

CHANGING POLICY AND PERFORMANCE RELATING
TO RURAL CREDIT IN INDIA

1951 - 1981

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A Dissertation Submitted To The
University Of Poona In Partial
Fulfilment Of The Requirements
For The Degree Of Master Of
Philosophy In Economics

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July 1987

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PREFACE

The present study is concerned with the "Changing Policy and Performance Relating to Rural Credit in India" during the period 1951-1981. It contains three chapters. Chapter 1 reviews briefly the rural credit policy during the British rule in India. This brief review is meant to serve as a background to the rural credit policy during the post independence period. Chapter 2 presents in detail the policy and performance relating to rural credit following the recommendations of the All-India Rural Credit Survey Committee in the early fifties till the nationalisation of commercial banks in 1969. Chapter 3 reviews the policy and performance resulting from the greater institutionalisation of rural credit during the seventies. It also brings out the conclusions emerging from our discussions.

This study was carried out under the supervision of Professor Nilakantha Rath. I wish to acknowledge my gratitude and indebtedness to him for his constant guidance and valuable comments at all stages of my work.

I am also thankful to Miss Genevieve D'Souza, Mr. B.G.Shirgurkar and Miss Asha Negi for the efficient typing of the manuscript.

July, 1987

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CHAPTER 1

RURAL CREDIT POLICY DURING THE BRITISH RULE

1.1 The main concern of the policy makers in the field of agrarian policy until World War II was with the problem of rural indebtedness. The concern was with the "burden of debt" of the rural borrowers. This was because the cultivators who borrowed money were not capable of repaying. The moneylenders who lent money took advantage of this situation and exploited the ignorant debtors. This was manifested in many evils in the life and society of rural India. The British government in India made several efforts from the seventies of the last century till the Second World War to mitigate this debt burden.

1.2 In this chapter, the problem of rural indebtedness and the policy of the government towards it is reviewed briefly. This brief review is meant to serve as a background to the rural credit policy in India during the post independence period. Section I presents the forces that led to the rise in indebtedness during the British rule. Section II selectively reviews the relevant legislations undertaken by the British government to mitigate the burden of indebtedness. The provision of alternative agencies in the supply side is also discussed briefly in this section. Section III turns to the situation that led to a change in the basic approach from "indebtedness" to "credit" during the post-war years.

I. FORCES AFFECTING RURAL INDEBTEDNESS

1.3 Indebtedness had always been with rural India and it seems from the history that at no time the Indian cultivator was free from debt (Catanach 1970, 13-14). However, the incidence of debt was not as severe in the pre-British days as was during it. The period preceding British rule in India was characterised by political and administrative uncertainty in the countryside. There was no firmly established state authority to enforce uniform law and order. While people cultivated land

privately, there was no security of ownership of land and no laws and authority to protect it. Therefore, land under cultivation of a cultivator had little exchange value. All this may have created an atmosphere of uncertainty among the men of means to advance their surplus as credit to those who needed it, against security of land. Casual credit operations were, however, done by such moneylenders on the basis of crop or cattle as security but they played a subordinate role in the economy of the countryside (Thorner and Thorner 1962, 53).

1.4 The period of British rule was, in many ways, responsible for the growing volume of indebtedness in rural India. Certain measures undertaken by the British, though not altogether detrimental to the cultivator's welfare, facilitated the emergence of debt on a large scale. In the first place, the land settlement of the nineteenth century established secured private property in land and this enhanced the creditworthiness of the proprietors. In the Zamindari areas, the tenants also shared this enhancement after the passing of various tenancy acts which gave fixity of tenure to certain lease-holding classes. Secondly, the establishment of a hierarchy of civil courts and the laws administered by these courts - the Indian Contract Act and the Civil Procedure Code - created an atmosphere of certainty for the creditors to recover their dues. The passing of the Registration of Document Act (1864) and the Transfer of Property Act (1882) enabled the claims to be systematically recorded and facilitated credit operations of the moneylenders in the rural areas.

1.5 While these changes provided a secure asset base for contracting debt and an institutional structure to enforce it, the poor and fluctuating state of the rural economy created the need for contracting debts. The overall agricultural development during the British days was poor - less than the population growth and was confined to few crops and regions. In a study, George Blyn found that during the period 1893 - 1946, the index number of food crops declined from 100 to 93, while

commercial crops increased to 185 and that of total crops to 110 (see Table 1.1) The index of per capita food output, however, declined sharply from 100 in 1893-96 to 68 in 1936-46 and that of total crops to 80 during the same period. This shows that the rural economy did not show any significant growth during the period.

Table 1.1 : Index of Population, Output and Output per Capita During 1893-94 to 1945-46.

	Population index	Index of average annual crop output			Index of output per capita	
		Food	Commer- cial	Total	Food	Total
1893-94 to 1895-96	100	100	100	100	100	100
1996-97 to 1905-06	101	96	105	98	95	97
1906-07 to 1915-16	107	99	126	104	91	97
1916-17 to 1925-26	109	98	142	106	90	98
1926-27 to 1935-36	120	94	171	108	78	90
1936-37 to 1945-46	138	93	185	110	68	80

Source : George Blyn, "The Agricultural Crops in India, 1893-94 to 1945-56: A Statistical Study of Output Trends," Unpublished Dissertation submitted to the University of Pennsylvania, quoted from Thorner and Thorner (1962) 105-106.

On this was superimposed the periodic droughts and famines and the death of cattle due to diseases, which contributed to the great uncertainties and frequent shortages faced by the cultivators. The up and down swing in prices of farm products during the 80 years from 1860 to 1940 made matters more difficult (see Graph 1.1). When prices increased, cultivators resorted to increased borrowings due to the optimism of rising income. When prices slumped, debt became heavy, income became meagre, thus forcing the cultivators not only to default on the standing debt but to borrow afresh. Hence, years of increased borrowing were followed by

years of distress. This increased the vulnerability of debt burden of the cultivators in such periods.^{1/} Although the cultivator could earn a bare subsistence, his family expenditures, particularly on occasions of marriage and funerals, led to more and more debt. In a society, as Prof. T. N. Carver puts it, "where expenditure was less determined by income than dictated by custom and necessity, small income sooner or later meant debt" (quoted from Saini 1969, 2).

Table 1.2: Estimates of Agricultural Indebtedness in India

	Agency/Authority framing the estimate	Year	Estimated agricultural indebtedness (Rs. crores)
1.	Sir Edward Maclagan	1911	200*
2.	M. L. Darling	1925	600**
3.	The Central Banking Enquiry Committee	1929	900***
4.	Dr. Radha Kamal Mukherjee	1935	1200
5.	The Agricultural Credit Department of the Reserve Bank of India	1937	1800

* Based on Nicholson's estimate for Madras

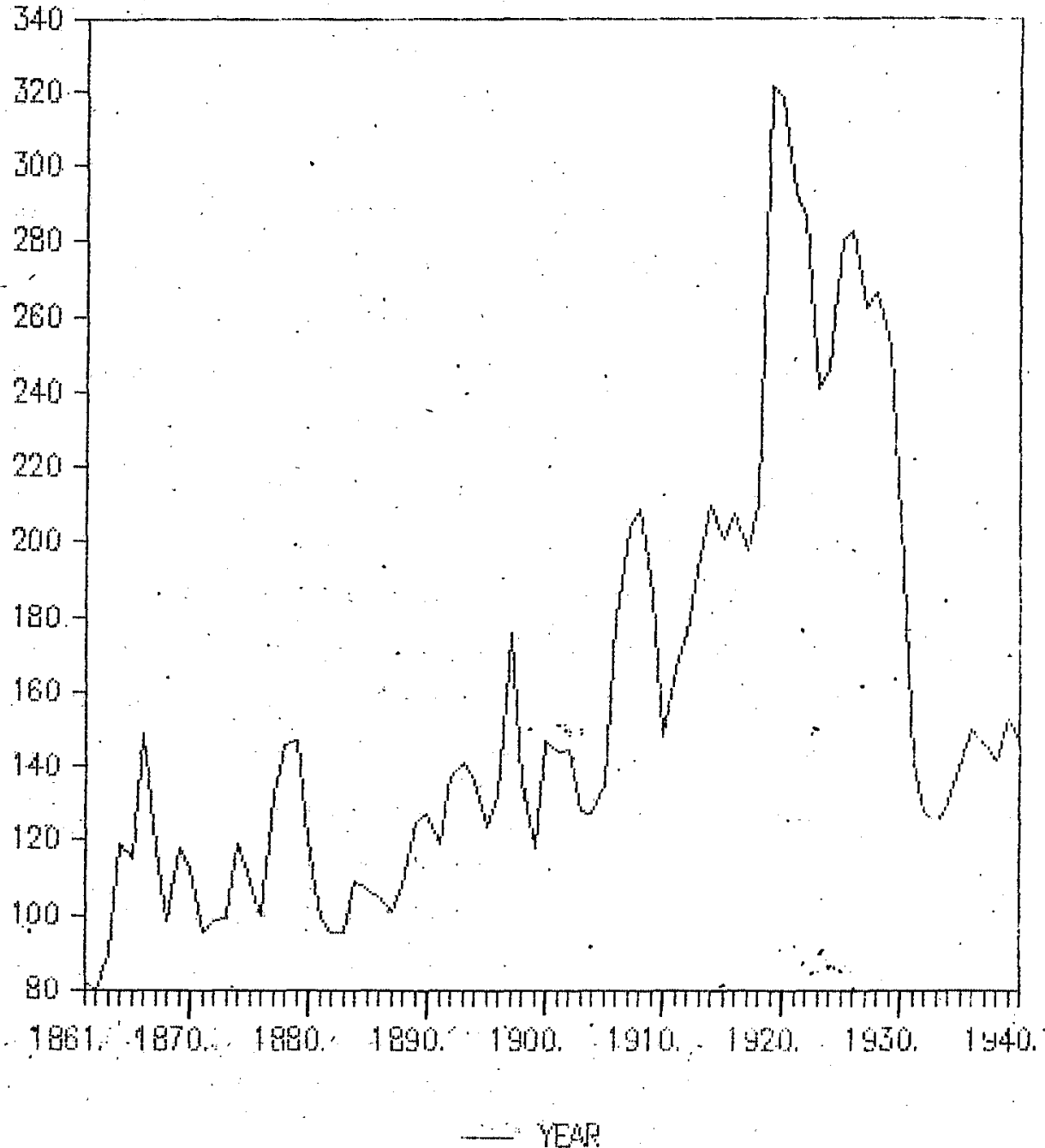
** Based on Punjab figure of Rs. 90 crores

*** Based on Provincial Banking Enquiry Committee Reports

Source: GOI (1958) ii.

^{1/} By comparing the periods which have seen moneylending legislations and periods of fluctuations in prices, it can be observed that more and more such legislations were concentrated during the periods of frequent fluctuations in agricultural prices and particularly during the period of falling prices. For prices, see McAlpin (1983) and for rural indebtedness and moneylending legislations, see Sivaswamy (1939).

Graph 1.1 : Index Numbers of Agricultural Prices
(base: 1873 = 100)



Source : McAlpin, M. (1983), "Price Movements and Fluctuations in Economic Activity (1860-1947)," in Dharma Kumar (Ed.), The Cambridge Economic History of India, Vol. 2: c. 1757-c. 1970, Cambridge University Press.

1.6 In regard to credit supply, the lack of any significant growth in farm production resulted in poor increase in resources for credit. The moneylender - agriculturist or trader - acquired the necessary monetary resources through the growth of unequal landholding and trading in marketable crops. Limited resources for credit coupled with imperfect credit market and ignorance and illiteracy of the cultivator made credit very expensive. It was the combination of these circumstances which, on the one hand, led to the rapid increase in the size of rural indebtedness (see Table 11) and on the other, made moneylending more secure and an instrument of exploitation of the poor cultivators.

1.7 WHY DEBT BECAME A BURDEN? It is, however, natural for a cultivator to borrow for the simple reason that most of his capital is locked up in his land and most importantly, there is a significant time lag between his incurring expenditure for production and garnering the receipt. Hence, credit is not necessarily objectionable and borrowing as such cannot lead to indebtedness. In the past, debt had tended to increase and became a burden because of failure to service it owing to the unproductive use of the funds borrowed.^{2/} Debt was incurred largely for unproductive purposes, as would be indicated by the negligible growth in farm production over large parts of the country. The small borrowings for production could not be separately seen and recognised either by borrowers or lenders.

^{2/} On the basis of the data provided by the Provincial Banking Enquiry Committees (1930), the Agricultural Finance Sub-Committee....found that the proportion of borrowing for productive purposes was almost negligible. Repayment of debt was everywhere an important factor for contraction of new debt, followed by consumer needs, borrowing at the time of distress and for social and ceremonial purposes (GOI 1945).

Secondly, as already indicated, the burden of debt had oscillated due to fluctuation of prices of produce and land value. Added to these, the one sided system of account keeping and a very high rate of interest tended to swell the debt burden.

"If the genesis of debt was insufficient income and unexpected happenings, its rapid growth was due to the accumulation of interest" (Naidu et al 1935, 10). It was under these conditions that the debt burden became heavy and cumulative

1.8 The consequence of such a state of affairs was first manifested in the widespread transfer of landed property from the defaulting debtors to the moneylenders (see Sivaswamy 1939; Barucha 1937, Catanach 1970, 13-24 and GOI 1958). The moneylenders could also exploit the debtors in a variety of other ways such as, taking possession of the crop and cattle of the debtors, attaching future labour service, even physical torture,^{3/} etc. Sir Malcom Darling, an experienced observer of rural India, stated that "by 1880 the unequal fight between the peasants and the moneylenders had ended in a crushing victory for the latter" and "in the thirty years following the moneylender reached his Zenith" (quoted from Mellor et al 1968, 61). The resulting pauperisation of the peasantry brought about a deterioration in the relation between peasants and moneylenders which resulted in severe agrarian riots during the eighties of the last century. The first set of such consequences was seen in the riots in the Deccan in the early 1870s. The sharp rise in price of cotton during American Civil War led to the contraction of higher debts. The sharp fall in price of cotton following the war years left the debtors unprotected and thus, increased the money burden of debt and exploitation of debtors.

^{3/} For a lucid analysis of the operation of moneylenders, see Ghatak (1976), Roth (1983) and Bhaduri 1982).

II. GOVERNMENT POLICY TOWARDS INDEBTEDNESS

1.9. The British government recognised the repercussion of the problem of indebtedness and instituted a series of measures to mitigate it. For the present purpose, only main legislations and their approach to the problem of indebtedness are discussed without giving details of their implementations and problems arising out of that which varied from region to region. The corrective measures^{4/} started with the Deccan Agriculturist Relief Act (1879), a direct upshot of Decan riots, which authorised the law courts to examine the history of debt, to with-hold sale of land except in the event of a specific mortgage, to reduce the extortionate rates of interest and to spread the amount due over instalments. In the initial period of its operation the Act did some good by preventing the grosser abuses of money-lending and providing some relief to the heavily indebted cultivators, especially in the days of world wide agricultural depression following the American Civil War, .But after some years, its operation brought many defects and ultimately it became a target of general criticism and its repeal was universally advocated (Sivaswamy 1939, i). Similar legislations in the form of Land Alienation Act. (1900) was passed in Punjab and later in the United Provinces and Central Provinces to stop the passing of lands from peasants into the hands of the moneylenders. These Acts, however, failed in their main objective, for these permitted the transfer of land to a creditor if he was an "agriculturist". Thus a new class of moneylender took place of the older type (Mukherjee 1985). The Usurious Loans Act (1918) sought to afford protection to debtors through enforcing the rule of 'Damdupat' under which no debtor was liable to pay an amount of interest exceeding the principal and also

^{4/} For a detail analysis of the legislations see Sivaswamy 1939 and GOI 1958.

by allowing the courts to reopen, on their own initiative, old cases and to settle the term equitably. All these measures still left unsolved the problem posed by the accumulated burden of debt estimated by the Central Banking Enquiry Committee at around Rs. 900 crores (see Table 1.2). The measures undertaken during these periods were neither uniform throughout the country nor executed in all provinces at the same time. The Royal Commission on Agriculture in 1928 observed that "the worst policy towards debt is to ignore it and do nothing" (GOI 1928).

1.10 Such was the policy till the depression came in the early 1930s. The problem of indebtedness was further aggravated by the steep fall in agricultural prices during the depression years. The increase in money as well as real burden of debt due to the fall in prices led to the default of standing debt on a larger scale. (The similar situation had been faced by the cultivators in Deccan earlier in 1880s.) Distress sales of movable and immovable properties were reported from many areas and land mortgages and transfers showed an upward trend (Rath 1960). Fresh borrowing became very difficult because the moneylenders were extremely reluctant to advance loans on the security of rapidly depreciating assets. The supply of credit also contracted due to falling prices of crops and default of standing debt. The need for credit, however, increased manifold. All this resulted in acute agrarian distress for which some measure of relief was called for.

1.11 The relief measures were partly provided by improving upon or extending the scope of existing measures. They followed more or less the patterns of the Deccan Agriculturist Relief Act. The Usurious Loans Act was amended (by various provincial governments) making it obligatory for the law courts to use its power if interest charges was excessive or transactions unfair. This period also witnessed several moneylending legislations commencing with the Punjab Regulation of Accounts Act

(1930). These Acts provided compulsory registration and licensing of money lenders, recording of transfers, enforcement of maximum rates of interest, etc. However, in the absence of a proper government machinery to enforce these regulations, no perceptible improvement in the dealings of the moneylenders was possible. The timings of these legislations were also not uniform throughout the country. For instance, in Bombay, though the moneylending act was passed in the early thirties, it was brought to force only in 1942. Such periodic legislations also created confusion and had demoralising effect on creditors and this affected credit supply.

1.12 The main measure of relief during the depression years constituted the provision of Debt Adjustment Board and/or Debt Relief Court. The attempt was to bring the debtor and creditor together and to get the debt scaled down to the repaying capacity of the debtor by a mutual agreement between them through the machinery of the Board/Court. But these measures were not wholly effective because of the understandable reluctance of debtors to bring moneylenders, often their sole source of credit, to the court. The rules were enforced and hence relief provided in those cases which came before the courts or Adjustment Boards voluntarily. The extent of debt reduction whether on a voluntary or a compulsory basis, varied from about 19% in Travancore to about 76% in Saurashtra and that broadly in most Part A states, debt adjustment involved reduction ranging from 40% to 60% and in Part B states from 20% to 40% (RBI 1954, 123).

1.13 From the eighties of the last century to the beginning of the Second World War, these were the measures taken in the field of rural indebtedness. All these measures had done some good to relieve the debt burden of cultivators, but it would be a gross exaggeration to say that they had solved the problem of rural indebtedness. Moneylenders who had previously been able to exploit the cultivator were also able to circumvent the regulations (see Table 1.3). For example, if interest rates were set low, then loans could be written for a larger sum than

was actually provided; if land could not be mortgaged, then false sales could be made or subleases of various types negotiated (see RBI 1954, 123-24). The inevitability of credit and the indispensability of moneylender led to the evasion of law and exploitation of ignorant debtors.

Table 1.3 : Impact of Moneylending Legislation as Revealed by the Rural Credit Survey During 1951-52.

State	Maximum stipulated interest rates*	Percentage amounts of loans** advanced by private agencies at more than stipulated rates
Assam	12½	14
Bihar	12	88
Bombay	12	19
Madhya Pradesh	18	67
Madras	5½	86
Orissa	12	86
Punjab	12½	34
Uttar Pradesh	24	29
West Bengal	10	88
Hyderabad	9	83
Mysore	12	10
PEPSU	12½	65
Travancore-Cochin	12***	12

* Refers to simple interest rates on unsecured loans generally on the legal position stood in 1951.

** Do not include borrowings at unspecified rates.

*** Secured loans.

Source: RBI (1954) 174.

Some moneylenders even found the debt legislations so burdensome that they had to wind up their business. The consequent credit scarcity affected the rural economy and in the absence of an effective alternative agency, secret dealings took place at unfair rates. This had been the experience wherever the Moneylenders' Acts had seen rigorously enforced by a supervisory machinery.

1.14 PROVISION OF AN AGENCY FOR RURAL CREDIT: The need for an alternative credit agency was, thus, two fold. Restriction on moneylenders necessitated the creation of an alternative agency to fill up the gap created in the credit market. It also meant that the moneylenders could be controlled only when competing agency was present to deal in fair terms. Secondly, once debt burden of the cultivators had been eliminated or lightened through a process of adjustment, it was necessary to start on a fresh basis. The moneylenders could hardly be relied upon. An alternative agency to take over these debts and regulate future credit was a logical necessity in the circumstances.

1.15 "Jaccavi" loans had always been granted to cultivators by the government since 1873 and this provision was made more elastic by the Land Improvement Loans Act (1883) and the Agriculturist Loans Act (1884). Such direct aid, meant for years of crop failures and distress, was naturally inadequate to meet the cultivators' needs in ordinary circumstances. A scheme for the establishment of an agricultural bank put forward in 1882 by William Wedderburn, to provide credit at reasonable rates, did not receive official favour. An alternative agency was provided by an Act of 1904, which gave birth to co-operative societies, an association of villagers on a voluntary basis to form credit and thrift societies. It may be mentioned here that this was not due to any spontaneous movement but an outcome of government policy, as Catanach put it: "The Co-operative Societies Act of 1904 was imposed upon an

unwilling Government of Bombay by a Punjab dominated Government of India" (Catanach 1970, 222). The Act was further modified by the MacLagan Committee (1915), following which co-operatives came to be organised in three-tier basis, with primary societies at the base, central co-operative banks at the intermediate level and state co-operative bank at the apex level.

1.16 Left to themselves, the co-operatives were ill equipped to beat the money-lenders at their own game. They became the institutions of people who had little to save most of the time and the better off did not share their resources through these institutions. Wherever the better off cultivators pooled their resources, the poorer sections could hardly get benefit out of that. In fact it was the deliberate policy to bring the rich cultivators into the ambit of co-operative fold to improve their financial strength (Bruce 1979). But why should the rich cultivators deposit their surplus resources in a poorly organised institution like co-operatives when better avenues in the form of direct lending was possible? It was these sections who could generate more resources by perpetuating a system of unequal landholding and other assets, and more importantly moneylending. It was very unlikely that these better off sections would have come forward with more resources for the benefit of those who were borrowers of such loans. It is not surprising that these institutions arose in regions like Punjab which were witnessing irrigation and agricultural development. In other areas, these were essentially the institutions of potential borrowers, mainly for family living expenses. And furthermore, the co-operatives also could not beat the moneylenders as a business organisation suitable to the needs of the rural borrowers. As Catanach observed: "It might grant a lump sum at sowing time, to be paid back as a lump sum at harvest time. But in the meantime a child might be born, there might be a wedding, a bullock might die, the crop itself might fail. The moneylender could grant a new loan and an extension of time while perhaps raising his interest rates" (Catanach 1970, 69).

1.17 Progress in respect of long term co-operative credit was even slower and confined mainly to the Madras Presidency which passed a special Co-operative Land Mortgage Banks Act in 1934. Having originated in the depression years, these institutions mainly catered to the debt redemption purposes and their capital was also very limited. The provision of long term credit by the primary agricultural credit societies was quite impossible for they were not even able to do the single business of providing short term credit to the cultivator.

1.18 INADEQUACY OF PROTECTIVE MEASURES: This is how the problem of rural indebtedness was visualised and protective measures undertaken to mitigate it. The measures, however, could not bring any perceptible improvement, as seen through different reports, in the life of rural India due to the fact that they attacked upon indebtedness alone - scaling down debt, regulating moneylenders and his terms and conditions. The provision of a suitable and cheap system of credit remained a great desideratum. As Prof. Gadgil observed that "the protective measures contemplated no revolutionary change in the character of the credit machinery and were profoundly influenced by considerations of the continued working of the existing credit machinery".^{5/}

1.19 That was not the end of the story. The problem of accumulated debt was only a symptom and the disease was the low and uncertain income of the cultivators. Moneylenders' dealings could have been regulated through coercive measures, the standing debt could have been conciliated or scaled down; but they were bound to reappear so long as the occupation of the cultivator could not give him sufficient means to subsist. The problem was therefore due to the low level of agricultural development in the rural areas and the lack of any sincere effort by the British government towards it.

^{5/} D. R. Gadgil in a forward to Swivaswamy (1939) vi.

III. WORLD WAR II AND THE NEW EXPERIMENT

1.20 This was one phase in the debt and credit policy in the country. The World War II witnessed a change in the tide of agricultural prices. The high degree of inflation experienced in the war years had considerably lightened the debt burden of the cultivators. In a letter to provincial governments in 1943, the Reserve Bank argued:

"We observe that the problem of rural indebtedness, which, along with a few others, had practically monopolised government and public attention and evoked considerable legislative activity during the last depression, appears to have been relegated to the background almost to the point of being forgotten with the easing of the situation brought about by the recent rise in prices. When the conditions assume normality, debtors' difficulties will begin to show themselves and should there be another depression, they will be accentuated once again, unless the future is anticipated now and timely and suitable action taken. Under the conditions created by the war, agricultural incomes must have considerably increased and the burden of debt become much lighter. The present therefore seems to us to offer an unique opportunities for a positive action for tackling the problem, which if exploited to the full, might ward off the resurgence in the post war period of many of the debtors' difficulties" (quoted from Naidu 1946, 1).

1.21 Following this letter, several provincial governments made inquiries into the effect of rising prices on the level of rural indebtedness. Views of different provinces were different as regard to the impact of rising prices in different regions as well as among different strata of cultivators. An inquiry in the Madras Presidency came to the conclusion that the chief beneficiaries of the rise in farm prices during the war years were the most substantial cultivators and the small

cultivators had actually suffered (Naidu 1946, 43-44). However, it can be said that there was no marked increase in the money burden of debt even on the smaller cultivators and certainly the real burden of the standing debt was reduced to a great extent due to the changed value of money.

1.22 THE REPORT OF THE AGRICULTURAL FINANCE SUB-COMMITTEE: In the post war years, as a part of the reconstruction programme, agricultural finance came for special consideration at the hands of the Agricultural Finance Sub-Committee (GOI 1945). The Committee was appointed "to report on the ways in which indebtedness could be reduced and finance could be provided under efficient control for agriculture and animal husbandry". After recognising the impact of rise in prices on the rural debt situation and the views of different provincial governments as regards to its impact on different regions and among different strata of cultivators, the Committee held that a proper system of finance should precede a programme of total clearing of past debt burden. The Committee, thus, recommended compulsory adjustment of debt to the repaying capacity of the cultivator in all areas so as to give them a chance to work on a fresh basis. And this process should be accompanied by a complete reconstruction of the financial structure.

1.23 The Committee observed that a programme of financial reconstruction should be the responsibility of the state. For the smooth delivery of the planned objectives it specifically proposed the state to set up agricultural credit corporations to make mortgage finance available and to supply the credit needs of all credit-worthy borrowers. Though the Committee held that the ideal agency for the purpose would be a "complete system of co-operative finance", a number of considerations ruled out this possibility. One was the inadequate and ineffective spread of co-operative movement over the country as a whole. The other was the idea of a

financial structure amenable to planning and control. The Committee held that a programme of financial reconstruction should not be left to the villagers and it should be under the responsibility of the state. Moreover, co-operative organisations, being autonomous bodies, could not be relied upon to implement planned objectives unless their autonomy was interfered to such an extent which would change their co-operative character. The Committee, thus, strongly recommended the establishment of a state agricultural credit corporation. The Committee merely added a rider that in those states where the co-operators and the government feel that the co-operatives could undertake all the tasks expected from the corporations, no separate corporations need to be set up.

1.24 Extensive suggestions were made for the development of non-creditworthy cultivators and landless agricultural labourers and such communities in the areas susceptible to natural calamities and distress. The problem of these cultivators was considered beyond the ability of any credit agency. Therefore the Committee recommended a complete plan of rehabilitation worked out and supervised by the state as a permanent solution to the problem of such communities. The Committee recognised that unless the economy of these cultivators and the regions where they inhabit are reconstructed by a long term programme, it is unlikely that their credit problem can be solved. In this context the Committee highlighted the example of Farm Security Administration in USA which had undertaken a massive programme of reconstruction of the poorer farmers in the village.

1.25 Co-operative opinions of the country, particularly in Bombay and Madras, was highly critical of the proposal of having a separate institution for the purpose. The Government of Bombay appointed the Agricultural Credit Organisation Committee which recommended in the following terms:

"A preliminary question which we had to decide before making our recommendations, was whether the existing co-operative agencies would be so reorganised as to discharge the functions envisaged by the Agricultural Finance Sub-Committee with regard to the Agricultural Credit Corporations or whether a new agency was necessary. After a study of the position of the co-operative financing agencies in the province and examining their ability to absorb new clientele, we have come to the conclusion that the existing co-operative agencies can, with suitable reorganisation and state-aid, carry out the work of the Agricultural Credit Corporation and in view of this it is not necessary to start an Agricultural Credit Corporations" (Nanavati 1947, 9).

1.26 The view of the Agricultural Finance Sub-Committee found little acceptance elsewhere in the country. There was a general preference for the reorganisation of co-operative institutions with state assistance and support. The co-operative institutions on their part took up the challenge and in most provinces they undertook crop loan distribution scheme with funds supplied by some central financing agencies like the Reserve Bank. In 1950 came the Rural Banking Enquiry Committee (GOI 1950) which also suggested, among others, increased advances and accommodation by the Reserve Bank to co-operative credit institutions.

1.27 Thus, it took a long time to bring home the lesson that a proper institution for agricultural finance was necessary for the credit needs of the cultivators. The growing agricultural sector in the post-war years and the necessity to support it through the provision of adequate finance and other inputs became the primary concern of policy makers. The emergence of five year Plans and the emphasis on agricultural productivity in general and the development of small and marginal farmers in particular, led to a change in the basic approach from "indebtedness" to "credit".

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Then came the All-India Rural Credit Survey Committee in 1954, which made detailed inquiry into the credit and debt situation in rural India during 1951-52 and made recommendations for the reorganisation of rural credit in the country.

CHAPTER 2

THE ALL-INDIA RURAL CREDIT SURVEY AND THE RURAL CREDIT POLICY

2.1 The recommendations made by the Committee of Direction of the All-India Rural Credit Survey in 1954 (RBI 1954) opened up a new phase in the history of rural credit policy in the country. This Committee for the first time provided a comprehensive empirical background on a country-wise basis on the debt and credit situation in rural India. Based on its main findings, the Committee recommended a long term policy for the provision of rural credit, consistent with the planned programme of agricultural development as envisaged in the First Five Year Plan.

2.2 In this chapter, the policy pertaining to rural credit following the recommendations of the Rural Credit Survey Committee (RCS hereafter) till the nationalisation of commercial banks in 1969 is highlighted. Section I begins with the main findings of the RCS Committee, its major recommendations for the reorganisation of rural credit in the country and the implementation of the recommendations. In Section II, the emerging rural credit situation during 1961-62 is presented. The subsequent policy developments during the sixties and the problems arising out of their implementations are discussed in section III. Section IV outlines the emerging debt and credit situation in 1971-72 followed by the pattern of growth of co-operative credit (short, medium and long term) during 1951-52, 1961-62 and 1971-72. The final section (V) evaluates the main issues and evidence pertaining to rural credit during the period.

