CHAPTER - V

ROLE OF CREDIT INSTITUTIONS IN THE DEVELOPMENT OF RURAL COOPERATIVES IN U.P.

In the last chapter it has been pointed out that there is a three tier cooperative credit structure in U.P. At the base there are rural cooperative societies, in the middle there are central cooperative banks and at the top is the Uttar Pradesh State Cooperative Bank. The Reserve Bank of India provided assistance to the Uttar Pradesh State Cooperative Bank from 1935 to 1982. After the establishment of National Bank for Agriculture and Rural Development (NABARD) in the year 1982 the finances and other facilities are being provided by this Bank. In the following pages a detailed study of the role played by cooperative credit institutions in the development of rural cooperatives in U.P. is being discussed.

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD):

The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) was set up by the Reserve Bank of India under the chairmanship of
Shri B. Sivaraman. This Committee recommended the establishment of the National Bank for Agriculture and Rural Development (NABARD). The Parliament, through Act 61 of 1981, approved its setting up. The Bank, which came into existence on July 12, 1982, was dedicated to the service of the nation by the Late Prime Minister Mrs. Indira Gandhi on November 5, 1982. Since its establishment, the entire undertaking of Agricultural Refinance Development Corporation (ARDC) and major functions of erstwhile Agricultural Credit Department and Rural Housing and Credit Cell of Reserve Bank of India were taken over by the NABARD. The Regional Rural Banks and State Cooperative Banks were also attached to NABARD. Refinance for agricultural and rural purposes to commercial banks and other financial institutions is also being provided by NABARD.

The main objective of NABARD is to provide credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas and for matters connected therewith or incidental thereto.

Functions:

NABARD is an apex institution accredited with all matters concerning policy and planning operations in the field of credit
for agriculture and other economic activities in rural areas. Its functions may be summarised as follows:¹

1. To serve as an apex refinancing agency for the institution providing investment and production credit for promoting various developmental activities in rural areas.

2. To take measures towards institution building for improving absorptive capacity of the credit delivery system.

3. To arrange for training, research and consultancy relating to credit.

4. To refinance cooperatives, regional rural banks (RRBs), including cooperative marketing and distribution.

5. To coordinate and monitor all agricultural and rural lending activities with a view to tying them with extension and planned development activities.

6. To inspection the cooperatives.

7. To advise and guide State Governments, Federations of Cooperatives, NCDC, etc. in regard to the cooperative movement.

Refinance to Cooperatives:

The refinance operations of the NABARD to cooperative financial institutions is the main instrument used for the

attainment of growth of the farm and non-farm sectors in rural areas along with equity, unique status in rural development banking, securing regional balance in growth, economic improvement of the weaker sections of rural economy.

In the context of the diversified and complex objectives of the NABARD, the cooperative financial institutions too have been drafted in the implementation of its projects and for routing refinance. Refinance facilities provided by NABARD to the cooperative financial institutions and particulars of refinance accommodation and purposes for which the NABARD has been sanctioning funds is summed up as follows:

### TABLE 5.1

<table>
<thead>
<tr>
<th>Types of Refinance Accommodation</th>
<th>Purpose for which sanctioned</th>
<th>Eligible Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Short-Term (ST)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(upto 18 months)</td>
<td>A. Crop Loans</td>
<td>State Cooperative</td>
</tr>
<tr>
<td></td>
<td>B. Marketing of Crop</td>
<td>Banks on behalf of</td>
</tr>
<tr>
<td></td>
<td>C. Inputs Distribution</td>
<td>Central Cooperative</td>
</tr>
<tr>
<td></td>
<td>D. Working Capital to</td>
<td>Banks in the States</td>
</tr>
<tr>
<td></td>
<td>Cooperative Sugar</td>
<td>with three tier cooperatives. Where such</td>
</tr>
<tr>
<td></td>
<td>E. Procurement of Raw Materials</td>
<td>exist, limited amounts</td>
</tr>
</tbody>
</table>
F. Production and market- are sanctioned to 
ing Activities of State cooperative 
Weavers and Industrial Societies 

G. Production and Marketing Activities of 
Rural Artisans. 

2. Medium-Term (MT). A. Approved Agricultural Purposes Banks and Regional 
(18 months to 7 years) B. Purchase of Shares of Rural Banks (RRBs) 
Processing Societies 
C. Conversion of ST Crop Loans into MT Loans 
due to Natural Calamities and Enemy Action 

3. Medium and Long Fixed Investments in Agri-State Cooperative 
Term (not exceeding 25 years) Rural Activities under 
culture and Non-Farm Development Banks, Land Devel-
ing 25 years) Schematic Lending. opment Banks, Regional Rural Banks 
and Commercial Banks (CBS). 

