CHAPTER II

AGRICULTURAL CREDIT STRUCTURE PERFORMANCE IN INDIA
2.0. AGRICULTURAL DEVELOPMENT

The role of agriculture and its development plays an important role in any nation's economy and in its development process. The agricultural development should be the most important for all the developing and less developed countries in the world. According to Samulson and Solow, if agriculture stagnates it will act as a break on industrial expansion and halts real growth. William Nicholls subscribes to this opinion of Samulson and Solow and says "the existence of substantial agricultural surplus is a pre-condition for industrial development. Economic historians have supplied data to help analyse the issue of whether the agricultural or the industrial should be relied upon as the driving force in development. Economic historians generally concur that there are no cases of successful development of a major country in which a rise in agricultural productivity


did not precede or accompany industrial development. It is more urgent and pressing need to a populated and poverty oriented agricultural country like India on so many grounds. It is still more important in the democratic country like India in order to preserve democratic institutions in political, economic, social and cultural fields. It saves internal disorders, people who support democratic institutions will meet their primary needs, food and fibre. It is therefore imperative to develop agriculture and to solve the food problem of India to maintain her socialistic economic democracy in order to reduce the poverty in India, for that agriculture must be developed.

Agricultural performance is fundamental to India's feature in economic and social development. Agricultural sector contributes 30 per cent of GNP, 60 per cent of employment and is primary source of livelihood in rural areas, which accounts for 75 per cent of India's population and 80 per cent of its poor. Predominantly in agricultural country like India, agricultural production holds the key to peace progress and prosperity of nation.

However, the benefits do not end with poverty reduction. Agricultural development provides strong foundation for growth in the rest of the economy, as it is proved and happened that the most of successful countries of East Asia have achieved rapid rates on farm productivity, growth generating sharp increase in agricultural output in a context of staple food process and rising rural wages.

2.1. AGRICULTURAL CREDIT: AS A UNIVERSAL PHENOMENA

It is humorously said that the Indian farmer is born in debt, lives in debt and dies in debt. Nicholson has observed that the lesson of universal agrarian history from Rome to Scotland is an essential input for agriculture is credit. The farmer must borrow. Nelson and Murray have also come to conclusion that it is the capital that improves farm sector and standard of living of the people. The Indian agriculturists are no exception to this general rule.

4. The Journal of the Indian Institute of Bankers, SBI.


The role of credit in agricultural development is very well studied by Belshaw and he is of the opinion that the development of agricultural sector is related directly to the way, we tackle the problem of rural credit. The Role of credit in agriculture development is well studied by many economists, bankers, policy makers and come to the conclusion that credit is a phenomena of agricultural development.

Agricultural development requires many inputs such as seeds, water, manures, fertilizers, pests, credit and other inputs. Of all the inputs, credit is the most essential and commendable input over the other. All the productive activities require their sustenance some degree of credit, the amount and duration, of which depends on the length of the production cycle.

All the farmers without any distinction like small, marginal, medium and big all are indeed need of credit at one time or other during the process of their agricultural production, i.e., pre-harvest, during the harvest and post-harvest periods.

Farmers need credit to undertake and continue peace farming activities. In a traditional subsistence farming farmers credit needs are very low. He uses inputs which are available locally and sometimes they are within his control. He uses his own seeds, manures of his own, family labour, his own bullocks etc., for that needs low amount of capital is needed.

But the recent Green Revolutionary methods introduced by the Indian farmer need more and more doses of credit. The biological package inputs are market oriented and they must brought from market for that he needs external finance, as he lack of his past savings, or lack of surplus incomes for that he has to borrow from others. Thus in modern farming credit acts as a catalytic agent in fostering economic development. The recent improved technology brought a change in the confidence of farmers and the farmers are not hesitating to invest more and more in agriculture in the farm of inputs with hope of higher levels of productivity for that he needs credit. The basic concept of development-oriented finance is that credit consciously use as a liver of development.

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The farmer needs various types of credit for his farm business generally short-term, medium-term and long-term credit.

Short-Term Loan:

Short-term credit to purchase agricultural inputs such as HYV seeds, fertilizers, pests, to pay wages and hire rents of water etc. This type of loans are called productive loans. Since they are supplied to meet productive agricultural operations. Often these loans are also called Seasonal Agricultural Operational loans. The loan amount to be repaid after the seasonal crop is marketed that generally falls within the year. The short-term loans are supplied to the farmers in two instalments and in two components i.e., cash and kind (input) to meet current farm expenses and also in the form of modern HYV inputs. The motto in supplying in the farm input is to adopt the modern package inputs and also not to divert the loans for consumption and other non-farm purpose, that ensures and strengthens loan repayment capacity of the borrower.

Medium Term Loan

The farmer also needs medium term credit for purchasing costly agricultural durable assets such as oil
engines, electric motor, pumpsets, bullock carts, bullocks and milk cattle etc. In addition the farmers also need credit to construct farm house, and for irrigation repairs etc., whose cost is high. These loans are also very useful to the farming community, as they not only help and support the agricultural activities but also often accrue some additional income by way of hire earnings from bullock carts and daily incomes by selling milk. Thus the credit not only help the farmer in his farming and also added some regular additional employment and income to the family members. These loans are called diversified loans. These loans are often supplied by both short-term and long-term credit institutions.

