CHAPTER ELEVEN

Critical assessment of judicious utilisation of available resources and leakages in the system.

The Reserve Bank had been providing various types of financial accommodation to the co-operative sector through apex banks. Various provisions dealing with these types of accommodations under short term, medium term and long term credit requirements have been discussed under chapter three and ten. The accommodation provided by the Bank was mostly in the form of refinance or loans and advances. Although there is a provision for bills discounting or rediscounting, the provisions could not be taken advantage of in the absence of developments of bills as instruments of credit and a bill market for the purpose of accommodation. The production loans and medium term loans for wasting assets etc. are routed through short and medium term credit structure comprised of three tiers i.e. apex bank at the top, central co-operative banks at middle and primary credit societies at the base; however for development finance for permanent improvements, a separate structure having two tiers was created which comprised of central land development banks at the top and primary land development banks or the branch of the central land development bank at the base.

The allied activities were also given due place in the whole scheme of agricultural developments. The co-operative marketing and processing societies, warehousing corporations at the central and state level, creation of state partnered bank along with its subsidiaries were created to support these ancillary activities. These developments also have been discussed under specific chapters.
In terms of policies governing agricultural system, the Bank devised rational and effective policies like crop loan system so that the assessment and the provision of credit could be made keeping in view of the best interests of cultivators. In order to encourage the cultivators to seek more and more of the cheap credit facilities, the Bank provided assistance on concessional rate of interest. The margins at different levels were fixed to save the cultivator from exploitation. The scope of various facilities and constraints in terms of volume or purpose were modified to suit his requirements. The element of viability of operation was introduced inasmuch as after the supported production programme, the farmer is supported with produce loans so as to enable him to get the best market prices. The credit policies were devised to extend the maximum liberalisation in the total scheme of monetary control and policies of the Bank. The scope of the selective credit control was extended keeping the best interests of the co-operative movement in mind. The advances against warehousing receipts were kept either out of the purview of the selective credit control or were given preferential treatment as discussed in the subsequent chapter.

Despite all the attempts, the system and the policies have not been able to reach to the heights which were our goals. The co-operative movement has not become a self-reliant movement. The cultivator's economy has not taken roots with the institutional support. The modernisation and monetisation have not gone too deep into the system. The development of agriculture as an industry has been lopsided and uneven. These inhibiting factors have made their existence felt due to the inherent leakages in
the system. These leakages have not been plugged so far. The factors which have allowed the vital elements to percolate down through these leaks made the policy ineffective or only partially effective.

The shortcomings of the policies can be effectively judged from the efforts it created on the economy and the institutions. An attempt is, therefore, made to identify these leakages in the operative policies which in the final run affected the credit policies or resource utilisation etc. The leakages are required to be plugged before they erode the much needed base of the co-operatives and agricultural credit.

(1) Implementation of crop loan system

The crop loan system as a major policy for the provision of production loans was devised keeping in view scientifically the needs of the cultivators. The object was to provide finance to assist production efforts only. Hence any diversion of resources would result into overdues as the non-productive channels do not generate any repaying capacity and consequentially incapacitated the borrowers from meeting their obligations in time. In other words, even partial failure of crop loan system could affect the credit policy based on it and finally result into a major source of leakage in the existing system. These leakages can take following forms:

(a) Fixation of scale of finance

The production oriented system of lending contemplated constitution of a technical group consisting of the representatives of progressive farmers, experts, professional and
knowledgeable persons and groups so that rational scales of 
finance could be fixed cropwise keeping in view their require-
ments. If the funds are provided in the proportions fixed by the 
group, they would go to meet the cost of raising the crop. But it 
is not uncommon that while accepting the scales of finance, the 
Board of Directors of a central co-operative bank reduce the 
scales arbitrarily keeping in view the available resources of the 
bank. Even if this is done on the basis of availability of the 
resources, all the same the very purpose of fixing the scales per 
acre with reference to specific crops is lost. Such reduced 
amounts which are inadequate to meet the componentwise require-
ments, filter down to other uses or reduces its effectiveness. 
Similarly on a number of occasions it is mentioned that the 
scales of finance have been fixed up at a inflated rate which 
tended to provide excess funds than the requirements. Again in 
such cases, the money goes into the channels for which it was not 
intended.

