

REPORT OF
INFORMAL GROUP
ON
INSTITUTIONAL ARRANGEMENTS
FOR
AGRICULTURAL CREDIT



RESERVE BANK OF INDIA

BOMBAY

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ON
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FOR
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INSTITUTIONAL ARRANGEMENTS FOR AGRICULTURAL CREDIT

PART I

INTRODUCTION

The provision of institutional credit for agriculture has assumed growing significance in recent years in the context of the important place accorded to agricultural development and increased agricultural production in the Five-Year Plans. Though increase in agricultural production depends in the main on the willingness and capacity of the producers to change over from traditional methods to technologically more advanced methods of cultivation and these in turn depend on many factors, the availability of credit being only one of them, what has been sought to be ensured is that adequate credit provided timely on reasonable terms and through an institutional channel becomes available for all efforts to step up agricultural output.

2. For achieving this objective, the co-operative credit system has been considered as the most suitable institutional agency for providing agricultural credit in the conditions of the Indian village. Accordingly, over the period of the three Five-Year Plans generally and the last decade in particular, agreed policies have been evolved as to how co-operative development should be brought about and the role which each agency should play. Programmes have, therefore, been drawn up, targets set and various aids provided from different sources to this effort.

3. In spite of all these efforts to strengthen the co-operative credit system much headway has not yet been made in some parts of the country and the progress in the supply of

agricultural credit through the co-operative agency for meeting the current and developmental needs of the cultivators has remained uneven. In certain areas co-operative credit appears to have ceased to expand and even begun to show signs of retrogression and in others, progress though continuing, is still slow.

4. It is against this background that it was considered desirable to review the existing position and suggest suitable measures for ensuring that agriculture, like other sections of the developing economy, is adequately serviced by institutional credit. Accordingly, after a preliminary discussion on 12 May 1964, the Governor of the Reserve Bank of India constituted an Informal Group of the following to consider this problem.

Shri P. C. Bhattacharyya (Chairman)

Shri M. R. Bhide

Shri B. Venkatappiah

Shri V. L. Mehta

Prof. D. R. Gadgil

Prof. D. G. Karve

Shri R. G. Saraiya

Shri. P. D. Kasbekar

5. We met five times thereafter, the last of the meetings being held on 3 December 1964. We were assisted by the Agricultural Credit Department of the Reserve Bank in the collection of the relevant material and the drafting of this report.

6. We desire to place on record our deep sense of sorrow and loss over the sad demise of Shri Vaikunth L. Mehta who was a member of our Group and had attended all our meetings except the last. The distinguished services rendered by him to the co-operative movement of this country over the years in its different aspects, are well-known and will be long remembered. So far as this Group is concerned, he brought

to bear on its work his long experience and intimate knowledge of the movement, his objective and balanced judgement, and, above all, his deep sympathy for, and understanding of, the cultivator and his problems. He made a significant contribution towards the evolution of the thinking of the Group and the formulation of its specific recommendations. We shall always cherish happy memories of the dignity, humility, earnestness and generosity which were characteristic of his dealings with one and all.

7. We have set ourselves a limited task. We have not attempted to go into all aspects of the credit needs of all persons engaged in agriculture in its widest sense—which would have called for a detailed and time-consuming survey—but have merely tried to examine, in a practical manner, how well the various parts of the country are being served at present by the co-operative agency in the matter of meeting the need for credit, largely from the point of view of production, of those who may be called cultivators. Our analysis of performance and explanation of relative success or failure are largely based on the material available in the Agricultural Credit Department and the preliminary results of the All-India Rural Debt and Investment Survey, as seen from the very rough estimates so far made. We note that the Reserve Bank has arrangements for conducting surveys, from time to time, in regard to the manner in which the co-operative credit programme is being implemented as also statistical enquiries at less frequent intervals into the changes occurring in the rural debt and investment situation. We suggest that the Bank might consider whether a comprehensive enquiry should be taken up at the end of the Third Plan with a view to having the entire position in regard to rural credit reviewed, in the light of the efforts made during the Second and Third Five-Year Plans. A significant gap in the currently available information, as we point out later, relates to the impact of the sociological background on the operation of institutional credit in different parts of the country and should, in our opinion, be sought to be filled by appropriate case studies which may be conducted in various areas, in the context of such an enquiry or even independently of it.

8. At the outset, we attempt, in Part II, to identify the areas where the provision of agricultural credit by co-operatives may be said to have failed to make much headway, by analysing the achievement to date with reference to certain indicators of performance, *e.g.* the proportion of co-operative credit to total estimated borrowings of cultivators, the effectiveness of service as reflected in the proportion of the borrowing membership of the co-operatives to the total number of cultivator-households, and the quantum of service as broadly measured by the scale of lending. We then go on to refer, in Part III, to certain factors which, though lying outside the sphere of credit as such, have a close bearing on the demand for agricultural credit and the operation of whatever institutional arrangements may be devised to meet it. Part IV seeks to present the record of different States in the matter of implementing agreed policies in respect of co-operative credit, with a view to examining how far relative success or failure is found to have been associated with such implementation or its absence. In Part V, we give our overall appraisal and then ask ourselves, and answer in the affirmative, the question whether in the light of this experience, the three-tier federal co-operative credit structure should continue to be accepted as the most suitable agency for institutional agricultural credit in the conditions of our country. Recognising that the absence of effective linking with marketing has been a major handicap in the past, we also suggest certain lines of action for remedying this position, in the context of current official thinking on food policy. We then go on to suggest a programme of action for activating co-operative credit in areas where it is now stagnant and for improving its performance where it can be said to be just not unsatisfactory. Recognising that, in certain areas, the situation demands all efforts being concentrated for the time being on consolidation of co-operative credit rather than on expansion in terms of its geographical coverage, we suggest that some transitional and supplementary arrangements for institutional agricultural credit be made in these areas which might hold the field till co-operative credit is sufficiently revitalised to take up added responsibilities. We go on to discuss certain possible alternative arrangements in Part VI and the role

which the State Bank of India can play in rural credit, in this limited context as also on a broader plane, in Part VII. We then set out our proposal for agricultural credit corporations at the State level, in Part VIII. Our recommendations are summarised in the concluding part (Part IX). Appendix I to the Report provides particulars of a pilot scheme for rural credit which is under the consideration of the State Bank of India. Appendix II gives a State-wise review of performance of co-operative credit.

PART II

STATISTICAL REVIEW OF PERFORMANCE

Contribution of co-operatives to agricultural credit

9. The All-India Rural Credit Survey had estimated that in 1951-52 only 3.1 per cent of the total amount borrowed by cultivators was supplied by co-operatives. The performance of co-operative credit since then has shown substantial improvement, mainly as a result of the steps taken towards implementation of the integrated scheme of rural credit recommended by the Survey Committee, and broadly accepted by all concerned. Thus, while according to the All-India Rural Debt and Investment Survey conducted in 1961-62, the total borrowings of cultivator-households from all sources during that year were estimated to be of the order of Rs. 1034 crores, the loans advanced by primary agricultural credit societies and land mortgage banks aggregated to Rs. 244 crores or about 23.6 per cent of the former. If to this figure, are also added Rs. 23 crores of loans advanced by primary marketing and processing societies, the total co-operative credit amounted to Rs. 267 crores, or 25.8 per cent of the total borrowings of cultivator-households. Taccavi loans, the other non-private source of agricultural credit, aggregated Rs. 40 crores or 3.9 per cent of the total borrowings as compared with 3.3 per cent in 1951-52. (The figure for taccavi loans pertains to 1960-61, the latest year for which data are available). As for commercial banks, while advances for wholesale trade in agricultural commodities amounted to as much as Rs. 155.75 crores as on 31 March 1963, those for agricultural production as such—excluding advances to plantations—stood at only Rs. 4.85 crores or 0.5 per cent of total borrowings of cultivator-households as compared to 0.9 per cent in 1951-52. (Data in the case of commercial

banks relate to outstandings as figures of advances are not available). Thus, it will be seen that firstly, there has been a remarkable progress in the performance of co-operative credit and secondly, that the agricultural credit provided by the co-operatives is much more significant in quantum than that provided by the other institutional agency, *viz.*, commercial banks, or by Government in the form of taccavi. It was only in Assam that taccavi exceeded co-operative credit.

10. A State-wise review, as indicated in the following table, however, shows that the progress of co-operative credit has been uneven as among the different parts of the country:

TABLE I

(Rs. in crores)

State	Total borrowings of cultivator households in 1961-62 *	Loans and advances by primary agricultural societies and land mortgage banks during 1961-62	Column 3 as percentage of column 2 [@]
(1)	(2)	(3)	(4)
1. Maharashtra	83.16	45.61	54.85
2. Gujarat	70.93	29.04	40.94
3. Madras	101.98	31.53	30.92
4. Orissa	13.06	3.61	27.64
5. Punjab	59.39	16.11	27.13
6. Madhya Pradesh	75.00	18.56	24.75
7. Uttar Pradesh	162.03	38.18	23.55
8. Andhra Pradesh	112.84	24.68	21.87
9. Mysore	79.97	15.05	18.86
10. Jammu & Kashmir	7.49	1.33	17.76
11. Kerala	41.01	6.66	16.24
12. West Bengal	47.44	4.71	9.93
13. Assam	5.51	0.35	6.35
14. Rajasthan	105.80	5.52	5.22
15. Bihar	61.22	2.52	4.12
16. Union Territories	7.22	0.83	11.49
All-India	1034.05	244.34	23.63

(Source : Provisional estimates, All-India Rural Debt & Investment Survey 1961-62 for column 2 and Statistical Statements relating to the Co-operative Movement in India 1961-62, for column 3).

(Please see page 8 for footnote)

The proportion of such credit to total estimated borrowings of cultivators in 1961-62 was the highest in Maharashtra at 55 per cent, and also fairly high in Gujarat and Madras at 41 per cent and 31 per cent respectively. At the other end, the position was far from satisfactory in West Bengal, Assam, Rajasthan and Bihar where the proportion did not exceed even 10 per cent. Elsewhere, it ranged between 10 and 30 per cent.

Cultivator-households served by co-operative credit

11. From the point of view of assessment of performance, it is also relevant to consider the proportion of those who obtained co-operative credit to the total cultivator-households in the different States. This is brought out in the following table :

* The borrowings given under Column 2 relate to only cash transactions and do not include kind loans. 'Hand Loans' taken from neighbours and other friends and also credit given by a trader in anticipation of sale of crop are included.

@This estimate, based on data relating to advances of co-operatives published in the "Statistical Statements relating to the Co-operative Movement in India—1961-62", does not tally with the estimate of borrowings of cultivator-households from the co-operative agency according to the All-India Rural Debt and Investment Survey 1961-62, as presented in the article "Outstanding loans, borrowings and repayments of rural households" in the Reserve Bank of India Bulletin of August 1965, for the following reasons: :

(i) The Survey data relate only to cultivators according to the definition adopted therein, whereas, the data in the Statistical Statements relate to advances to all borrowers from agricultural credit societies and primary land mortgage banks, including non-cultivating land owners, agricultural labourers, etc.

(ii) The Statistical Statements data would include advances to urban residents the terms 'urban' and 'rural' being defined as in the 1961 Census whereas no advances to urban residents would feature in the Survey data.

(iii) Borrowings of cultivators from co-operatives in kind or those shown to have been obtained as a result of book adjustment of an earlier loan might not have been fully reflected in the Survey data.

For the same reasons, the estimate of the proportion of cultivators borrowing from co-operatives presented on page 7 of this Report will not tally with the estimate given in the Reserve Bank of India Bulletin article.

TABLE II

Proportion of borrowing members of co-operative societies to total estimated cultivator-house-holds in 1961-62 (per cent)

State	Proportion
1. Maharashtra	34.9
2. Gujarat	30.3
3. Madras	40.1
4. Orissa	6.5
5. Punjab	42.2
6. Madhya Pradesh	16.6
7. Uttar Pradesh	22.5
8. Andhra Pradesh	20.2
9. Mysore	25.5
10. Jammu & Kashmir	43.2
11. Kerala	21.6
12. West Bengal	8.4
13. Assam	2.4
14. Rajasthan	9.9
15. Bihar	4.9
16. Union Territories	3.7
All-India ..	19.7

It will be observed that, for the country as a whole, only one cultivator in every five had borrowed from the co-operative societies. The proportion was relatively higher in States such as Jammu and Kashmir (43.2%), Punjab (42.2%), Madras (40.1%), Maharashtra (34.9%) and Gujarat (30.3%) but negligible in Assam (2.4%), Bihar (4.9%), Orissa (6.5%), West Bengal (8.4%), Rajasthan (9.9%), and Union Territories (3.7%). To appreciate the significance of this data, however, one has to consider the potential borrowers in the rural areas and the relationship which obtains between the total membership of the co-operatives and the number of those who borrow.

Non-borrowing cultivators and non-borrowing members of co-operatives

12. At the outset, it may be noted that for the country as a whole, according to the Rural Debt and Investment Survey, only about 52 per cent of the cultivating households reported any borrowings in 1961-62, and even if those who did not borrow during the year but still reported indebtedness are also taken into account, the proportion was 65.8 per cent. In other words, it was not likely, in the existing conditions in the country from the agricultural and other points of view, that more than about two-thirds, of the total number of cultivating households would have sought credit from the co-operative societies. This proportion applies to the country as a whole. The survey has brought out the fact that there are wide variations in this respect among the States ranging from about 70 per cent in Madras and Punjab at one end to about 30 per cent in Orissa and Assam, at the other.

13. It may happen that some of the non-borrowing cultivators are those, who, having resources of their own and being in a position to meet their requirements for cultivation expenses, etc., from such resources, did not need to borrow. There may also be a class of cultivators in States such as Madhya Pradesh, Orissa, etc., who, although not having large own resources, may still feel no need to borrow, owing to a traditionally low level of inputs in agriculture in the area. A third group of cultivators may be those who have need to borrow but do not resort to borrowing because credit is not available to them on reasonable terms or because they are unable to establish their creditworthiness. While this last group represents cultivators whose needs could perhaps be met by a co-operative, the first two groups are composed of those who may not feel the need to join a co-operative society, or who, having joined a society, may still not need to borrow from it.

14. This brings us to the fact that not all the members of co-operative credit societies actually borrow from them ; only about 50 per cent, on an average , do so, the proportion

of borrowing members varying from 12.75 per cent in Assam to 85.71 per cent in Jammu and Kashmir in 1961-62. A fairly high proportion of borrowing members is observed in Maharashtra (67%), Madhya Pradesh (67%) and Gujarat (65%). There can be a number of reasons why a member does not avail of credit from his society during a year. A quick survey of 20 primary agricultural credit societies in 9 States, conducted recently by the Division of Rural Economics of the Reserve Bank of India, suggests that the following are among the factors responsible for such non-borrowing membership :

- (i) The members did not need loans.
- (ii) Though they continued to be members, they had left the village.
- (iii) They were not willing to take the loans on the terms on which they were offered (insistence on lifting a part of the loan in kind) or at the time they were made available.
- (iv) They had defaulted in repayment of loans taken earlier.
- (v) They could not get the loans (a) due to group factions, or (b) due to their not being able to fulfil certain prior conditions like production of revenue records or preparation of the production plan or (c) due to their inability to satisfy prevailing tests of creditworthiness.

Dormancy of societies

15. An important cause of the relatively low proportion of borrowing membership to total membership in some States is that some of the agricultural credit societies are dormant. During 1961-62 such dormant societies accounted for one-half of the total societies in West Bengal, Rajasthan, Orissa, Manipur and Tripura and a little over two-fifths in Himachal

Pradesh. In Jammu and Kashmir and Bihar, they formed a little less than 30 per cent of the total. Nearly one-fifth of the societies were dormant in Kerala and Mysore. The position was most satisfactory in this regard in the States of Maharashtra and Gujarat, where the proportion of dormant societies was only 4.2 and 5.8 per cent respectively.

Membership compared to cultivator-households

16. The following table gives the proportion of co-operative membership to cultivator-households :—

TABLE III

Statement showing the actual coverage of cultivator-households by membership of co-operative societies in 1961-62.

State	Actual membership as percentage of cul- tivator-households
1. Maharashtra	53
2. Madras	86
3. Gujarat	47
4. Andhra Pradesh	38
5. Punjab	88
6. Uttar Pradesh	39
7. Kerala	49
8. Mysore	55
9. Madhya Pradesh	23
10. Jammu & Kashmir	50
11. Rajasthan	28
12. West Bengal	19
13. Orissa	18
14. Bihar	18
15. Assam	19
16. Delhi	60
17. Himachal Pradesh	35
18. Manipur	21
19. Tripura	29
All-India	39

It may be observed that the coverage of membership in 1961-62 was most satisfactory in the States of Punjab and Madras where over 86 per cent of the cultivator-households

was covered by co-operatives. (Regarding Madras, there is reason to believe that in some cases, there are more than one member from the same cultivator-household). The corresponding performance was 50 per cent or more in Mysore, Maharashtra, Jammu and Kashmir and Delhi, between 40 and 50 per cent in Gujarat and Kerala, between 30 and 40 per cent in Andhra Pradesh, Uttâr Pradesh and Himachal Pradesh and between 20 and 30 per cent in Madhya Pradesh, Rajasthan, Manipur and Tripura. The poorest performance from this point of view was in the States of West Bengal, Bihar, Orissa and Assam where only about 18 to 19 per cent of the cultivator-households had been covered by co-operative membership.

Coverage of villages

17. The extent of coverage of villages by agricultural credit societies is one of the basic factors determining the progress towards coverage of potential membership. With the exception of Orissa, good progress was made in all States in the coverage of villages between 1957-58 and 1962-63. In Madras, Uttar Pradesh, Gujarat, Kerala, Maharashtra, Punjab and Mysore, the proportion of villages covered by agricultural credit societies was 90 per cent or more, it being 100 per cent in the first three States. It is seen that the coverage was only between 60 and 75 per cent in Assam, Bihar, Rajasthan and West Bengal. In the case of Union Territories, coverage was 100 per cent, in Delhi, Himachal Pradesh and Pondicherry and between 20 and 45 per cent in the rest.

Relative scales of finance

18. We now come to the average scale of lending by the co-operatives as compared with that by all credit agencies taken together. The table below compares the average borrowing per cultivator-household reporting borrowing from any agency (Survey data) with the average amount borrowed per borrowing member of a co-operative in 1961-62.

TABLE IV

State	Borrowing per cultivator- household reporting borrowing from any source	Borrowing per borrowing member
	Rs.	Rs.
1. Maharashtra	435	347
2. Gujarat	611	446
3. Madras	517	232
4. Orissa	266	233
5. Punjab	573	235
6. Madhya Pradesh	339	270
7. Uttar Pradesh	320	175
8. Andhra Pradesh	468	298
9. Mysore	517	238
10. Jammu and Kashmir	296	63
11. Kerala	320	152
12. West Bengal	258	170
13. Assam	174	95
14. Rajasthan	523	205
15. Bihar	246	83
All-India ..	393	242

It will be seen that, for the country as a whole, the average borrowing per borrowing member of a co-operative was Rs. 242, as against the borrowing from all sources per borrowing cultivator-household, which was Rs. 393. In other words, the scale of co-operative credit was about 60 per cent of the overall scale of borrowing. The position, however, differs widely among the various States. The borrowing per borrowing cultivator household which may be considered to reflect the overall conditions in the States in regard to the demand for, and availability of, credit is found to be relatively high in Gujarat, Punjab, Rajasthan, Madras and Mysore while the lowest levels are found in Assam, Bihar, West Bengal, Orissa and Jammu and Kashmir. Borrowing per borrowing member of a co-operative which, on the other hand, represents the result not only of the general conditions in the State in regard to credit but also the extent of the ability of the co-operative to meet the needs of the members whom it chooses to finance, is found to be the highest in Gujarat and Maharashtra. The lowest figures in this respect are those of Jammu and Kashmir, Bihar and Assam. As for the comparative performance of the co-operative credit agency

in relation to that of all the credit agencies taken together, the position is most satisfactory in Orissa, Maharashtra, and Gujarat where the borrowing per borrowing member exceeds three-fourths of the borrowing per borrowing cultivator-household. This proportion is the lowest in Jammu and Kashmir at 21 per cent and slightly better between 40 and 50 per cent in the States of Madras, Punjab, Mysore, Kerala, Rajasthan and Bihar.

Rate of progress

19. The foregoing discussion was generally related to the position which has been reached by the co-operatives in regard to the supply of agricultural credit in different parts of the country, but it is also relevant to consider, in this connection, the rate at which progress is being made. In view of the reorganisation of States, the figures of loans advanced by primary agricultural credit societies are not comparable over the last six years and hence, as a very rough index of the position, data are given below showing the amount advanced by central co-operative banks per capita of rural population for the six years ending 1962-63 and the annual rate of increase.

TABLE V

Loans issued by Central Co-operative Banks per capita of rural population and annual rate of increase

State	(Amount in rupees)						Annual rate of increase
	57-58	58-59	59-60	60-61	61-62	62-63	
1. Maharashtra ..	5.88	8.67	14.53	18.04	17.54	18.24	2.47
2. Madras ..	4.25	6.27	7.70	10.07	13.54	16.48	2.45
3. Gujarat ..	6.18	6.66	13.27	14.03	14.27	16.19	2.00
4. Punjab ..	5.10	5.25	7.50	7.24	8.96	8.90	0.76
5. Andhra Pradesh ..	5.44	6.42	7.29	8.38	9.20	8.89	0.69
6. Madhya Pradesh ..	3.57	4.64	5.58	7.14	6.85	7.76	0.84
7. Mysore ..	5.29	7.07	7.33	9.95	8.25	7.36	0.41
8. Uttar Pradesh ..	1.75	2.34	4.10	4.67	5.62	6.70	0.99
9. Jammu and Kashmir	1.75	9.52	4.27	4.83	7.44	5.51	0.75
10. Kerala ..	0.86	1.64	1.90	2.31	2.89	4.24	0.68
11. Orissa ..	1.56	1.37	1.90	2.12	3.10	3.76	0.44
12. Rajasthan ..	1.63	1.98	3.70	4.13	3.54	3.51	0.38
13. West Bengal ..	0.72	0.79	0.90	1.12	1.61	2.11	0.28
14. Bihar ..	0.28	0.27	0.37	0.50	0.63	0.89	0.12
15. Assam ..	1.01	1.87	1.05	0.58	0.32	0.31	Negative

It is seen that Assam alone, amongst all the States, shows a decreasing trend over the years in the per capita loans issued by the central co-operative banks. The increase is very slow in the States of Bihar, West Bengal, Rajasthan, Orissa and Mysore ; it should, however, be noted that in Mysore the average has been brought down considerably by the decline which occurred in 1962-63. Advance has been most remarkable in Maharashtra, Madras and Gujarat. The rate of progress in the other States is generally modest.

Long-term credit

20. The following table gives data on the proportion of individual members served by co-operative land mortgage banks to cultivating households in the different States for 1961-62 :

TABLE VI

State	Percentage of individual members served
1. Gujarat	10.1
2. Andhra Pradesh	5.8
3. Madras	5.5
4. Maharashtra	5.1
5. Mysore	5.1
6. Kerala	0.9
7. Punjab	0.9
8. Madhya Pradesh	0.6
9. Orissa	0.5
10. Rajasthan	0.5
11. Assam	0.3
12. West Bengal	0.2
13. Bihar	0.1
14. Uttar Pradesh	0.03

N.B.—The central land mortgage bank in Jammu and Kashmir was registered only in 1962-63

It will be seen that the largest coverage is in Gujarat where 10 per cent of the households have been served. Next in importance are Andhra Pradesh, Madras, Maharashtra and Mysore where 5 to 5.8 per cent are similarly covered. The position is most unsatisfactory in the States of Assam, Bihar, West Bengal, Orissa, Rajasthan and Uttar Pradesh, where the proportion does not exceed 0.5 per cent.

Qualitative assessment

21. One aspect of performance which would be significant from the point of view of appraisal is the extent to which co-operative credit has, in actual practice, developed into the type of purposeful production credit which it was intended to be. Though this does not lend itself to statistical measurement, one might make certain general observations on the basis of the available information. At the outset, it is necessary to recognise that, in the initial stages of development, co-operative credit is naturally more concerned with somehow making a start, reaching some persons and providing some funds, and that it is only after a minimum area and scale of functioning have been reached and some impact has been made that refinement with reference to the purpose and scale of lending and such other matters of operational principles and procedures can be attempted. Progressive improvement within the limits of such transition has, no doubt, been in evidence to some extent in certain areas. As indicated later in the review of implementation of accepted policies, the agreed aim, so far as short-term credit is concerned, has been to introduce what is known as the crop loan system in all the States on the lines recommended by the Rural Credit Survey Committee. Progress in this regard has been broadly satisfactory in Maharashtra and Gujarat and, to some extent, in Madhya Pradesh. Parts of Madras and Mysore are also moving in this direction. The restrictive features which militate against progress towards a rational lending system on these lines continue to operate in the States of Assam, Bihar, Orissa, West Bengal and Rajasthan with almost no signs of change. To the extent to which this switch-over has taken place, it no doubt represents an improvement over the situation in which the size of a loan was largely determined on the basis of the security which the borrower could offer. It is a step forward that the size of a loan should be related on the one hand, to repaying capacity as broadly derived from the expected value of the estimated gross output and, on the other, to the required outlay as broadly determined in terms of a scale of finance with reference to the crop which is raised and the acreage under cul-

tivation. A more fully purposeful system of co-operative agricultural credit would have to go further and make possible increased current investment by specifically relating the size of the credit to the intended inputs and providing for a part thereof to be made available only in the form of fertilisers, seeds, pesticides etc. Another direction in which improvement is required in current practice relates to the credit requirements of animal husbandry undertaken as part of agricultural business of which little account is now taken either by the short-term and medium-term structure or by the long-term structure. Orientation of the credit system on these lines to make it more purposive and comprehensive is, however, a complicated task which will require, on the one hand, a degree of competence on the part of those who operate the system, and, on the other, some preliminary experimentation in limited areas. Both these conditions can be fulfilled only after credit institutions have functioned over a period of time and the magnitude of credit operations assumes certain reasonable dimensions. In fact, significant progress even in the limited direction of the crop loan system has been witnessed mainly in areas where the volume of co-operative lending has been appreciable, as in Maharashtra and Gujarat. It is also relevant to note here, as a matter of some satisfaction, that co-operative credit has not been found wanting from the point of responding to the needs of a serious effort towards a higher plane of cultivation involving larger inputs, arising as in the case of the Package districts, from a Government programme, or, as in the case of sugarcane tracts of Maharashtra, on the initiative of the cultivating population itself.

22. Experience in respect of long-term credit has been similar, though here again, progress is neither universal nor yet complete. The initial preoccupation was, no doubt, with somehow substituting for private credit, especially in the context of the depression of the thirties—co-operative long-term credit helping to liquidate private prior debts. Increasingly, however, emphasis is coming to be placed on lending for productive purposes. The stage is yet to be reached, however, in which co-operative long-term credit is specifically related to programmes of agricultural develop-

ment in each area broken up into specific investment projects to be undertaken by individual cultivators.

Overall assessment

23. On an overall assessment of performance in regard to co-operative credit with reference to the various indicators which have been considered, it is clear that the position in Maharashtra, Gujarat and Madras is outstanding in more than one respect. At the other end, the position in the States of Assam, West Bengal, Bihar, Orissa and Rajasthan stands out as very unsatisfactory on any reckoning. The rest of the States may be considered as coming under one broad intermediate category, though Punjab has shown slightly better results and Jammu and Kashmir a somewhat less satisfactory position than the average. It may, however, be noted here that, while generally showing a record which is not out of step with the other States in this category, co-operative credit in Andhra Pradesh and Mysore has been showing signs of stagnation in the recent past.

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PART III

EXTRA-INSTITUTIONAL FACTORS

24. In any assessment of the performance of co-operative credit in different parts of the country, it is relevant and necessary to consider the extra-institutional factors constituting the environment within which institutional credit has to operate. The effect of some of these factors such as the nature of conditions of agricultural production, type of population to be served, the state of transport and communications and topographical features can be to keep the potential for production credit low or to otherwise detract from the conditions necessary for the successful working of institutional arrangements.

Plane of Agricultural Production

25. To consider one aspect of the agricultural situation first, we may examine the data given below on the value of gross out-turn in agricultural output per cultivator in different States.

TABLE VII
Value of Agricultural Output per cultivator—State-wise position

State	Gross value of agricultural output excluding plantation* crops, fodder etc. (Rs. in thousands)	No. of cultivating house holds† (in thousands)	Gross out-put per cultivator (i.e. Col. 2÷3)	Average size of holding (in acres)
1	2	3	4	5
1. Bihar	47,97,631	5,960	804.2	4.6
2. Rajasthan	23,97,387	2,717	882.4	13.2
3. Jammu & Kashmir	4,77,326	486	982.2	4.1
4. Orissa	24,69,669	2,380	1037.7	6.4
5. Assam	16,02,526	1,538	1042.0	4.1
6. Madhya Pradesh ..	50,30,407	4,424	1137.1	10.3
7. Uttar Pradesh ..	1,11,84,847	9,665	1157.3	6.4
8. Andhra Pradesh ..	50,46,335	4,088	1234.4	7.3
9. Kerala	25,34,362	2,014	1258.4	2.8
10. Mysore	36,66,943	2,475	1481.6	10.5
11. Gujarat	29,51,917	1,916	1540.7	12.7
12. West Bengal ..	51,21,522	3,298	1552.9	5.0
13. Madras	52,67,943	3,385	1556.3	5.1
14. Maharashtra ..	63,49,160	3,765	1686.4	12.4
15. Punjab	38,92,578	1,626	2394.0	15.5

* Agricultural Income by States 1960-61

† Estimates of the All-India Rural Debt and Investment Survey.

It is observed that the gross value of output per cultivator is relatively very low in Bihar, Rajasthan, Jammu and Kashmir, Orissa and Assam. This would appear to suggest at least, in part, that the poor performance in regard to credit noticed in the preceding chapter in respect of these States is relatable to the fact that the plane of cultivation in some of these areas is so low and/or the average holding is so small that the inputs involved and cash outlay are negligible, farming being more or less at a subsistence level.

Area under non-food crops

26. Similarly, the proportion of area under cash crops may also be taken as a rough indicator of demand for production credit. It is true that, in certain areas, even cultivation of food crops might represent intensive farming involving large cash outlays and is not of the subsistence category. The following table presents data on the distribution of cultivated area as between food crops and cash crops for different States :

TABLE VIII

States	Proportion of area under food crops to total area under cultivation	Proportion of area under plantation crops	Proportion of area under non-food crops other than plantation crops
(1)	(2)	(3)	(4)
1. Bihar	88.23	0.60	11.17
2. Jammu & Kashmir ..	83.82	2.55	13.63
3. West Bengal	83.38	1.47	15.15
4. Madhya Pradesh ..	83.37	0.39	16.24
5. Rajasthan	75.56	10.18	14.26
6. Orissa	73.34	13.40	13.26
7. Uttar Pradesh	73.26	3.25	23.49
8. Assam	73.07	7.17	19.76
9. Punjab	71.57	12.36	16.07
10. Andhra Pradesh	71.40	1.64	26.96
11. Madras	69.70	3.06	27.24
12. Mysore	66.49	3.26	30.25
13. Maharashtra	65.52	4.70	29.78
14. Gujarat	44.67	8.82	46.51
15. Kerala	36.80	11.32	51.88
All-India	71.82	5.08	23.10

It may be seen from the above table that the States which show a relatively larger proportion of cultivated area under food crops are Bihar, Jammu and Kashmir, Rajasthan, West Bengal, and Madhya Pradesh.

Scheduled tribes and castes

27. Another important factor of a non-institutional nature which is associated with difficulties in the operation of institutional credit and relatively low demand for production credit relates to the predominance of population belonging to the scheduled castes and scheduled tribes. The following table gives figures of the proportion of scheduled castes and scheduled tribes to the total population in different States.

TABLE IX

Distribution of Scheduled Castes and Scheduled Tribes

State	Percentage of scheduled castes to total population in the State	Percentage of scheduled tribes to total population in the State	Percentage of scheduled castes and tribes to total population in the State
(1)	(2)	(3)	(4)
1. Orissa	15.75	24.07	39.82
2. Madhya Pradesh ..	13.14	20.63	33.77
3. Rajasthan	16.67	11.46	28.13
4. West Bengal	19.90	5.91	25.81
5. Assam	6.17	17.42	23.59
6. Bihar	14.07	9.05	23.12
7. Uttar Pradesh	20.91	—	20.91
8. Punjab	20.38	0.07	20.45
9. Gujarat	6.63	13.35	19.98
10. Madras	18.03	0.75	18.78
11. Andhra Pradesh	13.82	3.68	17.50
12. Mysore	13.22	0.81	14.03
13. Maharashtra	5.63	6.06	11.69
14. Kerala	8.41	1.23	9.64
15. Jammu & Kashmir ..	7.54	—	7.54
All-India	14.71	6.81	21.52

It may be seen that the States of the Eastern Region, Rajasthan and Madhya Pradesh show a predominance of tribal population or that of scheduled castes. The proportion of the total of scheduled castes and tribes to the total population is seen to be the highest in the country in Orissa (40%) and fairly high in Madhya Pradesh (34%), Rajasthan (28%), West Bengal (26%), Assam (24%) and Bihar (23%). It is possible that this phenomenon accounts, in some measure, for the poor growth of institutional credit in the States concerned, in view of the difficulties faced in organising co-operatives on the conventional lines for meeting the requirements of scheduled tribes and the specially disadvantageous position of the scheduled castes who are in many areas landless tenants or share-croppers or sub-marginal cultivators who experience difficulties in obtaining credit from the co-operative institutions in the absence of the expected liberalisation of loan policies.

Other special factors

28. Other similar factors of a non-institutional nature which have a bearing on credit would include those relating to the size of holdings, tenure systems, quality of land, rainfall conditions, the extent of irrigation facilities, the incidence of draught, floods and other natural calamities and hazards, the degree of urbanisation and monetisation, the state of communications and so on.