Long-Term Credit

The farmer also needs long-term credit in order to make some permanent developments on the farm, that needs huge investments and (its benefits accrue to the farmer over the years) returns spread over the year used to purchase land, reclamation of land, bunding, levelling land improvements, constructions, repairs of wells, other irrigation sources laying, development of orchards, plantations, purchase of additional agricultural implements and machinery.

9. Credit Requirements for Agriculture, p.18, by NCAER, New Delhi.
The advent of Green Revolution in India and the striking improvements in technology have opened vast poten-
tialities for long-term development of agriculture.

Market Credit

Farmer also need credit not only for production purpose but also marketing his produces when there are de-
pressed prices in the market.

Consumption Loans

Farmer also needs loans to meet the consumption needs such as purchasing foodgrains clothing or utensils to cele-
brate social and religious ceremonies like birth, death and marriages to repair their houses and to meet medical ex-
penses. These loans should not be contracted. If con-
tracted, they would compell the farmer to depend on money-
lenders and the very purpose of institutional credit, reduc-
ing the evil influences of money-lenders in the credit market.

10. Ibid., p.2.
would be defeat and often they are again prey for money-lenders exploitation. It should be understood that unless these consumption needs of rural people are satisfied they will not in a position to carry this productive activities as agriculturists smoothly.

2.2 CREDIT ESTIMATES

Various committees and the working groups estimated the credit requirements over the period.

The Central Bank Enquiry Committee mentioned Rs. 300 to 400 crores in British India and opinion and that there was almost unlimited scope for grant of long-term loans.

All India Rural Credit Survey in 1964 estimated the credit requirements of the country totally 200 crores.

The All India Rural Credit Survey Committee in 1969, estimated totally 400 crores of that Short-term, 400 crores and Medium-term 500 crores, and long-term 150 crores.

National Commission on Agriculture, 1976 estimated as 9,000 crores. Credit requirement for full programme covering by 1985 at Rs. 16,549 crores.

12. Ibid., p.220.
Both co-operatives and commercial banks are contributing large amount in the credit supply by the end of June 1980 the share of co-operatives was 59 per cent that of commercial banks 39 per cent and RRBs 2 per cent. This was shown in the Table 2.1.

TABLE 2.1

ESTIMATES OF AGRICULTURAL CREDIT DISBURSAL IN 1989-90

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<tbody>
<tr>
<td>Co-operatives</td>
<td>1,218</td>
<td>2,100</td>
<td>526</td>
<td>960</td>
<td>1,744</td>
<td>3,060</td>
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<tr>
<td>Commercial Banks</td>
<td>470</td>
<td>1,050</td>
<td>576</td>
<td>1,370</td>
<td>1,045</td>
<td>2,420</td>
</tr>
<tr>
<td>RRBs</td>
<td>44</td>
<td>350</td>
<td>56</td>
<td>350</td>
<td>100</td>
<td>700</td>
</tr>
<tr>
<td>Total</td>
<td>1,732</td>
<td>3,500</td>
<td>1,157</td>
<td>2,680</td>
<td>2,889</td>
<td>6,180</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India, CRAFTICARD, Bombay, p.41.
Agency-wise disbursement of agricultural credit from 1985-86 to 1991-92 and the target for 1992-93 are given in Table 2.2.

TABLE 2.2

DISBURSEMENT OF AGRICULTURAL CREDIT

(Rs. in crores)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Cooperatives:</td>
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<td></td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Short-term</td>
<td>2787</td>
<td>3007</td>
<td>3120</td>
<td>3594</td>
<td>3689</td>
<td>8306</td>
<td>3843</td>
<td>5096</td>
</tr>
<tr>
<td>Medium-term</td>
<td>505</td>
<td>585</td>
<td>567</td>
<td>602</td>
<td>709</td>
<td>317</td>
<td>387</td>
<td>441</td>
</tr>
<tr>
<td>Long-term</td>
<td>582</td>
<td>615</td>
<td>733</td>
<td>655</td>
<td>684</td>
<td>785</td>
<td>1008</td>
<td>1133</td>
</tr>
<tr>
<td>Total</td>
<td>3874</td>
<td>4207</td>
<td>4420</td>
<td>4851</td>
<td>5082</td>
<td>3408</td>
<td>5238</td>
<td>6670</td>
</tr>
<tr>
<td>Commercial &amp; Regional</td>
<td>3131</td>
<td>3809</td>
<td>4009</td>
<td>4233</td>
<td>4719</td>
<td>5438</td>
<td>5961</td>
<td>10068</td>
</tr>
<tr>
<td>Rural Banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td>7005</td>
<td>8016</td>
<td>8429</td>
<td>9084</td>
<td>9801</td>
<td>8846</td>
<td>11199</td>
<td>17438</td>
</tr>
</tbody>
</table>

Source: Year Book 1992-93.
Co-operatives, commercial banks and Regional Rural Banks (RRBs) are providing both long-term and short-term credit to farmers to help them adopt modern technology and improved agricultural practices so as to increase crop productivity and production. The total quantum of agricultural loans has increased from Rs. 7005 crores in 1985-86 to Rs.11199 crores in 1991-92. The target for 1992-93 has been fixed at Rs. 17438 crores.

All the credit institutions proved that credit requirements for agricultural sector are increasing tendency over years and it will continue even future too.

