FINANCIAL PROBLEMS OF RURAL COOPERATIVES IN UTTAR PRADESH SINCE 1970

ABSTRACT

THESIS SUBMITTED FOR THE DEGREE OF Doctor of Philosophy IN COMMERCE

BY Mohd. Shahwar Alam

Under the Supervision of Dr. Mahfoozur Rahman (M.Com., D.B.A., Ph.D., D.Litt.) Reader

DEPARTMENT OF COMMERCE ALIGARH MUSLIM UNIVERSITY ALIGARH (INDIA) 1986
ABSTRACT

Mr. Dupernex is considered the father of the cooperative movement in U.P. The Provincial Government appointed him to study the working of the cooperative institutions in Europe with a view to introducing the system in the province. Dupernex advocated the establishment of village cooperative societies based on Raiffeisen principles. On the lines suggested by him, a few societies were established in U.P. in 1900 as an experimental measure.

The actual movement started in U.P. after the passing of the Cooperative Societies Act of 1904. The object of this Act was to encourage thrift, self-help and cooperation among agriculturists, artisans and persons of limited means.

The defects and shortcomings found in the working of the Act of 1904 were remedied by the second Cooperative Societies Act of 1912 but its main features, viz. simplicity and elasticity were retained in the new Act. This Act authorised the formation of societies other than credit societies and also the establishment of central financing agencies with limited liability.

With the passing of the Act of 1919, cooperation became
a transferred subject under the charge of a minister in each province. The government of U.P. strengthened the departmental staff to consolidate the position of weak societies for supervising them and to organise new ones.

The year 1929 marked the beginning of depression. Due to the war, agricultural prices increased. This period also witnessed the growth of multipurpose societies undertaking a variety of functions ranging from credit and supply of essential consumer goods, controlled commodities and seeds to marketing of crops. It was, therefore, decided that multipurpose societies should be given a trial. These societies, which were known as 'village banks' were intended to undertake credit, marketing, supply of agricultural implements and to promote better living activities.

On the recommendation of the 14th Conference of the Registrars of Cooperative Societies (1944), the Government of India appointed in 1945 a twelve man committee under the chairmanship of Shri R.G. Saraiya. The Committee was to draw up a plan of cooperative development. It submitted a comprehensive report in 1946. The chief recommendation of the Committee was that as the supply of credit was only one aspect of the life of the agriculturists, activities of the primary credit societies should be so diversified as to cover the whole of his
life and that the societies should be revitalised so as to serve as centres for the general upliftment of the members.

The 15th Conference of the Registrars of Cooperative Societies which was held at Madras in 1947 considered the important recommendations of both the Gadgil Committee and the Cooperative Planning Committee. The Conference did not favour the establishment of Agricultural Credit Corporation as in its view the Provincial Cooperative Banks could very easily undertake the functions of the proposed credit corporation. But the Conference approved of most of the recommendations of the Cooperative Planning Committee but recommended that the targets aimed at by the Committee were to be regarded as the minimum to be aimed at, the ultimate target being to bring cent per cent population in the villages within the cooperative fold. The Conference expressed the view that top priority be given to cooperative marketing. After the attainment of Independence in 1947, development of all cooperative activities was given greater attention in Uttar Pradesh.

During the First Five Year Plan the main aim of the cooperative movement was to strengthen and revamp the cooperative credit and banking system with a view to increasing production, particularly agricultural production. During the Second Plan period a radical change was brought about in the policy of credit disbursement by linking it with marketing of produce.
The objective of the Third Plan was to bring 65 per cent of the agriculturists under the cooperative fold. In the cooperative credit and banking field, it was proposed gradually to convert all the primary agricultural credit societies into viable or potentially viable ones by amalgamating smaller and weaker societies into viable economic units. The objects of the Fourth Plan were to achieve a membership target of 75 per cent of agricultural families and to provide facilities of credit as quickly as possible by opening more branches of District/Central Cooperative Banks. During the Fifth Plan Period, envisaged a comprehensive list of aims to achieve. However, most of them were of the nature of consolidation, revitalization and reorganization of various cooperative activities initiated during earlier plan periods. Due to famines and droughts, the Sixth Plan did not start in 1979-80. In order to increase the flow of funds for a special component plan, 166 societies were identified where the Scheduled Caste membership of the primary Agricultural Credit Societies exceeded 50 per cent and 466 Primary Agricultural Credit Societies where their membership ranged between 40 to 50 per cent.