I. THE REPORT OF ALL-INDIA RURAL CREDIT SURVEY (1954)

2.3 THE SUBSTANCE OF THE COMMITTEE'S FINDINGS: The Rural Credit Survey was conducted during the year 1951-52 covering over 127,000 families in 600 villages scattered over 75 districts in the country. The survey covered, among others, the demand and supply side of rural credit during the survey period. On the demand side, the survey revealed that a very high proportion of credit borrowed by the rural households were meant for family living purposes as distinct from production expenditures on farm business (Table 2.1). The proportion of amount borrowed for family living purposes was 50.2% of the aggregate amount borrowed by all-households and this proportion increased from big to small cultivators and further to non-cultivators. Family living expenditures accounted for the largest proportion, nearly 70% of the total borrowings of the non-cultivators, while it was 47% for cultivators. State-wise, borrowing for family expenditures was higher in eastern regions like Assam, Bengal, Bihar, Orissa, Rajasthan, Punjab-PEPSU, Madhya Pradesh and Uttar Pradesh as compared to western and southern states such as East Coast (present Madras state), Deccan region, West Coast and Western Cotton region (Table 2.2). On the other hand, the proportion of borrowing for current and capital expenditures on farm business was highest in the East Coast (64%) followed by the Western Cotton region (55.3%) and the North Deccan (52%) and it was lower in States like Assam, Orissa, Bengal, Bihar, Rajasthan and some parts of Uttar Pradesh and Madhya Pradesh.

2.4 On the supply side, the survey revealed that for all purposes, the non-institutional lenders dominated the rural credit market where poor cultivators were the main borrowers. As indicated in Table 2.3 about 93% of the total credit obtained by the rural households came from non-institutional sources, such as money lenders - professionals or its agricultural varieties - land lords, village traders, friends and relatives. Conversely, government,

Table 2.1 : Proportion of Amount Borrowed for Different
Purposes to Aggregate Amount Borrowed During 1951-52
(Percentages)

Purpose	Cultivators					Non- cultivators	All families
	Big	Large	Medium	Small	Total		
Capital expenditure on farm	35.5	34.7	30.5	23.2	31.5	6.0	27.8
Current expenditure on farm	13.3	12.1	10.1	6.8	10.6	1.1	9.3
Non-farm business expenditure	6.4	4.9	3.3	6.0	4.5	18.5	6.6
Family expenditure	37.2	41.2	49.5	59.8	46.9	69.9	50.2
Other expenditure including repayment of old debt	7.2	6.6	6.0	3.9	6.0	4.4	5.7
More than one purpose	0.4	0.5	0.6	0.3	0.5	0.1	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source : RBI (1954). All-India Rural Credit Survey, Vol. I, Part 1,
The Survey Report, 265 and 293.

Table 2.2 : Purpose-Wise Analysis of Amount Borrowed During The Year: Regional Data-
All-Cultivators

Region	Total	Capital expen- diture on farm	Current expen- diture on farm	Non- farm business expen- diture	Family expen- diture	Other expen- diture	More than one purpose	Purpose not specified
1. Assam	100.0	29.6	0.3	2.2	57.1	8.6	1.5	0.8
2. Bihar-Bengal	100.0	21.6	7.4	3.0	57.8	2.5	2.0	5.8
3. Eastern Uttar Pradesh	100.0	23.5	16.2	0.6	49.3	2.5	1.6	6.3
4. Western Uttar Pradesh	100.0	28.9	4.1	2.5	46.1	6.0	3.6	8.8
5. Punjab-PEPSU	100.0	19.4	5.5	4.3	48.8	7.4	14.1	0.6
6. Rajasthan	100.0	21.0	6.9	0.3	42.9	1.2	24.9	2.9
7. Central India	100.0	25.6	5.7	21.0	38.9	3.1	4.9	0.7
8. Orissa and East Madhya Pradesh	100.0	22.4	5.3	2.5	57.8	5.1	3.5	3.5
9. Western Cotton region	100.0	21.5	33.8	0.6	31.7	1.2	5.9	5.4
10. North Deccan	100.0	35.5	16.5	1.0	32.7	4.3	4.0	6.0
11. South Deccan	100.0	26.8	12.9	11.5	38.6	6.1	2.7	1.3
12. East Coast	100.0	43.7	19.4	3.6	25.8	3.3	4.2	-
13. West Coast	100.0	12.3	12.4	12.4	39.3	8.3	14.5	0.8
All-India	100.0	26.9	13.0	4.6	40.9	4.3	6.8	3.6

Source : RBI (1954) All-India Rural Credit Survey, Vol. I, part 1, The Survey Report,
309.

Table 2.3 : Average Borrowings from Different Credit Agency, 1951-52

(Percentages)

Credit Agency	Cultivators					Non-Cultivators	All Families
	Big	Large	Medium	Small	Total		
Government	4.5	3.8	3.2	2.0	3.3	1.5	3.1
Co-operatives	4.0	3.8	2.7	1.7	3.1	1.5	2.9
Relatives	14.0	14.5	14.1	13.5	14.2	15.9	14.4
Land Lords	0.7	1.1	1.8	2.2	1.5	4.9	2.0
Agricultural money lenders	23.9	24.2	25.9	24.8	24.9	24.8	24.8
Professional money lenders	41.9	43.3	45.0	49.6	44.8	38.0	43.8
Traders and commission agents	7.6	6.3	4.9	4.1	5.5	9.9	6.1
Commercial banks	1.9	1.4	0.5	0.4	0.9	2.0	1.1
Others	1.5	1.6	1.9	1.7	1.8	1.9	1.8
Total	100	100	100	100	100	100	100

Source : RBI (1954). All-India Rural Credit Survey, Vol. I, Part 2, The Survey Report, 3 and 8.

co-operatives and commercial banks, the main institutional sources of credit in rural areas, were insignificant as they together provided about 7% in the total borrowings of rural households. The borrowings of cultivators and non-cultivators followed more or less similar pattern except that institutional sources were even less significant to the non-cultivators. Share of institutional agencies was very uneven across the states/regions of the country with 23.2% in

Bombay province, 18.8% in Punjab and 16.9% in Madhya Pradesh, 0.6% in Rajasthan, 2.7% in Hyderabad, 3.2% in both Uttar Pradesh and West Bengal, 4.1% in Orissa, 4.8% in Bihar and 6.7% in Assam for the cultivator households (see Table 2.6 p.37). Particularly important to note is the role of co-operative societies which provided only 3.1% of the borrowings of cultivator households for the country as a whole with 16.2% in Bombay and 4.2% in Punjab to 0.1% in Bihar, 0.5% in Assam, 0.9% in Hyderabad and 1.3% in Bengal (Table 2.6).

2.5 Limited institutional credit as provided by government, co-operatives and commercial banks, went primarily to meet the production needs of cultivators as their preoccupation was production finance, whereas for consumption purposes, the cultivators had to rely on non-institutional agencies (Table 2.4).

Table 2.4 : Average Borrowings of cultivators Classified According to Purpose, Period and Credit Agency.

Credit Agency	(Percentages)							
	Agricultural		Non-Agricultural		Consumption		Repayment of old debt	Other
	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term		
Government	2.8	6.0	-	2.1	1.0	0.8	0.8	0.8
Co-operatives	11.3	2.4	0.5	-	2.2	0.9	8.7	2.4
Relatives	7.5	13.1	1.4	7.1	14.6	15.2	10.6	5.2
Land Lords	2.1	2.8	1.8	-	2.2	2.2	2.0	1.8
Agricultural money lenders	34.1	38.7	25.2	6.2	30.6	36.5	50.4	23.2
Professional money lenders	25.1	23.3	22.9	84.1	30.9	32.9	10.6	51.6
Traders and commission agents	10.1	8.6	15.6	1.7	12.6	4.3	12.6	8.3
Commercial bank	1.7	0.5	1.8	0.1	0.6	0.1	0.2	-
Others	5.3	4.6	30.8	0.2	4.3	6.9	4.1	6.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source : RBI (1954). All-India Rural Credit Survey, Vol. I, Part 2, The Survey Report, 6.

Government finance went primarily to meet the long terms needs of agriculture, whereas co-operative credit was largely available for short term agricultural purposes. Moneylenders, professionals or otherwise, accounted for the highest Proportion for all purposes and most importantly for consumption and repayment of old debts. Broadly speaking, institutional finance was relatively more important for agricultural purposes. For consumption and repayment of old debts, the cultivators had to rely on non-institutional sources.

2.6 On the supply side of rural credit, it would be worth seeing the class-wise distribution of co-operative finance during 1951-52 (Table 2.5).

Table 2.5 : Class-wise Distribution of Co-operative Finance by Cultivator Households.

Type of cultivator	Proportion of families borrowing from any agency (%)	Proportion of families reported borrowings from co-operatives (%)	Average value of land owned per family (Rs.)	Average amount borrowed from co-operatives per family (Rs.)	Amount borrowed from co-operatives as percentage of the total borrowings from all agencies (%)
Big	56.7	5.1	12,951	21.0	4.0
Large	59.4	4.5	7,521	13.5	3.8
Medium	60.7	3.3	2,353	4.7	2.7
Small	55.1	1.9	1,059	1.9	1.7
All	58.6	3.2	-	-	3.1

Source : RBI (1954), All-India Rural Credit Survey, Vol.II, General Report, 230 and 234.

It is seen that a very small proportion of cultivator households borrowed from co-operatives and this proportion being smallest for the small cultivators.

Co-operatives met only 1.7% of the total borrowings of small cultivators while it was 38% for the big cultivators. The predominance of co-operative finance on big cultivators is explained by the criteria of creditworthiness as used by the co-operatives based on land as security and their presumption on production loans. Since the small cultivators had less land to pledge as security and proportionately demanded more consumption loans, the co-operative credit was systematically biased against them.

2.7 These were the main findings of the RCS Committee. From these findings what emerges is a very disquieting feature of the debt and credit situation in rural India. Rural borrowers were almost completely dependent on non-institutional credit. Institutional credit, limited as it was, concentrated mainly on big and large cultivators and obviously for productive purposes. The small and medium cultivators demanded higher proportion for family needs, most of which were borrowed from non-institutional sources and consequently at higher interest rates (ranging from 27% in Bihar to 70% in Orissa (RBI 1954, 173). Since most of these loans were contracted from money lenders, secured against standing crops, land, promise to offer future labour services, revision of tenurial arrangements, etc., default in repayment led to the exploitation of ignorant debtors. The system of private credit when interwoven and interlinked with marketing became a major avenue for extraction of agricultural surplus from the poor peasants; for they had to sell a part of their crop to the trader-cum-money lender. All these inhibited the production efforts of the cultivators.

2.8 APPROACH TO THE PROBLEM : This was the empirical background based on which the Committee formulated its approach to the problem of rural credit. The Committee clearly recognised that the dependence of a very high proportion of rural households on consumption loans and hence on moneylenders was nothing

but a systematic reflection of rural poverty. Solution to the problem of rural credit thus embodied in the whole spectrum of agrarian reform which the Committee considered beyond the scope of any credit institution. However, if adequate credit provided in time to those who needed it would not only minimise the dependence of cultivators on moneylenders but simultaneously increase agricultural production through the use of increased inputs. The provision of an alternative agency would also bring down the monopoly position of moneylenders hitherto enjoyed in the rural credit market. The Committee also took cognisance of the objectives of the First Five Year Plan which envisaged a "dynamic programme" of agricultural production mainly by the intensive use of the land already under cultivation. This meant more irrigation, more fertiliser, better seed, multiple cropping and more efficient cultivation generally. The Plan also envisaged the development of small and marginal farmers who constituted about 70 per cent of the total holdings and who were likely to grow in number as a result of land reform. Thus, the demand for credit - short, medium and long term - was to take a larger dimension particularly for cultivators with smaller holdings who suffered much more from the shortage of credit. For all this, a proper institution for providing credit as well as other services such as marketing was called for, and the agency concerned should be in a position to coordinate with the objectives of the Plan and simultaneously serve as an effective alternative to, not necessarily a complete substitute for, the private sources of credit.

2.9 SEARCH FOR A SOLUTION: The Committee found the necessary institutional arrangement in the building up of the system of co-operative credit. Thirty years of chequered progress did not deter the Committee to refrain from the reconstruction of the co-operative structure as a solution to the rural credit in the country. The question remains as to why build up a system which had proved to be weak in a scheme of rural credit? The answer is contained in the

Committee's analysis of the grounds on which the various alternatives have been rejected. The Committee did not consider the state as a direct lender, whose share was even more than that of co-operatives at the time because of its inadequacy of amount, indifference to purpose, inappropriateness of security, delays in disbursement, lack of supervision and co-ordination. Taccavi, according to it, was an "ill performed disbursement of inadequate moneys by an ill suited agency" (RBI 1954, 199). Commercial banks had so far remained aloof from the field except to a limited extent for financing traders for marketing of agricultural commodities. The only alternative was to incorporate the money-lender in to the organised system, which had long been debated, by appropriate legislations suited to the need. The Committee made it clear that the "moneylender is himself a part of the problem. While it would be unrealistic to ignore him, so also it would be unrealistic in the extreme to incorporate him as a part of the solution itself" (RBI 1954, 361). In a system of planned agricultural production, much more was needed than what could be provided by an individualistic agency like the moneylender. The cultivator needed guidance in production, in the use of credit, in the avoidance of waste and other related services. To achieve this, loan supervision was necessary.

2.10 Historically, the co-operatives had this advantage of adaptability and familiarity in Indian scene. In the Committee's view, no credit structure could be raised in the conditions which prevailed in India except on the foundation of a nation-wide organisation, in the villages, of the producers and on imparting direct responsibility for administering credit locally, since it was impossible to reach millions of small farmers individually. The Committee, therefore, concluded that despite its past dismal record, there was no alternative to the co-operatives at the village level as an agency for rural credit.

2.11 Accepting co-operatives as the institutional set up for rural credit, the Committee went on to identify the factors responsible for the failure of co-operatives in India. The major reasons for the failure were either inherent in the movement or were outside it. The inherent factors arose from lack of funds, stress on land as security for loans, and the small and uneconomic scale of operations of the societies. The more important causes were, however, outside the movement such as the domination of caste within the village and the unequal competition and opposition from the moneylenders and traders, who were in a powerful position supported by a strong urban economy. The Committee contended that the success of co-operatives could be ensured provided the causes of its failure were adequately dealt with.

2.12 INTEGRATED SCHEME: BASIC APPROACH: The necessary conditions for the success of co-operatives were embodied in the "Integrated Scheme" of rural credit, the salient features of which were as follows:

(i) STATE PARTNERSHIP: To enable co-operatives to withstand the opposition from the vested interests and to create efficient leadership, the Committee recommended the state to provide financial resources to the co-operatives in the form of share capital and to represent state nominees^D in their board of management so as to ensure the implementation of right policies.

(ii) FORMATION OF LARGE-SIZED SOCIETIES: Since the pattern of co-operative societies had been small-sized confining to the village, they were not able to provide adequate business and, thus, had to depend on the services of honorary secretaries. The Committee recommended to form large-sized societies either by amalgamation of smaller ones or by fresh registration, covering a group of villages with reasonably large membership and adequate share capital.

(iii) CROP LOAN SCHEME: To do away with the lending policies based on land, the Committee recommended the crop loan system, whose basic elements were: (a) production is the main purpose of the arrangement of finance; (b) short term loans are given on the basis that a crop is anticipated; (c) the loans are related in amount to estimated outlay in raising the crop, and (d) recoveries are made, as and when crop is sold, from the proceeds of the sale (RBI 1954, 433). Thus, the crop loan system by shifting the emphasis from land to crop as security, brought in even tenants as potential borrowers; by relating the size of the loan to the requirements of business, it emphasized productive purpose; and by matching the maturity of the loan to the disposal of the crop, it assured recovery. Finally, by making provision for extending the amount in instalments and also in kind, it emphasized the aspect of supervision.

(iv) LINKING CREDIT WITH MARKETING: Linking credit with marketing was recommended to provide a built-in mechanism for recovery of credit and to enable the cultivator to obtain a fair price of his produce. In operational terms this implied that primary agricultural credit society should become a member of a marketing society or provide marketing services on its own. The co-operative credit thus made a combination of credit, input supply and marketing. Such diversity of operations by the societies was meant to spread the management costs over a wide range of activities.

(v) LONG TERM CREDIT: In so far as long term credit is concerned, the Committee retained land mortgage banks as the agency and ownership of land as the security for raising long term loan. Having arisen in the depression years, these agencies were mainly providing loans for the repayment of old debts. The Committee ruled out the possibility of the PACS providing long term credit; for these institutions had not been able to do the single business of providing short term credit satisfactorily. In fact, the problem of overdues of the

PACS made the land mortgage banks risk conscious in the face of their scarce resource position. Specific recommendations of the RCS Committee with regard to long term credit were: (a) to have a minimum structure consisting a Central Land Mortgage Bank in each state with primaries through which it should operate; (b) to provide loans for productive purposes and for agricultural development; (c) to raise large resources through floatation of rural debentures and special developmental debentures supported by government guarantees; (d) to co-ordinate with the agricultural development schemes of the Plan; and (e) the state governments to ensure the financial soundness of the operation of banks through the provision of special staff.

(vi) **ROLE OF THE RESERVE BANK:** The Committee assigned an important role to the Reserve Bank in implementing the integrated scheme and co-ordinating the training activities of the co-operative credit organisations. Recognising the inability of the societies in the short run to raise adequate resources from their share capital and deposits, the Committee recommended the Reserve Bank to make provision for funds on a liberalised basis. For short term wing, the Committee recommended the Reserve Bank to make short term accommodations at the beginning of the crop season and for long term credit structure, to make direct loans to the land mortgage banks and to contribute to their debenture programmes.

(vii) **PROBLEMS OF SMALL CULTIVATORS:** The problems of small cultivators were at the forefront of the Committee's approach. In terms of its own findings, the co-operative credit was biased against the small cultivators because they had less land to offer as security and their demand was consumption loan (RBI 1954, 234-35). But the most important point was that the scale of operation of the society was so small that whatever amount was shared by the bigger and most influential cultivators, for it were

they who not only controlled the management of the co-operatives, but also were responsible for raising such resources. Under such circumstances, the Committee recommended that if adequate resources could be put at the disposal of the co-operatives by state participation and Reserve Bank's financial accommodation and with the presence of state nominees in their board of management and with a purposeful lending policy such as crop loan based on crop as security, the credit-worthy cultivators would not be handicapped due to lack of credit. The problem of consumption loan was thought to be beyond the scope of any institutional agency. The Committee observed that a planned programme of agricultural production with its component such as land reform, reform of marketing system, and reform towards productive use of assets by land consolidation and better water management could take care of the problems of such farmers and of rural poverty in general. The Committee merely added that "such needs (consumption needs) will be automatically covered if the quantum of crop loans - as so much per acre of the particular crop cultivated - is properly fixed for each area after taking into account all relevant factors" (RBI 1954,433).

2.13 These were the major recommendations of the RCS Committee as embodied in the integrated scheme of rural credit.

2.14 IMPLEMENTATION OF THE INTEGRATED SCHEME: ^{1/} The recommendations made by the RCS Committee were generally accepted by the central and state governments and provided the basis for the reorganisation of co-operative credit in the country. The Reserve Bank assumed the role of a catalytic agent in implementing the agreed policies in co-operation with the central and state governments and the co-operative organisations in the country. The framework pertaining to the short and medium term co-operative credit structure consisted of three tiers, viz., the State Co-operative Banks (SCBs) at the apex level in each state, the

^{1/} For the details of the implementations of the RCS Committee's recommendations see RBI 1969, RBI 1981, RBI 1983 and RBI 1985.

Central Co-operative Banks (CCBs) at the district level, and the Primary Agricultural Credit Societies (PACS) at the village level. At the time when the Rural Credit Survey was conducted, there were at least a few states in which the SCBs did not exist and there were others in which, though in existence, these state level banks were not functioning satisfactorily. At the intermediate level, many of the CCBs were weak, having inadequate areas of operation, small deposits and heavy overdues. The primary level was characterised by a large number of weak and uneconomic societies and many of these had become moribund on account of heavy overdues.

2.15 In building up the co-operative credit structure, the first step the Reserve Bank took was to get the SCBs and CCBs strengthened or established in their respective area of operations, where they did not exist, by state governments. The Reserve Bank drew up special programmes of rehabilitation in the case of weak SCBs and CCBs, by initiating measures to recover overdues, to improve the quality of the administrative and supervisory staff, etc. As regards the primaries, steps were taken to amalgamate the weak and uneconomic societies into large-sized ones covering more villages and more households as members.

2.16 The major role the Reserve Bank played was in the sphere of financial accommodation to the co-operative credit institutions. The National Agricultural Credit (Long Term Operations) Funds was created in 1956 with the Reserve Bank to make long term loans available to state governments to enable them to contribute to the share capital of the co-operatives at different levels. The Reserve Bank made provisions for short term accommodation to CCBs at a concessional rate of 2% below the bank rate which were utilised by the primaries for extending crop loans and loans for marketing of crops. Since the deposit and share capital base of the co-operatives were low, the crop loan schemes

undertaken by the primaries in the initial years were mainly supported from these accommodations. To cope with the problem of crop failure due to natural calamities and distress, the National Agricultural Credit (Stabilisation) Fund was created with the Reserve Bank in 1956 to be utilised for converting the short term accommodations for crop loans into medium term loans. This was to help the primaries to extend the similar facilities to the cultivator borrowers to convert their short term crop loans into medium term for the crop affected by the natural calamities, thereby making them eligible for fresh loans.

2.17 In the sphere of long term credit, the land mortgage banks were considered as the promoter of agricultural development through the provision of long term credit. The organisation of the land mortgage banks took federal in structure in most of the states where a Central Land Mortgage Bank (CLMB) at the state level financed the cultivators through affiliated Primary Land Mortgage Banks (PLMB) at the lower levels. Some states adopted a unitary system where the CLMB itself operated through its branches at the district, tehsil or block levels. The CLMB began raising funds for their loaning operations by issuing ordinary and rural debentures. The state governments assisted the banks by subsidising their management costs, contributing share capital and guaranteeing debentures. The banks in their turn were to reorient their loaning operations by formulating and financing schemes of productive nature in the areas which had seen or were shortly to be brought under irrigation and in the community development project areas.

2.18 All these were the efforts made following the recommendations of the RCS Committee to develop a state partnered co-operative credit structure in the country.

II. EMERGING CREDIT SITUATION DURING 1961-62.

2.19 The period immediately following the RCS Committee's recommendations was mainly devoted to implementing and assimilating the agreed policies. Achievements during this period was seen from the All-India Rural Debt and Investment Survey conducted during 1961-62 (RBI 1965), mainly on the lines of the Rural Credit Survey, 1951-52. Within such a short period of time one does not expect a very significant change in the demand side of rural credit and we mainly concentrate here on the supply side, which provided grounds for the policies during the sixties.

2.20 According to the survey, the share of co-operatives on an all-India basis in the total borrowings of cultivators increased from a meagre level of 3.1% in 1951-52 to 15.5% in 1961-62 (see Table 2.6). In 1961-62, compared to 1951-52, the most remarkable improvement in co-operative finance was in the states of Maharashtra and Gujarat and also Mysore (present Karnataka) which were formerly parts of Bombay Presidency. ^{In 1952,} the share of co-operatives in the total borrowings of cultivators in Bombay Presidency was 16.2%. In 1961-62, co-operatives provided 38.3% in Maharashtra, 25.7% in Gujarat and 20.6% in Mysore. These were the leading co-operative states during 1951-52 and they showed steady and continued progress. Besides this, states which showed progress during the period were Orissa (2.7% to 16.6%), Madhya Pradesh (3.1% to 17.4%), Uttar Pradesh (2.2% to 16.6%), Madras (2.2% to 16.5%) and Andhra Pradesh, which was formerly in Hyderabad (0.9% to 12.7%). However, the growth of co-operatives was very insignificant in Assam (0.5% to 1.7%), Bihar (0.1% to 2.6%), Rajasthan (negligible to 3.8%) and West Bengal (1.3% to 5.9%). During 1961-62, the share of co-operatives was 10.5% in Punjab, 11.9% in Kerala and 11.4% in Jammu and Kashmir, for which comparable data for 1951-52 ^{are} is not available. Thus, the pattern of growth of co-operative credit, though impressive judging from all-India data, was marked by wide regional variations. The role of government

Table 2.6 : Cash Loans Borrowed by Cultivator Households According to Sources : 1951-52, 1961-62 and 1971-72.

State	Year	Government (1)	Co-operatives* (2)	Commercial banks (3)	Landlords (4)	Agricultural moneylender (5)	Professional moneylender (6)	Traders and commission agents (7)	Others including relatives (8)
1. Hyderabad	1951-52	1.8	0.9	-	3.2	22.2	50.7	10.6	10.5
Andhra Pradesh	1961-62	0.5	12.7	1.5	0.4	59.3	9.6	10.2	5.8
	1971-72	0.9	7.3	1.9	12.0	35.8	10.0	18.3	13.5
2. Assam	1951-52	6.2	0.5	-	-	17.6	7.5	0.9	67.3
	1961-62	4.5	1.7	-	-	38.1	10.8	11.0	33.9
	1971-72	3.1	8.8	0.5	2.4	9.8	14.2	15.6	45.6
3. Bihar	1951-52	4.7	0.1	-	4.9	7.0	77.4	-	6.0
	1961-62	1.0	2.6	-	0.1	62.7	14.8	6.3	12.4
	1971-72	6.1	4.1	-	10.2	40.4	13.1	2.9	23.2
4. Gujarat	1961-62	1.1	25.7	-	-	5.8	6.3	11.6	49.4
	1971-72	3.0	36.3	3.0	0.9	2.6	5.0	27.0	22.2
5. Haryana	1971-72	1.2	15.1	2.2	10.4	18.2	14.6	19.3	19.0
6. Himachal Pradesh	1971-72	11.9	14.4	-	5.4	8.2	11.6	12.8	35.7
7. Jammu & Kashmir	1961-62	-	11.4	0.2	0.3	7.0	4.6	18.8	57.8
	1971-72	0.4	5.9	0.2	0.2	0.3	3.1	47.6	42.3
8. Mysore	1951-52	-	-	1.0	1.1	78.3	7.6	3.9	8.2
	1961-62	6.1	20.6	0.6	1.8	43.1	0.9	9.2	17.7
Karnataka	1971-72	1.4	14.3	2.7	13.4	32.2	12.7	5.2	18.0
9. Kerala	1961-62	1.1	11.9	4.0	1.2	7.2	3.3	8.3	62.9
	1971-72	1.9	29.9	7.0	1.5	7.2	11.1	9.0	32.4
10. Madhya Pradesh	1951-52	12.8	3.1	0.4	0.8	13.9	52.4	2.1	13.5
	1961-62	1.2	17.4	0.3	0.1	34.0	28.1	11.4	7.6
	1971-72	2.0	18.5	1.1	2.3	16.8	29.1	19.5	10.6
11. Bombay	1951-52	4.6	16.2	2.4	0.8	15.6	23.1	10.0	27.3
Maharashtra	1961-62	8.3	38.3	0.1	0.3	16.2	8.5	3.6	24.9
	1971-72	3.3	31.2	2.1	3.2	8.5	5.2	10.5	36.1
12. Orissa	1951-52	1.4	2.7	-	0.1	5.0	82.9	0.1	7.8
	1961-62	4.2	16.6	-	0.2	15.1	28.8	19.8	15.3
	1971-72	4.0	16.4	3.4	9.5	25.7	12.4	1.5	27.2
13. Punjab	1951-52	14.6	4.2	-	3.2	0.4	30.3	-	47.2
	1961-62	2.1	10.5	-	3.8	30.9	16.5	3.6	32.6
	1971-72	1.7	29.3	4.0	5.9	6.8	4.5	22.5	25.2

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
14. Rajasthan	1951-52	0.6	-	-	0.5	-	85.8	0.4	12.7
	1961-62	0.8	3.8	0.1	-	26.3	23.8	18.3	26.8
	1971-72	0.6	3.0	1.0	1.1	19.4	23.9	31.1	19.9
15. Madras	1951-52	2.3	2.2	2.5	0.4	50.7	22.5	15.5	3.9
	1961-62	2.7	16.5	1.2	0.2	59.8	6.8	2.3	10.5
Tamil Nadu	1971-72	2.7	19.8	1.5	11.3	25.8	13.4	4.2	21.3
16. Uttar Pradesh	1951-52	0.9	2.2	0.1	1.4	21.7	51.8	3.1	18.8
	1961-62	2.6	16.6	0.4	0.2	35.9	20.0	6.9	17.4
	1971-72	5.4	10.8	1.2	3.7	2.1	26.4	7.7	24.2
17. Bengal	1951-52	1.8	1.3	-	3.2	2.1	58.9	0.5	32.1
West Bengal	1961-62	2.1	5.9	0.1	1.7	28.1	4.0	9.7	48.5
	1971-72	10.4	6.2	0.6	3.0	11.4	19.2	8.3	40.9
All-India	1951-52	3.3	3.1	0.9	1.5	24.9	44.8	5.5	16.0
	1961-62	2.6	15.5	0.6	0.6	36.0	13.2	8.8	22.7
	1971-72	3.1	16.7	1.9	5.8	19.1	15.6	14.5	23.3

Note : Totals may not add upto 100 due to rounding.

* Includes both short and long term credit provided by PACS and LDBs.

Source : RBI (1954), RBI (1965) and RBI (1978a).

and commercial banks remained almost unchanged during the period.

2.21 The survey also gives some idea about the relative importance of co-operatives in the total borrowings of cultivators among different asset groups. It is seen from Table 2.7 that at a time when 52% of the cultivator households borrowed from any agency, only 9.4% resorted to co-operatives. The proportion of families borrowing in the lowest asset group was only 2.6% which increased progressively reaching 19% for the highest asset group. The proportion of cultivators borrowing from co-operatives to those borrowing from any agency, proportion of borrowings from co-operatives to total borrowings and average borrowings per acre, all increased from group to group along with the size of the assets.

Table 2.7 : Borrowings of Cultivator Households During 1961-62 -
Asset-wise

Asset group (Rs.)	Proportion of cultiva- tor house- holds	Proportion of families bor- rowing from		Proportion of those borrow- ing from co-opera- tives to those bor- rowing from other agencies	Proportion of borrow- ings from co- operati- ves acco- unted for by differ- ent groups	Proportion of amount borrow- ed from co-oper- atives to total amount borrowed	Averag borrow- ing per acre (Rs.)
		Any agency	Co- opera- tives.				
Less than 500	6.5	45.8	2.6	5.7	0.5	5.1	1.81
500 - 1000	9.2	47.3	3.9	8.2	1.5	7.3	2.38
1000 - 2000	24.8	49.0	6.2	12.7	7.4	9.6	2.81
2500 - 5000	23.3	53.4	9.4	17.6	14.3	12.6	3.66
5000 - 10,000	18.6	55.9	12.3	22.0	20.7	14.2	4.42
10,000-20,000	10.7	55.7	15.4	27.6	21.4	16.5	5.36
20,000 & above	6.4	54.4	19.0	34.9	34.2	23.1	7.33
All-asset group	100.0	52.0	9.4	18.1	100.0	15.5	4.81

Source : RBI (1969), 127-128.

2.22 The picture emerging from the supply side of rural credit during 1961-62, thus, reveals that though co-operatives have shown significant progress in Maharashtra, Gujarat and Mysore, (it) was very weak in eastern states and in Rajasthan. Asset-group-wise there appears to have been no significant impact on the total borrowings of cultivators on smaller holdings and thus, they continued to remain dependent on the non-institutional agencies.