2.3. CREDIT SUPPLYING AGENCIES

The supply of agricultural credit consists mainly two types of agencies i.e., the institutional and non-institutional. Non institutional sector consisting mainly of the professional and agricultural money-lenders, landlords, traders, commission agents, relatives and friends. The institutional agencies comprises of co-operatives, commercial banks, Government and Regional Rural Banks.

Until 1951-52, the non-institutional credit agencies had been supplying larger volume of credit i.e., 93 per cent of the total credit requirements of the farmers. Of the two main sources of agencies, we focus our attention on first one with special emphasis on co-operative credit agencies. The non-institutional sector is the large supply of rural credit even from the beginning and still playing a considerable role in agriculture finance. This is shown in the below chart.

<table>
<thead>
<tr>
<th>CREDIT SUPPLYING AGENCIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-institutional Agencies</strong></td>
</tr>
<tr>
<td>1. Professional money-lenders</td>
</tr>
<tr>
<td>2. Agricultural money-lenders</td>
</tr>
<tr>
<td>3. Traders &amp; Commission Agents</td>
</tr>
<tr>
<td>4. Relatives</td>
</tr>
<tr>
<td>5. Friends</td>
</tr>
<tr>
<td>6. Others</td>
</tr>
</tbody>
</table>
1. The Rural Money-Lenders: Of all the agencies engaged in providing agricultural finance, the individual money-lender is by far the most important both from the point of view of loans and the volume of business. There are two classes of money-lenders: professional, and non-professional. While the farmer fall under money-lenders who combines their business with trading in the village produce, the latter are from the ranks of landlord money to those who they know fairly well on good security which consists generally of land or ornaments. Money-lender is always accessible, and advances promptly if the interest is paid.

Money-lender is certainly no philanthropist. His object is to make money, and he is not always particular regarding the means by which he does it. He will deduct future interest from the principal before he pays it he will debit his client with all accidental expenses. He will cause an illiterate borrower to put his thumb-impression, on a blank form, and subsequently fill it up with a sum in excess of the amount actually lent. He charges a rate of interest which is always high and often extortionate, and compounds it as frequent intervals. Nevertheless, when occasions arise he can and does show licence. It is to him that needy peasant turns for help in every trouble. He does not keep the borrower waiting for money till the time for its profitable
spending has passed. He does not press for repayment at due date. His ambition naturally is to see his money well invested and to live on the interest.

2. Friends and Relatives: These constitute another source of credit. They advance loans not out of love alone, but they charge rates of interest as high as charged by any other types of creditors. The borrowers offer to their creditors as security, land or gold.

3. Others: Lastly, landlords, village elders, sarpanch constitute another source of credit in rural side. The most dangerous creditor from whom a tenant can borrow is his landlord since the latter thereby acquires a double hold over the farmer. If the tenant pays his rent but not the interest on his debt, a landlord can sue him in a civil court. If the tenant pays the interest on debt but not his rent, he can sue in a revenue court, worst still the landlord can, if he chooses, credit all payments to the debt and so keep the tenant in arrears with his rent, which puts the latter’s crop in his power by distraint and gives him the right to eject him if he pleases.

These different clientele, accept similar security and perhaps charge the same rate of interest, thus the line of distinction between professional and non-professional money-lenders, friends and relatives becomes indistinct.
The non-institutional credit supply has some advantages in supplying credit like flexibility low transfer, low establishment, cost and maintaining secrecy with intimacy and intimate local and personal knowledge of the character of the borrower and extending his credit intime for all his needs.

Defects of Non-Institutional Credit Agencies

The other side picture of the non-institutional credit is gloomy and has some vices followed by money-lender led adverse results on the farmer and on the overall agricultural economy of the nation. The money-lenders are famous for charging usurious and exploitative, high interest rates often they supply belted and unproductive credit, that hinders to the productivity and incentives of the farmer. Money-lenders and traders are more reluctant to reveal their credit transactions. Often money-lender is the villain of the village. The ignorant illiterate poor peasant was an easy prey for selfish money-lender-cum-trader. The unscrupulous money-lender also indulge in unethical malpractices of accounts and other terms of loans and forces the debtor to

sell their produce as well as land at a low rate. Thus, it may be mentioned that the vices of non-institutional credit supply out weigh its virtues. In view of these serious short comings and defects the non-institutional credit agency must be replace as far as possible by the institutional credit agency, for that co-operative form of credit supply was deliberately chosen after careful examination and good results achieved by the Germany, and introduced in India through the Co-operative Act of 1904.

2.4. ORIGIN OF CO-OPERATIVES

Britain can be looked as the birth place of the consumers co-operative movements where as the German is the famous for the co-operative movement. England is the birth place of consumers co-operative movement started by Rochdale pioneers in the year 1844. Co-operative credit movement originated first in Germany introduced by two individual pioneers Heir Schultz and Her F.W.Raiffeisen. Heir Schultz found that the greatest need of the poor people was the provision of credit but at the same time came to the conclusion that no one could help them unless they tried to stand

on their own legs and self help organise themselves to obtain it so in 1860 he founded historical first loan society in his own native town.

Her Raiffeisen, Major of Weyerburgh had started a loan society in 1849 for supporting the needy but unorganised farmers. In 1862 he founded another loan society at Anhansen in which the borrowing farmers themselves were the members. It was here the phase each for all, all for each was coined.

