



INTERIM REPORT

OF THE

NATIONAL COMMISSION ON
AGRICULTURE

ON

सत्यमेव जयते

CREDIT SERVICES FOR SMALL AND MARGINAL FARMERS AND AGRICULTURAL LABOURERS

GOVERNMENT OF INDIA

MINISTRY OF AGRICULTURE, NEW DELHI
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SUMMARY OF RECOMMENDATIONS

Integrated Agricultural Credit Service :

1. The entire problem of agricultural credit needs should be viewed in the light of providing an Integrated Agricultural Credit Service, *i.e.*, provision of credit along with organisation of facilities for its conversion into inputs and services required by the farmers to use the credit effectively. This service should be made accessible to small and marginal farmers and agricultural labourers who want to upgrade their technology and productivity. The service must cover not only the complete range of farm produce upto the marketing stage but also ancillary farm occupations, such as those of rural artisans and craftsmen, which provide services to the farmers. In fact, it should also serve to develop the artisans to take up small village industries producing the farm and consumption needs of the farmers. The proposed agricultural credit service should also look after the requirements of credit, inputs and other services needed by animal husbandry (including poultry farming, piggery, sheep rearing, etc.), dairying, fisheries, farm forestry and other enterprises allied to agriculture. (Paragraph 4.5)

Responsibility of Credit Agencies :

2. If a clear break is to be made with the past methods of financing agriculture and if the agricultural credit service is to reach the small and marginal farmers and agricultural labourers, the credit agencies should take direct interest in development of agencies for the supply of inputs and to arrange for services to enable the borrowers to absorb credit. These credit agencies should also encourage and finance viable units of suppliers of inputs, custom services, storage, transportation and marketing in their respective areas. (Paragraph 4.6)

Structure of Agricultural Credit Service :

3. The proposed agricultural credit service should have the following constituents :

- (i) Farmers' Service Societies—one for each tehsil/block or any other viable unit of convenient size, with as many branches as are required in the area;

- (ii) a Union of these Societies at the district level, and functional district organisations for specific commodities; and
- (iii) Lead Bank of the district assuming leadership in the matter of organising agricultural credit service. (Paragraph 4.9)

Farmers' Service Society :

4. A Farmers' Service Society should be formed as a registered cooperative body, with by-laws to ensure autonomy, efficient management and freedom from official intervention to provide the integrated agricultural credit service to the small and marginal farmers and agricultural labourers. (Paragraph 4.11)

5. Each Farmers' Service Society should take care of all the development needs of the small and marginal farmers, agricultural labourers and village artisans either directly or by special arrangements with other agencies. Each Society should be treated as a primary cooperative society. All facilities by way of funds, concessional rates of interest, managerial subsidy, etc. available to the cooperatives should also be placed at its disposal. (Paragraph 4.13)

6. Only those farmers, agricultural labourers and village artisans who qualify for receiving assistance under the SFDA and MFAL projects should be eligible for the membership of the Farmers' Service Societies. Other sections of the farming community might be made eligible for associate membership for services without enjoying the rights of voting. (Paragraph 4.15)

7. The jurisdiction of each society should be equivalent to a block and in regions where the availability of services is inadequate, it may be an area as big as a tehsil. In regions where the scale of operations is very large, the coverage may have to be reduced to much less than a block. The area of operation should be determined on the basis of viability of the proposed society taking into consideration the overall development in the area and the need for provision of extension services. The society should have its branches or depots to cater to the needs of its members at revenue circle or equivalent levels to serve population groups of ten to twelve thousands. In deciding upon the jurisdiction of a branch, the relevant consideration will be business viability and easy accessibility. (Paragraph 4.18)

District Union of Farmers' Service Societies :

8. There should be a Union of Farmers' Service Societies at the district level for mutual consultation and coordination of policies of the Farmers' Service Societies in the district. In addition, functional district organisations for specific commodities may be formed at the district level. (Paragraph 4.22)

The Role of the Lead Bank :

9. The Lead Bank of each district should have the overall responsibility of integrating the provision of farm credit with supply of inputs and services and should perform the functions enumerated in Paragraph 4.25 (Paragraph 4.25)

Linkage with Other Agencies :

10. Institutions like Land Development Banks, State Agro-Industries Corporations, the Food Corporation of India, etc. should play a vital supporting role in offering services to farmers to absorb credit for productive purposes. In this connection, we tentatively suggest that proper linkage should be developed between the credit structure envisaged by us and these agencies. (Paragraph 4.27)

Agricultural Development Bank :

11. It might be ultimately necessary to set up an Agricultural Development Bank of India on the lines of the Industrial Development Bank of India (IDBI) to consolidate the expertise and experience of various agencies, such as the Agricultural Credit Department of the Reserve Bank of India, the Agricultural Refinance Corporation and Agricultural Finance Corporation into a single national organisation directing the flow of agricultural credit according to needs, for full utilisation of land and manpower. Besides refinance facilities, the proposed Agricultural Development Bank of India could provide the initiative and expertise for project-oriented lending after special studies and surveys on regional and commodity-wise basis. (Paragraph 4.30)

Training and Supervision :

12. A suitable programme should be evolved to provide trained personnel to the institutions responsible for the service. Specialists should be employed by banks, and the agricultural

universities and extension organisations should help them not only in training such personnel, but also in locating the experts who could help the banks in the training programme. (Paragraph 4.31)

13. Adequate supervision should also be arranged to ensure supply of inputs and adoption of improved practices by the farmers in the area so that credit goes to small and marginal farmers and agricultural labourers and thereby helps them in increasing their levels of income. (Paragraph 4.32)

Phased Action Programme :

14. The formation of Farmers' Service Societies at the tehsil/block level and District Union of these Societies as also their linkage with the Lead Bank and other institutions may first be tried out in the 46 SFDA districts and 41 MFAL districts. Operation of these arrangements in these 81 districts (6 districts being common to both the projects) should be carefully studied and with suitable adaptations found necessary from experience gained in these districts, the arrangements could be extended every year to cover more districts at a rapid pace. (Paragraph 4.33)



INTERIM REPORT ON CREDIT SERVICES FOR SMALL AND MARGINAL FARMERS AND AGRICULTURAL LABOURERS

SECTION I

Introduction

Scope of the Report :

1.1 A study of the requirements of agricultural credit from Government, cooperatives and other institutional agencies for the new strategy of scientific agriculture is included as one of the terms of reference given to the National Commission on Agriculture. It has been recognised that while timely and adequate agricultural credit is necessary to finance the increased inputs involved in scientific agriculture, its importance is all the more significant in the case of the credit needs of small and marginal farmers. Timely supply of adequate credit is also the key to the success of special programmes of Small Farmers Development Agency (SFDA) and Marginal Farmers and Agricultural Labourers (MFAL) which have been introduced in 81 districts of the country (of which six districts are common to both the projects). This section of the rural economy today requires special arrangements for credit availability if they are to be drawn effectively into the vortex of the agricultural development process. In view of its importance, the Commission has decided to make interim recommendations on credit services for small and marginal farmers and agricultural labourers.

1.2 At the second meeting held on the 4th November, 1970, the Commission constituted a Study Team on Agricultural Credit with Shri T.A. Pai as Chairman. The composition of the Study Team is given in Appendix I. The proposals submitted by the Study Team were considered by the Commission from time to time and it was agreed that the Commission would in its Interim Report on Agricultural Credit deal with the problems of agricultural Credit with reference to the needs of small and marginal farmers and agricultural labourers only. Some of the aspects of agricultural credit are also dealt with in other Interim Reports of the Commission. For example, the problems of distribution credit for fertilisers were discussed in the Interim Report on

Fertiliser Distribution presented to the Government in November, 1971. Similarly, the provision of credit for milk programmes is discussed in the Interim Report on Milk Production through Small and Marginal Farmers and Agricultural Labourers. The other aspects of agricultural credit would be dealt with in subsequent Reports.



SECTION II

Agricultural Credit : Present Position

Cooperative Credit Movement :

2.1 The cooperative credit movement was started to get the farmers out of the clutches of the money-lenders. The co-operative system was encouraged to take over the credit requirements of the farmer and enable him to get credit, in time, at fair rates of interest. In the thirties, the agrarian situation was so bad that debt relief measures were also undertaken to save the agriculturists from utter ruin. Various steps were taken to give new life to a languishing cooperative system like consolidation of existing societies by developing their resources, close supervision and scrutiny of their loan operations, assistance to apex cooperative banks for financing rehabilitated societies, etc.

