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Evaluation Series No. 11



GOVERNMENT OF KERALA



REPORT ON
THE UTILISATION OF SHORT TERM AGRICULTURAL CO-OPERATIVE CREDIT IN KERALA

EVALUATION DIVISION
STATE PLANNING BOARD
KERALA
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PREFACE

THE massive growth in Co-operative Credit largely associated with the efforts to speed up the march of the green revolution has led to the emergence of several new problems. It was long suspected that the loans disbursed through primary credit societies are often used for purposes for which these were not intended. The scope for such misutilisation has steadily widened with the spectacular increase in the loanable funds and the progressive relaxation of the terms and conditions of lending. Perhaps a certain measure of diversion of loan proceeds is unavoidable in an economy which continues to be dominated by subsistence farming and is plagued by dearth of credit facilities for a variety of purposes. In any case the problem of utilisation of co-operative credit has received scant attention so far and the exercise required to understand its nature and extent has not yet been done. We in Kerala as in the rest of the country seem to proceed on the facile assumption that an expansion of credit and its extension to weaker sections of the community is all that is required in the agricultural sector. This self-complacency to say the least leads to a wastage of scarce resources which is precisely what we seek to eschew in economic planning. At the macro level of the community when the loan proceeds made available at subsidized rates of interest to promote a particular type of economic activity are deployed for extraneous purposes such diversion militates against the priorities of social planning. For the individual borrower it is harmful because misutilisation of funds blocks any improvement in his productive capacity and the ability to repay the loan.

In the present study an attempt has been made to study the extent and nature of misutilisation of short term agricultural loans in Kerala as also the motivation for such diversion. It has not been possible for us to employ methods of enquiry sophisticated enough to collect the required quality or data; we had to content ourselves

with the rather crude procedure of one time interrogation of the borrower who is hardly equipped to furnish the information needed in such a study. All the same we have been able to produce some findings which it is hoped will not only focus attention on this important aspect of co-operative credit but also facilitate the formulation of a more effective credit policy.

Shri N. George John, Assistant Director and Shri C. Daniel, Research Officer, drew up the scheme of study and designed the field survey connected with it. They also supervised the field work and a part of analysis of data. Subsequently Shri P. T. Joseph, Assistant Director, completed the analysis of data and drafted the report in which exercise he was assisted by Shri K. Vasudeva Bhattathiri, Research Assistant. Shri K. Balakumaran Nair, Deputy Director was closely associated with the conduct of the study since he assumed charge in August 1970.

We are grateful to the Registrar of Co-operative Societies and all the officers of the Department who extended to us their unstinted co-operation in this study. We are also thankful to the concerned office-bearers of the State and Central Co-operative Banks as also the primary credit societies, without whose sympathetic assistance this study would not have been conducted purposefully.

Trivandrum,
May 1972

K. S. L. PANIKKAR,
Chief Evaluation Officer,
State Planning Board.

1. Introduction.

The Co-operative movement was started in India in early twentieth centuary in the wake of the famines primarily to free the debt-ridden peasantry from the clutches of the usurious money lender. Its long range aim was 'the supply of adequate credit to the agriculturist on terms which he could afford and the quantities which he needed. Adhoc aid provided under the Land Improvement Act (1883) and Agriculturists Loan Act (1884)—popularly known as Taccavi loans—touched but the fringe of the problem. The organisation of village institutions based on the spirit of co-operation, thrift, self and mutual help, inspired by Frederich Nicolson's exhortation 'Find Raiffiessen' became the conerstone of sound agricultural credit in later years. In course of time a pyramidal structure of co-operatives was built up to dispense cheap credit with the primary society at the base. The Central Banks at the District level and the provincial Bank at the apex were the other two components of the three tier federal organization. Subsequently the positive interest taken by the Reserve Bank of India—the setting up of the Agricultural Credit Department and the concessional accommodation granted to agricultural borrowers put the co-operatives on their feet and helped them significantly to discharge their lending functions.

1.01 Despite considerable continuous activity in the co-operative sphere over 25 years the contribution of co-operative credit to total borrowings by agriculturists remained meagre. The All-India Rural Credit Survey Committee estimated the annual credit requirements of agriculturists to be of the order of Rs. 2,000 crores out of which the amount self-financed was well below Rs. 800 crores. Not more than 10.3% of the total credit was provided by acceptable institutional agencies like the Government, commercial Banks and the co-operatives and the share of the co-operatives was just 3.1% in 1951-52.

1.02 The blatant inadequacy of co-operative credit was as much due to poor coverage of the rural population by the co-operative movement (membership 44 lakhs reaching into less than one-tenth of the rural households) as the weakness of the existing societies. The total share capital of over one lakh societies in 1951-52 aggregated only Rs. 7.6 crores—Rs. 17 per member and Rs. 724 per society; coupled with the gross inadequacy of internal resources of central financing agencies the non-viability of primary credit societies led to the poor performance of co-operative credit. Further,the Committee noted the high incidence of overdues and lack of seasonality of advances and repayment detracted from the efficiency of co-operative credit.

1.03 Supervision of loan operations was far from satisfactory. No explicit mention was made of abuse of credit granted by co-operatives but it is clear that all the four defects highlighted—inadequacy of amount, high incidence of overdues, lack of seasonality and absence of supervision—have been factors leading to or indicating misutilisation of credit.

1.04 Since the launching of national economic planning and more especially after the adoption of a concerted programme to expand agricultural production rapidly, the co-operative movement not only registered an almost explosive growth but also gathered new dimensions. It may be seen from Table I that in the period of 18 years 1950-51 to 1968-69, while the number of societies rose only by sixty percent, membership increased nearly seven fold and their share capital grew 22 times. There has been a massive expansion of short-term and medium credit dispensed; it grew about 25 times in this period. Further the co-operatives have played an increasingly active role in the provision of working capital in kind; the value of agricultural inputs distributed by them in the same period rose from Rs. 36 crores to Rs. 230 crores (more than six times), the bulk of it in fertilizers (over three fourth). It is a gratifying development that within a decade, co-operatives have established their pre-eminent position in this sphere—they now account for over 65% of the total intake of fertilisers. This is no doubt a factor conducting to more proper utilisation of credit.

1.05 Now that co-operation has been recognised as the 'sheet anchor of rural economic democracy' the tempo of development of agricultural credit is bound to be maintained. At present, hardly a third of the rural population is covered by active societies and over one-third of the estimated credit requirements of about Rs. 2,000 crores met by them. The Fourth Five Year Plan seeks to extend membership to 45 million persons so as to cover three quarters of the agricultural households in the country and to maintain a flow of credit equal to Rs. 650 crores per annum.

1.06 In one sense it is this spectacular quantitative growth in credit that accounts for the emergence of the problems of proper utilisation. It is highly probable that a large number of borrowers, who were not equipped to absorb the loans, secured credit and probably they were not assisted to make proper use of the same. The marked cumulation of arrears noticed in this period of expansion indicates considerable misutilisation of credit facilities. During the eight years 1960-61 to 1968 the aggregate of overdues rose from Rs. 44.3 crores to Rs. 171 crores—the percentage of overdues to outstanding rose from 20.3 to 33.5 in 1967-68. For Central Co-operative Banks the corresponding percentage doubled itself (it rose from 12.4 to 25). It was recognised offically that 'the percentage of heavy overdues

is not confined to a few co-operatives in undeveloped States or to those susceptible to natural calamities, but is a common feature affecting all the States'.* Though the need to organise viable primary societies by amalgamation of non-viable co-operatives was acknowledged and steps were taken in this behalf the progress achieved in this direction was tardy.

1.07 Alongside the proliferation of co-operative credit indicated above a revolutionary change brought about in its quality and purpose has also invested the problem of utilisation with special significance. In a predominantly subsistence farming economy the bulk of the credit sought relates to consumption; as a matter of fact it is both conceptually and operationally difficult to isolate purely consumption needs from production requirements. As farming tends to be commercialised the production costs component of the farmers expenditure-mix becomes separable and assumes a larger dimension. In this process of transformation of traditional farming the increasing use of costly inputs and the extended adoption of improved practices call for enlarged credit. It becomes necessary to pin-point the specific use of credit and thus arises the problem of diversion which often assumes the form of misutilisation of crtdit facilities.

1.08 The increasing shift of emphasis from security-oriented credit to production-oriented credit associated with the modernisation of farming noted above has also widened the scope of improper use of credit. It is true that the preoccupation with asset-worthiness which characterized traditional 'sound' banking had long constricted the lending operations in the co-operative sector and the substitution of the criterion of production-worthiness was a progressive step. But then the expanded credit facilities associated with this change over provided along with it increased opportunities for improper utilisation.

1.09 The arrangements to provide crop loans for instance met a long-felt want and the provision of credit on the basis of ascertainable and specified needs definitely paved the way for its legitimate use. At the same time the augmented facilities enhanced the opportunities for misutilisation in as much as the institutional arrangements for supervising the use of credit proved inadequate. Similarly the introduction of the component system which included the disbursal of credit in kind constituted a useful innovation in the strategy of lending but this too did not turn out to be an unqualified success.

1.10 It is not easy to get a precise measure of misutilisation of credit though there is considerable evidence pointing to extensive

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*Review of the Co-operative Movement in India 1966-68 Reserve Bank of India.

unproductive use of the same. As a matter of fact even the concept of proper utilisation remains vague and diffused. The fact that many borrowers readily confess to diversion of loan funds to unintended purposes suggests that the consciousness of proper utilisation is not generally developed in the minds of borrowers. Further when over-dues accumulate at an accelerated rate it is more or less clear that the defaulting borrowers have not used the loan proceeds productively enough to improve their repaying capacity.

1.11 In the context in which the typical Indian ryot operates, it is perhaps idle to except of him any meticulous use of credit. Actually, in a predominantly subsistence economy the dichotomy between production credit and consumption credit is mythical, for, the expenditure on purchased inputs may be minimal and in most cases indistinguishable from the outlay on consumption requirements. Further, as long as the basic needs of consumption remain unsatisfied, it is hard to resist the temptation to encroach on whatever supplemental resources, may it production credit or anything cle. This temptation is strengthened by the inadequacy of the quantum of production credit as also the manifold difficulties in using this limited amount purposively and effectively in productive occupations.

1.12 It is doubtful if the full magnitude and impact of misutilisation of co-operative credit have been recognised; in any case even when these are recognised it is rarely that any concerted and effective action is taken to check it. The bulk of the co-operative aid now extended is subsidised credit as the rate of interest charged is substantially lower than the market rate (it is incomparably smaller than what used to be charged by the rural money lenders). Hence the community as a whole is incurring a high cost in dispensing co-operative credit and this social cost could be recovered only if the following conditions are satisfied (i) the loans are limited to farmers who are not affluent enough to raise funds elsewhere at moderate cost. If on the contrary the opulent and the influential members of the co-operatives appropriate to themselves the major part of the credit disbursed, it would mean starving out the indigent farmers whose bonafide needs remain unsatisfied. This in fact constitutes gross misutilisation of funds from the society's point of view.

(ii) Even when the loanees are really deserving farmers whom the subsidised credit clearly sought to assist, proper utilisation of loans takes place only if the loanees are adequately equipped and correctly motivated for the task. The well-meaning borrower is often led away from the straight path of rectitude by a host of factors like delayed receipt of loan amount, inadequacy of the loan for meeting bonafide requirements, non-availability of agricultural inputs and and exagerated estimates of risks. This means that the effective use of

credit is linked up with the nature of agricultural extension work done, the quality of the infrastructure and the institutional arrangements for improving farming operations in the region.

