I. FUNCTIONS OF AGRICULTURAL CREDIT AND MARKETING

An agricultural credit system must allow free transfer of resources between sectors, between regions and across income classes so as to bring about an efficient allocation of a developing country’s scarce resources. It must finance the needs arising from the burgeoning technological revolution in agricultural sectors. It must encourage and mobilise savings from the incomes generated by the expanding agricultural production. As an important factor of production, credit must play a pivotal role in fostering an equitable distribution of the increasing agricultural income. It must be used to create productive employment for absorbing the growing numbers of underemployed in the agricultural sectors. Credit can be a double-edged weapon significantly influencing welfare or human misery, broadening participation of the masses in the political process, or reinforcing feudalism.

The extent to which agricultural credit can perform these various diverse functions effectively rests, on the one hand, on the national commitment of the governments of the developing countries. It is thus complexly interwoven with their socio-political fabrics. On the other hand, it depends on the organisational abilities and skilled human resources required to create and nurture an appropriate institutional infrastructure.

An efficient agricultural marketing system must perform a variety of functions simultaneously. It must provide a timely supply of inputs to the agricultural sector. It must distribute seasonally produced agricultural output over time and space to processors and consumers at minimum cost. In the short run, it must mobilise market supplies from fixed production. In the long run, it must integrate local markets into national markets. Through transmitting price signals, it

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1 I have benefited from the comments on the previous draft of this paper by several of my colleagues, including Jack Duloy, Carl Eicher and John Mellor. I am grateful to Richard Longhurst and Regina Norton for their assistance in the literature review. The views expressed in this paper are those of the author and do not necessarily represent the views of the I.B.R.D.
must foster an efficient allocation of resources in the agricultural sector. Over time, a market system must be able to service a growing agricultural sector and the related agro-based industries. As one of the largest service sectors in the economy, it must create productive employment opportunities to absorb growing unemployment in the agricultural sector.

The extent to which a market system performs these various functions efficiently depends on the availability and quality of (a) the physical infrastructure such as transport, storage, marketing and processing facilities, (b) the financial institutions, (c) the communications network and (d) the entrepreneurial and managerial manpower. Efficiency of the market system must thus be judged in the context of the constraints within which it works. Long-run efficiency of the market system can be improved only by improving the conditions in which it operates.

The nature of a market organisation may often play a crucial role in the performance of the market system. In a competitive market, free entry into trade, market information and adequate mobility are necessary conditions for distributional efficiency. Decision-making is guided by profit motive and efficiency is defined by profit maximisation. Under a co-operatively and/or a publicly managed market system, cost minimisation will, among other things, depend on how well the market organisation is conceived and how effectively it is administered.

Minimisation of distributional costs may, however, not be the only goal of a market system. A great deal of human misery and disincentive to invest in traditional agriculture arises from price fluctuations over time and space. A market system may therefore aim at stabilising prices during and between seasons so as to provide an incentive to increasing agricultural production. A market system may also aim at providing increasing control to the cultivator over his trading activities. The performance of a market system must be judged in such a context of multiple, economic and socio-political objectives.

Credit and marketing functions are closely linked with each other. Improved and expanded markets for output and resulting incentive prices increase the demand for credit as well as increasing the farmer’s ability to repay credit. Expanded credit facilities create demand for inputs and increase marketed surplus, providing an increased return on investment in market facilities.

Inadequacy of credit and marketing systems leads to their lack of accessibility to a mass of small cultivators. Inefficiency in their operations implies lack of distributive justice. Both these factors result in suboptimal resource use. They affect rate of capital formation and influence development of the agricultural sector.