CHAPTER IV

ARRANGEMENTS FOR COOPERATIVE RURAL CREDIT - INDIAN SCENARIO
Cooperation in pre-independent India.

With the enactment of Cooperative Credit Societies Act in 1904, seeds of formal cooperative movement were sown in India. Since 1904 and particularly after the independence, number of committees went through the total gamut of cooperation in relation to their roles and responsibility with regard to supply of credit to the rural masses to enhance the agricultural production and productivity and assist the people in their agricultural and allied activities.

Establishment of Reserve Bank of India in 1935 and thereafter creation of a specialised department in the RBI to focus on agricultural development, deployment of adequate credit to agricultural sector, etc. was given priority. The Reserve Bank of India in its Review Report 1946-48 on Cooperatives observed - "though the movement has not received an appreciable measure of recognition in this respect, there has
been a growing realisation of its potentialities in responsible quarters”. The Review noted nearly 66% of the total number of societies in the entire movement were credit societies and said - “the growing awareness on the part of cooperators of the potentialities of the movement and the increasing interest evidenced by the Government in this regard justify an earnest hope that the movement will not only consolidate its war time gains but proceed from strength to strength and take its rightful place in our national economy”.

PLACE OF COOPERATIVES IN INDIA AFTER INDEPENDENCE.

In Independent India, cooperation started with a fresh note, having its progressive roots in the constitution itself. Article 246 of the Constitution lies down that the Administration of Cooperatives is essentially the responsibility of the State Governments. The Constitution further empowered the Government of India to formulate policies relating to the development of cooperative movement in the Country.

Agriculture being the basic occupation of the majority of our people and the back bone of the country’s economy, it is considered essential to make a satisfactory arrangement for agricultural credit as this vital sector can not be allowed to
suffer for want of resources under any circumstances. Along with adequate credit, the other inputs such as fertilizers, seeds, insecticides, irrigation, marketing, etc. are also required to be provided to the sector to achieve the best possible results and ensure proper utilisation of credits. To make rural credit an effective instrument for development of agriculture, focus attention has been given on the following measures:

i) Security and fixity of tenure for the farmers on the lands cultivated by them to enable and motivate them to increase the products, crop yield and also to ensure that they do not have to suffer from the insecurity from the absentee landlords.

ii) Ensuring proper irrigation facilities through major, medium and minor irrigation projects and facilitate to increase farm productivity and less and less dependence on rainfed crops.

iii) Timely supply of other inputs such as high yielding variety of seeds, fertilizers, insecticides and pesticides, etc. Right type of fertilizers, plant protection materials, cropping pattern and crops must be made available to the farmers and at the appropriate time.

iv) Infrastructure facilities like cheap and efficient transport system, electric power, storage and warehousing, etc.

v) Appropriate marketing mechanism to ensure adequate and fair returns to the cultivators. A well-established cooperative
marketing network can effectively prevent farmers from resorting to distress sale as well as ensure recovery of loans and regular supply of credit to the farmers.

Along with the above important measures, other components such as education, training, research, extension services, agro economic facilities, land reclamation and development, diversification in cropping pattern, extensive and intensive land use pattern are thought of which can contribute effectively for the development of agriculture.

**Essentials of Agricultural Credit System**

Louis Tardy had laid down the following essentials for a sound agricultural credit System:

i) Credit should be granted for a sufficiently long time commensurate with the length of operation, which it is desired to facilitate.

ii) The credit should be made available at rates comparable with other industries and on equalised terms.

iii) Credit should be adequately secured to avoid misuse of the facilities. However, the security need not necessarily be material or in kind.
iv) It should be adapted to the average yield and capacity for the payment particularly during the times of economic depression.

v) The experienced hands and people having adequate banking expertise and experience should dispense it.

vi) In order to enthuse the farmer and popularise the institutional credit, mainly the borrower's moral standing and farming ability should basically secure it.

The All India Rural Credit Survey Committee recommended the following essential features for an agricultural credit system:

i) It should be associated with the policies of the State.

ii) It should be an effective alternative to the private agencies of credit.

iii) It should have the strengths of adequate resources and of well-trained personnel.

iv) It should lend not merely on security of land and other usual forms of security but on the security of the anticipated crops.

v) It should help in the effective growth and development from the village upwards of the cooperative form of association.
vi) The system should effectively supervise the use of credit and constantly bear in mind the borrowers legitimate needs and interests.

vii) The type of society should be such that more number of solvent producers becomes eligible for credit on the basis of such security.

viii) The period and the rate of interest should be related to the purpose for which they are borrowed.

ix) While providing adequately for essential items of consumption its main concern should be with loans for production.

Dr. C.D. Datey, Former Executive Director of Reserve Bank of India in his presentation to FAO in 1974 had suggested the following essential features of an Agricultural Credit System:

a) It must integrate credit with services so as to ensure the provisions of inputs and services along with credit. Facile credit is even more dangerous than absence of credit. While latter may lead to the farmer going without some basic needs, the former may promote extravagant or wasteful consumption expenditure and increase the burden of debt on him.

b) It should reach all the areas and all farmers and more particularly the smaller ones i.e. the system should be capable of expanding both horizontally as well as vertically.
c) It should lay emphasis on loans for production and although the loans for consumption expenditure may not be ruled out altogether, these should be discouraged. It follows that the basis for lending is anticipated production or incremental income after development and not so much the tangible security or existing income so that the smaller farmers are enabled to raise their plane of cultivation.

d) It should ensure that the cost of handling credit and services is low, otherwise, the majority of farmers will hesitate to make investment in their business by resorting to borrowing, lest the burden go beyond their repaying capacity.

e) It should be in a position to mobilise adequate resources to finance the investment needed to modernise agriculture.

Source: Rural Credit & Cooperatives in India By S.K. Sinha.

