CHAPTER VII.

CAPABILITY AND EFFECTIVENESS OF THE CREDIT INSTITUTIONS TO MEET THE EMERGING DEMAND OF CREDIT.
The co-operative organisation is a pivot on which the whole programme revolves. This pivot has got to be strong enough to bear the weight of the programme and to permit its smooth revolutions. The task of modernisation and commercialisation of agriculture involves more investment in terms of costly factors of production. The farmer whose resources are scarce cannot afford to the costly investment without credit support. Hence the package programme made a provision of adequate and timely supply of production based and production oriented credit to the farmers. The rural financing involves special risk in advancing credit to the farmers.
The majority of cultivators in Raipur district consist of small peasant proprietors with whom agriculture is not so much a profession but a mode of living. The handicap is not only in lack of substantial assets which could serve as security but also and possibly to a great extent the uncertainty of profits from agriculture as it is based on most uncertain factor of rainfall. These difficulties have been taken in to consideration and steps have been taken to reorganise the co-operative structure in order to meet the credit demand of the farmers. The credit and the supplies have been channelised through the co-operatives. More than one thousand co-operative societies have been regrouped into 595 societies in order to make each of them a viable unit. The loan applications of the farmers are prepared by the supervisors and approved by the working committee. The cheques are issued to the farmers by the societies on the Central Co-operative Bank. The farmers have to deposit 20 per cent of their demand as share capital in three installments. Other things remaining the same, the loan application is expected to be financed within 15 days.

The Central Co-operative Bank is situated at Raipur with its 25 branches at 23 development blocks' headquarters. The indigenous agencies also supply the bulk of rural credit. In Raipur district farmers need production as well as consumption credit. The co-operative societies supply only production credit to the farmers and
for consumption credit they are still dependent on village money lenders. Nearly 58 per cent credit is borrowed from the village money lenders of which 27 per cent part is used for agricultural purposes. Nearly 79 per cent of the borrowed credit from the village money lenders is spent for consumption purposes. There is positive correlation between the size of holding and the amount of money borrowed.

**TABLE-XXVIII.**

AMOUNT OF CREDIT BORROWED FROM CREDIT AGENCIES.

<table>
<thead>
<tr>
<th>Credit Purpose</th>
<th>Average of Co-operative or Government agencies</th>
<th>Average of 121 small credit farmers</th>
<th>Average of 127 medium farmers</th>
<th>Average of 115 large farmers</th>
<th>Average of total farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs. 50=00</td>
<td>Rs. 40=00</td>
<td>Rs. 90=00</td>
<td>Rs. 50=00</td>
<td>Rs. 29=00</td>
</tr>
<tr>
<td>Co-operative</td>
<td>Production</td>
<td>14=00</td>
<td>40=00</td>
<td>89=00</td>
<td>50=00</td>
</tr>
<tr>
<td>or Government</td>
<td>Money</td>
<td>4=00</td>
<td>4=00</td>
<td>21=00</td>
<td>22=70</td>
</tr>
<tr>
<td>agencies</td>
<td>Consumption</td>
<td>11=00</td>
<td>29=00</td>
<td>34=00</td>
<td>82=00</td>
</tr>
</tbody>
</table>

*Note: The figures are based on an investigation done by the author.*

**Rate of Interest:**

The rates of interest charged by the
village money lender ranged from 24 to 48 per cent per annum. Apart from exorbitant rates of interest, the money lenders play various malpractices in advancing loan to the farmers. He is not an philanthropist. His objective is to make money and he is not always particular regarding the means by which he does it.

The rates of interest charged by the co-operative societies are comparatively lower than those charged by the money lenders. The lower rates of interest have attracted the farmers to borrow the loans to such an extent that the production credit has been utilised for consumption purposes in most of the cases. At the time of inception of package programme the rates of interest were as under:

1-Rates of interest paid on deposits:-
   - Current account - 1 per cent.
   - Saving account - 2 l/2 per cent.
   - Fixed deposits - 2 3/4 per cent.

2-Rate of interest charged on loans - 6 per cent.

