Cooperation and State Policy

3.1. State Policy regarding Cooperative credit in U.P.

The cooperative movement in India was developed on the Govt. initiative. Even since the passing of the cooperative societies Act of 1904, the movement had the moral and financial support of the Government. The forstering care on the part of Government was perhaps the main reason that led Sri Horace Plunkett to Characteristically caricature that in India cooperation was not a movement but a policy created by resolutions of the central Govt. From the begining in 1904 to this day, the cooperative movement has developed largely on state aid.

So far as the role and functions of state in relation to cooperatives are concerned, prof F.A. Nicholson has remarked "Aider a faire not laissez faire is the true method of stimulating and encouraging poorer classes to take steps to provide through self help and mutual help, the institutions which shall furnish credit, promote thrift, develop habits of providence and safe guard prosperity."

The states relationship with the cooperatives is a very controversial point. The advocates of the deofficialization of the movement compare it to a child trying to learn swimming with its father's help lest the child should get drowned.

*1. Quoted by Dr. B.S. Mathur, Cooperation in India P. 579.
*2. Quoted by V.T. Naidu, Farm Credit & cooperatives in India " P. 166.
the father would like the child should learn the process of swimming with its feet dangling on his shoulders, in the process the child fails to learn swimming. On the other hand those who advocate about the state's assistance and guidance compare the movement to a child trying to learn walking. E.M. Hough argued that "Just as normally a child's first steps are aided by friendly supporting hand, so trained and experienced guidance is required for new societies and for all others until they are prepared for measure of self direction. The rural credit survey committee compared the cooperation in India to children struck down by malady of infantile paralysis. The little patients are studied, courses of treatment prescribed and carried out, muscles gradually strengthened and all efforts made to rehabilitate them and send them back to normal life. Thus, the state must nurse the cooperative movement till it become self reliant.

The Reserve Bank of India's monumental report on rural credit survey gave bold lead on the question of movements relation with Govt. After analysing the causes of the failure of the cooperative movement, the committee of direction of survey came to the conclusion that the magnitude of the state help should be such as to be effective against

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the competition and opposition of the private trade and other interest. Hitherto, the way of state's help was one of over administering and under financing. In this regard prof Bauer argued that unlike the cooperative credit societies of west such as the farm cooperatives of north America or British Consumer cooperation, the Indian cooperatives are mainly govt. administered and financed, rather we should say these are essentially extensions of Govt. department rather independent organisation. But nowadays in the context of greater welfare through democratic associations, the identity of cooperatives and state policy is being more and more emphasized. The committee of direction (R.C.S.C.) rightly felt that state's way of help should not be in the nature of an occasional hand shake with the cooperative movement but it should be real joining of hand. The committee, therefore, recommended not only state aid and assistance but also state partnership in cooperatives at all levels and in all matters, financial, administrative and technical. According to Mehta Committee on cooperative credit the share capital contributed by the state should not be more than the contribution made by members of the societies and such partnership should be indirect at the primary level.

Details of U.P. State contribution to the share capital of societies is given in table 9.1.

Table on next page.
**Table 8.1 State partnership in Share Capital of Cooperative credit Institutions in U.P.**

( Rs. Lakhs )

<table>
<thead>
<tr>
<th></th>
<th>1960-61</th>
<th>69-70</th>
<th>74-75</th>
<th>75-76</th>
<th>76-77</th>
<th>77-78</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Agricultral credit societies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Total share capital</td>
<td>888.52</td>
<td>2039.79</td>
<td>3507.29</td>
<td>3697.54</td>
<td>4239.90</td>
<td>4850.45</td>
</tr>
<tr>
<td>(ii) of which U.P. Govt.</td>
<td>75.00</td>
<td>170.30</td>
<td>308.41</td>
<td>323.90</td>
<td>411.11</td>
<td>542.82</td>
</tr>
<tr>
<td>(iii) % of (ii) to (i)</td>
<td>8.2</td>
<td>8.1</td>
<td>8.6</td>
<td>8.9</td>
<td>8.7</td>
<td>11.2</td>
</tr>
<tr>
<td>B) Central Cooperative Bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Total Share Capital</td>
<td>638.96</td>
<td>1407.33</td>
<td>2748.99</td>
<td>2890.95</td>
<td>3216.13</td>
<td>3563.27</td>
</tr>
<tr>
<td>(ii) of which U.P. Govt.</td>
<td>142.20</td>
<td>243.20</td>
<td>578.40</td>
<td>611.65</td>
<td>719.45</td>
<td>875.70</td>
</tr>
<tr>
<td>(iii) percentage of (ii) to (i)</td>
<td>20.7</td>
<td>17.3</td>
<td>21.0</td>
<td>21.2</td>
<td>22.4</td>
<td>24.6</td>
</tr>
<tr>
<td>C) State Cooperative Bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Total Share Capital</td>
<td>270.55</td>
<td>435.23</td>
<td>6050.44</td>
<td>6658.42</td>
<td>739.99</td>
<td>869.77</td>
</tr>
<tr>
<td>(ii) of which Govt.</td>
<td>15.00</td>
<td>47.20</td>
<td>172.20</td>
<td>202.20</td>
<td>202.20</td>
<td>202.20</td>
</tr>
<tr>
<td>(iii) percentage of (ii) to (i)</td>
<td>5.5</td>
<td>10.8</td>
<td>25.4</td>
<td>30.2</td>
<td>27.3</td>
<td>25.2</td>
</tr>
<tr>
<td>D) U.P. State Cooperative Land develop Bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Total banks share capital</td>
<td>15.34</td>
<td>429.87</td>
<td>1270.08</td>
<td>1491.03</td>
<td>1815.54</td>
<td>2015.66</td>
</tr>
<tr>
<td>(ii) of which Govt.</td>
<td>15.00</td>
<td>70.87</td>
<td>190.87</td>
<td>293.89</td>
<td>461.75</td>
<td>N.A.</td>
</tr>
<tr>
<td>(iii) percentage of (ii) to (i)</td>
<td>97.8</td>
<td>11.8</td>
<td>18.0</td>
<td>19.3</td>
<td>25.4</td>
<td></td>
</tr>
</tbody>
</table>