In India Co-operative Movement started in 1904 as a remedy to the perennial poverty of millions of small farmers. It was found that inspite of rapid growth of commerce and industry the economic conditions of peasants had not been progressing, that their indebtedness instead of decreasing has tended to increase, that usury was still rampant that agricultural methods were still old and antiquated and that the old unsatisfactory features of backward rural economy seemed distinctly persistent. Having treated all other measures but failed, the Government turned to cooperation as the most helpful method for ending sufferings of the poor masses.

To make the life of every individual happy, secure and to maintain peace and harmonious relations in the society certain forms of co-operation appears necessary in a social ethical jurists and religious manner (system). A very idea of the force of co-operation is conveyed by the proverb "Unity is Strength and it has proved the strength of poor lies in their Unity to overcome their problems which they are facing".

2.5. DEFINITION

Various definitions are given by various persons regarding the definition of co-operation.

In the words of M.H. Calvert, an illustrative Registrar of Co-operatives in the Punjab.

Co-operation: "As a form of Organisation where in persons voluntarily associate together as human beings on a basis of equality for the promotion of economic interest of themselves".

The essential features of the definition are that:

a) It is a voluntary form of Organisation.

b) It is an Association of human-beings.

c) It is organised on the basis of equality, and

d) It is objective is the economic interests of its members.

Prof. Paul Lambert who is a leading authority on co-operation gave his definition. "A co-operative society is an enterprise formed and directed by association of users, applying within its self the rules of democracy and directly intended to serve both its own members and the community as a whole. This definition clearly lays down that the co-operative organisation is not only meant to serve the interest of the members but also the community as a whole. This definition was accepted most widely.

According to Talmaki, "Co-operation is an organisation where persons voluntarily associates together with others on the basis of quality for the promotion of their economic interest by honest means.


2.6. CO-OPERATIVE CREDIT STRUCTURE

Three-Tier Structure

The Co-operative credit structure in India consists of two parts, one engaged in short, medium-term credit and the other in long-term credit. The former in each State is a three-tier structure. The primary agricultural credit societies at the village form the base. It is on this that the whole edifice of co-operative credit is based. They federate into central co-operative banks, usually at the district level. At the State level these are federated into an Apex bank serving an entire State. The apex bank is its turn is closely linked with the Reserve Bank of India at present with NABARD. The long-term credit is provided by a Central Land Development Bank for each State at the apex level. The apex banks operate in some cases through Primary Land Development Banks, each serving an area of a taluk or district, and where there do not exist land development banks, through its own branches or central co-operative banks.

Thus, it will be seen that co-operative credit structure is a type of pyramid, the broad base of which is represented by the primary societies at the village level.
At the top are the apex banks at the State level and between these two are found the District Central Banks. If the borrower in a village needs credit, he applies to the Central Bank and if the Central Bank is in need of funds it applies to the State Bank. That is why it is said that the co-operative movement links the farmer in the remote villages with the money market of the country. Together these institutions constitute an effective machinery functioning as balancing centres within the movement and supplementing the internal financial resources by borrowing from outside.

**AGRICULTURAL CO-OPERATIVE CREDIT STRUCTURE**

<table>
<thead>
<tr>
<th>Short &amp; Medium Term Credit (Three-Tier Credit System)</th>
<th>Long-Term Credit (Two-Tier Credit System)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. State Co-operative Banks</td>
<td>Central Land Development Banks</td>
</tr>
<tr>
<td>2. District Co-operative Central Banks</td>
<td>Primary Land Development Banks</td>
</tr>
<tr>
<td>3. Primary Agricultural Credit Societies</td>
<td></td>
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</tbody>
</table>

2.7. PRIMARY AGRICULTURAL CREDIT SOCIETIES

Primary Agricultural Credit Societies occupies a predominant position in the co-operative three-tier credit structure. These societies are the foundation stones on which the whole co-operative credit structure built up.

Organisation & Membership: The Primary Agricultural Credit Societies can be formed by any ten or more persons in a village, whose aim is to promote economic interest of its members in accordance with co-operative principles by providing cheap credit in order to free the farmers from the clutches and controls of the usurious money-lenders.

The membership is open to all in the locality provided his membership is approved by fellow members. There should not be any barriers such as caste, creed and birth except character while admitting any member. The society must be registered with its bye-laws in the office of the Registrar of Co-operatives.

Area: The area of Primary Agricultural Credit Societies is confined to a group of villages within a compact area, covering 3 to 5 villages.
Resources: The funds for Primary Agricultural Credit Societies are secured through:

1. Share Capital
2. Membership
3. Reserve Fund, built out of profits over the years
4. Deposits of the members
5. Loans from the District Co-operative Central Banks

Management: The management of the society must be run by the elected general body of members, that should must at least once in a year. However, to look after the day-to-day affairs of the societies. The General Body elects a small managing committee, which consists 7 to 11 members and elects its own president, secretary will be appointed by the managing committee to discharge functions properly. His place is an important role in the working of Primary Agricultural Credit Societies.

Functions of Primary Agricultural Credit Societies: The main functions of the credit societies are to provide short and medium-term credit supply agricultural and other production requirements and undertake marketing of agricultural produce. In addition to the above functions, societies undertake some productive and welfare functions required by the members.
According to the Committee on Cooperative Credit (1960) the credit society should render certain services and correspondingly discharge certain obligations.

