

CHAPTER-V

FLOW OF COOPERATIVE CREDIT TO AGRICULTURE

5.1. Introduction

The previous chapter dealt with the types of agricultural cooperative credit societies which distribute credit to agriculture. Although it was discovered that most of the sample societies were faulty, there are chances of some loans going to small farmers. This chapter, therefore, attempts to determine the extent of these loans. More specifically, the purpose of this chapter is to discover the extent of different types of loans (for definitions of different types, see section 5.2.1. below) going to different categories of farmers (for definitions of different categories, see section 5.5.2 below), so that the magnitude of pre-emption of cooperative credit by influential farmers could be estimated.

Section 5.2 provides definitions of types of cooperative loans and categories of farmers. Section 5.3. presents distribution of cooperative loans according to farm size and tenure categories of sample members of agricultural cooperative credit societies, and section 5.3.3 (b) provides estimates of genuine and non-genuine loans. Section 5.3.3. (d) discusses the purpose of agricultural cooperative credit as well as the purpose of credit from other institutional and non-institutional surceases reported by the sample respondents. The last section of this chapter summarizes the reasons given by non-members for not becoming members of the society and not getting cooperative credit.

5.2. Definitions of Types of Loans and Categories of Members

In this section, definitions of the categories of the cooperative members getting the loans and various types of agricultural loans advanced by sample cooperative societies are given:

5.2.1 Types of Loans

The definitions of different types of agricultural loans identified in this study are given as below:

- 1) **Loans Actually Reported** are the loans which were found on the societies record and were confirmed by the members when asked by the field team. Family loans also fall into this definition, yet they were kept separate to see their extent. They are thus separately defined.
- 2) **Family Loans** are the loans which were shown against the names of one family member or close relative in the societies' records and they acknowledged the receipt of those loans. Such loans were defined as family loans only if all the recipients were operating one farm jointly. In case, they were operating separate farms, the loans were included in the 'loans actually reported'.

- 3) **Bogus Loans** are the loans which were shown either against the names of imaginary members or in the names of actual or family members, but these loans were acknowledged by none of the members.
- 4) **Genuine Loans** are the loans amounts of which were similar in the society's record and in the survey data. Moreover, the operational area of the recipients was similar in the society's records and in the survey, and they were small farmers, i.e. those with farm size upto 12.5 acres.
- 5) **Loans with Area Under Reported** are the loans which were pre-empted by the large farmers by under-reporting their operational area in the society's record.
- 6) **Loans with Area Over Reported** are the loans which were although taken by the small farmers but they got more than their due share by indicting more operational area in the society's record than the one they were actually operating.
- 7) **Loans with Under Payment** are the loans amounts of which were significantly higher in the society's record than ones reported by the recipients.

5.2.2. Categories of Members

Theoretically, all the members of agricultural cooperative credit societies are supposed to be farmers, more particularly small farmers. Large farmers may get membership, but cannot enjoy mark-up free loans. But practically, rural households had devised means to by-pass this condition. Members other than small farmers were wearing the mask of small farmers and, therefore, enjoyed full benefits of mark-up free cooperative credit. In this section an attempt has been made to define all the deviations from genuine membership (small farmers) and to analyze the data according to these definitions. These types of membership are:

- i) Actually members
 - Family members
 - Large farmers
 - Small farmers
 - Landless members
- ii) Bogus members

The definitions of these categories of members are given below:

- i) **Actual Members**: The members whose names were on the member's list and had paid their membership fee.

Family Members: If there were two or more members of a cooperative society from the joint family and their farm was large holding and was operated as one unit, then the one member was considered as actual and the others as family members.

Large Farmers: Members having farm area more than 25 acres were classified as large farmers. They were not eligible for mark-up free 'agricultural cooperative credit'.

Small Farmers: Members holding farm area up to 12.5 acres were classified as small farmers. They were eligible for receiving mark-up free credit from the societies.

- ii) **Bogus Members**: Persons whose names were on the list of members of a society, but they were unaware of this fact of the names in the list were imaginary were called as 'bogus members'.