The Seventh Plan includes the following programmes:

(1) Strengthening the existing cooperative infrastructure in order to provide a strong base for the cooperative movement in the State. This includes introduction of cooperatives in hitherto untouched areas or where the impact of the movement has so far been negligible.
(2) Making the reorganised Primary Agricultural Credit Societies multipurpose by providing them State institutional assistance and with the addition of new activities with the help of Apex cooperatives.

(3) Providing a strong base for agricultural production by considerably improving credit flow and supplying agricultural inputs.

(4) Providing credit for anti-poverty programme like integrated Rural Development Programme and for weaker sections like weavers, fishermen etc.

(5) Making concerted efforts for increasing the flow of cooperative credit to underprivileged sections like Scheduled Castes and Scheduled Tribes.

(6) Strengthening of public distribution system in the rural and hilly areas, and consumer activity in urban and rural areas.

(7) Establishing cooperatives of growers of apple, potato etc.

(8) Strengthening the education, training and extension base for officials and non-official members of the cooperatives.

Though agricultural credit cooperatives have been in existence since 1904, and from time to time attempts were made to streamline the structure, a planned approach to the evolving of an integrated agricultural credit system was made for the first time in 1954, based on the recommendations of the report of the All India Rural Credit Survey. Subsequently, the structure and operations of agricultural credit institutions were gone into by the Mehta Committee on Cooperative Credit and the Venkatappiah Committee (1969).

Primary agricultural credit societies provide loans to members with a view to improving their economic condition.
These societies advance both short-term and medium-term loans. The purposes of providing short-term loans include expenditure on current agricultural operations like seeds, manures and fertilizers, payment of hired machinery charges, payment of wages to hired labour, payment of land revenue etc. Medium-term loans are provided for the purposes of digging or repair of wells, purchase of implements and equipment, purchase of cattle, recalamation of land etc.

Central cooperative banks constitute the core of the short and medium-term cooperative credit structure in U.P. They act as the vital link between the small, scattered primary societies operating at the village/town level and the State Cooperative Bank at the State Level. They mobilise deposits and also borrow from the State Cooperative Bank for financing the primary societies for agricultural and non-agricultural purposes. They work as intermediaries to link the primary societies with the money market. Further, the central cooperative banks serve as balancing centres for adjusting the surplus and deficiency of the working capital of the primary credit societies.

The U.P. State Cooperative Bank, is a federation of the central banks in the State. Its function is to coordinate and guide the working of the central banks in the State and link up the cooperative credit organisation with the general money
market and the Reserve Bank of India/NABARD.

For providing developmental finance for agriculture there is U.P. Cooperative Land Development Bank which is unitary in structure operating through its branches. It is the only apex institution in the State advancing long-term agricultural loans to cultivators against the mortgage of their *bhumi* and *sirdar* lands.

