivator by granting him security of tenure and also regulated the rent payable by the tenant cultivator to the landlord. This legislation held out a guarantee to every tenant cultivator of permanent and uninterrupted rights of cultivation and assured him of a fair and just return of the fruits of his labour, thereby creating the basic conditions necessary for modernization of this important branch of the country's agriculture.

History of the Cooperative Movement

The cooperative movement in Ceylon started in 1912 as a credit movement. In an atmosphere where economic development was considered to be a prerogative of individuals, the cooperative societies were treated mainly as associations of individuals working on their own for their own economic uplift, without any assistance or interference from the State. The movement during this period evoked so little response from the people that the State had to step in and associate itself more actively in order to carry out propaganda for the spread of the movement and thus to increase registration of societies. But still the benefits of cooperative association were confined to a very limited sector of the population and it cannot be said that it contributed in any appreciable manner towards the economic development of the country. Very little financial help was rendered to Cooperation by the government before the Second World War.

The Second World War provided a new direction to the movement. As the need for a planned supply and distribution of food became vital to the community, the government found that the cooperative organizations were the best agency to enable tne people to share in an equitable manner the available quantities of scarce consumer commodities. A nationwide drive to organize consumer societies was the result.

With the emergence of Ceylon as an independent nation, government emphasis on agricultural policy shifted to making the country self-sufficient in food, particularly in the staple diet of rice. The State decided on the introduction of a guaranteed price for paddy as an impetus for intensive and extensive cultivation of paddy. The offer of a guaranteed price for a crop which was already cultivated widely necessitated organization of the cultivators to enable them to derive the maximum benefits which would flow from such an offer. Thus emerged cooperative agricultural production and sale societies in 1946.

Genesis of the Link-up Programme

Practical experience soon convinced the framers of cooperative policy that a closer tie than that which existed among the credit, marketing, and consumer organizations was necessary to achieve the twofold objective of increasing agricultural production and of ensuring that the agricultural producer obtained the maximum benefit from such increase in production.

The first link-up scheme of credit, consumer, and marketing was organized in 1947, among the vegetable growers, in an area known as Palugama. Producers in this area had been in the clutches of private middlemen who provided the credit to the producer, but appropriated his produce and transported it to centres of consumption. The new scheme provided the producers with a major share of their credit requirements through credit cooperatives. Consumer goods were then supplied through consumer cooperatives within the credit limits specified by the societies. The producer was induced to sell his goods through the marketing cooperative which credited the sales proceeds as directed by the credit societies.

This and similar experiences led to further rethinking and as a result the multipurpose cooperative movement was launched in 1957. The multipurpose cooperative movement was born from two needs: (*a*) the need to achieve an intimate "tie-up" between credit, production, and marketing, and (*b*) the need to make the rural cooperative the centre of all village activities and the organization catering to all economic needs of the rural population.

Experience during the past six years has proved that the multipurpose movement has provided an irreplaceable network of cooperative organizations at village level, which may be used as instrument of rural economic development, especially in the agricultural and small industrial sector. The multipurpose movement embraces in a single fold the aspects of credit, production, marketing, and consumption and provides for the rural population a single institution which caters to all their needs. It is the closest possible bond so far evolved between the various aspects of the rural cooperative movement.

Credit and Production

As indicated earlier, the cooperative movement in Ceylon started as a credit movement The greatest drawback to the credit movement, as it existed in the pre-Independence era, was that the credit was in no way linked with agricultural production. The result was that, in the earlier years, credit which was obtained from cooperatives was not used for "productive purposes." It was used for personal needs by the members either to finance small-scale retailing ventures, or for housing and/or sometimes even for re-lending.

The earliest attempts at providing credit for production purposes were made with the dawn of political independence, at a time when the State was most concerned with the increase of agricultural production, particularly in the sector of foodstuffs. Credit, directed towards agricultural production, was provided by the State to the farmers through cooperative agencies known as cooperative agricultural production and sales societies.

In giving credit through these organizations, the government established continuity by providing both credit and a stable marketing outlet for the produce through the guaranteed price scheme. Very little emphasis was placed on supervision to ensure that the credit was used for the purpose for which it was granted. There was very little liaison between the granting of credit and the agricultural extension work carried out in the field by the Department of Agriculture. In the absence of adequate supervision and in a context where the credit granted was predominantly "cash," the results were well below expectations.

It has been found that to increase agricultural production the most important prerequisite is to provide easy credit to the farmer. Ceylon has had a long history of agricultural extension work, especially in regard to rice cultivation. An analysis of the impact of this extension work on the increase of production was undertaken in 1963. It has demonstrated that, in an economy dominated by small holdings, practical results have not emerged from the agricultural extension work because the farmer has lacked the credit necessary to adopt the new techniques demonstrated to him by the extension worker, even though he was fully convinced of their advantages. Also, because the farmer was often still in the hands of private moneylenders, he was seldom able to make the fullest use of the guaranteed price offered to him by the State. A considerable share of the advantages of the guaranteed price was still flowing to the private moneylender. By extending credit, the moneylender could still procure a considerable part of the produce from the farmer and sell it to the government at the guaranteed prices.

As a result of this evaluation, an Expanded Agricultural Credit Programme, aimed principally to improve cultivation methods of the rice farmer, was launched in the latter half of 1963. In this programme, loans for rice cultivation are granted to a member of a cooperative society up to Rs. 175 per acre and calculated as follows:

(1) Seed paddy (2 bushels) (provided in kind)—repayable in six months	Rs. 24
(2) Fertilisers (3 cwt. approx.) (provided in kind)—repayable in six months	Rs. 36
(3) Transplanting or row-seeding (where labour needs exceed supply from cultivator's family, attempts are made to provide the labour services through the society) repayable in six months	Rs. 25
(4) Weeding or use of pesticides (pesticides are supplied in kind)—repayable in six months	Rs. 25
(5) Ploughing—repayable in six months	Rs. 40
(6) Harvesting—repayable in three months	Rs. 25
TOTAL	Rs. 175

The maximum acreage per person for which this loan is available is six acres. In addition to Rs. 175 per acre for production loans, a member farmer may also obtain an interest-free marketing advance up to Rs. 200 or 20 per cent of the value of rice sold by him under the Guaranteed Price Scheme for the corresponding harvest of the previous year, whichever is less. This marketing advance is given two months before the date of the expected harvest.

In 1962–63, before this Expanded Credit Programme was introduced, the total amount of lending for rice production was approximately Rs 11 million. In 1963–64, it increased to Rs 34 million.

The special features of the Expanded Agricultural Credit Programme are:

(1) The close supervision exercised over the input and utilization of credit as well as over the marketing arrangements. This supervision is undertaken by joint teams composed of cooperators, members of agrarian services and agricultural officers from different levels, ranging from the headquarters officers to the village officials.

(2) The attempts made to provide most of the credit in kind through the multipurpose cooperative society.

(3) The availability of marketing arrangements under the guaranteed price system to recover the credit advanced.

(4) The provision of an interest-free marketing advance to the producer to provide for his subsistence for the period immediately prior to harvesting.

It is hoped this credit will enable the farmer to free himself gradually from the moneylender's credit. When the moneylender has been paid off, the farmer will be able to sell his entire produce to the State through the cooperative society, and thus obtain the full benefits of the Guaranteed Price Scheme. Furthermore, the tie-up between this marketing advance with the consumer sections of the multipurpose cooperative societies enables the sum of money to be stretched to the fullest possible limits in ensuring that the genuine consumer needs of the producer are met at the cheapest possible price.

Credit and Marketing

In an economy composed mainly of small agricultural holdings, unless the cooperative organizations provide the most favourable marketing outlet for the increased production resulting from the input of production credit, the maximum benefits from such increased production will not flow to the producer. In Ceylon, the task of cooperatives in this field has been made easier by the operation of a guaranteed price scheme by the State for a large range of agricultural crops, the details of which have been indicated earlier.

It is Ceylon's experience that the success of a credit scheme ultimately hinges on the successful working of a marketing scheme. The effective recovery of loans granted to the farmer also depends on the smoothness with which the marketing scheme operates. Even where the State operates a guaranteed price scheme, experience has shown that when a break-down occurs in the procurement of the produce, usually at the height of the harvesting season due to insufficient warehouse capacity, there have been adverse effects on loan recoveries from the farmer. Generally speaking, it has been found that where the farmer has been able to surrender his produce without interruptions to the State under the Guaranteed Price Scheme, it has been possible to ensure the regular repayment of his loans.

The position in Ceylon has now been strengthened by the limitation of sales of members of the multipurpose cooperative societies under the Guaranteed Prize Scheme.

Another field in which we have found that the successful organization of a marketing programme is a vital factor in ensuring an increase in production and a successful operation of a credit scheme has been in the sector of vegetable cultivation. The growing of vegetables is a field in which the cooperatives have been engaged for a considerable period of time. In the best known of the link-up schemes in Ceylon, viz., the Palugama Scheme, vegetables were handled. In 1962, the experience of Palugama was carried a stage further in the organization of an All-Ceylon Agricultural Producers' Union to undertake the marketing of agricultural produce, primarily vegetables and fruit. With the organization of this union, it has been possible to diversify marketing arrangements so that the undue influence that the capital city market had on the price of vegetables could be reduced.

The plan envisages the direction of the produce from the producing centres to an ultimate network of about 30 wholesale centres feeding the retail vegetable outlets throughout the island. This would also enable an exchange of the produce of the different areas of the country. Through the scheme it is desired to take advantage of the existence of the primary and secondary multipurpose cooperative organizations to provide a link-up between the producer and the consumer. The ultimate objective is for the cooperative sector to dominate more than 50 per cent of the wholesale and retail marketing of vegetables in the country. This would offer a stable marketing outlet which would give a fair price to the producer and eliminate the price fluctuations that now occur. During the past three years, the union has taken over approximately 30 per cent of the wholesale vegetable market.

Another interesting experiment with regard to vegetables is the setting up of a number of production projects through primary multipurpose cooperative societies where the supply of credit and production needs is integrated with a guarantee of marketing outlets. These projects were the result of an investigation into the seasonal supply of vegetables to the market. This investigation revealed that introducing rotation of cultivation according to the climatic and other conditions in the different areas of the country could ultimately result in a regular flow of vegetables to the market and eliminate seasonal shortages. The All-Ceylon Agricultural Producers' Union, therefore, started a number of pilot projects in non-traditional cultivation areas. The basic feature of these projects is that the All-Ceylon Agricultural Producers' Union (the apex organization) provides the required production credit through the local multipurpose cooperative society. This credit is, in the main, provided in kind. The multipurpose cooperative society then supplies the produce of the members back to the union which, in turn, remits the proceeds of sale less the loan instalments. These pilot schemes, which have now been in operation in different areas for about twelve months, have demonstrated a vast potential for carrying out a programme of planned production in vegetables. The All-Ceylon Agricultural Producers' Union is now making arrangements to expand these projects.

Of the export crops, coconut is the only one where small holders form a majority group of producers. It has been estimated that 70 per cent of Ceylon coconut growers own less than ten acres of land each. Cooperatives, working among these growers since 1941, were able to operate very successfully during the period of peak prices following 1946. When normal prices were restored after 1951, many societies failed, mainly due to inefficient management. Steps have, however, been taken to revive the coconut cooperatives, because in the absence of cooperative organizations to handle processing, the small producer has had to dispose of his unprocessed coconuts to the middlemen. The profits from processing thus accrue to the middlemen and not to the farmer.

A link-up is also being organized between the coconut processing societies and the multipurpose village societies. The growers' coconuts will first be taken over by the multipurpose cooperative societies and then handed over for processing to the coconut societies. These multipurpose village societies would then provide the credit needs to the primary producer, both for cultivation and consumption. So far, seven remodelled dessicated coconut mills have been opened by coconut societies. They are proving to be a great boon to the small producer. In addition, an apex coconut producers' union has been organized to handle the export of the coconut products.

Conclusion

The above has been an attempt to indicate the inter-relation that exists between credit, production, and marketing in Ceylon, without which the cooperative sector cannot make a serious impact on raising the standard of living of the primary producer. Where the three activities have worked without coordination, one or the other has failed. The limited experiment that was tried out in the vegetable link-up scheme at Palugama and the experiment of linking credit and marketing tried out in the cooperative agricultural production and sales society emphasized the need for the integration under one cooperative institution. Even by realizing the multipurpose cooperative institution, it was found that adequate emphasis was not being laid on production or supervision of the use of credit. It is these defects that the Expanded Credit Programme of 1963 has sought to overcome. In this programme, in addition to providing credit and streamlining the marketing arrangements, extension services are being provided in closer collaboration with the cooperatives.

In the countries of Southeast Asia one of the most urgent needs is to increase agricultural production and productivity. The cooperative movements have a special responsibility in development projects directed towards this objective. To achieve this, the organizational set-up within the cooperative movement should ensure that both credit and marketing are directed towards this primary objective. Credit and marketing, therefore, cannot work in isolation. While it is conceded that the form of integration of the different aspects of credit, production, and marketing has to be determined by socio-economic conditions operating within a country, experience in Ceylon has shown that they should be integrated in a single institution at the primary level and that this institution should be a multipurpose cooperative society. This multipurpose society would provide funds for meeting the credit needs of the farmer, ensure—either with the aid of government agencies or directly—that he achieves the best results from the application of this credit in improved agricultural practices, and thereafter see to it that the resulting increased production is marketed on the most favourable terms.

The history of the cooperative movement in Ceylon has indicated that, as far as the rural farmer is concerned, a multiplicity of organizations at the village level tends more to create confusion and difficulties than to attain the objective of a link-up between the three activities of credit, production, and marketing. A single cooperative institution functioning at the village level ensures proper coordination and, therefore, enables the different State agencies working with cooperatives and agricultural development to assist the farmers in realizing the ultimate objective of increased production.

C. SARANAGA

Farm Planning and Extension Techniques

A SUPERVISED CREDIT PROGRAMME AIMED AT SOLVING problems of small and medium farmers will become more effective if it is implemented through sound cooperative organizations, in particular multipurpose cooperatives (credit, marketing, and supply). The principal tools utilized in supervised credit are farm planning and continuous on-the-spot supervision. In fact, technical supervision and guidance are necessary to ensure that credit is effectively used to increase production and income. The granting of loans is based on a farm plan which is prepared by field staff, assigned to primary cooperatives, in collaboration with the farmer-borrower. The cooperative development agency implementing the programme should ensure that such field personnel are effectively trained and maintained.

Cooperative Organization

In order to ensure soundness of operation, the primary cooperative societies which are to adopt supervised credit methods in their operations should be organized with the following characteristics and purposes in view:

(1) The societies should embrace as many farmer-members as possible in a given agricultural marketing and geographic area, considering primarily membership contact. This is to achieve efficient administration and economic management on the one hand, and provide farmer-members with accessibility and efficient credit service on the other.

