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Farming will never be a success unless the farmer
had more voice in the disposal of
his produce—P. Morrel.

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FINANCING AND FORCED SALE OF PRODUCE [1]

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Summary

How far is it true to say that the agriculturists (in Madras) loose heavily by taking advances prior to harvest on condition of selling their crops to or through their creditors?

The net work of rural weekly fairs, facilitating the meeting of producers and consumers, without any financial obligation between themselves, may be said to reduce the chances for middlemen-moneylenders. But the fairs are neither universal, nor important everywhere; and there is little of wholesale trade, particularly in commercial crops, in these fairs—The Central Cotton Committee's recent investigations have revealed that the financial handicaps of growers were far too exaggerated and there is not much of combination of moneylending and trading. But the tracts selected were not all typical and the Committee itself could not accept all the conclusions—holding of produce for better price by the producers is not uncommon in the case of food grains and it is of doubtful utility in the case of commercial crops—Madras has more of agriculturist moneylenders who are not extortionate nor insist on sale of produce of debtors to themselves—The commission shop-keepers in trade centres are increasingly approached by the ryots for advances and though there

[1] A paper read at the Indian Economic Conference, Allahabad, December 1929.

is an undertaking that produce shall be delivered after harvest, there is no stipulation for sale at less than market price. The rates of interest are fair; sale is commonly by auction. Profits are derived by a large turnover, and to some extent by certain market practices detrimental to the interest of growers. But the 'tied' farmers fare no worse than free farmers.—The cartmen-traders still move a large part of the produce from villages and some of them distribute funds, lent by commission-shopkeepers, at higher rates to producers or on condition of the sale of produce by the latter at concession rates to themselves—Increase in the number of commission-shops, better communication between town and country and competition of the larger number of petty dealers tend to mitigate the hardships of all but the backward cultivators—Forward contracts are more common between big firms, exporting or manufacturing, and big bazaar dealers; but neither of these ordinary finance the cultivators directly or indirectly—Other serious handicaps to co-operative or any orderly marketing merit our attention as well as any lack of organised and easy credit.

IT is a common belief with co-operators and other well-wishers of agriculturists that in respect of marketing their produce, the latter are exploited by the merchant-moneylender. The Bania in the North and the Komati in the South are likened to the 'Gombeen-man' of Ireland, who is said to have combined in himself the three functions of money-lending, purchasing produce and vending some of the agricultural and domestic requirements of the cultivators. An attempt is made in this paper to examine the widely held view that the purchaser or his agent by making advances prior to harvest binds or tempts the producer to deliver soon after harvest his produce at a rate profitable to himself but ruinous to the latter. Many of the following inferences are based on facts and opinions gathered in the course of an enquiry into conditions of marketing produce in several districts of the Madras Presidency

Importance of Weekly fairs.—Let us first note the diametrically opposite impression that is likely to be conveyed by the Reports of the Census in 1921, when special information was called for on the subject of rural markets all over India. From statements quoted from the Census Reports of several provinces, [1] one might be tempted to generalise as follows: Most of the trade in agricultural produce in India is carried on in the well-attended rural weekly fairs (known as *shandies* in Madras and *hats* in North India) held within intervals of 5 to 10 miles over most parts of the country. The petty producer himself goes to sell in the fair what he does not need (or cannot afford to store up) for his consumption. He sells to consumers and for cash; or if he sells to some extent to petty dealers, these are an itinerant class of people with

[1] Indian Census Report, 1921, pp. 259—263.

whom he can have no money dealings or any sort of 'forward contracts.' There is therefore little chance for exploitation of the producer by the money-lending trader.

While the existence of the net-work of weekly fairs should not be ignored in any study of agricultural marketing, it is possible to exaggerate their importance. They are, first of all, not so universal. They appear to be more common in the Southern and Eastern Provinces than in the Western and Northern. In Madras, shandies are far more important in the dry inland districts than in the deltaic rice growing districts. They are a recent introduction in many of the Telugu districts. In several places they are neither big nor important and are chiefly meant for vegetables, leaves, condiments and fruits. There is some local and retail trade in staple food-stuffs, but the whole sale trade in the latter and in commercial crops is outside the shandies, though some of them serve also as collecting centres for all kinds of produce. For they are the resort of the very poor ryots with small lots of produce and the large number of landless labourers who receive harvesting wages in kind and are ready to sell, or barter them for what they would fetch. In the case of groundnuts particularly it is possible for assiduous dealers seated in or near shandies to purchase a great proportion of the crop from wage-earners alone, as picking charges for groundnuts vary from 25 to 50 per cent of the crop.

