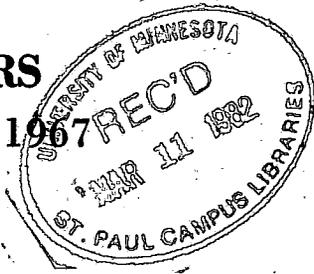


**INTERNATIONAL
JOURNAL OF
AGRARIAN AFFAIRS**

Vol. V, No. 3, December 1967



**Reports of Discussion
Groups at the
International Conference
of Agricultural Economists
Sydney, August 1967**

*Produced by the
University of Oxford Institute of Agrarian Affairs
in conjunction with the International Association
of Agricultural Economists*

Price 10s. 6d. net

**OXFORD UNIVERSITY PRESS
LONDON**

GROUP 8. AGRICULTURAL CREDIT

Chairman: F. G. Jarrett, *Australia*

Secretary: F. J. Moore, *U.S.A.*

Consultants:

R. Aktan, *Turkey* A. Weber, *Germany*

Governments play a significant part in the organization and supply of credit to agriculture in virtually every country. Among the reasons discussed for such government involvement in rural credit were: (i) the use of credit as a policy instrument directed not only towards monetary and fiscal objectives, as in the case of general banking, but towards social objectives as well; (ii) the need to encourage the substitution of capital for labour in agriculture which generally does not lend itself to the rapid accumulation of capital through savings of the individual enterprise; and (iii) a feeling of social responsibility to raise rural income and work towards its parity with urban income.

The extent to which non-socialist governments participate in rural credit appears directly related to the level of the country's development. Except in Canada, where as a result of depression experience legislation was enacted prohibiting the foreclosure by banks of mortgaged land, the greater part of the credit requirements of viable agricultural enterprises in developed countries is supplied by private sources. These include commercial banks, produce marketing companies and brokers, merchants offering instalment credit on purchases of equipment, co-operatives and private lenders. Co-operatives, such as the production credit associations and the Federal Land Bank Associations in the United States, are frequently established with government assistance and nurtured to the stage where they can be both managed and funded by the free initiative of their members. Private credit transactions are in developed countries especially important in the transfer of farm land by sale or inheritance.

A brief review of credit institutions in some developed countries contrasted the highly centralized provision of credit in Australia through the branch networks of seven trading banks with the diverse, decentralized and competitive institutions for the supply of agricultural credit in the United States. These differences in the organization and administration of credit, however, merely reflect differences in the evolution of institutions and legislation regulating banks and insurance



GROUP 8. AGRICULTURAL CREDIT

Front row, left to right:

P. F. C. Araujo, *Brazil*
R. Aktan, *Turkey*
F. G. Jarrett, *Australia*
D. N. Atere-Roberts, *Sierra Leone*
D. W. Ware, *Canada*

Second row, left to right:

G. T. Hair, *Australia*
F. J. Moore, *U.S.A.*
C. B. Baker, *U.S.A.*
L. L. Boger, *U.S.A.*
A. J. McIntyre, *Australia*

Third row, left to right:

A. Weber, *Germany*
E. Kristensen, *Denmark*
H. MacPhillamy, *Australia*
M. Burkes, *U.S.A.*
R. H. Sutherland, *Australia*

companies. They do not seem to affect in any significant way the relative ease of access to credit by Australian and American farm enterprises.

In both countries special assistance is given to farmers who, for one reason or another, are not currently acceptable risks. Such assistance generally takes the form of some relaxation in commercial standards of security, of subsidized interest rates and of careful supervision in the execution of an agreed farm plan. The objective of this assistance is to bring the farm enterprise as rapidly as possible to a stage of performance where it can tap the ordinary credit sources for its normal operating requirements.

The approach to problems of agricultural credit in many developing countries is similar. The policy objective is to make farming increasingly productive and commercially viable. However, in the early stages of development existing private financial institutions have neither the resources nor the organization to cater for rural needs. The level of farm technology and management practices provides little incentive for a flow of funds to agriculture, except possibly specific export and high value cash crops. Furthermore, the agricultural sector in countries overwhelmingly dependent on agriculture is called upon to provide the major share of domestic capital for national development. There is thus inevitably an outflow of funds from agriculture at a time when increased capital outputs in the rural sector are essential to expand the national savings base. Under these circumstances, governments assume the principal responsibility for the supply of credit to agriculture. Considerable effort is generally directed towards the establishment of an effective co-operative organization. This not only encourages savings by the farmers themselves, it also provides a channel for the improvement of management practices and the introduction of new technology, especially where credit is provided in kind. Shortage of capital generally restricts co-operative lending to the short and medium term, with other needs being met from non-institutional sources.

The rate at which agriculture in developing countries can become less dependent on government credit is, in part at least, a function of the extent to which land can be used as loan security. At present this is often not possible either because of social restrictions or, more basically, lack of surveys and land title registrations. It is likely therefore that the development of rural credit can be substantially enhanced by measures directed to permit the use of land as a credit base. It

would then increasingly be possible to let the private money market regulate the flow of funds to agriculture and to restrict the role of government to that of regulating relationships between lenders and borrowers and stimulating the development of new and imaginative methods for the use of credit to strengthen the rural sector.