(2) They should be properly set up to give loans and

technical advice to small and medium farmers in areas where opportunities and desire to increase agricultural production exist. (It is appreciated that marginal and submarginal farmers deserve assistance, but credit alone will not solve their problems, and different devices should be found for them, such as land reform and resettlement schemes.)

(3) They should possess those elements of local leadership, grass-root support, and democratic control, which are essential for their effective functioning.

(4) They should be instruments for mustering local finance in the form of share capital and savings, with a view to making the cooperatives progressively less dependent upon outside financial assistance.

(5) They should have limited liability; and in order to guard against failure on account of unsatisfactory management, the best policy would be to start with credit functions first and then to add supply and marketing activities at a later stage.

(6) The membership of such cooperatives should be divided into informal groups of about twenty to forty farmers each, on the basis of proximity of residence and similarity of farm business. This approach is very important in encouraging group education and in serving as a medium through which mutual control for credit supervision and punctual repayment of loans is exercised. In each group, there should be a group leader annually elected by the group members.

Farm Planning

Farm planning involves analysis of resources, determination of productive capacity, testing of alternative enterprises and practices, determination of the amount of credit required for introducing the improved practices, and a realistic schedule of the farmer's potential to increase production and repay the loan advanced. In other words, the farm plan serves as the basis for advising the farmer on improved agricultural techniques, as well as for deciding how much money is needed for what purposes, and, finally, how the loan will be repaid.

Once the plan is drawn up and the loan is approved, the follow-up or on-the-farm supervision then provides each farmer with guidance needed for putting the plan into effect.[1]

Purpose of Farm Planning

The purpose of farm planning is: (1) to provide a basis for analyzing the adequacy of the farm family's resources and the suitability of the farm enterprise being proposed; (2) to enable the family to think through its farm operations and to determine the adjustments, improvements, and practices to be carried out as well as the capital required to assure a successful farm enterprise; (3) to develop the farm plan so that the family and the field supervisor will make an estimate of income to be received and credit required, and reach a definite understanding as to how each will be used—this will enable the family to use income and credit to the best advantage in carrying on its farm operations, to avoid expenditures for non-essential items, and to be reasonably sure of being able to pay its debts; (4) to furnish the field supervisor with a basis for extending effective supervisory assistance; farm plans reflect the most important items on which the family needs assistance in carrying out planned operations.

Participation in Farm Planning

(*a*) *Family Participation:* The family must assume primary responsibility for thinking through the plan of operation for the farm in order to understand it fully and receive maximum benefits from putting it into effect. Prior to the planning visit by the field supervisor, the family should be encouraged to study among itself its situation, to discuss its problems, needs, desires, and to make tentative decisions regarding the plan of operation in order that it may be better prepared to participate in the final development of the plan. All responsible members of the family should participate in the development

1 Indian Cooperative Union, *Seminar on Planned Production Credit*, 1959, p. 19.

of the plan. This will lead to a better understanding of the plan as finally developed and create a desire to carry it out more effectively.

(*b*) *Field Supervisor's Participation:* The field supervisor is responsible for providing assistance to the family in analyzing its resources and problems, and for contributing technical agricultural information and guidance that will cause the family to think through and develop plans which will improve the farming practices and operations. He is responsible also for showing the family the need for making such improvements and how to make wise use of its income and credit. In order to provide effective planning and supervisory assistance to families, the field supervisor must have current knowledge concerning the systems of farming, resources, investment and production requirements, and management practices necessary for successful farming in the area. He must also have a good working knowledge of what it costs to make the adjustments and improvements usually needed in carrying out successful farming operations in the area, and must be able to estimate with a reasonable degree of accuracy yields and prices in order to budget income, expenses, and debt repayments for the family.

In keeping up to date on agricultural trends, methods, and data available concerning successful farming operations in the area, field supervisors will utilize fully the information received from successful farmers, research workers, experiment stations, and agricultural extension service.

As indicated earlier, preference should be given to implement a supervised credit programme through cooperative organizations. At the initial stage, the cooperatives will perform their activities with technical help supplied in an advisory capacity by the field supervisors assigned to them by the agency responsible for cooperative development. Thus, it will be through the viable primary cooperatives and the field supervisors assigned to them that the programme will reach the farmers whom it is intended to serve. As the cooperatives begin to operate satisfactorily and their employees gain experience and are appropriately trained, the technical supervision of farmer-borrowers (who are their members) will gradually be taken over from the field supervisors by the cooperatives.

Loan Application

Upon receiving an initial loan application, a field supervisor or a cooperative employee will visit the applicant on his farm in order to effect an orderly and satisfactory completion of the farm plan in connection with the loan. This involves investigation concerning the applicant's resources and desires, the details and justification of the farm development being proposed, the credit needs, loan disbursement plan, the ability and experience of the applicant, the property offered as security and the sureties' financial condition. A proper and complete loan application is consequently developed, embodying the farm plan, and is submitted, together with the investigator's report, to the board of directors or the loan committee of the cooperative concerned. The board of directors or the loan committee will then make a careful study of the application and the investigator's report and give a final decision whether or not the loan will be granted.

Making Farm Visits

(1) Visits should be conducted in a friendly but businesslike manner by the field supervisor or the cooperative employee. Adequate time should be taken to discuss the problems and the corrective action required.

(2) Note should be taken of the condition of the farm buildings, equipment, crops, livestock, poultry raising, fish culture, and home food production, as also production obtained to date. Any major family living problems also should be recorded.

(3) The supervisor should evaluate the progress being made with respect to planned farm development and other major adjustments in farming practices. He should also discuss with the borrower the progress being made, problems which are

evident, changes or practices necessary to improve or correct any adverse condition, and the amount and source of funds required.

(4) When the borrower is not familiar with the techniques necessary in connection with the adoption of a new farming practice, or the correction of an existing problem, the field supervisor or cooperative employee should demonstrate how it should be done, if this is feasible. If this is not feasible, he should assist the borrower in obtaining the services of a competent specialist, for example an agricultural extension officer or a veterinary surgeon. It may also be helpful in some situations to arrange for the borrower to visit some other farmer who has mastered new practices. In some instances, demonstrations can be used effectively with a group of borrowers.

(5) At least once a year when making a visit, the supervisor should make a spot check of the property serving as security for the cooperative loan(s).

(6) The supervisor should inspect the major purchases made with loan funds by the borrower, and review with him how to make use of any remaining loan funds or how to make any difficult purchases not yet completed.

(7) He should review with the borrower the amount, time, and source of repayments planned. When repayment cannot be met as planned, an investigation should be made regarding new dates and sources of repayment based upon the probable income and expenses during the next season.

(8) Emphasis will be placed upon training the family in keeping and using the information in the inventory (financial statement) and other farm records.

(9) The supervisor should commend the borrower on the progress made since the last visit and discuss the probable time and purpose of the next visit.

(10) Immediately following the completion of a farm visit, concise notes should be made by the field supervisor or the cooperative employee in record of the particular credit file maintained by the cooperative.

Extension Techniques

The methods employed in extension teaching may be classified in three ways according to the number and nature of the contacts inherent in their use: (*i*) individual contacts, (*ii*) group contacts, and (*iii*) mass contacts.

Under the first category, the farm or home visit is made for the purpose of giving or obtaining information, particularly in matters which require first-hand knowledge of prevailing conditions and of the family's point of view, such as development of the farm plan, evaluation of the progress made, and inspection of the major purchases made with loan funds. It also develops good public relations and contributes to selection of better local leaders. However, some limitations of this method are that it requires a relatively large amount of field supervisor's time; that the number of contacts possible is definitely limited; and that the time of visiting is not always opportune from the standpoint of farmers.

The second category involves contacts with a substantial number of farmers assembled in a group. As there already exist informal groups of members in the cooperatives employing supervised credit methods, group contact in this case is both convenient and effective for such general purposes as cooperative and farm credit education, dissemination of knowledge regarding the latest improvements in agriculture, and discussion on improved farming practices. However, this does not eliminate individual contacts.

In addition to the personal contact and group teaching methods, mass media enable field supervisors and extension workers to increase their teaching efficiency greatly. Publications, news stories, circular letters, radio, television, exhibits, and posters provide helpful repetition for those contacted personally or through groups. Even though the intensity of teaching through mass media is less, the large number of people reached and the low cost per unit of coverage more than offset the lack of intensity.

K. C. CHERIYAN

Loaning Policies in India

A DISCUSSION ON THE LOANING POLICIES OF THE COOPERATIVE credit structure in India for financing agricultural production is perhaps appropriate at the present time when large-scale changes in such policies are being brought about throughout the country. Some idea of the magnitude of the task involved in the changeover will be evident when it is realized that this would mean a departure from existing practices for slightly more than 200,000 primary agricultural credit societies which dealt with about 25 million members and disbursed nearly Rs. 3,000 million as loans in 1963–64. Till very recently security in the form of land mortgage continued to be the prime consideration for eligibility for agricultural loans from cooperative credit societies in several States, notably in West Bengal, Orissa, Madhya Pradesh, Mysore, Andhra Pradesh, Madras, and Kerala. The need to change over to a purpose-oriented loan policy by adoption of the crop loan system, used in Maharashtra and Gujarat States since 1950, was recommended by two important committees, the Committee of Direction, All-India Rural Credit Survey (1954), and the V. L. Mehta Committee on Cooperative Credit (1960). While these recommendations were accepted by official and non-official cooperative opinion in the country, implementation in several States was not taken up for a long time.

Main Features of Crop Loan System

The essential features of the crop loan system which was adopted for providing agricultural credit to farmers on a rational basis were first spelt out in the recommendations of the Agricultural Finance Sub-Committee of the Policy Committee on Agriculture, Forestry, and Fisheries in 1945. The more important of these were: (1) the primary agricultural credit society should try to meet in full all short-term credit needs of its members, and subject to certain limitations, their medium-term credit needs for agriculture; (2) the credit-worthiness of a member should be assessed on the basis of his repaying capacity; (3) the society should have a statutory charge on the crop and mortgage security would be justified when the size and period of the loan require it; and (4) the loan should be advanced only as required and as far as possible in kind.

Following the acceptance of these recommendations by the Bombay Cooperative Banks' Association and Government of Bombay, a loaning procedure incorporating these principles was adopted in the former Bombay State from 1950. In cooperative financing of agriculture, the emphasis was shifted for the first time from the security of the loan to the requirement of credit for production of the particular crop which was being financed. The scale of finance required for each crop was determined in a field workers' conference held in each district much in advance of the cultivation season. These conferences are attended by representatives of agricultural credit societies—the central cooperative bank in the district and the officials of the agriculture and cooperation departments of the State government.

Why Crop Loan System Necessary?

Of the total lendings of the primary agricultural credit societies in India at the end of 1963–64, funds provided by the Reserve Bank of India and government for short-and medium-term[1] agricultural purposes accounted for about 48 per cent. Those made available by the apex banks formed about 6 per cent; by the central cooperative banks, 28 per cent; and by the primary agricultural credit societies, the remaining 18 per cent. Thus, at every tier of the credit structure there was

1 The cooperative year in India is from 1 July to 30 June.

larger dependence on funds from higher financing agency than on what the structure at that level could contribute from its own resources of owned funds and deposits. In the context of the fiscal responsibilities which such an arrangement enjoins, it may appear surprising that insistence on mortgage security for borrowings at the primary level is discouraged especially when the borrowings are for agricultural production, an operation still dependent in large parts of the country on the monsoon. The justification for the move arises from a number of factors inherent in the financing of agriculture in this country. First, while timely sanction and disbursement of agricultural loans are important for the success of the operation itself, insistence on mortgage of land as security in each case would cause considerable delay. Secondly, a large number of tenant farmers who do not have the right to mortgage the land they cultivate will have to be denied credit. Thirdly, even those who own their land may not have adequate land to offer as security if they have already availed of a large medium-term loan or a long-term loan from the land mortgage banking structure. Finally, mortgage of the borrowers' land does not always adequately protect the interests of the credit agency if the borrower defaults. The experience of several district cooperative banks has shown that foreclosing of mortgage does not ensure recovery of dues owing to the difficulty in finding buyers to bid at auctions held in the rural areas. Considering all these factors, the conclusion that the best form of security for the loan advanced by the credit society would be the continuation in farming business of the borrower appears inescapable. Arrears in dues, owing to a variety of factors, including circumstances beyond the control of a borrower, can be corrected only by ensuring that the clientele of the credit agency is a continuing one. The land which constitutes the means of production for the farmer must not be alienated. In pursuing this objective most cooperative societies acts provide that with the availing of a loan by a member of a cooperative credit society a first charge is created in favour of the society not only on the crop raised by the farmer but also on any land owned by him or on which he has interest as a tenant, and in regard to which he has to make a declaration. Under the statute, such a charge is vacated only in favour of a land mortgage bank or the State government. When the member of the cooperative credit society is a tenant-farmer holding the tenancy under an oral lease, the society can advance loans to him on the scale recommended under the crop loan system only if two other land-owning members of the society could be found to stand surety.

Action Programme in I.A.D.P. Areas

Although the need to change over to the crop loan system of financing in all parts of the country was emphasized by the Rural Credit Survey Committee, implementation of the programme in the rest of the country was not urgently pursued. Attempts later to get a rationalized lending procedure introduced in the 15 districts selected for the Intensive Agricultural District Programme also did not meet with much success. Towards the end of 1963, when a decision was taken to institute an Intensive Agricultural Area Programme in 114 districts, it became necessary to reorient the loaning policies of the cooperative credit structure to fully meet farmers' credit requirements to enable the farmers to introduce improved agricultural practices. An outline of Action Programme was drawn up by the Ministry of Cooperation in consultation with the Agricultural Credit Department of the Reserve Bank of India in the early part of 1964. This integrated programme involved strengthening of the cooperative banking structure, re-organization of primary institutions so as to have only viable and potentially viable units, development of cooperative marketing, and implementation of the crop loan scheme of financing. To ensure viability, the area of operations of the societies was to be extended to enable them to have adequate credit and non-credit business. Their share capital was to be strengthened by adopting an increased ratio between share-holding and borrowing, and they were also to be permitted to retain an adequate margin in their loan business.

