

FARM CREDIT THROUGH
PRIMARY AGRICULTURAL
CREDIT SOCIETIES

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The face of Indian agriculture has been undergoing rapid changes in the last two decades. Technological progress has come to wield a lasting influence in the agricultural scene. One of the primary factors responsible for this transformation has been the provision of a large quantum of farm credit. In spite of certain lacunae in its operation primary agricultural credit societies do continue to infuse the life blood of farm credit in the country. It was the overwhelming importance of agricultural credit that inspired me to undertake this modest study.

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CONTENTS

		<u>Page</u>
ACKNOWLEDGEMENTS.....		(i)
LIST OF TABLES.....		(v)
 <u>Chapter</u>		
I	INTRODUCTION.....	1
II	FARM CREDIT AND IMPORTANCE OF PRIMARY AGRICULTURAL CREDIT SOCIETIES.....	6
	2.1 Importance of Farm Credit.....	6
	2.2 Types and Purposes of Farm Credit.....;	9
	2.3 Agencies Providing Farm Credit.....	10
	2.4 Institutional Agencies.....	11
	2.4.1 Government.....	12
	2.4.2 The Commercial Banks.....	13
	2.4.3 Cooperatives.....	14
	2.5 Predominance of Cooperatives..	15
	2.6 The Short and Medium Term Co- operative Credit Structure....	17
	2.7 Importance of Primary Agricul- tural Credit Societies.....	18
	2.8 Progress of Primary Agricul- tural Credit Societies.....	20
	2.9 Purposes of Primary Agricul- tural Credit Society Loans....	22
	2.10 Relative Share of Short Term and Medium Term Loans of Primary Agricultural Credit Societies.....	23
	2.11 Working of Primary Agricul- tural Credit Societies.....	25

<u>Chapter</u>		<u>Page</u>
III	LENDING POLICIES OF AND QUANTUM OF CREDIT ADVANCED BY PRIMARY AGRICULTURAL CREDIT SOCIETIES.....	29
	3.1 Lending Policies for Short Term Credit.....	29
	3.1.1 Scale of Finance.....	30
	3.1.2 Eligibility of a Borrower.....	31
	3.1.3 Maximum Borrowing Power.....	32
	3.1.4 Security for Short Term Loans.	32
	3.1.5 Recovery of Loans.....	33
	3.1.6 Interest Rate on Short Term Loans.....	34
	3.2 Lending Policies for Medium Term Credit.....	34
	3.2.1 Size of Credit.....	34
	3.2.2 Eligibility of a Borrower.....	35
	3.2.3 Maximum Borrowing Power.....	35
	3.2.4 Period of the Loan.....	35
	3.2.5 Security for Medium Term Loan.	35
	3.2.6 Interest Rate on Medium Term Loan.....	37
	3.3 Short Term Loans during 1957-58 to 1977-78 - By Purpose.....	37
	3.4 Disbursement in Kind.....	39
	3.5 Medium Term Loans during 1957- 58 to 1977-78 - By Purpose.....	43
	3.6 Diversions in the Purposes and Uses of Loans.....	47
	3.6.1 Diversion of Short Term Loans.	48
	3.6.1 Diversion of Medium Term Loans	49
	3.7 Short Term and Medium Term Loans Issued - Statewise Analysis.....	50
	3.8 Distribution of Loans Among Different Categories of Cultivators.....	56

<u>Chapter</u>		<u>Page</u>
IV	THE PROBLEM OF OVERDUES.....	72
	4.1 Importance of the Problem of Overdues.....	73
	4.2 Levels and Trends of Overdues.	75
	4.3 Causes of Overdues.....	80
	4.4 Measures for Tackling Overdues	82
	4.5 Some of the Operational Weak- nesses of Primary Agricultural Credit Societies.....	92
V	CONCLUSIONS.....	95
	BIBLIOGRAPHY.....	102

LIST OF TABLES

<u>Table No.</u>		<u>Page</u>
2.1	Borrowings of Agriculturists by Source.	12
2.2	Institutional Finance for Agriculture: Loans Issued during the Years 1973-74 to 1977-78.....	16
2.3	Short Term Loans Issued by Different Institutional Agencies, 1973-74 to 1977-78.....	19
2.4	Progress of Primary Agricultural Credit Societies in India during Different Years.....	21
2.5	Comparison of the Issue of Short Term and Medium Term Loans by Primary Agri- cultural Credit Societies during the Years from 1957-58 to 1977-78.....	24
2.6	Funds of Primary Agricultural Credit Societies from 1950-51 to 1977-78.....	27
3.1	Short Term Loans Issued by Primary Agricultural Credit Societies - By Purpose from 1957-58 to 1977-78 - All India.....	38
3.2	Amount and Proportion of Loans in Kind of Seasonal Agricultural Operations from 1973-74 to 1977-78.....	41
3.3	Medium Term Loans Issued by Primary Agricultural Credit Societies - By Purpose, from 1957-58 to 1977-78 - All India.....	45
3.4	Amount and Percentage of Short Term and Medium Term Loans Issued in 1957-58, 1977-78, and from 1957-58 to 1977-78 - Statewise Analysis.....	51

<u>Table No.</u>		<u>Page</u>
3.5	Primary Agricultural Credit Societies Loan Disbursed Per Capita of Rural Population, 1977-78.....	54
3.6	Classification of Short Term and Medium Term Loans Issued by Primary Agricul- tural Credit Societies during 1969-70 to 1977-78 according to Size of Ownership Holdings.....	61
3.7	Distribution of Operational Holdings according to 1970-71 Agricultural Census.....	64
3.8	Loans Issued Per Hectare of Cultivated Area to Small Cultivator-Borrowers during 1969-70 to 1977-78.....	65
3.9	Proportion of Membership of Primary Agricultural Credit Societies Among Small (upto 2 hectares) and Medium and Large (above 2 hectares) Land Holders as on 30-6-1978.....	67
3.10	Proportion of Borrowers Among the Small, Medium and Large Holder Members of Primary Agricultural Credit Societies, 1977-78.....	68
4.1	Cooperative Overdues - Figures at the end of June 1978.....	74
4.2	Percentage of Overdues to Loans Out- standing as on 30th June of Years 1957-58 to 1977-78.....	76

CHAPTER I
INTRODUCTION

Agriculture produces about 45 per cent of India's national income and provides livelihood for more than 70 per cent of her population. One might say that agriculture is indeed the basis of India's national life. Agricultural development is therefore a matter of serious national concern calling for deliberate and farsighted national policies.

Like other productive sectors of the economy, for its efficiency and development, it also requires capital. Due to the peculiar nature of agriculture, especially its uncertainties, small and numerous production units, scattered operations, low returns, discontinuous nature of production, etc., a large proportion of farmers cannot manage from one harvest to another without recourse to borrowings. They are very often forced to sell their crops at extremely low prices ruling immediately after the harvest.

Besides, a rapid agricultural development pre-supposes technological transformation. Fortunately in recent years Indian agriculture has undergone a technological change. Now after the advent of the much needed technological breakthrough agriculture has become a remunerative occupation. With the use of high yielding varieties of seeds, fertilizers

chemicals, and a package of improved cultivation practices, per hectare productivity has increased manifold.

The irrigated area as a proportion of the cultivated area has increased from about 17 per cent in 1950-51 to about 23 per cent in 1969-70. The gross irrigated area expanded at a cumulative rate of about 2.3 per cent per annum during 1951-52 to 1972-73. The coverage of area under hybrid seeds rose from nowhere in 1966-67 to about 28 per cent of the area planted in 1973-74. While the coverage in the case of rice rose to 26 per cent, and of bajra to 24 per cent, it rose phenomenally over 57 per cent in the case of wheat.¹

On the other hand these developments are a reflection of the change in agricultural technology which could not but have increased expenditure in agriculture. The total expenditure of agriculture on modern inputs—chemical fertilizers, pesticides, insecticides, diesel oil and electricity—increased from a mere Rs. 21 crores in 1950-51 to Rs. 618 crores in 1972-73.² Fertilizer consumption alone was more than tripled during the period. It rose from the average of 5 kg. per hectare of gross cropped area in 1966 to over 17 kg. in 1973-74.³

1 Finding of National Commission on Agriculture, 1976, Given in An ICSSR Working Group Report. Alternatives in Agricultural Development, Allied Publishers Pvt. Ltd., New Delhi, 1980, p. 20.

2 Ibid., p. 20.

3 Ibid., p. 20.

in general

With their limited resources/^{it is beyond the capacity} of the farmers to meet the growing demand for production inputs. Thus to fulfil their additional demand they have no alternative but to depend mainly on agricultural credit supplied by farm financing institutions.

According to the All India Rural Credit Survey, 1954, 93 per cent,⁴ in 1961-62, 81 per cent,⁵ and in 1971-72, 70 per cent⁶ of the agricultural credit was contributed by non-institutional sector. Even though non-institutional credit has got some advantages like promptness and easy proceedings, farmers were easily cheated and exploited by them especially by the moneylenders and they were reduced to the position of debt slaves or even made to lose their land.⁷

Considering the exploitation at the hands of the moneylenders and non-productive nature of non-institutional credit, cooperative organizations have been recognized as the best institutions providing rural credit to the farmers among all institutional and non-institutional agencies.⁸

⁴ Report of the All India Rural Credit Review Committee, Reserve Bank of India, 1969, p. 100.

⁵ Ibid.

⁶ All India Rural Debt and Investment Survey, 1971-72, Reserve Bank of India.

⁷ United Nations. Rural Progress through Cooperatives, New York, 1968, p. 39.

⁸ (i) Report of the National Commission on Agriculture, Part XII: Supporting Services and Incentives. Government of India, Ministry of Agriculture and Irrigation, New Delhi, 1976; (ii) Draft Five Year Plan, 1978-83, Vol. III. Government of India, Planning Commission, p. 59.

Farm credit can by and large be grouped under two categories, namely, production credit that acts as a catalyst for increasing productivity and investment credit which generates a strong infrastructure for future agricultural development. Production credit comprises of short term credit whereas investment credit comprises of medium term credit and long term credit. The short and medium term credit is mainly supplied to agriculturists through the credit cooperative society namely the primary agricultural credit societies (PACS). They are the kernel of the cooperative movement in India and constitute the largest number of cooperative institutions. Moreover they are the institutions which provide largest share of credit to the farmers. In view of the special importance of the primary agricultural credit societies in the rural credit scene it may be worthwhile if a study is made with the objective of reviewing their credit operations. This is what we propose to do.

Our study has in its ambit, data pertaining to various aspects of short term and medium term credit operations of primary agricultural credit societies from 1957-58 to 1977-78. These scattered data have been collected mainly from "All India Report on Agricultural Census" 1970-71, Government of India and various issues of Reserve Bank of India, "Statistical Statements Relating to the Cooperative Movement in India" and "Review of the Cooperative Movement in India".

The study is divided into five chapters. In the chapter

that follows an attempt is made to discuss the importance of farm credit; types and purposes and agencies providing farm credit, and the predominance of primary agricultural credit societies among all the institutional agencies providing farm credit.

The third chapter deals with the lending policies followed by primary agricultural credit societies and the quantum of credit advanced by them during 1957-58 to 1977-78. After providing an outline of the lending policies a detailed study is made of purposewise as well as statewise issuance of short term and medium term loans. In addition a detailed study of the loans issued by primary agricultural credit societies among different categories of cultivators is also made in this chapter.

One of the important problems in financing agriculture in India has been that of mounting overdues. The amounts defaulted by the farmers have acted as a serious restraint on the smooth flow of farm credit and constitute a major obstacle in meeting the credit needs of agriculture which tends to increase year after year. Hence in the fourth chapter we deal with the problem of overdues of primary agricultural credit societies. More specifically we deal with the levels and trends of overdues, causes of overdues and the remedial measures.

Chapter fifth is the concluding chapter. The main observations of the study are brought out and some useful suggestions are made in this chapter.

CHAPTER II

FARM CREDIT AND IMPORTANCE OF PRIMARY AGRICULTURAL CREDIT SOCIETY

2.1 Importance of Farm Credit

It is a universal phenomenon, equally true of both advanced and less advanced economies, that most of the farmers have to borrow funds at some time or the other. The rural masses borrow almost habitually, passing on the burden of debt to the next generation. It may be observed that neither the condition of the country, nor the nature of the land tenures, nor the position of agriculture affects the one great fact that agriculturists must borrow. This is mainly due to the fact that, an agriculturist's capital is locked up in his land and stock and must be temporarily mobilized. Hence credit is not necessarily objectionable nor borrowing for that matter is a sign of weakness.

Besides because of the marked contrast in seasonality of agricultural production and a steady pattern of continuous consumption, most of the farmers who do not command much savings to sustain their family and maintain the continuity of farming operations, must resort to credit to bridge the temporary gaps between the cash inflows and cash outlays required to maintain the process of consumption and production.

Further, cyclical, seasonal and annual fluctuations are more marked in agriculture than in any other industry. This situation leads to fluctuations in farmer's income, creating gaps in his demands for funds and income expected from the farm.

Moreover, rapid growth in agricultural production requires a technological transformation. Indian agriculture has undergone a rapid technological transformation during the last few years and its productivity has registered considerable progress. At the same time the inputs required for technological transformation viz. high yielding variety seeds, fertilizers, insecticides, pesticides, electricity, improved implements and machinery, have resulted in the increased capital needs of the farmers.

From the various studies conducted it was observed that average cash expenditure per acre under modern cultivation is greater than that under traditional cultivation.¹ It is difficult for most of the farmers to meet these increased capital requirements from their own funds and therefore they have to resort to credit. Thus farm credit becomes the external source of capital which aids the transformation process by providing a tool to acquire modern inputs. It can be a powerful economic force for development, if used to

¹ For instance: M.G. Gosh, A Study of High-Yielding Varieties Programme in the District of Birbhum, West Bengal, 1968-69. Agro-Economic Research Centre, Visva-Bharati, 1969 (mimeo).

inject appropriate capital inputs into agriculture that are not otherwise available to farmers from their own financial, physical and labour resources. Thus, though of itself credit does not transform technology, it plays a dynamic role for agricultural development. In fact it is the life-blood of agriculture itself.

The importance and demand for farm credit will tend to increase in future as the area under the High Yielding Variety Programme expands. As the programme gathers momentum more and more cultivators may bring an increasing part of their holdings under it using a larger proportion of recommended doses of fertilizers, etc. Hence there is likely to be a continuous increase in demand for credit. Moreover as agriculture develops, like any growing business, a progressive farm may need additional finance for investment on development as well as for expenditure on current operations and therefore the quantum of borrowing will increase in absolute terms.²

The projections relating to the credit requirements of agriculture made by the National Commission on Agriculture, 1976, revealed that demand for credit would increase considerably in future. According to the Commission the national agricultural development policy rests on the principles of

² Report of the All India Rural Credit Review Committee, Reserve Bank of India, 1969, pp. 79-80.

planned modernization, mechanization of output based on full utilization of land and manpower and equal access to the opportunities for agricultural development for all classes of farmers. On this basis, the credit requirements of agriculture by the end of 1985 would be Rs.16549 crores.³ Credit being an essential input in modern agriculture there is utmost need to ensure that agricultural development does not suffer from lack of credit support.

2.2 Types and Purposes of Farm Credit

To meet current expenses of production such as purchase of seeds, fertilizers, pesticides and insecticides, wages for hired hands, bullocks, etc., farmers require credit. These are short term loans for a period ranging from 3 months to about 18 months which are utilized for raising crops, and repayment is expected out of the gross current income earned from the sale proceeds of the harvest.

Besides short term credit, cultivators need credit for longer periods for purchase of cattle, certain types of farm implements and equipments, special types of small irrigation and land improvement schemes. For these purposes farmers are given medium term loans of three to five years.

Further, farmers may require credit for longer periods

³ Report of the National Commission on Agriculture, Part XII: Supporting Services and Incentives. Government of India, Ministry of Agriculture and Irrigation, New Delhi, 1976, p. 1.

for purchase of land, or making long term improvements on the land. These loans are generally spread over a period of fifteen to twenty years.

In view of the long gestation period of agricultural production and the attendant uncertainties the repayment of medium and long term finance is expected only out of the net income or savings of the borrower.

Of the three types of loans mentioned above, the largest amount borrowed by the majority of farmers in India is in the form of short term loans.

2.3 Agencies Providing Farm Credit

Non-institutional agencies as well as institutional agencies provide credit to farmers. Non-institutional sources comprise of relatives, landlords, agricultural moneylenders, professional moneylenders, traders and commission agents. The main institutional agencies are government departments, commercial banks and cooperatives.

The All India Rural Credit Survey Report (1954) observes the almost complete dependence of cultivators on non-institutional credit agencies. The borrowers were subjected to usurious rates of interest, from 25 to 70 per cent, and unfavourable terms and conditions which often led not only to chronic indebtedness but also to sale of land for repayment of debt. Therefore, it was generally believed that in India private agencies like moneylenders cannot be fitted into any

scheme of rural credit meant to serve the needs of rural development. Moneylender seldom cares about the use of money he lends out and frequently encourages his clients to continue borrowing as long as they could give additional security.⁴

Therefore, due to the negativity of non-institutional credit, what we need in this respect is to ensure adequate credit facilities to the farmers through institutional sources and completely replacing the system of exploitative private credit.⁵

2.4 Institutional Agencies

The extent of rural credit supplied by each source is given in Table 2.1. On the overall plane it is found that the percentage of credit supplied by non-institutional sources has been reduced from 92.7 in 1951-52 to 81.3 in 1961-62, and then to 68.5 in June 1971. This indicates that the role of institutional credit has got enlarged within two decades from 1951 to 1971.

The significance of the loans advanced by moneylenders came down from 70 per cent in 1951-52 to 49 per cent in 1961-62 and further to 36 per cent in 1971-72.