1.13 The steps taken so far to ensure effective utilisation of productive credit have been far too sporadic and half-hearted. It may not be expedient to set much store by the underlying principle of co-operative credit that members will keep a mutual check on the disposition of loans by each borrower. Similarly, the formal arrangements made to supervise the precise deployment of credit also have not yielded the desired results. The provision of 'full finance'—adequate consumption credit along with productive credit—has barriers reached too soon. The recent introduction of the credit card system no doubt will assure a steady and dependable flow of loan assistance to a section of the habitual borrowers and thus create better conditions for effective use of loans. However, one may hazard the apprehension that the benefits of this scheme are not likely to percolate to the mass of the farming community. By far the most promising line of attack appears to be the linking of credit with marketing. Even as the advantages of co-operative marketing are well-known, special mention may be made of two factors in this context. Firstly, it helps to eliminate a good part of the commercial risks associated with farming and thus strengthen the motivation of the farmer to embark on productive investment. Secondly it imposes on him an inescapable obligation to use the loan proceeds productively, as the failure to do so will clearly be reflected on the quantum of produce delivered for co-operative sale. The errant loanee is exposed in the sequence of events. Notwithstanding the considerable growth of co-operative marketing societies and the expansion of ware-housing facilities in recent times practice of linking credit with marketing has gained little momentum. The 'Kettuthengu' system for instance has immense potentialities in Kerala but the spread of this movement has been far too slow Coconut—the principal crop of this State—offers a striking example of opportunities missed and chances forgone. The efficacy of the coconut mixture has been demonstrated beyond doubt and its supply position has remained comfortable for long. All the same the arrangements to provide credit in kind have not been taken full advantage of. Further, the opportunities, to link credit with marketing in this sphere are yet to be exploited on any extensive scale.

1.14 We will need to revitalize the system of component credit and incorporate into it the arrangements for link-up of credit. The credit cum service type society that is being canvassed zealously these days may prove to be the ideal agency for discharging the twin tasks which alone will eventually ensure the optimum utilisation of co-operative credit in agriculture.

1.15 The Small Farmers' Development Agency started in the two districts and the Intensive Paddy Development Units launched in forty selected regions of the State have laid down a very useful procedure in respect of the distribution of co-operative credit. If these operate in the prescribed manner they would succeed in creating the conditions conducive to a better and more integrated use of credit.

Objects and Methods of study

1.16 The study was undertaken primarily to test the hypothesis that member-borrowers of primary agricultural credit societies in Kerala are tending to divert an increasing part of the proceeds of loans they take to purposes other than the approved categories. In case diversion was found to take place on a significant scale it was considered useful to probe deeper into its nature, motivation and impact on the credit structure.

1.17 As many as 59 credit societies were selected at random from all the districts of the State; the number of societies selecteld from each district was proportionate to the amount of credit issued in that district in 1967-68. From each of the selected societies 5% of the loanees were selected systematically using a random start. Thus as many as 773 borrowers were contacted. The schedule canvassed contain questions designed with a view to collection of detailed information bearing on the economic characteristics of the borrower's household in general and the loan transactions in particular. Special emphasis is laid on the circumstances in which credit is diverted and the purpose and use of such diverted component. The reference period of the study is fixed as the co-operative year 1968-69.

1.18 The field enquiry conducted by one Investigator in each of the nine districts was started in 1969-70. In addition, the officers of the Evaluation Division contacted the concerned officers of the Co-operative Department as also institutions connected with co-operative credit for collection of qualitative data.

II. THE GROWTH OF CO-OPERATIVE AGRICULTURAL CREDIT IN KERALA AND THE PROBLEM OF ITS UTILISATION

The State of Kerala shares along with the most other States in the recent boom in co-operative credit. During the two decades of planned economic development, while the quantum of short-term and medium-term loans issued through the co-operatives rose more than twenty two times for the country as a whole the rate of growth in Kerala has been about 30 times. The amount of co-operative credit disbursed in 1971-72 is estimated to exceed Rs. 35 crores; it is appreciably higher than the target of Rs. 27.5 crores set earlier. In fact the target set for 1974-75 was reached in 1971-72. It is highly likely that this explosive growth will be maintained. True, the spectacular advance registered in the matter of commercial banks direct lending to agriculture—in two years June 1969 to June 1971 the amount jumped from Rs. 14 crores to Rs. 236 crores for the country as a whole—has not benefited the Kerala peasant in the same degree. This trend will certainly affect the use of co-operative credit in Kerala.

2.02 The rapid growth in credit facilities has been associated with a corresponding increase in the number of credit societies, membership of societies and the growing coverage of the co-operative movement. Thus, as between 1951 and 1961 the number of agricultural primary credit societies rose from 1809 to 2239 (the number declined to 1888 in 1971 with the increasing stress on reorganisation for viability) membership increased from 2.27 lakhs to 16.6 lakhs in 1971. The Plan outlays and expenditure register the growing awareness of Government on the need to step up promotional efforts in this regard.

2.03 The adoption of the Mehta Committee's recommendations for liberalisation of standards so as to enable the State and Central Co-operative Banks to enhance their borrowing limits from the Reserve Bank of India constitutes a land mark in the growth of agricultural credit. These liberalised standards were availed of in the early sixties; the launching of the IADP in the two districts of the State, Palghat and Alleppey added a new dimention to the complex of lending operations when the practice of issuing credit on personal security and on the basis of farm production plans was adopted. Differential scales of finance were fixed for the more important crops.

2.04 The loaning policy outlined in the Action Programme for Co-operative Credit formulated by the Union Ministry of Food & Agriculture, and implemented in the IADP regions was extended to the

other areas also in 1965. While the introduction of the crop loan system may be considered the hallmark of this programme, the adoption of the component system of credit needs to be underscored in view of its importance in a study on utilisation of co-operative credit—this may be rated as the first positive step taken to prevent diversion of loans.

2.05 As a matter of fact the question of utilisation of credit assumed a concrete and clear cut form only with the popularisation of crop loans in which considerations of security gave place to the requirements of production. So long as the disbursal of loans was exclusively governed by the security of assets covering them the lenders were not the least concerned about the manner in which loan proceeds were employed. With the new-fangled emphasis on production-oriented credit it became imperative to ensure that the credit was used for the specific income generating enterprises. The ABC component which formed an integral part of the crop loan scheme found considerable acceptance by 1967-68.

2.06 The main assumption behind the introduction of the ABC component system was that if the loan is distributed in kind to the maximum extent possible, diversion could be minimised. Provision of finance under the scheme is related to the cost of cultivation of each crop, the upper limit being governed by the estimate of the repaying capacity of the borrower. In arriving at such an estimate the dominant consideration was no longer the security offered but the expected value of the crop raised. It is easy to see that this shift from security-oriented credit to production-oriented credit brought with it increasing opportunities and temptations for diversion of loans.

2.07 The scale of finance is made available under a three-component formula (1) A—cash component to meet the cash needs on the traditional plan, (2) B—kind component comprising inputs such as fertilisers and pesticides (connected with improved farming) and (3) C—an additional cash component to meet the cash needs arising from the use of the kind component.

2.08 Thus the cash content of the loan was limited to 35% of the estimated value of gross produce obtained where traditional methods of farming were applied. The B-component was fixed as the equivalent of the total value of improved inputs as recommended by the Department of Agriculture. This varied between Rs. 120 for local varieties of paddy to Rs. 500 for sugarcane per acre and was generally higher than the value of A-component. The value of the C-component found less than one quarter of the total in all cases.

2.09 Though the scheme appeared to be theoretically sound it does not seem to have fulfilled the rosy expectations held in this regard. During 1970-71 the total value of the B-component distributed in

this manner found less than one-tenth of the aggregate amount of short-term credit distributed and accounted for only one-third of the total value of inputs handled in the co-operative sector.

2.10 The operation of the scheme was confined mostly to paddy where the prospect of quick returns perhaps worked as a strong inducement. In respect of the two other principal crops coconut and tapioca there was little perceptible impact.

2.11 The chief impediment to the fast propagation of this scheme seems to have been the lack of dynamism of primary societies. With the introduction of the above scheme the primary societies were charged with the additional task of providing the required types of inputs in prescribed quantities at the right time and this was a much too complicated job for which they were hardly equipped. On the demand side the borrowers also were not too keen about taking advantage of the component system for fear of delay and deficiency at several points in the supply route.

2.12 Linking of credit with marketing is another important and effective step to reduce diversion of funds. But no clear cut programme has been conceived so far to achieve this end. Agricultural marketing societies which have to bear the brunt of the above linking process remain the weakest link in the chain of co-operative societies. Despite considerable efforts put into the expansion of co-operative marketing we have today not more than 87 marketing societies with an annual turnover of Rs. 9 to 10 crores.

2.13 Co-operative marketing has touched only the fringe of two of the three principal crops of Kerala—paddy and coconut—while tapioca is totally kept out of the field. Paddy and coconut share a total annual turnover of about Rs. 3 crores. In the case of paddy, procurement through the levy system seriously restricts the scope for conventional co-operative marketing. There are 23 processing units connected with coconut, but most of them appear to be struggling for survival; violent price fluctuations in respect of coconut product and technological obsolescense of extraction machinery undermine their viability. Business in respect of pepper (Rs. 80 lakhs), arecanuts (Rs. 38 lakhs) and cashew (Rs. 4 lakhs) is far too meagre compared to the potentialities inherent in them. The recent spurt in transaction relating to rubber the business on this account exceeded Rs. 5 crores in the first phase of the programme which was well under one year) formed more an adhoc price support measure than a lasting device for a bonafide co-operative marketing.

2.14 We may however identify a highly significant development in the process of linking credit with marketing in the Kettuthengu system. Formerly designed as an easy method to inculcate thrift,

promote savings and facilitate mobilisation of deposits the Kettuthengu Nikshepam was subsequently enlarged to accommodate loan transactions. In the new set up coconut palms are offered as security for short term loans and the lending society is authorised to collect and sell the nuts. The sale proceeds are credited to the account of the concerned borrower after adjusting the interest and part payment due from him. This facilitates an easy repayment for the borrower. It may be noted that the typical borrower usually experiences several difficulties in finding sufficient cash at the stipulated time to meet the loan obligation and these are overcome in the above system. Even as the full requirements of co-operative marketing are not ordinarily satisfied in the matter of coconuts—the condition that the produce collected should be sold to the nearest marketing society in which the concerned credit society has membership is seldom fulfilled—the credit societies manage to realise a higher sales price through bulk selling in auction. It is surprising however that such a highly beneficial scheme has been adopted by only one quarter of the primary societies in the State and further the quantum of business transacted (Rs. 189 lakhs in 1969-70) covered hardly 1% of the total coconut production. One important deterrent factor is easily identified; for most of the coconut growers, the trees form the main source of sustenance and hence they are not in a position to forego the assured returns from a considerable part of the income generating assets. All the same there is immense scope for extending the Kettuthengu programme so as to aim at a tenfold increase in coverage.

The growth of the institutional arrangement for dispensing credit.

2.15 The State Co-operative Bank, the Central Co-operative Bank and the primary credit society constitute the three-tier structure of co-operative agricultural credit in Kerala as in the other States. Since the strength of the chain is determined by the condition of its weakest link it would be useful to examine briefly the accretion of strength gained by each of these in the process of the evolution of the general co-operative movement.

2.16 Membership of the Kerala State Co-operative bank (which came into being in its present form since the reorganisation of the State in 1956) is open to the Government and the Central Co-operative Banks. It has now a paid up capital of over Rs. 1 crore to which the State Government have contributed Rs. 25 lakhs (as per the scheme of indirect Government participation in share capital).

2.17 The table given below reveals the remarkable growth in the working capital of the State Co-operative Bank; it increased sixteenfold in a brief period of 12 years (from Rs. 85 lakhs to Rs. 1354 lakhs).

TABLE 2.1

Percentage distribution of 'Working Capital' of the State Co-operative Bank

	Source of Working Capital	*Percentage at the end of the year*						
		1956-57	1960-61	1964-65	1965-66	1966-67	1967-68	1968-69
1	Share capital:							
	(i) Paid up by members	14.11	6.92	6.33	6.43	6.53	6.38	5.38
	(ii) Paid up by Government	..	7.15	3.36	3.17	3.10	2.91	2.07
2	Statutory reserve	1.37	0.93	1.08	1.27	1.52	1.72	1.42
3	Other reserve	..	0.96	1.06	1.42	1.90	2.25	3.81
	Total owned funds (1-3)	15.48	15.96	11.83	12.29	13.05	13.26	12.68
4	Deposits by Cooperatives	42.56	25.09	15.04	21.90	21.64	18.74	17.83
5	Deposits by individuals and others	..	4.22	2.08	2.71	4.71	5.62	4.10
	Total deposits (4-5)	42.56	29.31	17.12	24.61	26.35	24.36	21.93
6	Borrowing from Government	..	1.01	6.37	5.71	6.15	4.04	1.95
7	Borrowing from State Bank of India	41.96	..	8.96	5.74	6.17	3.59	0.33
8	Borrowing from Reserve Bank of India	..	53.72	55.72	51.65	48.28	54.75	63.11
	Total Borrowings (6-8)	41.96	54.73	71.05	63.10	60.60	62.38	65.39
	Working Capital	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	Amount in lakhs (Rs.)	84.89	279.73	833.35	882.31	903.07	963.45	1354.23

Source: Department of Co-operation.