At present, the rates of interest have gone under a --- change. The Central Bank charges 5.50 per cent on short term loans and 6.50 per cent on medium term loans from the service co-operative societies. The service co-operative societies charge 6.50 per cent from the farmers on short term loans and 9.00 per cent
on medium term loans. The rates of interest are governed by the Reserve Bank of India. The marginal productivity of loan in respect of agri-business has not been ascertained and the demand and supply factors play a negligible role in determining the rate of interest. At the prevalent rates of interest the supply does not coincide the demand for credit. Mr. Hira Lal Miles has observed that:

"In both the co-operative and commercial banking system, the rates of interest paid on deposits and rates charged from borrowers are considerably lower than the capital supply-demand situation warrants." 65

The present rates of interest attracts the cultivators to borrow more money and not to save it. It is for this reason, that the supply of credit remains inadequate in comparison to the demand for credit. Hitherto, attention has been concentrated on the lending side which needs to be shifted towards saving side. The optimum rate of interest should equate the supply and demand for credit. At present there is a difference of 4\% to 5\% between the rates of interest on lending and deposits. This difference should be reduced to minimum. The rates of interest on deposits should be increased to such an extent that the differences between the lending rates and deposit rates are not more than 2\%. Higher rates of interest on deposits would attract saving and Likewise, the higher lending rates would not deter cultivators from

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65- Hira Lal Miles, The Outlook for Farm Credit in India. (New Delhi: Farm Foundation, June, 1969), 2.5.
borrowing for production purposes. This practice would check the habit of unnecessary borrowing for consumption purposes.

The Reserve Bank of India has increased the bank rate from 5.00 per cent to 6.00 per cent which has influenced the rates of interest of commercial and co-operative banks accordingly. This change is expected to attract deposits and would not deter the cultivators from borrowing.

In Raipur district, where the farmers are habituated to paying exorbitant rates of interest, there is enough margin for increasing the lending rates with a simultaneous increase in the rates of interest on deposits. The supply of cheap credit has not served the purpose which was expected of it. The Expert Committee on Assessment and Evaluation has observed that:

"The so-called cheap money policy should not be followed so far as the rural financing is concerned. It only favours the few who are lucky enough to get loans. It discourages thrift, inhibits the growth of loanable funds and adversely affects the interest of millions, who are denied credit today. What is really needed is adequate and prompt credit rather than mere cheap credit." 66

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67- Reserve Bank of India, Radio Announcement, All India Radio, Delhi, on 6-1-1971.
In Raipur district the propensity to save is very discouraging. The number of saving deposits in the banks is meagre. The banks have decided to take 20 per cent amount as share capital at the time of loan advancement in order to increase the deposits. But this practice is not very effective.

The maximum credit limit:

This is a method of rationing the loanable funds in order to benefit all the needy farmers. If all the loanable funds are lent to a small number of farmers, various problems may arise viz.

1- If one or two farmers default on their loans the bank is placed in serious loss.

2- Not all the farmers will not be benefitted, and they will go to the village money lender.

3- The purpose of social justice will not be served as the benefits of development will be enjoyed by the privileged class of farmers.

4- The marginal utility and productivity of loan will be less if the loanable funds are supplied to a


op. cit. p.X.

small number of farmers and vice versa.

5- In agriculture, loanable funds cannot be supplied to a small number of farmers as agriculture is not like an industry being established by a small number of people but it is a mainstay of more than 70 per cent people of the country.

In the light of these points, the maximum credit limits have been fixed by the co-operative banks in Raipur district. The maximum credit limit for a short term loan has been fixed at 100 rupees per acre regarding irrigated land and 80 rupees per acre regarding unirrigated land. In any case this limit could not exceed an amount of "10,000 =0 for either short term or long term loans.

The maximum credit limit has not taken into consideration the repayment capacity of the farmers into consideration and credit has always been advanced equal to maximum credit limits. The result is illuse and misuse of credit. The maximum credit limits should be based on the repayment capacity of the farmers rather than on the superfluous estimates. One of the main reasons of heavy overdues in the district, can be attributed to the fixation of unrealistic maximum credit limits.
There are three main considerations with the banks in to account before taking a decision to advance loan to a farmer viz.

1- returns from the investment or additional income from additional investment.

2- Repayment capacity or the availability of additional income for repayment of loan at due date.

3- Risk bearing ability of the farmers.