Short & Medium-term Credit :

2.2 In recent years, there has been a significant increase in institutionalisation of rural credit. At present, over 30 per cent of the borrowings by cultivators are from institutional sources. The cooperatives have been the principal agency for agricultural credit and will continue to play that role for quite some time. The total amount of credit advanced by cooperatives increased from Rs. 23 crores in 1950-51 to Rs. 203 crores in 1960-61. The short-term and medium-term loans advanced by primary cooperative credit societies was Rs. 342 crores in 1965-66 and Rs. 542 crores in 1969-70. The target for the Fourth Plan has been laid down at Rs. 750 crores to be reached by 1973-74. The membership of agricultural cooperative credit societies has increased from 17 million in 1960-61 to 26 million in 1965-66 and to 30 million in 1969-70. The target for 1973-74 is 42 million.

Long-term Credit :

2.3 As regards long-term credit, the Land Development Banks which have made significant progress in recent years, are well organised to handle loan operations of over Rs. 1,000 crores over the Fourth Plan period. However, a lower target

of Rs. 700 crores has been fixed, for the time being, on the basis of financial resources, than in sight. Between 1960-61 and 1968-69, the loans advanced by these banks to agriculturists increased from about Rs. 12 crores to Rs. 148 crores and the loans outstanding to them from individual members from Rs. 38 crores to Rs. 402 crores. The quantum of fresh long-term loans issued in 1969-70 was Rs. 155 crores.

Agricultural Refinance Corporation :

2.4 The Agricultural Refinance Corporation set up in 1963 to refinance long-term agricultural credit expanded its activities considerably during the last three years. Upto 1968-69, the Corporation had sanctioned 233 schemes involving a total outlay of Rs. 182 crores, of which the Corporations' commitment is Rs. 156 crores, mainly on schemes of minor irrigation. As on 31st October 1971, the ARC had 489 schemes involving a total outlay of Rs. 318 crores, including ARC's commitment of Rs. 272 crores.

Commercial Banks :

2.5 For meeting the gap in agricultural credit, the potentialities of commercial banks are also being increasingly utilised. Following social control, commercial banks have shown an increasing interest in the agricultural sector and the volume of direct agricultural finance by these banks has increased from Rs. 5 crores during 1966-67 to Rs. 44 crores on 30th June 1969 and further sharply to Rs. 184 crores on 30th June 1970 and Rs. 236 crores on 30th June 1971. In 1968, a consortium of commercial banks set up an Agricultural Finance Corporation with the objective of coordinating activities of the constituent banks and rendering them consultancy services.

Inadequacy of Credit :

2.6 Although the progress has been steady, the amount of loans advanced is still inadequate. The Fourth Plan target for short-term cooperative credit is only Rs. 675 crores to be reached by 1973-74. Considering that the volume of short-term credit given by primary agricultural credit societies was Rs. 390 crores in 1967-68, Rs. 454 crores in 1968-69 and Rs. 490 crores in 1969-70, an average increase of only Rs. 45 crores per annum during the Fourth Plan period does not appear to have given sufficient importance to short-term cooperative credit. Unfortunately, even the credit limits based on these targets which are sanctioned

by the Reserve Bank of India for short and medium-term credit, are not fully utilised as is evident from Appendix II. If the co-operatives, as they are at present functioning, are to make any dent in the problems of agricultural credit to the small and marginal farmers and agricultural labourers, the Fourth Plan targets for cooperative credit will have to be substantially higher. Such an expansion not being possible with the present over all availability of funds it is obvious that without an earmarking of specific funds for the small/marginal farmers sector, their problem of credit will not be solved.

Distribution of Credit by Asset Groups :

2.7 The All-India Rural Credit Survey Committee (1952) which studied the position of credit in the year 1951-52 brought out prominently the fact that cooperative credit tended to flow predominantly in favour of the large cultivators as compared with the medium and small cultivators. The All-India Rural Debt and Investment Survey (1961-62) pursued this matter further and analysed the data on the borrowings from cooperatives per acre of cultivated area for the different asset groups. Their findings are given in Table 1 below :

TABLE 1

Average amount borrowed from cooperatives per acre of cultivated area during 1961-62

Asset Group (Rs.)	Average borrowings from cooperatives per cultivator household (Rs.)	Average area personally cultivated per cultivator household (acres)	Average borrowings per acre (Rs.)
Less than 500 . .	2.3	1.27	1.81
500-1,000 . .	5.1	2.14	2.38
1,000-2,500 . .	9.4	3.35	2.81
2,500-5,000 . .	19.6	5.35	3.66
5,000-10,000 . .	35.6	8.06	4.42
10,000-20,000 . .	63.6	11.86	5.36
20,000-and above	170.4	23.26	7.33
All - asset groups . .	31.9	6.63	4.81

It is quite evident that a rich farmer having assets of over Rs. 20,000 which is roughly equivalent to a holding of 25 acres, received per acre credit which was twice that given to a farmer having assets between Rs. 2,500/- and Rs. 5,000/- which is equivalent to about five acres. Those in the lowest rung of assets got only a quarter of the amount that the rich farmers got.

Difficulties of Small Farmers in Getting Credit :

2.8 In 1969, the All-India Rural Credit Review Committee also dealt with this matter and recorded as under :

“We shall tentatively note here that, even if there is some justification for the larger amount which has gone to the bigger asset groups in absolute terms, the fact that (a) the proportion of households obtaining cooperative credit to the total cultivator households; and (b) the proportion of those who obtain cooperative credit to those borrowing from any agency, increase from group to group along with the size of assets does suggest that the smaller cultivators are indeed handicapped in having access to cooperative credit”.

They went on further to say :

“Our conclusion is, therefore, that though in the last few years, especially since 1964-65, some progress has been made in relaxing various restrictive practices, the small cultivator continue to be handicapped over large parts of the country in obtaining adequate credit from the cooperatives because of one or more factors, viz., exclusion from membership, insistence of landed security and restrictions on the size of loan which may be made to tenants. An unfortunate feature from the point of view of production was that the tenants and small cultivators were not in many parts of the country able to obtain credit required by them for modern inputs”.

2.9 The Committee also emphasised the need for medium and long-term credit to enable the farmers to invest in land development and irrigation facilities so that they could modernise their agricultural operations. The Committee made special recommendations to enable the small farmer to get long-term credit for viable investment. Nearly 62% of the cultivating households had less than five acres. It had been estimated by the Reserve Bank that of the 265,259 farmers who had availed

of long-term credit from cooperatives in 1969-70, only 96,306 (or about 36%) held land of five acres and less. This indicates the extent of the difficulty which a small farmer faces in obtaining long-term credit to make his holding viable based on modern technology.

Rise in Overdues:

2.10 Another disquieting feature of the cooperative credit system has been the rise in the overdues from year to year, as will be seen from Table 2 below :

TABLE 2
Percentage of overdues at the level of primary societies and district/central cooperative banks

Year	Overdues at the level of primary societies	Overdues at the level of district/central cooperative banks
1960-61	20%	12.4%
1967-68	32%	24.7%
1968-69	35%	27.0%
1969-70	38%	29.0%

The increasing overdues have not only affected the ability of the cooperatives to extend further credit but have also put in doubt the credit-worthiness of the cooperatives themselves.

Benefits flow to Big Farmers:

2.11 Further, benefits of the cooperative system have so far flowed mostly to bigger farmers because of the following factors :

- (i) Land-ownership was used as almost the sole criterion for extending credit to the members.
- (ii) Little attention was paid to the needs of farmers or the acreage covered, as the focus was on amounts lent and recovered as criteria of success.

- (iii) The quantum of farm credit recorded significant increases, out of line with either the acreage or number of farmers served; more or less the same groups of farmers got additional funds due to gradual liberalisation of the scales of finance for cash crops as well as other crops.*
- (iv) Even the limits sanctioned to the State cooperative banks by the Reserve Bank of India for farm credit through cooperatives were not utilised fully wherever primaries of District Central Cooperative Banks were weak and inefficient as regards recoveries and could not offer sufficient non-overdues cover to the high level of finance.
- (v) Cooperative leadership and management were in the hands of the bigger farmers who could not represent the point of view or needs of the small and marginal farmers.
- (vi) Technical expertise and operational efficiency for dispensing production-oriented credit are conspicuously lacking in the present cooperative set-up.
- (vii) Coordination between the agencies in charge of cooperative credit and those in charge of supplies, extension, etc. under agricultural programmes is grossly inadequate resulting in lack of absorption of credit for production purposes.