4 E. Jacoby. Agrarian Unrest in South East India, p. 91.

5 All India Rural Credit Survey. Report of the Committee of Direction, Vol. II, The General Report. Reserve Bank of India, 1954, p. 175.

Table 2.1 : Borrowings of Agriculturists by Source

Credit Agency	(Percentages)		
	1951-52 *	1961-62 *	1971 (June) [@]
1. Agricultural Moneylenders	24.9	36.0	23.0
2. Professional Moneylenders	44.8	13.2	13.1
3. Traders and Commission Agents	5.5	8.8	8.4
4. Others	17.5	23.3	24.0
5. Non-institutional Agencies (1 + 2 + 3 + 4)	92.7	81.3	68.5
6. Government	3.3	2.6	7.1
7. Commercial Banks	0.9	0.6	2.4
8. Cooperatives	3.1	15.5	22.0
9. Institutional Agencies (6 + 7 + 8)	7.3	18.7	31.5

Source: * Report of the All India Rural Credit Review Committee, Reserve Bank of India, 1969, p. 100.

@ All India Debt and Investment Survey (1971-72). Indebtedness of Rural Households and Availability of Institutional Finance. Reserve Bank of India, 1977, p. 40.

In the Table we can notice the increase in the proportions in the contributions of all the three institutional agencies i.e. government, commercial banks and cooperatives from 3.3, 0.9 and 3.1 percentages in 1950-51 to 7.1, 2.4 and 22.0 in 1971 respectively.

2.4.1 Government

Government had come forward from early days to provide

agricultural credit in the form of taccavi loans. But the disbursement arrangements are insufficient and involve delays. Now it is no longer regarded as an important source of agricultural credit in the country. Even the Rural Credit Review Committee (1969) is not in favour of government granting loans. The Committee had recommended that taccavi should be strictly limited, subject to certain exceptions of a transitional character, to periods of widespread distress such as famine, scarcity and floods.⁶ Report of the National Commission on Agriculture describes government's role in this regard as a supporting system.⁷ Central and State governments always provide substantial financial support to the financing institutions by way of share capital, managerial subsidies and contributions to bad debt reserves.⁸ Besides they give considerable administrative, supervisory and technical support to these institutions.

2.4.2 The Commercial Banks

The commercial banks in India were traditionally operating in developed urban centres and till recently were ill-equipped and also disinclined to extend credit to agriculturists. The unsuitability of agricultural security, the

⁶ Report of the All India Rural Credit Review Committee (1969), op.cit., p. 199.

⁷ Report of National Commission on Agriculture, op.cit., p. 11.

⁸ Ibid., p. 8.

peculiarities of agricultural finance, seasonal vicissitudes and uneconomic nature of farming in the country, illiteracy among farmers, the imperative necessity of keeping the funds liquid and lack of personal knowledge about cultivators prevented these banks from advancing agricultural credit.⁹

After the introduction of social control and nationalization of 14 major commercial banks in July 1969, they have started providing agricultural credit directly as well as indirectly through cooperatives. However it is recognized that despite the increasing role of commercial banks in the sphere of agricultural credit "the cooperatives will have to carry the main burden of responsibility in this behalf".¹⁰

2.4.3 Cooperatives

The All India Rural Credit Survey Committee recommended instituting an integrated scheme of rural credit which would ensure supply of adequate and timely credit for the working and fixed capital requirements of the cultivators. The Committee stressed that no organization could be adequate for the purpose if it was centralized or bureaucratic or the cultivators themselves had no voice in its working. In the search for such a suitable agency for the dispensation of credit to the millions of cultivators spread all over India,

9 P.K. Banerjee. Indian Agricultural Economy: Financing Small Farmers. Chetana Publications, New Delhi, 1977, p. 82.

10 Draft Five Year Plan, 1978-83, Vol. III. Government of India, Planning Commission, p. 58.

the cooperatives were found to be pre-eminently suitable for the purpose on account of their village base, democratic character, etc. Emphasizing the importance of cooperatives H. Calvart explains: "Cooperatives like local moneylenders can have intimate knowledge of the character and abilities of their members and of local production possibilities. As a means of reaching the last man in the last village co-operative credit has no rival except the moneylender; it offers the only possible method of proved merit for reaching the people as a whole. It is the only practical alternative to usury".¹¹

The Draft Five Year Plan 1978-83 points out that the cooperatives are the most widely distributed and organized credit system which can readily take up the vast task of purveying short, medium and long term credit to the rural areas.¹²

2.5 Predominance of Cooperatives

The predominance of cooperatives over all the other institutional financial agencies which provide credit to agriculture can be noticed in Table 2.2.

A steady growth in the institutional finance for agriculture in the five years (1973-74 to 1977-78) can be noticed. It has grown from Rs. 1186.7 crores in 1973 to Rs. 2186.1

11 H. Calvart. Cooperation in the Colonies, p. 203.

12 Draft Five Year Plan 1978-83, op.cit., p. 59.

Table 2.2 : Institutional Finance for Agriculture: Loans Issued during the Years 1973-74 to 1977-78

(Rs. in crores)						
Source	1973-74	1974-75	1975-76	1976-77	1977-78 ^P	Total
1. Cooperatives (including PACs and LDBs)	876.7 (73.88)	1039.2 (74.71)	1186.7 (70.86)	1431.2 (70.25)	1475.2 (67.48)	6009.0 (70.90)
2. State Governments	90.8 (7.65)	77.5 (5.57)	81.5 (4.87)	82.3 ^R (4.04)	97.8 (4.47)	429.9 (5.07)
3. Scheduled Commercial Banks	219.2 (18.47)	274.3 (19.72)	404.9 (24.18)	507.7 (24.92)	569.4 (26.05)	1975.5 (23.31)
4. Regional Rural Banks	N.A.	N.A.	1.5 (0.09)	16.2 (0.80)	43.7 (2.00)	61.4 (0.72)
Total	1186.7 (100)	1391.0 (100)	1674.6 (100)	2037.4 (100)	2186.1 (100)	8475.8 (100)

R = Revised. N.A. = Not Available. P = Provisional.

Note: 1. Figures in brackets are percentage of total credit.

2. PACs = Primary Agricultural Credit Societies, and
LDBs = Land Development Banks.

Source: Report on Currency and Finance, Vol. I, Economic Review, 1977-78, p. 158.

crores in 1977-78. At the same time it can be seen that from the total quantum of Rs. 8475.8 crores which was distributed by institutional agencies to cultivators in five years co-operatives accounted for the major share (about 71 per cent) followed by scheduled commercial banks (23 per cent), State Governments (5 per cent) and regional rural banks (1 per cent).

It is encouraging to note that there is a growth in the percentage of credit provided by commercial banks throughout the period. Simultaneously there is a fall in the percentage of the share of co-operatives. It is not because of a fall in the total quantum of cooperative credit, but because of the increasing share of the commercial banks. The share of state governments' contribution is falling.

2.6 The Short and Medium Term Cooperative Credit Structure

The cooperative credit structure in the country has two wings: one chiefly supplying the short term and medium term credit requirements and the other supplying long term investment credit.

The short term and medium term credit needs of agriculturists are met by the short term cooperative credit structure which is a three-tier pyramidal one with the primary agricultural credit societies covering a village or group of villages at the base, the central cooperative banks covering generally a district at the intermediate level and the state cooperative bank at the apex or state level, which is directly linked with Reserve Bank of India.

The Study Group of National Credit Council has stated that the cooperative banking system is an integrated one and because of its three-tier structure, has been enabled to extend credit to agriculturists, artisans, etc. The three-tier system also allows a rationalized flow of resources from the metropolitan centres to villages and combines this with fairly low costs of operations.

2.7 Importance of Primary Agricultural Credit Societies

The primary agricultural credit society is the king-pin of the cooperative movement. It is the society which serves the individual farmers directly and therefore its efficiency is one of the major determinants of overall organizational strength of cooperative credit. The Townsend Committee has aptly put it that the agricultural primary credit society is the foundation stone on which the whole cooperative edifice is built.¹³

Table 2.3 brings out a comparison of primary agricultural credit societies and the other institutional agencies which provide short and medium term loans to agriculturists.

It is clear that among all the institutional agencies supplying short term credit to agriculturists, the primary agricultural credit societies contribute the highest share,

¹³ Report of the Townsend Committee (1927) by Madras Government.

Table 2.3 : Short Term Loans Issued by Different Institutional Agencies, 1973-74 to 1977-78

(Rs. in crores)						
Source	1973-74	1974-75	1975-76	1976-77	1977-78 ^P	Total
i) Primary Agricultural Credit Societies *	663.1 (77.16)	750.0 (77.03)	881.4 (74.89)	1016.3 ^R (74.26)	1108.0 (72.08)	4418.8 (74.69)
ii) State Governments	90.8 (10.56)	77.5 (7.96)	81.5 (6.92)	82.3 ^R (6.01)	97.8 (6.36)	429.9 (7.27)
iii) Scheduled Commercial Banks	105.4 (12.27)	146.1 (15.01)	212.5 (18.06)	253.8 (18.54)	288.1 (18.74)	1005.9 (17.00)
iv) Regional Rural Banks	N.A.	N.A.	1.5 (0.13)	16.2 (1.18)	43.7 (2.82)	61.4 (1.04)
Total	859.3 (100)	973.6 (100)	1176.9 (100)	1368.6 (100)	1537.6 (100)	5916.0 (100)

R = Revised. N.A. = Not Available. P = Provisional.

Note: Figures in brackets are percentages of each agency to total credit.

* Exclude loans disbursed for "non-agricultural purposes such as industrial, consumption and non-agricultural purposes".

Source: Report on Currency and Finance, Vol. I, Economic Review 1978-79, p. 158.

viz. 75 per cent of the overall institutional credit supplies from 1973-74 to 1977-78. Even though there is a fall in the percentage of the share of the primary agricultural credit societies over the years, due to the increasing role of commercial banks, the total quantum of the short term loans issued by primary agricultural credit societies is continuously increasing.

2.8 Progress of Primary Agricultural Credit Societies

We may now examine the nature and dimension of the long term growth of cooperatives from 1950-51 to 1977-78 in terms of the number of cooperative societies at primary level, membership in those societies, and their funds and management. Table 2.4 gives the entire picture from which it is evident that the growth of agricultural credit societies and their membership was of very considerable magnitude. However, from 1960-61 onwards there is a fall in the number of primary agricultural credit societies, but this decline in the number is due to revitalization and amalgamation of societies to form viable units. The number has increased from 115,462 in 1950-51 to 116,125 in 1977-78. The membership has increased from 5,154 thousands to 47,860 thousands. Villagewise it has covered 96 per cent of villages. Average membership per society has increased from 44 to 412.

In respect of deposits, working capital, loans issued and loans outstanding there has been a steady progress in

Table 2.4 : Progress of Primary Agricultural Credit Societies in India during Different Years

(Amounts in Rs. crores)

Year	Number	Member- ship in '000	Average member- ship per society	Percen- tage of villages covered	Deposits	Borrow- ings from other higher finan- cial agencies	Working capital	Loans issued	Loans out- stand- ing	Over- due
1950-51	115,462	5,154	44	N.A.	4.5	19.2	41.0	22.9	29.1	6.4
1955-56	159,939	7,791	48	N.A.	7.1	42.8	79.1	49.6	59.8	15.0
1960-61	212,129	17,041	80	75	14.6	183.8	273.9	202.8	218.0	44.3
1965-66	191,904	26,135	136	89	34.5	363.2	546.6	341.6	426.9	125.4
1970-71	160,780	30,963	192	95	69.5	675.2	1153.4	577.8	784.5	322.4
1973-74	153,808	34,956	227	95	89.3	918.2	1580.3	761.6	1055.1	443.2
1974-75	152,572	36,442	238	95	101.1	1040.7	1801.5	899.8	1176.6	503.4
1975-76	134,838	39,521	293	96	113.3	1154.4	1989.7	1023.4	1299.2	560.5
1976-77	123,356	44,832	363	96	142.3	1420.5	2394.3	1210.5	1598.2	682.8
1977-78	116,125	47,860	412	96	165.2	1616.1	2712.4	1271.7	1798.2	809.5

Source: Statistical Statements Relating to the Cooperative Movement in India, Part I: Credit Societies - of respective years. Reserve Bank of India.

aggregate during the said period. Deposits have increased from Rs. 4.5 crores to Rs. 165.2 crores. Working capital of the societies has increased from Rs.41.0 crores in 1951-52 to Rs. 2712.4 crores by 1977-78.

In the case of loans issued and loans outstanding too tremendous growth can be noticed. Loans issued has grown from Rs. 22.9 crores to Rs. 1271.7 crores and loans outstanding has increased from Rs. 29.1 crores to Rs. 1798.2 crores from 1950-51 to 1977-78 respectively.

But the disquieting thing is the mounting overdue position year after year. The overdue has grown up from Rs. 6.4 crores in 1950-51 to Rs. 809.5 crores in 1977-78. Further, even though the total quantum of the deposits has increased from Rs. 4.5 crores in 1950-51 to Rs. 165.2 crores in 1977-78, the growth is not of that much significance. The percentage of deposits to working capital in 1977-78 is only 6 whereas the percentage of borrowings from other institutions to the working capital in the same year is about 60.

2.9 Purposes of Primary Agricultural Credit Society Loans

In section 2.2 we have already seen the main types and purposes for which farm credit is required, i.e. short term, medium term and long term requirements. Here in this section we shall see the main purposes for which the primary agricultural credit societies provide loans. The farm credit provided through the primary agricultural credit societies is mainly

for (1) seasonal agricultural operations of the cultivators, (2) investment credit for improvement of land, replacement of wasting assets etc., and (3) conversion of short term agricultural production loans into medium term loans when the borrowers are unable to repay the former loans on due dates on account of natural calamities affecting their repaying capacity. Loans of the first group are short term loans and of second and third are medium term loans.

2.10 Relative Share of Short Term and Medium Term Loans of Primary Agricultural Credit Societies

Table 2.5 giving the comparison of the issue of short and medium term loans by primary agricultural credit societies from 1957-58 to 1977-78, shows continuous growth in the total quantum of both short and medium term loans issued. The total loans issued has grown from Rs. 96.1 crores to Rs. 1271.71 crores. When we consider short term and medium term loans separately there is an increase from Rs. 82.6 crores and Rs. 18.5 crores in 1957-58 to Rs. 1111.2 crores and Rs. 160.5 crores respectively in 1977-78.

It can, however, be seen that the major portion of the loans is issued as short term loans rather than as medium term loans. Medium term loans form only a small percentage of the total loans issued.

Taking the overall quantum of the loans issued from 1957-58 to 1977-78, i.e. Rs. 11006.2 crores, short term loans

Table 2.5 : Comparison of the Issue of Short Term and Medium Term Loans by Primary Agricultural Credit Societies during the Years from 1957-58 to 1977-78

(Amounts in crores)

Year	Short term loans issued	Medium term loans issued	Total loans issued	Percentage of short term loans to total loans issued	Percentage of medium term loans to total loans issued
1957-58	82.6	13.5	96.1	85.96	14.04
1958-59	110.8	14.2	125.5	88.50	11.50
1959-60	154.0	15.1	169.1	91.10	8.90
1960-61	182.8	19.9	202.8	90.17	9.83
1961-62	205.4	22.9	228.3	89.97	10.03
1962-63	232.2	25.2	257.4	90.21	9.79
1963-64	268.0	29.1	297.1	90.19	9.81
1964-65	287.4	28.8	316.2	90.89	9.11
1965-66	304.8	36.8	341.6	89.23	10.77
1966-67	325.1	39.7	364.8	89.12	10.88
1967-68	393.2	35.0	428.2	91.83	8.17
1968-69	456.4	47.5	503.9	90.57	9.43
1969-70	487.8	52.3	540.1	90.32	9.68
1970-71	519.3	58.5	577.8	89.88	10.12
1971-72	540.9	73.6	614.5	88.02	11.98
1972-73	612.7	163.3	776.0	78.96	21.04
1973-74	690.5	71.1	761.6	90.66	9.34
1974-75	781.6	118.2	899.8	86.86	13.14
1975-76	918.3	105.1	1023.4	89.73	10.27
1976-77	1062.4	148.1	1210.5	87.77	12.23
1977-78	1111.2	160.5	1271.7	87.38	12.62
Total	9727.4	1278.8	11006.2	88.38	11.62

Source: Review of the Cooperative Movement in India, of respective years. Reserve Bank of India.

amount to 88 per cent i.e. Rs. 9727 crores and medium term loans only 12 per cent i.e. Rs. 1279 crores.

In the next section we shall study the working of the primary agricultural credit societies in providing short term and medium term loans.

2.11 The Working of Primary Agricultural Credit Societies

The cooperative credit structure which provides short term and medium term loans is pyramidal or federal in character, the broad base of which is represented by the primary societies at the village level. The management of the primary society is entrusted to two bodies - a General Committee consisting of all members and a Managing Committee of five to nine members including a president and a secretary chosen from among the members of the general committee at its general meeting. The Managing Committee is responsible for the routine and executive business of the society. It admits new members, recovers arrears due from members, exercises supervision over them, raises funds for the society, etc.

The primary credit societies in a specified area, normally extending to the whole district are federated into the central banks. Their main task is to lend to the primary village societies, but they are expected to attract deposits from the general public too. But many central cooperative banks act only as intermediaries between state cooperative bank on the one hand and village primary credit societies on the other.

The state cooperative bank or apex bank finances and controls the working of the central cooperative banks in the state. It serves as a link between the Reserve Bank of India from which it borrows and the cooperative central banks and indirectly with the village primary societies. The state cooperative bank obtains its working funds from its own share capital and reserves, deposits from the general public and loans and advances from the Reserve Bank. The Reserve Bank contributes between 50 and 90 per cent of the working capital of state cooperative banks in the country.

It is the merit of this set-up that though the institutions at different levels are connected with each other by the bond of affiliation, they are in financial and legal terms distinct entities each serving a set of specific purposes. The fact that the structure is federal in character and that the institutions at different levels are independent legal entities, implies that the strength of the chain depends upon the strength of each of the links.