29. Some of the factors enumerated above are known to be unfavourable in certain pockets of the more advanced States also. As examples may be mentioned the Konkan area and the Chanda and Bhandara districts of Maharashtra, Surat, Sabarkantha, Banaskantha and Dangs districts of Gujarat, Telangana and Rayalaseema areas of Andhra Pradesh, the Eastern districts of Uttar Pradesh and the Vindhya Pradesh and Eastern and South-Eastern districts of Madhya Pradesh. All these regions are characterised by one or more features of the same kind as are found in the backward States and also show a relatively less satisfactory performance in respect of co-operative credit,

Assam—Special features

30. In this State more than in any other State, no explanation for the failure of co-operative credit can ignore the various factors which, while lying outside the sphere of co-operative organisation, still have an intimate bearing on agricultural credit. More than half of the State is a hilly region and a large portion is under forests. Ninety-one per cent of the population is rural. With the low level of industrialisation and urbanisation, progress in terms of cash transactions and credit operations has been meagre. The scheduled castes and tribes account for 24 per cent of the State's population. From the point of view of stable conditions for credit, the fact that natural calamities are of frequent occurrence is a disturbing factor. The Brahmaputra which traverses the plains of Assam causes widespread floods almost annually, the total annual damage to crops exceeding Rs. 2 crores in five of the six years between 1950 and 1956 and Rs. 19 crores in 1954. The means of transport and communications are also poorly developed. The State has also, on occasion, been affected, in parts, by earthquakes. Finally, the State being on the border of Pakistan, Burma and Tibet, political tension has frequently interrupted normal life in parts of the State and placed a great strain on its administrative machinery. While some of these handicaps can, to some extent, be alleviated by proper planning and extension efforts, the others may not be alterable in the foreseeable future and will have to be reckoned with in finding an enduring solution to the problem of agricultural credit for this State.

Some steps to overcome non-institutional handicaps

31. To the extent that failure of co-operative credit in the backward group of States is attributable largely or in part to factors of the kind described above, detailed recommendations for future action can be made only on the basis of more information and fuller study of these non-credit aspects of the situation in certain States and some parts of other States. However, some broad lines of action may be indicated here. For example, intensive agricultural extension activity coupled with measures which would provide the cultivator with an incentive to take to the improved practices

suggested by the extension agency and increase his production should help to change the picture in such areas. Long-term plans of Government for extension of irrigation facilities, land reclamation, soil conservation, flood control and diversification of the crop pattern will also be relevant for changing the position. In the context of such schemes, there may be scope for the Agricultural Refinance Corporation to step in and assist in the financing of any long-term investment which the cultivators may themselves have to undertake as part of an overall programme of agricultural development in such areas. As regards monetization and conditions of transport and communications, special programmes and efforts by State authorities are necessary to improve the existing position, though some development in these directions will inevitably follow the change in the conditions of agriculture itself *i.e.* towards an increasing degree of commercialization and diversification. As far as sections of the population such as scheduled tribes are concerned, their needs call for a special approach in respect of the co-operative form of organization, as part of the wider programme for their betterment. The area of operations of a primary co-operative society for them may have to be larger than in the other cases, with the headquarters at the Mandi where their produce is usually sold and their consumption requirements are obtained; credit and marketing functions may have to be combined in the same unit; provision may have to be made for consumption credit; and the scale on which supervisory staff is provided may have to be larger than is usual for agricultural credit societies, and so on. Certain decisions which have been taken by the Government of India following the recommendations of the Special Working Group on Co-operatives for Scheduled Tribes and Backward Classes call for early and energetic implementation, in this difficult area of institutional organisation.

Importance of price policies and marketing for credit programme

32. One more factor lying outside the sphere of institutional credit but having a close bearing on its progress relates to the policies of Government in respect of agricultural prices and marketing. This is precisely the area in which an effective break-through has to be made if the credit programme is

to show a substantial expansion and it is to be ensured that it does not result in an impairment of the soundness of the structure in the process, as is happening to-day, both in the relatively developed States and those in the stage of backwardness. In fact, every review of the existing position and policy in respect of credit for agriculture in our country has emphasised the relevance of appropriate and supporting policies in respect of agricultural marketing, and experience has shown that this has remained the weakest aspect of the situation till to-day, whether considered with reference to the linking of credit with marketing so as to ensure prompt recovery or from the point of view of the response of the cultivator to the widespread agricultural extension efforts. The volume of credit and its importance can increase only with an increase in the value of the marketable surplus. With the price prospects uncertain, the cultivator may hesitate to take a chance with improved farming practices, which involve additional cash outlay apart from constituting a departure from the traditional methods of cultivation with which he is familiar. It is only if he has something definite and encouraging to look forward to, that he is likely to be spurred to adopt new methods to step up his production, using larger inputs as advocated by extension agencies, so as to reap the assured gains implicit in such guaranteed support. The performance of co-operative credit in recent years has confirmed the strategic significance of the marketing aspect, especially in the context of overdues which have resulted from the absence of such a link and have led to stagnation, if not retrogression in credit in some areas. The insistence on repayment by sale of produce through a specified channel can be effectively enforced only if there is the assurance that the cultivators, who heed to this advice, do not run the risk of incurring losses because of the incapacity of the agency to secure the best possible return to them. If there is an assured price, which is also a remunerative price from the point of view of the grower, the credit agency can feel itself justified in insisting on complete linkage with marketing. In such circumstances, the co-operative marketing structure does not need to take much risk of speculation and can concentrate its energies on the task of providing services (including processing) on terms most favourable to the cultivators.

33. Price stabilization is important and necessary for advanced States undertaking liberal lending policies based on the crop outlay and looking to the anticipated crop, mainly from the point of view of recoveries which are presenting a problem even in a State like Maharashtra. It should be of even greater significance for those areas where co-operative credit has now come to a standstill for one reason or another, as only a bold measure like this can give an effective push to institutional credit from out of its present state of stagnation, by increasing the potential demand for production credit and also keeping down the overdues which constitute a major problem in most parts of the country. The absence of a positive programme of stabilisation of agricultural prices and convenient arrangements for assured off-take of produce constitute elements of a general background which, like the natural factors mentioned earlier, operate as handicaps in the development of institutional credit.

34. Finally, account should be taken of sociological factors which have a close bearing upon the operation of any institutional credit structure. The impact of this background is even more important where the structure is co-operative. As is well-known, the successful working of co-operative institutions assumes certain norms of conduct on the part of members and the elected management. The reasons for the failure of these expectations to materialise can, in part, be traced to the sociological climate in which the institutions function. The Rural Credit Survey Committee had also drawn attention to the importance of these factors in their report. Sufficient information on these aspects of the situation is not, however, available to indicate how far the relatively poor performance of institutional credit in parts of the country could be accounted for with reference to such factors. We would only emphasize here the need for having case studies conducted in different parts of the country in regard to the influence of sociological factors on the operation of agricultural credit institutions and taking them into account in making any appraisal of past performance or major formulation of future policies.

PART IV

RECORD OF IMPLEMENTATION OF AGREED POLICIES

Framework of accepted policies

35. Following from the earlier analysis of performance with reference to the various indicators, it becomes necessary to examine why achievement has fallen short of expectations in some of the States. A major aspect of this enquiry would be to test actual experience with reference to the agreed policies in regard to co-operative credit which had been evolved on the basis of the recommendations of the Rural Credit Survey Committee and the V. L. Mehta Committee on Co-operative Credit and accepted by all concerned. This should help to ascertain whether the lack of success can be explained with reference to non-implementation of these policies and also whether there were any factors in the credit situation which such policies had not adequately foreseen or provided for.

36. Broadly, the framework of accepted policies pertains to the structure of the institutions, their operations in the lending and resource-raising aspects and the infrastructure of functions such as audit, supervision and marketing. As far as the *structure* is concerned, the general aim is one of financial, administrative and technical strengthening and reorganisation, on the basis of State partnership. At the state co-operative bank level, the emphasis is on their developing into truly federal and strong institutions belonging to the central co-operative banks and giving them financial support as well as policy guidance. Associated with this aim are the need to limit the number of individual members, State participation in share capital, linking of shareholding to borrowings and avoidance of competition with central banks in regard to deposits and lendings. At the central co-operative banks

level, the basic need is for rationalisation with a view to having generally one bank per district as an economic unit, and promotion of real co-operative leadership in the place of bureaucratic management. At the primary level, the aim is to promote viable units which may, within a reasonable time, render the more important services expected of them both adequately and to as large a number of producers as possible, without depending upon Government assistance except for a limited period and, for this purpose, to carry out a programme of rectification, consolidation and revitalisation of existing dormant and weak societies. Finally, a central land mortgage bank is required in each State with primary land mortgage banks at the base for providing long-term credit in support of programmes for agricultural development.

37. *The Operational policies* recommended cover a wide range and were intended to ensure the expanding supply of production credit, supervision of its purposeful use and its recovery on due dates. Of key significance in this setting is the crop loan system of production-oriented credit. Its main principles are that the loan will be based on crop-cum-acreage, with reference to a scale of outlay and its effect on income and repaying capacity, that credit will be disbursed in kind and in instalments, and that it will be recovered soon after the harvest, in co-operation with the marketing society. Implicit in this is a relaxation of restrictive features such as insistence on mortgage security for all loans, absolute financial limits on individual borrowings, the maximum borrowing limits of institutions, refusal of credit to tenants, etc. To improve the position in regard to coverage, security, and recovery of loans, legislative provision was recommended for an appeal against the refusal of membership, creation of a charge on land in favour of the society and expeditious action through coercive processes for recovery, respectively. With a view to encouraging the financing of weaker sections, special outright grants by Government to credit institutions for creation of special bad debt reserves were proposed. Similarly, to ensure that the flow of credit is not interrupted or brought to a standstill on account of natural calamity, special funds—stabilization funds in co-operative banks and the

Reserve Bank and the Relief and Guarantee funds with the State and Central Governments—were suggested. Other operational policies related, (i) to the need to avoid the misuse of resources, *e.g.*, by elimination of unrestricted financing of individuals, priority to demand for agricultural credit, avoidance of trading, etc., and, (ii) to the strengthening of internal resources, *e.g.*, by relating share-holding to borrowings and by taking measures to increase deposits, such as branch expansion, removal of restrictions on deposit of quasi-Government funds with co-operative banks, provision of banking facilities, etc.

38. As for the infrastructure of administration and leadership and co-operative activity other than credit which has to be built up for the successful working of co-operative credit, emphasis was laid on the need for more and better personnel and facilities for training them, improving the arrangements for supervision, audit and administration, development of co-operative marketing and processing, storage and warehousing, appropriate policies regarding taccavi, etc.

39. Unlike the other features of agreed policy, the type of organisation required at the primary level has been a matter of some uncertainty. While the Rural Credit Survey Committee had emphasized the need for gradually having relatively larger units at the base which could work as efficient institutions, there was some shift in policy following the National Development Council's resolution of 1958 which emphasized the need for the co-operatives to be organised on the basis of the village community. The V. L. Mehta Committee on Co-operative Credit, which was set up to review the policies in the light of the new situation, stressed the importance of viability at the primary level, subject to certain limits of geographical and population coverage. However, it was only at the last State Ministers' Conference on Co-operation held in Hyderabad in June 1964, that specific criteria of viability were suggested, and a concrete action programme for eventually having only viable units at the primary level was authoritatively spelt out. This apart, the broad outline of accepted policies has been clear, and it has been the endea-

vous of the Reserve Bank and the Ministry of Co-operation to initiate, watch and pursue their implementation.

Structure.

(i) *Apex Co-operative Banks*

40. By and large, the apex banks, in their structural composition as well as their day-to-day operations, may be said to conform to the agreed principles, except perhaps for those of Assam, Bihar and Uttar Pradesh. The Assam Apex Co-operative Bank continues to operate through its branches, doing lending and deposit business with individuals in the area of operation of the central banks with a detrimental effect on the latter. Tea gardens, individuals and non-agricultural credit societies account for so large a part of its total lending that agricultural credit has suffered relative neglect. It has large individual membership and only two representatives of central co-operative banks on its board of directors. In Bihar too, the apex co-operative bank is somewhat handicapped in offering leadership to the movement. The general dearth of non-official leadership, the apathy of the State Government in helping it to emerge and the high degree of official domination which can stifle initiative are all evident in the working of the apex and central banks. In the apex bank, for example, the Managing Director who also functions as financial adviser to Government is appointed and paid for by the Government. At the central bank level, the Collectors and Sub-divisional Officers are usually the chairmen and the departmental officers are the managers, though the Government is now reported to be in favour of having non-official chairmen and of placing the official managers under the control of the board of management of the banks. The Uttar Pradesh State Co-operative Bank has a large membership of primary societies and undertakes the direct financing of such societies through its branches, four of which operate as central financing agencies even at centres where there are central co-operative banks. On its board of management, again, the representation of the central co-operative banks is relatively inadequate and the Registrar of Co-operative Societies is its ex-officio Chairman. However, it has been customary recently, for the non-official Vice-Chairman to preside over

the meetings of its board of directors and there is likely to be an elected Chairman after the new Co-operative Societies Bill is passed. Another departure from the accepted pattern relates to the bank's financing of individuals under various housing schemes, for which its own resources to the extent of Rs. 44 lakhs were used in addition to the funds provided by Government.

(ii) *Central Co-operative Banks*

41. At the central co-operative bank level, the basic need, as indicated earlier, was for rationalisation so that, generally speaking, there was only one bank per district and for promotion of real co-operative leadership at the district level. Considerable headway has been made in these respects in most States, but the position in certain States continues to be somewhat unsatisfactory. In Assam, two banks have yet to be merged with two other banks. In Bihar, the number of central banks which was 47 has been brought down to 35, but it is still further to be reduced to 28 as envisaged under the agreed programme of amalgamation. Further, some of the amalgamated units are, in fact, said to be functioning as separate wings of the new bank without effective control from the head office. In West Bengal, there are 25 central banks serving 15 districts which are to be reduced to 19 banks under the agreed programme. In Uttar Pradesh, though the number of central banks has come down from 65 in 1951-52 to 57 in 1961-62 serving 50 districts, four districts are still served by the apex bank direct, and six of the central banks still remain to be merged with other banks under the accepted programme of amalgamation. Besides, several of the banks have official Chairmen at present but, here again, the position is expected to change after the new co-operative legislation is passed. In Madhya Pradesh also, the position at the central bank level is rather weak. The seven banks of the erstwhile Vindhya Pradesh region are relatively new. The programme of rationalisation is yet to be completed in the State with the present number of 54 banks to be brought down to 51, but even then there will be seven districts with more than one bank each. Punjab is yet another State in which rationalisation is not yet complete. Though the number of central banks has been

brought down to 31, following earlier efforts, this number is to be further reduced to 27 under the agreed scheme. Several banks have also a fairly large proportion of individual membership. The central co-operative banks of Gujarat, though generally satisfactory in performance, present certain features which call for rectification. Thus, 21 central banks now serve 16 districts with 3 districts having more than one bank each; the question of amalgamation of the latter is to be further examined by Government. Financing of individuals is also significant in the central financing agencies of Panchmahals, Surat and Limbdi.

42. A major structural requirement for the satisfactory working of the central co-operative banks is that they should have their own staff to supervise the working of the primary societies affiliated to them. This condition is not fulfilled in the States of Punjab, Uttar Pradesh and Jammu and Kashmir where such staff is virtually under the control of the State Government, though in Uttar Pradesh they are nominally in the employ of the Uttar Pradesh State Co-operative Union. In all these States, the transfer of such control to co-operative banks is said to be under consideration. In Rajasthan, the responsibility for supervision had been entrusted to the Panchayat Samitis after the institution of democratic decentralization and this led to a weakening of control over the supervisory staff, relative neglect of the work of supervision and increase in overdues. A decision has, therefore, been taken recently to transfer the supervisory staff gradually to the central banks. In most other States, supervision is vested in the central banks, though in States like Gujarat and Maharashtra, supervisory staff employed by Government functions alongside that of the co-operative banks.

43. By and large, therefore, the main lines of future action in the matter of structural reform at the central bank level pertain to the speedy completion of the agreed programmes of rationalisation as also the further steps necessary for ensuring that normally there is only one unit per district, the elimination of individual financing and the transfer of the responsibility for supervision to the central banks wherever this does not obtain at present.

(iii) Primary societies

44. As indicated earlier, the position at the primary level is none too satisfactory, as progress has been handicapped by a lack of definite policy and a clear action programme to achieve the objects of such policy. One of the factors relevant from the point of view of potential viability is the population in the area covered by the primary agricultural credit society on an average. This average is so low in several States that there is little prospect of these societies achieving viability even if there is some increase in the scale of financing, unless these societies are considerably reorganised. Even in other States many societies would need organised efforts to make progress towards viability. Thus, for example, the average population per society is only 780 in Tripura, about 852 in Punjab, 900 in Delhi, 911 in Assam, 1013 in West Bengal and 1086 in Bihar. It is to be hoped that, with the recent acceptance of the criteria of viability and of the urgent need to attain it, prompt action will be taken in all States in this direction. Viability apart, certain weaknesses arising from overlapping of operations and dual financing are noticed in certain States; thus, the cane unions in Uttar Pradesh and Bihar and rural banks in Madras operate alongside the primary agricultural credit societies in the respective States, having a common function and overlapping areas of operation. In Kerala, the position at the primary level is confused, with overlapping jurisdiction and dual financing because of the practice of allowing the same individual to be a member of two societies. In Orissa, various types of primary units are found to operate in the same area. Another feature which may be referred to, in this connection, relates to the increasing proportion of dormant societies which amounts to a reduction in the number of effective units at the primary level. Such societies constituted around one-half of the total in West Bengal, Rajasthan, Orissa, Manipur and Tripura, 40 per cent in Himachal Pradesh, 38 per cent in Assam, 29 per cent in Bihar and in Jammu and Kashmir and about 20 per cent in Mysore and Kerala, at the end of 1961-62. The action required at the primary level may be set out as that of promoting viable units and, for this purpose, to carry out a programme

of reorganisation, rectification and revitalisation of existing, dormant and weak societies.

Resources

45. Another important aspect of the agreed policies relates to steps for augmenting the internal resources of the co-operative credit structure. In this respect, the achievement in several States, including some in which co-operative credit is fairly well developed, has been relatively unsatisfactory. From the point of view of agricultural credit, the deposits at the central bank level have the greatest significance as those at the primary level are in any case negligible except in the Punjab, and, deposits at the apex bank level mainly go to meet the credit needs of those co-operative activities, for which no refinancing facilities are available. As the level of own resources (i.e. sum of owned funds and deposits) commanded by the structure has a crucial bearing on the overall quantum of lending which it might undertake, a state-wise comparison of the quantum of such resources at the central co-operative bank level in relation to the membership of the affiliated primary agricultural credit societies, has been attempted in the following table:

TABLE X

State	Own resources of central banks per member of agri- cultural credit societies as on 30th June 1962
	(In Rupees)
Gujarat	343
Maharashtra	236
Madhya Pradesh	138
Mysore	117
Punjab	98
Andhra Pradesh	82
Rajasthan	62
West Bengal	62
Madras	57
Uttar Pradesh	55
Kerala	47
Orissa	45
Bihar	26
Jammu & Kashmir	22
Assam	17

From the above table, performance in the matter of raising resources in relation to their responsibilities as measured by membership covered is seen to have been impressive only in the States of Gujarat and Maharashtra. Even in co-operatively advanced States like Madras and Punjab, progress in the mobilisation of resources does not seem to have matched that in expanding membership. These facts broadly serve to emphasize the need for more active efforts towards building up resources than seem to have been made in the past.

46. Though the linking of share holding to borrowing has been accepted in principle and implemented generally, there are still several instances in which such linking has not been enforced and, therefore, the non-Government share capital has remained short of the potential accretion at the existing levels of lending. Government contribution has been received by almost all the central banks except those which are likely to be merged with other institutions and also by a few banks whose financial position is so unsatisfactory as to call for rectification before they can be State-partnered.

47. The main shortfall, however, is in deposits resources. Both from the point of view of the convenience of the societies served and the mobilisation of deposits, it is important to expand the number of branches of central co-operative banks. Here again, the progress made is negligible in many States. In some States including the Punjab, Kerala, Andhra Pradesh and Madhya Pradesh, several banks had no branches at all whereas some had just a few branches. Besides, in some cases, the branches were no more than the offices of the erstwhile independent banks which had since been amalgamated. The following table shows the number of offices per central bank, as on 30 June 62 and the number of societies per office of the central bank, and points to the urgent need for the central banks in some of the States to undertake a large programme of branch expansion reaching down to at least the tehsil headquarters level.

TABLE XI

State	No. of offices per central bank	No. of societies per office of central bank
Andhra Pradesh	3	218
Gujarat	9	35
Jammu & Kashmir	6	51
Kerala	1	240
Madhya Pradesh	4	101
Madras	2	397
Maharashtra	17	43
Mysore	9	57
Punjab	4	143
Uttar Pradesh	2	484
Bihar	1	375
West Bengal	2	275
Assam	2	272
Orissa	2	226
Rajasthan	3	148

48. Though no precise measure can be given in regard to the banking services offered to the depositing public by co-operative banks, it is known that in several States, little progress has been achieved in this regard. It is particularly true of some of the banks in Assam, Bihar, West Bengal, Punjab, Andhra Pradesh, Uttar Pradesh, Madhya Pradesh and Jammu and Kashmir that they have so far given little attention to developing themselves as real banking institutions. Another handicap of the banks in some States was that they failed generally to inspire public confidence, particularly in cases such as West Bengal where the effect of partition had led them to suspend payments some years ago. The operation of the branches of the Assam Apex Co-operative Bank was a factor of disadvantage for the central co-operative banks in that State. In Orissa, the generally low degree of urbanisation and monetisation seemed to have restricted the scope for deposits. The banks should take active steps to offer various facilities for saving, investment, safe custody, remittances, prompt service and attention, and to maintain their offices and service in such a condition as to attract the depositing public and inspire confidence in them. From the point of view of enabling the co-operative banks to provide remittance facilities, we would commend, for adoption elsewhere, the Mutual Arrangement Scheme which is being operated by the co-operative banks in Maharashtra and Gujarat.

49. Even in the matter of securing the patronage of quasi-Government institutions like local bodies for the co-operative banks, progress has been impressive only in a few States such as Maharashtra where co-operative banks have been appointed bankers to Zilla Parishads, and hold deposits of several quasi-Government institutions as well. In Gujarat, the 'A' & 'B' class central cooperative banks in the area covered by the erstwhile Bombay State are recognised for the purpose of deposits by local bodies but not similar banks in the Saurashtra region. In Andhra Pradesh, the State Government is stated to be endeavouring to persuade local authorities and certain institutions to keep their funds in the co-operative banks. In Jammu and Kashmir, the funds of panchayats are said to be kept in part with the co-operative banks while in Kerala these banks are recognised for the purpose of security deposits of contractors. In Mysore and Uttar Pradesh, the State Government is itself hesitant in placing its confidence in the ability of the co-operative banks to repay the deposits on demand. Thus, in Mysore, while permitting the municipalities to invest their surplus funds with co-operative banks, the State Government has stipulated that the banks concerned should deposit sufficient security with the Controller of the State Accounts Department. In Uttar Pradesh, even the cane unions which are co-operative institutions, prefer to deposit their sizable surpluses with the commercial banks. In Orissa and Rajasthan, only some deposits of panchayats are kept with co-operative banks. On the whole, there has been no determined effort on the part of most State Governments to make co-operative banks eligible for the deposit of funds of quasi-Government institutions, much less positively to secure for them steady patronage in this manner.

50. In view of the increasing responsibilities of the co-operatives in the matter of financing as also the need for such resources for cushioning the effect of growing overdues, the State Governments should take steps to get an increasing share of the surplus funds of all quasi-Government institutions such as municipalities, Zilla Parishads, trusts, educational institutions, electricity boards etc., deposited in the co-operative banks. The directors of co-operative banks, for their part,

should also use their good offices to obtain the deposits of trusts, local bodies, etc.

Loan Policies

51. Progress in implementing the crop loan system of production-oriented credit and liberalising the restrictive features of current practice has been halting in most of the States, except Maharashtra and Gujarat and, to a limited extent, in Madhya Pradesh. Even in co-operatively advanced States such as Madras and Punjab, eligibility for credit is largely determined directly or indirectly by the value of assets owned. In Madras, though in certain areas crop-wise scales of finance have been fixed, the size of the loan still seems largely to depend on the value of assets owned and mortgaged, the upper limit for loans on personal security having been fixed at only Rs. 250-500 until recently and now at Rs. 1,000. The individual maximum borrowing power of a member was fixed at Rs. 3,000 if adequate mortgage of land was available, but the limit could be exceeded if jewels or produce were offered as security. In Punjab, the credit limit is determined as a multiple of land revenue upto 30 times plus $\frac{1}{4}$ of miscellaneous income in the case of owner cultivators, and 15 times the land revenue plus $\frac{1}{4}$ of miscellaneous income in the case of tenant cultivators. Experiments are, however, now in progress over limited areas to liberalise the existing practice. Ordinarily, short-term loans are issued against two personal sureties. But if the loans exceed Rs. 1,000, mortgage security is insisted upon and the loans have to be approved by the officers of the Cooperative Department. In Andhra Pradesh, the loan is often based on ownership of assets or land revenue, though the latter is being gradually given up. Mortgage is insisted upon for all loans in excess of Rs. 500, whether short-term or medium-term. Landless tenants in many cases were being refused loans till recently but now it has been decided that they might be financed if certified as cultivators by a proper Government authority. In Uttar Pradesh, the credit limit for a member is usually fixed within the ceiling set by a sum equal to 40, 20 and 10 times the land revenue in respect of Bhumidari, Sardari and Asami land respectively plus $\frac{1}{3}$

of the market value of other assets plus 1/10 of other non-agricultural income minus outside liabilities or Rs. 2,000 whichever is less. An attempt is being, however, made to base lending on scales of finance proposed by the staff of the Departments of Agriculture and Co-operation, limits being worked out for each member separately in cash and in kind. Mortgage of land is insisted upon for all short-term loans exceeding Rs. 2,000 and medium-term loans of over Rs. 500. Madhya Pradesh is another State where beginnings of the crop loan system are being witnessed. Though the quantum of credit is sought to be based on scales of finance fixed by the Registrar of Co-operative Societies, the loans continued to be fixed in practice, on an *ad hoc* basis subject to a certain rough maximum limit per acre. There is usually an absolute limit of Rs. 1,500 on loans to individuals and, in many cases, there is an insistence on mortgage of land as security. In Jammu and Kashmir the loan is fixed largely on an *ad hoc* basis and governed by the recommendations made by the Departmental officers. In Mysore, in certain parts of the State attempts were being made increasingly to orient credit to production on the basis of scales of finance fixed by the apex bank in consultation with the central co-operative banks. The maximum loan is fixed in several cases at Rs. 2,000; while in some societies there is an insistence on mortgage of land in all cases, in others it is required for loans in excess of Rs. 500 as also for all medium-term loans. In 9 out of 19 central banks, attempts were being made to disburse a proportion of the loan varying from 10 to 40 per cent in kind. The position is similar in Kerala except for the area of the Ernakulam Central Co-operative Bank. Mortgage of land is required for loans above Rs. 200 and in some cases even Rs. 100 as also for all medium-term loans. Further, the loans are subject to a ceiling of Rs. 2,000. As mentioned earlier, in Gujarat though the lending is generally related to the anticipated crop and acreage under cultivation and based on sureties and charge on land, there is, in some cases, still an insistence on mortgage even for short-term loans in excess of certain limits. In Maharashtra, a fairly satisfactory system of crop loan is in operation but, here again, certain difficulties have been faced in practical implementation.

52. In Assam, loans continued to be based on the value of land and are provided mostly against landed security, surety being accepted usually in the case of loans made from out of Government funds. In Bihar, again, the size of loans is usually determined on an *ad hoc* basis, though a beginning is being sought to be made with orienting credit to production plans. In Orissa too, the crop loan system is yet to be introduced. Loans are now based on the net income or $1/6$ of the value of net assets and the large part of the total credit provided is advanced against mortgage of land. In West Bengal also, the crop loan system has not yet been introduced though certain scales of finance have been fixed by the apex bank. The bulk of the lending, except for loans of less than Rs. 200 is based, here again, on the mortgage of land. In Rajasthan too, credit is assets-based, to some extent. The maximum limit for short-term loan in a society based on unlimited liability, was either $1/3$ of the net assets or $1/3$ of the average annual value of the crops, while in a limited liability society, it was eight times the subscribed capital or $1/3$ of the value of the anticipated crops, whichever was less. One distinguishing feature in Rajasthan, however, was that there was no insistence on mortgage and unlike in certain States such as those of the Eastern Region, there was provision for a statutory charge to be created on the land of the borrower. In three of these States, the loans are subject to a low ceiling, which was Rs. 500 in Assam, Rs. 500-1,500 in Rajasthan and Rs. 300-600 (usually) in Orissa.

53. By and large, the picture which emerges is one of inadequate implementation of the crop loan system in the country as a whole, with the size of the loan being restricted in many cases by absolute quantitative limits and being determined by such considerations as the value of assets owned which could result in over-financing in some cases or under-financing in others with reference to the actual need for production credit. It is encouraging to see that some beginnings in the direction of rationalising loan policies are being made in some States e.g. Madhya Pradesh, Mysore and Uttar Pradesh. In order to make the necessary impact on agricultural production in all these areas, it is necessary that there

should be a whole-hearted and early implementation of the crop loan system in all its aspects such as those related to security, adequacy and the arrangements for recovery of loan as also the elimination of those features of current practice which inhibit the flow of credit to certain sections of the population or hamper expansion, such as arbitrary ceilings on individual borrowings.

Repayment Performance

(i) *Rising overdues*

54. A major weakness of the co-operative credit situation which has emerged in recent years relates to the serious deterioration in repayment performance, as is reflected in the data given in the following table. This stands in contrast to improved recoveries envisaged under the integrated scheme:

TABLE XII

State	Percentage of overdues to outstandings in primary agricultural credit societies		
	1960-61	1961-62	1962-63
Andhra Pradesh	17.1	18.6	17.6
Assam	74.0	71.0	76.0 ✓
Bihar	45.0	41.0	42.0 ✓
Gujarat	22.2	24.9	25.0
Orissa	20.0	20.2	27.0 ✓
Jammu & Kashmir	20.9	25.4	36.9 ✓
Kerala	16.5	17.3	19.0
Madhya Pradesh	17.9	28.9	31.0 ✓
Madras	12.0	10.4	10.0
Maharashtra	20.1	29.4	34.0 ✓
Mysore	34.0	45.8	48.0 ✓
Punjab	25.7	23.0	26.0
Uttar Pradesh	9.2	12.3	14.0
Rajasthan	30.6	45.2	47.0 ✓
West Bengal	32.8	28.6	22.0
Delhi	19.6	22.5	13.8
Himachal Pradesh	40.1	46.6	40.5 ✓
Pondicherry	2.8	0.8	0.5
Manipur	6.0	98.4	80.8
Tripura	24.1	63.2	77.2 ✓
All India	20.3	24.5	26.0

It is observed that even in States such as Maharashtra where co-operative development is otherwise proceeding on satisfactory lines, the overdues were fairly large and growing. It should also be noted that, to some extent, these may not indicate the real overdues position. For example, in Madras, it is apprehended that though the position of overdues is generally satisfactory on the 30th June each year, they are fairly heavy at the end of the earlier months. There is also reason to believe that considerable window-dressing of the position takes place on the 30th June for the purpose of obtaining a better audit classification through resort to a multiplicity of credit lines, such as medium-term loans, produce loans and jewel loans. Similarly, in Uttar Pradesh, recoveries appear satisfactory but there are reasons to believe that the expedient of book adjustments is resorted to on a wide scale, including those made, in some cases, to show as if the recoveries have been effected through linkage with co-operative marketing. Overdues are particularly heavy in Assam, Bihar, Rajasthan and Mysore.

(ii) *Stabilization Arrangements*

55. These overdues have resulted in part from natural calamities, though the exact extent of such overdues cannot be ascertained in the absence of detailed data. The State-wise review, however, shows that this is an important factor accounting for overdues in parts of Andhra Pradesh, Gujarat, Mysore, Maharashtra, Rajasthan, Assam, West Bengal and Bihar, some of these States being particularly susceptible to natural calamities. Thus, in Rajasthan, the Western districts lie in a dry tract, where the rainfall is scanty, the area affected by drought constituting 28 per cent of the total area of the State. Assam is constantly affected by floods caused by the Brahmaputra resulting, as indicated earlier, in extensive damage to crops. Parts of Bihar are also susceptible to floods and draught. Eight districts of West Bengal are traditionally affected by floods, representing about 59 per cent of the total sown area. As against such known and widespread incidence of natural calamities and the consequent dislocation of the credit structure, the stabilisation arrangements, which

had been envisaged under the agreed policies, have not been brought into being in almost all States. It was contemplated that the stabilisation funds would be built up by crediting to such funds half of the dividend earned by the State Government on their shareholding in co-operative credit institutions in excess of a prescribed limit, the other half being credited to the Relief and Guarantee Funds. The objective was to use the stabilisation funds for conversion of short-term overdues into medium-term loans in deserving cases and the Relief and Guarantee Fund for writing-off such arrears in cases where that was considered necessary and appropriate. Resources which have been accumulated so far in these funds are negligible. In several institutions, in fact, even a beginning has not been made, while in others, the funds exist only in name. The number of central banks which had not even set up such funds was 28 in Uttar Pradesh, 13 in Mysore, 8 in Madhya Pradesh, 7 in Punjab, 6 each in Maharashtra and Kerala, 11 in Orissa, 7 in Assam, 24 in West Bengal and 24 in Rajasthan. Some State Governments have not agreed to forego a part of the dividend on their share holding (viz. Mysore, Punjab and Gujarat) for being credited to these funds. In all the States except Andhra Pradesh, the Relief and Guarantee Fund has been set up but the quantum of money so far accumulated is meagre. Inadequacy of the existing stabilisation funds and the need for strengthening them have come to be increasingly appreciated in the context of the impact of natural calamities on the credit situation which is now being witnessed in several States.

56. In the light of recent discussions in the Standing Advisory Committee on Agricultural Credit of the Reserve Bank as also in the Planning Commission, certain proposals are being formulated with a view to placing the arrangements for stabilisation on a satisfactory footing. The State Governments, assisted, where necessary, by the Central Government are now called upon to make an immediate outright contribution to strengthen the stabilisation funds at the apex bank level, the amount of such contribution being determined as a proportion varying between 5 and 10 per cent of the outstanding agricultural loans of the central banks in the State. One-half

of such contribution is to be in the form of a grant and the other half, a loan repayable in 10 convenient instalments, repayments starting after 10 years. Simultaneously the stabilisation funds of co-operative banks are also to be built up by their contributing 25 per cent of their net profits each year and also with State Government foregoing the entire excess of the dividend on Government share capital over a minimum of 3 per cent. Finally, it is also proposed that the State Governments should build up the Relief and Guarantee Funds by the end of the Third Plan period to the extent of at least one per cent of the estimated outstanding loans of agricultural credit societies in the respective States. These steps, if taken without delay, may be expected to take care of overdues in so far as they arise from natural calamities.

(iii) *Other factors accounting for overdues*

57. The other main causes for overdues are the inadequacy of the arrangements for supervision on the one hand, and the common failure to link credit and marketing on the other. The latter is discussed by us in the next part of this report; as regards supervision arrangements, we have already indicated that the responsibility for supervision has not yet been transferred to the co-operative banks in the States of Punjab, Uttar Pradesh and Rajasthan. Even where the work is in the hands of the central bank, the staff is often inadequate or saddled with other work such as audit. A heavy charge per supervisor is noticed in some banks of the Vidarbha and Marathwada areas of Maharashtra, West Bengal, Orissa and Assam, most of the central banks of Mysore and Jammu and Kashmir and parts of Madhya Pradesh. In certain areas, the deficiency is not so much in terms of the number as quality.