*Source:* Annual report for the year ending on 30th June 1978, Sahkarit Vibhag U.P. Lucknow.
Table 3.1 reveals that the state's contribution towards the share capital of Agricultural credit societies increased from Rs. 75.00 Lakhs in 1960-61 to Rs. 542.82 Lakhs during 1977-78. States share in the share capital of U.P. State Cooperative bank was at Rs. 202.20 Lakhs during 1977-78 as against to Rs. 172.20 Lakhs during 1974-75 and to Rs. 150.00 lakhs during 1960-61. Similarly the State's contribution towards the share capital of U.P. State cooperative land development bank at Rs. 461.75 lakhs during 1976-77, registered a rise of Rs. 446.75 lakhs over the year 1960-61. The total contribution of State towards share capital of credit institutions rose from Rs. 245.20 lakhs during 1960-61 to Rs. 1250.23 Lakhs during 1974-75 and to Rs. 1994.50 Lakhs during 1976-77. Thus, this increased participation of state in the share capital of cooperative institutions, reveals the States policy for strengthening the financing structure of the cooperatives in U.P.

**State's Loan to cooperatives:**

Cooperative institutions were provided with facilities of borrowing from the state Govt. to make an addition to make an addition to their working capital.

Table 3.2 shows the loan held by cooperative institutions from Govt. of U.P. at the end of June 1977.
<table>
<thead>
<tr>
<th>Particulars</th>
<th>Working capital</th>
<th>Drawn</th>
<th>Repaid</th>
<th>Outstanding</th>
<th>Percentage of Col(5)to(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. U.P. State Cooperative Bank.</td>
<td>4525.33</td>
<td>14.16</td>
<td>329.39</td>
<td>271.51</td>
<td>1.8</td>
</tr>
<tr>
<td>2. Central Cooperative Bank.</td>
<td>24732.62</td>
<td>61.63</td>
<td>243.57</td>
<td>171.59</td>
<td>.6</td>
</tr>
<tr>
<td>3. Primary Agricultural credit societies.</td>
<td>25020.56</td>
<td>N.A</td>
<td>N.A</td>
<td>120.65</td>
<td>.4</td>
</tr>
<tr>
<td>4. U.P. Cooperative Land development bank.</td>
<td>7844.15</td>
<td>N.A</td>
<td>N.A</td>
<td>113.43</td>
<td>.4</td>
</tr>
</tbody>
</table>

Table 8.2 reveals that by and large the direct financial commitment of Govt. was not substantial and the movement, on the whole, developed on its own capital raised by it independently. The comments of the Reserve Bank of India made in 1946 bear ample testimony to this fact "From small beginning the movement has grown rapidly and now represents an influence vitally affecting a large section of people. This development has taken place without excessive state aid on the one hand or absolute freedom from state intervention altogether on the other. The state's monetary assistance was certainly small."  

* Statistical Statements relating to cooperative movement in India, 1976-77.  
**7 Quoted by Dr. B.S. Mathur, cooperation in India P. 579.
Capital investment by the state for purchase of debentures issued by U.P. State cooperative land development bank for increasing their financial resources is also one of the important role being played in the field of long term finance for agriculture.

Table 8.3, shows the capital investment of U.P. Govt. in the Debentures of U.P. State Cooperative Land Development Bank.

Table 8.3. Capital Investment by U.P. Govt. in the debentures of U.P. State Cooperative Land Development Bank.

(Rs. in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>1972-73</th>
<th>73-74</th>
<th>74-75</th>
<th>75-76</th>
<th>76-77</th>
<th>77-78</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>442.936</td>
<td>440.752</td>
<td>247.563</td>
<td>246.446</td>
<td>381.12</td>
<td>370.51</td>
</tr>
</tbody>
</table>

U.P. Govt's investment in the debentures was Rs. 2229.75 lakhs till the end of 30th June 1977. The investment made during the year 1977-78 was of Rs. 370.51 lakhs. Thus, out of the total contribution made by different institution in the debentures at Rs. 28565.61 lakhs till 30th June 1978, U.P. State alone contributed up to Rs. 2600.26 lakhs during the same period.

* Performance Budget, 1977-78 Shakarita Vibhag U.P. Govt. P. 3
*8 U.P. State Cooperative Land Development Bank 10, Mall Avenue Lucknow.
U.P. Govt's Subsidies and Grants to Cooperative institutions:—

Government provides financial help in the form of managerial grant to cooperative institutions in U.P. The State provides grants for agricultural credit stabilisation fund also created under the scheme of central Govt. The basic aim of this fund is that if the crops are damaged by natural calamity of floods and droughts and farmers find it difficult to repay the loan then their short term credit could be converted in medium term loan so that smooth functioning of cooperative credit system might be maintained.