Thus, at the operational level, the primary cooperative society exists to extend credit to the farmer linking the farmer in the remote villages with the money market of the country.

Paid-up share capital, reserves, deposits and borrowing from other higher financial agencies form the main sources of working funds of primary agricultural credit societies. The Table 2.6 gives a picture of the sources of funds of PACs at

Table 2.6 : Funds of Primary Agricultural Credit Societies from 1950-51 to 1977-78

	Working Capital	Percentage to working capital of		
		Paid-up share capital & reserves	Deposits	Borrowings *
1950-51	41.0	42.1	10.5	47.4
1955-56	79.1	36.9	8.1	55.0
1960-61	273.9	27.6	5.3	67.1
1965-66	546.6	27.0	7.0	66.0
1970-71	1153.4	23.0	6.0	71.0
1973-74	1580.3	22.3	5.6	72.1
1974-75	1801.5	21.8	5.6	72.6
1975-76	1989.7	22.0	5.7	72.3
1976-77	2394.3	20.9	5.9	73.2
1977-78	2712.4	20.5	6.1	73.4

* Borrowings from other higher financial agencies.

Source: Review of the Cooperative Movement in India of respective years. Reserve Bank of India.

the all-India level, of various years. From Table 2.6 it is clear that the major portion of the working capital constitutes the borrowings from other higher financial agencies. The highest percentage of these borrowings is from the Reserve Bank. For instance in 1977-78 at the all-India level 98 per cent of the borrowings of state cooperative banks were from

the Reserve Bank of India.¹⁴ Reserve Bank provides loans to state cooperative banks at concessional rates e.g. the Reserve Bank provides short term loans for financing seasonal agricultural operations and medium term loans for agricultural purposes at 3 per cent below bank rate.¹⁵

14 Statistical Statements Relating to the Cooperative Movement in India, Part I: Credit Societies, 1977-78. Reserve Bank of India, pp. 106-107.

15 Report on Currency and Finance, Vol. I, Economic Review 1978-79, p. 160.

CHAPTER III

LENDING POLICIES OF AND QUANTUM OF CREDIT ADVANCED BY PRIMARY AGRICULTURAL CREDIT SOCIETIES

In the previous chapter we have discussed the cooperative credit structure which consists of the State cooperative bank at the apex level, central cooperative bank at the district level and the primary agricultural credit societies covering a group of villages at the base, and the types of credit being supplied to agriculturists by this structure. We have pointed out that the primary agricultural credit societies at the village level extend finance for short term and medium term agricultural purposes. In this chapter we propose to study the credit operations of the societies. In particular we shall deal with aspects like lending policies governing the society loans, quantum of credit supplied in the country as a whole and in the different states of the Indian Union, finance for different purposes and to different categories of cultivators in the country and the like.

3.1 Lending Policies for Short Term Credit

Right at the outset it is worthwhile to note that although short and medium term loans are actually disbursed by the primary cooperative societies, the authority for laying down the policies and procedures such as fixing the scale of

finance, mode of disbursement as well as the actual sanction of the loan is vested with the district central cooperative banks. Obviously, the actual policies followed by primary agricultural credit societies for sanctioning short and medium term loans are less likely to be uniform throughout the country. In view of this difficulty it is difficult to summarize the lending policies adopted by the primary agricultural credit societies in the country as a whole. However fortunately the Agricultural Credit Department brought out in 1972 a comprehensive Manual on Production Oriented System of Lending to Agriculture. The main object of this Manual was to set out broadly the policies and procedures which should govern the sanction of loans for agricultural production purposes. The following are the broad policies set out in the said Manual for short term credit. We shall state the policies for medium term loans in section 3.2.

3.1.1 Scales of Finance

Since it is impracticable for a society which deals with a large number of cultivators to attempt an assessment of the requirements of each, cropwise per acre scales of finance are determined on an average basis. With a view to minimize the chances of misutilization the scale of finance is determined in terms of two components: component 'a' to be disbursed in cash which is to help meet the miscellaneous cash outlays of a cultivator such as labour charges, etc., during the

production period; and component 'b' to be disbursed in kind i.e. improved seeds, fertilizers, pesticides, etc. The size of components 'a' and 'b' is to be determined with reference to both the actual needs for raising particular crops and the repaying capacity generated by such outlay. Component 'a' is fixed at not more than one-third of the average value of production per acre at the traditional level of cultivation whereas component 'b' is fixed with reference to the quantum of fertilizers and inputs which an average cultivator in the area uses but not exceeding that recommended for each crop by the Agricultural Department. The kind component is disbursed by the society itself or through a marketing society or private dealers. Fixation of scale is to be done for each compact area covering one or more talukas depending upon variations in the natural conditions such as rainfall, irrigation facilities, type of soil, level of improved agricultural practices in vogue, etc., by a technical group consisting of knowledgeable persons drawn from the Agriculture and Cooperation Departments, the central cooperative bank, selected agricultural credit societies and a few successful farmers in the area. The scale of finance thus fixed should not only meet the production requirements of farmers but has also to be within the repaying capacity of the cultivator, the cultivators repaying capacity being taken equal to half the value of expected output.

3.1.2 Eligibility of a Borrower

The eligibility of an individual for a loan depends upon

the size of holding he cultivates and the kind of crops he grows and not so much on whether he cultivates that land as owner cultivator or tenant cultivator. The quantum of credit to a member depends upon his acreage and the scale of finance per crop.

3.1.3 Maximum Borrowing Power

Though the crop loan system envisages provision of credit to members to meet their full production requirements in cash and kind it is necessary to see that their liability does not exceed a particular limit called the 'individual maximum borrowing power'. As a general rule it is suggested by the Reserve Bank of India that this individual maximum borrowing power may be raised to Rs. 5,000 in all cases where it is lower than Rs. 5,000 and thereafter it may be raised gradually having regard to the availability of resources. The individual may be allowed to borrow up to the limit sanctioned to him provided he (1) is not a defaulter, (2) holds shares in the society, (3) has furnished adequate security to the society, and (4) has executed the necessary documents like agreement to sell the produce through an approved marketing society.

3.1.4 Security for Short Term Loans

A crop loan is essentially a need based and production oriented loan and not security oriented loan. Therefore, under the crop loan system crop produce instead of land is the

security for obtaining loan. However, in view of the fact that the credit agency has little or no control over the sale of crops partly because of the ineffective linking of credit with marketing and partly because of inadequate and insufficient supervision, the Reserve Bank of India has suggested the creation of a legal charge (claim) by a mere declaration in favour of the cooperative credit society on the identifiable right or interest of a cultivator in the land cultivated by him as an owner or a tenant. It further suggested that other forms of security such as gold and jewels may also be accepted in cases where cultivators are unable to create a charge on land for any reason. Thus those who have no recorded rights in the lands cultivated by them, such as oral lessees and share croppers, can be given finance if they produce either surety or sureties of one or two members who are owners of land or are registered tenants or provide collateral tangible security in the form of gold or silver ornaments sufficient to cover the loan. Where even solvent sureties are not forthcoming as guarantees, or where collateral security as indicated above cannot be provided, loan up to the limit of Rs. 500 per individual may be advanced if any member who may or may not be an owner of land or a registered tenant stands as surety and the guarantor is acceptable to the Managing Committee of the society.

3.1.5 Recovery of Loan

The repayment of loan is expected out of the sale

proceeds of the crops raised. In this context an essential feature of the crop loan system is that every borrower-member should sell his produce through the cooperative society so that the recovery of credit is fully ensured.

3.1.6 Interest Rate on Short Term Loan

The interest rate on short term loan advanced by primary agricultural credit societies is not uniform throughout the country. It varies from State to State. In 1977-78 it ranged from 10-1/2 per cent to 15 per cent per annum.¹

3.2 Lending Policies for Medium Term Credit

Medium term loans are given by primary agricultural credit societies for periodical replacement of existing production assets with a view to maintaining the income-earning capacity of the farm and also for new investments with a view to increasing the income earning capacity.

3.2.1 Size of Credit

The outer limit for the quantum of term credit is set by the probable outlay on the proposed investment. The central cooperative banks fix certain general acceptable norms of outlays for various types of investments that may be considered important in the area, with the help of the technical group.

¹ Statistical Statements Relating to the Cooperative Movement in India, 1977-78, Part I: Credit Societies. Reserve Bank of India, p. 206.

3.2.2 Eligibility of a Borrower

The eligibility of a borrower is determined on the basis of the actual need for credit for meeting the proposed outlay involved in a particular development project and/or of the repaying capacity of the borrower and not so much on the value of the security offered.

3.2.3 Maximum Borrowing Power

In fixing the individual's maximum borrowing power account should be taken of the fact that certain purposes require a minimum outlay and therefore the ceiling on individual loans should not be lower than this bare minimum. It should be fixed realistically, taking into account the outlay on productive investment.

3.2.4 Period of the Loan

Period of the loan has to be determined with reference to the repaying capacity of the concerned cultivator. The repaying capacity is determined by taking into account the gross output turned out by a cultivator and on the assumption that the total liability on account of repayment of loan both short term and medium term does not exceed half the value of his annual output. Normally the period should not exceed the life of the asset created.

3.2.5 Security for Medium Term Loans

The quantum of credit which is determined with reference

to the outlay and the repaying capacity is given on security which may be personal or tangible. The security required for medium term loans is as under:

(i) Loans for agricultural purposes upto Rs.1,000 on the basis of personal surety/sureties.

(ii) Loans for Rs.1,001 and upto Rs. 1,500 on statutory charge on land.

(iii) Loans over Rs. 1,500 on mortgage of land.

(iv) Loans more than Rs.1,500 but less than Rs. 3,500 required for the purchase of an electric pumpset or an oil engine or for digging of wells are sanctioned without insisting on the mortgage of land or charge on land, provided that: (a) the borrower meets at least 15 per cent of the total cost of the asset, and (b) the borrower creates a first charge on the asset in favour of the bank.

(v) Loans upto Rs. 3,500 for purchase of tractors, land harvestors, etc., are granted without insisting on mortgage of land provided that (a) the balance of outlay above Rs.3,500 is met by the borrower, (b) the machinery is hypothecated in favour of the society, (c) the insurance policy in the joint name of the borrower and the society is assigned in favour of the bank, and (d) the borrower makes a down payment of 15 per cent of the value of the asset.

(vi) In the case of small and marginal farmers undertaking dairy and poultry activities in Small Farmers Development Agency/Marginal Farmers and Agricultural Labourers areas

as well as in the case of economically weak farmers in other districts, loans upto Rs.2,000 are given to a cultivator for dairy or poultry activities without insisting on the security of mortgage or charge on land, provided there are adequate arrangements for collection of milk/eggs, sale of these products and recovery of dues out of the sale proceeds.

3.2.6 Interest Rate on Medium Term Loans

Like the short term loans, the interest rate on medium term loans advanced by primary agricultural credit societies is not uniform throughout the country. It varies from State to State. In 1977-78 it ranged from 10-1/2 per cent to 14-1/2 per cent per annum.²

3.3 Short Term Loans During 1957-58 to 1977-78 - By Purpose

The purposewise distribution of short term loans from 1957-58 to 1977-78 is indicated in Table 3.1. It can be observed from the Table that loans for seasonal agricultural operations, i.e. on current farm expenditure related to seeds, fertilizers, manures, labour charges, fodder, pesticides, rent, irrigation charges, etc., form the bulk of the loans issued by primary agricultural credit societies. The same trend can be noticed in all the years. Short term loans issued for all the other purposes e.g. purchase of agricultural implements, marketing of crops, etc., form only small proportions of the total loans issued.

2 Ibid., p. 206.

Table 3.1 : Short Term Loans Issued by Primary Agricultural Credit Societies - By Purpose from 1957-58 to 1977-78 - All India

Year	(Rs. in crores)							
	Seasonal agricultural operations	Purchase of agricultural implements	Marketing of crops	Processing of agricultural produce	Industrial purposes	Consumption purposes	Other purposes	Total
1	2	3	4	5	6	7	8	9
1957-58	63.0 (76.27)	3.5 (4.23)	2.9 (3.5)	-	0.5 (0.60)	3.6 (4.35)	9.2 (11.13)	82.6 (100)
1958-59	90.8 (81.94)	3.5 (3.16)	4.0 (3.61)	-	0.5 (0.45)	4.1 (3.70)	7.9 (7.13)	110.8 (100)
1959-60	128.2 (83.24)	5.0 (3.25)	4.4 (2.86)	-	0.5 (0.32)	5.0 (3.25)	10.9 (7.07)	154.0 (100)
1960-61	150.7 (82.44)	7.7 (4.21)	5.0 (2.73)	-	0.4 (0.21)	4.6 (2.51)	14.4 (7.87)	182.8 (100)
1961-62	175.4 (85.39)	6.0 (2.92)	5.3 (2.58)	-	0.6 (0.29)	3.9 (1.89)	14.2 (6.91)	205.4 (100)
1962-63	201.8 (86.90)	5.9 (2.54)	6.3 (2.71)	-	0.7 (0.30)	4.0 (1.72)	13.5 (5.81)	232.2 (100)
1963-64	229.7 (85.70)	7.0 (2.61)	6.2 (2.31)	-	1.3 (0.48)	6.1 (2.28)	17.8 (6.64)	268.0 (100)
1964-65	252.0 (87.68)	6.7 (2.33)	7.5 (2.60)	-	1.3 (0.45)	4.2 (1.46)	15.6 (5.43)	287.4 (100)
1965-66	268.6 (88.12)	4.6 (1.51)	9.1 (2.99)	0.5 (0.16)	0.6 (0.20)	2.8 (0.91)	18.8 (6.17)	304.8 (100)
1966-67	287.5 (88.43)	7.2 (2.21)	8.9 (2.71)	0.6 (0.18)	1.0 (0.30)	3.5 (1.08)	16.4 (5.04)	325.1 (100)
1967-68	351.8 (89.47)	8.5 (2.16)	12.8 (3.26)	0.8 (0.20)	0.6 (0.15)	3.2 (0.81)	15.4 (3.92)	393.2 (100)
1968-69	407.7 (89.33)	8.5 (1.86)	15.0 (3.29)	1.1 (0.24)	0.5 (0.11)	4.1 (0.90)	19.5 (4.27)	456.4 (100)
1969-70	442.4 (90.69)	3.9 (0.80)	15.5 (3.18)	1.3 (0.27)	1.6 (0.33)	8.9 (1.82)	14.2 (2.91)	487.8 (100)
1970-71	469.7 (90.45)	5.4 (1.03)	17.3 (3.33)	6.8 (1.31)	0.3 (0.06)	5.2 (1.00)	14.6 (2.81)	519.3 (100)
1971-72	485.8 (89.8)	6.6 (1.22)	19.3 (3.57)	4.7 (0.87)	0.2 (0.03)	5.2 (0.96)	19.1 (3.53)	540.9 (100)
1972-73	554.8 (90.55)	5.9 (0.96)	19.3 (3.15)	3.5 (0.57)	0.3 (0.05)	6.1 (0.99)	22.8 (3.72)	612.7 (100)
1973-74	643.5 (93.19)	2.5 (0.36)	15.1 (2.19)	1.9 (0.28)	0.4 (0.06)	5.7 (0.82)	21.4 (3.09)	690.5 (100)
1974-75	734.6 (93.98)	1.9 (0.24)	11.8 (1.51)	1.7 (0.21)	0.8 (0.10)	3.3 (0.42)	27.5 (3.52)	781.6 (100)
1975-76	867.5 (94.46)	5.6 (0.61)	8.0 (0.87)	0.3 (0.03)	0.3 (0.03)	3.4 (0.37)	33.2 (3.62)	918.3 (100)
1976-77	996.1 (93.76)	7.9 (0.74)	5.8 (0.55)	0.1 (0.01)	0.7 (0.06)	11.0 (1.03)	40.9 (3.85)	1062.4 (100)
1977-78	1032.5 (92.91)	6.6 (0.59)	9.2 (0.83)	0.9 (0.08)	0.5 (0.04)	13.5 (1.21)	48.0 (4.32)	1111.2 (100)
All India	8834	120.4	208.7	24.1	13.6	111.3	415.3	9727.4
Percentage	90.81	1.24	2.15	0.25	0.14	1.14	4.27	100

Source: Review of the Cooperative Movement in India of respective years. Reserve Bank of India.

Taking the cumulative figures of issue of short term loans from 1957-58 to 1977-78 it can be seen that out of Rs. 9727.4 crores, an amount as much as Rs. 8834 crores (91 per cent) was issued for seasonal agricultural operations. In fact its importance has increased over the period under consideration. This is clear from the fact that in 1977-78 as high as 93 per cent of the total loan was issued for seasonal agricultural operations as against 76 per cent in 1957-58.

On the contrary, other purposes such as purchase of agricultural implements, marketing of crops, processing of farm produce, consumption, etc., have decreased in importance. This clearly shows that while advancing short term loans the primary agricultural credit societies have put more emphasis on credit for seasonal operations than for other agricultural requirements. As a corollary to this fact it is found that in many regions credit availability has hastened the process of adoption of high yielding varieties of seeds and other improved farm practices.³

3.4 Disbursement in Kind

Under the crop loan system with a view to minimizing chances of misutilization it is envisaged that whereas

³ N.K. Thingalaya, "Rapporteur's Report on Rural Credit: Structure and Flows," Indian Journal of Agricultural Economics, Vol. XXXIII, No. 4, October-December 1978.

component 'a' of the scale of finance is to be disbursed in cash, which would help meet the miscellaneous cash outlays of a cultivator during the production period, component 'b' which represents the value of various inputs such as fertilizers, insecticides, etc., is to be given only in kind to ensure its proper utilization.