58. Above all, poor recoveries seem to have resulted from an inadequate appreciation on the part of the co-operative personnel and leadership, of the importance of prompt repayment of loans, and the growing unwillingness among them to undertake a determined drive for the purpose. In other words,

in most cases, the overdues may be said to have arisen from the falling off in the standards of good co-operative conduct. The reluctance and hesitation of the borrowers to repay loans in time, caused, in part, by irrational loan policies of the co-operatives, are aggravated by the lack of vigilance on the part of the persons entrusted with the management of the co-operatives. The members of the panchayats of the primaries and the boards of directors of the banks seem to be coming under the influence of thinking which considers energetic action for timely recovery as something undesirable, being likely to be unpopular. In many cases, blanket extensions of period of repayment are found to have been granted without a careful scrutiny of the merits of each case. In the absence of linking of credit with co-operative marketing, vigilance on the part of managing committees of primaries and the supervisors and the directors of the central banks, is the only real guarantee for the orderly functioning of the co-operative credit machinery, and the recent impairment of this sense of vigilance dims the prospects of expansion of co-operative credit. The immediate need is, therefore, for a well co-ordinated and energetic drive for recoveries, in each central bank, around harvest time, with the supervisory staff and the non-official leadership being mobilized for the purpose. It is also necessary to make prompt repayment of co-operative loans a responsibility of the village community, through appropriate education and propaganda, enlisting in this task, where possible, the community development organisation.

(iv) *Long-standing overdues*

59. To appreciate the position of overdues in certain States, it is important to recognise that a large part is inherited from the earlier years, as may be seen from the following table :

TABLE XIII

*Overdues of Agricultural Credit Societies at the end of 1961-62
classified according to period*

State	Percentage of overdues to total overdues	
	2 years & under	Over 2 years
Andhra Pradesh	87.51	12.49
Assam	88.57	11.43
Bihar	64.62	35.38
Gujarat	76.06	23.94
Jammu & Kashmir	83.62	16.38
Kerala	79.76	20.24
Madhya Pradesh	81.92	18.08
Madras	86.58	13.42
Maharashtra	82.57	17.43
Mysore	72.92	27.08
Orissa	68.98	31.02
Punjab	84.57	15.43
Rajasthan	83.79	16.21
Uttar Pradesh	92.50	7.50
West Bengal	58.97	41.03

It will be seen that, compared to the position in other States, the proportion of overdues for more than 2 years to the total overdues was high in Bihar, Orissa and West Bengal at 35 per cent, 31 per cent and 41 per cent respectively. This calls for certain special action which will help to get into motion the credit structure which has almost come to a standstill because of the backlog of these earlier overdues. It is also relevant to note here how stagnation and dormancy at the primary level are perpetuated as a result of certain restrictive practices in regard to the financing of societies which have defaulted. Thus, in Uttar Pradesh, no society is provided with fresh finance unless it has repaid at least 85 per cent of the demand. The corresponding proportion in Mysore was 90 per cent till recently but in view of its very severe effect on the working of the credit structure, this has now been brought down to 65 per cent. The proportion is 90 per cent in West Bengal and Orissa, 80 per cent in Bihar, 75 per cent in Madras, 66²/₃ per cent in Punjab and 60 to 75 per cent in Rajasthan. It should be realised that unduly restrictive practices tend to multiply the impact of non-repayment by a small proportion

of members, and even those members who can, do not repay their dues when they find that their society is not likely to get fresh finance and provide them with fresh loans. It is, therefore, necessary that the practice in this regard should be liberalised so as to rule out the possibility of similar experience in the future. In this context, it is relevant to refer to the suggestions made in the Action Programme for co-operative credit circulated by the Government of India, to the effect that overdues should not exceed a level of 25 to 50 per cent, as a condition for fresh financing, the exact figure being determined with reference to the conditions obtaining in a State.

Long-term credit

60. In so far as long-term credit is concerned, the framework of agreed policies aims, firstly, at having a structure consisting of a central land mortgage bank in each State and primaries through which it should operate, secondly, at promoting its purposeful functioning e.g. with an emphasis on productive purposes in lending and coordination with agricultural development programmes, thirdly, at enabling the structure to raise larger resources—through the floatation of rural debentures, special development debentures supported by Government guarantees—improving the marketability of ordinary debentures, and fourthly, at ensuring the financial soundness of its operations e.g. through the provision of special staff, Government guarantee for changes in the value of hypotheca etc.

61. Central land mortgage banks have now been organised in all the States and in the Union Territories of Pondicherry, Himachal Pradesh and Tripura. In some States such as Madras, Andhra Pradesh and Maharashtra, they operate largely through primary land mortgage banks. In other States such as Jammu and Kashmir, Uttar Pradesh, Gujarat, Punjab and West Bengal, primaries are yet to be organised on any significant scale and, in the meanwhile, the central land mortgage banks carry on their business through their branches or through the agency of central co-operative banks.

62. As indicated earlier, lending for productive purposes is receiving increasing emphasis in almost every State but still redemption of prior debts continues to account for a significant part of the credit in some States. The proportion of loans advanced for productive purposes was high at over 90 per cent in Gujarat, Maharashtra and Orissa. The proportion of loans for redemption of prior debts and purposes other than land improvement and purchase of machinery was 94 per cent in Kerala, 75 per cent in Mysore, 72 per cent in Madras and 66 per cent in Punjab.

63. In the matter of finding funds for central land mortgage banks, an important development is the establishment of the Agricultural Refinance Corporation in July 1963 to make refinance facilities available, in the form of purchase of special development debentures floated for the financing of special schemes for agricultural development. As regards ordinary debentures, apart from continuing support from the Reserve Bank of India and the State Bank of India, assistance is also now forthcoming from the Life Insurance Corporation of India, and to this extent, the difficulty experienced in the floatation of debentures is reduced. A scheme of rural debentures on the lines suggested by the Rural Credit Survey Committee, has been evolved and such debentures of the value of Rs. 7.7 crores were floated till the end of 1962-63.

64. The State Governments have been assisting the land mortgage banks, in varying degrees, by subsidising their management costs and providing free services of land valuation officers, apart from contributing share capital and guaranteeing debentures and interim accommodation obtained from the State Bank of India or the state co-operative banks. Arrangements for staff, however, are yet in need of substantial improvement in various States.

Role of State Governments

65. An important aspect of agreed policies relates to the crucial part which is expected to be played by the State Governments in the entire programme of institutional agri-

cultural credit. This support is not envisaged only in terms of financial assistance taking the form of State partnership, subsidies or loans or the free services of Government personnel, tax concessions etc. ; it is intended to be reflected in policies which would help the co-operative banks to gain a stature in the public eye and present an image of creditworthiness. It should also take the form of concrete administrative support based on the statutory powers vested in the Co-operative Department for ensuring that each of these institutions works smoothly without any recalcitrant or undisciplined minority of its membership being allowed to throw its working out of gear by deviating from the norms of right co-operative conduct. How far the State Governments have played the role expected of them in the different directions is hard to say. At the one end, there are States like Maharashtra where the Government has gone all out to give the co-operative banks their due importance e.g. by appointing them as bankers to Zilla Parishads, by entrusting to the land mortgage banks the implementation of some very important investment schemes under the Plan, by actively supporting programmes such as that of co-operative sugar factories and so on. At the other extreme, as our review has shown, there are States which have not shown any positive interest in the development of co-operative credit. Sometimes, this is reflected in inadequate servicing of the co-operatives in terms of audit and administration arising from the inadequacy of staff or their poor quality or both. In other cases, the Governments have failed to help the co-operative banks in the matter of patronage in the form of quasi-Government deposits or in the matter of their employing their own supervisory staff. In still other cases, where action had to be taken for coercive processes to be initiated against defaulters or for dormant societies to be revitalised or societies beyond redemption to be liquidated without delay, departmental action has been slow and halting. The failure of the Government has also been witnessed in their reluctance to use their apparatus of influence and organisation to bring about changes in structure (amalgamation of central banks) or in operational policies (introduction of production-oriented loan policies) with the result that the situation has remained virtually stagnant. Legislative provi-

sion for a statutory charge on land, expeditious coercive processes and right of appeal against refusal of membership has not yet been made in certain States. In view of the constitutional responsibility of the State Governments for Co-operation and Agriculture, and in view of the need for an agency close enough to the field to be active in this sphere for results to be produced, it is important that the State Governments in their Departments of Co-operation, and indeed in their entire machinery of administration especially the Agriculture and Revenue Departments, should take an active interest in the functioning of co-operative credit. This is another aspect in which performance has been uneven and this, in turn, has affected the progress in co-operative agricultural credit.

PART V

APPRAISAL AND FUTURE POLICY FOR CO-OPERATIVE CREDIT

66. The overall picture which emerges from the foregoing review of the role played by co-operatives in the provision of credit for agriculture and the action taken for the implementation of agreed policies in this sphere is a mixed one, impressive in the States of Maharashtra, Gujarat and Madras and poor in the States of West Bengal, Assam, Bihar, Rajasthan and Orissa. The other States which may be said to occupy an intermediate position have shown results which are not unsatisfactory but leave much scope for improvement.

67. The review also throws up the related fact that the States which have witnessed the maximum achievement are, in fact, those in which the accepted frame-work of policies had received energetic and whole-hearted implementation. As has been seen, the position no doubt varies from State to State in individual aspects, but, outside the States of West Bengal, Assam, Bihar, Orissa and Rajasthan, there has been much better progress both in terms of acceptance of policies and also their implementation. The gap between what is accepted as policy for the country as a whole and the specific decisions taken at the State level as well as the divergence between what is laid down as policy at the State level and what actually happens in the field has been the widest in the States of the Eastern Region and Rajasthan. In Bihar, for instance, it was not till very recently that some of the policies accepted all over the country received even a formal endorsement from the co-operators and the authorities of the State. Even after allowance is made for the impact of the natural and other factors relating to the total environment in these States within which institutional credit has to function, the progress made

by co-operative institutions in these areas in providing agricultural credit seems to fall far short of needs and possibilities. The review also suggests that it is as a result of relative neglect in some respects and almost complete non-implementation in others that the co-operative credit situation in some of its unsatisfactory aspects has got frozen in these areas.

68. Past experience, in our opinion, has been sufficient to show that, if the accepted policies are fully translated into practice, the performance of co-operatives can sufficiently improve in terms of expanding coverage as well as increasing credit and that agricultural production programmes can count on effective credit support from the co-operatives. A basic assumption underlying these policies is that an institutional co-operative structure of the accepted pattern will help to enlist local judgement in the dispensation of credit, local resources for meeting credit needs and local leadership and responsibility for supervising the use of credit and ensuring its prompt recovery. It can be claimed, with a reasonable degree of confidence, that the last few years have witnessed the fulfilment of these expectations in some parts of the country, thanks to measures taken to translate those policies into action. This experience of benefits derived from, and the purposes served by, the federal co-operative credit structure functioning, among others, on the basis of the principles of State partnership and support and production-oriented credit policies, encourages us to believe that these are the right policies to be pursued, if satisfactory results are to be produced in the future.

69. It is relevant, in this context, to refer to some doubts which have recently been expressed as to the need for the three-tiered co-operative credit structure which has been accepted so far as necessary and justified. The question has been raised whether it would not be possible to eliminate one or the other of the intermediaries between the cultivator at one end and the Reserve Bank at the other. It is presumed that the proposal is only to eliminate the central co-operative banks or the state co-operative banks and not the primary agricultural credit societies at the village level.

70. As for the central co-operative banks, these are federal organisations of primary co-operative societies and function as bankers and advisory and supervisory agencies at the district level. Many of these banks have operated as important means of raising sizable resources from the urban depositors. The assessment of the creditworthiness and needs of the societies, the determination of the terms and conditions governing the loans provided to them and other technical aspects of agricultural credit are all such as to call for a close relationship between the lender and the rural borrower. This kind of personal contact, experience and local knowledge can be best found only in a body like the board of directors of the central co-operative banks, who are able to appreciate better than any paid staff, the real problems arising from local conditions. Experience in more than one State has shown that, from the point of view of fulfilling these various functions and providing leadership to the movement at the district level, the branches of an apex co-operative bank can only be poor substitutes for the district central cooperative banks and, in most cases, the former have been replaced by the latter.

71. As for the apex co-operative bank, this is an important link between the co-operative movement on the one hand and the money market and the Reserve Bank on the other. It is also, like the central co-operative bank, a federal organisation operating as a balancing centre for its members. Its federal character ensures that the needs of the constituent banks are fairly met and that, at the same time, its financial soundness is not in jeopardy. The state co-operative bank supplements the resources of the central banks by sizable deposits which it is able to attract by virtue of its location as well as superior financial position, and by accommodation drawn from the Reserve Bank. Co-operation being a State subject, the state co-operative bank also serves as a natural and effective link between the non-official wing of the movement, on the one hand, and the State Government, on the other. Further, the stronger apex co-operative banks are able to guide the central banks in their working by undertaking periodical inspections. The fact that the apex and central banks are separate financial entities, while being closely inter-related,

is a factor of protection to any outside agency which finances the co-operative credit system in that there is a cushion against bad debts and possible losses arising from the uncertainties relating to agricultural credit, the cushion being that of reserves, resources and the supervisory machinery at the two levels.

72. The cost of retailing credit in the conditions of the large number of villages over which small producers are spread is inescapable and must be covered by the margin included in the rate charged on lending though every effort has to be made to keep it to the minimum. In fact, local organisations built up into a federal structure provide the most economical way of keeping down the servicing cost of small loans. It is by improved operational efficiency, on the one hand, and increasing turnover, on the other, that these costs and margins may be expected to be brought down to reasonable levels, over the years, even where they may be considered to be excessive to-day. As the dispensation of agricultural credit is a fairly complicated and risk-laden business, provision has to be made for cushions and reserves at different levels to meet possible conditions of default as also for spreading supervision and decision-making over different levels. In this connection, it may also be mentioned that the three-tier pattern of the co-operative credit structure has been adopted and worked successfully in a country like Japan where also agriculture is characterised by small holdings.

73. We, therefore, consider that for proper dispensation of agricultural credit in the conditions of the Indian rural economy, there is no alternative to the co-operative agency and that, for the successful working of the co-operative agency, it should take the form of a three-tier federal organisation.

Linking of credit with marketing

74. Though the integrated scheme of rural credit seems to have been found satisfactory as a whole, one feature of concern which has been thrown up prominently from the experience of the last decade—more particularly the last two or three years—relates to the deteriorating repayment

performance which is noticed even in States which show a good record in other respects. This, no doubt, has resulted from a variety of causes ranging from natural calamity at one end, to certain factors in the situation which go beyond the limits of the co-operative credit structure and extend to the general climate in which they function, resulting in some cases from such developments as elections, etc. As poor recoveries have proved to be a major inhibiting factor in the way of expansion of co-operative credit, it is necessary to consider how best the situation in this regard can be effectively corrected.

75. It has always been clear that one cannot trust it merely to the vigilance of the management and leadership of the co-operatives and the sense of duty of their membership to ensure that loans are repaid by due dates. There is, therefore, a need to make institutional arrangements which will provide that element of external compulsion which can ensure right co-operative conduct on the part of the borrowing cultivator. It is from the marketing end that this crucial aid to the credit structure can come. It was in recognition of this that the linking of co-operative credit with marketing was made an accepted aim of policy. The borrowing cultivator was to be required to sell his produce through a co-operative marketing society which would recover from the sale proceeds the loan due to the credit society. This aim has, by and large, remained unfulfilled except in a few areas and in regard to certain commodities. Thus, during 1962-63, co-operative loans of only Rs. 10.29 crores were recovered through co-operative marketing and processing units, as against the total advances of Rs. 257.37 crores by primary agricultural credit societies. Invariably, however, wherever co-operative marketing has been successful as in sugarcane tracts of Maharashtra or cotton sale societies of Gujarat, linking between credit and marketing has been easy and assured.

76. A major handicap in the way of development of co-operative marketing, however, has been the uncertainty in regard to the trends in agricultural prices. Though the

marketing societies have been assisted in various directions *e.g.* with Government contribution to share capital, facilities for godowns, trained and subsidised staff for management and so on, they have not been able to provide the marketing service with confidence and to command the loyalty of the cultivator, in view of the uncertainties to which prices of various agricultural commodities have been subject. Hence, it may be recalled, even the Rural Credit Survey Committee had emphasized the relevance of an appropriate policy in the direction of stabilisation of agricultural prices as an essential condition for a successful programme of co-operative agricultural credit and marketing.

77. We see, in the recent developments in the official thinking on food policy, a good opportunity and the right atmosphere for dovetailing what is required by a good credit system from the marketing side into the action proposed to be taken by the State, firstly, for providing reasonably stable incentive prices to the producers and, secondly, for procuring foodgrains on the scale required by the consuming public. Purchase prices have been announced for the coming season for paddy and wheat and it is expected that suitable action will be taken by the Central and State Governments in this regard. Further, the Food Corporation of India which is to be established is expected to buy paddy and wheat at these prices at various points in the country with a view to building up sizable stocks and enabling the Government to meet the requirements of the emerging food situation. It is against this background that, we feel, a big effort can be made for enabling co-operative credit to succeed.

78. We strongly recommend that the Food Corporation of India and its units at the State level should operate through the co-operative marketing structure to the maximum extent possible. It is observed that the Food Corporations Bill provides for the establishment of agencies by the Central and State Corporations. We suggest that they should make use of the co-operative marketing societies as their agents wherever such societies exist and are able to take up this func-

tion. It is only elsewhere that the Corporations may have to look to some other agency for carrying out operations on their behalf. Even in such cases, there should be a switch-over to the co-operative agency as soon as a marketing society is established and is in a position to undertake such activities. It is obvious that this can be a powerful measure of support to the development of co-operative marketing and processing and, as linked to it, to the progress of co-operative credit. This apart, even from the point of view of the Government's long-term policies in regard to foodgrains, it is necessary to build up a network of agencies through which to carry out the operations required to be undertaken in pursuance of such policies. It is desirable that this agency should be an organisation like the co-operative which has an underlying social purpose and can be expected to function in close conformity with the aims of public policy rather than units of private trade whose responsiveness to such policies cannot be taken for granted. Moreover, even while operating as agents for Government or the Corporation, private traders, unlike the co-operatives, may continue to deal in foodgrains, in addition, on their own account. It is possible that this will lead to considerable confusion in the arrangements proposed and defeat the major objectives of policy. We, therefore, consider the utilisation of the co-operatives as the main agency for the operations of the Corporations, appropriate both from the point of view of the support which it implies for co-operative marketing and its usefulness with reference to the institutional requirements of a long-term food policy. In this context, it is also relevant to emphasize that the aim of the Corporations should generally be to take advantage of, and support, the development of processing of agricultural produce on a co-operative basis rather than to organise processing under their own auspices, except where the possibility of such development on a co-operative basis has to be totally ruled out.

79. With the support provided by the appointment of the co-operatives as the agents of the Corporations and the support implied in the fixation and enforcement of floor and ceiling prices for the foodgrains, the co-operative marketing

structure can more confidently enter the market and undertake operations on a large scale to the advantage of the cultivator and without itself running financial risks. It is in such a context that the linking of co-operative credit with marketing should be relatively easy to ensure. With the marketing societies being able to assure the cultivators of a satisfactory return for the produce, it will be practicable on the part of the co-operative credit structure to lay down the condition for its loans that they should be repaid by definite delivery of produce at fixed points. (Some adjustments may, however, be necessary in the case of sub-marginal cultivators whose marketable surplus may be inadequate for the purpose). With a view to ensuring compliance with this condition, the co-operative credit structure will be justified in according differential treatment to the cultivators with reference to whether they have repaid their loans by the sale of produce to or through the co-operative or not ; such treatment may range from the provision of an additional quantum of credit to those who have fulfilled this obligation, to a total denial of fresh credit to those who have failed to do so, the latter course being adopted in areas where cooperative marketing is well developed. Such insistence on linking should help to ensure satisfactory repayment performance, on the basis of which the co-operative credit structure can undertake expansion on the scale required for increased agricultural production without running the risks of any serious impairment of its financial soundness.

80. As this will cover only the production of foodgrains and co-operative credit for that purpose, there is still the need for similar arrangements to ensure some degree of price stability for agricultural commodities other than foodgrains. At the minimum, the fluctuation in their prices will have to be brought within a predictable and narrow range. Whatever the specific steps which may be taken for this purpose, we would only emphasize that unless some arrangement is made for imparting a degree of relative stability and predictability to the prices for agricultural commodities other than foodgrains also, co-operative credit for the producers who raise these crops cannot be expected to show any significant progress.

Long-term Credit

81. Long-term credit, as it has evolved over the last decade, remains another aspect of co-operative performance which has made negligible impact in most parts of the country, whether judged with reference to the quantum of funds provided or their orientation towards developmental purposes. It is a step forward, however, that the main element of the institutional structure envisaged, *viz.*, the central land mortgage bank, has been brought into position in every State. The framework of agreed policies in this sphere was broadly adequate in so far as it emphasized the need for a minimum structure of institutions at the State and primary levels, the importance of financing productive purposes and the provision of many-sided assistance by Government. The fuller implementation of these policies in all States should, therefore, help ensure progress.

82. We consider it relevant to take note here of certain developments in recent years in the sphere of agricultural plans which have helped to bring out the potentialities of the co-operative land mortgage banks playing a purposeful role as purveyors of credit in this sphere. Firstly, there are to-day many major agricultural schemes of Government, *e.g.* irrigation, soil conservation, contour bunding, etc., which call forth or make possible, certain types of ancillary investment on the part of the individual cultivators coming within the command of these investments, *e.g.*, preparation of land for irrigation, minor irrigation works for taking advantage of improved water potential resulting from major irrigation or from contour bunding, etc. Secondly, there are also other Plan schemes of Government such as 'minor irrigation' which directly involve a demand for credit and, in fact, usually incorporate a loan component. It is in developments such as these that we find an opportunity for the co-operative long-term credit structure to make an important contribution, given the necessary support from the State Governments. Recent experience in Maharashtra has served to suggest the possibilities in this direction and indicate the policies and procedures which are necessary for translating this approach into practical

action. The Maharashtra Government has practically entrusted the entire Plan scheme of lift irrigation to the central land mortgage bank, transferring to it the cash subsidy to be paid to the cultivators undertaking such investment, and providing in addition an interest subsidy to keep the rate charged by the banks the same as it would have been had the scheme continued to be financed by the Government. The Government has also extended support in other ways, including the provision of technical assistance where required. With a view to cutting down delays in the sanction of loans and ensuring that the mortgage of land in favour of the bank is valid, statutory provision has also been made by the Government for suitably simplifying administrative procedures for the purpose and eliminating the need for the registration of mortgage bonds.

83. We feel that a stage has come when the State Governments should look upon the central land mortgage banks as participants in the programme of agricultural development and enable them, in every way, to play their role in this sphere. These programmes are also likely, in many cases, to provide the kind of integrated and special schemes of agricultural development which the Agricultural Refinance Corporation is willing to take up for its refinancing operations. These will, in almost all cases, require the co-ordinated planning and support of various wings of Government and the land mortgage banks. It is through such efforts that, in our view, co-operative long-term credit can make effective progress, drawing on all the support which is forthcoming from the Agricultural Refinance Corporation. Big schemes apart, a beginning can perhaps be made, in many cases, even if a service co-operative serving a group of villages takes a lead in drawing up, in co-ordination with the extension and other staff of Government, a plan for agricultural investment to be undertaken by individual cultivators in the area covered, in the financing of which the short-term structure and the long-term structure can play their appropriate parts. At a later stage, the central co-operative bank may take up a similar task for a district.

84. We, therefore, suggest that to the extent that co-operative land mortgage banks are in a position to take over responsibilities of this nature, Government should increasingly make use of them and augment their resources and support them in every possible way. It is, however, clear that, at the present stage of its development, co-operative land mortgage banking cannot perhaps be expected, in most cases, to undertake full responsibility for long-term credit for agricultural development. We have, therefore, referred elsewhere to the likely need for the continued disbursement of long-term taccavi loans for the purpose and the possibility of the State Bank of India immediately and the commercial banks eventually, playing an increasing part in this field in the years to come. Meanwhile, we would suggest that in all the States every effort should be made to develop co-operative land mortgage banking, on the lines of the agreed policies, with the additional emphasis on an increasingly close orientation of their loan operations towards the requirements of the State plans for agricultural development and active State support designed towards making full use of them for the purpose. Our specific recommendations in regard to steps which may be taken in this connection are given in the following paragraphs.

85. Structurally, the position of the central co-operative land mortgage banks in most States is much weaker than that of the state co-operative banks but, by and large, the former are beginning to come up and should be fully supported by the State Governments. In Assam, however, in view of the fact that the existing central land mortgage bank is almost dormant some special expedient may have to be considered. As the position of the state co-operative bank is itself none too satisfactory, it may be required to undertake responsibility for long-term credit only in respect of the area of the three central banks taken up for rehabilitation, and the State Government may have to step in with the provision of taccavi in a big way as a transitional measure in the rest of the State.

86. The need for integration between the long-term credit structure on the one hand and short-term and medium-

term credit structure on the other, as well as the fullest co-ordination between them in their actual working, has always been recognised but little has been done in actual practice towards these aims. We do not consider it necessary that there should be any departure from the present pattern of the land mortgage banking structure for this purpose but believe that, even within this framework, many lines of co-ordination and mutual support between these two wings of the co-operative credit structure can be found and pursued, as illustrated below :

Firstly, the land mortgage banks should extend their support to the state co-operative banks by investing the permissible part of their sinking funds in fixed deposits with the latter.

Secondly, the state co-operative banks may support the land mortgage banks by investing in their debentures to the extent of a part of their fluid cover requirements and, also where possible, providing interim accommodation to the latter.

Thirdly, the offices of the central and the state co-operative banks may be used by the land mortgage banks for expeditious disbursement of loans sanctioned as also for canvassing support for the rural and other debentures and for the payment of interest on such debentures.

Fourthly, the management of the primary agricultural credit societies may be associated with the preliminary investigation and report in respect of applications of their members for long-term credit, the disbursement of such loans when sanctioned, supervision of their utilisation and recovery of the instalments of such loans. This should help to ensure that total co-operative lending to an individual is within his repaying capacity, the available security is enlisted to the best advantage and the total repayment performance is satisfactory.

Broad approach

87. To sum up, it is our considered view that there is no alternative to the co-operative agency as the best means of providing institutional agricultural credit, that the pattern of organisation which it should follow is the three-tier structure which has been accepted and has come into being in almost all parts of the country, and that the framework of agreed policies in this sphere, if faithfully implemented, can help ensure adequate credit facilities for agricultural production. Apart from the fact that (as pointed out in para 39) there was till recently no clear or definite policy regarding the appropriate type of organisation at the primary level, the major gaps in this framework, which have been thrown up from experience, relate to the need for strengthening the link with marketing so as to improve the repayment performance and keep the flow of credit smooth and uninterrupted and the need to re-orient policies and procedures of co-operative long-term credit institutions and expand the volume of their operations appreciably, by assigning a specific role to them in the State programme for agricultural development. Even in both these cases, the underlying aims are the same as those of the existing framework of policies but to some extent, new means of achieving them are being spelt out in the context of certain recent developments. Against this background of policy, it becomes now necessary to consider the appropriate steps to be taken in different parts of the country from the point of view of increasing the supply of agricultural credit for production in the immediate future.

Areas of Relative Success

88. Regarding the areas where co-operative performance has been found to be satisfactory, *viz.* in Maharashtra, Gujarat and Madras, by and large, the present trends in policy and operation, if continued, seem to hold promise of further progress. One can count on the co-operative agency not only to improve the facilities which it offers to the cultivators who have already come into its fold but also to extend its membership and service to those who are now outside it and also to areas which are not geographically within its coverage

at present. It should, therefore, be possible for the co-operative agency in these States to ensure that agricultural production does not suffer in any area merely for the lack of credit. Improvement, however, is found particularly necessary in certain directions, besides continued and fuller implementation of the generally agreed policies.

89. In Maharashtra, the unsatisfactory repayment performance, which is becoming a matter of concern in the last few years can develop into a serious handicap and obstacle to progress and hence needs to be brought under control. It is likely that the marketing arrangements envisaged in co-operation with such steps as the Government might take in the field of food policy may help substantially in this regard. Further, there seems to be a tendency in certain cases towards laxity in the observance of the operational rules on the part of the managements of institutions, resulting in overfinancing of the more influential members. This trend has to be effectively corrected.

90. In Gujarat, the major problem seems to be that of halting coverage. The credit structure being fairly comfortably placed in the matter of resources and co-operative marketing in respect of some commercial crops having made considerable progress, it should not be difficult for the co-operatives, increasingly, to reach out to the smaller cultivators.

91. In Madras, beginnings are being seen of a reorientation of loan policies and procedures towards the crop loan system but this change is not yet universal or sufficiently far-reaching, as some features of the present practice still reflect the preference for credit being based on the kind and extent of security rather than on production needs. Further, the resources position is hardly satisfactory in relation to the growing needs of this State.

Areas where performance is not unsatisfactory

92. The next group consists of the States of Punjab, Andhra Pradesh, Madhya Pradesh, Kerala, Mysore, Jammu and Kashmir and Uttar Pradesh as also the Union Territories of Delhi, Himachal Pradesh, Pondicherry and Goa in which

the position of co-operative credit both from the point of view of the actual achievement in terms of the coverage and scale of service, and, as related to the implementation of agreed policies, is neither so good as in the three States mentioned above nor so unsatisfactory as in the States of the Eastern Region and Rajasthan. The structure conforms generally to the accepted pattern and the available machinery for dispensation of credit, and for supervision, audit and administration has built up certain traditions of efficiency and integrity and reached certain levels of minimum serviceability. Such progress, as has been achieved, encourages one to believe that, given fuller implementation of agreed policies, the co-operatives in these States can also be counted upon not only to improve their performance in the areas and in respect of cultivators whom they already serve but also to extend their coverage to areas which lie outside their jurisdiction at present. The steps now being taken, though somewhat haltingly, in Madhya Pradesh, Andhra Pradesh and Uttar Pradesh to conform to agreed policies in the matter of structural pattern of institutions as well as operational policies, are encouraging and suggest that, with a further effort on the part of all concerned, co-operatives can be depended upon to deliver the goods in these areas as well, though the total quantum of effort which will be required will be much greater than in the States of Maharashtra, Gujarat and Madras.

93. The directions in which improved performance will be necessary are many and differ in importance, from State to State. Several weaknesses remain: the loan policies are still to be oriented to production; co-operative banks are yet to make an all-out effort to raise resources to a degree commensurate with their growing requirements; the State Governments are yet to take a many-sided and sufficiently active interest in supporting the co-operatives in various directions; the machinery for supervision in several cases is yet inadequate or inefficient or both. There are a few institutions whose performance is as unsatisfactory, because of past mismanagement, as that of the majority of institutions in the States of the Eastern Region or Rajasthan. For example, the recovery performance in certain banks in Mysore and

Andhra Pradesh and the resulting financial position of theirs have already led to a certain degree of retrogression in both these States with reference to the total agricultural credit provided by the co-operatives. It may, therefore, become necessary in such areas of these States to take steps similar to those which we recommend later for dealing with similar institutions in States such as West Bengal and Bihar. In fact, the relatively superior machinery for supervision and management which the apex bank and Government can command in the States of this Group should help them to take firm and energetic action in such areas to clean up the structure and activate it.

94. We would once again emphasize the need to look at the problems of each of these States individually and take appropriate remedial action. To illustrate, the main weaknesses in areas such as Punjab and Andhra Pradesh would perhaps relate to the paucity of deposit resources and the inadequate progress towards production-oriented loan policies. This is also true of Uttar Pradesh but another unsatisfactory feature of significance in this State is the continued dominance of officials in the functioning of the apex and central co-operative banks. In Jammu and Kashmir, the problem would largely be one of strengthening the basic structure at the central and apex bank levels, in addition to implementing other features of accepted policies. In Mysore, the major cause for concern is the apparent deterioration in the standards of operational efficiency and conformity with right principles of co-operative conduct, as reflected in the rising overdues, and the seeming reluctance of those concerned to take effective action against defaulters at different levels. Madhya Pradesh represents such diverse conditions and problems differ so much from one part of the State to the other that it is not easy to generalise but there is need for all-round improvement in regard to the methods of working and efficiency of the structure as also the mobilisation of resources in the form of deposits. The steps indicated above are only illustrative and do not exhaust the variety of efforts which will go to constitute the immense task which co-operative reorganisation and development in these States will represent.

Areas of Relative Inadequacy

95. It is when one turns to the third group of States, viz. those of the Eastern *Region and Rajasthan and the Union Territories of Manipur and Tripura (where conditions are similar to those in Assam) that one is confronted with the immensity of the task which awaits co-operatives in these States. At the outset, we would reiterate our belief that, for these areas no less than for others, the agreed policies seem to be as relevant and strategically significant from the point of view of making adequate and lasting arrangements for the dispensation of agricultural credit, as for the other States. The factors which have led to relative inadequacy in the past are not really such as to make the accepted pattern of the co-operative credit structure or the agreed policies in regard to resources, lending or recovery of loans less applicable to these States than to the rest of the country. In fact, the experience of West Bengal and Orissa which have shown some earnestness in tackling these tasks and have, as a result, shown some progress in the last year or two, would underline the view that the effort in these States has also to be in the direction of a fuller and more active implementation of agreed policies. Another hopeful pointer is the experience gained in areas such as the Shahabad District in Bihar and the Burdwan District in West Bengal, which are covered by the Intensive Agricultural District Programme. Concentrated action on agreed lines, e.g., in regard to strengthening of the institutions, augmentation of staff, rationalisation of loan policies etc. which has been in evidence in these areas has been attended with a fair amount of success in terms of progress in co-operative credit. From this, we conclude that if efforts in these directions were forthcoming, co-operative credit, in the long run, should provide the right and adequate solution for the problems of agricultural credit for production in these areas too.

96. We, however, realise that the task of building up co-operative credit to a level of worthwhile performance in these areas is formidable. For one thing, the situation in some aspects has got so frozen as is reflected in long-standing

overdues, the number of dormant societies, ineffective central banks, etc., that it will need a great effort to make a breakthrough. For another, these are the States in which non-official co-operative leadership is yet to make itself available and effective. Traditions of co-operative functioning, both in the sphere of departmental efforts and the working of institutions, are yet to be built up. There is a general shortage of personnel, and even the available staff being inadequately qualified or trained or earnest, is, in many cases, unequal to the duties to be discharged by them. We recognise that the position in all these aspects may be expected to change in the coming years if the concerned authorities take an active interest in the matter. Even the task involved in the co-operative structure making itself effectively useful even in relation to those who are within its fold or geographical coverage to-day is vast and, in our view, will more than keep its hands full.