4. Loans to State Governments (not exceeding 20 years) For Contribution to 
State Governments. 

Governments (not exceeding 20 years) For Contribution to 

5. Composite Credit Limit

All Purposes Mentioned Regional Rural Banks
against 1 and 2 above except 1(D) and 2(B)


Schematic Assistance to Cooperatives:

Financial operations of the NABARD in relation to cooperatives since its establishment against the above refinance facilities granted by NABARD are given as under:

1. Seasonal Agricultural Operations (Crop Loans).
3. Purchase and Distribution of Fertilizers.
5. Handloom Weavers' Societies
6. Trading in Yarn by Apex/Regional Weavers' Societies.
7. Industrial Cooperatives other than Weavers' Societies
8. Rural Artisans.
9. Medium-Term Credit Limits for Approved Agricultural Purposes.
10. Medium-Term Conversion loans.
Medium-term Credit to State Cooperative Bank:

NABARD has been sanctioning limited medium-term credit for approved agricultural purpose at three per cent below the bank rate. Secondly, medium-term loans for conversion of short-term loans into medium-term loans in scarcity affected areas, rephasing of medium-term loan in areas affected by natural calamities at three per cent below Bank rate. The NABARD sanctions them from the National Rural Credit Stabilisation Fund for enabling SCBs and CGBs to convert their short-term loans into medium-term ones. Thirdly for purchase of shares in cooperative sugar factories, processing and bank rate.

Short-term Loans to State Cooperative Bank:

NABARD has been sanctioning limited short-term to State Cooperative Bank for ten broad groups of economic activities. They are:

A. Seasonal agricultural operations (crop loans) at 3 per cent below Bank rate.

B. Marketing of crops other than cotton and kapas at Bank rate.

C. Marketing of cotton and kapas including monopoly procurement of cotton at Bank rate.

D. Purchase and distribution of fertilizers at one per cent above Bank rate.

E. The consortium of Commercial Banks and SBI group etc., could not meet full credit requirements for financing and procurement, stocking and distribution of chemical fertilizers.
F. Production and marketing of handloom products at 1% below Bank rate.

G. Financing of other cottage and small scale industries at 2½ per cent below Bank rate.

H. Purchase and sale of yarn at Bank rate.

i. Against pledge of sugar at 5 per cent above Bank rate.

J. Against pledge of securities earmarked.

K. Collection and marketing of minor forest produce at Bank rate.

Credit support provided by the NABARD is characterized by emphasis placed on creation of capital assets in the agricultural sector with capacity to generate production quickly. Apart from providing increased credit assistance for investment purposes, it is ensured that adequate production credit is made available for optimum use of the assets created.

Refinance assistance provided by the National Bank for Agriculture and Rural Development under schematic lending touched a new high of Rs. 892 crores during the year 1983-84, registering an increase of Rs. 189 crores or 27 per cent over the disbursements of Rs. 703 crores in the year 1982-83. The cumulative disbursements up to the end of June 1984 stood at Rs. 4,376 crores. Providing for farmers' own contribution to investment costs, government subsidy under Small Farmers Development Agency (SFDA), Marginal Farmers and Agricultural
<table>
<thead>
<tr>
<th>Years</th>
<th>Agencies</th>
<th>Number of Schemes</th>
<th>Financial Assistance</th>
<th>National Bank Commitments</th>
<th>Disbursement</th>
<th>Cumulative Disbursements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>U.P. State Land Development Bank</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>1982-83</td>
<td>Commercial Banks</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td></td>
<td>U.P. State Co-operative Bank</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td></td>
<td>Regional Rural Banks</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>368</strong></td>
<td><strong>14,042</strong></td>
<td><strong>12,282</strong></td>
<td><strong>11,630</strong></td>
<td><strong>51,540</strong></td>
</tr>
<tr>
<td></td>
<td>U.P. State Land Development Bank</td>
<td>91</td>
<td>6,967</td>
<td>6,511</td>
<td>4,689</td>
<td>30,430</td>
</tr>
<tr>
<td>1983-84</td>
<td>Commercial Banks</td>
<td>285</td>
<td>9,660</td>
<td>7,258</td>
<td>4,372</td>
<td>26,627</td>
</tr>
<tr>
<td></td>
<td>U.P. State Co-operative Bank</td>
<td>-</td>
<td>1,066</td>
<td>960</td>
<td>964</td>
<td>2,410</td>
</tr>
<tr>
<td></td>
<td>Regional Rural Banks</td>
<td>9</td>
<td>2,378</td>
<td>2,580</td>
<td>2,516</td>
<td>5,114</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>385</strong></td>
<td><strong>20,571</strong></td>
<td><strong>17,309</strong></td>
<td><strong>13,041</strong></td>
<td><strong>64,581</strong></td>
</tr>
</tbody>
</table>

Source: NABARD Annual Reports, 1982-83 and 1983-84.
For the development of rural credit societies the NABARD commitment to Uttar Pradesh Cooperative Banks was Rs. 960 lakhs but the NABARD disbursed Rs. 964 lakhs to the Uttar Pradesh Cooperative Bank during 1983-84. The cumulative disbursement by the NABARD to Uttar Pradesh Cooperative Bank stood at Rs. 2,410 lakhs at the end of June, 1984.