Benefits of Cooperative System:

2.12 It will be agreed at the same time that there have been some benefits, economic and social, of cooperatives in the past. Cooperatives have helped to rationalise distribution patterns, increase purchasing power and promote consumer protection. They have contributed to the modernisation of small scale production in agriculture and allied sectors. They have stimulated in several areas productive capital formation among large numbers of individuals. In a wider sense, cooperative growth has thus become an effective stimulant to economic growth. From the

*The Study Team on "Agricultural Administration" of the Administrative Reforms Commission has drawn attention to the fact that the loan advances by Primary Credit Societies increased from Rs. 228.3 crores to Rs. 319.4 crores (or 36%) during the period 1961-62 to 1964-65 while the number of borrowers rose from 99,62,000 to 1,09,59,000 (or 10%) during the same period indicating that while the loans advanced had increased significantly, the increase in the number of borrowers was only marginal.

economic stand point, cooperatives are engaged in securing for their members, services of various kinds, at low cost. Cooperation offers not only economic benefits to members but also confers a number of benefits to the society. This is so because the object of cooperation is to transform the member's condition in such a way that he makes his social life richer and happier. Whereas the cooperative system may be the best form of organisation for those particularly in the lower rungs of the economy and also for the most exploited sections, the present structure of the organisation has to be modified to give a better bias towards the small and marginal farmers and agricultural labourers.



SECTION III

Problems Faced by Small and Marginal Farmers and Agricultural Labourers in Obtaining Agricultural Credit.

Problems of Small and Marginal Farmers:

3.1 The small land holders in India form 62% of the total rural households, but only 19% of the cropped area is comprised in small holdings.* In this skewed distribution of land holdings, the new agricultural technology whose benefits have largely been availed of by the bigger farmers has tended to add to the disparity between the more privileged and the lesser privileged in the rural sector. "While the handicaps of such (small) farmers differ from area to area, the major disadvantages they suffer from are fragmentation of holdings, inadequate and untimely supply of inputs and water, insecurity of tenure, lack of sufficient credit facilities and unsatisfactory arrangements for marketing and storage".**

3.2 Both the Central Sector Schemes for Small Farmers Development Agencies and Marginal Farmers and Agricultural Labourers lay stress on building up proper infrastructure so that adequate credit facilities are available to the weaker sections of the rural population. These schemes have been devised by the Ministry of Agriculture in consultation with the Planning Commission in view of the very high priority attached in the Fourth Plan to measures specifically designed to enable the weaker sections of the rural population to benefit from the economic growth and development in the rural sector.

Difficulty in offering Security:

3.3 The major problem faced by the small farmers in getting credit from the cooperatives was that they could not offer security in the shape of tangible assets and, as such, they were not considered to be credit worthy. Efforts were, therefore, made to change the criterion of credit worthiness from tangible assets to

*Data relate to operational holdings less than 2.02 hectares and are based on 16th and 17th Rounds of NSS, June 1960 to July 1962.

***"Towards Growth with Social Justice", Government of India, Budget Papers 1970-71.

production potential under the 'crop loan system' introduced in the Second Five Year Plan. To ensure that credit was not misused for consumption purposes, a part of the crop loan was given in the shape of inputs like fertilisers and quality seeds.

Crop Loan System:

3.4 The basic features of the crop loan system were incorporated in the Action Programme drawn up by the Government in 1963. The Reserve Bank (Agricultural Credit Department) in its manual issued in 1966 included a modified version of this Action Programme. Though vigorous efforts were made between 1966 and 1969 to step up the availability of cooperative credit, the progress was not uniform in all the areas. In fact, various field investigations in selected districts conducted for the All-India Rural Credit Review Committee revealed considerable divergence between the accepted principles and the actual progress.

3.5 Cooperatives generally consider that loans advanced to the small farmers involve a certain risk element if the crop fails since they are not backed by any tangible assets as security. The Committee on Cooperative Credit (1963) had recommended a system of outright grants by Government for building up special Bad Debt Reserve in Central Banks and Primary Societies so that the cooperatives might be inclined to take the risk of giving more loans to the small and marginal farmers based on the crop loan system. On a review in 1964 by a Working Group led by Prof. M.V. Mathur* it was found that the scheme had some beneficial effect, but it had not proved adequate for the purpose for which it was intended. The Working Group recommended that the Cooperative Credit Societies should make efforts to attract more funds by imparting a definite bias towards small and marginal cultivators in their lending operations.

Cooperative and Commercial Banks Finances not Available for Small and Marginal Farmers:

3.6 Although the cooperatives were till recently, the only source of institutional credit that could and should have helped people in the agricultural sector to reach the stage of viable production, a large number of the small and marginal farmers and agricultural labourers have had no chance even to enter them.

*Report of the Working Group set up by N.C.D.C. (1964) on Effects of outright grants in liberalisation of agricultural credit.

In a way, so far, the cooperative system has not succeeded in serving the needs of the small and marginal farmers—not to speak of the agricultural labourers — to any significant extent.

3.7 Although within the last two years, commercial banks have become an important source of institutional credit for agriculture, even their operations excluded the bulk of the small and marginal farmers, as they also tended to finance agriculture according to the prevailing criteria and methods. The most crucial part of production credit is supervision. Without close and constant supervision it is difficult to arrive at a realistic scale of credit or effect its smooth recovery. The commercial banks are, in reality, not in a position to undertake large scale creditworthy schemes because of lack of necessary experienced personnel for supervision.

3.8 Both the cooperatives and the commercial banks suffered from a common handicap; they lacked the understanding and ability to tackle the special needs of the small farmers. Nor were they able to appreciate what was needed to be done to intensify the total gamut of agricultural and related activities in rural areas so as to provide additional work and income to marginal farmers and agricultural labourers. The application of conventional norms of security ensured almost automatic exclusion of this sector of agriculture from institutional credit because of its low land-holding and earning capacity in conventional farming. A radical departure was needed both in the scale of finance and the terms of payment. The per hectare requirement of credit was far in excess of normal limits, both for intensive cultivation and 'high-investment-high yield' crops (e.g., hybrid seed production, high yielding varieties, horticultural crops, etc.) *. Linking advances to land holding (either directly or as collateral) became incongruous with incremental income concept of production and investment credit, and financing of ancillary farm activities such as dairying and poultry farming. Credit should have been provided on the basis of the total proposed activity rather than the land held, for such labour-intensive activities would help marginal farmers and agricultural labourers to develop viable family enterprises.

*The scale of finance for production credit by primary agricultural co-operatives has now been made flexible and left more to the District Central Cooperative Bank with the result that it has become directly proportional to the ability of the District Central Cooperative Bank and the Primary Society itself to provide the non-overdue cover rather than the cost of cultivation and production potential of the borrower.

Lack of Integration of Credit with Other Services:

3.9 Another important factor adversely affecting the small and marginal farmers was that farm credit from cooperatives and commercial banks was not integrated with easy availability of inputs, extension and other services supporting production and marketing. The small farmers could not productively use whatever loans they got from these sources for lack of easy accessibility to such facilities as a viable commercial package.

Multiplicity of Agencies:

3.10 A major handicap of the small and marginal farmers and agricultural labourers has been their inability to contact separately a number of different agencies for different requirements. Figure 1 (page 18) shows the multiplicity of agencies that the farmer has to contend with for all his needs. For crop finance, they have to go to the cooperative or the commercial bank. For long-term credit, they need to go to the Land Development Bank. Separate agencies need to be approached for inputs, services, hiring of farm equipment and marketing. It would be impracticable to expect them to contact so many different sources to get credit and services for different needs.