2.18 It is significant that the bulk of the increase in working capital is on account of the sharp rise in the borrowings from the Reserve Bank of India. It amounted to Rs 854.64 lakhs in 1968-69 (about 63% of the total borrowings). This has added a new dimension to the problem of utilisation of credit in as much as the Reserve Bank extends concessional assistances for a well defined productive purpose. Any diversion from the stated purpose thus defeats the aim of the Reserve Bank of India which has emerged as the principal source of working capital. It is thus clear that all the concerned institutions functioning at the State, District and Village levels have an enhanced responsibility in ensuring the right utilisation of the credit so made available.

2.19 The availability of owned funds increases the latitude in the method of utilisation. But its relative share in the total working capital has shown a declining trend since 1960-61; it might be the result of a massive increase in the quantum of borrowings. Deposits with the State Co-operative Bank though increased in absolute terms registered a set back in its relative position since 1960-61. The unprecedented drought condition that prevailed in the State during the years 1965-67 depressed the economy in general and savings in particular.

TABLE 2.2

Nature and disbursal Reserve Bank Credit

(Rs. in lakhs)

Year	*Short term*			*Medium term*			*Short & Medium*		
	Credit limit	*Drawals*	*Percentage*	*Credit limit*	*Drawals*	*Percentage*	*Credit limit*	*Drawals*	*Percentage*
1960-61	150.00	105.90	70.60	20.00	19.98	99.90	170.00	125.88	74.05
1964-65	451.00	379.73	81.98	80.00	69.55	86.94	531.00	439.28	82.73
1965-66	428.00	384.84	89.92	60.00	57.29	95.48	488.00	442.13	90.60
1966-67	440.00	387.26	88.01	60.00	51.43	85.71	500.00	438.69	87.74
1967-68	630.00	486.34	77.20	63.50	49.25	77.56	693.50	535.59	77.23
1968-69	810.00	667.21	82.37	81.00	58.48	72.20	891.00	725.69	81.45

2.20 From the table given above it is found that while the drawals of short term credit accommodation increased from 71% in 1960-61 to 82% in 1968-69, the extent in the use of medium term credit facility had shrunk 100% in 1960-61 to 72% in 1968-69—a lower proportion of a much larger aggregate. It is only natural that as the medium term credit is restricted to a few specific uses there would be practical difficulties in availing of this loan facility especially when there was a four-fold increase in credit limit (Rs. 20 lakhs in 1960-61 to Rs. 81 lakhs in 1968-69).

Central Co-operative Banks.

2.21 The Reserve Bank finance meant for distribution among the cultivators along with the owned funds of the State Co-operative Bank are being routed through the Central Banks to the Primary Credit Societies. While the working capital of the Central Banks in the State was only about 2 crores by the end of the First Five Year Plan it rose by more than 14 times (Rs. 28 crores) in 1968-69 vide Table given below. About the composition of the working capital of Banks it is found that the shares of the co-operative societies account for an

eighth of the total. About half of the working capital was raised from deposits which could steadily improve its relative position, from 1964-65 onwards. Total loans (borrowings) registered a decline from 50% in 1964-65 to 35% in 1968-69. Thus at the district bank level the structure of working capital has undergone a favourable change which induced further expansionary activities of this institution.

TABLE 2.3

Percentage distribution of working capital of Central Co-operative Banks

	Source of Working Capital	*Percentage at the end of the year*						
		1956-57	1960-61	1964-65	1965-66	1966-67	1967-68	1968-69
1	Paid up share capital	8.81	14.36	13.90	13.80	14.13	13.76	12.57
2	Deposits:							
	(a) Deposit from Cooperatives	76.43	25.60	18.76	21.79	20.25	19.25	21.92
	(b) Deposits from non-cooperatives	..	20.79	14.50	17.53	23.08	27.77	27.36
	Total Deposits (a + b)	76.43	46.39	33.26	39.32	43.33	47.02	49.28
3	Borrowings:							
	(a) Loans from Apex Banks	9.44	33.47	40.46	34.73	30.07	30.40	33.86
	(b) Other Borrowings	..	2.95	9.62	8.97	8.98	5.25	1.07
	Total borrowings (a+b)	9.44	36.42	50.08	43.70	39.05	35.65	34.93
4	Reserve Fund	..	1.88	1.19	1.29	1.40	1.31	1.19
5	Bad debt reserve	5.32	0.26	0.73	0.74	0.91	0.79	0.61
6	Other funds	..	0.69	0.84	1.15	1.18	1.47	1.42
	Total funds (4-6)	5.32	3.83	2.76	3.18	3.49	3.57	3.22
	Total working capital	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	Amount (Rs. Lakhs)	195.42	544.19	1545.84	1771.19	1933.95	2268.98	2832.43

Primary Credit Societies.

2.22 The Primary Agricultural and non-Agricultural credit societies numbering 2283 undertake the distribution of credit among the borrowers. At the end of the First Five Year Plan there were 2098 agricultural and 371 non-agricultural credit societies in the State.

According to the scheme of reorganisation of credit structure recommended by the Rural Credit Survey Committee, the proposal during the Second Plan was to establish 300 large sized credit societies in the State by reorganisation or amalgamation of those existed—each having jurisdiction over one Panchayat and membership open to all residing in that area. During the Second Plan period 149 large sized credit societies were formed. Till 1960-61 there was a prolific growth in the number of agricultural credit societies—when the stress seem to have been more on quantity than on quality. In the circumstances the appropriate utilisation of credit was hardly considered an important objective of credit policy. From the beginning of the Third Plan onwards the emphasis was on setting up service co-operative societies in order to supply to the farmer, seed, fertilisers, pesticides, implements and other farm requirements in addition to the distribution of production-oriented credit. Thus with the reorganisation of the co-operative structure and the resultant emergence of service co-operative societies there was a decline in the total number of agricultural credit societies. However, the membership in co-operative societies did not by any means decline, on the contrary it increased steadily. Further, in the Fourth Plan proposals it was targeted to reduce the number of agricultural credit societies to 1600 in 1973-74 in order to remove the overlapping system and to convert the weak and dormant societies into viable units so as to meet all the credit requirements of the area. The number of non-agricultural credit societies functioning in the State showed a declining trend from 371 in 1956-57 to 347 in 1968-69 consequent on the reorganisation, strengthening and amalgamation of weaker units.

TABLE 2.4

Number of agricultural and non-agricultural credit societies functioning in the State

Year	*Agricultural credit societies*				*Non-agricultural credit*	*Total*
	Ordinary	*Large*	*Service*	*Total*		
1956-57	2098	..	..	2098	371	2469
1960-61	2090	149	..	2239	359	2598
1965-66	1008	..	1149	2157	337	2494
1966-67	8003	..	1247	2050	344	2394
1967-68	694	..	1298	1992	372	2364
1968-69	590	..	1346	1936	347	2283

Membership of Credit Societies.

2.23 The total membership of the credit societies as shown below was only 6.60 lakhs at the end of 1956-57. It rose by about 3 times (17.76 lakhs) in 1968-69. This marked growth in membership can be attributed partially to the extention efforts of the Department of Co-operation and the growing awareness of the public on the need to participate in the co operative activities for their own well-being. The important role played by the Service Co-operatives in the farm sector gave a further boost to the co-operative movement. But the non-agricultural societies could not register such a significant increase in membership.

TABLE 2.5

Membership in the credit societies

Year	*No. of members of credit societies (in lakhs)*			*Average number of members*		
	Agri.	*Non-Agri.*	*Both*	*Agri.*	*Non-Agri*	*Both*
1956-57	4.56	2.04	6.60	217	550	267
1960-61	7.98	2.97	10.95	356	828	422
1965-66	12.47	2.27	14.74	578	674	591
1966-67	13.65	2.65	16.30	666	771	681
1967-68	14.20	2.23	16.43	713	599	695
1968-69	15.05	2.71	17.76	777	781	778

Working Capital of Primary Credit Societies.

2.24 Working capital of the primary credit societies is derived from the share capital of members, deposits and borrowings, share contributions by Government and other funds of the societies. With the formulation of a liberalised credit policy from the beginning of the Second Five Year Plan and the linking of credit with the share capital of the borrowers, there was considerable increase in the owned funds of the societies. Resultantly the working capital of the primary credit societies increased by more than nine fold during the last twelve years from Rs. 4.38 crores at the end of 1956-57 to Rs. 39.87 crores at the close of 1968-69. When agricultural societies are taken separately the increase in the working capital was even more significant (14-fold). It is found that nearly three-fourth of the working capital was derived from deposits from members and borrowings from the Central Banks and about one-fifth from the share contribution of the members (See table 2.6).

TABLE 2.6

Distribution of working capital of primary credit societies in the State

(in percentage)

Year	*Share capital*			*Reserve fund*			*Deposit & borrowings*			*Working capital*			*Amount (Rs. Crores)*		
	Agri.	*Non-Agri.*	*Both*	*Agri.*	*Non-Agri.*	*Both*	*Agri.*	*Non-Agri.*	*Both*	*Agri.*	*Non-Agri.*	*Both*	*Agri.*	*Non-Agri.*	*Both*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
1956-57	27.50	20.63	24.44	36.13	10.80	24.84	36.37	68.57	50.72	100.00	100.00	100.00	2.43	1.95	4.38
1960-61	25.89	19.75	24.09	14.68	8.97	13.00	59.43	71.28	62.91	100.00	100.00	100.00	6.74	2.80	9.54
1965-66	20.83	21.73	20.77	7.74	9.06	7.94	71.43	69.21	71.29	100.00	100.00	100.00	21.04	3.88	24.92
1966-67	20.36	21.56	20.56	7.43	9.54	7.77	72.21	68.90	71.67	100.00	100.00	100.00	23.33	4.46	27.79
1967-68	21.06	19.73	20.83	6.67	8.81	7.03	72.27	71.46	72.14	100.00	100.00	100.00	27.61	5.57	33.18
1968-69	19.73	19.99	19.67	6.42	8.40	7.72	73.85	71.61	72.61	100.00	100.00	100.00	33.44	6.43	39.87

Source: Department of Co-operation.

Loans advanced

2.25 A marked increase is noticed in the distribution of loans by credit societies, it rose from Rs. 17.78 crores in 1965-66 to Rs. 25.29 crores in 1968-69. The proportion of short term loans to medium term loans stood at about 3 : 1 against the norm already prescribed (3 : 2). The official norm laid down in respect of M. T. and S. T. loans is that about two-fifth of the total credit be disbursed as M. T. loans. But from the table given below (2.7) it is found that the M.T. loans accounted for only one-fourth of the aggregate and the position did by no means improve subsequently.

TABLE 2.7

Percentage distribution of short and medium term advances made by the credit societies

Year	*Short term*			*Medium term*			*Amount advanced (Rs.crores)*
	Agri.	*Non-Agri.*	*Both*	*Agri.*	*Non-Agri.*	*Both*	
1965-66	72.17	61.14	69.85	27.83	38.86	30.15	17.78
1966-67	75.36	52.88	70.77	24.64	47.12	29.23	17.81
1967-68	72.85	49.07	68.05	27.15	50.93	31.95	19.87
1968-69	74.30	52.94	70.18	25.70	47.01	29.82	25.29

Though the compound growth rate of about 10% per annum in the credit distributed appears impressive it cannot be deemed adequate in the context of vastly increased credit requirements of modernised farming. It may be noted that with the spread and general acceptance of improved techniques, agriculture has become more capital intensive and the typical farmer finds it difficult to finance his proposition from the own funds.

Deposits and Borrowings

2.26 As already stated deposits and borrowings from the major component of the working capital of the credit societies in the State. Of this, deposits alone account for nearly one-third as revealed in the table given below. Eventhough remarkable increase in the mobilisation of deposits could be registered during the four year period ending 1968-69, its relative share of the total working capital had actually declined from 25% in1965-66 to 22% in 1968-69. It indicates that the efforts made in reorganising the credit societies and to make them more viable could not yield the expected results. The weakness of the deposit position in the working capital structure naturally leads to the dominance of the borrowings component.

