Chapter - I

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AGRICULTURAL CO-OPERATIVE CREDIT IN INDIA

Agriculture is the backbone of human life and society. Human need is fulfilled basically with the agricultural produce. Even as much scientifically developed societies as we are in the space age today, can not live without the food and fodder. All the other developments, scientific and industrial or otherwise, are based upon the agricultural produce in direct or indirect manner. In fact the economic development can not be visualised without the strong agricultural sector. No society can dispense with the agricultural phase of existent. Agrarian economy is the basis of all possible developments. Even 2000 years back it has been said and emphasised that the agriculture is the basis of the whole social order.¹ Thus, agriculture has all along been recognised as the first and foremost of all the industries universally.

Agriculture has, thus, been the primitive occupation of man. But peasantry is however, very risky of all the professions, because of the uncertainty of the result of about three to four month’s hard labour. With this nature of agriculture the human civilisation has given much emphasis to the importance of conditions and reforms of the agriculture sector.² In our own

country full attention towards the agricultural development was paid only a few decades back and in Uttar Pradesh even much after that. India after freedom faced a severe scarcity of food grain. The country having been partitioned the wheat, cotton and rice surplus area was separated, with the result that for more than a decade after freedom the nation had to live on the red wheat of low quality spared by America. Uttar Pradesh faced the worst situation being over populated. Thus the agriculture production had to be developed to such level that we are able to produces as much as suffices the need of the nation. Land already under cultivation had to be developed for better yield and waste land had to be made cultivable and more and more land had to be brought under cultivation by removing forests etc. At the same time new pieces of woods and pastures had to be raised up. Also rural credit had to be provided in order to achieve the goal. Individual Source did not have courage of making investment in agrarian economic due to lack of certainty. The Village money lender was an antique of Indian civilisation.

Thus the absence and shortage of Credit Money to be readily available on reasonable term to the peasants and cultivators in India and particularly in Uttar Pradesh has since long remained a hurdle in keeping “up to the mark farming”. The credit available to the rural sector from the individuals on high rate of interest and other high handedness, resulted in growing indebtedness of the farmers. This has remained the cause of chronic insufficiency of

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3. 40 per cent of the total population below poverty line in Uttar Pradesh, National Survey Scheme, Government of India, 1960, p, 61.
the farmer's income, giving rise to the permanent tendency to "consumption outrunning production". The structure of agricultural credit has never remained coping with the need of the farmers. The shortage of credit has caused retrogressive effect in agricultural productions. The nation, therefore, stood to face the challenge in its proper perspective in order to attain the desired development of the agricultural sector and therefore the process of reform and development of agrarian economy of the country started.

Credit Finance

Any economic activity either in a developing or developed country needs credit. Capital is essential for increasing the ratio of inputs to increase productivity. Provision of adequate and timely credit facilities at low rate of interest is the only way to save the poor and marginal farmers from indebtedness and poverty. The best and only means to satisfy the demand for credit in a developing economy is through cooperative credit. This saves the people from the clutches of money lenders and Sahukars who suck the blood of poor farmers.

Agriculture requires proper balance of land, labour, capital, entrepreneurial skill and risk like any other industry. To develop the rural sector which forms the main part of India's economy it is imperative to supplement land and labour already existing in villages in plenty with the capital requirements entrepreneurship and risk. Lack of adequate capital has been acknowledged as one of serious inhibiting factors in the modernization of the traditional agriculture and as key element behind the vicious circle of
poverty. It follows that there is greater stress on agricultural credit in our development programmes.

In recent years, Indian agriculture has undoubtedly witnessed a major technological breakthrough and a progressive commercialization, which has mainly ushered in what has come to be known as the green revolution. With these technological development the importance of capital in agricultural production in India has been rising greatly. Based on the new strategy of the agricultural development and the adoption of capital reliant techniques, demand for the purchase of agricultural inputs, e.g. fertilizers, pesticides, agricultural machinery and equipment etc. has moved upward leading to increases in outlay by farmers on various inputs. The marginal value of the productivity of capital on agriculture having increased, farmers have come to depend on more and more non-owned capital or external finances for they can not feud the expenditure themselves. This has given a new dimension to the problem of agricultural credit.

