CHAPTER - IV

PERFORMANCE AND FINANCIAL PROBLEMS OF RURAL COOPERATIVES IN U.P.

Rural cooperative society means a registered society functioning in a village whose membership is open only to individuals and whose objects do not include facilitating the operations of any other registered society. The general characteristic of a cooperative society consists in the collective realization of tasks on the basis of equal rights of the members in it with the aim of doing the work rationally for achieving greater productivity and greater economic benefits. In the broadest sense the objectives of a cooperative society are directed at the well-being of its members, the interests of their interests and the satisfaction of their needs.

The rural cooperative societies were started in order to save people from the money-lenders and their practices. A big majority of Indian people have since been living in villages and depending for their livelihood on agriculture. These cooperatives are working in different fields and are providing various facilities to the rural poor. Some of the important rural cooperative societies which are common in U.P. are:

(1) Primary Agricultural Credit Societies
(2) Cooperative Marketing Societies
(3) Cooperative Farming Societies
(4) Cooperative Processing Societies
(5) Fisheries Societies
(6) Milk Supply and Dairy Societies
(7) Poultry Societies
(8) Irrigation Societies

(1) Primary Agricultural Credit Societies:

The primary agricultural credit societies are the main
institutions of rural finance and have the onerous responsi
bility of meeting the growing credit needs of the rural popu
lation. These societies, besides, loaning funds to their mem
bers, encourage thrift and act as agents for the sale of their
members' produce and for meeting their agricultural require
ments - for hiring implements, machinery or seeds.

As discussed in the earlier chapter, the main object
ive of these societies is to raise the economic standards of the
farmers who are living at subsistence level and giving agricul
ture a scientific bias. By the end of 1984-85, there were
8,602 primary agricultural credit societies in Uttar Pradesh.
They had membership of 107.9 lakhs with Rs. 8,76,000 lakh as
their share capital, Rs. 1,301.29 lakh reserve fund, Rs. 3,612.00
lakhs deposits and Rs. 69,482.65 lakhs as their working capital.
They had disbursed Rs. 25,523 lakhs short-term and medium-term
loans to their members during this period.
Cooperative Marketing Societies:

The basic principle of cooperative marketing is to strengthen the position of the primary producers in relation to the traders who dominate the market. Marketing cooperatives are organisations of the farmers and are owned and managed by them on democratic principles and, therefore, they are vitally interested in securing better prices for the agriculturists, while on the other hand, the traders and merchants, who work only for profit, are often tempted to create an abnormal situation in the market in order to make a better bargain out of it for themselves. These practices of the traders help neither the producers nor the consumers.

The broad aim of cooperative marketing societies is to rationalize the whole marketing system so that it may be beneficial to the producers. Its immediate objective is to strengthen the bargaining capacity of the cultivator so as to secure him better price, to eliminate the superfluous middleman, to provide him the needed finance, to persuade him to grow better quality of products and to stabilize prices by an orderly and judicious supply of commodities in the market.

The cooperative marketing structure consists of a three-tier system viz., at village, district and state levels in Uttar Pradesh. The cooperative marketing network consists of 250 primary marketing societies located at mandi level which
are federated into 52 districts cooperative development federations. The D.C.D.F's are in turn members of the State Provincial Cooperative Federation. In addition, there are 2,254 Block Unions which are also members of District Cooperative Development Federations. The marketing cooperatives handled agricultural produce during the year 1982-83, 1983-84, 1984-85 worth Rs. 100 crores, Rs. 92 crores and Rs. 112 crores respectively. The progress of the marketing societies is shown in Table 4.1.

The Table on the next page shows that the number of primary marketing societies increased from 230 in 1977-78 to 314 in 1981-82. Membership of the societies also rose from 9,97,415 to 8,96,298 during the period. The working capital of these societies is steadily increasing. From Rs. 1,131,100 in 1977-78 it went up to Rs. 2,042,04 lakhs in 1981-82. There was about 33.4 per cent increase in owned funds in a short span of 5 years. Deposits of primary marketing societies have registered a rising trend. They were Rs. 314,81 lakhs in the year 1977-78 and recorded 37.4 per cent increase so that they stood at Rs. 432.78 lakhs in 1981-82. It also shows the growth in the sales of agricultural produce by primary marketing societies during the period. There was a perceptible decline in the business done by the marketing societies.

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1- Draft Seventh Five Year Plan, Government of Uttar Pradesh, p. 278.
**TABLE 4.1**

Progress of Primary Marketing Societies in U.P.