In the beginning, the progress of the creation of Fund was very slow and unsatisfactory, therefore, the Reserve Bank of India advised to U.P. State cooperative Bank that they should invest 15% of their total profit in this Fund. During the past years due to multiplicity of natural calamities, the Govt. decided to increase the amount of this Fund 75% of the financial assistance to U.P. Cooperative Bank by the State will be in the form of grants and 25% in form of loans. The total assistance provided by the State out during 1967-68 to 1973-74, amounted to Rs. 250,400 lakhs out of which Rs. 101,300 lakhs as grants and Rs. 68,600 lakhs as loans. The fund received Rs. 30,00 lakhs and Rs. 10,00 lakhs from the Govt. as grant and loans during the year 1974-75 and it was Rs. 46,00 lakhs during the year 1975-76.
Table 8.4. U.P. State Govt. 3 Financial Assistance to Agricultural Credit Stabilisation Fund.

<table>
<thead>
<tr>
<th>Year</th>
<th>Loan</th>
<th>Grants</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967-68 to 1973-74</td>
<td>68.600</td>
<td>101.800</td>
<td>250.400</td>
</tr>
<tr>
<td>1974-75</td>
<td>10.00</td>
<td>30.000</td>
<td>40.00</td>
</tr>
<tr>
<td>1975-76</td>
<td>11.500</td>
<td>34.500</td>
<td>46.00</td>
</tr>
<tr>
<td>1976-77 (Estimates)</td>
<td>25.00</td>
<td>75.00</td>
<td>100.00</td>
</tr>
<tr>
<td>1977-78 (Provisional)</td>
<td>25.00</td>
<td>75.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

The Govt. provided financial assistance for the "Risk Fund" to the primary agriculture credit societies and district cooperative banks from time to time. The Govt. has started rehabilitation of weak banks under the Scheme central Govt. Under this scheme the selected weak central Cooperative banks will be provided financial help to the extent of 50% of the amount of bad debt and bad capital losses and overdues outstanding on primary credit societies.

Financial assistance provided by State Govt. to Cooperative institution for different purposes is shown in table 8.5

Table on next page

* performance Budget 1977-78 Sahkarita Vibhag
Table 8.5 U.P. Govt's Financial assistance to Cooperative Institutions.

Rs. in lakhs

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Revised estimates 1976-77</th>
<th>Budget estimates 1977-78</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Managerial Grant to cooperative societies at Panchayat level.</td>
<td>46.70</td>
<td>97.400</td>
</tr>
<tr>
<td>2.</td>
<td>Managerial grant for branches of distt/Central cooperative bank.</td>
<td>4.98</td>
<td>20.02</td>
</tr>
<tr>
<td>3.</td>
<td>Managerial grants for the branches of U.P. Coop. Land Development Bank.</td>
<td>0.66</td>
<td>0.780</td>
</tr>
<tr>
<td>4.</td>
<td>Grant for Risk Fund to Primary credit societies and central cooperative Bank.</td>
<td>1.00</td>
<td>15.00</td>
</tr>
<tr>
<td>5.</td>
<td>Grants for the rehabilitation of weak banks.</td>
<td>31.26</td>
<td>72.36</td>
</tr>
<tr>
<td>6.</td>
<td>Interest free loan for the modernisation of the branches of banks.</td>
<td>2.50</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Assistance to Agricultural credit stabilisation fund.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i)</td>
<td>in the form of grant</td>
<td>75.00</td>
<td>75.00</td>
</tr>
<tr>
<td>(ii)</td>
<td>in the form of loan</td>
<td>25.00</td>
<td>25.00</td>
</tr>
</tbody>
</table>

Source:- performance budget 1977-78
PP 56, Sahkarita Vibhag U.P.
Govt. Lucknow.
Thus, the Govt. played an important role by providing financial assistance to cooperatives. The financial assistance provided by the state to the cooperative was Rs. 1037.57 lakhs for the year 1971-72, Rs. 971.46 lakhs during the year 1975-76 and a provision of Rs. 946.94 lakhs was made for the year 1977-78.

Table 8.6 shows the financial assistance provided by the Govt. in different years.

<table>
<thead>
<tr>
<th>Year</th>
<th>71-72</th>
<th>73-74</th>
<th>75-76</th>
<th>76-77</th>
<th>77-78</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>1037.57</td>
<td>647.693</td>
<td>971.46</td>
<td>911.881</td>
<td>946.94</td>
</tr>
</tbody>
</table>

(revised (Provisional) estimate)

Government Guarantee: Another way and an indirect one in which Govt. assist cooperatives is by guaranteeing, on their behalf, the repayment of the principal and the payment of the interest on loans. For sanctioning short term credit limits in favour of central banks other than those of "Class A" the Reserve Bank of India insists on a guarantee from the State similarly, the debentures which are floated by the U.P. cooperative Land development bank have to be guaranteed.

* Performance Budget 1973-74, 75-76 and 1977-78
Sahkarita Vibhag U.P. Govt. Lucknow.
by the U.P. Govt. Thus, by providing guarantee facility to cooperatives by the state Govt. gave a moral strength to borrowing cooperatives that they could count on state help and guidance in period of difficulty. Since the resources of Government are limited, Government use their prestige and authority to support cooperative institutions.