III. POLICY DEVELOPMENTS DURING SIXTIES AND PROBLEMS OF IMPLEMENTATIONS

2.23 The emerging credit situation during the sixties as marked by wide regional pattern of growth and almost negligible improvement for the cultivators on smaller holdings attracted the attention of the policy makers and thus, emphasis was placed more on these regions and sections to implement the agreed policies. We now see the process of implementation of the agreed policies during the sixties and the problems arising out of their implementation.

2.24 REORGANISATION OF PRIMARIES: As we have already observed, the reorganisation of primaries at the village level following the recommendations of the RCS Committee took the form of large-sized ones covering more villages and villagers as members. However, neither the Committee nor the RBI thereafter clarified as to how many villages were to be covered to form a large-sized society. During the process of reorganisation it was felt that, in many areas, the societies were formed by compulsorily amalgamating smaller societies, which adversely affected their co-operative character. In some others, the formation of such societies covered very extensive areas of operation due to the small size of villages and thin spread of population; and it was doubted if these societies would effectively serve the needs of the small cultivators in the far-flung villages.

2.25 Taking objection ^{to} these, the Committee on Co-operative Credit (GOI-1960) advocated viability as the criteria for the future reorganisation of the

society at the village level. A viable society, according to the Committee, should render within a reasonable time the more important services expected from them without depending upon the financial support from government, except for a limited period. The Committee recommended that a viable society should cover a maximum population of 3,000 (or 500 to 600 cultivating families) and the peripheral villages should not be at a distance more than three to four miles from the headquarter village.

2.26 The organisation of societies based on viability was accepted by the state governments. The broad norms of a viable society were spelt out in the conference of state ministers of co-operation in 1964, such as the ability of the society to appoint a full-time paid secretary, to set up a regular office and to meet the requisite expenses required for its operation. In operational terms, viability depended not only on the size of the society but also on its quantum of business, extent of working capital and operational efficiency with regard to resources and recovery, which were obviously to be different from area to area. The state governments were to survey the area-wise standards of loan business needed for a viable society, taking into account regional factors. The viable societies were to be rehabilitated with appropriate subsidy and share capital and the weak societies were to be amalgamated or liquidated. The entire programme was to be completed by 1966-67.

2.27 Data provided by the Reserve Bank show that only 27% of the societies ✓ in the country were viable at the end of June 1971 (the earliest year for which data for most of the states were available). The proportion of viable societies was as low as 2% in Andhra Pradesh, 5% in West Bengal, 8% in Uttar Pradesh, 13% in Jammu and Kashmir, 19% in Himachal Pradesh, whereas it was as high as 97% in Haryāna, 71% in Tamil Nadu, 45% in Kerala and 43% in Gujarat. In other states it varied between 20% in Maharashtra to 34% in Orissa. Only 39% of the

societies were having full-time paid secretaries at the end of June 1971 for the country as a whole, which was one of the important pre-requisite of viability.

2.28 Thus, the viability programme as designed by the Committee on Co-operative Credit (GOI 1960) was not implemented. Many state governments did not conduct surveys till 1966-67, and in others, such surveys were conducted once-for-all and not revised from time to time (RBI 1969, 442-65). The standard of loan business and the area of operation required for a viable society was based on ad-hoc decisions, ^{2/} and in many cases were uniform for the state as a whole and did not take into account regional variations. A major problem faced during the process of reorganisation was that existing units were very reluctant to amalgamate. Factors such as inter-village rivalry, lack of contiguity among villages and the apprehension of the management to lose in the context of a merger made the amalgamation programme very difficult. ^{3/} It was also very difficult to merge a dormant society with long standing overdues into a better one. At the end of June 1971, a large number of societies were remaining as dormant in Assam (75%), Rajasthan (49%), West Bengal (31%), Tamil Nadu (17%), Mysore (16%) and Orissa (14%) indicating the non-implementation of the rehabilitation programme in these states.

^{2/} In fact, no quantum of business was fixed till 1973 by the Reserve Bank, when the Working Group on Co-operatives for the Fifth Five Year Plan translated the viability criteria into concrete terms to achieve a minimum credit business of Rs.2/- lakhs per year. In May 1976, the RBI suggested to the state governments that a normal cropped area of 2,000 hectares of land should be able to provide the minimum business of Rs.2/- lakhs per year.

^{3/} To quote an official Report: "In the states where co-operative credit has made an impact and is impressive in volume, the control of a village society has come to mean much in terms of prestige, authority and even sometimes access to political influence ... In fact, it is one of the hopes underlying the programme of reorganisation that the larger unit will help defeat the exclusive tendencies and vested interests now present in some single village societies in which credit is denied to members of certain castes or factions because they are opposed to those who are in control of the society. There is an understandable reluctance to let go this source of influence where the societies are powerful and strong in terms of volume of resources handled." (RBI 1969, 460).

2.29 In this context it is worth noting the findings of a study conducted by the Planning Commission to examine the viability of the co-operative societies during 1968-69 on the basis of a 9% sample. The study revealed the following:

(a) Seventy-eight per cent of the societies had a population coverage upto 3,000 each, whereas societies with a population coverage of 3,000 to 5,000 and 5,000 to 10,000 accounted for 13% and 6% respectively of the total number of societies.

(b) Almost half the societies had a membership upto 100 each and accounted for about 15% of the total membership of all societies. On the other hand, societies having membership exceeding 1,000 each comprised 2% of the total societies, accounted for about 22% of the total membership.

(c) About 30% of the societies had no deposits at all, while another 24% of the societies had deposits only upto Rs.250 each. Less than 5% of the societies had about 77% of the total deposits held by all the societies.

(d) About 35% of the societies did not advance any loan during 1968-69, while another 25% of the societies had advanced total loans upto only Rs.1,000 each and their advances accounted for only 0.03% of the total advances of all societies.

(e) Thirty-eight per cent of societies had appeared in the group of overdues exceeding 75% of the outstandings.

2.30 This was the picture at the all-India level. Considerable regional variations were found among the states. In operational terms, as the study shows, the promotion of viable units depended on many factors. The size of the society was the first requirement to be undertaken by amalgamating or liquidating the dormant or weak societies. In the absence of its implementation, the uneconomic size of the society stood on the way of attaining viable

primaries at the base level.

2.31 IMPLEMENTATION OF THE CROP LOAN SCHEME : Along with the reorganisation of primaries, the crop loan scheme was to be implemented throughout the country. However, there was no clear guideline as to how much to advance per acre for individual crops. It was almost entirely dependent on the discretion of the management of the societies and thus, lending policies continued to be guided by vested interests and ad-hoc decisions.

2.32 In a move towards further rationalisation of the scheme, the Reserve Bank issued a crop loan manual (RBI 1966) in 1966 indicating the procedures to be followed for sanctioning such loans. The manual envisaged that a scale of finance per acre for individual crop to be determined at a field workers' conference convened every year at the district level. The scale thus arrived at should be split into cash and kind component. The cash component should be fixed at one-third of the average value of gross produce per acre for each crop and the kind component by the extent of fertilisers, etc., used. The scale thus fixed should be extended on appropriate instalments to prevent misutilisation and to be followed by supervision. By determining such scale on a crop-cum-acreage basis, the crop loan system not only took into account the size of the land but also the extent of irrigation, quality of soil, technique of cultivation to the extent that different crops grown indicate such differences. The loans were to be extended on the basis of crop as security or on the basis of surety. The manual reiterated to effectuate recovery of the crop loan by linking credit with marketing.

2.33 The progress towards the implementation of the crop loan scheme was neither uniform nor complete throughout the country. The three basic elements of the scheme - to advance loans on the basis of crop as security or surety, in kind and to link credit with marketing - have not seen proper implementation.

The share of loans advanced by co-operatives secured against crop as security and surety was about 36% in 1961-62, which increased to 62% in 1971-72. This proportion was certainly less when about 80% to 90% of the total loans were advanced as crop loans which could have been secured against crop as security and surety. The share of loans advanced in kind was only 1.6% in 1961-62, which increased marginally to 2.5% in 1971-72. ^{4/} The link between credit and marketing has not been established except in a few states, in few areas and in respect of some cash crops. During 1961-62, only 5.8% of the total recovery of PACS were recovered by the sale proceeds of the members either by undertaking marketing activities by the PACS themselves or by linking with a marketing society. During 1971-72, the total recovery of short term loans by such means was 11.1%. This was, however, confined to few regions and crops. For instance, the amount recovered by marketing and processing societies in the two states (Gujrat and Maharashtra) accounted for about 82% of the total short term loans recovered by all PACS through marketing and processing societies during 1971-72.

2.34 The reasons for the non-implementation of the crop loan scheme is not difficult to see. The scheme as emerged over the years required co-ordination of a number of activities, such as proper estimation of credit needs on a crop-cum-acreage basis, timely and adequate supply of inputs, repayment arrangements suited to the ability and convenience of the farmers and effective machinery for recovery of loans through marketing facilities. To estimate the credit needs per acre for individual crops, the society should have complete and up to date data of the land held by each member and the crop raised by them, that too for irrigated and unirrigated separately. To supply inputs on credit before

^{4/} These data are based on the All-India Rural Debt and Investment Survey, 1961-62 and All-India Debt and Investment Survey, 1971-72, which cover all agencies, inclusive of private agencies.

cultivation depends on the ability of the society to procure such inputs in time and in adequate quantity and to supply at points conveniently accessible to the cultivator. Post disbursement supervision requires adequate staff and appropriate organisation. Recovery of loans through the marketing society requires that after the harvest the members are to deliver the crop to the society which would deduct the loans from the proceeds before paying them the balance. Even it would be necessary for somebody from the staff of the society to remind all the members of the respective obligations at the appropriate time and if need arises, to follow the movement of the produce to the society.

2.35 All these were beyond the ability of the societies to undertake. The uneconomic size of the societies accompanied by the small scale of operation stood in their way to implement the crop loan scheme. As already observed, many societies did not have a full-time paid secretary, let alone other staff for supervision. Most of the societies were depending on the honorary services of their members, which was limited to the loan disbursement periods. The managerial efficiency and services required from a banking institution was hardly forthcoming from them and in many areas they became too passive institutions to implement any desired policy. They faced resource constraint and a substantial part of their resources were tied up in receivables (to be discussed shortly).

2.36 As a result, the old system of granting loans on the basis of the value of assets owned by the cultivator rather than production-worthiness as determined by the crop-cum-acreage basis continued to be practised in many areas (RBI 1969, Chawdhury and Sharma 1970, Deshpande and Padki 1971 and RBI 1974). Credit limit fixation of individual borrowers continued to be largely guided by vested interests and ad-hoc decisions and had little relevance

to actual field conditions. There were wide scale diversions of crop loans from approved purposes.^{5/} What the Gadgil Committee observed in 1945 that "loans are not advanced as and when they are required by each member but are disbursed to all on one day once in a year" (GOI 1945, 50) continued to be practised in many areas. In times of natural calamities and distress, the availability of co-operative credit became scarce. Although there were procedures to cope with such exigencies, such as extending fresh loans and converting past due short term loans to medium term, these procedures resulted in delays and loans for the next crop were not available (RBI 1974, 72-106). Since the crop was the only asset created by the loan, the co-operatives lost their hold over the crop in the absence of an effective link between credit and marketing and this affected recovery.

2.37 The scheme, by shifting emphasis from land to crop as security made possible for the tenants to become potential borrowers. The uncertain rights in land and the unfair terms of tenancy have all stood on the way of implementation of the scheme for the tenants.^{6/} The Crop Loan Manual (RBI 1966) made special provisions for tenants whose interests in land were not identifiable,

^{5/} A study by the Planning Commission revealed that of the 946 selected borrowers, about 40% had diverted the short term loans amounting 23% of total amount. Similarly, 40% of the medium term borrowers had diverted 35% of such loans from the avowed purposes (GOI 1965, 177-183).

^{6/} One can best quote Wolf Ladejinsky who made a report in 1963 on tenurial conditions in IADP districts, "Such tenurial conditions are obviously not conducive to agricultural production ... a co-operative society will not provide him with a short term loan unless he (tenant) produces a lease deed from the landlord or his signature on the application. Even where the tenants succeed in all this, the maximum loan he can get is very small. There is ample evidence, therefore, that the vast majority of tenant cultivators are poor investors and the package programme aimed at reaching every farm family is bound to suffer accordingly. ... But if the co-operatives continue to treat the tenants neither in the terms of social justice nor from the point of view of practical considerations vis-a-vis the package programme, the Government should assist the tenants to acquire the loans bypassing the co-operatives if necessary." (Ladejinsky, 1968).

such as to produce solvent sureties, to receive loans against the security of gold or silver ornaments; but their implementations have been bogged down by various practical and legal difficulties (RBI 1969, 489). The scheme, however, succeeded in the areas where mostly commercial crops were grown. One finding of the RCS Committee was that the larger and more intensively developed the production activity of a region, the larger proportionately is the demand for credit.^{7/} Areas growing commercial crops and intensively developed areas with irrigation facilities raised more resources in the form of deposits and share capital and thus financed more number of members. The societies in these areas earned more profit, could appoint full-time paid secretary and other staff and thus were able to implement the crop loan scheme. On the other hand, areas growing food crops and less developed regions required less credit and did not benefit equally from the crop loan system.

2.38 RESOURCES FOR THE CROP LOAN: One major problem faced by the co-operatives to implement the crop loan scheme was the resource constraints required for the lending operations. Being organised on a voluntary basis the societies were to mobilise deposits and share capital from the members. The provision of share capital by the state government and the short term financial accommodations by the Reserve Bank were expected to be transitory arrangements. However, the increase in the resources mobilised by the co-operatives was not commensurate with the expansion in the lending operations and in many areas, the societies continued to depend, to a large extent, on borrowings from higher financing agencies, particularly from the Reserve Bank.

^{7/} In a recent study in Maharashtra, it was found that sugarcane accounted for about 40% of the loan with only about 1.5% of the gross cropped area, whereas food grains and oil seeds accounted for about 30% of the loan having much larger proportion of the gross cropped area of the state (Government of Maharashtra 1985, 354).

2.39 However, the initial impulse of providing as much resources to the co-operatives by the Reserve Bank slowed down, when the trend in overdue positions of the co-operatives began mounting. The Reserve Bank became increasingly resistant about the pressure that resources which could not be raised internally should be provided by it.^{8/} This was followed by a series of stipulations by the Reserve Bank, which along with certain other structural aspects, affected the ability of the societies to expand credit operations on a larger scale.

2.40 At this point, it is necessary to see the norms of short term accommodations by the Reserve Bank, as evolved over the years. Following the recommendations of the RCS Committee, the Reserve Bank provided the short term accommodations by granting a maximum credit limit to the CCB through its SCB. The limit was determined on basis of a multiple of the owned funds with reference to its audit classification of the concerned CCB, as follows:

Audit Classification	Maximum Normal Limit	Exceptional Limit
A	3 times owned funds	4 times owned funds
B	2 " " "	3 " " "
C	--	2 " " "

This implied that during a particular year, a CCB with 'A' audit classification is eligible for drawing funds from the Reserve Bank equivalent to 3 times of

^{8/} This was evident from the Governor's address at the conference of State Ministers of Co-operation in June 1960: "It is partly a question of our ability to give credit, but it is even more a question of the ability of the societies to absorb credit. We are prepared to take certain risks, but it would be wholly contrary to the charter which the Reserve Bank got from the parliament of the country to go beyond what may be legitimate risks, and merely because of pressure all around, to go on pumping more and more money without being reasonably assured that the money will, in fact, be used for the purpose for which it is meant, that it will result in increased production and as a result of increased production the money will be given back" (Quoted from Ghosh 1979, 188).

the owned funds under normal circumstances and 4 times under exceptional circumstances. Such standard classifications were intended to build up the owned fund base and operational efficiency of the co-operatives.

2.41 Following the recommendations of the Mehta Committee (GOI 1960), two additional conditions came to be imposed for the credit limit sanctioned by the Reserve Bank: the minimum involvement and non-overdue cover. The former required that the co-operatives should have a certain amount of loans outstanding from its own resources, the amount being stipulated according to its own funds-cum-audit classification. The condition of non-overdue cover implied that the outstanding dues to the Reserve Bank under the credit limit sanctioned be matched by loans outstandings from the PACS for the purpose which have not become overdues.

2.42 While the motives behind the imposition of such conditions was desirable, their sudden imposition and the inadequate allowance it made in certain areas limited the ability of the societies to draw more resources from the Reserve Bank to sustain expanding lending operations. The internal resources of the co-operatives in the form of share capital and deposits were very low in many areas of the country. As we have already observed that during 1968-69, about 80% of the societies had no deposits at all, while another 24% had deposits only upto Rs.250 each. The level of overdues also increased year after year (see Table 2.17 p.76) and in many states the absolute level of overdues exceeded even the owned funds and deposits put together.^{9/} The increase in the level of overdues and the inadequate internal resources of the co-operatives in the form of owned funds and deposits resulted in lower utilisation of credit limits year after year sanctioned by the Reserve Bank (Table 2.8).

9/ The Study Team on Overdues of Co-operative Credit Institutions found that overdues of PACS as on June 30, 1972 at Rs.377 crores exceeded the owned funds (Rs.292 crores) and deposits (Rs.75 crores) of such societies by Rs.10 crores. Overdues exceeded the owned funds and deposits by 21% in Andhra Pradesh, 178% in Assam, 77% in Bihar, 41% in Madhya Pradesh, 35% in Orissa, 56% in Rajasthan, 36% in Uttar Pradesh, 149% in West Bengal (RBI 1971, 8).

Table 2.8 : Extent of Utilization of the Reserve Bank's Limits for Short-term Agricultural Purposes

(Rs. crores)			
Year	Total limits sanctioned by the Reserve Bank	Higher level of outstandings	% of col. (3) to col. (2)
(1)	(2)	(3)	(4)
1964-65	199.87	163.85	82
1965-66	212.66	172.17	81
1966-67	257.50	179.37	69
1967-68	324.40	207.01	64
State-Wise Data During 1967-8			
Andhra Pradesh	20.12	11.88	56.1
Bihar	9.20	5.72	62.2
Gujarat	30.80	23.15	75.2
Haryana	7.68	5.74	74.7
Kerala	6.30	4.32	68.7
M.P.	24.31	14.78	60.8
Maharashtra	70.90	42.92	60.5
Mysore - ?	15.34	12.73	83.0
Orissa	7.34	4.31	58.8
Punjab	25.49	17.67	69.3
Rajasthan	9.45	4.71	49.8
Tamil Nadu	31.50	16.32	51.7
U.P.	32.68	20.34	61.9
West Bengal	0.10	0.03	30.0
Goa, Manipur, Pondicherry & Tripura	0.65	0.55	80.0
Total	298.47	189.86	63.6

Source : RBI (1969), 719-20

2.43 Similar problems were faced in the areas where intensive agricultural production programmes were undertaken since the beginning of the sixties, such as IADP in 7 districts in 1960-61, IAAP in 117 districts in 1964-65 and HYVP in 293 districts in 1966. The agricultural technology was to take new dimension in these areas with new varieties of seed, higher dose of fertilisers, pesticides and connected inputs. The demand for credit increased considerably to step up the adopted practices and the co-operative credit structure, being the sole institutional agency in the field, were expected to respond to it. However, the internal weakness of the co-operatives as regard to resources and recovery made it impossible to extend finance on a larger scale. Inadequate deposit mobilisation coupled with growing overdues also affected the eligibility of the societies to utilise the limits set by the Reserve Bank (see Table 2.9). Co-operative institutions became extremely inadequate to meet the growing demand for credit arising out of technological change in agriculture. The Working Group on Co-operatives in IADP districts found that out of 577,091 members of the co-operatives for whom farm plans were prepared, 315,661 or about 55% were actually financed and out of the estimated credit requirements of Rs.20.38 crores, only Rs.10.04 crores or about 49% was actually disbursed to members for whom farm plans were prepared (GOI 1966, 156). In a study conducted in 1967-68, it was estimated that the selected societies had met only a fraction of the total short term credit requirements in respect of the scale of finance fixed in the respective areas: 30% in Broach, 14% in Ballary and 7% in Shahbad (NCAER 1972). The Andhra Pradesh study revealed that the share of co-operatives showed decline at a time the demand for credit increased due to the adoption of improved agricultural practices (Rao, et. al. 1974).

2.44 The Reserve Bank took cognisance of this situation by further liberalising the short term financial accommodations limit, such as special credit

Table 2.9 : Credit Limits Sanctioned by the Reserve Bank of India and Apex Banks and the Drawals Against Them (1964-65)

(Rs. in lakhs)

Name of the bank	Credit limit sanctioned for 1964-65		Maximum limits availed of during 1964-65		
	Reserve bank	Total limits sanctioned by RBI and Apex Banks	Apex bank	RBI	Total
Kumbakonam	100	114	27.50	72.00	99.50
Thanjavur	125	138	23.00	120.25	143.25
Eluru	186	196	24.30	106.55	130.85
Krishna	125	135	4.95	91.45	96.40
Rajahmundry	40	45	9.56	33.49	43.05
Raipur	80	80	-	14.50	14.50
Pali	33	42	1.50	26.00	27.50
Ludhiana	50	70	20.00	50.00	70.00
Burdwan	70	80	11.95	53.40	65.35
Kalnakatwa	24	40	9.35	24.00	33.35
Cachar	-	32.37	10.04	-	10.04
Sambalpur	67.50	75	1.88	28.68	30.56
Mandya	120	120	-	76.80	76.80
Seral	60	60	-	20.00	20.00
Alleppey	40	40	1.61	29.74	31.35
Palghat	47	47	-	25.36	42.83
Annah-Buean	20	50	33.98	8.85	35.21
Soraan-Bhatua	25	50	30.45	4.76	13.00
Bhandara	-	170	13.00	-	-
Aligarh	80	100	19.34	80.00	99.34
Total	1292.50	1684.87	242.41	865.83	1108.24

Source : Ministry of Food, Agriculture, Community Development & Cooperation, Expert Committee on Assessment and Evaluation of IADP: Second Report (1960-65). Annexure VIII p. 75.

limits in the areas undergoing intensive agricultural programmes and provision for new and non-defaulting members. However, the Reserve Bank emphasised more on building up the organisational efficiency and strengthening the internal resource base of the co-operatives rather than extending financial accommodations beyond certain limit prescribed by it from time to time.

2.45 CROP LOAN AND THE SMALL FARMERS : The non-implementation of the crop loan scheme in its true spirit created evidence of small farmers being neglected by the co-operatives (Karve 1958, GOI 1960, GOI 1964, RBI 1966a, RBI 1969, Rao 1970). Accordingly, there was growing demand to bring about further operational changes in the loaning policies and procedures of the societies so as to facilitate the flow of credit to the weaker sections.

2.46 Following the recommendations of the Mehta Committee (GOI 1960) an individual maximum borrowing power came to be enforced to ensure that the needs of the small cultivators were not sacrificed in favour of the larger ones. From mid-sixties, further stipulations came to be imposed requiring the large farmers to plough back their own resources. Following the recommendations of the Mirdha Committee on Co-operation (GOI 1964), states were asked to enforce the provision of open membership, provision of appeal against refusal of membership, reporting of loans to members of managing committee at general body meetings, etc. To encourage the financing of small farmers and to alleviate the risk of the societies arising out of their default, a scheme was designed to give outright grants by the government to the societies for the creation of special bad debt reserves with the societies. The publication of the crop loan manual (RBI 1966) also simplified many operational aspects of the loaning policies, such as provision of loan against surety, reducing the down payment for getting loans from the societies, etc.

2.47 All these measures could do little to bring about a qualitative change in the distribution of credit. The presence of vested interests in the rural community had succeeded in frustrating every effort made to benefit the weaker sections. ^{10/} In spite of the provision of open membership and the appeal against refusal of membership, the coverage of small farmers was very small in relation to their total number. The Reserve Bank study of small farmers in 12 districts of the country revealed that in all districts, the proportion of large farmers reporting co-operative membership was higher than that of small farmers and it was particularly marked in 11 districts (RBI 1975, 59). Even within the group of small farmers the study found a direct relationship between the size of gross farm income and co-operative membership. Among the reasons for non-membership in co-operatives were lack of owned funds, unwillingness to borrow, cumbersome procedures for getting loans and inputs, lack of awareness of facilities and lack of expected benefits. The NCAER study also revealed that the membership of the societies below 2 acres of holdings were 3.3% in Broach, 9.4% in Bellary and 14.8% in Shahabad to total membership (NCAER 1972, 187). . . A study conducted in Maharashtra revealed that membership

^{10/} The hold of the vested interests can be best quoted from the report of the Public Accounts Committee of Fourth Lok Sabha as follows:

" The Committee are disturbed to find that the vested interests are subverting the working of co-operatives in the country. These interests have managed to perpetuate themselves in office and cornered the lion's share of the society's services for self, friends and relations. A host of devices have been employed by them such as restriction on admission of fresh members, avoiding general body meetings, manipulating elections, employing near relations in the paid services, not recovering their loans, etc. In the result very often 15 to 20% of the membership are in a position to get major benefit from co-operatives. The scope for self and personal enrichment should be very vast indeed.... The Committee recognised that the vested interests in co-operatives cannot be tackled in isolation from the rest of the community, that the problem has to be viewed against the background of the political climate of the country, the social tradition, and the general lack of educational development. Nevertheless, what can be done to remedy the situation has not yet been attempted" (Quoted from Ghosh 1979, 204).

of the societies was largely confined to those having irrigated land, while the majority of unirrigated small farmers either do not become members and even after becoming members do not borrow or borrow only small amounts (Govt. of Maharashtra 1976, 24). ^{11/} The NSS study of the weaker sections of the rural society, comprising lowest 10% of cultivating households during the year 1969-70 revealed that about 94% of the households needing short term loans were not approaching any agency or not hopeful of getting loans (see Table 2.10). The major reasons were reported as inadequate assets, unhelpful attitudes of the agencies, assets already burdened by past debt, etc.

2.48 The situation was not very different in the areas where new agricultural production programmes were undertaken. Borrowed funds assumed larger importance for the small farmers to undertake new agricultural technology. ^{12/} However, benefits accrued to the more affluent farmers. Many studies revealed a strong positive association between farmers adopting high yielding varieties and the size of the farm (Rao 1975, Sen 1975, GOI 1969).

2.49 The success of crop loan scheme for the small farmers depended on many factors, some are simply procedural and some are administrative, which were not implemented properly in many areas of the country. But the most important factor was the creation of an effective leadership within the village.

^{11/} The study also observed that "though the very small holders experience some difficulty in seeking admission into the co-operative credit structure ... once they are admitted there is no evidence that they suffer from any handicap" (Govt. of Maharashtra, 1976, 23). One wonders if such small holders get admission into the co-operative societies, they would receive any sympathetic treatment at the hands of those they had to struggle for admittance.

^{12/} A study by Ray (1971) revealed that borrowed funds as per cent of cash expenditure are greater in the case of small farmers adopting new technology compared with large farmers, indicating greater dependence on borrowed funds.

Table 2.10 : Percentage of Households not Approaching any Agency or not Hopeful of Getting Short-Term Loan by Reasons during 1971-72

States	Percentage of households not approaching any agency or not hopeful of getting loan to h.h.s. needing short term loan.	Percentage of households not approaching any agency or not hopeful of getting short term loan by reasons					
		assets in adequate	assets already burdened by post debt	agencies like govt./ co-op. bank within reach	unhelpful attitudes in these agencies	others	not recorded
1. Andhra Pradesh	92.45	31.60	12.52	17.55	19.08	19.25	-
2. Assam	96.51	41.08	9.05	21.36	14.95	13.56	-
3. Bihar	95.99	35.01	10.18	15.30	29.19	10.32	-
4. Gujarat	81.45	27.64	9.27	16.06	11.78	31.68	3.5
5. Haryana	44.25	-	-	-	100.00	-	-
6. Jammu & Kashmir	90.10	5.35	5.98	31.10	54.23	3.34	-
7. Kerala	92.47	37.46	3.29	7.77	33.06	18.42	-
8. Madhya Pradesh	92.68	38.16	10.53	10.53	30.26	6.58	3.9
9. Maharashtra	87.59	50.00	16.15	7.09	15.35	11.02	0.3
10. Mysore	93.60	38.27	30.50	7.59	10.51	13.13	-
11. Orissa	98.39	64.24	4.12	9.71	20.29	1.64	-
12. Punjab	94.70	34.12	4.56	13.97	39.15	8.20	-
13. Rajasthan	100.00	32.94	15.29	11.77	20.00	17.65	-
14. Tamilnadu	93.72	47.85	13.74	4.23	18.92	15.26	-
15. Uttar Pradesh	97.75	35.10	11.32	14.31	19.92	19.35	-
16. West Bengal	94.78	34.40	9.81	6.43	36.92	12.44	-
All-India*	93.84	38.00	13.21	11.96	21.60	14.85	0.3

* Includes Union Territories

Source: NSS (1978) 81.

The principles of co-operation such as mutual vigilance and self-help were only in terms. The principle of state partnership could help little in creating an effective leadership which owes its origin to the internal weakness of the rural society. In a society with caste based hierarchical stratification, which often coincides with economic hierarchy, particularly at the bottom, access to institutional credit on a co-operative basis may be denied to a large majority of cultivators, who are located at the bottom of both the hierarchies. To quote Victor S. Doherty, who observed in his report on IADP in Raipur district, " ... it was the initial and continued mistake of the primary co-operative societies to rely on goodwill and joint action where none could be expected. The co-operatives have gone the way that could have been predicted in a society which leads to be made up of fairly monopolistic factions for both cultural and economic reasons" (quoted from Miles 1971, 5).

2.50 These were the efforts made during the sixties to implement the agreed policies following the recommendations of the RCS Committee in 1954. The achievement during the period was seen from the All-India Debt and Investment Survey conducted during 1971-72, which is discussed in the following section.

III EMERGING DEBT AND CREDIT SITUATION DURING 1971-72

2.51 In the following paragraphs, a comparative picture of the demand and supply side of rural credit during 1961-62 and 1971-72 is presented. Since co-operatives were the sole institutional agency in the organised sector, this is followed by an assessment based on the pattern of growth of the co-operative credit (both short and long term) during 1951-52, 1961-62 and 1971-72.

2.52 On the demand side, one can see that the dependence on consumption loans has increased over the decade, the share of which in the total borrowings for cultivators increased from 46.6% in 1961-62 to 48.6% in 1971-72 (Table 2.11). In 1951-52, family expenditures accounted for 46.9% of the total borrowings of the cultivator households. This implies that over the two decades, borrowings for family expenditures has increased both in proportion and absolute amount. The proportion of borrowings for current and capital expenditure on farm business (productive purposes) has also increased from 35.6% in 1961-62 to 40.4% in 1971-72. In fact, the proportion of borrowings for productive purposes has increased proportionately more than the borrowings for consumption purposes and this has happened at the cost of loans for repayment of old debt, which declined from 5.8% in 1961-62 to 2.3% in 1971-72. The pattern of change that emerged at the all-India level remained broadly same at the state levels during the period. For both the periods, family expenditure was relatively more important than current and capital expenditure on farm business in eastern states plus Rajasthan and Jammu and Kashmir in comparison with states such as Maharashtra, Gujarat, Punjab, and Tamil Nadu. The share of loans for capital and current expenditures on farm business increased in all the states except Assam, Karnataka, Maharashtra and Rajasthan, which show a decline in the loans for this purpose.