Credit Projects and NABARD Schemes:

The establishment of the Agricultural Refinance Development Corporation in 1963 and its subsequent incorporation into the National Bank for Agricultural and Rural Development (NABARD) in 1982 are important landmarks in the history of rural credit in India. This has given the necessary fillip and guidance to the operations of Land Development Banks, particularly when their resources were found inadequate to meet the programmes of agricultural development. Land Development Banks continue to be important agencies accounting for a large share of NABARD refinance. Under NABARD schemes, Land Development Banks are participating in the implementation of several World Bank/IDA assisted projects for agricultural development for various purposes.

I. For long-term finances the Uttar Pradesh State Cooperative Land Development Bank has been helping the agricultural sector for agricultural development. This Bank does not provide help to the cooperative societies for the purpose. Therefore, the study of the same has not been included here.
The Uttar Pradesh State Cooperative Bank Ltd.

A State Cooperative Bank is the leader of agricultural credit in every state which not only mobilises the financial resources needed by the cooperative movement but also helps in deploying them appropriately among the various sectors of the movement. A Reserve Bank review has stated: "The State Cooperative Bank forms the keystone of the cooperative movement in the State. It links the movement not only with the commercial money market, but also with the Reserve Bank of India as a potential source of credit for seasonal and emergent needs."

In U.P., the State Cooperative Bank is providing short and medium-term loans to the rural cooperatives through the member central cooperative banks. The Bank serve as a balancing centre for the resources of the cooperative societies in the State. It functions generally as an integrated State organisation for the provision of marketing and processing credit to agriculturists and their societies.

For effective control over the cooperative movement in the State, the U.P. Cooperative Bank has opened 27 branches and 12 regional offices spread all over the state. Thirteen

1. As well as the National Bank for Agriculture and Rural Development (NABARD).
branches are located in Kanpur and other major cities of the State while 14 branches are working in the Lucknow city. Out of these 14, one is working for World Bank Rural Godowning Project, the sole function of which is to arrange for the construction of rural godowns for cooperative societies with the financial help received from State Government and National Cooperative Development Corporation (NCDC). Under this project the Bank receives 60 per cent of the cost from NCDC and 35 per cent from the State Government. The remaining 5 per cent is borne by the societies concerned. At the end of 1983-84, construction of all the 3,368 projected godowns was completed. The construction work on 1,597 godown, under a new scheme, is in progress.

The Uttar Pradesh Cooperative Bank is an apex organisation which provides agricultural credit for short and medium-term loans to central cooperative banks by arranging funds from the National Bank for Agriculture and Rural Development and also from its own resources. It acts as a balancing centre for the Central Cooperative Banks and tries to remove regional imbalances by sending surplus funds of affluent areas to comparatively backward ones. The Bank provides working capital credit accommodation to big cooperative societies and both working capital and term loans to large scale units like solvent extraction plants, rice and dal mills,
cooperative cold storages and processing units with the help of the NCDC. It also provides finances to the central cooperative banks for supporting rural industries and handloom weavers under the 20 point Economic Programmes.

The total loans and advances given by the Bank is given in the following Table:

**Table 5.3**  
Position of Loans and Advances of UPCB by the end of 1983-84.

<table>
<thead>
<tr>
<th>Purpose for which Finance was Given</th>
<th>Amounts (in Presentation of Crores %)</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Operations including purchase and distribution of fertilisers and pesticides and rural development.</td>
<td>245.49</td>
<td>95.3%</td>
</tr>
<tr>
<td>P.D.S. and Consumer Services</td>
<td>25.73</td>
<td>6.0%</td>
</tr>
<tr>
<td>Sugar Factories, Directly and through CCBS.</td>
<td>81.05</td>
<td>38.9%</td>
</tr>
<tr>
<td>Cooperative Milk Federations and Unions.</td>
<td>2.22</td>
<td>0.5%</td>
</tr>
<tr>
<td>Handloom and Cottage Industries</td>
<td>11.44</td>
<td>3.7%</td>
</tr>
<tr>
<td>Rural Godowns and Cold Storages</td>
<td>31.94</td>
<td>7.5%</td>
</tr>
<tr>
<td>Oil Mills, Dal Mills, Rice Mills, Vanaspati Mills, Ice Plants etc.</td>
<td>2.19</td>
<td>0.5%</td>
</tr>
<tr>
<td>Housing Finance</td>
<td>3.09</td>
<td>0.7%</td>
</tr>
<tr>
<td>Interim Accommodation to Land Development Bank</td>
<td>11.09</td>
<td>2.6%</td>
</tr>
<tr>
<td>Finance for other Misc. Activities</td>
<td>14.19</td>
<td>3.3%</td>
</tr>
</tbody>
</table>

428.43 100.0

The above table indicates that though the Bank has adopted a policy of diversification in the distribution of loans, it has given priority to agriculture and rural development programmes. It provided 57.3 per cent of the total advances to the agricultural sector. If advances to sugar factories are included, the percentage of its financing of the agricultural sector comes to 76.2 per cent which was 75 per cent at the end of 1982-83.

