Chapter III

PACS in India: Macro Perspectives
CHAPTER III

PACS IN INDIA : MACRO PERSPECTIVES

Introduction

Indian agriculture has been providing livelihood to nearly 70 percent of the people. The Indian agriculture is characterised by traditional and labour intensive methods of production. Another salient feature of agriculture in our country is seasonal and cyclical fluctuations. Consequently, our farmers are getting very low returns from agriculture. As a result of the subsistence nature of agriculture, farmers are forced to depend on borrowings to meet their farm and household expenses.

The demand for credit in agriculture is a composite demand, which is influenced by many factors. Farmers require credit for both production and consumption purposes. They need short-term loan to purchase inputs for agriculture and to pay rent, wages, cess and other charges. Medium term loan is needed for the purchase of livestock, farm implements and to repair farmhouses, cattlesheds, wells, tanks etc. Long-term loan is also needed for them to improve their landholdings and to purchase some durable assets like tractors, or other farm equipments and for making permanent improvements in the land. Further farmers may borrow funds for non-farm activities and for family expenses.

Historical Perspective of Cooperation

The roots of formal cooperation can be traced to ancient times. In primitive society, evidence of cooperation could be found in religious institutions and traditional social intercourse. Traditions of mutual assistance, joint action, joint possession and joint management are found in the thinking of the people in all ages and countries.\(^1\) In India the spirit of village communities has been predominantly cooperative. Villagers through the ages have worked together on an informal cooperative basis. Craft guilds are referred to in the Vedas as well

---

as in the laws of Manu. Cooperative societies were found among ancient Greeks in the form of burial benefit society, and as credit and savings banks in China. Collegia, a type of cooperative craftsman organisation was found in the Roman era.²

In India the first attempt made by people was the indigenous system of chit fund.³ It was found in Madras and Mallabar areas. This system was based upon association, confidence and honest dealing. Under this system, a number of persons knowing each other unite to subscribe a small sum at regular intervals for a specific period. After the collections, the collected amount was given to a member. The person who received the amount executed a promissory note.

The second important system was indigenous Nidhis. It was a type of mutual loan association, which grew spontaneously in the Madras Presidency. All the members of the Nidhis had to contribute a monthly subscription of Re.1/= or multiples for 84 months.⁴ The collected amount was used to give loan to members based on their subscription. These Nidhis were registered under the Indian Companies Act. In 1901 there were over 2000 Nidhis with 36000 members and a subscribed capital of over two crores of rupees.⁵ They were functioning even after the passing of the Cooperative Societies Act.

Agricultural banks were introduced in Mysore in 1894. They were functioning strictly on cooperative principles and not for earning divisible profit alone among the members. They obtained money from their own united credit system according to the actual credit requirements to the extent others had confidence in them. The purposes for loan were: ordinary annual credit requirements for cultivation, agricultural improvements, debt liquidation etc. Sixty-four of such banks were started in 1898. These banks could not survive owing to low interest rates, over borrowings, poor funds, inefficient management and inadequate supervision. A few village banks were started in the United Province under the ordinary company law.⁶

⁴ Ibid, p.18.
⁶ Ibid., Hough, E.M., p.45.
Sir William Weddarburn and Mr. Justice N. G. Ranade took the first official step of financing agriculture in 1892. But it did not receive official support as a whole. The essentials of these steps were embodied in the Land Improvement Act 1882 and the Agriculturists Loans Act 1884. Under these Acts, agriculturists could borrow public money for productive purposes at the rate of 3 to 6½ percent per annum. Agriculturists were permitted to borrow money for land improvement purposes under the Land Improvement Act. Short-term loans were given for the purchase of seeds and implements under the Agriculturists Loan Act. The Provincial and Central Banking Inquiry Committees had pointed out various defects in those two Acts: there was delay in granting these loans, the borrower had to pay commission to the officials and loans given were inadequate.