Following are the survey results about the flow of agricultural cooperative credit to agriculture:

5.3. Flow of the Cooperative Credit

5.3.1. Introduction

Correct flow of agricultural cooperative credit heavily depends on genuine membership of the societies and devotion on the part of their operators. The latter aspect has already been discussed in the previous chapter, and the former aspect is being discussed in sub-section 5.3.2. After the discussion on membership, the flow of credit is traced in sub-section 5.3.3. Finally, the purpose of the credit is discussed in sub-section 5.3.3. (d).

5.3.2. Different Categories of Members of Sample Societies

Table 5.1 presents different categories of members of the societies on the basis of their functional status, i.e. 'actual members', 'family members', and 'bogus members'. The data in the table reveals that only 19 percent of the members were actual members, a sub-set of which was genuine. The maximum proportion (59 percent) was of 'bogus members'. The rest (22 percent) were 'family members'. It is, therefore, quite clear that the membership of the sample societies was much far from the desired shape.

Table 5.1: Distribution of Society Members According to their Categories

| Zones | Actual Members | | Family Members | | Bogus Members | | All Members | |
|-------|----------------|---------|----------------|---------|---------------|---------|-------------|---------|
| | Number | Percent | Number | Percent | Number | Percent | Number | Percent |

| | | | | | | | | |
|---------|-----|----|-----|----|-----|----|-----|-----|
| Barani | 8 | 35 | 8 | 35 | - | 30 | 23 | 100 |
| Rice | 31 | 16 | 29 | 15 | 135 | 69 | 195 | 100 |
| Mixed | 64 | 29 | 55 | 24 | 105 | 47 | 224 | 100 |
| Cotton | 8 | 6 | 34 | 26 | 87 | 68 | 129 | 100 |
| Overall | 111 | 19 | 126 | 22 | 334 | 59 | 571 | 100 |

The size of arm of a member is very crucial for getting mark-up free loans for farm variable costs. Since the mark-up free credit was meant only for small farmers, most of the members generally reported either less or more in order to fit into the maximum farm size allowed to enjoy mark-up free cooperative credit so that they could get the facility. Thus small farms were inflating and the large ones were trimming their farm sizes on papers. If family and bogus members were added into it the proportion turns out to be 81 percent. However, 'family members' were in most of the cases 'actual members' of the society and were generally taking loans for themselves. The family farms, in majority of the cases, were large farms being operated jointly by family members. Thus they were not eligible to get mark-up free loans from cooperatives otherwise.

The distribution of members of sample societies on the basis of farm size and tenure is depicted in Table 5.2. The table contains data only of 'actual' and 'family members'. The data for 'bogus societies' & 'one man societies' could not be given as members of those societies were inaccessible. Thus, the total number of sample members decreased from 571 to 237.

Table 5.2: Distribution of Society Members According to Farm Size and Tenure

| Zone | Landless | | Small | | Large | | Owners | | Owner-cum Tenants | | Tenants | | Total |
|---------|----------|--------|--------|--------|--------|--------|--------|--------|-------------------|--------|---------|--------|-------|
| | Record | Survey | Record | Survey | Record | Survey | Record | Survey | Record | Survey | Record | Survey | |
| Barani | - | - | 16 | 16 | - | - | 16 | 16 | - | - | - | - | 16 |
| | - | - | (100) | (100) | - | - | (100) | (100) | - | - | - | - | (100) |
| Rice | - | - | 60 | 43 | - | 17 | 35 | 27 | 18 | 30 | 7 | 3 | 60 |
| | - | - | (100) | (72) | - | (28) | (50) | (45) | (30) | (50) | (12) | (15) | (100) |
| Mixed | - | 7 | 119 | 91 | - | 21 | 68 | 58 | 24 | 35 | 27 | 19 | 119 |
| | - | (6) | (100) | (76) | - | (18) | (57) | (49) | (20) | (29) | (23) | (16) | (100) |
| Cotton | - | 4 | 42 | 32 | - | 6 | 19 | 21 | 11 | 10 | 12 | 7 | 42 |
| | - | (10) | (100) | (76) | - | (14) | (45) | (50) | (26) | (24) | (29) | (16) | (100) |
| Overall | - | 11 | 237 | 182 | - | 44 | 138 | 122 | 53 | 75 | 46 | 29 | 237 |
| | - | (5) | (100) | (77) | - | (18) | (58) | (51) | (22) | (32) | (20) | (12) | (100) |

Note: 1) Figures in parentheses are percentages
2) Landless cases are not included in the table.