It is not correct to hold that the weekly fairs attract only producers and consumers and that there is little scope for dealers. For even in the case of fresh produce like vegetables and fruits and leaves, in the shandies away from the producing centres, the sellers are seldom growers but are petty traders who collect in one shandy and sell in another and go the round of shandies in the neighbourhood in search of suppliers in one and buyers in another. This much however can be said of the shandy system that even where it is important it does not encourage any kind of a contract between producers and dealers in consideration of any payment of advances by the latter to the former.

The Cotton Committee Investigations.—We have recently a more authoritative refutation of the traditional notion of the dependence of the cotton cultivator on the trader-cum-moneylender, in the reports of 8 investigations organised by the Indian Central Cotton committee.[1] According to these reports, abuses connected with financing prevail to a much smaller extent than imagined. Taking all the 8 tracts together, sowcars lend 65 per cent., landlords 15 per cent., co-operative societies 13 per cent., gin owners 1·6 per cent., and petty merchants and traders only ·2 per cent. of the amounts borrowed by growers. The borrowings though substantial are not excessive. The rates of interest are not high except in Sind. There is a justifiable preference for sale in the village itself, and the growers are right in shunning the market for its

[1] General Report of Eight Investigations into the Finance and Marketing of cultivators' Cotton.

malpractices. Above all 'the cultivators except in Sind are not hampered by their borrowings in the disposal of their produce, either as regards the persons to whom or the time at which they may sell' though they seem to feel a 'moral obligation' to sell to their lenders. The producers are able to, and do, hold cotton for considerable periods in expectation of higher prices. When they sell early, it is not due to financial pressure but to fear of falling prices and of loss by fire.

While Sind is the most unfortunate, Madras (N. & W.) seems to be the most favoured tract. The percentage of loans from sowcars is the least here—only 27·6 per cent., while landlords lend 56·8 per cent., gin-owners 10 per cent., and petty traders 3·8 per cent. Rates of interest are the lowest; 84 per cent. of the loans carry less than 12 per cent. interest; 24 per cent. of the loans are charged less than 9¾ per cent. No wonder the field for co-operative credit is narrow. No interest is charged on advances given on cotton stored in commission shops though in other tracts 9 to 12 per cent. is charged. Again, the village prices are fair, sometimes even better than rates current in the market, due to the anxiety of the village-traders to fulfil their forward contracts within stipulated time. Only 4 per cent. of the borrowers gave even a verbal undertaking to sell to the lenders who happened to be gin-owners.

This picture appears indeed too good to be true! This tract (N. & W.) in Madras is not typical of the Presidency. The average holding is 36 acre of land capable of growing cotton, *jowar* and groundnut in all but drought years, and 74 per cent. of the growers have more than 15 acres each.[1] Even as regards the other tracts, the Committee itself seems to discount the value of the reports in the prefatory statement and to explain away the apparent prosperity of growers by the unbroken series of good seasons they have had. It is averred that the rates of interest are nominal and that they do not reveal the total of the levies made by the money-lender who is often the agent of the bigger buyer who is the real financier. Attention is drawn to the state of co-operative credit as indicative of the low credit-worthiness of cultivators. Further enquiries may modify the optimistic inferences drawn in the reports, though there must be a large element of truth in them.