2.27 Ordinary loans administered from the own funds in which the deposits figure prominently-usually cater to the requirements outside the production needs of the farmer. Hence if the own funds position is strengthened and ordinary loans provided in an adequate measure it would be possible to ensure that production credit released from the borrowed funds is most effectively utilised.

TABLE 2.8

Average deposits and borrowings of primary credit societies

(in rupees)

Year	*Deposits*			*Borrowings*			*Total*		
	Agri	*Non-Agri.*	*Both*	*Agri.*	*Non-Agri.*	*Both*	*Agri.*	*Non-Agri.*	*Both*
1965-66	21678	61116	27007	48001	18464	44010	69679	79580	71017
1966-67	25687	69403	37969	56484	19969	51237	82171	89372	83206
1967-68	30227	80105	38076	69939	26924	63170	100166	107029	101246
1968-69	36756	98837	46192	90791	33861	82138	127544	132698	128330

Loans advanced and working capital.

2.28 A study of the loans advanced by the credit societies in relation to their working capital reveals that about two-third of the working capital was utilised for the issue of credit. Even as the quantum of credit disbursed increased substantially over the four year period (Table given below) the proportion of advances to total working capital registered only a nominal increase of about 2% in respect of agricultural credit societies. Non-agricultural societies however used as much as three-fourth of their working capital for advancing loans.

TABLE 2.9

Loans advanced by credit societies as percentage of working capital

Year	*Perrentages of loans advanced to working capital*		
	Agri.	*Non-Agri.*	*Both*
1965-66	59.20	85.79	63.33
1966-67	60.74	81.47	64.07
1967-68	57.44	72.05	59.89
1968-69	60.96	76.24	63.42

2.29 Credit societies are generally able to lend to the members a much larger amount than what they obtain from the higher financing agencies. Thus in 1965-66 loans given out were 20% higher than the total borrowings. Over a period of 4 years, however this excess declined to 16%. Since 1965-66 agricultural credit societies have been laying increasing stress on the distribution of agricultural requisites the turnover of which increased from Rs. 197 lakhs in 1965-66 to Rs. 590 lakhs in 1968-69 and Rs. 621 lakhs in 1970-71. The introduction of the component system gave a boost to this function in 1967-68. The fertilisers accounted for about 90% of the value of total production inputs distributed in 1965-66. Though there was decline in its relative importance it continued to be the principal component of the package of inputs distributed. The steady increase in the turnover of production materials (18% of the S. T. loans in 1965-66 to 33% in 1968-69) is a factor which makes for better utilisation of co-operative credit.

2.30 The entry of the commercial banks into the agricultural credit sector in 1968-69 following the passing of the Social Control Act produced an impact on the supply position of agricultural credit which gathered momentum with the nationalisation of the major commercial Banks in 1969-70. Direct credit issued by commercial banks registered a six-fold increase in the two-year period 1969-71 for the country as a whole though in Kerala the progress in this direction is found to be less impressive. It is also not quite clear what proportion of this loan assistance was used for genuinely productive farming operations. All the same we may expect a substantial improvement in the loanable fund position consequent on the increasing shift of emphasis from security-oriented to production-oriented credit. The substitution of the conventional profit motive by considerations of service for development will also speed up this transformation which is bound to have its repercussions on the manner of utilisation of agricultural co-operative credit.

2.31 In as much as the commercial banks also take over the responsibility of financing agricultural activities the load on the co-operative sector will be reduced and to that extent the primary societies will be ablle to satisfy fully the credit requirements—perhaps full finance too—of their clients. This will have a salutory effect on utilisation. At the same time it is quite likely that the core of the bankable borrowers may be won over by the commercial banks leaving the indigent section of the farmers with the credit societies. This obviously enhances the significance of the problem of utilisation which needs to be watched more diligently by the lending societies. In the circumstancs close co-ordination of the loan operations of the commercial banks and co-operative societies becomes imperative not only on other well-known grounds but also for ensuring proper utilisation of co-operative credit.

III. NATURE AND USE OF AGRICULTURAL CREDIT

Even as all villages in Kerala were brought into the co-operative fold towards the close of the Third Plan period, the survey conducted in connection with the present evaluation study revealed not more than 30% of the rural households as participating in this movement against the official claim of 44% in 1968-69. It is well-known that progress of agriculture is tied up with the expansion of co-operative credit and as such distribution of loans was considered the chief function of the agricultural credit/service societies; the finance required in this behalf was provided by the Reserve Bank of India through the State Co-operative Bank. To enhance the own funds of the society and thus to ensure its economic viability, the eligibility of loans to members was linked with their share capital contribution.

3.02 As many as 45 out of 48 agricultural credit societies covered in this study carried out the primary function of lending during 1968-69; the remaining 3 societies failed to perform this function due to various hurdles like overdue position and mismanagement. As regards the second important function—the distribution of agricultural inputs like seed, fertilisers, pesticides and implements—37 institutions were found to be actively engaged in it. Mobilisation of savings by receiving deposits was undertaken by 34 societies. As many as 40 societies rendered valuable service in the distributive sector by running ration shops and consumer stores (33+7). Only 6 out of the 48 societies could engage themselves in marketing activities and even this did not make much headway in this direction. The performance of the 11 non-agricultural credit societies selected for detailed study were not very encouraging eventhough all the 11 units were engaged in credit distribution with 8 of them collecting deposits and 5 running either ration shops or consumer stores.

3.03 An analysis of the returns in respect of the 59 societies indicate that during the Third Five Year Plan and the subsequent 3 annual Plan periods, membership registered a two-third increase in the case of agricultural credit societies and a still further increase (89%) with respect to non-agricultural societies. The awareness and co-operative consciousness were also on the increase as manifested in the percentage of attendance at the general body meeting. When it was only 9% in 1961-62, it rose to 13 in 1965-66 and 14 in 1968-69. Each society is administered by a Board of Directors/Managing Committee consisting normally of 9 members—7 elected from the general body and 2 nominated by the Government/Deputy Registrar of Co-operatives. On an examination of the educational standard and occupational pattern of the committee members it is found that 96% of

them are literates with more than one-third matriculates and 8% graduates and above. In the case of non-agricultural credit societies the general educational standard of the managing committee members is found to be slightly less. No emphasis seems to have been given for the training programme of the Directors in spite of the extreme dependence of a society on the enthusiasm and interest of the Board of Directors. Resultantly only 5 out of the 48 agricultural societies reported to have at least one trained Director against 2 non-agricultural societies from amongst 11. As seen from Table 3, cultivators get the maximum reprensentation in the Board of Directors with about 70%. But the relative position of the agricultural labourers who form about 25% of the rural population is rather very weak with only 2% in the Managing Committee. This highlights the need for a much higher degree of involvement of the weaker section of the rural community in the co-operative activities, which calls for special programme to ensure the gains from the process of development accrue to all alike.

3.04 Table No. 4 throws up data relating to the growth of the credit capacity of the co-operative sector. Over the eight year period ending 1968-69, share capital was doubled, reserve and other funds went up by two-third, deposits increased 5 times and the total working capital rose about 3 times. Despite this spectacular growth in the financial position of the co-operatives, hardly one-sixth of the total credit requirements of the farming community could be met. The progress in the working of the non-agricultural societies as reflected in Table No. 5 was significant with 126% increase in the working capital.

3.05 The transformation from security oriented credit to production oriented development credit was found to be very slow as seen in Table No. 6. Eventhough the concept of crop loan was introduced as early as 1961-62 almost all societies are found to insist on security of land for all lendings of Rs. 1,000 and above and this was considered to be one of the serious deterrants to the expansion of co-operative credit. Crop security was offered only in respect of one-third of the loans. But it is heartening to note that with the progressive growth of the rural deposits, it was also employed--though in a very limited measure—as security for co-operative credit. Anyhow the security structure has to undergo a thorough change in favour of crops. This would reduce the chances of diversion of loans to unproductive purposes provided the primary co-operative machinery closely watches the credit utilisation process and exerts the required control in a democratic manner.

3.06 From a perusal of the data given in Table 7, it is found that for more than three-fourth of the borrowers, agriculture is the major source of income. Nearly one-half of the members availed of loans

from the agricultural credit societies. This proportion is a considerable improvement in the position three years earlier when the State average was not more than 38%. The higher percentage of borrowrs is due to the fact that with the adoption of new technology in farming since the commencement of the Third Five Year Plan and especially after the introduction of high yielding varieties programme in 1965-66, a higher outlay was called for and this led to a sizeable increase in credit demand.

3.07 The structure of production at the level of the farmer/borrower is reflected in Table 17. Paddy being the chief cereal crop of the State occupies the top rank with about 40% share of the toal production (value). Since all the financing agencies especially co-operatives, and commercial banks are more interested in giving short term loans for paddy crop it is quite natural that paddy growers formed that section of the rural community which benefited most from a liberalised credit policy. From the household enquiry it may be gathered that more than four-fifth of the total credit used was earmarked for paddy cultivation. In importance paddy is followed by coconut spices and condiments and other crops. Among the food crops tapioca is next only to paddy; the intensive and extensive cultivation of tapioca and the consequent sharp rise in its production in the State (from 1515719 tonnes in 1961-62 to 4081115 tonnes in 1968-69 and 4665764 tonnes in 1969-70) is a major determinant of the growth factor in the agricultural sector. Being a substitute of paddy it provided a cushioning effect to the acute food problem during the drought years, viz., 1965-66, 1966-67 and 1967-68. Not withstanding considerable efforts, dairy and poultry products could not make any perceptible impact on the income structure of the household. The total sale proceeds of Rs. 2,080 per family which form about 56% of the total household production testify the slow transformation from subsistence farming to commercial farming. Again the cash crops which play the part of a stabiliser in the income flow provide supplementary finance to the farmer in a few districts like Trichur.

3.08 The main source of credit for the rural community is the co-operative sector which accounted for about two-third of the total borrowings in 1968-69 (Table 8). It is highly possible that the survey returns exaggerate the role of co-operative credit; but the trend is however unmistakable. About one-fifth of the credit was supplied by the commercial banks. Dependence on Government and other sources was not at all perceptible. One heartening feature noticed is the progressive elimination of the money lender who charges rates of interest ranging from 18% to 48%. The emergence of the co-operative structure with more or less adequate loan funds and the easy accessibility to the credit societies seem to have pushed out the money lending class. With the passing of the

Social Control Act in 1968-69 and especially after the nationalisation in 1969-70, the commercial banking system is moving closer and closer to the farmer with adequate credit. But there only credit worthy, large and influential farmers are generally taken care of.

3.09 A break-up of the borrowers according to size of holdings. (Table 9) shows that small holders borrow but seldom from co-operatives. When the percentage of borrowers operating less than one acre to total borrowers is below 15, nearly 60% of the holdings in the State have only an operational area of one acre or less. It indicates that the co-operative credit system has failed to acquire any reasonable coverage of the weaker sections of the farming community. On the contrary about one-fourth of the borrowers operate 5 acres and more while the number of holdings in the same size group form only about 9% of the total in the State. Thus the inequity in the distribution of co-operative credit is brought to light and it calls for intensive efforts to involve the lowest strata of the rural community in the co-operative activities.

3.10 On an examination of the conditions of tenure of borrowers—vide Table No. 10 it is found that nearly three-fourth of them have owned lands and only one-fourth have leased-in lands. Since most of the medium and small farmers take up membership in the co-operative society solely for obtaining credit and as long as the society insists on land security for loans amounting to Rs. 1,000 and above it is quite natural that only farmers with owned lands became eligible for borrowings. Eventhough the crop loan system was designed to dispense with property security and to restrict the period of repayment to one season for short-term loans it could not succeed in fulfilling the first condition. This is bound to be so as long as societies are concerned with viability and security of advances made. Another significant factor is the higher percentage of irrigated area to total cropped area noticed in the case of borrowers. It works out to 37% which is nearly double the State average. It is therefore evident that the better irrigation facilities lead to an increase in demand for credit and makes for better utilisation of credit.