2.53 As regards different groups of cultivators, the proportion of amount demanded for consumption purposes increased and that of production loans (for capital and current expenditure on farm business) decreased as we go down from households in the higher asset groups to households in the higher asset groups to households in the lower asset groups (Table 2.12). Households in the lowest asset group of Rs.1,000 utilised 69.8% of their total loans for consumption purposes and 17.5% for productive purposes. The smaller the cultivators, larger was their demand for consumption purposes and reverse was the case for demand for productive purposes. However, considering the share of individual

Table 2.11 : Classification of borrowings of cultivators according to purpose
for 1961-62 and 1971-72 - state wise-

	(percentages)					
	Current and Capital expenditure on farm business		Household expenditure		Other expenditure including repayment of old debt.	
	61-62	71-72	61-62	71-72	61-62	71-72
Andhra Pradesh	36.9	44.1	39.7	45.3	23.4	10.6
Assam	33.3	31.6	56.5	43.9	10.2	24.5
Bihar	18.8	23.8	60.1	57.6	21.1	18.6
Gujarat	41.6	46.1	51.7	43.7	6.7	10.2
Haryana	-	41.7	-	44.8	-	13.5
Himachal Pradesh	-	26.2	-	63.5	-	10.3
Jammu and Kashmir	11.3	27.2	82.2	60.5	6.5	12.3
Karnataka	44.0	36.3	40.4	49.1	15.6	14.6
Kerala	14.8	29.0	59.7	50.4	25.5	20.6
Madhya Pradesh	37.5	46.1	45.4	45.5	17.1	8.4
Maharashtra	60.9	54.1	31.5	42.2	7.6	3.7
Orissa	19.5	23.3	49.6	52.4	30.9	24.3
Punjab	30.9**	48.1	57.5**	38.8	11.6**	13.1
Rajasthan	30.7	23.2	57.2	68.6	12.1	8.2
Tamilnadu	46.2	52.9	31.2	38.0	22.6	9.1
Uttar Pradesh	30.8	37.9	45.1	57.6	24.1	4.5
West Bengal	23.9	37.3	55.0	51.4	21.1	11.3
All-India*	35.6	40.4	46.6	48.6	17.8	11.0

* Includes Union Territories

** Includes Haryana

Source: RBI (1965) and RBI (1978a).

groups of cultivators in the total borrowings of all cultivators, it is seen from Table 2.12 that households in the highest asset group of over Rs.10,000 accounted for the largest share in all asset groups, accounting for over 60% of the total borrowing for consumption purposes. Households in the lowest asset group of up to Rs.1,000 accounted for the smallest share in the aggregate consumption loans borrowed by all asset groups, with only 1.9% of the total borrowings for consumption purposes. Thus, the demand for consumption loan is not restricted to the smaller cultivators. The demand for consumption loans classified according to credit agency is not available, which would have given an idea as to who borrows how much from which agency.

Table 2.12 : Classification of Borrowings of Cultivator Households According to Purpose, 1971-72

Asset groups (Rs.)	Proportion of households in each group	Proportion of capital and current expendi- ture on farm business	Household expenditure	Other purposes including repayment of old debts	Total
0 - 1,000	5.7	0.6 (17.5)	1.9 (69.8)	1.6 (12.7)	1.3 (100.0)
1,000 - 5,000	31.0	7.4 (22.9)	17.6 (65.5)	13.8 (11.6)	12.8 (100.0)
5,000 - 10,000	23.1	12.4 (31.1)	19.1 (57.5)	16.8 (11.4)	16.0 (100.0)
10,000 and above	40.2	79.6 (46.4)	61.4 (43.0)	67.8 (10.6)	69.9 (100.0)
All asset group	100.0	100.0 (40.4)	100.0 (48.6)	100.0 (11.0)	100.0 (100.0)

Note: Figures in brackets indicate percentage shares of borrowings for each purpose in the total.

Source: RBI (1978 a)

2.54 On the supply side, there was not much change in the share of co-operatives in the total borrowings of cultivators during the period (see Table 2.6 p.37). As we have already seen, the proportion of borrowing by cultivators from co-operatives increased from 3.1% in 1951-52 to 15.5% in 1961-62. During 1971-72, the share of co-operatives was only 16.7% in the total borrowings of the cultivators. The share of co-operatives increased substantially in Punjab (10.5% to 29.3%), Gujarat (25.7% to 36.3%) and Kerala (11.9% to 29.9%) and marginally in Tamil Nadu (16.5% to 19.8%) and Madhya Pradesh (17.4% to 18.5%). Though the share of co-operatives increased marginally in Assam (1.7% to 8.8%), Bihar (2.6% to 4.1%) and West Bengal (5.9% to 6.2%), they constituted very insignificant position in the total borrowings of cultivators. In other states, the share of co-operatives actually declined such as Andhra Pradesh (12.7% to 7.3%), Jammu and Kashmir (11.4% to 5.9%), Karnataka (14.3% to 11.9%), Orissa (16.6% to 16.4%), Rajasthan (3.8% to 3.0%) and Uttar Pradesh (16.6% to 10.8%). In Maharashtra, though the share of co-operatives declined from 38.3% to 31.2%, it still constituted a significant proportion.

2.55 The contribution of co-operatives is seen in the total borrowings of cultivators which include both borrowings for production and consumption purposes. As the co-operative credit agencies were designed mainly to lend for productive purposes, relating their contribution to the total borrowings of cultivators would no doubt underestimate their role in a situation where most of the rural borrowers resorted to loans for consumption purposes. For this reason, we have presented in Table 2.13 the contribution of co-operatives in the total borrowings for current and capital expenditures on farm business.^{13/}

^{13/} This attempt has the obvious limitation that co-operatives also provide a portion of its loans for non-farm business purposes. Purpose-wise classification of borrowings from different sources is not available in the present reference. Official statistics of the RBI show that the proportion of loans for non-agricultural purposes was well below 10% for the period (RBI 1971-72).

Table 2.13 : Importance of co-operatives in the Total Borrowings of Cultivators for Farm Business Expenditure, 1961-62 and 1971-72¹

States	Total borrowings for capital expenditure on farm business (Rs. crores)		Total borrowings from co-operatives ² (Rs. crores)		Percentage of col. 3 over col. 1	Percentage of col. 4 over col. 2
	1961-62	1971-72	1961-62	1971-72	1961-62	1971-72
	(1)	(2)	(3)	(4)	(5)	(6)
Andhra Pradesh	48.6	35.0	14.4	6.3	29.6	18.0
Assam	1.8	1.2	0.1	0.4	5.6	33.3
Bihar	11.5	11.2	1.6	2.0	13.9	17.9
Gujarat	29.5	33.5	18.2	26.7	61.7	79.7
Haryana	-	17.2	-	6.5	-	37.8
Himachal Pradesh	-	2.4	-	1.5	-	62.5
Jammu and Kashmir	0.9	0.9	0.9	0.6	100.0	66.7
Karnataka	35.2	30.9	16.5	12.8	46.9	41.4
Kerala	5.7	6.8	4.9	10.1	86.0	148.5
Madhya Pradesh	28.2	42.1	13.0	18.4	46.1	43.7
Maharashtra	50.6	52.1	31.8	32.6	62.8	62.6
Orissa	2.6	3.7	2.2	2.8	84.6	75.7
Punjab	18.4 ³	39.6	6.3 ³	25.2	34.2 ³	63.6
Rajasthan	32.5	24.0	4.1	3.4	12.6	14.2
Tamilnadu	47.1	52.1	16.8	20.2	35.7	38.8
Uttar Pradesh	49.9	64.5	27.0	19.4	54.1	30.1
West Bengal	11.4	16.5	2.8	3.2	24.6	19.4
All-India ⁴	373.9	433.7	160.6	192.1	43.0	44.3

1. These estimates may not tally with the figure of total loans and advances made by the PACS published by the RBI in its statistical Statements Relating to the Co-operative Movement in India due to the following reasons : The survey data excludes non-cultivating landowners, artisans, etc. whose borrowings are covered by the statistical statements, (b) Borrowers of the co-operative societies in the villages surveyed may be residing in the urban areas, and (c) Book adjustments of loans of the societies may not get reflected in the survey data. 2. Includes both short and long term and for farm and non-farm business purposes. 3. Inclusive of Haryana. 4. Inclusive of Union Territories.

Source: RBI (1965), (1978a).

It is seen that this proportion has increased marginally from 43.9% in 1961-62 to 44.3% in 1971-72. The increase was particularly significant in Kerala (86% to 148.5%), Gujarat (61.7% to 79.7%), Punjab (34.3% to 63.6%). States like Andhra Pradesh, Jammu and Kashmir, Uttar Pradesh, West Bengal, Karnataka, Madhya Pradesh and Orissa, the share of co-operatives in production loans actually declined during the decade.

2.56 This implies that the co-operatives have not been able to meet entirely the borrowings for production needs of cultivators in all states. Comparing the proportion of borrowings for productive purposes in Table 2.11 with the share of co-operatives in the total loans for productive purposes in Table 2.13, it is seen that the co-operatives have played a significant role in the states where a larger proportion was demanded for productive purposes.

2.57 The role of government and commercial banks remained very insignificant, which increased from 2.6% to 3.1% and 0.6% to 1.9% during 1961-62 to 1971-72 respectively (Table 2.6). Thus, the non-institutional sources of credit still predominated till 1971-72 in the states where institutional agencies had not made much impact. The share of non-institutional agencies - landlords, money-lenders of professional and agricultural varieties, traders and commission agents - was particularly significant in Andhra Pradesh (79.6%), followed by Madhya Pradesh (73.6%), Tamil Nadu (69.1%), Rajasthan (68.4%), Bihar (63.9%), Orissa (63.9%), Uttar Pradesh (60.3%) and Assam (59.9%), where as it was lowest in Kerala (20%), followed by Gujarat (23.7%) and Maharashtra (28.6%).

2.58 One feature that stands out from the rural credit market is that in some states the share of non-institutional agencies has declined along with the increase in the share of agencies termed as 'others'. Between 1961-72, the increase in the share of this 'other' agencies was significant in Assam

(33.9% to 45.6%), Bihar (12.4% to 23.2%), Orissa (15.3% to 27.2%), Tamil Nadu (10.5% to 21.3%) and Uttar Pradesh (17.4% to 24.2%). In West Bengal this share was 40.9% in 1971-72. Thus, the apparent decline in the role of money lenders in these states is open to doubt, for increase in the share of this 'other' sector may mean that the moneylenders still continue to operate in different form (Ghatak 1977, 106).

2.59 ASSESSMENT BASED ON CO-COPERATIVE STATISTICS: The pattern of growth of primary agricultural societies for the short and medium term credit (Table 2.14 for all-India data and tables 2.15 and 2.16 for state-wise data) and land development banks for the medium and long-term credit (Table 2.19 for all-India data and Table 2.20 for state-wise data) during the period 1951-52, 1961-62 and 1971-72 are presented in the following paragraphs. State-wise data for the year 1951-52 are not given, for a direct comparison with the year is not possible due to the reorganisation of states. We have considered the pattern of growth of PACS and land development banks because they are the most important delivery system for the cultivator at the retail level.

2.60 PROGRESS OF SHORT AND MEDIUM TERM CREDIT: ASPECT OF COVERAGE: The reorganisation programme following the RCS Committee recommendations led to the increase in the number of societies from 1.08 lakhs in 1951-52 to 2.15 lakhs in 1961-62, that is doubled in ten years. The number of large-sized societies covering more villages, either by amalgamation of small societies or by fresh registration, stood at 8,213 in 1958-59. As already observed, the organisation of the societies following the recommendations of the Committee on Co-operative Credit (GOI 1960) took in the form of viable society. Due to the amalgamation of smaller societies and the liquidation of dormant societies, the number of societies came down to 1.57 lakhs in 1971-72.

Table 2.14: Progress of PACS during 1951-2 1961-2 and 1971-2 - All-India

	1951-2	1961-2	1971-2
1. Number of societies (lakhs)	1.08	2.15	1.57
2. Number of large-sized societies (1958-9)	8213	7822	-
3. Percentage of societies viable	-	-	34.5
4. Percentage of villages covered	52.0	74.8	95.5
5. No. of villages per society -----	1	2	3.5
6. Total membership (Lakhs)	48	196	320
7. Membership per society	44	91	203
8. Percentage of membership to estimated cultivator households ¹	9.7	39.0	55.5
9. Percentage of borrowing members to			
- total membership:	33.1	50.9	35.6
- estimated cultivator households ¹ :	3.2	19.7	20.1
10. Percentage of cultivator households reported borrowing from any agency to total cultivator households ²	58.6	52.0	29.3
11. Average borrowing per borrowing member (Rs)	153	229	539
12. Percentage of societies advancing loans	75.9	80.0	69.7
13. Loans advanced per society (Rs. thousand)	3	13	56
14. Total loan advanced during the year (Rs. crores)	24.2	228.3	614.5
- of which short-term	-	205.4	540.9
- of which medium and long term	-	22.9	73.6
15. Proportion of loans advanced in kind (All-agency) ²	-	1.6	2.5
16. Loans advanced by security (in percent)			
- Agricultural Produce (both anticipated and ready produce)	-	16.4	26.7
- Surety and Unsecured	-	19.0	35.3
- Immovable Property (including gold and others)	-	64.6	38.0
17. Working Capital (Rs. crores)	45.2	325.3	1276.2

	1951-2	1961-2	1971-2
18. Share Capital (Rs. crores)	8.6	68.6	224.8
- of which govt. contribution	-	6.8	21.0
19. Percentage of			
- Owned funds to working capital	39.1	27.2	22.9
- Deposits to working capital	9.7	5.4	5.9
- Borrowing to working capital	51.2	67.4	71.2
20. Share capital per member (Rs.)	19	32	64
21. Deposits per member (Rs.)	9	9	23
22. Percentage of overdues to outstandings	25.3	24.5	43.9
23. Percentage of overdues to owned funds	-	71.0	129.0
24. Audit classification (percentage of respective group to total societies audited)			
A	3.5	2.7	2.3
B	16.4	15.2	11.4
C	59.5	70.9	71.1
D	17.0	10.2	13.8
E	3.6	1.0	1.4
Total	100.0	100.0	100.0

1. Cultivator households are estimated as follows: For 1951-2, All-India Rural Credit Survey, 1954; for 1961-2 and 1971-2, All-India Rural Debt and Investment Survey, 1961-2 and All-India Debt and Investment Survey, 1971-2.
2. All-India Rural Debt and Investment Survey 1961-2 and All-India Debt and Investment Survey, 1971-2.

Source: For Col. 4 of 1951-2, RBI, Co-operative News Digest, 1964, P-186, For others, RBI, statistical statements relating to the co-operative movement in India, 1951-2, 1961-2 and 1971-2.

Table 2.15 : Selected Indicators of Progress of PACs During 1961-62: State-Wise

State	Percentage of villages covered by the societies.	Actual membership as percentage of cultivator households.	Percentage of borrowing membership to total memberships	Percentage of borrowing membership to cultivator households.	Borrowing per borrowing member. (Rs.)	Borrowing per borrowing member in real terms. ¹ (Rs.)	Percentage of societies advancing loans	Loans advanced per advancing society (Rs. Thousands)	Share capital per member. (Rs.)	Deposit per member (Rs.)	Percentage of overdues to outstandings.	Percentage of 'A' and 'B' class societies to total societies audited.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1. Andhra Pradesh	81	39	53	20	259	274	86	17	25	6	10	9
2. Assam	65	19	13	2	80	85	16	3	11	1	71	33
3. Bihar	61	18	28	5	83	88	71	2	9	6	48	5
4. Gujarat	100	47	73	30	445	470	91	37	108	20	25	67
5. Jammu & Kashmir	75	50	86	43	63	67	71	17	12	1	25	20
6. Kerala	100	49	45	22	149	158	80	34	20	14	17	18
7. Madhya Pradesh	75	23	67	16	268	283	92	10	31	9	29	3
8. Madras	100	86	47	40	213	225	89	29	15	7	10	22
9. Maharashtra	97	53	66	35	321	339	96	23	70	5	29	62
10. Mysore	-	55	47	26	219	232	80	18	37	9	45	50
11. Orissa	47	18	35	7	217	229	50	10	17	2	20	0.8
12. Punjab	96	88	48	42	218	230	92	9	36	35	23	26
13. Rajasthan	67	28	35	10	200	211	49	9	27	4	45	21
14. Uttar Pradesh	100	39	57	23	175	185	87	8	25	3	12	1
15. West Bengal	68	19	45	8	165	174	48	8	16	4	29	0.7
All-India	74.8	39	50.9	19.7	229.0	242	79.9	13.0	32	9	24.5	17.9

1. Borrowing per borrowing member in real term is obtained by deflating borrowing per borrowing member in nominal terms in Col.5 by fertiliser index 0.946 with 1952-53 = 100. Price indices are from Chandhok (1978), 293.

Source : RBI (1961-62) and RBI (1965).

Table 2.16 : Selected Indicators of Progress of PACS During 1971-72 - State-Wise

	Percentage of villages covered by the societies.	Percentage of viable societies to total societies ²	Actual membership as percentage of cultivator households.	Percentage of borrowing membership to total membership.	Percentage of borrowing membership to cultivator household.	Borrowing per borrowing member. (Rs.)	Borrowing per borrowing member in real terms.	Percentage of societies advancing Loans.	Loan advanced per society (Rs. Thousands)	Share capital per member (Rs.)	Deposits per member (Rs.)	Percentage of overdues to outstandings.	Percentage of 'A' and 'B' class societies to total societies.	Percentage of societies having full-time paid secretaries.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1. Andhra Pradesh	91.0	2.3	55.0	35	22.0	353	275	45	19	41	16	52	4	5
2. Assam	82.0	17.0	25.0	6	3.0	503	392	10	4	28	16	81	20	23
3. Bihar	98.0	-	40.0	35	13.0	149	116	65	9	15	5	62	5	14
4. Gujarat	91.0	43.0	55.0	50	29.0	1339	1044	86	113	194	39	25	50	60
5. Haryana	100	97.0	94.0	57	58.0	485	378	98	31	60	12	52	8	16
6. Himachal Pradesh	100	19.0	103.0	40	51.0	262	204	77	19	54	111	25	29	35
7. Jammu & Kashmir	84	13.4	53.0	40	20.0	82	64	68	9	16	6	55	10	70
8. Karnataka	94	27.0	62.0	42	26.0	586	457	58	54	73	20	46	34	62
9. Kerala	100	45.0	73.0	41	29.0	496	387	74	174	53	60	30	14	76
10. Madhya Pradesh	100	46	43.0	42	20.0	593	462	96	55	71	22	47	4	81
11. Maharashtra	96	20.0	76.0	42	32.0	823	641	91	55	167	14	44	29	51
12. Orissa	100	34.0	50.0	21	11.0	398	310	72	36	32	10	58	6	82
13. Punjab	100	32.0	216.0	71	162.0	586	457	95	60	76	137	47	20	31
14. Rajasthan	94	-	47.0	33	20.0	227	177	38	13	47	11	63	4	35
15. Tamil Nadu	100	71.0	92.0	24	17.0	757	590	79	109	45	15	28	6	75
16. Uttar Pradesh	100	8.0	52.0	26	13.0	357	278	73	21	38	8	51	0.6	14
17. West Bengal	79.0	5.0	26.0	28	7.0	164	128	29	4	34	8	74	1.0	3
All-India ³	95.5	34.5	55.5	35.6	20.1	538	419	69.7	39.0	64	23	43.9	13.8	33.9

1. Borrowing per borrowing member in real terms is obtained to deflating borrowing per borrowing member in nominal terms in col. 6 by fertiliser price index 1.283 with 1952-53 = 1.00

2. Data as on 30 June 1971.

3. All India includes Union Territories.

Source: RBI (1971-72) and RBI (1978a).

2.61* At the time of Rural Credit Survey, the jurisdiction of a society was almost confined to a village. The reorganisation programme during the fifties and sixties led to the increase in the jurisdiction of individual societies so that the number of villages per society increased from 2 in 1961-62 to 3.5 in 1971-72 (no base figure for 1951-52 is available). The coverage of villages by the societies had also gone up from 52% in 1957-58 to 74.8% in 1961-62 and further to 95.5% in 1971-72. State-wise coverage of villages was quite satisfactory such that in 1971-72, 14 out of 17 states had PACS in more than 90% of the villages. However, this has to be accepted with caution due to a very high proportion of dormant societies, as many as 75% in Assam, 49% in Rajasthan, 31% in West Bengal, 17% in Tamil Nadu and 15% in Orissa.

2.62 With the increase in the area of operation of the societies, more and more households in the villages became members of these societies. The total membership increased from 48 lakhs in 1951-52, to 196 lakhs in 1961-62 and further to 320 lakhs in 1971-72. The average number of members per society increased from 44 to 91 during 1951-52 and further to 203 in 1971-72. Naturally also, a larger proportion of cultivators came to the co-operative fold, for cultivators form the bulk of the village households and co-operative finance, particularly crop loan, was more available to them. The proportion of membership to cultivator households (assuming one member per household, though more than one is possible) increased from 9.7% in 1951-52 to 39.0% in 1961-62 and further to 55.5% in 1971-72. The state-wise variation was, however, wider than in case of proportion of villages with societies noted above. In 1971-72, the proportion of membership to ~~D~~ultivator households was 25% in Assam, 26% in West Bengal, 40% in Bihar, 43% in Madhya Pradesh and 47% in Rajasthan. In other states it varied between 52% in Uttar Pradesh and 216% in Punjab. This shows that while many villages in many states had a

registered society the memberships of these societies were quite small. Obviously, one cannot expect co-operative finance to supplant the non-institutional sources of credit to any significant extent because membership coverage is a precondition for availing it.

2.63 Mere membership does not tell anything about the relevance of the institution to them. For this, it is necessary to consider the proportion of members who obtained credit to the total membership and total cultivator households and average borrowing per borrowing member and per cultivator household. It is seen from Table 2.14 that the proportion of borrowing membership to total membership which increased from 33.1% in 1951-52 to 50.9% in 1961-62 declined sharply to 35.6% in 1971-72. In absolute terms, however, the number of borrowing members increased from 15 lakhs in 1951-52 to 99.8 lakhs in 1961-62 and further to 113.9 lakhs in 1971-72. Thus, during 1961-72, when the membership increased by about 63%, borrowing membership increased by only 14%. The proportion of borrowing membership to cultivator households which had increased from 3.2% in 1951-52 to 19.7% in 1961-62, increased marginally to 20.1% in 1971-72. In 1971-72, the proportion of borrowing members to cultivator households was only 3% in Assam, 7% in West Bengal, 11% in Orissa, 13% in Bihar and Uttar Pradesh and 20% in Rajasthan, Madhya Pradesh and Jammu and Kashmir. This proportion was considerably higher in Punjab (162%) ^{13/} followed by Haryana (58%), Himachal Pradesh (51%), Maharashtra (32%), and Gujarat and Kerala (29%) each. This shows that a large number of members were for one reason or another not borrowing during a particular year.

^{13/} This proportion being more than 100% would indicate that more than one member of a family are members of the societies as seen by 216% membership to cultivator households during 1971-72 in Table 2.16 and hence more than one member of the family as borrowers.

2.64 We tried to seek reasons for such low borrowing membership from the official statistics of the Reserve Bank of India. Due to data limitation, we selected the year 1977-78 for the period of inquiry. The proportion of borrowing members to total membership during 1977-78 was 34.5%. We saw that a large number of societies were dormant (8,994 or 7.8% of the total) during the year and their membership at 3,779 thousands accounted for 7.9% of the total membership in the country. Still another 11,401 thousands or 23.8% of the total members were defaulters at the beginning of the year 1977-78 for the loans they had availed in the previous year(s). We also found that the members belonging to agricultural labourers, rural artisans and others at 11,512 thousands accounted for 24.1% of the total membership and only 444 thousands or 3.9% of them have borrowed during the year. Only a move towards larger membership coverage have included these sections but not effectively served them. After deducting the number of members of the dormant societies and total number of defaulters from the total memberships we found that 50.5% of the total active members/members of active societies could avail co-operative finance during 1977-78. Deducting the number of borrowers and members belonging to agricultural labourers and others from total borrowers and total members, we find that the proportion of borrowing membership improved to 74% during 1977-78. Thus, dormancy of the societies, the problem of overdues ✓ and the number of members belonging to agricultural labourers, rural artisans and others, explained to a large extent, about 40% of the non-borrowing membership of the co-operatives.

2.65 It is also seen that average borrowing per borrowing member increased from Rs.153 in 1951-52 to Rs.229 in 1961-62 and further to Rs.539 in 1971-72. In certain states the increase was very insignificant during 1961-72 such as Jammu and Kashmir (Rs.63 to Rs.82), Bihar (Rs.83 to Rs.149), Rajasthan (Rs.200 to Rs.227); and Andhra Pradesh (Rs.259 to Rs.353). In West Bengal, the average

borrowing per borrowing member had, in fact, declined marginally from Rs.165 to Rs.164. Given the inflationary situation in the economy, this increase in the amount may not mean much to the cultivators in terms of their productive expenditures. We deflated the nominal credit of the PACS at the all-India level by the fertilisers price index with base 1952-53 = 100. The real credit, after deflating by fertilizers price index, increased from Rs.153 in 1951-52 (assuming the price of fertiliser in 1951-52 and 1952-53 as unchanged) to Rs.242 in 1961-62 and further to Rs.419 during 1971-72. The average borrowing per borrowing member during 1971-72 in real terms was Rs. 19 lower than borrowing in nominal terms. Using the same price index for the states, we see that in real terms, borrowing per borrowing member has declined during 1961-62 to 1971-72 in West Bengal (Rs.174 to Rs.128), Rajasthan (Rs.211 to Rs.177), Jammu and Kashmir (Rs.67 to Rs.64) and in Andhra Pradesh, it increased marginally from Rs.274 to Rs.275 during the period.

2.66 RESOURCE POSITION: The proportion of owned funds and deposits to working capital have all declined over the years and the increased loan business of the societies were met by resorting to borrowings from higher financing agencies, as the percentage of borrowings to working capital increased from 51.2% in 1951-52 to 67.4% in 1961-62 and further to 71.2% in 1971-72. State-wise the composition of working capital differed considerably and the extent of dependence on borrowing increased in many states during 1961-72. Whatever performance of deposits and owned funds were attributed largely to good work done by these institutions in a few states. For example, societies in four states viz., Maharashtra, West Bengal, Gujarat and Tamil Nadu accounted for about 75% of the total deposits in the country in 1961 and their combined share increased to 78% in 1972 (RBI 1973, 2028). It was assumed following the RCS Committee's recommendations that government share would decrease as the private share holders increase their contribution. On the other hand, the

share capital contributed by the government had increased from Rs.6.8 crores to Rs.21.0 crores during 1961-72. In spite of the liberal financial assistance from the government and the RBI, such as loans below the bank rate, subsidies and grants and exemptions from certain duties and taxes, the movement has not developed sufficient strength to stand on its own.

2.67 LOANING OPERATIONS: Coming to the loan business of the societies, it is seen that in 1951-52, about 76% of the societies advanced loans amounting to Rs.24.2 crores on an average of Rs.3,000 per society. The situation improved considerably in 1961-62, when about 80% of the societies advanced loans amounting to Rs.228.3 crores on an average of Rs.13,000 per society. Thus, with about two-fold increase in the number of societies advancing loans, loans advanced per society increased four-fold. However, in 1971-72 the percentage of societies advancing loans declined to about 70%, though the total loans advanced increased to Rs.614.5 crores and loans advanced per society to Rs.56,000. During 1971-72, the proportion of societies advancing loans was as low as 10% in Assam, 29% in West Bengal, 38% in Rajasthan, 58% in Karnataka, 65% in Bihar and 68% in Jammu and Kashmir. If we compare the deposits per member, share capital per member and loan advanced per society and per member, it is seen that the states where the societies could mobilise more resources in the form of deposits and share capital could also advance more to their members as loans and thus by the societies.

2.68 ASPECTS OF RECOVERY: The percentage of overdues to outstanding loans (though percentage of overdues to demand is a better index for which data is not available) declined marginally from 25.3% in 1951-52 to 24.5% in 1961-62 but increased sharply to 43.9% in 1971-72. The amount of overdues even exceeded by about 29% of the owned funds of all societies during 1971-72, which depicted the severity of the problem. State-wise comparison for the years 1961-62 and 1971-72 show a substantial increase in almost all the states.

In 1971-72, the percentage of overdues to outstandings was particularly distressing in Assam (81%), followed by West Bengal (74%), Rajasthan (63%), Bihar (62%), Orissa (58%), and Jammu and Kashmir (55%).

2.69 The classification of overdues by period indicates that the share of overdues up to one year and between one to two years in the aggregate overdues have been on the decline whereas overdues for two to three years and that of more than three years have been on the increase (Table 2.17). Given the predominantly short term nature of the credit extended by the PACS, the rise in the proportion of overdues beyond one year would choke up / the flow of fresh finance. The Reserve Bank study (RBI 1974) gives some insights to the problem of overdues of PACS. The study was conducted in 16 states covering 133 societies during the period of five years from 1967-68 to 1971-72. It revealed the following features:

(i) Of the 63 societies, which were not affected at all by natural calamity, 52 had overdues of over 50% of loans outstandings as on 30-6-1972, including 30 societies which had even 100% overdues. Of the 36 societies affected by natural calamity in any one year during 1967-68 to 1971-72, 28 of them granted conversion facilities to their members of which overdues of 14 societies showed an upward trend. Of the remaining 34 societies affected by natural calamity more than one year, 17 societies granted conversion facilities of which overdues of 6 societies showed an increasing trend. This shows that the presence of favourable weather factors or the provision of stabilisation arrangements in the face of natural calamity have not been able to arrest the level of overdues.

(ii) Of the 42 societies having more than 25% of area under cash crops to the gross cropped area in the region, the overdues of 27% of the societies were more than 50% of outstandings. On the other hand, of the 41

Table 2.17 : Overdues of PACS : A Time Series Analysis, as on June 30.

Year	Percentage of overdues to outstanding Loans	Percentage of overdues for			
		Less than one year	One - Two Years	Two - Three years	More than three years
1960	21.22	54.33	24.41	10.63	10.63
1961	20.32	55.54	23.89	10.80	9.77
1962	24.52	56.23	24.44	11.14	8.19
1963	25.49	51.18	26.37	13.13	9.32
1964	22.54	46.87	26.14	15.84	11.15
1965	25.86	50.44	23.29	14.18	12.09
1966	29.36	49.19	25.10	14.12	11.49
1967	33.53	48.44	25.23	14.21	12.12
1968	32.99	45.76	24.63	15.36	14.25
1969	34.59	49.08	23.05	14.28	13.59
1970	37.71	50.08	22.68	13.90	13.40
1971	41.09	46.48	23.34	14.70	15.28
1972	43.89	47.18	21.82	14.73	16.27
1973	37.68	41.21	21.12	15.49	22.18
1974	42.01	50.07	18.24	12.95	18.74
1975	42.74	43.98	22.86	13.27	19.89
1976	43.14	42.83	21.11	15.71	23.35
1977	42.71	41.30	22.06	15.62	21.02
1978	45.03	42.48	21.40	15.15	20.97
1979	45.23	40.85	21.24	16.14	21.77
1980	45.85	39.36	20.76	16.51	23.37

Source : RBI, Statistical Statements Relating to the Co-operative Movements in India, various issues.

societies with less than 25% of the area under cash crops, in at least 10 cases the overdues were less than 50%. This shows that the societies having a larger area under cash crops would be in a comfortable position to recover the dues is not always true.