State Policy.-- The Government of U.P. followed the policies regarding cooperative credit as communicated by the Govt. of India during different Five Year Plan. Accordingly "Small farmers development agency and Marginal farmers and Agricultural labourers development projects" are implemented in 26 districts of the state. Besides, as per recommendation of the Reserve Bank of India and Government of India, an agricultural credit --Intensive development Scheme has been introduced in seven selected districts (Banda, Basti, Raibareli, Jaunpur Meerut, Dehradun and Mainital) of U.P. Recently the Government of India, on the basis of the deliberations held at annual conference of the registrars of cooperative societies and state Minister's conference in 1977, communicated a new national cooperative Policy resolution to be followed by the state Government.

1. Cooperation shall be built up as one of the major instruments of decentralised, labour intensive and rural oriented economic development.

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* For detail see chapter five of this thesis.
2. Cooperatives at all levels shall be closely associated with the process of planning of economic development and social change.

3. Development of cooperative movements as a shield for the weak and maximum scope to be provided to small and marginal farmers, agricultural labourers, rural artisans and ordinary consumers to participate in the cooperative programmes.

4. The cooperative movement shall be built up as an autonomous self-reliant movement free from outside interference and excessive control as also from policies.

5. A voluntary democracy shall be built up based on enlightened participation of broad-based membership free from domination of vested interests.

6. Cooperative movement shall be cleansed of corruption and malpractices which spoil the fair name of cooperation and harm the very principles for which the movement stands.

7. In the rural areas a strong, viable and integrated cooperative credit system shall be built up to promote total and comprehensive rural development by progressively strengthening the links between credit, supply of agricultural inputs, agricultural production including ancillary activities like dairy, poultry, fisheries and piggery, marketing and distribution of essential consumer articles.

8. Cooperative shall be promoted as efficient institution which streamlined organisation and simple and rationalised procedure.

9. Professional management shall be built up in cooperative societies through a sustained programme of recruitment of suitable personnel and their systematic
training.

According to this new policy, cooperation has been assigned a pivotal role in the process of state's planning and development and the cooperation is conceived as an instrument for encouraging decentralisation and local initiative in the developmental process keeping in view the overall purpose of having a society based on values of democracy and socialism.

A.2. Defects and Drawbacks of Agricultural Cooperative Societies.

Inspite of the progress and increase in number of societies, in membership and in working capital, as discussed in the previous chapter, it has been observed that cooperation has not been a living, dynamic force contributing to the moral intellectual and economic improvement of rural masses. It has not become with the cultivators a way of life but has remained a government agency from which they can obtain cheap credit cooperative movement had not fulfilled the hopes and expectations of the people. It has failed to deliver the good. The development has been lop-sided and has by and large furthered the interest of the richer classes at the cost of poor sections of the society. Further, Dr. Gyan Chand has remarked that cooperation has failed to bring even succour to the poverty stricken peasants, artisans and small traders. It has more and more become a combination of the strong, not for the weak but against them.

*1. Dr. F.S. Loknathan. Hindustan Times, dated 16th Nov. 1955.

*2. Gyan Chand, Socialist Transformation of Indian Economy P. 324.
following are the main defects and drawbacks of primary agricultural credit societies.

(1) **Lack of Spontaneity.** The urge of cooperation has come from the Government and not from the people themselves. While in countries like Germany, Ireland and Italy, Cooperatives were organised by cooperative enthusiasts like Raiffeisen, Horace, Plunkett and Luzzati, but in India, the movement has started by the Government as remedy to solve the problem of rural indebtedness. According to Dr. Hough, "It has been a government initiated and Government fostered effort, leaving the poor people without alleviation of their sufferings which cooperation can bring about." Thus, the lack of spontaneity in the Indian cooperative movement is admittedly one of its greatest weaknesses.

(2) **Lack of knowledge of principles of cooperation.** Most of the members of the societies are illiterate and ignorant of cooperative principles. For them cooperatives are just like a bank from they can get money at cheaper rates and there is no hurry in repaying the loans and it does not matter much if the loan is utilised for other purposes than for which it was taken. According to Kusum Nair, the basic cause of failure of the movement is the little understanding of the principles of the cooperation or its potentialities among the people. In India cooperation is essentially a western form of organisation of which ever first principles are unknown. *3.

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*3. Kusum Nair, *Blossoms in the Dust*, P. 190
(3) **Non viable units**: most of the societies are feeble and nonviable units. Most of them have poor membership and are working with inadequate working capital. Out of the 8701 cooperative credit societies working in U.P. during 1977-78, 1572 societies were working in loss during the same period. Recently the all India Rural Credit Review committee has started "A large number of primary agricultural credit societies are neither viable nor even potentially viable and must be regarded as inadequate and un satisfactory agencies for dispensing production oriented credit". *4

(4) **Dormancy of Societies**: Another significant problem about the agricultural credit societies is that many of them are lying dormant. Out of the 9149 agricultural credit societies working during 1976-77 in U.P., 861 societies were laying dormant. The existence of such a large number of dormant societies at the primary level is really one of most disturbing features in the cooperative credit structure in U.P.

(5) **Low coverage**: The proportion of rural population served by the agricultural credit societies was 51% in U.P. whereas 86% in Karnataka, 69% in Tamil Nadu and 52% in Maharashtra. Thus, the 50% of the rural population is still to be covered under the cooperative fold.