(b) Impact of inflated acreages 

or ghost acreage

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The credit has been linked to the componentwise require-
ments of land on per acre scales of finance. But there is a 
tendency to seek more credit by inflating the actual acreage or 
land under cultivation or tilling. The Manual on Production 
Oriented System of lending for Agriculture (1972) itself observed:

"The tendency to show larger acreage or crops carrying 
higher entitlement of finance results initially in 
over-financing and eventually in large overdues." 1

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1. The production oriented system of lending for agriculture 
(August 1972) p. 13
With a view to check the above tendency, preparation of
land registers was contemplated as a basis for preparation of
credit limit statements. They were also required to be revised
from time to time say once in 3 years. It is the common experience
that either such registers are not maintained or if maintained,
they are incomplete. The village revenue records themselves are
not yet complete in some cases. The Patwari who is supposed to
furnish such vital information to the bank or society either does
not do so or is prepared to do so even incorrectly for considera-
tion. In both the cases, the acreages get inflated and consequen-
tially over-financing and overdues follow.

The tendency to inflate acreage may be traced to the needs
of cultivators for ceremonial purposes. Before the introduction
of the crop loan system, the credit was more related to either
security or the individual borrowing power. The purpose was not
that important. Now, under the crop loan system while loans for
production purposes are available, loans for other purposes are
not available. Hence the remedy lies either in the promotion of
an institution taking care of cultivator’s requirements for
purposes other than production or in tightening up of the revenue
records officials. The Rural Credit Review Committee 1969 had
observed for the success of the crop loan system:

"The agricultural credit societies and central co-operative
banks should themselves take initiative in getting
the land records of their members up to date and that it
should be made obligatory on the revenue officials in
the villages to make available to the staff of the co-
operative banks and other institutions providing agri-
cultural credit, detailed and up to date information on
holdings of the cultivators in the relevant areas.
Finally we suggest that co-operative banks should take
steps to ensure proper verification of data so that
credit is not based on false acreage."

As there has not been much change in the position, it is suggested that apart from the action initiated by the banks and societies as suggested by the Review Committee, the revenue officials found guilty of furnishing wrong or incorrect information should be punished and furnishing of wrong information may be recognised as cognizable offence. This would have salutary effects on them and would force them to furnish correct information. It is further suggested that land surveys may be got completed in all the states where they have not yet been completed. The mutation of land may thereafter be got completed. Once this is done, the cultivators may be issued pass books indicating their rights in land and it may be made compulsory by amending necessary laws Acts that no transfer, addition or sale of land would be allowed unless the details of such variations are recorded in the pass books of the cultivators. These pass books may be accepted as the basis for authentic record of their rights in land to avoid ghost acreages.

(c) Delay in preparation of limits

Another source of leakage in the crop loan system is the delay in preparation of credit limits. As the finances are made available for the specific crops under cash and kind components, the preparation of credit limits well in advance of the season is very essential. In a large number of cases, the credit limits are prepared either late due to non-availability of supervisor or due to other reasons. Some times the credit limits are prepared almost throughout the year. In such a situation, the institutional credit support does not support the production needs which
may have been taken care of by sources other than co-operatives but help the non-productive expenses. The provision of credit in time is essential for the successful implementation of system.

It is therefore, suggested that in order to cut down the delay in preparation of credit limit statements, the statements prepared by the societies in the previous years may be accepted as the statements for the current year also. The changes, if any, in holdings, in scales of finances, admission of new members and in cropping pattern may be advised to the banks by the societies and members. Similar recommendation was made by the Crop loan Evaluation Committee 1956 when it suggested for preparation of credit limits once in three years. However, continuation of the same credit limit has been not considered desirable by the Reserve Bank as indicated in the Manual on Production Oriented System of Lending for Agriculture for the same reasons indicated above. But in practice if we examine we would find that these changes are not many and very frequent. Hence the suggestion may be given a fair trial before any modification. Continuation of previous credit limits would allow the societies and the members time for other important works. Further, if the societies have to advise the changes only, more care can be exercised by them and the problem of sanction in time could also be solved.

(d) Non-availability of timely inputs

The success of agriculture and the programme of financing depends upon the availability of all the inputs in adequate quantity in time. This presupposes the availability of the

1. Manual on Production Oriented System for Agriculture (August 1972) pp 19 to 21
necessary infra-structure needed to distribute fertilisers and other inputs in addition to the quantitative availability of the same. The availability of fertilisers, insecticides, pesticides and seeds have attained an important place in the High Yielding Varieties Programmes. The availability of these inputs depends upon a number of factors like availability of fertilisers, marketing societies and sale points, movement of inputs to the interior areas, development of roads, accessibility of certain areas during monsoon, availability of storage capacity and other necessary infra-structure. In practice, however, very little has been done in these directions.

Apart from the above factors, the stage of development of agriculture in different States have also been different. The inputs were being provided on quota basis to the States. The developed states having better demand managed to get these inputs from relatively less developed states illegally. This further aggravated the success of the credit policy and the production policies in the under developed states.