(iii) Most of the societies having full-time paid secretaries had overdues of less than 50% of outstandings whereas the majority of societies with part-time secretaries had overdues ⁴about 75% or more of the outstandings. Thus, the bulk of the societies with full-time paid secretaries have been able to administer loans and recover dues better than the societies having part-time paid secretaries.

(iv) In terms of the percentage of borrowing members to cultivator families, it was seen that 69 societies with less than 50% of households coverage in the jurisdiction of the societies had overdues more than 50%, whereas another 31 societies had overdues more than 50%, even though they covered more than 50% households. Thus, there is no positive indication that a higher effective coverage would necessarily mean a lower level of } overdues.

(v) Size-wise there was no appreciable distinction between the repayment behaviour of small, medium and large farmers (see Table 2.18).

(vi) The upward trend in overdues was also evident irrespective of a district being backward/tribal/drought prone/IADP/HYVP area.

2.70 Thus, the study brings out the lack of any positive or direct relationship between the factors mentioned above and the prevalence of overdues. The study observes that the general backwardness of the district or the occasional occurrence of a natural calamity in an otherwise developed district had served as a pretext for widespread wilful default. It concludes

that "lack of will and discipline among the cultivators to repay is the principal factor contributing to the prevalence of overdues in the co-operatives. That is the lack of discipline among the borrowers which is responsible for the existence of overdues is also substantiated by the experience of commercial banks lending directly or indirectly for agriculture" (RBI 1974, 58).

Table 2.18 : Overdues by Farm-size As. on 30-6-1972

Size of land holdings	Percentage of defaulters to total defaulters	Percentage of defaulters to indebted members	Percentage of overdues to total loans overdues	Percentage of overdues to outstandings
10 acres and above	19	73	46	63
5 to 10 acres	19	80	20	64
3 to 5 acres	22	83	15	67
Below 3 acres	33	83	14	71
Tenants, etc	7	90	5	76
Total	100	80	100	65

Source: RBI (1974, 45).

2.71 AUDIT CLASSIFICATION: Seeing all these, it would be worthwhile to present the audit classification of the societies based on the composite index of operational efficiency, such as proper utilisation of resources, repayment performance, profit earned, quality of management, etc. Broadly, model societies were classified as 'A', societies with fairly sound conditions as 'B', the mediocre ones as 'C', bad ones as 'D' and utterly hopeless ones as 'E'. One can see from the Table 2.14 that the share of 'A' and 'B' class societies has been on the decline since 1951-52. In 1971-72, the 'A' and 'B' class societies constituted only 2.3% and 11.4% respectively of the total societies

audited. State-wise position based on this composite index shows that in West Bengal, Bihar, Orissa, Rajasthan, Andhra Pradesh, Madhya Pradesh and Tamil Nadu, the picture was one of stagnation while better performance was observed in Maharashtra, Gujarat and Punjab. This shows that the working of PACS has not changed very significantly over the decades except that a few percentage of societies have become mediocre ones.

2.72 The progress of short and medium term co-operative credit as revealed from the preceding paragraphs reveal certain interesting features. The most important one that stands out is the uneven progress in different states of the country. Co-operative credit has been relatively successful in some west and south-Indian states, but very poor in east-Indian states, Rajasthan and Jammu and Kashmir. This was very much evident in the coverage of cultivator households, composition of working capital, loaning operations, overdues and audit classification. The composition of working capital indicates that most states depended heavily upon borrowing to sustain their lending operations. The problem of loan administration appears to be acute in many states, where an increasing proportion of funds are being tied up in receivables. The composite indicators of audit classification shows that the overall working of the PACS has not changed very significantly over the decades.

2.73 PROGRESS OF MEDIUM AND LONG TERM CREDIT : The progress of medium and long term credit as dispensed by the land development banks ^{14/} during 1951-52, 1961-62 and 1971-72 are presented in Table 2.19 (for all-India data) and Table 2.20 (for state-wise data). Here again state-wise data for many indicators are not available for 1951-52 and 1961-62 and, therefore, the progress of long term credit is seen from the data during 1971-72.

^{14/} It was in 1965-66 that RBI adopted the definition Land Development Banks instead of Land Mortgage Banks in its Statistical Statements Relating to the Co-operative Movement in India.

Table 2.19 : Progress of Long Term Credit During 1951-52, 1961-62 and 1971-72 -
All-India

	1951-52	1961-62	1971-72
1. Number of CLDB	6	17	19
2. Number of PLDB	289	536	869
3. Total membership ¹ (Thousands)	248	1045	3540
4. Percentage of membership to cultivator households	0.5	2.1	6.3
5. Percentage of borrowing members to cultivator households	-	-	0.6
6. Percentage of cultivator households borrowing for capital expenditure on farm business from any agency	-	11.2	1.2
7. Percentage of cultivator households reporting capital expenditure on farm business	-	66.7	48.6
8. Percentage of borrowing members to total membership	-	-	10.2
9. Total loans issues to individual members of PLDB and CLDB (Rs. crores)	3.8	27.4	154.4
10. Borrowing per borrowing member (Rs.)	-	-	4286
11. Total loans outstandings of PLDB and CLDB. (Rs. crores)	17.0	83.3	786.5
12. Percentage of loan issued by the CLDB for:-			
- Land-Improvement	-	45.4	8.9
- Sinking and repair of wells	-	-	35.9
- Purchase of machinery	-	24.0	47.8
- Redemption of debts	-	28.5	0.4
- Purchase of Land	-	0.7	0.8
- Others	-	1.4	6.3
13. Working Capital (Rs. crores)			
- PLDB	7.6	38.3	673.5
- CLDB	10.2	61.7	1016.5
14. Share capital (Rs. crores) - PLDB	0.6	2.8	48.2
- CLDB	0.4	5.7	57.6
15. Total debentures outstandings of CLDB (Rs. crores)	7.8	48.0	879.8
16. Percentage of overdues to demand	-	-	25.2

1. Membership includes regular individual members excluding nominal members.

2. Cultivator households are estimated on the same basis as in Table 2.14.

Source: RBI (1951-52), (1961-62), (1971-72) and RBI (1978a).

Table 2.20 : Selected Indicators of Progress of Long Term Credit During 1961-62 and 1971-72 - State-Wise

States	Proportion of membership to cultivator households.		Proportion of borrowing membership to total membership.		Proportion of borrowing membership to cultivator households.		Proportion of cultivator households borrowing from any agency for capital expenditure on farm business.		Proportion of cultivator households reporting capital expenditure on farm business.		Share of borrowing from any agency of cultivator households in the capital expenditure on farm business.		Average borrowing per borrowing member. (Rs.)	Proportion of borrowing for productive purposes.		Percentage of overdues to demand.
	1961-62	1971-72	1971-71	1971-72	1961-62	1971-72	1961-62	1971-72	1961-62	1971-72	1961-62	1971-72	1971-72	1961-62	1971-72	1971-72
Andhra Pradesh	5.8	11.6	9.0	1.0	16.5	1.1	46.0	27.4	38.8	8.2	3179	54.0	94.3	11.2		
Assam	0.3	0.5	4.5	0.02	2.5	0.3	69.6	41.9	14.8	0.8	2688	5.5	89.3	70.2		
Bihar	0.1	1.1	18.2	0.2	5.8	0.4	72.5	37.2	22.9	3.8	6341	6.1	99.2	39.0		
Gujarat	10.1	21.3	4.4	0.9	9.0	1.4	64.4	63.9	32.2	4.0	6414	67.0	87.4	21.1		
Haryana	-	9.4	16.3	1.5	-	2.5	-	62.3	-	3.0	7418	-	98.2	63.1		
Himachal Pradesh	-	1.4	13.4	0.2	-	0.4	-	38.4	-	1.6	4578	-	80.4	67.2		
Jammu & Kashmir	-	4.5	7.4	0.3	4.1	1.4	44.6	71.1	12.5	2.3	2870	-	99.1	30.0		
Karnataka	5.2	13.2	8.4	1.1	15.6	1.2	74.7	58.5	31.2	2.7	3646	25.5	65.6	43.0		
Kerala	0.9	2.8	29.7	0.8	6.9	0.3	65.2	39.8	24.7	1.4	1371	6.3	91.4	32.8		
Madhya Pradesh	0.7	2.1	18.2	0.4	11.0	1.2	63.4	59.9	33.4	4.6	4141	28.2	100.0	48.8		
Maharashtra	5.1	14.9	5.8	0.9	6.0	0.8	59.9	50.0	26.8	2.1	4000	98.7	83.7	39.2		
Orissa	0.5	2.9	12.6	0.4	4.6	0.7	56.1	50.4	16.2	3.0	2430	80.5	98.6	55.2		
Punjab	0.9*	20.3	25.0	5.0	13.8*	-	80.1*	80.7	26.9*	5.4	4505	33.7	93.5	2.6		
Rajasthan	0.5	3.4	8.7	0.3	25.6	5.2	58.2	57.6	54.3	15.7	4244	39.6	99.6	47.7		
Tamil Nadu	5.5	12.0	8.4	1.0	15.3	1.5	51.6	36.9	46.7	7.6	6272	58.6	97.4	18.8		
Uttar Pradesh	Neg	4.1	16.4	0.8	14.0	1.1	83.2	51.9	29.3	5.2	3336	63.5	98.0	12.8		
West Bengal	0.2	0.9	7.0	0.1	4.2	1.0	65.5	52.9	19.6	2.5	3294	84.6	99.8	63.3		
All-India**	2.1	6.3	10.2	0.6	11.0	1.2	66.7	48.6	33.1	4.9	4281	69.3	92.5	25.2		

* Inclusive of Haryana.

** Inclusive of Union Territories.

*** Productive purposes include land improvement, sinking and repair of wells and purchase of machinery.

Source: RBI (1961-62), RBI (1971-72) and RBI (1978a).

2.74 ASPECT OF COVERAGE: The proportion of membership to cultivator households was only 0.5% during 1951-52 which increased to 2.1% in 1961-62 and further to 6.3% during 1971-72. During 1971-72, the proportion of cultivator households as members was highest in Gujarat (21.3%) followed by Maharashtra (14.9%) and Punjab (20.3%). Membership coverage was particularly insignificant in Assam (0.5%), West Bengal (0.9%), Bihar (1.1%), Madhya Pradesh (2.1%), Kerala (2.8%), Orissa (2.9%), Rajasthan (3.4%) and Uttar Pradesh (4.1%).

2.75 Within the very low proportion of cultivator households as members, members actually financed long term credit during 1971-72 was highest in Kerala (29.7%) followed by Punjab (25.0%), Bihar and Madhya Pradesh (with 18.2% each) and Haryana (16.3%). The proportion of borrowing members to cultivator households was only 0.6% during 1971-72 with 5% in Punjab, 1.5% in Haryana and 1% each in Gujarat, Maharashtra, Tamil Nadu, Karnataka and Andhra Pradesh. In other states, the proportion of borrowing members to cultivator households was even less than 1%.

2.76 The coverage of cultivator households by the land development banks both as members and borrowers, thus, reveal very inadequate spread till 1971-72. The low coverage of the cultivator households was due to the wide area of jurisdiction of the land development banks, which was generally extended to a whole district or a group of talukas. This made very difficult for the banks to have direct contact with the cultivators or to give due publicity to their working (RBI 1961, 203). The coverage of land development banks was particularly insignificant for the smaller cultivators. Gujarat study conducted during 1965-66 to 1967-68 revealed that the proportion of borrowers of the banks below 5 acres to total borrowers was less than 9%, whereas farmers with holdings more than 15 acres constituted 42% of the total

borrowers inspite of their low proportion (22%) in the total number of land holders against small holders (35%) (Jodha 1971, A-143). The RBI study conducted during 1965-66 in seven states also supported the view regarding the inadequate access of small farmers to long term loans (RBI 1969, 778).

2.77 During 1971-72, the proportion of families borrowing for capital expenditure on farm business from any agency was 1.2% at the all-India level at a time when land development banks catered to only 0.6% families. Thus, within the very low proportion of cultivator households incurring capital expenditure on farm business, still lower proportion was catered by land development banks. State-wise differences were broadly similar with respect to the proportion of families borrowing from land development banks and those from any agency.

2.78 Two interesting features that emerged in the rural economy during the review period is the decline in the share^{of} capital expenditure on farm business by the cultivators and the reduced dependence on borrowing as a source of capital expenditure. The proportion of cultivator households reporting capital expenditure on farm business was 66.7% in 1961-62 which came down to 48.6% in 1971-72. Along with the decline in the proportion of households incurring capital expenditure, the share of capital expenditure on farm business in the aggregate capital expenditure also declined from 69% in 1961-62 to 63.6% in 1971-72. The proportion of cultivator households borrowing for capital expenditure on farm business declined from 11% in 1961-62 to 1.2% in 1971-72. The proportion of capital expenditure financed out of borrowings also declined sharply from 33.1% in 1961-62 to 4.9% in 1971-72. This implies that more and more proportion of such expenditures have been financed out of own resources of cultivators.

2.79 LOAN BUSINESS: The medium and long term loans advanced by the land development banks during the year increased from Rs.3.8 crores in 1951-52 to Rs.27.4 crores in 1961-62 and further to Rs.154 crores in 1971-72. The total loans outstandings also increased, which constitute an important indicator due to the long term nature of the loan, from Rs.17 crores in 1951-52 to Rs.83.3 crores in 1961-62 and Rs.786.5 crores in 1971-72. State-wise, though all states showed improvement, only a few of them accounted for the bulk of the credit dispensed. For instance, out of the total loans of Rs.154.4 crores advanced during the year, sum of Rs.91.2 crores or 59% accounted for by five states viz., Uttar Pradesh (Rs.24 crores), Tamil Nadu (Rs.22.3 crores), Punjab (Rs.15.2 crores), Maharashtra (Rs.14.2 crores) and Gujarat (Rs.15.5 crores). The share of these states in the aggregate capital expenditure on farm business was 58% during 1971-72 which implies that the states having a greater proportion of capital expenditure incurred on farm business could avail a greater proportion of finance from land development banks. Considerable differences have also been noticed in terms of borrowing per borrowing member, highest being Rs.7,418 in Haryana, followed by Rs.6,272 in Tamil Nadu and Rs.6,414 in Gujarat and lowest being Rs.1,371 in Kerala followed Rs.2,430 in Orissa, Rs.2,688 in Assam and Rs.2,870 in Jammu and Kashmir.

2.80 One problem faced by the land development banks was their inability to link with the short term wing of the co-operative credit structure which was exclusively provided by the PACS. The additional short term loans required due to the long term investment in land ^{15/} was not taken care of in many instances. The non-integration of short and term credit structure, and hence failure to provide adequate short term credit, increases the cost of the utilisation of the assets created by the loan and under utilisation of capacity.

^{15/} In a study conducted in Punjab, it was seen that 1% change in long term investment would result in a 1.29% change in short term investment (Meheta and Sidhu, 1971, 489-95).

2.81 The progress as regard to purpose-wise lending by the land development banks seems to be satisfactory. In 1951-52, these banks mainly advanced loans for unproductive purposes such as repayment of old debt, which was about 100% in Mysore, 95% in Madras, 59% in Madhya Pradesh and 49% in Bombay. During 1961-62, about 70% of the loans were advanced for productive purposes. However, lending for the repayment of old debt continued in some states to a significant extent such as Bihar (94%), Kerala (91%), Mysore (74%), Rajasthan (60%), Punjab (50%) and Andhra Pradesh (46%). The stipulation by the Reserve Bank to advance 90% of the total loans for productive purposes since 1969-70, of which at least 70% should be for easily identifiable purposes, increased the share of lending for productive purposes to 92% during 1971-72.

2.82 RECOVERY PERFORMANCE: Due to the long term nature of the loan, it is necessary to relate overdues to demand rather than outstanding loans. Demand data is not available for earlier years and we have here presented data only for 1971-72. As seen from Table 2.20 the deterioration in the recovery climate is not restricted to the short term credit only in as much as 25.2% of the total demand of the banks were overdues with 70.2% in Assam, 67.2% in Himachal Pradesh, 63.3% in West Bengal, 55.2% in Orissa, 48.8% in Madhya Pradesh, 47.7% in Rajasthan, 30% in Jammu and Kashmir. Faulty loan proposals, laxity in post-credit follow-up, lack of technical guidance to loanees, natural calamities and, above all, wilful default have all tended to affect the recovery positions of the land development banks (RBI 1981, 78).

2.83 Mounting overdues have stood on the ways of primary land development banks or branches of central land development banks in getting the state government contribution towards the share capital, debenture issues and also getting full refinance from their apex financing institutions. All this had adversely affected the viability of the banks. The Committee on land development

banks after evaluating the viability of primary banks or branches of central land development banks in 7 states during 1972-73 found that 14 out of 16 banks in Assam, 50 out of 87 in Bihar, 12 out of 20 in Jammu and Kashmir, 34 out of 43 in Madhya Pradesh, 45 out of 55 in Orissa, 11 out of 35 in Rajasthan and 12 out of 21 in West Bengal were not viable (RBI 1975a, 70).

2.84 Such was the progress of long term credit following the implementation of the RCS Committee's recommendations till 1971-72. The progress as seen from the preceding paragraphs is very uneven among states. The unevenness is explained to a great extent by the demand for long term credit for capital expenditure on farm business. In Table 2.21, we have ranked the states with the following: percentage of cultivator households owning less than 2.5 acres of land, net irrigated area as proportion of net area sown, average capital expenditure per acre, proportion of cultivator households borrowing from any agency for capital expenditure on farm business, proportion of cultivator households reporting capital expenditure on farm business, share of capital expenditure of each state in the aggregate, share of land development banks' advances of each state in the aggregate advances and average borrowing per borrowing member of land development banks. It is seen from the table that, with few exceptions, the states with lower proportion of households with 2.5 acres of land, higher irrigated area as proportion of net area sown have incurred a higher scale per acre and have a larger share of capital expenditure on farm business and finally a larger share of land development banks' advances and higher scale of advances per borrowing member.

Table 2.21 : Ranking of States According to Factors Affecting Capital Expenditure and Capital Formation of Cultivator Households (1971-72)

Percentage of cultivator households owning less than 2.5 acres of land.	Net irrigated area as proportion of net area shown.	Proportion of cultivator households reporting capital expenditure on farm business. (per cent)	Average capital expenditure in farm business per acre by cultivator households. (Rs.)	Proportion of cultivator households borrowing for capital expenditure on farm business from any agency. (per cent)	Share of borrowing for capital expenditure on farm business in aggregate capital expenditure by cultivator households. (percent)	Share of capital expenditure by households on farm business of each state in the aggregate.	Share of each state in total LDB advances.	Average borrowing from LDBs per borrowing member (Rs.)
Rajasthan (22.3)	Punjab (71.3)	Punjab (80.7)	Punjab (202.6)	Rajasthan (5.2)	Rajasthan (15.7)	Uttar Pradesh (15.4)	Uttar Pradesh (15.5)	Haryana (7418)
Maharashtra (26.5)	Haryana (43.0)	Jammu & Kashmir (71.1)	Himachal Pradesh (113.0)	Punjab* (2.9)	Andhra Pradesh (8.2)	Gujarat (13.5)	Tamil Nadu (14.5)	Gujarat (6414)
Haryana (26.5)	Tamil Nadu (42.0)	Gujarat (63.9)	Haryana (108.4)	Tamil Nadu (1.5)	Tamil Nadu (7.6)	Punjab (12.0)	Gujarat (10.1)	Bihar (6341)
Gujarat (27.3)	Uttar Pradesh (41.5)	Haryana (62.3)	Kerala (104.5)	Gujarat (1.4)	Punjab (5.4)	Karnataka (8.6)	Punjab (9.8)	Tamil Nadu (6272)
Punjab (29.0)	Jammu & Kashmir (39.5)	Madhya Pradesh (59.9)	Tamil Nadu (72.7)	Jammu & Kashmir (1.4)	Uttar Pradesh (5.2)	Tamil Nadu (8.5)	Maharashtra (9.2)	Himachal Pradesh (4578)
Karnataka (32.9)	West Bengal (26.9)	Rajasthan (57.6)	Jammu & Kashmir (61.6)	Madhya Pradesh (1.2)	Gujarat (4.0)	Maharashtra (8.3)	Karnataka (7.5)	Rajasthan (4244)
Madhya Pradesh (29.9)	Andhra Pradesh (28.2)	Karnataka (58.5)	West Bengal (62.3)	Karnataka (1.2)	Madhya Pradesh (4.6)	Madhya Pradesh (8.4)	Andhra Pradesh (8.8)	Punjab (4505)
Andhra Pradesh (49.7)	Assam (25.7)	West Bengal (52.9)	Uttar Pradesh (57.8)	Uttar Pradesh (1.1)	Bihar (3.8)	Haryana (6.1)	Bihar (6.1)	Madhya Pradesh (4141)
Assam (54.7)	Bihar (25.6)	Uttar Pradesh (51.9)	Karnataka (55.6)	Andhra Pradesh (1.1)	Haryana (3.0)	Rajasthan (5.5)	Madhya Pradesh (5.0)	Maharashtra (4000)
Jammu & Kashmir (55.9)	Kerala (19.8)	Orissa (50.4)	Gujarat (45.3)	West Bengal (1.0)	Orissa (3.0)	Bihar (3.7)	Haryana (4.7)	Karnataka (3646)
Orissa (56.0)	Orissa (18.8)	Maharashtra (50.0)	Assam (42.4)	Maharashtra (0.8)	Karnataka (2.7)	Andhra Pradesh (3.6)	Rajasthan (2.2)	Uttar Pradesh (3336)
Uttar Pradesh (56.3)	Himachal Pradesh (16.7)	Assam (41.9)	Madhya Pradesh (31.4)	Orissa (0.7)	West Bengal (2.5)	West Bengal (1.8)	Kerala (1.7)	West Bengal (3294)
Himachal Pradesh (57.4)	Rajasthan (14.0)	Kerala (39.8)	Bihar (30.1)	Bihar (0.4)	Jammu & Kashmir (2.3)	Kerala (1.4)	Orissa (1.6)	Andhra Pradesh (3179)
Tamil Nadu (63.8)	Gujarat (12.8)	Himachal Pradesh (38.4)	Maharashtra (30.0)	Kerala (0.3)	Maharashtra (2.1)	Assam (1.3)	West Bengal (0.5)	Jammu & Kashmir (2870)
Bihar (64.8)	Karnataka (11.1)	Bihar (37.2)	Andhra P. (26.1)	Assam (0.3)	Himachal Pradesh (1.6)	Orissa (0.8)	Jammu & Kashmir (0.3)	Assam (2688)
West Bengal (68.1)	Madhya Pradesh (8.1)	Tamil Nadu (36.9)	Rajasthan (24.5)	-	Kerala (1.6)	Jammu & Kashmir (0.5)	Himachal Pradesh (0.2)	Kerala (1371)
Kerala (87.4)	Maharashtra (7.8)	Andhra Pradesh (27.4)	Orissa (24.1)	-	Assam (0.8)	Himachal Pradesh (0.2)	-	-
All-India (50.2)	All-India (22.7)	All-India (48.6)	All-India (45.1)	All-India (1.2)	All-India (4.9)	All-India (100.0)	All-India (100.0)	All-India (4281)

* Inclusive of Haryana

Source : RBI (1971-72) and RBI (1978c).

IV CONCLUSION

2.85 A review of the implementation of the RCS Committee's recommendations and its impact on the progress on rural credit situation reveal the following:

(a) On the demand side, the increased flow of institutional rural credit made available through co-operatives has not changed significantly the pattern of demand in favour of production purposes during the two decades. The share of consumption loans in the aggregate credit demand has increased, particularly for the cultivators on smaller holdings. One feature that stands out is that the demand for consumption loans was not a feature of the smaller cultivators alone. A significant proportion of the credit demand by the bigger cultivators was also meant for consumption purposes and their share constituted the largest proportion in the aggregate demand of all cultivators.

(b) On the supply side, the role of the moneylenders has declined in most of the states and this was associated with the rise in the share of co-operatives. The growth of an unclassified agency termed as 'others' in some states creates the suspicion that the moneylenders' hold over the rural credit market perpetuates in different form.

(c) The overall performance of co-operative credit remained very uneven among different states of the country. The share of co-operatives in the aggregate borrowings of cultivators was particularly insignificant in Assam, Bihar, West Bengal, Andhra Pradesh, Jammu and Kashmir and Rajasthan. This was manifested in the insufficient progress in the implementation of the crop loan scheme along with the linkage between credit and marketing.

(d) The composite index of performance of PACS based on audit classification showed that the working of the co-operatives has not changed very significantly over the two decades under review. The PACS operating

at the village level was characterised by financial non-viability in most of the states and this limited the range of services expected to be provided by them.

(e) The disbursement of credit through co-operatives was also marked by a skewed pattern and there was little indication that any institutional support was forthcoming for the financing of the production activities of the smaller farmers. The co-operatives, which were intended to meet the social and economic needs of the people in country-side, could not break the hold of vested interests, consequently they became highly discriminatory in practice. At the other extreme, credit available to the bigger farmers and farmers in the regions of intensive agricultural production was very limited. Thus, the co-operative credit system was finding it difficult to strike a balance between the two objectives: the urgency of accommodating those who can take advantage of the new technology and the emerging socio-economic pressure to promote an equitable distribution of credit.

(f) Despite the advantage of having a very wide network with direct touch with the rural people and being the chief purveyor of credit, the co-operatives could not mobilise deposits for their lending operations and they had to depend increasingly on higher financing agencies. In many areas, they just became the departmental activities of the government.

(g) And last, not the least, the growing problem of overdues almost crippled the financial position of the co-operatives.

2.86 In the seventies, these issues were tried to be resolved by greater institutionalisation of rural credit structure which is discussed in the next chapter.

CHAPTER 3

RURAL CREDIT POLICY DURING THE SEVENTIES

3.1 We have seen in the previous chapter that the integrated scheme of rural credit based on the development of the co-operative credit structure did not bring about the desired objectives as envisaged by the RCS Committee in the early fifties. In the seventies, these objectives and certain others that emerged during the period were sought to be achieved by greater institutionalisation of the rural credit structure and operational policies. This began with the nationalisation of commercial banks in 1969, opening of Regional Rural Banks in 1975 and further diversification of the co-operative credit structure tailored to the needs of the weaker sections of the rural community. The multi-agency approach to rural credit became the outcome of all these efforts where different institutions were expected to play complementary roles in meeting the credit needs of the agricultural sector.

3.2 In section I of this chapter are presented a brief background to the institutional impulses leading to the emergence of pressures on commercial banks for their direct involvement in agricultural sector, and an evaluation of their performance in the light of the objectives set at the time of nationalisation of major commercial banks in 1969. Section II discusses the policy changes in the co-operative credit sector in the seventies. The emerging credit situation towards the early eighties is presented in the following (section III). The concluding section (IV) brings out the issues resulting from the greater institutionalisation of rural credit during the seventies.

I. RURAL CREDIT BY COMMERCIAL BANKS

3.3 ORIGIN OF IMPULSES FOR COMMERCIAL BANKS' INVOLVEMENT IN AGRICULTURE : The trend of both expert opinion and official policy until early sixties was in favour of co-operatives, and not commercial banks, as an appropriate agency for rural credit. The government did not envisage the commercial banks as playing any

significant role in financing the cultivators in the villages. The non-official leadership representing the co-operatives was also opposed to the entry of any agency, let alone commercial banks, into rural credit. The commercial banks, on their own, were also not keen in financing the agricultural sector. Being essentially urban in origin and conception, their operations were geared to the needs of industry and commerce. They had neither any organisational set up in the rural areas nor the expertise to deal with a vast number of cultivators scattered over innumerable small villages. Nor did they have any organic links with local institutions at the village level such as co-operatives or the non-official leadership in the village. Factors such as uncertainty of agricultural production, the inability of average cultivators to offer adequate security and complicated land record system made them extremely risk conscious to undertake lending to the agricultural sector.

3.4 Summing up the role of commercial banks in agricultural credit, the Indian Central Banking Enquiry Committee said in 1931:

"We have already remarked that the joint-stock banks play little direct part, and the Imperial Bank much less, in the supply of rural credit to the agriculturists. These banks do not look upon agricultural finance as part of their general business. Banks, however, do finance agriculture indirectly by financing merchants who give advances to the small dealers; and some banks lend directly on the pledge of produce and valuables and mortgage. This indirect financing by intermediaries is, however, costly, as a price not always reasonable has to be paid for it. A few banks lend to landholders and to the more substantial cultivators" (quoted from RBI 1954, 180).

3.5 The data of the Rural Credit Survey in 1951-52 indicated that the credit obtained from commercial banks by the cultivators was 0.9% of the total borrowings

and even so was confined to a few districts. In 44 out of 75 districts selected for the survey, the borrowing by cultivators from commercial banks was nil, in 15 others less than one percent was borrowed and in the remaining 16 districts, more than 1% was borrowed. As on 30 June 1951, roughly 3 percent of the total advances of all reporting commercial banks were extended as advances for agricultural production (RBI 1954, 181). It was against this background that the RCS Committee did not consider the commercial banks as an active agency for agricultural finance. The Committee observed: "The record of commercial banks which has since been set out lends no support to the assumption that these institutions can, if assisted by the state, be of direct and material assistance to the agriculturist. They are not designed to be suppliers of medium term and long term credit, agriculture or others; whereas this type of credit is of extreme importance in the context of the enlargement of agricultural production. Moreover, their short term operations, in so far as the cultivators directly benefit by them, are not only negligible by themselves but are confined to a few instances of relatively large land holders who are able to produce the needed personal security in addition to that of land. We feel, therefore, justified in rejecting commercial banks generally as an agency suitable for inclusion in the integrated scheme of rural credit. This observation does not of course apply to the State-associated banks, including the Imperial Bank of India. In regard to these, the scheme of integration which we have indicated is designed to subserve the purpose of making remittance and credit more readily available in rural areas, as also of linking an important sector of commercial banking with those parts of the co-operative structure which are concerned with credit, namely, marketing and processing" (RBI 1954, 361-62). Following the recommendations of the RCS Committee, the State Bank of India was constituted in July 1955, through the

acquisition of undertaking of the state-associated banks and the Imperial Bank of India. The main functions of the State Bank of India, as envisaged by the RCS Committee, remained as the extension of treasury and remittance facilities and providing banking services to the co-operative marketing and processing societies.

3.6 What emerged from the All-India Rural Debt and Investment Survey in 1961-62 in regard to the role of commercial banks in agricultural credit was in line with the outline of the Rural Credit Survey in 1951-52. In fact, in relation to the total borrowings of cultivators from all sources, the share of commercial banks showed a small decline from 0.9% in 1951-52 to 0.6% in 1961-62 (see Table 2.6). It was only in Madras and Kerala the contribution of commercial banks was relatively more significant, though in these states, it was negligible in absolute terms. At the end of the financial year 1960-61, the advances of scheduled commercial banks (including the State Bank of India and its subsidiaries) to agriculture at Rs. 5.48 crores constituted about 4% of the total bank advances.

3.7 The beginning of the sixties show the technological and institutional changes in agriculture in many parts of the country, such as IADP in 7 districts in 1960-61, IAAP in 117 districts in 1964-65 and HYVP in 293 districts in 1966. The agricultural technology took new dimension in the areas undergoing technological transformation, with new varieties of seed, higher dose of fertilisers, pesticides and connected inputs. There was also increasing evidence of use of modern farm implements and improved techniques of cultivation. The high priority proposed for agriculture in national planning, the special agricultural development projects to be undertaken in pursuance of this approach and the schemes of rural electrification which was in progress in almost all states promised the potential growth of agriculture in coming years. The cultivators in these areas began taking advantage of the new

opportunities thrown up due to the revolution in agricultural technology. Consequently, the demand for credit increased considerably to step up the adopted practices and the co-operative credit structure, being the sole institutional agency in the field, were expected to respond to it in the provision of short, medium and long term credit.