(6) **Absence of self help**: Elements of thrift and savings amongst the members has been yet small. According to

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*4 All India Rural Credit Review Committee, 1969, P. 201*
Dr. Darling "There seems to be much emphasis on the need to widen and deepen the channels of borrowing and too little on the equally important need to encourage thrift and savings." This evidence by the low proportion of deposits per member as against the national average of deposit per member of Rs. 24 (1976-77). A great disparity is found in different states. It was as low as Rs. 5 in Bihar, Rs. 6 in J. and K., Rs. 13 in Orissa as high as 148 in Punjab and Rs. 97 in Kerala. Thus, the self-help and self-reliance (which are the chief characteristics of the cooperative movement) are conspicuous by their absence in U.P.

(7) **Inadequacy of credit** - A significant weakness of agricultural credit societies is that the quantum of loan supplied by them is not only inadequate, but woefully far below even the absolute minimum credit requirement of the agriculturists. The average loan advanced by these societies in U.P. was Rs. 207 per member during 1977-78 which was by no means satisfactory.

The all India Rural debt and investment survey ('1961-62) revealed that the average borrowing per cultivative house hold was only Rs. 31.90 from the cooperatives as compared with Rs. 205.40 from other agencies indicating generally that the total amount borrowed from all other agencies was substantially higher than that of cooperatives. As the societies do not provide adequate

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*5. Quoted by Dr. C.B. Mamoria, Agricultural Problem of India P. 607 Ed. 1979.*

finance to the number, to the number they have per force
to go to usurious money lenders.

(3) **High incidence of overdues:** One of the most
disquieting features of the agricultural credit societies
in U.P. is the increasing amount of overdues. From a small
figure of Rs. 43.17 Lakhs in 1950-51, they had mounted
up to Rs. 9135.08 lakhs during 1977-78 and formed 47.5% of
the loan outstanding. **7** The main causes of overdues has
been indicated by the study team on overdues of cooperative
credit Institute (appointed by Reserve Bank of India
in 1972 ) reported in February 1974 that the lack of will
and discipline among the cultivators to repay loans,
was the principal factor responsible for the prevalence
of overdues in cooperatives. Defective lending policy
persued by cooperatives, the apathy of management in taking
quick decision against, recalcitrant members and absence
of favourable climate were contributory factor.

A portion of high amount of overdues is the effect
of denial of the facilities of conversion loan to the
eligible borrowers. Because at the time of natural calamities
farmers crop is destroyed and they find it impossible to
repay back the loan in time. The following are the main
reasons, for high amount of overdues as revealed by the
study team.

**7. Office of the Registrar Cooperative Societies
U.P. Lucknow.

** Report of study team on agricultural credit Institu-
tions in U.P. 1972. Agricultural credit department,
Reserve Bank of India.PP. 108-114
1. Indifference of non officials on the management of societies, arising mainly from some of them incurring defaults themselves to initiate correcive action even against the recalcitrants defaulters.

2. Absence of paid managers in most societies who could devote his time to persuade the borrower to pay their dues by issuing them reminder and notices and also to prepare arbitration cases for the recovery of chronic defaults.

3. Inability to introduce arrangements for linking the recovery of credit with the marketing of produce.

4. In ability of District cooperative Banks, which have no control over the field staff, to launch a drive for effecting recoveries of the dues of their affiliated institutions and also help the latter effectively in pursuing correcive action against recalcitrant defaulters.

5. Absence of involvement of departmental officials posted in districts in the general recovery drive.

6. Lack of will among the borrower members to clear their dues in time with the expection that fresh loan will be issued to them as per past practice.

7. The borrowers are also not concerned about straining their relation with the society of their area as the benefits accruing to them from the societies are very limited and the denial of such benefits by virtue of their defaults therefore does not make matters difficult for them.
(9) **Defective loan policies:** The loan disbursed by the cooperative credit societies has no proper timings either for disbursement or recovery of loan. Besides, the entire loan is led out in lumpsum once in a year instead of being paid instalments. The policy of advancing the loan by mortgage of landed property is still practised and loan to be advanced on anticipated crops is not being followed.

(10) **Lack of Responsibility and Business habits:**

Prof. Blocke, J.H. observed that "the oriental is accustomed to work independently and without discipline, he lacks the sense of economic cooperation either he is distrustful or he is blindly confiding. He lacks the essential business qualities of discipline, punctuality, capacity for cooperation in organised groups."

(11) **Domination of vested interests:** One of the most disturbing features of the movement is that it is increasingly passing to the hands of the politicians and the vested interest. In most cases leadership lies in the hands of persons who are not genuinely interested in cooperatives. "If the large scale public sector has become a hobby of senior politicians and bureaucrats, the cooperative movement has turned out to be handy tool of self advancement in the hands of petty politicians and district officials. The result has been to convert the movement into the very anti thesis of cooperation and make it one of the most organised and fast expanding channels of national waste."


These vested interests very often put restriction on fresh membership, avoid holding of general meetings and often delay them manipulate in election of office bearers, employ near relations and acquaintances in the paid service of the society, grant them loan liberally, dont take action against them in case of late repayment of loans and general use of the machinery of the society for personal use. These factors restrict the fair and free functioning of cooperative credit structure.

