

CHAPTER - II

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GENERAL FRAMEWORK OF A COOPERATIVE SOCIETY

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CHAPTER (II)

This chapter is devoted to the presentation of the general framework of a cooperative society in terms of :-

Aims and objects

Organisation of manpower

Organisation of fund

Legal control and

intervention.

It is also an attempt to explain the importance of cooperative credit.

GENERAL FRAMEWORK OF A COOPERATIVE SOCIETY

A cooperative society is an institution. It has its own structure and functions. Normally in response to changing needs of the economy, the functions of the societies undergo changes.

Any institution should have its own definite structure without which it gets into chaos. Without a definite structure functional unity is also not possible.

Keeping this fact in view it may be worthwhile to examine the structure of cooperative societies.

This organisation is based on the four imperatives :-

- Manpower
- Management
- Fund and
- Law

AIMS AND OBJECTIVES

Any society is intended to achieve some defined objectives for which the society is set up. The objectives may be of the following nature :-

- Short term objective
- Long term objective
- General objectives
- Specific objectives

The objectives stated above differ from one stage to another stage of development of economy. The determination of objectives is made with reference to the behaviour and demand of the economy. The classification of the short term loans, medium term loans, long term loans etc. is made based upon the specific objectives sought to be achieved.

MEMBERSHIP

While a minimum number of membership is prescribed for a society at any level, the imperial experiences, perhaps, establish a peculiar relationship as given below :-

- As we go downwards from the apex to the village level the number of membership increases, while the quantum of unit of service "decreases" and vice-versa. In other words, the number of membership decreases as the society goes into the apex while the unit of service/help gets increased.

MANAGEMENT

The second important component of the structure could be management which involves the identification of skill, organisation and allocation of duties. The management is also the highest decision making body. The management therefore consists of :-

- Chairman/President
- and
- Board of Directors, normally elected
by the members

The primary responsibility of the management is the allocation of responsibilities.

The management therefore, is the driving wheel of the society. The imaginative vision and realistic approach largely determines the performance of the management.

FUND

Financial base is equally important. The common pool of fund into which the members pay is used for "payout" to the members for productive and gainful purposes. The management of fund depends not only on the availability of fund but also upon proper and rational allocation of fund.

The utilisation fund involves a careful economic exercise. It entails repayment and recycling. The fund flow is normally directed towards the generation of positive incremental income and gainful employment. The society has to follow the normal rules of financial institutions.

LAW

The Society is a voluntary organisation with a common purpose of social and economic well-being. Set rules and norms are followed and respected in matters of organisation of fund, services and manpower. Law intervenes in the event of any visible departure from or violation of the common norms established for the welfare of the society. Therefore, there is a provision for legal intervention. For this purpose enactment is made by the Government. This is a necessary condition not only for the establishment of the society but also for development.

As such a written constitution of the society is necessary. The objectives of the societies have to be approved and thereafter the official recognition of the society is accorded in the form of formal registration by a competent authority. The formalization in terms of approval of the constitution and registration is normally occasioned by the nature of central objectives of the economy. It appears that the formalisation of the society is also made in compliance with the requirements in the regional and central scenario.

However, new problems of lasting significance appear from time to time. It becomes necessary to accommodate the changes in the economy. In turn the changes in the constitution become necessary. There is "continuity with change".

The four highlights of the society namely :-

- **Membership**
- **Management**
- **Fund and**
- **Law-constitute the foundation of which
the roots are ;**
- **Self help**
- **Mutual help.**

This is a simple delineation of the general framework of a society.

SIGNIFICANCE OF COOPERATIVE CREDIT

As stated above in Chapter No.1, page (104) "Finance is the key to investment and hence to growth". The conceptual framework of any gainful activity is concretised with the beginning of the cash flow. Besides, in the context of cooperative development the credit cooperatives become an instrument for liberating from the shackle of exploitation in the unorganised money market. Further, cooperatives do encourage the habit of saving and rational utilisation of available resources. Thus in this context the significance of savings and credit cooperatives is related to two fundamental fields :

- (a) the possibilities of cooperatives to free their members from financial repressions and their impacts,
- (b) the possibilities of cooperatives to finance a combination of capital goods through which productivity can be increased.

55. Roland Lindenthal, "Cooperatives and Employment in Developing countries, Enterprise cooperative Development Department, International labour Organisation, Geneva(1995) p.41.

The reference made by the "Cooperative Development-Cooperatives and Employment in developing countries" (Roland Lindenthal) ILO, 1995, to the obvious of the cooperatives is convincing.