Financial assistance requirement in the filed of agriculture in India have never been as high as they are today. The Indian farmers, but for their physical labour have comparatively a very low investment potential. Therefore, the resources available with the farmers have to be supplemented by credit facilities extended to them through various agencies.

Besides this our government has been extending credit facilities through various financial institutions in serving them. The main considerations being are that the credit does not become a dead weight on the farmers because of its effective use and defective nature of the institutions serving them. Instead, it should
become dynamic and set in motion as a process of development in agriculture, both qualitative and quantitative, resulting in improvement in outputs, net income, saving and investment.

**Agricultural Credit and Co-Operatives**

In most of the countries of the world attempt has been made to develop institutional credit for agriculture on co-operative lines. The co-operative forms of organizations are considered best for providing credit to the farmers. Attention was drawn to the unique role of co-operative in the provision of agricultural credit, as far back as 1927 by the World Economic Conference held by the League of Nations in Geneva. A special resolution of the conference defined this role as follows:

"The increase of agricultural production intimately bound up with the organization of agricultural credit, which will place at the disposal of agriculturist the necessary capital on favourable terms. The first condition for surmounting these difficulties in the organization of credit institutions in those countries where they do not exist and their development where they are already in existence. The best form of institution appears to be the co-operative credit society operating by means of resource which the very fact of association enables it to procure and to increase with or without the assistance of the public authorities."

In 1937 the statutory report of the Reserve Bank of India stated: "An agency which satisfies their requisite conditions for agricultural finance is the co-operative society and it has been so

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recognized in almost all agricultural countries." In 1945 the
agricultural finance sub-committee was of view that the spread of
agricultural credit and of those, rural economy in particular. The
Report of the Grow More Food Enquiry Committee (1952),
emphasized the need for co-operatives in the following terms:

"......it would be useful at this stage to stress the great part
the co-operative movement should play in improving rural life.
The co-operative principle, in its infinitely varying forms, is
capable of adaptation for finding a solution to all problems of
rural life. In fact, it is only in the co-operative principle that such
a solution can be found". In 1954 the Rural Credit Survey
Committee stated: "Today more than ever before, there is every
reason for an institutional system if rural credit to be based on a
co-operative association in the village......the reorganization of
agricultural credit in India must be based on some form of co-
operative association of cultivators within the village......"²

Co-operative organizations have been recognized as one of
the best institution for providing rural credit to the farmer because
they satisfy all the important criteria of sound agricultural credit.
The fundamental postulates of agricultural credit, as pointed out
by Mr. F.A. Nisgolson, are: (1) Absolute Proximity of lender and
borrower; (2) Complete security to the lender as regards the title
of the property offered; (3) though safety and facility to the
borrower. To these may be added the requirement that credit
should be (4) positive, productive and thrift creating, instead of

². Hajela T.N, "Cooperation: Principles, Problems and
Practice", New Delhi, 1994, p. 51.
negative, unproductive and dangerously facile. To quote Nicholson again, "...it must teach the lessons of self and mutual help, and suggest the extension of those lessons to matters outside of mere credit; it must be sage not merely in eliminating the dangers of usury, but in being controlled, needful and productive.