**Short-Term and Medium-Term Advances by the Bank:**

The Uttar Pradesh Cooperative Bank disburses short and medium-term loans to affiliated central cooperative banks and other apex societies. It advances short-term loans for seasonal agricultural operations and marketing of crops and medium-term loans for purchase of cattle, light agricultural machinery and implements, sinking of wells etc. These loans are advanced to rural credit societies through affiliated central cooperative banks in the State.

The loaning operations of the Uttar Pradesh Cooperative Bank are given in the Table 5.4 on the next page.
### Table 5.4

Advances of Uttar Pradesh Cooperative Bank (Rs. in Crores).

<table>
<thead>
<tr>
<th>Years</th>
<th>Loans Advanced S.T. &amp; M.T.</th>
<th>Total Demand</th>
<th>Overdues</th>
<th>Percentage of Overdue to Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-71</td>
<td>65.24</td>
<td>52.37</td>
<td>4.27</td>
<td>8.2%</td>
</tr>
<tr>
<td>1973-74</td>
<td>131.97</td>
<td>73.24</td>
<td>2.33</td>
<td>3.2%</td>
</tr>
<tr>
<td>1977-78</td>
<td>330.22</td>
<td>291.96</td>
<td>1.79</td>
<td>0.6%</td>
</tr>
<tr>
<td>1978-79</td>
<td>338.43</td>
<td>125.58</td>
<td>2.06</td>
<td>1.6%</td>
</tr>
<tr>
<td>1979-80</td>
<td>459.66</td>
<td>147.15</td>
<td>6.76</td>
<td>4.6%</td>
</tr>
<tr>
<td>1980-81</td>
<td>557.73</td>
<td>146.09</td>
<td>8.95</td>
<td>6.1%</td>
</tr>
<tr>
<td>1981-82</td>
<td>755.87</td>
<td>151.23</td>
<td>21.72</td>
<td>14.5%</td>
</tr>
<tr>
<td>1982-83</td>
<td>767.35</td>
<td>176.45</td>
<td>22.32</td>
<td>13.0%</td>
</tr>
<tr>
<td>1983-84</td>
<td>728.28</td>
<td>211.46</td>
<td>23.70</td>
<td>11.3%</td>
</tr>
</tbody>
</table>

Source: Compiled by the author on the basis of information received from various sources.

It is evident from the above Table that the short-term and medium-term loans advances made by the Bank have been rising from year to year, except in the year 1983-84 when they stood at a figure of Rs. 728.28 crores as against an amount of Rs. 755.87 crores in the year 1981-82. It also indicates that the percentage of overdues to total demand is very low. This means that the recovery position of the Bank is quite satisfactory. The percentage of overdues to total demand was...
per cent in 1933-34 as against 14.3 per cent in 1970-71.

Direct Financing to Primary Societies:

A State Cooperative Bank is an apex institution of the cooperative banks and as such should not undertake the direct financing of primary societies, which is the legitimate function of a Central financing agency. In the opinion of the Macclagan Committee, "when primary societies, owing to their formation in a new district or for some other reason, have no convenient central bank affiliated to the Provincial Bank to deal with, the latter may properly grant them loans direct until they can be brought under an affiliated central bank, and should in such a case exercise over them the power of a central bank". But ultimately a central bank has to be organised in such backward areas and the direct financing has to go, yielding place to the new agency.

Agriculture Credit Stabilisation Fund:

This fund is maintained by the Uttar Pradesh Cooperative Bank and central cooperative banks to meet their share in conversion of short-term loans of farmers into medium-term loans in times of natural calamities. The Government of India provides as instance of 75 per cent as grant and 25 per cent as
loan for building up this fund. This central assistance is intended to meet part of the gap in the funds required for conversion of loans. The scheme has proved to be of considerable help to the cooperative credit structure in providing relief to the farmers by way of conversion of short-term loans and enables them to get fresh loans in times of natural calamities. From the inception of the scheme in 1966-67 up to 1981-82, this fund had an amount of Rs. 1,657.63 lakhs. The Uttar Pradesh Cooperative Bank has continued to appropriate 15 per cent of their profits towards this fund.

The following could be considered as the appropriate role of Uttar Pradesh Cooperative Bank in developing and diversifying the activities of primary agricultural credit societies on the lines envisaged by the Committee to Envisage Reforms for Institutional Credit for Agricultural and Rural Development (CREFICARD):

(i) Preparation of a specific plan of action in coordination with the Cooperative Department and central cooperative banks for developing the business of selected primary agricultural credit societies and for involving their deposit resources; implementation of the line-bound schemes as per the guidelines of the National Bank for Agriculture and Rural Development.