97. The recognition of this limitation leads to two corollaries which are important for future policy. Firstly, this implies that it will not be realistic to entrust the existing co-operative credit structure with the responsibility for providing agricultural credit over the entire area of these States in the near future. It would be rather preferable generally to restrict its responsibility to the areas in which it already functions so that, in relation to the needs of the cultivators of these areas, it may improve its service. All the efforts on the basis of the limited resources in terms of funds, personnel and leadership should thus be concentrated on bringing about the changes required as a preliminary condition for the progress of the movement. It becomes, therefore, necessary to devise supplementary arrangements for the provision of agricultural credit in those parts of these States which are not served by co-operatives so that the demand for production credit in those areas may be met at least partially in the immediate future. These arrangements should be understood to be strictly transitional and supplementary, so that when the co-operative credit structure in the States comes of age, as it were, it should be in a position to take over the responsibility for agricultural credit in these areas as well.

Lines of remedial action

98. The second implication of the situation in which co-operative credit finds itself to-day in these States is that, apart from fuller implementation of the agreed policies, some special measures will be necessary to bring the weak and dormant credit institutions back to active functioning and get co-operative credit, which has got frozen and come to a standstill, to flow once again in a smooth and uninterrupted manner. One set of steps which we suggest, therefore, relates to the actual process of revitalising the structure beginning with the primary level. It is an immense task which is involved in the process of examining the position of dormant societies, liquidating those which are beyond redemption, recovering the frozen loans which have been inherited from earlier years, making arrangements for repayment in instalments in suitable cases, financing of non-defaulters, reorganisation of the institutions with a view to potential viability, avoidance of overlapping and elimination of dormancy. The other set of steps which we suggest are in the nature of temporary expedients to take care of the peculiar features of the situation. Firstly, as institutions at certain levels in certain areas are just not in a position to provide any service and development may not materialise if flow of credit were to wait for the revitalisation of these institutions, we suggest certain lines of departure from the manner in which the three-tier credit structure is to function, e.g., the financing of cultivators by the central banks direct or of primary societies by the apex bank. Secondly, we suggest certain special aids which are necessary from the point of view of the provision of resources and personnel for the co-operative financing institutions in these States till they are able to strengthen their position in these aspects through the measures normally suggested for these purposes. Lastly, we suggest certain measures for ensuring that this entire task receives the attention and the drive required to make it successful and that the machinery of the State Government is fully geared for this purpose. All this, as we have said earlier, is in addition to and alongside the action on the agreed lines which in many cases remains uncompleted. This includes such steps as the amalgamation of non-viable

central banks, the building up of stabilisation funds to required levels, the statutory provision for creation of a charge on land, coercive processes for recoveries, the reorientation of loan policies, mobilisation of deposit resources on a larger scale than hitherto and so on.

99. In relation to this entire task, it is also necessary to recognise that the position in all these areas is not uniform. Assam, as we have pointed out earlier, faces certain special problems and handicaps resulting not only from natural and geographical factors but also from certain political developments, all of which together place a strain on its administrative machinery and create conditions in which institutional credit is not easy to operate.

100. West Bengal and Orissa have been making some progress and have given some evidence of purposeful earnestness in this matter. All this adds up to a better starting position from the point of view of future work than that which obtains in some of the other States in this region. In Orissa, perhaps more than in any others, extension of co-operative credit may depend very largely on what is done with regard to the extra-institutional factors to which we have earlier referred.

101. Bihar appears to lag behind these two States from the point of view of progress towards implementation because even the policies agreed to at the national level have received whole-hearted acceptance from the State Government only in the very recent past. Traditions in regard to non-official leadership and active functioning of co-operatives are still to be built up in this State after the relative officialisation and stagnation which have characterised the scene for many years now. It will require a great effort, in the psychological no less than other aspects, on the part of all concerned, before the co-operative agency in this and the other States of this group can really make an impact. Reorganisation is required all along the line and at all levels of the institutional structure as well as the official hierarchy.

102. Rajasthan presents distinctive features of its own, of which the most notable is the fact that co-operative credit appears to have suffered more from the impact of natural calamities in this State than anywhere else. It is true that, both from the point of view of resources and organisational efficiency, Rajasthan has yet to make much progress but because of the relative weakness of the structure it has found greater difficulty than in other cases in offsetting the dislocation resulting from natural calamity. In the result, the relatively slow growth in the earlier period has been followed by relative stagnation and even overall decline in recent years. Progress can be expected in this State only if effective action is taken to reduce the area of incidence of natural hazards, on the one hand, and to increase the ability of the co-operative credit structure to absorb their impact, on the other. Both these, however, will have to go side by side with all the other measures which are recommended by us for activating the credit structure in the States of this group as also all the steps which constitute the integrated scheme of rural credit.

Rectification at primary level

103. The most important task in these States relates to the rectification of the position at the primary level. In the first instance, this consists of examining the condition of each of the large number of dormant societies carefully, with a view to determining whether they can be brought back to active functioning through suitable steps or whether their condition is so hopeless and beyond redemption that they should be liquidated without delay. This will require, in turn, an all-out effort to recover, to the extent possible, the existing dues to the societies. It is possible that, in some cases, the amount owed is so small that it can be recovered with some measure of persuasion and pressure. In some other instances, there may be a genuine desire to repay but the condition of the borrower is such that repayment is possible only if it is spread over two or three annual instalments. Still another category may be of cases of wilful default; it will be necessary to take coercive action against such borrowers and realise the dues from out of the available assets. Finally,

there will be some cases in which despite such processes, the dues cannot be recovered in full as the available security is not sufficient for the purpose. It will be necessary to determine, on the basis of the proportion of loans of these different categories and the available resources whether a particular society can be revitalised or has to be taken into liquidation.

104. Once the societies are thus categorised on the basis of (i) a classification of the members of each society, with reference to their dues, (ii) the assessment of possible recoveries with the help of an intensive examination of the loans due from them, their assets, etc., and (iii) firm action for recovering as much of the loans due as possible, the liquidation or activation of the societies, as the case may be, has to be taken up and completed expeditiously according to a fixed time schedule. For the societies to be revitalised, the problem will arise of taking appropriate steps for their fresh financing, increasing their membership, share capital, and deposits, providing them with Government share capital contribution etc. Their reorganisation and further progress should be planned on the basis of a survey which would throw light on their potential viability. The broad aim is thus to reorganise the primary structure from the point of view of eliminating dormant units and achieving potential viability.

105. Details of efforts for rectification which should be undertaken, at the primary level, in the light of past experience in various States, have been set out in a special circular issued by the Union Ministry of Co-operation in February 1961. As for a programme of reorganisation with a view to potential viability, the relevant steps, including a preliminary survey, have been set out in the conclusions reached at the State Ministers' Conference on Co-operation held at Hyderabad in June 1964. We suggest that a specific action programme be worked out and implemented on these lines.

106. The task which has been set out above is likely to be long drawn out and difficult in actual execution. At the same time, it may not be impressive in terms of its immediate impact on the situation. While these efforts, therefore,

require to be pursued with perseverance and determination, certain other steps have to be taken alongside to meet the immediate needs of the situation. These measures will involve the strengthening of the financing agencies in terms of resources and personnel, on the one hand, and getting certain institutions at higher levels to perform temporarily, the functions of those at lower levels to meet the gaps in the total operation of the credit structure. It is with these expedients which are required to meet the needs till the rectification at the primary level and the fuller implementation of agreed policies gather sufficient momentum that we deal in the following sections.

Action for areas served by dormant societies

107. As indicated earlier, it will take some time for dormant societies to be activated on the accepted lines or to be liquidated and for their non-overdue members to be made members of some other neighbouring societies which are being revitalised or organised anew. Where the majority of societies fall into this category, it may become necessary to arrange for the non-defaulting members to be financed, as a transitional measure, by the central co-operative bank direct through its nearest branch. In due course, after the process of placing a society in position to finance them is completed, their loans can be transferred to the concerned society. This transitional expedient may be considered for implementation, only in areas where dormancy is widespread, or the liquidation of societies proceeds very slowly, while involving a large number of them. A branch of the central bank may be in a position to finance substantial cultivators direct but may find it convenient and prudent to make loans to the smaller cultivators on the basis of joint bonds to be executed by small groups of them.

Action for areas served by dormant central banks

108. The financing of non-defaulting members of defaulting societies presents a somewhat similar problem. However, unless the defaulting society is one to be taken up for revitalization or liquidation, it seems to be advisable not

to undermine its total personality by dealing with the non-defaulting members, individually and direct. The problem in such cases can be met to some extent, if the rules for financing defaulting societies are liberalised on the lines indicated earlier. We would even go further and suggest that, where necessary, the loans in arrears may not be considered as overdue from the point of view of eligibility for the refinance etc. provided that effective action has been taken against the defaulters.

109. The dormancy of a large number of primaries, with a sizable volume of frozen debts, is a factor whose effect is generally not limited to the primary level but is also reflected at the level of central banks. Central banks saddled with such chronic overdues are, therefore, unable to provide fresh finance even to creditworthy societies. We suggest that, in such cases, the apex bank may step in by establishing a branch in the area and finance the existing societies which are creditworthy and the new societies, so that the flow of production credit is kept up and not handicapped by their having to be served by a near-dormant central bank. At the same time, the management of the central bank should be suitably changed, possibly by the bank being placed under departmental administration or that of the apex bank so that there are no inhibitions in the way of a single-minded drive for recovering old dues. Rectification of weak primaries and liquidation of those beyond redemption should also proceed alongside. Such of the dormant societies as get revitalised should be taken over by the apex bank's branch for current financing.

110. Once this process is over and irreducible bad debts of the central bank emerge clearly, the central bank should be reorganised on the basis of an arrangement to write off such bad debts. The central bank will have to be assisted, in writing off the residual bad debts, by the apex bank to the extent that it can do so and to a more substantial extent, by a subvention from the State Government. The responsibility for financing the societies which had been earlier taken up by the apex bank, should then be restored to

the central bank. The normal, democratic management of the central bank would also be restored and the apex bank can then withdraw from the picture. Action on these lines may be found appropriate not only in States such as Bihar and West Bengal, where some central banks are almost dormant, but even in better developed States in respect of the few central banks which have reached an impasse in their working owing to past mismanagement or other factors.

Absorption of overdues from own resources

111. Another aspect of stagnation in these areas is that in many cases it has resulted from the inability of the central banks to absorb overdues within their own resources, and their consequent inability to maintain creditworthiness with the higher financing agencies. For example, the disposable own resources of central banks in Assam, as on 30 June 1963 were only Rs. 24 lakhs as against overdues of Rs. 195 lakhs ; the corresponding figures were, respectively, Rs. 213 lakhs and Rs. 290 lakhs for Rajasthan, Rs. 106 lakhs and Rs. 139 lakhs for the Telangana area of Andhra Pradesh and Rs. 28 lakhs and Rs. 36 lakhs for Jammu and Kashmir. In Bihar, the own resources of co-operative central banks appeared to be so fully locked up otherwise as not to leave any part as disposable for the present purpose, while the overdues were Rs. 135 lakhs. The position is seen to be even more difficult when individual cases of central banks are considered instead of State-wise aggregates. It is important, therefore, to augment the deposit resources of the co-operative banks on the lines suggested earlier.

112. All developments in regard to larger mobilization of deposits on the one hand and avoidance of overdues, adequacy of stabilisation arrangements etc. which might reduce the need for absorption of overdues from own resources on the other, can, however, materialise only over a period of time. Meanwhile, there is a suggestion based on a somewhat similar recommendation made by the Committee on Taccavi Loans and Co-operative Credit which we would propose for consideration, especially for States in which there

is no early prospect of an increase in deposits with co-operative banks. For those banks which have poor deposit potential, it seems necessary that the State Governments should place some resources (*e.g.* amounts which they would have otherwise distributed as *taccavi*) at the disposal of these banks to serve as a substitute for the deposits that they lack. The assistance will have to be technically in the nature of loans, but the terms should be such (*e.g.*, repayable in five instalments after a period of five years) that the banks concerned can use them as if they were term deposits. The State Government should not have a preferential position in respect of these deposits *vis-a-vis* deposits from the public or co-operative societies. We prefer that such assistance is given as a loan rather than as share capital, because thereby over-capitalization is avoided, and the need for replacing the resources obtained from the Government, as soon as possible, by mobilising larger deposits from the public, will be kept prominently before the banks.

Problems of Personnel and Leadership

113. A major handicap experienced in the working of co-operative credit institutions all over the country today is the general lack of personnel with the requisite degree of professional competence especially in the banking aspects of their working. This needs to be urgently rectified by vigorous efforts for recruiting persons with the relevant qualifications and for providing appropriate training facilities. The difficulty in this regard is particularly acute in the Eastern States as also in Rajasthan which suffer from a paucity of personnel to manage the credit institutions and to serve at different levels of the Co-operative Department in carrying out the tasks of administration and audit. As far as the staff is concerned, the urgent need is for finding the necessary funds and also, at the same time, drawing up and implementing a suitable programme of recruitment and training. The shortage is not in all cases one of resources, and in many cases even when funds were forthcoming, either the posts have not been filled in or the men who have been appointed to them have not stayed at their jobs. This apart, ineffi-

ciency in actual working has resulted from various factors such as the inadequacy of staff, absence of the necessary degree of supervision owing to the lack of inspectorial staff at higher levels and the lack of training facilities. It is not necessary for us to go into the details of the position in different States and to suggest specific steps for overcoming these difficulties. We have no doubt that, if an earnest effort is made and suitable incentives are offered, the problem of personnel can be satisfactorily solved in these areas as elsewhere, over the next few years.

114. While this would be true of personnel at the lower levels, particularly the field staff for inspection, supervision and so forth, it may not be easy, in the short run, to find the senior executives required for managing the financing institutions, especially the co-operative banks. This is, at the same time, particularly important because, in the entire programme of revitalisation, a key role has to be played by the leadership and management of apex and central co-operative banks, especially the former. We therefore, suggest, as a short-term expedient, that, where necessary, these States may obtain the services of officers of the Agricultural Credit Department of the Reserve Bank of India on deputation or, in suitable cases, the services of retired officers of apex co-operative banks or of State Governments with the necessary experience. In each case, the aim should be to get the local officers trained up in actual work over a period of 2 to 3 years so that they might take over from those brought in to meet the special needs, as a temporary measure.

115. More difficult to compensate for is, however, the paucity of local leadership. This is a major handicap in States where the conditions have not been favourable for the emergence of such leadership and the Government had not particularly encouraged the initiative and independence of the elected representatives of the co-operative banks. A change in this situation can come about only as a result of a positive reorientation of Government policy in these States in the direction of de-officialisation. Secondly, to the extent that some of the institutions have come to a crisis or stand-

still because of inefficient or unsatisfactory leadership of persons who are not themselves conscious of, and faithful in observing, the right canons of co-operative conduct, there is need to remove from the management of co-operative institutions (including the office-bearers) any persons who are either themselves defaulters or represent defaulting institutions. Finally, the co-operatives can attract leadership of the necessary calibre and sufficient enthusiasm only to the extent that they become effective institutions and are in a position to render service, in some significant measure, to the community. We, therefore, hope that, as these institutions gain in their effectiveness in terms of service, financial strength and aggregate performance, leadership of the required quality and integrity will be attracted to them and, to this extent, their functioning may more fully conform than in the past to the expectations in regard to the availability and effectiveness of local leadership which underlie the three-tier structure of co-operative credit.

Role of Government

116. We have had occasion to emphasize earlier the important role which the State Government has to play in carrying out a programme of reform and development in respect of co-operative agricultural credit. This help consists of measures in different directions such as adequate service in terms of audit and administration, the extension of special aids in the form of deposit-cum-loan to augment the resources of central co-operative banks, patronising co-operative banks by getting them quasi-Government deposits, and the general support of the entire machinery of administration not only in the Co-operative Department but also in the related departments of Agriculture, Finance and Revenue, so that, in their day-to-day working, the co-operatives are able to receive in a concrete form that encouragement which, in broad policy terms, is promised to them by State policy as set out at the highest levels. Also relevant from this point of view is the manner in which the Government operates schemes which either supplement or compete with what the co-operatives have to do. For example, their programmes

for agricultural development and the development of specially backward or depressed areas or sections of the population will have to be co-ordinated with the co-operative effort. Similarly, in the provision of taccavi (in regard to which we make our specific proposals later), the Government should try to protect co-operative discipline and interests as the failure to do so has, in many cases in the past, adversely affected the morale of the co-operative membership and made them look lightly on their own obligation to repay their co-operative loans.

117. From the point of view of ensuring this type of many-sided responsiveness and support and increasing the active interest evinced in co-operatives by the entire machinery of the State Governments, it is relevant to refer here to the experience of West Bengal, where a Review Committee has been functioning in the last few years with representatives of the appropriate departments of the State Government, the apex and central co-operative banks as also of the Central Ministry of Co-operation and the Reserve Bank, for reviewing, from time to time, the implementation of the scheme of re-organisation of co-operative credit in the State. It will be useful if a similar high-level committee is set up in each of the States of this group, for reviewing periodically the progress made in implementing their respective programmes for co-operative credit, and taking quick decisions on urgent matters. Further, the senior officer who, in most States, is in overall charge of the programme of agricultural production should also be required to take an active interest in the programme of co-operative credit and extend the necessary support to the Registrar of Co-operative Societies who will be in charge of the latter. It would also be useful to set up special cells to deal with the problems of these States both in the Reserve Bank and in the National Co-operative Development Corporation.

PART VI

TRANSITIONAL ARRANGEMENTS—SOME ALTERNATIVES

118. We have stated in the last chapter our conclusion that, in view of the stupendous task involved in the reorganisation of co-operative credit in the States of Assam, West Bengal, Bihar, Orissa and Rajasthan as also the Union Territories of Manipur and Tripura, the co-operatives in these States should not, ordinarily, extend their geographical coverage but concentrate on the consolidation of the structure in the areas already served by them. Some alternative arrangements of a transitional and supplementary nature have, therefore, to be made to ensure that the other areas of these States are served in respect of institutional agricultural credit in the immediate future. The ultimate aim, however, should be that, in each State, once the co-operative credit structure has made sufficient progress in terms of reorganisation and development, it should take over the entire responsibility for agricultural credit in all parts of the State, and the supplementary arrangements now devised on a temporary basis should be terminated.

119. In determining the pattern of these arrangements, certain considerations are relevant. Firstly, the organisation—existing or new—which is to meet this need should be such that it can be easily withdrawn from the scene when its operation in this sphere, ceases to be necessary. Secondly, as the task of reorganising co-operative credit in these States will itself keep the hands of the respective State Governments and their administrative machinery full, the proposed arrangements should not be such as to make a heavy draft on their personnel and other resources. Thirdly, as any new or existing centralised organisation would not be able to count on mutual knowledge, local leadership, decentralised responsibility, etc., for the proper dispensation of credit at the village

level and specially, for its prompt recovery, linking of credit with marketing assumes an additional significance as a condition for its smooth and effective operation. It follows from this that the organisation should take full advantage of the present official thinking on food policy, both from the point of view of stimulating the demand for production credit and ensuring prompt repayments and, for this purpose, have a close relationship with the proposed Food Corporation of India and its State level units. Fifthly, the organisation should be in a position to draw on the experience of the Reserve Bank and its guidance on the technical aspects of the policies and procedures in respect of agricultural credit. Finally, the Government of India, in view of its active interest in increased agricultural production, should be intimately concerned with the proposed organisation and have an effective voice in its management. Though based in the State, the organisation will have to look very much to the Centre for direction and support.

Food Corporations

120. One possible arrangement which suggests itself from this point of view is that the Food Corporation of India to be set up by the Government of India or the organisations through which it may operate in the States for the purchase of paddy and wheat may also undertake the business of dispensing production credit. We note that the legislation being enacted for the establishment of the Corporation includes an enabling provision for this purpose. Though this proposal has the apparent merit of being most likely to facilitate the linking of credit with marketing, we are of the opinion that the business of dispensation of production credit is too detailed and complicated a task to be satisfactorily discharged by an organisation designed for the relatively simpler function of buying and selling foodgrains. Further, what is required is only a transitional arrangement ; it may not prove practicable to ensure that the Food Corporation, which is a permanent organisation, will withdraw from the business of production credit and yield place for co-operatives, as is envisaged by us, at an appropriate stage in the future. Moreover, the Cor-

poration's interest is limited to foodgrains while the credit needs extend to all agricultural commodities. For all these reasons, we consider that the function of providing credit for agricultural production should not be entrusted to the Corporation even as a transitional arrangement. The only type of lending activity which may perhaps be associated with the Corporation is the provision of advances against produce expected to be supplied or offered for pledge. We would also emphasize that it will not be advisable for the Corporation to take advantage of the relevant provision of the legislation and undertake this function of production credit, in this group of States or elsewhere in the country, as it is bound to have an adverse effect on the co-operative or other institutional arrangements for credit proposed in this report for the concerned areas.

Taccavi

121. Another alternative is taccavi. We see no reason to disagree with the view which has now generally come to be accepted that taccavi cannot be considered a satisfactory institutional arrangement for the provision of agricultural credit in replacement of private credit. The Rural Credit Survey Committee and, more recently, the Committee on Taccavi Loans and Co-operative Credit have very well brought out the various weaknesses and unsatisfactory features associated with the working of taccavi, such as inaccessibility from the point of view of the cultivator, delays in sanction and disbursement, inadequacy of the quantum of loans, the lack of supervision and inefficiency in the matter of recovery. Past experience has clearly demonstrated that taccavi, in view of these well-known limitations, cannot be expected to provide effective support to any dynamic programme of agricultural production. We, therefore, feel that taccavi cannot provide the temporary arrangements for areas not served by co-operatives but may help to meet specific needs in certain limited contexts.

122. The role of taccavi should be restricted, by and large, to circumstances associated with the needs of specially

backward classes or areas or certain emergent situations such as, for example, those connected with distress and need for relief. The role of taccavi will, therefore, have to be carefully circumscribed with reference to the conditions obtaining in each State in regard to the serviceability of the co-operative credit structure on the one hand, and the magnitude and requirements of the agricultural programmes of the State Government, on the other. The approach should be to permit taccavi loans on any significant scale only if a special programme of intensive agricultural production is being undertaken by Government and the co-operative credit structure is either absent in that area at the moment, or is not likely to be able to meet the credit needs under the programme in the immediate future. Even in such cases, taccavi should be only a short-term expedient ; it should be restricted to those who are not members of co-operatives, and the policies in regard to its operation, *e.g.*, in the matter of interest rates, dealings with defaulters, etc., should be such that the co-operative is not placed in a position of comparative disadvantage and co-operative discipline is not violated.

Commercial Banks

123. Another alternative which may be considered in this connection is that of the commercial banks being brought in to play an important role in the provision of agricultural production credit. Past experience, however, does not encourage us to expect them to provide production credit on any significant scale. As we have indicated in Part II, the total finance provided by commercial banks for agricultural production was only around Rs. 5 crores for the country as a whole in 1962-63 and, even of this, the major part must have gone to large-sized holdings on which commercial crops are raised and which are operated more or less on business lines unlike the average Indian farm. Further, being commercial institutions, they may not be able to adapt themselves to the needs of financing agricultural producers in any large numbers, particularly, as they will not have any organic links with local institutions or the State Governments or local leaderships of which they can take advantage. Besides, being institutions

which operate at national or regional levels, it is doubtful if they will find it convenient or remunerative to deal with cultivators spread over thousands of villages or be sufficiently responsive to their needs. Further, rural finance, particularly that for agricultural production, has features peculiar to it such as personal surety, uncertainties arising from susceptibility to natural calamity, the relatively long periods over which the production process is spread, etc., which would all make it difficult for commercial banks to undertake such business.

124. We do not, however, rule out the possibility of some improvement of the position in this regard. Of late, the commercial banks appear to be intensifying their efforts to tap deposits in the rural areas by opening branches. It should, in our view, be an obligation on their part that, as this trend gathers momentum, they increasingly endeavour to make these resources available for financing production and development in the areas in which they have been raised. It is likely that they can, for example, help in meeting the needs of 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 its nature and dimensions, and whose plane of cultivation involves larger inputs than can usually be accommodated within the prevailing ceilings for finance set by individual maximum borrowing limits in agricultural credit societies. Progress in this direction, however, is likely to be slow and cultivators of this type will not be many. It will, therefore, remain broadly true that one cannot look to the commercial banks for providing a satisfactory system of agricultural credit, even on a purely supplementary and transitional basis, for any large sections of the cultivating population in Indian conditions.

PART VII

STATE BANK OF INDIA

125. It has always been envisaged that the State Bank of India would play an active role in the sphere of rural banking and credit and operate so as to support the co-operatives, especially those engaged in marketing and processing, in many ways. Other directions in which the State Bank was expected to make its contribution in this sphere related to branch extension and remittance facilities. It becomes, therefore, relevant to consider the part played by the State Bank in this sphere in the past and the possibilities for the future, as arising from the basic objectives underlying its functioning, independently of how well it can contribute towards providing the transitional arrangements required to meet the needs of parts of some States in which active co-operatives do not exist.

126. The State Bank of India has endeavoured to augment the resources of the co-operative banks for financing marketing and processing co-operatives, consumer stores and other co-operatives and also to directly finance various co-operative enterprises. Some progress has been made in ensuring that the State Bank's procedures and policies in this regard are increasingly oriented to meeting the practical difficulties experienced by the co-operative institutions concerned and also that, in this process, co-operative discipline is not violated. In addition, the State Bank has also been assisting the central land mortgage banks by providing them with interim accommodation pending floatation of debentures and by contributing to the debentures floated by them, usually upto 10 per cent. The State Bank has not so far undertaken the provision of production or developmental credit for agricultural purposes to cultivators direct or to the co-operative credit structure for financing them as, under the framework

of agreed policies, this responsibility was entrusted to the co-operative credit structure which was expected to discharge it with appropriate assistance from the Reserve Bank.

127. The record of the State Bank in the matter of supporting non-credit co-operative activity connected with agriculture has been, on the whole, quite encouraging. To illustrate in quantitative terms, the limits sanctioned to co-operative sugar factories have increased from Rs. 145 lakhs to 4 factories as on 30 June 1958 to Rs. 925 lakhs to 30 factories as on 30 June 1964 ; in respect of other processing societies and co-operative marketing societies, the number of accounts and sanctioned limits have risen from 12 and Rs. 15 lakhs to 173 and Rs. 136 lakhs respectively over the same period. The limits sanctioned to co-operative banks have risen from Rs. 12.67 crores to Rs. 32.63 crores of which Rs. 7.78 crores represent interim accommodation to land mortgage banks.

128. In the years to come, the State Bank is likely to be called upon to play a much bigger part than in the past in financing the marketing of agricultural produce. The extended programme of co-operatives marketing which is likely to develop in the coming years, specially in the context of the contemplated purchase of foodgrains on a large scale by the proposed Food Corporation of India may occasion a larger demand for financial accommodation for these purposes than in the past. The State Bank of India will have to shoulder an increased responsibility, generally, in providing the working capital requirements for this type of business, whether it is undertaken by the co-operative or other organisations. We have no doubt that the State Bank, in this context, will further liberalise its loan policies and procedures for providing larger financial accommodation to co-operative marketing and processing societies to the full extent of their needs, subject to their eligibility with reference to reasonable standards of entitlement. It is also to be expected that the Bank's involvement in the financing of industrial activity relating to the processing of agricultural produce organised on a co-operative basis, will also grow side by side.

129. The role of the State Bank in relation to the co-operative movement is thus seen to be taking shape broadly on the lines envisaged under the integrated scheme of rural credit and represents a response in the right direction to the credit requirements of the expanding co-operative sector. Co-operative activity in various non-credit spheres has been on the increase in the last few years and is likely to expand further in the future. At the same time, it is now almost an accepted policy that the co-operative banking structure which is responsible for agricultural credit should also seek to meet the needs of all the other co-operative societies such as those engaged in marketing, processing, distribution, industrial production, construction and so on. This situation presents a problem to the co-operative banks in so far as their own resources are not sizable and refinance facilities are not available for most of these purposes from the Reserve Bank. In this context, considerable significance attaches to the emerging role of the State Bank as a supplementary source of finance to the co-operative sector. The accommodation available from the State Bank has so far been routed through co-operative banks in those areas where they are reasonably sound in their financial position and efficient in operational methods, and provided direct to the concerned co-operatives in the other areas where co-operative banks are not upto such standards. In either case, this has meant a substantial support and has helped to reduce the strain on the own resources of the co-operative banking structure in relation to its responsibilities, obviating in the process the depletion which might have otherwise occurred in the resources which the structure has to set apart for discharging its growing responsibilities in respect of agricultural production. This development is also justified, in a wider context, in so far as the activities which the co-operatives are, in these cases, trying to take up are those which had earlier been undertaken by private parties and financed by the commercial banking system drawing upon resources provided by the urban depositor.

130. While, therefore, recent experience in this field would seem to point towards the contribution which the State Bank can make towards an orderly pattern of financing

arrangements for the co-operative movement, it is necessary that these trends should, in future, be carried further. Thus, the State Bank may have to extend and expand its credit facilities to cover, in an increasing measure, the needs of those types of non-credit co-operatives which it has not yet begun to finance in any big way. Secondly, as a corollary to the increased flow of such facilities, the State Bank may have to take a greater interest than in the past in the credit operations connected with the co-operative activities financed and place the financing arrangements on a systematic footing. It may be recalled, in this connection, that a similar process was witnessed in the evolution of the role of the Reserve Bank in this sphere. Thus, in the initial stages, with a view to making a beginning, the Bank provided funds to the co-operative banking structure on an *ad hoc* basis against Government guarantee without going into too many details of the manner in which the funds were routed, the basis on which the quantum of accommodation was determined, the various aspects of banking discipline involved in the extension of such credit at different levels, and so on. As more experience was gained and the quantum of accommodation grew larger, however, the Bank found it necessary to interest itself more intimately in all the facets of the working of the co-operative banks, even apart from such responsibility as resulted from its being the central banking authority. We are sure that, in so far as the State Bank increasingly undertakes the role of a major financier of the co-operative sector in these directions, it will also find it necessary to reorient its approach to its responsibilities in this sphere and help to ensure that lending policies and procedures at different levels are in tune with the requirements of sound banking, without unduly upsetting the current co-operative practice in these matters. In this context, increasing co-ordination between the Rural Credit Department of the State Bank and the Agricultural Credit Department of the Reserve Bank will be necessary and useful.

131. In another aspect of the role which is expected of it in the rural economy, the State Bank has not only opened a large number of branches already but is to undertake further programmes of branch expansion which will help to

extend its activities to relatively small places. These branches are capable of playing a big part in providing credit facilities to the producers in the rural sector and it is desirable that the part which the State Bank can play is oriented to those credit needs of the activities of production and development which represent the gaps in the institutional credit facilities available at present in the rural areas. It is broadly in this context that the State Bank has outlined a Rural Pilot Centres Scheme somewhat analogous to its earlier scheme for financing small industries, for establishing certain selected pilot centres for the purpose of meeting some of the needs of production and developmental credit in the rural areas and providing certain facilities, *e.g.*, storage, which are incidental to such credit functions. The aim of the Scheme is to bring banking and ancillary facilities within reach of such rural producers having viable business units as need credit but do not have an institutional source to turn to. Particulars of the proposed scheme, as set out by the Bank, are presented in some detail in an appendix to this report. So far as agricultural credit is concerned, in a majority of these centres, the co-operative credit structure is likely to be found already adequate or potentially so from the point of view of meeting the short-term and ordinary medium-term requirements of credit and, therefore, the main role which the Bank may be expected to play would relate to medium and long-term finance for developmental activity associated with investment in the agricultural sector. This acquires special significance in the context of the facilities of refinance available from the Agricultural Refinance Corporation and the increasing emphasis being placed on the commercial banks coming forward to participate in the financing of agricultural development. An institution like the State Bank should be able to play a big part in meeting such requirements, especially wherever special schemes of agricultural development are in progress or can be formulated *e.g.*, for the development of orchards, etc., and sizable investment has to be undertaken by a large number of individual cultivators usually as a corollary to some development which has been financed and carried out by the Government. In such cases, technical guidance and assistance is likely to be forthcoming from Government or other agencies,

the investment activity undertaken by the cultivators will itself be a part of a bigger programme whose technical feasibility must have been examined and ensured, and the emerging demand for medium-term and long-term resources is likely to be fairly sizable. The pilot centres in the areas where the primary agricultural credit co-operatives do not exist or lack the support of the usual upper tiers of the co-operative credit structure, may, however, have to go further and provide even short-term production credit and the medium-term credit for maintenance and replacement of assets until such time as the co-operatives become strong enough to take over these responsibilities in such areas also.

132. The initiative of the State Bank in this regard is welcome and we are in full agreement with the general outline of the experimental effort proposed. In the actual operation of this programme, as has been indicated, a distinction will have to be made between the States of West Bengal, Bihar, Orissa, Rajasthan and Assam on the one hand, and the rest of the States, on the other. It is, by and large, only in the areas not served by co-operatives in the former group of States that the pilot centres will need to involve themselves in short-term production credit in addition to developmental finance. In Assam, there may also be scope for financing co-operatives as well, in areas where the primary agricultural credit societies will be functioning without the support of the higher tiers of the normal co-operative credit structure.

133. This programme of the State Bank in so far as it concerns the direct finance for agriculture, will need to be carefully co-ordinated with the programme of reorganisation of co-operative credit generally and with the working of co-operative banks and societies in areas to be covered by the pilot scheme, in particular. The need for co-ordination will arise in more than one context. For example, it may be necessary to ensure that the terms and conditions of the advances made by the State Bank are not more attractive than those offered for advances for a similar purpose by co-operative credit institutions in the area. Again, in the selection of pilot centres to be established by the State Bank, account will

have to be taken not only of the existing branches of the co-operative banks, but also of the branches which these banks would be expected to open in the near future. Further, it should be ensured that there is no double financing, that is, that the same person does not borrow from the State Bank and the co-operative credit structure for the same or similar purpose, that the total institutional credit provided to the cultivator by all the agencies is not beyond his repaying capacity, and that defaulters to the co-operatives are not financed by the State Bank.

134. The proposed pilot scheme is welcome, but so far as the need for supplementary arrangements for institutional agricultural credit in the States of the Eastern Region and Rajasthan is concerned, we feel our conclusion in regard to the State Bank is not different from that in respect of other commercial banks. It will not, in our view, be appropriate to entrust to the State Bank, which has yet to gain experience in this field, full responsibility for providing transitional arrangements for agricultural credit.