Emergence of Cooperative Credit Societies in India

Towards the end of the last century the success of the schemes of cooperative finance, which had originated in Germany and Italy came to the notice of the central and provincial governments. In 1892 Sir Frederic Nicholson on special duty was sent to Europe to study the possibilities of introducing a system of agricultural or other land banks in the Madras presidency. Nicholson came to the conclusion that the banks initiated by the Schulze Delitzch and Raiffeizen in Germany and Luzzatti and Wollemberg in Italy were suitable for the Presidency. He therefore recommended their adoption in his reports issued in 1895 and 1897. The Madras Government reviewed it in 1899. While Frederick's inquiry was in progress, the Government of United Provinces appointed Mr. Dupemeix to suggest the best form of cooperative societies. His conclusions were given in a book called "Peoples Bank for Northern India", based on the successful experiments with village banks in the United Provinces. A committee meeting in Calcutta in December 1900 considered the introduction of cooperative credit societies and reached the conclusion that societies on Raiffeizen lines might prove suitable. The Famine Commission in 1901 pronounced the strengthening of the backbone of the agriculturist morally by introducing mutual credit association which would be the chief means of preventing famines.
The Government of India, therefore, felt the necessity for special legislation and accordingly, appointed a committee presided over by Sir Edward Law to make a proposal for the formation of cooperative societies in India. The Law committee came to the conclusion that cooperative credit societies deserved every encouragement and so the Cooperative Credit Societies Act X of 1904 was passed, modelled largely on the English Friendly Societies Act. Thus the cooperative movement was formally inaugurated in India.

The rural-urban classification of societies made in the Act of 1904 was unrealistic. The restriction to register non-credit and federal institutions forced the introduction of significant amendment in the 1904 Act. Consequently, the Government of India passed an improved version known as the Cooperative Societies Act of 1912, which expedited the cooperative movement in India. The movement enlarged itself to non-credit forms of cooperation and non-agricultural credit societies. During the short span of about 10 years, there was a phenomenal increase in the number of societies and working capital. The growth was however insufficient to meet the increasing credit needs of farmers. The Meclagan Committee was appointed to suggest ways and means to strengthen the Cooperative Credit Movement in India. Prior to the real implementation of the Meclagan Committee's recommendations and views, the Montagu Chelmsford Constitutional Reforms of 1919 paved the way for the cooperative movement to become the responsibility of the provincial Government. Various provinces started passing legislations on cooperatives retaining the prime features of the Act of 1912. Bombay took the lead by passing the Cooperative Societies Act in 1925. Subsequently, Madras (1932), Bihar, Orissa (1935) and Bengal (1940) passed their own Acts.

Though the cooperative movement expanded significantly at the initial stage, yet a steady increase in overdue and defunct cooperative societies emerged as a setback. As a result various provincial governments appointed committees to examine the working of the cooperative movement. In 1929, the Great Depression set in and gave a jolt to the movement. The economic condition of the agriculturists was affected adversely. It eroded the repaying capacity of farmers. There was an increasing demand for loans while overdue mounted up. The accumulation of heavy overdue chocked the business of the
PACS in some provinces such as Central Provinces, Bihar, Orissa and Bengal. Consequently, several PACS were liquidated. Several committees were formed to examine the possibilities of reorganisation and rehabilitation of societies as consolidation rather than expansion was the main aim. Full attention was given for consolidation of existing societies and cancellation of registration of dormant societies. As a result of it, the number of the PACS came down. Efforts were made for closer supervision of utilisation of loans and recovery of loans. So the percentage of overdue to loan outstandings came down. The movement developed greatly during the period of the World War II, when prices of agricultural produce shot up. This resulted in faster recovery of overdue and improved the financial condition of cooperative credit societies.

The Reserve Bank of India and its Agriculture Credit Department came into being in 1934 and 1935 respectively based on the recommendations of the Central Banking Enquiry Committee. The RBI in 1937 stressed the need for establishing multipurpose societies for the upliftment of rural people in India. The GOI appointed a subcommittee (1944) under the chairmanship of Prof. D.R. Gadgil with a view to developing the credit cooperatives. The committee said: “We are in general agreement with the view that the spread of cooperatives would provide the best and the most lasting solution for the problem of agricultural credit in particular and those of rural economy in general”.7

Subsequently the Cooperative Planning Committee (1945) was appointed by the GOI under the chairmanship of R.G. Saraiya to draft a plan of development for credit cooperatives. This committee gave greater importance for credit cooperatives and these societies were treated as a lasting solution for the manifold problems of rural India.8