"Firstly, there will be an income benefit for those demand credits, because they have to pay lower interest rates".

"Secondly, the savers gain a profit if they had no access to a financial market before and have therefore kept their saving at home".

"Thirdly, there will be an income gained through the higher availability of credits. A reduction of the effective interest rate in connection with a higher accumulation of savings affords to extend the credit volume and to finance credit those uses increasingly raise the income and employment (in contrast to credits that are e.g. used for emergencies or social obligations like marriages, burials or school uniforms where they are not compulsory)".

In this context, it may appear useful to distinguish different type of credit.

1. Credit to satisfy basic needs.
(unproductive credit)
2. Credit for means of production.
3. Credit for consumption.

Credit to satisfy basic needs

This type of credit often called unproductive because it is connected with health, nutrition and housing. It is not directly connected the acquisition of a plough, seeds, fertilizer or a machine. It is also used for social purposes. However they are important as they helped the growth of peoples' productivity and efficiency.

Credit for means of production

Credits for the purchase of capital goods such as land and machines have direct effect on income and employment. The availability of cooperative "venture capital" is considered important. The farmers with the help of the venture capital has capacity to break the vicious circle of poverty and to effect positive feedback as it induces innovational activities which again lead to higher income and a higher degree of employment. This implies higher savings which again means a higher availability of venture capital.

56. Bwerinofa, P.S.: A study of two cooperatives female ex-combatants (Rural Employment Policies Branch, ILO, Geneva) 1984, p.8

Credit for consumption

During the process of production there may be influence on employment and income. This takes place during the transition. As a result of increase in employment and income, there may be higher demand of consumer goods which have recycling effect on income and employment. To meet the increasing demand credit may be necessary. This refers to consumption credit.

The cooperative credit is normally intended to provide credit for means of production.

In the light of foregoing presentation of general framework of a cooperative, attempt may be made to examine the two-tiers adopted in Manipur.

PRIMARY AGRICULTURAL COOPERATIVE SOCIETY

It has been recognised that the cooperative institution is one that is close to the people and village economy. The primary society is closer to the people and village economy. The PACS makes attempt also to link poor agriculturists, rural artisans and weaker sections of the community to the tertiary level of economy, besides transferring resources to rural areas. Herein lies the significance of the primary unit.

The awareness of the people for participation in the development process gets stimulated with the registration of the membership. The mobilisation of available resources is made easier through the medium of mutual help and corresponding contributions. The primary society therefore, remains basic.

CLASSIFICATION OF THE PRIMARY SOCIETIES

Following the national pattern, the primary unit consists of :-

- **Primary Agricultural Credit Societies (PACS).**
- **Farmers Service Societies (FSS) and**
- **Large Size Agricultural Multi-purpose Cooperative Societies (LAMPS).**

Primary agricultural cooperative society functions normally in accordance with the cooperative principles i.e.

- 1) **Voluntary and Open Membership**
- 2) **Democratic control**
- 3) **Limited interest on capital**
- 4) **Equal distribution of surplus**
- 5) **cooperative education and**
- 6) **cooperation among cooperatives.**

International Cooperative Alliance (ICA), 1966 (HQ. London) endorsed the above principles. It has also acquired the character of business organisation by incorporating two dimensions :-

- The Business enterprise dimension
- The cooperative (Institutional) dimension

The business - enterprise - dimension of the cooperative society receives wider recognition because of the following professional requirements :-

- Entrepreneurship quality
- Investment in gainful project
- Capital Mix
- Managerial and operational efficiency
- Integration of production and marketing efforts and
- Diversification of business to minimise risk.

In fact, it becomes an exercise on resource development and allocation.

The features of a PACS may be analysed under the following five heads namely :-

- **Type of beneficiaries**
- **Area coverage**
- **Aim and objectives**
- **Nature of credit business**
- **Management**

The primary agricultural societies undertake two broad areas of activity :-

- **Activities relating to credit**
- **Activities relating to non - credit**

TYPE OF BENEFICIARIES

Generally all types of agriculturists and farmers unite themselves to form PACS. It covers big farmers medium farmer, small farmers. marginal agriculturists and labourers.

AIMS & OBJECTS

The aims and objects are as follows;

- To improve the standard of living of the agriculturists, by making agriculture a business rather than a way of life.
- To help augment agricultural production and consequently strengthen the farm economy.
- To encourage the agriculturists to adopt new techniques to initiate improvement in production.
- To provide necessary credit at reasonable rate of interest.
- To develop mutual understanding of big, medium and small farmers alike.
- To provide both production and consumption credit to farmers, to be subsequently free from the clutches of moneylenders.
- To inculcate thrift and saving behaviour among the farmers through better use of capital and encourage market interaction.

