CHAPTER I

INTRODUCTION & METHODOLOGY
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1.1. INTRODUCTION

The Co-operative Credit Movement was introduced in India by the Imperial Government of India through the Cooperative Credit Societies Act of 1904 and 1912 as a remedial measure in order to save the poor illiterate farmers from the usurious clutches of money-lenders and to develop the under-developed agricultural economy by providing cheap and suitable institutional credit on co-operative principles.

The movement was already experienced successful results in Germany, and that was spread its wings to other countries of the world. The idea of starting co-operative credit institutions for agriculture is advocated by Frederick Nicholson in 1985, later this view was further supported by Sir William Dupernex an I.C.S. Officer of Uttar Pradesh. They both recommended for starting the village co-operative societies based on Raiffeisen model and concluded co-operative societies are worth of every encouragement to solve the rural problems. Ultimately the India's first Co-operative Societies Act of 1904, was drastically amended and passed a comprehensive new Act of 1912 known as Co-operative Societies Act. This Act was an important milestone in the history of co-operative movement in India.
Thus the co-operative movement was introduced in India as one of the premature credit banking system of less developed countries recommended by officials purposefully after a deliberate consideration of the poor Indian peasantry.

Co-operative credit became very popular throughout the world and especially agricultural oriented countries like India. In fact co-operative credit was introduced in order to solve the various credit and other agricultural problems of the farmers and offered the needed protection guidance in the matter of credit through thrift, self-help with the mutual help among themselves (villagers). It is a deliberately designed mechanism by which idle resources (savings) of people are collected and distributed to the needed member farmers of the society.

In fact, the Co-operative Credit Movement felt as a panacea for solving various agricultural credit problems of the rural India. Though it was introduced in the field of agricultural credit in the beginning, later various steps were taken by the Government of India and extended to other needed fields, activities and sectors of the economy.
India as a socialistic pattern of society means advancement must not only on private profit but also for social gain by increasing the national income and the employment and also equal distribution of increased income and wealth. In order to fulfill the above goals, co-operative was chosen as an important formal institutional credit agency that would develop the economy on democratic lines and offers a vast field for the application of co-operation in varying forms in various fields.

The Gadgil Committee 1945 is remarked "the spread of co-operation would provide the best and the most lasting solution for the problem of agricultural credit in particular and those of rural economy in general".

India launched Five Year Plans for its planned economic development. Co-operative credit movement was given due and dynamic role in achieving the increasing employment income, wealth and welfare, by reducing poverty and inequalities on democratic socialistic pattern.

Thus the co-operative credit movement made an integral part of our planned economic development. The movement has grown enormously by leaps and bounds since its inception and has become one of the leading credit supply agencies in all the levels of the economy.
The building up of co-operative sector as a part of the planned economic development is thus one of the centre aims of national agricultural policy.

1.2. Some Empirical Studies

In India, several studies official as well as non-official have been undertaken from time-to-time in the field of farm finance. The All India Rural Credit Survey, 1951 and All India Debt and Investment Survey and the Committee to Review Arrangements for Institutional Credit for Agricultural and Rural Development, (CRAFICARD) in 1981 and Hazari Committee in 1975, have been pioneering studies undertaken by the Reserve Bank of India (RBI). The All India Rural Credit Survey (AIRCS) was the most comprehensive and scientific undertaking. The findings of the committee confirmed the dominant position occupied by the money-lender in the rural credit market. It observed that agricultural credit market fell short of the right quantity, was not of the right type, did not serve the right purpose and often failed to go to the right people. It observed that although the performance of co-operatives in the sphere of

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1. All India Rural Credit Survey, 1955.
agricultural credit was deficient in several ways, the co-operative agency still remained by far the least satisfactory channel of credit. The committee report recommended that lending policies should be geared to production programmes, and an integrated scheme should be evolved to link together credit, marketing and processing in the co-operative sectors. It also suggested that there should be increased State assistance and guidance (including State partnership in co-operative credit institutions) and that large sized societies covering areas providing adequate business should be organised.

The All India Rural Debt and Investment Surveys have thrown a mine of information relating to the structure of rural assets and rates of interest.

In 1966, the Reserve Bank of India set up the All India Rural Credit Review Committee in order to reassess the development that had taken place in the field of rural credit since 1954. The Review Committee submitted its report in

July 1969. The Committee inter alia, recommended that besides strengthening the co-operative credit structure, commercial banks should embark on wide scale and intensive efforts should be made for provision of agricultural credit.

The Committee to Review Arrangements for Institutional Credit for Agricultural and Rural Development (CRAFICARD) has described the institutional arrangements for credit delivery in the economy. It has recommended the setting up of NABARD which has been established in July 1982. Besides the RBI has undertaken several empirical and evaluative studies in the sphere of rural credit.