It is, therefore, suggested that the use of fertilisers should be introduced as a part of agricultural production strategy in the selected areas only where there is assured supply of irrigation. Further the composite planning for sale and distribution, storage and accessibility of areas should be taken up to ensure that fertilisers reach in time to the societies and fields.

(ii) Inadequate supervision

Effective supervision is the most important aspect of successful credit policy. Supervision is the tool to ensure
proper utilisation of resources and recoveries of dues in time. Under present policies, a supervisor is expected to look after at least 10-15 societies. But this charge would be unwieldy for him because even assuming the membership of an individual society at 50 members (as against 203 per society on average as per the Statistical statements for the co-operative movement in India 1971-72 p. (iii) there would be 750 members under his charge. If as a part of his activities, he looks into the individual problems, needs and requirements, prepares their farm plans, ensures utilisation of loans and inputs and also timely recoveries, he would not be able to do so for more than 10 members a day. This would mean that he would require 75 days before he visits all the members. The second visit to one set of farmers would be possible only after about 3 months which is unduly long period and one phase of agricultural activity could be over during this period. He would not be able to ensure the utilisation of inputs in all the cases or the harvesting and marketing problems of such cultivators. It is, therefore, suggested that the non-official involvement in verification of resources will have to be encouraged. Some sort of Farmer's sub-committees or the managing committees of the societies at the village level will have to be entrusted with this work over and above the supervisor which will not only watch the utilisation of resources on the one hand but would also help in timely recoveries of dues.

(iii) Incidence of overdues

(a) Wilful defaulters

The test of sound lendings is the timely and effective recoveries of dues. The agricultural credit policies provide for
self liquidation of dues after harvesting of crops. Except the natural calamities, there is no reason why dues cannot be recovered on due dates. Again in case of calamities, there is an in-built system for rehabilitation of non-wilful defaulters or the victims of natural vagaries. If these arguments hold good, there should not have been any overdues. But in practice, the overdues have been mounting at all levels. The overdues at the primary agricultural credit society's level rose from ₹ 22.78 crores in 1957-58 to ₹ 95.85 crores in 1964-65 and ₹ 376.66 crores in 1971-72. The overdues at the central co-operative bank level rose from ₹ 12.08 crores to ₹ 65.88 crores and to ₹ 319.36 crores during the same periods.

This indicates that despite the availability of facilities for conversion of loans to hard hit cultivators, the incidence of overdues is on the increase. This may consist of two types of defaulters i.e. wilful defaulters and the non-wilful defaulters who have not been able to get conversion facilities due to institutional and procedural deficiencies.

The main problem to be tackled related to wilful defaulters. The reasons for their defaults have to be traced and eradicated. This class of cultivators have the ability to pay their dues normally but have no desire to do so due to availability of more gainful avenues for investments. As in the normal course he finds no availability of resources or the cost of resources is so high, he finds it profitable to become defaulter and consequently non-eligible for the advances from co-operatives and also liable to pay penal interest on his borrowings.

The Study Team on overdues in Co-operative Institutions
found that a large number of big farmers who naturally had resources to pay but who abstained from paying, created a psychological atmosphere in the area that co-operative dues need not be repaid by cultivators. The Study Team identified the causes for such defaults in defective lending policies, apathy of the managing committee in taking recourse to coercive action and absence of favourable climate for which State Governments were responsible.

It is, therefore, suggested that in order to discourage such offenders, the minimum penal interest be raised from 3% to 6% so that the element of concession is completely withdrawn and the effective rate of interest becomes comparable to normal market rates for advances to non-priority sectors. Further the penal rate of interest should be linked with the period of default. While the penal rate for the default in the first year may be 6%, it may be raised to 8% in the second year, 10% in the 3rd year and 15% thereafter. This would force the cultivator from keeping the funds with him in any other form.

Another suggestion is that the recovery of co-operative dues should be governed by the rules relating to the recovery of land revenue. The co-operative societies Act may be amended to provide for the recovery of co-operative dues as a part of recovery of land revenues. The formalities and procedure for such recovery may be minimised.

Yet another deterrent could be that in the event of default continuing for more than five years, the land belonging

1. The Report of Study Team on overdues in co-operative credit institutions - 1972 - Printed in July 1974 p. 225
to defaulter cultivators may be confiscated and the same may be distributed to the landless labourers, who may be rehabilitated with institutional support. This step may look radical but it, if put into use, would not only extend social justice but would also encourage the borrowers to repay in time.