The data given in Table 5.2 is indicated on the basis of 'societies reasons' and the survey results. It was found that there was quite marked difference between the record and the survey. For example, there was no society member who was landless and who was large farmer in the society's record. But, the survey results showed that landless and large farmers were also society members which

accounted for 5 and 18 per cent of the membership respectively. Similarly, in case of small farmers, 100 and 77 per cent were reported by the record and survey respectively.

5.3.3. Direction of Flow of Cooperative Credit

This sub-section seeks to identify the extent of cooperative loans which were flowing towards target group of mark-up free agricultural cooperative credit. The procedure is as follows. First, all the sample loans and amounts are distributed among different loan categories (see section 5.2.2 above), and the extent of bogus loans is identified (section 5.3.3 (a)), second, the remaining loans and amounts are distributed among different categories of 'actually reported loans', and the extent of 'genuine loans' is determined (section 5.3.3 (b)). The actually reported loans are also distributed among farm size and tenurial categories in order to see the extent of flow of the credit towards the target group from a different angle (section 5.3.3 (c)) and finally the amounts of loans are indicated according to the purpose of loans.

a) Extent of Bogus Loans

Table 5.3 gives the distribution of sample loans according to different loan categories. It is evident from the data in the table that out of 373 loans, 73 per cent were bogus. The rest 27 per cent were distributed among actual loans (15 per cent) and family loans (12 per cent). As regards the amount of loans, 72 per cent was going as bogus loans. Maximum bogus loans were found in 'Cotton Zone'.

Table 5.3. Distribution of Society Loans According to Categories

| Zone | Actual Loans | | Family Loans | | Bogus Loans | | Total Loans | |
|---------|--------------|----------------|--------------|----------------|-------------|-----------------|--------------|------------------|
| | Number | Amount | Number | Amount | Number | Amount | Number | Amount |
| Barani | 3 (37) | 8320 (35) | - - | - - | 5 (63) | 1584 (65) | 8 (100) | 23904 (100) |
| Rice | 19 (14) | 7794 (14) | 17 (13) | 102359 (19) | 95 (73) | 358079 (67) | 131 (100) | 538032 (100) |
| Mixed | 29 (21) | 95142 (18) | 13 (10) | 56551 (10) | 95 (69) | 390228 (72) | 137 (100) | 541921 (100) |
| Cotton | 3 (3) | 12453 (3) | 16 (16) | 84382 (18) | 78 (81) | 360087 (79) | 97 (100) | 456922 (100) |
| Overall | 54 (15) | 193509 (12) | 46 (12) | 243292 (16) | 273 (73) | 1123978 (72) | 373 (100) | 1560779 (100) |

Note: Figures in parentheses are the percentages.

b) Extent of Genuine Loans

Table 5.4 gives details of genuine and non-genuine loans. It is evident from the data in the table that only 9 per cent of the loans were genuine. The rest were mainly bogus (75 per cent). Other important categories were loans with above record area (7 per cent) and loans with below record amount (9 per cent). Apparently, both these categories belonged to small farmers. A number of small farmers over-report their area in order to get maximum amount of loan, and below the recorded amount of the loan is generally given to such small farmers who do not have knowledge about the working of the cooperatives. Thus adding up all the loans going to small farmers, we get the figure of 25 per cent. It means that only about one-fourth of the number of loans meant for small farmer was going to them. The rest (75 per cent) were pre-empted by different power groups of rural population.