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4. (a) Study Team on Agricultural Credit Institutions in Jammu & Kashmir/Himachal Pradesh/Orissa/Karnataka.
(b) Working Group on Institutional Credit arrangements for Jute Growers.
(c) Standing Committee on term lending through cooperatives (COTELCOOP).
(d) Working Group to consider measures for increasing flow of credit to weaker sections of the society.
(e) Study Group on interest rates in the Co-operative Credit Structure.
(f) Study Group to Review the Working of the Scheme financing of PACS by Commercial Bank.
In 1975 a Committee appointed to examine the need and possibilities for effective coordination between the two structures, short term and long term credit under the chairmanship of Sri Hazaria, known as Hazari Committee which submitted its report in 1976. It recommended for the integration of two types of credit structure that enhances the efficiency, economy capacity, abilities and viabilities for credit (and inputs) delivery system to meet the all the credit needs of the farmers, production investment and market credit at one single contact point namely Primary Agricultural Credit Societies (PACS).

1.3. REVIEW OF THE LITERATURE

Subrata Ghatak illustrates that co-operatives have emerged as a distinct sector of Indian economy, as an instrument of socio-economic transformation and development of country's rural economy. In many States, co-operatives fared well in completely transforming the economy of some of rural areas. It is generally accepted that in view of the existing socio-economic conditions of India, vastness of the country and innumerable villages lying scattered over vast

areas with poor communications, limitations of other types of financial institutions, it is only through the co-operative societies a direct link may mainly be established with farmers who are in need of short, medium and long-term credits for carrying out their activities. It is felt that financially stable and well-manned co-operative institutions would be the most satisfactory agencies.

Focussing the studies on poverty, agriculture and economic growth in underdeveloped countries, Bhatia opines that for setting the agricultural sector on the path of progress, it calls for capital construction, provision of institutional credit and farm inputs. The importance of this is recognised everywhere when the trend in most underdeveloped countries is in that direction. In India, particularly through co-operative banking, these reforms become indicative of the country's newly acquired earnestness in this matter.

Amal Ray observes that adequate institutional support may be mobilised for the programmes formulated for

the upliftment of discrete institutions like co-operatives and for the development of institutions in the rural areas, lending credit to the farmers through its credit programmes helping the small and the marginal farmers including labourers to meet their basic needs.

Co-operative credit structure was well studied by Wali. He states that the State Co-operative Banks are at the apex of the three-tier co-operative credit structure in each State with the Primary Agricultural Credit Societies at the farmer level and a Central Co-operative Bank at the district level. This structure provides short-term crop production finance (to be repaid within one year or a crop season) and medium term investment finance (repayable in three to five years) for the production assets like irrigation pumpsets, agricultural implements, bullocks, milch cattle, sheep, goats etc. Long-term investment finance to farmers are repayable in 7-15 years and are headed by a Central Land Development Bank, formerly called Land Mortgage Banks at the State level, and Primary Land Development Banks at the district level, lending credit directly to their farmers clientele.

The modernisation and improvement of agriculture, needs considerable capital for investment. Unfortunately, agriculture, in our country, is mostly poor man's occupation and hence the need for depending on external financial resources becomes inevitable. In this context, institutional credit plays an important role in helping the adoption of new technology, which is capital incentive in nature for agricultural development. The organisation of institutional credit is one of the major factors governing agricultural production particularly that of small and marginal farmers.

Rural credit system took new turn with the entry of commercial banks into the area of farm-financing since 1969. Efforts were directed to revitalise and galvanise the Primary Agricultural Credit Societies by transferring them to the commercial banks. However, the success of the rural credit structure would depend essentially on the ability and willingness of the management of credit institutions to design innovative products that suit to the need of farmers.


Harish Chandra has studied the role of institutional financing in financing of agriculture during the Five Year Plans. He examined the role of various institutions financing agencies including the Commercial Banks.

Shetty noticed the need for increased supply of credit to facilitate the farming community to transform traditional agriculture into modern agriculture. He also felt the need for redistribution of existing institutional credit in favour of the small and marginal farmers and agricultural labourers, who have been neglected.

Gupta, S.K., Awasthi, P.K., and Yadav, K.S. attempted to focus on recovery problems of agricultural loans. They analyse the causes for non-payment of loans. Among others they suggested that the way for improving the recovery performance of bank.


Gadgil favoured the establishment of only one agency to provide all types of loans.

Pany in his study made an attempt to examine the inter and intra-regional variations in the supply of institutional credit. He found that the credit gaps were higher in the less developed regions than in the developed regions. The problem of mounting overdues led to supply of credit at very low rate. The study further pointed out that problems of the institutional agencies in providing the finance. The procedures followed in lending loans were cumbersome and as such the farmer is facing hardship in obtaining credit. Even when he obtain credit the cost of credit is going abnormally which defeat the purpose of institutional financing.

Narasappa, K. made an attempt to study the problem of overdues in commercial banks. He analysed the


reasons for overdues in State Bank of India in Uravakonda Mandal of Anantapur District. He gave suggestions to overcome the overdues in the loans are: (i) lack of supervision by the Bank, (ii) crop failure, (iii) impression that bank loans are like subsidies granted by government which need not to be repaid.