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Number of Societies</td>
<td>230</td>
<td>241</td>
<td>240</td>
<td>249</td>
<td>250</td>
</tr>
<tr>
<td>2.</td>
<td>Membership</td>
<td>827000</td>
<td>857921</td>
<td>853664</td>
<td>591599</td>
<td>396298</td>
</tr>
<tr>
<td>3.</td>
<td>Share Capital</td>
<td>307.60</td>
<td>330.70</td>
<td>365.37</td>
<td>415.05</td>
<td>443.87</td>
</tr>
<tr>
<td>4.</td>
<td>Reserve Funds</td>
<td>142.46</td>
<td>156.64</td>
<td>169.49</td>
<td>182.11</td>
<td>189.99</td>
</tr>
<tr>
<td>5.</td>
<td>Deposits</td>
<td>314.91</td>
<td>480.21</td>
<td>374.51</td>
<td>390.23</td>
<td>432.78</td>
</tr>
<tr>
<td>6.</td>
<td>Borrowings</td>
<td>376.82</td>
<td>455.99</td>
<td>479.49</td>
<td>586.09</td>
<td>675.57</td>
</tr>
<tr>
<td>7.</td>
<td>Working Capital</td>
<td>1054.94</td>
<td>1318.28</td>
<td>1257.94</td>
<td>1427.94</td>
<td>2042.94</td>
</tr>
<tr>
<td>8.</td>
<td>Total Sales</td>
<td>3341.68</td>
<td>3613.52</td>
<td>2929.59</td>
<td>3795.20</td>
<td>3528.46</td>
</tr>
</tbody>
</table>

A very large part of this is attributed to the fall in the supply and distribution work which the societies had undertaken during the period of control.

(3) Cooperative Farming Societies:

In Uttar Pradesh, cooperative farming was introduced on an experimental basis in Jhansi district\(^1\) where land was reclaimed by deep tractor ploughing under a government scheme.

Cooperative farming is intended to enable the small farmers, without disturbing the institution of private ownership of land, to have the benefit of economics of large-scale enterprises which would not be otherwise available to them. Cooperative farming brings under one management lands held by a number of uneconomic holders and thus creates a land base in which economic operations of agriculture and allied industries become possible.

The most important aim of a cooperative farming society is to increase production and to create avenues for revenue. For this purpose, the society undertakes: (a) more intensive numbers of land improvement and irrigation, (b) introduction in agriculture and agro-industries, and (c) more scientific method of cultivation, crop planning and rotation. These measures result in better and more profitable use of land, manpower, cattle, knowledge and skill. By adoption of scientific methods of farming and proper distribution of work,

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production is increased and cost reduced. The total wealth of the community also increases with a more equitable distribution of profits.¹

Cooperative farming societies have been classified into four categories by the Cooperative Planning Committee: ²

1. Joint Farming Societies
2. Collective Farming Societies
3. Better Farming Societies; and
4. Tenant Farming Societies

At present there are 1,497 cooperative farming societies in U.P. out of which 1,335 are Cooperative Joint Farming Societies and 162 are Cooperative Collective Farming Societies. These societies cover 63,769 hectare area of land and have a membership of 31,668 farmers with a share capital of Rs. 60,35 lakhs.³ The progress of farming societies is shown in Table 4.2.

The Table on the next page shows that by the end of 1981-82 there were 1,493 cooperative farming societies with a membership of 31,170. These societies covered 2,37,952 hectares.

¹- For details see Samiuddin, Cooperative Farming and its impact on Rural Industries of India, Ph.D. thesis (Published: A.M.U. Aligarh, 1972.
<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Number of Societies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) Joint Farming Societies</td>
<td>1493.00</td>
<td>1494.00</td>
<td>1478.00</td>
<td>1489.00</td>
<td>1493.00</td>
</tr>
<tr>
<td></td>
<td>(ii) Collective Farming Soc.</td>
<td>1338.00</td>
<td>1338.00</td>
<td>1322.00</td>
<td>1332.00</td>
<td>1332.00</td>
</tr>
<tr>
<td>2.</td>
<td>Membership</td>
<td>31,014</td>
<td>31,132</td>
<td>30,900</td>
<td>31,064</td>
<td>31,170</td>
</tr>
<tr>
<td>3.</td>
<td>Share Capital</td>
<td>60.15</td>
<td>60.42</td>
<td>60.09</td>
<td>59.86</td>
<td>60.33</td>
</tr>
<tr>
<td>4.</td>
<td>Reserve &amp; Other Funds</td>
<td>86.98</td>
<td>90.08</td>
<td>87.72</td>
<td>90.48</td>
<td>104.03</td>
</tr>
<tr>
<td>5.</td>
<td>Deposits</td>
<td>64.19</td>
<td>60.22</td>
<td>61.71</td>
<td>60.00</td>
<td>68.62</td>
</tr>
<tr>
<td>6.</td>
<td>Borrowings</td>
<td>246.26</td>
<td>189.16</td>
<td>209.08</td>
<td>214.86</td>
<td>285.62</td>
</tr>
<tr>
<td>7.</td>
<td>Working Capital</td>
<td>360.31</td>
<td>362.48</td>
<td>374.64</td>
<td>750.79</td>
<td>783.44</td>
</tr>
<tr>
<td>8.</td>
<td>Loans</td>
<td>205.87</td>
<td>209.11</td>
<td>227.39</td>
<td>234.67</td>
<td>227.94</td>
</tr>
<tr>
<td>9.</td>
<td>Area of Land (in hectares)</td>
<td>21151.3</td>
<td>21142.1</td>
<td>20912.1</td>
<td>23793.5</td>
<td>23795.2</td>
</tr>
<tr>
<td>10.</td>
<td>Production Value</td>
<td>426.45</td>
<td>406.32</td>
<td>411.77</td>
<td>504.56</td>
<td>504.19</td>
</tr>
<tr>
<td>11.</td>
<td>Sales</td>
<td>443.78</td>
<td>413.11</td>
<td>429.72</td>
<td>500.72</td>
<td>436.88</td>
</tr>
</tbody>
</table>