RECOMMENDATIONS OF REGIONAL SEMINAR FOR ASIA


At the Regional Seminar for Asia on ‘Agricultural Credit for Small Farmers’ in October 1974 certain criteria for judging the suitability and viability of a rural credit system were evolved. They are as follows:

i) All the credit needs – short term, medium term and long term of the farmers, in kind and cash, should be met.
ii) Credit is made available as near to his doorsteps as possible and when needed by the farmer.

iii) It should generate savings and accelerate economic growth at the socially desired growth rate.

iv) The credit policy should reflect a compromise between the often-diverse plan objectives and different group interests i.e. the farmers, the credit institutions, and the government. The credit system should be able to reconcile differing objectives.

v) The borrowers should be encouraged to adopt new technologies without which sufficient capital cannot be generated.

vi) Supply and other services should be made available to the borrowers.

vii) The lending agency has to ensure that the lending machinery is matched by recovery machinery. Even a slight imbalance on this aspect can lead to heavy defaulting and consequent collapse of the credit scheme. Particularly when credit is channeled through an agency, which has no institutional means of recovering, the recovery machinery has to be strengthened by incentives and linkages with marketing agencies.

viii) An efficient credit system would not confine its area of operation to a particular crop or single agricultural activity. The
lending agency should be geared to financing the entire farming system, which may include crop loans, live stock loans, fishery loans, agro industry loans, etc.

ix) The credit policy should be in a position to interlink with marketing agencies to ensure full recovery of loans.

It might be observed from the suggestions and recommendations made by the different Committees and Experts that there were series of prescription and safeguards provided for taking due care of the agriculture and agricultural credit system, but what lacked in is the absence of proper implementation of those valuable suggestions and recommendations. Their implementation in fragmented and piece-meal manner have failed to bring satisfactory results in the Agricultural Credit Sector.

**Estimation of Credit requirements for Agriculture**

India is a vast country and with more than 72% of the population involved directly or indirectly in agricultural operation, it has been uphill task for various experts, committees, agencies to accurately assess the actual credit demands in this sector particularly and that of rural economy in general. Nevertheless various committees, working groups, institutions, etc. have
made a fair assessment of the credit requirements of the rural economy particularly after independence. Some of these estimates are as follows:

i) The All India Rural Credit Survey Committee (1954) estimated the agricultural credit requirements at Rs. 2000 crores of which Rs. 800 crores were to be self financed and the remaining Rs.1200 crores were to come from institutional financing.

ii) The Working Group appointed by the Agricultural Production Board of Govt. of India in 1965 estimated the short term agricultural credit requirements at Rs.1106 crores and Rs. 1306 crores for medium and long term credit requirements in the agricultural sector for the year 1970-71.

iii) The panel of Economists under the Chairmanship of Prof. M.L. Dantwala estimated that Rs. 1000 crores for 1966-67 and Rs.1200 crores for 1970-71 for the short term agricultural operations and Rs.100 crores and Rs. 160 crores for the medium and long term sectors for the same period.

iv) The Ministry of Food and Agriculture, Govt. of India estimated the total credit requirements for short, medium and long term purposes at Rs. 3200 crores at the end of 1973-74 of which Rs.1550 crores for short term credit requirements and
Rs. 1650 crores for the medium and long term credit requirements.

v) The All India Rural Credit Review Committee estimated that in 1973-74 the requirement of credit for the short term operations would be around Rs. 2000 crores and while for medium term and long term operations the amount would be Rs. 500 crores and Rs. 1500 crores respectively.

vi) The National Commission on Agriculture (NCA) appointed by the Government of India in 1976 estimated the total requirements of credit for the year 1984-85 at Rs. 16,549 crores.

vii) The Sixth Plan (1979-80) projected the total of credit support for different credit agencies – cooperatives Rs. 3295 crores for short, medium and long term operations and Rs. 2120 crores by the commercial banking structure (including RRBs). Thus the 6th Plan estimated the total agricultural credit requirements at Rs. 5415 crores.

viii) The Agricultural Credit Review Committee (1986) under the Chairmanship of Prof. A.M. Khusro after a thorough study of the existing system visualized that the demand for agricultural credit would rise from Rs. 27557 crores in 1989-90 to Rs. 57316 crores in 1994-95 and to Rs. 110873 crores in 1999-2000 (at 1984-85 prices). The Committee also estimated that
the deficits at Rs. 5487 crores in the year 1994-95 and Rs. 21426 crores in 1999-2000 and the credit system has to be geared up to meet the gap to sustain agricultural development.

ix) The National Institute of Bank Management (NIBM) Pune made an estimate of Rs. 82,928 crores by 1995 of which the requirement of the farm sector was estimated to be at Rs. 61,903 crores. These estimates were in the form of annual disbursement and depended on the extent of loan recovery and eligibility of borrowing members.

x) The National Bank for Agriculture and Rural Development (NABARD) as the country’s premier Agricultural and Rural Credit Institution, estimated the requirement of investment credit at Rs. 42,300 crores and production credit at Rs. 41,746 crores during the financial year of Eight Plan (1996-97). NABARD also estimated the ground level disbursement of agricultural credit from the institutional channel at Rs. 32,488 crores comprising of Rs. 21,647 crores of production credit and Rs. 10,801 crores of investment credit by 1996-97.

xi) As per the IXth Plan assessment of credit flow for agriculture would increase from Rs. 33,375 crores in 1997-98 to Rs. 60,842 crores in 2001-2002 and the credit flow could cross from the estimated Rs. 108,043 crores during the 8th Plan to Rs. 229,750 crores during the 9th Plan period.
It would be observed from the above that there were wide variations in the estimates of agriculture credit and huge gap in supply of actual credit. It was also evident that the demand for agricultural credit was much more than its availability from different institutional agencies and even now huge credit gap exists in rural sector despite the existence and presence of multiplicity of rural credit agencies.

Source: Rural Credit & Cooperative Banks in India. By S.K. Sinha

**Approach & Strategies for Rural Credit**

India being the country of villages every four out of five persons in the country is villagers and majority of them depend on agriculture and allied activities for their livelihood. In order to ensure adequate and proper supply of rural credit, village-wise credit plans are expected to be prepared. Basing on the Village Credit Plans, District Credit Plans and State Credit Plans are also prepared. The basic approach has been that with the credit that may flow from various agency networks, there should be increase in production, productivity and income level of the rural sector. This calls for quality of lendings, effective monitoring and follow up, avoiding under financing and over financing and creating a repayment ethics among the borrowers. Further, the credit agencies also are required to be responsive to the needs
and requirements of the rural people ensuring proper end utilisation. The approach also has been to develop the allied sector along with the agricultural sector by providing adequate credit to the activities such as Poultry, Dairy, Fishery, Bio-gas, Storage, land Development, etc. as well as Small Scale Industries, Rural Housing, Rural Transport, etc.