3.11 An analysis of the asset structure of the borrowers (Table No. 11) reveals that farm land and building which are considered the most important income generating capital assets in the rural areas form about two-third of their total assets. Eventhough their value increased slightly in absolute terms during 1968-69, a marginal decline in their relative share is noticed and a corresponding increase is found in the non-farm assets. Another encouraging feature is the progress in the process of monetisation of the rural economy as manifested in the rise of deposits (Rs. 86 to 114) shares (Rs. 88 to 97) and cash (Rs. 87 to 148) in hand per borrower. But the capital stock of improved implements—an indispensable adjunct

in the modernisation of agriculture—has registered only a marginal growth.

3.12 As regards the general economic condition and in particular capital formation of the peasant borrowers it is seen from Table No. 12 that in 1968-69 there was a net addition of assets valued at Rs. 350 per borrower and farm assets constitute nearly one-third of this increment. Additions in the non-farm sector though instrumental to an improvement in the standard of living play only a supplementary role in stepping up the productive activities: for example, an increase of deposits and cash in hand provides more working capital for the farmer. Also an enhancement of his assets pushes up his credit-worthiness and borrowing power. A comparative study of tables 11 and 12 shows that the growth of the overall capital stock of the borrower was limited to 1% in 1968-69 and this is obviously inadequate for achieving the targeted 5% net annual increase in output.

3.13 The structure of co-operative credit is reflected in Table 13. More than three-fourth of the loans are short-term loans- renamed as crop loans consequent on the reduction in the period of repayment from one year to one crop season. These are considered to be the most effective and quick yielding productive loans and the conditions and procedures for issue are much simpler. The number of medium term loans is found to be very small (only less than 7%). These are generally designed for the creation of durable capital assets and the procedure in this regard is also considerably more complex. Naturally the small and medium farmer find it difficult to make use of this facility. Though it is desired to maintain the proportion of S. T. loans to M. T. Loans at 60 : 40, not even 5% of the societies adhere to this principle for various reasons. From the II Five Year Plan period onwards the Reserve Bank of India began re-imbursing fully the short term and medium term loans issued by the rural credit societies. Distribution of non-agricultural loans through these institutions was discouraged and for a still further reduction of its volume it is laid down by the Reserve Bank of India that the agricultural credit societies whose non-agricultural loans exceed 5% of the total are not eligible for any assistance from the RBI. Ordinary loans and other non-agricultural loans which bear no restriction with regard to their utilisation account for only a meagre portion with less than 5% in each category. These types of credit are generally given from the own funds of the co-operative societies (primary); in certain cases they are partly reimbursed from the Central Co-operative Bank with their own resources.

3.14 Long term loans issued by the Primary Land Mortgage Banks —only 13 out of 773 borrowers availed of this credit-are not very popular in view of the cumbersome procedure involved, excessive caution taken and the resultant delay in the disbursement of loans.

Eventhough the Agricultural Refinance Corporation is also in the field for distribution of long term loans, the only scheme taken up in the co-operative sector is the Kozhikode Regional Fish Marketing Society.

3.15 It is generally believed that a wide gap exists between the total credit (rural) requirement and the volume of co-operative loans currently disbursed. In the present set up only the members of co-operatives can apply for credit anl even among the members only those who are not in an overdue position are eligible for fresh loans. Further, not more than 90% of the credit requirements of such members could be covered by the loans. Thus it is estimated that only less than one-sixth of the total demand for loans against the official claim of 20% was satisfied by the co-operative sector.

3.16 On examining the purpose of loans applied for, it is seen that the "seasonal agricultural operations" account for more than half (54%) of the total number of loans and it is followed by 'other purposes' (25%) and 'other agricultural operations' (18%). It may be recalled that the application for short term loan does not ordinarily provide for the purchase of implements and machinery, marketing of crops and industrial purposes. This may perhaps be the result of a belief that an entry 'seasonal agricultural operations' against purpose in the loan application would facilitate its quick disposal. Any how, as no specific purpose is stipulated for the issue of ordinary loans and simple loans (simple loan concept introduced in Trichur district three years back permits the primary society to give non-agricultural credit to members on personal security and it is limited to Rs. 200 per borrower) their bonafide purpose is normally stated in the application. However, ignorance on the part of the borrowers about the specific objectives and availability position of co-operative credit and the lack of proper consciousness about its utilisation are real problems which necessitate vigorous extension efforts.

3.17 Table No. 15 throws up data relating to the source-wise income of the borrowers. The structure of cash receipts underscores the salient feature of the agricultural economy of Kerala in which crop production rarely forms the exclusive occupation of the peasant—it is ordinarily supplemented by other gainful occupations. Wages and salaries constitute the largest single item and it works out to about half of the total income. This aspect indicates the income earning capacity of the working force and the enterprising character of the rural community. This corroborated by the insignificant part of the unearned income—rent, remittances, charity, gifts etc.—which is only less than 4% of the total. It is pertinent to note that the household enterprices form the second largest source and the total income of Rs. 3,180 per borrower household is much

higher than the annual income of Rs. 2,750 of an average family in Kerala. This reinforces the impression generally held that the co-operative credit benefits the intra marginal farmer at the expense of marginal and sub-marginal farmers. The negligible part played by interest, dividend, bonus etc. reflects the low capacity of the farmers to save and invest.

3.18 It is often said that Indian agriculture is a deficit economy and Table No. 16 corroborates this view. Against an annual income of Rs. 3,180 per family, expenditure works out to Rs. 4,938 leaving an annual deficit of Rs. 1,758. Allowing due discount for the pitfalls unavoidable in any estimate of income and expenditure by the method of intrrogation, inference may properly be drawn that the typical borrower's family is struggling to make both ends meet. This is often the most suitable climate for the growth of the practice of diversion of credit. But overspending is a dangerous trend as it would lead to diversion of productive loans for bridging the income gap.

Expenditure structure.

3.19 Even as the distinction between productive and unproductive expenditure is blurred in an economy which is not yet fully commercialised, the low proportion of productive expenditure to total outlay (27%) indicates two significant characteristics; (i) the diversified occupational pattern of the typical farmer in which agriculture perhaps does not play a dominant role and (ii) the use of purchased inputs has yet to be stepped up. Both these factors conduce to diversion of loan proceeds from production needs to consumption needs.

3.20 An attempt was made to study the consumption pattern of the typical borrower (Table No. 16) with a view to testing the hypothesis that diversion of loans is induced by excessive indulgence in unproductive consumption. But the findings of the survey reveal only moderate expenditure on avoidable items such as ceremonies (less than 2%) and litigation (negligible). However with the development of transport and communication system the contact between rural and urban areas has become much closer and naturally there is a marked tendency on the part of the peasantry to emulate the urban consumption pattern and living standard. These factors seem to have pushed up the consumption function (as is observed in the significantly increased expenditure on food, clothing, toilets and conveyance).

3.21 The pattern and growth of indebtedness are presented in Table 18. Against a total borrowing of Rs. 1,031 in 1968-69 repayment was limited to Rs. 407 and thus the indebtedness got more than doubled. At the end of the period under review the outstanding

balance due to the co-operative society (more than half of the total debt) and commercial banks were trebled and this is a clear sign of progressive liberalisation in the credit policies of these institutions. This welcome development, however, is found to carry with it the serious danger of a cumulative increase in overdues. This is found to vary from 23 to 33% of the total demand. To contain this unhealthy trend within certain limits it is laid down that the societies whose overdues exceed 25% at the bank level or 40% at the member level are not eligible for any fresh loan. This procedure though formulated to protect the viability of the primary society has very much affected the credit system. Even borrowers who are in the habit of repaying the dues prompty are denied the credit facility because of the inability of the credit institution to draw new loans. This problem can be tackled or the vicious circle broken by a discriminatory and preferential treatment to the prompt section of the borrowers.

Characteristics of Diverters.

3.22 As explained in the introductory section, the task of identification of borrowers who diverted the loans to unauthorised purposes is beset with difficulties—conceptual and operational. It is highly significant however that as many as 126 borrowers out of a total 773 interrogated readily confessed to such diversion. Several indirect approaches were tried to probe deeper into the practice of misutilisation apparently adopted by a large number of other borrowers but these did not yield the expected results as the data could not be quantified with any reasonable measure of consistency.

3.23 To study the special characteristics of the borrowers who diverted the production credit (hereafter called diverters), all of them (126 nos.) were interviewed and information gathered. In general it is found that diversion is governed by several variables; an attempt is made below to identify the more important of them and estimate their significance.

3.24 It is found that as many as a third of the borrowers with agriculture as the subsidiary occupation diverted the credit while the proportion of diverters with agriculture as the major source of income is as low as one-nineth. In this connection it may be recalled that 79% of the borrowers have agriculture as their main source of income*. It is therefore inferred that the chances for diversion in the case of genuine farmers are less when compared to others. In the unique socio-economic mileau of Kerala noted

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* We have a similar diversionary pattern in other States also (PEO Report for the year 1961-62) though the extent of variation in Kerala is found to be considerably higher in this study.

earlier it would appear that as long as the credit requirements in respect of non-agricultural operations remain unsatisfied the motivation for divertion will continue unabated.

3.25 One important cause of diversion is found to be the relatively heavy reliance of the respondents of this study on co-operative credit While it is estimated that co-operative credit accounts for only less than a third of the total borrowers of the farming community in India, its share as revealed from the household enquiry is as high as two-third. Here again the diverting borrowers are seen to depend on co-operative loans in a larger measure (four-fifth of the total borrowings per year). For the average borrower, when the commercial bank credit forms about one-fifth of the total borrowings it is quite negligible for the diverter. This underscores the observation made above that the easy availablity of alternative credit reduces the extent of misutilisation of co-operative credit. In this connection it may be mentioned that the State Bank of India is now implementing a new scheme by opening 150 Intensive Agricultural Development Centres throughout the country and this may be expected to ease the pressure on co-operative credit that will be used for extraneous purposes. Again, the system of credit from the commercial banks—as understood from the household enquiry—has certain in-built advantages which would restrain the diversion of loans.

3.26. A relationship is found to exist between diversion and the size of operational holding. While the farmers operating 2 acres and less form only 30% of the borrowers, their relative position among the diverters is 60%. These findings also closely conform to the observations recorded in the PEO report cited earlier. It is quite natural that the small farmers possessing uneconomic holdings have less credit worthiness and borrowing power; they are mostly served by co-operatives. As such they are constrained to divert a portion of the co-operative credit for their various other needs. This phenomenon calls for immediate action on the part of financing institutions to make available adequate funds to the weaker sections of the rural community. Tenurial differences in respect of land cultivated by borrowers do not seem to have any perceptible impact on the practice of diversions. So also inadequate irrigation facility and the resultant unused capacity of land especially dry land (only 18% of the dry land possessed by the average borrower is irrigated while it is less than 2% in the case of the diverting borrowers) seem to be another contributory factor for the diversion of co-operative credit. As long as extreme dependence of agriculture on nature persists — more than four—fifth of the total cultivated area depends on rain water it is not always possible to adhere to the schedule of operations and to apply inputs like fertilisers properly and at the right time.

3.27 Composition of assets indicate a marked difference between borrowers in general and the diverting borrowers. For the latter

farm assets account for only half of the total against more than two-third in the case of the former. Also land for non-agricultural purposes in the case of the diverter constitute nearly one-third of the total assets while for the average borrower it is even less than one-sixth. Therefore it is evident that the proportion of farm assets to total assets holds a negative correlation with the misutilisation of co-operative credit; smaller the proportion of farm assets to total assets, the larger is the extent of divertion. As long as assets remain the chief income generating instrument it is seen that the genuine farmers who lean heavily on agriculture have a lesser tendency to divert agricultural credit; it may even be stated that their production needs warrant a proper use of loans. Another aspect to be noticed is the small size of the cash holding with the diverter (Rs. 20 against Rs. 148). This supports the view that the inadequacy of cash balance required in connection with the transaction and precautionary motives induces a certain measure of diversion.

3.28 Table 12 does not lend support to the generally held view that the loans are diverted to unproductive purposes while the net addition to assets in the case of diverters is found to be much larger (Rs. 258 per household in 1968-69 than that of the average borrower Rs. 106). There is thus some evidence of the diverter having used a good part of the loan for capital formation. This is no doubt diversion in the narrow sense; all the same it may be treated as benignant diversion which has to be tackled in a more sympathetic manner. Since the proportion of medium term loans to short term loans is much smaller than the norm already laid down viz. 2 : 3 and the share of the long term loans to total loans is also equally insignificant, the relatively small farmer in his anxiety to increase the income generating assets, uses part of his short term credit for such purposes. While the need for substantial liberalisation of loan assistance for acquiring assets has been clearly established in the context of modernisation of farming, it also appears to be equally necessary for ensuring the right utilisation of short term credit.