Determination of Scale of Finance

The crop loan scheme followed in Maharashtra and Gujarat evolved a scale of finance for each crop grown in the district at the annual field workers' conference, the preparation of statements indicating credit requirements of each member on the basis of his acreage under different crops, sanction of a credit limit for each society by the central bank, disbursement of the loan in cash and kind to the member during the cultivation season, and fixation of loan recovery dates to coincide with harvesting periods. A major departure in procedure in the "action programme" was to fix the repaying capacity of each cultivator at half the estimated total cash income of the member less the known demands on account of other loans taken by him. The cash income was to include estimated cash realization from produce sales and off-farm income. The credit to be provided to the cultivator for raising the crop was assumed to consist of: (1) the cash requirements for production fixed on a per acre basis (cropwise) to be about one-fourth of the average value of gross produce in dry areas and one-third in irrigated areas; (2) requirements in kind for fertilizer, pesticides, seeds, etc.; (3) cash requirements for extra labour charges involved in the application of these inputs which should not exceed half the value of inputs; (4) a lump sum cash loan of Rs. 50 per family to meet consumption expenditure; and (5) a cash loan equivalent to 5 per cent of the produce sold by the member through the cooperative marketing society during the previous year as an incentive to further use of the cooperative marketing structure. Where the needs exceeded the repaying capacity of the member the cut in the credit for which he was eligible would be made in items other than in items (2) and (3).

As a result of further discussions with the cooperatives and State government offices in different States, it was considered necessary to make a few important modifications in the loaning procedure recommended in the action programme. A crop loan manual incorporating these modifications was prepared by the Agricultural Credit Department of the Reserve

Bank of India and circulated to all State governments, primarily to serve as the basis for discussions at the State level conferences convened by the Union Ministry of Cooperation in 1965 and 1966. A major modification was that the repaying capacity of a cultivator for short-term agricultural loans should be related only to the value of the gross produce from his land in view of the difficulty of correctly estimating his non-farm income. It was suggested that a traditional cultivator's normal repaying capacity could be fixed at about one-third of the value of his gross output from agriculture. As only smaller farmers ordinarily need credit for maintenance expenses and as such farmers, cultivating the land themselves, do not incur labour charges, the amount advanced (one-third of the value of gross produce) was considered sufficient to meet their cash requirements for consumption and offer-needs. There did not appear to be any need to disburse to cultivator-members a cash loan of Rs. 50 per family to meet their maintenance expenses and, therefore, this provision was dropped in the crop loan manual.

The credit fixed for the cultivator on the basis of his crop, the proposed area to be cultivated, and the scale of finance fixed for the crop was to comprise three components, namely, a cash component not exceeding about one-third of the average value of gross produce per acre associated with the traditional level of cultivation, to be disbursed as soon as cultivation operations commence; a kind component of fertilizers, insecticides, and pesticides as recommended by the agriculture department; and a further cash component not exceeding half the value of the kind inputs, to be availed of soon after the kind component is taken by the farmer. The amounts required for each of the three components were to be determined on a per acre and per crop basis in the field workers' conference. Then, the district cooperative bank, taking into account its available resources, would set a further limit on the per acre scale of finance for the year. If its limit happened to be less than what had been recommended in the field workers' conference, a cut would be imposed on the first cash component.

Criteria for the Crop Loan Procedure

It might be useful here to devote some attention to the basic considerations which led to the evolution of the crop loan procedure. While the system which has been in vogue in Maharashtra and Gujarat States since 1950 stemmed from the need to change over from an asset-based lending policy to one in which the emphasis is placed on determining the credit crop production, the action programme as well as the crop loan manual were drawn up with a view to recommending a loaning procedure suited to the needs of an intensive developmental programme in agriculture. It was envisaged that in areas where such programmes are in operation, the farmer would move on from a traditional level of cultivation not involving the use of improved seeds, fertilizers, insecticides, or even of improved methods, to one in which all improved practices would be adopted with the aid of extension agencies. There was thus the need to fix a scale of finance which, while being adequate for the farmer who fails to take advantage of the facilities offered and continues his cultivation in the traditional manner, would still meet the needs of those who adopt, to the maximum possible extent, all the recommended improved practices. The three-component formula was thus expected to possess the flexibility needed to meet the requirements of farmers adopting improved practices in varying degrees. The first cash component limited to one-third of the value of gross output provides adequate credit to those who carry on cultivation in a traditional manner. To those who wished to use improved methods, the second and third components would be provided and the application of such inputs could be expected to generate their own repaying capacity. The extent to which credit could be provided under these two components would depend on the extent to which the cultivator is prepared to use fertilizers and insecticides, subject to the ceiling amount prescribed.

There are obvious advantages in relating the repaying capacity of the farmer to the value of his average gross output as compared to determining it in relation to his gross income less the known demands on such income. The primary cooperative credit society would not be in a position to correctly estimate, in individual cases, the gross income of the farmer including his non-farm income. Neither would the society be in a position to know the various demands on such income. The All-India Rural Debt and Investment Survey, conducted in 1961-62, showed that the co-operative share in the total borrowings of farmers had increased to about 24 per cent, the proportion being highest in Maharashtra State at about 55 per cent and lowest in Bihar State at 4.12 per cent. Thus, for their credit needs, farmers still depend on other agencies, mainly non-institutional, to varying extents. The outstanding indebtedness of farmers also showed a similar position. It would not thus be possible for any institutional agency to know the various demands on a farmer's income arising out of his borrowings from non-institutional sources. All that could be done, therefore, was to assume that the produce of the farmer on which the society has a first charge under the cooperative law would be utilized by him in repaying his loan to the society. The limit of repaying capacity was taken to be roughly half the value of his total yield from the harvest, of which one-third could be the limit for short-term loans, the remaining one-sixth being the repaying capacity for instalments due under a medium-term loan.

Some Problems

While assessment of the repaying capacity of the borrower involving a detailed calculation of his income and expenditure may be subject to errors of judgement and may be based on insufficient or unreliable data, the method recommended in the crop loan manual of determining it as a specific proportion of the value of gross output also suffers from the drawback that it might result in providing less credit to the small cultivator and more credit to the large cultivator than what is actually required by either. This is so because the requirement of credit which should bear some relation to the cost of cultivation is assessed in terms of a notional repaying capacity related to the size of the farm. The small cultivator may require more credit than his repaying capacity and the large cultivator may not require credit up to the limit of his repaying capacity. However, as family labour accounts for a major part of cultivation costs in the case of the small cultivator, the net effect of this procedure for the small farmer is a smaller maintenance element than what is required by him. This will necessarily have to be made up by off-farm income. In the case of the larger cultivator, off-farm income has yet to play a dominant role in his economy and he may have to make cash or kind payments for his cultivation expenses. The credit to be provided to the still larger cultivators will be limited by the individual maximum borrowing power fixed by the society. Therefore, fixation of credit requirements on the basis of a notional repaying capacity may not lead to any undue discrimination in favour of the larger cultivator.

Another serious limitation of the method recommended is that in a period of abnormal rise in farm prices the requirement of credit computed at one-third of the value of gross output may be pitched very high as compared to actual needs. This will have to be corrected at the field workers' conference, comparing the actual increases, if any, in cultivation costs as compared to the level which prevailed in the immediately preceding year. Similarly, any steep fall in farm prices in a year should not result in a corresponding fall in credit needs. The scale of finance may be diminished to the extent that cultivators' costs have declined. Ordinarily, the first cash component, which is to be used mainly for payment to labour by the large cultivator and to meet maintenance needs by the small cultivator, should be expected to vary in proportion to the rise or fall in farm prices. The adjustment to be made at the field workers' conference may not be easy to accomplish in practice but if the scales are to bear any relation to actual cost of inputs, careful attention will have to be paid to these aspects when fixing the scales. It will be a good plan to keep the first component constant from year to year and allow variation only in the second and third components.

Thirdly, another pitfall to avoid is to assume that current cultivation practices are fully of the traditional type. This may not be so in all areas. With the popularization of fertilizers and fertilizer mixtures, farmers have adopted some improved practices. The field workers' conference has thus to first arrive at the average yield per acre under purely traditional methods and work out the value of gross output on average farm prices. This may not be easy especially in areas where farm development projects have been in operation resulting in larger capital investment on land and consequently very much higher yield per unit area. It may also happen that the pattern of cropping has changed owing to conversion of a dry area into irrigated land. All these circumstances will have to be taken into consideration before estimating gross value of output when cultivation is carried out in the traditional manner.

Fourthly, seasonality in disbursement and recovery of loans as an integral part of the crop loan scheme presents some problems when applied to areas sown more than once. There are also areas where cultivation is continuous throughout the year and the accommodation from the society may have to be in the form of a cash credit. While a maximum credit limit which may be drawn by a cultivator can be sanctioned by the society, there might be cases where the farmer is not in a position to indicate sufficiently in advance the area which he proposes to cultivate during the second and third crops. Even where this is definitely known, the actual area cultivated may be different from what was declared by him depending on the availability of water or the onset of rains. Considerable organizational competence has to be developed at the society level to regulate disbursement in accordance with the actual area under cultivation for the second or third crops.

Fifthly, where the cultivator grows a variety of crops during the same agricultural season it may be necessary to fix the recovery date to coincide with the harvesting period of the most important crop cultivated. Thus, where the cultivator grows both cash and food crops, repayment may be fixed to suit the harvesting period of the cash crop. Where the land is cultivated more than once during the same year, the recoveries will have to coincide either with the harvesting season of each of the crops or with the harvesting season of the cash crop or that whose yield is the highest. It will be difficult to lay down any rigid pattern of seasonality for recoveries in areas which exhibit considerable heterogeneity in cropping patterns.

Finally, as no effective linking of credit with marketing has yet been established, the crop loan manual suggested that the field workers' conference should fix in each year an increasing proportion of the credit issued to be recovered by sale of produce through the marketing society in the area. The successful enforcement of any such agreement entered into by individual cultivators would obviously depend very largely on the quality of service which marketing societies can render. The question then is one of providing a superior type of service to the producer than what other agencies in the field such as the trader or a private processing concern can provide. This would naturally depend on ready availability of market intelligence, adequate transport, storage and processing facilities, contact with terminal markets, and the ability to offer a competitive price. Societies offering such services will have to agree to withhold at least half the value of produce in the case of outright purchase and two-thirds of the value of produce in the case of a pledge loan or when an advance payment is made towards the credit society's dues. Where the marketing society is unable to offer these services, the credit society's recovery performance would depend entirely on the member's loyalty and his continuing need for credit and other service facilities from the society.

Medium-Term Loans

An attempt to rationalize the policy and procedure for the issue of medium-term loans for agricultural purposes was made for the first time in the crop loan manual. The policy generally followed so far by the cooperative banking structure in regard to medium-term lending was to determine the cultivator's eligibility for medium-term loan by judging the value of the security offered. The V. L. Mehta Committee on Cooperative Credit (1960) recommended that as a general rule mortgage security is not to be insisted upon for medium-term loans of less than Rs. 500; for loans between Rs. 500-1,000, borrowers may create a charge on their land; for loans above Rs. 1,000, it would be desirable for the credit society to obtain mortgage security. In the crop loan manual a shift in emphasis from security for the loan to the repaying capacity of the borrower was recommended. In the context of limited availability of medium-term resources on the one hand and the widespread use of medium-term loans for short-term or long-term purposes on the other, the need to ensure that medium-term loans are availed of only for specific items of investment was considered important. The first step is to fix generally acceptable norms of outlay for the various types of investments requiring medium-term finance. Thus standards on a per acre basis in regard to the finance required for agricultural purposes, such as bunding, reclamation, etc., and on a per unit basis for purchase of bullocks, pump-sets, milch cattle, construction and repair of wells, etc., could be laid down in each district or State. It was recommended that the scale of finance for each purpose be fixed in the annual field workers' conference. The conference will also have to decide the acceptable period of replacement in the case of wasting assets required in agricultural operations such as bunding, minor land improvements, etc.

The need for medium-term finance arises both for investments which are purely of a repair, maintenance or replacement type, and also where the investment results in an addition to assets. In the former case, the repaying capacity will have to be related to the annual gross farm income of the cultivator. As it has been already assumed that the total repaying capacity of a farmer should not exceed half the value of the gross produce and as about one-third of the gross produce has been fixed as the repaying capacity for the basic cash component of the short-term loan, the annual instalment repaying capacity for medium-term loans may be fixed only up to the balance, namely, one-sixth of the value of gross produce. As the medium-term instalment is payable only once a year, it could be fixed at one-sixth of the value of gross produce of all crops cultivated by the farmer during a year. The field workers' conference having fixed the scale of finance for each item of investment involving a medium-term loan on a per acre, per crop or a per unit basis, it should be possible to decide whether the loan should be sanctioned for a three-year or five-year period having regard to the value of gross produce of the crops cultivated. The eligibility of a cultivator for a medium-term loan will be three to five times his annual repaying capacity depending on whether the loan is for three or five years.

So far as investments which result in a net addition to assets are concerned, the repaying capacity should ordinarily be fixed after taking into account the additional income generated with the use of the new assets created. If it is found that the new investments generate an increase in the cultivator's income so that he can repay the loan within three to five years, there should be no objection to making available a medium-term loan for the purpose. However, if the farmer is not in a position to meet the annual instalment due when the loan is for a period of three to five years, the appropriate agency to which he should turn for such investment purposes is the land development bank, which generally advances loans for periods ranging from 10 to 15 years. As the cooperative credit structure may not be able to assess, in individual cases, the repaying capacity generated by such new investment, the structure will have to base the repaying capacity of the farmer only with reference to his current output.

Conditions Governing Grant of Loans

A major objective in adopting a rational loaning policy from the point of view of the cooperative credit structure is to increase its sound loaning business and consequently strengthen the structure. This can be achieved only if the standards instituted at each level are in the interests of sound financial discipline and control. One of these is the principle that a defaulting member of a primary agricultural credit society should not be financed again until his arrears are cleared. The "action programme" recommended a slight relaxation of this condition in view of the need to provide fresh finance to cultivators who are unable to pay up the full amount of their dues on account of large-scale crop failure. The recommendation was that where a member has cleared his dues to the extent of 80 per cent and is unable to pay the balance because of crop failure on account of natural calamity in the area, he may be financed again, even before the usual investigations for purposes of granting an extension are undertaken.

Another condition usually imposed by the credit structure relates to the permissible level of default beyond which fresh finance to a primary agricultural credit society is not made available by the district cooperative bank. Although the procedure in this regard varies from State to State, district cooperative banks do not generally sanction loans to a society which has not cleared 65 per cent of its dues to the bank; in some States as high a proportion as 80 to 90 per cent is fixed for the purpose. When a society is denied credit on the basis of its overall performance, it results in its non-defaulting members also being deprived of credit on account of other members not paying up in time. On the other hand, it would be desirable, in a cooperative form of organization, that the manner in which each member conducts his transactions with the society is in consonance with the common objectives of all the members. While, therefore, there is need to stipulate a level of overdues which should not be exceeded by each primary agricultural credit society, the level should be so fixed that it should not cause hardship to the large majority of members. In view of these considerations, the action programme recommended that a society should be considered as being eligible for fresh finance only after it has cleared up to 50 to 75 per cent of its dues, the level to be fixed by each district bank depending on the conditions in its area.