Multipurpose Cooperative Organisation:

3.11 The idea of multipurpose cooperative society has been suggested by a number of Committees from time to time. The All-India Rural Credit Survey Committee (1952) elicited the views of the State Cooperative Departments on the effectiveness and success of the multipurpose cooperative societies. This survey had come across several instances of efficient and well managed multipurpose societies meeting the varied needs of the rural farming community particularly in Tamil Nadu, Maharashtra, Andhra Pradesh and the Punjab. In November 1958 the National Development Council in its Resolution on Cooperative Policy, also recommended that the cooperatives should be organised on the basis of the village community as the primary unit and that the responsibility and initiative for social and economic development at the village level should be placed fully on the village cooperative and the village panchayat which were to be considered as the primary agencies for improving all aspects of rural life through the efforts of the people. The Committee on Cooperative Credit (1963) and the All-India Rural Credit Review Committee (1969) also considered the question of primary credit societies



with particular reference to the paramount need for viable requirements. The latter Committee made a number of recommendations, on which the present policy of Government is based. This policy envisions the primary societies at the village level to promote the economic interests of its members in accordance with the cooperative principles and seeks to achieve this aim by activities in different directions. In other words, it is expected to be a multipurpose organisation which will provide loans to its members, promote savings among them, supply them with agricultural requisites and domestic requirements, and arrange for the marketing of their agricultural produce. This concept of a multipurpose cooperative organisation has so far not been a success. Among the reasons for the failure of multipurpose cooperatives in the past has been that although they were multipurpose in their objective, too much emphasis was laid on credit aspect only, often almost to the total neglect of other service functions. Further, in organising multipurpose societies, their viability was not always taken into account. Sometimes, it was thought that the multipurpose societies would be viable even at the village level. Moreover, the multipurpose societies were not backed by adequate technical, extension and other supporting services.

Scope for Employment Opportunities in Ancillary Occupations:

3.12 So far, we have been paying attention to agriculture. It is becoming more and more apparent that for small and marginal farmers and agricultural labourers, opportunities for improvement lie in enterprises like horticulture, animal husbandry (including poultry farming, piggery, sheep rearing, etc.), dairying, fisheries, farm forestry, etc. In fact, mixed farming offers good scope for small and marginal farmers to improve their farm income. There have been difficulties in the past in the cooperative system being able to provide the credit, the inputs, and the marketing facilities in a suitable package for such enterprises. The multipurpose approach, which we are considering, must be able to tackle these new lines of employment opportunities in the rural sector. Similarly, in the rural economy, ancillary farm occupations form the most useful source of employment, mainly for agricultural labourers in the villages. The artisan classes in the villages depend for their livelihood on the services required by the farmers and also their consumer goods requirements in the context of improvement in the agrarian economy. There is also need for modernising the tools and implements used by these village artisans and improving their technical skills. The classes of rural artisans envisaged include

carpenters, blacksmiths, cobblers, weavers, potters, oil-men, etc. A further opportunity exists, for adding to the employment potential of the agricultural labourers in the villages, in the organisation of small consumer industries in the rural areas through local enterprises. The multipurpose organisation which we are contemplating must be able to deal with the requirements of both credit and marketing of these rural artisans and ancillary farm occupations. With increasing reliance being placed on the cooperatives as an instrument of development at the village level, it is all the more necessary that the multipurpose cooperative principle should receive greater emphasis.



SECTION IV

Integrated Agricultural Credit Service

The neglected partners in Agricultural Growth:

4.1 An unprecedented agricultural growth has been witnessed in recent years in several parts of the country. Benefits of this growth have, however, been visible mostly in areas with assured rainfall and irrigation and a few pockets in dry farming areas. Studies on the problems of small farmers show that they have not been able to take full advantage of the new farm technology. The reasons advanced for this situation revolve round the credit needs and the availability of inputs and services required to sustain the high yielding varieties*. The need for intensive cropping practices necessary to make the small farms viable units, imposes high demands on the credit and extension needs for this segment compared to the large and medium farmers. Considering that there are over 20 million operational holdings in the country with less than 2.5 acres, the gap in the coverage and the magnitude of the problem assume staggering proportions and point out the inadequacy of the present institutional system in ushering in the structural changes necessary to bring the small farmers as sharers of benefits that accrue from agricultural growth.

The opportunity and the urgency:

4.2 Our farmers, big, medium and small, have shown the production levels that they can achieve, given the know-how, inputs, services and facilities on time. The Green Revolution has been a dream realised for the bigger farmers in some parts of the country. The large number of small and marginal farmers and agricultural labourers left out of this development process have to be rapidly brought within the compass of the upsurge of agricultural modernisation. It is both possible and essential to do so. For the first time, break throughs in agricultural

*A recent study in Sangli district indicates that if credit is made available, the credit absorption increases nearly five fold in 3-4 acres farms and 2½ times in farms more than 4 acres (Appendix III). For studies on Small Farmers conducted on behalf of the Planning Commission see Planning Commission "Workshop on Small Farmers and Agricultural Labourers, 17-18 July 1970" Government of India, New Delhi, pp. 81—130.

technology have made small farming an economic proposition*. We have to ensure that they are no longer denied the necessary credit and the facilities to adopt this new technology. Then alone can we make optimum use of the man power and the land possessed by the small and marginal farmers and also take effective steps, to curb in time, the social tensions and economic imbalance arising from disparities of opportunities and incomes. In fact, it has been the experience that with every development in agriculture in any part of the country—whether through better irrigation or adoption of improved techniques and practices—imbalances in incomes and capacity to produce perpetuate 'dual economies' (one monetized market economy, and the other non-monetized subsistence economy) unless deliberate efforts are made to reduce inequality of opportunity to get credit and use it effectively.

4.3. For all the agricultural development schemes where participation of the small farmers, marginal farmers and agricultural labourers is contemplated, the first essential is credit in the right quantity at the right time for the creditworthy scheme. The second essential is supply of inputs and services at reasonable rates at the right time. The third essential is a fair market where the small man will get a reasonable price for the surplus, and will also be able to buy his requirements at a fair price. The real need of the small and marginal farmers is thus not funds alone but timely availability of a package of inputs and custom services, along with technical advice and supporting services for storage, transportation, processing and marketing, preferably through a single contact point.

Need for Multipurpose Organisation:

4.4. The need can be met through the setting up of a multipurpose cooperative organisation with jurisdiction extending over a tehsil or block as may be convenient. The area of operation will have to be determined on the basis of viability of the proposed organisation taking into consideration the overall development in the area and the need for provision of inputs and supporting services. Normally the area may be equivalent to a block, but a larger or smaller area may have to be adopted in

*The technical constraint indicated in the study, vide Planning Commission Workshop, pp. 83-84 is provision of assured water supply in dry areas to minimise the risk for the small farmers and when water resources are available, institutional support is the constraint in making the small farmers viable.

some regions depending on the availability of supporting services. It has, however, to be borne in mind that small and marginal farmers and agricultural labourers are scattered over large interior areas far removed from the block or tehsil headquarters. The multipurpose organisation will, therefore, have to have branch agencies or depots at lower levels to cater for clusters of such small farmers. In this connection, the Commission would like to refer to the recommendation made in its Interim Report on "Some Aspects of Agricultural Research, Extension and Training" that it would be desirable to work towards coverage by the Agricultural Extension Officers of population groups of roughly ten to twelve thousand. The multipurpose cooperative organisation can also have branches and depots as counterparts of such circle extension organisations. Such branches or depots can cater to the needs of clusters of small and marginal farmers and agricultural labourers more effectively. It has been noticed that one of the major obstacles in the farmers' accessibility to inputs and other services has been the distance between his field and the headquarters of the cooperative organisation which is to cater to his needs. In deciding upon the jurisdiction of branches or depots of the main service organisation the relevant considerations will be business viability and easy accessibility. While the credit will be sanctioned at the tehsil/block level, the actual receipt of the applications, their processing and the disbursement of credit may be done at the Circle level. This is necessary to ensure that the farmers and the agricultural labourers will deal with the institution at the Circle level only for all their requirements.

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Integrated Agricultural Credit Service:

4.5. We recommend that the entire problem of agricultural credit needs should be viewed in the light of providing an integrated agricultural credit service, i.e., provision of credit along with organisation of facilities for its conversion into inputs and services required by the farmers to use the credit effectively. This service should be made accessible to small and marginal farmers and agricultural labourers who want to upgrade their technology and productivity. The service must cover not only the complete range of farm produce upto the marketing stage but also ancillary farm occupations, such as those of rural artisans and craftsmen which provide services to the farmers. In fact, it should also serve to develop the artisans to take up small village industries producing the farm and consumption needs of the farmers. The services will have to be developed in each area, in phases, according to their importance for the economic uplift of the weaker section in the area. The proposed agricultural

credit service should, in addition, look after the requirements of credit, inputs and other services needed by animal husbandry (including poultry farming, piggery, sheep rearing, etc.), dairying, fisheries, farm forestry and other enterprises allied to agriculture.