PART VIII

STATE CORPORATIONS FOR AGRICULTURAL CREDIT

135. We have reached the conclusion that the transitional arrangements for credit for agricultural production, which are required to be made in areas where the performance of the co-operative agency has proved most inadequate, cannot be provided by the State Bank of India or other commercial banks or the proposed Food Corporations at the Central and State levels or by any large scale provision of taccavi. The establishment of a new institution, therefore, seems necessary. In considering the type of organisation to be set up, several considerations become relevant. As indicated earlier, the new institution should be capable of being withdrawn from operation once the State Government has, through active efforts on the lines recommended in Part V, succeeded in raising the co-operative credit structure to a position in which it can shoulder increased responsibilities. Further, as the programmes for reorganisation of co-operative credit are likely to tax to the full the limited resources, in terms of men and money, which the State Governments can command, it is from outside the States that the initiative for establishing these supplementary arrangements and providing the managerial competence, direction and many-sided support for making them work successfully, will have to come. The Reserve Bank, in particular, will have to play an important part initially in getting the new institutions into position and later in ensuring that they operate on sound and efficient lines, by providing assistance not only in terms of financial accommodation but also in respect of policies and procedures to be adopted and of the top level management to operate them. The State Bank of India should also help the new organisations with working funds and personnel. The Government of India, in view of their

vital interest in increased agricultural production, should also be accorded an important place in the proposed organisations. It appears necessary to establish a separate organisation for each of the States concerned, rather than a common one for all of them, if the necessary degree of support from, and co-ordination with, the State Governments is to be ensured. In view of the help from the State Governments in respect of legislation and administrative action which, as we show later, will be essential for the satisfactory working of the new organisation, it is important that the State Governments should be kept fully in the picture and their co-operation sought in the establishment and the functioning of the organisation.

136. On these considerations, we recommend, as the most satisfactory arrangement for the purpose, that an Agricultural Credit Corporation be set up in each of the States of Assam, Bihar, Orissa, West Bengal and Rajasthan, with provision for the Corporation in Assam to extend its operations to Tripura and Manipur. The share capital of the Corporations should be provided, to some extent, by the State Governments concerned but, in the main, by the Government of India, the proposed Food Corporation of India, the Reserve Bank of India and the State Bank of India. All these should be represented on their management. Provision may also be made for the Reserve Bank to be intimately associated with the determination of policies and procedures, etc., of the Corporations so that they may have the benefit of the expertise and experience in the field of agricultural credit which the Reserve Bank commands. The credit corporation will make loans but accept no deposits from the public. The Corporations should raise their working funds mainly by borrowing from the State Bank or the Reserve Bank or both.

137. As for the financing functions, we contemplate that the Corporations should mainly aim at providing short-term loans for agricultural production on the basis of rational and production-oriented loan policies, as embodied in the crop loan system. One aspect of these policies which has not generally been in evidence so far in the co-operative sphere *viz.*, a close link between credit and marketing, will

be specially important for the Corporations as, unlike the co-operative agency, they will have no local roots and will, therefore, have to depend largely on such linking for ensuring prompt recoveries. The Corporations will provide loans to cultivators engaged in the production of wheat and paddy on condition that the borrower agrees to repay the loan by definite delivery of these grains at fixed points, to the Food Corporation (or its agent), which would buy such produce at pre-determined incentive prices to be announced well in advance of the purchase. While these arrangements may obtain for the present only in respect of paddy and wheat, every attempt should be made to take advantage of any other marketing arrangements which are satisfactorily functioning or can be organised, in respect of other agricultural commodities also. In some cases, the State Governments will be undertaking purchase operations in respect of foodgrains other than paddy and wheat while, in others, it may be possible to make arrangements with the State Trading Corporation for the assured purchase of some of the commercial crops, e.g., jute, tobacco, etc. Elsewhere, there are already arrangements under which sugarcane is collected and delivered by co-operatives to private sugar factories. In still other cases, a co-operative marketing or processing society functioning satisfactorily might be available with which the Corporations could link their credit operations. We suggest that all these possibilities should be fully exploited so that the scope and coverage of services by the Credit Corporations may be extended to as many cultivators as possible.

138. Though the Corporations may advance loans to substantial cultivators direct, they may find it prudent and convenient to make loans to small cultivators on a group basis, i.e., against joint bonds executed by them. A group of this type can perhaps be expected to form an initial nucleus of co-operative activity on an informal basis, experience of which can lead to the eventual emergence of a regular co-operative.

139. The general idea is that the Corporations will function wherever no active co-operatives exist or the existing co-operatives cannot be easily rendered active. Their areas

of operation will, therefore, have to be demarcated carefully on the basis of a quick investigation and classification of villages for the purpose. It is obvious that the areas thus demarcated may not be contiguous or whole districts, but may consist, in most cases, of parts of various districts. As the State Bank of India, through the pilot centres, may be financing cultivators (and co-operatives in Assam) in the same areas as those served by the Corporations, co-ordination will be necessary between these two agencies also.

140. While these arrangements may be broadly satisfactory for West Bengal, Bihar, Orissa and Rajasthan, the pattern of working for the Corporation for Assam may have to be slightly different. On the one hand, as explained earlier, the co-operative credit structure in this State has virtually come to a standstill as a result of high and chronic overdues and the apex and central co-operative banks in this State are hardly in a position to initiate, finance and carry out a programme of reorganisation, even to the limited extent to which similar organisations can be expected to do so in the other States of this Group. At the same time, it should be noted that a scheme was drawn up in May 1963 for the rehabilitation of the structure in the area of the three central banks of Tezpur, Nowgong and Cachar following consultations between the Central and State Governments and the Reserve Bank. The scheme envisages a classification of societies into different categories with reference to the position relating to their dues to the central bank, and further steps to be taken on this basis. New societies, societies which are completely debt-free and those in which a majority of the members have repaid more than one half of the total co-operative credit taken by them, are to be taken up for revitalisation immediately. Of the remaining societies, those which are beyond hope of repair are to be taken into liquidation and the rest revitalised either by amalgamation or by other means, on a phased programme. Members are also to be classified on a somewhat similar basis and fresh financing is to be undertaken in respect not only of new and debt-free members but also those who having repaid one-half or more of their dues are taken out of their defaulter status by the

conversion of the existing overdue amounts into medium-term loans. Coercive action is to be taken for recoveries from those who had not repaid even one half of their dues. The scheme also contemplates strengthening of the machinery for management and supervision in the central banks and the staff of the Co-operative Department, as also the other lines of reform required in the working of the apex and central banks of the State. The scheme was approved by the State Government as late as December 1963 and it is only recently that some progress has begun to be made in its implementation.

141. In view of the foregoing it is our proposal that, for the immediate future, only the central banks of Cachar, Nowgong and Tezpur may be taken into account for the programme of reorganisation of co-operative credit, with the Assam Apex Co-operative Bank being required to operate as the apex bank only for these three central banks in this context. For the rest of the State, we suggest that no reliance be placed on the existing central banks for the present so far as co-operative agricultural credit is concerned and that in the area of operation of these banks, the proposed Corporation should itself finance revitalised agricultural credit societies as well as newly established societies, apart from financing cultivators direct in villages not covered by such co-operatives. In this State as well as in other States where the Corporations are to be set up, they will not finance non-members of primary societies in villages which are served by active or revitalised primary societies, as it is expected that these societies will increase their coverage by bringing such cultivators into their fold gradually in the process of attaining viability. Thus the Corporation will finance not only cultivators in villages not served by co-operatives throughout the State but also the primary co-operatives in the areas other than those served by the three central banks referred to above. As and when the co-operative credit structure in the State comes up to a comparative position of financial soundness and operational efficiency, the Corporation can hand over its functions to the apex co-operative bank and withdraw from the scene altogether. The district central banks may also be brought back into the picture throughout the State at that stage.

142. The establishment of the Corporations may be provided for by the enactment of enabling Central legislation on the lines of the State Financial Corporations Act. The Reserve Bank should take an active promotional interest and help to bring these Corporations into position in the different States, as it did in the case of the State Financial Corporations, by persuading the State Governments to take the necessary steps and assisting them with the technical advice necessary for the purpose. The Corporations, when established, will need not only the effective support of the administrative machinery of the State Governments but also that of statutory provisions similar to those which are available to the co-operatives in their dealings with their borrowers. Examples of such statutory support are the provisions for (i) the creation of a charge in favour of the lending institution by the borrowing members in respect of the land or interest in land held by them and the enforcement of this charge ; (ii) settlement of disputes by compulsory reference to arbitration, (iii) making and execution of awards against defaulters and the recovery of the lending institution's dues under the procedure available for the collection of arrears of land revenue, (iv) conditional attachment of property before award or order; (v) conferment of powers of a Civil Court on the Registrar of Co-operative Societies. Similar provisions will have to be made in the proposed legislation for the establishment of Agricultural Credit Corporations so that they may not be put to any hardship in their working, and expeditious and effective action can be taken for recovering overdue loans. Essential as these provisions are for the successful working of the Corporations, they may not lend themselves to inclusion in the Central statute proposed by us. While the Central legislation should be made as comprehensive as possible from this point of view consistently with the limitations imposed by the Constitution, State legislation may also be undertaken, in addition, for making statutory provision in regard to those matters which the Central legislation cannot cover. In ensuring that all these steps are taken expeditiously and on the lines required, the Reserve Bank should play an active part.

143. Personnel needs at the higher levels of management and for the field staff who will have to attend to the investigation of loan applications, disbursement of credit and supervision for ensuring its proper use and prompt recovery, will present a problem in each of these States and will have to be met through a phased programme of recruitment and training. In planning efforts in these directions, a long-term view will have to be taken on the assumption that all such staff will eventually be taken over by the co-operative organisation when its responsibility is extended to cover the whole State. For meeting the immediate requirements, it will be necessary for the Corporations to obtain, on loan, the services of experienced officers of the Reserve Bank, the State Bank of India and of the apex co-operative banks which are working well. The Corporations will have to open a network of branches through which to operate, the number and location of branches being determined in each case by the volume of loan business, conditions relating to transport and communications, and other business considerations.

PART IX

SUMMARY OF RECOMMENDATIONS

Para Nos.

The performance of co-operative agricultural credit has shown impressive progress over the last decade with such credit accounting for 25.8 per cent of the total estimated borrowings of cultivator-households in 1961-62, as compared with only 3.1 per cent in 1951-52. The co-operative agency still remains the best means of providing institutional agricultural credit in Indian conditions and the pattern of its organisation should continue to be the three-tier structure. The existing policies for the development of co-operative agricultural credit are, by and large, adequate and should be fully implemented.

73 & 87

Linking credit with marketing

2. The Food Corporation of India should operate to the maximum extent possible through co-operative marketing societies. With this support as well as that implied in the fixation and enforcement of floor and ceiling prices for foodgrains, the co-operative marketing structure should be able to assure the cultivator a satisfactory service which, in turn, should enable the co-operative credit structure to enforce the condition for linking its credit with marketing, using differential treatment in the provision of credit as a means of such enforcement.

78-79

3. The Food Corporations should generally take advantage of, and support the development of processing on a co-operative basis rather than organise processing under their own auspices.

78

4. Suitable arrangements should also be made to ensure some degree of price stability for agricultural commodities other than foodgrains.

80

Long-term credit

5. The State Governments should look upon the central land mortgage banks as participants in the programmes of agricultural development and give them every support in playing this role. Many of the Plan schemes may require ancillary investment by a large number of cultivators and such investment can be refinanced by the Agricultural Refinance Corporation. Some service co-operatives should, on an experimental basis, take the lead in drawing up, in co-ordination with the extension and other Government staff, plans for agricultural investment by individual cultivators in their jurisdiction in the financing of which the short-term structure as well as the long-term structure can participate. At a later stage, the central co-operative banks can take up a similar task for the whole district.

83

6. The central co-operative land mortgage banks in all the States should be generally supported and strengthened. In Assam, however, in view of the very unsatisfactory position of the existing central land mortgage bank, the state co-operative bank may take up responsibility for long-term credit in the area of the three central co-operative banks taken up for rehabilitation, while, for the rest of the State, the State Government may step in with large-scale provision of taccavi as a transitional measure.

85

7. There should be the fullest co-ordination between the co-operative long-term credit structure on the one hand and the short-term and medium-term structure on the other, on the lines indicated in the report.

86

Action in respect of developed States

Para Nos.

8. In areas where the performance of co-operatives has been found to be satisfactory, *e.g.*, Maharashtra, Gujarat and Madras, the present trend in policy and operations should broadly be continued with emphasis being laid on rectifying known weaknesses in certain respects.

88-91

Action in respect of the less developed group of States

9. In the States of Punjab, Andhra Pradesh, Madhya Pradesh, Kerala, Mysore, Jammu and Kashmir and Uttar Pradesh as also the Union Territories of Delhi, Himachal Pradesh, Pondicherry and Goa, vigorous efforts should be made towards full implementation of the agreed policies and, in particular, towards remedying the major defects that have been noticed.

93-94

Action in respect of States where co-operative credit has shown least progress

10. Even in the States of the Eastern Region and Rajasthan as also the Union Territories of Manipur and Tripura, co-operative credit, in the long run, should provide the right and adequate solution for the problem of agricultural credit. Efforts will, therefore, have to be made for the expansion of co-operative credit in these areas after an initial period of consolidation during which, however, an all-out effort should be made for a fuller implementation than in the past of accepted policies while the responsibility of the co-operative credit institutions is kept confined to their present effective geographical coverage.

95-102

11. Supplementary and transitional arrangements should be devised for institutional agricultural credit in those parts of these States which will thus remain outside the geographical coverage of existing

Para Nos.

co-operatives, to be withdrawn from the scene once the co-operative credit structure is sufficiently rehabilitated to serve these areas as well.

97

12. Top priority will have to be given to the implementation of a programme of rectification and development of the primary structure on the lines set out in the report.

103-105

13. The following lines of departure from the normal manner of functioning of the three-tier structure may become necessary:

(i) In areas where dormancy is widespread or the liquidation of societies is proceeding very slowly, the non-defaulting members of the societies taken up for reactivation or liquidation, may be financed by the central co-operative bank direct through its nearest branch.

107

(ii) The rules for financing defaulting societies may be liberalised so that the percentage of overdues which would make a society ineligible for fresh financing may be fixed somewhere between 25 and 50 per cent depending upon local conditions.

108

(iii) Where a central bank has become almost ineffective in terms of ability to serve affiliated societies, the apex bank may fill the breach by establishing a branch and financing the creditworthy societies, until the central bank is reorganised on the basis of a suitable arrangement to write off its residual bad debts. Such action may become necessary in some of the better developed States also in respect of those banks which have reached an impasse in their working owing to past mismanagement.

109-110

14. Certain special aids may have to be provided to the co-operative financing institutions in these States in the matter of resources and personnel.

(i) While all the usual steps, on the lines of agreed policies, should be taken to increase the deposits of the co-operative banks, State Governments should place some resources, *e.g.*, amounts which would have otherwise been distributed by way of taccavi, at the disposal of those central banks which are specially weak in deposit potential. While this assistance will have to be technically in the nature of loans, the terms should be such that the bank can use them as if they were term deposits. 112

(ii) The State Governments in these States should make available sufficient funds for maintaining adequate staff in their Co-operative Departments and for enabling the central banks to maintain the requisite staff. They should also draw up and implement suitable programmes of recruitment and training. 113

(iii) As a short-term expedient, where necessary, these States may obtain the services of officers of the Reserve Bank on deputation or, in suitable cases, the services of retired officials of apex co-operative banks or State Governments. The local officers should be trained up in a period of 2 to 3 years. 114

15. Government policy should be positively re-oriented in the direction of de-officialisation and active encouragement for the emergence of local leadership. Persons who are defaulters or represent defaulting institutions should be removed from the management of co-operative institutions. 115

16. A review committee should be set up in each of these States, more or less on the lines of a similar committee now functioning in West Bengal, with representatives of the concerned Departments of the State Government, apex and central co-operative banks as also the Central Ministry of Co-operation and of the Reserve Bank, for a periodical review

Para Nos.

of the implementation of the co-operative programme. The senior officer in every State who is in overall charge of the programme of agricultural production should also be intimately connected with the programme of consolidation.

117

17. Special cells may be set up to deal with the problems of these States both in the Reserve Bank and the National Co-operative Development Corporation.

117

Food Corporations

18. Though the legislation being enacted for the establishment of the Food Corporations includes a provision to enable them to dispense production credit, it would not be advisable for the Corporations to exercise this function even as a transitional measure.

120

Role of taccavi

19. Taccavi cannot provide the transitional arrangements contemplated for the specified areas, but it may play its normal role in relation to the needs of specially backward classes or areas or certain emergent situations. Its operational policies should be such that the co-operative is not placed at a disadvantage and co-operative discipline is not violated. Long-term taccavi, however, may have to continue on a fairly large scale in the foreseeable future in most areas.

121-122

Role of the State Bank of India

20. The State Bank of India will have to shoulder increased responsibility in providing the working capital requirements of co-operative marketing societies for business connected with the purchase of foodgrains by the Food Corporations. The bank's

involvement in the financing of the processing of agricultural produce organised on a co-operative basis will also have to increase. 128

21. The State Bank may have to extend and expand its credit facilities to various types of non-credit co-operatives, *e.g.*, those concerned with distribution, industrial production, construction, marketing, processing, etc. 129

22. As a financier of the co-operative sector, the State Bank will have to work gradually towards ensuring that lending policies and procedures at different levels are in tune with the requirements of sound banking. In this context, increasing co-ordination between the Rural Credit Department of the State Bank and the Agricultural Credit Department of the Reserve Bank will be necessary. 130

23. We welcome and support the experimental scheme, which is under the consideration of the State Bank, for establishing selected pilot centres to identify and fill the gaps in the provision of credit for production and development in the rural areas. The main role which the bank may play in this context in regard to agricultural credit, would relate to medium and long-term finance for developmental activity associated with investment in the agricultural sector. In areas where primary agricultural credit co-operatives do not exist or lack the support of the usual upper tiers of the credit structure, the pilot centres may provide even short-term production credit and medium-term credit for maintenance and replacement of assets until the co-operatives can take over these responsibilities. In Assam, they may have, in addition, to undertake the financing of co-operatives as well, in areas where the primary societies will be functioning without the support of the higher tiers of the structure.

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24. In so far as agricultural credit is concerned, this programme of the State Bank will have to be carefully co-ordinated with the programme of co-operative credit generally and with the working of co-operative banks and societies in the areas to be covered by the pilot scheme in particular. 133

25. It would neither be appropriate nor possible to entrust to the State Bank or to commercial banks, the responsibility for providing the temporary and supplementary arrangements for agricultural credit contemplated for specified areas. 124&134

Credit Corporations

26. An Agricultural Credit Corporation should be set up in each of the States of Assam, Bihar, Orissa, West Bengal and Rajasthan with provision for the Corporation for Assam to extend its operations to Tripura and Manipur. These Corporations should serve the areas to be kept out of the purview of co-operative credit. Being conceived as transitional arrangements, the Corporations should be in a position to withdraw from the field once the co-operative credit structure is able to take over the responsibility for these areas as well. 136

27. The Credit Corporations will make loans but accept no deposits from the public. Their share capital should be provided, to some extent, by the State Government concerned, but, in the main, by the Government of India, the proposed Food Corporation of India, the Reserve Bank of India and the State Bank of India. All these should be represented on its management. The Reserve Bank may be intimately associated with the determination of the policies, procedures etc. of the Corporations. The Corporations should raise their working funds mainly by borrowings from the State Bank or the Reserve Bank or both. 136

28. The Corporations should provide short-term loans for agricultural production on the basis of the crop loan system. The Corporations will finance cultivators raising wheat and paddy on the condition that the borrowers agree to repay the loans by definite delivery of these grains at fixed points to the Food Corporation of India or its agents. Attempts should be made to take advantage of any other marketing arrangements which are functioning satisfactorily or can be organised, in respect of other agricultural commodities also. 137

29. Though the Corporations may advance loans to substantial cultivators direct, they may find it prudent and convenient to make loans to small cultivators on a group basis, *i.e.* against joint bonds executed by them. 138

30. The areas of operation of the Corporations will have to be demarcated carefully on the basis of a quick investigation to determine the villages which are not being served by active co-operatives. 139

31. In Assam, only the central banks of Cachar, Nowgong and Tezpur may be taken into account, in the immediate future, for the programme of re-organisation of co-operative credit, with the Assam Apex Co-operative Bank being required to operate as an Apex Bank only for these three central banks in this context. For the rest of the State, the Corporation should directly finance revitalised agricultural credit societies as well as newly established societies, apart from financing the cultivators direct in villages not covered by such co-operatives. In this State as well as elsewhere, the Corporations will not finance non-members in villages which are served by active or revitalised primary societies. As and when the co-operative financing structure in the State comes up to the required standard, the Corporation can

Para Nos.

hand over its functions to the apex co-operative bank and the district co-operative banks and withdraw from the scene.

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32. The establishment of the Corporations may be provided for by the enactment of enabling Central legislation on the lines of the State Financial Corporations Act. The Reserve Bank should take an active promotional interest and help in bringing these Corporations into position in the different States. The Corporation, when established, will need not only the effective support of the administrative machinery of the State Governments but also that of statutory provisions similar to those which are available to the co-operatives in their dealings with their borrowers. While the Central legislation should be made as comprehensive as possible for this purpose, State legislation may also be undertaken, in addition, for making statutory provision in regard to those matters which the Central legislation cannot cover.

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33. In regard to the personnel needs of the Corporations, a long-term view should be taken on the assumption that all such staff will eventually be taken over by the respective co-operative organisations. For meeting the immediate requirements, the Corporations may have to obtain, on loan, the services of experienced officers of the Reserve Bank, the State Bank and the developed apex co-operative banks. The Corporations will have to open a network of branches through which to operate.

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SOME ASPECTS OF THE PROPOSAL FOR AGRICULTURAL
CREDIT CORPORATIONS—SUPPLEMENTARY NOTE BY
THE INFORMAL GROUP

Certain issues of policy have come up for examination in the course of a preliminary consideration of our recommendations by the concerned authorities of the Central Government and the Reserve Bank. On the basis of the trends of this discussion, a further consultation among members of the Informal Group was held after the signing of our report. We have reached the following conclusions on the main points discussed by us at the meeting.

1. *Scope of operations*

The governing consideration, as has been explained in the Report, is that the Corporation is intended to function in place of that part, or those parts, of the co-operative credit structure, which are, for the time being, unequal to the responsibility expected to be fulfilled by them and that the co-operative credit structure should, eventually, take over its responsibilities from the Corporation. There should be no difficulty either in identifying the apex banks and central co-operative banks in respect of which such substitution, in whole or in part, may be considered necessary, or in implementing this policy in relation to them. Some difficulty may, however, be experienced in drawing up a suitable line of demarcation at the field level. Our broad approach, as indicated in the report, is that the Corporation's area of operation should be restricted to villages not effectively served by co-operatives. It will be for the Agricultural Credit Corporation and the State Government together to determine those areas which come under this description, after taking full account, in the case of each society, of the past progress and the future prospects of revitalization under the program-

mes of the State Government for strengthening the co-operative credit structure at the primary level. In the villages where the agricultural credit societies show good prospects of effective coverage and service, steps should be taken to secure their development in these directions at an early date. In other villages, reliance will have to be placed on the Corporation as the source of institutional agricultural credit for the immediate future. The dormant and ineffective co-operative societies, if any, which may be in existence in such villages, may have to be put into at least temporary suspension of business so that there is no confusion of responsibilities and jurisdiction at the field level.

2. *Acceptance of Deposits*

Though it was stated in the Report that the Corporations would not accept deposits from the public, this general approach, on further consideration, appears to need some modification. Thus, it should be permissible for an Agricultural Credit Corporation, firstly, to entertain the normal banking accounts of its borrowers (central co-operative banks, primary agricultural credit societies and individuals, as the case may be) as part of the normal relationship between a lending institution and its borrowing constituents and, secondly, to accept non-refundable deposits from the individuals borrowing from it in lieu of the share capital which they would have contributed, if they had been borrowing from a co-operative. The intention underlying the latter arrangement is that, in due course, when the financing responsibility is taken over by the co-operative credit society in the village, these deposits would be transferred to it, to serve as the share capital contributions from these individuals who would then become its members and borrow from it. Care, however, should be taken to avoid rigidity in the insistence on these collections such as might lead to the kind of undesirable practice that has crept into the co-operative field in some states, *viz.*, of collecting the share capital by deduction from the loans themselves. Similar deposits, out of their legitimate earnings, will have to be collected from the agricultural credit societies and central banks which borrow

from the Corporation. Such deposits should be maintained either with the Corporation or with the apex co-operative bank.

So far as deposits from the public are concerned, it should be made legally permissible for the Corporation to accept them, though the circumstances in which this might be done will have to be determined by the Corporation with reference to the following broad considerations. Firstly, any effort towards the promotion of savings, monetization and banking habits in the relatively less developed areas where the Corporations are to function should be welcome. Secondly, where the co-operative banks continue to function as active units, the Corporation should as far as possible avoid competition with them for deposits from the public. Thirdly, where the Corporation is substituting, on a transitional basis, for a central co-operative bank it should make an active effort to mobilise deposits not only from the public but also from local bodies, other quasi-government institutions, etc., so that when in due course, the Corporation ceases to be in existence and the central co-operative bank reappears on the scene, that bank need not start, as it were, from scratch and can benefit from the contacts and goodwill built up by the Corporation.

3. *Financing of activities other than agricultural credit*

The Group was mainly concerned with how best the institutional arrangements for meeting the credit requirements of agricultural production could be strengthened as early as possible and it is in this context that the Group has put forward, as part of its recommendations, the proposal for setting up Agricultural Credit Corporations in certain States. It is not easy at this stage to indicate with any definiteness the nature and extent of the role which the Corporations will have to play in this important field, and how much of their resources can be said to be available for financing other activities organised co-operatively or otherwise, except for co-operative marketing and processing of agricultural produce. Both in view of the importance of the link of expand-

ed credit with marketing, for the success of the Corporation's basic function of providing credit for agricultural production, and of the difficulties that might be faced in some cases in the direct financing of the marketing and processing societies by the State Bank of India, it would be desirable if a provision is made for enabling the Corporation to finance such societies where necessary.

So far as other co-operatives such as consumer stores, industrial co-operatives, etc. are concerned, the question whether they should be financed by the Corporations may be taken up for consideration after the Corporations have functioned for some years and have acquired enough experience of successful operations in the sphere of agricultural credit. At that stage, and to the extent that the industrial co-operatives, etc., are not able to find adequate accommodation from the State Bank of India and other sources, it may be examined if it is necessary for the Agricultural Credit Corporations to play any role in the financing of such co-operatives in areas where the Corporations are substituting for the central banks.

Winding up of the Corporations

The point raised for consideration was whether, with a view to emphasising the tentative character of these arrangements and the need for efforts towards revitalization and extension of co-operative credit which are simultaneously called for, the enabling legislation might specifically provide that the Corporations might be wound up within 10 years of their organization. We feel that it will not be advisable to place any statutory limit on the period for which the Corporations should function. All that is necessary, in our view, is that provision should be made in the law to the effect that the Central Government will be empowered to decide, in consultation with the State Government and the Reserve Bank, when a Corporation might be dissolved. It may also be provided that there should be a periodical review, say, once in every five years, by the Reserve Bank, of the operation of each Corporation, with a view to examining if the need for its

functioning in its original form continued to exist and whether any changes in the manner of its working were required.

5. *Statutory control of the Reserve Bank*

It is necessary that the Corporations should be brought within the discipline of the Reserve Bank's banking regulation, as they will be engaging themselves in the business of banking and, in particular, will be functioning at different levels, in place of the co-operative credit agencies which on their reappearance on the scene, will be subject to the control of the Reserve Bank. It may be examined whether this should be done by including in the enabling Central legislation such of those regulatory provisions of the proposed Banking Regulation Act as may be considered necessary for this purpose or by amending the latter legislation so as to make some of its provisions applicable to the Corporation.

6. *Joint Corporation for Assam, Tripura and Manipur*

In view of the practical difficulties brought to our notice, we now feel that a joint Corporation for Assam, Tripura and Manipur may not be feasible. There will have to be one Corporation for Assam and a separate Corporation or Corporations for the Union Territories of Tripura and Manipur.

7. *Contribution of share capital by state co-operative banks to the Corporations*

The question has been raised whether co-operative banks should be invited to contribute to the share capital of the Corporations. In this connection, it is relevant to note that provision is to be made for adequate share capital to be contributed by the Government of India, the concerned State Governments, the Reserve Bank of India, the State Bank of India and the Food Corporation of India. Further, to the extent that no contribution is obtained from the state co-operative banks, commercial banks, etc., the Corporations can ope-

rate without being concerned about the level of dividend which they can pay and without the Government being required to guarantee a minimum dividend. Moreover, if the intention is to obtain the participation of non-official cooperators on the Boards of the Corporations, this can and should be separately provided for. The flexibility of operation as an alternative to co-operative institutions is also likely to suffer by having on the Board representatives of these very institutions in their capacity as shareholders. On these considerations, it appears advisable to exclude co-operative banks from participation in the share capital of the Corporations.

APPENDIX I*

RURAL PILOT CENTRES SCHEME OF THE STATE BANK OF INDIA

I. *Basic considerations:*

The State Bank of India, which, among other things, was constituted for "the extension of banking facilities . . . more particularly in rural and semi-urban areas", has clearly a pivotal role from the point of view of rural (including co-operative) credit, banking and finance for agriculture, as well as rural industries. In the wider context of rural credit, the sphere of operation of the State Bank was defined by the *Informal Group* (presided over by the Governor of the Reserve Bank) in 1956. Within the State Bank of India itself, the question of its role in the rural credit sector has been under constant scrutiny. More particularly in the recent past, the State Bank of India has been examining the possibility of further extension of its activities in the rural sector, both in terms of area and functions. With this in view, a Scheme which is called "Rural Pilot Centres Scheme", has been drafted with the two-fold objective of enabling the State Bank of India to (1) play a more effective part in the direct as well as indirect provision of rural credit and (2) to the extent possible, fill in, on a pilot basis, the 'gaps' and 'inadequacies' in the working of the existing credit institutions in the rural areas.

II. *Background:*

The performance, so far, of the State Bank of India needs to be viewed in the context partly of the limitations inherent in its being a commercial bank and partly of the policy decisions which assigned to it, so far as agricultural credit was concerned, a particular place in an integrated

* Prepared in the State Bank of India.

programme. Within this framework, the financing of primary credit societies was the function of central financing agencies in the three-tier co-operative structure. The Bank was, therefore, not expected to undertake the direct financing of primaries. As for the apex and central banks, the Reserve Bank had the role (and in the integrated framework a very special role) of refinancing them in respect of credit, especially credit for production. It was in regard to marketing and processing that the State Bank had a definite part to play, both by way of indirect and supplemental finance to both the co-operative banks and (to a more limited extent) directly to the societies. Further, as rural industries were to be covered through co-operatives and financed by the credit co-operatives, industrial co-operative banks and such other bodies as Handloom Board and Khadi and Village Industries Commission, the role which the Bank could play in terms of rural finance was limited. Lastly, the rapid branch expansion of the Bank, particularly in rural areas, demanded concentration of efforts in the direction of maintenance and improvement of the existing services rather than undertaking of new functions in uncharted fields. Now that decentralisation of the Bank's management has reached an advanced stage of completion, it is understandable that the Bank should propose an extension of its activities, albeit on a pilot basis.

III. *Broad Objectives:*

The Pilot Scheme envisages establishment of "pilot centres" rather than "pilot branches", i.e., each selected branch, existing or new, will cover a number of villages round about and not merely the small town or village in which the bank is located. Moreover, the branches at the pilot centres will not only implement the Liberalised Policy of "Agricultural Finance and Rural Industries Finance" envisaged under the Scheme but will also undertake or continue to undertake other normal banking functions. In this way, the Bank hopes to get experience which will help it (a) to utilise its own rural branches more effectively and (b) to consider realistic ways of making a substantial contribution to rural credit.

Apart from the two objectives just mentioned, the Scheme envisages, as a short-term measure, a purposeful and planned expansion in rural finance (both for agriculture and industry) with the aim of filling in, to the extent possible, gaps and inadequacies in the existing institutional credit agencies. The Scheme does not necessarily envisage financing of all agriculturists ; nor does it seek to confine itself to the financing of any particular type of farmer, big or small. The main objective is to provide finance for "agricultural production" increasingly, to the extent such increase is feasible for the State Bank.

So far as the existing agencies, especially co-operative banks, are concerned the State Bank's role will, as heretofore, continue to be supplemental and co-ordinating and not competitive in the usual sense of that word.

IV. *Main Features:*

Simultaneously with the introduction of the Rural Pilot Centres Scheme, the Bank will examine the scope and feasibility of further liberalization of the policies regarding loans to marketing co-operatives, particularly those connected with procurement operations. Further, the possibility of making an effective contribution to the Scheme of agricultural development (reclamation, orchards, plantations, etc.) through medium-term loans—which in the case of the Bank can now be as long as 10 years—will be examined with special reference to the refinancing facilities which the Bank in turn may get from the Agricultural Refinance Corporation.

Apart from the above, the main lines of development envisaged under the Rural Pilot Centres Scheme may now be briefly indicated :

(1) A new integrated "*Liberalised Policy of Agricultural Finance*" will be implemented in the Pilot Centres. Loan policies and loan procedures will be suitably formulated after taking into consideration the local peculiarities of finance for agricultural production.

(2) *The area of operation* of each Pilot Centre will be defined in terms of villages to be covered by the Branch Agent. The Branch Agent would be expected to have personal contact with leading agriculturists as also with entrepreneurs in small industry, etc., in each of the villages under his jurisdiction.

(3) At each of the Pilot Centres, the Bank, if it finds it necessary in the context of the need for financing production and marketing, may arrange for hiring or construction of *godowns* in which agricultural and industrial produce/products/ requisites can be stored for giving pledge finance.

(4) A new integrated "Liberalised Policy of *Rural Industries Finance*" will be formulated particularly with a view to financing, where feasible, village artisans, cottage industries, handicrafts, rural electrification or development schemes and rural small-scale industries.

(5) The development of the banking habit and especially the mobilisation of savings will be another major objective. In the background of prevailing rural conditions, especially illiteracy, and where necessary with reference to specific areas, suitable modifications will be made in forms (e.g. of cheques) and procedures (e.g. of withdrawal of deposits).

V. *Selection of Pilot Centres :*

V. A : *Number of Centres:*

The pilot centres, will, to start with at any rate, be initiated at the existing branches and pay offices (after upgrading them into branches) where possible. Where necessary, however, new branches will be opened. It is tentatively proposed to open five to seven Pilot Centres in each of the existing six Circles (Bombay, Ahmedabad, Madras, Calcutta, Kanpur and Delhi) as also in the areas of the proposed new one at Hyderabad. This will make 49 pilot centres. In addition, there could be two pilot centres in the area of each of the Subsidiaries, plus one additional one for the State Bank of Bikaner and Jaipur. This will make a total of 15.

In all, on this computation, there will be 49 + 15 i.e. 64 Pilot Centres. In fine, the number of Centres may vary between 50 and 70, covering about 15 to 20 districts in the different States.