In areas affected by natural calamity, the district bank may relax this condition and allow societies which have cleared even one-third of their dues to be refinanced, but the fresh finance should be only in respect of members whose overdues do not exceed 20 per cent and where there is a proposal to grant them extensions for the balance amount.

A district cooperative bank, drawing on credit sanctioned by the Reserve Bank of India, must maintain adequate cover in the form of outstanding non-overdue loans with primary societies. Thus the apex and district banks should have adequate resources in the form of owned funds and deposits to absorb the overdues. The extent to which financial accommodation is made available to a district cooperative bank by the Reserve Bank of India depends not only on the cooperative bank's audit classification, but also on the amount of its own resources it is in a position to utilize in its business. This would also mean that achievement of any target for loan business which the cooperative bank may have fixed on the basis of the demand for credit arising in its area would depend to a considerable extent on the success with which it mobilizes resources in the form of share capital and deposits. Share capital of cooperative credit institutions can be augmented through financial assistance available to State governments in the form of loans from the National Agricultural Credit (long-term operations) Fund set up by the Reserve Bank of India. This fund enables the States to contribute to the share capital of cooperative credit institutions, the extent of such assistance depending on the requirement of each institution for capital to attain a desired lending programme and on the efforts made by it to build up its own paid-up share capital and reserves.

It may happen that in areas affected by natural calamities, the flow of funds through the cooperative credit structure is impeded due to heavy overdues. To the extent that the structure in any area is unable to meet the demand for credit from cultivators owing to heavy overdues, stabilization arrangements, in the form of a Stabilization Fund at each level of the cooperative credit structure, to convert overdue short-term loans, arising on account of drought, flood, frost and disease blight, into medium-term loans, are available following recommendations to that effect by the Rural Credit Survey Committee (1954). These arrangements are to be supplemented to the necessary extent by assistance from the National Agricultural Credit (Stabilization) Fund maintained by the Reserve Bank of India. Where such calamities occur in successive seasons and where conversions to medium-term loans become difficult owing to the total of medium-term instalments and the fresh short-term loans exceeding the repaying capacity of the borrower, the relief and guarantee fund maintained at the State government level is to be employed to write off part of the overdues.

The several conditions governing the flow of credit imposed by the cooperative credit structure as well as by the Reserve Bank of India (which has agreed to supplement the resources of the structure) are with a view to ensuring that the financial soundness of the institutions engaged in raising resources and providing credit is not jeopardized. At the same time, the relaxations suggested are to guarantee that the needs of cultivators in an area selected for intensive development are met to the maximum extent possible. It may, however, happen that even with the relaxations suggested it may not be possible for the cooperatives in some areas to meet fully the credit requirements of cultivators arising from a recommended level of inputs or improved practices in agriculture. This may happen in areas where the cooperative banking structure is not yet in a position to mobilize resources owing to lack of deposit potentialities in the urban areas. At the same time, the area may be well suited for agricultural development. In such cases the district cooperative bank may not be able to achieve fully the lending programme drawn up to meet the credit requirements of cultivator-members of affiliated societies unless some assistance from State government is forthcoming. One method of rendering assistance is to supplement resources of the district bank by making a long-term deposit large enough to enable the bank to achieve the lending programme set before it. The deposit is then withdrawn when there is no further need for such support.

Concluding Remarks

This article is written with the limited objective of discussing the many changes in loaning procedure which may be brought about at the primary level of the cooperative credit structure in all States. It has not been possible to discuss in detail all the problems the cooperative credit structure is likely to face while implementing the suggestions made in the crop loan manual. It would also be inappropriate to assume that the procedures recommended in the manual are applicable in their entirety to all parts of the country. Further modifications in the procedures recommended now would be inevitable with large-scale changes in methods of farming or when agriculture is combined with ancillary activities. At the present moment, lack of detailed information on the economics of such activities also lead to reluctance on the part of cooperative agencies in formulating a rational loaning policy for financing such activities.

SOLOMON G. CABRERA

Recovery Problems in the Philippines

IN 1952, THERE WAS LAUNCHED IN THE PHILIPPINES A BOLD government programme of credit without collateral for the small farmers—those actively engaged in the cultivation of land using labour available from their individual households. Among the intended beneficiaries, the reaction naturally was one of encouragement and hope. In other sectors, however, particularly in the banking circles, the new programme was looked upon with scepticism because all previous efforts to make credit available to small farmers under liberal terms and conditions had failed. The sad experiences of the rural credit societies in the 1920's and the debacle of the Philippine National Bank crop loans in the 1940's were recalled. Nevertheless, the government persisted in its determination to liberate the small farmers from the clutches of usury and domination by unscrupulous traders and moneylenders, and created an agency known as the Agricultural Credit and Cooperative Financing Administration (ACCFA) to implement this unprecedented programme.

The Typical Filipino Farmer

Low productivity and low income characterize agriculture in developing countries. The Philippines is no exception. The typical Filipino farmer cultivates about three hectares of land, with rice as his main crop, raising on the average about 90 cavans[1] of paddy a year. Most of this harvest goes to the landowner for use of land and in payment of advances

1 A cavan is a sack of rice weighing 44 kilograms net.

previously taken by the farmer for his subsistence and production expenses. The farmer, who is usually a tenant, is then left with nothing; so he starts a new crop year borrowing again for his farming as well as household requirements. This cycle continues from year to year and in many instances from generation to generation.

So poor is the average Filipino farmer that he regards farming largely as a means of surviving from season to season, and very often simply as a vantage point for borrowing not so much for productive inputs as for his family's living necessities. His borrowing capacity necessarily being limited, he is not able to improve or expand his farm business. Unable to apply better technology, his production and income have remained at bare subsistence level.

Credit for Small Farmers

The Philippines Government has not been insensitive to the sad plight of Filipino farmers. Numerous programmes have been tried and are still being tried to develop agriculture and improve rural life. Among these were the introduction of better share tenancy systems, farms and home extension services, community development, cooperatives, government financing, and very recently land reform and supervised credit. In this paper, discussion will be limited to credit programmes, more particularly agricultural credit programmes.

The first attempt to bring cooperative credit to farmers in the Philippines was in 1915 when the Philippine legislature passed a law, Act No. 2508, the Rural Credit Law, under which were organized rural credit associations patterned after the Raiffeisen type of credit societies. By 1939, there were 571 such societies throughout the country, but a good number of these died even before they could start operating; today, none is known to be in business. The first trial of cooperatives and credit in agriculture failed. This early failure was later to prove a serious obstacle to the successful launching of farm cooperatives in the Philippines.

In 1946, as an aftermath of the war, there was a widespread fear of food shortage; so the government lost no time in encouraging increased food production to stave off impending famine and restlessness among the people. The Philippines National Bank (PNB) was called upon to grant special crop loans for the production of rice, corn, and other foodstuffs, to be secured solely by standing crops. This was a strong departure from established banking practice, but with the guarantee of the National Government that it would absorb all uncollected loans, the PNB went ahead with the project. As expected many of the loans were not paid, but the government made good its promise to the PNB on condition that the Bank would continue exerting efforts to collect. By 31 December 1965, only 60.58 per cent of the loans had been recovered. There were many causes for non-payment but, on the whole, the experiment demonstrated that *bona fide* farmers, provided they had the repayment capacity, will pay their loans, no matter how long the loans have been outstanding.

The ACA Credit Programme

Undismayed by previous failures, the Philippine Government, with the technical assistance of the then Mutual Security Agency of the United States Government, embarked upon what was referred to in the introductory part of this paper as a bold programme of credit without collateral. An agency known as the Agricultural Credit and Cooperative Financing Administration (ACCFA), now the Agricultural Credit Administration (ACA), was created to administer this programme.

ACA financing for farmers consists of loans for production and for marketing. Through cooperatives, advances are made to farmers against expected production, for subsistence, necessary labour expenses and essential farm tools and supplies. After harvest, another loan, known as a commodity loan, is extended to them against crops delivered to and stored in the cooperative warehouse. Advances for production expenses are automatically deducted and paid to ACA by the cooperative from the commodity loan. Repayment of the production loan is thus tied up to the marketing of the crop financed.

Loans for production expenses are not secured, except by an agreement between the farmer and his cooperative that he will sell his marketable surplus to or through the association. The loan matures upon harvest of the crop financed, and earns interest at the rate of 8 per cent per year. The maximum loan for production purposes that any one farmer may secure from ACA is ₱2,000 or 60 per cent of the value of his expected production less liens, whichever is smaller. The cooperative co-signs the loan with the member-borrower.

Prices of farm products are generally depressed at harvest time. To enable a borrower to await the best price possible for his produce, ACA extends to him a commodity loan, again through his association, upon delivery of his crop to the cooperative in accordance with the marketing contract. The commodity loan is given up to 80 per cent of the current market value of the stored commodity at 7 per cent interest per annum. It matures in 120 days subject to extension for a like period at the option of the ACA. Marketing is undertaken by the cooperative, which collects and remits to ACA payments on the commodity loan upon sale of the encumbered crop.

Record of Loan Repayment

The success of a lending programme for farmers may be judged by several factors, the degree of repayment being an important one. Although the ACA programme has not been completely satisfactory in terms of repayment of loans advanced, it has achieved significant results in effecting changes in farmers' outlook, production methods, and productivity. It may be added that there has been a steady improvement in the collection of ACA loans over the years (see Tables I and II).

Table I shows the status of production loans by crop year from 1953-54 to 1964-65. It will be seen that from 1953-54 to 1956-57 there was a steady increase in loan volume, but a gradual decline in repayment. Loan volume began to decline in 1956-57 until it reached the all-time low in 1960-61. During the entire period under review, repayment was lowest in the years 1957-58 up to 1960-61. Starting 1962-63 up to the present, however, there has been steady increase in loan releases as well as in percentage of recoveries.

Table II shows the repayment on production loans both on current loans and past dues at the end of each crop year since 1958-59 to 1964-65. It is unfortunate that no records along this line are available for earlier years. It will be noted that at the end of each crop year, or generally at maturity, repayment is, as a rule, quite low. Every year, however, there is improvement in repayment both on past due loans and on current loans.

A comparison of repayments made by farmers to their associations and by their associations to ACA is shown in Table III. For this purpose, records of representative associations only were taken into account, but they do show that the performance of individual farmers is better than their associations. This means that cooperatives are not able to remit to the ACA all of the collections they make from their members. The repayment on production loans shown in Table I would, therefore, be very much better if cooperative associations did not divert part of their collections from members.

Despite the generally unsatisfactory repayment of loans previously, the recovery of loans released during the first year of the then ACCFA operation (see Table I) was relatively good, the best during the entire period covered by this review. The only possible explanation for this is that this being the first year of operation, ACCFA proceeded very cautiously in granting loans. The bad experiences in the past still fresh in their memory, ACCFA officials, after a meticulous screening process, saw to it that all precautions were taken to ensure that only farmers with repayment capacity were extended loans. This experience shows that provided there is careful selection of borrowers and the usual credit policies and practices are adopted, loans to farmers even without collateral are reasonably safe.

The following years loan releases rose very abruptly, doubtlessly on account of the tremendous demand from farmers all over the country who were now attracted en masse to the liberal credit offered by the government. It would appear that the only limiting factor to further loan releases was the unavailability of more loan funds.

The deterioration in repayment performance as loan volume increased cannot escape notice. The lending agency and the cooperatives, through which loans were extended to farmers, could not cope with the rapidly expanding operation and although there was quantitative gain in the programme, qualitatively it suffered.

By 1957-58, most of the funds of ACCFA was tied up in receivables and, therefore, loan volume continued to decline. Collections were not sufficient to maintain loan volume at a level comparable to preceding years. This situation continued up to 1961-62 when issuing of loans practically stopped. During this time the problem of recovering loans was compounded by the inability of the agency to provide continuity in its lending programme.[2] Because there was no assurance that even farmers who paid their loans could get new accommodation, they deliberately withheld payment for fear that having left their old creditors in favour of ACCFA they might find it difficult, if not impossible, to get credit elsewhere.

Causes of Poor Repayment

The poor repayment of production loans is no indication that farmers are bad credit risks. On the contrary, the ACCFA experience has conclusively confirmed earlier experiences that farmers will pay their loans no matter how long they have been outstanding with or without collateral when they have the means.

Failure to repay loans has been due mainly to low productivity and extremely low income among the clients of ACA.

2 The repayment on commodity loans is not discussed in this paper, as it does not present recovery problems. Being fully secured, repayment on commodity loans is highly satisfactory.

Loans were supposed to result in increased production and income but, especially during the first years, many of the loans were diverted to non-productive uses, because the farmers were more concerned with daily necessities of life than improved farming. On the other hand, the lending agency tends to be very conservative in its lending policies. The result is that whatever loans are released are misapplied to subsistence needs and production is not improved. Loan recovery is thereby impaired.

Unless the masses of small farmers are first brought to a level of productivity which will give them adequate income, repayment of loans will always be a problem. Administrative problems at best only complicate collection; the biggest single cause of poor repayment was and still is the impoverished condition of the numerous small farmers whom ACA is called upon to serve.

There were, of course, other causes that have contributed to poor repayment. Haphazard screening of borrowers, faulty processing and over-extension of loans, inexperience or dishonesty on the part of some cooperative officials, poor or inadequate loan supervision, and misinformation on the part of the farmers were among the more important ones. With very little training in credit operations, government personnel and cooperative officials undertook the administration of a rapidly expanding credit programme and extended loans to numerous small farmers. Considering the rush for loans, there was very little time to properly investigate the creditworthiness and repayment capacities of borrowers. Too much reliance was placed on the recommendations of cooperative officials who, in many instances, played favourites and connived with friends and relatives. ACCFA loan supervisors did not have much opportunity to verify credit information and establish actual contacts with borrowers. Some unscrupulous farm leaders took advantage of the gullible and for a "cut" of the loan helped farmers obtain loans. Later they convinced farmers that the loans need not be paid because they were "aid" from the government.

Measures Taken to Improve Collections

In the year 1961-62, as may be seen in Table I, loan releases dropped to less than a million Pesos, due to lack of available funds. The ACA (still ACCFA at that time) indeed faced a crisis and it almost suspended its loaning operations. The following year, in order to generate funds with which to sustain operations, the administration mounted a massive collection drive. The result of the campaign was impressive and rather significant. Total cash collections for all types of loans during the period was 36 per cent more than the combined collections for the two previous years. This collection campaign highlighted and strengthened two important observations: (1) that the best time to collect is during harvest, and the lender should be present to effect collection; and (2) that farmers will pay their loans even if they have been overdue for several years.