1. to associate itself with programme of production;

2. to lend adequate amount to members for their agricultural and consumption purposes limited to their paying capacity;

3. to borrow adequate funds from the central financial agencies for helping the members adequately for the above purposes;

4. to attract local savings for share capital and fixed deposits;

5. to supervise use of loans (especially medium-term loans) and to see that they are paid punctually;

6. to distribute fertilisers, seeds, insecticides, agricultural implements etc., either on its own behalf or as agent;

7. to supply certain consumer goods in common demand such as kerosene, sugar etc.,

8. to store the produce of the members till it is sold;
9. to collect or purchase produce, where necessary, on behalf of a consumer's society, marketing society or government; and

10. to associate itself with programmes of economic and social welfare for the village.

Thus, the Primary Agricultural Credit Society is intended to promote the economic interests of its members in accordance with the co-operative principles such as promoting savings, providing loans to them supplying the agricultural inputs, domestic requirements and arranging marketing outlet facilities for the farmers produce.

**Business** : Primary Agricultural Credit Societies advances loans to members of the societies for meeting the cultivation expenses purchase of modern inputs, cattle and etc., the loans are given its members against the personnel security such as guarantee of the borrower and sureties and also mortgage security. The Primary Agricultural Credit Societies distribute the loans both in cash, a part of the loan is in form of kind i.e., modern inputs. This system known as crop loan system, loan meant to rise crops and for productive purpose. The crop loan system is advocated by Prof. Gadgil. These loans are also often called as seasonal agricultural loans as they must be sanctioned for seasonal crops of both
Rabi & Kharif. The repayment of the loan will be after harvest is marketed within the year. The disbursement crop loan in kind envisages or compels the farmer to use modern inputs. This prevents the farmer not to divert the loan other than the productive purpose. The seasonality fixed by the management of Central Bank (D.C.C.B) as per the existing agro-economic climatic conditions of the locality.

Procedure and Security: An important aspect of the crop loan system is that loan should be provided on personnel security and a statutory charges on crop. Now the societies are advised to follow credit worthiness of the farmer and crop and not the farm as a security. Timeliness of credit is considered to be crucial important of the crop loan system. Minimum procedural formalities should be kept to the minimum consistent with needs of the farmer.

Interest Rates: One of the essential requisite of agricultural credit is that it should not be too costly. A co-operative society is expected to provide loans at a reasonable rate of interest. It varies from State to State but usually kept in the ranges of between 8 to 9 per cent.

Reserve Fund: Primary Agricultural Credit Societies are required bye-law to build up a reserve fund by setting aside a certain part of its profits. In societies which do not
raise share capital extra profits go to make up reserve fund. The reserve fund supplies a source of income which may be drawn upon the lean years. Reserve fund is used by some Primary Agricultural Credit Societies for the purpose of giving loans to the members while other Primary Agricultural Credit Societies deposits the reserve fund in DCCBs.

Supervision and Audit: The arrangement for the supervision differ from State to State. The supervisory staff is either under departmental or institutional control.

Audit is obligatory and statutory responsibility of the Registrar of the Co-operatives in the State. He arranges or deputes the staff to audit the societies and issues audit certificates to the society.

2.8. PERFORMANCE OF PRIMARY AGRICULTURAL CREDIT SOCIETIES

The Primary Agricultural Credit Societies occupies a predominant position in the co-operative credit structure. These societies are the foundation stones on which the whole co-operative edifices built. Primary Agricultural Credit Societies are organised at gross-root level of a village or a group of small villages within a compact area. The aim of these societies is to promote economic interest of its members in accordance with co-operative principles. By provid-
ing cheap credit they are able to free the farmers from the clutches and controls of the usurious money-lenders. It is the basic unit which deals directly with the rural agricultural borrowers and gives them loans and collects the given loans. It serves as the final link between the ultimate borrowers on one hand and higher financing agencies namely State Co-operative Banks, Reserve Bank of India and NABARD on the other hand. The health and strength of the co-operative credit movement depends crucially upon the health and strength of Primary Agricultural Credit Societies.

The performance of these societies presented in the Table 2.3. We find 94,000 Primary Agricultural Credit societies in 1982-83, 92,000 in 1984-85, and 88,000 in 1989-90. The number of these societies has been decreased due to official policy of merging weak and dormant societies in the viable and efficient societies. However the membership of these societies has been increased over the period. The table shows the record of credit societies in terms of loans issued accretion owned funds, working capital and deposits mobilised is also raise worthy. However, this record is marred by continued problem of overdues which happens to be as high as 40 per cent in the case of primary agricultural credit societies. This phenomena create a chain of reaction thereby Central Banks and State Co-operative Banks also suffers from the problem of overdues.
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</thead>
<tbody>
<tr>
<td>Primary Agricultural Credit Societies (in Nos.)</td>
<td>94000</td>
<td>94000</td>
<td>92000</td>
<td>92000</td>
<td>88000</td>
</tr>
<tr>
<td>Membership ('000)</td>
<td>60999</td>
<td>63312</td>
<td>66669</td>
<td>69182</td>
<td>81200</td>
</tr>
<tr>
<td>Owned funds</td>
<td>824</td>
<td>880</td>
<td>957</td>
<td>1035</td>
<td>-</td>
</tr>
<tr>
<td>Deposits</td>
<td>314</td>
<td>381</td>
<td>464</td>
<td>524</td>
<td>10604</td>
</tr>
<tr>
<td>Borrowings</td>
<td>2742</td>
<td>2858</td>
<td>3164</td>
<td>3743</td>
<td>N.A.</td>
</tr>
<tr>
<td>Total Loans used</td>
<td>2110</td>
<td>2291</td>
<td>2499</td>
<td>2669</td>
<td>4200</td>
</tr>
<tr>
<td>Total Loans Outstanding</td>
<td>2966</td>
<td>3108</td>
<td>3498</td>
<td>3981</td>
<td>N.A.</td>
</tr>
<tr>
<td>Total Loans Overdue</td>
<td>1205</td>
<td>1309</td>
<td>1575</td>
<td>1630</td>
<td>2600</td>
</tr>
</tbody>
</table>