Table 5.4. Extent of Genuine Loans

| Zones | Actual Plus Family Loans | | | | | | | | | | Bogus Loans | | All Loans | |
|---------|--------------------------|----|------------------------------|---|------------------------------|---|---------------------------|----|-----------------------|----|-------------|----|-----------|-----|
| | Genuine Loans | | Loans with below Record Area | | Loans with Above Record Area | | Loans below Record Amount | | Total Actual + Family | | | | | |
| | No. | % | No. | % | No. | % | No. | % | No. | % | No. | % | No. | % |
| Barani | 3 | 38 | - | - | - | - | - | - | 3 | 38 | 5 | 62 | 8 | 100 |
| Rice | 12 | 9 | 3 | 2 | 12 | 6 | 9 | 1 | 36 | 27 | 95 | 73 | 131 | 100 |
| Mixed | 17 | 13 | 2 | 1 | 10 | 7 | 13 | 10 | 42 | 31 | 95 | 69 | 137 | 100 |
| Cotton | 3 | 3 | 1 | 1 | 5 | 5 | 10 | 10 | 19 | 19 | 78 | 79 | 97 | 100 |
| Overall | 35 | 9 | 6 | 2 | 27 | 7 | 32 | 9 | 100 | 27 | 273 | 73 | 373 | 100 |

c) Loans to Farm Size Categories and Tenures

Table 5.5 gives the distribution of ‘actual loans’ and ‘family loans’ among different farm sizes and tenurial categories of the members. The data in the table shows that the maximum number of these (actual plus family, excluding bogus) loans were going to small farmers. Among farm tenures, owners were on the top.

Table 5.5. Distribution of Amount of Credit Among Society Members

| Zone | Small | | Medium | | Large | | Owners | | Owner-cum Tenants | | Tenants | | All | |
|---------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|-------------------|--------------|---------------|-------------|---------------|---------------|
| | Record | Survey | Record | Survey | Record | Survey | Record | Survey | Record | Survey | Record | Survey | Record | Survey |
| Barani | 2964 (5) | 2773 (3) | - - | - - | - - | - - | 2964 (5) | 2773 (3) | - - | - - | - - | - - | 2964 (5) | 2773 (3) |
| Rice | 5521 (9) | 3052 (7) | 4818 (30) | 3687 (19) | 3885 (10) | 3885 (10) | 5261 (23) | 3920 (19) | 4069 (11) | 3201 (16) | 5691 (15) | 2560 (1) | 4980 (39) | 1563 (36) |
| Mixed | 3341 (12) | 1682 (4) | 3833 (45) | 2369 (28) | 2448 (10) | 2448 (10) | 3559 (35) | 2281 (27) | 4447 (14) | 2397 (10) | 3220 (8) | 2393 (5) | 3729 (57) | 2322 (42) |
| Cotton | 4394 (8) | 2760 (2) | 4999 (26) | 3750 (12) | 4107 (5) | 4107 (5) | 5090 (14) | 3714 (11) | 4930 (9) | 3971 (6) | 4501 (11) | 3185 (2) | 4857 (34) | 3740 (19) |
| Overall | 4110 (34) | 2621 (16) | 4425 (101) | 3075 (59) | 3274 (25) | 3274 (25) | 4307 (77) | 3147 (60) | 4452 (34) | 3094 (32) | 4322 (241) | 2612 (8) | 4326 (135) | 3052 (100) |

Note: Figures in parentheses are the number of loans.

The data is presented according to societies’ record and survey results. It is evident from the data that the average amount of loan in very category was lower in the ‘survey’ compared with the ‘record’. It may, therefore, be concluded that members were generally given less amounts compared with the one indicated in the records.

d) Purposes of Loans

Table 5.6 shows the amount of loans according to their purposes. The loans indicted in the table are from cooperatives, from other institutions and from non-institutional sources. The data in the table reveals that a high proportion of cooperative credit was taken for fertilizers. The other main purpose was see. It is also evident from the data that ‘cooperatives’ as a source of credit were not the major source for members as well as for non-members. The major sources were non-institutional sources for both members as well as non-members. On overall basis, the contribution of cooperatives in the total loans of members was 32 percent, other institutions 30 percent and that of non-institutional sources 39 percent. On the other hand, non-members were having 88 percent of their loan from non-institutional sources, and the rest (12 percent) was taken from other institutions. It, therefore, suggests that the member son the whole depended more heavily on institutional sources and the non-

members on non-institutional sources. Generally, the members got more amount as loan from all sources compared with the non-members. The ratio was 17 to 1. It means the members had 73 percent more amount of loan than the non-members.