The level of returns from the investment varies with the level of inputs, weather conditions, soil texture, irrigation facilities, and socio-economic conditions of the people. There is vast difference among the three agro-climatic zones of the district regarding the level of returns. The input-output relationship in the district ranges from 1:1.50 to 1:2.2 for paddy crop which is not remunerative.

The repayment capacity of the farmers is very low due to high propensity of consumption. The farm expenses and living expenses consume a considerable part of gross income and a very little margin is left for the repayment of loans. The maximum credit limits fixed for the irrigated and unirrigated land in the district are
higher than the repayment capacity of the farmers. The higher credit limits have been fixed with a view to provide adequate credit to the farmers but this practice has inflicted more harm as the heavy overdues have been reported on the farmers.

As regards the third factor, agri-business is subject to the vagaries of nature and is exposed to many other hazards such as drought, floods, attack of pests and diseases, and price fluctuations with the result that the variations in income occurs as a rule than exceptions. The repaying capacity should be deflated in accordance with probable variability in gross income in order to arrive at a fairly stable and reliable level of repayment capacity. The deflated repayment capacity can be taken for risk bearing ability. In Raipur district the risk factor is very high as agriculture mainly depends on rainfall which is the most uncertain and variable factor of production. During the period of ten years 6 to 7 years resulted as abnormal years which affected the recovery of the outstanding loans adversely.

benefits of credit received by the farmers:

It has been observed that credit has reached only 20 per cent of the farmers. In two severe drought years marred the enthusiasm of the farmers and the number of
defaulters increased progressively. It is only after 1968-69 that a revival in the situation has taken place. The total amount of loan disbursed during the ten years oscillated according to the average rainfall and yield levels. The short term has not been adequate as the farmers still borrow money from the village money lenders.

TABLE-XXI.

AMOUNT OF LOAN GRANTED TO THE FARMERS DURING THE PERIOD OF TEN YEARS.

<table>
<thead>
<tr>
<th>Years</th>
<th>Short term loans lakh rs.</th>
<th>Cash Supplies lakh rs.</th>
<th>Total lakh rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-62</td>
<td>112.75</td>
<td>21.06</td>
<td>133.88</td>
</tr>
<tr>
<td>1962-63</td>
<td>44.00</td>
<td>18.67</td>
<td>62.67</td>
</tr>
<tr>
<td>1963-64</td>
<td>74.17</td>
<td>41.21</td>
<td>115.38</td>
</tr>
<tr>
<td>1964-65</td>
<td>100.01</td>
<td>61.99</td>
<td>161.90</td>
</tr>
<tr>
<td>1965-66</td>
<td>48.00</td>
<td>51.14</td>
<td>99.14</td>
</tr>
<tr>
<td>1966-67</td>
<td>28.44</td>
<td>51.39</td>
<td>79.83</td>
</tr>
<tr>
<td>1967-68</td>
<td>99.15</td>
<td>78.41</td>
<td>177.56</td>
</tr>
<tr>
<td>1968-69</td>
<td>100.60</td>
<td>111.00</td>
<td>211.60</td>
</tr>
<tr>
<td>1969-70</td>
<td>200.00</td>
<td>125.00</td>
<td>325.00</td>
</tr>
<tr>
<td>1970-71</td>
<td>245.00</td>
<td>130.00</td>
<td>375.00</td>
</tr>
</tbody>
</table>

Figures based on the information collected from the Central Co-operative Bank, Raipur.

The medium and large farmers have been benefited most by the co-operative institutions. The small
farmers have not received due attention. The loans have been generally granted to the farmers who possessed more than a acres of land. The situation regarding the medium and long term loans is worse as only medium and large farmers have been granted long term loans. The participation of the small farmers in the programme has been unsatisfactory.

TABLE XXX.
PREPARATION OF FARM LANDS OF SMALL, MEDIUM AND LARGE FARMERS (76 farmers, 1970-71)

<table>
<thead>
<tr>
<th>Small farmers</th>
<th>Medium farmers</th>
<th>Large farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm plans</td>
<td>Farm plans</td>
<td>Farm plans</td>
</tr>
<tr>
<td>Financed, prepared</td>
<td>Financed, prepared</td>
<td>Financed, prepared</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>21</td>
<td>22</td>
<td>198</td>
<td>206</td>
<td>134</td>
<td>138</td>
</tr>
<tr>
<td></td>
<td>9.2%</td>
<td>90%</td>
<td>35.8%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figures based on an investigation done by the author.