3.29 Against the common feature of deficit spending it is found that while the overspending of the diverter is limited to 48% of his money income, the average borrower spends 55% more (Table 16). However no firm inference can be drawn from the comparison of the expenditure pattern of the borrower in general and the diverter in respect of the causal relation of the level of deficit with misutilisation.

3.30 But the farm expenditure of the farmer works out to only 21% of his total expenditure as against 27% in the case of the average borrower. Further, those who divert credit seem to spend more on items like rent and taxes, ceremonies, education and wages. It is only natural that a peasent belonging to the lower income group

diverts a portion of his production credit for meeting his dire necessities.

3.31 Commercial farming may be expected to provide a stronger motivation for the right utilisation of the loans contracted while the compulsions of subsistence farming conduce to misutilisation. From Table No. 17 it is found that the diverters have smaller marketable surplus (Rs. 1,805) per household than that of the borrowing household in general (Rs. 2,080).

3.32 The principal determinant of this phenomenon is the relative position of the paddycrop in the production structure. Paddy forms only 23% of the total production in the case of the diverters as against 39% in the case of others. Since the procedure for obtaining medium term credit for cash crops is more complicated the small farmer is tempted to draw the entire credit against paddy crop and use it for other crops. Thus the empirical resluts highlight the need for giving due emphasis for other crops in the credit structure.

3.33 The annual borrowings and the total liability of those who diverted the loans exceed that of the borrowers in general by about 24% and 44% respectively. Moreover, the co-operative sector appears to be the major reliable institutional source for finance in respect of the diverters. About four-fifth of his total borrowings (81%) during 1968-69 was from this source against 67% in the case of others. The insignificant role played by the commercial banks in providing credit to this section of the borrowers is conspicuous while it could serve the borrowers in general with about one-fifth of their total current borrowings. This indicates that the lowest section of the farming community with comparatively lesser paddy area and credit worthiness are not assisted in any considerable measure by this resourceful financial organisation/institution which rapidly spreads its activities into the rural sector. Coming to the repayment habit it is noted that the diverter could pay back only 30% of the annual borrowings while his counterpart repayed about 40%.

3.34 The significance of this finding is two-fold; firstly the excessive cumulation of arrears furnishes clear evidence of misutilisation of loan funds. Had the loan proceeds been used fully for bonafide purposes the productive capacity and consequently the ability to repay would be enhanced. Secondly besides undermining the credit eligibility of the concerned borrowers the growing indebtedness and overdues impart a further momentum to the practice of diversion. Hence it is clear that there is an inverse relationship between diversion of credit and measure of promptness in repayment. It is worth mentioning the erstwhile dependence of diverter on the money lender; while his liability to the money lender was Rs. 104 on 30-6-1968 the average borrower had only an indebtedness of Rs. 22. However in the current borrowing structure dependence of the

diverter on the money lender has dwindled to Rs. 12 and it indicates the effectiveness of alternate source of credit. Also this may be treated as some evidence of prevalent practice among the farmers to make use of co-operative credit for repayment of old debt (outstanding balance due to the money lender has been reduced from Rs. 104 to Rs. 61 on 30-6-1969). Such practices can be categorised under 'misutilisation' in a technical sense.

3.35 The attempt made to ascertain the causes of divertion of loans through the canvassing of the household schedule has not been an unqualified success, the respondents did not always furnish precise and consistant information. It is felt that a more streamlined arrangement which involves continuous contact with the borrowers and a monitaring system for transmission of data will be required to identify the exact motivation, character and extent of diversion. However the following were isolated as the major factors in the situation.

3.36 The main cause of diversion seems to be that since co-operative credit is admissible for only selected purposes the borrowers who need such assistance for other purposes habitually state in the application only the approved categories. The inadmissibility of such bonafide requirements is found to induce at least a third of the total diversion. Secondly, unavoidable consumption needs account for over a quarter of the amount involveld in misutilisation. At least a third of the total loan proceeds was used for clearly unproductive purposes. Out of this 22% was spent on consumption which did not bear any direct relationship to production while 15% seem to have been utilised for other purposes of which the outlay on education and repayment of old debts formed the major share. It is also found that a portion of this S. T. (working capital) loan was used for acquisition of durable assets like implements, and machinery. It is therefore evident that the quantum of medium term loans is quite inadequate (as stated earlier) to meet the investment expenditure. At the same time it is to be noted that about one-sixth of the medium term loan was used for unyieldling items classified under 'others'. This is a reflection on the supervisory arrangements. Eventhough it is laid down that the correct utilisation of the entire medium term loans has to be ensured by the District Co-operative Bank Inspectors it appears to have not been carried out in full. Since the defaulting borrowers are not eligible for any fresh loan the practice of adjusting a part of the loan proceeds to the repayment of the old debt is often resorted and this accounts for nearly one-sixth of the total diversion. In a capital starved developing economy which we have in Kerala there exist several alternative avenus for highly lucrative investment. As such, about one-sixth of the total diversion was brought about by a motivation to step up the profit margin.

IV SUMMARY AND CONCLUSIONS

So long as co-operative credit was considered primarily the means of deliverance of the debt-ridden peasant from the clutches of the usurious money lender, its utilisation did not pose any formidable problem. It is wellknown that in the typical Indian peasant's household economy, in which the hard core of subsistence farming is intertwined with commercial farming, the distinction between productive outlay and consumption expenditure is by no means clear-cut. Further, when the farmer is constrained to take to supplementary productive occupations primarily because of the small size of their holdings—as is largely the case in Kerala—the diversion of credit from the stipulated purpose to any other productive line may not be condemned misutilisation of credit. Apart from these conceptual difficulties it is also operationally not easy to identify instances of misutilisation (diversion) in the absence of arrangements for continuous and close watch over the transactions of the loanees. All the same there is a wide spread apprehension that a considerable part of the sizable co-operative credit given out for specified productive purposes is being diverted to other needs. The findings of this study strengthen the above suspicion though it has not been possible to establish conclusively that the diversion of loan proceeds is generally to unproductive purpose.

4.02 Since the adoption of national economic planning—more especially with the commencement of the III Five Year Plan—there has been a spectacular growth in the quantum of co-operative credit made available to the farming community. Further, there was also an increasing shift of emphasis from protective to productive credit, and also from security oriented credit to production oriented credit. These developments largely associated with the promotion of the 'Green Revolution' have invested the problem of utilisation of credit with a new significance.

4.03 Co-operative credit registered remarkable growth in Kerala State also during the last 15 years; the amount of short-term and medium credit distributed in 1971-72 is estimated to exceed Rs. 35 crores which was the traget set for 1974-75. The above expansion of credit has been the result of the liberalisation of the standards of lending; the launching of IADP in the two districts (Palghat and Alleppey) added a new dimension to loan operations. The practice of issuing credit on personal security and on the basis of the farm production plans was adopted in early sixties. Subsequently the introduction of the A, B, C, component system and crop loans (1967-

68) imparted a new significance to the problem of utilisation of co-operative credit which had not been taken very seriously so far in Kerala. It was hoped that while the crop loan could extend adequate accommodation to those who were hitherto denied financial assistance on security grounds, the component system could ensure the proper utilisation of the loan proceeds. These expectations remain largely unfulfilled.

4.04 It is found that all the three institutional components of the three-tier credit system—State Co-operative Bank, District Co-operative Bank and Primary Co-operative Credit Society—progressed rapidly during the last 15 years. The borrowings from the Reserve Bank continued to be the chief source of working capital. In the mobilisation of rural deposits the co-operatives in Kerala could not achieve any substantial progress. Another very useful service rendered by the village co-operative societies was the provision of production inputs to the farmer and their total value per year increased from Rs. 197 lakhs in 1965-66 to Rs. 590 lakhs in 1968-69.

4.05 Not less than one-sixth of the borrowers contacted (126 out of 773) readily confessed that they diverted the loan proceeds to purposes not mentioned in the application. That the proportion of diverters is considerably higher than this could be inferred from the supplementary data available.

The analysis of the behaviour pattern of the diverters reveals the following:

1. The borrowers with agriculture as the secondary source of income are more prone to divert than those with agriculture as the major source of income. It is however difficult to condemn this as a tendency to misutilisation since it is quite likely that the loan proceeds are used for equally productive purposes.

2. Some indirect evidence pointing to this conclusion may be called from the findings that the diverters have a larger net addition to their assets in the year under reference. This may also be due to the fact that the average value of total assets, especially farm assets already held by the diverter is markedly lower.

3. The diverters are found to lean heavily on co-operative credit.

4. The propensity to divert is stronger in the case of sub-marginal farmers whose holdings obviously are uneconomic. Also the diverting borrowers lack elementary infrastructure facilities like irrigation.

5. The income-expenditure equilibrium is maintained at a lower level in the case of diverting borrowers—the average cash receipt, the aggregate expenditure and the income gap are all found to be smaller than those relating to the borrowers in general.

6. Yet another manifestation of the disadvantageous position in which the diverter finds himself is noticed in the fact that he is able to dispose of his produce only to the value of Rs. 1,838 against Rs. 2,109 in the case of the average borrower.

7. A study of the consumption pattern of the borrowers has not produced any sufficient incriminating evidence against the diverters. Contrary to the popular notion that a good part of the co-operative credit is wasted on conspicuous consumption and other unproductive items it is found that the diverters spend little on ceremonies, litigation and similar dispensable items.

8. Even as the field enquiry has not fully succeeded in assessing precisely the extent and the nature of misutilisation, it has yielded some useful inferences relating to the gravity of the problem and the environment which breeds diversion. The motivation behind misutilisation is complex and therefore its remedy cannot be simple. The bulk of the diverted credit is found to be used for purposes which cannot be considered undesirable though these are outside the purview of the specific loans granted. This is a clear indication that the area of uncovered credit requirements of the average borrower continues to be large and the propensity to divert loans from approved purposes will persist as long as these genuine needs remain unsatisfied. Three other important factors viz. unavoidable consumption needs, more profitable opportunities and repayment of old debts accounts for more than half of the total diversion. Here again, we will need a thorough restructuring of the co-operative credit to moderate the evil of misutilisation.

4.06 Quantitative deficiency was for long considered the crucial factor in the problem of co-operative credit and little attention was paid to the equally important aspect of utilisation. Now that the aggregate of the credit supplied has registered an explosive growth and promises to increase further, it has become necessary to probe deeper into the motivation, pattern and purpose in the deployment of credit.

4.07 The field enquiry connected with the present study has brought to light the extent and severity of the problem. However it is found that such adhoc and limited investigations leaning heavily on one-time interrogation of selected respondents who are grossly ill-equipped to furnish usable information hardly fill the bill. It does not yield precise measure of divertion nor does it unreveal the assortment of factors which govern the behaviour pattern of the diverters. The existing arrangement to supervise the use of loan proceeds does not go far enough; not only it fails to ensure the right utilisation of credit but also it lacks any machinery for gathering information relating to it.

4.08 Currently District Co-operative Bank Inspectors who are charged with the responsibility of supervision and verification do not seem to exert too much in this direction with the result that we have little information regarding the actual utilisation of loans. The members of the managing committee who endorse the loan applications also are prone to short-circuit the laborious process associated with such enquiries for various reasons. In the circumstances arrangements for collection of information need to be streamlined, if necessary by strengthening the supervisory staff. Since it may not be practicable to cover the entire community of borrowers it is suggested that a beginning may be made with a manageable sample of weaker credit societies.

4.09 Even as the present supervisory arrangements leave much to be desired it is doubtful if a more vigorous enforcement of discipline will go to the root of the problem which is largely diversion induced by dearth of credit for equally desirable purposes. Real remedy therefore appears to be the progressive liberalisation of agricultural credit policy with a view to provision of adequate finance for all the essential requirements. This should be accompanied by measures to supply credit for all bonafide needs most of which continued to be neglected and therefore suck-in the funds provided for the conventional categories.