Therefore, the National Policy in respect of rural credit has been its progressive institutionalisation to ensure timely and adequate flow of funds for supporting agriculture and allied activities along with other rural development projects, so as to augment production, productivity and income levels of the rural beneficiaries. With this in view a multi agency approach comprising cooperatives, commercial banks, Regional Rural Banks, and recently Self Help Group (SHG) has been adopted to meet the production and investment credit needs of the rural and agricultural sector.

A chart depicting the Institutional Structure for Agriculture and Rural Credit in India as on 31-03-2000 is given at the end of this Chapter.
RURAL CREDIT DURING THE FIVE YEAR PLANS

(i) FIRST FIVE-YEAR PLAN (1951-1956)

Before independence the cooperative credit institutions were primary purveyors of rural credit and their progress was very substantial until 1951. It was during the first five-year plan that the cooperative credit was assigned a significant role in the development of rural economy and that of the nation. The First Five Year Plan stated the importance of cooperatives thus — "The principle of mutual aid, which is the basis of co-operative organisation, and the practice of thrift and self-help which sustain it, generate a study feeling of self-reliance which is of basic importance in a democratic way of life. By pooling their experience and knowledge and by helping one another, members of co-operative societies cannot only find the solutions of individual problems but also become better citizens".

The plan document characterised the essentiality of the short-term finance for agriculture and it said that the short-term finance should be cheap, elastic in its application and prompt in delivery. Greater emphasis was laid on the medium term finance as well. The long-term finance portfolio was left to the Central
Land Mortgage Banks, which is presently called State Coop. Agricultural & Rural Development Banks (SCARDBS).

The plan further suggested that:

a) The loans should be linked to the programme of increased agricultural production.

b) Preference should be given to areas and classes not served by the credit cooperatives.

c) The form of organisation distributing the credit in such areas and classes should be so devised as to fit in with the cooperative type of organisation.

d) Where credit is disbursed in areas already served by the cooperatives that agency should be utilized as far as possible.

e) The Government should subscribe to the debentures floated by the SCARDBS.

f) The Plan also aimed at bringing 50% of the villages and 30% of the rural population under the cooperative credit fold within three years and a modest target of Rs. 125 crores was fixed for development of cooperatives during the plan period. At the end of the plan period, 70% of the villages were covered under the cooperative fold. There were 1.68 lakh cooperative credit societies by 1955-56. The position of owned funds also increased to Rs. 29.25 crores and working capital to Rs. 79.10
The short-term loans outstanding increased to Rs. 59.84 crores and the overdues went up to Rs. 14.96 crores.

Similarly, the number of SCARDBS increased to 9 from 6 and Primary Coop. Agril. & Land Mortgage Banks (presently called Primary Agril. & Rural Development Bank – PCARDBS) from 265 to 314. Loans advanced by them had increased from Rs. 4 crores to Rs. 5 crores and the outstanding stood at Rs. 24 crores. The overdues also went up to Rs. 15 crores from Rs. 3 crores.

The Cooperatives achieved the goals as set in the First Five Year Plan and discharged their assigned role quite effectively working hand in hand for socio economic development of the farmers and weaker sections.

(II) **SECOND FIVE YEAR PLANS (1956-1961)**

The Second Five Year Plan aimed at building a larger cooperative sector. The target fixed were to raise the membership of agricultural societies to 50 millions, marketing of at least 10% of marketable surplus through the cooperatives and supply of credit to the extent of at least Rs. 225 crores. However, achievement was that the membership could reach 17 million and the marketing could not flourish much. The Plan also
proposed establishment of 35 Cooperative Sugar Factories, 48 Cotton Factories and 118 other processing societies during the plan period. There was special emphasis on establishment of Cooperative Farming Societies in each of the Blocks and Community Development Blocks. Labour, Industrial, Transport and Housing Cooperatives to be encouraged and encouragement was also given to revive the consumer cooperatives.

In the last year of the Second Five Year Plan i.e. in 1960-61, number of Cooperative Societies increased to 3.32 lakhs from 2.40 lakhs in 1955-56, which includes 2.12 lakh Primary Agricultural Credit Societies (PACS) with a membership of 347 lakh farmers. Loans advanced by PACS went upto rs. 202.75 crores in 1960-61 as against just about Rs. 60 crores in 1955-56 with emphasis on short-term cooperative credit.

The number of SCARDBS also went up from 9 to 17 and their membership increased to 1.86 lakhs. Working Capital to Rs. 47.60 crores. Loans advanced by them also increased to Rs. 11.82 crores in 1960-61. The number of Primary Land Mortgage Banks increased from 302 in 1955-56 to 480 in 1960-61.
(iii) **Third Five-Year Plan (1961-62 to 1965-66)**

The Third Plan emphasized on the viability factor instead of the size. The Plan document emphasised — "while as a general rule, cooperatives should be organised on the basis of the village community as a primary unit, where villages were too small, the number of villages to be served by a cooperative society could be increased in the interest of viability. The aims should be to ensure viability with the inclusion of the smallest number of villages necessary so that cooperative societies could achieve both viability and the essential characteristics of cooperation namely voluntary basis, close contact, social cohesion and mutual obligations". The Plan fixed a limit of 3000 population or say 600 families or about 500 cultivator families within a radius of 3 – 4 kms from the headquarter village of the PAC.

In the Third Plan period the cooperatives were assigned a vital role of implementing the programmes of agricultural production. The plan stated — “in a planned economy pledged to the values of socialism and democracy, cooperation should become progressively the principle basis of organisation in many branches of economic life, notably in agriculture and minor irrigation, small industry and processing, marketing, distribution, supplies, rural electrification, housing and construction and the
provisions of essential amenities for local communities”. The plan forecasted that the membership would grow from 170 lakhs to 370 lakhs by 1965-66 and the number of societies will go up to 2.30 lakhs from 2.12 lakhs so as to serve all the villages in the country. It was also projected that the total loans disbursed in the sector would be Rs. 512 crores. The Plan provided for revitalisation of about 52,000 societies in addition to 42,000 societies during the Second Plan.

With regard to resource base, the share capital of the Societies was to increase to Rs. 85 crores, Central Cooperative banks share capital was to increase to Rs. 62 crores and the Apex Banks to Rs. 33 crores. Similarly, the deposits also were expected to increase to Rs. 42 crores at PCA level and to Rs. 212 crores at the DCCB level and Rs. 142 crores at Apex Bank level.