1. Annual Report 1983-84, Cooperative Department, Registrar Cooperative Societies (Annual Returns Section), Lucknow.
(ii) In respect of the remaining reorganised societies, it may be noted that many are still working at a loss. Uttar Pradesh Cooperative Bank may have to carry out specific studies (as was done in Tamil Nadu) to identify the causes of losses and to take remedial action with the help of the State Government and the central cooperative banks.

(iii) Establishment of a Cooperative Development Fund by Uttar Pradesh Cooperative Bank as well as central cooperative banks as recommended by the Committee to Review Arrangements for Institutional Credit for Agricultural and Rural Development (CRAFICARD), and use the same, among other things, for providing financial assistance to primary agricultural credit societies for purposes which will help them either to graduate to higher levels of business and efficiency or to function as viable units. The Uttar Pradesh Cooperative Bank is already providing assistance for equipping the officers of primary agricultural credit societies, for building up the cadre funds and for training of the personnel of the primary agricultural credit societies; but these have to form part of the overall package schemes of assistance to primary agricultural credit societies. In this connection, it may be mentioned that the cooperative practice of not taking the interest on overdue
to profits does not, under the three-tier system, materially affect the Uttar Pradesh Cooperative Bank (as all recoveries at base level are first applied to the interest due at higher levels) and therefore, Uttar Pradesh Cooperative Bank would be justified in ploughing back, through the Cooperative Development Funds, at least a part of their profit for the development of primary agricultural credit societies.

**Commercial Banks**

In the beginning, the scheme of financing agricultural credit societies by commercial banks was initiated by the Reserve Bank of India in five States - Uttar Pradesh, Andhra Pradesh, Haryana, Madhya Pradesh and Mysore - with effect from 1970. The main objective of the scheme was the filling up of the credit inadequacies, particularly in districts where the central cooperative banks were weak or inactive. Commercial banks, at that time in particular, found this a very convenient way of entering the sphere of rural credit which they were called upon to do under government policies. This was so because at that time these banks had no field contact or machinery worth mentioning, directly with farmers through their own field staff. The branches were mostly located far away from
villages and although some of them were financing agriculture, this was done in a sporadic manner and did not cover a large number of cultivators. While it was not at all a wise step to side-track the vital subject of building up field staff and take over the task of financing the primary agricultural credit societies for extending rural credit, it would have been very difficult and expensive for commercial banks to have recruited a large field staff and to bring their branches down to the tehsil level or even lower down which was essential to have field contacts. Commercial banks, therefore, fell easily into the plan to get the primary agricultural credit societies ceded to them.

Regional Rural Banks (RRBs):

The Regional Rural Banks started its functioning in India in 1976. As per the Regional Rural Banks Act of 1976, the Regional Rural Banks provide loans to the primary agricultural credit societies for the development of agriculture. The functioning of the Regional Rural Banks is to be reviewed in view to identifying appropriate measures for strengthening their organisational structure and improving their overall capabilities. The review will be taken up by a working group under the Chairmanship of banking additional secretary Mr. V.K. Dar. These Regional Rural Banks have been formed with the plus points of both cooperative and commercial banks. They
have often been described as the rural arm of the commercial banks. These banks have been commercially organised rural oriented and locally based. They are based on the concept of low cost profile.

Dispensation of Loans by Commercial Banks and Regional Rural Banks to Rural Cooperatives

By the end of June 1982, commercial banks and regional rural banks had adopted 105 rural societies. Only 99 societies were actually financed through them. The number of villages covered by these societies was 686. The total membership of these societies was 1.15 lakh out of which 0.65 lakh members borrowed from these societies in 1981-82. Share capital, deposits and working capital of these societies were Rs. 100.68 lakhs, Rs. 23.41 lakhs and Rs. 700.70 lakhs respectively during the period. Commercial banks and regional rural banks advanced loans to the rural cooperatives amounting to Rs. 314.78 lakhs and Rs. 33.14 lakhs respectively during the same period. By the end of the year Rs. 214.73 lakhs short-term and Rs. 37.63 lakhs medium-term loans advanced by these societies. During the year Rs. 182.98 lakhs loans were recovered by these societies whereas an amount of Rs. 214.62 lakhs was not recovered.

Coordination/Collaboration with Commercial Banks:

Historically speaking, cooperative have established infrastructure facilities but lack resources to meet the cent percent credit needs of the farm sector. The commercial banks have the resources but have not built up adequate infrastructure facilities for financing a large number of farmers belonging to weaker sections and supervising the utilization of loans.

Study Group to Review the Working of the Scheme of Financing of PACS by Commercial Banks

The Study Group which was constituted by the Reserve Bank of India in December 1978 to review the working of the scheme of financing of primary agricultural credit societies by commercial banks submitted its report in August 1981. The findings of the Group revealed that the scheme which was introduced in 1970 had failed to achieve its major objectives and had not been able to make any perceptible impact on the functioning of the societies ceded to commercial banks. Further, commercial banks had not been able to provide higher quantum of assistance to the societies ceded to them as compared with the central cooperative banks' assistance to their affiliated societies. Organisational link with commercial banks had also failed to arresting defaults in repayment of loans. According to the study group, the failure of the scheme was
more due to organisational incompatibility of the delivery systems than to any operational lacuna. The Study Group therefore, recommended that no useful purpose would be served in continuing the scheme. The Agricultural Credit Board has decided to leave the option to the concerned societies to continue their link with commercial banks or to opt for retransfer to the central cooperative banks to which they were earlier affiliated.