4.6. We also recommend that if a clear break is to be made with the past methods of financing agriculture and if the agricultural credit service is to reach the small and marginal farmers and agricultural labourers, the credit agencies should take direct interest in development of agencies for the supply of inputs and to arrange for services to enable the borrowers to absorb credit. Further, these credit agencies should encourage and finance viable units of suppliers of inputs, custom services, storage, transportation and marketing in their respective areas.

Structure of Agricultural Credit Service:

4.7. The creation of the Small Farmers Development Agency (SFDA) and the Marginal Farmers and Agricultural Labourers (MFAL) Projects is a positive move to focus national attention and efforts to this problem. It is felt that 46 SFDA districts and 41 MFAL districts (of which six are also in the SFDA list) offer immediate scope for trying out new arrangements to ensure that an integrated agricultural credit service reaches the bulk of small and marginal farmers and agricultural labourers.

4.8. There are two ways of organising this service at the tehsil/block level. One way is to organise a subsidiary of the bank registered under the Companies Act and the alternative is to have a Society registered under the Cooperative Societies Act. However, it is felt that organising a subsidiary under the Companies Act would eliminate farmers' participation and identification of the organisation as their own. The recent experiments of the Reserve Bank of India in reviving cooperatives through the efforts of Commercial Banks have indicated the possibility, with some modifications in the scheme as in force, of taking advantage of the best in both co-operatives and the commercial banks and combining their features in the new set-up at the block level (Appendix IV). The design of the proposed integrated credit service must stand out in sharp contrast with the present situation having a number of 'independent' agencies looking after agricultural development and creating a situation of overlapping and duplication of effort in some areas to the neglect of large areas elsewhere. The entry of commercial banks into farm financing has added yet one more agency, and integration and reorganisation of the farm financing

activities have become imperative for ensuring their effective functioning. The basic responsibility for organising an agricultural credit service in each district should lie on the Lead Bank of the district.

4.9. We recommend that the proposed agricultural credit service should have the following constituents:

- (i) Farmers' Service Societies—one for each tehsil/block or any other viable unit of convenient size, with as many branches as are required in the area;
- (ii) a Union of these Societies at the district level, and functional district organisations for specific commodities; and
- (iii) Lead Bank of the district assuming leadership in the matter of organising integrated agricultural credit service.

The flow of institutional finance and services in the re-organised set-up is shown in Figure 2. (Page 26).

Main Considerations:

4.10. We have spelt out the proposed framework in the subsequent paragraphs, keeping the following considerations in view:

- (i) Farmers will deal with a single agency for their short, medium and long-term credit requirements as well as their demands for inputs and services. That agency should be their own organisation, viz., Farmers' Service Society.
- (ii) The Lead Bank will assume the responsibility for integrating credit with supply of inputs and services.
- (iii) The Farmers' Service Societies will be responsible for organising, on commercial lines, the supply of inputs and services, either directly or under contract arrangements with other public agencies or private firms.
- (iv) The SFDA and MFAL Project Boards will use the funds placed at their disposal to create a risk fund for the societies, to contribute to their share capital, and to bear a part of the salaries of the extension staff of each society.
- (v) The SFDA and MFAL Project Boards should develop into virtual agricultural planning boards to give leadership and framework of goals and priorities to the societies and the Lead Bank.
- (vi) Subsidies, if any in programmes handled by the Farmer's Service Societies should be ~~disbursed~~ handled through them.



Farmers' Service Society:

4.11 The concept of multi-purpose cooperative organisation has been considered by a number of committees from time to time, which visualises development of the primary co-operative societies into viable units for providing all the essential needs of the farmers. In this context, we recommend that a Farmers' Service Society should be formed as a registered co-operative body, with bye-laws to ensure autonomy, efficient management and freedom from official intervention to provide the integrated agricultural credit service to the small and marginal farmers and agricultural labourers.

4.12 The Farmers' Service Society will be the sole agency taking care of all the development needs of the small and marginal farmers and agricultural labourers either directly or by special arrangements with other agencies. Each Society will perform the following functions.

- (i) It will process and sanction applications of its members for short, medium and long-term advances and obtain a cash-credit line, for the required amount, from the nearest designated commercial bank branch to finance its other activities such as purchase and storing of inputs, consumer articles, etc.
- (ii) It will either itself undertake supply of inputs, custom and repair services, marketing of produce, sale of consumer goods, etc. with bank finance; or it may enter into contracts with other agencies, firms or individuals (including agricultural/animal husbandry/engineering graduates and diploma holders) for ensuring availability of such supplies and services.
- (iii) It will have its own nucleus technical staff and get supplementary advice and help through other agencies.
- (iv) It will assist banks, Life Insurance Corporation, Unit Trust and Small Savings Organisations for the mobilisation of deposits and popularisation of life insurance and small savings.
- (v) It will encourage the members to have deposit accounts with the nearest bank branch.
- (vi) It will encourage provision of facilities for developing subsidiary occupations like animal husbandry, dairying, farm forestry, etc. particularly to marginal farmers and agricultural labourers.

- (vii) It will organise credit, supply of raw materials and services for the artisans and craftsmen with a view to modernising their trades.
- (viii) It will encourage production by artisans through small village industries of consumer goods for sale within the rural community.

4.13 To discharge the above mentioned functions, we recommend that each Farmers' Service Society should take care of all the development needs of the small and marginal farmers, agricultural labourers and village artisans either directly or by special arrangements with other agencies. Each Society should be treated as a primary cooperative society. All facilities by way of funds, concessional rates of interest, managerial subsidy, etc. available to the cooperatives should also be placed at its disposal.

4.14 As already stated above, the scheme in question is proposed for 81 SFDA and MFAL districts. Some of the farmers located in these districts are already members of the cooperatives. It will have to be ensured that they all become members of the Farmers' Service Societies in their areas, and for that purpose there is need for making some transitional provision, for recoveries of dues to cooperatives and other bodies. In this context we refer to the experience of implementation of similar transitional provisions in the case of primary agricultural credit societies financed by the commercial banks, where the banks have been able to collect a large amount of dues from the members in the first year itself.

4.15 An important point for examination is whether the bigger farmers and bigger rural artisans should be involved in this scheme. The main disadvantage in giving membership to such farmers and artisans would be that they would exploit the small and marginal farmers, agricultural labourers, and the lower rungs of village artisans. Further, with the expansion of commercial banking into rural areas, this class of entrepreneurs can have easy access to bank credit, and the bigger farmers can obtain their loans from the Bank directly. We therefore recommend that only those farmers, agricultural labourers and village artisans who qualify for receiving assistance under the SFDA and MFAL projects should be eligible for the membership of the Farmers' Service Societies. Other sections of the farming community might be made eligible for associate membership for services without enjoying the rights

of voting. As agriculture includes animal husbandry, fisheries and farm forestry, involvement of the bigger farmers in the service societies might be beneficial in some directions, as for example in processing and marketing of milk if a Rural Milk Service Organisation is set up in a particular area.

Amendments in Rules of Cooperative Law :

4.16 The cooperative law may be amended where necessary, to ensure that:

- (i) Each Society admits all small and marginal farmers and agricultural labourers as well as small village artisans in connected agricultural operations and ancillary farm occupations referred to in paragraph 4.5.
- (ii) The Lead Bank/commercial bank and the SFDA/MFAL projects can contribute towards its share capital.
- (iii) The statutory, supervisory and regulatory functions including audit and financial participation in the Society are transferred, in respect of these societies, from Government to the Lead Bank which is now a full-fledged government-owned official agency.
- (iv) The Society will employ full time paid managerial and technical staff necessary to support the operations. The personnel will be drawn from the existing state and local government cadres to the extent they satisfy the qualifications and experience prescribed by the Lead Bank for the purpose. In the initial stages of the organisation, the expenses will be shared by the State Government and the Lead Bank/commercial banks operating in the area, but the employees will be under the administrative control of the Farmers' Service Society.
- (v) Recovery of loan will be made from the sale of produce of the farmer.
- (vi) The Society will deal with the branch of the commercial bank designated for the purpose by the Lead Bank in the district. The other commercial banks, if any, in the area will cater to the needs of the large farmers and also meet the demands of the area for normal banking operations, deposits mobilisation efforts as well as financing trade, etc.