**Source:** Cooperative Movement in U.P. - Important Statistics, Registrar, Cooperative Societies (Annual Returns Section), Lucknow, 1984.
of land. The share capital, reserve and other funds, deposits, borrowings and working capital of these societies were Rs. 60.15 lakhs, Rs. 86.98 lakhs, 64.19 lakhs, Rs. 246.26 lakhs and Rs. 360.31 lakhs respectively in the year 1977-78 which increased to Rs. 60.33 lakhs, Rs. 104.03 lakhs, Rs. 68.62 lakhs, Rs. 285.62 lakhs and Rs. 783.44 lakhs respectively in 1981-82. During the period agricultural production of the societies increased by 18.2 per cent while their sales decreased by 1.6 per cent. It can thus be concluded that cooperative farming societies have not been made satisfactory progress during the period.

(4) Cooperative Processing Societies:

The beginning of agricultural cooperative processing in India dates back to 1917 when a cooperative cotton ginning unit was established in Mysore State. A similar beginning was made in Gujarat in 1921. Processing generally represents an important stage in the preparation of an agricultural commodity for the market. It differs for different crops and for different uses and preferences on the part of the consumer. A single form of processing may consist of more than one operation carried out by different parties at different stages. For example, paddy may be threshed and winnowed by the cultivator but husked by the miller, the trader or even the consumer.

The primary object of cooperative processing is to ensure that the producer gets his legitimate share in the final price paid by the consumer.

In order to give remunerative price of their produce to the cultivators, 93 processing units had been installed by the end of 1983-84 in Uttar Pradesh. During the Sixth Plan period, 23 existing units were given financial assistance amounting to Rs. 30.72 lakhs for strengthening the societies. The progress of the processing societies is given in Table 4.3.

It may be seen from the Table on the next page that there were 9 cooperative processing societies in 1977-78 which increased to 10 in 1981-82. Membership of these societies increased from 9,456 in 1977-78 to 17,300 in 1981-82 which showed about 83 per cent increase. These societies have registered a rising trend in share capital which was Rs. 1,563 lakhs in 1977-78 and recorded 32.2 per cent increase in the year 1981-82 when it stood at Rs. 2,066 lakhs. The working capital of these societies increased from Rs. 664 lakhs in 1977-78 to Rs. 7,552 lakhs in 1979-80; but in the years 1980-81 and 1981-82 it decreased to Rs. 6,757 lakhs and Rs. 6,715 lakhs respectively. On the basis of uneven prices of processed goods it can be said that the progress of cooperative processing societies has not been satisfactory.

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Number of Societies</td>
<td>9</td>
<td>9</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>2.</td>
<td>Membership</td>
<td>9,456</td>
<td>9,556</td>
<td>17,160</td>
<td>17,220</td>
<td>17,300</td>
</tr>
<tr>
<td>3.</td>
<td>Share Capital</td>
<td>1,563</td>
<td>1,738</td>
<td>2,058</td>
<td>2,058</td>
<td>2,066</td>
</tr>
<tr>
<td>4.</td>
<td>Working Capital</td>
<td>664</td>
<td>3,041</td>
<td>7,552</td>
<td>6,757</td>
<td>6,715</td>
</tr>
<tr>
<td>5.</td>
<td>Quantity of Processed goods</td>
<td>-</td>
<td>971</td>
<td>34</td>
<td>1,401</td>
<td>148</td>
</tr>
<tr>
<td></td>
<td>(in Met. Tonnes)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Sale Price</td>
<td>22.86</td>
<td>17.87</td>
<td>28.90</td>
<td>5.30</td>
<td>3.28</td>
</tr>
<tr>
<td>7.</td>
<td>Price of Processed Goods</td>
<td>-</td>
<td>4.35</td>
<td>0.33</td>
<td>0.95</td>
<td>1.10</td>
</tr>
</tbody>
</table>