The PACS in India made considerable progress between the period 1938-39 and 1945-46. During this period the number of societies increased from 1.22 lakhs to 1.72 lakhs. Similarly the membership and working capital also increased from 53.70 lakhs to 91.60 lakhs and from Rs. 106.47 crores to

---

7 GOI, Report of the Agricultural Finance subcommittee. (Chairman : Gadgil), New Delhi, 1945, p.17.
8 GOI, Report of the Cooperative planning committee. (Chairman : R. G. Saraiya), New Delhi, 1945, p.6.
164 crores respectively. The progress of credit cooperatives before Independence, however, was limited and more uneven. The development of the PACS was not uniform throughout the country. There existed wide variations among different states in the growth and development of the PACS particularly in the field of coverage of villages, annual increase of new members, Government participation in the share capital, deposit mobilization, borrowers, loaning, overdue position and cost management ratio. The slow growth of agricultural credit cooperatives was due to laissez fair policy of the government, and the general illiteracy of the masses. According to AIRCSC, “the cooperative form of organisation has to face not merely the competition, but also to a large degree the positive opposition of a powerful array of non-cooperative individuals and institutions”. Thus, the agricultural cooperative credit movement failed to achieve the degree of success as expected.

After the attainment of Independence in 1947, the Planning Commission was set up for the GOI in 1950. It emphasised the importance of cooperation as follows: “The cooperative society has an important role to play as the most suitable medium for the democratization of economic planning. It provides the local unit which can fulfill the dual function of educating public opinion in favour of a plan and of executing it ... cooperation has been described as the keystone of an arch without which technical knowledge offered from the side of the state and enterprise on the part of the people will not succeed in supporting a progressive rural economy among millions of small farmers and cottage workers. It is only through organised bodies built upon the smallest and the most numerous economic units that large-scale improvements can be introduced successfully”. Thus the democratic planning process started and the Planning Commission prepared its First Five Plan in 1951-1956. The First Plan clearly stated the preference for cooperative organisation for the economic upliftment of the people. It observed, “As it is the purpose of the plan to change the economy of the country from an individualistic to a socially regulated

---

cooperative basis, its success should be judged, among other things, by the extent to which it is implemented through cooperative organisation".12

The RBI under the chairmanship of A.D. Gorwala set up the All India Rural Credit Survey Committee in 1951 to plan, organise and supervise survey regarding the facilities available to rural areas for providing agricultural credit. The main recommendations of the committee were: (i) state partnership at all levels of cooperatives, (ii) promotion of marketing, processing, storage and warehousing, (iii) establishment of the State Bank of India through the amalgamation of the Imperial Bank, (iv) organisation of a central committee for cooperative training, (v) establishment of larger-sized primary credit societies, and (vi) creation of various funds for financing of reorganization and development. The Second Five-Year Plan (1956-1961) assigned cooperation the important role as an effective instrument for fulfilling the objectives laid down in the plan itself based on the recommendations of the AIRCSC. The Second Plan was drawn up to build the cooperative sector. The plan emphasised: "Economic development along democratic lines offers a vast field for the application of cooperation in its infinitely varying forms. The building up of a cooperative sector as a part of the scheme of planned development is thus one of the central aim of the national policy".13 The recommendations of the AIRCSC and the policy on cooperative development adopted subsequently marked the beginning of an era which witnessed the increased intervention of state in cooperative development.

The National Development Council Resolution (1958) emphasised the basic objective of cooperative policy as one of the means for rebuilding the rural economy and, in particular, increasing agricultural production. It stated: "Cooperatives should be organised on the basis of village community as the primary unit and that responsibility and initiative for social and economic development at the village level should be placed fully on the village cooperative and village panchayat".14 Some of the important recommendations of the NDC are: (i) cooperatives are to be formed on the basis of a village as a primary unit but where villages are very small, more than one village should be

14 GOI, National Development Council, New Delhi, 1958.
grouped to form a society for a population of about 1000, (ii) the development of the cooperative movement should be geared up for mobilising local manpower and resources and, in general terms, rebuilding the rural economy, (iii) the cooperative legislation should be modified by removing restrictive features and (iv) the village cooperatives should be converted into service cooperatives.