Table 5.6. Amounts of Agricultural Credit According to Purpose

| Purpose | Cooperative Credit | | Other Institutional Credit | | Non-Institutional Credit | | All | |
|--|--------------------|-------------|----------------------------|---------------|--------------------------|-----------------|-----------------|-----------------|
| | Members | Non-Members | Members | Non-Members | Members | Non-Members | Members | Non-Members |
| Seed | 10565 (45) | - - | - - | 3000 (16) | 12900 (55) | 16200 (84) | 23465 (100) | 19200 (100) |
| Fertilizer | 294620 (74) | - - | 2992 (1) | 40900 (31) | 98917 (25) | 89955 (69) | 396529 (100) | 130855 (100) |
| Pesticides | - - | - - | - - | - - | 19650 (100) | 273500 (100) | 19650 (100) | 273500 (100) |
| Any other (Diesel, Agri, Implements and Development Loans) | - - | - - | 280800 (54) | 22500 (17) | 239530 (46) | 107640 (83) | 520330 (100) | 130140 (100) |
| Overall | 305185 (32) | - - | 283792 (30) | 66400 (12) | 370997 (39) | 487295 (88) | 959974 (100) | 553695 (100) |

Note: Figures in parentheses are percentages

5.4. Reasons for not Getting Loan from Cooperatives

The sample members who did not get credit from the society were asked to give reasons for this situation. The responses are summarized in Table 5.7. The highest proportion (22 percent) reported that fertilizer was never brought in the village. The second most important reason was the loan not available at proper time.

Table 5.7. Reasons Stated by Respondents for not getting Credit from Cooperatives

| S. No. | Reasons | Number | Percent |
|--------|--|--------|---------|
| 1. | Fertilizer never brought in the village | 30 | 22 |
| 2. | Refused by influential persons | 22 | 16 |
| 3. | Fear of bad debt | 18 | 13 |
| 4. | Not available at proper time | 27 | 20 |
| 5. | Fertilizer price charged by the cooperatives is higher than market price | 21 | 15 |
| 6. | Not interested | 19 | 14 |

5.5. Reasons for not Getting Membership of Cooperatives

Non-members were asked to give the reasons for not getting the membership of an agriculture cooperative credit society. The responses in this regard are given in Table 5.8. It is evident from the data in the table that highest proportion of them expressed that 'they did not know'. Twenty eight percent stated that 'they were not interested' and 20 percent reported that the society in their village was 'one man society'. A perusal of both

the tables indicates that members as well as non-members were not happy with the functioning of the societies.

Table 5.8. Reasons given by Respondents for not Taking Membership of Societies

| S. No. | Reasons | Number | Percent |
|--------|---|--------|---------|
| 1. | One man society | 24 | 20 |
| 2. | Were not allowed to take membership | 7 | 6 |
| 3. | Did not know | 43 | 36 |
| 4. | Not interested | 33 | 28 |
| 5. | Any other (Litigation and non-cooperation of society operators) | 12 | 10 |

5.6. Conclusions

From the discussion in the chapter it is evident that the mark-up free loans given by cooperatives were not generally reaching the target group. Out of the total loans, 73 percent were bogus, and out of total loans amount, 72 percent was so. In order to check this situation, following measures are suggested:

- i) The bogus loans were mostly going to large/influential farmers, whereas they were not eligible to avail themselves of mark-up free loans. They become member and get loan by under reporting their farm acres. Similarly, some of the non-farmers also succeed in getting loans from cooperatives. In order to stop this practice, it is suggested that a list of farmers with their operational area should be compiled in each crop season. This list should be put in a public place like union council office so that any body could examine it. Then the loans should be given according to operational area given in this document.
- (ii) A study about commercial banks (khan and Sarwar, 1986) indicated that many farmers were taking loan at one time from different banks or from different branches of the same bank for the same purpose. It is called multiple loaning. Thus the possibility of a society member getting loan from commercial banks or from other societies cannot be ruled out. In order to check this situation, every district should be divided into zones, and in one zone only one institution, either bank or cooperative, should operate.
- iii) Cooperative Inspectors should be given smaller area of operation so that they could develop personal contacts with the members of cooperative societies. They should examine the list of applicants for cooperative loans for both the crop seasons, and detect 'bogus' and 'non-genuine' applicants, if any, using their knowledge about the members. It will hopefully help to cut down the number of 'bogus' and 'non-genuine' cooperative loans