Source: Compiled by the author on the basis of Statistics available in the office of the Registrar Cooperative Societies, U.P., Lucknow.
(5) **Fishery Cooperatives:**

Fishery cooperatives are largely engaged in provision of loans only to member fishermen. A few cooperatives have arranged for provision of supplies, and some have undertaken construction of fishing boats and have carried on mechanical processing activity.\(^1\)

A primary society of fishermen is expected to function mainly on the production and supply side. It is expected to manage nurseries and transplantation of the fingerlings from nurseries to reservoirs. Fabrication of nets and repairs of gears also are taken up by it. The society also maintains the nursery unit and the reservoir and arranges for collection and transportation to the marketing point with the assistance of its regional federation. For this service the society gets about 1/3rd of the total value of the fish caught from a reservoir. At present 110 fishery societies\(^2\) are working in Uttar Pradesh.

(6) **Milk Supply and Dairy Societies:**

The first cooperative dairy society was started in Uttar Pradesh in 1917 which was known as 'Katra Cooperative Dairy Society.'\(^3\) During the first two decades, the dairy

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societies were not much successful. After 21 years, the first dairy federation was formed in Lucknow in the year 1938. After this, 5 other dairy federations were established in Allahabad, Varanasi, Kanpur, Haldawani and Meerut in the years 1941, 1947, 1948, 1949 and 1950 respectively. In 1954, a dairy federation was established in Almora. For the development of dairy societies an apex cooperative federation was formed in 1962.

In Uttar Pradesh the dairy societies are working on two patterns viz., the traditional pattern and Anand one. At present there are 3,349 dairy societies in Uttar Pradesh. Out of these only 1,505 are working societies of which 339 are traditional pattern societies and 1,166 Anand Pattern societies.

(7) Poultry Cooperatives:

Poultry farming has potentialities of gainful employment particularly to the people belonging to the weaker sections in the rural areas. Poultry cooperatives have been organized in the country with varying coverage both in regard to jurisdiction and functioning. With a view to strengthening poultry cooperatives to enable them to meet their obligations to the members in an efficient manner, the National Cooperative Development Corporation has been established. It assists in the establishment of poultry feed plants, hatcheries and other

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requisites for poultry farming, as well as in egg trade, purchase of vehicles and construction of godowns.

The development of poultry cooperatives is also linked with intensive poultry production programmes as a follow up to the recommendations of the National Commission on Agriculture for supplementing the incomes of small and marginal farmers and agricultural labourers.¹

The structure of poultry cooperatives which is at present weak at the primary level needs to be strengthened. Based on the recommendation of the in-depth studies commissioned by the NCDC, suitable programmes of promoting poultry cooperatives with integrated marketing arrangements through Nafed, etc. need to be undertaken.

By the end of June 1982, there were 215 poultry societies in Uttar Pradesh with a membership of 4,212. These societies have Rs. 26 thousand as share capital, Rs. 2 thousand reserve & other funds, Rs. 76 thousand deposits and Rs. 2.67 lakh working capital. Total loans of Rs. 21 thousand were disbursed by these societies.

(8) Irrigation Societies:

Irrigation societies are playing an important role in the rural areas. With the help of these societies the farmer

¹ Background Papers, 9th Indian Cooperative Congress National Cooperatives Union of India, New Delhi (April 26-28, 1982).

Nafed: National Cooperative Marketing Federation.
members are growing more crops. These societies engage in preparing tanks, digging wells and boring tubewells. By the end of June 1982, there were 453 irrigation societies in the state with a membership of 7,341. These societies have Rs. 6.56 lakh as share capital, Rs. 92 thousand reserve and other funds, Rs. 3.94 lakhs deposits and Rs. 29.64 lakh working capital.\(^1\)

The first Cooperative Societies Act, enacted in 1904, provided for the establishment of credit societies only and hence only such societies were started in the beginning. This Act was considered defective and hence the second Cooperative Societies Act was passed in the year 1912 as a result of which non-credit and multi-purpose societies were also established. In U.P. Dr. K.N. Katju, Minister of Justice and Development, in his inaugural address at Bijnor Provincial Conference held in January, 1939, advocated the organisation of new societies on multi-purpose basis.\(^2\) Thus in U.P. credit was relegated to the background and instructions were issued to convert the existing sound credit societies and to organise new one as multi-purpose cooperative societies. On his recommendation, such societies were started. Their object was to provide more and more facilities to the member farmers. Later, it was

\(^1\) By the Courtesy of the Registrar, Cooperative Societies U.P. Lucknow.

realised that the farmers misutilized the loans advanced to them and did not use/for production purposes. In the year 1957 the Agrarian Commission visited China, and on its return to India recommended the establishment of service cooperatives.

In 1959 a Committee was appointed under the chairmanship of Late Sri Vaikunth Lal Mehta to determine the viability of and providing adequate finance to rural cooperatives. In October 1960 the Mehta Committee made the following recommendations to the Government of India in this respect.