4.17 Experience of cooperatives and commercial banks has clearly shown that despite efforts, cumbersome procedures and legal requirements make it generally difficult for small and marginal farmers and agricultural labourers to get credit on time and in adequate quantity. Simplification of procedures has, therefore, to be considered as an essential part of the scheme of Integrated Agricultural Credit Service.

4.18 We recommend that the jurisdiction of each society should be equivalent to a block and in regions where the availability of services is inadequate, it may be an area as big as a tehsil. In regions where the scale of operations is very large, the coverage may have to be reduced to much less than a block. The area of operation should be determined on the basis of viability of the proposed society taking into consideration the over-all development in the area and the need for provision of extension services. The society should have its branches or depots to cater to the needs of its members at revenue circle or equivalent levels to serve population groups of ten to twelve thousands. In deciding upon the jurisdiction of a branch, the relevant consideration will be business viability and easy accessibility.

Capitalization of the Farmers' Service Society :

4.19 The share capital of the Farmers' Service Society will be contributed by (i) members; (ii) SFDA and MFAL project loans; and (iii) assigned branch of the Lead Bank. The long-term Operations Fund which was created in February, 1956 for making long-term loans to State Governments for subscription to the share capital of cooperative credit societies, might also be used for this purpose.

4.20 The risk fund of the Society will be contributed partly by the SFDA/MFAL projects and will partly be covered by the Credit Guarantee Corporation/Credit Insurance Corporation of the Reserve Bank of India.

4.21 The Working Capital of the Society will be obtained:

- (i) from commission on loans and advances;
- (ii) from contribution from State Government and Lead Bank for the technical services;

- (iii) from agents' commission from Life Insurance Corporation and Food Corporation of India for business obtained; and
- (iv) from the designated branch by credit lines.

District Union of Farmers' Service Societies :

4.22 We recommend that there should be a Union of Farmers' Service Societies at the district level for mutual consultation and coordination of policies of the Farmers' Service Societies in the district. It may be found that various types of expertise, especially storage, purchasing, processing and marketing required by the members are best organised at the district level. Where such services can be organised on a viable basis and the Farmers' Service Societies consider that they must directly be involved in organising these services, the district union can take over this function on behalf of the Farmers' Service Societies. Where the purchase, marketing and processing of any agricultural produce assumes large proportion in the district, in any particular commodity like milk, cotton oilseeds, etc., it may be desirable to establish a separate functional district organisation for each of such commodities instead of the general district union taking up this work. Such functional district organisations for a particular commodity may be formed separately at the district level.

4.23 The working funds for the Union's commercial activities will be drawn from the Lead Bank. Depending upon the area and its needs, each Union's activity may grow on different lines. Where separate functional Unions do not exist, the Unions may start with one or two specialised activities of marketing and processing and gradually cover other needs.

The Role of the Lead Bank :

4.24 The Study Group set up in October 1968 under the chairmanship of the late Dr. D. R. Gadgil with the approval of the National Credit Council recommended that an area approach would need to be adopted by the commercial banks to identify and study local problems and evolve an integrated credit plan for the area. The Group was of the view that the lowest unit under the area approach had to be necessarily identified with the district which is the main administrative unit of the country. On the lines of this recommendation, the Reserve Bank of India accepted the principle of Lead Bank

Scheme and in December 1969 allotted districts to the State Bank Group (the State Bank and its seven subsidiaries), the 14 nationalised banks and two other Indian Banks. The Lead Bank is responsible for surveying the resources potential for expansion of branches and diversification of credit facilities in the districts allotted to it. While other banks are not precluded from opening branches, the Lead Bank is expected to act as the consortium leader and invoke the cooperation of the other banks operating in the district in mobilisation of deposits, locating actual and potential credit needs and catering for these banks. In allotting districts for the Lead Bank role, the Reserve Bank has kept in view the factors of contiguity for ensuring viability of operation, provision of control points for development work and branch expansion as also a broad correspondence between the responsibilities allocated in terms of number of districts and the resources base of each bank.

4.25 Having regard to the above mentioned facts, we recommend that the Lead Bank* of each district should have the overall responsibility of integrating the provision of farm credit with supply of inputs and services. Specifically, the Lead Bank will perform the following functions:

- (i) It will designate the bank branch (either its own or that of another bank) with which each Society will have banking transactions and will lend for developmental financing in the area.
- (ii) It will initiate and assist the functioning of the Farmers' Service Societies.
- (iii) It will formulate guidelines for:
 - (a) grant of loans to members by each Society;
 - (b) giving finance to the society by each bank branch, both for loans to members and Society's commercial transactions; and
 - (c) giving finance to viable units for supply of inputs and services;

*It is possible that the Lead Bank responsibilities may be reallocated between the major banks to have a more equitable distribution and also to include selected District Central Cooperative Banks for districts in which they are the premier banking institutions. Some metropolitan-based large banks may also want to have special subsidiaries for promotion of banking in their lead districts in underdeveloped States.

- (iv) It will ensure that bank finance is available for suppliers of inputs and services organised on commercial lines.
- (v) It will contribute share capital, and a part of the pay bill for extension staff, to each Society. It will also advise each Society on the selection of the managerial and extension staff and participate in the Board of Directors.

Linkage with other Agencies:

4.26 An integrated agricultural credit system based on the concept of credit service, economic viability and development of borrowers to self-sufficiency for working funds would invigorate the process of capital formation in the rural economy. It would facilitate both resource mobilisation and investment. The primary aim of the integrated credit system is to provide to the farmer one contact point for obtaining his credit and input requirements. Besides cooperatives, there are certain other agencies which could render credit assistance to the small and marginal farmers. The Land Development Bank, for instance, will act as a service agency for handling land development work and works connected with prevention of soil erosion, drainage, digging of wells, etc. for members of each Farmers' Service Society, and it will thus assist conversion of medium/long term loans granted by banks into productive assets. Further, Agro-Industries Corporations have been set up in several States with the objective of providing means for modernising agricultural operations and undertaking distribution of agricultural machinery. These Corporations should act as promoters and initiators of processing industries, keeping in close touch both with each Service Society and the district union. The Food Corporation of India and other commodity corporations could also render assistance and use the district union of the Farmers' Service Societies as their agency for procurement, storage and despatch of their purchases.

4.27 We, therefore, recommend that institutions, like Land Development Banks, State Agro-Industries Corporations, the Food Corporation of India, etc. should play a vital supporting role in offering services to farmers to absorb credit for productive purposes. In this connection, we tentatively suggest that proper linkage should be developed between the credit structure envisaged by us and these agencies. We shall examine the role of these agencies in agricultural development in general, and in agricultural credit in particular, in subsequent Reports.

Refinance for Commercial Banks:

4.28 The Commercial Banks should have access to refinance from the Agricultural Refinance Corporation and the Life Insurance Corporation in respect of long-term loans to the Service Societies (for their own operations as well as for their members) and their Union. Where the object of the financing would have qualified a cooperative credit organisation for allotment of funds at concessional rates of interest, from the Reserve Bank of India allocation for agricultural credit, the Commercial Banks must have access to these funds for their short and medium-term lending to the Service Societies. We are of the view that what is relevant is the end object of the loan and not the channel through which it is distributed. The fact that a commercial bank comes in the chain of operations instead of a Cooperative Bank should not deprive the loanee and particularly the small and the marginal farmer and the agricultural labourer from the special benefits of the concessional credit given by the Reserve Bank of India.

4.29 As already stated, the small and marginal farmers hold 19% of the cultivated area. Assuming that the per acre credit needs of the small and marginal farmers will be double that of others, and taking note of the fact that the requirements of agricultural labourers are also to be met, it is but appropriate that at least 40% of the total agricultural credit should go to the small and marginal farmers and agricultural labourers. In this context, it may even be necessary to lay down a broad guideline at the national level that at least forty per cent of the funds allocated for agricultural credit by Reserve Bank of India as also of commercial bank loans to agriculture, should go to the small and marginal farmers and agricultural labourers, along with organisation of facilities to enable them to use the funds productively. Based on the experience gained in the implementation of this programme, the reservation of finance for these categories of rural population may have to be raised further in subsequent years. The Farmers' Service Society at the tehsil/block level should be able to get all the facilities available under the different schemes for benefiting the small farmers marginal farmers and agricultural labourers, and the special programmes for animal husbandry, village artisans, etc. In any case, it is necessary that the full requirements of funds needed by the tehsil/block Farmers' Service Societies should be made available by the banking system and that they should not be subjected to any restrictions in the availability of credit to credit squeeze or other contingencies.