As far as the long-term cooperative credit structure was concerned the number of PCARDBS were expected to increase by 672. On the other hand in the ST Credit Structure, as a result of reorganisation of PACS number of societies were brought down to 1.92 lakhs and the membership went up to 261 lakhs from 170 lakhs which is far behind the target of 370 lakhs. The loans advanced during Third Plan stood at Rs. 342 crores as against the target of Rs. 512 crores. The main
reasons for the shortfall in achieving the targets were organisational and structural weaknesses.


During the annual plan period of three years from 1967 to 1969, as a result of reorganisation, the number of PACS went down from 2 lakhs to 1.68 lakhs and 92% of the villages with 43% of the population were covered by the end of 1968-69. During the same period, the number of SCBs also went up to 25. This interim period also saw the steady progress of loan advances, mobilisation of deposits as well as the total loans outstanding. The loans advanced by PACS increased from Rs. 340 crores in 1965-66 to Rs. 503 crores in 1968-69 and outstanding went up from Rs. 427 crores to Rs. 619 crores. Overdues also shot up from Rs. 125 crores to Rs. 214 crores during the same period with percentage working at 34.57% at the end of 1968-69. There were phenomenal increase in the loan portfolios of the State Cooperative Banks, District Central Coop. Banks, SCARDBS and their loan outstanding balance at the end of 1968-69 stood at Rs. 459 crores, Rs. 641 crores and Rs. 395 crores respectively.
In 1969, 14 major commercial banks were nationalized and with that the monopolistic position of cooperatives in dispensation of agricultural credit came to an end.

The 4th Five Year Plan envisaged that agricultural financing will be institutionalised to the maximum extent and direct loans by the Government will be reduced to the minimum. The Plan also observed the need for reorganisation and rationalisation of the structure at the primary level and recommended for mobilisation of rural deposits through an enhanced branch networking. The proposal was to reduce its number of PACS to 1.2 lakhs from the level of 1.8 lakhs. The Plan also suggested for rehabilitation and reorganisation of weak District Central Coop. Banks and improves their level of recovery. Important measures suggested was to make suitable enabling provisions in the Cooperative Societies Act so that Deposit Insurance Scheme could be extended to the deposits of Cooperative Banks.

The Plan envisaged that the Cooperative Credits would increase to Rs. 750 crores for short and medium term credit and Rs. 700 crores for long-term credit.

Following the recommendations of the All India Credit Review Committee, 1969 the plan envisages the establishment of Small Farmers Development Agencies (SFDAS) in 45 selected districts to assist the small holders with 2 hectares or less.
The advances at the level of PACS went up to Rs. 763 crores, at the level of SCBs it went up to Rs. 1204 crores and at the level of CCBs it went up to Rs. 1249 crores.

The loans issued by the Central Land Development Banks went up to Rs. 914 crores thereby exceeding targeted outstanding loans of Rs. 700 crores. The number of PLDBs went up to 740 to 857 during the plan period. However the loans, advanced by PLDBS during the period went down from Rs. 104 crores to Rs. 96 crores but the overdues went up from Rs. 7 crores to Rs. 20 crores during the said period.

(v) **Fifth Five-Year Plan (1974-79)**

The Plan focused on strengthening the network of cooperatives, build up viable consumer cooperative movement, correction in regional imbalances in the development of Cooperatives, restricting and reorienting the cooperatives to attune themselves with small and marginal farmers.

The Fifth Plan laid at a target for disbursement of credits to the tune of Rs. 3125 crores with a break up of Rs. 1300 crores as short term loans, Rs. 325 crores as medium term loans and Rs. 1500 crores as long term loans. The Plan noted that the weakest link in the cooperative credit structure is the
network of Primary Agricultural Credit Societies and adequate efforts should be made to strengthen them and make them operationally viable and build up an ethics of loan repayment. The Plan while stressing linking credit with marketing also recommended coercive action against willful defaulters and the State Governments were expected to extent active assistance to cooperative societies in this regard. The Plan also suggested establishment of technical cells at the level of LDBs to make the loan appraisal more accurate and scientific.

The Fifth Plan also suggested the modification and simplification of loan procedure and accept even securities such as gold and silver ornaments. The plan recommended that the concessional financial assistance from RBI should be made available to non-agriculturists and agricultural labourers and 50% of the members of the Managing Committee of societies should be from the category of small farmers, tenants, agricultural labourers and sharecroppers.

The Fifth Five Year Plan was terminated in 1978 i.e. a year earlier. However, the achievements of the PACS were quite impressive and they could issue loans amounting to Rs. 1272 crores against their target of Rs. 1300 crores, covered 92% of villages with a population of 45% and about 39.5% of the short-term agril. Loans went to farmers holding less than 2 hectares.
(vi) Draft Sixth Five-Year Plan (1978-83) and Sixth Five-Year Plan (1980-85)

The draft Sixth Year Plan envisaged for doubling the rural credit from 1977-78 levels in about three years. The main constraints were low recoveries, high level of overdues and consequent ineligibility of a larger number of Cooperative Institutions for financing. A major objective of the agricultural credit policy was progressive institutionalization with a multi-agency approach and earmarking of an increasingly larger share for the weaker sections with Cooperatives as the main Agency for rural credit to be supplemented by Commercial Banks.

With the change in Government in January 1980, 1978-83 plans was replaced after operating for two years and the Sixth Five Year Plan was implemented during 1979-80 to 1984-85.

The Sixth plan (1979-80 to 1984-85) set the following objectives of the institutional credit policy:

a) Secure an increase in the total volume of institutional credit for agriculture and rural development.

b) Direct a large share of credit to the weaker sections.

c) Reduce the regional imbalances in availability of credits.
d) Bring about greater coordination between different credit institutions under the multi agency system.

e) Improve the recovery of institutional loans to ensure continuous recycling of credit.

The Plan also noted the slowing down of flow of credit to agriculture inspite of expansion in agriculture. The S.T. Loans stagnated at Rs. 1200 -1300 crores, medium and long term loans was on the reducing trend from Rs. 448 crores in 1978-79 to Rs. 400 crores in 1979-80. Overdues continued to be a biggest hurdle in the expansion of credit. Along with the same the tendency of political appeasement through write off of loans in some states made the entire climate of cooperative credit more vitiated. Further, though the cooperation covered the entire country, the membership till ruled at 40%.