(b) Diversion of resources by intermediaries

The overdues at the institutional level also increased due to the diversion of resources by intermediary institutions to other channels. In such cases, although there are no defaults at the member level, the institutions could not meet their obligations in time to higher financing agencies. The situation arose due to many factors. In case of primary societies, the recoveries were diverted to consumer and distribution business for which either the societies were not financially equipped or they could not get financial support from central co-operative banks. Therefore, they resorted to diversion of recoveries effected from the members which in turn led to overdues. Further the societies are mostly non-viable but have to meet the overhead expenses etc. for which the recoveries from members are utilised. In other words, the resources are diverted to non-productive sides like overhead expenses etc. or to risky businesses with less turnover.

At the central bank level, the resources are likely to get diverted to non-agricultural agencies for non-agricultural loans, locking up of funds in bad and doubtful debts and absorption of overdues etc. It is, therefore, suggested that at the society's and middle level bank's levels, their operational efficiencies have to be improved. Their loan businesses have to
be multiplied so as to inculcate viability in their operations.

(iv) Concessional finance

The present credit structure of agricultural finance is based on the provision of concessional facilities. The production loans are generally provided at interest rate of 2% below the Bank Rate while the investment finance for medium term periods is provided at 1½% below the Bank Rate mainly to encourage and assist the cultivators. In 1951, when the Bank Rate was 3½% the concession on short term loans was 2% below this rate. Since then the Bank rate has gone up to 9% in 1974 but the concession rate has remained pegged to 2%. There had been number of other developments also which have raised serious doubts about the continuance of the concession as under:

a) During this period there has been enormous increase in the agricultural production and radical changes in the techniques of cultivation. The cultivator’s economy has mostly been monetised.

b) The Study Team on Overdues in Co-operative Credit Institutions have reached to the conclusion that a significant part of wilful default is due to non-repayment by big and medium cultivators. This means that the concessional finance is cheaper to them for diversion of resources for other purposes.

c) The lending institutions are presently required to ensure that at least 20% of their borrowings are utilised for loaning to small cultivators. The general experience is that these banks find it difficult to comply with the above requirements. This meant that the bulk of the resources i.e. 80% or above were being availed of by big or medium cultivators. If bulk of concession is being enjoyed by the big cultivators, it is for consideration as to why should they not be asked to raise resources for their operations at market rates.

d) Some of the States have imposed Agricultural Income Tax in their States and thus, the cultivator has become a source of revenue to such State Governments. If so, there is no reason why the Bank should subsidise their agricultural operations and allow the cultivators to pass on the revenues earned from agriculture to Governments.

All these factors indicate that the big and medium
cultivators have no reason to have the concession. The concessions, which were meant for uneconomic holdings or to meet the margins of the co-operative tiers were being availed of by the normal cultivators at the cost of small cultivators. Now the process has to be reversed and these cultivators (Big and Medium) should be asked to pay more so that small cultivators may get the benefit. The interest rates should be raised in case of normal cultivators and subsidised for small cultivators. It is suggested that the rates of interest should be linked with the land holdings of the cultivators. If the cultivator has land holdings below 5 acres of irrigated or 10 acres of unirrigated land he may be given concessional facilities while over and above such limits the rates of interest may be increased on gradual basis so that the law of equity would be operative on the one hand and on the other the small cultivators or marginal cultivators would get cheap credit without any difficulty or without the Reserve Bank's concessions. The Reserve Bank has already introduced a rebate scheme linked with deposit mobilisation by the banks. Any failure on their part would forfeit the rebate and the ultimate absorption of the same would have to be made by either the bank or cultivators or jointly by both of them. As for the small cultivators, the Bank has allowed full 2% concession to the banks for their additional involvement in advances to small cultivators. The lending rates for certain types of the limits have also been raised by the Reserve Bank like marketing credit for fertilisers etc.

The principle of state subsidy to small farmers has also been accepted in a restricted sense particularly in SFDA/MFAL areas where subsidies and the risk fund contributions are being
provided to the cultivators and the banks.

In view of the above developments, it is suggested that initially the concession in the advance rates should be withdrawn as far as the big and medium cultivators are concerned and the small cultivators may be allowed more facilities. The co-operative banks may be asked to reduce the advance rates to small cultivators and meet the burden from the risk fund provided by the Government in SFDA/MFAL areas. The concessions in the lending rates to small cultivators may be compensated by charging higher rates to the normal cultivators as suggested earlier.