Agricultural Development Bank:

4.30 We are tentatively of the view that it might be ultimately necessary to set up an Agricultural Development Bank of India on the lines of the Industrial Development Bank of India (IDBI) to consolidate the expertise and experience of various agencies, such as the Agricultural Credit Department of the Reserve Bank of India, the Agricultural Refinance Corporation and Agricultural Finance Corporation into a single national organisation directing the flow of agricultural credit according to needs, for full utilisation of land and manpower. Besides refinance facilities, the proposed Agricultural Development Bank of India could provide the initiative and expertise for project-oriented lending after special studies and surveys on regional and commodity-wise basis. This is being further examined in the Commission.

Training and Supervision:

4.31 Training and supervision are the two essentials for the proposed integrated agricultural credit service. We, therefore, recommend that a suitable programme should be evolved to provide trained personnel to the institutions responsible for the service. Specialists should be employed by banks, and the agricultural universities and extension organisations should help them not only in training such personnel, but also in locating the experts who could help the banks in the training programme.

4.32 We also recommend that besides training, adequate supervision should be arranged to ensure supply of inputs and adoption of improved practices by the farmers in the area so that credit goes to the small and marginal farmers and agricultural labourers, and thereby help them in increasing their levels of income. It may be noted that the system of supervised credit might make it compulsory for the farmer to buy his inputs from a particular source. There might be an argument that making it compulsory for the farmer to deal with a particular source of supply might result in his exploitation. The successful working of the Society and the integrated credit system would require this type of discipline. Care would, however, have to be taken by the banking system to see that neither the membership is denied to small and marginal farmer and agricultural labourers nor any element of exploitation is allowed to affect their interests adversely.

Phased Action Programme:

4.33 We recommend that the formation of Farmers' Service Societies at the tehsil/block level and the District Union of these societies as also their linkage with the Lead Bank and other institutions may first be tried out in the 46 SFDA districts and 41 MFAL districts. The operation of these arrangements in these 81 districts (6 districts being common to both the projects) should be carefully studied and with suitable adaptations found necessary from experience gained in these districts, the arrangements could be extended every year to cover more districts at a rapid pace.



SECTION V

Acknowledgements

5.1 The Commission wishes to place on record its deep appreciation of the work done by the Members of the Study Team on Agricultural Credit and in particular of the commendable work done by Dr. N. C. Mehta, Director, National Institute of Bank Management, who is the Convenor of the Study Team. He and his colleagues, particularly Prof. B. M. Ghiara, have put in considerable efforts not only in getting the various notes etc. ready for the meetings of the Study Team but also in preparing draft proposals for consideration by the Commission.

5.2 We also wish to record our appreciation of the work done by Shri Sada Nand, Joint Director, who has helped in the preparation of the Report. Our thanks are also due to Shri M. L. Manrai, Assistant Director and Shri K. P. Sharma, Technical Assistant of the Research Division who assisted in this work as well.

B. SIVARAMAN

Vice-Chairman

<i>Member</i>	<i>Member</i>	<i>Member</i>
S. K. Mukherjee	Z. A. Ahmed	B. S. Nag
H. R. Arakeri	M. S. Swaminathan	A. M. Khusro
P. Bhattacharya	D. P. Singh	Hari Singh
Randhir Singh	T. A. Pai	N. K. Panikkar
M. V. Krishnappa		Rattan Singh

J. S. Sarma

Member Secretary

New Delhi

30th December, 1971

APPENDIX I

Composition of the Study Team on Agricultural Credit

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|--|----------|
| 1. Shri T. A. Pai
Chairman
Life Insurance Corporation of India
Bombay and Member N.C.A. | Chairman |
| 2. Dr. A. M. Khusro
Director
Institute of Economic Growth
Delhi and Member N.C.A. | Member |
| 3. Dr. N. C. Mehta
Director
National Institute of Bank Management
Bombay. | Convenor |
| 4. Shri Ghulam Ghouse
Joint Chief Officer
Credit Planning and Banking Development Cell
Reserve Bank of India
Bombay. | Member |
| 5. Shri J. S. Varshneya
Chief Officer (Agricultural Credit)
State Bank of India
Bombay. | Member |
| 6. Shri B. Rudramoorthy
Managing Director
Agricultural Finance Corporation
Bombay. | Member |
| 7. Dr. D. K. Desai
Indian Institute of Management
Ahmedabad. | Member |
| 8. Shri C. V. Ramachandran
Financial Adviser
Food Corporation of India
New Delhi. | Member |

APPENDIX II

*Short and Medium-term advances by the Reserve Bank of India—
Limits sanctioned, drawals and outstandings—1960-61 to 1970-71*

(Rs. in crores)

Year	Short-term loans		Medium-term loans*		
	Limits sanctioned	Outstandings	Limits sanctioned	Drawals	Outstandings†
1960-61	111.79	100.88	4.68	5.69	8.81
1961-62	138.18	115.20	9.56	7.39	11.67
1962-63	163.94	124.28	9.31	4.18	10.56
1963-64	186.21	146.54	14.01	7.45	13.00
1964-65	199.86	150.51	14.39	7.91	14.32
1965-66	212.66	143.67	14.11	7.45	14.96
1966-67	257.50	135.38	15.49	8.37	15.41
1967-68	314.15	137.17	16.57	9.12	16.47
1968-69	337.52	183.09	19.00	8.98	17.60
1969-70	370.16	214.11	18.30	11.48	20.45
1970-71	390.11	188.84	18.76	14.20	24.31

*Medium-term loans granted by Reserve Bank of India to State Cooperative Banks out of National Agricultural Credit (Long-term Operations) Fund.

†Cumulative Outstandings including previous years' loans.

SOURCE : Reserve Bank of India annual report and trend and progress of banking in India for the year ending June 30, 1971—Pages 97-98.

APPENDIX III
Amount of Credit taken by Different Categories of Farmers according to size of Farm (Rs.)*
 1969-70

Size of Farm	Participants		Non-participants						Total	
	Total		IADP		Non-IADP		Total		Total	
	Per farm	Per farm	Total	Per farm	Total	Per farm	Total	Per farm	Total	Per farm
	family	family	family	family	family	family	family	family	family	family
1	2	3	4	5	6	7	8	9		
Below one acre	1,000	1,000	175	175	..	..	1,175	588		
1 to 2 acres	14,478	1,609	1,900	475	..	..	16,378	1,260		
2 to 3 acres	11,172	1,862	4,810	481	..	..	15,982	999		
3 to 4 acres	13,240	1,655	4,249	607	684	342	18,173	1,069		
4 acres and above	58,347	2,161	10,752	672	2,550	850	71,649	1,558		
TOTAL	98,237	1,926	21,886	576	3,234	647	1,23,357	1,312		

*This includes credit taken plus assistance given under IAD Scheme. Assistance came to Rs. 65,071 (56.2%).

SOURCE : Indian Institute of Management, Ahmedabad (Unpublished Study).

APPENDIX IV

Position of Disbursements by Commercial Banks under the Scheme of Financing of Primary Agricultural Societies by Commercial Banks as on 30th September, 1971

State	1	2	3	Kharif 1970		Average per socy.	Rabi 1970-71		Liabilities taken over
				No. of socs.	Amt.		No. of socs.	Amt.	
									(Rs. in lakhs)
Andhra Pradesh	.	.	.	800*	156.51	0.42	130	39.20	..
Uttar Pradesh	.	.	.	158@	20.84	0.24	82	14.65	34.64
Haryana	.	.	.	260	38.73	0.38	68	26.02	115.83
Madhya Pradesh	.	.	.	305	30.15	0.14	136	13.73	62.56
Mysore	.	.	.	646**	99.10	0.27	60	10.23	..
GRAND TOTAL	.	2,169	1,153		345.33	0.30	476	103.83	213.03

APPENDIX IV—Contd.