The Third Five-year Plan (1961-66) emphasised diversification of cooperative activities and therefore a sizeable growth of cooperatives in the sphere of marketing, industry, housing, consumer, farming, etc were encouraged. The Plan observed, "A rapidly growing cooperative sector with special emphasis on the needs of peasants, the workers and the consumers become a vital factor for the expansion of employment opportunity and for rapid economic development". All India Rural Debt and Investment survey (1961-62) was undertaken to assess the changes in debt and investment since the Rural Credit survey. It was mentioned in the report of this survey that over a period of 10 years, borrowing from the cooperative had increased from 3.1 to 15.5 percent but the predominance of private moneylenders still existed. The household expenditure was still a major purpose of borrowing. The Committee on Cooperative Credit (1963) under the chairmanship of V. L. Metha felt that no cultivator should be denied credit facilities by cooperatives merely on the ground that he did not own land or could produce ownership of land as surety.

The important recommendations of the committee for the successful functioning of the cooperatives were: (i) the economic viability alone should be the criteria for the size of the PACS; too large a membership is undesirable and therefore the population covered should not exceed 3000 i.e., 600 families; (ii) adequate credit should be given to meet production requirements; (iii) members of the society should contribute to the society's share capital in certain proportion to their borrowing; (iv) borrowing of an individual should not exceed eight to ten times his contribution to the paid-up capital; (v) the PACS should offer sufficiently attractive rates of interest in order to attract deposits from villages; (vi) crop loan system should be adopted; (vii) credit limits might be increased to 10 – 12 times the owned funds for primary societies; (viii) The RBI should

---

liberalise its lending policies and (ix) the state might participate in the share capital of the PACS.

In 1963, a committee under the chairmanship of Sri. V. L. Metha was appointed to study the cooperative departmental set-up and to suggest measures necessary to strengthen cooperative administration in the country. It gave very useful suggestions for sound administration, audit, supervision and training of staff.

In 1964, the GOI constituted a committee under the chairmanship of Shri. R. N. Mirdha to (i) lay down standards and criteria by which the genuineness of cooperative societies of various types may be judged and to suggest measures for weeding out non-genuine societies and preventing their registration; (ii) to review the existing cooperative laws, rules and practices, and (iii) to examine the factors inhibiting self-reliance and self-regulation in the movement and to suggest appropriate remedies. Its main recommendations were: (i) cooperatives should not admit vested interests, i.e., the persons who are opposed to the money lenders in agricultural credit societies; traders in agricultural marketing societies; contractors in labour contract societies; merchants in consumer societies; and transport owners in transport societies as members in the respective societies, (ii) people of small means should be the primary beneficiaries of cooperative housing society, (iii) audit of cooperatives should be entrusted to an agency under the Govt, (iv) the National Cooperative Bank should be set up as the apex bank and (v) the Central and State Governments should assist to cooperatives in a much liberal way.

The All India Rural Credit Review Committee (AIRCRC) was set up in 1969 under the chairmanship of B. Venkattappiah by the RBI to suggest measures for the reorganization of rural credit. The policy of cooperative development under the Fourth Plan (1969-74) was influenced by the recommendation of the ARICRC. The main recommendations of the committee were the establishment of an Agricultural Credit Board, setting up of Small Farmers Development Agency, creation of Rural Electrification Corporation, extension of activities of Agricultural Refinance Corporation, and suggestion of measures for the adequate and timely supply of agricultural credit through cooperatives and commercial banks. The plan document favoured the approach
of ensuring that, "opportunity before cooperatives should be as large and varied as they can utilize"\(^{16}\), and with the introduction of "Multiagency Approach" the cooperatives were required to compete with other agencies operating in the economy.

The National Credit Council appointed a study group on organizational framework for the implementation of social objectives under the chairmanship of D.R. Gadgil. The most important recommendation of the study group was the adoption of "Area approach" to banking development. Under this approach the public sector banks were to be given specific districts, wherein they should be asked to bring about integrated development of banking facilities with a view to meeting all the essential credit needs of the specified area. The RBI on the recommendations prepared the Lead Bank Scheme in 1969 and allotted 338 districts to public sector banks. A bank in a district was to be designed as 'Lead Bank'. The Lead Bank was supposed to prepare plans for the development of banking in that district after conducting a survey. On the basis of that survey the 'District Credit Plan' was to be formulated and District Consultative Committee was to be constituted.