(1) As a general rule, a cooperative should be organised on the basis of the village community as the primary unit. Where villages are too small, the number of villages to be covered by a society may be increased in the interest of viability. The extension, however, should be subject to the maximum limits of a population of 3,000 and a distance of not more than 3 to 4 miles from the headquarters.

(2) The state may participate in the share capital of primary credit societies, and its contribution should ordinarily be limited to Rs. 5,000.

(3) Credit should be oriented to production programmes and repaying capacity.
The programme of amalgamation and merger of weak societies into the potentially viable units was formulated in 1964-65. It was felt that the scheme of one society to one village and one village for one society had failed. So the area of operation of the rural societies has been extended. However, the rural cooperative societies have been facing acute financial problems which have been discussed below:

(1) Non-Viable Societies:

One of the most serious financial problems of rural credit societies in U.P. has been that they are feeble and non-viable units. Most of them have poor membership and are working with inadequate working capital. There are very few societies in U.P. which can satisfy the minimum criteria of viability laid down by the Conference of State Ministers of Cooperation held at Hyderabad in June 1964.

The All India Rural Credit Review Committee has stated: "A large number of rural credit societies are neither viable nor even potentially viable and must be regarded as inadequate and unsatisfactory agencies for dispensing production-oriented credit".

1- Rahman, Mahfoozur, Genesis of Agricultural Cooperative Societies in India, Book Rays Publisher, New Delhi, 1976, p.46.

2- All India Rural Credit Review Committee (1969), p. 201.
The All India Rural Credit Review Committee pointed out that the programme of reorganisation of primary societies had made little headway in most of the states. In some of them even the formulation of standards of viability and conduct of surveys for identifying viable societies had not been completed. Even in the states where these two preliminary stages had been reached the pace of work in the subsequent stages had been slow.

Although the work of reorganisation and amalgamation of rural cooperatives has been completed, as yet a number of non-viable units are working in U.P. At the end of 1985-86, there were 4,602 non-viable societies in Uttar Pradesh.1 This results in financial weakness of the societies. They face the problem of paucity of funds. It is a handicap in the development of rural cooperatives in U.P. as compared with other states of India. Rural cooperatives hardly fulfil the short-term and medium-term needs of the farmers in U.P. It adversely effects the input needs of the farmers.

Consequently, the quantum of loans supplied by them is not only inadequate, but also far below even the absolute minimum credit requirements of the agriculturists. The average loan advanced by these societies was at about Rs. 236 per member at the end of 1984-85 which is by no means satisfactory.2

1- The Times of India, New Delhi, August 15, 1986, p. 13.
(2) Non-Recovery of Loans:

Recovery of loans is another problem of rural cooperatives. Many societies have irrecoverable debts. There are societies in which the indebted members have either died or have left their villages for unknown places after disposing of their landed property and no action has been taken to recover the loans from their property within the prescribed limit. The loans in either cases could not be recovered in time due to lack of other members' interest who themselves are merely borrowers or due to the neglect of supervisory staff who could make the other members realise their responsibilities. At the end of 1984-85, 49% of the total loans advanced had not been recovered.¹ The recovery position of the rural credit societies is shown in Table 4.4.

The Table on the next page shows that total recovery of rural credit societies increased by 514 per cent from 1970-71 to 1984-85 but it decreased from 50.8 per cent to 49 per cent over the same period. Thus it is necessary to take immediate steps for improving the recovery position of these societies, since if loans advanced are not recovered in time a society cannot make further advances, as a large portion of working capital is blocked. This leads to most serious consequences, making the societies inoperative and losing time resulting in their closure, thus depriving capital investment in agriculture, further resulting in hampering agricultural production itself.

¹ The Times of India, New Delhi, August 15, 1986, p. 13.
TABLE 4.4

Recovery Position of Rural Credit Cooperatives in U.P.