4.10 In this connection the little experience we had in the implementation of the programme to provide "full finance" may be recalled. A beginning was made in this regard in 1964-65 in a few selected NES Blocks in Quilon and Palghat districts. It sought to provide the entire requirements of credit (short term, medium term and long term loans) for both production and consumption purposes through co-operatives. Though the scheme was in operation for a period of four years it could not be put through in a manner which satisfied either the lender or the borrower. The impediments to effective implementation proved formidable—the dearth of funds, the inherent difficulty in a discriminatory assessment of the genuine credit requirements of the farmer, and the lack of competent machinery to administer this novel scheme at the village level were the more notable bottlenecks. Now that we have a more favourable mileau for expanded credit operations—the resource position has improved vastly, the need to restructure the co-operative movement with a bias in favour of the weaker sections of the farming community has been widely acknowledged and the administrative expertise can be expected to be forthcoming in a rasonable measure—the feasibility of reintroducing the "full finance scheme" with suitable modifications may be explored. Since a part of diversion of short term loans is accounted by its utilisation for the purchase of livestock, machinery and implements, misutilisation on this score can

be eliminated by adequate provision of medium term loans. This might be pursued till the full finance scheme materialises.

4.11 Some diversion of credit to unintended use takes place because the loan is not received at the right time and in adequate quantity for the purpose on hand. Despite a certain measure of relaxation and expedition introduced into the loan operations the procedural complications and delays continue to inhibit the ready flow of credit to the final user. The credit card system adopted recently is a step in the right direction in as much as it assured the supply of a limited amount to borrowers with proved credit worthiness. The members entitled to loans can draw amount—subject to the maximum credit limit fixed in each case—as and when they need cash. But this does not go far enough as the preoccupation with security still persists and the large mass of borrowers who really need credit but whose credit worthiness is yet to be established are still kept out. The problem of expanding credit facilities in a massive way to crores of petty farmers who are not markable in the conventional sense is no doubt highly complicated, and this is obviously not a task that could be discharged by co-operatives working in isolation from the commercial banks. Now that the nationalised commercial banks are specially charged with the responsibility of aiding the farmers it should be possible to achieve an integration of the lending activities of these agencies and the co-operatives and to evolve a method of providing a package service to the peasantry. This will go a long way in the prevention of misutilisation of credit in the agricultural sector.

4.12 Rationalization of the existing service societies to ensure viability rather than their promiscuous proliferation rightly forms the policy objective of Co-operative Department of the State during the Fourth Plan. This has an important bearing on the process of credit expansion suggested above to ensure better utilisation. The long-term Operations Fund of the Reserve Bank of India has recently increased the measure of loan assistance for strengthening the share capital base of the primary societies (In SFDA districts the credit limit per society for this purpose has been raised upto Rs. 50,000). We need to pursue with greater expeditions the efforts to take full advantage of the liberalised assistance in this behalf.

4.13 An equally important element in viability is the deposit position in the primary societies as also in the Central Co-operative Banks. It is seen that borrowings from the Reserve Bank not only continue to dominate the working capital resources but also tend to grow in importance. Mobilisation of rural savings has yet to be taken up earnestly. An increase in own resources not only makes for greater viability and instil a higher sense of accountability in

banking operations but also enlarges the latitude of the use of credit. All these conduce to a better utilisation of the loans disbursed by the co-operatives.

4.14 Two other groups of measures for ensuring a more effective use of credit relate to the component system and the linking of credit with marketing.

4.15 It is gratifying to note that the Service Co-operatives in Kerala now account for about 60% of the total volume of fertilisers distributed (valued at about Rs. 5 crores) though their share in transactions relating to other inputs is perhaps still negligible. With the commissioning of the Cochin Fertilizers and the consequent spurt in fertilizer production in the public sector it should be easy for the co-operatives to enlarge this sphere of activities. At the same time it has not been found possible for various reasons to increase the fertilizer content of the loan. As indicated in section 2 neither the societies nor the borrowers have been sufficiently motivated in this business. Perhaps we need to know more about the varied constrains that hold up progress in the above direction. The SFDA and the Ela programme should find it feasible to incorporate loan transactions of this nature into their operational procedure.

4.16 Today the Agricultural marketing societies remain the weakest link in the chain of co-operative societies. Not only the turnover of the marketing societies has been very meagre but also no concerted measures have been taken to link the issue and repaying of loans with the sale transactions of the borrowers. The only area of success in this field is found in the Kettuthengu system. Even here the achievement is severely restricted to a tiny proportion of the unexploited potential. This again calls for a vigorous drive to extend this extremely benignant scheme to the entire coconut growing area of the State.

4.17 One basic condition needs to be fulfilled for maximisation of productive use of credit. Not only the borrower should be convinced of the increased returns resulting from the application of loan proceeds to farming but also the constellation of facilities indispensable for the same is available in a reasonable measure. These include the current inputs like seed, fertilisers, pesticides and supporting services such as irrigation, transport and marketing. Sound labour relations and prospect of disposing the produce at reasonable prices are important motivational factors. All these lead to the conclusion that the absorptive capacity of the borrower can be increased and correct utilisation ensured only if the distribution of credit forms an integral part of the package of promotional services. And this again underscores the need for deep involvement of agencies like SFDA and Ela Organisation in operations relating to agricultural finance which will facilitate a far more effective utilisation of co-operative credit.

4.18 The entry of the commercial banks into the agricultural sector in a big way may be expected to facilitate the efforts to improve utilisation of co-operative credit. However if the short comings inherent in the duplication of institutional arrangements for channelling credit are to be avoided and the maximum advantage reaped, the credit operations of both the commercial banks and the primary societies need to be co-ordinated closely. The recommendations of the Banking Commission for starting as many as 5000 rural banks in the country merit special consideration in the context.

APPENDIX

TABLES

APPENDIX

TABLES

TABLE 1

Function of the Selected primary credit societies in 1968-69

Sl. No.	Function.	Agricultural Credit Societies.		Non-agricultural credit societies.	
		No.	%	No.	%
1	No. of societies responded.	48	..	11	..
2	Distribution of credit.	45	93.7	11	100.0
	(a) Short term.	37	77.0	6	54.5
	(b) Medium-term	20	41.7	7	63.6
	(c) Taccavi	4	8.3	..	..
	(d) Ordinary loan	22	45.8	4	36.3
	(e) Coconut manure loan	8	16.7	..	..
	(f) H.Y.V. loan	5	10.4	..	..
	(g) Other agricultural loans	10	20.8	..	..
2	Deposits.	34	70.8	8	72.7
3	Distribution of agriculture requisites	37	77.0	..	..
	(a) Seeds	7	14.6	..	..
	(b) Fertilizers	37	77.0	..	..
	(c) Implements	6	12.5	..	..
	(d) Hiringout of improved implements	15	31.2	..	..
4	Other Agriculture services	9	18.7	..	..
5	Marketing	6	12.5	..	..
6	Consumer stores	7	14.6	2	18.1
7	Ration Depot	33	68.7	3	27.2
8	Other non-agriculture activities	7	14.6	..	..

TABLE 2

Increase in membership in the selected primary Credit Societies from 61-62 to 68-69

Year	*Agricultural credit* (48)			*Non-agricultural credit* (11)		
	Member ship (*No.*)	*Increase in Percentage*		*Member-ship* (*No.*)	*Increase in percentage*	
		Over 61-62	*Over the previous year*		*Over* 61-62	*Over the previous year*
1961-62	22367	..	..	24842	..	..
62-63	24610	10.03	10.03	26955	8.51	8.51
63-64	27280	21.96	10.85	29836	20.10	10.69
64-65	29137	30.26	6.81	33197	33.63	11.26
65-66	31086	38.98	6.69	37405	50.57	12.68
66-67	33231	48.57	6.90	41187	65.80	10.11
67-68	35129	57.05	5.71	45132	81.68	9.58
68-69	37049	65.64	5.46	46956	89.02	4.04

TABLE 3

Distribution of Committee Members of the Selected Primary Credit Societies according to occupation and educational status

Educational Status	*Agricultural credit societies.*				*Non-agricultural credit societies.*			
	Agricultural labourers	*Cultivators*	*Non-cultivators*	*Total.*	*Agricultural labourers*	*Cultivators*	*Non-cultivators*	*Total*
Illiterate	..	12	3	15 (3.82)	..	..	..	..
Literate but below matric	5	188	19	212 (53.94)	..	8	27	35 (44.30)
Matric but below graduate	2	68	66	136 (34.61)	..	..	40	40 (50.64)
Graduate and above	..	9	21	30 (7.63)	..	..	4	4 (5.06)
Total	7 (1.78)	277 (70.48)	109 (27.74)	393 (100.00)	.. ..	8 (10.13)	71 (89.87)	79 (100.00)

TABLE 4

Financial Resources of the Selected Primary agricultural credit societies

(amount in Rupees)

Rosource.	*Share Capital*		*Reserve and other funds*		*Deposits*		*Borrowings*		*Others*		*Total*	
Year	*Amount*	*increase over 61-62 (%)*	*Amount*	*increase over 62-62 (%)*	*Amount*	*increase over 61-62(%)*	*Amount*	*increase over 61-62(%)*	*Amount*	*increase over 61-62(%)*	*Amount*	*increase over 61-62(%)*
1961-62	12400	..	13771	..	5851	..	18534	..	839	..	51345	..
1962-63	15044	21.31	11759	—14.61	6701	14.53	37080	100.06	1435	71.02	72019	40.26
1963-64	17790	43.45	13006	5.56	8302	41.89	32737	76.63	2807	234.54	74642	45.37
1964-65	20269	63.45	12918	6.20	11037	88.63	39029	110.58	5354	538.09	88607	72.57
1965-66	23485	89.38	14825	7.65	17418	197.69	43431	134.33	5933	607.09	105092	104.68
1966-67	27903	125.00	17661	28.25	24751	323.02	59258	219.72	7117	748.20	136690	166.22
1967-68	33624	171.14	19490	41.53	31783	443.20	96363	419.92	9573	1040.91	190833	271.67
1968-69	38162	207.74	23125	67.92	34098	482.77	83682	351.50	16818	1904.37	195885	281.51

TABLE 5

Financial Resources of the selected Primary non-agricultural credit societies

(Amount in Rupees)

Resources / *Year*	*Share Capital*		*Reserve and other funds.*		*Deposits*		*Borrowings*		*Others*		*Total*	
	Amount	*increase over 61-62(%)*	*Amount*	*increase over 61-62(%)*	*Amount*	*increase over 61-62(%)*	*Amount*	*increase over 61-62(%)*	*Amount*	*increase over 61-62(%)*	*Amount*	*increase over 61-62(%)*
1961-62	48508	..	23357	..	242349		27454	..	28932	..	370600	..
1962-63	52734	8.71	27328	17.00	234305	—3.32	31513	14.78	33396	15.43	379276	2.34
1963-64	60759	25.25	32688	39.95	293935	17.16	46635	69.86	28473	—1.59	452490	22.10
1964-65	68918	42.07	39387	68.63	324626	33.95	70813	157.93	52351	80.95	556095	50.05
1965-66	79263	63.40	45723	95.75	356164	46.96	97940	256.74	57663	99.31	636753	71.82
1966-67	86245	77.79	55104	135.92	416482	71.85	89903	227.46	63566	119.71	711300	91.93
1967-68	93660	93.08	61518	163.38	441642	82.23	108670	295.82	72111	149.24	777601	109.80
1968-69	99754	105.64	71018	204.05	497739	105.38	104608	281.02	62792	117.03	835911	125.50

TABLE 6

Distribution of loans issued by selected agricultural credit societies according to security offered

(in percentage)

Security	*Short-term*	*Medium-term*	*All Types*
Personal	15.39	0.34	12.85
Members	33.47	23.33	33.03
Land	9.14	75.78	17.03
Crop	39.85	..	32.67
Gold/silver	1.39	..	1.29
Deposits	0.76	0.55	2.29
Others	..	..	0.84
All	100.00	100.00	100.00

TABLE 7

Distribution of borrowers according to main source of income

	Agriculture		*Non-Agriculture*		*Total*	
	No.	%	*No.*	%	*No.*	%
All borrowers	608	78.65	165	21.35	773	100.00
Divertors	69	54.76	57	45.24	126	100.00
	(11.35)		(34.55)		(16.30)	

Figures in brackets give percentage to total in the category.