(v) Share capital contributions by the State Government

The object of such contributions was to provide increased maximum borrowing power to the concerned institution. The impact of such contributions in the state co-operative banks and central co-operative banks revealed that these contributions did not help them in increasing the effective borrowing power because their borrowing powers otherwise available were already too high as compared to their actual borrowings. As such the contributions tended to help them absorb the overdues.

a) The details of the owned funds (excluding the Government share capital contribution) their borrowing power vis-a-vis actual borrowings, overdues and Government contributions etc. in State co-operative banks are given in table No.51 on p.294.
Table No. 51

<table>
<thead>
<tr>
<th>Year</th>
<th>Owned funds excluding Government contributions @ 15 times of col 2</th>
<th>Maximum borrowing power</th>
<th>Total actual borrowings of Govt. of over-capital dues</th>
<th>CONTRIBUTIONS</th>
<th>Amount of contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955-56</td>
<td>5.77</td>
<td>86.55</td>
<td>102.32</td>
<td>1.82</td>
<td>3.70</td>
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<tr>
<td>1956-57</td>
<td>6.74</td>
<td>101.10</td>
<td>107.84</td>
<td>2.05</td>
<td>4.10</td>
</tr>
<tr>
<td>1957-58</td>
<td>7.82</td>
<td>117.30</td>
<td>125.12</td>
<td>4.00</td>
<td>5.10</td>
</tr>
<tr>
<td>1958-59</td>
<td>10.31</td>
<td>151.65</td>
<td>162.06</td>
<td>4.61</td>
<td>5.30</td>
</tr>
<tr>
<td>1959-60</td>
<td>14.07</td>
<td>211.05</td>
<td>225.12</td>
<td>5.62</td>
<td>6.43</td>
</tr>
<tr>
<td>1960-61</td>
<td>17.54</td>
<td>263.10</td>
<td>280.64</td>
<td>6.46</td>
<td>6.97</td>
</tr>
<tr>
<td>1961-62</td>
<td>21.17</td>
<td>317.55</td>
<td>338.72</td>
<td>7.69</td>
<td>8.10</td>
</tr>
<tr>
<td>1962-63</td>
<td>25.32</td>
<td>349.50</td>
<td>375.82</td>
<td>8.63</td>
<td>8.23</td>
</tr>
<tr>
<td>1963-64</td>
<td>27.37</td>
<td>410.35</td>
<td>437.72</td>
<td>9.86</td>
<td>6.79</td>
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<tr>
<td>1964-65</td>
<td>30.14</td>
<td>432.10</td>
<td>462.24</td>
<td>9.68</td>
<td>6.56</td>
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<tr>
<td>1965-66</td>
<td>38.11</td>
<td>526.65</td>
<td>564.76</td>
<td>9.86</td>
<td>9.34</td>
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<tr>
<td>1966-67</td>
<td>45.29</td>
<td>679.35</td>
<td>724.64</td>
<td>10.35</td>
<td>13.22</td>
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<td>1968-69</td>
<td>63.85</td>
<td>1007.75</td>
<td>1071.60</td>
<td>11.60</td>
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<td>1969-70</td>
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<td>1065.75</td>
<td>1136.80</td>
<td>11.77</td>
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<td>1970-71</td>
<td>79.31</td>
<td>1183.65</td>
<td>1262.96</td>
<td>13.37</td>
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<td>1971-72</td>
<td>87.76</td>
<td>1316.40</td>
<td>1394.16</td>
<td>15.09</td>
<td>38.34</td>
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</tbody>
</table>

Source: Statistical statements relating to co-operative movement in India 1955 to 1972

The above table clearly indicates that the borrowing powers of the banks were already much higher than their borrowings even without the Government contributions. Such a contribution only went to meet the overdues which were lower than the contributions till 1960-61 and again during 1962-63 and 1964-65. Thereafter, the overdues have increased at a much faster pace than the share capital. Thus the share capital provided full cushion for absorption of overdues.

In order to see the role of Government contribution in the individual State co-operative banks, the position of existing borrowing power and the actual borrowings were also examined in table No. 52 on next page.
TABLE NO 51

MAXIMUM BORROWING POWER AND ACTUAL BORROWINGS
GOVERNMENT SHARE CAPITAL CONTRIBUTION AND OVERTUES

Amounts in Crores

A - Maximum Borrowing Power
B - Actual Borrowings
C - Govt Capital Contribution Received
D - Amount of Overtues