It is emphatically not the mere outpouring of cheap credit that is required, not the mere grant of cheap and facile credit to classes unprepared for the boon: what is wanted, is the promotion of facilities for saving, the encouragement of banking deposits, the inculcation of the true objects, uses and limits of credit; in other words, the development of essential natural virtues of thrift, foresight and self-help through institutions organized for these ends."³

The co-operative organizations satisfy the basic conditions of proximity as they can have intimate knowledge of the character and abilities of their members. They can supervise the use of credit and see that members employ the money obtained by them in improving the productivity of land. The credit provided by these societies is bound to be cheap as they can have very low administrative cost because much of their work is done voluntarily. The credit provided by co-operative institutions is neither too rigid nor too elastic. The finance as is available from them formally purports to be short-term in most part, whereas in actual practice it tends to be medium-term or even long-term. The credit provided is also safe as it assists and does not hamper the borrower's stability and productivity capacity.

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3. Ibid.
Co-operative organization which is actuated by service motive can play a unique role in providing not merely a facile credit but a safe and productive credit. In fact, the very act and effort of obtaining co-operative credit educates and guides the borrower; it teaches the borrower the lessons of mutual and self-help. The co-operatives can instill in members strong feelings of responsibility for prompt payment of interest and repayment of loans and can provide strong incentives to thrift and savings.

Aims and Objects of Cooperative Credit

While the commercial banks cater to the requirements of the highly organized industries and commercial undertakings and organizations, the cooperative banks in India as elsewhere provide banking facilities to the highly disorganized agricultural sector of the country's economy. The task assumed by the cooperative banks is, thus, the most difficult one. Notwithstanding the similarity between the functions, the two differ fundamentally from each other. Commercial credit is motivated by tangible security offered by the borrower and the degree of ease and promptitude with which it can be realized; on the other hand, cooperative credit is guided by the principles of mutual help, and thrift and is accentuated by service rather than profit motive. According to Prof. Horance Belshaw, the aims of cooperative credit are: (i) to promote thrift so as to increase the supply of funds; (ii) to draw on sources outside the society; (iii) to promote effective use of loans and to reduce the risks in granting loans by careful and continuous supervision; (iv) in consequence to reduce risk to lenders, and to

4. Ibid, p. 286
credit cooperatives by adequate security; (v) by this means and by low cost of management to keep the cost of credit-worthy that they can obtain sufficient funds to finance other cooperative undertakings.

**Term of cooperative Credit**

It, therefore, follows from the above objectives that the terms of the cooperative credit must be adapted to the needs of the borrowers and should not be dictated by the convenience of the creditor. It implies that the credit should be provided for as sufficiently long period, commensurate with the length of the operation for which the facility is to be provided. This is why cooperative banks provide credit for productive purposes and the period of repayment is synchronized with the period of harvest. Again, cooperative credit lays emphasis on the character and the repaying capacity of the member who borrow. The agriculturists individually can offer the following security: (a) personal property, moveable or immovable; (b) personal credit, i.e. his honesty and character; and (c) the security of his neighbours.

Credit can be classified according to the purpose and the period it is advanced. The period-wise classification consists of short, medium and long-term loans. The term of credit differ according to the kind of credit based the on this classification of credit, the cooperative credit organizations are of two kinds, viz. short-term and medium-term credit institutions and long-term credit institutions.

Short term credit is made available for a period of 12 to 15 months, for meeting the cost of seasonal agricultural operations,
generally in the beginning of the season but utilized as and when required, e.g. to purchase seeds, implements, manure and fodder etc. Also to meet the marketing expenses of course. It is payback usually after the harvest is over.

Medium-term loans are granted for periods exceeding 15 months but not exceeding 5 years for purchase of bullocks, implements, reclamation of land, consolidation of holdings, sinking of ordinary wells and repairs of old ones, construction of *pucca* drains in the fields of purchase of carts, bullock, camel, etc.

