CHAPTER - I

INTRODUCTION
Agriculture is a sacred activity of Indian people; and its progress is a pre-requisite for building up a stronger nation. In other words, it is the foundation for survival, growth and success of other sectors in the economy as also for the pace, peace and prosperity of the nation. It has been rightly said by Wilson Gee about Indian agriculture thus; "Without the fundamental contribution of agricultural industry, all the rest of fabrics of our civilization would be toppled into ruins almost overnight."  

Place of Agriculture

The agricultural sector is the backbone of Indian economy and occupies a pride place. Any effort to lift the economy from the morasses of backwardness to the dazzling new heights is to be initiated in the agricultural sector. It is aptly pointed by Gunar Myrdal in the following words. "It is in the

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agricultural sector that the battle for long term economic
development of South-Asia will be won or lost."² The All India
Rural Review Committee in 1972 stated that, "the agricultural sector
would act as a catalyst in breaking the vicious circle of
poverty."³ Agriculture and its's allied activities provide livelihood to nearly 70 per cent of people and 75 per cent of rural
population in India, earn nearly 40 per cent of foreign exchange
and contribute 40 per cent of national income.

Any impediment to agricultural sector in an under-developed country like India, poses a potential threat for the development and expansion of industrial sector, and also a barrier to the development of the economy. Any stagnation in the process of agricultural development shakes the foundation of industrial, political, economic and social systems in the country. As such, it has been rightly pointed by Samuelson and Selow that "if agriculture stagnates, it will act as a brake on industrial expansion and halt real growth."⁴ The industrialisation of the country rests with the surplus in the agricultural sector. William Nicholson is of the view that "the existence of substantial


agricultural surplus is a pre-condition for industrial development."\(^5\)
The role of agriculture is highlighted by the Business Men's Commission on Agriculture in America thus: "Agriculture is not merely a way of making money by raising crops; it is not merely an industry or a business; it is essentially a public function or service performed by private individuals for the care and use of the land in the national interest; and farmers, in the course of their pursuit of a living and a private profit, are the custodians of the basis of the national life. Agriculture is, therefore, affected with a clear and unquestionable public interest, and its status is a matter of national concern calling for deliberate and far sighted national policies, not only to conserve the natural and human resources involved in it, but to provide for the national security, promote a well sounded prosperity, and secure social and political stability."\(^6\) Hence, the development of agriculture is of considerable importance in a country like India for the following reasons.

1. To meet the rising requirements for food due to increasing population

2. To provide a solid base for the industrial development


3. To reduce the pressure on land

4. To provide employment opportunities by developing agricultural and its allied activities in industries.

5. To raise the standard of living of the people

6. To promote national income

Need for Credit

Agriculture like industry requires capital. The need for credit arises due to (i) fillip of agriculture, (ii) use of modern technology, improved seeds, chemical fertilizers, pesticides for development of land and water resources which are credit intensive, (iii) the peculiarities of agriculture specially its uncertainties, its small unit production, scattered operation, low returns, high rates of rent and limited scope for employment, (iv) a large proportion of cultivators cannot manage without recourse to borrowings, (v) regular borrowings followed by irregular payments of loans, hence becoming a prey in the debt trap. (vi) an agriculturist's capital is locked up in his land and stock. Hence, credit is not necessarily an objectionable nor is borrowing necessarily a sign of weakness. John D. Black, an economist, Harvard University states "If we are all concerned about increasing total agricultural output in the shorter time, we must provide credit first and foremost. It will enable farmers to buy more labour saving equipment, more seeds and fertilizers."  

Bernarg, O. Binnus, an agricultural export of Food and Agriculture Organisation is of the opinion that "the provision of adequate credit which would not harass the farmer is an essential part of many schemes of agricultural development." The need for credit is more pressing for the small farmers as they are almost without liquid resources. Food production in India is handicapped by the continued short supply of farm credit. Subscribing that the agricultural credit is more pressing input, Talwar expressed thus; "All problems could be automatically solved with the availability of successful where-withal." The success of agricultural operations as well as agricultural programmes, therefore, depends upon the one input namely 'CREDIT.' Many academic experts who conducted surveys emphasized the positive role of credit on the generation of employment opportunities and in increasing agricultural production. A few among them are Heady, Vyas, Desai and Desai, Uma Lela, C.H.H. Rao.