The relevant data relating to the disbursement of kind component in different States from 1973-74 to 1977-78 are available. These data presented in Table 3.2 show that out of Rs. 4274.18 crores of loans issued for seasonal agricultural operations from 1973-74 to 1977-78 only Rs. 1362.5 crores i.e. about 32 per cent is in component 'b' and the rest 68 per cent is in cash component.

Some of the reasons responsible for the low off-take of kind component of loan were brought to light by the All India Rural Credit Review Committee.⁴ Ignorance of farmers about fertilizers and their inability to get the inputs in adequate quantities or at the right time were responsible at least in some areas for the low off-take.⁵ Besides, cultivators were not interested in the type or quality of the inputs stocked with the societies on account of their preference for other types, e.g. fertilizer mixtures, instead of straight fertilizers.

⁴ Report of the All India Rural Credit Review Committee, Reserve Bank of India, Bombay, 1969, p. 475.

⁵ Ibid., p. 481.

Table 3.2 : Amount and Proportion of Loans in Kind of Seasonal Agricultural Operations from 1973-74 to 1977-78

(Rs. in crores)																		
At the aggregate level from 1973-74 to 1977-78																		
1973-74			1974-75			1975-76			1976-77			1977-78			At the aggregate level from 1973-74 to 1977-78			
S.A.O.	Of which in kind	Percentage	S.A.O.	Of which in kind	Percentage	S.A.O.	Of which in kind	Percentage	S.A.O.	Of which in kind	Percentage	S.A.O.	Of which in kind	Percentage	S.A.O.	Of which in kind	Percentage	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Andhra Pradesh	29.17	2.62	8.98	29.17	2.62	8.98	66.85	9.21	13.78	78.01	21.91	28.08	67.48	23.17	34.34	270.67	59.53	21.99
Assam	1.14	-	-	1.14	-	-	-	-	-	0.88	0.37	67.27	0.76	0.38	50.00	3.93	0.75	19.08
Bihar	11.59	-	-	11.91	-	-	14.83	2.73	18.41	14.51	-	-	14.51	-	-	67.35	2.73	4.05
Gujarat	92.85	10.27	11.06	103.15	10.01	9.70	99.66	13.45	13.50	95.48	47.13	49.36	97.20	40.95	42.13	488.35	121.80	24.94
Haryana	28.12	13.83	49.18	34.81	16.46	47.28	41.68	22.17	53.19	62.51	27.70	44.31	67.49	30.50	45.19	234.61	110.66	47.16
Himachal Pradesh	1.91	-	-	2.18	0.10	4.59	1.47	-	-	1.43	0.16	11.19	1.95	0.34	17.44	8.94	0.60	6.71
Jammu and Kashmir	0.93	-	-	-	-	-	-	-	-	1.99	0.48	24.12	2.22	1.39	62.61	5.14	1.87	36.38
Karnataka	41.66	2.68	6.43	49.22	11.40	23.16	58.42	14.78	25.30	59.97	21.59	36.00	57.82	22.44	38.81	267.09	72.89	27.29
Kerala	28.02	-	-	29.13	3.62	12.43	32.99	3.06	9.28	34.10	5.18	15.19	42.55	7.29	17.13	166.80	19.16	11.48
Madhya Pradesh	46.97	6.77	14.41	54.33	7.20	13.25	63.96	23.86	37.30	60.53	22.36	36.94	59.21	23.68	39.99	285.00	83.87	29.43
Maharashtra	125.66	-	-	131.24	58.65	44.69	137.76	52.68	38.24	159.22	83.43	52.40	145.89	72.73	49.85	699.78	267.49	38.22
Manipur	0.27	-	-	0.27	-	-	0.42	0.42	100.00	0.42	0.42	100.00	0.36	0.34	94.44	1.74	1.18	67.82
Meghalaya	-	-	-	-	-	-	-	-	-	0.68	-	-	0.68	-	-	1.36	-	-
Nagaland	0.01	-	-	-	-	-	-	-	-	0.16	-	-	0.32	-	-	0.49	-	-
Orissa	11.98	-	-	13.53	0.42	3.10	16.53	0.93	56.26	21.63	17.96	83.03	23.92	6.14	25.67	87.60	25.45	29.05
Punjab	51.00	3.01	5.90	69.88	24.52	35.08	63.92	37.79	59.12	73.12	60.99	83.41	83.98	64.83	77.20	341.95	218.16	63.80
Rajasthan	23.66	0.68	2.87	32.40	0.40	1.23	58.46	4.96	8.48	56.40	9.33	16.54	54.22	16.78	30.95	225.15	32.15	14.28
Tamil Nadu	71.31	-	-	83.66	24.47	29.25	100.19	37.43	37.36	119.33	44.54	37.33	120.68	48.88	40.50	495.18	155.33	31.37
Tripura	0.29	-	-	0.20	-	-	-	-	-	0.43	-	-	0.30	-	-	1.69	-	-
Uttar Pradesh	61.57	3.63	5.89	66.34	22.20	33.46	87.53	5.14	5.87	120.84	53.17	44.00	139.87	81.58	58.33	476.15	165.72	34.80
West Bengal	13.95	0.77	5.52	20.46	2.13	10.41	20.46	2.13	10.41	32.56	7.61	23.37	49.32	10.18	20.64	136.75	22.82	16.69
Union Territories	1.48	-	-	1.50	0.03	2.00	1.84	0.06	3.26	1.87	0.17	9.09	1.77	0.10	5.65	8.46	0.36	4.26
All India	643.51	71.24	11.07	734.58	184.24	25.08	867.46	230.80	26.61	996.09	424.52	42.62	1032.55	451.71	43.75	4274.18	1362.51	31.88

Note : S.A.O. indicates Seasonal Agricultural Operations.

Source: Statistical Statements Relating to the Cooperative Movement in India (of respective years), Part I: Credit Societies. Reserve Bank of India.

The Manual on Production Oriented System of Lending for Agriculture points out that insistence on disbursement of the loan in kind presupposes the existence of an infrastructure for the distribution of agricultural requisites which can provide supplies against the credit sanctioned by the cooperative credit society.⁶ There should not be any difficulty if a cooperative credit society itself stocks different varieties of fertilizers or is organically linked for that purpose with the cooperative marketing society or a private dealer who is entrusted with the responsibility to handle the business in the area. The arrangement envisages a certain amount of coordination among those concerned with the supply and distribution of fertilizers and other inputs.

From the overall percentage of loans issued in kind from 1973-74 to 1977-78 we can notice that in Manipur about 68 per cent was issued in kind. It was followed by Punjab (64 per cent), Maharashtra (38 per cent), Jammu and Kashmir (36 per cent), Uttar Pradesh (35 per cent) and Tamil Nadu (31 per cent).

In Bihar, Union Territories, Himachal Pradesh and Kerala the percentage of the distribution of kind component was very low. It varies from 4 per cent to 11 per cent.

⁶ Manual on Production Oriented System of Lending for Agriculture. Reserve Bank of India, Agricultural Credit Department, Bombay, 1972, p. 8.

However it is worthwhile to note the yearly changes in kind component over the five periods viz. 1973-74 to 1977-78. It is obvious from the Table 3.2 that although the overall percentage disbursement in kind is found to be only 32 per cent there has been a significant increase in the kind component. In 1973-74 the disbursement in kind was only 11 per cent of the total whereas in 1977-78 it amounted to as much as 44 per cent. From these figures the greater emphasis of societies on kind loan is evident.

In 1977-78, the highest percentage of kind component was distributed in Manipur (94) followed by Punjab (77), Jammu and Kashmir (63), Uttar Pradesh (58) and Assam (50). But it was very low in Union Territories (6), Kerala (17) and Himachal Pradesh (17).

3.5 Medium Term Loans during 1957-58 to 1977-78 - By Purpose

The purposes of the medium term loans can be divided in a broad manner into two categories viz. (1) those connected with the renewal and maintenance of the existing productive capacity of land or equipments like repairs to fences, wells, etc., and (2) those which may be used for enhancing the productive capacity of the farm like construction of wells, reclamation of land, purchase of agricultural implements, etc.

It was in 1954 that the Reserve Bank began to offer medium term loans to state cooperative banks for agricultural

purposes following an amendment of Reserve Bank of India Act in response to a widespread demand for this measure.

When the Reserve Bank initiated its scheme for providing medium term loans to State cooperative banks, eligible purposes were specifically indicated to the State cooperative banks. These included bunding and other land improvements, construction and development and maintenance of irrigation sources, purchase of livestock, implements, farm machinery and equipments, construction of farm houses and cattle sheds.⁷ In 1956 RBI Act was amended so as to enable the bank to sanction medium term loans for agricultural purposes and other purposes connected with agricultural activities as the Central Board may from time to time by regulation or otherwise determine.

Later, purchase of shares in sugar factories and purchase of milch cattle and recently purchase of shares in cooperative processing societies viz. cotton ginning, pressing units, groundnut oil mills, rice mills, poultry farming activities and more recently purchase of bullock-carts, etc., are considered as eligible purposes for which medium term loans could be made available.

The Table 3.3 gives us a purposewise classification of medium term loans issued by primary agricultural credit societies from 1957-58 to 1977-78.

⁷ Report of the All India Rural Credit Review Committee, 1969, op.cit., p. 846.

Table 3.3 : Medium Term Loans Issued by Primary Agricultural Credit Societies - By Purpose, from 1957-58 to 1977-78 - All India

(Rs. in crores)								
Year	Sinking of/ repairs to wells	Purchase of agricultural machinery, pumpsets, oil engines, etc.	Purchase of cattle	Land improvement	Conversion/ Rephase-ment, re-schedule-ment of loans	Other agricultural purposes	Other purposes	Total
1	2	3	4	5	6	7	8	9
1957-58	0.7 (5.18)	0.6 (4.44)	6.7 (49.66)	2.4 (17.77)	-	-	3.1 (22.96)	13.5 (100)
1958-59	0.9 (6.25)	1.1 (7.64)	6.9 (47.91)	2.8 (48.22)	-	-	2.7 (18.75)	14.4 (100)
1959-60	0.7 (4.64)	1.1 (7.28)	6.6 (43.71)	3.3 (21.85)	-	-	3.4 (22.52)	15.1 (100)
1960-61	1.8 (9.0)	2.4 (12.00)	7.2 (36.00)	3.9 (19.5)	-	-	4.6 (23.00)	20.0 (100)
1961-62	1.4 (6.11)	1.9 (8.30)	8.5 (37.12)	4.5 (19.65)	-	-	6.6 (28.82)	22.9 (100)
1962-63	2.0 (7.94)	1.8 (7.14)	8.3 (32.94)	6.0 (23.81)	-	-	7.3 (29.00)	25.2 (100)
1963-64	3.9 (13.40)	2.5 (8.59)	10.4 (35.74)	7.2 (24.74)	-	-	5.2 (17.87)	29.1 (100)
1964-65	3.6 (12.5)	2.5 (8.68)	10.6 (36.81)	7.0 (24.31)	-	-	5.1 (17.71)	28.8 (100)
1965-66	4.4 (11.96)	3.2 (8.70)	10.7 (29.08)	7.4 (20.11)	-	-	11.0 (29.89)	36.8 (100)
1966-67	3.3 (8.31)	3.1 (7.81)	12.8 (32.24)	6.0 (15.11)	-	7.0 (17.63)	7.5 (18.89)	39.7 (100)
1967-68	3.3 (9.43)	3.9 (11.14)	11.7 (33.43)	5.0 (14.29)	-	7.6 (21.71)	3.5 (10.00)	35.0 (100)
1968-69	4.8 (10.10)	7.2 (15.16)	14.4 (30.32)	5.3 (11.16)	-	10.8 (22.74)	5.0 (10.53)	47.5 (100)
1969-70	7.5 (14.34)	9.5 (18.16)	13.1 (25.05)	5.0 (9.56)	-	10.2 (19.50)	7.0 (13.38)	52.3 (100)
1970-71	8.0 (13.68)	9.1 (15.55)	8.4 (14.36)	4.9 (8.38)	-	20.6 (35.21)	7.5 (12.82)	58.5 (100)
1971-72	9.1 (12.36)	11.1 (15.08)	12.5 (16.98)	4.3 (5.84)	-	21.8 (29.62)	14.8 (20.11)	73.6 (100)
1972-73	11.4 (6.98)	13.5 (8.27)	10.8 (6.61)	5.1 (3.12)	-	71.7 (43.91)	50.8 (31.11)	163.3 (100)
1973-74	6.9 (9.72)	10.4 (14.65)	10.0 (14.08)	5.7 (8.03)	-	22.4 (31.55)	15.7 (22.11)	71.0 (100)
1974-75	6.6 (5.58)	9.1 (7.70)	11.4 (9.64)	3.2 (2.71)	62.6 (52.96)	15.5 (13.11)	9.8 (8.29)	118.2 (100)
1975-76	6.2 (5.90)	8.1 (7.71)	12.3 (11.70)	4.3 (4.09)	44.8 (42.63)	14.2 (13.51)	15.2 (14.46)	105.1 (100)
1976-77	12.1 (8.17)	14.0 (9.45)	12.6 (8.51)	4.8 (3.24)	55.3 (37.34)	37.1 (25.05)	12.2 (8.24)	148.1 (100)
1977-78	9.7 (6.04)	13.1 (8.16)	14.0 (8.72)	5.3 (3.30)	62.3 (38.8)	44.0 (27.4)	12.0 (7.48)	160.5 (100)
Total	108.3 (8.47)	129.2 (10.10)	219.9 (17.20)	103.3 (8.08)	225.0 (-)	282.9 (-)	210.0 (-)	1278.6 (100.00)

Note: We cannot have aggregate percentage for Cols. 6 and 7, since data for all the years are not available. Besides the amount of other agricultural purposes upto 1966-67 has emerged with other purposes; therefore we cannot have aggregate percentage for Col.8 too.

Source: Review of the Cooperative Movement in India of respective years. Reserve Bank of India.

The Reserve Bank of India grants medium term loans out of National Agricultural Credit (Stabilization) Fund for conversion of short term into medium term loans to farmers in circumstances of distress, to those farmers whose failure of crops in an area is not less than 50 per cent of the normal crop expected. Actually these funds were established in 1956, according to the recommendations of All India Rural Credit Survey Committee, but from 1964-65 onwards the Reserve Bank started issuing loans for conversion purposes. But with reference to Table 3.3 we note that, the total amount issued for conversion, rephasing and rescheduling is merged with other agricultural purposes upto 1974-75, whereas upto 1965-66 the loans issued for 'other agricultural purposes' was merged with 'other purposes'. From the data available for the purposes like sinking of/repairs to wells, purchase of agricultural machinery, purchase of cattle and land improvement, it can be seen that the highest percentage of loans i.e. about 17 per cent was issued for purchase of cattle, followed by purchase of agricultural machinery, pumpsets, oil engines, etc. (10 per cent). However, a reduction in the percentage of these purposes too can be seen with the introduction of the issue of loans for conversion and rephasing and rescheduling of loans.

From a study made by the Reserve Bank of India, it was found that in nine out of ten selected villages, short term purposes predominated over other purposes in the total

borrowings of the cultivators.⁸ That Study points out many reasons for this. The credit needs of the farmers were found to be related to seasonal agricultural operations and family expenditure rather than capital expenditure. In some areas, all developmental possibilities have already been exploited under existing technological conditions. Lack of extension activities to promote improved methods in farming, financing of repairs and maintenance of expenditure out of their own funds, inability of the lending policies and operations to meet the local needs, etc., too contributed for the low demand for medium term loans.

3.6 Diversion in the Purposes and Uses of Loans

The importance of the purposes which is mentioned in the loan application is relevant only if the loan is utilized for the purposes stipulated in the application. The Reserve Bank of India had carried out some pilot investigations on utilization of loans, the results of which indicated that diversion or misutilization of cooperative loans was of large order. To have a larger or more extensive enquiry into the problem, a study on the utilization of cooperative loans was undertaken by the Programmes Evaluation Organization of the Planning Commission during 1965. It revealed that diversion is an extensive practice among borrowers. Taking both short

⁸ Studies in Agricultural Credit. Reserve Bank of India, Bombay, 1970, p. 105.

term and medium term loans together nearly 28 per cent of the cooperative credit was diverted to purposes for which it was not intended and listed in the application, and nearly 41 per cent of the borrowers diverted their loans.⁹ It was found that the practice of diversion had a general tendency to decline among the borrowers in the higher size of holding groups.

The Committee has divided all the States into three categories. Category A which comprises of the States which were relatively more advanced in cooperation viz. Andhra Pradesh, Gujarat, Tamil Nadu and Maharashtra; Category C including States which were weak in respect of cooperation viz. Assam, Bihar, Kerala, Orissa, West Bengal, Himachal Pradesh, and Jammu and Kashmir; the rest of the States being put in Category B.

3.6.1 Diversion of Short Term Loans

It was found that 23 per cent of the amount borrowed for short term purposes was diverted to purposes other than those for which it was borrowed. It was noticed that the practice of diversion in short term loans was considerably less in category A than those in the other two categories, B and C. Further diversion was significantly high in the

⁹ Study of Utilization of Cooperative Loans. P.F.O. Publication No. 49. Programme Evaluation Organization, Planning Commission, Government of India, 1965, p. 184.

States of Rajasthan, Orissa, Kerala and West Bengal.¹⁰

Nearly 25 per cent of the amount borrowed for current agricultural purposes, 41 per cent of the amount borrowed for purchase of livestock, [short term credit is available for livestock in a few States] and 10 per cent from consumption credit were diverted to purposes other than those for which they were taken.

Expenditure on consumption and other household needs claimed the highest proportion (30 per cent) of the diverted amount. The other purpose to which an equally high proportion (25 per cent) was diverted, was for repayment of old debts and liabilities.¹¹

The unavoidable and urgent needs of consumption and other household contingencies accounted for the majority of the reasons for diversion. Rural indebtedness and inadequacy of long term loans for debt repayment, too, is found to be another reason for this diversion.