It was found that many borrowers had not paid their loans because nobody came to collect from them. In their minds the impression that these loans need not be paid because they constituted government aid was thus somewhat confirmed. Since then, it has been a regular practice of ACA officials to personally contact borrowers, particularly at harvest time, either to collect dues or remind farmers to deliver their marketing pledges to their cooperatives.

Personal collection contacts at harvest time was, of course, not the only measure taken to improve recovery of loans. When funds became scarce, the ACCFA was forced to be highly selective in granting loans. Only cooperatives under honest, competent, and duly bonded management officers were considered for loans, and only members who had established a good credit standing were given loans. As much as possible, loans were released not in cash but in the form of supplies and equipment needed, so as to avoid possible diversion or misapplication of loan proceeds. Loans were also budgeted and released at the time actually needed. This means that borrowers indicated in their loan applications the exact purposes for which they would need the loan and the dates when they expected release of each item or amount.

Nevertheless, all the precautions, safeguards, and techniques adopted did not seem adequate. Loan collection, despite the reduced volume of loan releases, strict selection of borrowers, careful processing and release of loans and personal contacts remained low, although substantially better than the earlier years. There was no marked improvement in farmers' income. Supervised credit was suggested, but considering the expense involved and the need for trained farm technicians which it did not have, the ACCFA then could not immediately go into a scheme of extending credit together with provision of technical assistance.

Fortunately, in 1963, the Congress of the Philippines enacted what is now popularly known as the Agricultural Land Reform Code, which seeks to abolish share tenancy and ultimately bring about a system of owner-cultivators. The code places under a unified administration several agencies of the government working with farmers. Among these agencies are the ACA and the Agricultural Productivity Commission (APC) which is engaged in agricultural extension work. These two offices are the principal government entities now collaborating to effect a supervised credit system among small farmers.

The ACA Supervised Credit System

One year before the inactment of the Land Reform Code as a basis for legislation and the development of sound operating procedures, pilot land reform projects were opened in at least three places in the Philippines, each representing different rural conditions. Farmers in these pilot projects were assisted in shifting from share tenancy to leasehold by government lawyers, under applicable laws at that time, and were extended production[3] credit by the ACA with technical guidance

3 Leasehold is the intermediate step between share tenancy and owner-cultivatorship. Under leasehold, the farmer attains full management of the land he cultivates, paying rentals only to the owner of the land. Under the law, the rental cannot be more than the equivalent of twenty-five per cent of the average normal harvest during the past three years, after deducting the amount of seeds and cost of harvesting, thrash-

provided by the APC. Field workers of the APC assisted farmers in preparing their farm plans and budgets upon which loan applications were based. Loan supervisors of the ACA investigated the character, borrowing capacity, and creditworthiness of the applicants. While the APC and ACA men worked together, they maintained necessary independence of judgement and viewpoint. The loan application was recommended by the APC man but was subject to approval by the ACA representative.

Except for one pilot project, where tenancy cases had to be brought to court because of opposition of the landowners to the tenants' petition for leasehold, the results of the experiment were encouraging.

After the passage of the Land Reform Code, share tenancy was compulsorily abolished in areas proclaimed as land reform districts. By operation of the law, share tenants are released from their bondage and become leaseholders automatically. In these areas, financing became a moral, if not legal, obligation of the government to the farmers, so that no area was proclaimed as a land reform district unless the land reform agencies were operating in the area.

In the land reform districts, loans are granted by ACA in much the same way as they were given in the pilot land reform projects. Several refinements have been introduced, but the system is still essentially the same. Loan applications are supported by farm plans and budget; releases are made in instalments and, as much as possible, in kind; APC farm technicians provide technical guidance; and ACA men determine the creditworthiness and borrowing capacity of applicants. Approval authority is, however, vested in a composite body called the Land Reform Project Team in

ing, landing and hauling and processing wherever applicable. The leaseholder assumes all cost of production.

As the farmer develops managerial competence and is able to improve his production and income, he is assisted in acquiring full ownership of the land he works. This is the ultimate objective of the land reform programme, to achieve which farmers are provided with legal, technical, and credit assistance by the land reform agencies of the Government.

which the APC and ACA field officers are members. Controversial loans or loans involving amounts bigger than what the team is authorized to approve are submitted for sanction to overhead units of the Land Reform Project Administration which has representatives of ACA and APC at every level.

As of this writing no concrete figures are available on repayment of loans in the land reform districts. Many of these projects were started barely a year ago. In the first district proclaimed for land reform, however, a collection of 83.39 and 95.15 per cent had been obtained from the first two crops financed as of 31 December 1965.

Problems Encountered in Supervised Credit

The supervised credit system now being administered in the land reform areas will require some time to perfect. For one thing, more coordination between government agencies involved is necessary to meet the farmers' problems adequately. Integration of government agricultural services, especially credit and technology, no doubt is desirable, but, it being attempted for the first time in the Philippines, it is not surprising that unexpected problems will appear. Ideally, credit and technical assistance are provided by only one agency. When two or more heretofore separate and independent agencies are called upon to do it, there is naturally bound to be some degree of confusion and room for mistakes until the working relationships and procedures are firmly defined and established. Organizational and management problems in the land reform complex are, however, quickly being solved and everybody concerned is optimistic that unified administration for land reform can be made to work effectively.

On the farmer level, the biggest problem being met is the fact that the government is placed in a situation where it is compelled to finance even marginal and subsistence farmers who, by law, have to become leaseholders, sometimes against their choice. These farmers at the outset already pose a recovery problem. They are heavily indebted to their landlords and previous creditors, and not much can be done immediately to improve their production and repayment ability. Nevertheless, they have to be assisted financially by the government; otherwise, they will be in a still worse situation as the previous creditors generally hesitate to continue giving loans in the land reform areas.

As in all previous credit programmes for small farmers tried in the Philippines, either directly or through cooperatives, full recovery of loans even under a supervised credit scheme cannot be expected until the farmers' productivity is enhanced and their incomes increased beyond mere subsistence level. With their present income, they can hardly provide for the basic necessities of life. The real problem is, therefore, how to help individual farmers work out practical farm plans within their capabilities so that they may maximize their productivity out of their limited resources. Credit, as it is universally recognized, is only a tool for increased production. Recovery of loans to a large extent will depend on how effectively credit is used to increase farmers' incomes.

Observations and Proposals

The credit programme for small farmers that is now being implemented in the Philippines is not truly cooperative. It is administered in many cases through cooperatives but it is financed solely by the government. No farmers' savings are involved and loan policies and decisions are made largely by the ACA, the government credit institution charged with this function. It is felt, however, that, as a first step towards a truly cooperative credit system for farmers, the government should, as soon as cooperatives demonstrate competence in running their own affairs, give full opportunity and autonomy to cooperative associations for approving and releasing loans to their members out of lump sums which may be extended to them by ACA or any of her financing institution. Under this system, farmers may be expected to maintain good credit standing and to ensure that loans will be given with minimum of risks to themselves. Several cooperatives in the Philippines are now in a position to graduate to this plan.

It is not easy to bring the ordinary farmer, even under a supervised credit system, to a level of productivity that will give him sufficient income to be able to avail of, and pay for, loans that he needs to operate a successful and satisfying farm business. This will require persistent and conscientious technical guidance and continuity of the government's credit programme. If he is unable to repay a previous loan, except if it be through a wilful disregard of his obligation or an attempt to defraud the lender, the farmer should be refinanced until such time as he has achieved a well-balanced farming and stabilized his income to be able to pay his loans promptly. It may even be necessary to advance payment for his outstanding obligations, if any, to his landlord and previous creditors so as to consolidate his debts in one source. This advance to settle other obligations should preferably be paid on an amortization basis to lighten the farmer's repayment loan and enable him to use as much credit as possible for his current farm operations.

The advantages of providing credit to farmers with technical guidance cannot be over-emphasized. Every effort should, therefore, be taken to institute a supervised credit system not only in land reform areas, but also in connection with loans extended through or by farmers' cooperatives. Initially, arrangements may be made with the APC to provide the service free, but as cooperatives attain financial strength they should be able to pay for this service, if they cannot hire their own technicians. In any case, wherever cooperatives operate they should be working very closely not only with the ACA and other lending agencies, but also with technicians from offices serving agriculture and vice versa.

Unlike landlords and private moneylenders, the government cannot possibly extend financing for emergency needs of farmers such as hospitalization and burial expenses; ceremonial activities such as marriage and baptism; and other non-farm expenditures like education and household wants. To provide for these unavoidable circumstances cooperatives should be encouraged to start as soon as possible a capital mobilization plan of their own so that they may have funds entirely at their disposal for extraordinary requirements of the members. It may be also worthwhile to look into the feasibility of integrating into the cooperative structure certain features of the credit union type business to take care of personal and providential needs of members. A special fund may be created by cooperatives for this purpose out of members' savings deposits made on a periodic basis. Members may withdraw loans out of this fund to meet unforeseen expenses. Such loans may be repaid in easy instalments. These innovations will, certainly, strengthen the cooperative and self-help aspects of the credit operations of farmers' cooperatives now existing in the Philippines.

Conclusion

Having failed in its attempt to promote rural credit cooperatives along the lines of the Raiffeisen movement, having met with plenty of difficulties, and having incurred heavy losses in direct lending to small farmers, the Philippine Government is now trying a combination of the two schemes. With self-help and government guidance and assistance put together, it is hoped that cooperatives will yet emerge in the Philippines as a dominant factor in the solution of many farm problems including credit.

Land reform and supervised credit are now being instituted. The immediate concern is to effect within the shortest time possible improvement in the income and living conditions of the rural population, "to make," in the words of the Land Reform Code, "the small farmers more independent, self-reliant and responsible citizens and a source of genuine strength in our democratic society." When "a truly viable social and economic structure in agriculture conducive to greater productivity and higher incomes" is created, recovery problems in the agricultural credit field will become more manageable and credit cooperatives financed and run by the farmers themselves will be a reality.

TABLE I

STATUS OF PRODUCTION LOANS RELEASED THROUGH COOPERATIVES AS OF 31 DECEMBER 1965

Crop Year	*Production*	*Loan*	
	Released (million Pesos)	*Collected* (million Pesos)*	*Percentage of Collection to Loans Released*
(1)	(2)	(3)	(4)
1953-54	2.24	1.99	89.21
1954-55	10.99	8.13	74.01
1955-56	16.25	10.75	66.19
1956-57	12.61	8.06	63.93
1957-58	8.91	4.84	54.27
1958-59	6.78	2.89	42.56
1959-60	2.20	0.99	45.14
1960-61	1.35	0.67	49.66
1961-62	0.80	0.57	70.38
1962-63	1.64	1.17	71.49
1963-64	2.37	1.57	66.41
1964-65	2.73	2.13	77.88
TOTAL	68.90	43.78	63.56

*The table gives the amount of loans released for each crop year in column 2 and the total amount collected (cumulative) from the time this loan has matured up to 31 December 1965.

TABLE II

PERCENTAGE OF REPAYMENT ON PRODUCTION LOANS RELEASED THROUGH COOPERATIVES AS AT THE END OF EACH CROP YEAR

Crop Year	30 *June* 1959	30 *June* 1960	30 *June* 1961	30 *June* 1962	30 *June* 1963	30 *June* 1964	30 *June* 1965
1958-59	12.38	33.47	38.13	39.13	40.46	41.50	42.39
1959-60	—	19.38	38.50	40.14	42.51	43.93	44.28
1960-61	—	—	20.84	40.36	47.93	49.42	49.50
1961-62	—	—	—	23.72	64.39	64.69	70.00
1962-63	—	—	—	—	44.18	70.25	71.06
1963-64	—	—	—	—	—	45.58	64.82
1964-65	—	—	—	—	—	—	54.27

TABLE III

COMPARATIVE REPAYMENT ON PRODUCTION LOANS BY FARMERS TO THEIR FACOMAS AND FACOMAS TO ACA AS AT 31 DECEMBER 1965

Provinces	*Repayment Percentage*	
	Farmers to FaCoMas	*FaCoMas to ACA*
Pangasinan	70	67
Nueva Ecija	65	59
Tarlac	85	61
Bulacan	74	62
Pampanga	74	66
Rizal	79	78
Laguna	74	74
Camarines Sur	62	59
Albay	90	66
AVERAGE	75	65

YOSHIO HOYNDON

Sources of Funds for Agricultural Cooperatives in Japan

AGRICULTURAL COOPERATIVES IN JAPAN ARE QUITE SELF-sufficient in the supply of funds, with enough deposits to give loans to their members. In 1962, cooperatives' loans to members amounted to £521 million while at the same time they had deposits of £1,103 million. The percentage of loans to deposits was 49, the surplus cooperative funds amounting to £ 625 million were deposited in the credit federations. In the daily business, the agricultural cooperatives borrow money from other credit institutions and there remains an outstanding balance at the end of each fiscal year.

We have to analyze the principal accounts of the cooperatives in order to get an exact idea of the sources of funds.

TABLE I
MAIN ITEMS OF ACCOUNTS OF PRIMARY COOPERATIVES (1962)
*(million £)**

Assets		*Liabilities*	
Loans	603	Deposits (received)	1,218
Deposits	693	Borrowings	206
Fixed and invested	126	Share capital	68

* Yen converted into sterling at the rate of 1,000 Yens to 1 pound.

Referring to the above account, it is remarkable that the loans account is less than half of the deposit account received, and the balance is deposited in the credit federation except for fixed assets and investment. The primary cooperatives borrow only from the federation, whose funds mostly consist of deposits from member cooperatives. This means that, on the whole, the cooperators in each prefecture make use of their own funds.

TABLE II
MAIN ITEMS OF ACCOUNTS OF CREDIT FEDERATIONS (1962)
(million £)

Assets		*Liabilities*	
Loans	212	Deposits (received)	711
Deposits	255	Borrowings	7
Securities	135	Share capital	8
Call loans, etc.	66		

The percentage of loans to deposit of the credit federations, as we see above, was only 29. They deposited £255 million in the central cooperative bank, while other funds were used more profitably in holding securities and giving call loans. Borrowings amounted to £7 million only.

TABLE III
MAIN ITEMS OF ACCOUNTS OF THE CENTRAL COOPERATIVE BANK (1962)
(million £)

Assets			*Liabilities*	
Loans		361	Deposits (received)	295
(to members)	105		Bonds	116
Securities		59	Governmental fund	68
Loan as agency		69	Own capital	17

The deposits of the Cooperative Central Bank are mostly received from credit federations and other cooperative organizations, and are increasing year by year. The percentage of loans to deposits was 122, the difference being accounted for by bonds amounting to £166 million bought mostly by outsiders. Thus the central cooperative bank functions as a line which absorbs funds from the general money market.