<table>
<thead>
<tr>
<th>Years</th>
<th>Short &amp; Medium term Loans Advanced</th>
<th>Total Demand</th>
<th>Recovery of Loans</th>
<th>% of recovery to Total Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970-71</td>
<td>5,134.21</td>
<td>9,128.05</td>
<td>4,630.80</td>
<td>50.8</td>
</tr>
<tr>
<td>1971-72</td>
<td>5,245.24</td>
<td>9,393.31</td>
<td>4,697.86</td>
<td>50.0</td>
</tr>
<tr>
<td>1972-73</td>
<td>7,139.00</td>
<td>10,686.37</td>
<td>5,354.61</td>
<td>50.1</td>
</tr>
<tr>
<td>1973-74</td>
<td>7,268.92</td>
<td>12,866.67</td>
<td>6,410.05</td>
<td>49.8</td>
</tr>
<tr>
<td>1974-75</td>
<td>7,480.22</td>
<td>14,181.56</td>
<td>6,573.80</td>
<td>46.4</td>
</tr>
<tr>
<td>1975-76</td>
<td>9,309.00</td>
<td>15,913.42</td>
<td>9,499.99</td>
<td>59.7</td>
</tr>
<tr>
<td>1976-77</td>
<td>13,566.69</td>
<td>17,565.66</td>
<td>10,065.57</td>
<td>57.3</td>
</tr>
<tr>
<td>1977-78</td>
<td>15,797.06</td>
<td>21,922.58</td>
<td>12,787.50</td>
<td>58.3</td>
</tr>
<tr>
<td>1978-79</td>
<td>17,974.32</td>
<td>24,242.82</td>
<td>15,092.58</td>
<td>59.8</td>
</tr>
<tr>
<td>1979-80</td>
<td>21,789.15</td>
<td>27,963.87</td>
<td>16,822.12</td>
<td>60.2</td>
</tr>
<tr>
<td>1980-81</td>
<td>18,893.64</td>
<td>30,558.78</td>
<td>16,195.53</td>
<td>53.0</td>
</tr>
<tr>
<td>1981-82</td>
<td>22,127.46</td>
<td>34,668.59</td>
<td>17,867.72</td>
<td>51.5</td>
</tr>
<tr>
<td>1982-83</td>
<td>23,970.16</td>
<td>40,771.03</td>
<td>20,385.52</td>
<td>50.0</td>
</tr>
<tr>
<td>1983-84</td>
<td>25,798.86</td>
<td>46,184.37</td>
<td>23,085.19</td>
<td>50.0</td>
</tr>
<tr>
<td>1984-85</td>
<td>25,523.00</td>
<td>48,622.18</td>
<td>23,824.87</td>
<td>49.0</td>
</tr>
</tbody>
</table>

Source: Compiled by the author on the basis of information received from various sources.
(3) Dormancy of Societies:

Dormant societies also create financial problems. A large number of factors have contributed to the large number of dormant societies. One very important factor which has led to their dormancy is their inefficient management. Most of the societies have no full time trained secretaries and in many cases the honorary secretaries have not acted in the best interest of the societies. The lack of interest shown by them has been greatly responsible for dormancy of the societies.

The All India Rural Credit Review Committee has pointed out that even a large number of societies which have been classified as active or non-dormant have, in fact, been doing token business and cannot really be considered active. The existence of such a large number of dormant societies at the primary level is one of the disturbing features in the development of rural cooperatives in Uttar Pradesh. By the end of June 1982, there were 1,676 dormant societies in the State.

(4) Problem of High Overdues:

The problem of overdues in cooperatives is a complex phenomenon. The mounting overdues in the co-operatives dispensing short-term and medium-term agricultural credit in
U.P. have been causing serious concern to the State Government, RBI/NABARD and to the cooperative credit institutions themselves as these overdues have been acting as a serious restraint on the smooth flow of credit, consequently affecting the investment of working as well as durable capital and the modernization of agriculture on a large scale. Overdues of rural credit societies have been rising steadily since 1970, despite the stabilization arrangements which were designed to take care of situations arising out of crop failures caused by natural calamities.

The All India Rural Credit Review Committee has also focused attention on the alarming situation created by the rising overdues. The Committee has stated that it is the failure in this respect that mainly accounts for the stagnation or recession which has been witnessed in recent years in several states. 1 The overdues position of rural credit societies is shown in Table 4.5.

The Table on the next page indicates the increasing trend in the amount of overdues. From a small figure of Rs. 4,492.25 lakhs in 1970-71 they have mounted to Rs. 24,797.31 lakhs in 1984-85 which showed a growth of 552 per cent. The percentage of overdues to total demand also increased from 49.2 per cent in 1970-71 to 51 per cent in 1984-85.

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In India, by the end of 1982-83 the total loans advanced had gone up by 8.60 per cent whereas there was an increase of 22.02 per cent in the medium-term loans. The total loans recovered increased by 11.56 per cent whereas loans outstanding increased by 4.76 per cent. The total demand increased by 11.56 per cent. This may be considered as good performance on the part of primary agricultural credit societies. The total loan overdues have increased by 8.56 per cent whereas there is an increase of 16.83 per cent in the medium-term loan overdues. However, the percentage of overdues/demand has decreased by 2.68 per cent which is indicative of good work done by the societies. The percentage of overdues to demand in respect of primary agricultural credit societies works out to 40.9 per cent.1

Mounting overdues may be due to the mis-utilization of loans by borrowing members, defective lending policies pursued by the cooperatives, the apathy of the committees of management in taking quick action against recalcitrant members and, above all, the absence of a favourable climate due to the attitude of the State Government resulting in wilful default on a large scale. The continuous rising trend in overdues cannot necessarily be the result of drought, floods, or other natural calamities. The purpose of the production oriented loan is to make the borrower farmer self-sufficient so that he will

no more depend on borrowing from the society. But the problem of overdues defeats this purpose. Several factors have combined to worsen the position in respect of overdues in the rural cooperatives. These factors are given below:

(i) **Societies having Wilful Defaulters:**

In case of these societies members have the capacity to repay their loans, but do not do so simply because recoveries through civil courts, under the Agriculturists' Debt Laws passed after 1934, have become very difficult. As the procedure for the recovery of the co-operative loans is the same as for the loans of the ordinary money-lender, which is not very effective, members have become wilful defaulters. Being little educated, they do not understand the true significance of those laws and fail to differentiate between the cooperative loans and the money-lenders' loans.