(12) Lack of supervision, Audit and inspection:—So many committees has pointed out that many societies are neither properly audited nor effectively supervised. The main reason for this is that supervisors and auditors are heavily over burdened with routine work and they hardly find time to supervise the work of societies. Besides, lack of adequate and competent staff, absence of unitary control over the supervisory staff and lack of coordination amont the extention officers of cooperative department have also acted as inhibiting factors in making supervision effective.

The abuse of ineffective supervision has been summed up by Rural credit Review committee as " From non existent or in effective supervision arise many other weaknesses which also lead to over dues, such as book adjustment of debts, bogus loans, mis-utilisation of credit and the failure to take steps to recover "

*10. All Indiа Rural Credit Review Committee 1969.
(13) **Ineffective Management**—Money of the weakness of the primary credit societies arise on account of inefficient and ineffective management. The members of the managing committee do not take sufficient interest in the working of their societies. In some of the societies annual general meeting are not held regularly.

(14) **Neglect of small Farmers**—Another weakness of the agricultural credit societies has been that they have not helped the small farmers. The review committee observed that from the various investigations under taken by us as well as from other material, it does seem that the weaker sections of cultivators continue to receive only limited benefit from cooperative credit.*11

Thus, the various weaknesses and draw backs of primary agricultural credit societies are becoming as major hurdles in the way of speedy growth of cooperative structure. A study group on the N.C.D. under the Chairmanship of Dr. D.R. Gadgil has summed up the weakness of cooperative credit as:

"The main shortcomings of the cooperative system which vary from state to state are the problems of overdues indifferent managements, dominance of cooperatives by vested interests, shortage of resources, lack of efforts to mobilise deposits, untrained staff and weak arrangement for linking credit with marketing."*12

*11. All India Rural credit Review Committee (1969))P.173
*12. Report of A study group of the National credit council organisational Frame work for the implementation of social objectives (1969)PP 79-80
8.3. Reorganisation of Cooperative Credit Societies.

A major weakness inhibiting the flow of larger cooperative credit has been due to the existence of a larger number of non-viable primary agricultural credit societies. The committee on cooperative credit, 1960 described that "a viable unit is that which may be expected within a reasonable time to render the more important services both adequately and to as larger number of producers as possible without depending upon financial assistance from the Government, except for a limited period. The society should have the ability not only to command the services of competent personnel as well as to meet the expenditure on rent, audit, supervision and provide for education fund reserves and reasonable returns on capital." The programme of reorganisation of these non viable societies envisaged the amalgamation of weak or non viable societies with better managed societies in the neighbourhood.

The primary objective of re-organisation programme is to build up strong viable multipurpose base level cooperative credit structure which can undertake the functions of credit supplies and services required in the rural areas, particularly for weaker sections. The farmer's service societies have also been organised as a part of the reorganisation programme, with professional well paid manager supported by technical expertise and predominance of weaker sections on the board of management.

*1. Report of the Committee on cooperative Credit 1960. P. 74
The representatives of Reserve Bank of India in their annual discussion held at Nanital in May 1975, emphasised the need for reorganisation the primary credit structure in the state, with a view to having only viable societies at the base, each capable of sustaining a full time trained secretary. Following these discussions, basic data about the state of affairs at the primary level was collected and a blue print for action for reorganize the primary credit structure in plain tract of the uttar Pradesh was prepared by the cooperation department of Government of U.P. on the basis of following guiding norms.*2

(1) The area of operation of every reorganised society should be coterminous with area of the concerned Nyaya panchayat and barring a few exceptions, the area of a Nyaya panchayat should not be divided between two reorganised societies.

(2) Each reorganised society should have a potential to reach a loan business of not less than Rs. 3 lakhs.

(3) No existing largesized societies numbering 730,should be touched in the process of reorganisation only if there was need for marginal adjustment in their area of operation, Thus, if the area of operation of recognised society does not offer adequate potential to reach viability, the area of large sized society could be slightly adjusted in the interest of the viability of former society.

*2, Report of the study team on agricultural credit institutions in U.P. 1978 P. 114, Agriculture credit department, Reserve Bank of India, Bombay.
(4) Every reorganised society should be provided with 
services of trained and full time paid secretary 
as also with an office cum godown of its own.

**Progress of Reorganisation in U.P.**

In pursuance of the recommendations of various 
committees, the programme of reorganisation is being done 
in U.P. There were 21933 primary agricultural credit 
societies in U.P. during 1974-75, but due to reorganisation 
programme this number fell to 8701 during 1977-78 and to 
3126 during 1978-79. In order to make the societies self 
dependent, a three years managerial grant of Rs. 1800 per 
society is given by the State Government. Out of this 
Rs. 1800, Rs. 900 is payable in the first year, Rs. 600 in 
the second year and Rs. 300 is payable in the third year. 
The managerial grant given to societies organised at Nyaya 
Panchayat level, was Rs. 48.70 Lakhs and a provision of 
Rs. 97.40 Lakhs to be given as managerial grant to societies 
has been made for the year 1977-78.*3

The progress of reorganisation of societies is 
shown in Table 8.3.a.

Table on next page.