NATURE OF CREDIT BUSINESS

Type of loans, advanced to the members are :-

- a) Short term (S.T.) Loans for seasonal agricultural operation.
- b) Medium-term loans for purchasing agricultural equipments and machineries, and
- c) Long term (LT) loans for purchasing tractors and other agricultural implements.

The above types of loans are made available to the members not only for agriculture, but also for industrial and allied activities.

NATURE OF NON-CREDIT BUSINESS

The PACS also undertake various other activities like supply of farm inputs and distribution of necessary goods and services from time to time.

57. Report of the Committee on Cooperative Credit, 1960 pp.72-73

MANAGEMENT

- a) The PACS has a full-time paid Secretary / Managing Director and other subordinate staff appointed by the society.

- b) The management of the PACS is entrusted to a Board of Directors consisting normally of 11 (eleven) elected from amongst the members and 4 (four) nominated by the Government Departments and Financing Bank.

The weaker section constitutes not less than 50% of the elected members.

In addition, the cooperatives help in formulating and implementing plan for agricultural production in the villages and also undertake welfare functions.

In view of these and other considerations, in all developing countries the multipurpose societies are preferred to the single purpose society.

MULTIPURPOSE CO-OPERATIVE SOCIETIES

The primary agricultural credit societies function more or less as moneylender institutions. They rarely attend to other problems facing the members agriculturists.

INTERLOCKING MARKETS AND MULTIPURPOSE COOPERATIVE SOCIETIES

The cooperatives are found restrained by the "interlocking markets" - factor markets and goods markets. In the underdeveloped countries single market segment is rare. The market segments are interlocked and invariably mixed. As a result the "welfare gain"(income) gets neutralised by the "welfare loss " suffered in the commodity market.

59. Bardhan, P.K.: Interlocking Factor Markets and Agrarian Development. A Review of Issues(Oxford 1980) pp.82

As such the multipurpose cooperatives are designed to maintain and possibly raise the real standard of living of the farmers. Because they can buy the essential commodities at reasonable price. They are not exploited.

The integrated cooperative covering various activities of the members is expected to give a fuller meaning of the cooperation. Only credit cooperation cannot stand by itself. The principle of integration of various activities is the foundation of the multipurpose cooperative society. By and large it is an integration of "credit" and "service".

In pursuance of the recommendations of the study (BAWA) team, appointed by the Government of India in December 1971, multipurpose cooperative societies were organised with the objects of :-

- providing under a single roof all types of credit including those for meeting social obligations and consumer requirements, such as - technical guidance in the intensification and modernisation of agriculture, and guidance for marketing of agricultural and minor forest produce.

One important consideration was the lack of efficiency in the social sector particularly in the remote and hill areas. This constraint becomes a factor to be reckoned with. Both development of proper knowledge and skill and also other related services become the felt needs to ensure the success of cooperative movement in the tribal and backward areas.

The large sized agricultural multipurpose cooperative societies act as primary society in the tribal and backward areas.

FUNCTION OF MULTIPURPOSE SOCIETIES

Reference may also be made to the specific functions expected of the multipurpose cooperative society. In this connection the Cooperative Planning Committee (Saraiya Committee, 1946) suggested the following functions :

- a) To finance crop production
- b) To act as agent to sell the crop to the nearest marketing organisation.
- c) To supply farmers simple need for crop production like seed, cattle, feed, fertilizer and agricultural implements and also consumer goods like cloth, kerosine. salt etc. on indent basis or on the basis of established needs.

- d) To serve as collection station for the nearest dairy and a centre for animal first aid and maintenance of stud bulls.
- e) To serve as a centre for maintaining agricultural machinery for the joint use of member and.
- f) To encourage subsidiary occupation for its members.

The above strategy for the development of large sized multipurpose society was also endorsed by the high level working group on cooperative (T.A. Pai) in 1973.

The additional recommendation made by the said Working Group was the financing pattern to be taken care of either by the cooperative banks or commercial banks.

60. Dr.B.S.Mathur: "Cooperation in India", 1988 pp.149-151

DISTRICT LEVEL COOPERATIVE BANKS

At middle level we come across a semi apex organisation called district level cooperative banks operating within the territory of a particular district. Depending upon the area of operation and size of the population to be covered the number of branches is determined. It differs from state to state.

The District Central Cooperative Banks(DCCBs) play a vital role in the formulation of district credit planning, for implementation of agricultural programme and evaluation of the performance of the primary cooperative credit societies. The share is contributed by the membership of primary cooperative societies at village level.