Source: Reserve Bank of India Reports and Progress of Banking in India, K.P.M. Sundaram & Ruddar Datt, Indian Economy, S.Chand & Company, p.480.
At present there are 88,000 primary agricultural credit societies covered about 96 per cent of 5.5 lakhs villages. Their membership covered 9 crores about 45 per cent of the total estimated population of the agriculture and about 14 crores of rural households. More than half of the members of primary agricultural credit societies are persons of small means, small farmers, agricultural labourers and rural artisans and about 25 per cent of them belongs to Scheduled Castes and Tribes. All these are the very strong features of the co-operative credit organisations throughout the length and breadth of the country-wide villages. Any how the organisation is not fulfilling its anticipated role due to several weaknesses.

2.9. DEFECTS OF CO-OPERATIVE SOCIETIES

1. Credit borrowers, most of them are large farmers, well manage to escape repayment and thereby block the credit pipeline from further expansion.

2. Lending institutions should infact have technical staff to ensure proper system of loaning and its utilisation and an effective way of its realisation. The whole gamut of the credit operations of the co-operative seems to be loosely knit without one single point of control supervisory or administrative.
3. Stricking to land security - too rigidly, would be as hitherto, to exclude the weaker sections of the rural population from the credit orbit of the financial institutions.

4. Borrower's needs are not assessed, properly naturally this leads to mounting overdues, and

5. Need of adequate finance.

6. Lack of providing proper integrated supply of credit, inputs, processing & marketing facilities by the societies.

7. Lack of follow up programmes.

8. Village politics and factions.

9. Lack of loyalty from the borrower in repaying loans.

10. Problem of pictures and book adjustment loans in order to make appearance that loans are being repaid.

11. Co-operative credit still forms small portion of the total borrowings of the farmers.
2.10. CO-OPERATIVE CENTRAL BANKS

District Central Co-operative Banks occupy an intermediatory place in the pyramid of co-operative credit structure in the State. The District Central Co-operative Banks are at the district level directly connecting with Primary Agricultural Credit Societies at the base level. They constitute key link in the chain of relationship between State Co-operative Bank at the State level and the Primary 20 Agricultural Credit Societies at the village level. The area of operations and the jurisdiction of a Central Bank is generally confined with a District. The District Central Co-operative Banks have opened branches in different parts of the district. These branch arrangements will helps them to improve their contract with and supervision over the primary agricultural credit societies. In a way it also assists to tap the savings of rural people through deposits.

District Central Co-operative Banks are two types of banking unions, membership confined to only federating units in another type there is mixed membership consisting of both primary agricultural credit societies and individuals.

21. Ibid., p.605.
This structure has been deliberately constructed in pursuant to the recommendations of the Maclagan Committee on Co-operation in India in 1915. The three-tier co-operative credit structure has relative merits over the two-tier set up.

2.11. STATE CO-OPERATIVE BANKS

The State Co-operative Banks are also known as the apex banks. The State Co-operative Banks assumes the leadership role of the co-operative credit movement of the three-tier credit structure of the concerned States. These banks are formed by federating District Central Co-operative Banks in the particular State. It is the pivot around which all economic activities of the co-operative movement rotate. It is the key stone of the co-operative movement in the State. These apex banks deals with small and medium term loans through the Central Banks. The functions of these banks are the mostly supervisory and advisory these banks

22. Ibid.


will control, co-ordinate and guide the performance of Central Co-operative Banks by providing financial accommodation for them. These banks also acts as a clearing house for capital pools the resources and channelises the surplus of the one locality to meet the deficiency of another to the advantage of the province as a whole. They also forecast and arrange for provincial requirements as a whole and acts as a clearing house for its federated Central Banks. It acts as a spokesman of the co-operative movement in the State. It represents the problems of various co-operative institutions and found remedies to all the problems. Thus in a sense it is a friend, philosopher and guide of the co-operative movement in the concerned State.

2.12. LONG-TERM CO-OPERATIVE CREDIT

The long-term co-operative credit structure in India is federal in some States and unitary in other States. It has two-tier credit structure in its nature. There is one Central Land Development Bank in each State (apex level) and Primary Land Development Banks generally at district or block

Commercial Banks are also taken to long-term financing agriculture. In some States, there are no primary land development banks, but branches of central land development banks will act as primary land development bank, i.e., Bihar, Gujarat, Maharashtra and Uttar Pradesh. In some States, mixed pattern, i.e., Himachal Pradesh and West Bengal. The structure is federal with primary land development banks as its affiliates. The long-term credit assumes instrumental role and important for agricultural and rural development. Mehata Committee also in 1960 stressed with the extension of irrigation facilities when farmers switch over from dry farming to irrigation farming. There is likely to be an appreciable demand for Medium-term and Long-term. In field of agriculture long-term credit is fundamental importance. This is so specially in countries like India both in terms of methods and technics and as well as in terms of social economic status of the farmer.

