

CHAPTER-I

REVIEW OF THE ROLE OF RESERVE BANK
OF INDIA AND CO-OPERATIVE CREDIT
POLICY

CHAPTER-I

REVIEW OF THE ROLE OF RESERVE BANK OF INDIA AND CO-OPERATIVE CREDIT POLICY

In this chapter, the first section is devoted to review the role played by the R.B.I. in rural credit as well as to examine the evolution of cooperative credit policy. The second section deals with the progress of PACCS and impediments in its growth. The third section is devoted to some important measures taken by the R.B.I. to remove impediments in the smooth flow of credit to agricultural sector. The last section presents scheme of the present research study.

SECTION-I

There are two wings of the co-operative credit structure, one supplying short-term and medium-term credit requirements and the other long-term investment credit. The co-operatives are generally organised into a three tier structure for short-term and medium term credit. The three tier short-term co-operative credit structure consists of the State co-operative banks at the apex level, central co-operative banks at the district level and primary agricultural credit societies at the base, serving a village or a group of villages. In the long-term

co-operative credit structure, the State/Central Co-operative land development banks function^d at the apex level and usually the primary land development banks at the primary level. In few States there is a unitary structure of land development banks financing the ultimate borrowers through a network of its branches.

ROLE OF THE R.B.I. AND
CO-OPERATIVE CREDIT POLICY :

The various studies revealed that almost the entire finance required by agriculturists was supplied by money lenders, the part played by co-operatives and other agencies being insignificant. At this stage, the role of the R.B.I. was limited in its activities.

It was only after the Report of the All-India Rural Credit Survey Committee in 1954 that the activities of the R.B.I. showed a marked expansion in the sphere of rural credit. According to ^{the} survey committee, though co-operative credit proved to be inadequate as it accounted for only 3% of the total borrowings of cultivators, co-operative was the most suitable agency for the dispensation of rural credit. Co-operatives, therefore, must succeed as an effective rivals to money lenders. The survey committee report made several far-reaching recommendations for an integrated development of rural credit. The main features of an integrated system of agriculture credit were :

- i) Organisation of large sized societies.
- ii) Issue of crop loans on the security of anticipated crops.
- iii) Linking of credit with marketing.
- iv) Construction of godowns for storage.
- v) Provision of marketing facilities at mandis and district headquarter.
- vi) State partnership through contribution to the share capital of co-operative credit institutions.
- vii) Administration through adequately trained and efficient personnel responsive to the needs of rural population.

The Indian Government broadly accepted the proposals of the Rural Credit Survey Committee. Consequently, the R.B.I. was assigned the crucial role of implementing the scheme of integrated credit with a view to building-up sound co-operative credit structure which could provide timely credit to the agriculturists for the development of agriculture.¹ Moreover, with an amendment to the R.B.I. Act in 1955, National Agricultural Credit (Long-term operations) Fund and the National Agricultural Credit (Stabilization) Fund were set-up. In fact, entire resources of two funds are to be transferred to NABARD.² The former was to be used for (i) issuing loans for periods not exceeding 20 years to State Governments for subscribing to the share

capital of co-operative institutions (ii) advancing medium-term loans to State Co-operative Banks for agriculture and other allied purposes and (iii) advancing loans for the periods not exceeding 20 years ~~to~~, and for the purchase of debentures of central land development bank. The latter was to be utilised for converting short-term loans into medium-term loans in circumstances into which the repayment becomes impossible owing to widespread natural calamities ^{like} ~~like~~ famine, flood etc. Consequent upon aforesaid developments, the role of the R.B.I. shifted from that of a lender of last resort to that of an active agency not only for the promotion of a strong co-operative credit structure but also for enabling co-operative agencies to take a larger share in the financing of agricultural credit through appropriate measures of reform and re-organisation.³

Moreover, V.L. Mehata Committee (1959) also made many recommendations, some of which were as below :

- i) establishment of primary agricultural credit societies at ^{the} base serving a village or a group of villages,
- ii) membership to all classes of cultivators including marginal, submarginal cultivators and tenant cultivators.