The DCCBs represent the decentralisation of the agricultural credit arrangement.

In India in 1985-86, there were 352 DCCBs operating in 435 districts in the country. The loan issued amounted to Rs. 7,333.,09 crore.

**STATE LEVEL
COOPERATIVE BANKS**

At the apex level the state cooperative banks are acting as "Friend, Philosopher and Guide" for all practical purposes. The membership consists of the DCCBs in the state.

In India in 1985-86 there were 31 state cooperative Banks as indicated in the following table.

**TABLE NO. 2.1
STATE COOPERATIVE BANKS (SCB), INDIA**

Sl.	PARTICULARS	1975-76	1980-81	1984-85	1985-86
1.	Number -	26	27	30	31
2.	Deposits				
	a) cooperatives	557.34	1,318.45	2,401.85	2,856.48
	b) others	166.34	355.80	564.29	528.00
	Total Rs.	723.68	1,674.25	2,966.14	3,385.41
3.	Borrowings - (outstanding)	343.73	608.47	1,076.20	1,227.00
4.	Loans outstanding	893.60	1,836.45	3,150.20	3,852.79
5.	Overdues -	43.60	161.74	244.96	291.76
6.	Percentage of overdues to Demand	7.00	10.00	10.05	9.02
7.	No. of Bank -under rehabilitation	5.00	8.00	9.00	8.00

Source - Report of the ACRC, RBI, Table 14 P. 216

RELATIONSHIP BETWEEN THE PRIMARY AND THE APEX LEVEL SOCIETIES

The relationship between the primary level societies and apex level societies is defined in terms of corresponding functions and obligations. They are normally incorporated in the Act passed for the said purpose.

One experiences two broad areas of relationship in term of :-

- Upward stream (Membership)
- Downward stream (availability) of credit and other service).

The downward stream is conspicuously important. The helps are made available in terms of increasing strength, mutual help, leadership and professional skills in such a way that the total system acts a cohesive unit.

In this connection the Report of the Agricultural Credit Review Committee, Reserve Bank of India, 1989 observes :-

"The Basic requirement for the various tiers working as a part of a total system is that the higher tiers should look upon the lower tiers and more particularly the primary societies as mother institution, the secondary tiers deriving their strength from the primaries, the state level organisation deriving their strength from the secondary level organisations and together all of them providing within a sector, mutual support on the one hand and on the other the higher tiers exercising effective leadership role through an efficient system of supervision and management of all tiers by professional skilled in the relevant tasks and trained for the purpose." (Page 170).

COOPERATIVE PRINCIPLES

For a better understanding of the cooperative ideology and to differentiate it from other business enterprises, the founding father of the cooperative movement laid down some definite principle which were expected to serve as a guide post for the future development of the cooperative movement. These principles are of considerable significance for the growth of the cooperative movement.

According to W.P. Watkins, a former Director of ICA, cooperative principle are the ideas inherent in cooperation for the mode of action.

62. D.G.Karve, *Cooperative Principle and Substance*, 1968, P24

In October 1964, the central committee of ICA appointed a commission to ascertain how far the principle of Rochdale as defined by ICA congress at Paris in 1937 can be observed today and the reason for any non-observance. The commission was asked to consider, in the light of its study, whether the Rochdale principles so defined and stated, meet the needs of the cooperative movement, having regard to the present day economic, social and political situation or whether any of the principle should be reformulated in order to contribute in the best manner to the fulfillment of the aims and tasks of the cooperative movement in its different branches.

61. Report of the Agricultural Credit Review Committee, Reserve Bank of India, Bombay (1969) pp.202-203.

According to ICA commission 1966, the following cooperative principles should continue to be considered essential for effective cooperative practice.

- 1) Voluntary and open membership
- 2) Democratic control
- 3) Limited interest on capital
- 4) Equal distribution of surplus
- 5) Cooperative Education.
- 6) Cooperation among cooperatives.

- 1) The membership of the cooperative society should be voluntary and should be made available without restriction and discrimination.
- 2) The cooperative societies are the democratic organisations. Their affairs should be administered by persons elected or appointed in a manner agreed to by the members and accountable to them.

- 3) Share capital should only receive a strictly limited rate of interest, if any.

- 4) Surplus or Savings, if any arising out of the operation of a society belong to members of that society and should be distributed in such manner as would avoid one member gaining at the expenses of others. This may be done by decision of the members as follows :-
 - a) By provision for development of the business of the cooperative.

 - b) By provision of common services or

 - c) By distribution among the members in proportion to their transaction with the society.