State	Kharif 1971		Average per socy.	Rabi 1971-72†		Medium-term loans disbursed	
	No. of socs.	Amt.		No. of socs.	Amt.	No. of societies	Amt.
	9	10	11	12	13	1970-71	1971-72
1							
Andhra Pradesh	274	158.26	0.58	5	1.31	14	10
Uttar Pradesh	82	27.52	0.33	8	0.78	15	2
Haryana	116	62.29	0.54	29	5.63	19	1
Madhya Pradesh	202	58.87	0.29	..	3.66	36	144
Mysore	436	146.85	0.34	9	2.45	7	10
GRAND TOTAL	1,110	453.79	0.41	51	13.83	91	167

*Including 127 additional societies selected for 1971-72.

**Including 236 additional societies selected for 1971-72.

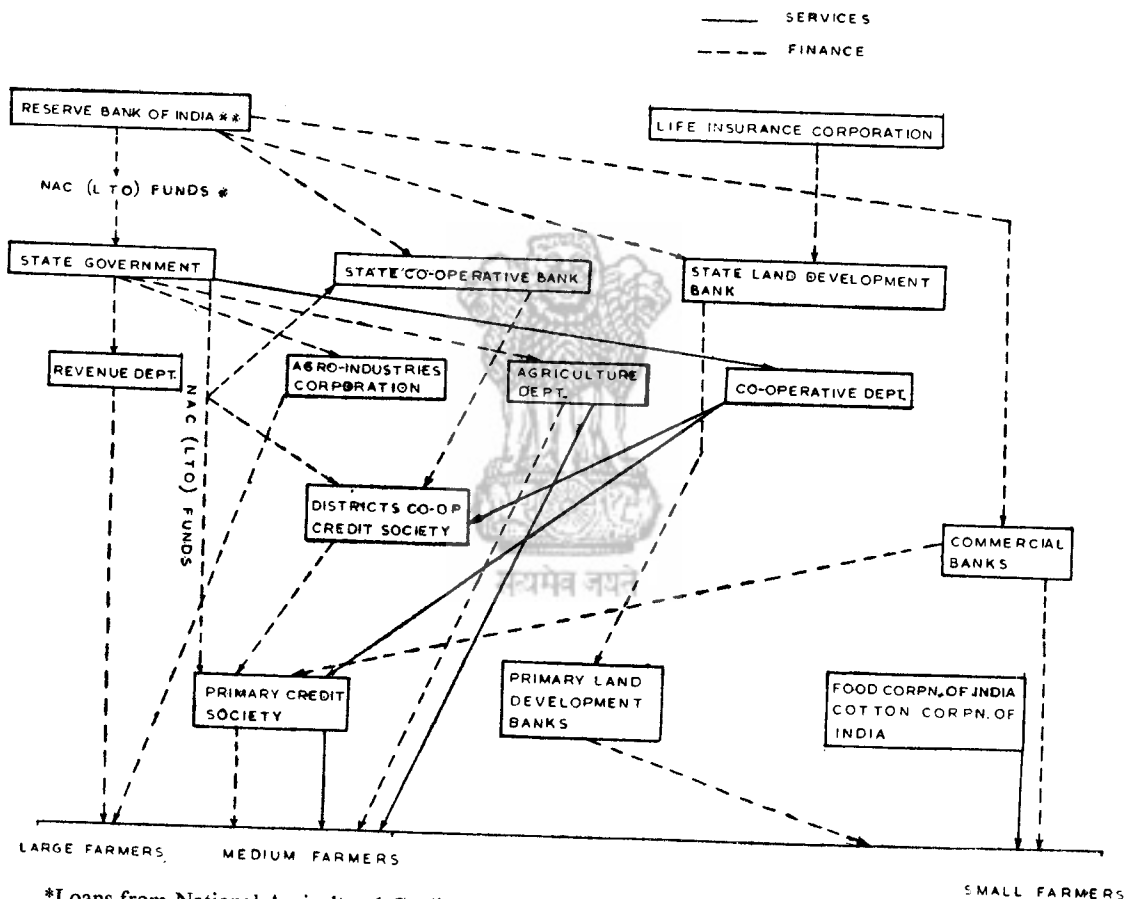
@Excluding 16 societies allotted during 1971-72.

†Incomplete.

MGIPRRND—3 NCA/72—NS(I)—8-8-72—3000.

FIG. I

FLOW OF SERVICES AND INSTITUTIONAL FINANCE UNDER THE PRESENT ORGANISATIONAL SET-UP

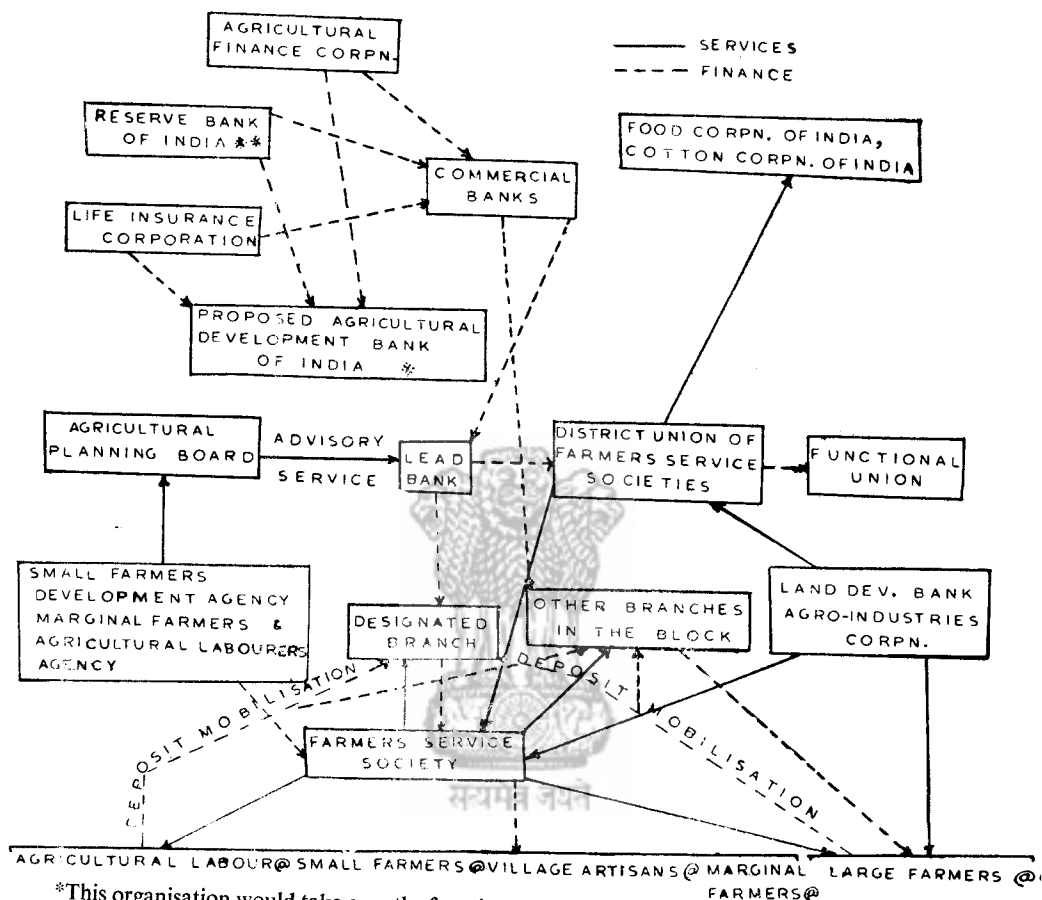


*Loans from National Agricultural Credit (Long-term Operations) Funds to State Government for contribution to share capital of Co-operative Credit Institutions (See RBI Annual Report, 1971 p. 100).

**RBI finances rural credit through Agricultural Refinance Corporation and Agricultural Credit Department.

FIG. 2

FLOW OF SERVICES AND INSTITUTIONAL FINANCE IN THE NEW SET-UP



*This organisation would take over the functions of Agricultural Refinance Corporation and Agricultural Credit Department of the Reserve Bank of India and Agricultural Finance Corporation and serve as a channel for rural development lending of life Insurance Corporation.

@Members.

@@Associate Members.

**RBI finances rural credit through its Agricultural Refinance Corporation (ARC) and Agricultural Credit Department (ACD).