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*3 Performance Budget, 1977-78, Sahkari Vibhag 
U.P. Government P. 5
Table 8.3.1. Progress of Reorganisation of societies in U.P.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Year 1976-77</th>
<th>Year 77-78</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Number of cooperative credit, societies.</td>
<td>9257</td>
<td>8701</td>
</tr>
<tr>
<td>(a) Kashtriya Sahkari Samitiyan</td>
<td>722</td>
<td>530</td>
</tr>
<tr>
<td>(b) Sadhan Sahkari Samitiyan</td>
<td>7363</td>
<td>7294</td>
</tr>
<tr>
<td>(c) Multi purpose societies</td>
<td>559</td>
<td>433</td>
</tr>
<tr>
<td>(d) Farmers service societies</td>
<td>52</td>
<td>331</td>
</tr>
<tr>
<td>(e) Large and Multipurpose societies</td>
<td>56</td>
<td>73</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*4. Table 8.3.1. reveals that the number of Kashtriya Sahkari Samitiyan declined from 722 during 1976-77 to 533 during 1977-78. The number of farmers service societies rose from 52 during 1976-77 to 331 during 1977-78. Similarly, the organisation of multipurpose societies for hill areas also showed arising trend. The number of LAMPS at 56 during 1976-77 rose to 73 during 1977-78.

It is necessary for the reorganised societies to have an office and godown building of their own. Efforts are being made towards this problem. The construction of 1963 offices/Godowns has been completed till the end of
June 1978. A scheme of Rs. 20 crores for construction of offices/godowns of societies in the coming years has already been submitted to world Bank through Indian National cooperative corporation. A target for the construction of 1000 new godowns has been set for the year 1978-79.

Farmers service societies:-- The formation of farmer's service societies has been recommended by the National commission on Agriculture. As per recommendation of the commission, the Government of India implemented a scheme of organisation of farmer's service societies since 1973-74. The purpose of organisation of these societies is to provide loan, other services and some facilities to agriculturists particularly, to the small/marginal farmers, agricultural labourers and other rural artisans. These societies will also distribute consumption goods to farmers. These societies are being organised in the operation areas of small farmers development agency( SFDA),drought prone area development (DPAD)and in the areas of Regional Rural banks. The number of farmers service societies was 54 during 1977-78. The main speciality of these societies is that in lieu of a secretary, there is an arrangement of two technical officers in addition to managing director in societies, so that these could fulfill their multipurpose objects properly. Financial help to the societies is, generally, provided by commercial banks.

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*5. Saharita, 1978, P.4, Nibandhak Sahkari Samitiyan
U.P. Lucknow.
The expenditure on the salary of managing director will be borne by the concerned commercial bank, but where the finance feeding is done by district cooperative bank, the burden of salary of managing director will be borne by U.P. State cooperative bank limited. Managerial grants for the salaries of technical officers is made available by small farmers development agency/State Govt.

Regarding the organisation of farmer's service societies, it has been decided that the societies whose loaning operations during 1976-77 has been more than Rs.8 lakhs, should be converted into farmer's service societies. Now such type of reorganisation is not being done in the areas of small farmers development agency, DP/IP and command areas only, but in the whole of the U.P. State. Till the end of 1977-78, 372 such societies had been coverted into farmers service societies. At present the number of farmers service societies is 427.

Loan operations out of the total short term loan distribution of Rs. 12390.34 lakhs during 1976-77, the share of farmers service societies and large sized multipurpose pose societies was Rs. 104.42 Lakhs and Rs. 44.39 lakhs respectively.

The progress of loan operation of cooperative credit societies in U.P. is shown in table 8.3.2.
### Table 8.3.2. Progress of loan operations of cooperative credit societies in U.P. during 1976-77.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Primary Agricultural credit societies</th>
<th>Farmer's service societies</th>
<th>Large multipurpose societies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total number of societies (Number)</td>
<td>9149</td>
<td>52</td>
<td>56</td>
<td>9257</td>
</tr>
<tr>
<td>2. out of col. 1 self dependent societies (number)</td>
<td>5530</td>
<td>47</td>
<td>38</td>
<td>5615</td>
</tr>
<tr>
<td>3. Short term loan distribution (Rs. thousands)</td>
<td>12241.53</td>
<td>10442</td>
<td>4439</td>
<td>1239034</td>
</tr>
<tr>
<td>(a) For seasonal agricultural operations</td>
<td>1194492</td>
<td>10233</td>
<td>3509</td>
<td>1208391</td>
</tr>
<tr>
<td>(i) Cash</td>
<td>667894</td>
<td>5511</td>
<td>3225</td>
<td>676632</td>
</tr>
<tr>
<td>(ii) In kinds</td>
<td>526578</td>
<td>4777</td>
<td>384</td>
<td>531759</td>
</tr>
<tr>
<td>(b) For purchase of agricultural implements</td>
<td>1193</td>
<td>23</td>
<td>431</td>
<td>1647</td>
</tr>
<tr>
<td>(c) purchase and sale of fruits</td>
<td>30</td>
<td>-</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>(d) Other agricultural purposes</td>
<td>1606</td>
<td>13</td>
<td>-</td>
<td>1624</td>
</tr>
<tr>
<td>(e) Non agricultural purposes</td>
<td>26330</td>
<td>113</td>
<td>399</td>
<td>27342</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
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<td>---</td>
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</tr>
<tr>
<td>4. Medium Term Loan Distribution</td>
<td>113427</td>
<td>2690</td>
<td>1518</td>
<td>117635</td>
</tr>
<tr>
<td>a. For wells</td>
<td>1722</td>
<td>83</td>
<td>50</td>
<td>185</td>
</tr>
<tr>
<td>b. Purchase of machinery</td>
<td>5371</td>
<td>348</td>
<td>-</td>
<td>5719</td>
</tr>
<tr>
<td>c. Purchase of cattle</td>
<td>29111</td>
<td>637</td>
<td>569</td>
<td>30317</td>
</tr>
<tr>
<td>d. Animal husbandry</td>
<td>32115</td>
<td>711</td>
<td>600</td>
<td>34326</td>
</tr>
<tr>
<td>e. Minorland improvement</td>
<td>2364</td>
<td>247</td>
<td>66</td>
<td>3177</td>
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<tr>
<td>f. Other agricultural purposes</td>
<td>23643</td>
<td>558</td>
<td>227</td>
<td>24426</td>
</tr>
<tr>
<td>g. For loan conversion</td>
<td>1356845</td>
<td>12355</td>
<td>5559</td>
<td>1374759</td>
</tr>
<tr>
<td>h. Non-agricultural purpose</td>
<td>10904</td>
<td>106</td>
<td>6</td>
<td>10916</td>
</tr>
</tbody>
</table>