As can be seen, only 9.2 per cent of the small farmers have benefited by the co-operative societies. This drawback has been noticed by the authorities and a Co-operative Credit Guarantee Association has been established to provide guarantee to small farmers who seek medium term finance for purchasing the pumping sets.
The Central Co-operative Bank finances such farmers on the basis of the guarantee given by the association.

Medium term credit:

The farmers, generally, require medium term credit for pumping sets, construction of wells, purchase of animals, land improvements etc. The intensification of agriculture involves the long term measures agricultural development which require adequate medium term credit.

In Raipur district the medium and long term credit is decreasing year after year which has affected the long term improvements adversely.

**TABLE-XAXI.**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DISTRIBUTION OF MEDIUM AND LONG TERM CREDIT (lakh ₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MEDIUM TERM</td>
</tr>
<tr>
<td>1961-62</td>
<td>29.20</td>
</tr>
<tr>
<td>1962-63</td>
<td>24.20</td>
</tr>
<tr>
<td>1963-64</td>
<td>26.72</td>
</tr>
<tr>
<td>1964-65</td>
<td>47.74</td>
</tr>
<tr>
<td>1965-66</td>
<td>20.00</td>
</tr>
<tr>
<td>1966-67</td>
<td>9.29</td>
</tr>
<tr>
<td>1967-68</td>
<td>0.70</td>
</tr>
<tr>
<td>1968-69</td>
<td>7.70</td>
</tr>
<tr>
<td>1969-70</td>
<td>6.80</td>
</tr>
<tr>
<td>1970-71</td>
<td>6.50</td>
</tr>
</tbody>
</table>

Table based on the information collected from package office and Central Co-operative Bank, Raipur.
The Land Mortgage banks are providing long term loans on the basis of the value of the land. When the credit needs are growing with the modernisation of agriculture, the acute decrease in the supply of credit is surprising. The Expert Committee on Assessment and Evaluation has observed that:

"In fact the modernisation of Indian agriculture is likely to face a major constraint as a result of shortage of medium and long term credit unless urgent attention is paid to this problem." 70

Procedures of advancing loans:

The most noxious element in the functioning of the co-operative societies is the complicated and time consuming procedures which not only cause dilatoriness but also involve corrupt practices in the loan advancement. The farmers have complained against such officials who are indulged in corrupt practices. It is very difficult for a farmer to spend his valuable time and money in getting the loan application prepared and duly completed. In the preparation of loan application the village level worker, the bank supervisors, the patwaries, and other...

70—The Expert Committee on Assessment and Evaluation 1960-68, op. cit. p. 25.
officials are involved and it is not very easy to trace
all these officials who go on tour. After submitting the
loan application, he has to wait for a long time for the
approval of working committee of the bank.

TABLE-XXXII.

TIME CONSUMED IN ADVANCING LOANS. (average of 376 farmers) 1970-71.

<table>
<thead>
<tr>
<th>Items</th>
<th>Number of days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparation of loan application</td>
<td>6 to 8 days</td>
</tr>
<tr>
<td>Completion of documents</td>
<td>9 to 15 days</td>
</tr>
<tr>
<td>Approval of Committee</td>
<td>15 to 20 days</td>
</tr>
<tr>
<td>Issue of cheque</td>
<td>6 to 8 days</td>
</tr>
<tr>
<td>Encashment of cheque</td>
<td>3 to 6 days</td>
</tr>
<tr>
<td>Total</td>
<td>29 to 55 days</td>
</tr>
</tbody>
</table>

Figures based on an investigation done by the author.

As can be seen, the producer
of advancing loan takes a period of 39 to 55 days which is
not reasonable. The unnecessary procedure oriented credit
has placed a hindrance in the smooth flow of credit supply
which has affected the agricultural development, adversely. The expert Committee has also criticised the
functioning of co-operative societies regarding irritating
dilatoriness due to complicated procedures in advancing long term and medium term credit.