2.13. MULTI-AGENCY CREDIT SYSTEM

It may be broadly viewed until the late 1960s the co-operative credit institutions have been considered to be


27. Ibid., p.350.
the single largest and most suitable institutional agency financing for agriculture and rural development.

Prior to the social control over the commercial banks and nationalisation of banks, the co-operative credit institutions are the only institutional agencies that would cater the credit needs of the agriculture and rural sector. The Agricultural Financial Sub-Committee 1945, Rural Banking Enquiry Committee and All India Rural Survey Committee (AIRSC) 1954 were also not favour the entry of commercial banks into the field of agricultural finance. The All India Rural Credit Survey Committee, 1954 recommended for reorganisation of co-operative credit societies on economically viable and administratively efficient. Thus until 1968 it was the official policy "to develop the co-operative credit delivery system as the sole institutional agency for meeting agricultural credit requirements. A number of attempts were made from time-to-time to reorganise, strengthen, revitalise and rehabilitate the co-operative credit institutions in order to function economically viable and efficient in meeting the farm credit needs. Inspite of the


steps taken by the Government of India and Reserve Bank of India, co-operative credit societies could not come out successfully upto the expected satisfactory level. Thus the several short comings of co-operative credit delivery system necessiated the revision of the earlier single institutional agency approach in the context of changing agrarian scene, and a new multi-agency approach was thought of towards late 1960s.

The introduction of Green Revolutionary methods in Indian agriculture that took place in the mid 1960s, however intensified the credit needs of the farmers both intensively and extensively. The high priority given to agriculture by the Government of India in order to meet the food problem also intensified the credit needs to the farming sector.

In 1969, All India Rural Credit Review Committee under the chairmanship of Sri B.Venkata Subbaiah thoroughly examined the working of co-operative credit societies and found various inadequacies in co-operative institutions in the country. The Green Revolution while gathering momentum will bring in its wake vastly increased and still growing

demands for whole range of supplies and services including credit. There is scope and progress for an increasing number of farmers, a shift from non-viable and subsistence agriculture to a viable and commercial farming. The Committee expressed, the poor sections are viable and making good with the application of modern inputs and technology. It felt the credit worthy programmes and farmers must bring into the fold of institutional credit.

The Committee also realised that the co-operatives alone could not be shouldered the responsibility of financing agriculture and rural development and they would not be in a position to meet all the entire agricultural credit needs. The Primary Agricultural Credit Societies are neither viable nor potential to supply the required amount of credit needs to the farmers and they are regarded as inadequate and unsatisfactory institutional agencies for distribution of production credit. In the words of AIRCRC "At the same time efforts in the sphere of rural credit should not be solely concentrated in co-operative sector, co-operatives should be strengthened, but they would be all the better and the farmer be better served if another institutions coexisted with the healthy competition. Considering the magnitudes of task

and area to be covered it is clear that no single agency can satisfy all the growing credit needs of vast agricultural sector. Therefore the problem of agricultural credit has to be tackled on institutional basis. Thus the multi-agency approach is accepted and it was accomplished by the nationalisation of 14 Commercial Banks in July 1968 and 6 more Commercial Banks in 1980.

The Commercial Banks are financing the agriculture both directly to the farmers in the form of short-term, medium-term and long-term. In order to meet the raising cost of cultivation, and through certain agencies such as Primary Agricultural Credit Societies, the Farmer’s Service Societies. It also rendering good services to the rural sector through certain schemes like Village Adoption Schemes etc.

2.4. REGIONAL RURAL BANKS

In spite of the rapid expansion of branches of commercial banks and increase in the membership of Primary Agricultural Credit Societies, it was realised that institutional credit was not available in adequate measure to the weaker sections in the rural areas. Therefore, "there is a widely shared view that a more determined effort was needed to speed up the flow of institutional credit, especially to meet the needs of the weaker sections of the rural
The idea of establishing a sort of rural banks was first conceived by Banking Commission in its Report in 1972. In pursuance of this view, the Government of India appointed on July 1, 1975, a Working Group on Rural Banks under the chairmanship of Shri. M. Narasimham, who recommended need of rural banks accordingly the Government set up five Regional Rural Banks on 2nd October 1975. These new institutions which combines the local feel and familiarity with rural problems which co-operatives possess and the degree of business organisation, ability to mobilise deposits, access to centralise money markets and a modernised outlook which the commercial banks have. Thus these banks became third component of institutional credit agencies. The role of the Regional Rural Banks would be "to supplement and not supplant the other institutional agencies in the field".

34. Ibid., p.5.
35. Ibid.
At present under the multi-agency credit supply the field level institutions, which are providing credit to individual borrowers consist of co-operatives both short-term and long-term institutions, branches of commercial banks and Regional Rural Banks (RRBs). Commercial Banks provide multi-purpose and multi terms credit to all categories of persons engaged in agriculture and other rural economic activities. Regional Rural Banks serve at present, a restricted clientele, as a deliberate policy. In addition to the above mentioned agencies the Central and State Government are also providing financial help to the farmers through the departments or by special programmes, especially to the poor and weaker sections of the community. As consequence of the growth of institutional credit, the role of non-institutional agencies slowly declining. It is shown in the following Table 2.4.