3.6.2 Diversion of Medium Term Loans

About 35 per cent of the amount borrowed for medium term purposes was diverted to purposes other than those for which it was borrowed. As regards medium term loans, there was not much divergence in magnitude of diversion among the

10 Ibid., p. 177.

11 Ibid., p. 182.

three categories of States, A, B and C. Further the diversion of medium term credit was relatively high in Andhra Pradesh, Tamil Nadu, Punjab, Rajasthan, Uttar Pradesh, Assam, Orissa and Kerala.¹²

Nearly 40 per cent of the amount borrowed for medium term agricultural purposes and 31 per cent of the borrowings for the purchase of livestock were diverted to purposes other than those of borrowing. Of the diverted amount the highest proportion (30 per cent) was used for consumption or other household needs and nearly 27 per cent used to pay off the old debts or liabilities. Thus a good proportion of the medium term credit which is essentially available for productive purposes and for longer periods was diverted to apparently non-productive purposes.¹³

Because of the weak and vulnerable financial position of the borrowers the immediate and urgent needs take priority over the purposes for which loans were applied for or were admissible. As a result a significant proportion of the loan granted goes to meet non-productive needs like consumption and other household needs and even to pay off old debts.

3.7 Short Term and Medium Term Loans Issued - Statewise Analysis

Table 3.4 gives the quantum of the short term and

12 Ibid., p. 182.

13 Ibid., p. 183.

Table 3.4 : Amount and Percentage of Short Term and Medium Term Loans Issued in 1957-58, 1977-78, and from 1957-58 to 1977-78 - Statewise Analysis

(Amounts in crores of rupees)

	Short term loans issued in 1957-58	Percentage of short term loans issued in 1957-58	Short term loans issued in 1977-78	Percentage of short term loans issued in 1977-78	Short term loans issued from 1957-58 to 1977-78	Percentage of short term loans issued from 1957-58 to 1977-78	Medium term loans issued in 1957-58	Percentage of medium term loans issued in 1957-58	Medium term loans issued in 1977-78	Percentage of medium term loans issued in 1977-78	Medium term loans issued from 1957-58 to 1977-78	Percentage of medium term loans issued from 1957-58 to 1977-78	Total Short & Medium term loans issued from 1957-58 to 1977-78	Percentage of total short & medium term loans issued from 1957-58 to 1977-78
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Andhra Pradesh	10.44	1.64	68.93	6.20	615.30	6.33	1.08	8.02	25.55	15.92	77.68	6.08	692.98	6.29
Assam	1.21	1.47	0.87	0.08	22.30	0.23	0.10	0.74	0.57	0.36	1.73	0.14	24.03	0.22
Bihar	0.53	0.64	17.85	1.61	183.30	1.88	0.41	3.05	1.47	0.92	35.47	2.77	218.77	1.99
Gujarat	N.A.	N.A.	106.27	9.56	1249.90	12.84	N.A.	N.A.	32.49	20.25	225.49	17.64	1475.39	13.41
Haryana	N.A.	N.A.	69.55	6.26	338.10	3.48	N.A.	N.A.	7.45	4.64	26.18	2.05	364.28	3.31
Himachal Pradesh	0.06	0.07	2.59	0.23	27.60	0.28	0.05	0.37	3.50	2.18	28.72	2.25	56.32	0.51
Jammu and Kashmir	0.36	0.44	2.22	0.20	30.60	0.31	-	-	0.63	0.39	2.16	0.17	32.76	0.30
Karnataka	6.13	7.42	67.54	6.08	636.70	6.53	0.84	6.24	9.73	6.06	95.32	7.46	732.02	6.65
Kerala	1.10	1.33	65.09	5.86	423.40	4.35	0.69	5.13	19.44	12.11	102.64	8.03	526.04	4.78
Madhya Pradesh	5.03	6.09	59.89	5.39	703.20	7.22	3.62	26.89	5.75	3.58	111.98	8.76	815.18	7.41
Maharashtra	28.78	34.85	146.61	13.19	1716.9	17.65	1.56	11.59	15.33	9.68	243.19	19.02	1960.09	17.81
Manipur	-	-	0.36	0.03	4.00	0.04	-	-	-	-	-	-	4.00	0.04
Meghalaya	-	-	0.68	0.06	1.40	0.01	-	-	-	-	-	-	1.40	0.01
Nagaland	-	-	0.32	0.03	0.57	-	-	-	0.01	-	0.20	-	0.77	-
Orissa	0.82	0.99	24.50	2.20	182.3	1.87	0.97	7.21	5.95	3.71	43.88	3.43	226.18	2.06
Punjab	6.18	7.48	86.27	7.76	810.90	8.34	1.72	12.78	0.89	0.55	54.77	4.28	865.67	7.87
Rajasthan	1.86	2.25	54.41	4.89	345.10	3.56	0.26	1.93	6.96	4.34	26.25	2.05	371.35	3.37
Tamil Nadu	7.25	8.78	142.91	12.86	1045.8	10.75	1.86	13.82	6.44	4.01	95.80	7.49	1141.60	10.37
Tripura	0.04	0.05	0.30	0.03	4.56	0.05	-	-	0.06	0.04	0.11	-	4.67	0.04
Uttar Pradesh	10.56	12.79	142.72	14.84	1130.37	11.62	0.16	1.19	15.25	9.50	95.25	7.45	1225.62	11.14
West Bengal	1.96	2.37	49.34	4.40	228.60	2.35	0.16	1.19	2.27	1.41	9.38	0.73	237.98	2.16
Union Territories	0.28	0.34	1.99	0.18	26.50	0.27	-	-	0.51	0.32	2.40	0.19	28.89	0.26
All India	82.59	100.00	1111.22	100.00	9727.4	100.00	13.46	100.00	160.47	100.00	1278.6	100.00	11006.00	100.00

Note: N.A. = Not Available.

Source: Statistical Statements Relating to the Cooperative Movement in India (of respective years), Part I: Credit Societies. Reserve Bank of India.

medium term loans issued in different States from 1957-58 to 1977-78. There has been a significant growth in the supply of short and medium term credit to the agricultural sector during the period under review. The short term credit has grown from about Rs. 83 crores in 1957-58 to Rs.1111 crores in 1977-78. The total short term loans issued in this period had been Rs. 9727.4 crores i.e. 88 per cent of the total loans issued by the primary agricultural credit societies. Medium term loans on the other hand have been disproportionately small in aggregate volume and a little slow in growth as compared to short term credit. The medium term loans issued by primary agricultural credit societies increased from Rs. 13.46 crores in 1957-58 to Rs. 160.47 crores in 1977-78. The total medium term loans issued by primary agricultural credit societies within the period under review is only 12 per cent of the total loans issued i.e. Rs.1278.6 crores out of Rs. 11006 crores.

Even though the quantum of the short term loans issued show a growing trend between 1957-58 and 1977-78 it can be seen that the trend is uneven among the various States. The percentage of credit issued is the highest in Maharashtra i.e. 18 per cent, followed by Gujarat (13 per cent), Uttar Pradesh (12 per cent) and Tamil Nadu (11 per cent). In some other States like Nagaland, Meghalaya, Manipur, Tripura, Assam, Himachal Pradesh Jammu and Kashmir and the Union Territories the percentage of the short term loans issued is most insignificant.

In the case of medium term loans also the highest proportion of the total loans issued has gone to Maharashtra (19 per cent) followed by Gujarat (18 per cent), Madhya Pradesh (9 per cent), Tamil Nadu and Kerala (8 per cent each). The extent of medium term loans by the cooperative societies in almost all other States is very limited. This is obvious from the Statewise percentage figures given in Table 3.4.

However if the 1977-78 data relating to both short term and medium term loans issued are compared with that of 1957-58, it will be seen that the total quantum of the short term as well as medium term credit has increased in respect of all the States in 1977-78 as compared to that in 1957-58 excepting Assam in the case of the short term loans and Punjab in the case of the medium term loans. It may also be noted that Maharashtra stands first in the total short term loans issued in 1957-58 as well as in 1977-78. However, its relative share has fallen from about 35 per cent in 1957-58 to 13 per cent in 1977-78. Similarly, although the highest percentage of medium term loans issued in 1957-58 was in Madhya Pradesh (27 per cent), and in 1977-78 was in Gujarat (20 per cent), if the total medium term loan over the 1957-58 to 1977-78 period is considered it is again Maharashtra which occupies the highest position. Maharashtra accounts for 19 per cent of total medium term loans issued in the period followed by Gujarat with 18 per cent share.

Table 3.5 gives loans disbursed per capita of rural

**Table 3.5 : Primary Agricultural Credit Societies Loan
Disbursed Per Capita of Rural Population, 1977-78**

(In Rs.)

	Short Term Loans	Medium Term Loans	Total Loans
Andhra Pradesh	19.71	7.04	26.75
Assam	0.64	0.42	1.06
Bihar	4.32	0.36	4.68
Gujarat	51.13	15.63	66.76
Haryana	72.02	7.76	79.78
Himachal Pradesh	6.48	8.75	15.23
Jammu and Kashmir	5.99	2.74	8.73
Karnataka	23.06	3.39	26.45
Kerala	26.24	7.91	34.15
Madhya Pradesh	17.18	1.65	18.83
Maharashtra	42.25	4.61	46.86
Manipur	6.03	-	6.03
Meghalaya	8.32	-	8.32
Nagaland	14.88	0.30	15.18
Orissa	10.80	2.62	13.42
Punjab	64.69	0.67	65.36
Rajasthan	26.04	3.35	29.39
Tamil Nadu	44.01	1.98	45.99
Tripura	6.84	1.46	8.30
Uttar Pradesh	18.79	2.01	20.80
West Bengal	18.12	0.83	18.95
Union Territories	22.54	5.91	28.45

Source: Worked out from Statistical Statements Relating to the Cooperative Movement in India, Part I: Credit Societies, 1977-78. Reserve Bank of India, pp. 104 and 109.

population by cooperatives in different States for the year 1977-78. These figures lay bare staggering disparities in coverage of village population by cooperative loans while the per capita loan in Haryana was Rs. 80 or Rs. 67 in Gujarat, or Rs. 65 in Punjab, it is merely Rs. 5 in Bihar and Re. 1 in Assam. As far as short term loans are concerned, maximum per capita amount was received in Haryana (Rs. 72) followed by Punjab (Rs. 64.69), Gujarat (Rs. 51.13), Tamil Nadu (Rs. 44), and Maharashtra (Rs. 42.25). On the contrary, the maximum per capita amount issued as a medium term loan was the highest in Gujarat. But it was barely Rs. 15.63.

It is unrealistic to seek a single explanation for the regional variations brought out in this section. Here we shall briefly state the possible reasons advanced by other researchers.

It is evident from the Report of the Study Group, that the total supply of cooperative loans issued in a particular State depends on the growth of the cooperatives in that State.¹⁴ Growth of the cooperatives had been more pronounced in those States where the system of land tenure was characterized by the owner-cultivator relationship like Maharashtra and Gujarat than those States where the landlord-cultivator relationship predominated, like Orissa and West Bengal.¹⁵

14 Organizational Framework for the Implementation of Social Objectives: Report of a Study Group of the National Credit Council, 1969, p. 29.

15 Ibid., pp. 30-31.

Dormancy of societies in different States is another important factor which affects the growth of cooperatives in States.¹⁶ For example at the beginning of the year 1978 about 77 per cent of the societies in Assam were dormant societies whereas in Maharashtra it was only 2 per cent.¹⁷ A greater linkage between credit societies and marketing societies by which loans advanced by a credit society to an individual for raising crops, are recovered out of the sale proceeds of such crops also enabled some States like Maharashtra, Madhya Pradesh and Gujarat to stage a better performance.¹⁸ The differential growth rates in agriculture, too, partly explain the difference in the progress of cooperatives. This was borne out by the examples of States like Haryana, Punjab and Tamil Nadu where there is greater modernization of agriculture and better performance of cooperatives.¹⁹

3.8 Distribution of Loans Among Different Categories of Cultivators

The preponderance of the small farm sector in India's agriculture is highlighted by the Agricultural Census of

16 Report of the Informal Group on Institutional Arrangements for Agricultural Credit, Reserve Bank of India, p. 11.

17 Statistical Statements Relating to the Cooperative Movement in India, 1977-78, Part I: Credit Societies, Reserve Bank of India, p. 104.

18 Organizational Framework for the Implementation of Social Objectives, 1969, op.cit., p. 29.

19 National Council of Applied Economic Research. Estimates of State Income, New Delhi, 1967, pp. 58-59.

1970-71. According to it, nearly 70 per cent of the operational holdings were small (2 hectares or less). They accounted for about 21 per cent of the operated area. Of these the marginal holdings (upto 1 hectare) were 51 per cent and the area operated by them was 9 per cent.²⁰ It is also worthwhile to note that a study conducted by the Reserve Bank of India shows that though the contribution of small farmers to marketable surplus may not be high they account for a considerable proportion of total agricultural production. It is, therefore, indicative of the importance to be given to the development of small farms if total agricultural production is to be increased substantially.

This study was undertaken in 12 districts which were selected from all over the country. The study found that in the three districts, Jodhpur, South Kanara and West Dinajpur, the major part of agricultural production, ranging between 52 and 63 per cent, was accounted for by small farmers. Further, in another three districts, West Nimar, Sholapur, and Tirunelveli, their contribution was conspicuous between 35 and 50 per cent. In yet another three districts, Purnea, Faizabad and Khammam, it was fairly high between 25 and 35 per cent. It was only in Amritsar, Balasore and Jamnagar, the small farmers' contribution seemed to be not important.²¹

20 All India Report on Agricultural Census 1970-71. Government of India, Ministry of Agriculture and Irrigation (Department of Agriculture), New Delhi, p. 26.

21 The Small Farmers (1967-69): A Field Study. Reserve Bank of India, 1975, pp. 14-15.

The participation of small farmers in agricultural programme is essential for the aforesaid reasons. It is also of utmost importance because the total agricultural area held by them in the country, although small in relation to their overwhelming number, is both sizable and significant from the point of view of agricultural production.

The new farm technology which has a high production potential has a special relevance to small cultivators. Based on the results of the technological advance a number of scholars have concluded that the development of small farmers is possible even with their existing resource endowment.²² There is also the fact that the small farmers are not less progressive than the large farmers.²³ They are able to plan and implement schemes of immediate relevance with remarkable efficiency.²⁴ The small farms are recognized as more efficient production units. They yield more output per unit of land than large farms provided they are given equal access

22 For example see: (i) G. Parthasarathy, *Agricultural Development and Small Farmers: A Study of Andhra Pradesh*, 1971, p. 70; (ii) *Green Revolution and the Weaker Sections*, Motilal Nehru Institute of Research, Allahabad, 1970, p. 2; (iii) V.M. Dandekar and N. Rath, *Poverty in India*, Indian School of Political Economy, 1971, p. 67.

23 B. Venkatappiah, *Small Farmers' Development Agency: Outline of a Programme of Action, Agricultural Development in Developing Countries—Comparative Experience*, Indian Society of Agricultural Economics, Bombay, 1970, p. 182.

24 M.G. Bhagot and S. Dasgupta, *Developing Adivasis and Small Farmers*, National Institute of Bank Management, 1975, pp. 2-3.

to necessary inputs.²⁵ The most important factor that drives a small farmer to more intensive effort is his need for survival.²⁶

Therefore the problem of small farmers should be considered not only as a problem of welfare but also as one of growth.

However, in spite of the fact that new technological advance in agriculture is capable of ensuring small farmer development, the gains of technological advance are mainly confined to the medium and large farmers.²⁷ A number of reasons have been put forth for this catastrophe. One important reason is the lack of provision of sufficient credit to small cultivators. Credit is the pre-condition for access to all material inputs and equipments. And yet it is often argued that the credit service does not benefit those for whom it was originally intended.²⁸ The credit institutions

25 (i) Draft Five Year Plan 1978-83, Vol. I, p. 30; (ii) National Commission on Agriculture, Part II, p. 67.

26 M. Chattopadhyay and Ashok Rudra, "Size Productivity Revised," Economic and Political Weekly, Vol. XI, No. 39, September 1976, pp. A104-A115.

27 (i) Report of the National Commission on Agriculture, Part II. Government of India, 1976, pp. 40-44; (ii) F. R. Frankel, India's Green Revolution—Economic Gains and Political costs. Princeton University Press, 1971, pp. 191-203.

28 Wolf Ladejensky, "Green Revolution in Bihar: A Field Trip," Economic and Political Weekly, Vol. IV, No. 39, September 1969, pp. A147-A162.

including cooperatives are also said to be discriminating systematically against the small agricultural holders.²⁹ The weaker sections of the cultivators continue to receive only limited benefit from cooperative credit.³⁰ The study conducted by the Reserve Bank of India has also pointed out that "it has been observed in many field studies conducted by the Reserve Bank of India and other institutions that the bulk of the benefits of the agricultural and cooperative development programmes has flowed to farmers with large holdings while the credit requirements of small farmers are not met to a satisfactory extent".³¹

Now, in the light of the aforesaid observations, let us examine whether the credit disbursed by the primary agricultural credit societies also suffer from the same institutional weakness. In this section, therefore, we study the credit issued to different categories of cultivator-borrowers of the primary agricultural credit societies.