(ii) **Dual Financing:**

High overdues in certain areas are also partly due to dual financing. There are a number of agencies providing agricultural credit in a variety of forms. The terms of loans, rates of interest and periods of repayment differ from agency to agency. There is hardly any effective arrangement by which these agencies can verify the existing liabilities of a cultivator before advancing a loan to him. These different loan disbursing agencies do not bother to find out whether
a particular applicant has been a defaulter to any of the other agencies. On account of this uncoordinated and irrational disbursement without any emphasis on recovery, overdue have mounted up.

(iii) **Loans Advanced in Contravention of Rules**:

In certain cases there has been overfinancing of societies and their members. The defaulting societies have been granted fresh loans in contravention of the lending policy. Some of the societies have succeeded in mopping up loans beyond their maximum credit limit. In their own turn they have been granting loans in excess of their own maximum credit limit. This has also led to the abnormal spiral of overdues.

(iv) **Political Factors**:

In U.P., part of the overdues are also due to the pressure exercised by political leaders at different levels to secure extention to loanees or to defer the institution of legal proceedings against defaulters. The All India Rural Credit Review Committee has stated: "Political, factional and other considerations have sometimes led to facile financing as also to the failure to make a determined drive for recovery and to proceed with coercive measures against defaulters". After a close and careful examination of the bad and doubtful debts of the societies it has been found that a good part of
debts could not and have not been recovered because of
protection to the debtors given by the local politicians
either in proceeding against them in arbitration reference
and execution of decrees or taking criminal proceedings
against them for their wrongful acts of embezzlement on
misappropriation of the funds of a society.

(v) Natural Calamities and Diseases:

When crops fail due to diseases or any other natural
calamity, such as severe drought, floods, cyclones, hail-
storms and pests, a farmer cannot repay the loan in time.
Thus recovery is not possible and overdues increase.

(vi) Failure of Linking of Credit with Marketing:

One of the important recommendations of the Rural
Credit Survey-Committee was to forge an organic link between
cooperative credit and cooperative marketing. This linkage
was considered as a pre-condition for large scale loan
operations on the part of the cooperative societies. It is
regrettable that so far credit has not been effectively
linked with marketing, which has led to high overdues. Though
agricultural credit societies do secure agreements that the
members would sell their produce through the marketing
societies, in practice such agreements are not taken seriously
either by the members who sign them or by the credit societies
who take them.
(vii) Ineffective Financial Management:

Failure on the part of the managing committees to take prompt steps in the matter of recovery of loans has led to large overdues. In many cases, members of the managing committees are themselves defaulters, and hence can not demand repayment from others. Officials and non-officials both hardly take any interest in recoveries. Moreover, the system of fictitious payments hits the societies hard. The staff continues to record fictitious figures in order to show higher percentages of recoveries.

(viii) Misuse of Loans:

It is seen that the credit which is obtained by the farmers for a particular productive purpose from any financial agency, is generally not utilised for that purpose. It is diverted to various other uses which are unproductive in nature.

The usefulness of cooperative credit is determined by the extent of benefit provided by it to its members to enable them to raise agricultural production and to raise their economic status. But difficulty arises when loans given for production purposes are misutilised, because such misuse becomes a burden to the borrower. If the borrowed money is invested for production purposes and gives a profitable return, it is not difficult for the borrowers to repay the loans.
(ix) Time of Actual Needs and Loans Advanced:

Untimely credit also results in its misuse. There is usually a wide gap between the date of application for a loan and date of its grant and the member has to borrow from money-lenders to fulfil his input requirements, with the results that when the farmer gets fresh loan from the society, this is used to repay the money-lender, adding interest from his own pocket. This means that the cooperative loan goes directly from the society to the money-lenders and not to the cultivator.

(x) Ineffective Supervision:

Inefficient and ineffective machinery for supervision over the utilization of loans by members has also worsened the position of overdues in the rural cooperatives. Neither members of the managing committee keep a watchful eye nor are the inspectorial staff usually vigilant in this matter. It has been noticed that supervisory staff deputed to the panchayat samitis has been yoked with other responsibilities to the detriment of its assigned duties. The staff being engaged in other odd tasks even at the time of recovery season, cannot pay attention to the important task of recoveries. A sample survey conducted by the author has revealed that 28 per cent of the total loans issued were used for purposes other than stipulated. This lack of adequate machinery for
supervision has been largely responsible for channelising the meagre resources of the cooperative into patently unproductive purposes. This mis-utilization naturally weakens the repaying capacity of the farmers, which inevitably leads to overdues.