Scale for A and B
**Table No. 52**

<table>
<thead>
<tr>
<th>State</th>
<th>Owned funds</th>
<th>Maximum borrowing power</th>
<th>Government contribution</th>
<th>Actual borrowings</th>
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</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>4.77</td>
<td>71.55</td>
<td>26.36</td>
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</tr>
<tr>
<td>Assam</td>
<td>1.82</td>
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<td>17.04</td>
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<tr>
<td>Bihar</td>
<td>2.03</td>
<td>43.95</td>
<td>21.54</td>
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<tr>
<td>Haryana</td>
<td>1.00</td>
<td>28.50</td>
<td>15.00</td>
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<tr>
<td>U.P.</td>
<td>9.37</td>
<td>140.55</td>
<td>60.49</td>
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</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>0.42</td>
<td>6.30</td>
<td>3.10</td>
<td></td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>7.63</td>
<td>114.45</td>
<td>54.05</td>
<td></td>
</tr>
<tr>
<td>Maharashtra</td>
<td>19.16</td>
<td>257.40</td>
<td>164.66</td>
<td></td>
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<tr>
<td>Rajasthan</td>
<td>3.82</td>
<td>57.30</td>
<td>10.65</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Statistical statements relating to co-operative movement in India 1971-72.

It is, therefore, suggested that the Government may discontinue contributing share capital in the State co-operative banks in future. These banks should be forced to find their own resources to absorb overdues. The created money or the resources of the Bank should not be allowed for such a purpose. This would also reduce the strains on the resources of the Long Term Operation Fund.

(b) A similar exercise at the central co-operative bank level also confirmed the above presumptions. The Government capital contributions did not help increase their borrowing powers but helped them to absorb the overdues.

contd... 236
## Table No. 53

<table>
<thead>
<tr>
<th>Year</th>
<th>Owned funds excluding Government contribution (Rs in crores)</th>
<th>Maximum borrowing power @ 10 times of owned funds</th>
<th>Actual borrowings</th>
<th>Overdues share capital contribution</th>
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<tr>
<td>1957-58</td>
<td>21.71</td>
<td>217.10</td>
<td>116.25</td>
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<td>1958-59</td>
<td>26.08</td>
<td>260.80</td>
<td>157.95</td>
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<td>32.92</td>
<td>329.20</td>
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<td>1960-61</td>
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<td>1961-62</td>
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<td>560.30</td>
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<td>1964-65</td>
<td>74.09</td>
<td>740.90</td>
<td>432.56</td>
<td>65.38</td>
</tr>
<tr>
<td>1965-66</td>
<td>82.67</td>
<td>826.70</td>
<td>481.57</td>
<td>87.05</td>
</tr>
<tr>
<td>1966-67</td>
<td>94.02</td>
<td>940.20</td>
<td>522.66</td>
<td>124.16</td>
</tr>
<tr>
<td>1967-68</td>
<td>108.82</td>
<td>1088.20</td>
<td>570.59</td>
<td>135.22</td>
</tr>
<tr>
<td>1968-69</td>
<td>124.98</td>
<td>1249.80</td>
<td>675.60</td>
<td>172.97</td>
</tr>
<tr>
<td>1969-70</td>
<td>140.06</td>
<td>1400.60</td>
<td>763.65</td>
<td>214.69</td>
</tr>
<tr>
<td>1970-71</td>
<td>161.58</td>
<td>1615.60</td>
<td>831.69</td>
<td>274.78</td>
</tr>
<tr>
<td>1971-72</td>
<td>180.34</td>
<td>1803.40</td>
<td>900.83</td>
<td>319.36</td>
</tr>
</tbody>
</table>

**Source:** Statistical statements relating to co-operative movement in India 1957-58 to 1971-72

### (v) Share linking with borrowings

In the existing set up, the borrowing unit is required to hold shares in the higher financing agencies subject to certain ratios. In effect, the funds of one institution get locked-up in the capital of other institution. The objects of such investments were:

- **a)** to regulate the actual borrowings which were fixed in certain multiples of such investments
- **b)** to ensure distributive benefit justice i.e. to participate in the loss of the higher financing agencies in the ratio of benefits derived.

The investments in the present form do not have any justification for continuance. While the member should continue to invest in the higher agencies, the investments in the other higher institutions may be discontinued. The by-laws of the societies/institutions should be amended to provide the extent
of their liability in the event of any loss to the higher financing agency and also the operative borrowing powers for the societies. This would not only make the resources available to the primary societies but to that extent the need for Government capital contribution also may not be felt necessary. The societies would be able to absorb sizable part of their overdues in such added resources and would not pass on the incidence of overdues to the central co-operative banks to that extent.

As for the central co-operative banks, it may be stated that due to their coverage under the Banking Regulation Act 1966 (as applicable to co-operative societies) they have become banking institutions and their capacity to meet their obligations are judged in terms of section 23 of the Act i.e. the realisable value of the assets. As such the capital base ceased to be the basis for assessment of borrowing power or an instrument for generation of confidence in public. Hence no limits be fixed up statutorily. The state co-operative banks should be left free to judge the operational and financial efficiency of the bank before making available any financial assistance to any extent.