Long-term loans are granted for a period from 5 years two 15 years. It is to make the permanent improvements in land, for reclamations and constructing wells, permanent fencing and buildings. No upper limit is fixed but generally it does not extend beyond 25 years. Sir Fredric Nicholson summed up the conditions of a good system of credit as follows:—

"Absolute proximity of lender and borrower, complete security to the lender as regards the title of the property offered, its freedom from prior-encumbrances, the recovery of his capital and interest at the due date in convenient amounts with facilities for enforcing such recoveries in case of arrears in case of arrears, through safety and facility to the borrower in his ability to obtain cheap loans at any time to an amount proportionate to the security he can offer and upon terms which would be equitable in themselves, so convenient as regards repayment, so free from all risks of deliberate entanglement so based on published rules, so devoid of any tendency to discount necessity or urgency or other

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wise that by an equitable insurance that he can calculate on reaping the full fruits of his prudence and find in credit a powerful auxiliary to his productive powers and stability.”

Cooperative Credit Structure

While the short-term and medium-term loans are dispensed by ordinary credit societies, the long-term loans are issued by the Co-operative Land Development Banks. The short-term loans are usually given on personal security on the basis of agricultural production and repaying capacity, which are not otherwise secured whereas the medium and long-term-loans are generally secured by mortgage of land.

The structure of Co-operative Credit in India consists of 3 tiers, namely, the primary credit societies at the base (or village level), the central Co-operative Banks in the middle at the district level, and the Apex or the State Co-operative Banks at the state level. In a tabular form, the credit structure can be explained as under:
Co-operative Agricultural Credit Structure

- **Short/Medium Term Credit**
  - State Cooperative Bank (at State level)
  - DCBs/DCCBs (Districts level)
  - PACSs (at Village level)

- **Long-Term Credit**
  - Federal Structure
    - SCRDBs (at State level)
    - DCCBs (at District level)
  - Unitary Structure
    - SCRDBs (at State level)
    - PARDBs (at Tehsil level)
    - Branches (at Tehsil level)

*Note: U.P. State Co-operative Village Development Bank Ltd. has Unitary Structure*

The area of operation of society is restricted generally to a village because the liability of the society is unlimited. The individuals are only the members of the society. A member should be matured person, should possess' good character and should be a resident of the village. Moreover, he should not be a member of any other society except a land mortgage bank. Nevertheless, he should not be bankrupt or an applicant to be so adjudicated. The
primary function of these societies is the creation of funds to be lent to the members.

**Central Co-operative Banks and Unions**

As discussed earlier, the original scheme of co-operation in India did not contemplate the formation of federal or secondary institutions but soon after the Co-operative Act, 1904, the need of such institutions was badly felt and consequently the Central Co-operative Banks at Berar were started. Primary societies organize themselves into Banking Unions. The chief feature of this type of financing bank was that it was composed primarily of societies financed by it though individuals also were admitted as shareholders but member societies had a substantial voice in the management of the bank.

These societies also organize themselves into central co-operative banks, which have societies as well as individuals as their members and as such called mixed type institutions. The area of operation of a central bank usually covers a revenue district. There have been, generally, more than one Bank and Union in a district but we feel it feasible to amalgamate them into one District Bank, in order to make them viable units.

**State Co-operative Banks**

With the establishment of Central Banks, it was found that certain banks were not able to secure sufficient capital from the money market to fulfill the needs of their constituent societies. Moreover, the central banks also required to be supervised by some head institution. It was to take up all these functions that the
need for an apex central bank arose and the Maclagan Committee (1914) strongly advocated for such an apex institution in each major province. The Maclagan Committee emphasized the need for establishing an apex bank in each major province in the following words:

"In the absence of an apex controlling institution, Central Banks have to make such arrangements as they can, either by circularizing each other or through the Registrar, to led out their surplus funds or to borrow to meet their needs. This system is inefficient and uneconomical when the central does the work banks themselves and if the Registrar carries it out entails a substantial addition to his already onerous duties. Moreover, uncontrolled inter-lending among Central Banks involves an interlocking of liabilities, which may well lead to trouble. In some provinces too the Central banks are unable and unaided to secure locally sufficient funds to meet their needs, and these can best be provided by a bank capable of attracting deposits from the richer urban classes and more suitably equipped to serve as a channel between the co-operative movement and presidency or Joint Stock Bank. It is, therefore, in our opinion necessary to provide in each of the major provinces an apex bank which will co-ordinate and control the working of central Banks, forecast and arrange for the provincial requirements as a whole, and be the financial co-operative centre of the province."