3.8 We have already seen in Chapter 2 (pp.52) as to how the co-operative agencies became extremely inadequate in meeting the spurt in demand for credit arising out of technological changes in agriculture. The resources mobilised by the co-operatives, in the form of share capital and deposits, were extremely limited and most of the loanable funds were tied in receivables. This severely limited the ability of the co-operatives to draw more resources from the Reserve Bank. In April 1966, against the background of severe shortage of food grains production, the need for additional finance to support the lending programmes of co-operatives was put forth before the Standing Advisory Committee on Rural and Co-operative Credit by the Ministry of Food & Agriculture as follows:

"The approach has now to be need based rather than resource-based and the Reserve Bank as the national institution, for providing resources for agricultural credit, will have to accept the responsibility for meeting the entire requirements minus what the co-operative credit structure has been able to raise" (RBI 1966b,65). This note, thus, clearly stated that if there was a demand on co-operative credit system from cultivator-members for greater credit beyond the internal resources of the system, the Reserve Bank should step in and fill the gap in the larger interest of increasing agricultural production.

3.9 The Reserve Bank, however, was extremely reluctant to stretch its funds beyond a limit. It emphasised more on building up of the organisational efficiency and

strengthening the internal resources of the co-operatives. On the other hand, the need for increasing the agricultural production and adoption of new technology could not be sacrificed till the building up of the co-operatives and the need for a separate institution became imperative. The focus of concern was if commercial banks with appropriate restructuring could step in and fill the credit gap arising out ^{of} technological revolution in agriculture.

3.10 Perhaps the initiative to involve commercial banks was first taken by the co-operators themselves who resisted over the years of any competing agency, even on a transitional basis, to co-operatives. To quote a leading co-operator V L Mehta:

"If co-operative credit is to serve all types of agricultural producers, requirements of the large holders have to be met. Sometimes, the credit needs of these individual holders, who are found in almost every rural community, exceeded those of all medium and small holders put together. In such circumstances, it is worth considering whether these needs may not be dealt with separately. One way of meeting the demand is to permit them to form their own rural banks. Another is to allow them direct access to the district central co-operative banks. In as much as a majority of such agricultural producers will have tangible assets to offer, State Bank of India may be encouraged to undertake the financing of such individuals through its branches. Whether other banks would like to follow the suit, it is for them to decide. Hitherto, these banks have shown little or no interest in the financing of agricultural production" (Mehta 1963-64, 50).

3.11 The Reserve Bank's Informel Group in 1966 visualised that the commercial banks could help "in meeting the relatively bigger and progressive cultivators who are sufficiently business like in their production and marketing operations, whose agricultural business may be considered to be almost commercial in nature and dimensions, and whose plans of cultivation involve larger inputs than can usually be

accommodated within the prevailing ceiling of finance set by individual borrowing limits in agricultural societies" (RBI 1966a, 85). The possible role of commercial banks in agricultural credit was also spelt out in the draft outline of the Fourth Plan. Thus, there was a general opinion in favour of the role of commercial banks in the field of agricultural credit. The demand for credit from the agricultural sector emerged since the early sixties had a decisive influence on the possible involvement of commercial banks. One can also see that the involvement of commercial banks was thought of meeting the needs of big and substantial cultivators with large production as well as investment loans. Since their numbers were small, the banks would consider to accommodate them without difficulty, without even changing their normal security requirements. An official pronouncement immediately preceding the nationalisation made it very clear in the following words^{1/}:

"When anybody talks of agricultural finance, immediately a problem is raised what about the small farmers?".... It is this persistent question of finance for non-creditworthy that appears to have frightened the commercial banks sector to some extent and have placed them on defensive to ask for safeguards. My advice to you will be not to think of these specialised sectors, but take agricultural finance for the creditworthy on a productive programme as your immediate objective" (RBI 1968, 7).

3.12 SOCIAL CONTROL OF COMMERCIAL BANKS: A TRANSITORY PHASE - However, the commercial banks did not have an organisational set up in rural areas to meet this task. They were mainly centred in the urban areas catering primarily the needs of the commercial sector. The agricultural sector was not only new to them but the agriculturists themselves were even less familiar with the ways of the banks. What was called

^{1/} This was spelt out by the Secretary, Department of Agriculture, Government of India, at the seminar on agricultural financing by commercial banks organised by the Reserve Bank of India in December 1968.

for was a reorientation of the entire banking system not only in organisational terms but also in their functioning. It was against this background a scheme of social control over banks was introduced in December 1967, the main objectives were outlined as "to ensure, in the immediate future, an equitable and purposeful distribution of bank credit, within the resources available, keeping in view of the relative priorities of developmental needs" (RBI 1967). While the objectives of social control were broad based, to reorient the banking industry as an instrument of promoting planned economic development, the agricultural sector was given top priority within the broad category of priorities. To implement the policy, the National Credit Council (NCC) was set up in 1968 which became responsible for assessing the demand for bank credit emanating from various sectors and determining the priorities for its sectoral allocation. The commercial banks, hitherto, remained as the captive sector of the large industry and trade, were to embark on a larger scale to meet the emerging demand emanating from the technological revolution in agriculture.

3.13 During the period of one year from June 1968 to June 1969, the amount outstanding of the commercial banks to the agricultural sector increased from Rs. 44.58 crores to Rs. 188.38 crores (against a target of Rs. 35-40 crores set by the NCC). A large proportion of loans outstandings was, however, accounted for indirect finance - mainly for distribution of fertilisers and loans to State Electricity Boards. Out of Rs. 188.38 crores, the magnitude of indirect finance was Rs. 134.49 crores. A notable feature of the involvement of the banks was the establishment of the Agricultural Finance Corporation Ltd., a joint venture by the leading commercial banks, for financing agricultural projects.

3.14 NATIONALISATION OF COMMERCIAL BANKS : It was explicitly recognised by the government that without a direct control over the banks, it would be difficult to achieve the desired objectives. Ownership by the government was, therefore, considered

vital for extension and diversification of banking services. Against this background, 14 major commercial banks were nationalised in July 1969. The most important objectives,^{2/} relevant to the rural credit policy, were (a) to expand bank branches to unbanked rural areas, (b) to mobilise deposits and extend credit to the agricultural sector, and (c) to redress the regional imbalance of bank credit between comparatively developed and less developed regions, on the one hand, and between backward regions and rest of the state, on the other. The objectives of nationalisations were not very much different from the objectives of social control, it only accelerated the process initiated through the social control measures.

3.15 LEAD BANK SCHEME : BASIC APPROACH In the post nationalisation phase, the objectives of nationalisation were sought to be achieved through the implementation of the lead bank scheme. The scheme was the outcome of the report of the Study Group (GOI 1969a) of the NCC, which recommended an 'area approach' to commercial banks' financing of agriculture. The Group noted that the co-operative credit organisations, with its three-tier set up, have the adaptability in assimilating the rural problems. For commercial banks to identify local problems and provide integrated banking services, should adopt a district as their area of operation. The bank concerned was expected to assume the leading role in the development of the allotted district. At the same time there was clearly no intention that the lead bank should have a monopoly of banking business in the district, it was only to act as a consortium leader and to invoke co-operation of other banks operating in the district. By doing so it was implied that by putting on each public sector bank a certain measure of responsibility for overall banking development, the regional disparities could be

^{2/} The objectives of nationalisation were described in various official and non-official reports. See GOI 1969b, GOI 1972, Shetty 1978.

reduced and development of backward areas promoted.

3.16 The scheme was endorsed by the Nariman Committee (RBI 1969a) appointed in August 1969, to recommend on "the branch expansion programme of the public sector banks". Accordingly, all the districts of the country were apportioned among the major public sector banks having due regard to the contiguity of districts, regional orientation and resource position of the banks. The designated bank for each district was called the lead bank. The lead bank was made responsible in surveying the potential for branch expansion and opening branches in the concerned district and formulating and financing viable schemes. To facilitate the process, District Consultative Committees (DCCs) were formed in each district (consisting of representatives of commercial banks, other financial institutions and state development authorities of the district) to serve as forums for consultation and co-ordination among agencies involved.

3.17 The process of implementation of the scheme was slow and halting. By the end of 1973, the lead banks completed surveys for 318 districts out of 338 districts allotted to them and District Consultative Committees were set up in 223 districts (GOI 1973-74). The surveys brought out the broad economic features of the district but lacked operational contents as to how many branches and where these be opened. Most of the banks did surveys once-for-all which limited the periodic assessment required to find out credit gaps and activities to be financed. There was also serious misunderstandings about the scope and objectives of the scheme as to who-the lead bank or other banks-will open the branches and where. The DCCs had achieved very little in these matters and their working "left much to be desired owing mainly to mistrust and suspicion among banks and lack of understanding of the role and functions of the Committee" (GOI 1973-74). As the choice of a centre was left to the individual banks, they covered initially the centres which offered growth poten-

tial and in the subsequent years, they were left with more difficult areas. The tempo of branch expansion, therefore, slowed down after the first two years of nationalisation which continued for five years from 1971-75 (see Table 3.1).

3.18 The Reserve Bank came out with the branch licensing policy with the aim of covering unbanked rural areas. The instrumentality of the branch licensing policy was to open certain number of rural branches in order to get a license for a metropolitan/urban branch. The February 1970 circular of the Reserve Bank to all commercial banks stated that any bank with more than 60% of its offices in rural and semi-urban areas was entitled to have one office in urban centre for any two offices in rural and semi-urban centres. In other cases, the ratio was one office for every three offices in rural and semi-urban centres. The policy was again revised in December 1976, with a 4:1:1 formula which meant that opening four branches in rural and semi-urban areas will qualify a bank to open one branch each in a metropolitan and an urban centre. The rationale of such branch licensing policy was to help opening branches in rural areas particularly in areas poorly served of the banks.

3.19 While the rationale of the branch licensing policy is understandable, it did not necessarily lead to the choice of centres in states/regions which were relatively unbanked and underbanked. Banks continued to give preference to regions already better banked in relation to others. In the absence of any specific compulsion to go to the relatively backward areas, an automatic formula as set in the licensing policy could do little to help in removing regional disparities in the spread of banking. In November 1976 in the states of Madhya Pradesh, Orissa, Uttar Pradesh and West Bengal and in the states and union territories of the north eastern region, there were about 750 community Development Blocks without banking facilities (GOI 1977-78, p. 70). The banks opened larger proportion of their branches in the non-lead districts and some banks opened their branches in non-lead districts in such numbers that one

Table 3.1 : Progress of Branch Expansion Programme of Commercial Banks

Year	Total number of offices at end-December	of col.2 in rural areas	percentage of col.3 over col.2	Total number of offices opened during the year ending 31st Dec.	of Col.5 those in unbanked rural areas	Percentage of col.6 over col.5	Of Col.6 those opened by		
							Public sector banks	RRBS	Others**
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1969	9007	1666	18.5	1445	800*	55.4	640(80.0)	-	160(20.0)
1970	11184	3766	33.7	2137	1415	66.2	1311(92.7)	-	104(7.3)
1971	12987	4891	37.7	1808	1056	58.4	873(82.7)	-	183(17.3)
1972	14739	5325	36.1	1765	824	46.7	642(77.9)	-	182(22.1)
1973	16503	6023	36.5	1782	612	34.3	468(76.5)	-	144(23.5)
1974	18180	6631	36.5	1693	511	30.2	411(80.4)	-	100(19.6)
1975	20454	7390	36.1	2337	662	28.3	515(77.8)	11(1.7)	136(20.5)
1976	23656	8843	37.4	3217	1262	39.2	691(54.7)	367(29.1)	204(16.2)
1977	26997	11097	41.1	3348	2133	63.7	1097(51.4)	551(25.8)	485(22.7)
1978	29505	12811	43.4	2516	1646	65.4	833(50.6)	508(30.9)	305(18.5)
1979	31558	14448	45.8	2058	1579	76.7	746(47.2)	611(38.7)	222(14.1)
1980	34588	16751	48.4	3033	2175	71.7	1358(62.4)	697(32.0)	120(5.5)
1981	38047	19472	51.2	3467	2596	74.9	1378(53.1)	1133(43.6)	85(3.3)
Total (1969-81)	-	-	-	30606	17271	56.4	10963(63.5)	3878(22.5)	2430(14.1)

* Includes both in banked as well as unbanked rural areas.

** Private sector banks and non-scheduled banks.

Note: Figures in brackets indicate percentage to total; Totals may not add up due to rounding.

Source: RBI, Statistical Tables Relating to Banks in India, Various issues.

wonders whether these banks undertook seriously their lead responsibilities (see Table 3.2).

3.20 It is seen from Table 3.1 that the share of branches opened in unbanked rural areas to total branches opened during the year declined from 55.4% in 1969 to 28.3% in 1975. Thereafter, this share increased to 74.9% in 1981. However, this impressive progress in the later years was attributable to 3878 branches opened by the Regional Rural Banks (RRBs) and another 2430 branches by the private sector banks. Though the RRB branches have also been the result of efforts put in by the public sector banks, they were intended for fulfilling the institutional gaps in specific districts and that their organisational structure and nature of the clientele were different (more on this later).

3.21 The overall performance of the branch expansion programme (including the branches of RRBs) seems impressive. The total number of branches in the country increased from 9,007 in December 1969 to 38,047 in December 1981 (Table 3.1). The share of rural offices in total number of offices stood at 51.2% in December 1981 as against 18.5% in December 1969. Of the 30,606 new offices opened during 1969-81, 56.4% were opened in the unbanked rural areas.

3.22 The branch expansion programme also brought down the average population per bank office from 65,000 in June 1969 to 19,000 in June 1981 (Table 3.3). The average rural population per rural branch office came down from 226,000 to 31,000 during 1969-81. State-wise there was wide disparities, for instance, in 1981 the average rural population per rural branch office was more than the national average of 31,000 in Assam (67,000), West Bengal (50,000), Bihar and Uttar Pradesh (40,000 each) and Orissa and Karnataka (35,000 each). However, the average population per branch office or average rural population per rural branch office in the less developed states as a

Table 3.2 : Performance of Lead Banks in Opening Offices in their Lead Districts.

Name of the Bank	1970-74		1970-78	
	Total offices opened	of which: in lead districts	Total offices opened	of which: in lead districts
State Bank Group	2459	695(28.3)	6109	1644(26.9)
Allahabad Bank	222	83(37.4)	833	200(24.0)
Andhra Bank	152*	71(46.7)	492	160(32.5)
Bank of Baroda	388	221(57.0)	1207	623(51.6)
Bank of India	519	230(44.3)	1222	599(49.0)
Bank of Maharashtra	217	114(52.5)	616	197(40.0)
Canara Bank	445	212(47.6)	977	375(38.4)
Central Bank of India	541	194(35.9)	1385	576(41.6)
Dena Bank	329	128(38.9)	602	223(37.0)
Indian Bank	247	111(44.9)	623	215(34.5)
Indian Overseas Bank	222	52(23.4)	679	153(22.5)
Punjab National Bank	482	219(45.4)	1197	547(45.7)
Punjab & Sind Bank	225*	16(7.1)	507	38(7.5)
Syndicate Bank	356	189(52.6)	852	356(41.8)
Union Bank of India	271	77(28.4)	1036	212(20.5)
United Bank of India	254	140(55.1)	667	332(49.8)
United Commercial Bank	366	181(49.5)	1010	488(48.3)
Bank of Rajasthan	37*	8(21.6)	142*	25(17.6)

* Banks in Private sector

Source : RBI, Statistical Tables Relating to Banks in India, 1974 and 1981.

Table 3.3 : State-Wise Distribution of Population per Bank Offices and Rural Population per Rural Office (June ending).

(,000)

States	Average population per bank office		Average rural population per rural bank office	
	1969	1981	1969	1981
Andhra Pradesh	75	19	250	26
Assam	198	39	661	67
Bihar	207	29	1047	40
Gujarat	34	14	78	22
Haryana	57	16	151	23
Himachal Pradesh	80	11	-	12
Jammu & Kashmir	114	13	461	19
Karnataka	38	13	89	35
Kerala	35	11	109	23
Madhya Pradesh	116	24	423	31
Maharashtra	44	17	223	27
Orissa	212	27	760	35
Punjab	42	10	90	12
Rajasthan	70	21	139	22
Tamil Nadu	37	16	191	28
Uttar Pradesh	110	27	428	40
West Bengal	87	24	754	50
All-India *	65	19	226	31

* All-India includes other states and union territories.

Source : RBI, Report on currency and finance, 1981-82, GOI, Current Banking Statistics, 1981, and RBI, Statistical Statements Relating to the Co-operative Movement in India, Part-1 to the societies, 1968-69 and 1980-81.

multiple of the national average or that of the developed states was lower in 1981 than what it was in 1969 indicating that the disparities among states had narrowed down over the period.

3.23 MOBILISATION OF DEPOSITS: The branches opened in the rural areas also demonstrated the potential for mobilising deposits within a short period of time. The total bank deposits increased from Rs. 8360 crores in Dec. 1972 to Rs. 44010 crores in December 1981 (Table 3.4). The share of deposits by offices in the rural centres increased from 6.5% in Dec. 1972 to 13.3% in December 1981. In 1981, the deposits of offices opened after nationalisation stood at Rs. 18445 crores or 41.9% of the total deposits mobilised by all-offices. Comparing with the share of offices opened after nationalisation, it is seen from Table 3.4 that 78.4% of the total offices which were opened after nationalisation generated 41.9% of the total deposits at the end of December 1981. The contribution of offices opened in rural centres after nationalisation was Rs. 4476 crores or 24.3% of the total deposits of all-offices opened after nationalisation. Here again comparing with the offices opened after nationalisation in the rural centres, it is seen that 58.4% of the offices which were opened after nationalisation in rural centres accounted for 24.3% of the total deposits of all offices opened after nationalisation. This shows that the old offices opened before nationalisation have an advantage over offices opened after nationalisation in mobilising deposits. There was also a greater geographical concentration of offices. For instance, in June 1981, four metropolitan centres (Delhi, Bombay, Calcutta and Madras) accounted for 33.4% of the bank deposits with only 8.5% of the total offices in the country. Four states (Punjab, Gujarat, Tamil Nadu and Karnataka) with three metropolitan centres (Delhi, Bombay and Calcutta) accounted for 54.8% of the total deposits where as their share in the total offices were only 37.3% in June 1981.

Table 3.4 : Deposit Mobilisation by Commercial Banks As on Last Friday of December, Rs. crores.

Year:	Total Deposits (All-offices)	of col.2 by rural offices	Percentage of col.3 over col.2	Deposits by offices opened after nationalisation	Percentage of col.5 over col. 2	Contribution by rural offices	Percentage of col.7 over col. 5	Percentage of offices opened after nationalisation in total offices	Percentage of offices opened after nationalisation in rural centres to total offices opened after nationalisation
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1972	8360	540	6.5	799	9.6	220	27.5	44.1	56.7
1973	10084	741	7.3	1404	14.0	362	25.8	50.2	54.6
1974	11612	929	8.0	1988	17.1	493	24.8	54.5	51.3
1975	13711	1171	8.5	2915	21.3	666	22.8	59.3	47.6
1976	17607	1554	8.8	4627	26.3	975	21.1	65.2	46.9
1977	21357	2006	9.4	6381	29.9	1328	20.8	69.7	50.1
1978	26492	2664	10.1	8880	33.5	1854	20.9	72.3	52.0
1979	31275	3559	11.4	11873	38.0	2584	21.8	74.7	53.1
1980	36997	4644	12.5	14761	39.9	3481	23.6	76.3	56.3
1981	44010	5834	13.3	18445	41.9	4476	24.3	78.4	58.4

Source: RBI, Banking Statistics, Basic Statistical Returns, various issues.

3.24 DEPLOYMENT OF COMMERCIAL BANK CREDIT TO AGRICULTURE : The mobilisation of deposits from the rural areas in such a scale was first of its kind since the beginning of the planning. The policy makers became very much optimistic about the deployment of such resources as credit so as to supplement the efforts of the co-operative credit organisation. Hitherto cultivators in the villages could get credit from co-operatives only by becoming members, subject to appropriate policies to lend the available resources. Within the framework of the commercial banking system, neither was there any membership requirement nor any representation of the villagers. Officials in the lead bank and their branches in the district were to take the responsibility of identifying and meeting the credit gaps. The whole process was embodied in the District Credit Plan (DCP) the approach of which was to analyse the economic structure of the district, to prepare viable and bankable schemes, estimate the credit demand arising under these schemes and finance them. Though the plan was well conceived, no time bound programme was prescribed for carrying out indepth studies for their preparations and the first such plan was launched as late as 1980. In the mean time, the banks began scattered lending to individual agriculturists in a move to attain the targets set before them.

3.25 Agricultural advances of commercial banks comprised of two types: (a) direct finance and (b) indirect finance. The former comprised of short-term crop loans and term loans for agricultural and allied activities. Indirect finance consisted of loans to agriculturists through other agencies such as co-operatives, Rural Electrification Corporation, etc. The basis for lending by the banks was provided in a circular by the Reserve Bank to all commercial banks in December 1970 (RBI 1971, 103-108). The norms of loaning policy as regard to fixation of credit norms and scale of finance, margins and security, seasonality and timing, supervision and recovery arrangements, etc. were indicated in the circular.

3.26 However, it was not clear as to whether the commercial banks and co-operatives would operate in different areas or jointly meet the credit requirements in a given area.^{3/} Demarcation of different areas could not have been justified for a large part of the country unless the two agencies operating in the respective areas were equally efficient both in mobilisation of resources and lending adequately. Operating in a common area providing identical credit facilities was also not without difficulty as regards the duplication of efforts, lack of uniform loaning procedures and the potential competition arising out of their operations. These conflicts were tried to be resolved, in a limited way, by adopting primary agricultural credit societies by the banks in certain areas (more on this letter).

3.27 In the initial years of operations, the banks faced many problems. The credit deployment of the lead banks were based on their earlier surveys which were too general, they were macro-exercises for the district as a whole. Reading of a few lead bank survey reports indicates that the estimation of credit requirements for the district was based on unrealistic assumptions as regard to the number and type of activities to be undertaken and the amount of credit to be extended by banks. The estimated credit needs of the district as emerged in the surveys were so vast that the banks complained their inability to meet the entire requirements. For instance, the UCO bank survey report for Darrang district in Assam estimated that during 1970-71, only 12% of the credit requirements be met by the bank. The Bank of India survey report for Bhandara district in Maharashtra estimated a credit gap of Rs. 10 crores during 1970-71. The SBI which prepared a credit plan for the Gorakhpur district came to the conclusion that it can only meet 15 to 20% of the credit expansion in the agricultural sector (GOI 1977-78, 70).

^{3/} For a detailed discussion of the problems of multi-agency approach to agricultural finance see RBI 1978.

3.28 The flow of lending by the banks was also not accompanied by their timely and full recovery. Percentage of recoveries to demand hovered around 50% during 1975-81, as seen from Table 3.5 (the period for which data are available). Given the preponderance of short term deposits in their deposit-mix, the increase in overdue put a strain on their functioning. One of the essential elements of the crop loan scheme following the RCS Committee in the early fifties was to link credit with marketing. This was envisaged to work as a built-in mechanism for timely and prompt recovery of crop loans. As the crop loan system endorses loans for crop plans instead of adequate security, it is essential for the banker to ensure the safety of funds. However, linkage of credit with marketing was not embodied in the loaning policy of the commercial banks and it was not clear as to how the recovery of bank loans, particularly the short term, to be followed.

3.29 The banks began increasingly concerned about their agricultural loans in the face of rising overdues. They emphasized more on term loans for which refinance was made available by the erstwhile Agricultural Refinance and Development Corporation (ARDC). It is seen from Table 3.6 that the volume of refinance by ARDC increased from a meagre level of Rs. 3.3 crores in 1971-72 to Rs. 313 crores in 1981-82, accounting for about 36% of the total loans advanced by the banks during 1981-82. A comparative picture of refinancing facilities availed by co-operatives, both PACS and LDBs, and commercial banks is also presented in Table 3.6. It shows that inspite of the massive resources tapped by the banks from the rural areas, their dependence on refinance has increased year after year.

3.30 The needs of rural banking were totally different from urban operations of the commercial banks. The success of rural lending mainly depended on the ability and initiative of the branch manager and his field officer who were, in most cases, drawn from the urban centres and were not well conversant with their proper role in

Table 3.5 : Percentage of Recoveries to Demand of Agricultural Advances
(Direct Finance) of Public Sector Banks (end June)

	1972	1975	1976	1977	1978	1979	1980	1981
Andhra Pradesh	55.2	67.0	65.9	55.6	59.3	60.1	54.0	53.1
Assam	24.4	25.4	30.2	34.7	29.7	26.7	25.5	23.0
Bihar	56.5	40.2	45.7	40.6	35.8	31.7	35.5	37.8
Gujarat	53.5	42.0	41.4	42.2	40.2	49.6	49.2	52.0
Haryana	65.9	68.5	67.6	65.6	68.0	65.8	66.3	58.8
Himachal Pradesh	33.9	56.7	51.7	40.3	46.7	44.0	54.5	43.6
Jammu & Kashmir	23.9	46.8	40.5	48.1	63.0	46.9	54.7	51.6
Karnataka	49.5	53.9	53.9	51.6	46.4	48.7	50.8	51.0
Kerala	48.7	65.5	62.8	58.3	64.1	68.4	67.2	68.1
Madhya Pradesh	48.0	45.0	45.8	43.4	38.8	38.3	37.8	43.0
Maharashtra	43.0	38.3	39.3	34.7	38.1	39.9	41.9	46.7
Orissa	35.3	49.3	42.9	40.8	41.6	45.4	44.7	34.9
Punjab	58.7	63.2	69.0	70.3	75.4	79.1	81.4	77.3
Rajasthan	52.8	46.5	50.1	49.2	49.7	50.5	53.1	46.0
Tamilnadu	56.5	50.0	50.3	50.7	52.1	53.9	52.4	58.0
Uttar Pradesh	56.5	52.2	58.0	56.6	56.5	57.1	53.6	55.0
West Bengal	21.3	31.6	33.7	39.7	41.0	39.8	31.4	30.3
All India*	50.7	50.2	50.9	48.8	50.2	52.2	52.2	52.7

* Includes Union Territories and other States

Source: GOI, Current Banking Statistics, 1979 and 1983 and for 1972
GOI (1973-74) 79.

Table 3.6 : Refinance Support for Rural Credit by the Agricultural Refinance and Development Corporation (ARDC) and the Reserve Bank of India. During the year, values in Rs. crores.

	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82
A. Co-operatives (short-term)											
1. Short Term Loans Advanced	540.9	612.8	663.1	750.0	881.4	1016.3	1057.9	1206.5	1259.6	1385.5	1795.9
2. Total Refinance	485.7	600.2	621.4	813.3	901.0	819.8	996.2	1232.0	944	977	1446
- ARDC Refinance to SCBs	3.3	3.5	2.7	1.5	1.3	1.0	2.0	4.0	9.0	9.0	23.0
- RBI Short-Term Accommodations ^(a)	482.4	596.7	618.7	811.8	899.7	818.8	994.2	1228.0	935	968	1423
3. 2 as per cent of 1.	89.8	97.9	93.7	108.4	102.2	80.7	94.2	102.1	74.9	70.5	80.5
B. Co-operatives (Medium and Long term)											
1. Total Medium and Long Term loans Advanced	228.0	345.1	213.6	289.2	305.3	414.2	386.5	414.5	565.5	643.0	683.1
2. Total Refinance	34.3	86.1	83.8	81.7	106.3	136.3	119.0	147	185	229	244
- ARDC Refinance to SLDBs	28.4	86.1	77.8	97.1	99.1	127	112	131	164	212	226
- RBI Medium Term Accommodations ^(b)	5.9	-	6.0	4.6	7.2	9.3	7.0	16	21	17	18
3. 2 as percent of 1	15.0	24.9	39.2	28.3	34.8	32.9	30.8	35.5	32.7	35.6	35.7
C. Commercial Banks ^(c)											
1. Total Term Loans Advanced	14.5 ^(d)	20.9 ^(d)	113.8	128.2	192.4	254.0	281.3	435.0	520.0	745.8	872.5
2. ARDC Refinance	3.3	4.5	17.4	27.9	70.8	93	120	150	230	268	313
3. 2 as percent of 1	22.8	21.5	15.3	21.8	36.8	36.6	42.7	34.5	44.2	35.9	35.9

(a) Drawals by Co-operatives during the year for seasonal agricultural operations below the bank rate, except for 1971-72, which also includes marketing of crops.

(b) Drawals during the year by co-operatives for medium term purposes below the bank rate.

(c) Excluding RRBs.

(d) Break up of short term loans not available.

Source: ARDC : Annual Reports and RBI : Reports on Currency and Finance.

the field of agricultural finance. Proper identification of the borrowers was not possible in many cases by the branch manager because of their unfamiliarity with local land record system and the activities feasible in the area. It became difficult for the bank staff to evaluate and scrutinise proposals, to follow up credit and effectuate recovery from the agriculturists scattered in far away villages and consequently they could not reach all villages under their area of operations. Due to all these, the banks tended to concentrate their activities in high potential and easy areas. Naturally, the better off in the adjoining villages who were better aware of the banking facilities were financed after fulfilling the security requirements.

3.31 Many other problems were faced in case of financing allied activities by the banks. Success of these schemes required a minimum simultaneous development of other activities, such as input supplies, marketing facilities, etc., in the absence of which loans were misutilised and overdues increased.^{4/} (See Hazari 1976, RBI 1978d).

3.32 Two consequences emerged out of such situations: (a) The share of agricultural advances in the total bank advances remained at very low level in the initial years, between 5.4% to 8.8% during 1969-74 (see Table 3.7). A substantial proportion of

4/ One can best quote R.K. Hazari : "We financed fishing boats ... the project nearly came to grief because there were no ice plants and no cold storage facilities. There were no trucks to transport fish ... when it comes to financing of market yards the earlier view was that ... all we had to do was to finance the construction of building ... now we also go into the question of fixing market fees and the kind of building materials to be used for market yards, as also the proper management of the market committee ... when one is financing dairy projects ... one should know that the cattle are going to be good and that cattle are available and that some cattle are not passed from one farmer to another There has to be adequate veterinary care ... adequate feed ... and the milk had to be sold ... and the money collected returned to the lender ... In the case of Poultry there is the celebrated case ... where very recently new born chicks were distributed to farmers with the inevitable consequence that the chicks died" (Hazari 1976). The argument of Hazari can be equally applied to crop loans, irrigation loans, equipment loans, etc. In the absence of supporting infrastructure, credit has become a weak instrument for agricultural development. Technically, it is the government machinery which is responsible for the creation of such infrastructure facilities.