Now the co-operative societies are becoming banks and assuming the functions of banking units while commercial banks are adopting the functions of co-operative societies. The stage of assimilation is likely to be reached by both the co-operative and commercial banks in the near future. Hence such restrictions or formalities are not felt desirable.

(vi) Government borrowings for share capital contribution and interest structure

As explained under chapter six, the effective borrowing
rate on the loans provided to the State Government for share
capital contribution from the long term operation fund worked out
to only about 2%. The Government itself was entitled to a divi-
dend up to 3% on such share holdings if such institutions have
been declaring dividends exceeding 3%. The balance was transfer-
able to the agricultural stabilisation fund as per the existing
rules governing the fund.

This would mean that in the selective cases, the Govern-
ment would be able to get 3% dividend while it would pay only 2%
on its borrowings. It is, therefore, suggested that the present
rate of interest may be increased sizably looking to the present
market rates i.e. 2 to 3% below the Bank Rate. This would force
more judicious utilisation of resources by the Government.

(vii) Tenure of loans

Section 17(2)(b) of the Reserve Bank of India Act provides
a period of 15 months for seasonal agricultural operations while
the bank allowed a period of 12 months only. With the introduc-
tion of crop loan system, the period is now governed by the
period required by the production efforts and the period required
for marketing of produce. The production loans are now recovered
within a period of 12 months. This presupposes the availability
of necessary infra-structure like marketing societies capable of
taking care of produce loans. The fact remains that the marketing
societies have not developed throughout the country and at
places either there are no marketing societies or they are
defunct and weak. As such, they cannot provide produce loans.
This would mean denial of credit to cultivators in those areas.

It is, therefore, suggested that the marketing societies
may be revitalised in these areas and as a measure of transitory arrangement the cultivator may be allowed a total period of 15 months for the repayment of production loans. During the extended period the produce may be allowed to remain with the cultivator if there are no organised godown facilities available. While special insurance covers for such stocks may be devised by insurance companies, the society or the branch of the central co-operative bank may obtain a trust receipt for the stocks from the cultivators for the extended period so that in the event of default the cultivator may be prosecuted.

Another problem that may arise would be the requirements of fresh finance for the subsequent crop pending repayment of earlier loans. The banks may, therefore, be allowed to sanction only kind loans for the subsequent crop till such time the earlier loans are repaid by them.

(viii) Recovery of co-operatives dues through marketing societies

The integrated Credit Scheme of the Rural Credit Survey Committee accorded a very important place to marketing societies in the field of recovery of co-operative dues. However, it is observed that the recoveries so made were either very unimpressive or were insignificant. Further the total number of societies on whose behalf such recoveries were effected bore no relationship with the total number of societies in the country as may be seen from the details given in table No.54 on next page.
### Table No. 54

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of marketing societies effecting recoveries</th>
<th>Amount actually recovered</th>
<th>Number of primary societies for which recoveries made</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>257</td>
<td>5.20</td>
<td>9231</td>
</tr>
<tr>
<td>1961-62</td>
<td>257</td>
<td>4.89</td>
<td>14747</td>
</tr>
<tr>
<td>1964-65</td>
<td>675</td>
<td>11.39</td>
<td>17394</td>
</tr>
<tr>
<td>1965-66</td>
<td>525</td>
<td>12.20</td>
<td>16883</td>
</tr>
<tr>
<td>1966-67</td>
<td>1757 @</td>
<td>21.68</td>
<td>19991</td>
</tr>
<tr>
<td>1967-68</td>
<td>839. @</td>
<td>33.60</td>
<td>17347</td>
</tr>
<tr>
<td>1968-69</td>
<td>728</td>
<td>35.27</td>
<td>13704</td>
</tr>
<tr>
<td>1969-70</td>
<td>1398</td>
<td>43.07</td>
<td>20704</td>
</tr>
</tbody>
</table>

Source: Review of co-operative movement in India

@ Including processing societies

Obviously the linking of credit with marketing has failed inasmuch as against the total loans issued during 1969-70 by primary agricultural credit societies at Rs. 540.1 crores, the total recoveries during the year were Rs. 43.07 crores through marketing societies i.e. less than 10% of the total. Further, as against the total number of primary societies at 1,62,700 (of which 143,699 were active) the recoveries were made on behalf of only 20,704 societies which forms only 14% of the active societies.