Repayment of loans:

Heavy overdues have been reported on the farmers. The continuous scanty rainfall in the district for the several years has aggravated this situation. The recovery of loans is being done through co-operative marketing societies by linking. But visible progress has not been documented so far. The farmers have meagre marketable surplus which is insufficient to repay the loans. In the whole district 40 to 60 per cent short term and medium term loans have been reported unrecovered. The running loans on the farmers have been reported at 2 crores. In recent years, the linking has showed some progress due to good crop years.

**TABLE-XXXIII.**

**LINKING IN THE DISTRICT DURING THE PAST TEN YEARS.**

<table>
<thead>
<tr>
<th>Years</th>
<th>Value of paddy linked in Lakh Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-62</td>
<td>9.71</td>
</tr>
<tr>
<td>1962-63</td>
<td>10.00</td>
</tr>
<tr>
<td>1963-64</td>
<td>29.94</td>
</tr>
<tr>
<td>1964-65</td>
<td>41.71</td>
</tr>
<tr>
<td>1965-66</td>
<td>5.15</td>
</tr>
<tr>
<td>1966-67</td>
<td>5.00</td>
</tr>
<tr>
<td>1967-68</td>
<td>10.00</td>
</tr>
</tbody>
</table>

Table continued.
able continued.

---  ---  
Year  Value in Lakh ₹.
---  ---
1968-69  9.24
1969-70  91.00
1970-71  110.00

Table based on the information collected from Central Co-operative Bank, Raipur.

Various measures have been taken to recover the old loans, i.e., price incentives to the farmers by providing ₹ 2=00 per quintal for linking, better marketing facilities through co-operative marketing societies, etc. The year 1970-71 has been reported a bumper crop year and the banks are optimistic regarding their loan recovery through linking. An intensive recovery programme should be started to recover the old loans. The income level of the farmers has to be increased to raise the repayment capacity of the farmers. The marginal productivity of the capital has to be ascertained in order to determine the realistic rates of interest.

The package programme has remained a loan oriented programme and the banking habits have not been developed in the villages. The propensity to save has been extremely poor which has become a serious barricade
for the commercialisation and modernisation of agriculture. The full potential of co-operative societies cannot be utilised unless the deficit economy is changed into a surplus economy; unless the sub-marginal agriculture is changed into super-marginal agriculture.

Nationalisation of Commercial Banks:

The nationalisation of commercial banks is an important landmark in the history of rural financing. It was realized that the commercial banks were not rendering their services to the rural areas which required large capital supply. In order to meet the credit demand of rural areas, the 14 commercial banks were nationalised on 19th July 1969. In Raipur district, the Commercial Bank has done some pioneering work in the field of rural financing but the commercial banks are still in confusion for want of proper credit policy for rural areas. These banks have adopted more complicated methods and procedures of loan advancing to avoid the risk factor. Since the commercial banks have just started their work, it is very difficult to assess the success of these banks.

Capability of the co-operative societies in meeting the credit demand of the farmers:

The co-operatives have not played their role successfully which was expected of them.
The co-operative structure was regarded as the back-bone of
the package programme. But its performance has not been
satisfactory owing to inefficient management, complicated
procedures of lending, scarcity of loanable funds, heavy overdues on the farmers etc. The Expert committee on
assessment and evaluation has observed that:

"The co-operatives, for the most part, have made
inadequate progress in developing the services
to the farmers, in mobilising savings and spreading
the banking habit in co-operative education, in
developing operational efficiency and skills in
creating community standing for themselves." 71

It seems that the problem of rural
financing has not been properly understood by those who
have devised the package programme. It has been observed that
production credit supplied by the co-operative societies
has been utilised for consumption purposes as the consumption
is more important than production in short period. Hence,
reasonable consumption credit should also be granted to
the farmers. The problems of small farmers have not been
tackled properly ... The establishment of credit guarantee
association is not a proper remedy to the problem.

The Expert Committee on Assessment and Evaluation, 1960-68.

Some suitable supplementary enterprises should be established for the betterment of the small farmers on co-operative basis. Adequate medium and long term credit should be supplied for the long term development of agriculture. The co-operative structure needs major changes in the operational procedures and policies. The report on Intensive Agricultural District Programme - Current status-programme needs, has rightly observed that:

"Rules and regulations under which the co-operatives operate lack flexibility. Cumbersome procedures result in irritating delays. The failure of the co-operatives to collect loans and attract deposits has been one of their weakest features... The entire credit situation is still far from satisfactory." 72