Table 2.4 provides the changing scenario of Indian rural credit in the course of the five decades.

The share of institutional credit increased phenomenally from 7.3 per cent in 1951 to 31 per cent in 1971 and this increased to 61 per cent in 1981 and it went upto 81 per cent in 1991, which is largely contributed by the increasing share of credit of co-operatives and commercial
### TABLE 2.4
RURAL CREDIT STRUCTURE - 1951-1991

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. INSTITUTIONAL</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>3.3</td>
<td>6.7</td>
<td>7.1</td>
<td>4.0</td>
<td>1.0</td>
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<tr>
<td>Co-operatives</td>
<td>3.1</td>
<td>11.4</td>
<td>22.0</td>
<td>29.0</td>
<td>35.0</td>
</tr>
<tr>
<td>Commercial Banks (RRBs)</td>
<td>0.9</td>
<td>0.3</td>
<td>2.4</td>
<td>28.0</td>
<td>45.0</td>
</tr>
<tr>
<td>Insurance</td>
<td>-</td>
<td>-</td>
<td>0.1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Provident Fund</td>
<td>-</td>
<td>-</td>
<td>0.1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub Total</strong></td>
<td>7.3</td>
<td>18.4</td>
<td>31.7</td>
<td>61.0</td>
<td>81.0</td>
</tr>
<tr>
<td><strong>B. Landlords</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agri. Money-lenders</td>
<td>1.5</td>
<td>0.9</td>
<td>8.1</td>
<td>4.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Professional Money-lenders</td>
<td>24.9</td>
<td>48.1</td>
<td>22.0</td>
<td>9.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Traders</td>
<td>44.8</td>
<td>13.8</td>
<td>13.1</td>
<td>8.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Relatives/Friends</td>
<td>5.5</td>
<td>7.1</td>
<td>8.4</td>
<td>3.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Others</td>
<td>14.2</td>
<td>5.2</td>
<td>13.1</td>
<td>9.0</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Total (A + B)</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: 1. Reserve Bank of India, All India Rural Credit Survey, 1951.


banks including Regional Rural Banks supporting implementation of the integrated scheme of rural credit recommended by All India Rural Credit Survey Committee. The nationalisation of major commercial banks in 1969 and 1980 enabled spectacular credit flow to agriculture and other priority areas. The heavy fall in the relatives share of non-institutional agencies is mostly due to the decline in the share of money-lenders. The decade of 1970 has witnessed certain institutional and organisational reforms in the economy in general and banking in particular, establishing institutional dominance in the rural credit structure. This is presented in the diagram 2.1.

2.15. EXISTING INSTITUTIONAL RURAL CREDIT STRUCTURE

Strategy of agricultural development in India, although ensured a higher rate of growth has contributed to accentuation of regional and social inequalities. Therefore, different schemes of development for target groups and regions are evolved to counteract this tendency. In other words, the approach should be to ensure growth with social justice. This means that credit should be sufficiently widespread so as to cover the poorer sections of the population. These sections have so far not got a fair deal in the matter of credit. Often they have not been considered a
DIAGRAM 2.1
RURAL CREDIT STRUCTURE IN INDIA (1951-1991)

YEARS

Percentages (Credit)
100 90 80 70 60 50 40 30 20 10

Non-Institutional
Institutional

64
reasonable risk for institutional credit, despite the exhortation of the All India Rural Credit Survey Committee 1954 (AIRCS) more than two decades ago, that the co-operative system should accept the concept of credit worthiness.

The co-operative credit structure at present with its countrywide network of 88,000 primary co-operatives, the commercial banking sector with 47,581 rural and special agricultural branches and the Regional Rural Banks numbering 196 with 15,000 branches are the three main agencies (1990-91) involved in provision of credit for agriculture and allied sectors. Of the three it is the co-operatives which still continue to have the predominant place in terms of both volume and territorial coverage.

CONCLUSION

Credit is one of the basic inputs in all types of modern agriculture. As underdeveloped countries are predominantly agricultural and making desperate efforts at transforming their agriculture, the role of credit assumes greater significance. Their agricultural economies are characterised by dualism. The credit market is also characterised by

dichotomy namely the organised and unorganised segments. Agricultural credit supplied by these segments vastly differs in its nature, magnitude and cost. The share of institutional credit in India has been slowly but steadily increasing under the regime of planning in India. In 1951, the percentage of institutional credit in India is 7.3 and it has risen to 61 per cent in 1981 and it has gone up to 81 per cent in 1991. Institutional credit is projected to sevenfold increase during 1979-80 and 1989-90. Even then it cannot be said that the way of the rural trinity namely, the money-lender, landlord and the trader cannot be said to have significantly diminished. Because of proliferation of institutional agencies and their services being concentrated in fairly developed regions and comparatively affluent sections of society, regional and social equity issues have come to the force. No wonder regional conflicts and social tensions constitute an important aspect of the contemporary scene.

With a view to tackling these persons, multi-agency approach has been evolved and operated. The Sixth and Seventh Plans envisage an increased flow of institutional finance for weaker sections and poorer regions. Mounting overdues have been an important constraint in the recycling of institutional credit. Co-ordinated efforts between the different agencies administering schemes for target groups and regions and institutional agencies of credit are being made for ensuring growth with social justice.