5. Loan outstanding

A. Short term

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1358598</td>
<td>3598</td>
<td>2532</td>
<td>241628</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Important Statistical information relating to cooperative movement in U.P. 1976-77 PP. 32-35
Table 3.3.2 reveals that the medium term loan distributed at Rs. 1176.35 lakhs during 1976-77, primary credit societies accounted for Rs. 1134.27 lakhs, farmers service societies Rs. 26.90 lakhs and LAMPS for Rs. 15.18 lakhs. Out of the total short term loan outstanding at Rs. 13568.45 lakhs, the share of farmer's service societies was Rs. 123.55 lakhs and of the LAMPS was Rs. 55.59 lakhs. Similarly, out of the total medium term loan outstanding at Rs. 2416.24 lakhs, the share of primary credit societies, farmers service societies and LAMPS was Rs. 2354.98 lakhs, Rs. 35.98 lakhs and Rs. 25.32 lakhs respectively.

The reorganisation of primary credit structure in the hill region in U.P. is also being undertaken side by side the reorganisation of primary credit societies in the plain tracts of the State. The U.P. Study team on institutional credit in agriculture, recommended the following points for the reorganisation of primary credit structure in the hill region of U.P.*6

1. Every reorganised society should have its headquarters at a growth centre and include in its area of operation all the villages that are traditionally linked with that growth centre. Its area of operation may not normally extend to more than 8-10 Kms in radius in lower altitude and 5-6 Kms in radius with altitudes above 5000 ft. 

2. With the area of operation of a society, may include the area of one or more Gram shabhas, the condition that all the villages in its area should belong to the same Nyaya Panchayat may be waived, if the circumstances so warrant, so as to ensure that the traditional links of a cluster of villages with a growth centre are not broken merely because these villages belong to more than one Nyaya panchayat.

3. While the requirements at (i) and (ii) above would serve as the general principle, it should be ensured that the area of every reorganised society covers a gross cropped area of at least 300 hectares with about 1000 families, if society is situated at lower altitudes and above 400 hectares with at least 500 families incase the location of the society is at an altitude of over 6000 ft. This should ensure that a society of former category has a abroad short term agricultural loan business of Rs. one lakh and the one in the latter category has such business of at least Rs. 50000.

4. The identification of growth centres and the areas of reorganised society in a block may be initially done jointly by the additional district cooperative officer and assistant development officer (Cooperation) at the block. Their proposal may be forwarded to assistant registrar of the district with the recommendations of the concerned block development council. On receipt of the proposals from all the blocks in the district, the same should be scrutinized and approved jointly by the assistant registrar
and the secretary of the concerned district cooperative Bank and put up for approval to the district board of the Janpad to ensure non official involvement. Once this is done, the organisation should be brought about on the basis of the block wise plans so approved.

5. At the time of implementing the reorganisation proposals a number of procedural and legal problems will be encountered. Besides, there will be problems connected with the taking over of liabilities of existing societies with the heavy overdues and bad debts by the societies indentified for retention or by a new society. To overcome these difficulties the guide lines issued by Reserve Bank of India to all Registrar cooperative societies in May 1976 through two circular letters may be followed.

6. Every reorganised society will require a godown of its own. Since its creation will involve amalgamation with it of a cluster of societies at the primary level in the area comprising not only the existing credit societies but also societies like mklk primaries, fruit and vegetable marketing societies, all types of labour cooperatives, Janjatiya societies of the social welfare department. It is likely that many of the reorganised societies will have a godown of their own. still the rural godowns programme envisaged under the fifth plan may be so altered as to give preference to reorganised societies which do not have a godown of their own.
7. The state Government may take share capital contribution of Rs. 25000 to every reorganised society from out of funds borrowed from the Reserve Bank of India's long term operations Fund. The reserve Bank of India, in turn may take a liberal view regarding, compliance with the presently prescribed terms and conditions.

8. In view of its multifarious activities, every reorganised society will require the services of at least two to three full time paid employees. All these hands may be provided from the cadre of secretaries, however, the cost of only one hand may be the charge on the cadre fund and that of additional hands, may be met from the subsidy to be credited to the fund for which a suitable provision may be made in the State's sub plan for the hilly region.

To sum up, the reorganisation of primary cooperative structure in U.P. is being undertaken very effectively. The number of reorganised societies in the plain and hill areas during 1977-78 was, 6434 and 643 respectively. These, are working as multipurpose societies and have full time trained secretaries in it.

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