The Plan directed it efforts towards -

a) Clearly conceived action programme to be drawn up for strengthening of the primary level societies and enable them to work as multipurpose units.

b) Redesigning the policies to ensure that cooperative efforts are directed towards ameliorating the economic condition of the rural poor.
c) Reorientation and consolidation of the role of the cooperative federal organisations so that they are able to support the rapidly developing diversified rural sector.

d) Development of Professional Manpower and appropriate professional cadres to man managerial positions.

The Sixth plan further laid down the target of Rs. 3295 crores, with allocation of Rs. 2740 crores for short and medium term and Rs. 555 crores for long term agricultural operations.

As far as the target achievement is concerned, PACS advanced a total of Rs. 2693 crores as against Rs. 1629 crores in 1980 and the CCBs Rs. 8476 crores in 1985 as against Rs. 2695 crores in 1980 and the SCBs Rs. 4417 crores in 1985 as against Rs. 2363 crores in 1980. In case of long-term loans, the PLDBs advanced Rs. 312 crores in 1985 as against Rs. 206 crores in 1980 and the LDBs Rs. 461 crores in 1985 as against Rs. 309 crores in 1980.

(vii) SEVENTH FIVE-YEAR PLAN (1985-90)

The Seventh Plan observed, “The PACS are the sheet-anchor on which the entire co-operative structure rests. They not only supply short-term, medium-term and long-term credit
but also undertake marketing of agricultural produce, supply of agricultural inputs and distribution of consumer articles. This would call for considerable strengthening of PACS through appointment of a minimum complement of staff and provision of physical facilities. It is also essential to augment the natural resource of the co-operatives by way of deposits. In this context, effective measures are required to be taken to improve their recovery performance”. Accordingly, the 7th plan envisaged the following main tasks:

- a) To develop PACS as multi purpose unit.
- b) Realignment of policies to facilitate quick and smooth flow of credit to the weaker sections.
- c) Special programme for development of cooperatives in the North Eastern Region.
- d) Strengthening the Consumer Cooperative Movement to improve the Public Distribution System.
- e) Promoting professional management and strengthening of effective training facilities for improving the operational efficiency.

The Seventh Plan laid down the target of disbursement of Rs.7070 crores by Cooperative Societies by 1989-90 as per break up as under:
Short-term Loans - Rs.5540 crores
Medium-term Loans - Rs. 500 crores
Long-term loans - Rs.1030 crores

As against the above targets, actual disbursement of loans by PACS was Rs. 4685 crores, PCARBS Rs. 344 crores and SCARDBS Rs. 665 crores.
Source: Seventh Five-Year Plan.

(viii) **Eighth Five-Year Plan (1990-91 to 1995-96)**

The Eighth Plan documents stated that the cooperatives need to be strengthened by all means to serve and save the rural poor, small farmers, marginal farmers, agricultural labourers and small artisans from exploitation by moneylenders. Accordingly, he Eighth Plan envisaged the following strategies for development of cooperatives on sound lines:

i) Building up the cooperative movement as a self-managed, self-regulated and self-reliant institutional set up by giving more autonomy and democratising the movement.

ii) Enabling the cooperatives to play more productive role in the economy and creating employment opportunities.

iii) Strengthening cooperative credit and organised structure in accordance with modal laws and make it competitive and viable.
iv) Extend credit support to the programmes of national priority and poverty alleviation and thrust programmes. Development through Non-farm sector activities was considered a priority.

v) Linking of Public Distribution System with the Consumer Cooperatives for the benefit and protection of consumer interest.

vi) Development and training of cooperative functionaries to professionalise them to extend quality services to the general public and members of the society.

vii) Review of Cooperative Laws with a view to liberalising the working of the cooperative institutions and freeing them from bureaucratic control.

Some of the thrust areas identified for financing through cooperatives in the 8th Plan are as follows:

i) Livestock improvement, soil and water conservation measures, reclamation of water logged, saline, fallow lands, etc.

ii) Minor irrigation and development of shallow tube wells, dug wells, de-silting of tanks/ponds.

iii) Agro processing of horticultural produces.

iv) Promotion of high yielding plantation crops.

v) Animal Husbandry and Dairy development.
vi) Support to Non-farm sector and entrepreneurship development.

vii) Measures for smooth and efficient functioning of the agricultural and rural development banks and adequate and timely availability of finance through these outlets.

The Plan documents observed "the growth of co-operative sector has not been uniform in all parts of the country. The primary reason for this situation are control of co-operatives by dominant vested interests groups, poor management, dependence of co-operative on higher tiers and government for financial assistance, and limited range of activities. The function of thrift has not been given due importance by co-operatives leading to resource crunch and ultimately to serve the poor. The Agricultural Credit Review Committee (ACRC) stressed on a programme of business development planning in respect of each PACS, with a view to diversifying loan operations, generation of internal resources through deposit mobilisation and enlarging package of profitable non-credit service. The working group on promotion of self-help groups as Sub-System in Primary Agricultural Cooperatives has made important recommendations relating to the functioning of co-operatives. There is need to strengthen the resource base of PACS to enable the group member to undertake investments necessary for expanding their
production levels. Cooperative efforts of small and marginal farmers in Kerala to organise procurement of inputs, their timely distribution and marketing of products have yielded rich dividends. The model can be extended to organize the weaker section for investments in inputs for production, processing, storage and marketing etc. through co-operative organisations during the Eighth Five Year Plan”.

The 8th plan target for cooperative credit was fixed at Rs. 7050 crores for short term loans, Rs. 615 crores for medium term loans and Rs. 1625 crores for long term loans, but the achievements were not up to the expectations and this was due to mounting overdues at micro level i.e. PACS which increased to 44% of the demand in 1993-94 compared to 22% in 1950-51 and fresh flow of credit was chocked up.

Source: Eighth Five-Year Plan.