The reasons for this poor performance were:

a) Non enforcement of the undertakings obtained from members to sell their produce through marketing societies.

b) The marketing societies are not a force to be reckoned within the markets which leads to discouragement in cultivators in approaching marketing societies for disposal of their produce.

c) The Government policies relating to prices, levy etc. are such which may not encourage the cultivator to sell the produce through marketing societies.

d) The selective credit controls on cotton and kapas, foodgrains etc. may not allow the lending institutions to make advances against such products.

It is, therefore, felt that unless concrete steps to
improve the market conditions conducive to the interests of the
cultivators are taken, the scheme of linking of recoveries
through marketing may not be a success. Correspondingly the
chances of frittering away with the sale proceeds in non-productive expenses and allowing the production loans to become overdue
would also increase.

(ix) Multiplicity of the agencies

Presently there are number of institutions which are
engaged in the provision of credit for productive needs, investment needs, and development needs. The terms and conditions are
so different that either the cultivator is not able to decide as
to where to approach or has to accept these conditions per force.

In the field of production credit apart from the short term
credit structure i.e. central co-operative banks and primary
societies, the Government is providing taccavi loans. The
commercial banks are expected to make direct and indirect loans.
The Agricultural Credit Corporations are also expected to make
loans.

In the field of investment credit, apart from the central
cooporative banks, the SFDA/MFAL agencies, land development
banks etc. commercial banks are also providing loans for the same
purposes on different conditions.

Similarly in the field of long term loans for development
credit needs, the land development banks on their own, under IDA
or World Bank projects, commercial banks, Agricultural Refinance
Corporation under its schemes through land development banks make
advances to the cultivators.
The terms and conditions relating to the period, security, rates of interest, due dates, the manner of disbursement and other factors differ from the agency to agency which create more confusion than cohesion. It is, therefore, suggested that a uniform pattern of advances on similar terms and conditions in the properly defined areas be devised so as to avoid duplication of efforts and advances to cultivators.

(x) Reserve Bank of India - A purveyor of main line of credit

The Reserve Bank of India's role in the total scheme of credit has been envisaged that of the overall custodian of monetary policy. Despite the assumption of the developmental role in the field of agricultural finance, the role contemplated was that of supplementary source of finance. However, in reality the Bank was still a significant source of finance to the co-operative institutions due to the leakages in the system. The co-operative banks have, to this extent, refused to develop their own roots and self-reliance. On the one hand the Bank assisted the State Governments, numerous corporations and other bodies it had to provide sizable amount of production finance to the cultivators through these co-operative institutions. In the field of short and medium term loans issued by the primary agricultural credit societies the Bank provided substantial amounts for onward transmission to cultivators as may be seen from the details given in statement on next page.
### Table No. 55

<table>
<thead>
<tr>
<th>Year</th>
<th>Total loans outstanding against members at the primary society level</th>
<th>Total loans outstanding against the State co-operative bank at the Bank level</th>
<th>Percentage of col.2 to col.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966-67</td>
<td>477.46</td>
<td>162.74</td>
<td>34.1</td>
</tr>
<tr>
<td>1967-68</td>
<td>534.28</td>
<td>166.55</td>
<td>21.8</td>
</tr>
<tr>
<td>1968-69</td>
<td>618.75</td>
<td>224.90</td>
<td>36.3</td>
</tr>
<tr>
<td>1969-70</td>
<td>711.44</td>
<td>243.02</td>
<td>34.1</td>
</tr>
<tr>
<td>1970-71</td>
<td>784.47</td>
<td>241.91</td>
<td>30.8</td>
</tr>
<tr>
<td>1971-72</td>
<td>858.26</td>
<td>211.08</td>
<td>24.4</td>
</tr>
</tbody>
</table>

Source: Statistical Statements relating to co-operative movement in India 1966-67 to 1971-72

The above position itself indicates the leakages in the system where a better part of their own resources are converted into overdues. With the recent steps taken by the Bank, this reliance is further expected to go down and if the suggestions made at different places by us are implemented, the leakages are further likely to be plugged and the system may emerge as more useful and strong.
TABLE NO 55

Borrowings from the Bank as against Loans outstanding against Members

<table>
<thead>
<tr>
<th>Year</th>
<th>Amounts in Cents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966-67</td>
<td>477.46</td>
</tr>
<tr>
<td>1967-68</td>
<td>162.74</td>
</tr>
<tr>
<td>1968-69</td>
<td>534.28</td>
</tr>
<tr>
<td>1969-70</td>
<td>224.90</td>
</tr>
<tr>
<td>1970-71</td>
<td>245.02</td>
</tr>
<tr>
<td>1971-72</td>
<td>241.91</td>
</tr>
</tbody>
</table>

Loan outstanding from the Bank