V. B : *District—First Stage of Selection :*

It is proposed to select, in the first stage, a district each from some of the States. From within each selected district, two or more Pilot Centres are proposed to be selected. This procedure of selection has some definite advantages as it will prevent diffusion of our activities over wide areas which invariably results in dilution of efforts. As the undertaking of activities proposed under the Scheme will necessitate employment of trained technical personnel (e.g. agricultural or co-operative personnel) co-ordinated functioning within a smaller unit such as a district will ensure efficient supervision.

Among the various criteria which are proposed to be considered while selecting a district, those requiring special mention are : (a) The district should have fair potentialities for agricultural development, and from the co-operative angle, should not be among the most "developed" in the State. (b) Some schemes for development, such as rural electrification, irrigation, bunding, etc., should be in progress. (c) The area should not be too vulnerable to famine, floods and other natural calamities. The number of Pilot Centres to be started in a district so selected would be decided upon after taking into consideration (1) local conditions (2) number of Pilot Centres proposed to be started in the particular SBI Circle or the Subsidiary Bank concerned.

V. C : *Groups of Villages :*

Within the district, it is proposed to select as far as possible, a "large village" (or small town) which does *not* have, or is not likely to have in the near future, a branch of the state or district central co-operative Bank. The "area of operation" of these Pilot Centre branches will be clearly

defined and the Agents will be expected to function over this *entire* area. The selected large village or small town (i.e. the Pilot Centre) should be well connected with other villages within the jurisdiction.

VI. *Co-ordination with other Development Schemes:*

As one of the objectives of this Scheme is to fill, *to the extent possible*, on a pilot basis, the 'gaps' and 'inadequacies' in the working of existing credit institutions in rural areas the following considerations will be borne in mind :—

Firstly, the Scheme, will be formulated with due consideration of the variations between three broad areas *viz.* (1) co-operatively developed states (such as Maharashtra, Gujarat and Madras) (2) co-operatively under-developed States (such as West Bengal, Bihar, Orissa, Rajasthan and Assam) and (3) other states which occupy an intermediate position in the matter of co-operative development. Secondly, this Scheme will be implemented in collaboration with existing agencies and in co-ordination with other schemes and projects such as IADP, (Package Programme), Community Development Programmes, Integrated Scheme of Rural Credit and Small Scale Industries Schemes.

VI. A : *Co-operatively Under-developed areas:* (*excluding Assam*)

Loans will be advanced as a part of a new 'Liberalized Scheme of Agricultural Finance'. The Scheme envisages direct loans to individual agriculturists or preferably to "groups" of agriculturists who are prepared to accept production programmes worked out in consultation with district/block agricultural offices. "Groups" of farmers proposing to undertake jointly a minor irrigation scheme, horticulture, poultry development etc., would be preferred. Credit may be given on the basis of a "package" deal—short-term, medium-term (3 to 5 years) and long-term (upto 10 years in exceptional circumstances). Short-term production loan upto a reasonable amount may have to be given as clean loan against two

or more signatures. Medium and long-term loans could be granted against acceptable security such as first charge, equitable mortgage, etc., of landed property.

VI. B : *Co-operatively underdeveloped areas of Assam :*

Assam State, which poses a special problem, is a category by itself. Because of the widespread failure of co-operatives at practically all levels, particularly in areas other than those covered by Cachar, Nowgong and Tezpur central co-operative banks, SBI will consider the feasibility of opening a relatively large number of centres for introduction of the 'Liberalized Policy for Agricultural Finance'. A carefully formulated scheme for financing individual agriculturists, viable primary credit societies which do not get finance from co-operative banks, plantations, etc., will have to be introduced through large number of centres located in judiciously chosen places.

In areas covered by the central co-operative banks of Cachar, Nowgong and Tezpur, the functioning of the Pilot Centres will be somewhat similar to those described in Section VI. A.

VI. C : *Co-operatively developed areas and other areas:*

In co-operatively developed States, as also in other States which occupy an intermediate position in regard to co-operative development, the emphasis would shift from finance for agricultural production to that of rural industries for the financing of which a new "Liberalized Policy of Rural Industries Finance", will be introduced. Consistently with the shift in emphasis, while selecting "districts" or "centres", greater importance will be given to such criteria as potentialities for development of a particular type of rural industry, scope for rural electrification, etc.

In many of these areas, though "short-term co-operative credit" for agriculturists is available, the position with regard to medium and long-term loans is less satisfactory. Such of the farmers as are not able to get medium-term and long-

term credit from co-operatives and land mortgage banks can be financed if they are prepared to accept a production programme worked out in consultation with district authorities. Medium-term and long-term credit will cover all types of loans for such purposes as bunding, irrigation, poultry, horticulture, purchase of machinery etc.

VII. The State Bank of India has separately drawn up the broad outline and is working out the details, of (a) Liberalised Scheme of agricultural finance appropriate to Pilot Centres situated in the different areas categorised above and (b) Liberalised Scheme of finance for rural industries and industrialisation with reference to different regions as well as different categories of artisans, small industrialists and other entrepreneurs in rural areas. Further particulars of these schemes, which involve the implementation on a *pilot* basis of a liberalised policy of rural finance both in respect of agriculture and industries, are not given here, since they would not be strictly relevant in the context of this appendix.

APPENDIX II

STATE-WISE REVIEW

ASSAM

The recent record of co-operative credit in Assam is unsatisfactory on any reckoning. The primary agricultural credit societies had covered by the end of 1961-62, 65 per cent of the total villages but 10.2 per cent of the villages were covered by dormant societies. As for membership, only 20.5 per cent of the rural population in the areas covered by societies (including dormant) or 18.9 per cent of the total cultivator households in the State were covered. It should, however, be noted that only 41.8 per cent of the total cultivator households reported indebtedness. In relation to this limit of potential coverage, co-operative membership constituted 45.3 per cent. The borrowing membership, however, was only 12.75 per cent of total membership and only 11.7 per cent of those reporting any borrowing during 1961-62. The quantum of credit provided by the co-operatives was, by any index, negligible. It formed only 6.4 per cent of the estimated total borrowings of cultivators. Co-operative loan per head of rural population in 1961-62 was also the lowest in the country at Re. 0.32. Borrowing per borrowing member at Rs. 95 was a little over one half of the borrowing per borrowing household in the State *viz.*, Rs. 174. Loans (excluding cash credits and overdrafts) advanced by the central co-operative banks in the State show a decline from Rs. 103 lakhs in 1958-59 to Rs. 30 lakhs in 1962-63.

2. One of the factors responsible for this record of failure and retrogression relates to inadequacy of the institutions in relation to the functions expected of them. The Assam State Co-operative Bank which began its operations

in May 1949 replacing the defunct apex bank which had functioned earlier, has not really developed into a truly federal institution at the State level.

It has a large element of individual membership which has not shown any reduction over the years. Its board of directors of 10 members includes only 2 representatives of central co-operative banks. The apex bank continues to run its branches doing loaning and deposit business with individuals in the areas of operation of the central banks, with a detrimental effect on their development. Its loans outstanding against central banks and agricultural credit societies were only Rs. 139.91 lakhs as compared with loans of Rs. 289.31 lakhs outstanding against tea gardens, individuals and non-agricultural credit societies as on 30 June 1963. As for central banks, there were 9 institutions operating in the seven plain districts in the State. The proposed amalgamation of two of these with two adjoining banks is yet to take place. All the banks continued to be weak units, three of them having owned funds of less than Rs. 3 lakhs and working capital of less than Rs. 20 lakhs. The total deposits of all the banks aggregated Rs. 13 lakhs. The financial position of the banks had become extremely weak, the fresh loans advanced by them during 1962-63 being only of the order of Rs. 33 lakhs and the overdues being 88 per cent of the loans outstanding at Rs. 221 lakhs. The primary structure was equally weak, the average membership, share capital and working capital per society being 59, Rs. 913 and Rs. 4733 respectively.

3. The operational policies pursued by the various institutions were also unsatisfactory in more than one respect. By and large, no feature of the crop loan system appears to be in operation in the State, the quantum of loans advanced to individual members being based on the value of land held by the member in most cases. Short-term loans were advanced only against landed security. Personal surety, though permitted by the co-operative law in the State, was mostly confined to loans made out of Government funds. In the absence of a provision in the Assam Co-operative Societies Act for

the creation of a charge on interest in land held by cultivators, the issue of loans to tenant cultivators has been found difficult. There is also a limit on individual borrowing, the maximum amount of short or medium-term loan which a person can borrow being Rs. 500. Lending in kind or in instalments is not in vogue.

4. Repayment performance at the society level has been poor over the last few years, the overdues being as high as 76 per cent as on 30 June 1963. In some of the central banks, the proportion of overdues to outstandings had exceeded 90 per cent by the end of 1961-62. Neither the societies nor the banks had granted extension of loans excepting in a very few cases. Arrangements for stabilisation were virtually non-existent for meeting that part of the overdues which had their origin in natural calamities. Only two central co-operative banks, *viz.*, Nowgong and Goalpara had constituted agricultural credit stabilisation funds but the total amount to their credit and to the credit of a similar fund in the apex bank was far too small to be of any significance. A relief and guarantee fund has been constituted by the State Government which had also a negligible amount to its credit on 31 March 1962.

5. The position was not much better in regard to long-term credit provided by the Assam Central Co-operative Land Mortgage Bank through 14 primary land mortgage banks and 4 central banks which had land mortgage banking sections. As high a proportion as 87 per cent of the demand in respect of its loans is stated to have remained unrealised over the last three years.

6. The precarious position of the co-operative credit structure described above, in part, reflects the paucity of internal resources, especially at the central bank level. The central co-operative banks have very poor deposits, the average being Rs. 1.47 lakhs per bank. The Government had not taken any steps to enable the banks to obtain deposits from quasi-Government institutions, nor had the banks opened an adequate number of branches to tap local deposits. Of the five banks which had branches two had only one branch

each, one had two branches and two had three branches each. The presence of apex bank branches at some centres has also adversely affected the growth of deposits in these banks. The building up of internal resources in the form of share capital is unsatisfactory despite the linking of share capital with borrowings at all levels, as there was no fresh financing on any appreciable scale.

7. The inadequacy of the infra-structure relating to the functions of supervision, administration, etc., also contributed to the impasse reached in co-operative credit in Assam. In spite of supervisory staff of the central banks being supplemented by departmental officers attached to the banks, the average charge per supervisor was very high, *viz.*, more than 40 in three banks and between 30 and 40 in three other banks. Audit arrangements were also unsatisfactory in that there was a general shortage of staff for the purpose, though there was financial provision for employing them, the charge per auditor in the area of three banks being more than 60 societies. The staff engaged for arbitration was also reported to be inadequate particularly in the context of heavy overdues at all levels. The training of institutional staff even at the central bank level was generally unsatisfactory.

8. The supply of agricultural credit from Government funds is another factor which has worsened the situation from the point of view of co-operative credit. In 1959-60, the State Government provided a sum of Rs. 57.45 lakhs to central co-operative banks for being distributed as short and medium-term loans. Even before these amounts were fully recovered, another sum of Rs. 50 lakhs was channelised through the banks as loans, despite the reported reluctance of some of the central banks to undertake this work. In the result, at the end of 1961-62, Rs. 85.08 lakhs remained still overdue. The general effect of this entire operation, coming as it did in the context of a deteriorating overdues position and followed by laxity in the recovery of Government loans, was to affect the maintenance of co-operative discipline in the State and to handicap the co-operatives in recovering their loans.

9. In Assam, more than in any other State, no explanation for the failure of co-operative credit can ignore the various factors which, while lying outside the sphere of co-operative organisation, still have an intimate bearing on agricultural credit. More than half the State is hilly region and a large portion is under forests. Ninety-one per cent of the population is rural, with the cultivators and agricultural labourers constituting 69 per cent of the total workers. With the low level of industrialisation and urbanisation, the progress in terms of cash transactions and credit operations has been meagre. The scheduled castes and tribes account for 24 per cent of the State's population. From the point of view of stable conditions for credit, the fact that natural calamities are of frequent occurrence is a serious disturbing factor. The Brahmaputra which traverses the plains of Assam causes widespread floods almost annually, the total annual damage to crops exceeding Rs. 2 crores in five of the six years between 1950 and 1956 and Rs. 19 crores in 1954. The means of transport and communications are also poorly developed. The State has also on occasions been affected, in parts, by earthquakes. Finally, the State being on the border of Pakistan, Burma and Tibet, political tension has frequently interrupted normal life in parts of the State and placed a great strain on its administrative machinery.

10. From the foregoing review, the causes for the failure of co-operative credit in Assam can be broadly summed up as :

- (i) restrictive loan policies and procedures (ii) paucity of internal resources at the central bank level (iii) frequent occurrence of natural calamities affecting agricultural production (iv) the vacillating approach of the State Government towards policies and programmes relating to co-operative development generally and to paddy procurement in particular (v) the general weakness of the machinery in charge of co-operative administration (vi) the adverse after-effects of large-scale provision of taccavi and (vii) a combination of circumstances resulting from natural, political

and administrative factors which tend to restrict the demand for credit for agricultural production and to make it difficult for institutional credit to operate.

11. A scheme was drawn up in May 1963 for the reorganisation of co-operative credit in the area of three selected central banks in the State, on the basis of consultations among the Central and State Governments and the Reserve Bank. The scheme envisaged, among others, the following features :

1. Classification of all societies into the following categories :

- (a) societies which are new
- (b) societies which are completely debt free
- (c) societies where 50 per cent or more of the members had repaid 50 per cent or more of the total co-operative loan taken by each of them since inception of the societies provided repayment performance of such societies during the last two years is 50 per cent or more
- (d) the rest of the societies

Societies of the first three categories would be taken up for revitalisation immediately. Of the remaining societies those which are beyond all hopes of reformation should be put into liquidation and the rest should be revitalised either by amalgamation or by other means on a phased programme.

2. Classification of members of all societies in the following four categories :

- (i) new members
- (ii) debt-free members
- (iii) those who had repaid 50 per cent or more of their dues to the society
- (iv) those who had not repaid even 50 per cent of their dues to the society

Members of the first two categories would be eligible for fresh finance immediately. Members of the third category would become eligible for fresh finance after their existing overdue loans were converted into medium-term loans. Coercive action should be taken against members of the fourth category to recover loans. The scheme was approved by the State Government as late as in December 1963 but still little progress has been made in its implementation.

BIHAR

The overall record of co-operative credit in Bihar is one of general failure and inadequacy, as judged by any of the available indicators, though the last few years have witnessed some improvement of negligible dimensions. Of the villages in the State, over 60 per cent are covered by agricultural credit societies but, of these, 12 per cent are covered by dormant societies. Co-operative membership covered about one-fourth of the rural population, 17.9 per cent of the cultivator households and 27.4 per cent of the number of indebted cultivator households. The borrowing membership, which formed 27.7 per cent of the total membership, represented 11.8 per cent of the borrowing households. The quantum of co-operative lending, again, though on the increase, remained negligible on any reckoning. The borrowing from agricultural credit societies and land mortgage banks during 1961-62 formed only 4 per cent of the total estimated borrowings of all cultivator households, the lowest percentage for any State in the country. That scale of financing was also relatively low as is indicated by the fact that the loan per borrowing member was only Rs. 83 or about one-third of the borrowing per cultivator household which was Rs. 246. Finally, the co-operative loans per head of rural population in 1961-62 amounted to only Re. 0.63 — lowest in the country except for Assam.

2. It is in the general inadequacy of the institutional structure at all levels that one can find a major reason for the failure. Thus, the apex co-operative bank as well as the central banks reflect in their working, the general dearth of

non-official leadership, the apathy of the State Government in helping such leadership to be thrown up and high degree of official domination which can stifle first the emergence and then the initiative of local non-official leadership. In the apex bank, for instance, in pursuance of a condition of the Government guarantee which had been provided in connection with the rehabilitation of the co-operative credit structure in this State after the last depression, the Managing Director (who also functions as Financial Adviser to Government) is appointed and paid for by Government. At the central bank level, again, the chairmen of most banks continue to be collectors or sub-divisional officers and managers are also employees of Government. The Government is, however, lately reported to be in favour of non-official chairmen and the placing of managers under the control of the boards of management of the banks. The process of rationalisation of central co-operative banks has been slow and is still incomplete. According to the scheme drawn up by Government in consultation with the Reserve Bank in 1958, 47 central banks were to be brought down to 28, six of them serving a district each and the remaining ones serving, in all, 11 districts. At present 35 banks still continue to function, reportedly because of the opposition of the depositors to amalgamation and also because of certain apprehensions entertained by those connected with the present management of these banks. Some of the amalgamated units are, in fact, functioning in practice as separate wings of the new bank without effective control from the head office. Many central co-operative banks are unable to satisfy even the minimum standards of owned funds and working capital which were fixed a decade ago and are now out of date ; of the 35 banks, 19 have paid-up share capital and reserves of less than Rs. 3 lakhs and 29 banks, working capital of less than Rs. 20 lakhs. At the primary level too, the position is not satisfactory. Though on the decline, the proportion of dormant societies was still as high as 29 per cent in 1961-62. The average population covered in the area of operations of a small-sized society was only 1086. With an average membership of only 55 and loan outstandings of Rs. 1587, these societies were nowhere near satisfying the minimum

standards of viability. Though 5501 societies were said to have been taken up for revitalisation, the objectives fixed are so low that the scheme had not brought about any real improvement. Another structural problem at the base related to the overlapping of the areas of operation of agricultural credit societies and the sugarcane societies.

3. The operational policies of co-operative institutions have also not been such as to facilitate progressive expansion of credit. The loan limits fixed by the societies for individual members are not related to area or crop but are determined on an ad hoc basis, besides being subject to an upper limit which has, however, been increased, over the years, from around Rs. 100 to Rs. 500. Though small loans appear to be permissible on a surety basis, mortgage security is fairly common, accounting as it did, for 41 per cent of the loan outstanding at the end of 1961-62. The Co-operative Societies Act of the State does not provide for the creation of a charge against the land or interest in land held by members of co-operatives. By and large, credit does not seem to be oriented to production in any manner. Another restrictive practice is that no fresh loan is granted to a defaulting society unless at least 80 per cent of the earlier loan has been repaid by it. No progress has been made at the apex or central bank levels in building up stabilisation funds, despite incidence of floods and drought in some districts. Overdues consist, in good part, of old arrears which have come down from earlier years and constitute a sizable, though declining, proportion of outstandings. In many cases, however, poor recoveries led central banks, which generally have very limited resources of their own, to default to the apex bank. In regard to the mobilisation of resources, it may be noted that the deposits of central banks are negligible, as the banks have not been recognised for receiving deposits from local bodies, trusts, etc., and they have also not undertaken branch expansion on any significant scale. Shareholding and borrowing are being sought to be linked at the central bank and primary levels but not at the level of the apex bank, Rs. 41 lakhs out of whose total share capital of Rs. 46.15 lakhs has been contributed by Government.

4. Audit staff is inadequate and over one-third of the societies had not been audited for 1960-61 till the end of the following co-operative year. Progress in respect of co-operative marketing was negligible, the main activity of these societies being concerned with the distribution of agricultural requisites. Also of relevance from the point of view of co-operative credit is the fact that the heavy taccavi overdues accumulated in certain districts following the provision of taccavi loans on a large scale by Government in the past have handicapped the co-operative structure in the expansion of its activities in those districts.

5. Long-term credit has also made little progress in the State though there appears to be large need and potential for such credit. The operations of the State Co-operative Land Mortgage Bank—which is about 5 years old—have been negligible in volume and concerned with financing of the redemption of prior debts rather than any productive investments.

6. From the foregoing it is seen that the failure of co-operative credit in Bihar is mainly attributable to (i) the absence of rational and progressive loan policies at the primary and central bank levels, (ii) inability of co-operative credit institutions to mobilise sufficient resources in the form of share capital and deposits, (iii) officialisation at all levels to the point of curbing the initiative of local non-official leadership and (iv) the absence of an active interest on the part of Government and the general inadequacy of co-operative administration in implementing agreed policies.

7. It is difficult to say how far the slow pace of the growth of institutional credit in the State is due to natural or other factors which restrict the demand for credit. The proportion of cultivating households reporting borrowing from any agency to total cultivating households is only 41.5 per cent, lower than in any other State except Assam and Orissa. Average borrowing per borrowing household at Rs. 246 is also lower than that in any other State except Assam. It is possible that in parts of the State, the predominance of very

small holdings and the prevalence of subsistence farming without any significant use of inputs calling for cash outlay accounts for the relatively low level of demand for credit reflected in these figures.

WEST BENGAL

West Bengal is one of the States in which co-operative credit has made no significant impact as seen from every major index of performance. Of the villages in the State only 68 per cent were covered by agricultural credit societies but 34 per cent, out of these, were covered by dormant societies. The co-operative membership constituted 19 per cent and the borrowing members among them 8.4 per cent of the cultivating households. Of the total number of indebted cultivator households—which may be taken to be the limit of potential coverage—the members of co-operative societies formed about a third. The borrowing members constituted about 15 per cent of the borrowing households. In quantitative terms, co-operative credit formed only about 10 per cent of the total estimated borrowings of cultivators. Increasing at a slow rate over the last few years, the loans per head of rural population had reached a level of only Rs. 1.79 in 1961-62, as against the national average of Rs. 6.66. Finally, as an indicator of the scale of financing, it may be noted that the borrowing per borrowing member was only Rs. 170, as compared to the average borrowing per borrowing household which was Rs. 258. The former is only about one-half of the current farm expenditure of the cultivating households in the State with an average holding, which has been estimated at Rs. 315. The overall picture is one of a low level of coverage and operation, though some progress, howsoever small, has been in evidence from year to year.

2. To consider the institutional structure first, though the West Bengal Provincial Co-operative Bank has been substantially strengthened by assistance given by Central and State Governments for offsetting the impact of the Partition on its financial position, the pattern of its management does not accord with accepted principles in two respects. Firstly,

out of its 22 directors, only 15 are elected, the rest being nominated by the Government and secondly, only 6 out of 15 elected directors represent the central banks.

3. At the intermediate level, the 25 central co-operative banks now serving the 15 districts in the State are yet to be reduced to 19 as envisaged under the scheme of rationalisation. Further, their financial position is, in most cases, weak. From the point of view of viability, it may be noted that, as on 30 June 62, ten banks still had owned funds of less than Rs. 3 lakhs and 16 banks had working capital of less than Rs. 20 lakhs. The average loan advanced per capita of rural population was less than Rs. 5 in 1962-63 in the area of operation of practically all the central banks.

4. At the primary level, of the 11816 societies, 52 per cent were dormant in 1961-62. The small-sized society, on an average, covered within its area of operation, a population of only 1013 ; the average membership and loan business were also very low at 42 and Rs. 3335 respectively. As many as 3622 societies were in the process of liquidation. In pursuance of the special programme for liquidation, revitalisation and organisation of societies drawn up by the State Government in pursuance the of Eastern Region States' Conference in 1961, 8400 societies had been taken into liquidation, 2500 taken up for revitalisation and 1200 societies newly organised, by 1962-63.

5. The Central Land Mortgage Bank which was registered in 1958 and operates through 12 primary land mortgage banks has not gathered sufficient momentum and functions at a low level of operation, the total loans made during 1961-62 being only Rs. 13.87 lakhs. Though it has floated ordinary debentures on two occasions, no rural debentures have so far been issued by it. Nor has it yet helped in the formulation of any special schemes of agricultural development to be financed by it.

6. Operational policies in respect of agricultural credit have not been such as to facilitate a progressive increase in

the quantum of lending. Loan limits to borrowing cultivators, for instance, appear to be roughly fixed on the basis of certain information supplied by them in the absence of any uniform scale of finance per acre for different crops. Although special crop loan rules were drawn up by the apex bank in 1950-51 for reorientation of credit policy with a view to laying emphasis on production, value of assets owned and mortgage of land continue to be the crucial factors determining the eligibility for credit. All loans above Rs. 200 are sanctioned only against the security of mortgages. They are further subject to a ceiling of Rs. 2000. According to a security-wise classification of loans at the end of 1961-62, 99 per cent of the outstanding loans of primary agricultural credit societies in the State were secured against immovable property. The tenants seem to be generally unable to obtain co-operative credit. There is no provision in the Co-operative Societies Act for creating a charge against land held by members. Medium-term loans can be availed of only against the mortgage of land, irrespective of the size of the loan. Though some banks are said to insist on the disbursement of 10 per cent of the loans in kind, the supply of credit in kind or in instalments does not seem to be prevalent in actual practice.

7. The overdues at the primary level continue to be large, though, their proportion to outstandings shows some improvement. Thus, the overdues at the end of 1959-60 and 1961-62 were Rs. 137.76 lakhs and Rs. 143.49 lakhs constituting 43 and 29 per cent of outstandings respectively. The capacity of the primary credit societies to absorb overdues being limited, the bulk of their burden was passed on to the central co-operative banks. This in turn led to defaults by the central banks on their obligations to the apex bank; during the eight month period ending November 1963, for example, 33 such defaults had occurred involving in all 11 banks. The restrictions imposed by the central co-operative banks in financing defaulting societies are quite onerous, requiring repayment to the extent of 90 per cent of the demand, though it is reported that this rule is not strictly observed in all cases.

8. As for arrangements to meet the impact of natural calamities, the State Government have set up a Relief and Guarantee Fund in which the balance at present is Rs. 1 lakh. The apex bank has not created a Stabilisation Fund, while the three central banks which have constituted such Funds have in all only Rs. 14,000 to their credit. In the context of the heavy overdues arising in part from natural factors, the resources available in these special funds seem too meagre to be of effective help.

9. The credit structure has not been successful in the direction of mobilising resources either. Though the apex bank has made some progress in this regard, the central banks had not initiated any drive for attracting deposits, *e.g.*, by opening branches. The 14 existing branches of central banks are only the offices of the banks which were earlier amalgamated. Nor has the State Government facilitated the deposit of funds by local bodies, etc., with co-operative banks. The main reason for the negligible deposits of central banks is stated to be their inability to inspire public confidence in their working which had been impaired when many of them suspended payment to depositors following the partition.

10. Supervision is in the hands of central co-operative banks, but the charge per supervisor was heavy in some of the banks, *viz.*, 38 societies per supervisor in Birbhum, 37 in Howrah, 59 in Kalna, 33 in Katwa and 39 in Hooghly. The charge per auditor is also heavy in some districts.

11. Marketing has made little progress because of various factors such as the absence of regulated markets, unfavourable trade practices and the speculative jute crop. Linking of credit with marketing has not been effective. As on 30 June 62, as many as 4,280 primary agricultural credit societies had not even become members of the marketing societies.

12. Account has also to be taken in this connection of certain factors of a non-institutional nature which have a bearing on performance in respect of co-operative agricultural credit. The population of scheduled tribes and castes

in the State aggregates 90 lakhs, forming about 26 per cent of the total population of 349 lakhs. The scheduled tribes are especially concentrated in the districts of Burdwan, Midnapore, Bankura, Birbhum and Jalpaiguri. The State has been subjected to a never-ending influx of refugees. Urbanisation has made remarkable headway in the State, thanks to the development of industries, mining, etc., as is seen from the fact that the cultivators and agricultural labourers form only 53 per cent of the total workers, this being the lowest proportion among all the States except for Kerala. Thirdly, certain areas of the State are susceptible to natural calamities. Eight districts (Cooch Behar, Jalpaiguri, Malda, Birbhum, Nadia, Hooghly, Midnapore and Bankura) representing about 59 per cent of the total sown area in the State, are traditionally affected by floods. It is estimated that floods or excessive rain, and drought affected 60 per cent of the total area in the State in 1958-59 and 40 per cent of the total area was affected by floods in 1959-60.

13. The weaknesses of the co-operative credit structure in the State may thus be said to arise mainly from (a) restrictive loan policies and procedures, (b) inadequate efforts on the part of co-operative banks to strengthen their internal resources and to build up adequate stabilisation funds and (c) the inability of the Co-operative Department to push forward the programme of co-operative development in the State with the required zeal, largely on account of inadequacy of staff.

ORISSA

The performance of co-operative credit in Orissa may be said to be more unsatisfactory with reference to coverage than in respect of adequacy of finance. Of the total number of villages in the State, 46.6 per cent—less than half—were covered by agricultural credit societies, and, out of these, 16.4 per cent were covered by dormant societies. These figures, however, exclude the grain golas whose number and operations are

quite sizable in the State. As at the end of 1961-62 there were 2197 of them with a membership of 5,92,000 ; the number of villages covered by them is not known. Of the total number of cultivator households, only 18 per cent were covered by membership of agricultural credit societies. In this State, however, it is important to note that only 33.6 per cent of the total cultivator households reported indebtedness in 1961-62 and, therefore, the coverage in relation to such households is of greater significance. The proportion of total members to such indebted households was 54.4 per cent. Borrowing members formed 35 per cent of total members and 31.6 per cent of borrowing households. In other words, of those who had reported any borrowing in 1961-62 less than a third had borrowed from the co-operatives. As regards the quantum of borrowing from co-operatives, the total loans advanced by agricultural credit societies as well as land mortgage banks formed 27 per cent of the estimated borrowings of the cultivating households of the State. From the point of view of the scale of finance, it is noted that the proportion of co-operative credit per borrowing member to the borrowing per borrowing household was as high as 88 per cent—highest for the whole country, the average loan per borrowing member being Rs. 233/- as compared with the average borrowing per borrowing household of Rs. 266/-. Loans issued by the central co-operative banks, though very low at Rs. 6.18 crores in 1962-63, were significantly higher than those in the other Eastern States as also in Kerala, Rajasthan and Jammu and Kashmir. Besides, there has been a progressive, though not very significant, increase in the level of lending per head of rural population from Rs. 1.56 in 1957-58 to Rs. 3.76 in 1962-63, representing an annual rate of increase of 0.44 per cent. Thus, the overall picture is one of slow progress in the level of lending on the one hand, and of inadequacy of coverage both in terms of population and the villages served, on the other.

2. Though the institutional structure in the State follows the accepted pattern, it is weak and inadequate in more than one respect. So far as the management at the apex bank level is concerned, the representatives of central co-

operative banks do not have a commanding voice. At the central bank level, the rationalisation is almost completed but from the point of view of viability, it is seen that 5 banks had working capital of less than Rs. 20 lakhs. The institutions at the primary level are also generally weak. The average membership and loan outstanding of a small-sized society were 49 and Rs. 5038 respectively, whereas the population covered by their area of operation, on an average, worked out to 1191. In addition, there were grain golas, of which some were engaged only in grain transactions while others dealt in grains as well as in cash. The existence of different types of societies at the base has also resulted in considerable overlapping of jurisdiction which is proposed to be got over by an ambitious rationalisation programme that has now been undertaken by the State Government.

3. Turning next to the operational policies, one finds that the crop loan system is still to be introduced in Orissa. The loans are, at present, sanctioned to the extent of the farmer's "net income" or one-sixth of the value of his net assets. This had led to gross over-financing in some cases and underfinancing in others, in relation to needs of production. The ceilings on individual borrowings were very low until recently, but they have been liberalised to some extent now. Most of the credit advanced comes from unlimited liability societies and insistence on mortgage security is fairly common throughout the State. A classification of loans issued by primary agricultural credit societies according to security showed that 70 per cent of such loans was given against the security of immovable property. This percentage is the second highest among all the States, the highest being in West Bengal. There is no provision in the Orissa Co-operative Societies Act for creating a charge on land held by members of co-operative societies. A recent study of two societies in the area of Mayurbhanj and Boudh Central Co-operative Banks indicated that the entire membership consisted of land owners.

4. The overdue position of some of the banks, *viz.*, Nowrangpur, Sundargarh was far from satisfactory, which

in the absence of adequate resources of their own to cushion the impact of these arrears led to defaults in the repayment of dues to the apex bank. As regards arrangements for stabilisation, the amounts actually built up in the stabilization funds are negligible, the apex bank and only three of the seventeen central co-operative banks having established such funds. The State Government has provided for the excess over 3 per cent dividend on its share capital to be apportioned equally between the stabilization fund and the Relief and Guarantee Fund.

5. As regards financing of defaulting societies, the practice is to provide fresh funds only to societies which have repaid at least 90 per cent of the demand subject to the further conditions that the overdues of the members to the societies should not have exceeded 20 per cent of the demand and that the number of defaulting members should not exceed 20 per cent of the total borrowing members. These conditions are very restrictive and affect the flow of credit for agricultural production.

6. The low degree of urbanisation of the State restricts the scope for mobilisation of deposits by higher financing agencies from individuals, etc. In this context, deposits from the local bodies, charitable trusts, educational bodies, etc., assume special significance, but these institutions are not at present permitted to deposit their surplus funds with co-operative banks, though the statutory corporations and Gram Panchayats are allowed to do so. Branch banking has not developed in the State ; 17 banks have only 12 branches, as against 50 sub-divisions in the State. The weak resources position of the banks is likely to act as an impediment to growth and calls for immediate action by the State Government.

7. Supervision of agricultural credit societies is generally in the hands of central co-operative banks but the charge per supervisor is about 30 to 35 societies, which is high considering the long distances involved. Further, the quality of supervision leaves much to be desired, largely because

many of the supervisors had not received any training. As regards audit of agricultural credit societies, there has been considerable delay and at the end of June 1963, 697 primary agricultural credit societies remained unaudited. The delay in the completion of audit can, to some extent, be attributed to the inadequacy of audit staff. It was also observed that all the sanctioned staff were not in position. The operations of marketing societies are still negligible and no progress has at all been made in regard to linking of credit with marketing.

8. It is important to note that in Orissa the task of expansion of co-operative credit has also to reckon with the limitations on the demand for agricultural credit which arise from certain factors lying outside the scope of the co-operative agency. Firstly, it may be mentioned that the proportion of scheduled castes and tribes to the total population of this State is as large as 40 per cent which is higher than in any other State. They form an important part of the population in almost the entire State except for the coastal districts. In view of the nature of the cultivation undertaken by such tribes and their occupational pattern, supply of institutional credit to them presents various special problems. Secondly, the size of the villages in the State is very small with the largest proportion—77.6 per cent—of the total of villages being of those with a population of below 500. Thirdly, it is observed that food crops account for 90 per cent of the sown area in the State, paddy alone accounting for over three-fifths of the area. According to the information collected in the All-India Rural Credit Survey, 58.5 per cent of the total farm expenditure incurred by the cultivating families was in kind. In the absence of any sizable cash outlay, the demand for credit in the context of such subsistence cultivation, is restricted over large areas. This is only one measure of the well-known phenomenon of a very low degree of monetisation in this State. All these factors are perhaps reflected in the fact that only about 21 per cent of the cultivating households in the State reported any borrowing at all.

9. Apart from these special factors the main reasons for the inadequacy of the performance of co-operative credit

mainly in respect of coverage seem to be : (a) security-oriented loan policies, (b) restrictive conditions imposed for financing defaulting societies, (c) the weak resources position at different levels, partly due to poor deposit potential, (d) the problem presented by sparse, scattered and backward population, (e) inadequate stabilisation arrangements and (f) the weakness and confusion at the primary level which make it difficult for credit to be disbursed on a rational and progressively liberal basis.