(ix) Ninth Five-Year Plan (1996-97 to 2001-02)

The Ninth Plan emphasises the urgent need for evolving an environment in which cooperatives would become efficient, viable and competitive and it proposed to achieve the objectives through professionalisation, diversification of business activities, exploring new market opportunities and effective recovery mechanism and recycling of funds. The Working Group on Ninth
plans under the Chairmanship of Shri. P. Kotaiah, then Chairman, NABARD estimated the flow of credit to agriculture and allied sector to touch about Rs. 60842 crores by 2001-2002 from Rs. 33375 crores in 1997-98. The Plan envisaged credit flow for agriculture, small and marginal farmers, Scheduled Caste & Scheduled Tribe Communities and other weaker sections, reduction in regional and sectoral imbalances, credit packages to Non-Governmental Organisations (NGOs) and Self Help Groups, constitution of risk fund to take care of risks in agricultural financing, strengthening cooperatives through Development Action Plan, Memorandum of Understanding, operationalisation of centrally sponsored schemes, rehabilitation of PACS, etc.


**INDIAN COOPERATIVE MOVEMENT AT A GLANCE**

**All Cooperatives 2002-2003 (Value Rs. In Million)**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value (Rs. In Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Cooperatives (All Level)</td>
<td>549,119 NOS</td>
</tr>
<tr>
<td>(a) Primary Agri and Credit Cooperatives</td>
<td>145,928 NOS</td>
</tr>
<tr>
<td>(b) Primary Non-Credit Coops (All Types)</td>
<td>399,934 NOS</td>
</tr>
<tr>
<td>Membership of Coops (All Level &amp; Tps)</td>
<td>229.510 Million</td>
</tr>
<tr>
<td>(a) Membership of Primary Agri/Credit Coops</td>
<td>150.553 Million</td>
</tr>
<tr>
<td>(b) Membership of Primary Non-Credit Coops</td>
<td>64.827 Million</td>
</tr>
</tbody>
</table>
Coops.

Share Capital (All Level & All Types) : Rs.223,944.0 "

(a) Share capital of Primary Credit Coops. : Rs. 102,791.8 "

(b) Share Capital of Primary Non-Credit : Rs .56,655.5 "

Working Capital (Credit + Non-Credit) : Rs.3, 827,496.4 "

Reserves : Rs. 300,504.0 "

Deposits : Rs. 1975,633.1 "

Coverage of Rural Households : 71%

Village Covered by Cooperatives : 100%

Production Credit Advanced (ST+MT)

a) Short Term (ST) : Rs. 235,436.2 Million

b) Medium Term (MT) : Rs. 52,833.8 "

Investment Credit Advanced (LT) : Rs. 31,027.3 "

Total Loans Advanced (ST+MT+LT) : Rs. 319,297.3 "

Agril Credit disbursed by Cooperatives. : 42.8%

Source: Indian Cooperative Movement – a Profile, 2004 Centenary Celebration

- NCUI

COOPERATIVE CREDIT STRUCTURE –

SHORT-TERM STRUCTURE

In cooperative credit structure, the Short Term Cooperative Credit Structure consists of (a) Primary Agricultural Credit Societies (PACS) at the base or Village level, which are the micro level or the ultimate outlet for extending credit to the borrowers. Similarly, (b) the District Central
Cooperative Banks (DCCBS) at the district level are not only a federation of PACS in the particular district but also to function as a Central Financing Agency (CFA) and a balancing centre within the district. (c) The State Cooperative Banks which are the Apex Bodies in the Short Term Cooperative Credit Structure and responsible for acting as financing and refinancing agencies for the lower tiers as also to act as a balancing centers for the Cooperative Credit Structure at the state level.

**LONG-TERM COOPERATIVE CREDIT STRUCTURE**

The Long Term Cooperative credit Structure consists of Primary Land development Banks (PCARDBs as they are called presently), at the Taluka / Panchayat level and the State Cooperative Agriculture and Rural Development Banks (SCARDBs) at the State level. In some of the States there are no separate Long Term Coop. Credit Structure, the State Cooperative Banks are vested with the task of financing the Long Term credit needs of agricultural sector.

**PRIMARY AGRICULTURAL CREDIT SOCIETIES (PACS)**

The first Primary Agricultural Credit Society (PACS) was organised in 1904. Till the early Seventies PACS were the only
institutional credit agency available to the people in rural areas. The types of cooperatives functioning at the base of the Cooperative Banking System are: the Farmers Service Societies (FSS) and Large sized Multi Purpose Societies (LAMPS). All these are Primary Agricultural Credit Societies. The main features of these societies are indicated in the tabular form below:

<table>
<thead>
<tr>
<th>Features</th>
<th>PACS</th>
<th>FSS</th>
<th>LAMPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>i Area Coverage</td>
<td>Generally a small area of not less than 2000 hectares of cropped areas.</td>
<td>A large area of operations extends up to a Block or a population of 10,000.</td>
<td>Area up to a Block or Tehsil level.</td>
</tr>
<tr>
<td>ii Types of beneficiaries</td>
<td>Generally all types of farmers, big, medium or small.</td>
<td>All farmers and other rural households including rural artisans, agricultural labourers, etc.</td>
<td>Mainly tribals.</td>
</tr>
<tr>
<td>iii Nature of credit</td>
<td>Short Term Crop Loans and Medium Term and multi purpose</td>
<td>Short, Medium and</td>
<td></td>
</tr>
<tr>
<td>IV</td>
<td>Nature of non-credit business.</td>
<td>Supply of farm inputs, distribution of chemical fertilizers.</td>
<td>Package of services.</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>V</td>
<td>Management</td>
<td>Full-time paid Secretary.</td>
<td>Whole-time Managing Director and Financial Specialists.</td>
</tr>
</tbody>
</table>

**Business. Medium Term Loans for agricultural and allied activities.**

**Credit. Long Term loans including consumption loans etc.**
Directors consisting of 11 members of whom not less than 50% shall represent weaker sections.

Directors consisting of 11 members of whom 5 shall be representatives of weaker sections and 2 shall be elected from among other members besides 2 nominees of the RCS, 1 nominee of the financing bank and Managing Director, Ex-Officio.

Directors consisting of 11 members of whom 5 shall be elected from among the tribal members, 2 nominees of the RCS, 1 nominee of the financing bank and the Managing Director, Ex-Officio.

Source: CRAFICARD Report.
As at the end of March 2002, there were 95,670 PACS with a membership of 10,28,16,003 and a borrowing membership of 5,51,31,960. The Share Capital of these societies stood at Rs. 4,30,864 lakhs and the deposits of these PACS stood at Rs. 1313531 lakhs. All the PACS put together had advanced to Rs. 2932644 lakhs and the percentage of overdues to demand was at 34.27%. The PACS had provided direct employment opportunities to 208593 employees.