iii) provision of adequate credit through societies on the basis of production requirements and repaying capacity. In this way, the co-operative credit policy emphasised the rationalisation of co-operative credit structure particularly at the village level so as to ensure sufficient and smooth flow of credit to all sections of cultivators.⁴

All India Rural Credit Review Committee under the Chairmanship of Shri B. Venkatappiah also made important recommendations in July 1969. Some of the important recommendations were - the establishment of the agriculture credit board in the Reserve Bank, setting up of small farmers' development agency in each of the selected districts, the establishment of Rural Electrification Corporation, more active and bigger role for the Agricultural Refinance and Development Corporation alongwith the enlargement of its resources and adoption of various measures for ensuring timely and adequate flow of credit for agriculture through cooperatives and commercial banks. The committee thus prepared the ground for a multi-agency approach to agricultural finance.

Aforesaid analysis indicates that a definite policy of integrated cooperative credit emerged by the end of the first plan. The policy generally held ground for about a

decade in second and third plan. During ^{the} third decade, a shift in policy took place towards multi-agency approach to agriculture financing with the active involvement of commercial banks in this business.⁵

In ⁽adequacy of co-operative credit constituted a major constraint in catering to the requirements of agriculture sector. Moreover, with ^{the} advent of green revolution the demand for credit exceeded the supply of credit owing to following factors :

- i) The rising tempo of modernisation in Indian agriculture which necessitated large cash outlay.
- ii) Growing requirements of credit for distributive trade of fertilizers.
- iii) A spurt in demand for credit for marketing and storage particularly after the introduction of high yielding varieties programme.

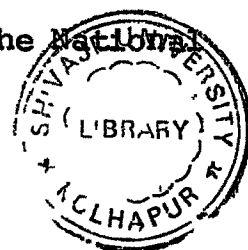
In order to meet growing requirements, a multi-agency approach to agricultural financing has been in operation since then. Under this approach, the prime objective of the R.B.I. has been to narrow down large credit gaps in the rural economy. Special institutions like R.R.B.s consequent upon the recommendations of the Banking Commission (1972) have been set-up to meet requirements of special areas. The co-operatives have the prime

role in purveying credit for agricultural and allied activities for only the cooperatives possess the organisational potential to reach out to the millions of small and scattered farmers and establish grass root contacts.⁶

Moreover, the cooperative network is already vast and can further be extended or strengthened with comparatively greater ease and at lower cost.

Furthermore, National Bank for Agriculture and Rural Development (NABARD) was set up on July 12, 1982 to take over the functions of ARDC and refinancing functions of the R.B.I. in relation to SCBS and RRBS.⁷

- i) To provide by the way of refinance all kinds of production and investment credit to agriculture, small scale industries, artisans, cottage and village industries, handicrafts and other allied economic activities.
- ii) To provide loans to State Governments for periods not exceeding 20 years to enable them to subscribe the share capital of cooperative credit societies.
- iii) To augment funds for meeting its loan operations from Government of India, the World Bank and other agencies. The resources of the National Agricultural Credit (Long-term operations) Fund and the National



Agricultural Credit (Stabilization) Fund stand transferred to the funds of NABARD with the creation of it.

In accordance~~s~~ with various facets of cooperative credit policy, the R.B.I. set-up one State Co-operative Bank in each State at the highest level of cooperative banking structure. Moreover, it established only one central co-operative bank at the district level. At the base level, the R.B .I. has been trying to form viable cooperative credit societies. The number of PACCS stood around 94,500 at ^{the} end ^{of} June 1980. This number is anticipated to go down to 90,000 after ^{the} re-organisation programme is completed in all States.⁸ The R.B.I. has also adopted multi-agency approach. RRBs also have been functioning. Moreover, NABARD has been already set-up.

The R.B.I. has been providing refinance to State Co-operative Banks both for short-term and medium term agricultural credit and allied purposes at concessional rate of interest. The R.B.I.'s approach towards developing cooperatives as ~~a~~ major institutional credit agencies for agriculture assumes special significance. The provision of extensive credit facilities to cooperatives by R.B.I. is considered as consistent with the role of central bank of a predominantly agricultural country. The R.B.I. has liberalised many conditions for providing short-term as well as

long-term finance to rural sector. The R.B.I. total credit (outstanding) to co-operatives rose almost more than 10 times from Rs. 135 crores at the end of June 1961 to Rs. 1371 crores at the end of June 1982. Similarly, short-term credit (outstanding) to co-operatives increased by more than six times from Rs. 104 crores at the end of June 1961 to Rs. 639 crores at the end of June 1982. Moreover, short-term credit for seasonal agricultural operations is provided at 3% below ^{the} Bank rate from March 1978 subject to recovery of an additional interest of 1½ percent as per linking scheme.