TABLE 8

Distribution of amount borrowed per household according to source in 1968-69

	Source	*All borrowers*		*Diverters*	
		Average per borrower (Rs.)	*Percentage to total*	*Average per borrower (Rs.)*	*Percentage to total*
1	Government	38	3.69	49	3.84
2	Co-operatives	691	67.02	1029	80.58
3	Money lenders	5	0.48	12	0.94
4	Commercial Banks	203	19.69	18	1.41
5	Neighbours and friends	45	4.36	139	10.88
6	Chit Funds	25	2.43	11	0.86
7	Others	24	2.33	19	1.49
	Total	1031	100.00	1277	100.00

TABLE 9

Distribution of borrowers according to area possessed

Size Group (0.00 *acres*)	*All borrowers*				*Diverters*			
	Area possessed (acres)	*Average size per borrower*	*Number*	*Percentage to total*	*Area possessed (acres)*	*Average size per borrower*	*Number*	*Percentage to total*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Less than 0.50 acres	17.36	0.34	51	6.60	4.23	0.18	24	19.05
0.50-1.00	42.12	0.78	54	6.98	13.33	0.67	20	15.87
1.00-2.00	202.56	1.66	122	15.78	41.39	1.33	31	24.60
2.00-3.00	382.25	2.58	148	19.15	33.53	2.40	14	11.11
3.00-5.00	831.55	4.33	192	24.84	68.30	3.79	18	14.29
5.00 acres and above	1549.27	7.52	206	26.65	250.97	13.21	19	15.08
	3025.11	3.91	773	100.00	411.75	3.27	126	100.00

TABLE 10

Distribution of holdings of the sample borrowers according to their tenure of possession

(in percentage)

Type of holding	*All borrowers*			*Diverters*		
	Wet land	*Dry land*	*Total*	*Wet land*	*Dry land*	*Total*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Owned	60.98	78.45	72.63	67.30	77.75	75.50
Leased in	41.90	22.48	28.95	35.80	26.54	28.53
Leased out	2.88	0.93	1.58	3.10	4.29	4.03
Net holding	100.00	100.00	100.00	100.00	100.00	100.00
Of which cultivated	97.22	94.49	95.40	97.30	75.78	80.41
Of which irrigated	76.08	17.68	37.13	64.10	1.30	1.48

TABLE 11

Distribution of Assets per Borrower's Household according to Type as on 30-6-1968 and 30-6-1969

Type of Asset		All borrowers				Diverters			
		Value (Rs.)		Percentage to total		Value (Rs.)			
		30-6-68	30-6-69	30-6-68	30-6-69	30-6-68	30-6-69	30-6-68	30-6-69
I *Farm*	1. Farm land & building	25988	26026	67.75	67.24	18055	18267	49.92	49.72
	2. Live stock	479	509	1.25	1.32	304	321	0.84	0.87
	3. Implements & other farm equipments	108	146	0.28	0.37	113	142	0.32	0.39
	4. Others	7	7	0.02	0.02	2	2	..	..
Sub total (1-4) Farm.		26582	26688	69.30	68.95	18474	18732	51.08	50.98
II. *Non-Farm*	1. Building	4723	4824	12.38	12.46	4313	4497	11.93	12.24
	2. Land for non-agriculture uses	5446	5445	14.20	14.07	11941	11933	33.02	32.48
	3. Jewellery	672	677	1.75	1.76	630	641	1.74	1.74
	4. Furniture, fittings and other domestic articles	490	506	1.28	1.30	440	457	1.22	1.24
	5. Deposits	86	114	0.22	0.29	25	88	0.07	0.24
	6. Loans issued	14	15	0.04	0.04	24	24	0.07	0.07
	7. Shares	88	97	0.23	0.25	98	108	0.27	0.29
	8. Cash in hand	87	148	0.23	0.38	10	20	0.03	0. 5
	9. Others	169	194	0.44	0.50	210	244	0.57	0.66
Sub total (1-9) Non-farm		11775	12020	30.70	31.05	17691	18012	48.92	49.02
Grand total		38357	38708	100.00	100.00	36165	36744	100.00	100.00

TABLE 12

Disposal and Acquisition of Assets by the sample borrowers during 1968-69.

Value in Rs.

Type of assets	*All borrowers.*			*Diverters.*		
	Disposed	*Acquired*	*Net*	*Disposed*	*Acquired*	*Net*
I. *Farm*						
1. Farm land & Building	56.16	94.10	+ 37.94	125	377	+212
2. Live stock	58.27	88.48	+ 30.21	18	35	+ 17
3. Implements & other farm equipments	8.37	46.19	+ 37.82	1	30	+ 29
4. Others	0.45	0.69	+ 0.24	..	..	..
Sub total (1-4)—Farm	123.25	229.46	+106.21	144	402	+258
II. Non-Farm						
1. Building	..	100.90	+100.90	..	184	+184
2. Land used for non-agriculture purposes	1.29	1.09	+ 0.20	8	..	+ 8
3. Jewellery	0.65	6.38	+ 5.73	..	11	+ 11
4. Furniture, fittings & other domestic article	1.03	16.07	+ 15.04	..	17	+ 17
5. Deposits	2.33	29.72	+ 27.39	..	63	+ 63
6. Loan	..	0.54	+ 0.54	..	..	..
7. Shares	..	8.52	+ 8.52	..	10	+ 10
8. Cash in hand	17.72	79.43	+ 61.71	..	10	+ 10
9. Others	7.79	32.74	+ 24.95	..	34	+ 34
Sub total (1-9-)—Non-farm	30.81	275.39	+244.58	8	329	+321
Grand total	154.06	504.85	+350.79	152	731	+579

TABLE 13

Distribution of Borrowers according to Type of Loan

Sl. No.	*Type of loan*	*Number of borrowers*	*Percentage to total borrowers.*
1	Short term loan	598	77.36
2	Medium term loan	51	6.60
3	Long term loan	13	1.68
4	Taccavi	..	..
5	H.Y.V. Loan	1	0.12
6	Coconut manure loan	7	0.91
7	Ordinary loan	38	4.92
8	Other agricultural loan	32	4.14
9	Other non-agricultural loan	33	4.27
	All types	773	100.00

TABLE 14

Distribution of Sample borrowers according to type and purpose of loan applied

(*in numbers*)

Type of loan	*Purpose of loan applied (Code)*											*Total*
	1	2	3	4	5	6	7	8	9	10	11	
1. Short-term	380	..	..	..	..	..	..	3	2	136	77	598
2. Medium term	2	..	..	..	..	2	..	8	2	..	17	51
3. Long term	..	..	..	..	..	..	..	..	1	..	12	13
4. Taccavi Loan	..	..	..	..	..	..	..	..	..	..	..	..
5. H.Y.V. loan	1	..	..	..	..	..	..	..	..	..	..	1
6. Coconut manure loan	7	..	..	..	..	..	..	..	..	..	..	7
7. Ordinary loan	7	..	..	..	2	..	..	1	1	..	27	38
8. Others	1	..	..	..	..	2	..	1	..	..	61	65
All types	418	..	..	..	2	4	..	13	6	136	194	773

Code:—Seasonal agricultural operation—1; Purchase of implements—2; Marketing of crops—3: Industrial—4; Consumption—5; Sinking of repairs to wells—6; Purchase of machinery—7; purchase of cattle—8; Minor land improvements—9; other agricultural operations—10; others—11.

TABLE 15

Cash Receipt of the House holds in 1968-69

(in Rupees)

Source	*All Borrowers*			*Diverters*		
	Total	*%*	*Average per borrower*	*Total*	*%*	*Average per borrower*
Interest on deposits & loans	4205	0.17	5	120	0.05	1
Divident, Bonds, Commission, etc.	7674	0.31	10	7	neg.	neg
Rent.	32007	1.30	41	1788	0.77	14
Wages, salary/Service charges, etc.	1219329	49.60	1577	183669	79.08	1458
Remittances, charity, gifts, etc.	53165	2.16	69	4240	1.83	34
Others	1142477	46.46	1478	42422	18.27	1147
Total	2458857	100.00	3180	232246	100.00	2654

TABLE 16

Cash expenditure (other than capital) per borrower's household during 68-69.

Item	*All borrowers* (773)		*Diverters* (126)	
	average per borrower (*Rs.*)	%	*Average per borrower* (*Rs.*)	%
1	2		3	
I Farm				
1 Seeds	22	0.45	16	0.41
2 Manures & Fertilizers	378	7.65	163	4.16
3 Rent & Taxes	26	0.53	13	0.33
4 Wages & Salary	573	11.60	377	9.63
5 Repairs, Transportation charges etc.	78	1.58	23	0.59
6 Other including land improvement cattle feed etc.	275	5.57	244	6.23
II *Non-Farm*				
1 Food & Beverages	2246	45.48	1584	40.46
2 Intoxicants (liquor, pan, tobacco, etc.)	94	1.90	86	2.20
3 Clothing	194	3.93	170	4.34
4 Toilets.	52	1.05	54	1.38
5 Fuel & light	95	1.92	73	1.86
6 Sundry goods	26	0.53	32	0.82
7 Conveyance	73	1.48	47	1.20
8 Rent and taxes	46	0.93	61	1.56

	1	2		3	
9	Services	32	0.65	15	0.38
10	Remittance, charity, etc	74	1.50	109	2.38
11	Repair & maintenance of building	83	1.68	75	1.92
12	Ceremonies	68	1.38	135	3.45
13	Education	115	2.33	155	3.96
14	Medical	92	1.86	118	3.01
15	Other household effects.	22	0.45	22	0.56
16	Litigation	10	0.20	7	0.18
17	Wages & salary	183	3.71	233	4.96
18	Recreation	32	0.65	32	0.82
19	Others	49	0.99	71	1.81
	Sub-Total. Non-Farm	3586	72.62	3079	78.65
	Grand Total	4938	100.00	3915	100.00

TABLE 17

Production, Sale, Consumption and Other disposals of the products per borrower

(Value in Rupees)

Sl. No.	Item	All borrowers				Diverters			
		Production	*Sale*	*Domestic consumption*	*Other disposals*	*Production*	*Sale*	*Domestic consumption*	*Other disposals*
	I. *Farm*								
1.	Paddy	1451	503	580	368	655	193	350	112
2.	Other cercals and pulses	21	9	11	1	4	..	4	..
3.	Coconut	393	293	87	13	409	278	113	18
4.	Arecanut	145	140	3	2	168	159	6	3
5.	Other spices & condiments	365	361	3	1	117	109	6	2
6.	Tapioca	206	129	75	2	108	42	63	3
7.	Banana and Plantain	51	37	12	2	26	17	9	..
8.	Other fruits	57	30	27	..	56	28	27	1
9.	Vegetable	17	4	13	..	4	1	3	..
10.	Sugar	110	104	5	1	6	6	.	..
11.	Plantation	308	302	6	..	913	907	5	1
12.	Other crops	332	114	196	22	161	16	112	33
13.	Manures	85	..	64	21	68	..	52	16
14.	Dairy products	103	38	65	..	78	34	44	..
15.	Poultry products	18	9	9	..	17	4	13	..
16.	Other farm receipts	10		3	..	15	11	4	..
	Total Farm	3672	2080	1159	433	2805	1805	1	
	Non-farm		29	3	..	35	33	2	..
	Grand Total	3704	2109	1162		40	1838	813	1

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TABLE 18

Debts outstanding as on 30-6-'68 and 30-6-'69 per borrower

(*Amount in Rs.*)

Source	*All borrowers*				*Diverters*			
	Debt as on 30-6-68	*Borrowed in* 68-69	*Repaid on* 68-69	*Debt outstanding as on* 30-6-69	*Debt as on* 30-6-68	*Borrowed in* 68-69	*Repaid in* 68-69	*Debt outstanding as on* 30-6-69
Government	20	38	6	52	25	49	4	70
Co-peratives	219	69	315	595	272	1027	178	1121
Money lenders	22	5	15	12	104	12	55	61
Commercial Banks	110	203	9	304	16	18	5	29
Neighbours and friends	82	45	42	85	255	139	133	261
Chit funds	10	25	10	25	11	11	4	18
Others	15	24	10	29	16	19	8	27
Total	478	1031	407	1102	699	1275	387	1587

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Evaluation Series No. 11

GOVERNMENT OF KERALA

C.742
23 JUL 1986

REPORT ON
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EVALUATION DIVISION
STATE PLANNING BOARD
KERALA

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