In order that cooperative financing may succeed in its purpose of freeing the cultivator from the clutches of the money-lender and contribute to the development of agriculture, credit provided by the cooperatives must be adequate to meet the farming needs, family requirements and reasonable social obligations of the cultivators, it must be in the proper form, credit must be available promptly when required, it must be need-oriented, the cost of credit should be reduced and the structure and size of cooperative financing institutions must be efficient. Moreover, 'one village one society' formula has resulted in the formation of small and weak societies in U.P. which are hardly viable. Widespread illiteracy stands in the way of acquisition of business efficiency, and fluctuating fortunes of agriculturists require adjustment of the recovery period to the repaying capacity of the cultivators and make the distinction between short-term and medium-term loans untenable.
The agricultural credit movement has made significant strides during the last decade or so. This progress has been unprecedented in the number, membership and working capital of the societies. But the role played by these societies in financing agriculture has not been substantial. It is regrettable that most of the primary societies are either lying dormant or are non-viable and inefficient units. It is futile to expect these feeble units to achieve the main objectives of intensifying agricultural production and re-building the rural economy. The only efficacious measure appears to be to liquidate the dormant societies and amalgamate the weak ones and strengthen them so that they become strong and viable units. Earnest efforts should be made to recover overdues and crop loan system should be the corner-stone of the loaning policy of the cooperatives.

A cultivator who repays the loan through the sale proceeds of his produce and sells to the cooperative more than what is prescribed as the minimum quantity compulsory for him should be given liberal financial assistance in the form of additional loan to the extent of about 10 per cent of the amount so recovered.

Those members who do not repay the minimum compulsory part of the loan in kind as decided by the Field Workers Conference, should not be given fresh loans. In addition, they should also be charged a penal rate of interest.
Central cooperative banks should take active interest in this regard and they should charge their supervisory staff specifically with responsibility in forging an effective link between cooperative credit and marketing.

Some incentives in the form of awards, prizes, etc., may be introduced for the managers of primary credit societies who put in special efforts in achieving linkage between the societies.

Societies whose members do not repay even the minimum prescribed compulsory part of the loan through sale of produce should be considered for lower audit classification.

A statewide cooperative arrears verification and realisation drive was launched on the recommendation of the Study Team on Agricultural Credit Institutions in U.P. in 1977. The recovery of loans from landless agricultural labourers, rural artisans and small and marginal farmers was stayed with the enactment of U.P. Rural Weaker Sections Act 1975. With the passing of this Act, the traditional sources of credit in rural areas have dried up.

A review of the cooperative credit to agriculture reveals various shortcomings, some relating to policy making and other found at the implementation level. The main drawback of
cooperative credit structure in U.P. is its weak management. In order to increase the productivity and profitability of these institutions and to meet growing demand for credit in the agricultural sector, it is necessary to strengthen the base level primary agricultural credit societies, to make them focal points for discharging the functions of an efficient rural credit system and to delink them from the seats of power politics. The repayment of loans must be ensured by strict enforcement of laws except in areas affected by natural calamities for which crop insurance and other measures may be evolved.

The following are some suggestions for the development of rural cooperatives:

(1) Greater emphasis should be laid on raising internal resources.

(2) Steps should be taken to ensure smoother and coordinated flow of credit at the base level particularly for weaker sections.

(3) Efforts should be made to see that societies are not dominated and exploited by the vested interests. Enlightened leadership in the cooperative movement must assert itself and ensure that members accept their obligations to societies and mischievous elements are kept under control.
(4) Organic link should be established between marketing and other cooperatives, especially credit cooperatives, to ensure recovery of the cooperative loans.

(5) Marketing cooperatives should be involved in a larger way in the procurement and price support operations.

(6) New marketing avenues should be explored for the sale of agricultural produce.

(7) Processing units should be modernised to improve cost effectiveness.

(8) Regular market surveys should be conducted to identify consumer preference about the products of the cooperatives.

(9) Steps should be taken to ensure optimum utilisation of storage capacity created at primary cooperative society level as well as managerial level within the cooperative sector. Every society should be guided to prepare an action programme for utilisation of the godowns owned by it.

(10) The apex level organisation should establish a marketing intelligence service to facilitate the cooperatives in getting better prices for the produce of their members.

(11) Efforts should be made for prompt recovery of loans. Fictitious recoveries should be eliminated.
(12) Societies should follow flexible approach in determining viability.

(13) Reactivization or liquidation of dormant societies should be pursued with the necessary drive.

(14) Overdues should be reduced to the minimum.

(15) Greater emphasis should be laid on thrift and deposits.