The distribution of loans among different categories of cultivators is presented in Table 3.6. It is seen that the highest proportion of loans has gone to the cultivators

29 Raj Krishna, "Small Farmer Development," *Economic and Political Weekly*, Vol. XIV, No. 21, May 1979, pp. 913-918.

30 Report of the All India Rural Credit Review Committee. Reserve Bank of India, Bombay, 1969, p. 172.

31 The Small Farmers (1967-69): A Field Study, op.cit., pp. 1-2.

Table 3.6 : Classification of Short Term and Medium Term Loans Issued by Primary Agricultural Credit Societies during 1969-70* to 1977-78 according to Size of Ownership Holdings

(Amounts in crores of rupees)

States	Loans issued according to size of ownership holdings										Total loans issued	Of which loans issued to weaker sections (2+4+10)	Percentage to total
	Upto 1 hectare	Percentage to total	1-2 hectares	Percentage to total	2-4 hectares	Percentage to total	Above 4 hectares	Percentage to total	Tenants and Agricultural Labourers	Percentage to total			
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Andhra Pradesh	79.03	17.67	97.46	21.79	108.22	24.20	140.42	31.40	22.07	4.94	447.20	198.56	44.40
Assam	1.58	18.88	3.99	47.67	2.28	27.24	0.51	6.09	0.01	0.12	8.37	5.58	66.67
Bihar	34.51	32.91	21.47	20.48	15.58	14.86	13.52	12.89	19.77	18.86	104.85	75.77	72.26
Gujarat	43.66	4.69	97.70	10.49	191.99	20.62	590.20	63.40	7.43	0.80	930.99	148.79	15.98
Haryana	27.60	8.23	64.29	19.18	103.47	30.87	106.75	31.85	33.07	9.87	335.18	124.96	37.28
Himachal Pradesh	9.37	20.19	14.00	30.17	9.04	19.48	7.33	15.79	6.67	14.37	46.41	30.04	64.72
Jammu and Kashmir	1.59	28.44	1.40	25.04	1.02	18.25	1.02	18.25	0.56	10.01	5.59	3.55	63.51
Karnataka	58.48	11.81	102.36	20.67	122.08	24.64	191.84	38.73	20.55	4.15	495.31	181.39	36.62
Kerala	148.17	35.70	107.31	25.87	70.33	16.95	47.99	25.35	41.15	9.92	414.95	296.63	71.48
Madhya Pradesh	20.19	4.09	54.28	11.00	107.84	21.85	308.29	62.43	2.75	0.56	493.35	77.22	15.65
Maharashtra	91.41	7.12	177.32	13.81	269.43	20.98	734.18	57.18	11.29	0.92	1284.13	280.52	21.85
Manipur	0.72	21.82	0.87	26.36	1.22	36.97	-	-	0.49	14.85	3.30	2.08	63.03
Meghalaya	-	-	-	-	-	-	-	-	-	-	-	-	-
Nagaland	-	-	0.07	16.28	0.13	30.23	0.23	2.33	-	-	0.43	0.07	16.28
Orissa	29.27	19.01	45.01	29.23	41.49	26.95	37.98	19.50	0.23	0.15	153.98	74.53	48.40
Punjab	61.95	10.20	100.05	16.48	134.25	22.11	237.43	39.11	73.39	12.01	607.13	230.39	38.77
Rajasthan	22.45	7.95	53.40	18.92	73.36	25.99	131.43	0.47	1.61	0.60	282.23	77.44	27.44
Tamil Nadu	118.30	14.93	155.96	19.69	268.39	33.88	209.80	26.48	39.77	5.02	792.22	314.03	39.63
Tripura	1.16	35.15	1.08	32.72	0.71	21.51	0.34	10.30	0.01	0.30	3.30	2.25	68.18
Uttar Pradesh	104.23	13.47	204.75	26.47	235.12	30.39	217.00	28.05	12.52	1.62	773.62	321.50	41.56
West Bengal	34.27	24.05	50.51	35.45	33.62	23.59	21.64	0.15	2.45	1.72	142.49	87.23	61.22
Union Territories	2.10	20.79	1.79	17.72	1.79	17.72	1.65	16.33	2.77	27.42	10.10	6.66	65.94
All India	890.04	12.13	1355.07	18.47	1791.36	24.42	2999.62	40.90	299.04	4.08	7335.13@	2544.15	34.68

* It may be noted that data relating to size of ownership holdings are available only from 1969-70.

@ Out of Rs. 7675.4 crores of loans issued by PACS during the period 1969-70 to 1977-78, break-up is available only for Rs.7335.13 crores.

Source: Review of the Cooperative Movement in India (of respective years). Reserve Bank of India.

with landholdings above 4 hectares i.e. about 40.90 per cent, followed by those with 2-4 hectares i.e. 24.42 per cent.

The least share has gone to the group of tenants and agricultural labourers, i.e. only 4.08 per cent. The total quantum of loans issued to holders upto 1 hectare and 1-2 hectares account for 12.13 and 18.47 per cent respectively. In other words, a total of 30.60 per cent of loans were issued to marginal and small farmers. Similarly the total loans issued to the weaker sections as a whole, i.e. marginal and small farmers, and tenants and agricultural labourers, are only about 35 per cent whereas more than 65 per cent of the loans go to the relatively better-off group consisting of medium and large agricultural holders. Among the weaker sections it is the small farmers (upto 2 hectares) who form a significant category of borrowers of the cooperative societies as other sections, namely, agricultural labourers and tenants, received an insignificant amount as loans from these societies.

The Statewise data presented in Table 3.6 show that in some States such as Assam, Bihar, Himachal Pradesh, Jammu and Kashmir, Kerala, West Bengal, Tripura and Union Territories the loans issued to the weaker sections were more than 60 per cent of the total amount issued to all categories of borrowers. This is possibly because of the fact that in these States the proportion of small cultivators in the total cultivators as well as the proportion of the area operated by them in the total operated area, as indicated in the respective

study, is quite high. This is evident from Table 3.7 which gives the distribution of operational holdings in different States. In the above States, with the exception of Union Territories, the number of small holders is in the range of 78.49 per cent and 93.19 per cent of the total holders and their operated area is in the range of 33.51 per cent and 56.77 per cent of the area operated by all cultivators. Hence in the total credit operations of the cooperative credit societies of these States they have a fairly large share. Nevertheless in the cooperatively advanced States like Maharashtra, Gujarat and Madhya Pradesh the loans issued to small cultivators were hardly 21.85 per cent, 15.98 per cent and 15.60 per cent respectively. In these three States although the population of small cultivators is quite sizable i.e. between 43 and 49 per cent, the area operated by them is only less than 10 per cent.

Furthermore, for comparing the extent of credit given to borrower-members in different size classes of land holdings, of greater relevance is the average amount of the loan issued. Therefore it is necessary to know the loans issued per hectare of landholdings to different size classes. It is possible to derive these figures somewhat approximately³² if we use the

32 It is approximate because the Agricultural Census gives classification of operational (cultivator) holdings and not of ownership holdings whereas the loans issued, as given in the Statistical Statements Relating to Cooperative Movement in India by Reserve Bank of India, are classified in size classes of ownership holdings. No classification is available for ownership holdings for the country as a whole.

Table 3.7 : Distribution of Operational Holdings according to 1970-71 Agricultural Census

States	Upto 1 hectare		1-2 hectares		2-4 hectares		4 and above		Total		No. of small holdings below 2 ha.	Percentage to total number	Area operated by small holdings	Percentage to total area operated
	Number (000)	Area (000 ha.)	Number (000)	Area (000 ha.)	Number (000)	Area (000 ha.)	Number (000)	Area (000 ha.)	Number (000)	Area (000 ha.)				
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Andhra Pradesh	2,492	1,085	1,064	1,533	942	2,607	922	8,360	5,420	13,586	3,556	65.61	2,618	19.28
Assam	1,120	509	467	662	276	757	101	955	1,964	2,883	1,587	80.80	1,171	40.62
Bihar	4,874	1,845	1,109	1,563	915	2,537	679	5,535	7,577	11,480	5,983	78.96	3,408	29.69
Gujarat	579	299	465	682	555	1,597	834	7,422	2,433	10,000	1,044	42.87	981	9.81
Haryana	250	122	174	249	205	586	285	2,491	914	3,447	424	46.33	371	10.76
Himachal Pradesh	355	135	123	177	86	239	45	382	609	931	478	78.49	312	33.51
Jammu and Kashmir	713	294	154	226	86	240	27	157	980	917	867	88.46	520	56.77
Karnataka	1,081	549	840	1,221	788	2,205	842	7,393	3,551	11,368	1,921	54.10	1,770	15.57
Kerala	1,880	539	268	365	126	339	31	350	2,305	1,593	2,148	93.19	904	56.62
Madhya Pradesh	1,683	718	891	1,316	1,067	3,086	1,658	16,073	5,299	21,194	2,574	48.58	2,034	9.60
Maharashtra	1,242	578	878	1,283	1,087	3,131	1,743	16,187	4,950	21,179	2,120	42.82	1,861	8.79
Manipur	33	17	33	42	12	29	-	5	79	92	66	82.5	59	64.13
Meghalaya	55	38	53	78	36	98	6	38	150	253	108	71.33	116	45.85
Nagaland	9	6	16	20	26	69	42	409	93	504	25	25.81	26	5.16
Orissa	1,476	770	1,123	1,714	453	1,363	357	2,602	3,409	6,449	2,599	76.23	2,484	38.52
Punjab	518	225	260	372	281	795	316	2,581	1,376	3,973	778	56.58	597	15.02
Rajasthan	940	459	691	1,004	772	2,234	1,323	16,643	3,726	20,341	1,631	43.76	1,463	7.19
Tamil Nadu	3,125	1,322	1,109	1,578	696	1,914	384	2,896	5,314	7,709	4,234	79.68	2,900	37.62
Tripura	174	70	47	66	22	60	7	58	250	254	221	88.4	136	53.54
Uttar Pradesh	10,453	3,830	2,689	3,775	1,652	4,537	845	6,016	15,639	18,158	13,142	84.03	7,605	41.88
West Bengal	2,528	1,090	943	1,302	558	1,465	188	1,205	4,216	5,061	3,471	82.33	2,392	47.25
Union Territories	102	44	34	53	40	111	63	538	239	752	136	57.14	97	12.93
All India	35,682	14,545	13,432	19,282	10,681	29,999	10,698	98,298	70,493	162,124	49,114	69.67	33,827	20.86

Source: All India Report on Agricultural Census - 1970-71. Government of India, Ministry of Agriculture and Irrigation, New Delhi. Collected from State Tables and Union Territories Tables, pp. 122-285.

Table 3.8 : Loans Issued Per Hectare of Cultivated Area to Small Cultivator-Borrowers during 1969-70 to 1977-78

(Amount in Rs.)

States	Loans issued per hectare of cultivated area			
	Upto 1 hectare	1 - 2 hectares	2 - 4 hectares	4 and above hectares
Andhra Pradesh	728.38	635.74	415.11	167.96
Assam	31.04	60.27	30.12	5.34
Bihar	187.05	137.36	61.41	24.42
Gujarat	1460.20	1434.65	1202.19	795.20
Haryana	2262.30	2581.92	1765.69	428.54
Himachal Pradesh	694.07	790.96	378.24	191.88
Jammu and Kashmir	54.08	61.94	42.50	64.96
Karnataka	1065.20	838.32	553.65	259.49
Kerala	2748.9	2940.00	2074.63	1371.14
Madhya Pradesh	281.97	412.15	349.44	191.80
Maharashtra	1581.49	1381.00	860.52	453.56
Manipur	423.53	212.19	420.69	-
Meghalaya	-	-	-	-
Nagaland	-	35.00	18.84	5.62
Orissa	380.13	262.60	304.40	145.96
Punjab	2753.33	2689.52	1688.68	919.91
Rajasthan	489.11	531.87	328.38	78.97
Tamil Nadu	894.86	989.59	1402.25	724.45
Tripura	165.71	163.64	118.33	58.62
Uttar Pradesh	272.14	542.38	518.22	3.61
West Bengal	314.40	387.94	229.48	179.58
Union Territories	477.27	325.45	161.26	30.66
All India	611.92	702.76	597.14	305.16

Source: Worked out from Statistical Statements Relating to the Cooperative Movement in India, 1977-78, Part I: Credit. Reserve Bank of India, pp. 127-131; and All India Report on Agricultural Census, 1970-71. Government of India, New Delhi, pp. 122-285.

Agricultural Census (1970-71) figures on land holdings in the country and the amounts of loans issued as given in Table 3.6 of our study. The figures relating to agricultural area are given in Table 3.7 and relevant figures relating to the average loan issued per hectare of land holding in respect of all categories of cultivator borrowers are given in Table 3.8.

It will be seen from Table 3.8 that during 1969-70 to 1977-78 the very small (upto 1 hectare) and small holders (1-2 hectares) got relatively larger loans per hectare than the larger farmers (with land holdings more than 2 hectares).

The farmers with holdings upto 1 hectare or less and those with 1-2 hectares have received about Rs.612 and Rs.703 per hectare respectively, whereas the cultivators with 2-4 hectares and those with 4 hectares and above received about Rs. 597 and Rs. 305 per hectare. It will also be seen that in almost all States the amount issued per hectare to the very small and small farmers was larger than to other cultivators. Therefore it seems fair to say that the small holder-borrowers of the primary agricultural credit societies in the country have not been discriminated against as far as the loans issued to them are concerned. In fact they received much larger loans per hectare of their land holdings than the large holder borrowers.

The problem lies in admitting them as members of the primary agricultural credit societies. It is evident from

Table 3.10 : Proportion of Borrowers Among the Small, Medium and Large Holder Members of Primary Agricultural Credit Societies, 1977-78

(Number in thousands)

States	Members of Primary Agricultural Credit Societies			Cultivator-Borrowers			Borrowers as percentage of members in respective size classes		
	Small holders	Medium and Large holders	Total	Small holders	Medium and Large holders	Total	Small holders	Medium and Large holders	Total
	2	3	4	5	6	7	8	9	10
Andhra Pradesh	1,780	1,244	3,024	599	597	1,196	33.65	47.99	39.55
Assam	1,636	111	1,747	-	-	-	-	-	-
Bihar	-	-	-	-	-	-	-	-	-
Gujarat	612	985	1,597	210	516	726	34.31	52.39	45.46
Haryana	242	390	632	187	302	489	77.27	77.44	77.37
Himachal Pradesh	391	93	484	104	47	151	26.60	50.54	31.20
Jammu and Kashmir	193	100	293	70	17	87	36.27	17.00	29.69
Karnataka	1,139	1,295	2,434	289	451	740	25.37	34.83	30.40
Kerala	1,626	358	1,984	704	315	1,019	43.30	87.99	51.39
Madhya Pradesh	985	1,773	2,758	344	508	852	34.92	28.65	30.89
Maharashtra	1,651	2,587	4,238	477	826	1,303	28.89	31.93	30.75
Manipur	35	5	40	-	-	-	-	-	-
Meghalaya	-	-	-	-	-	-	-	-	-
Nagaland	4	9	13	1	1	2	25.00	11.11	15.38
Orissa	1,250	703	1,953	297	179	476	23.76	25.46	24.37
Punjab	715	597	1,312	289	549	838	40.42	91.96	63.87
Rajasthan	884	1,174	2,058	357	644	1,001	40.38	54.86	48.64
Tamil Nadu	2,662	1,132	3,794	1,180	1,041	2,221	44.33	91.96	58.54
Tripura	73	11	84	8	3	11	10.96	27.27	13.10
Uttar Pradesh	3,978	2,607	6,585	1,734	1,100	2,834	43.59	42.19	43.04
West Bengal	1,292	427	1,719	817	120	937	63.24	28.10	54.51
Union Territories	6	6	12	3	4	7	50.00	66.66	58.33
All India	21,154	15,607	36,761	7,670	7,247	14,917	36.26	46.43	40.58

Source: Statistical Statements Relating to the Cooperative Movement in India, 1977-78, Part I: Credit Societies. Reserve Bank of India, Table 21, p. 105, and Table 29, pp. 127-132.

Table 3.9 : Proportion of Membership of Primary Agricultural Credit Societies Among Small (upto 2 hectares) and Medium and Large (above 2 hectares) Land Holders as on 30-6-1978

States	(Number in thousands)								
	Land Holders (According to 1970-71 Agricultural Census)			Membership of Primary Agricultural Credit Societies			Percentage of Membership in respective size classes		
	Small holders Number	Medium and Large holders Number	Total number	Small holders Number	Medium and Large holders Number	Total number	Small holders Number	Medium and Large holders Number	Total number
1	2	3	4	5	6	7	8	9	10
Andhra Pradesh	3,556	1,864	5,420	1,780	1,244	3,024	50.07	66.70	55.79
Assam	1,587	377	1,964	1,636	111	1,747	-	29.44	88.95
Bihar	5,983	1,594	7,577	-	-	-	-	-	-
Gujarat	1,044	1,389	2,433	612	985	1,597	58.68	70.86	64.64
Haryana	424	490	914	242	390	632	57.21	79.59	69.22
Himachal Pradesh	478	131	609	391	93	484	81.80	70.99	79.47
Jammu and Kashmir	867	113	980	193	100	293	22.29	88.50	29.93
Karnataka	1,921	1,630	3,551	1,139	1,295	2,434	59.29	79.45	68.54
Kerala	2,148	157	2,305	1,626	358	1,984	75.70	*	86.07
Madhya Pradesh	2,574	2,725	5,299	985	1,773	2,758	38.27	65.06	52.05
Maharashtra	2,120	2,830	4,950	1,651	2,587	4,238	77.88	91.38	85.60
Manipur	66	13	79	35	5	40	53.03	35.71	50.00
Meghalaya	108	42	150	-	-	-	-	-	-
Nagaland	25	68	93	4	9	13	16.67	13.04	13.98
Orissa	2,599	810	3,409	1,250	703	1,953	48.13	86.79	57.32
Punjab	778	598	1,376	715	597	1,312	91.90	100.00	95.42
Rajasthan	1,631	2,095	3,726	884	1,174	2,058	54.20	56.01	55.22
Tamil Nadu	4,234	1,080	5,314	2,662	1,132	3,794	62.87	*	71.40
Tripura	221	29	250	73	11	84	33.03	37.93	33.60
Uttar Pradesh	13,142	2,496	15,639	3,978	2,607	6,585	30.27	*	42.11
West Bengal	3,471	745	4,216	1,292	427	1,719	37.22	57.32	40.77
Union Territories	136	103	239	6	6	12	4.41	5.88	5.04
All India	49,114	21,379	70,493	21,154	15,607	36,761	43.07	73.00	52.15

* For these States the percentage membership of large cultivators works out to more than 100 per cent. Obviously this is incorrect. This may be because of large scale sub-division and subsequent transfer of total family holdings on names of a number of members of cultivator families in a bid to escape from the land ceiling laws of the States.