SECTION-II

Progress of PACCS and Impediments

The crop loan system is accepted policy framework for the operations of PACCS for issuing loans for seasonal agricultural operations. The term 'agricultural operations' cover ploughing and preparation of land for sowing, weeding, transplanting, acquiring and applying agricultural inputs such as seeds, fertilizers, insecticides etc., labour in the field, mixed farming i.e. animal husbandry and allied activities. Under this system PACCS advance loans to cultivating members on the basis of the production activities undertaken by them with reference to the crops they propose to raise, the acreage under cultivation and the

appropriate scales of finance per acre, per crop consisting of two components A and B - A component for meeting the cash outlay for payment of wages, rent, taxes, etc. and the B component for meeting the cost of fertilizers, pesticides etc.⁹ Crop loan system sought to transform the situation in two directions.¹⁰ First, by shifting the emphasis from real property to the crop as security, it brought in even pure tenants as potential borrowers and secondly, by relating the size of the loan to the requirements of business, it emphasised productive purpose. The integrated scheme of finance under crop loans led to a substantial increase in the flow of finance to the farmers and in a way strengthened the rural credit cooperatives by improving the economic condition of the farmers.¹¹ Thus on the basis of crop loan system, PACCS provide the main institutional base for supply of agricultural credit.

1) The coverage of PACCS in terms of both geographical area and membership showed increase. For instance, membership of these societies rose from 267.09 lakhs in 1966-67 to 610.03 lakhs in 1977-78 at the annual compound growth rate of 4%. More than 92% of villages in the country and about 50% of the rural households were brought under ^{the} purview of co-operatives.¹² Similarly, working capital, deposits and loans outstanding exhibited an upward trend.

2) The progress of deposit mobilization has been considerably slow. Though the amount of deposits with PACCS increased from Rs. 39.00 crores in 1966-67 to Rs. 165.00 crores in 1977-78, the proportion of deposits to working capital slightly deteriorated from 5.77% to 5.69%. This indicates failure of PACCS to attract sufficient deposits. Despite widening organisational network in recent years, PACCS have not been able to tap this potential appreciably.

3) The highest growth rate was recorded for overdues accounting for 14.6%. Moreover, it exceeded that for loans outstanding. Consequently, ratio of overdues to loans outstanding more or less steadily increased from 33.5% in 1966-67 to 43.5% in 1974-75. However, in subsequent period, it slowly declined.

IMPEDIMENTS TO PROGRESS OF PACCS :

A few of many impediments are as under :

1) Mounting overdues acted as impediment in the way of PACCS. It was observed that default of agricultural credit enormously increased. This was true of both cooperative and commercial bank loans to farmers. Similarly, it was true in the case of short-term as well as term loans. Moreover, the default rate for PACCS was higher (40%) for 1974-75 than that (36%) for land development banks.

The study team found that there was no positive relationship between the amount of overdues on the one hand and certain objective factors like extent and frequency of famines, ^{famines,} absence of irrigation facilities on the other. Overdues were also higher even in irrigated and double cropped areas. The cumulative effect of all the deficiencies in lending policies, especially inadequate and untimely credit or over-financing or lack of supervision over the end use of credit or unrealistic due dates had encouraged default.¹³ Similarly, fixation of loans on a unrealistic basis, sanction of loans based on inadequate and improper assessment of repayment capacity of borrowers facilitated accumulation of overdues of PACCS.¹⁴

Thus mounting overdues impeded the flow of credit to desired extent, through PACCS to agricultural sector.