- 5) All cooperative societies should make provision for the education of members on various aspects of planning techniques of cooperation, both economic and non-economic.

- 6) All cooperative organisations in order to serve the interest of their members and their communities should actively cooperate in every practical way with cooperatives at local, national and international levels. There should be cooperation among cooperatives.

COOPERATIVES AND PEOPLE

It may now be evident that the sole purposes of the cooperative societies are :-

- To enrich the economic well being
- To revitalise the awareness of social aspect of development, and
- To stimulate the growth impulses at large.

"Man" comes, therefore, into the centre stage of the discussion. It may be said that the various attempts are meant for development of man in its totality. Man becomes both "subject" and "object". The demand structure of man gets diversified in due course as the economy moves on from a lower stage of development to the higher stage of development. The design of the cooperative is normally prepared to meet the changing behaviour of man.

The cooperative institution is one of the powerful instruments for enlisting the objective participation and involvement of the people. It is also an institution, perhaps, the closest to the people, purposefully designed for the gainful interaction of various services and activities so that the "Felt needs" of the people are adequately taken care of.

The character of the man of the people at the grass root level is both simple and the demand is minimum, while the nature of the man of the people at higher level becomes increasingly complex and manifold. Concrete attempt is made to attend to the changes. The cooperative sector cannot ignore this economic reality.

The two articles of faith namely 'self-help' and 'mutual help' receive a deserving attention as corner stone and inducement to the people to work. In fact, the 'upward thrust' or the inner urge of the people has been stimulated to augment both physical production of goods and services, and also vision and outlook of the people. Therefore, both economic and social aspects of development are taken close to the people through the cooperative institutions.

Above all, a new article of lasting significance could be the systematic organisation of various activities such as savings, capital formation, investment and marketing. The principle beneficiary is people and at the same time the main player also is man. Therefore the cooperative institution is considered to be the institution of people, by the people and for the people.

63. "Business Policy" Reading material, HDCH National Council for Cooperative Training, New Delhi.

GOVERNMENT AND COOPERATIVES

As stated above, the policy decision of the government is formalised through different enactments passed by the government from time to time. However, it may be worthwhile to have a reference to the forms of government assistance made available to the cooperative societies.

FORMS OF GOVERNMENT ASSISTANCE

The various forms of government assistance to the cooperatives may be classified as follows :-

A) FINANCIAL

- a) Share capital participation.
- b) Concessional lending.
- c) Subsidies.
- d) Tax Exemptions/concessions.
- e) Guarantee against borrowings.

(B) NON-FINANCIAL

I) MOTIVATIONAL

- a) Supply of raw material.
- b) Purchase preference.
- c) Grant license.
- d) Allotment of land etc.

II) MANAGERIAL

- a) Protection of members interests.
- b) Protection of resources provided by the Government.
- c) To dovetail cooperative activities and decide priorities.
- d) To improve managerial efficiency of cooperatives.

III) ORGANISATIONAL

- a) Sponsorship of research.
- b) Creation and support of promotional agencies.
- c) Publications.
- d) Structural reorganisation.

ON GOVERNMENT ASSISTANCE

- a) By and large the intention of the co-operative is to extend adequate support and execute government programmes. Nevertheless, the government also may ensure that the cooperatives get adequate margins so that they do not suffer any loss. Similarly cooperatives also may undertake only viable schemes.

- b) Cooperatives must try to achieve in terms of financial and human resources so that they do not have an excessive dependence on government.

- c) Government should not have more than 49% equity in any cooperative so that the real control is in the user members only.

- d) Appointments of Chief Executives by the Government may be avoided as far as practicable.
- e) Government should not resort to wholesale suppression of the management committees of cooperatives.
- f) Cooperatives must pay regular dividend on Government share capital.

Since the commencement of the cooperative societies Act, 1904, attempt is being made to extend the possible help by the government. The state aid, financial and technical, has been a less insignificant factor.

The co-operative movement in India has thus been structured and designed on the general principles enumerated above, despite certain departures being made to accommodate the changing needs and responses in the economy.

NEED FOR A STUDY ON PACS IN MANIPUR

Agriculture is the principal occupation of Manipur. It is important in terms of production, employment and income. In the process of agricultural development in the state the importance of credit has been taken note of. However, no systematic attempt has been made to study the various implications of the roles of the primary agricultural credit societies. In view of the need for highlighting the various implications of the cooperative credit an attempt is made to undertake a study on the role of PACS in Manipur during the plan period.

CAPITAL MIX FOR A CO-OPERATIVE ORGANISATION