Table 3.7 : Share of Agriculture and Priority Sector Advance in Total Advances by Public Sector Banks

End June	Total Advances (Rs. million)	Total Priority Sector Advances		Advances to Agricultural Sector			Share of Agricultural Sector Advances in		
		(Rs. million)	% of total advances	Direct	Indirect (Rs. million)	Total	Direct as % of total	Priority sector advances (%)	Total advances (%)
1969	30170	4400	14.6	402	1221	1623	24.8	36.9	5.4
1970	35780	7472	20.9	1604	1413	3017	53.2	40.4	8.4
1971	40800	9073	22.2	2064	1346	3410	60.5	37.6	8.4
1972	46220	10600	22.9	2319	1566	3885	59.7	36.7	8.4
1973	54300	12925	23.8	2978	1709	4687	63.5	36.3	8.6
1974	66920	16883	25.2	3916	1941	5857	66.9	34.7	8.8
1975	76540	19989	26.1	5115	2566	7681	66.6	38.4	10.0
1976	99280	25272	25.5	7262	2780	10042	72.3	39.7	10.1
1977	116340	31464	27.0	9507	3243	12750	74.6	40.5	11.0
1978	133640	40012	29.9	12347	4245	16592	74.4	41.5	12.4
1979	162200	52109	32.1	16802	5430	22232	75.6	42.7	13.7
1980	200290	68350	34.1	22991	6568	29559	77.8	43.2	14.8
1981	239500	88614	37.0	29547	9260	38807	76.1	43.8	16.2

Source : RBI, Report on Currency and Finance, various issues.

agricultural advances continued to be in indirect form. (b) The deposits mobilised in the rural areas were much larger than the volume of credit in those areas. The credit-deposit ratio - which shows the proportion of credit sanctioned in a particular state/area to the deposits mobilised in that state/area - differed considerably among different states (see Table 3.8)^{5/}. The banks came under the criticism of diverting the savings of the rural economy for investment elsewhere. Thus the regional and sectoral imbalances of bank credit that were sought to be corrected following nationalisation persisted in the post nationalisation periods.

3.33 To correct the sectoral and regional bias of bank credit, two types of restrictions came to be imposed: (a) In November 1974, the Reserve Bank directed the commercial banks to reach a target of 33 $\frac{1}{3}$ % of total advances to the priority sectors by March 1979 (excluding exports). In March 1980, this target was revised upward to 40% of which 40% (or 16% of the total advances) were to be earmarked for agricultural sector. (b) The banks were required to deploy 60% of their total

^{5/} According to the estimate committee Report (GOI 1977-78), the deposits of 237 industrially backward districts (as declared by the Planning Commission) remained at about 21% of all the districts, while their advances declined from about 14% to 13% of the total advances of all districts during 1974-76 (see the Table below). The credit-deposit ratio of those district remained at less than 50% against the all-India average of about 70% during the same period.

(Rs. crores)

	Deposits			D Advances		
	Dec 1974	June 1975	June 1976	Dec 1974	June 1975	June 1976
1. All India						
2. 237 Backward Districts	11611.8 2465.5	12637.1 2687.4	15156.4 3216.6	8249.0 1179.0	9118.7 1318.6	11639.2 1584.3
3. 2 as per cent of 1	21.2	21.3	21.2	14.3	14.4	13.6
4. Credit-Deposit Ratio				48.2	49.0	49.2

Source : GOI (1977-78), 40-41.

Table 3.8 : State-Wise Credit-Deposit Ratio of Scheduled Commercial Banks According to Sanction (end-December)

States	1969	1972			1981				
	Total	Rural	Semi Urban	Urban/ Metro- politan	Total	Rural	Semi Urban	Urban/ Metro- politan	Total
Andhra Pradesh	94.2	141.6	74.7	81.6	83.8	112.3	69.7	66.6	75.3
Assam	42.4	30.0	35.5	72.2	45.5	44.2	35.6	55.0	43.4
Bihar	27.2	76.7	25.2	28.5	29.6	45.4	33.8	42.0	39.4
Gujarat	50.6	23.0	35.3	78.3	56.4	45.1	46.7	68.8	57.7
Haryana	47.2	49.5	57.3	32.1	51.1	83.4	72.8	73.5	75.4
Himachal Pradesh	22.3	9.0	20.7	-	14.7	38.1	50.4	-	42.7
Jammu & Kashmir	9.2	5.5	14.4	26.8	23.2	45.5	56.2	44.8	46.1
Karnataka	72.7	98.2	63.1	96.2	88.4	78.5	70.1	79.0	77.0
Kerala	68.8	60.5	51.3	96.5	70.7	66.4	53.8	105.5	71.5
Madhya Pradesh	55.8	40.4	38.7	59.5	52.0	70.6	55.2	61.1	61.5
Maharashtra	92.1	68.8	44.8	86.8	83.5	76.8	54.5	84.0	80.8
Orissa	49.5	16.9	45.9	50.8	46.0	97.5	53.8	58.0	65.6
Punjab	33.2	16.8	27.1	45.4	33.2	39.8	48.0	51.0	46.7
Rajasthan	49.9	41.4	47.0	50.3	48.7	78.5	60.5	70.6	68.9
Tamil Nadu	133.5	90.7	81.0	120.5	110.1	96.2	70.5	104.4	95.1
Uttar Pradesh	44.5	36.5	30.5	40.5	37.3	50.5	45.0	45.8	46.6
West Bengal	100.6	16.3	16.6	85.7	76.0	30.1	21.9	67.9	58.7
All-India *	72.2	47.7	41.9	76.8	67.2	60.6	51.4	75.8	68.1

* Includes other States and Union Territories.

Source : GOI, Current Banking Statistics.

deposits mobilised from the rural and semi-urban areas in the same area, to be achieved by March 1979. These policies were in the form of 'rationing' imposed on the banks to increase their share to the agricultural sector.

3.34 The share of priority sectors increased to 37% and that of agricultural sector to 16.2% of the total advances by end-June 1981 (Table 3.7). Within the priority sectors, advances to agricultural sector increased to 43.8% by end-June 1981. The direct finance component of the agricultural advances by the banks was 76% at the end of June 1981. The credit-deposit ratios in many states had improved, though the overall ratio had declined from 72.2% in 1969 to 68.1% in 1981 (Table 3.8) following increased statutory and cash reserve requirements. The credit-deposit ratios for rural centres increased from 47.7% in 1972 to 60.6% in 1981 and that of semi-urban from 41.9% to 51.4% during the same period. However, disparities among the states persisted, for instance, in 1981 the credit-deposit ratios for rural centres were below the national average of 60.6% in Assam (44.2%), Bihar (45.4%), Gujarat (45.1%), Himachal Pradesh (38.1%), Jammu and Kashmir (45.5%), Punjab (39.8%), Uttar Pradesh (50.5%) and West Bengal (30.1%).

3.35 Though desirable, the prescription of a minimum 16% advances of the banks for the agricultural sector and a 60% credit-deposit ratio were based on tentative assessment. The prescription of a minimum share of the bank advances to agriculture could have been done against the credit gaps in the agricultural sectors. From time to time, estimation of credit requirements for the agricultural sector was done by different official committees, such as Gadgil Study Group of the National Credit Council in 1969 (GOI 1969a), the All-India Rural Credit Review Committee in 1969 (RBI 1969) and the National Commission on Agriculture in 1976, etc. After making due allowance for the co-operative credit institutions, some kind of estimation could have been arrived at for the bank finance to agricultural sector. Similarly, monitoring C-D ratios has a limited role in correcting regional imbalances which owe its origin to the basic imbalances covering natural resources, transport and communications, irrigation, entrepreneurial attitude of the people,

size of markets, etc. These factors basically determine the level of economic activity of a region and lower the economic activity, lower would be the absorptive capacity for funds of the region. Moreover, C-D ratio has its own limitations. In the presence of a high C-D ratio, the total availability of credit will be low if the size of deposit is low. Loans sanctioned in a particular area may be utilised elsewhere where the bank office is not located, in which case, a high C-D ratio according to sanction may result in a low ratio according to utilisation. There is, therefore, need for a cautious use of the C-D ratio as a policy indicator.

3.36 INNOVATIVE EFFORTS TO RURAL LENDING : Besides lending in a scattered manner, the commercial banks made several innovative efforts to reach the rural borrowers in the far away villages. They include the following:

(a) To overcome the practical difficulties relating to manpower, high costs of operations and follow-up of farmers who were scattered over wide areas, compact areas were chosen within the jurisdiction of specialised branches, such as, Agricultural Development Branches of the SBI, the Gram Vikas Kendras of the Bank of Baroda, Rural Service Centres of the Dena Bank and Farm Clinics of the Syndicate Bank.

(b) To avoid scattered loans in the far away villages from the branch office, the banks began saturating individual villages under the Village Adoption Scheme. The objective was to develop the village economy in a phased manner by saturating their efforts in a particular village.

(c) To avoid duplication of efforts between co-operative and commercial banks, the banks financed the villagers through the primary agricultural credit societies. The financing of PACS by the banks was also thought to be a cheaper and easier method for banks to reach the rural borrowers in remote areas and to develop the co-operation with the co-operatives so as to utilise the local feel and familiarity available to it.

3.37 It is difficult to evaluate the experience of each of the schemes due to lack of sufficient evidences. In many instances, the village adoption schemes were in no way different from their scattered lending. The adoption of villages was not uniform throughout the country. The ranking of the states according to selected criteria based on adopted villages reveal wide state-wise variation (Table 3.9). With few exceptions, the states where the coverage of banks were high, the percentage of villages adopted, number of accounts per village and amount outstandings per account were also higher. The adoption of a village has little meaning if the plan for intensive development of the village was not prepared and implemented. In fact, the launching of the schemes in selected villages led to the neglect of the villages not adopted under the scheme. To quote an official report: "The village adoption scheme should not end up becoming a convenient device to avoid scattered loans under conventional credit schemes. This is stressed because the institution manual of one bank goes to the extent of laying down that all agricultural advances should in future be restricted to the adopted village only" (RBI 1978d, 67).

3.38 The scheme of financing PACS was introduced in 1970 in five states viz. Andhra Pradesh, Haryana, Karnataka, Madhya Pradesh and Uttar Pradesh and later extended to Orissa (1972), Jammu and Kashmir and West Bengal (1973), Bihar and Maharashtra (1974) and Assam (1975). The banks ceded PACS mainly in the areas where District Central Co-operative Banks were weak. A comparative picture of ceded societies and all PACS presented in Table 3.10 do not reveal any better performance of the ceded societies. Such a comparison is, of course, not appropriate since the number of societies allotted to the banks and also conditions of working of societies differ from state to state.

3.39 The Reserve Bank survey of the ceded societies in the five states where the scheme was initially adopted covering the period 1970-75 revealed the following:

(a) Only 11% of the total societies ceded to the banks were viable at the end

Table 3.9 : Village Adoption Scheme : Ranking of States According to Selected Criteria, Dec. 1977.

Average population per Rural/Semi Urban branch ('000)	No. of villages adopted as percentage of total number of villages	No. of accounts per village adopted	Amount outstanding per village ('000)	Amount outstanding per account ('000)
Punjab (11)	Kerala (66.6)	Kerala 121	Andhra Pradesh 193	Gujarat (4.3)
Kerala (12)	West Bengal (24.9)	Andhra Pradesh 78	Maharashtra 97	Maharashtra (3.7)
Himachal Pradesh (12)	Haryana (20.2)	Tamil Nadu 54	Kerala 79	Rajasthan (3.0)
Haryana (16)	Andhra Pradesh (19.6)	Orissa 40	Tamil Nadu 73	Haryana (2.9)
Gujarat (16)	Punjab (16.8)	Karnataka 29	Karnataka 71	Punjab (2.8)
Karnataka (16)	Tamilnadu (14.0)	Maharashtra 26	Haryana 56	Madhya Pradesh (2.8)
Jammu & Kashmir (17)	Karnataka (12.6)	Bihar 22	Punjab 54	Andhra Pradesh (2.5)
Tamil nadu (25)	Rajasthan (10.6)	Uttar Pradesh 20	Gujarat 52	Karnataka (2.4)
Maharashtra (27)	Gujarat (10.0)	Haryana 19	Orissa 40	Bihar (1.5)
Rajasthan (27)	Uttar Pradesh (8.8)	Punjab 19	Bihar 33	Uttar Pradesh (1.4)
Andhra Pradesh (27)	Maharashtra (7.6)	West Bengal 18	Rajasthan 33	Tamil nadu (1.4)
Orissa (38)	Assam (6.4)	Gujarat 12	Uttar Pradesh 28	West Bengal (1.3)
Madhya Pradesh (38)	Madhya Pradesh (5.8)	Himachal Pradesh 12	Madhya Pradesh 23	Jammu & Kashmir (1.3)
West Bengal (39)	Himachal Pradesh (4.9)	Jammu & Kashmir 11	West Bengal 23	Himachal Pradesh (1.1)
Assam (39)	Bihar (3.9)	Rajasthan 11	Jammu & Kashmir 14	Assam (1.1)
Uttar Pradesh (40)	Orissa (3.7)	Assam 9	Himachal Pradesh 13	Orissa (1.0)
Bihar (47)	Jammu & Kashmir (2.4)		Assam 10	Kerala (0.7)

Source : RBI (1981), 502.

Table 3.10 : Financing PACS by Commercial Banks - Selected Indicators of Performance.

	1970-71		1979-80	
	All PACS	Ceded PACS	All PACS	Ceded PACS
1. Average membership per society:	193	167	580	953
2. Percentage of Borrowing membership to Total :	36.2	48.6	36.0	21.1
3. Loans issued per Borrowing member: (Rs.)	514	500	823	671
4. Loans issued per society (in Rs. thousands)	36	41	214.5	135
5. Percentage of societies having full-time paid secretaries	33.3	60.2	70.3	81.7
6. Percentage of overdues to outstandings	42.4	45.3	45.9	51.0
7. Percentage of societies classified as				
A	2.5	1.2	2.8	* 10.2
B	12.1	19.3	14.1	* 12.3
C	68.8	78.5	73.4	* 85.2
D	15.6	1.0	9.5	* 2.3
E	1.0	-	0.2	* -

* Refers to June 1979

Source : RBI, Statistical Statement Relating to the Co-operative Movement in India, 1970-71 & 1979-80.

of June 1975; (b) The proportion of societies financed during the year by the banks declined year after year due to rising overdues of the societies to the banks, (c) The overdues as percent of demand of the ceded societies increased from 33.7% in June 1970 to 43% in June 1975 (RBI 1976). Many other problems were faced during the implementation of the scheme. There was complete absence of co-ordination between the co-operative department and the banks. The co-operative departments complained that banks were only asking for good societies, where as the banks felt that only societies with larger overdues were passed on to them. The banks began financing directly to the agriculturists in the areas of ceded societies which was otherwise to be routed through the societies. The scheme gradually disappeared towards the end of the seventies. One interesting feature of the scheme was that bank loans issued to farmers owning less than 5 acres land directly by banks in the area of ceded societies was much larger than what the banks financed such farmers through the ceded societies. The banks found it easier to finance small farmers directly due to special schemes launched, such as providing concessional finance under the Differential Rates of Interest scheme, etc.

3.40 POLICY CHANGES IN RURAL LENDING: MOVE TOWARDS FINANCING WEAKER SECTIONS: We have seen that the commercial banks were inducted into agricultural financing in the wake of the technological revolution in agriculture. As in the social control days, so also in the periods immediately following nationalisation, each bank was to choose the type of its clientele and the area of its operations. In the guidelines issued to banks for their agricultural financing, emphasis was put on already viable cultivators with technically feasible and economically viable schemes (RBI 1971a).

3.41 In the early seventies curiosity came to be expressed as to whether commercial banks can be used to finance the credit needs of the small farmers. This was an outcome of the widespread concern about large scale poverty in rural India. The

new agricultural strategies undertaken in the sixties had already shown results in certain regions for certain sections of the rural community. It was argued that the benefits had mainly accrued to the rich farmers and farmers of large land holdings. The lack of sufficient institutional credit facilities coupled with ignorance about the sophisticated agronomic practices implicit in the new agricultural strategies operated as major constraints on small farmers to adopt such practices, leading to the widening of the disparities between them and the others in rural India.

3.42 The All-India Rural credit Review Committee (RBI 1969) came to the conclusion that the small farmers have not benefitted in proportion either to their numbers or their needs from various programmes of rural development implemented since the First Plan, nor had they been able to get an equitable share of institutional credit. The committee observed that:

"If the fruits of development continued to be denied to large sections of the rural community while prosperity accrues to some, the resulting tensions, social and economic, may not only upset the process of orderly and peaceful change in the rural economy but even frustrate the national effort to keep up agricultural production" (RBI 1969, 579).

3.43 The Fourth Plan (1969-74) took due cognisance of the tension and conflict in rural India arising out of green revolution and warned: "There is thus the danger of emergence of a sharp polarisation between the more privileged classes of the rural sector, the privilege in this instance relating to the resources and tools of development" (Fourth Five Year Plan, 1969, 120). The Plan document went on to say that small cultivators and agricultural labourers represented 52% and 24% respectively of total households. The approach to the problems of small farmers, according to it, "is not that of developing a different technology but that of

enabling such farmers by suitable means to participate in the available technology" (150). A number of steps were proposed and special schemes outlined for the development of small and marginal farmers and agricultural labourers. The Plan allocated Rs. 115 crores in direct financial support for the amelioration of weaker sections of the rural community. Steps were proposed for reorienting the policies governing loans and the procedures of credit institutions. New institutions viz., the RRBs, SFDA, MFAL, FSS and LAMPS were designed to meet the credit needs of the weaker sections (to be discussed shortly). The commercial banks, being the state-owned institutions, could not be isolated from participating in the national efforts aimed at improving the lot of the weaker section.^{7/} This called for special provisions within the framework of commercial banks' lending to agriculture, as follows:

(a) In 1972, the Differential Rates of Interest (DRI) scheme was formulated under which the banks were to give advances at a concessional rate of 4% in 163 backward districts in the country (which was extended to 265 in 1973). Broadly, landless labourers or marginal farmers owning landholding upto 1 acre of irrigated land or 2.5 acres of unirrigated land and persons belonging to scheduled castes and scheduled tribes were considered for the scheme. Banks were asked to lend 1% of their total outstanding advances at the end of previous year.

^{7/} The role of commercial banks in meeting the socio-economic objectives was for the first time spelt out in the Report of the Banking Commission which observed the objectives of nationalisation as the "speedy achievement of the social purposes such as meeting the legitimate requirements of the weaker sections of the rural society" and "to ensure that the needs of the productive efforts of diverse kinds, irrespective of size and social status of the borrowers.....to create fresh opportunities for backward areas in different parts of the country....and to ensure that large borrowers did not have more access to resources of the banks than was actually required for productive use and to prevent the misuse of credit for speculative and other unproductive purposes" (GOI 1972).

(b) To finance the lumpy capital assets, like minor irrigation, a 'Group Guarantee' scheme was introduced under which loans were provided to a group of small farmers on a joint basis. The scheme was designed not only to make the small farmers credit-worthy, but also to reduce the cost of banks that would otherwise happen due to small accounts and to reduce the risk of default by cultivating *the* sense of collective responsibility in the group.

(c) Provision of refinance was liberalised by the Agricultural Refinance and Development Corporation (ARDC) to the commercial banks to facilitate such flow of credit (see Table 3.6).

(d) Considering the risk involved in financing the weaker sections, a special institution viz., Credit Guarantee Corporation (now Deposit Insurance and Credit Guarantee Corporation) was set up to relieve the banks from the fear of risk of default.

(e) To put the commercial banks on par with the co-operatives in their recovery of dues, an expert Group (RBI 1971) was appointed and its recommendations regarding the cultivators' transferability right in land, etc. were accepted.

3.44 It is difficult to evaluate the impact of each of ~~these~~ schemes due to lack of data on an aggregate basis and field level studies. The progress of DRI lending on an all-India basis by the Public sector banks is presented in Table 3.11. The banks were able to reach the target as stipulated under the scheme. At the end of March 1981, 0.96% of the total outstanding advances of the commercial banks were advanced under the DRI scheme. Of the total advances, 72.2% were given through rural and semi-urban branches (against the target of 66.7%) and 45.9% were given to SC and ST (against the target of 40%). The percentage of overdues on such loans were very high, at 66.7% at the end of December 1981.

Table 3.11 : The Progress of DRI lending by Public Sector Banks

Date	Total DRI Advances			As percentage of Total DRI Advances		
	No. of Borrowal Accounts (000)	Amount outstanding (Rs lakhs)	Percentage to total bank advances end of previous year	Advances to Sc/St	Advances through Rural/Semi-urban branches	Overdues as a percentage of total demands
1972	26	87	0.02	-	-	-
1973	230	1006	0.18	-	-	-
1974	313	1335	0.18	-	-	-
1975	465	1070	0.31	-	-	-
1976	1005	4724	0.48	-	-	-
1977	1391	6732	0.60	34.4	71.1	82.5
1978	1614	8999	0.71	40.9	71.7	72.8
1979	2085	14096	0.94	43.4	72.8	69.4
1980	2510	19249	1.01	45.4	-	69.3
1981	2593	21056	0.96	45.9	72.2	66.7

Source : RBI, Report on currency and finance, of different years.

3.45 A study by Chawla et al (1983) with a sample of 1600 DRI borrowers in 34 districts of 16 states revealed very interesting facts: (a) About 10% of the ineligible persons were able to secure DRI loans; (b) The borrowers were not well aware of the terms and conditions of the loans, such as, repayment period, rate of interest, etc. attributed mainly to their illiteracy; (c) Almost one-half of the borrowers complained about the inadequacy of the loan, leading to the non-viability of their schemes; (d) A substantial proportion of these loans were diverted for consumption purposes; (e) 59% of the loans disbursed during 1972-81 were overdue at the end of June 1981 from 70% of the borrowers. The bank management attributed the low repayment performance to the problems of credit appraisal and supervision due to scattered borrowers in far away villages and the diversification of money for consumption purposes.

3.46 The "Group Guarantee" scheme has been in operation in one form or another since 1971. The scheme has been able to provide lumpy assets to small farmers wherever they operated. The RBI Committee observed that "the instances of Group Guarantee approach through which benefits of these schemes have been made available to small and marginal farmers in the form of joint ownership of irrigation facilities are rare and are an outcome of initiative taken by the branch staff at the implementation stage. This practice cannot be developed on a large scale at the implementation stage alone. Conscious and systematic efforts should be made to formulate location specific minor irrigation schemes for joint ownership by groups of cultivators. Without such deliberate and concerted efforts, many small and marginal farmers with fragmented holdings are unlikely to get minor irrigation facilities (RBI 1978d). The banks faced many problems particularly at the time of forming the group due to lack of homogeneity among the borrowers as regards to their economic and social status, cropping pattern and contiguity in terms of place of cultivation (see Rangarajan 1982, Desai 1982 and Baliraya and Krishna 1979). The

banks also perceived difficulties in respect of recovery of arrears and executing documents for the group as a whole. The group borrowers often perceived disadvantages in getting future loans, since there existed uncertainties about the prompt repayment of loan by every member.

3.47 REGIONAL RURAL BANKS (RBI) : INSTITUTIONAL INNOVATION FOR WEAKER SECTIONS: The RRB emerged in 1975 in the wake of the 20-point economic programme announced by the Prime Minister Indira Gandhi which, among other things, called for a moratorium on the debts of small and marginal farmers and landless agricultural labours. It was realised that the commercial banks, no matter how hard they try, are not attuned to the needs of the weaker sections. The institution to cater to the needs of the weaker sections should not only have command over adequate resources and professional management but also feel and familiarity with the rural scene. This was the thinking of the Government of India which argued that it was necessary to establish "new institutions on the basis of attitudinal and operational ethos entirely different from those obtaining in the public sector banks" (GOI 1975, 4). Accordingly, a Working Group on Rural Banks was appointed in July 1975 to "examine in depth the setting up of new rural banks as subsidiary of public sector banks to cater to the needs of rural people" (GOI 1975).

3.48 After identifying the various weaknesses of the co-operatives and commercial banks, the Group argued that the existing institutions, as they are presently structured, would not be able to fill the regional and functional gap in rural credit within a reasonable period of time. The Group argued in favour of a new institution in the following words:

"....the main disabilities in purveying the needed quantum of credit arise from the inability (of the co-operatives) to mobilise adequate deposit resources, their managerial weakness and the character of their functioning marked by dominance of vested interests, which have come in the way of their efficient functioning,

specially effective supervision of credit and the inadequate coverage of the small and marginal farmers. Yet another weakness has been the limited absorptive capacity of refinance from higher tiers of the co-operative structure because of the inadequate non-overdue cover(p.2) the commercial banks suffered from two basic weaknesses in dispensation of rural credit i.e. (i) their high cost structure and (ii) their attitudinal character, basically urban oriented.... (p.3)in a country of the size and regional disparity as India, no single pattern, be it commercial banking or co-operative credit can be expected to meet all the emerging requirements in all areas. A degree of adaptation and improvisation is called for and the range of institutional alternatives widened" (P.5).

3.49 This formed the background to the set up of a "state sponsored, regionally based and rural oriented commercial banks" called the Regional Rural Banks (RRBs). The RRBs were designed to take into account the best features of both co-operatives and commercial banks, that is, "the local feel and familiarity with rural problems which co-operatives possess and the degree of business organisation, ability to mobilise deposits, access to central money markets and a modernised outlook which commercial banks have" (p. 10). The role of the RRBs was to supplement and not to supplant other agencies in the field.

3.50 The RRBs were established in 1975 with the promulgation of the Regional Rural Bank Ordinance of October 2, 1975. The jurisdiction was within the specified districts in a state while their branches operated in defined areas of such districts. Each RRB was sponsored by a public sector bank which was responsible for providing financial assistance, managerial and other staff. The authorised capital of each RRB was placed at Rs. 1 crore and the issued capital at Rs. 25 lakhs, the latter being subscribed by the Government of India, the sponsoring bank and the state government concerned in the proportion of 50:35:15. The RRBs, thus, became the

rural arms of commercial banks with direct government assistance and control. They were to be manned by recruiting staff from the area concerned, who were in a better position to know and appreciate the problems of the area.

3.51 The evaluation of RRBs may be premature due to their short span of existence till 1981. The number of branches of RRBs opened in unbanked rural areas increased from 11 in 1975 to 3878 at the end of December 1981 (see Table 3.1). At the end of December 1981, the branches of RRBs in unbanked rural areas constituted 22.5% of the total number of branches opened by the commercial banks in such areas during the period 1969-81. The percentage of rural branches of RRBs opened during the year to rural branches of commercial banks opened during the year increased from 29.1% in 1976 to 43.6% in 1981 indicating that the commercial banks have preferred to sponsor RRBs than their own rural branches.

3.52 With the expansion of RRB branches, the total deposits increased from Rs. 1.2 crores as on 30.6 1976 to Rs. 253 crores as on 30.6 1981 and that of outstanding advances increased from Rs. 1.5 crores to Rs. 302 crores during the same period. This implies that the RRBs have been able to lend more than what is mobilised in the form of deposits. However, in terms of aggregate institutional credit advanced to the agricultural sector, the share of RRBs, though increased from 0.8% during 1976-77 to 3.9% during 1981-82, constituted very insignificant proportion (see Table 3.18). The RRBs have not been insulated from the problem of overdues, in as much as 34.2% of the accounts and 57.7% of the amounts outstandings were overdue at the end of June 1984.

3.53 A major problem which the RRBs have been facing is their financial non-viability. The distribution of RRBs on the basis of profit and loss reveals that, as on December 1984, 131 out of 173 RRBs were working in loss and the maximum loss reached

a level of Rs. 41.7 lakhs (Table 3.12). The RBI study (1981) conducted during 1978 with a sample of 15 banks in the country found that about 53% of the RRBs were not viable (viability being defined as the minimum loans business of Rs. 3 crores according to the Review Committee on RRBs, see RBI 1978).

Table 3.12 : Distribution of RRBs on the Basis of Profit and Loss

Position as on December Ending	Number of Regional Rural Banks				
	Profit making	Range of Profit (Rs. 000)	Loss making	Range of loss (Rs. 000)	Total RRBs operating
1975	5	14-38	Nil	Nil	5(100.0)
1976	25	1-135	11	1-141	36(30.0)
1977	27	4-859	21	24-363	48(43.8)
1978	22	1-2347	26	21-679	48(54.2)
1979	35	1-2742	21	21-515	56(37.5)
1980	47	11-3043	27	3-1223	74(36.5)
1981	50	3-2840	41	20-2198	91(45.1)
1982	34	1-5714	70	1-2983	104(67.3)
1983	50	3-7210	100	2-3952	150(66.7)
1984	42	1-7250	131	2-4173	173(75.7)

Note : Figures in brackets indicate percentage of RRBs making losses.

Source: Shete, N.B. (1984) Regional Rural Banks - An Overview, NIBM Working Paper.

3.54 The RRBs operate within many constraints such as to (a) lend only to the weaker sections; (b) Charge lower rate of interest, (c) open branches in remote rural areas. These factors contribute to the financial unsoundness of the RRBs. In this context the Working Group on RRBs observed, "A discussion on viability tends generally to be in financial terms ... However, where the objective of the type of financial institution is socio-economic, an initial period of financial loss may well be a price worth paying for the achievement of the larger social objective of widening

the area of credit coverage. Indeed the success of these banks should be judged as much as by their efforts at expanding and extending the area of rural credit or by the conventional yardsticks of profitability. In other words, the problem of viability can be approached from the task dimension as well." (GOI 1975).

3.55 Studies relating to the functioning of the RRBs are very limited. RRBs have done good work in the areas where local involvement of the bank staff and the co-ordination between bank, on the one hand, and the development authorities and the local government authorities on the other, are more favourable (Wadhva 1980, 154). The presence of RRBs in the rural areas has been welcomed in the official circles. The Review Committee on RRBs (RBI 1978) even went to the extent of recommending the RRBs to become an integral part of the rural credit system and to transfer the rural business of commercial banks to them in a phased manner. This was a far-reaching recommendation which has a bearing on the structural pattern of rural credit at the village level with two institutional wings i.e. the co-operatives and commercial bank sponsored RRBs. This recommendation has not been implemented for the fear that by including all categories of rural households, the RRBs would no longer remain as the institution of small men.

II. POLICY DEVELOPMENTS WITHIN THE CO-OPERATIVE ORGANISATION

3.56 The reorganisation of co-operatives continued to occupy an important objective during the seventies. In spite of the greater institutionalisation of the rural credit structure during the seventies and more and more procedural reforms to reach effectively the rural clientele, at no time emphasis was relaxed to build up the co-operatives at the village level. At every stage of institutional innovation, it was visualised that the ultimate solution to the problems of rural credit lies with the development of co-operative credit at the primary level.

3.57 Although, quantitatively, there has been progress in the advances of co-operative societies, their structure continued to suffer from organisational and financial weaknesses. At the end of June 1981, out of the total 94, 484 societies, 27,617 or 29.2% of the societies did not have a full-time paid secretary. The number of dormant societies were 19,994 or 21.2% of the total societies at the end of June 1981. This implies that the reorganisational programmes did not find effective implementation till 1981. Of the total, 36,514 societies were working at loss amounting to Rs. 71.3 crores, much higher than the profit earned by 51,767 societies amounting to Rs. 51.2 crores during 1980-81. Of the 78,816 societies audited during the year 1979-80, based on the composite index of financial soundness and organisational efficiency, only 2.3% belonged to 'A' class, 9.8% belonged to 'B' class and the remaining in the 'C', 'D' and 'E' categories. This shows that the working of the societies continued to be weak during the decade.

3.58 While the programme of reorganisation and implementation of the agreed policies continued to be implemented throughout the seventies, efforts were made to organise specialised co-operatives, tailored to the needs of the weaker sections. The establishment of small Farmers Development Agency (SFDA) and Marginal Farmers and Agricultural Labourers (MFAL) development agency in 1971, Farmers Service Societies (FSS) in 1971 and the Large-Sized Adivasi Multipurpose Societies in 1971 were the institutional innovations in this regard.