The RBI conducted another All India Debt and Investment Survey in 1971-72. The main findings of the survey were: (i) nearly 46 percent of cultivator-households and 34 percent of non-cultivator households in rural areas were in debt: the total outstanding rural debt was estimated at Rs.3921 crore; (ii) despite the planned economic development, Community Development Programme, and various special schemes introduced to help the small farmers and rural artisans, the amount of total rural indebtedness had increased from Rs.750 crore in 1961-62 to Rs.3921 crore in 1971-72.

The Fifth Five Year Plan (1974-1979) recognised cooperatives as an important institutional agency focusing their activities more on small and marginal farmers and weaker sections. The department of civil supply and cooperation was created in October 1974 to ensure production and distribution of essential commodities. The plan stated that, "Cooperation is eminently suited to bring about the desired socio-economic changes in the context of existing conditions in the country. There is no other instrument as potentially powerful

and full of social purpose as the cooperative movement”. The plan outlined four important objectives of cooperative development: to strengthen the network of agricultural cooperatives, to build up a viable consumer cooperative movement, to remove regional imbalances and to restructure and reorient cooperatives so that these become more useful to small farmers and tribal people.

The National Commission on Agriculture (1976) recommended the strengthening of cooperatives by enrolling the rural peasants and workers. It observed that the PACS had been the principal agency for agricultural credit and would continue to play this role. It pointed out that increasing overdue not only affected the ability of the cooperatives to extend further credit but also put the credit worthiness of the cooperatives themselves in doubt. According to the National Commission on Agriculture, the progress of commercial banks regarding agricultural credit was inadequate owing to their limited experience in this field. It suggested the creation of a national network for integrated credit service for extensive modernisation of agriculture, and talent and resources already available with the cooperatives and commercial banking system. Both the cooperatives and commercial banks lacked the understanding and ability to tackle the special needs of small farmers. The commission recommended the adoption of a new credit policy, which should (i) provide a total system for building up and expanding all activities facilitating the modernisation of agriculture, (ii) cover cultivation and dairying, livestock rearing, fish-culture and sericulture as well as marketing, transporting and processing, and (iii) facilitate and provide linkages between finance and services for current inputs as well as for investment in land development.

The Committee on Integration of Cooperative Credit Institutions (1975) was appointed by the RBI under the chairmanship of Dr. R. K. Hazari to examine the economics and other advantages likely to accrue from an integration of the short-term and long-term wings of the cooperative credit structure. This committee was in favour of integrating these structures and expressed its views as follows: “We recommend that the two wings of the

17 Planning Commission, Draft Fifth Five Year Plan, New Delhi : Government of India, 1974, p.78.
cooperative credit structure should be integrated at all levels".18

The RBI appointed the Kamath Working Group on Multi-Agency Approach to Agricultural Financing (1978). The main recommendations of this working group were: (i) geographical demarcation rather than a functional jurisdiction for each of the credit agencies was to be considered more appropriate and practical, (ii) in providing credit for agriculture and allied activities, the prime role would have to be that of cooperative institutions; while the commercial banks and RRBs had a supplementary role to play. The working group stressed that for making the multi-agency approach a success, the following problems should be solved immediately: (i) problems arising out of uncoordinated credit disbursement by various agencies resulting in multiple financing, overfinancing / under financing, financial indiscipline and diversion of scarce resources to unproductive purposes; (ii) problems arising out of inability of several agencies to formulate and develop meaningful agricultural credit programmes on the basis of area approach; (iii) problems of overlapping and duplication of banking facilities and the consequent wasteful expenditure in problems of recovery of loans; since more than one institutional agency might have legally established claim on the security (v) problems arising out of different systems, procedures, policies, security norms, service and supervision changes, varying rates changed to agricultural borrowers and so on.