The sources of funds of PACS are normally share capital, deposits as well as borrowings from State Governments, DCCBs and other sources. An All India Performance Profile of PACS (Including FSS and LAMPS) is given in the Annexure-I at the end of this thesis.

**District Central Cooperative Banks (DCCBs)**

According to NABARD Act, 1981, a Central Cooperative Bank is defined as follows:

"Central Cooperative Bank means the principal cooperative society in a district of a state, the primary object of which is the financing of other cooperative societies in the district. Provided that in addition to such principal society in a district or where there is no such principal society in a district, the State
Government may declare any one or more cooperative societies carrying on the business of financing other cooperative societies in that district to be also or to be a central cooperative bank within the meaning of this definition”.

Prior to 1912, there were no Central Cooperative Banks. The Cooperative Societies Act in 1912, provided for formation of Central Cooperative Bank and by 1920, 233 CCBs were organised and the number swelled to 589 CCBs by 1929-30 and further to 611 in 1936-37. However, in 1951-52, the number declined to 509.

The DCCBs are an important link in the three-tier cooperative credit system. The DCCBs are the intermediaries between the PACS at the grass root level and the SCBs at the apex level in the State. The DCCBs membership comprise of PACS and other kinds of societies such as marketing societies, consumer societies, farming societies, urban credit societies, weavers societies and other industrial societies. In some cases, for historical reasons their membership also includes individuals. The DCCBs, ever since their formation have played an important role in the development of cooperative credit structure and rural credit delivery mechanism. Following are some of the important and main functions of the DCCBs:
i) To finance PACS and other affiliated societies functioning with their area of operation.

ii) To act as a balancing center as well as a clearing house on the district level.

iii) To mobilise local deposits, provide banking facilities, remittance of funds, collection of cheques and safe custody of valuables.

iv) To develop and extend banking facilities in the rural areas and develop banking habit amongst the rural people.

v) To supervise, guide and control the working of the affiliated societies.

vi) To borrow funds from SCBs whenever necessary for the purpose of financing the member societies.

vii) To take necessary steps for the development of the cooperative movement in the district.

viii) To maintain sufficient liquid resources in the shape of cash balances, unutilised cash credit with the SCB and Government securities, to pay the claims of the depositors as and when they arise.

The main sources of funds of a DCCB include Share Capital, Reserve and other funds, deposits and borrowings.

As at the end of March 2003, there were 370 DCCBs in the country with a membership of 18,57,715. The total owned
The deposits of the DCCBs were Rs. 73180 lakhs. The DCCBs had borrowed Rs. 849454 lakhs for their loaning operations. The loans and advances position of the DCCBs was Rs. 5057138 lakhs. The overdues to demand at the level of DCCBs were Rs. 1439768 lakhs. The DCCBs had provided direct employment to 96949 employees at their level. The DCCBs had a total branch network of 13011 branches at the end of March 2003.

A Performance Profile of the DCCBs is given in the Annexure-II.

**State Cooperative Banks**

The Maclagan Committee 1914 had emphasised the need for having an Apex Bank in each major province to coordinate and regulate the working of DCCBs. The Central Banking Committee (1931) observed that “Provincial banks are best suited for linking up credit organisations with the general money market and commercial banks and should be managed on ordinary business principles with due regard to the requirements of cooperation. These banks should not deal with primary credit societies and should consolidate and strengthen their position as financing agencies and balancing centers for the central banks”.

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The Apex Bank of the State level acts as a balancing center for the resources of the cooperative sector in the State. On a principle of mutuality the Apex Bank derives its strength from the affiliated cooperative institutions and provide strengths to these affiliates in return.

The Apex Bank provides link between the Reserve Bank/NABARD and the money market on the one hand and the entire cooperative credit structure on the other. It has the prime responsibility of acting as the custodian of the surplus resources and reserves of the DCCBs and supplements them by attracting sizeable deposits and by obtaining loans from RBI/NABARD.

All India Rural Credit Survey Committee (1954) observed, "The SCBs form the key stone of the cooperative movement in the State. They link the movement not only with commercial money market but also with the RBI as a potential source of credit for seasonal and emergent needs".

The CRAFICARD report described the SCB as "the leader of the cooperative movement in the State has the major responsibility of developing the cooperatives and the cooperative movement in the State. As apex of the credit cooperatives, the strength of the SCB can determine the flow of credit by the cooperative credit system. SCB as a main center for mobilising
deposits can replenish the funds requirements of the SCBs in times of not being eligible to borrow from the higher financing agencies”.

Besides agricultural credit the SCB meets non-agricultural needs of various cooperative activities and working capital requirements of cooperative processing, marketing societies, etc. SCBs on the one hand act as repositories for surplus funds and on the other hand as financing agency providing supplementary resources when required.

Many SCBs today due to their strong financial position and overall control are in a position to undertake several other developmental activities. Some of them are maintenance of a common cadre of key personnel of CCBs and arrangement for proper training of staff of affiliated institutions, introduction of various schemes for the weaker sections, study the problem of the structure on a constant basis, liaise with the higher financing agencies on behalf of the cooperative credit structure in the State, etc.

Some of the important functions of the SCBs are as follows:

i) To borrow funds in the form of deposits from the public and loans from the public and loans from NABARD, RBI, State and Central Governments.
ii) To provide short and medium term credit to CCBs for other operations.

iii) To act as balancing center and clearing house and act as banker's bank for the CCBs.

iv) To serve as a link between the money market and the cooperative banking structure.

v) To supervise, guide and coordinate the activities of the CCBs and to assist them in building of a sound cooperative movement.

vi) To assist the State Government in formulation and implementation of the cooperative development plans and schemes relating to rural credit and rural development.

vii) To conduct inspection of the CCBs and get the defects rectified.

viii) To arrange for training of the cadre of employees, non-officials connected with the cooperative movement in the State.

ix) To carry out general utility functions such as issue and collection of drafts, cheques, and letters of credit and facilitate remittance of funds, etc.

x) To provide general banking facilities.

xi) To organise conference, seminar, training programmes to facilitate upgradation of skills, knowledge of all concerned.
The sources of funds of the SCB as in the case of CCBs include share capital, reserves, deposits and borrowings.