The difference between apex banks and the Central Banks is one of degree and not of kind. It acts as banker's bank to the Central Bank in the districts. It forms the connecting link between

the money market and the co-operative movement. Moreover, it ensures co-ordination of efforts and uniformity of banking policy as between the different Central Banks.

State Cooperative Banks are the leaders of the cooperative movement in the states. There are 28 SCBs in the country out of which 17 are based on three-tier structure and the remaining are based on only two tier structure. In the states with two-tier structure, the SCBs particularly where there is no long term cooperative credit structure, function as DCCBs and also look after the long term credit needs of the farmers. Thus SCBs assume a lot of significance in the development process. Further, the standing policy of Reserve Bank of India is to have only one apex level institution in each state. Thus the State Cooperative Banks are the apex level institution in the cooperative movement and serve as balancing centres.

State Banks have greater role to play in strengthening the short term credit institutions in the state i.e. DCCB & PACs with grass root level lending, and to take up challenges of New Economic Policies. The present position of DCCB & State Banks is not very encouraging as is evident from the table given.

Table 1.1
State Cooperative Banks (1999-2000)
(Broad Statistics)

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<table>
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</thead>
<tbody>
<tr>
<td>No. of Banks</td>
<td>28</td>
</tr>
<tr>
<td>No. of Branches</td>
<td>742</td>
</tr>
<tr>
<td>Total membership</td>
<td>1,39,676</td>
</tr>
<tr>
<td>Membership of Co-operatives</td>
<td>20,360</td>
</tr>
</tbody>
</table>
Total Share Capital                              Rs. 3,640 million
Government participation in share capital        10.4%
Total deposits                                   Rs.118,166 million
Deposits of co-operatives                        79.3%
Reserves                                         Rs.16,712 million
Total borrowings                                 Rs.55,170 million
Borrowings from NABARD                           78.8%
Total working capital                            Rs.219,600 million
Total loans advanced                             Rs.211,450 million
Percentage of deposits to advances               53.4%


The Districts Central Cooperative Banks should be encouraged by State Cooperative Bank in mobilizing resources both public & private. At present imbalance exist DCCBs & PACs and also between SCBs & DCCBs. Rajasthan SCB has taken a lead in formulating a scheme for removal of imbalance in short term credit. It is well known that one third of the DCCBs are financially week and most of the DCCBs are incurring losses. The SCBs should not shy away from the responsibility and work out an alternative to help the DCCBs.

The SCBs should also take utmost care while entering into memorandum of understanding with state government and NABARD on this issue. The rural credit and banking cooperative depends on government equity and concessional funding support from national financial institutions including NABARD. Such support may not continue in future in a liberalized economy and the banks thus have to rely more and more on their own resources and financial strength for their operations. Resources would be a
major problem, which they will have to raise on their own through deposits and other market instruments.

**Land Development Banks (LDBs)**

The Long Term Co-operative Credit structure comprises of Agriculture and Rural Development Banks (ARDBs) at the state level operating through their branches in some states and through affiliated primary Agricultural Development Banks in some other. Agricultural and Rural Development Banks are specialized term lending institutions in co-operative sector catering mainly to the investment credit needs of agriculture and rural sectors. Entire advances of agriculture and rural development banks are going for capital formation in rural areas. ARDBs finance investment credit projects for a wide range of activities covering minor irrigation, agriculture and allied sectors, rural non-farm sectors consisting of agricultural processing, marketing and transportation small scale and rural industries, horticulture, dairy, fisheries, poultry and rural housing.