So far as short-term loans are concerned, the central cooperative bank receives enough deposits. However, as the deposits are not a qualified fund for advancing long- and medium-term credit, the bank is authorized to issue bonds. The bank issued bonds around £40 million in 1960–62. For advancing long-term credit, the Agricultural Forestry and Fisheries Finance Corporation (AFFFC) was established in 1953. It had issued loans amounting to £278 million at the end of fiscal year 1962.[1] But the whole cooperative set-up is also taking part in this field. Of £603 million loans given by the agricultural cooperatives, £241 million (40 per cent) was long-term credit. The greater part of the fund was supplied by AFFFC, the Central Cooperative Bank, and the credit federations. The central bank had outstanding loans issued out of its own resources in the value of £77 million in 1962. Additional loans, as agent of AFFFC, were also given by the central bank. The credit federations also had outstanding loans amounting to £99 million issued out of their own resources and loans of £140 million as agents of AFFFC in 1962.

Japanese agricultural cooperatives depend much upon government help for long-term loans which are given at concessional rates of interest. This help is needed as deposits raised by cooperatives cannot be advanced for long-term loans for productive improvements. Further, the farmers would be unable to pay the high rates of interest on long terms, if they were given without government subsidy. For more extensive agricultural improvements, the part taken by the government will have to be greater. So far as the short-term credit is concerned, the agricultural cooperative movement is self-sufficient. Even the share capital of the central bank held by the government has been replaced by that of cooperatives. And this is why the bank is quite autonomous in contrast

1 Fiscal year relates to April–March period.

with the German or the French Central Cooperative Bank.

History of Agricultural Cooperative Credit

The great achievement of the cooperative movement for the past sixty years has been the collection of a large volume of deposits. As we saw earlier, the primary agricultural cooperatives had received deposits amounting to £1,218 million in 1962 which was more than sufficient for advancing short-term loans.

The modern cooperative movement is said to have been initiated in 1900 by the introduction of the cooperative law. However, it has a prehistory going back to feudal ages, when people suffered from money shortage and usury.

To tide over urgent needs they used to organize into a temporal cooperative institution named "koh." When a person suffered from some disaster such as fire or needed money for a new line of business, his friends would make a pool of funds, each of them contributing some money by instalment. The first instalment was lent to the needy person who was to pay back to the pool the money in instalments over a period of years. The terms governing the pooled money were fixed in advance, and within the prescribed terms, each member was, in turn, entitled to borrow the money the rate of interest being fixed through open bidding (auction).

The first perpetual cooperative society was founded in 1843 by Sontoku Ninomiya, a man of humble peasant origin who became an able officer and a great philosopher. The main aim of this society named "Hohtokusha," virtue-to-virtue society, was to free the people from the burden of high interest charged on loans. Each member of the society was to save a certain amount of money in proportion to his income; if there was no possibility of saving out of the income the member had to earn additional money for the purpose by taking up some extra work. Those who were freed from usury and were able to establish their own business with the help of cooperative loans had to pay back the loans with some interest to help the rehabilitation of others, in return for the virtue or grace (*toku*) they had received.

Man is born and keeps his life by the virtue of heaven and earth and the help of other people. Hence it is the duty of every man to work hard to produce useful commodities or to render useful services. The income so earned may be spent to support his family. He should also save some money for the following purposes: (1) to use it for promoting production; (2) to provide against accidents in the future; and (3) to help his friends and other people.

Thus labour and thrift were elevated from mere self-interest to a moral duty. This philosophy and teaching were propagated by the disciples of Sontoku Ninomiya among villagers, and many societies were organized to ameliorate their life. It is remarkable that this movement was continued after the Meiji Revolution, which abolished almost all of the old social institutions. In 1924, the Central Union of Hohtokusha was established with membership of about one thousand societies, which are now educational and social institutions.

Later on, credit cooperatives on the Western model were introduced, which made progress side by side with this old "Hohtokusha" movement. In 1900, the government enacted the general cooperative law, on the pattern of German cooperative law, in order to improve the social and economic conditions of farmers. To start with, the government took the initiative in establishing and spreading cooperatives. The agricultural cooperatives established in those years were of the Raiffeisen type, which started credit business, while at the same time aiming to establish a cooperative community by multipurpose activity.

The agricultural cooperatives made steady progress until 1920, when there were 13,000 cooperatives with 229,000 members. More than 80 per cent of them were engaged in credit business, and had deposits amounting to £22.4 million against loans of £18.6 million. The proportion of loans to deposits was 87 per cent, which reveals the rather good condition of farmers. However, the economic situation changed after the world depression. The prices of agricultural products fell much more than those of industrial products, which put economic pressures upon farming. A demand calling for supply of more low interest funds by the government was raised by the farmers, especially in the northeastern part of Japan where farmers were poorer than in the other regions. The percentage of loans to deposits in the cooperatives of that region was 443 per cent as compared with less than 100 per cent in other regions, which indicates that their demand for the farming funds to borrow was much more than their capacity to raise deposits.

The central cooperative bank was established in 1923 as a national federation of credit cooperatives, the government contributing half of the total share capital. The aim of the bank was to adjust the demand and supply of cooperative funds among cooperatives and also to serve as a pipeline for channelling governmental funds to cooperatives.

The outstanding borrowings of the central bank, which amounted to £901,000 in 1925, increased to £10,706,000 in 1934. Eighty-five per cent of these loans were supplied by the government who bought the bonds issued by the bank. The worst period during the depression for the Japanese economy were the years 1927 and 1931. As farmers and their cooperatives were hit especially hard by the agricultural depression, the government made every effort to aid and rescue them. With the extension of loans, deposits increased; however, the percentage of loans to deposits was 152 per cent by the end of 1934, which increased to 191 per cent in June 1937, probably the highest percentage in the history of the central cooperative bank.

Social and economic difficulties sometimes encourage and foster the cooperative movement. The Japanese agricultural cooperatives made rapid progress during these years. Almost every village had established its own cooperative with almost all farmers as its members. Cooperative buying and selling increased by strides. The outstanding deposits which were £224 million in 1920 increased to £1748 million in 1938, as shown in the following table.

TABLE IV

PROGRESS OF DEPOSITS AND LOANS IN THE COOPERATIVES
1920–1938

Year	*Deposits (million £)*	*Loans (million £)*
1920	224	189
1922	338	316
1924	525	467
1926	781	659
1928	986	813
1930	1,083	989
1932	1,027	1,026
1934	1,230	1,033
1936	1,428	1,057
1938	1,748	1,070

In the first ten years, the deposits increased nearly five times and, after decreasing a little for four years during the world depression, they again increased steadily. During the depression, loans given by the cooperatives increased, and the rate of loans to deposits was 84 per cent in 1926, which dropped to 64.8 per cent in 1937. The governmental funds which had been poured into the cooperatives during the years of panic elevated the farmers' economic situation and activated the cooperative operations in every field.

From 1937 onwards, Japanese farmers enjoyed continuous good harvests and the price of agricultural products was kept high, so that deposits increased year by year. In June 1943, deposits amounted to £688 million, an increase of 360 per cent in five years.

On account of the spread of cooperative education during the depression, the farmers became more loyal to the society, and began to deposit their share money more with the cooperatives than with other credit institutions. Their saving propensity was raised as consumption goods decreased in supply.

As the World War went on, and people's living conditions became more difficult, the government made a far-reaching effort to control the food supply. The entire agricultural cooperative set-up was re-organized in 1943 into an administrative organization named Agricultural Association. Membership was made compulsory and the president was also appointed by the government. Fertilizers and other production inputs were distributed to farmers through the association. As supply of all farmers' credit was concentrated in the association, deposits rose to £1,775 million in three years.

In August 1943, loans by the unit associations amounted to only £95 million. The balance of funds of the Associations was invested in securities or deposits in their federations, whose deposits were in turn invested in securities or deposited in the central cooperative bank. The bank had to buy securities as there was not enough demand for credit among its members. Therefore, the farmer members bought securities in cooperatives at all the three tiers, viz. primary association, federation, and the central bank. As the government had issued a large amount of bonds for meeting war expense, and as most of the funds from farmers' organizations were invested in government bonds, we can say that farmers saved their money to pay for the war expense. This was one way in which the inflationary effects on the Japanese economy were mitigated.

The position with regard to the deposits received and the amounts invested in securities and government bonds by cooperatives at various levels at the conclusion of the war in August 1945 is given below.

TABLE V

AMOUNTS OF DEPOSITS AND GOVERNMENTAL BONDS (AUGUST 1945)

(million £)

	Deposits Received	*Securities**	*Government Bonds*
Primary Associations	1,775	255	56
Federations	1,463	413	110
Central Bank	1,020	849	463
TOTAL	4,258	1,517	629

*Bonds issued by non-government enterprises under the supervision of the government.

Post-War Situation

After defeat and surrender, the Japanese people collapsed. The air raids during the war had burnt down two-thirds of towns and cities. The production capacity fell to ten per cent of pre-war standards. More than six million people had to be repatriated from the battlefields and foreign countries. The people were reduced to subsistence level. Agriculture was the first to recover as the farm lands were not as much damaged as factories and as the agricultural products were in great demand.

Price levels rose due to the scarcity of goods. On the one hand, there was a great decrease of tax income for the government and, on the other hand, it was forced to spend more to rehabilitate the damaged industries. The government, therefore, floated bonds to cover budgetary deficits. As the people had no savings to buy bonds, the bonds were bought mostly by the Bank of Japan, through an increase in the bank notes, which created an inflationary situation. Naturally, the government tried to tighten up its control over prices and distribution but black markets continued to prosper on account of the imbalance between demand and supply.

Farmers benefited a great deal on account of the inflation as their products were urgently needed by all people. They brought back production to the pre-war levels in a few years using the repatriated labour. Though in the pre-war days the average income of villagers was about 60 per cent of that of citizens, it was estimated that farmers could make up this gap during the post-war period. The land reforms passed in 1946 contributed to the improvement of the farmers' position in the economy. Almost every cultivator became owner of his farm, by virtue of very slight payment, and was then able to invest his money in the farm which in the old days had been paid as rent to the landlord. Farmers were encouraged to improve productivity as they were able to retain all their crops. Farming techniques made so much progress that the increase in the harvest per hectare in the ten years after the war was phenomenal.

A new agricultural cooperative law was enacted in 1947 as the agricultural associations established under the old law to suit the war-time control imposed by the government were not fully in conformity with cooperative principles. The new cooperative law conforms entirely to the Rochdale Principles. On account of the freedom of organization, many more cooperatives were established in the few years after the war. However, the new cooperatives have taken over completely the assets and liabilities of the old associations operating as multipurpose cooperatives as in the pre-war days.

The deposits, which amounted to ¥ 12.998 million at the end of the fiscal year 1944, increased to ¥ 114,618 million at the end of the fiscal year 1949, an increase of nine times. This high rate of increase is, however, not real on account of the rise of prices during these years and the depreciating value of money due to inflation. When the exchange rate of yen to foreign currency was fixed in 1949, one dollar was equal to 360 yens, which had been about 4.5 yens in the pre-war days. Similarly one pound was equal to 1,000 yens, which had been around 10 yens in the pre-war days. If we revalue the deposits on the basis of the new exchange rate, the real value of the amount of deposits decreased from £1,290 million at the end of fiscal year 1944 to £114 million at the end of fiscal year 1949, the decrease being a little less than one-tenth during the five years.

Along with other credit institutions, the cooperative institutions were damaged in many points. The bonds and loans of many companies controlled by the government and munitions-making companies were cancelled and the government bonds were repayed after devaluation. Due to loss of trust in the credit institutions, farmers began to hoard their money or were eager to buy something of tangible value, which resulted in price inflation. The most serious effect was that farmers lost the will to save as they faced a continuous decrease of money value.

The turning point was the year 1949, when Japan's economy became deflationary. The government budget was balanced and the money market was tightened by raising interest rates. As a result, prices in the open market dropped. Farmers were especially hit by the deflation. According to the *Survey of Cash Income and Expenditure of Farm Households*, the average net income of a farm household in 1949 was ¥172,634 and it had a loss of ¥12,593, while in the previous year the average net income was ¥221,864 with a surplus of ¥41,531. This deflation was reflected also in the accounts of cooperatives, depreciating the prices of goods in stock. Several cooperatives were forced to close their business.

The whole cooperative set-up attempted to ameliorate the situation with the help of the government. The government appropriated funds to give help to weak cooperatives and to improve agricultural productivity. Long-term credits were given by the government to farmers and cooperatives through the central cooperative bank and the Agricultural Forestry and Fishery Finance Corporation which was established in 1952 primarily for providing long-term credit. As AFFFC has few branches, it uses cooperatives as agents. The governmental long-term credits are expected to expand year after year, side by side with the cooperative funds.

For short-term credit loans, a system of agricultural bills was introduced in 1948. As farmers and cooperatives were facing difficulty in procuring funds, the central cooperative bank decided to borrow from the Bank of Japan, using as collateral the money to be acquired by the delivery of rice to the government. That is, the cooperatives, upon demand from the farmers for funds to purchase fertilizers, etc., drew up bills which were discounted by the credit federations and rediscounted by the central cooperative bank. The central cooperative bank was able to borrow money from the Bank of Japan on the security of these bills. This system of financing spread rapidly, the amount borrowed being £28.5 million in September 1954. However, afterwards, parallel with the increase of cooperative deposits, the value of agricultural bills had gradually decreased from £18·5 million in December 1954 to £12.4 million in 1956, that is from 19.3 per cent of short-term loans to 9.8 per cent. At the end of fiscal year 1963, it decreased to £11.2 million, only 2.4 per cent of all short-term loans. Even these remaining agricultural bills are now financed with cooperative funds and not from the Bank of Japan.

Moreover, a saving campaign has been promoted since 1950 on a national scale. The Central Union of Agricultural Cooperatives, the central cooperative bank, and other national federations established a special committee to plan cooperative savings. In response, almost all unit cooperatives organized committees for promoting savings. The following main devices were adopted to promote savings:

(1) *Deposits for Special Purposes.* As members were more willing to save for a special and visible purpose, for example, for purchase of fertilizers, the cooperatives set up this kind of deposit, and even took the trouble to collect the money periodically. It may be mentioned that savings for travel purposes was popular among housewives.

(2) *Deposits of Earnings from Joint Selling.* Marketing is one of the main activities of the cooperatives. Rice is bought by the government through cooperatives or other dealers in Japan. The cooperatives pay the price of rice not in cash but instead credit the account of each member, who is able to withdraw money at any time. The larger part of this temporary deposit may be balanced against loans for purchases, such as fertilizers. The remaining part of it may be used for living expenses or turned into a regular deposit. As the main product of farmers in Japan is rice, the cooperative deposits are highest in the harvest season, from October to December, and gradually decrease thereafter. It is the same with other products, such as milk, fruits, and eggs, which are jointly sold in the free market. Thus the deposits of the cooperatives increase when the receipts from cooperative marketing are coming in.