2) The R.B.I. has not taken measure to compell co-operatives to pursue equity principle in distribution of credit. In 1951-52, small farmers obtained R₹. 0.63 per acre; while big farmers managed to secure R₹. 0.81 per acre as loans from co-operatives. In 1961-62, cultivators in the lower assets (upto Rs. 2,500), accounted for only 9.4% and those in the higher asset group (beyond Rs. 10,000) accounted for 55% of the total credit issued to cultivators by co-operatives.¹⁵ In 1973-74, 29.5% of

loans were issued to cultivators upto 2 hectares each and 65.5% of loans were sanctioned to cultivators beyond 2 hectares. The average amount per borrower amounted to Rs. 672, Rs. 1,167, Rs. 2,003 and Rs. 3,533 in the cases of marginal, small, medium and big farmers respectively at the end of March 1973. This type of financing trend naturally resulted in compelling the small farmers to turn to non-institutional lenders for financial assistance. The bulk of the small farmers, agricultural labourers and artisans are still being held in the clutches of non-institutional lenders, despite the increase in the coverage of rural households by institutional agencies.¹⁶ Thus, the exploitation of the poor sections of the community is still widely prevalent in the country.¹⁷ In precise way, about 75% of the debt of poorest of the cultivator households is contracted from non-institutional sources. Though the majority of the holdings in India continued to remain small farms as nearly 68% to 70% of rural households had operational holdings of 5 acres or less, the proportion of loans flowing to weaker sections of farming community remained more or less stagnant at about one-third of the total quantum of loans advanced in the country during 1972-77.¹⁸ Thus, there is a considerable skewness in distribution of credit. It is felt that the facility of co-operative loans has primarily been availed of by big

farmers who control the management of cooperative society. The failure of primary cooperative credit societies is directly related to their bias in granting loans to big borrowers.¹⁹

3) There are certain basic inadequacies of crop loan system itself in that it appears to be regressive as it meets the requirements of big cultivators in irrigated areas and growers of cash crops to a greater extent in comparison with those of small cultivators in dry areas growing mainly food crops.

SECTION-III

Measures of R.B.I.

1) The R.B.I. can exercise some influence with a view to controlling the magnitude of overdues. The cooperative banks have been under the statutory control of the R.B.I. since 1966 and are inspected regularly. After every inspection, suggestions are made to rectify any defects in lending policies and procedures which are responsible for overdues. Moreover, the R.B.I. ensures that central cooperative banks maintain adequate non-overdue cover for their borrowings from it. This condition is intended to stimulate a satisfactory recovery performance.

In order to contain mounting overdues, some of the remedies suggested and even applied so far refer to:

- i) Strengthening of machinery for supervision and recovery.
- ii) Defaulter and representatives of the defaulting societies be disqualified from continuing on the Board of Directors of Co-operatives.
- iii) Eligibility of both the individuals and institutions for fresh loans being made conditional to their repayment performance.
- iv) Formation of State Farming Corporations to buy in auction the lands of defaulters, in case there are no bidders.
- v) Greater emphasis on economic feasibility and repayment capacity criteria in relation to the collateral feasibility for lending and so on.

Owing to these measures, State Co-operative Banks and the Central Co-operative Banks in general have shown an improvement in their working and recoveries were substantially remitted to higher financial agencies.

2) The share of weaker sections of farming community in total short-term loans has been quite improving due to measures taken by the R.B.I. In order to ensure that small farmers get their due share of loans from co-operative societies, a stipulation has been made by the Reserve Bank that atleast 20% of the advances made by the Central Co-operative Banks through PACCS are for small farmers.

Similarly during the period since 1981-82, the important measure adopted by the R.B.I. has been a larger flow of credit from cooperatives to rural sector in general and the small and marginal farmers and other weaker sections of rural community in particular.²⁰

3) Crop loan system has been made production oriented rather than security based in that it emphasises seasonality in lending and recovery, issue of loans in kind and linking of credit with marketing.

SECTION-IV

Scheme of Dissertstion

The topic titled, "Working of Primary Agricultural Credit Societies : A Case Study of Walwa Taluka" is selected for research study owing to following reasons :

- 1) Primary Agricultural Credit Societies continue to occupy a ^{predominant} predominate position in the co-operative structure. These societies have been designed to play the role of the principal agency for agriculture credit in future.
- 2) Walwa Taluka is one of the economically, socially and politically progressive talukas of Sangli District in which most of the societies are oldest as these were set-up before 1930.
- 3) It was convenient for researcher to collect all data pertaining to taluka.