Source: 1. All India Report on Agricultural Census, 1970-71. Government of India, Ministry of Agriculture and Irrigation, New Delhi, pp. 122-285.

2. Statistical Statements Relating to the Cooperative Movement in India, 1977-78, Part I: Credit Societies. Reserve Bank of India, Table 21, p. 105.

Table 3.9, which gives the extent of coverage of small holders in comparison with larger holders by the primary agricultural credit societies, that only 43.07 per cent of total small holders in the country were members of primary agricultural credit societies as on 30-6-1978. On the contrary as many as 73 per cent of large cultivators were members on that date. Out of 49,114,000 small holders in the country only 21,154,000 were members of the primary agricultural credit societies. This also holds good for almost all the States with the exception of Himachal Pradesh and Nagaland. In Himachal Pradesh, the percentage of total small holders having membership in primary agricultural credit societies was higher (82 per cent) than that of larger holders (71 per cent). In Nagaland, too, we come across a similar trend with 17 per cent for small holders and 13 per cent for larger ones. Therefore, if the performance of primary agricultural credit societies is judged against the extent of their membership among the small holders in the country, the aforementioned evidence leads us to the conclusion that the extent of coverage of small holders by the primary agricultural credit societies is not as satisfactory as it ought to have been. The proportion of membership among the small holders is much lower than the large holders. Special efforts are necessary to correct this weakness of the primary agricultural credit societies.

We shall now proceed to find out the extent of

borrowers among members. The relevant data are provided in Table 3.10. These data indicate that in 1977-78 out of the 21,154,000 small holder-members of primary agricultural credit societies 7,670,000 members were borrowers. Therefore, the proportion of small farmer-borrowers to their total membership works out to only 36.26 per cent. On the other hand, the proportion of borrowers among the larger holder members was 46.43 per cent. Also in the majority of States the proportion of borrowers among small holder members is lower than the proportion of borrowers among large holder members. Haryana, Jammu and Kashmir, Madhya Pradesh, Uttar Pradesh and West Bengal are the only exceptions as in these States the proportion of small cultivator borrowers is either almost same as that of the large cultivator-borrowers or is slightly higher than the latter.

In short, on the basis of the results brought out in this section, it may be concluded that, among the very small and small landholders the extent of membership of the primary agricultural credit societies is much lower than among the landholders with relatively larger land holdings. Similarly, after being admitted as members, the relative access of the very small and small farmers to the credit dispensed through the primary agricultural credit societies is more limited than that of the large holders as their proportion of borrowers among members is found to be lower than that of the borrowers among large holder-members. However, our

analysis of the available data does not provide any evidence to suggest that the very small and small farmers receive less in comparison with the other farmers. On the contrary our results show that they receive larger loans per hectare than the larger farmers.³³

³³ It may be noted that almost similar findings in regard to loans issued by primary agricultural credit societies in Maharashtra have been arrived at by Dandekar. See: Report of the Committee on Financing Small and Marginal Farmers Through Cooperative Credit Structure, The Maharashtra State Cooperative Bank Ltd., Bombay, 1976.

CHAPTER IV

THE PROBLEM OF OVERDUES

In the last chapter we have discussed the advancement of short and medium term loans in the country in its various aspects i.e. we have studied the lending policies of primary agricultural credit cooperative societies with reference to both short and medium term loans, the advancement of short and medium term loans purposewise, the diversion which takes place from the intended purpose of loans issued, statewise analysis of short and medium term loans and, finally, how loans are distributed in the country among different categories of cultivators.

Now, we shall study the overdues problems connected with the repayment of the loans issued. The problem of overdues is growing in its magnitude even in cooperatively advanced States and societies find it difficult to get borrowings from the central agencies and many societies are forced to be liquidated. Moreover, the overdues problem affects not only the defaulters but also even the non-defaulters and therefore affects the whole economy as such. Hence the importance of the study of the problem of overdues. Consequently, in this chapter, we propose to study the total quantum of overdues of PACs, main causes for it and the remedial measures to tackle this problem.

4.1 Importance of the Problem of Overdues

An important norm for judging the efficiency of any system of credit is to know whether loans are recovered on due dates.¹ Cooperative credit policy as it has come to take shape in India did not care adequately to correlate loans to the borrowers' precise needs. This coupled with the weaknesses in cooperative credit administration has paved the way for huge shortfalls in the recovery of outstanding loans by the societies.

The number of defaulters and the amount of default have grown much beyond the capacity of the primary societies to manage within their resources. This results in large scale defaults to the central cooperative banks. Heavy overdues at the central cooperative banks have impaired their capacity to borrow from the higher financing agencies such as the Reserve Bank of India and the State cooperative banks. The Reserve Bank of India does not entertain credit applications of those central banks whose overdues are above 60 per cent of the demand. The strength of the cooperative credit structure is thus being undermined by the existence of overdues. This blocks the flow of credit all along the line to the cultivators and retards the economic development of the area. Thus the mounting overdues affect not only the interests of the

¹ Report of the All India Rural Credit Review Committee, Reserve Bank of India, 1969, p. 176.

defaulters themselves but also the rest of the members, creditors and the cooperative movement itself.

Table 4.1 depicts the problem of cooperative overdues in 1977-78 which are escalating from year to year with no solution in sight.

Table 4.1 : Cooperative Overdues - Figures at the end of June 1978

	(Rs. in crores)		
	Loans outstan- ding	Loans over- due	Percentage of overdue to outstanding
State Cooperative Bank	1338	96	7
Central Cooperative Banks	2115	754	36
Industrial Cooperative Banks	23	5	22
Primary Agricultural Credit Societies	1798	810	45
Non-Agricultural Credit Societies	836	72	9
Central Land Development Banks	1305	127	10
Primary Land Development Banks	735	62	8

Source: Statistical Statements Relating to the Cooperative Movement in India, 1977-78, Part I: Credit Societies. Reserve Bank of India, p. vii.

Among all the cooperative credit institutions primary agricultural credit societies face the highest percentage of overdues. It may be seen from Table 4.1 that in the case of non-agricultural credit societies, urban banks and land development banks the situation is not so alarming. In the case

of State cooperative banks the danger appears mild, but if the base structure composed of central cooperative banks and primary agricultural credit societies crumbles down this would spell the death knell of the movement. Hence this serious malady of our cooperative system is engaging the constant attention of cooperative administrators and workers.

4.2 Levels and Trends of Overdues

The gravity of the overdues problem of primary agricultural credit societies will be clear from Table 4.2 which indicates the position of the overdues Statewise as on 30th June of the years 1957-58 to 1977-78.

The overdues for the country as a whole had been mounting year by year from 22 per cent of the loans outstanding in 1957-58 to 32 per cent in 1967-68 and to 45 per cent in 1977-78. The percentage in 1977-78 is the highest with 78 in Bihar followed by Assam (76), Tripura (70) and Madhya Pradesh (62).

The lowest level of overdues was in Jammu and Kashmir forming 22 per cent followed by Union Territories (27), Kerala (29), Tamil Nadu (33), Himachal Pradesh (33), Andhra Pradesh (33).

There was an improvement in the position of overdues of 1977-78 as compared to that in the previous year in eight States i.e. Assam, Gujarat, Himachal Pradesh, Jammu and Kashmir, Kerala, Manipur, Orissa and Punjab.

Table 4.2 : Percentage of Overdues to Loans Outstanding as on 30th June of Years 1957-58 to 1977-78

	1957-58	1959-60	1961-62	1963-64	1965-66	1967-68	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
Andhra Pradesh	23	14	19	23	31	33	43	45	52	56	39	39	37	33	33
Assam	18	47	71	86	89	60	82	79	81	81	81	81	-	82	76
Bihar	54	55	48	32	32	41	50	63	62	56	56	67	80	78	78
Gujarat	-	25	25	22	23	22	21	22	25	20	24	24	38	46	41
Haryana	-	-	-	-	-	28	33	47	52	47	44	43	35	35	42
Himachal Pradesh	22	-	-	-	-	22	19	22	25	27	34	30	32	34	33
Jammu and Kashmir	17	26	25	37	63	35	60	60	55	55	55	56	-	28	22
Karnataka (Mysore)	31	33	46	38	42	40	47	43	46	46	44	44	44	39	49
Kerala	25	20	17	19	25	27	24	30	30	36	36	36	35	30	29
Madhya Pradesh	12	21	29	27	33	38	40	43	47	47	53	54	55	60	62
Maharashtra	21	27	29	22	32	37	40	38	44	20	39	43	45	46	53
Manipur	-	-	-	-	-	-	-	-	75	75	82	52	62	62	52
Nagaland	-	-	-	-	-	37	-	-	-	-	-	-	-	-	53
Orissa	29	20	20	15	23	38	63	66	58	64	68	60	58	49	43
Punjab	24	26	23	23	18	19	39	41	47	46	58	55	56	62	42
Rajasthan	14	19	45	52	47	44	36	44	63	43	38	41	27	39	46
Tamil Nadu (Madras)	14	11	10	14	28	28	37	37	28	28	28	30	32	24	33
Tripura	-	-	-	-	-	-	-	-	-	43	67	74	57	67	70
Uttar Pradesh	16	6	12	14	25	25	34	53	51	49	55	60	51	46	49
West Bengal	48	43	29	23	30	41	56	71	79	62	42	33	30	25	43
Union Territories	-	-	-	-	-	28	34	38	34	32	34	36	16	15	27
All India	22	21	25	23	29	32	38	41	44	38	42	43	43	43	45

Source: Review of the Cooperative Movement in India-of respective years. Reserve Bank of India.

Compared to 1957-58, the level of overdues has increased in all the States by 1977-78. A rising trend can be noticed in the last few years in Madhya Pradesh, Maharashtra and Tripura. At the same time, in Andhra Pradesh, Jammu and Kashmir, Kerala and Orissa a falling trend can be noted. By and large, the overall position of the overdues in most of the States is deteriorating year after year.

However, it should be emphasized that the overdues reported by cooperative credit institutions on the basis of which the above analysis has been made do not reflect the true position. Many of them resort to book adjustments, of different types and in varying degrees to camouflage the recoveries with a view to presenting a better picture of their financial and operational efficiency, obtaining better audit classification and higher eligibility for refinance from the higher financing agencies, etc. Therefore, the overdues would be in fact higher if book adjustments are taken into account.²

The problem of mounting overdues in the cooperatives dispensing short term and medium term agricultural credit in

2 (1) Ibid., p. 177.

(ii) Report of the Informal Group on Institutional Arrangements for Agricultural Credit, Reserve Bank of India, Bombay, 1964, p. 43.

(iii) Report of the Study Team on Overdues of Co-operative Credit Institutions, Reserve Bank of India, Agricultural Credit Department, Bombay, 1974, pp. 22-23.

the country which has been acting as a serious constraint on the smooth flow of credit and consequently affecting the flow of working capital, etc., became a matter of serious concern to the Reserve Bank. And so, on December 2, 1972, Reserve Bank of India appointed the Study Team on Overdues of Co-operative Credit Institutions,³ to examine the position of overdues at various levels of cooperative credit structure in the country and to suggest remedial measures. Our study on overdues is mainly based on the analysis made by this Study Team.

An analysis was made by the Study Team on the relationship between certain factors and the levels and trends of overdues. For this purpose the factors were grouped into two categories viz. external factors which might be said to be beyond the control of the lending institutions, for example, climatic conditions, irrigation facilities, etc., and internal factors such as the presence of a full-time paid secretary, and arrangements for supervision, and volume of business of a society. It was found that there was some evidence of a specific and positive relationship between overdues and certain internal factors as size of business, having a full-time paid secretary for the society, etc. The relationship between overdues and external factors could not

³ The Study Team on Overdues of Cooperative Credit Institutions under the chairmanship of Dr. C. D. Datey. Hereafter referred to as "The Study Team".

be established, for instance, even when these factors were quite favourable, the levels of overdues were moving upward. Further when both the climatic and agricultural conditions were adverse the overdues had either remained constant or even decreased. Identifying the relationship between the internal and external factors on the one hand and the levels and trends of overdues on the other, the Study Team has come to the conclusion that the lack of will and discipline among cultivators to repay the loan is the principal factor contributing to the prevalence of overdues in the cooperatives i.e. defaults were, by and large, wilful, i.e. only 23 per cent were nonwilful and the rest 73 per cent were wilful defaulters.

From the study it was found but that small, medium and big farmers behave more or less alike in the matter of repayment of their dues in time. A very high percentage of borrowers, i.e. 80 per cent in each category of small, medium and big farmers, are defaulters. The smallest of the small farmers (below 1.2 hectares) account for the single largest group of borrowers as well as defaulters, i.e. 32 per cent and 33 per cent respectively. Small farmers (1.2 to 2 hectares) and big farmers (above 4 hectares) each accounting for 21 per cent of borrowers, form 22 per cent and 20 per cent of defaulters respectively. In June 1978, it was seen that the percentage of overdues to outstanding of small farmers was about 43 per cent whereas of others

was about 45 per cent.⁴

4.3 Causes of Overdues

Defective lending policy pursued by the central co-operative banks and the primary societies is one of the major contributory factors for the mounting overdues. Very often the scales of finance on the basis of which loans are given cropwise for different areas were too high or too low. In the former case there was the danger of the excess loan amount being utilized for non-productive purposes with the consequent difficulty in repayment. In the latter case, the cultivator would be forced to take recourse to the money-lender for loans at exorbitant and uneconomic rates of interest.⁵ All these factors affected the borrower's capacity to repay his dues.

The cultivator should get loans in time, at the commencement of his agricultural operations and any delay in this might adversely affect production. He should also be made to repay the loan soon after the harvest or marketing of the crop lest he should utilize the proceeds for purposes other than repayment of his dues. Hence non-observance of seasonality in lending and recovery affects the position of overdues.

4 Statistical Statements Relating to the Cooperative Movement in India, Part I: Credit Societies. Reserve Bank of India, pp. 127-130.

5 Report of the Study Team on Cooperative Credit Institutions, op.cit., p. 150.

Unhealthy practice of financing defaulters, too, adversely affects overdues. If a defaulter knew that he would be accommodated by the society irrespective of the fact that he had defaulted to it, he would be inclined not to repay also the fresh loan given to him. Further such a practice may generate an unhealthy feeling in the rank and file of the borrowers that they need not repay the dues of the society, although they are in a position to do so.

Further, the managements of cooperative credit institutions have failed in the creation of a sense of responsibility among the cultivators towards making timely repayment of loans advanced to them. The members of the managing committees of primary agricultural credit societies and the directors of the central banks have shown a general apathy in the matter of recovery since many of them had themselves defaulted repayment. Therefore, they were not in a position to take persuasive measures for recovery. They have not initiated coercive action promptly, wherever persuasive measures failed.⁶

The attitudes and policies pursued by the State governments have created a very unfavourable climate for repayment of cooperative dues, like the practice of issuing taccavi loans to the defaulters or writing off such taccavi loans on large scale which created an impression among

6 Ibid., p. 158.

defaulters of cooperatives that their loans also need not be repaid.⁷

Besides as we have discussed already in Chapter III (section 3.6) diversion of loans from the purposes for which they are sanctioned to other purposes, mainly for consumption and repayment of old debts too affects repaying capacity of borrowers and become a cause of overdues.

Thus, all these factors adversely affected the repayment of loans and hence the result was ever-mounting overdues.

4.4 Measures for Tackling Overdues

The Rural Credit Review Committee has remarked that unlike lending, recovery is an unspectacular, unpopular and uphill task, the critical significance of which is not yet widely appreciated. The Committee had observed that the solution of the problem of overdues was not easy and simple and, as many factors account for the poor recoveries, the action to be taken has to be multipronged.⁸

The Study Team has emphatically recommended that while non-wilful defaulters deserve sympathy and necessary assistance, financial and otherwise, to rehabilitate them, wilful defaulters do not deserve any mercy and State Governments

7 Ibid., pp. 67-68.

8 Report of the All India Rural Credit Review Committee, op.cit., p. 522.

should be urged to come down heavily on them through coercive steps with the backing and assistance of revenue authorities.⁹

The Study Team has recommended to strengthen the Agricultural Credit Stabilization Funds at different levels to enable rephasing and re-scheduling of overdue loans due to genuine defaults. In the event of crop failure a relief given to cultivator borrowers is conversion of short term loans into medium term loans so that the borrower who would otherwise become a defaulter and thus denied further credit can continue to be financed for carrying on his own agricultural operations in the succeeding seasons.

On the recommendations of All India Rural Credit Survey Committee, 1954, Agricultural Credit Stabilization Funds were established at the different levels of cooperative credit structure and at the national level by the Reserve Bank. On the occurrence of a natural calamity the primary agricultural credit society has to apply to the central cooperative bank for conversion in respect of such of its members whose crops are affected by the calamity and who will not be in a position to repay their short term loans. On receipt of the applications from societies, the central banks can actually effect the conversions only on receipt of the certificate of 'annevari' by the Collector or by the State Government. According to the new formulae operative from 1977-78, state cooperative

⁹ Report of the Study Team on Cooperative Credit Institutions, op.cit., p. 188.

banks, central cooperative banks, and State governments have to meet 10, 15 and 15 percentages respectively of the conversions granted by central cooperative banks, the refinance from the Reserve Bank being limited to 60 per cent.¹⁰

The borrower eligible for a medium term conversion loan is required to furnish the same type of security prescribed for the normal medium term loan.