(3) *Deposits in Small Amounts.* Generally the cooperatives receive deposits in smaller amounts than other credit institutions. It is one of the functions of the cooperative to stabilize the member's economy by fostering a saving spirit and thrift

habits. The women's guild in many cooperatives promoted family savings, by encouraging women to put farthings in savings boxes. The money is collected by guild members periodically and deposited in the cooperatives. This measure has been especially effective in the poorer communities, such as fishing villages.

The deposits of agricultural cooperatives have increased continuously over a period of fifteen years as shown below:

TABLE VI

DEPOSITS

(Million £)

Year	*Primary Cooperatives*	*Credit Federations*
1950	131.4	57.2
1952	215.0	100.6
1954	293.5	138.6
1956	413.4	223.5
1958	528.3	296.3
1960	793.2	481.9
1962	1,218.3	711.5
1964	1,921.9	1,241.2

Alongside the increase of deposits of unit cooperatives, the deposits of the credit federation have also increased from £57.2 million in 1950 to £1,241 million in 1964. It is on account of the fact that the unit cooperatives get more funds on account of the increase of deposits and they in turn deposit their surplus funds with the federations. However, the credit federations have received much of their deposits from the mutual relief federation of each prefecture. The mutual relief (insurance) system had developed rapidly since the last war, and the mutual relief fund now amounts to £100 million, which is mostly deposited in the credit federation. These funds, suitable for long-term credit, will form the main part of cooperative funds for long-term loaning in future.

Conclusion

We cannot help being reminded of the difficult situation of

Japanese farmers during the world depression, when their debts were estimated at no less than £400 million (1930). During the thirty years, the farmers have passed through the war-defeat, inflation, and deflation. However, their deposits in the cooperatives amounted to about £1,900 million at the end of 1964. One of the secrets of this success is that credit is handled by the multipurpose cooperative. One cooperative in each village for many kinds of activities was the ideal of Raiffeisen, the father of agricultural cooperation in the world. Whereas progress towards this ideal has not been significant in Europe, it has been realized or rather is being realized in Asia.

As mentioned above, the rapid build-up of deposits after the last war was the result of a close link between cooperative credit and cooperative marketing. For a poor farmer it is very difficult to make deposits out of cash in hand, but he is not so reluctant if some money is deducted from sale proceeds for crediting to his deposit account. Deduction for savings like this is most easily done when a single cooperative is responsible for both credit and marketing. The same considerations are relevant in giving credit to members. Farmers' demand for credit must be measured and then the credit must be properly used after it is granted to meet farmers' needs as far as possible. The kind and quality of farm requisites required should be properly assessed and then sufficient supplies must be maintained through credit assistance either in cash or in kind. These tasks can be most effectively pursued when a single society operates in both credit and purchasing lines.

What makes the cooperative hesitate to give farmers enough credit is the lack of security. The best guarantee of repayment is the income farmers would realise through selling their produce and if the cooperative can recover loans advanced from the proceeds of joint selling, it may be in a position to give adequate credit to the member. The Japanese experience amply shows that in the agricultural cooperative movement credit business makes progress in conjunction with the development of other business.

K. MADHAVA DAS

Government Financing in India*

THIS PAPER DEALS MAINLY WITH CERTAIN ASPECTS OF government financing of the agricultural cooperative credit movement and is based entirely on experience in India. After setting out general considerations governing government financial assistance to the agricultural credit cooperatives and outlining the structure of the cooperative credit movement in India, the paper will be divided into two sections. Section I will deal with the role of Reserve Bank of India and other bodies set up by the government. Section II will throw light on the part played by the government itself in the development of agricultural credit cooperatives with specific reference to provision of finances.

General Considerations

Before going into the details of the subject, certain points need clarification. First, government financing of the agricultural cooperative credit movement has to be distinguished from central bank financing, even though the central bank may be entirely owned by the government. This is because the central bank is a banking organization established generally under a charter or Act of Parliament, having to follow certain banking principles and procedures, whereas the government is essentially an administrative and governing body. The view may be expressed that there is no basic difference between government financing of the agricultural cooperative credit

*The views expressed in the paper are those of the author in his personal capacity and are not attributable to the Reserve Bank of India in any manner.

movement and central bank financing in a case where the central bank is wholly owned by the government because, after all, the funds may be derived from the same source and may go back to the same source, namely, the government. This is not a correct view because the principles and procedures of financing which are enjoined upon central banks need not necessarily be followed by the government. In other words, the discipline involved in central bank financing does not have to be invariably adhered to by the government which may have to meet situations where banking principles cannot be followed, for example, loans given by the government to agriculturists affected by floods, such loans being largely in the nature of outright relief grants. A central bank too may be faced with such a situation when it is financing the agricultural cooperative credit movement. What is done, or is expected to be done by the bank in such a context, is to have arrangements to set right the position, for example, converting short-term loans to medium-term loans in cases where recoveries of short-term loans cannot be made owing to a natural calamity. To give an example, the National Agricultural Credit (Stabilization) Fund of the Reserve Bank of India can be utilized by the bank for granting medium-term agricultural loans to apex cooperative banks in circumstances where it is satisfied that short-term agricultural loans, which have become due, cannot be repaid in time without serious dislocation of the cooperative credit structure, owing to such factors as famine and drought. Consequently, through this arrangement, the repayment of all or part of such loans may be deferred under certain terms and conditions. In this context, the short-term loans will be technically treated as repaid, but in effect will be converted into medium-term loans from the Bank's Stabilization Fund. This paper will deal with both direct government-provided agricultural cooperative credit as well as that provided by the central bank and other government-owned banking institutions.

Second, following on from the above argument, it is necessary that if the government provides funds to the cooperative credit structure the use of such funds should be subject to as similar a discipline as the one which is enforced when the funds are provided by the central bank.

Third, for a meaningful discussion of the subject, one will have to find the answers to the following important questions:

(1) What is the structure of the agricultural cooperative credit movement in the country concerned? What are the sources from which it obtains funds for its operations? Are the funds gathered entirely or mostly from its own internal structure? Or are the funds obtained mainly from extraneous sources, such as the central bank, the government, etc?

(2) What is the role of the central bank of the country in the financing of the agricultural cooperative credit movement?

(3) What is the role of State-associated or special institutions in the financing of the agricultural cooperative credit movement?

(4) What is the system of government financing of agriculture in the country concerned? Does it include financing by the government of agriculturists directly or indirectly?

These four items are briefly referred to in the following paragraphs.

Structure of the Cooperative Credit Movement

India is a union of States. Cooperation is a State subject, i.e. falling within the scope of State legislation. Each State has its Cooperative Societies' Act regulating the working of the cooperative movement.

The most important element of the cooperative movement in India is the credit structure which, in each State, is generally a pyramidal one consisting of primary agricultural credit societies at the village level, central cooperative banks at the district level (a district being an administrative sub-division of a State), and State cooperative banks or apex cooperative banks at the State level. This structure of primary credit societies, central banks, and apex banks provides short-term loans (up to fifteen months) and medium-term loans (from fifteen months to five years) to agriculturists.

There is a separate structure for providing long-term agricultural credit, i.e. loans for periods generally exceeding five years. Such loans are granted by central cooperative land mortgage banks at the State level and their affiliated primary land mortgage banks at lower levels. Table I itemizes the financial operations of the structure at the end of June 1963.

I

The Reserve Bank of India, which is the central bank of the country, is now entirely owned by the government. During the last 15 years, it has become the major financier of the cooperative credit structure in India. This present role of the Reserve Bank has evolved after a long history, dating back to the inception of the Bank in 1935 and the setting up of its separate Agricultural Credit Department. It is beyond the scope of this paper to go into details of the prominent role played by the Reserve Bank in the development and financing of the cooperative credit structure in the country. However, it should be mentioned that in 1951 the Bank was instrumental in adopting a dynamic policy in the sphere of rural credit and cooperation by convening an informal conference on rural finance, following the recommendations of the Rural Banking Enquiry Committee (1950).

The All-India Rural Credit Survey Committee (1954) has pointed out that this role of the Reserve Bank in rural credit and cooperation is of crucial importance to India's development. On the basis of the recommendations of this Committee, the Reserve Bank of India Act was amended in 1955 to enable the Bank to play a more positive role in rural credit.

The Reserve Bank provides loans for periods up to twelve months to State cooperative banks for seasonal agricultural operations and marketing of crops at a concessional rate of 2½ per cent (1964). These loans reach the agriculturists through the central cooperative banks at the district level and the primary credit societies at the village level. Such loans

TABLE I

OPERATIONS OF THE COOPERATIVE CREDIT STRUCTURE IN INDIA AT THE END OF JUNE 1963

(Million Rupees)

Category	Number	Membership (in Thousand)	Paid-up Share Capital	Reserve and Other Funds	Deposits	Other Borrowings	Working Capital	Loans Advanced	Loans Outstanding	Loans Overdue	Percentage of Overdues to Outstanding
SHORT TERM											
Apex banks	21	24	232	88	973	1,522	2,815	2,948	2,141	82	3.8
Central banks	386	399	551	172	1,456	1,822	4,001	4,406	2,921	529	18.0
Primary agricultural credit societies	211,132	21,735	795	221	203	2,481	3,700	2,574	3,028	772	25.5
LONG TERM											
Central land mortgage banks	19	373	78	15	13	752	859	246	679	18	2.6
Primary land mortgage banks	571	1,051	42	7	14	486	550	192	514	12	2.7

SOURCE: Statistical Statements relating to the Cooperative Movement in India, 1962-63.

amounted to Rs. 1,639 million in 1962–63. The medium-term loans for agricultural purposes sanctioned by the Reserve Bank to State cooperative banks during 1962–63 totalled Rs. 93 million. Medium-term loans for agricultural purposes, which carry a concessional rate of three per cent (1964), are provided by the Reserve Bank from the special Long-Term Operations Fund referred to below.

In addition to the above credit facilities relating to short-term and medium-term agricultural credit, the Reserve Bank assists the central cooperative land mortgage banks by subscribing to their debenture issues either up to 20 per cent of the issue, or to the short-fall in public subscription, whichever is less. Such contributions in 1962–63 amounted to Rs. 25 million. The Reserve Bank also subscribes to a type of debenture which has been floated by the land mortgage banks, with a view to tapping savings from the rural areas. The Reserve Bank contributes here in the proportion of 8:7 of the subscriptions received from the public. Such contributions added up to about Rs. 9 million in 1962–63. In addition, a sum of Rs. 5 million was contributed by the Bank to an issue of special depentures floated by central land mortgage banks during 1961–62.

For the above contributions, the Reserve Bank is utilizing a special fund called the National Agricultural Credit (Long-Term Operations) Fund. The Bank can utilize the assets of this fund for the following four purposes: (1) provision of long-term loans to State government to enable them to subscribe to the share capital of cooperative credit institutions; (2) making medium-term loans for agricultural and allied purposes to State cooperative banks; (3) provision of long-term loans to central cooperative land mortgage banks; and (4) purchase of debentures of central cooperative land mortgage banks. The Long-Term Operations Fund was set up by the Reserve Bank in February 1956 with an initial contribution of Rs. 100 million. In subsequent years, annual contributions have been made so that the credit of this fund at the end of June 1963 totalled Rs. 730 million.

Another fund, set up by the Reserve Bank of India in 1955, is the National Agricultural Credit (Stabilization) Fund. Its purpose is making medium-term loans on government guarantee to State cooperative banks, for periods not less than fifteen months and not more than five years. The loans are made to enable these banks to pay their short-term dues to the Reserve Bank if, in the opinion of the Reserve Bank, they are unable to repay such dues in time, owing to drought, famine, or other natural calamities. The credit of this fund at the end of June 1963 came to Rs. 80 million. No occasion has arisen so far for drawing upon the Stabilization Fund.

In keeping with this active role in rural credit, the Reserve Bank acts as an adviser and is vitally concerned, along with the central and State governments and the cooperative institutions themselves, in building up a sound and self-reliant cooperative credit structure in line with the objectives of India's Five-Year Plans. Apart from participating in the formulation of the plans and assisting in their detailed implementation, the Reserve Bank also inspects the cooperative banks on a voluntary basis.

The State Bank of India

The All-India Rural Credit Survey Report recommended, as part of its integrated scheme of rural credit, the conversion of the Imperial Bank of India and certain other State-associated commercial banks into a State Bank of India. The State Bank of India thus came into existence in July 1955. While continuing to undertake commercial banking functions, it was expected to assist rural banking development vigorously not only by inaugurating a programme of branch expansion to provide vastly extended remittance facilities to cooperative and other banks but also by being responsive to the needs of cooperative institutions connected with credit, marketing, and processing.

The Bank has responded satisfactorily to these requirements. First, in its efforts to provide extended remittance facilities, especially in rural areas, the State Bank has liberalized remittance facilities to cooperative banks. Second, cooperative credit institutions such as central cooperative banks are given loan and overdraft facilities against government securities at a concessional rate. Third, cooperative credit institutions are given advances at a concessional rate on the re-pledge of goods. Fourth, cooperative marketing societies are given advances against pledge of produce. Cooperative processing societies, such as sugar factories, cotton ginning, and pressing societies, are also given accommodation from the State Bank, particularly in regard to advances against the pledge of stocks. Fifth, in the sphere of long-term credit, the State Bank also subscribes to debentures floated by central cooperative land mortgage banks. It provides them, in suitable cases, with limited temporary financial accommodation against government guarantee to help them carry on their normal loan business pending the raising of funds through floatation of debentures.

The total credit limits sanctioned by the State Bank to all types of cooperatives and the corresponding outstandings amounted to Rs. 334 million and Rs. 85 million respectively on 30 September 1962.

The Agricultural Refinance Corporation

The Agricultural Refinance Corporation started functioning on 1 July 1963 with an authorized capital of Rs. 250 million, of which shares to the extent of Rs. 50 million have been issued in the first instance. The Reserve Bank has taken up about 60 per cent of the total issue, the other subscribers being mostly cooperative and commercial banks. In addition, the central government has provided an interest-free loan of Rs. 50 million to the Corporation. The Agricultural Refinance Corporation will be mainly a refinancing agency, to deal with major agricultural development projects whose credit needs cannot be adequately met by existing institutional agencies either because of the magnitude of the investment involved or because of the special terms of repayment which may be necessary. Assistance from the Corporation may be available for schemes such as financing of land reclamation, financing the development of special crops, such as coconut, orchards, tea and coffee, development of mechanized farming, and development of animal husbandry.