Holding produce for better price.—In the case of food grains, it is not all the produce that comes up for sale in the market, early or late. A good deal is stored up for consumption by all but the poor, though latterly a craving for finer stuff coming from a distance (e.g., craving for the Circars Rice in the Tamil Districts) tempts the disposal of all the crop. There is a disinclination, so far as the surplus is concerned, to wait for a rise in price as it involves risks of loss, especially if account is taken of the dryage, wastage, and interest for the period of waiting. There is always a rise in price, but not always

[1] Report on the Financing and Marketing of Cotton in Madras (Northerns and Westerns tract).—p. 7.

enough to guarantee against such losses. But affluent landlords are prepared to take risks and even buy up the produce of the smaller ryots to whom they might have advanced money and so are in a position to dictate terms to petty purchasers. The Imperial Bank has been for some time past offering facilities to producers as well as traders to take loans on pledge of produce. So far traders have availed themselves of them more than producers who have been partly hindered by lack of proper godowns and partly by considerations of false prestige. This prejudice is breaking down, and godowns are also coming into vogue even outside the taluk headquarters and market centres. We may look to an expansion of this line of business in co-operative and other joint stock bank as well.

There is no question of holding perishable crops; nor is any attempt made to preserve and store the surplus, for future gradual sale. Growers are except in certain seasons at the mercy of purchasers.

In the case of commercial (export or money) copra like *copra* and groundnut and turmeric and jaggery, it is not the practice to hold produce for later sale; for many of the crops undergo rapid deterioration, or lose in bulk and weight; the fluctuations in prices are even greater than in the case of food grains and the demand by shippers in certain tracts ceases after the season. Buyers from outside who assemble for the season disperse and competition goes down to the detriment of growers. Special storage facilities and preservation and care are beyond the capacity of most producers who are unorganised.

Agriculturist money-lenders.—A striking feature of money-lending in the Madras Presidency (noted by Sir F. Nicholson and the late Mr. S. R. Ayyangar and recently by the Cotton Committee investigators) is the practice of the smaller ryots to borrow from their bigger fellows who do not charge unconscionably higher rates of interest unlike the money-lenders in other parts of India belonging to a different class and creed and often to an alien tract. There is no insistence or the sale of produce to the lenders, though the latter might keep a watchlul eye on the sale, with a view to recover their dues. Few lenders are so unfair as to compel sale to themselves if a good offer is made by an outsider trader; and often the latter pays the local lender and has the produce sold to himself. The same thing happens in the case of tenants who have agreed to pay cash rents and received advances from landlords for cultivation. There is, no doubt hurried sale, but it is not peculiar to the crops of borrowers.

Cartmen-Traders.—The most ubiquitous of traders in rural areas are the persons who own (or hire) carts and pairs of bullocks and invest a little of their own, and more of borrowed, capital in business. They are of various grades and not all of them advance loans to producers. There are recent recruits to the trade from among ryots themselves. Growers unable or unwilling to go to markets themselves entrust the cartman-trader with the

2

sale of the produce, and receive the sale proceeds minus commission and cart hire when the trader returns. The traders with a larger working capital, either their own or borrowed from commission shop-keepers in market centres, buy outright the produce in the village and pay down the entire price before they remove the produce. Some are able to lend before the harvest, and a few early in the cultivation season, in which case they charge interest, more in terms of produce than of cash. Conditions are stipulated, though seldom written agreements are drawn up, that produce shall be delivered at a little less than the ruling price for free produce. Interest often takes the shape of a definite additional quantity of produce for every rupee lent. This system is, however, more common in the case of commercial crops than in that of food grains. With regard to the latter, what are commonly known as advances are not for long periods but are given just after the harvest, when the price is settled, though the produce is left in charge of sellers and is taken delivery of after some weeks or a few months. They are more in the nature of earnest money than loans. There is no doubt scope for exploitation, but it is kept in check by the increasing competition among the dealers themselves, who are no longer confined to a hereditary caste of traders. The margins (at any rate openly claimed) are pulled down by the invasion of other classes.

Commission Mandis.—The commission shops or *Tharagu mandis* in market centres play an increasingly important part in the disposal of all kinds of produce, except perishables. A good deal of produce is still brought to these shops by the petty dealers; but they are attracting more and more the producers themselves in the villages in the neighbourhood and in good communication by road. The produce that is brought is quickly disposed of at these mandis to buyers for export or to merchants who stock and gradually distribute to retail sellers. The most common method of sale is by auction at which are present the buyers or their agents. If the highest price bid is not agreeable to the producer or dealer who brings the produce for sale, the produce can be held over for sale on a later day. An 'Advance' to the extent of three-fourths of the probable value of the produce held may be had from the mandiman. Only godown rent will have to be paid, and if the advance be not returned within a month, interest at 12 per cent. will be charged. Some charge interest even for a shorter period. When the sale is effected a commission varying with the produce and some other customary charges in the market will have to be paid.