As at the end of March 2003 there was 30 state cooperative banks in the country of which 18 SCBs were in the three-tier structure and 12 SCBS in the two-tier structure. The SCBs had a total branch network of 888 branches with total staff strength of 15,773. The State Cooperative Banks had total deposit strength of Rs. 39,19,869 lakhs. The borrowings of the SCBs as at the end of March 2003 was Rs. 12,08,933 lakhs and the Loans and Advances were Rs. 39,35,521 lakhs and the overdues was Rs. 3,09,587 lakhs.

A Performance Profile of the SCBs in the country is given in the Annexure-III.

The SCBs as leaders of the cooperative movement and prime balancing center in the State have multifarious role to play in the areas of developing and strengthening the cooperative movement through bottom up approach starting with PACS, propagate self reliance, ensure viability through diversified operations, recovery of loans and recycling of funds, maintenance and protection of the democratic character of the cooperatives, adopt, shape, revise policies and procedure in tune with the changing requirements, inspection and supervision of affiliated cooperative institutions, business development planning and
implementation of programmes and projects as proposed by the State Government through cooperative network, customer services, human resource development, creating and maintenance of cooperative development funds as stipulated in the NABARD Act, etc.

LONG TERM COOPERATIVE CREDIT STRUCTURE

Though the Maclagan Committee, 1914 recommended the creation of separate credit structure to take care of Long Term loans to the farmers, it was the Registrars Conference in 1926, which gave the final shape to the idea of organising Land Mortgage Banks (LAMBS). The Royal Commission on Agriculture in 1928 endorsed the proposal and later the Indian Central Banking Enquiry Committee in 1931 also appreciated the idea. The first Land Mortgage Bank in the country was established at Jhang (the then Punjab) in 1920 followed by the establishment of the Central Land Mortgage Bank in Bengal in 1924 and Assam in 1926. Presently, the nomenclature of Central Land Mortgage Banks is changed to State Agricultural and Rural Development Banks (SCARDBs) and their base level affiliated societies are called Primary Cooperative Agriculture and Rural Development Bank (PCARDB). We have 20 SCARDBs in the country at the
end of March 2003 with 875 Branches. Their total membership stood at 59,03,542, Paid up Share Capital at Rs. 71,712 lakhs, borrowings under Ordinary Debentures Rs. 1369 lakhs, Special Debentures Rs.276, 007 lakhs, Deposits Rs. 47916 lakhs, Loans & Advances Rs.297, 363 lakhs and employment was provided to 12131 persons at the end of 2002-03.

The position of PCARDBs at the end of March 2003, we have 328 PCARDBs with their Branches, Membership - 76,18,875, Paid-up Share Capital Rs. 86631 lakhs, Deposits Rs. 33466 lakhs, Borrowings Rs. 1061150 lakhs, Loans & Advances Rs. 213079 lakhs and employment provided to 15862 persons.

Performance Profiles of SCARDBS and PCARDBS in the country are given in the Annexure IV & V respectively.

On an analysis of the performances of the rural financial institutions during the years 1996-97 to 2000-2001, it reveals that the Share of the Cooperative Banks declined from 45% in 1996-97 to 41% in 2000-2001 while Regional Rural banks stagnated at 7%. The share of Cooperatives in agril credit increased to 42.8% in March 2003. However, the Commercial Banks have increased their share in agricultural lending considerably, but the percentage of the outstanding credit of
Scheduled Commercial banks declined from 11.8% in March 95 to 9.9% in march 2000 and further to 9.6% in March 2001 as per RBI Report on Currency & Finance 2003-04 (Page 162). During 1999-2000 of the 29 State Cooperative Banks (SCBs), 24 SCBs were in profit and the remaining 5 Nos were in loss. Similarly, out of 367 DCCBs, 229 were profit making, the remaining 138 were incurring losses. In case of Long term Coop. Credit Institution, of 19 SCARDBs 9 were profit earning, the remaining 10 were loss making. Position of RRBs was no better as 147 RRBs earned a net profit of Rs. 420 crores in 1998-99 while remaining 49 RRBs incurred a huge loss of Rs. 178 crores. In case of Commercial Banks, their presence in the rural and semi urban areas increased substantially and their Branches increased from mere 5175 in 1969 to 32917 in 2000. Despite their vast network and operational efficiency over the Cooperative Banks the Commercial banks were far behind their minimum stipulated target of 18% in agriculture lending as they could achieve just 9.6% at the end of March 2001. Again, separate break up of their recoveries from agricultural lending and profit/loss making branches are not readily available. RBI Report on Currency & Finance, 2003-04 while analysing the credit delivery in the agriculture sector maintained – “In order to sustain the flow of credit to the agricultural sector, there is a
need for legal and institutional changes relating to governance, regulation and functioning of rural cooperative structure and Regional Rural banks (RRBs). The changes warranted in cooperatives as well as RRBs involve deep commitment of state governments and have significant bearing on political economy. Second, in view of overhang problems of non-performing loans and erosion of deposits in both cooperatives and the RRBs, restructuring and recapitalisation by the Government becomes important. The current acceleration in credit delivery can be sustained in the medium term, if such fiscal support from States and Centre is firmly put in place soon to revive or reorganise rural cooperative structure and the RRBs. Third, there is a need to foster an appropriate credit culture to make enhanced rural credit a lasting phenomenon. Fourth, a comprehensive public policy on risk-management in agriculture is required as not only a means of relief for distressed farmers but as an ingredient for more efficient commercialised agriculture (Page-169).

The National Conference on Rural Cooperative Credit & Banking Institution organised by NAFSCOB for Short term Credit Structure in Delhi on 11 & 11 June 2004 recommended as follows:
"Strengthen the PACS in order to improve viability of DCCBs/SCBs and extend out reach of the Cooperative Credit Sector. The process of reforms should be started from PACS so that upper tiers get the required strength automatically". The Conference emphasised "the need of providing assistance for cleansing of Balance Sheet to Cooperative Credit Structure at the earliest without imposing any precondition for PACS."

Source: National Conference on Rural Cooperative Credit & Banking Institutions- Recommendations, NAFSCOB, 11-12 June, 2004
CHART

INSTITUTIONAL STRUCTURE FOR AGRICULTURE & RURAL CREDIT IN

INDIA. (AS ON 31st MAR 2000)

Source: Report of the working group on Agriculture Credit, Cooperation, Crop
and Insurance for formulation for tenth five-Years Plan (2002-07), Planning