

**STUDY OF UTILISATION OF COOPERATIVE LOANS - 1965**

**1. The Study**

The study was undertaken by - the Programme Evaluation Organisation at the instance of Ministry of Community Development and Cooperation mainly to assess the nature and magnitude, extent and forms of diversion in the utilisation of cooperative loans (short and medium term loans) and to analyse the reasons for such diversion.

**2. Objectives**

- i) To assess the expansion of cooperative credit, and to throw light on some of the qualitative aspects of the growth of cooperative credit in respect of membership, financial position, development of thrift etc.; and
- ii) To assess the magnitude, extent and forms of diversion between the purposes for which cooperative loans are taken and those for which they are actually used, and to analyse the reasons for this diversion.

**3. Sample Size/Criteria for Selection of Sample**

A sample of 25 Central Banks was selected from the 15 States and Himachal Pradesh. From each of the selected banks a sample of five primary agricultural credit societies and from each society a maximum of 12 member-borrowers were selected for the study. In all 1170 respondents (borrowers) were selected by adopting stratified sampling. The stratification was done on the basis of size of land holdings.

**4. Reference Period**

The report was brought out in 1965 and the data was collected for the years 1956, 1958-59, 1960-61 & 1961-62.

**5 Main Findings**

1. The average membership per society had been steadily rising since June 1956. The increase over the next 3 years was of the order of 69% in the sample

societies. This increase occurred at a higher rate in the states of category B (other States) and C (backward States) than category A (advanced States). At the end of Second Plan, nearly 60 to 70% of the rural households in the villages served by the societies, had yet to be covered by the credit cooperatives. The average amount of lending per member of the sample societies went up from Rs.167 in 1955-56 to Rs.175 in the year 1960-61. Of the total credit advanced by the sample societies in 1955-56, 94% was of short term nature. Of the total credit given in 1960-61, 96% went to the cultivators. The average value of share capital for the sample societies worked out to Rs.38 per member at the end of 1955-56 and Rs.48 at the end of 1960-61. It was much higher for the advanced states in category A and appreciably low in the category C of weaker states. The average deposits per member came to about Rs.4 on 30-6-1956 and 30-6-1959 to Rs.5 as on 30-6-61 showing thereby that the societies had not tried to build up their own resources by raising of deposits from its members. In the sample societies, the overdue loans accounted for nearly 18 to 20% of the outstanding amounts in the three years ending 1961-62. An overwhelming proportion of the members (85 per cent) did not have any overdues or had it at less than 5% of their outstandings.

2. The, average strength of membership of the managing bodies of the central banks, was about 16 to 17 per body. The representatives of primary societies were generally in majority in these bodies. The managing bodies of Central Banks had become broad based and been made more representative in character. Secondly, official representation had been introduced in a few, states. -Thirdly, the Chairman was then elected in the banks where earlier he used to be a Government nominee or an official. The average strength of the managing committees of the primary societies was 7 to 8 per cent at the time of survey. The Central banks in 5 states practically had no field staff of their own. In seven of the remaining 11 states, the strength of the field staff varied between 14 and 40. The field staff were so much burdened with the procedural, administrative and accounts work that supervision of the utilisation of loans had not received much attention. Though staff belonging to either or both (the Central banks and cooperative departments) were entrusted with the responsibility of supervising the use of loans, yet in a few states, this function was not attended to by any agency. **None of the banks,** of all the sample societies had full time secretaries. In nearly one half of the banks, all the sample societies had only part time secretaries.

3.. The sample households incurred, on an average, cash expenditure of nearly Rs.1600 per household in the year 1960-61. Nearly 38% of the cash expenditure was incurred on business which included mainly, agriculture, and the rest was spent on meeting current household needs. Among the agricultural expense items, seeds, fertilisers including manures and wage of hired labour, claimed nearly two thirds of the cash expenditure. on an average, a household had an earning of about Rs.150 p.m during 1960-61 and Rs.170 p.m in 1961-62, from current sources of receipts. More than two thirds of the cash receipts were on account of the sale of farm produce. The average acquisition of assets per household rose from Rs.245 in 1958-59 to Rs.526 in 1960-61. The major portion of capital expenditure was incurred on purchase of land & buildings, livestock and implements, investments for the improvement of land, other irrigation sources and on the construction of dwellings/houses. on the other hand, the main outflow capital items were sale of land and livestock.

4. A large portion (68%) of the acquisition resulted in the net capital accumulation during 1958-59. The proportion fell to 57% during 1959-60 but rose to 73% in 1960-61. Further, on the whole, the average value of net capital accumulation per household was Rs.167 for 1958-59 which rose to Rs.261 in 1959-60 and to Rs.384 in 1960-61.

5. Total short term borrowings from all sources formed a significant proportion (29%) of the total current cash expenditure of the sample household.

6. The proportions of both total and cooperative credit to the current cash agricultural expenses were much higher (53% and 43% respectively) than those in relation to the household expenses (14% and 4.5% respectively).

7. In some bank areas, the percentage of short term borrowings to the current cash expenditure on agriculture was more than 100 indicating a situation of over financing.

. 8. A good proportion of the net capital accumulation was financed from medium term cooperative borrowings.

9. Nearly 25% of the amount borrowed for current agricultural purposes was diverted to purposes other than agriculture.

10. Nearly 40% of the amount borrowed for medium term agricultural purposes, 31% for the purchase of livestock and 42% for current agricultural purposes, was diverted to purposes other than those of borrowing. The highest proportion (30%) was used for consumption of other household needs for which medium term credit was not admissible.

11. Most of the borrowers (77% short term & 85% medium-term) admitted that they knew that the loans should be used for the same purpose for which these were granted. On the whole, knowledge of the stipulations and rules of use of loans did seem to have favourably affected the degree of diversion but the impact had not been significant enough to point to the need for better education as the main remedy. It was also possible **that** some of those who had diverted might have deliberately pleaded ignorance. The extension effort on the part of the officials to impart knowledge regarding the obligation for the proper use of loan did seem to have good effect, except in a few states.

12. Broadly speaking the study showed that diversion was an extensive practice among **borrowers** of both short and medium term cooperative loans and the magnitude of the diversion was significant. The supervision exercised by the staff of the Central Banks was inadequate since it did not cover this aspect of cooperative credit.

## 6. **Major Suggestions**

1. By the end of second Plan, nearly 60 ' to 70% of the rural households in the villages served by the societies had yet to be covered by the credit cooperatives. The efforts should be made to cover such households.

2. Since there had been very little development of the thrift habit among the members, this habit must be encouraged vigorously.

3. The supervision aspect of the use of loans needed much more attention than it had received by then. The field staff so much burdened with the procedural, administrative and accounts work, such as scrutiny and verification of loan applications, credit and accounts statements, had hardly received much attention, which should be remedied.

4. The proportion of respondents who knew the obligation for the honest use was found to be higher in the higher educational groups. Therefore, there was need for more intensive educational effort in this matter among the less educated members of the cooperatives.

5. The extension effort on the part of the officials to impart knowledge of the obligation for the proper use of loans appeared to have been made on a good scale, except in a few states. However, there was need that it should be more intensive and continuously selective and systematic so that it could make an effective dent on solving the problem of mis-utilisation of loans uniformly reported both in gross and net terms.