The commission shop-keeper has to be a financier if he is to be a big dealer in produce. It is common for producers who are old customers to take advances earlier, generally just before the harvest. But more of the mandiman's money is in the hands of petty dealers who distribute it in small amounts to producers in the villages at rates ranging from 12 to 18 per cent. or stipulating for an additional quantity of produce. But the mandiman, when he lends to the producer directly, does not insist on sale at less than market price but only wants the produce to be sold through him for commission. The rate of interest charged by the mandiman to old producer-customers as well as to dealers is 9 to 12 per cent, which is very reasonable in view of the rate he has himself to pay to his creditors, the Multani, Chetti or Brahman bankers or Hundi merchants, whose lending rates are slightly higher than the Imperial Bank's. But their readiness and elasticity in dealings account for their popularity while the rigidity of the Imperial and Joint Stock Banks repels them. The risks in lending to ryots and petty dealers on mere pro-notes and on personal security are not inconsiderable. They have also to extend short credit—for a week or so—to buyers. Producers who have had dealings with mandimen directly have little complaints against them. It is only when they do not fulfil their part of the contract—and for example divert their crops elsewhere—that trouble arises. Overdues are charged at 18 to 24 per cent. and with some justification too, as the shopkeeper has to earn all his profits by a quick and large turnover in a short season. There is no legal obligation on the part of the receiver of advances to sell his produce only to his creditor, but the 'moral obligation' is a natural and universal feeling.

Forward contracts with Firms.—Forward contract is the rule between big firms, exporting or manufacturing and big bazaar merchants who agree to buy for them and deliver a definite quantity and quality of produce at a given price and place and before a fixed date. The buyers are generally men of capital but they also borrow from big bankers. Sometimes they send their own men into the interior to purchase produce but more commonly depend on the commission shops, which extend credit to them for a week. The firms, exporting or manufacturing, with whom they have contracted do not ordinarily help them with any advances, while, on the other hand, they are required to make deposits. Cash advances by firms are as a rule discredited and are considered demoralising by reputed firms.[1] There is no need to finance when competition between buying agents is so great that there is a scramble for business with the big firm. But almost the entire value of the produce is sent soon after the railway or steamer receipt reaches the Head Office. The mandiman has to wait for a week or more to be paid. In exceptional cases money is advanced even by manufacturing firms of repute with a view to be sure of getting raw material for the mills. For example, Messrs. Parry & Co., used to finance cultivators of sugar-cane to feed the mills at Nellikuppam.

Exploitation of backward classes.—Even now in the Krishna and Godavari districts they advance through the *Dubash* amounts to 'agreemented dealers' who contract to deliver jaggery by a certain time and who in turn disburse the amounts to various tappers of palmyra trees on terms which are

[1] Indian Cotton Committee (1918) Evidence Sir Cl. Simpson (5467) & Royal Commission on Agriculture. Evidence Vol. X Steiner.

extortionate. There are in all tracts some depressed classes of producers who by their ignorance as well as their imprudence easily lend themselves to exploitation. The most notable instances in Madras are, besides the tappers mentioned above and in Tinnevelly, the Hill tribes of the Agency Tracts exploited by the Komatis; the Badagas of Nilgiris exploited by the Lubbai merchants; the pepper growers of Malabar exploited by Moplah traders. It is noteworthy that in all such cases the lenders are not of the same creed or caste as the borrowers.

Credit extended by Producers.—At the other extreme are cases of producers who not merely do not borrow from prospective buyers of their produce but also extend credit to them. Sale on credit of plantains in the Trichinopoly district to local agents of firms in Madras is quite normal. Money is received a week or more after, and sometimes long after the fruits are sold. Plantains being perishable, producers are in some slack seasons put to so much trouble and anxiety as regards disposal of their produce that even price is not always fixed before the sale to the local agent but depends upon what the latter and the Madras firms are pleased to pay.