The Sixth Plan (1980-85) sought to remove the constraints in the existing cooperative credit system by making village primary societies become efficient and effective multipurpose societies to meet all the requirements of their members. The strategy for cooperative development in the Sixth Plan was to draw an Action Programme for strengthening the primary village societies as multipurpose units, to reorient the existing cooperative policies and procedure towards the betterment of economic conditions of the poor, to reorient and consolidate the role of federal institutions to support agricultural sector effectively through their affiliated societies, and to develop professional management.

The RBI appointed CRAFICARD on 1979 under the chairmanship of Shri.B.Sivaraman to review the arrangement for institutional credit for agriculture and rural development. The main recommendation of this committee was the separation of the agricultural credit department from the RBI that handled refinance for the cooperative credit system and its merger with Agricultural Refinance and Development Corporation (ARDC). The committee recommended the setting up of a new Apex bank. According to this committee, "The new national-level institution we are recommending for integrated rural development may take over from the RBI.... The new institution be named as the National Bank for Agriculture and Rural Development". On this recommendation in July 1982 NABARD was set up.

The Seventh Plan (1985-90) policy relating to the cooperative development was to strengthen cooperatives at all levels to distribute inputs to farmers, workers and artisans for increasing production, to create rural infrastructure for agro processing and storage in order to expand employment opportunities and better utilisation of resources and to foster democratic and professional management in the cooperative sector.

The Report of the Agricultural Credit Review committee known as Khusro committee (1989) is one of the important comprehensive studies undertaken by the RBI in the field of agricultural credit. The committee felt that the cooperation had failed in India because it had been both state sponsored and state patronised. With the excessive government intervention in the affairs of the cooperatives, effective non-official leadership along democratic management disappeared. A major weakness has been the neglect of the base level institutions and the tendency of the higher-level institutions to look after their own interests often at the cost of primaries. The inefficiency, high costs, low or negative profitability, inefficient service, and lack of self-reliance in the cooperative organisations especially at the level of PACS, are perceived as the maladies afflicting the cooperative movement. In order to overcome these problems the country should recapture the spirit of cooperation, its culture, its discipline and above all, its ethos. The main recommendation of this committee is the establishment of a National Cooperative Bank of India and Business

planning at various levels of cooperatives. The Seventh Plan emphasised the development of viable cooperative units, single window credit delivery system and a new method of mobile credit delivery system.

The Eighth Plan envisaged measures for granting more autonomy and reviving democratic spirit of cooperatives. Cooperative credit organisations had to be made viable and competitive. The important objectives of this plan were to liberalise cooperatives from bureaucratic control, replication of Anand pattern of cooperatives in dairy sector and strengthening processing cooperatives. A proposal had been made for cooperatives to borrow funds from National cooperative Bank of India instead of NABARD as recommended by the ACRC.

The Committee on Financial Systems (1991), commonly known as Narasimham Committee, went through many aspects of priority sector lending to make financial sector more competitive, efficient, productive, profitable and transparent. The main findings were: (i) to bring down Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR); (ii) to phase out the directed credit programmes and concessional rates, and (iii) to abolish licensing regarding the branch expansion.

A separate chapter was devoted to cooperatives in the First Plan and the same approach was taken till the Seventh Five Year Plan. However, after 1991 i.e., from the Eighth Five Year Plan (1992-97) onwards, Cooperation was not allotted a separate chapter in the plan document. This shows that the special status accorded to cooperatives hitherto ceased to exist and the Government treated cooperatives as any other organisation. These were the words used by the Planning Commission in the Eighth Five Year Plan. Hence, cooperatives have had to function on their own as self-managed, self-reliant and self-regulated institutions.

The Planning Commission of the Government of India constituted a Working Group on Agricultural Credit, Cooperation, and Insurance for the formulation of Tenth Five Year Plan under the Chairmanship of Dr. S.S. Sisodia, President, National Cooperative Union of India, New Delhi. The Working Group constituted five Task Forces namely Task Force on Agricultural Credit, Task Force on Institutional Development of Credit Cooperatives, RRB and Commercial Banks, Task Force on Revitalisation of Non-Credit Cooperatives,
The Task Force on Agricultural Credit under the Chairmanship of Sri. Y.C. Nanda projected the agricultural credit requirements during the Tenth Plan by adopting various approaches. The Task Force after analysing the various approaches projected the credit requirements at Rs. 7,36,570 crores. The projections of production credit and investment credit to cooperative banks are Rs. 1,97,836 crores and Rs. 1,05,519 crores respectively.