1.4. PIT FALLS OF PRIMARY AGRICULTURAL CREDIT SOCIETIES

In India, co-operatives with their country wide network forms as a base for co-operative credit, and these Primary Agricultural Credit Societies occupies a predominant position in the co-operative credit structure and forms base for credit distribution both in terms of volume of loans advanced and its territorial coverage. The success and failure of the co-operative credit movement depends on the successful functioning of these Primary Agricultural Credit Societies. Inspite of the rapid expansion of commercial banking into the rural sector since its nationalisation of 14 Banks in July 1969 again 8 banks in 1980 and the establishment of Regional Rural Banks in 1st July, 1975. Recommended by Narasimhan Committee the co-operatives are given predominant place in the rural credit-delivery system. However, these Primary Agricultural Credit Societies suffer from a variety of short comings such as one sided business only
credit leaving, marketing and inputs supply which are having potentially source for their business. Even in the credit business they are laying emphasis only on lending aspect rather than deposit mobilisation. Accumulation of overdue, poor recovery performance, inadequacy lack of peoples participation in management, poor financial performance and regional disparities are to be remedied the during course of feature by initiating appropriate, administrative, organisational, policy reforms and innovative banking methods in order to ensure and enhance their functioning and performances.

The need for a clearly conceived action programme for strengthening of Primary Agricultural Credit Societies and reorganisation of the existing co-operative policies and procedures in recognised in the Five Year Plans. A monolithic approach for all the regions in the country may not suitable. The structure, conduct and performance of Primary Agricultural Credit Societies in different parts of the country are to be evaluated in order to formulate suitable policies and procedures for improving their operational efficiency.

1.5. NEED FOR THE PRESENT STUDY

The study of the problem of financing farmers is more important for more than one reason, in order to raise
the production. Farmers need to spend more on agriculture in the form of inputs and investments, that must be financed either through own savings or borrowed from external sources such as institutional/non-institutional. Since the majority of the farmers belong to poor, small and marginal, they usually have deficits in their family budgets. It is for this reason, the role of institutional credit agencies, especially co-operatives in the field of agricultural finance is deemed a matter of paramount importance. Here farmer need integrated services from the co-operatives.

In recent years the agricultural financing agencies are also facing the critical problems with the financial assistance and this is due to mounting overdues. This mounting of overdues have been locking of the capital, decreasing the circulation of credit and for this it leads no development. Rural indebtedness has been one of the burning problem of India. From the borrower point of view, accumulation of overdues leads to non-availability of further loans, the overdues seize financial fluidity of co-operative societies and finally it brings to the stage of lock-out of agricultural credit industry. Besides immobilising the credit structure, the overdues jeopardise the interest of non-defaulters and regular credit users by adversely affecting the production plans at micro level and put a severe axe on the total agricultural production at macro level. Moreover, the proper
recovery of loans is not only a pre-requisite for a rapid expansion of agricultural credit but also of paramount importance to any agency, since repayment of credit recycling of the public money for development.

Our study is confined exclusively to the role of Primary Agricultural Credit Societies in the provision of agricultural credit and mainly to focus the growth of defaulters and overdues of sample Primary Agricultural Credit Societies in Kurnool district.

1.6. OBJECTIVES OF THE STUDY

The main objectives of the study are to present a broad picture of the overall co-operative credit structure at all India level as well as Kurnool district.

1. To analyse the trend and progress of agricultural credit delivery system in India.

2. To examine the evolution and functioning of agricultural credit system in Kurnool district.

3. To examine the need and availability of integrated services to the farmers by the societies.
4. To examine the structure and performance of sample Primary Agricultural Credit Societies.

1.7. SAMPLE DESIGN

Kurnool district is purposively selected for a detailed study because of considerations and proximity and familiarity. To cover the wide range of the area 6 samples were randomly selected for the present study.

1.8. TOOLS OF ANALYSIS

The data drawn from different sources is subjected to statistical treatment. As the author is not familiar with advanced statistical tools simple measures are employed in the present study. Diagrams and graphs drawn to illuminate the data.

1.9. DATA BASE

To analyse the credit structure of the national level, data have been collected from the publications of Reserve Bank of India, Government of India, and National Bank for Agriculture and Rural Development (NABARD). Regarding the district, District Statistical Abstracts, Lead Bank
Reports, and the Reports of the Central Banks are consulted. Data relating to the sample societies through a pre-tested schedule by the investigator personally.

1.10. LIMITATIONS

Since it is specific area study, its conclusions cannot be generalised. The tools of analysis are also not sophisticated enough to measure and capture of the complexity of co-operative credit structure in the district. There are also data limitations and hence conclusions are to be understood keeping in view of these limitations of the data.

1.11. CHAPTER SCHEME

The study is divided into 5 chapters. The introductory chapter deals with the study design and the methodology, scope of the study, objectives adopted for the present study.

The second chapter discusses the need and the role of institutional finances (especially) the co-operatives in the rural economy. It also narrated with a detailed classification of various types of co-operative credit institutions operating in Indian economy. Third chapter deals with brief
socio-economic profile of Kurnool district. The chapter deals among other things geographical conditions, population, land utilisation, climate and type of crops and credit structure.

The fourth chapter deals with performance of Primary Agricultural Credit Societies (PACS) (Sample Study).

The last chapter contains summary of findings and conclusions. A few suggestions were made at the end for the effective functioning of Primary Agricultural Credit Societies.