Another curious practice in the City of Madras and even in the mofussal towns is for owners of buffaloes, whose milk is not so much in demand for domestic consumption as cow's milk but has to depend on the demand of the coffee hotels and tea clubs, to finance the keepers of such hotels and indeed help start such a concern on condition that the latter should purchase all the milk brought for sale. This help is given by the milkman, though he may himself be in deep debt to money-lenders for the purchase of his animals and their maintenance.

But the suffering is not all on one side. There are consumers in every place who are prepared to advance sums to milkmen for a steady supply of pure ghee and other milk products for domestic consumption, demanding no interest on the advance. The most common experience in such cases is that the producers, whose supply of such goods is usually below the commitments they make to one or more creditors, fall in arrears and are a source of vexation to lenders, with whose woes we may well sympathise.

Advances not sought but thrust.—It is not always the producers that seek advances. It is often the temptation of money dangled before them than their need that accounts for hasty sale. The binding nature of forward contracts which big dealers enter into with exporting or manufacturing firms impels them to assure themselves of a definite supply fairly in advance of due date. Millers of all kinds are anxious to purchase raw materials to keep their plants going for as long a time as possible in the year, and their agents scour the country with cash in the hands. Too many rice mills in Tanjore and Nellore districts and too many cotton gins in Guntur and Ceded Districts have brought about competition for produce and the temptation to sell it in advance at a fair price is irresistable.

It is not denied that there is exploitation where the opportunities are great. There are in every village petty-holders of land who can never make both ends meet and whom none but a missionary agency can perhaps rescue. Such ryots do come into the clutches of money-lenders—whether they are merchants or not. But though they constitute in number a large proportion of the ryot population, their surplus produce available for sale is not considerable especially in respect of food grains which occupy 5/7ths of the total area cultivated. It is not the reform of the marketing-credit system alone that is likely to redeem them.

'Tied' farmers fare no worse than free farmers.—As regards the average ryots, it cannot be asserted that credit is now got on ruinous terms and that from the trades-people. Wherever they have had access to the commission shops in market centres, they have had no lack of credit. The profits of commission shop-keepers are earned not so much by lending money as by attracting a large number of clients with a view to a large turnover. Though the brokerage is small the total profits swell, by the authorised aud unauthorised indirect earnings by way of samples, deductions, over weights, cesses, etc. But in all these respects the 'tied' farmers seem to fare no worse than the free farmers; for the latter also submit themselves to all such customary outgoings. There is generally not much to choose between one commission shop-keeper and another, though the unscrupulous who rob the weak and the helpless are few. Even if the victims to the existing credit systems were to be relieved by the grant of co-operative credit, there would be other problems to solve before co-operative marketing can be successful and bring complete relief to producers. It is noteworthy that in the few well worked Loan and Sale societies in Madras, there is not so much demand for loan as for help in sale.

Other Handicaps to orderly marketing and co-operative sale.—To lay all the emphasis on the exploitation of the money-lending merchant, which is not proved, is to distract our attention from the other serious handicaps to co-operative sale, or any kind of 'orderly marketing' among which may be mentioned (apart from the difficulties of management) the following: the lack of transport facilities which inconveniences all but those who have specialised in surmounting the difficulties and therefore captured the trade, the chaos of weights and measures which is the curse of the country-side but which is the *forte*, of the shrewed trader, the fear of a failing market and the lack of any agency to forecast in intelligible terms to the cultivators the trend of probable prices in world markets, the paucity of proper storage facilities in the villages and of warehouses in market centres on the basis of which bank credit will be easily forthcoming, and the absence of any desire on the part of the grower to achieve high quality and uniformity in production or to have the produce well graded before sale.

Above all the want of a fervent faith in joint enterprise on the part of many farmers and the members' readiness to deliver produce into alternative channels of trade account for meagre success. Without a guaranteed supply by the farmers of their surplus produce by means of a supply contract or otherwise, no co-operative sale can be built up; there cannot be enough margin to cover overhead expenses; nor sufficient basis for credit. There can be no regulation or 'smoothing out' of supply according to demand, which is the aim of all 'orderly marketing.' There can be neither the power for collective bargaining nor the power to resist competition by those established in the trade. Without the assurance of members' loyalty to society even in times of adversity, at least in the early stages, we shall be only playing with the idea of co-operative trade.