After the introduction of the Panchayati Raj in Uttar Pradesh, the work of supervision of rural cooperative societies has been passed on from cooperative department to the panchayat samitis. The responsibility of recoveries has fallen on the latter. Unfortunately, most of these samitis have taken no serious steps to recover the loan advanced.

(5) Ignorance of the Borrowers:

The societies are required to explain important rules to the beneficiaries at the time of the disbursement of loans. This is necessary because of the prevalent illiteracy in the rural areas. Officials of the societies hardly take care to explain to the borrowers important rules like repayment periods, amounts of instalment, rates of interest, subsidy outlay and course of action to make monetary claims in case of death of cattle etc. This results in inconvenience to the beneficiaries at the post-loan stage. During personal interviews, instances have been found where a beneficiary did not repay an instalment because he was found unaware as regards the instalment amount and its periodicity. A good
number of members were found suffering because of lack of knowledge while settling insurance claims in case of death of the cattle etc.

(6) Dishonesty of Committee Members in Granting Loans:

Not only do the leaders lack cooperative spirit but in many cases members of the managing committees are not honest. They contravene the bye-laws of the societies, take loans beyond their maximum credit limit and also sanction heavy loans to their relatives. They generally do not repay their own loans in time and thus set a bad example for others who also refuse repayment simply because the committee members do not repay their loans. A society can never succeed when its managing committee is itself dishonest.

(7) Illiteracy of Members:

The illiteracy of the members contributes to the failure of the societies in more than one way. On the one hand, due to their ignorance, members, in spite of instructions given by the staff, do not understand the principles of cooperation and the advantages of the movement. On the other hand, they use the loans for unproductive purposes i.e. marriages, religious functions etc., which makes it impossible for them to repay afterwards. Besides borrowing from the society, they also borrow from money-lenders, in most cases
beyond their repaying capacity. It is generally the nature of illiterate cultivators that they try to borrow as much as they can. The result of all this is that they cannot repay the debts of the societies which ultimately results in their bankruptcy. Mr. Wolff, a well known authority on cooperation, remarks, "Illiteracy and ignorance among the Indian population constitute the greatest hindrance in the progress of true cooperation. Against ignorance even God's fight is in vain. There is elementary education wanted before cooperation steps to improve it."¹

(8) Absence of Thrift:

Spirit of thrift, which is an important factor for the success of the cooperative credit movement, is totally lacking among the farmer members. In U.P., unfortunately rural societies have not succeeded even on a modest scale to tap the savings of the rural masses. This is evident from the fact that the average deposit per member is only Rs. 33.46 in the State. The worst part is that at the primary level, nobody lays any emphasis on this. So long as the habit of thrift and savings is not encouraged among the rural masses cooperative movement cannot flourish.

(9) Defective Loan Policies:

Agricultural credit societies in the State have not reoriented their loan policies according to the crop loan

¹. Cooperation in India by Wolff (Quoted by Dr. Mahfoozur Rahif, Genesis of Cooperative Credit Societies in India, Book Ray Publisher, New Delhi, 1966).
system. The following defects are still found in their lending operations:

(i) There are no proper timings for either disbursement or recovery of loans.

(ii) Loans in kind are not generally arranged by the societies.

(iii) Loans are granted throughout the year without reference to the cultivating season.

(iv) Cooperative credit is not strictly production oriented.

(v) Loans are given on the security of landed property and not on anticipated crops.

To set up an efficient machinery for agricultural finance, the most important link is the agricultural rural society, which comes into contact directly with the members. Unless that works well, the whole machinery will fail. Thus is essential that its service is prompt and efficient and it caters to all the needs of the members without favour or fear. The Rural Banking Enquiry Committee rightly observed: ¹

¹ In any scheme for the setting up of a sound and efficient system of agricultural finance, sufficient emphasis must be laid on the building of a sound structure of primary institution, whether cooperative credit society or a multi-purpose society. The weakest link of the cooperative structure seems to be mainly in these

¹ Rural Banking Enquiry Committee Report (1949), p. 49.
institutions where it comes directly into contact with the rural people rather than in the super-structure and more thought and effort should be devoted to their development."

To solve the financial problems of rural cooperatives the higher cooperative credit institutions can play a significant role. The government of U.P. is trying its best to develop agriculture and make cooperative credit institutions responsive to the credit requirements of agriculturists. Hence the next chapter deals with the Role of credit institutions in the development of rural cooperatives which are ultimately responsible for financing the agricultural requirements of farmers in U.P.