3.59 The SFDA and MFAL, were designed to facilitate the flow of institutional credit and other input services for small farmers and the provision of subsidiary occupations and other employment generated programmes for marginal farmers and agricultural labourers respectively. The role of SFDA and MFAL were not to provide credit but to act as catalyst in co-ordinating the activities of the agencies in the field and providing subsidies to the beneficiaries on their institutional

borrowings for agricultural and allied purposes. The agencies were set up at the district level in selected districts of the country and its organisational structure was heavily dependent on the regular department^{and} the extension agencies of the state.

3.60 The SFDA remained in operation till the end of the Fifth Plan when it got merged with the Integrated Rural Development Programme. The purpose here is not to evaluate the operation of the scheme but to see how the SFDA performed in facilitating credit through the co-operatives. The scheme covered nearly half the district of the country and restricted to only a small percentage of the total number of beneficiaries. Within the very narrow range of coverage, the impact of the scheme on the weaker sections was marginal.. The prime factor for the success of the scheme was the extension of credit, which was to be routed through co-operatives. The weaknesses of the co-operative credit structure as highlighted in the previous chapter were only replicated in the process of implementation. The actual beneficiaries were not always those for whom the SFDA and MFAL were intended. The consequence was that many farmers who owned land in excess of the ceiling prescribed for the beneficiaries got themselves enlisted within the coverage. There was also lack of effective co-ordination among the agencies involved.

3.61 The Farmers Service Societies were organised at the block level to provide a package of physical and technical inputs, including credit and other supporting services at one contact point, particularly to the small and marginal farmers. The similar functions for the PACS were envisaged^{by} the RCS Committee in the early fifties. The FSS were sponsored by the commercial banks and in some cases by the District Co-operative Banks. The resources of the FSS consisted of share capital from the members, the state government and the financing bank. At the end of June 1981, there were 2530 FSS of which 82.1% were in Uttar Pradesh (43.1%), Assam (26.5%), Karnataka (8.5%) and Bihar (4%), implying that these societies were organised only in the selected areas of the country.

3.62 Though the rationale behind the organisation of FSS was sound and tailored to the problems of their clientele, their problems continued to be inadequate availability of resources required for lending operations. The combination of credit with input supply was invariably lacking. Such complex functions demanded a high degree of managerial skill at the society level and co-ordination among many agencies in the field, which was neither available to the banks nor to the societies. The commercial banks which organised them could not mobilise resources through it and, due to the voluntary pattern of its organisational structure, certain concessional lendings such as under DRI scheme, was faced with opposition from the affluent members. The big farmers continued to wield influence over its management. The RBI study^{of} 788 FSS conducted in 1980 revealed that the share of weaker sections in the total short term loans advanced varied from 4% in Madhya Pradesh to 34% in Gujarat (RBI 1981, 61-62). In this context, it is worth noting the remarks by P.N. Damzy, Deputy Governor, RBI: "... the present state of rural credit leaves a lot to be desired; but is the answer to be found in a new set of institutions depending on an untrained executive at its base? Today's commercial banks' branch managers can with difficulty manage a few thousand accounts. Is the new inter-relationship between commercial banks and FSS going to make supervision more manageable?....one of the criticisms you will have to meet will be that you are arguing against the ouster of an entrenched vested interests. Perhaps we are. But need this be an approach? We do say that the co-operatives are entrenched in rural life and that is our principal argument for reforming them and building them up to full visibility. The team would have done better (which recommended the setting up of FSS) to see how this could be done instead of clutching at straws (organising FSS)" (RBI 1985, 31).

3.63 The structural pattern of LAMPS was more or less conformed the FSS except these were organised in the tribal areas of the country. LAMPS mostly located in Madhya Pradesh (31.3%), Bihar (21.4%), Maharashtra (12.2%) and Orissa (10%). A comparative performance of FSS, LAMPS and all-PACS do not reveal any better performance for the FSS and LAMPS (Table 3.13).

Table 3.13 : Comparative Performance of FSS, LAMPS and All-PACS as at the end of June 1981

	FSS	LAMPS	All-PACS
1. Percentage of members borrowing during the year	24.0	24.6	34.2
2. Percentage of borrowing to working capital of the society	59.6	56.1	60.5
3. Loans advanced per borrowing member	870	663	897
4. Percentage of overdues to outstanding	42.1	46.3	44.1
5. Percentage of societies working at loss	32.0	45.3	38.6

Source : RBI, Statistical Statement Relating to the Co-operative Movement in India.

3.63 These were the efforts made during the seventies for greater institutionalisation of rural credit structure and enlargement of institutional coverage of rural households. Since this study covers the period 1951-81, it would be interesting at this stage to see the emerging debt and credit situation in rural India towards the early eighties.

III, EMERGING DEBT AND CREDIT SITUATION AS ON 30.6.1981

3.64 The cumulative effect of greater institutionalisation of rural credit during the seventies is seen from the All-India Debt and Investment Survey 1981-82. This survey was carried out in the NSS 37th round which was the fourth in the series of decennial country-wide survey on household indebtedness after the Rural Credit Survey in 1951-52. However, all the data collected during the survey have not yet been published. The data on actual borrowing during the year are necessary for many purposes. However, the published data refer only to outstanding cash dues at a point of time (30.6.1981). Therefore, in this section, a comparative picture during the decade 1971-81 is presented on the basis of the cash dues outstanding at two points of time, namely, as on 30.6.1971 and 30.6.1981.

3.65 However, such a comparison involves two main limitations, Firstly, on the demand side, the changing outstanding due positions cannot give a fair indication of the changing pattern of actual borrowings during a year, particularly with regard to term loans because of both changing relative values of inputs and assets and the different durations for which loans are given. The term loans are likely to have a higher share in the outstanding figure than the crop loans in 1981-82 due to this reason. Secondly, on the supply side, outstanding cash dues are likely to overestimate the share of institutional agencies in annual lendings due to the higher overdue position with regard to their loans. By looking at the share of institutional and non-institutional agencies in the total borrowings during the year 1971-72 (Table 2.6) and in the outstanding debt as on 30.6.1971 (Table 3.16), it can be seen that the institutional agencies had a larger share (31.5%)

in the outstanding cash dues than in the total advances during the year (21.7%) and conversely, the non-institutional agencies had a smaller share in the outstanding cash dues (68.5%) than advances by them during the year (78.3%). Due to non-availability of data on borrowings during the year, we have here presented the comparative picture of demand and supply side of rural credit based on the outstanding cash dues. We believe that the observed changes will present correct indication of the direction of change, though not of the dimension of change in regard to borrowings.

3.66 On the demand side, the most important change seems to be that the share of loans taken for productive purposes (col. 1 to 3 in Table 3.14) has increased considerably from 54% in 1971 to 72% in 1981 in the total outstanding dues and that this change is at the cost of loans intended for meeting household expenditure, the share of which has declined from 37.8% to 20.1%. As regards different groups of rural households classified according to their total asset value, households in the lower asset groups continued to have a substantial proportion of their total outstanding loans incurred for consumption purposes as against production purposes (Table 3.15). The percentage share of outstanding loans incurred for production purposes steadily increased from 15.17% in the bottom asset class of up to Rs. 1,000 to 96.98% in the top asset class of over Rs. 5 lakhs, whereas the percentage share in outstanding loans incurred for household expenditure steadily decreased from 79.04% to 1.61% in the highest asset class.

3.67 State-wise, the share of household expenditure in the total outstanding loans increased during the decade 1971-82 only in Assam (29.5% to 40.5%) and continued to be high, though showing a declining trend, in West Bengal (44.9% to 34.5%), Rajasthan (59.2% to 32%), Jammu & Kashmir (53.5% to 30.2%) and

Table 3.14: Percentage Distribution of Amount of Cash Dues of Cultivators by Purpose of Loan, as on 30.6.1971 and 30.6.1981 - State-wise.

		(Percentages)				
		Capital expenditure in farm business	Current expenditure in farm business	Non-farm business expendi- ture	Household expenditure	Others
Andhra Pradesh	1971	31.7	18.0	3.7	37.2	9.4
	1981	38.1	25.7	6.3	21.6	8.3
Assam	1971	27.7	12.2	13.5	29.5	17.1
	1981	18.3	8.3	4.0	40.5	29.0
Bihar	1971	16.5	5.3	2.0	54.5	21.7
	1981	35.7	11.1	10.8	26.1	16.4
Gujarat	1971	42.5	20.4	2.4	32.2	2.5
	1981	47.7	28.6	1.2	18.7	3.8
Haryana	1971	54.3	11.1	3.2	23.9	7.5
	1981	65.3	11.4	9.2	12.5	1.6
Himachal Pradesh	1971	20.7	5.7	11.1	50.7	11.8
	1981	36.5	6.0	4.0	37.9	15.6
Jammu & Kashmir	1971	8.9	3.4	18.3	53.5	15.9
	1981	19.2	2.6	36.5	30.2	11.6
Karnataka	1971	34.9	16.1	2.4	40.8	5.8
	1981	64.6	14.5	3.8	12.3	4.8
Kerala	1971	14.6	12.1	17.6	33.9	21.8
	1981	18.6	18.7	18.1	21.4	23.3
Madhya Pradesh	1971	33.4	18.8	3.9	39.3	4.6
	1981	52.6	21.4	7.6	15.2	3.3
Maharashtra	1971	45.1	31.6	3.9	16.9	2.5
	1981	47.7	26.4	9.5	9.1	7.4
Orissa	1971	22.1	16.4	7.5	47.2	16.8
	1981	44.8	11.1	11.2	15.3	9.5
Punjab	1971	48.6	12.0	2.8	29.7	6.9
	1981	69.6	9.3	4.6	13.4	3.2
Rajasthan	1971	23.2	15.2	3.6	59.2	8.8
	1981	36.2	12.0	12.6	32.0	8.1
Tamil Nadu	1971	44.9	15.6	4.5	29.6	5.4
	1981	39.3	18.0	6.7	24.1	11.9
Uttar Pradesh	1971	34.8	7.9	3.5	43.9	9.9
	1981	48.3	14.4	7.1	22.1	8.1

	(1)	(2)	(3)	(4)	(5)
West Bengal 1971	28.5	15.5	5.0	44.9	6.1
1981	34.6	18.0	6.0	34.5	6.9
All-India 1971	34.7	15.0	4.3	37.8	8.2
1981	45.2	18.5	7.9	20.1	8.4

Note : Totals may not add up due to rounding.

Source : GOI, NSS (1987) & RBI (1977).

Himachal Pradesh (50.7% to 37.9%). The continuing high share of consumption loans in the total outstanding loans of cultivator households in these states is an indication of poor agricultural development, poor growth in earnings from non-farm sources in rural areas and poor expansion of institutional credit arrangements during the decade 1971-81. Among the states which had seen marked decline in the share of consumption loans and increase in the share of production loans during 1971-81 were Maharashtra, Karnataka, Haryana, Punjab, Gujarat, Madhya Pradesh and Orissa.

Table 3.15: Percentage Share (S) of Cash Debt by Purpose of Loan and Household Asset Holding,* as on 30.6.1981 : All-India

Household asset holding (Rs.)	Productive purposes	Household expenditure	Repayment of debt	Others	All purposes
1. upto - 1000	15.17	79.04	0.00	5.79	100.00
2. 1000 - 5000	29.35	59.47	0.85	10.33	100.00
3. 5000 - 10000	41.15	44.94	0.62	13.29	100.00
4. 10000 - 20000	53.71	34.42	0.80	11.07	100.00
5. 20000 - 50000	64.28	27.15	0.81	7.76	100.00
6. 50000 - 100000	73.42	19.30	1.03	6.25	100.00
7. 100000 - 500000	81.02	10.10	0.70	8.18	100.00
8. 500000 & above	96.98	1.61	0.45	0.96	100.00
9. All groups	69.07	22.33	0.76	7.84	100.00

* Based on all-rural households.

Source : GOI, NSS (1987).

3.68 On the supply side, the percentage share of institutional credit agencies in the cash dues outstanding of cultivator households at the all-India level increased from 31.5% in 1971 to 62.6% in 1981 (Table 3.16). The share of institutional agencies in the total cash dues outstanding increased in all the states except Assam where it declined from 35.2% in 1971 to 20.5% in 1981. But the strength of the institutional agencies as judged from their share in the outstanding cash dues varied from state to state. While Maharashtra (86.8%), Orissa (83.5%), Kerala (77%), Karnataka (78.2%) and Haryana (80.1%) recorded more than three-fourths of the total outstanding cash debt through institutional credit agencies, not even 50% of the amount of outstanding loans had been contracted through the institutional credit agencies in Assam (20.5%), Andhra Pradesh (43.4%), Rajasthan (42.1%), Jammu and Kashmir (45.8%), Tamil Nadu (44.8%) and Bihar (48.8%).

3.69 Looking at the relative position of different credit agencies within the institutional agencies (Table 3.16), it is observed that the co-operatives and the commercial banks have emerged as the two most important agencies in the field. Thus, while both the institutional sources - the co-operatives and the commercial banks - registered rise in their share of total agricultural credit (outstanding loans), the commercial banks' increase was phenomenal from little (2.4%) to on par with the co-operative institutions. The share of Government actually declined from 7.1% in 1971 to 3.9% in 1981, mainly due to the routing of taccavi loans through the co-operatives.

3.70 State-wise, the share of commercial banks increased in all the states, significant among them were Haryana (2.7% to 50.3%), Karnataka (5% to 49.1%) and Punjab (4.9% to 46.2%). The progress of co-operatives was significant in Gujarat (42.5% to 55.9%), Orissa (22.1% to 47.4%) and Himachal Pradesh (17.6% to 43.0%).

Table 3.16 : Percentage Distribution of Outstanding Cash Dues of Cultivator Households over Credit Agency, as on 30.6.1971 and 30.6.1981 : State-wise

		Government	Co-operative	Commercial banks	Land lord	Agri-cultural money lender	Prof. money lender	Trader	Others*
Andhra Pradesh	1971	2.5	10.5	2.2	15.3	36.0	9.7	7.9	15.9
	1981	2.5	21.4	19.5	9.7	14.9	9.0	4.4	18.6
Assam	1971	24.3	10.9	-	3.2	12.5	7.6	8.3	33.2
	1981	1.7	7.5	11.3	0.5	1.2	3.9	1.7	72.4
Bihar	1971	6.3	4.8	0.4	16.9	46.5	9.3	1.3	14.5
	1981	10.2	8.7	29.9	11.7	16.9	4.2	1.3	17.2
Gujarat	1971	5.8	42.5	3.5	2.3	7.4	4.8	16.8	16.9
	1981	1.2	55.9	14.5	3.0	0.5	1.4	6.8	16.9
Haryana	1971	4.9	23.1	2.7	10.4	19.8	21.0	6.2	11.9
	1981	6.9	22.9	50.3	2.0	2.7	7.6	0.3	7.5
Himachal Pradesh	1971	5.4	17.6	1.1	3.4	27.6	10.7	2.9	31.3
	1981	0.4	43.0	23.0	0.5	4.4	6.5	1.4	15.9
Jammu & Kashmir	1971	12.5	7.9	0.1	1.1	1.0	10.7	32.5	34.2
	1981	5.2	7.7	32.9	0.1	1.3	0.6	24.1	28.1
Karnataka	1971	8.9	16.7	5.0	14.1	26.5	12.6	5.6	10.6
	1981	1.9	27.2	49.1	2.0	6.0	3.3	0.9	9.6
Kerala	1971	4.8	26.1	13.5	2.8	7.4	8.5	4.9	32.0
	1981	5.8	33.8	37.4	0.4	0.1	3.4	1.4	17.7
Madhya Pradesh	1971	4.2	27.8	1.2	4.4	19.3	25.6	10.5	14.9
	1981	2.2	33.9	31.3	2.1	6.0	16.0	4.2	4.3
Maharashtra	1971	12.0	57.3	1.4	2.1	5.8	3.2	5.4	33.0
	1981	3.9	55.9	27.0	0.8	1.1	1.3	0.8	9.2
Orissa	1971	9.2	22.1	0.8	10.3	24.6	15.2	1.6	22.9
	1981	8.1	47.4	28.0	1.0	1.1	6.0	3.7	4.8
Punjab	1971	6.9	32.0	4.9	11.0	9.3	5.8	12.3	21.4
	1981	7.4	21.6	46.2	1.8	4.5	4.7	4.8	5.7
Rajasthan	1971	3.9	5.3	0.6	2.5	27.3	21.4	21.8	9.9
	1981	0.6	16.1	25.4	4.7	9.4	15.3	4.5	6.8

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Tamil Nadu	1971	6.2	16.2	1.8	10.5	31.2	13.1	4.7	22.6
	1981	2.7	29.0	13.1	4.7	15.4	12.3	3.7	19.0
Uttar Pradesh	1971	9.5	14.9	1.6	6.3	25.6	22.2	4.3	11.7
	1981	5.0	23.2	30.9	2.2	14.1	11.2	2.5	11.0
West Bengal	1971	16.3	15.1	1.3	3.7	12.5	15.6	9.4	34.7
	1981	7.4	24.6	30.6	1.2	5.0	5.4	5.0	20.8
All-India	1971	7.1	22.0	2.4	8.1	23.0	13.1	8.4	15.9
	1981	3.9	29.9	28.9	3.6	8.3	7.8	3.2	3.9

* Includes insurance and provident fund which are considered as institutional agencies.

Note : Totals may not add up due to rounding.

Source : GOI, NSS (1985) & RBI (1977).

The share of co-operatives continued to be insignificant till 1981 in Bihar (8.7%), Assam (7.5%), Jammu and Kashmir (7.7%) and Rajasthan 16.1%). The weakness of co-operatives in these states as an alternative agency to the money lenders for rural credit is a continuation of the trend since early fifties. One can also see that the share of co-operatives in the total outstanding cash dues has declined during 1971-81 in Haryana (23.1% to 22.9%), Maharashtra (57.3% to 55.9%) and Punjab (32.0% to 21.6%), presumably because of the greater role played by the commercial banks in these states.

3.71 As regards different asset groups of cultivators, the households in the lower asset groups continued to depend heavily on non-institutional agencies (see Table 3.17). The share of cash dues as on 30.6.1981 was only 4.6% from institutional agencies in the case of lowest asset group of up to Rs. 1,000 as against 94% in the highest asset group of Rs. 5 lakhs and above. Co-operatives remained as the major source of institutional credit upto the asset group of 1 lakh, except the lowest asset group of upto Rs. 1000, where commercial banks catered a higher proportion of the cash dues of households above the asset group of over 1 lakh. In the case of households in the asset groups of over Rs. 5 lakhs and above, the share of co-operatives was only 11.32% as against 79.23% for commercial banks, implying that commercial banks have been able to meet substantially the credit requirements of the larger farmers. For the cultivator households upto the asset size of Rs. 1000, the share of commercial banks at 2.46% was higher than the share of co-operatives at 1.65%. This was mainly due to the special facilities available through the commercial banks to the weaker sections (under I.R.D.P.).

3.72 In Table 3.18, we have presented the actual advances during the year by institutional agencies viz., Co-operatives, Commercial Banks, Regional Rural Banks and Government. The total direct institutional finance to agriculture increased from Rs. 882.75 crores in 1971-72 to Rs. 4295.5 crores in 1981-82. The advances

Table 3.17 : Percentage Distribution of Amount of Cash Dues Outstanding of Cultivator Households over Credit Agency According to Asset Group as on 30.6.81: All-India.

(percentages)

Household asset holding (rupees)	Government	Co-operative societies etc.	Commercial banks	Land lords	Agricultural money lenders	Professing money lenders	Traders	Others*
upto 1000	0.47	1.65	2.46	16.97	14.21	3.23	33.79	27.23
1000 to 5000	3.84	19.68	7.27	7.75	17.06	14.11	5.24	25.08
5000 to 10000	4.00	16.35	12.87	9.49	14.77	10.51	5.90	25.11
10000 to 20000	4.11	29.85	12.61	4.34	13.34	11.91	4.35	19.49
20000 to 50000	3.20	30.50	21.41	4.21	12.13	9.57	3.07	15.92
50000 to 100000	3.91	34.90	18.97	4.66	7.10	9.09	4.55	16.81
100000 to 500000	4.52	35.20	36.04	1.96	4.70	5.39	1.92	10.27
500000 & above	3.32	11.32	79.23	0.16	0.63	0.61	0.79	3.93
All-Agencies	3.87	29.84	28.86	3.64	8.34	7.83	3.19	14.43

* Others include relatives and friends, insurance and provident funds and unclassified.

Source : GOI, NSS (1985).

by commercial banks increased from Rs. 14.48 crores in 1971-72 to Rs. 1495.6 crores in 1981-82, accounting for about 35% of the total advances during 1981-82. The co-operatives remained as the most important institutional outlet for rural credit, whose total advances (both short and long term) increased from Rs. 768.97 crores in 1971-72 to Rs. 2479 crores in 1981-82, providing about 58% of the total advances to agriculture during 1981-82. During 1981-82, the RRBs provided a meagre share of 4% and the remaining 3% was provided by the Government.

Table 3.18.: Direct Institutional Finance for Agriculture Loans Advanced During
the Year
(Rs. crores)

		1971-72	1976-77	1978-79	1981-82
1. Co-operatives	(i) Short term	540.94	1016.3	1206.5	1795.9
	(ii) Long term	228.03	414.2	414.5	683.1
	(iii) Total	768.97	1430.5	1621.0	2479.0
2. Government ^(a)	(i) Short term	99.30	82.3	119.1	153.3
3. Commercial Banks	(i) Short term	NA	253.8	365.1	623.1
	(ii) Long term	14.48	254.0	435.0	872.5
	(iii) Total	14.48	507.8	800.1	1495.6
4. Regional Rural Banks ^(a)	(i) Short term	-	16.2	100.8	167.6
5. All-Agencies	(i) Short term	640.24	1368.6	1791.5	2739.9
	(ii) Long term	242.51	668.2	849.5	1555.6
	(iii) Total	882.75	2036.8	2641.0	4295.5

(a) for short term loans only, though some proportion may be for term loans.

Source: RBI, Report on Currency and Finance, Various issues

3.73 In terms of duration, co-operatives dominated for short term purposes with Rs. 1795.9 crores as against Rs. 623.1 crores provided by the commercial banks during the year 1981-82. For long term purposes, the commercial banks dominated the institutional rural credit with Rs. 872.5 crores as against Rs. 683.1 crores by the co-operatives during 1981-82. As already observed, the Government at Rs. 153.3 crores and the RRBs at Rs. 167.6 crores were mainly meant for short term purposes. In the aggregate borrowings of Rs. 4295.5 crores from all institutional agencies, 36.2% were for long term purposes and the remaining 63.8% were for short term purposes. In 1971-72, out of the total loans advanced during the year, 27.5% were borrowed for long term purposes and the remaining 72.5% were for short term purposes. This implies that there has been a relatively greater increase in borrowings for long term purposes, though short term loans still dominate in the total.

3.74 This was the overall picture of institutional rural credit during the decade 1971-81. It is worth seeing the share of institutional credit advanced during the year in the level of inputs to agriculture. In Table 3.19, the share of short term credit advanced during the year in the total value of inputs to agriculture and in major cash inputs i.e. all other inputs excluding feed of livestock, seed, organic manure and market charges, and that of term credit advanced during the year in the gross private capital formation in agriculture, are presented. It is seen that the share of short term credit in all inputs increased marginally from 11.8% in 1971-72 to 13.7% in 1981-82 and in major cash inputs, this share actually declined from 33.3% to 25.7% during the period. Thus, short term credit met only one-eighth of the cost of all inputs and a little over one-fourth of the major cash inputs to agriculture during 1981-82. As regards long term credit 23.9% of the gross private capital formation in agriculture was financed through the provision of long term credit during 1971-72, which increased to 40.8% during 1981-82. Such spurt in the share of long term credit during the decade was mainly due to the efforts made by the land development banks and commercial banks.

Table 3.19 : Share of Short and Long Term Credit in the Value of Inputs Gross Private Capital Formation in Agriculture, 1971-72, 1976-77, 1978-79 and 1981-82, at Current Prices

(Rs. lakhs)

	1971-72	1976-77	1978-79	1981-82
1. Value of Inputs	542327	1022104	1171998	2006305
1.1 Feed of live stock	235958	360867	401890	614794
1.2 Seed	74816	111918	118750	188398
1.3 Organic manure	29358	58396	69580	108875
1.4 Chemical fertilisers	46985	138992	164063	271951
1.5 Current repairs and operational costs	12531	22662	29035	43855
1.6 Irrigation charges	3625	13296	13826	14933
1.7 Market charges	10210	16118	18588	26929
1.8 Electricity	7080	19654	23119	30484
1.9 Pesticides and insecticides	4400	17145	16741	30000
1.10 Diesel oil	26976	92705	121073	341702
1.11 Hired labour charges ⁽¹⁾	90388	170351	195333	334384
2. Gross Private Capital Formation in Agriculture	101400	224800	336500	380900
3. Short Term Credit	64024	136860	179150	273990
4. Long Term Credit	24251	66820	84950	155560
5. Short Term Credit as Percentage of:				
1. All Inputs	11.8	13.4	15.3	13.7
2. Major Inputs ⁽²⁾	33.3	28.8	31.8	25.7
6. Long Term Credit as Percentage of Gross Private Capital Formation in Agriculture.	23.9	29.7	25.2	40.8

(1) Estimated at 20% of other costs (following Kahlon and Singh 1984, 180-81).

(2) Excludes feed of live stock, seed, organic manure, market charges.

Source : Government of India, National Accounts Statistics, Central Statistical Organisation, February 1980, January 1985.

IV SUMMARY AND CONCLUSION

3.75 . This section summarises the issues resulting out of greater institutionalisation of rural credit during the seventies. The objectives of rural credit policy have undergone significant changes during the decade. While the initial objective of rural credit policy, following the RCS Committee, was to provide credit to creditworthy cultivators on a production programme, the seventies witnessed credit programmes almost synonymous with rural development programmes. New institutions have been devised and new operational policies have been designed, motivated by the ostensible desire to benefit the weaker sections of the rural society. The quantum of institutional credit has been progressively stepped up and the range of activities financed has been progressively broadened. The dominance of moneylenders' credit has almost become undermined in many states/regions. The flow of production and investment credit has also created avenues of productive activities in the agricultural sector. However, in many cases, the age-old problems still remain and experimentation and greater institutionalisation have brought to the fore new types of obstacles to implementation of policies.

3.76 Within the institutional agencies, the co-operatives still remain the major institutional outlet providing over 60% of the direct institutional finance for agriculture. However, most of the resources are from outside the co-operative organisations, the outcome of deliberate state policy, particularly for the short term wing where about 90% of the loanable funds are drawn from the Reserve Bank. In spite of the liberal financial assistance and official favour and patronage over the last three decades, the movement has not been able to collect on its own a large part of its advances as

deposits or used its deposits for farm loan purposes (in case of State and Central Co-operative banks). Efforts at diversification of co-operative credit structure in the seventies tailored to the needs of the weaker sections only replicated the old problems. Co-operatives in the North-eastern region, Rajasthan and Jammu and Kashmir are, even today, in a weaker position than the co-operatives in the Bombay Presidency during the fifties, based on which the RCS Committee had recommended the promotion of state-partnered co-operative system.

3.77 The entry of commercial banks after nationalisation changed the situation substantially during the decade. The banks had direct access to cultivators, scattered over far-flung villages. In some areas, they formed a composite system of lending by taking PACS with them. The banks have achieved certain advantages over the co-operatives in mobilising deposits and creating more access and ties with the central financing agencies. However, the banks have also faced certain problems which were common to co-operatives such as uneven spread of banking development, problem of loan recovery and financing of weaker sections. Their age-old familiarity with industry and trade financing and the application of profitability criteria have found agriculture a low priority investment, even if they have massive resources to spare. This was manifested with the imposition of some kind of compulsion on the banks to achieve the targets set before them - for instance, prescribing a minimum number of branches to be opened in rural areas in order to get a licence for an urban centre, fixing minimum credit-deposit ratio, specifying a certain proportion for the priority sectors and again within the priority sectors, setting aside some share for the weaker sections, etc. Though the commercial banks have been able to achieve the targets sooner or later, often times, the mere target achieving approach

has led to inadequacy of efforts at proper identification of borrowers, assessment of credit needs, credit appraisal and follow-up, etc.

3.78 One major problem faced by the banks during the process of financing agriculture was the reluctance of the bank personnel to get involved in rural lending, who had all along been handling the financing of trade and industry. For this reason, the RCS Committee rejected the commercial banks as an appropriate agency for rural credit. The unwillingness of the banks to accommodate the average cultivator is reflected in their concentration of term loans on big and substantial cultivators.

3.79 Yet another institutional device was the setting up of the RRBs to combine the best features of commercial banks and co-operatives. The evaluation of the RRBs may be premature due to their short span of existence and the gigantic task to be handled. However, a new organisational set up does not eliminate altogether the old problems encountered by the earlier institutions in the rural areas.

3.80 The multi-agency approach to rural credit has also filled the credit gap to some extent in the regions where co-operatives had been extremely weak. However, comparing with the rest of the country, the performance of institutional agencies was marked by unevenness, particularly in North-eastern states/regions, Rajasthan and Jammu and Kashmir. The continuing high share of consumption loans in the total borrowings of rural households in these states/regions is an indication of poor agricultural development, poor growth in earnings from non-farm sources in rural areas and poor expansion of institutional credit till 1981. To correct the regional imbalance of institutional credit, efforts are needed to stimulate the demand for credit in these regions by creating credit absorbing/productive avenues.

3.81 Every rural credit agency - co-operatives, commercial banks and Regional Rural Banks - is afflicted with the problem of overdues. This has many adverse consequences. It chokes up the flow of fresh finance to be made available for new and non-defaulting borrowers. The existence of loan defaulters also makes the institutional agencies less inclined, as is the case of commercial banks, to expand their loaning operations in the rural areas. The crop loan scheme tried to overcome the problem by linking credit with marketing. The agreed policy, however, was not implemented uniformly in many parts of the country. In the sixties, the discipline of non-overdue cover imposed on co-operatives to promote recovery of dues reflected in the inability of the societies to draw external resources for running loaning operations. The Study Team on overdues of Co-operative Institutions came to the conclusion that defaults are by and large wilful. The general backwardness of an area or the occasional occurrence of a natural calamity in an otherwise developed area has served as a pretext for widespread wilful defaults. Though this study was restricted to co-operatives only, its findings apply equally to other credit agencies like commercial banks.

3.82 As revealed from the demand side of rural credit, the pattern of demand of smaller cultivators has not changed very significantly in favour of production loans over the decades. The small cultivators have consistently borrowed a substantial proportion for consumption purposes and consequently from the non-institutional agencies. The RCS Committee in the early fifties found that the co-operative credit was biased against the small cultivators because they had less land to offer as security and their demand was for consumption loans. While the security provision has been relaxed following the adoption of the production oriented system of lending based on credit-worthiness of the purpose, the demand for consumption loans by the small

cultivators has remained to a significant extent. The institutional agencies in the country are bent upon production loans on farm business. In the face of rising overdues of loans meant for production purposes, the provision of consumption loans could not have been pursued on any significant scale. The demand for consumption loans by the small cultivators is the reflection of their low income levels and low level of agricultural development of the region. In the absence of adequate and stable income many small farmers have misutilised credit for consumption purposes, defaulted on repayment and thus disqualified for further borrowing from the institutional agencies. The problem of this group of farmers is poverty and cure lies in raising income rather than extending cheap credit.

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