The Study Team has also recommended the amendment of section 46B of the Reserve Bank of India Act to permit the Reserve Bank to grant medium term loans to state cooperative banks by way of reimbursement of medium term conversion loans granted by the latter, owing to drought, famine and other natural calamities.¹¹

The stabilization arrangements were linked to the declaration of 'annevari' by the State governments as this was a reliable method for assessing crop failure and giving relief. Cultivators affected by calamity were eligible for conversion in areas where 'annevari' declared was 6 annas or less. Therefore the Study Team has proposed to gear up the machinery of the State government which was engaged in the declaration of 'annevari' to reduce the time-lag between the occurrence of natural calamity and the declaration of 'annevari' to about 2 to 3 months.

¹⁰ Report on Currency and Finance, Reserve Bank of India, Vol. I, Economic Review, 1977-78, p. 147.

¹¹ Report of the Study Team on Overdues of Cooperative Credit Institutions, op.cit., p. 91.

Further the Study Team has recommended relief measures in different situations to help the cultivator-borrowers to reduce the backlog of overdues. They are given as follows:¹²

1. Relief in respect of interest only:
 - (a) In the case of farmers the value of whose gross produce is Rs. 5,000 or less, payment of interest on the loans eligible for conversion or rescheduling should not be a pre-condition. The interest should be deferred and recovered in the succeeding normal year which will be the first year of repayment.
 - (b) In the case of big farmers, payment of the interest due is a pre-condition for granting the conversion or rescheduling facility for the loans due from them.

2. Relief in times of successive natural calamities if a member is indebted only in respect of short term loans is as follows:
 - (i) For two successive failures:

Rescheduling the aggregate of the two short term loans as a five year loan.
 - (ii) For three successive failures:
 - (a) Write-off of one short term loan and the interest thereon and spreading over of the other loans as a rescheduled loan for five years.
 - (b) In the case of big farmers, no write-off is necessary. The rescheduled loan should be spread over five years.

12 Ibid., p. 121.

3. If in addition to the short term loans the borrower has to repay a normal medium term loan, the relief required to be given is as under:

(i) For one crop failure:

Period of repayment of rescheduled loan need be spread over six years.

(ii) For two successive failures:

(a) Write-off of one short term loan with interest due thereon and spreading over of the remaining loans as a rescheduled loan for seven years.

(b) For big farmers mere spreading over of the period of rescheduled loan to six years.

(iii) For three successive failures:

(a) Write-off of two short term loans and the interest due thereon and spreading over of the remaining loans as a rescheduled loan of seven year duration.

(b) In respect of big farmers write-off of one short term loan and rescheduling of the remaining loans as a seven year loan.

Relief in the form of write-off of interest and principal will be necessary only if the burden of the loan and interest thereon cannot be fitted into the repaying capacity at 70 per cent of the gross value of produce from agriculture in the case of big farmers and 60 per cent in the case of small farmers, and cannot be recovered within a period of seven years.

Study Team has also recommended the strengthening of the Agricultural Credit (Relief and Guarantee) Fund, which was set up with the recommendations of the All India Rural Credit Survey Committee, that in case of quick succession of natural calamities, relief by way of writing-off a part of the debt may be given. But before utilizing this fund for writing-off, the individuals as well as the institutions should be required to utilize part of their resources for the purpose of this liability. Moreover, relief by writing-off cooperative loans should be exceptional and under special circumstances.¹³

The Study Team has further suggested a number of measures for recovery of overdues and arresting the upward trend of overdues in future. The role of directors of primary agricultural credit societies should be dynamic so as to promote an atmosphere for voluntary repayment by the borrowers and even to exert pressure for repayment when it is not voluntarily forthcoming.

One of the important measures recommended by the Study Team is that a suitable provision should be incorporated in the Cooperative Societies Act of all the States in terms of which the managing committee of the primary agricultural credit society should stand automatically disqualified if the amount of default or the number of defaulters exceeded 70 per cent of

13 Ibid., p. 130.

the total demand or total number of indebted members for a continuous period of two years. Thus the managing committee has got the right to stay in office only if they collectively got influence over and enjoy the confidence of the majority of members.¹⁴

One of the major difficulties faced by the societies is the lack of bidders whenever the lands of defaulters are put up for auction; particularly if the owners are influential cultivators in the village. Here the Study Team recommends two suggestions. The State governments themselves may purchase the lands in auction or a State Farming Corporation can be set up in each State fully owned by the State government. All that the corporation may do is to bid in the auction for an amount which would settle the dues of the society together with interest. The corporation would have the same authority as the government to dispose of the land by sale or long term lease. In both the alternatives the interests of the cooperative credit institutions is safeguarded as they will be receiving their dues back from the government or the corporation as the case may be.¹⁵

Further, the defaulters of cooperative societies and their sureties should not be financed by the government in any circumstances.¹⁶ Moreover, they should be disqualified

14 Ibid., pp. 156-158.

15 Ibid., pp. 179-181.

16 Ibid., p. 170.

from voting in a general meeting or election of any primary credit society if he is in default to that society for more than one year.¹⁷

As regards structural arrangements, urgent steps may be taken for revising the norms of viability of primary agricultural credit societies so that efforts are concentrated in increasing the credit business to at least Rs. 2 lakhs per society. Creation of viable units at the primary level is of utmost importance not only from the standpoint that such units can employ a full-time paid secretary, but also because they can keep the level of overdues low and have greater capacity to absorb overdues.¹⁸

Moreover from the studies taken up relating to linking of credit with marketing, the Study Team has recommended that the accepted pattern of financing, viz. production credit being given by primary agricultural credit societies and recovery thereof being made by the commodity marketing society may be adopted where suitable conditions exist or can be created for coordinating the working of the two types of societies, viz. the primary credit society and the marketing society. It is also recommended in certain conditions where the commodity marketing societies are giving production finance, that such societies may be converted into farmers'

17 Ibid., p. 171.

18 Ibid., pp. 189-191.

service cooperative societies, each specializing in the marketing of one principal crop, but having for marketing purposes dealings with another society which has specialized in the marketing of another crop, if the volume of business of the first society in the latter crop is not adequate either for efficient marketing or economic processing. Thus, with efficient linking of production finance with marketing the problem of overdues can be more successfully tackled.¹⁹

Further it was realized that it was absolutely essential to find out a system of extending credit to agriculturists for satisfying their consumption needs, since diversion takes place in high percentages from loans issued for production purposes to consumption purposes leading to overdues. Therefore the Report of the Expert Committee on Consumption Credit has recommended provision of consumption credit to agriculturists through PACs, which have been reorganized into viable units and are having a full-time paid secretary.²⁰ Since March 1, 1978, the Reserve Bank has been permitting concessional finance for consumption needs of the weaker sections with short term agricultural loans at 3 per cent below the bank rate.

Prof. Dandekar suggests a crop insurance scheme to

19 Ibid., pp. 218-221.

20 Report of the Expert Committee on Consumption Credit, Government of India, Department of Revenue and Banking, 1976, p. 15.

fight the problem of overdues.²¹ According to the scheme farmers pay a premium every year determined by the crop insurance agency and in lieu thereof they receive protection by way of compensation in the event of losses due to crop failure and damage to agricultural yields. The scheme would be useful to the farmers because he would pay regularly a small premium and receive back its equivalent as indemnities in years when he most needs it. A major difficulty for a crop insurance scheme to become operational is the problem of collecting premium. Therefore, it is suggested that the crop insurance scheme should be linked on a compulsory basis with the crop loan system. Premium should be deducted from the loan advances. Indemnities should be adjusted against recovery. Thus integrated with agricultural credit, the crop insurance will involve hardly any additional administrative costs. On the other hand this scheme may be a good device not only for the survival of the small farmers but also for the stability and well-being of the cooperative credit structure.

The Agricultural Credit Board agreed with the important findings and recommendations of the Study Team, excepting the specific reference to write-off as part of the relief proposed for big farmers, i.e. those whose value of gross

21 V.M. Dandekar, "Crop Insurance in India," Economic and Political Weekly, Vol. XI, No. 26, 26th June 1976, pp. A61-A80.

produce is above Rs. 5,000 per annum in the event of successive crop failures. Most of the States have generally accepted the recommendations and the implementation process is going on in all the States.

4.5 Some of the Operational Weaknesses of Primary Agricultural Credit Societies*

In this context it is worthwhile to discuss some of the important factors that retard the development of primary agricultural credit societies.

One of the most important weaknesses of our primary agricultural credit societies is that many societies are feeble and non-viable units which are not capable of developing and surviving without outside help. As on 30th June 1978 at the all-India level, out of 116,125 primary agricultural credit societies 66,672 societies i.e. about 57 per cent of the societies were non-viable units. Highest percentage of non-viable societies were found in Assam i.e. about 99 per cent whereas in Haryana only 12 per cent and in Jammu and Kashmir and Kerala only 18 per cent were non-viable units.

Further, 8,995 societies i.e. about 8 per cent are dormant societies. The highest percentage of dormant societies is in Assam, i.e. about 77 per cent, whereas in Haryana it

* All the data in this section is based on the Statistical Statements Relating to the Cooperative Movement in India, Part I: Credit Societies, Reserve Bank of India, 1977-78.

is only a negligible per cent. However, the All India Rural Credit Review Committee observes that several of the societies, which have been classified as active or non-dormant, have in fact been doing only token business and cannot be really considered 'active'.²²

As we have already seen, out of the total working capital of Rs. 2712 crores, deposits constitute only Rs.1616 crores i.e. 6 per cent, at the all-India level. The percentage of deposits to working capital is the highest in Himachal Pradesh (43 per cent) followed by Kerala (32 per cent). In Jammu and Kashmir and Assam it is very low, about 2 per cent and 4 per cent respectively.

Inefficient management is found to be another main weakness of most of the primary agricultural credit societies which lead to lack of proper accounting practices, irregularities of loans, etc. Most of the societies do not have full-time paid secretaries. At the all-India level only 53 per cent societies were having full-time paid secretaries.

Besides, in 1977-78, at the all-India level, it was found that only 60,292 societies, i.e. about 52 per cent, were running at a profit and 46,621 societies (40 per cent) were running at a loss and 8,936 (8 per cent) without profit or loss.

²² Report of the All India Rural Credit Review Committee (1969), op.cit., p. 169.

Deficiencies of such fundamental character as those mentioned above cast their frustrating shadow on the very basic objectives with which these time-honoured institutions were set in motion. Therefore, urgent measures are called for to tackle these weaknesses so that the societies may attain the objectives which they were intended for.

CHAPTER V

CONCLUSIONS

Considering the importance of primary agricultural credit societies as the village level financing cooperative institutions this study was undertaken with the main objective to review the credit operations of primary agricultural credit societies in India. In this study the emphasis was on short and medium term loans issued to farmers in the period between 1957-58 and 1977-78 by these institutions. The major observations based on the foregoing chapters are summarized below.

On an overall plane it is seen that the role of institutional credit got enlarged within two decades, from 1951 to 1971. It has increased from 7 per cent of the total farm credit in 1951 to 19 per cent and 32 per cent in 1961 and 1971 respectively. Among all the institutions which provide farm credit, cooperative institutions occupy the pride of place. In 1977-78 as much as 67.48 per cent of the institutional credit to agriculturists was supplied by cooperatives.

An overall assessment of primary agricultural societies relating to the period from 1950-51 to 1977-78 shows that in quantitative terms the progress registered by cooperative institutions in terms of membership and coverage of villages

is quite impressive. It has covered about 96 per cent of villages with a membership of 47,860,000. Besides the volume of loans advanced by primary agricultural credit societies too recorded a most impressive growth from about Rs.30 crores to Rs. 1272 crores. There is a substantial growth in the working capital of primary agricultural credit societies from Rs. 41 crores to about Rs. 2712 crores.

It was observed that the relative share of medium term loans was far smaller than that of short term loans. The share of medium term loans was only 12 per cent while that of short term loans was 88 per cent of the total loans issued from 1957-58 to 1977-78.

It may also be pointed out that a very high per cent of the working capital of the primary agricultural credit societies is constituted of borrowings. For instance in 1977-78, the share of borrowings from higher financial agencies in working capital was about 73 per cent while that of deposits was only 6 per cent. It means that the primary agricultural societies do not seem to have succeeded much in mobilizing the rural savings. The primary agricultural credit societies have to give a new boost for deposit mobilization and for mopping up resources rather than mostly depend on borrowings from higher financial financing agencies.

Analysis of loans issued during the period under review revealed that seasonal agricultural operations accounted for the bulk of the short term loans issued i.e. about 91 per cent

of the total short term loans were issued for the said purpose.

Our study revealed also that the percentage of disbursement in kind too is growing over the years. It has increased to 44 per cent of the total loans issued for seasonal agricultural operations in 1977-78 from 11 per cent in 1973-74. Further, it was observed that among the purposes for which medium term loans are issued, the highest percentage of the total medium term loans was issued for purchase of cattle (17 per cent) followed by purchase of agricultural machinery, pumpsets, etc. (10 per cent).

Further it was noticed that about 41 per cent of the borrowers of primary agricultural credit societies diverted about 28 per cent of the total loans issued to them for purposes other than those for which they were intended. Diversion was mainly for consumption purposes and repayment of old debts. About 23 per cent of the amount borrowed for short term purposes and about 35 per cent of the amount borrowed for medium term purposes were found to have been diverted. Diversion of short term credit was significantly high in Rajasthan, Orissa, Kerala and West Bengal, while that of medium term credit in Andhra Pradesh, Tamil Nadu, Punjab, Rajasthan, Uttar Pradesh, Assam, Orissa and Kerala.

From our study relating to the quantum of farm credit supplied by cooperatives in various States during the period, the uneven nature of the supply of credit was noted. The

highest percentage of loans was issued in Maharashtra (17.81 per cent), Gujarat (13.41 per cent), and Uttar Pradesh (11.14 per cent) while it was negligible in Meghalaya, Manipur, Tripura, Assam, Union Territories, Jammu and Kashmir, and Himachal Pradesh ranging from 0.01 to 0.51 per cent.

Attempt was also made to study the cooperative credit issued by primary agricultural credit societies in different States on a per capita basis. It was found that the per capita loan (short term and medium term together) issued in Haryana, Gujarat and Punjab was fairly high i.e. Rs. 80, Rs. 67, and Rs. 65 respectively, while that in Bihar it was Rs. 5 and that in Assam Re. 1.

Some important observations were made relating to the distribution of cooperative credit among different categories of cultivators. Our study revealed that out of the total quantum of cooperative credit issued during 1969-70 to 1977-78, the highest portion of the loans was issued to large cultivators (above 4 hectares) i.e. 41 per cent, followed by medium cultivators (between 2-4 hectares) i.e. 25 per cent. Small and marginal farmers (below 2 hectares) together accounted for only 31 per cent out of which marginal farmers received 12 per cent. In those States like Assam, Bihar, Himachal Pradesh, Jammu and Kashmir, Kerala, West Bengal and Tripura and Union Territories where the number of small holders and their total operational area are relatively very high, the small farmers had a fairly large share in the total

cooperative credit operations. They received more than 60 per cent of the total loans issued.

Further our analysis clearly showed that, for the country as a whole, the small and marginal farmers (below 2 hectares) received relatively large per hectare loans than the larger farmers.

From our study, we came to the conclusion that, among the small and marginal land holders the extent of membership of the primary agricultural credit societies is considerably lower (43 per cent) than among the land holders with relatively larger land holdings (73 per cent). Similarly after being admitted as members the relative access of the small and marginal farmers to the credit dispensed through primary agricultural credit societies is more limited than that of large holders. The proportion of borrowers among members with small holdings is found to be lower (36.26 per cent) than that of the borrowers among large holder members (46.43 per cent). Special efforts are necessary to correct this weakness of primary agricultural credit societies.

Overdues constitute the most formidable problem facing the primary agricultural credit societies. It has assumed alarming proportions in recent years. The percentage of overdues to loans outstanding has grown from 22 per cent in 1957-58 to 45 per cent in 1977-78. The highest percentage of overdues was in Bihar (78 per cent) followed by Assam (76 per cent); lowest being in Jammu and Kashmir (22 per cent).

The available evidence shows that small and large farmers behave more or less alike in the matter of repayment of their cooperative dues. However the overdues of small farmers are slightly smaller than that of their counterparts. By the end of June 1977-78 the proportion of overdues to outstanding loans of small farmers was about 43 per cent whereas that of large farmers was about 45 per cent.

According to the Report of the Study Team on Overdues the default in the case of loans issued by primary agricultural credit societies is mainly wilful. The Study Team found that 23 per cent of the defaulters were non-wilful and 77 per cent were wilful.

Defective lending policies like over-financing and under-financing, unhealthy practice of financing defaulters, general apathy of the managing committee in the matter of recovery, attitude and policies of State governments like issuing taccavi loans to defaulters, etc., were found to be the main reasons for the overdues. It is suggested to strengthen the Agricultural Credit Stabilization Funds and State Agricultural Credit Relief Funds to help the non-wilful defaulters during the natural calamities. Further it is suggested to disqualify the managing committee of the primary agricultural credit societies if the amount or the number of defaulters exceeds 70 per cent of the total demand or 70 per cent of the total number of indebted members for a continuous period of two years; provided the society is having a full-

time paid secretary. Reorganization of primary agricultural credit societies and linking of credit with marketing societies, services of a full-time paid secretary for each society are other main measures suggested to tackle the problem of overdues.

There is no doubt that the primary agricultural credit societies have succeeded a lot in providing farm credit to the agriculturists. Yet, as we have already seen, there are still more defects like lack of mobilization of resources, problem of mounting overdues, insufficient membership given to small cultivators and also lower proportion of small cultivator-borrowers to their total membership, etc.

However, the fact remains that the primary agricultural credit societies are the most widely distributed and organized credit institutions in India which can readily take up the vast task of providing farm credit to the needy agriculturists. It is therefore imperative to effectively remedy the present weaknesses in these institutions in order to ensure a steady flow of credit to meet the fast growing requirements of farmers.

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