RAJASTHAN

From the point of coverage, the position at the end of 1961-62 was that nearly one-third of the villages had no agricultural credit societies though the rate of progress in extending the geographical coverage of co-operatives had been quite rapid in Rajasthan in recent years. If the dormant societies, which accounted for more than half the total number of societies are excluded, only about two-fifths of the villages are being served by living societies. The proportion of rural population covered by co-operatives was low at 30 per cent. The membership of co-operative societies represented about 28 per cent of the cultivator households in the State, and 36 per cent of the indebted households. Of borrowing cultivator households, the borrowing members—35 per cent of total members—formed only 13 per cent. Co-operative credit represented only about 5 per cent of the borrowings of all cultivating households in the State from all sources during 1961-62. The average borrowing per borrowing member was Rs. 205 as against Rs. 523 borrowed per borrowing cultivating household. The amount of loans advanced by central banks per head of rural population declined from Rs. 4.13 in 1960-61 to Rs. 3.54 and Rs. 3.51 in the following two years.

2. The co-operative credit structure in the State, though on the accepted pattern, is generally weak. The position of the apex bank was far from satisfactory, with a declining trend in deposits as also loans and advances, largely as a result of the heavy overdues arising, in part from scarcity condi-

tions in many districts. Most of the central co-operative banks in the State are relatively new, having been registered only since 1956 and hence do not have any large reserves. Their model by-laws prescribe that District Collectors would be the Chairmen of central co-operative banks for the first three to five years of the bank's working and that thereafter non-official Chairmen would be elected. At present, 15 banks have non-official Chairmen while officials are reported to be Chairmen in about 10 banks.

3. There were 11535 primary agricultural credit societies in the State at the end of 1961-62 having a membership of 7,71,000. Because of the rising overdues, the number of dormant societies has been on the increase and constituted nearly 51 per cent of the total in 1961-62. The small-sized societies covered on an average, a population of only 975 in their areas of operation, while their average membership and loan business were 60 and Rs. 5100 respectively. It is doubtful whether such societies can work as viable units.

4. The long-term credit structure comprises the apex land mortgage bank which was registered in 1957 and 30 primary banks. Loans for productive purposes accounted for only 37 per cent of the total loans issued by the bank in 1961-62. No special development debentures or rural debentures have been issued by the land mortgage bank. Ordinary debentures for Rs. 15 lakhs were issued by the bank till 30 June 62. The difficulties and delays experienced by the land mortgage banks in obtaining encumbrance certificates were reported to be among the factors hampering their progress.

5. The crop loan system has not been adopted in Rajasthan. The loan limits of individual members of primary agricultural credit societies were fixed on the basis of assets and share holdings of the member. In an unlimited liability society, the maximum limit for short-term loans was either $\frac{1}{3}$ of his net assets, or $\frac{1}{3}$ of the average annual value of his crops, but not exceeding 8 times his paid-up share capital, whichever was more. In a limited liability society, the maxi-

imum individual limit was 8 times the subscribed capital or 1/3 of the value of his anticipated crop, whichever was less. The loan per member was further subject to an upper limit of Rs. 500 per member in areas where credit was not linked to marketing, Rs. 1500 where there was such linking and Rs. 3000 in the package area. A satisfactory feature, however, was that mortgage security was generally not insisted upon, and there was statutory provision for creating a charge against land held by members of co-operative credit societies. Disbursement of loan in kind or instalments was not in vogue. As for seasonality in lending and recovery, it was found that loans were being advanced throughout the year and made repayable at the end of 12 months from the date of issue.

6. The most disquieting feature in the working of the co-operative credit structure in Rajasthan is the alarming position of overdues. This has been largely due to famine and scarcity conditions, but in some districts, the defective loaning policies of banks, unrelated to the requirements of production, tended to increase the overdues. Further, over-financing of cultivators by different agencies, *viz.*, credit societies, panchayat samitis and marketing societies contributed to this position in some areas. The transfer of supervision work to the panchayat samitis which had resulted in the relative neglect of the work of supervision, also accounted for this deterioration. A large proportion of the overdues of agricultural credit societies in the State amounting, at the end of 1961-62, to Rs. 2.94 crores, was passed on to the central co-operative banks. Being unable to cushion the overdues in view of their weak resources position, most of the central banks had no alternative but to default to the apex bank. The defaulting societies were not being provided fresh finance in most cases, but in a few banks, they were financed if they had repaid 60 to 75 per cent of the dues. Further flow of credit would not be feasible in a situation like this unless positive steps are taken to deal with the problem of overdues.

7. In this context, arrangements for stabilisation of agricultural credit assume special significance. In Rajasthan, little progress has been made in building up the stabilisation

funds at the apex and central bank levels. The State Government has not agreed to a part of the dividend on its shareholding being credited to these funds. Although there is provision in the byelaws of central co-operative banks for contribution to such funds, the position at the end of 1961-62 was that only one bank had a stabilisation fund of Rs. 0.05 lakh. Nor did the apex bank have any amount to the credit of the fund. Similarly, no contribution was made to the Relief and Guarantee Fund during the first three years of the Third Plan.

8. The deposit position of co-operative banks in Rajasthan is very poor. The deposits of the apex bank were only Rs. 66.38 lakhs and the central co-operative banks had, on an average, deposits of Rs. 11 lakhs. Although the rates of interest offered on deposits are stated to be competitive, no special effort seems to have been made to attract deposits. Hardly any banking facilities are offered by them. Co-operative banks are not recognised for accepting deposits from quasi-Government institutions and local bodies, though panchayat samitis have been advised by Government to keep their funds with co-operative banks. As for branch expansion, there were 50 branches in all, the number ranging from 2 to 12 per bank for 11 banks, while 5 banks had one branch each and 9 had no branches at all.

9. Arrangements for supervision are generally unsatisfactory in that this responsibility has been passed on to the panchayat samitis after the institution of democratic decentralisation. This, as indicated earlier, has resulted in the weakening of the control of the Co-operative Department over the supervisory staff, resulting in relative neglect of the work of supervision and consequent increase in overdues. It was reported that the samitis utilised the services of the supervisory staff for items of work unconnected with the supervision of societies. The central banks continue to be ill-equipped to exercise any kind of supervision over the societies. It may, however, be mentioned in this connection that a decision has recently been taken to transfer the supervisory staff gradually from the samitis to the co-operative banks.

10. Audit arrangements are also not satisfactory. Owing to the combination of audit and administration at the district level and lack of individual attention to audit, the number of societies remaining unaudited has been on the rise, those at the end of 1962-63, being 1253.

11. Co-operative marketing has made little headway in the State. The central banks were not in a position to finance the marketing societies adequately and the subsidiaries of the State Bank of India were also reported to be not very helpful in the provision of finance to them. Progress was also slow and limited in regard to construction of godowns by marketing and credit societies and in the linking of credit with marketing.

12. The western districts of Rajasthan, *viz.*, Barmer, Jaisalmer, Bikaner, Churu, Nagaur, Pali, Jodhpur and Jalore lie in a dry tract area, where the rainfall is scanty. The average rainfall over the whole area is 11 inches and the average number of rainy days only 13. The area affected by drought constituted 28 per cent of the total net sown area in the State, the highest incidence being in Churu, Jalore and Barmer. Another factor relevant from the point of view of potential demand for credit is that scheduled castes and scheduled tribes accounted for 28 per cent of the total population of the State.

13. It will be seen from the foregoing that the development of co-operative agricultural credit in Rajasthan has been halting. The main reasons for the stagnation and decline appear to be the following :

- (1) susceptibility of large parts of the State, particularly the Western Region referred to above, to famine and scarcity conditions
- (2) restrictive loan policies and procedures, mounting overdues and the absence of stabilisation arrangements
- (3) ineffective supervision over agricultural credit societies

- (4) very weak resources position of the co-operative institutions as reflected in the inability to absorb overdues
- (5) comparatively little attention received from the State Government to various problems, *e.g.*, resources.

UTTAR PRADESH

Uttar Pradesh is one of the few States in the country in which agricultural credit societies had covered all the villages. The proportion of villages covered by dormant societies was low at 6.8 per cent. Membership, however, covered only 29.5 per cent of the rural population, 39.3 per cent of cultivator households and 63.8 per cent of the indebted cultivator households. Borrowing membership was 55 per cent of this total membership and accounted for 42.8 per cent of the borrowing households. The share of co-operative credit out of the total borrowings of cultivators was only 23.4 per cent ; the loan per borrowing member at Rs. 175 formed 55 per cent of the borrowing per borrowing household at Rs. 320. The loan issued by central banks per head of rural population has been steadily on the increase, rising to Rs. 6.70 in 1962-63.

2. The institutional structure in the State departed from the accepted pattern in more than one respect. The Uttar Pradesh Co-operative Bank had, in addition to the 57 central co-operative banks affiliated to it, 6,589 primary societies and 166 individuals as its members. Direct financing of primary societies continued to be undertaken by it through its branches, even in the areas served by certain central banks. The representation of central banks on the board was inadequate. The Registrar of Co-operative Societies continued to be the ex-officio Chairman, but the meetings were presided over by the non-official Vice-Chairman. An elected chairman is, however, expected to take over after the new Co-operative Societies Act is passed. The continued dominance of officials in the functioning of the apex and central co-operative banks has been an unsatisfactory feature of significance in this State.

3. The number of central banks which was 65 in 1951-52 had been brought down to 57 and these were serving 50 districts, while 4 districts were served by branches of the apex bank. Six of the central banks are expected to be merged with other banks under the accepted scheme of amalgamation. Several central banks have a large membership of individuals but they have provided for adequate representation of societies. The Chairmen of central banks are still officials but elected Chairmen are expected to take over after the new Cooperative Societies Act is passed. Of the existing 57 central cooperative banks, 7 institutions did not possess the minimum owned funds of Rs. 3 lakhs and as many as 9 banks lacked the minimum working capital of Rs. 20 lakhs.

4. There were 54,700 primary agricultural credit societies in the State—a larger number than in any other State—and of these, 730 were large-sized. The small-sized societies had, on an average, a coverage of population of 928, a membership of 54 and loan outstandings of only Rs. 3,786 which showed a low level of operations far removed from any near prospects of viability. Overlapping of membership between these societies and the cane unions resulted in a confused situation at the base, as also over-financing and dual financing of the same cultivators.

5. Though the Uttar Pradesh Co-operative Central Land Mortgage Bank commenced business in July 1960, it has yet to gather momentum in its working. The bank operates through a network of 51 branches which are eventually to be converted into primary banks. The bank had no independent land valuation officers. Interim accommodation was arranged with the State Bank of India on the basis of the guarantee of the State Government ; delay in getting the guarantee and hence in obtaining accommodation resulted in shortage of funds with consequent suspension of loan disbursements. No rural or special development debentures have so far been floated.

6. The State Co-operative Bank has been issuing loans to individuals under the low-income group and middle in-

come group housing schemes. It had employed Rs. 44 lakhs of its own resources as on 30 June 63 over and above Rs. 298 lakhs received from Government, thus diverting sizable resources from meeting the demands for short-term and medium-term loans for agricultural purposes.

7. At the primary level the maximum credit limit of a member is taken as 40, 20 or 10 times the land revenue in respect of Bhumidari, Sardari and Assami lands respectively plus $\frac{1}{3}$ of the market value of other assets plus $\frac{1}{10}$ of his non-agricultural income minus outside liabilities. Within this ceiling, the normal credit limit is said to be fixed at 8 times the paid-up share capital or Rs. 2000, whichever is less. The credit requirements of cultivators are arrived at on the basis of scales per crop prepared by the staff of the Department of Agriculture in collaboration with the co-operative staff. Limits for each member—separately in cash and kind are worked out, 25 per cent of the loan being expected to be issued in the form of fertilisers. Mortgage of land is insisted upon for all short-term loans exceeding Rs. 2000 and medium-term loans of over Rs. 500. The Co-operative Societies Act in the State provides for the creation of a charge against interest in land. Seasonality in lending and recoveries is absent, as loans for both kharif and rabi crops are issued at one time and only loans not repaid by 30 June are treated as overdue.

8. Societies in default are provided fresh finance only if they have repaid 85 per cent of earlier dues. It is possible that this stringent provision had encouraged book adjustments with a view to concealing the true position in regard to arrears. Partly as a result of poor repayment performance and partly on account of paucity of resources coupled with inadequate competence in management and use of resources, many central banks were found to default frequently and persistently in repayment to the apex bank.

9. A beginning has been made with building up of stabilisation arrangements but the progress has been poor, in terms of amounts accumulated. The State Co-operative

Bank and 27 central banks have created such funds amounting to Rs. 3.27 lakhs and Rs. 0.79 lakh respectively. The State Government has agreed to contribute one-half of the dividend in excess of 3 per cent on its shareholding in co-operative credit institutions to the stabilisation fund and one-half to the Relief and Guarantee Fund. A provision of Rs. 5 lakhs has also been made by the State Government in the Third Plan for the Relief and Guarantee Fund which is yet to be established.

10. The weakest aspect of the performance of the credit structure in the State relates to the mobilisation of deposits. Progress in this regard has been negligible, and 9 central co-operative banks had deposits of less than Rs. 2 lakhs. The cane unions were keeping their deposits with commercial banks although they derived benefits and services from the co-operative credit structure. Even the State Government appeared hesitant to permit local bodies to deposit funds with central banks as Government seemed to be doubtful of the ability of the banks to repay deposits on demand. Little progress had been made in branch expansion, with 32 central banks having only 54 branches as on 30 June 62.

11. The present position in regard to supervision is far from satisfactory, as the central co-operative banks have no effective control over the staff which belongs to the Uttar Pradesh State Co-operative Union. A change in arrangements to correct this position is still under consideration. This is the only State where audit is outside the purview of the Registrar of Co-operative Societies and is the responsibility of the Chief Auditor who is attached to the Finance Department. The number of auditors was so inadequate that, in 1961-62, the audit of 18,937 societies was in arrears.

12. It is significant from the point of view of the linking of credit and marketing that, in 1961-62, loans of the order of Rs. 2.84 crores were recovered by 94 marketing societies for 11,763 agricultural credit societies. Some of the transactions, however, have been suspected to be in the nature of book adjustments.

13. An analysis of the loan outstandings of co-operatives per head of rural population, shows that, on the whole, the districts of Western Uttar Pradesh and Bundelkhand present a more satisfactory picture of performance than the rest of the State, the relevant averages for the two areas being Rs. 9.09 and Rs. 4.67. Though detailed data to throw light on the situation are not available, the following factors appear to be relevant in this connection.

(i) According to the Foodgrains Enquiry Committee of 1957 although what are called Eastern districts of the State do not represent any well-defined area, the divisions of Varanasi, Gorakhpur and Faizabad comprising 14 districts were considered to be chronically deficit areas in the matter of foodgrains production.

(ii) The Eastern districts are among the most thickly populated parts of the country, the density of population per square mile in them being 833 as against 468 in the rest of Uttar Pradesh.

(iii) The high pressure of population has resulted in a heavy pressure on land, with consequent fragmentation of holdings. In the Eastern districts, for example, the holdings below 2 acres are said to account for 20 per cent of the area under all holdings whereas for the rest of Uttar Pradesh the corresponding proportion is said to be 11 per cent. Relatively smaller holdings appear to account for a larger proportion of the area in Eastern districts than in the rest of Uttar Pradesh. The quantum of credit for which such holdings can lay claim is bound to be limited.

(iv) Low yield also appears to be a factor accounting for poorer development of the Eastern districts. Land utilisation being as high as 87 per cent of the total area available for cultivation in this region, even sub-marginal land appears to have been brought under the plough. There has also been no large utilisation of fertilisers so that the yield per acre has continued to be very poor.

(v) The incidence of floods and droughts is an annual phenomenon of this region affecting a fairly large part of it ; such affected area is estimated to represent about 30 per cent of the total cultivated area of the entire State.

14. The main reasons for the relatively limited progress of co-operative credit in the State, in terms of coverage as well as level of lending, include :

(i) the weakness of the central banks, in terms of capital structure as well as operational efficiency

(ii) the paucity of deposit resources with the banks as a whole

(iii) the absence of supervision machinery under the control of the central banks

(iv) the unsatisfactory position at the primary level with the cane unions not integrated into the structure and a large number of very small agricultural credit societies

(v) special economic and other factors operating over the large part of the State, as indicated above, which render the prospects of progress of co-operative credit difficult

JAMMU AND KASHMIR

The operations of the agricultural credit societies had extended to three-fourths of the total number of villages in the State. But, of these societies, 29 per cent were dormant. Membership accounted for 50 per cent of the cultivator households and 81 per cent of those reporting any indebtedness. Borrowing membership represented 86 per cent of total membership and an almost equal percentage of the borrowing households, which was the highest proportion in the whole country. In terms of the quantum of credit provided, however, the picture was far less satisfactory. Co-operative credit formed only 18 per cent of the estimated borrowings of all cultivator households. Moreover, the loan made available per borrowing member was low at Rs. 63 in 1961-62 as

against Rs. 296 borrowed per borrowing cultivator household. Co-operative financing appears to have suffered a decline in 1962-63 with the amount of loan advanced by central banks per head of rural population being only Rs. 5.51 in 1962-63 as against Rs. 7.44 in 1961-62.

2. The Jammu and Kashmir State Co-operative Bank, which has had a chequered career in the earlier years and had been rehabilitated with a subsidy for scaling down bad debts operates as the central financing agency in the Srinagar and Ladakh districts and also finances marketing and industrial societies in the areas served by the central co-operative banks. There are three central co-operative banks in the State, which serve the remaining 7 districts. There were 1,116 primary agricultural credit societies which included 301 large-sized societies. On an average, the population covered by the societies was 2,688.

3. The loan policies of the primaries were hardly oriented to production. The loans are sanctioned, on the basis of the recommendations of the departmental officers and are in no way related to the outlay on crops. No seasonality is observed in the timing of the lending which takes place almost immediately after the recovery of the earlier loans. The practice is for a society to be provided fresh finance, if it has repaid at least 25 per cent of its earlier loan.

4. Repayment performance at all levels is unsatisfactory. The overdues at the primary level rose in 1962-63 to 37 per cent of outstandings, as against 25 per cent in the previous year. At the central bank level, again, the position of overdues has been uniformly bad—the proportion to outstandings being 34 per cent in 1961-62—and often higher than at the primary level representing poor repayments from borrowers of the banks other than agricultural credit societies as well.

5. From the point of view of resources, again, the achievement of co-operative banks in the State has been negligible. Though share capital and borrowings are linked at the central bank and primary levels, the collection of share

capital is to be effected in four instalments and is hence likely to proceed at a slow pace. No success has at all been achieved in tapping deposits from the public. In the case of the apex bank, even the location of its office is stated to be unsuitable from this point of view. Most of its deposits are Government subsidies etc., temporarily placed by co-operative institutions in their current accounts with it. The position is similar in the central banks. Though all the central banks have opened some branches, those in Anantnag and Baramula are not providing such banking services and facilities, as are likely to attract the depositing public. The position regarding the deposit of funds belonging to quasi-Government institutions is not clear but village panchayats were keeping small amounts with these banks.

6. The central co-operative land mortgage bank, registered only in 1962, operates through 8 branches. It has been working mainly with its share capital and has not floated any debentures yet. Its lendings upto February 1964 added up to only Rs. 8 lakhs.

7. Arrangements for supervision are in the hands of the Co-operative Department and are to be gradually transferred to the co-operative banks. Audit is entrusted to the same staff which is in charge of supervision and maintenance of accounts but the staff for audit and supervision are to be separated when the staffing position in the Co-operative Department improves. The number of societies in arrears of audit was 951 at the end of 1961-62, as compared with 1621 societies which were due for audit during the year.

8. Co-operative marketing has not developed to any significant extent in the State but there has been a linking of credit with marketing in the sense that paddy is delivered to Government by members through the co-operative societies which make recoveries out of the sale proceeds.

9. Though in respect of coverage, the performance of co-operative credit in the State may seem satisfactory, there has been hardly any progress in other aspects of the functioning of the structure. The level of lending is low ; repay-

ment performance is poor ; and the co-operative banking structure appears weak both in terms of operational efficiency and resource mobilization, at the apex as well as central co-operative bank levels. In fact, it is the special position of vantage given to credit co-operatives in terms of Government policy regarding procurement of paddy and the large funds made available by Government in pursuance of the same that mainly accounts for the large coverage. These apart, there is little that the movement can claim for itself. Hence, as recent experience has shown, any change in the nature or scale of Government support is likely to lead to a retrogression in the performance of co-operative credit, as the structure has built up hardly any strength of its own.

MADHYA PRADESH

The primary agricultural credit societies covered 75 per cent of the villages in Madhya Pradesh. Of these, 5 per cent were covered by dormant societies. Of the rural population in the villages served by co-operatives, their membership formed only 22 per cent. Co-operative membership constituted only 23 per cent of the total cultivator households in the State, and nearly 38 per cent of those households which reported any indebtedness. The borrowing membership constituted 67 per cent of the total membership—a proportion higher than in any other State except Jammu and Kashmir. Such borrowing members formed nearly 32 per cent of the total borrowing households in the State. As regards the quantum of co-operative credit, it constituted about 25 per cent of the total estimated borrowing of all cultivator households in the State. That the scale of finance was not relatively unsatisfactory is indicated by the fact that the loan per borrowing member at Rs. 270/- formed nearly 82 per cent of the borrowing per borrowing household at Rs. 339/- . As indicated by the loan issued per head of rural population, there has been a progressive rise in co-operative credit in the State in recent years, except for 1961-62 when a recession was witnessed. The loan per capita of rural population in 1962-63 was Rs. 6.97 as compared with the All-India average of Rs. 7.32.

2. As for the structure, the Madhya Pradesh State Co-operative Bank (which was formed by the merger of the two apex banks for Mahakoshal and Madhya Bharat areas) has a large membership of individuals and primary societies, a legacy inherited from the period when they used to be financed by the apex bank direct. Of the 54 central co-operative banks in the State, seven from Vindhya Pradesh started working only in the last two or three years. In other areas, many of the banks are weak, despite the programme of amalgamation having been in operation for some years. A few banks are yet to be amalgamated under the agreed programme which will bring down the total number of banks to 51 but as there will still be 7 districts with more than one bank each, the State Government have to decide soon whether they should not also be amalgamated to form one bank per district. All the banks had mixed membership of societies and individuals and the latter exceeded the former in as many as 26 banks. Even the minimum (and now outdated) standards of viability, *viz.*, owned funds of Rs. 3 lakhs and working capital of Rs. 20 lakhs were not satisfied by 2 and 6 banks respectively (excluding the seven from Vindhya Pradesh referred to above).

3. The structure at the primary level was very weak, the average membership, share capital, and loans advanced per society being 68, Rs. 2,582 and Rs. 14,844 respectively, of which the former two were much less than the all-India average. The position of large-sized societies numbering 616 was better, the average membership, share capital and loans advanced during 1962-63 being 339, Rs. 19,084 and Rs. 58,933 per society respectively. The operations of both small and large-sized societies, however, seem to be affected by overdues which have risen from 17.9 per cent of the loans outstanding at the end of 1960-61 to 29 per cent at the end of 1961-62 and to 31 per cent on 30 June 63.

4. As for the loan policies, it seems that, in practice, most of the loans are fixed on an *ad hoc* basis within the limits per acre fixed by the Registrar in 1960, for short-term loans (crop-wise) and medium-term loans. There is usually an absolute limit of Rs. 1,500 per member. The operations of

societies in certain areas are further restricted due to insistence on mortgage security, though the co-operative law in the State provides for loans against personal sureties and declarations creating a charge on land. Loaning in kind has just made a beginning, but seasonality in lending and recovery has yet to take root.

5. Crop failure was reported to have affected as many as 17 central banks in 1961-62 or 1962-63. Pending the decision of the State Government to contribute a part of the dividend earned by them to the stabilisation funds with banks, the banks themselves have been contributing a part of net profit to these funds and as many as 46 central co-operative banks, besides the apex bank, have constituted the funds, but the amount built up so far is only Rs. 7.55 lakhs.

6. The progress from the point of view of building up deposit resources is not appreciable at any level. There are some legal difficulties in keeping the deposits of quasi-Government institutions with co-operative banks, the removal of which is now under the consideration of the Government. The low volume of deposits is partly due to the fact that many banks have not made efforts to extend banking facilities to their depositors and several do not have even a single branch.

✓ 7. The long-term credit business which was earlier handled by the land mortgage banking section of the Madhya Pradesh State Co-operative Bank was taken over by the Madhya Pradesh State Co-operative Land Mortgage Bank in 1961-62. It operates through 21 primary land mortgage banks and land mortgage banking sections of 15 central co-operative banks. The loans made available by the land mortgage banks were until recently mainly for redemption of prior debts, the land improvement loans forming only 25 per cent of the total loans in 1961-62.

✓ 8. For the supervision of primary credit societies which is carried out in the main by the central banks, the staff employed is more than adequate in some banks but inadequate in others. The audit staff under the Co-operative Department appears adequate, but there were arrears in audit.

9. The natural conditions in Madhya Pradesh, particularly in the Vindhya Pradesh region and Eastern and South-eastern districts also seem to contribute to the inadequate progress of co-operative credit in the State. Of the total area of 108.89 million acres in the State as much as 35.46 million acres are under forests. The net sown area is only 40.41 million acres, there being only one crop in most of the districts in the State. Again, the total area under irrigation is only 2.52 million acres. Paddy is the main crop, particularly in the eastern districts followed by wheat, jowar and gram, the total area under these crops being 70 per cent of the net sown area. The cash crops are grown mostly in Madhya Bharat region of the State, the percentage of area under cash crops in Vindhya Pradesh and Eastern and South-eastern districts being hardly 5 per cent of the total area under these crops in the State. It is further seen that the yield per acre of rice or wheat is much less than that in rice growing tracts of Andhra Pradesh or wheat growing areas in Punjab.

10. The existence of a large tribal population constitutes another factor responsible for the overall inadequate coverage of co-operative credit. According to the 1961 Census, they formed 20 per cent of the total population in the State and 22 per cent of the total tribal population in the country.

11. The performance of co-operative credit in the areas of Vindhya Pradesh and certain other Eastern and South-eastern districts of the State is found to be relatively poorer than for the State as a whole as judged by various indices such as the coverage of villages as well as rural population as also the level of loans issued per borrowing member as well as per head of rural population. Thus, by the end of 1962-63, the co-operatives in the above areas had covered 72 per cent of villages, their membership formed 17.39 per cent of rural population and the loans issued by them during 1962-63 worked out to Rs. 185 per borrowing member and Rs. 3.8 per head of rural population ; the corresponding State averages were 82 per cent, 20.90 per cent, Rs. 268 and Rs. 6.80. Adequate information is not available to throw light on all the factors involved in this disparity of performance. Broadly,

however, this seems to be accounted for by one or more of the following :

- (i) the large areas under forests
- (ii) the large proportion of scheduled tribes out of the total population
- (iii) the relatively recent growth of credit institutions in the Vindhya Pradesh areas as also certain territories representing the former Princely States in the other parts of this region, and
- (iv) the relatively negligible area under cash crops as compared with the rest of the State.

12. The main causes of inadequate expansion of co-operative credit in the State as a whole may be summed up as follows :

- (i) insufficient progress towards rationalization of loan policies at the primary level
- (ii) the relatively weak position of central co-operative banks in financial and organisational terms
- (iii) paucity of resources in the form of deposits with the institutions
- (iv) lack of supervisory and administrative machinery on the scale and of the quality required
- (v) incidence of crop failure for which adequate stabilization funds were not available
- (vi) special conditions in parts of the State associated with tribal population, inaccessibility of areas, low degree of monetization, existence of large areas under forests—all of which may result in poor potential for production credit as also difficulties of organisation of institutional credit

MYSORE

The proportion of villages covered by agricultural credit societies in the State in 1961-62 was 90 per cent; however, about 20 per cent of the societies were dormant. The membership of all primary agricultural credit societies covered 54.9 per cent of the cultivator households and 64.8 per cent of the indebted cultivator households. Those who had borrowed from co-operatives formed 25.5 per cent of the total cultivating households and 40.7 per cent of those who reported borrowing from any agency. The proportion of borrowing members to total members showed a decreasing trend from 52 per cent in 1960-61 to 46.47 per cent in 1961-62 and 40 per cent in 1962-63. As regards the magnitude of co-operative credit, it may be noted that it accounted for about 18.7 per cent of the total estimated borrowings of cultivators in the State. While the total borrowings per cultivator household reporting borrowings were high at Rs. 517, the loan advanced by co-operatives per borrowing member was relatively low at Rs. 238. A contraction in co-operative credit was witnessed during the years 1961-62 and 1962-63. The loans advanced by central co-operative banks per capita of rural population declined from Rs. 9.95 in 1960-61 to Rs. 8.25 in 1961-62 and Rs. 7.36 in 1962-63.

2. Broadly speaking, the institutional structure of apex and central co-operative banks in the State follows the accepted pattern of organisation and functioning except for the Coorg Central Co-operative Bank which is engaged in the financing of individuals to the extent of 14 per cent of its outstandings. It is, however, observed that a large number of banks witnessed stagnation, if not a recession in their loan operations in recent years, reflecting the impact of the rising overdues.

3. Of the 9361 primary agricultural credit societies, 724 were large-sized and 8637 small-sized societies. The membership per society in the case of large-sized and small-sized societies was 519 and 114 respectively and the loans outstanding per society Rs. 67,566 and Rs. 15,569 respec-

tively. The structure at the primary level was weak and showed no prospects of the emergence of viable units.

4. The Mysore Central Co-operative Land Mortgage Bank operates through primary land mortgage banks numbering 138. The bulk of their loans are for the discharge of prior debts, those for land improvement purposes forming only 15 per cent of the total in 1962-63. It is stated that the grant of taccavi loans by Government at a lower rate of interest for similar productive purposes *e.g.* sinking of wells, purchase of oil engines, etc. has adversely affected the progress of the co-operative land mortgage banks. Though it was agreed as early as December 1960 to draw up special development schemes for financing cultivators in the areas served by Tunga and Bhadra irrigation projects and for financing areca gardens, not much progress has been yet made in its implementation.

5. Though credit is still based on assets, crop finance is being increasingly oriented towards production requirements. The scales of finance per acre according to cost of cultivation of different crops are fixed by the apex bank in consultation with the central financing agencies. The loan amount for each individual is not to exceed Rs. 2,000 except with the Registrar's permission. In the area of central co-operative banks of Belgaum, Coorg, North Kanara, Dharwar, Gulbarga and Raichur, loans are made against the charge created by the borrower on his land as provided in the Co-operative Societies Act. In some societies, however, there is insistence on mortgage of land for all loans. Short-term loans of Rs. 200-500 are issued on a surety basis in the area of 10 central banks. Mortgage of land is insisted upon as security for all medium-term loans in all banks except for two which make such loans upto Rs. 500 on surety basis. Nine out of 19 central banks are stated to be issuing loans in kind in the form of manures and fertilisers to the extent of 10 to 40 per cent of total loans. It is not known to what extent the instructions of the Government that crop loan should be disbursed in two to three instalments depending upon the size of the loan, are implemented in practice.

Seasonality in advances and recoveries is not observed in all areas.

6. Financing of defaulting societies used to be permitted only in cases where 90 per cent of the earlier dues had been repaid. This led to a progressive reduction in the number of borrowing members and created a disincentive to repay even on the part of the loyal members, and generally resulted in stagnation, if not recession in co-operative credit. The percentage of recoveries required for fresh financing was, therefore, reduced to 65 in 1963-64.

7. The overdues at the primary level have been continuously rising and amounted to Rs. 9.48 crores at the end of 1962-63 constituting 47.5 per cent of the loans outstanding. The trend of overdues at the central bank level was similar. Apart from natural calamities, over-financing in certain areas and the failure to take effective action for recovery in others for political reasons etc., accounted for this unsatisfactory repayment performance.

8. Though natural calamities have been a major factor in accounting for heavy overdues in parts of the State, much progress has not been made in the constitution of the agricultural credit stabilisation funds at various levels. The State Government have not yet taken a decision as to whether a part of the dividend on its shares in the co-operative credit institutions should be credited to the stabilisation funds. The balance in the fund created by the apex bank amounted to Rs. 4.94 lakhs ; only 6 central banks have constituted the fund, the balances aggregating Rs. 0.54 lakh as on 30 June 63.

9. The deposits position of the central banks in the State is unsatisfactory except for five or six banks which account for a large proportion of the total. In the case of the State Co-operative Bank also, deposits from individuals are relatively insignificant and actually showed a fall during 1962-63. As regards investment of the funds of quasi-Government institutions in co-operative banks, Government have permitted municipalities to invest their surplus funds.

with these banks, provided the banks concerned deposited a sufficient amount of security with the Controller of the State Accounts Department. A stipulation of this kind indicating, as it does, the lack of confidence of the Government in the ability of the co-operative banks to meet their liabilities on demand is not likely to inspire the confidence of the depositing public in the co-operative banks. The competition from commercial banks is said to be great in Mysore State. The State Bank of Mysore is patronised by all the public institutions and industrial concerns. Much progress has not been made in the matter of branch expansion by the central banks in the State except for the institutions in the districts of the erstwhile Bombay State.

10. Supervision of societies is the responsibility of the central banks. In 10 out of the 19 banks, the strength of supervisors was found to be inadequate in relation to the number of societies. The supervisors do not undertake any periodical inspection of societies. Audit staff was also found to be inadequate, the quality of audit being affected thereby. In some areas the number of societies per auditor was as high as 61 to 76 in 1962-63.

11. No progress was made towards linking of credit with marketing except in the Mandya District. Production loans continued to be advanced by the marketing societies in Coorg dealing with cardamom and oranges. Marketing societies had been organised in the past in an indiscriminate manner with overlapping jurisdiction in some districts.

12. The functioning of co-operative credit in the State has been very much affected by the fact that certain areas are traditionally subject to drought ; it is estimated that the Bellary, Raichur and Bijapur districts are so susceptible to the extent of a third of the cultivated area of these districts. For the State as a whole it is estimated that 20 per cent of the area was affected by drought in 1958-59.

13. The explanation for the retrogression in co-operative credit witnessed in this State in recent years has, therefore,

to be sought mainly in (i) the crop failure which affected parts of the State, (ii) inadequacy of arrangements for supervision and for stabilisation of agricultural credit and (iii) the insufficiency of deposit resources available with some co-operative banks for absorbing the impact of rising overdues.