Baldev Singh, Karam Singh and Ramanna and Schumpter. Thus, credit is **sine-quo-non** for the agricultural development. Providing credit is the first step for pace progress of agriculture. The same is expressed by Misra that the first step should consist of a large injection of capital into agriculture. Belshaw is also of the opinion that "the development of agricultural sector is related directly to the way we tackle the problems of rural credit." In the words of Nelson and Murray "it is the capital


that improves farm sector and standard living of the people."\textsuperscript{20}

From the above, it is clear that the most important input in agriculture is 'credit.'

**Sources of Credit**

Sources of credit for agricultural can be grouped into (a) non-institutional and (b) institutional.

The non-institutional source of credit consists of money lenders, relatives, traders, commission agents and land lords and they have been the main source since the beginning of the history of agricultural credit. The non-institutional credit has, however, not proved beneficial to the farmers as much as it hardly provides any incentive to effect improvement on the land. It is pointed out by a United Nations Publication that "much of the outstanding rural credit is to be regarded more as imposing heavy obligations on farmers than as promoting increase in farm production."\textsuperscript{21} The studies on agricultural credit by the non-institutional sources have revealed their impact on agriculture and it's development more as negative than positive. Institutionalisation of agricultural credit was the call of the day. Resultantly, commercial banks, Regional Rural Banks; and Cooperatives came into being.


The prime aim of the institutional credit is to make a break-through in the vicious circle of poverty, usury and debt; and to stimulate the farmer to boost agricultural productivity. This would mean, in the words of Horace Belshaw, "the conversion of static credit into dynamic credit."²² The role of commercial banks and regional rural banks in providing credit for the agriculture though laudable could not effect much benefit to the farmers due to their weakness in working at the grass root level. Academicians, planners and administrators have emphasised the need for the cooperatives to provide credit.

**Agricultural Credit and Cooperatives**

It is obviously accepted that the cooperatives are the best for supply of credit. Attention was drawn to the unique role of cooperatives in the provision of agricultural credit as far back as 1972 by the World Economic Conference by the League of Nations in Geneva. A special resolution of the conference defined the role of cooperatives as follows: "...The best form of institution appears to be the cooperative credit by means of resource which the very fact of association enables it to produce and to increase with or without the assistance of public authorities."²³

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Need for the Study

The Government of India being committed to the profound goal namely the betterment of rural sector, encouraged, a number of cooperative societies to come into existence. The credit distribution rose from Rs. 70 crores in 1950-51 to Rs. 9852 crores in 1992-93. This is really a laudable achievement; and is a fact at macro scene. But at the same time, there is a widespread criticism that the cooperatives are not working in tune with national goal. At this juncture, a probe regarding the performance of cooperatives is needed. Hence, the study to examine the performance of the Cooperative Central Banks which are key agencies at the district level. This would help to take corrective steps if there is any lopside. For this purpose, the District Cooperative Central Bank, Tumkur is choosen.

Review of Literature

Right policy holds key to right decisions. Framing of a right policy requires the proper information regarding the farmers and the factors affecting the management of the bank and it's assessment. Many individuals and institutions have conducted investigations on cooperative credit. They brought to light the defects, deficiencies and maladies of cooperatives. A few studies are reviewed hereunder.
The study group states, "the main shortcomings of the cooperative system which vary from State to State are the problems of overdues, indifferent management, dominance of cooperatives by vested interests, shortage of resources, lack of efforts to mobilize deposits, untrained staff and weak managements for linking credit with marketing."\(^{24}\) The Royal Commission on Agricultural (1928) expressed that "the Cooperative Credit Movement failed in many States due to the internal defects which could be rectified by efficiency."\(^{25}\) The All India Rural Credit Review Committee has observed that "the socio-economic background of Indian village, especially the areas with long standing feudal traditions, is not conducive to the functioning of an institution based on democratic and egalitarian principles."\(^{26}\) In most of the cooperatives, the members attitude was so petty that they could not understand the lofty ideals of cooperation. It is pointed by Parkinson as: "So far as from being a band of starry-eyed idealists, the cooperative members are merely folk who want their groceries cheap."\(^{27}\) The vested interests grabbed all the concessions provided to the cooperatives debarring small farmers. It was rightly observed

\(^{24}\) Reserve Bank of India Report of A Study group on National Credit Council Organisational Framework for the implementation of Social Objectives, 1969, pp. 79-80.


\(^{26}\) Reserve Bank of India, Report of the All India Rural Credit Review Committee, 1972, p. 88.