II

The government both at the Centre and in the States has been very closely associated with the development of the cooperative movement in India. Government funds have been provided wherever necessary. Especially after the depression of the thirties, when the cooperative movement collapsed in many States, special government schemes of rehabilitation were developed to meet the situation, and now a comprehensive scheme of government financial assistance has been formulated in the Second and Third Five-Year Plans. The Third Five-Year Plan (1961–66) has made a provision of Rs. 800 million for the development of Cooperation, as compared with an estimated expenditure of Rs. 340 million in the Second Plan (1956–61).

Types of Government Assistance

The assistance from the government to the cooperative credit structure has been mainly in the following directions:

(a) Taking shares in cooperative credit institutions to give them prestige and to enhance their borrowing capacity. Such participation is "retirable" after the end of a particular period in respect of primary cooperative credit societies and is met out of loans from the Reserve Bank under its Long-Term Operations Fund scheme.

(b) Providing guarantees to the relatively weak apex banks to enable them to borrow from the Reserve Bank of India. Such guarantees have also been given on a few occasions in respect of the borrowings of the apex banks from the State Bank of India.

(c) Providing subsidies to cooperative societies to enable them to employ trained and full-time managers or secretaries. Loans and subsidies are also given to primary credit societies

to construct small warehouses required for their marketing functions, e.g. storage of cultivators' produce for transmission to a cooperative marketing society or keeping in stock the agricultural requirements of members. Subsidies have also been provided to cooperative banks for opening branches and for employing supervisory staff.

(d) Contributing to special bad debt reserve funds of primary credit societies and cooperative banks to help them finance the weaker sections of the membership.

(e) Providing grants in special cases to stabilize the position of cooperative banks which have become weak owing to abnormal reasons.

(f) Some of the State governments have set up Agricultural Credit Relief and Guarantee Funds for giving assistance to cooperatives whose position is made vulnerable by irrecoverable arrears of debts which have arisen from causes beyond their control, such as widespread famine.

(g) Subsidies to enable cooperative banks to meet the difference between their economic lending rate and the rate at which funds are to be provided under certain government schemes.

(h) Guaranteeing the debentures issued by cooperative central land mortgage banks and giving interim accommodation to such banks pending floatation of their debentures.

All this is intended to strengthen the cooperative credit structure so that, in course of time, it becomes self-reliant. Another feature of this assistance is that it does not imply government interference with the day-to-day working of the cooperatives. Government representation on the board of the banks and societies is generally limited to one-third of the board or three government nominees, whichever is less.

National Cooperative Development Corporation

From the above it appears that the government has a role which is complementary to that of the Reserve Bank in the cooperative credit development efforts. A special organization was considered necessary in this context and the Central

Government set up a National Cooperative Development and Warehousing Board on 1 September 1956. The functions of the Board were to plan and promote programmes for the production, processing, marketing, storage, warehousing, and export and import of agricultural produce. In 1962, the Board was reconstituted and its functions have been entrusted to two separate institutions, viz. the National Cooperative Development Corporation (NCDC) and the Central Warehousing Corporation. The NCDC will perform all functions of the previous Board other than those relating to warehousing. Some details of the assistance given by the National Cooperative Development Corporation for promoting cooperative development during 1962–63 are given in the following table. This assistance is provided to the cooperatives through the State governments.

TABLE II
ASSISTANCE GIVEN BY NCDC

	Item	*Amount (million rupees)*
1.	Outright grants to primary agricultural credit societies and central banks for creation of special bad debt reserve funds	5
2.	Loans and subsidies to cooperative marketing societies for share capital contribution, construction of warehouses, and appointment of managerial staff	8
3.	Share capital contribution and managerial subsidy to co-operative processing societies	5
4.	Share capital contribution to cooperative sugar factories	3
5.	Appointment of departmental staff and staff of cooperative institutions	14

Direct Financing by Government

Apart from this assistance to the cooperative structure, the government has been financing agriculturists directly. Agricultural credit from the government is called *taccavi* (meaning strengthening or assisting) and has a long history in India. The legal framework has been provided by the Land Improvement Loans Act of 1883 and the Agriculturists'

Loans Act of 1884, the former dealing generally with long-term loans and the latter with short-term loans.

Available data show that the amount of agricultural loans issued by the government, both directly and to a very limited extent through cooperatives, including loans given for the relief of distress, came to Rs. 421 million in 1960–61 as compared with Rs. 258 million in 1957–58. The amount of agricultural loans distributed by the government through cooperatives stood at Rs. 11 million in 1960–61 as against Rs. 6 million in the previous year and Rs. 0.06 million in 1958–59. The granting of government loans to agriculturists through cooperative societies is a very recent development and has so far been limited to three States only.

Government loans are recoverable in the same way as arrears of land revenues and form a first charge on the properties of the borrower. In spite of these provisions, overdues have increased year after year. In 1960–61 they were above 80 per cent of the demand in three States and between 50 and 80 per cent in six States. The rates of interest on government agricultural loans are invariably lower than the rates on loans given by cooperative credit institutions.

In some States, there are special schemes in connection with government loans. In Maharashtra and Gujarat where the cooperative credit movement is relatively well-developed the special schemes pertain to the provision of funds to agriculturists for constructing and repairing wells and installing pumping sets. The funds are provided by cooperative land mortgage banks from their normal sources. The cultivators get the funds at a rate of interest of $4\frac{1}{2}$ per cent per annum. The land mortgage banks receive a subsidy from the government to meet the difference between their economic lending rate and the above-mentioned rate which has been fixed by the government under this scheme.

In selected areas of Madras State, where the cooperative credit structure is also relatively well developed, a scheme was introduced in 1956–57 to make cooperatives the sole agency for giving credit for production and marketing in as short a period as possible. It was referred to as the "Full Finance Scheme." In 1958 the State government took a policy decision that in areas where the "full finance scheme" was in operation, it would not issue loans directly to cultivators. Subsequently, this decision was modified and the government decided to continue issuing loans directly to cultivators in areas covered by the "full finance scheme" if such loans carried an element of subsidy or required technical supervision, e.g. loans for sinking or deepening of wells, for soil conservation, and for construction of model cattle sheds-cum-compost pits.

Views of Committees

Various committees in India have examined the system of direct government loans. For instance, the All-India Rural Credit Survey Committee (1954), while mentioning that the system of government loans has a vital role in times of famine and distress, and that its historical origin lay in this particular function, has emphasized that in practice such loans are apt to be little else than the ill-performed disbursement of inadequate moneys by an ill-suited agency.[1] The committee was of the view that government loans given directly to agriculturists should be strictly limited, subject to certain exceptions of a transitional character, to periods of widespread distress such as famine, scarcity, or floods. The committee emphasized that there should be coordination between the system of government loans to agriculture and the system of cooperative credit.

It is generally agreed that it is undesirable to continue the system of government loans direct to cultivators, keeping in mind its poor record in the past and also the fact that the government, which provide such loans, are themselves partners in cooperative institutions under the cooperative development plan.

The Third Five-Year Plan states as follows:

In formulating programmes for the expansion of cooperative credit during the Third Plan, the main consideration has been to ensure adequate support to the effort to

1 *The General Report*, p. 199.

achieve the large agricultural targets set in the plan. The plan envisages that the membership of primary cooperative societies will increase to about 37 million covering about 60 per cent of the agricultural population. The number of societies is expected to increase to about 230,000 so as to serve all the villages in the country. It is estimated that the total amount of short- and medium-term credit may increase to about Rs. 530 crores (Rs. 5,300 million) and that of long-term credit (loans outstanding) to about Rs. 150 crores (Rs. 1,500 million).[2]

The problem is how to reach these targets. No doubt the plan visualizes a large increase in the internal resources (share capital and deposits) at all levels of the cooperative credit movement. But present performance seems to indicate that resources may not come up to the required levels in view of the slow pace of re-organization of the cooperative credit structure which is weak in several States and practically dormant in others. It is felt that for the re-organization of the cooperative credit structure, the government's financial assistance now provided directly to cultivators, except loans provided to meet situations of distress, should be channelled through the cooperative credit structure. The Central Government appointed a committee in July 1961 to consider the various organizational, procedural, and administrative difficulties that might come in the way of successfully carrying out this policy, and to make suitable recommendations. The report of this committee published in August 1962 stated that there was considerable duplication in financing agriculturists under the prevailing system of government loans and the system of cooperative credit to agriculturists. To increase agricultural production, "concentrated efforts would have to be made, first, to make available to the agriculturists larger amounts to match their requirements and, secondly, to ensure that the optimum advantage was derived from such funds as were available." Towards this end, "it is essential to define more clearly the respective roles and to rationalize the operations of *taccavi* loans and cooperative credit."[3]

Some Important Aspects

It was stated earlier in this paper that the governments of

2 Planning Commission, *The Third Five-Year Plan*, New Delhi, p. 204.

3 *Report of the Committee on Taccavi Loans and Cooperative Credit*, 1962, p. 83.

some States are now trying to channel their loans to the agriculturists through cooperative credit societies. Based on this very limited experience, a few important aspects of the problem of achieving coordination between government and cooperative loans for agriculture may be mentioned.

(1) *Need for Adequate Margins.* Government loans should be made available to cooperative banks at interest rates which would enable the banks to keep adequate margins between these rates and the rate at which they lend to their affiliated primary credit societies. The following example illustrates the problems which may otherwise arise. In the State of Andhra Pradesh, the government sanctioned a scheme in 1958–59, covering one block[4] each in six districts, where the cooperative credit structure was well developed. In these six blocks, direct government short-term financing of agriculturists would cease. The government funds earmarked for the purpose were to be provided to central banks, serving the primary credit societies in these blocks, at a rate of interest of $5\frac{1}{4}$ per cent subject to the condition that the funds reached the ultimate borrower at $6\frac{1}{4}$ per cent, the rate usually charged by the cooperatives to their cultivator-members. This meant that the central banks and the rural credit societies together were left with a margin of one per cent. The central banks provided additional funds to rural credit societies in the areas where this experiment of issuing government loans through cooperatives was being tried. However, they were not able to avail themselves of government loans because the margin prescribed by the government was found to be insufficient to meet the overhead charges. One bank obtained a loan of Rs. 60,000 from the government, but refunded the money. Another bank, which was sanctioned a loan by the government, did not draw it.

(2) *Ability of the Cooperative Credit Structure to Distribute Government Loans.* Before a decision is taken by the government not to provide finance directly to agriculturists but to do so through cooperative credit institutions, the question whether

4 A block is an administrative unit consisting of about 100 villages.

the cooperative credit structure is able to undertake this responsibility should be carefully examined. A weak cooperative credit structure will find itself in a further mess if it takes upon itself this additional function. This is the lesson drawn from experience in the State of Assam.

In this State, the government decided to provide all loans for production and also for meeting situations of distress through cooperatives, according to terms, conditions, and procedures prescribed by the government. In 1959–60, under this scheme, government loans amounting to Rs. 4 million for short-term purposes and Rs. 2 million for medium-term purposes, and in 1960–61 Rs. 7 million for short-term loans, were provided to the cooperative credit institutions in the State. The scheme had a very damaging effect on the cooperative credit structure in Assam—a structure which was already very weak and vulnerable. What happened generally was that borrowers of government funds did not pay back the loans and energetic measures were not taken to collect the dues. This affected cooperatives seriously because, owing to the psychology of default and non-repayment, it became difficult to recover even their ordinary loans. The cooperative credit structure in the State is now in a moribund condition.

(3) *Need for Timely Provision of Government Loans to Cooperatives.* In Madhya Pradesh, a scheme for distributing government agricultural loans through the cooperative credit structure was introduced in 1960 in seven districts. Under this scheme, short-term loans for production and medium-term loans for certain other purposes were to be provided by the government through cooperatives. These funds were to reach the cultivator at about 9 per cent, which happened to be the economic lending rate of the cooperatives. Various practical difficulties were soon experienced in working this scheme. It was reported that government loans were provided in August or September and were to be drawn before the close of the financial year in March, while agriculturists required loans from February to May. The central banks, not definite about the amount of money to be provided by the government, provided the money

from their own resources and had to wait for some months to get reimbursement. As allotments made by the government turned out to be much smaller than the amount of money which the central banks had advanced from their own resources, the resources of the banks were strained.

(4) *Need for Preserving the Discipline and Integrity of the Cooperative Credit Structure.* Government financing should strengthen and not weaken the discipline of the cooperative credit structure. Reference may be made to a scheme formulated in May 1959 by the Government of India to provide a supplementary line of credit to the cooperative credit movement. The scheme was formulated to ensure adequate finance for village agricultural production plans with specific reference to certain difficulties. For instance, primary credit societies have a maximum credit limit fixed by the government cooperative department and the central bank to which they are affiliated. This limit is based on various considerations such as the total assets of the members, their total income and repaying capacity, the societies' owned funds, audit classification, and record of repayment. It was felt that, as a result, many primary societies having limited funds would be unable to provide credit to all their members to the full extent required.

It was indicated that the scheme should be taken up on an experimental basis in about 4,000 villages which had had reasonably good cooperative societies in operation for some time. The supplementary credit provided under this scheme was mainly intended for seed, fertilizer, and current expenses of cultivation. The above scheme was discussed at a Conference of State Ministers of Cooperation held in the city of Mysore in July 1959. The conference came to the general conclusion that there should be only one line of credit. Under the new scheme, the primary credit societies were to utilize their normal funds for financing agriculturists on the usual scale and according to the ordinary standards, while the supplementary line of credit to be provided by the government would be used for financing marginal and sub-marginal cultivators who were at present either not getting any loans at all or getting inadequate loans from the primary credit societies. It was felt that if this was the position, the scheme would introduce double standards of lending in the societies and demoralize borrowers. Some of the borrowers might try to obtain loans from the funds given by the government in the expectation that these loans might be dealt with on the same lines as government loans. If this happened, it would imperil the cooperative credit structure. In view of the criticism, this scheme was not further pursued.

It also goes without saying that the finance provided by the government should be consistent with the discipline of the cooperative credit structure. Thus, in a federal cooperative structure government loans should be provided through the apex banks and not through the central banks or local societies.

(5) *Terms and Conditions.* The terms and conditions of government loans should be specific and clear and should be carefully considered by the cooperative banks before acceptance. Further, in the selection of areas where the policy of distributing government loans through cooperatives is to be implemented, the cooperative apex financing agencies should be consulted. It is also most important to ensure that full freedom is given to cooperative banks and societies in dealing with individual loan applications.

(6) *Provision of Distress Loans.* The government might decide to disburse distress agricultural loans through the cooperative structure. In such cases the cooperatives should examine carefully all implications connected therewith. If the cooperatives fully agree to implement such a scheme it would be preferable to do this on an agency basis not involving any financial liability to the cooperative banks and societies. This is essential in view of the special risks involved in repayment of distress loans.

Conclusion

The main point which emerges from this paper is that government financing of the agricultural cooperative credit movement should be done in such a manner as to strengthen the cooperative movement and build up its internal cohesion and discipline.