PUNJAB

By the end of 1961-62, the primary agricultural credit societies in the State had covered 96 per cent of the villages but in 6.9 per cent of the villages, the societies were dormant. Of the cultivating-households, the membership of cooperatives represented 87.8 per cent. This was in fact larger than the proportion of households who reported any indebtedness to any agency which stood at 73.2 per cent. Borrowing members formed 48 per cent of the total membership and 66.3 per cent of those cultivator households who had reported borrowing. The quantum of co-operative credit in 1961-62 formed 27.1 per cent of the estimated borrowings of cultivators from all agencies. The borrowing per borrowing member at Rs. 235 represented only 41 per cent of the borrowing household at Rs. 573. In terms of loans advanced per head of rural population, Punjab stands fourth among States, following Maharashtra, Gujarat and Madras, with an average of Rs. 9.59 as compared with the all-India average of Rs. 7.32, in 1962-63, despite a small decline from the level of Rs. 9.94 in the previous year.

2. As for the institutional structure which has evolved in the State over the years, the position broadly conforms to the accepted pattern except in certain aspects. Thus, the apex bank includes among its membership a large number of primaries inherited from the Pepsu Apex Co-operative Bank which had merged with it. At the level of central banks, the agreed programme of rationalisation had not yet been completed, as the 31 banks which now serve 20 districts are to be reduced to 27. The central banks had again a fair proportion of individual membership. Three of them are specially weak units with owned funds of less than Rs. 3 lakhs and working capital of less than Rs. 20 lakhs.

At the primary level, dormancy was low at 8 per cent but the level of operations was relatively low with average membership, share capital, deposits and loans advanced per society of 79, Rs. 3,201, Rs. 3,013 and Rs. 7,797 respectively. The fact that the population in the area of operation of a credit society, on an average, was only 852 would indicate the need for reorganisation as a necessary condition even for potential viability.

3. The crop loan system is yet to be introduced in the State. The credit limit of an individual member continues to be fixed as a multiple of land revenue upto 30 times plus one quarter of the miscellaneous income in the case of owner-cultivators, and 15 times plus one-quarter of the miscellaneous income in the case of tenant cultivators. In 5 societies out of every inspector's circle, as an experiment, the limit is taken at $\frac{1}{3}$ of gross to total income subject to an overall ceiling of Rs. 1000. A more liberal basis has been adopted in 3 selected districts where the multiple of land revenue is raised from 30 to 36, the ceiling is raised from Rs. 1000 to Rs. 1200 and the increased credit is provided for purchase of fertilisers. Short-term loans are ordinarily issued against two personal sureties, but if the loans exceed Rs. 1,000, mortgage security is insisted upon and the loans have to be approved by the officers of the Co-operative Department. In the case of medium-term loans, personal sureties are accepted upto Rs. 500, charge of land for loans between Rs. 500 and Rs. 1,000 and mortgage beyond that level. Seasonality in the issue of repayment of loans is generally absent except for a few experiments carried out in selected areas.

4. The repayment performance on the whole is not very unsatisfactory, the proportion of overdues to loans outstanding fluctuating from 23 per cent to 26 per cent in the last four years, the percentage being surprisingly high at 56 in the case of large-sized societies. Defaulting societies are financed if at least $66\frac{2}{3}$ per cent of the earlier dues has been repaid. Though there is need for stabilisation arrangements with reference to the districts where the high sub-soil water table leads to frequent floods, the arrangements made

in this regard are hardly adequate. The apex and central co-operative banks have created very small stabilisation funds amounting so far to only Rs. 1.15 lakhs and Rs. 1.46 lakhs respectively, out of their net profits, as the State Government does not appear to have agreed to a part of the dividend on their holding of share capital to be credited to this fund. The State Government have created a relief and guarantee fund, the amount to the credit of which, as on 31 March 1962, was Rs. 2.30 lakhs.

5. The position of the credit structure in the State in respect of its internal resources represents an important element of weakness today. At the central bank level, the average owned funds and deposits per bank at the end of 1962-63 were Rs. 12.20 lakhs and Rs. 31.90 lakhs as against the all-India average of Rs. 18.50 lakhs and Rs. 37.80 lakhs respectively. The reasons for the limited volume of deposits in most of the banks appear to be absence of branches, the failure to provide normal banking facilities to depositing clients, and the inability of the banks to offer competitive rates of interest in comparison with other banks. At the primary level, however, the position of deposits was better, the average per society being Rs. 3,013 as against the all-India average of Rs. 1,031.

6. A beginning was made with the provision of long-term credit only a few years ago following the organisation of the Punjab State Co-operative Land Mortgage Bank in 1958. While the emphasis seems to be generally on loans for purchase of tractors, loans made for repayment of prior debts and redemption of mortgages constituted 41 per cent of the total loans issued during 1962-63.

7. The responsibility for supervision of societies continues to vest in the Co-operative Department and the average charge per supervisor varies from 25 to 40 societies, but there are proposals to transfer the function to co-operative banks and to increase the strength of the staff. The audit staff in the areas of some of the banks is inadequate, the charge per auditor being more than 50 societies. As a result, audit

was in arrears in 1961-62, in respect of 3,722 societies. Co-operative marketing has not developed to any significant extent; only recently, a programme has been launched for linking credit with marketing in respect of 20 selected growers in each of 20 selected service societies, in each Assistant Registrar's circle.

8. In assessing the progress of co-operative credit in the State, it is necessary to appreciate the impact of the Partition on the Movement. The dues from individuals who left the country in its wake, the societies whose working was affected by the migration of a large proportion of their members, the general conditions of dislocation and disturbances which continued for some time after the Partition—have all left their impress on the co-operative banking structure of the State, especially in certain districts including Kangra and Hoshiarpur which appear to have been among the worst affected.

KERALA

Co-operatives had achieved a 100 per cent coverage of villages in the State but 21 per cent of the villages were covered by dormant societies. The membership accounted for 48.9 per cent of cultivating households and 69.1 per cent of those who reported any indebtedness at all. The borrowing membership, however, was only 44.26 per cent of the total membership and only about a third of the borrowing households. As regards the quantum, it is seen that co-operative credit represented hardly 16.1 per cent of the estimated borrowings of all cultivators from all sources. The borrowing per borrowing member at Rs. 152 formed only 47.2 per cent of the borrowing per borrowing household. The loan advanced by the societies per head of rural population, though on the rise from year to year, was only Rs. 5.76 even in 1962-63, as against the all-India average of Rs. 7.32.

2. The structure at the apex and central bank levels generally conforms to the accepted pattern of federal and state-partnered institutions. At the primary level, the position was not clear or satisfactory in some respects. There were

2,397 agricultural credit societies, of which nearly 20 per cent were dormant. Societies in liquidation were as many as 1,100 but proceedings were reported to be getting delayed for lack of adequate departmental staff to attend to this work. There were 148 large-sized societies with an average membership of 1,000 and loans outstanding of Rs. 1,03,568 per society. In the case of small-sized societies the average membership was relatively satisfactory at 373 while average loan outstanding was Rs. 24,644. The average loan per member at only Rs. 149 was less than the national average of Rs. 231. Overlapping of jurisdiction and dual financing of members appeared to prevail, to some extent, at the primary level; the same individual is permitted under the Co-operative Societies Act to become a member of more than one credit society.

3. The Kerala Co-operative Central Land Mortgage Bank was established in 1956 to replace the Travancore Credit Bank, a non-co-operative institution which had upto that time been engaged in long-term credit in the erstwhile Travancore State. The Cochin Central Land Mortgage Bank which had been operating in the erstwhile Cochin State functioned thereafter as one of the 10 primary land mortgage banks. The bulk of the loans, representing 67.5 per cent of the total in 1962-63, continued to be advanced for repayment of prior debts. A beginning was made with the floatation of rural debentures of Rs. 12 lakhs of which only Rs. 7.10 lakhs were subscribed for, including the contribution from the Reserve Bank. A notable development relates to the Bank's association with the financing of a scheme for bringing about 1 lakh acres under rubber cultivation and floatation of special development debentures for the purpose.

4. The crop loan system is not in operation except in the area served by the Ernakulam Central Co-operative Bank and the areas covered by the package programme. The loan policy of the societies was mainly security-oriented, loans above Rs. 200 and in some cases even above Rs. 100 being given against mortgage of land. The maximum amount of loan which may be issued to a member of a society is fixed

at Rs. 2,000. In the case of all medium-term loans, irrespective of size, mortgage security is insisted upon but a slight relaxation has recently been introduced in Alleppey and Ernakulam Central Banks which accept surety for loans upto Rs. 500. Seasonality has been introduced in Kozhikode and Trichur but otherwise loans are disbursed throughout the year and are repayable in 12 months except for loans for paddy cultivation which are given before the sowing season and run for 6 months.

5. There is also the practice, in the State, of granting what are termed as 'ordinary loans' for periods ranging from 1 to 3 years primarily for non-agricultural and often non-productive purposes like redeeming of petty debts, expenses connected with religious ceremonies, children's education etc. In several banks, the volume of these loans was as large as that of loans for agricultural operations.

6. Defaulting societies were financed if the proportion of overdues to demand did not exceed 25 per cent in limited liability and $33\frac{1}{3}$ per cent in unlimited liability societies. At least in three banks the overdues were very heavy as on 30 June 1963 being as high as 30 per cent to 33 per cent of demand. Five out of 9 banks had also failed to meet their obligations to the apex bank on due dates, although the defaults except in the case of one bank, were for a period of one to three days. There is also the undesirable practice of granting extensions for repayment of loans without sufficient justification and proper scrutiny of loan applications.

7. The State Government has agreed that the dividend on its share capital in co-operative credit institutions in excess of 3 per cent may be appropriated in equal part to the Stabilisation Fund and the Relief and Guarantee Fund. Only three central co-operative banks had constituted stabilisation funds but they were negligible in size. No contributions had been made upto 1962-63 to the Relief and Guarantee Fund.

8. In the matter of building up deposit resources there has been some progress both at the apex and central bank

levels, and rates of interest offered were generally competitive. The banks have been approved for acceptance of security deposits of contractors, government servants, etc. No central bank, had branches as at the end of 1961-62. The volume of deposits was relatively small in 5 out of 7 banks, ranging from Rs. 9 lakhs to Rs. 24 lakhs, as compared with the all-India average of Rs. 32 lakhs in 1961-62.

9. Supervision is the responsibility of the central co-operative banks, and their special staff for the purpose seemed to be adequate. Audit arrangements, however, seemed to suffer because audit staff had to attend to other functions as well.

10. Linking of credit with marketing had made little progress. The State Government held the view that there was little scope for co-operative marketing of paddy as the marketable surplus was small. The societies had, therefore, to be very vigilant to ensure that recoveries were effected at harvest time. In the area of Quilon, Alleppey and Ernakulam districts, the *Kettuthengu* system was in operation, under which the credit society secures the usufructuary right in a certain number of coconut trees belonging to the borrower, gets the coconuts plucked and sold on its own account and adjusts the sale proceeds to reduce the loans every 45 days.

11. The primary marketing and credit societies accounted for over 50 per cent of the 1600 retail selling points for the distribution of fertilizers in the State but their sales were only 25 per cent of the total. This happened because the supply was against cash payment but the societies did not have the necessary funds for the purpose. The State Government have, however, recently agreed to guarantee accommodation from the State Bank of India to the apex bank for financing this business.

12. In judging the low level of co-operative advances per capita of rural population, account has to be taken of the high density of population in the State and the low proportion of cultivators as reflected in the fact that only 39 per

cent of the 'workers' according to the census comprised of cultivators and agricultural labourers. The size of cultivating holding per cultivator was also lower in this State than in any other. It should also be noted here that alternative sources of credit—notably chit funds—were available to many cultivators.

13. The main factors accounting for the relatively limited performance of co-operative credit in terms of coverage and lending would include:

- i) insistence on mortgage security and lack of orientation of credit policies to production needs
- ii) paucity of resources with co-operative banks
- ✓iii) overlapping membership and jurisdiction at the primary level
- iv) the relatively small size of holdings and low proportion of cultivators to rural population.

ANDHRA PRADESH

The agricultural credit societies in the State had extended their operations to 80.7 per cent of the villages by 1961-62 but, of these, 8.1 per cent were covered by dormant societies. The membership of co-operatives accounted for 38.5 per cent of the cultivator households and 49.9 per cent of the cultivator households reporting any indebtedness. The borrowing-membership formed only 52.5 per cent of total membership, representing only one-fifth of the cultivator households and 35 per cent of the borrowing households. As regards the quantum of co-operative credit, it is observed that loans advanced by primary agricultural credit societies and land mortgage banks during 1961-62 formed only about 25 per cent of the total estimated borrowings of all cultivator households. In relation to borrowings per borrowing household of Rs. 468 the borrowing per borrowing member was only Rs. 298 or 64 per cent of the former. The level of lending is also found to be low with reference to co-operative credit

per head of rural population which amounted to only Rs. 8.31. Finally, it may be noted that the year 1962-63 witnessed retrogression in the volume of agricultural credit provided by the co-operatives. The loans issued by central co-operative banks per capita of rural population declined from Rs. 9.20 to Rs. 8.89.

2. The credit structure at the apex and central bank levels broadly conformed to the accepted pattern of federal and State-partnered institutions. The only exception is the central co-operative bank in Cuddappah district which has been denied State contribution of share capital in view of the chronic overdues and mismanagement which have rendered its financial position very unsatisfactory. The standards of operational efficiency and management were not satisfactory in several central banks, especially in those from the Telangana area.

3. At the primary level, 14 per cent of the agricultural credit societies were dormant. The level of their operations was relatively low, as may be seen from the fact that in the small-sized societies the average membership was only 83 and the average loan outstanding Rs. 10,640. As against the target of 4000 societies to be revitalised during the Third Plan, 1485 societies were taken up for revitalisation in 1961-62 and 1962-63.

4. As for long-term credit, the structure is reasonably well-organised especially in the Andhra area and progressive in its loan policies. The bank has made some headway in the matter of undertaking development financing as well as floatation of rural debentures.

5. The operational policies at the primary level were not, till recently, uniform in the entire State, the practice in the Telagana area differing somewhat from that in the rest of the State. In both the cases, however, loans were not issued on the basis of requirements relating to production but on certain other criteria such as ownership of assets or land revenue paid by the members, mortgage being insisted

upon for amounts exceeding Rs. 500. The practice of basing credit limits on land revenue is, however, gradually disappearing. The maximum individual credit limits vary between Rs. 500 and Rs. 3,000 in small-sized societies, Rs. 500 and Rs. 4,000 in large-sized societies, Rs. 500 and Rs. 5,000 in rural banks and Rs. 50 and Rs. 100 in Harijan societies. It is stated that landless tenants used to be refused loans but it was recently decided that they might be advanced loans if certified as cultivators by an appropriate Government authority. Seasonality was not observed in lending and recovery.

6. Repayment performance has not been satisfactory in several banks, largely because of the absence of a determined drive for recovering dues. Though for the State as a whole, the proportion of overdues to outstandings was only 11.78 per cent in 1961-62, the position was worse in various individual institutions. Thus, the proportion exceeds 50 per cent in the Eluru and Warangal banks and was about 30 per cent in the Hyderabad and Guntur banks. The inability of several banks, especially in the Telangana and Rayalaseema area to absorb overdues and maintain their creditworthiness with the higher financing agencies is reflected in the recession in co-operative credit, which was observed in the State during 1962-63.

7. In the context of the fact that large parts of the State are periodically subject to drought, it is a serious handicap that the amounts to the credit of the stabilisation funds created at the central and apex bank levels, at Rs. 8.30 lakhs and Rs. 5.30 lakhs respectively, were negligible.

8. The weakest aspect of the functioning of the banks in the State related to their lack of success in mobilising resources in the form of deposits, which has resulted in their growing dependence on outside borrowings for financing the lending programme. It is stated that the State Government is trying to persuade local authorities and state and other industrial organisations to deposit their funds with co-operative banks but no concrete steps seem to have been taken in

this direction. Branch expansion has also not made much progress, with several of the banks not having even a single branch yet.

9. Co-operative marketing and processing, apart from organisation of co-operative sugar factories, has made little progress. The bulk of the activities of the marketing societies consisted of the distribution of agricultural requisites and the issue of produce loans. There has been no progress in the linking of marketing and credit.

10. A factor which lies outside the institutional structure but has a close bearing on the development of co-operative credit in parts of the State relates to the fact that certain areas, *viz.*, Rayalaseema and parts of the Telangana area are particularly vulnerable from the point of view of drought. It is estimated that in 1958-59, 77 lakh acres of sown area in Adilabad, Anantapur, Cuddappah and Kurnool districts representing 28 per cent of the total of net sown area in the State were affected by drought. In 1958-59 and 1959-60, floods had affected 40 per cent and 20 per cent respectively of the total area in the State. Another relevant factor in this connection is the large proportion of tribal population in the State. Of the total population at 36 million, 6.3 million or 17.5 per cent were scheduled castes and tribes. The tribal population is mainly found concentrated in the districts of Visakhapatnam, Adilabad, West Godavari, Warangal, Khammam and Karimnagar.

11. From the point of view of the performance of co-operative credit in the State, it is possible to distinguish between the coastal area of the State and the region represented by Rayalaseema and Telangana. The coastal area is better served by irrigation facilities. Rayalaseema and Telangana regions include tracts which are poorly served by irrigation and are susceptible to drought. The irrigated area formed 13 per cent of the total cropped area in Rayalaseema and 16 per cent in Telangana, as compared with 42.4 per cent in the coastal area. The coverage by co-operatives of the rural population in the area served by agricultural credit societies

is nearly 39 per cent in coastal Andhra Pradesh, whereas it is only 13 per cent in the Telangana region and 18 per cent in Rayalaseema. Loans issued by the primary societies per head of rural population were also much higher at Rs. 10.67 in the coastal area as compared to Rs. 4 in Rayalaseema and Rs. 3.81 in the Telangana region. The co-operative credit structure in Telangana has shown very poor progress except for one or two central banks not only because of the unfavourable conditions of agriculture prevalent in the area but also because of the restrictive features of their loan policy and paucity of deposit resources. Though these banks were assisted some years ago by special subventions from Government for writing off their old bad debts, no decisive or impressive impact on their stagnation has yet come about. The standards of staff and management of cooperative institutions in the area leave much room for improvement.

12. The main explanation for relative failure in the large part of the State has to be sought in the following factors:

- (i) the incidence of crop failure and drought in the Telangana and Rayalaseema regions
- (ii) the poor resources position of the apex as well as central banks in most cases
- (iii) the relatively low level of financial strength and organisational efficiency of the majority of the central banks
- (iv) the failure to implement progressive and rational loan policies at the primary level.

GUJARAT

The coverage of villages by agricultural credit co-operatives was almost complete at 99.7 per cent and, of these, 5.7 per cent were covered by dormant societies. Members of agricultural credit societies, however, represented only 30 per cent of the rural population or 46.7 per cent of the cultivator households with the percentage of borrowing members being

fairly high at 64.91 of total membership. Of the households who were indebted to one agency or the other, 69 per cent were members of co-operatives but what is more remarkable is that the proportion of borrowing members to borrowing households at 50 showed that half the households who required credit depended on the co-operatives for it. Credit received from co-operatives represented 36.5 per cent of borrowings of cultivators from all sources and the average of such credit per head of rural population was Rs. 16.92, the highest in the country. The average loan of Rs. 446 per borrowing member issued in 1961-62, again, represented the highest amount for the country and formed as high a proportion as 73 per cent of the borrowings per borrowing household.

2. The Gujarat State Co-operative Bank, which was established on the bifurcation of the Bombay State inheriting its share of assets and liabilities from the Bombay State Co-operative Bank and incorporating the erstwhile Saurashtra State Co-operative Bank, and the central banks of the State broadly conform to the accepted pattern except in a few aspects. The apex bank finances societies direct in the Dangs area which is not served by any central bank. There are 21 central financing agencies in the State serving 16 districts. Thirteen districts are each served by one bank, while three districts have more than one bank each ; the question of the amalgamation of the latter is to be further examined by Government. The membership of the central banks consists of 11,199 societies and 22,538 individuals.

3. Of the 7,728 primary agricultural credit societies in the State, the proportion of dormant societies was 6 per cent. There were 1013 large-sized societies with an average membership of 242 and loans outstanding of Rs. 99,528. The 6,716 small-sized societies on an average, covered a population of only 1719 in their areas of operation and had a membership of 82 and loans outstanding of Rs. 25,746.

4. The structure for long-term credit consists of the Gujarat State Co-operative Land Mortgage Bank operating through a network of 132 branches and only 4 primary land

mortgage banks affiliated to it. The organisation of primary banks all over the State is under consideration. The bulk of loans advanced is for productive purposes. The central land mortgage bank has floated seven series of rural debentures. No special development debentures have been floated so far. The overdues were heavy, consisting as on 31 March 1961 of Rs. 36.81 lakhs of 'Girasdari' loans which were overdue for over 3 years and normal loans of Rs. 62.83 lakhs, of which 17 per cent were overdue for more than two years.

5. The financing of individuals was generally negligible both at the apex bank level and in the majority of the central co-operative banks. The exceptions, however, were the Panchmahals Central Co-operative Bank, the Surat Central Co-operative Bank and the Limbdi Banking Union in which loans to individuals formed about 20, 10 and 50 per cent respectively of their total outstanding loans. In these and some other banks, the financing of traders was found to exist, to a significant extent, usually in the form of discounting of bills.

6. At the primary level, the size of the loan is generally said to be related to the anticipated crop and the acreage under cultivation. Loans are usually based on sureties and a charge on land, though, for loans in excess of certain limits, mortgage of land is required in some banks. Medium-term loans in excess of Rs. 1,000 are made against mortgage of land.

7. Societies with defaults not exceeding a specified proportion of dues—usually 50 per cent—are provided fresh finance by central banks to enable the former to finance non-defaulting members and new members provided the societies take coercive action against defaulters.

8. Agricultural credit stabilization funds have been created in the state co-operative bank as well as 18 central co-operative banks, with the level of funds as on 30 June 1962 being Rs. 1.18 lakhs and Rs. 1.81 lakhs respectively. Fifty per cent of the excess dividend over 3½ per cent payable to Government on its share holdings was being credited to the funds but has been discontinued since 1963 as Government had decided

to appropriate the entire dividend payable to it. The Relief and Guarantee Fund set up by the Government of Gujarat had a balance of Rs. 6.41 lakhs as on 31 March 1962. The linking of shareholding to borrowing is in force at all levels.

9. Co-operative banks are in a position to offer competitive rates of interest on deposits apart from providing banking services to their customers, so that they have been able to develop internal resources in a sizable measure and in this respect lead the rest of the country. Branch expansion has made good progress with 20 banks having, in all, about 190 branches. The performance in regard to deposits, however, was largely accounted for by the central banks operating in the area which formed part of the erstwhile Bombay State. The State Government had recognised 'A' and 'B' class banks in this region as eligible for receiving deposits from local bodies but had not extended the same treatment to banks in the Saurashtra region.

10. The supervision of societies was being attended to both by the bank inspectors and the departmental officials. In some areas, *e.g.*, Panchmahals, Bhavnagar, Kaira, Wankaner, Baroda and Broach, the charge per supervisor appeared to be very high. Similarly, the charge per auditor was also very high but audit was not in arrears. Concurrent audit was not in vogue in a majority of banks.

11. From the point of view of the development of co-operative agricultural credit, it is a significant fact that, the State has a tribal population of 27.54 lakhs, according to the 1961 census. Most of the tribals live in hilly and forest areas and are engaged in agriculture as well as the collection of forest produce which gives them a small though steady income. The tribals are to be found in the Dangs area and the districts of Broach, Panchmahals, Baroda and Surat. Being exploited by traders and lacking in leadership and literacy, the tribals have not been able to benefit by co-operative organization, as their way of life and field of work render membership in existing co-operatives not of immediate advantage. Another relevant factor is the susceptibility of

certain parts of the State to natural calamity, usually drought ; this area would include the districts of Kutch, Jamnagar, Banaskantha, Mehsana, Ahmedabad, Surendranagar, Bhavnagar and Amreli. Finally, parts of the State, especially Kutch and some districts of the Saurashtra region—seem to be sparsely populated and to suffer from lack of proper means of transport and communication and, to that extent, provide an unsatisfactory environment for the growth of institutional credit.

12. The overall picture in Gujarat is one of success of co-operative credit in the sense that those covered by it receive credit service in relatively adequate quantum, but the coverage is itself poor, in terms of even membership, not to speak of borrowing membership. While this is the position for the State as a whole, stagnation or deterioration was witnessed in the operations of certain banks, *e.g.*, Surat, Baroda, Bhavnagar, Junagadh, Wankaner, Kaira, Sabarkantha, Amreli and Morvi Malia. Among the contributory factors—differing from one case to another—were (a) scarcity and famine conditions, (b) slack supervision, (c) absence of any drive to enlarge coverage, (d) weak resources position which renders them relatively incapable of absorbing overdues.

MADRAS

Agricultural credit societies covered all the villages in the State, dormant societies covering 8.6 per cent of the latter in 1961-62. The percentage of rural population covered was 58.2. The co-operative membership represented 86 per cent of all cultivator households. This was even larger than the proportion of families who reported any indebtedness to any agency which stood at 72.3 per cent. Borrowing members formed only 46.6 per cent of the total membership, a proportion which was lower than the all-India average of 50.89 per cent in 1961-62 and tended to fall from year to year. Such borrowing membership in 1961-62 formed 69.6 per cent of the households reporting any borrowing during the year. Co-operative agricultural credit in 1961-62 formed 31.2 per cent of the total borrowings of all borrowing cultivators from

all sources. The average borrowing per borrowing member was Rs. 232 or about 45 per cent of the borrowing per borrowing cultivator amounting to Rs. 517. Loans issued by primary co-operatives per head of rural population in 1961-62 amounted to Rs. 12.76 and Rs. 14.68 in 1962-63. The per capita loans issued by the central co-operative banks at Rs. 16.48 in 1962-63 showed a rising trend, the annual rate of increase for the preceding 5 years being Rs. 2.45, the highest in the country except for Maharashtra where it was Rs. 2.47.

2. The institutional structure in the State conformed to the accepted pattern, the apex and central banks being State-partnered institutions organized on a federal basis. At the primary level, however, there were some rural banks alongside primary agricultural credit societies having overlapping jurisdiction but confining themselves to medium-term and jewel loans. The small-sized societies had on an average a population coverage of 1235 as against 10,020 for large-sized societies. The average membership and loan outstanding were respectively 221 and Rs. 19,489 per small-sized society and 1116 and Rs. 2,13,052 per large-sized society.

3. The long-term credit structure consists of the Madras Central Land Mortgage Bank and 96 primary land mortgage banks. Discharge of prior debts continued to account for the major proportion of the loans advanced by them. The bank has issued six series of rural debentures so far, of which those floated since July 1961 have not been markedly successful.

4. Although the co-operative credit institutions in the State have acquired financial strength as well as adequate experience in providing finance for agricultural purposes over the years, their loan policies continued to be largely security-based. The basis of the loan is generally the value of assets owned and mortgaged, the upper limit for loans on personal security having been fixed at only Rs. 250-500 until recently, and now at Rs. 1,000. The individual maximum borrowing power of a member was fixed at Rs. 3000 provided adequate

mortgage of land was given, (Rs. 5000 in the package district) which could be exceeded only if security of produce or jewels was given. The lending and recovery of short-term loans for seasonal agricultural operations are not related to the sowing and harvesting seasons of the crops financed, in the case of most of the banks except the co-operative central banks at Tanjore and Kumbakonam, where the package programme is being implemented.

5. Though the position of overdues in most of the central banks is generally satisfactory as on 30 June every year, they are very heavy at the end of the earlier months. There is reason to believe that there is considerable window-dressing of the position in this regard as on 30 June for the purpose of obtaining a better audit classification. As regards financing of defaulting societies, the practice is that a society may be financed if it has repaid at least 75 per cent of its dues and its members have repaid at least $66\frac{2}{3}$ per cent of their dues.

6. Provision exists for the creation of agricultural credit stabilisation funds by co-operative banks and for a contribution to them of 10 per cent of the net profits of the banks. The State Government has agreed to the excess dividend on its share capital over a certain minimum being credited in part to this fund, the other part being credited to the Relief and Guarantee Fund. As on 30 June 1963, the amount to the credit of this fund with the apex bank was Rs. 7.96 lakhs and with the 14 central banks which had constituted the funds Rs. 17.88 lakhs. The total amount to the credit of the Relief and Guarantee Fund was Rs. 5 lakhs.

7. It is in the matter of the mobilisation of internal resources in the form of deposits that the performance in this State reflects limited progress as deposits have failed generally to increase in step with the expanding levels of loan operations in the central banks, and their dependence on outside borrowings has tended to rise steeply. Much has not been done in the direction of branch expansion also. As on 30 June 1962, of the fifteen banks in the State, only six had, in all, thirteen branches.

8. While supervision is in the hands of central co-operative banks in the State and the staff for the purpose is reasonably adequate, inadequacy of audit staff and consequent arrears in audit are reported in certain districts of the State.

9. The recovery of loans made by credit societies from out of produce sold through marketing societies has not shown any appreciable progress. During 1962-63, 127 marketing societies sold produce of the value of Rs. 816 lakhs but could recover production loans only to the tune of Rs. 67 lakhs.

10. Though the State appears to be favourably placed in the matter of the incidence of natural calamity, certain areas are susceptible to drought. It is estimated, for instance, that, in 1958-59, 10 per cent of the total area was affected by drought.

MAHARASHTRA

The performance of co-operative credit in Maharashtra is fairly satisfactory, more in regard to the extension of credit to members, than in regard to the coverage. Though, by the end of 1962-63, the primary agricultural credit societies had covered 96.9 per cent of villages in the State, the membership of these societies formed only 36.7 per cent of the total rural population. The membership in 1961-62 formed 52.9 per cent of cultivator households and 83.9 per cent of those who were indebted. Borrowing membership formed 67.1 per cent of the total membership and 69.2 per cent of those who reported borrowing from any agency. The advances of co-operative credit societies formed 55.2 per cent—the highest proportion for the whole country—of the estimated borrowings of all cultivators. The loan per borrowing member at Rs. 347 was, again, higher than in any other State except Gujarat and formed 79.8 per cent of the borrowing per borrowing household at Rs. 435. The total loans issued by primary agricultural credit societies worked out to Rs. 14.84 per head of rural population, while those by central co-operative banks worked out to Rs. 18.24 per head of rural population, which was also the highest for any State.

2. The fairly high amount of loan per head of rural population has become possible largely due to the well-organised and developed co-operative credit structure at all levels. The apex and central co-operative banks have, by and large, grown into strong institutions, assisted by Government contribution to their share capital to a significant extent. Each district has only one central co-operative bank with an average share capital, deposits and working capital of Rs. 37.68 lakhs, Rs. 148.18 lakhs and Rs. 301.30 lakhs respectively per bank. Even the position at the primary level was not very unsatisfactory. Only 4 per cent of the societies were dormant. The average population covered by the primary society was 1414. The average membership and loan outstanding per small-sized society were 89 and Rs. 21,586.

3. The notable performance of co-operative credit in Maharashtra may be attributed largely to the adoption of progressive loan policies under the crop loan system. By and large, the system has been introduced in the State in all its aspects, though there have been difficulties in the process of implementation in the field. Thus, there have been instances of crop acreages inflated with a view to obtaining larger loans and of credit being drawn not only for production needs but also for other purposes. The provision of credit in kind has not shown any marked success as seen from the response of the borrowers reflected in the lifting of supplies. A major cause for concern has been the rising trend of overdues which went up to 34 per cent of outstandings in 1962-63, though in part, this is attributable to natural calamity. In this connection, it is relevant to note that the inadequacy of the agricultural credit stabilisation funds is a lacuna in the co-operative credit structure of the State. As on 30 June 1963, the amount to the credit of the fund at the apex bank was only Rs. 5.86 lakhs and the total to the credit of the funds in the 19 banks which had constituted them was Rs. 8.65 lakhs. There appeared to be no provision for any contributions to be made to these funds from out of the net profits of the institutions concerned, though a part of the dividend on Government share capital accrued to them.

4. Long-term credit is being disbursed by the State Co-operative Land Mortgage Bank and 27 primary land development banks. They have made good progress in the provision of loans for land improvement as may be seen from the fact that out of total loans of Rs. 865 lakhs issued in 1962-63, Rs. 547 lakhs were for sinking of wells, Rs. 283 lakhs for installation of pump-sets and Rs. 35 lakhs for other types of land improvement while the loans for discharge of prior debts amounted to only Rs. 0.39 lakh. An important factor of strength, in this connection, has been the decision of the Government to transfer the responsibility for implementing the plan scheme of minor irrigation to the land development banks together with the usual subsidies forming part of the scheme and the statutory provision made for a simplification of the method of estimating the value of land as security.

5. The infra-structure of arrangements for supervision and audit of societies though developed, leaves scope for improvement particularly in regard to the former as is seen from the heavy charge per supervisor in the areas of some of the central co-operative banks particularly in the Maharashtra and Vidarbha regions. Similarly, progress is yet to be achieved in linking credit with marketing except for sugarcane crushed in co-operative sugar-factories. Loans of co-operative credit societies to the tune of Rs. 121 lakhs were recovered through marketing societies in 1961-62 though the value of produce handled by them was as large as Rs. 17.47 crores.

6. While the overall picture of co-operative development in Maharashtra presents a more or less satisfactory performance and needs improvement mainly in respect of arrangements for supervision and stabilisation of agricultural credit, there appear to be two pockets, viz., the Konkan area (Kolaba, Ratnagiri and Thana districts) and the area covered by the Chanda and Bhandara districts where the results in regard to coverage as well as financing fall far short of the State average. Thus, in 1962-63 the coverage of villages in the Konkan area was only 64 per cent as against 97 per cent in the entire State. The coverage of rural population represented by membership of co-operatives was 23 per cent in

the Konkan area and 31 per cent in Chanda and Bhandara districts as against 39 per cent for the residuary area of the State. The average loan advanced by primary societies per head of rural population was only Rs. 2.29 in the Konkan area and Rs. 8.72 in Bhandara and Chanda districts as against Rs. 18.48 for the rest of the State.

7. The probable reasons for the poorer performance have to be sought in the conditions of the economy represented by these areas. In Thana and Kolaba districts of the Konkan, the low demand for credit can perhaps be explained with reference to their proximity to the large metropolitan area of Bombay which provides income and employment to the population of these districts. In Ratnagiri, the problem of accessibility as well as the low plane of cultivation involving only limited or no inputs at the present stage of its agricultural development seems to account for the relatively poor performance. The districts of Bhandara and Chanda represent conditions similar to those of the eastern and south-eastern districts of Madhya Pradesh in respect of the proportion of area under forest, the type of crops raised as well as the standards of cultivation. It is observed that the net sown area in these five districts formed only about 24 to 31 per cent of the total area except in Bhandara where it formed a little more than 40 per cent, whereas for the State as a whole, it was 59 per cent. The main crop in these areas is paddy which constitutes more than 70 per cent of the total paddy grown in the State, while there is little cultivation of any important cash crops in the area other than some oilseeds. The solution to the problem presented by these regions can be thought of only in terms of an overall development programme for bringing about a radical change in their economy.