The Tenth Plan document stated that the following efforts would be made to increase the flow of agricultural credit. 20

- Ensuring that the end of the Tenth Plan issues Kisan Credit Cards to all entitled farmers.
- States would not be eligible for funding by cooperative sector / NCDC till they adopt the Multi-State Cooperative Act for providing more functional and financial autonomy.
- Cooperative banks will be strengthened through recapitalisation.
- Micro financing would be encouraged through self-help groups / women’s groups.

Structural Issues in PACS

The Primary Agricultural Credit Societies form the foundation of the short-term Agricultural Credit Structure. There have been several changes in the nomenclature of Primary Agricultural Credit Cooperatives such as Service Cooperatives, LAMPS, Large sized Cooperative Credit Societies, FSS, Gram Seva Shakari Sanghs (GSSS), cooperative Rural Banks, PACS, PACB and so on. Various committees, study teams and commissions, which dealt with the agricultural credit cooperatives, touched two vital issues: consider the area of operation and size as a critical factor and the range of services to be provided by these institutions for the success or failure of a primary cooperative society. Reorganisation has been an ongoing process, consequent upon the recommendations of each major committee / commission. The ultimate

structure, viable and capable of supporting a sustainable development of village community at primary level has not yet evolved.

Report of the Task Force to study the cooperative credit system and suggest measures for its strengthening (Chairman: Capoor) 2000, Report of the Joint Committee on Revitalisation support to cooperative credit structure (Chairman: Balasaheb Vikeh Patil) 2001, Report of the Expert Committee on Rural Credit (Chairman: V. S. Vyas) and Report of the Task Force on Revival of Rural Cooperative Credit Institutions (Chairman: A. Vaidyanathan) 2005 are some of the recent studies on rural credit cooperatives. They have given several recommendations pertaining to revival and improvement of rural credit cooperatives.

Vaidyanathan Committee has remarked that the cooperative credit structure is today impaired in governance, managerial and financial fronts. Examples of impairment on governance include non-conduct of elections for a long time, frequent supersession of Boards, delay in audit, and state's intrusion in administrative and financial management. The impairment of management includes deputation of government officials to top positions in many banks, setting up the common cadre system for PACS, determination of staffing pattern by states, interference in the operational decision making of cooperatives, ageing staff profile, poor house keeping and weak MIS.21

Progress of PACS in Tamil Nadu

Tamil Nadu is one among the foremost Indian states in cooperative development. It was in Madras that the foundation of cooperation was laid in 1903. Though sporadic attempts were made to form rural credit societies in the beginning of the twentieth century in Northern India, the true pioneers were Srinivasa Sastri and his colleagues who started the Triplicane urban cooperative society, which has not only survived but has become the source of inspiration for cooperation. It was in Madras again that the first village cooperative credit society in Tirur in Thiruvallur District and the cooperative Urban bank in Periakancheepuram were started.

It was in Madras State again that the establishment of the first Apex bank in India was witnessed, and Ramachandra Rao, one of the ablest Registrars of cooperative societies, was instrumental in strating it.

The honour of introducing the first cooperative journal also goes to Madras as the accredited organ of the cooperative movement. The Madras Bulletin of Cooperation had rendered yeoman service to the cause and had always been a valuable forum for the ventilation of views and the formation of public opinion.

When the need arose for the formation of higher agencies to provide them with sufficient capital and also to supervise their workings, the Madras Central Urban Bank came into existence for this purpose in 1905. By the years 1911, District Central Cooperative Banks were formed at Salem, Tiruchirapalli and Coimbatore.

In 1919, cooperation became a provincial subject administered by a popular ministry. This gave a further impetus to the movement and the number of societies registered a striking increase. The Madras Government appointed a committee in 1927 under the chairmanship of Mr. Townsend to examine and to suggest ways and means for the development of the movement in Madras state. Even after Independence, Tamil Nadu state had achieved an enviable position in the development of cooperative movement, and more particularly the agricultural credit sector. In comparison with the other states in India, the state of Kerala captures first place in average per PACS in case of members (6242), share capital (Rs.19.1 lacs), reserves (Rs.22.0 lacs), deposits (Rs.323.5 lacs), loan disbursement (Rs.240.2 lacs) and low percentage of overdue to demand (20.4) than the national average, but the state of Tamilnadu is in the middle order. Even then it has a poor record in respect of the financial result, as the percentage of PACS working in profit (15.2%) is very low in comparison with to the national average (44.3%) (See Appendix II).