OBJECTIVES :

The present research study is undertaken mainly to judge the performance of primary agricultural credit societies (PACS) in Walwa Taluka (Tahsil). The ~~main~~ ^{specific} objectives of this study are :

- 1) To compare growth performance of primary agricultural credit societies in Walwa Tahsil with those in Sangli district.
- 2) To evaluate working of primary agricultural credit societies in Walwa Tahsil in respects of :



- a) Growth performance of PACS based on some selected indicators.
- b) Financial soundness of PACS based on capital structure and proportion of owned funds to working capital.
- c) Financing of weaker sections of farming community.
- d) Magnitude of overdues and trends in it.

3) To judge the performance of some selected PACS in both irrigated as well as dry areas at individual level.

METHODOLOGY :

The data on the subject have been obtained from records and reports of all PACS available in Taluka sub-registrar Office, Urun-Islampur. Similarly, data have been obtained from Divisional Statistical Office. Moreover, data pertaining to individual PACS have been collected from their offices.

In order to judge performance of PACS at individual level (Chapter-IV), in all four societies, two in irrigated area and two in dry areas have been chosen.

In this study, simple statistical techniques such as proportions, growth index, Index of inequality, annual growth rate and point compound growth rate have been ^{made} use of to ascertain desirable results.

REFERENCES

- 1) R.B.I., 'Role of the R.B.I. in the Sphere of Rural Credit', R.B.I., Bombay, 1980, p. 5.
- 2) R.B.I., 'Report on Currency and Finance', 1981-82, p. 198-199.
- 3) R.B.I., 'Role of the R.B.I. in the Sphere of Rural Credit', R.B.I., Bombay, 1980, p. 6.
- 4) W.C. Shrishrimal, 'Co-operative Credit in Planning era : Progress, Problems and Impact', in book Cooperation and the dynamics of change, Chinchankar and Namjoshi (Eds.), Somaiya Publishing Pvt.Ltd., Bombay, 1977, p. 185.
- 5) W.C. Shrishrimal, op.cit., p. 186.
- ✓ 6) Kamath Working Group on Multi-Agency Approach in Agricultural Financing, R.B.I. : Report on Trend and Progress of Banking in India, 1977-78, pp. 38-39.
- 7) R.B.I., 'Report on Currency and Finance' 1981-82, pp. 198-199.
- 8) R.B.I., 'Report on Currency and Finance', 1981-82, p. 183.
- ✓ 9) R.B.I., 'Role of the R.B.I. in the Sphere of Rural Credit', R.B.I., Bombay, 1980, p. 9.
Indian Co-operative Review, January, 1984, p. 242.

- 10) Gokhale Institute Studies No. 64, 'Writing and Speeches of Professor D.R. Gadgil on Co-operation', Orient Longman Limited, Bombay, 1975, p. 105.
- 11) C.K. Dalaya and R.S. Sabnis, 'Co-operation in Maharashtra', Centre for the Study of Social Change, Bombay, 1973, p. 15.
- 12) N.C.D.C. Bulletin, Oct., 1977.
- ✓ 13) R.B.I., 'Report of the Study Team on Overdues of Co-operative Credit Institutions, Bombay, July 1975, p.63.
- 14) Ibid, pp. 60-61.
- ✓ 15) C.H. Hanumantha Rao, 'Farm Size and Credit Policy', Economic and Political Weekly, December 26, 1970.
- ✓ 16) R.B.I. Study, 'Indebtedness of Rural Household and availability of Institutional Finance', Co-operative News Digest, Vol. XXVIII, October 1977, pp. 167-168.
- 17) Planning Commission, India, Draft Five Year Plan, 1978-83.
- 18) K. Munidaraswamy Naidu, 'Financing Small Farmers by Co-operative', Indian Co-operative Review, January, 1984, pp. 236-240.
- 19) J.S. Sidhu and D.S. Sidhu, 'Credit Distribution by Primary Co-operatives', Indian Co-operative Review, April, 1984, p. 382.

- ✓ 20) R.B.I., 'Report on Currency and Finance 1981-82',
p. 178.