The Central Cooperative Banks

The central (District) cooperative banks are the intermediaries between the rural cooperatives and the State Cooperative Bank. A district bank has its branches in different parts of the district. The district central cooperative banks play a significant role in the development of their member societies. They finance agricultural credit societies for production purposes, marketing societies for their marketing and supply operations, industrial and other societies for their working expenses and so on. These banks provide short and medium-term credit to their member societies.

Loaning under the Crop Loan System of lending to agriculturists is based on crops rather than, on the land.

The new system of advancing loans is much more elastic and liberal as it is based on the actual production requirements of each crop and is related to crop acreages. Further, the repayment of the loan is made out of the produce of the crop after it is harvested. Originally the short-term production credit was given in the shape of the following four components:

Component A: This was given in cash in the shape of basic finance and was calculated on per acre basis.

Component B: This component was given in kind in the shape of fertilizers etc.

Component C: This was also given in cash in the shape of additional cash requirements to service the input in kind.

Component D: This component was given as an incentive loan to members who repaid their loans in kind.

On the recommendations of All India Rural Credit Review Committee (1969), short-term loans to agriculturists are being advanced in the shape of only two components viz., cash and kind since 1972.

Lending Procedure:

On the basis of scales of finance already fixed, the societies prepare credit limit statement in duplicate with re...
to weaker and non-weaker members, showing therein the details of crops grown and the acreage proposed to be grown under each crop. It is then sent to the central bank concerned. After receiving the credit limit statement through the supervisor of the society and Assistant Development Officer (Cooperative) of the area concerned who, in their turn, scrutinize it with regard to every minute detail regarding crops to be given and acreage under different crops given therein. The credit limit statement is thoroughly checked at the level of branch of the central cooperative bank concerned with the help of the documents submitted by the society. After thorough checking is approved by the Branch Manager and the original copy of the statement approved is sent to the society concerned. The society then prepares the loan application which is submitted to the bank along with a copy of the resolution of the society regarding total loan to be sanctioned, time promissory note for full cash, credit limit and loan deed containing terms and conditions of the loan. The amount of cash and kind component demanded by a particular member is shown separately in the loan application.

On receipt of the society's loan application in the branch of the district cooperative bank, it is thoroughly checked at the branch level with the available records submitted by the society for the purpose. It is finally checked with the help of
the credit limit statement already approved earlier by the society.

The share holding by the individual member in the capital of the society is also checked, in order to ascertain the maximum amount of loan as an individual member is entitled to. A loan up to a maximum of 8 times of his share holding in the society. If the loan application is found in order, the manager of the branch concerned sanctions the loan up to a maximum of Rs. 10,000 and forwards applications for amounts exceeding Rs. 10,000 to the Zila Sahakari Bank of the district for its sanction. The original copy of the loan application is then handed over to the society for the drawal of the loan and society's loan account is debited, if the loan sanctioned to a society is for cash component. It will not be out of place to mention here that in U.P. the distribution of cash component is being done through cheques since September 1, 1970.¹

The distribution of kind component (Component B) is also being done by cheque since 1972-73 in U.P.² This system has been adopted in order to remove the difficulties which were being faced before the adoption of this system. The main difficulties were delay in the realisation of the price of fertilizers supplied by the U.P. Cooperative Federation to the members of the cooperative credit societies and adjustment

¹. For further details refer to the Registrar, Cooperative Societies letter No. 154/58-L(A) S.A.I/B kg, dated 24.6.70.
². For details refer to the Circular No. 146/58-a(A) Bankin, dated June 23, 1972, issued by the Registrar Cooperative Societies, U.P. Lucknow, addressed to the Presidents of all the Zila Sahakari Banks in U.P.
of loans by cooperative credit institutions.

An idea of loaning operations of central cooperative banks from 1960-61 to 1983-84 can be had from the following table:

**Table 5.5**

**Showing Loaning Operations of Central Cooperative Banks in U.P.**

*(Rs. in Crores)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans Advanced S.T. &amp; M.T.</th>
<th>Loans outstanding ST &amp; MT</th>
<th>Of which Overdue</th>
<th>Percentage of overdue to Loan Advanced</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-71</td>
<td>59.23</td>
<td>77.04</td>
<td>37.53</td>
<td>46.7</td>
</tr>
<tr>
<td>1971-74</td>
<td>103.55</td>
<td>115.31</td>
<td>63.01</td>
<td>55.8</td>
</tr>
<tr>
<td>1977-78</td>
<td>179.44</td>
<td>172.79</td>
<td>83.91</td>
<td>46.6</td>
</tr>
<tr>
<td>1978-79</td>
<td>208.20</td>
<td>201.72</td>
<td>91.78</td>
<td>42.5</td>
</tr>
<tr>
<td>1979-80</td>
<td>242.19</td>
<td>275.98</td>
<td>100.62</td>
<td>36.5</td>
</tr>
<tr>
<td>1980-81</td>
<td>230.90</td>
<td>329.08</td>
<td>124.50</td>
<td>37.1</td>
</tr>
<tr>
<td>1981-82</td>
<td>371.44</td>
<td>337.13</td>
<td>163.78</td>
<td>48.4</td>
</tr>
<tr>
<td>1982-83</td>
<td>450.06</td>
<td>396.54</td>
<td>196.29</td>
<td>43.5</td>
</tr>
<tr>
<td>1983-84</td>
<td>491.92</td>
<td>438.27</td>
<td>224.83</td>
<td>51.1</td>
</tr>
</tbody>
</table>

Source: Compiled by the author on the basis of information received from various sources.

The above Table indicates that except during 1980-81, the loans advanced by the central cooperative banks increased
continuously. They stood at Rs. 59.23 crores in 1970-71 and increased to Rs. 491.92 crores in 1983-84. Overdues have also shown an increasing trend. From a small figure of Rs. 17.54 crores in 1970-71 they mounted to Rs. 224.83 in 1983-84 which showed a growth of 599 per cent. The percentage of overdues of loans outstanding also increased from 43.7 per cent in 1970-71 to 51.3 per cent in 1983-84. This was due to several factors such as misutilisation of loans, crop failure political interference of loans on reproduction purposes and ineffective supervision.

Scales of Finance:

The cultivators' requirements of short term credit fall into two broad categories: those for meeting certain outlays which can be met primarily in cash and those which can be disbursed in kind represented by certain inputs such as fertilizers and pesticides associated with the adoption of improved agricultural practices. It is obviously impracticable for a central bank dealing with a large number of cultivators to attempt an assessment of the credit requirements of each one of them. Indeed, such an approach might result in unfair discrimination or even favouritism in some cases. Production needs, therefore, are fixed on an average basis for all cultivators in respect of cash and kind components. For this purpose cropwise per acre scales of finance are fixed. In U.P. per acre
maximum scales of finance are being fixed on the following basis since July 1982.

Table 5.6
Showing Per Acre Scales of Finance in U.P.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Category of Crop</th>
<th>Per Acre Maximum Scale of finance (in Rs.)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Component A (Cash)</td>
<td>Component B (Kind)</td>
</tr>
<tr>
<td>1.</td>
<td>For Food Crops</td>
<td>300</td>
<td>600</td>
</tr>
<tr>
<td>2.</td>
<td>For Cash Crops</td>
<td>400</td>
<td>850</td>
</tr>
</tbody>
</table>


The above scales of finance indicate the maximum quantum of loan per acre. Lower scales of finance may be fixed if the resources of the central bank do not warrant the fixation of the above scales but there are only two scales of finance i.e. one for Food Crops and the other for cash crops.

Maximum Borrowing Power:

In view of the need for increasing agricultural production, it has been decided to liberalise the maximum individual borrowing limit and to raise it to Rs. 10,000/- This limit of Rs. 10,000/- is however, be allowed to be drawn by individual member of the society in cash up to a maximum of Rs. 2,000/- and
in kind up to a maximum of Rs. 8,000. In case an individual wants accommodation under short-term loan beyond Rs. 10,000 it can be sanctioned in kind only, with the permission of the Assistant Registrar, Cooperative Societies of the district concerned, provided the amount is within his credit limit.

If a member wants to draw the full amount of individual maximum borrowing limit of Rs. 10,000 in kind in the shape of fertilizers etc., he is free to avail himself of this limit in kind to the full extent.

Operation on the Limit-Eligibility:

The credit limit fixed in the credit limit statement is the maximum credit limit on which a member can operate. To be eligible for operation on the limit for the member society from the district/central cooperative bank, the society has to fulfill the following conditions:

(i) If it has repaid at least 50% of the demand for the year,
(ii) If it holds shares of the bank in the prescribed proportion,
(iii) If it has executed the necessary documents i.e. promissory notes, agreements etc.
It is important to note here that the sanction of limit as indicated in the credit limit statement by the district/central bank does not depend upon prior fulfilment of any of the conditions mentioned above. It is enough if the conditions are satisfied by the member society only at the time of drawals on the limit.

It has been decided in U.P. to advance fresh loans to a defaulting society whose overdues to the central cooperative bank do not exceed 15 per cent, provided arbitration proceedings have been launched against defaulting members.

**Security for Short-Term Loans:**

The essential feature of the crop loan system is that a cultivators' eligibility for loan and the size of the loan are determined by the fact that he is a genuine cultivator who needs credit for production and that he will repay it from out of his production and not by the fact of his ownership of land or the value of any other tangible security. It is important, therefore, that in a system of production oriented credit, the security offered should not be permitted to form the basis for determining the eligibility or the size of short-term loans for agricultural production. Security in, however, necessary to provide against the possibility of a
loan becoming unrealisable and, therefore, it cannot be dispensed with altogether. The central cooperative banks, therefore, advance short-term loans to cultivators on the security of two sureties who are members of the societies.