The short-term and medium-term credit structure in Tamilnadu has a three tier arrangement viz., Tamilnadu state Apex cooperative bank at the state level, Central Cooperative Banks at the district level and Primary Agricultural Cooperative Banks at the village level.
Tamilnadu State Apex Cooperative Bank

It is the federation of the District Central Cooperative Banks, which distributes credit through its affiliates for both agricultural and non-agricultural purposes since 1905. It channelises funds towards short-term loans, medium term loans etc for agricultural purposes provided by the NABARD and provides cash credit accommodation to the District Central Cooperative Banks in order to enable them to refinance their affiliates. It maintains a fund called, “The primary cooperative development fund” for strengthening the primaries in the state. A sum of Rs.620.76 lakhs was available under this fund as on 30.1.2000. As on the same date, it had a share capital of Rs.26.56 crores, reserve fund of Rs.178.20 crores, deposits of Rs.2505.42 crores and loan disbursement to the extent of Rs.2398.42 crores. It earned a net profit of Rs.2.51 crores during 1998-99.22

District Central Cooperative Banks

There are 23 District Central Co-operative Banks functioning in the State of TamilNadu, with 697 branches mostly in rural areas to serve the PACS.23 DCCBs finance their affiliates from their own resources and also by availing credit from the NABARD for agricultural purposes DCCBs had the share capital of Rs.269.67 crores, reserves of Rs.399.50 crores, deposits of Rs.5672.41 crores and working capital of Rs.7220.82 crores as on 31.1.2000.

Primary Agricultural Credit Society

There were 4582 PACS functioning in Tamilnadu as on 31.1.2000. They had a share capital of Rs.24020 lakhs and deposits of Rs.163445 lakhs during 1999.24 As on 31.3.1999, out of the total 4581 PACS, 1333 were viable societies (29.1 percent), 2060 were potentially viable societies (45 percent), 1150 societies had negative financial margin (25.1 Percent) and 38 societies were identified for amalgamation / liquidation.25

---

22 Ibid., Govt. of Tamilnadu, p.13.
The number of PACS rose from 11097 (1939-40) to 11565 (1964-65) and it had gone down to 4620 (1987-88) owing to reorganization of weak units. But the membership in them increased from 6 lakhs in 1939-40 to 59.75 during the same period. The number PACS increased from 4581 to 4595 between 1999 and 2001. Despite numerical growth, viability had been a daunting issue. The number of viable PACS decreased from 1333 to 1324. At the same time the number of viable and potentially viable PACS also increased from 1188 to 1201 and from 2060 to 2070 respectively during the same period. The percentage of viable PACS were higher in the districts like Erode (77.53), Coimbatore (63.77), Dharmapuri (62.55), Kanyakumari (62.28), Virudunagar (45.95) and The Nilgiris (44.59) compared to the other districts in Tamilnadu. The percentage of viable PACS in Tamilnadu was only 28.81. (See Appendix– I).

Conclusion

PACS in India have been progressing significantly since Independence. Agricultural credit cooperatives are predominant and the progress has been unprecedented in the number, membership and working capital of PACS. PACS in India have been facing several structural changes. So many committees, commissions, working groups, study teams etc have been appointed now and then to study the working of Agricultural Credit System in general and PACS in particular. Tamilnadu has played a pioneering role in the development of PACS from initial stages. It played an active role in the development of PACS after the transfer of co-operation as a state subject. The growth of PACS in terms of number, membership, resources, and loan business was appreciable.

Yet two persistent problems which are a source of weakness and which continue to haunt the PACS, are : growing overdue and declining viability. Schemes for promoting viability and business efficiency have been implemented through state intervention. Whether this strategy has created any perceptible impact on the Primary Agricultural Credit Societies is a critical question.

26 Tamil Nadu State Cooperative Apex Bank, Chennai.