\(^{27}\) Parkinson, C.N. Left Luggage, 1967, p. 176.
by late Prime Minister Indira Gandhi that "many cooperatives are controlled by dominant groups to the disadvantage of small producers. The Cooperative Movement needs to reform itself. The special concessions given to cooperatives should not be misused to the detriment of common people." Dealing with various aspects of cooperative movement in India, Gunnar Myrdal in Asian Drama observes that "credit cooperatives have become the preserves of the upper strata in the villages including the money lenders, who often acquire their funds from them." The All India Rural Credit Survey Committee (1951) under the Chairmanship of Gorawala was constituted to diagnose the problems faced by the cooperative credit movement. In the survey, the committee stated that "the cooperation had failed in India, but must succeed."

The Agricultural Finance Sub-Committee (1954) and the Cooperative Planning Committee were appointed by the Reserve Bank of India to find out the reasons affecting the cooperative credit movement. These committees found out "the problems of frozen assets of societies, laissez fair policy of the State and illiteracy of the people were the main reasons for the poor development of the cooperative credit movement. The cooperative movement's failure can be attributed to the immature and improper dishonesty.

28. Speeches on cooperation by Indira Gandhi.
leadership," A former editor of the journal, the Cooperator has stated that "the development of non-official leadership in the movement is inadequate and faction ridden." It lacks competence, knowledge, integrity, efficiency and a sense of dedication. Along with this tampering the accounts, inefficient staff, malpractices in the cooperatives caused considerable damage to the working of cooperatives. Direct recruitment in cooperative institutions is not based on merit or competitive test. Candidates are largely selected on the basis of favouritism. No doubt, there are complaints of graft, inefficiency, corruption, accumulation of overdues, lack of entries of realisation and advances, lack of owned funds, diversion of funds and so on. Added to this the leadership in the cooperation has turned out to be a field for the self-aggrandisment of wealthy and rich people being a hand in glove with the selfish politician coming under his protection for it's misdeeds rather than becoming a shield for the oppressed against the exploitation by the rich. Gyan Chand states that "cooperation has more and more become a combination of the strong not for the weak, but against them." Inspite of this, a committed management with far sightedness, proper policies, proper decision-making, with selfless dedicated honest efforts can lead a cooperative to success, becoming a pioneer for the spread of cooperative movement within it's jurisdiction. The present study
is thus an attempt to make a model for others in the cooperative banks. It helps to frame proper policies as a response to ever changing socio-economic and political environment keeping in view the recent economic policy. A study like this is more relevant today.

Objectives of Study

The specific objectives of the study are:

1. To study the structure and management of the cooperative bank
2. To study the sources of funds and their deployment
3. To study the cooperative banks services to weaker sections
4. To examine the recovery and overdues position
5. To study the managerial performance
6. To suggest remedial measures

Methodology of Study

The present study which is emperical is confined to the working of District Cooperative Central Bank (hereafter called cooperative bank) Tumkur, in Karnataka State. The structure, characteristic features, membership, source of funds, development of funds, recovery of loans, overdues position and
managerial aspects of the central bank are covered in the study. The period covered is 12 years from 1981-82 to 1992-93.

Data Collection and Analysis

Required data was compiled from the annual reports and audit reports of the central bank. Further, data was also compiled from the published sources in journals, review books, etc. The collected data has been classified and arranged in tables. In order to know the performance of the central bank referring to the source of funds, development of funds, recovery of loans and overdues position, the Growth Rate is studied. Besides this Growth Rate, Coefficient of Variation, which identifies how uniform the growth of the above said variables is also calculated. The correlation coefficient technique is used to identify the relationship between credit catering and recovery. To have an insight into the efficiency of the cooperative bank in achieving the progress, the elasticity coefficient is adopted for deposit mobilisation, and credit lending. The overall efficiency of cooperative bank which can be seen in the form of business done to which how much margin (spread) is maintained, is studied by break even point. To assess the operational performance of the cooperative bank on qualitative approach, a model inscribing the parameters like overdues, operational efficiency, efficiency, of management, deposit mobilisation, dividends, profits and reserves, etc., with score marks has been developed.
Plan of the Report

The methodological issues covering the need for study, statement of the problem, review of literature, objectives of the study, area and scope, data collection, data analysis, and the plan of the present study are discussed in the first chapter. A brief account on appraising the agronomic resources is done in the second chapter. Sources of funds and their deployment including recovery as well as overdues of the cooperative bank are presented in the third chapter. The managerial performance of the cooperative bank finds place in the fourth chapter. The summary of findings and suggestions are dealt within the last chapter.