Medium-Term Credit:

Medium-term loans are given for meeting expenses related to the replacement and maintenance of wasting assets and for capital investment designed to increase the output from land. These loans are sanctioned for purposes such as deepening of wells, sinking of new wells, purchase of light agricultural machinery or a pair of bullocks, etc.

Medium-term loans, like short-term loans, are hitherto at present by short-term cooperative credit agencies of the State Cooperative Banks at the apex level, central cooperative banks at the district level and primary agricultural cooperative credit societies at the base.

Medium-term loans are repayable within periods ranging from 3 to 5 years.

Security for Medium-Term Loans:

There are two types of medium term loans as far as security is concerned - without mortgage of land and on land
mortgage basis. As such, the security for loans provided on mortgage of land is the land itself and loans provided without mortgage of land are advanced on the basis of two sureties, as is done in advancing short-term loans. Generally medium-term loans upto a limit of Rs. 1,000 are advanced on the sureties of at least two members. Medium-term loans for some specified purposes, e.g. for minor irrigation projects, purchase of agricultural implements and Dunlop-Tyre carts etc. upto a maximum of Rs. 3,500 are advanced without the mortgage of land. Medium-term loans for the purchase of tractors can be given beyond a limit of Rs. 3,500 without the mortgage of land. Small and marginal farmers can be advanced medium-term loans upto a maximum of Rs. 2,500 and Rs. 2,600 respectively without the mortgage of land for the purchase of milch cattle and poultry.

The procedure of advancing and recovery of medium-term loans is the same which is followed with regard to short-term advances made by the central cooperative banks.

At present, more stress is being laid on the disbursement of short-term loans. Hence the volume and size of medium-term loan is smaller as compared with short-term advances. The following Table gives an idea of the short and medium-term advances in U.P. from 1972-73 to 1983-84.
Table 5.7
Comparative position of Short-Term and Medium-Term Advances in U.P. (Rs. in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Short-Term Advances</th>
<th>Medium-Term Advances</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972-73</td>
<td>63.29</td>
<td>8.00</td>
</tr>
<tr>
<td>1973-74</td>
<td>65.33</td>
<td>3.81</td>
</tr>
<tr>
<td>1974-75</td>
<td>70.00</td>
<td>5.00</td>
</tr>
<tr>
<td>1975-76</td>
<td>81.00</td>
<td>5.00</td>
</tr>
<tr>
<td>1977-78</td>
<td>159.07</td>
<td>20.37</td>
</tr>
<tr>
<td>1978-79</td>
<td>177.57</td>
<td>30.63</td>
</tr>
<tr>
<td>1979-80</td>
<td>159.03</td>
<td>83.11</td>
</tr>
<tr>
<td>1980-81</td>
<td>197.69</td>
<td>33.21</td>
</tr>
<tr>
<td>1981-82</td>
<td>317.78</td>
<td>53.67</td>
</tr>
<tr>
<td>1982-83</td>
<td>376.51</td>
<td>73.55</td>
</tr>
<tr>
<td>1983-84</td>
<td>406.19</td>
<td>85.73</td>
</tr>
</tbody>
</table>


The above Table shows that the short-term agricultural advances have been constantly rising from year to year except in 1979-80 while the Medium-term advances have shown a decline. This shows that greater emphasis is being laid on short term advances by the central cooperative banks in the State.
Medium-term loans in U.P. are being disbursed by cheque-like short-term loans and these cheques are encashable at the nearest branch of the Zila sahakari bank of the district concerned.

No doubt, the cooperative structure occupies a prime position in the institutional framework of agricultural credit in Uttar Pradesh, but there are certain weaknesses which have emerged in the operation of the cooperative banking system. At the grass root level, primaries are to a large extent non-viable and dormant type. The base level farm credit societies are to be reorganised so that they can function as effective sources of working finance to the farming community. At the central level, the short/long term cooperative farm credit structure should be integrated into one contact credit point to the farmers. In addition, there are other major shortcomings i.e. political intrusion into the working of cooperative, large overdues, failure to mobilise deposits and lack of properly trained staff. Under the existing position of multiplicity of farm finance agencies, the cooperatives have to show their superiority over other agencies in performing the role assigned to them in the sphere of farm credit. This is possible only when the cooperatives have structural compactness, operational efficiency and genuine will to face the competition. The
Cooperatives should be built up not only as one of the major instruments of decentralised labour intensive and rural oriented economic development, but should also be developed on such lines so as to serve as a "shield for the week" instead of "sword for the strong". For promoting total and comprehensive rural development in Uttar Pradesh the building up of integrated cooperative credit system is a must for the success in the sphere of agricultural credit.