The sources of State Co-operative Rural Development banks consist of share capital, reserves and debentures. Most of these banks have received share contribution from State Governments in the initial stage, which in the case of institutions newly set up is often substantially larger than the share capital received from primary banks. In view of the long term character of its advances State Co-operative Rural Banks Development Bank has to raise funds by floating debentures running for periods broadly coinciding with the period of its advances, usually 10 to 15 years. The rate of interest and issue price of these debentures depends
upon market conditions. These debentures rank as Trustee securities and are guaranteed by State Government for their principal and interest with a view to promoting their marketability and making their floatation successful. Loans are granted by land development banks for various purposes—repayment of old debts, improvement of land purchases of costly agricultural equipment, construction of wells, erection of pumping sets, etc. while greater emphasis is being laid on loans for land improvement, in some states a major share of the loans continues to be given for redemption of old debts often to clear the title of land from previous encumbrances. Loans for land improvement are at present given on the basis of the existing value of land and not on anticipated value after development.

From the foregoing discussion, it is inferred that there exist a structure of cooperative credit financial institution in the country. Yet this structure is not comprehensive enough to cope and cater to the credit requirement of agriculture community.

Although “Village Cooperative Credit Societies” existed, but they were unable to undeletable heavy financing towards rural credit, their resources being too limited, and also were incapable of performing the large functions, as was the need of the time. As a result our cultivators still continued to depend on credit from private lenders and became a victim of the practice of usury by them. Therefore the Government felt that prior to embarking on any development scheme, this hurdle, has to be dealt with properly, and removed. Without the redemption of the old debt and other hurdles, the farmers could not think of putting to proper direction. The resources made available to them under any
development schemes. Moreover, it was realised that credit is not only for procuring agriculture inputs for increasing the yield, but that finance is primarily needed also for the development of land. If the country has to attain self-sufficiency in food, the cultivable area has to be augmented. Land development, therefore, became of prime concern. This required in established of such an institution which could fairly and properly undertake the problems and needs of cultivator ranging on a wide spectrum from land development to other types of credits for different farming needs. This required the establishment of such an institution, which could fairly, properly undertake the problems and need of cultivators and help over come them.

Such an institution could only be founded or expanded on the spirit of cooperative for the reasons that (a) Only cooperation welcomes the capitalist because of the investment function and the multiplier and at the same time discourages capitalism. This dual function of the cooperative exists because instead of any direct attack or ban or restriction against or upon the capitalistic group through legislation etc., the stress is laid down upon surplus of production again the “Investment function” and the “Multiplier” the basis of the economic development. (b) Only the institutions founded and run on cooperative basis recognise the proper and genuine value of labour in terms of wages against the merit and productivity. The labour is saved from exploitation and this promotes the efficiency to produce. Simultaneously it avoids and averts the domination of proletariat itself. A keen observation of this balancing is too necessary for smooth and steady economic progress. Checks and balances over the “Capitalistic Exploitation”
of labour and the “Trade Unionism” is a significant problems which could be solved only through the spirit of cooperation and the institutions founded with that spirit.

Thus, the institution had to be of banking type, duly subsidised and backed by government to provide heavy finances on long term basis against the security of “Land pledged”. A part from mere loaning, the institution had to function in providing healthy guidance and maintain a check over proper usage of loan given. This could be availed of by encouraging the private sector of the locality and also inducing them towards saving and investment; they could go into the merits of the cases and arranging priorities, being personnel on the spot. There was risk of party politics to pave way, but then the public servants of the institution being no local men, were there to checked and avoid this defect.

This led to establishment of the State Cooperative Village Development Banks Ltd. in each State of the country. The state of Uttar Pradesh also has a State Cooperative Village Development Bank. Minor irrigation and Farm Mecahanisation is important function of the Bank, beside other function of providing credit to farmers for a number of other purposes related to agriculture. The next chapter throws light on the land Development Banking in India and discusses its origin, requirements, growth and progress and the problems requiring solution.