CHAPTER-2

CO-OPERATIVE MOVEMENT IN INDIA: ITS GROWTH AND ROLE IN RURAL DEVELOPMENT
2.1. Introduction

Rural development has been recognized as an essential condition for expediting the process of overall development in the developing countries. Owing to the predominantly agricultural nature of the economy of these countries, the process of rural development is inextricably linked with agricultural development\(^1\).

It is widely held that the Co-operatives are one of the essential institutional infrastructures contributing to the development and modernization of Indian rural sector\(^2\). Co-operation, an economic miracle of the Nineteenth Century\(^3\), is not a mere slogan in the present era\(^4\). It is one of the potential instruments to resolve the socio-economic problems of mankind not by resorting to revolution but through a process of mutual and co-operative effort. Emphasizing the importance of co-operation, Hall and Watkins observed that, in working with others for the common good, man’s highest qualities are enlisted in development and in the employment of others qualities the man himself becomes a better man, and the quality of the human race is improved\(^5\). Thus the co-operation raises the people’s standard both materially and morally. Because of these advantages, the co-operation has spread its roots deep both the development and developing nations. As the I.L.O Yearbook for 1933 noted, some prefer to consider it as an instrument for developing a backward economic system; in other more advanced countries, it is considered as a highly developed and advanced form of economic activity and is, therefore, entrusted with new responsibilities in being associated with tasks of public importance\(^6\).

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This chapter discusses the genesis and development of Co-operative Movement in India. Besides, it analyses the role of Co-operatives in the rural development in the country.

2.2. Co-operative Movement and Rural Development in India

Co-operative Movement is not in any way new to India. Overall it has a fairly long history extending over several centuries in the history of the country. The co-operative form of social and economic phenomena has been in existence since times immemorial. The ancient spiritual literature including the Vedas, the Upanishads, the Bhagawat Purana, Kautilya’s Arthashastra etc. referred to about the joint efforts of the people for the welfare of the society. In this regard, The Hindu Joint Family System can be cited as the best example of co-operative endeavour and philosophy in India.

There were four main traditional forms of co-operation existed in ancient India, viz, Kula, Grama, Shreni, and Jati. According to Srivastava, “historically speaking, ‘kula’ was the first form of co-operative activity that emerged in Indian society……. It was both a political and socio-economic organization in which kinsmen, friends and relatives worked co-operatively to promote their social, economic and political interests. With the expansion and stabilization of society, the aspects of economic and social co-operation gradually narrowed to the limits of joint family; which has survived to the present day.”

As stated by Srivastava, “the co-operation at the village level emerged after kula became a established unit. The Grama Sabha, a part of the Village Panchayat, was a type of co-operative organization which undertook various works for the economic and social progress of the village and looked after the improvement and maintenance of village lands, pastures, roads, highways, paths, common gardens and grasslands. The agriculturists often pooled their

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resources of livestock or implements and helped one another in tilling their respective fields. The members jointly undertook buying or selling or obtaining equipments, tools, seeds other in terms of production.

At the third stage the ‘Shreni’ is a later development which emerged in the Post-Vedic era. It was a co-operative economic organization of artisans, industrial, handicraft workers, merchants, traders, bankers, agriculturists, house-builders and building contractors.

Lastly, he concluded that “Co-operation emerged at the level of ‘Jati’ was mostly for social purposes such as promotion of education, charity, and relief work, but when a particular occupation, craft or trade became associated with a particular caste, the system evolved a pattern in which co-operation became an important aspect of the economic activities of the community”.

For the purpose of understanding of the history of co-operative Movement in India it can be classified into two phases as Pre-independent era and Post-independent era phases. These two phases were discussed in detail as below.

2.2.1. Co-operative Movement before Independence

Towards the end of the 19th century, the conditions of the rural masses in India were quite deplorable. The country-side was studded with the chronic problems of poverty, ignorance, improvidence and inherited debt and occasional outbreaks of natural calamities. The outcome of all these factors was unbreakable debt trap. The rural poor were being exploited by greedy money-lenders by way of charging abnormal rates of interest. This led to violent uprisings of the debtors against the creditors. They also resulted in riots and rebellions. With a view to mitigate the sufferings of the poor peasants, the British Government enacted several acts for the relief of poor peasants from the clutches of money lenders which are as follow:

(a) Deccan Agricultural Relief Act (1879);

(b) Land Improvement Loans Act (1883); and

(c) Agriculturists Loans Act (1884).

These legal measures, however, did not mitigate the problem of indebtedness due to the stringent and cumbersome procedures involved in their implementation.

During the later part of the 19th century, the problem of rural indebtedness became acute and the alienation of lands from the peasants to the money lenders became a common phenomenon. The measure of loaning [taccavi] taken up the British became ineffective. The appointment of various Committees and Commissions and also the passing of Acts by the British such as the Deccan Agricultural Relief Act-1879, Land Improvements Loans Act-1883, Agriculturists Loans Act-1884, were the attempts initiated by the alien Government to address the problem of rural indebtedness. With the failure of these Acts, the dire economic conditions of the peasants called for alternative arrangements to provide credit to the agriculturists.

In 1892, the Government of Madras Province deputed one of their senior officers, Sir Fredrick Nicholson to study the theory and practice of co-operative system working in England and Germany, and also to examine the feasibility and modalities of their introduction in India. At the same time, Dupermex, an ICS Officer, experimented with few Rural Banks in the United Provinces. Similarly, Anthony Macdonnel did a pioneering work by establishing two hundred Co-operative Credit Societies at the village level in 1901 in the United Provinces. Nicholson in his exhaustive Reports (1897 and 1899) observed that we must find “Raiffeisen in India”.

The intention of Raiffeisen was to mobilize the small groups of men who lived in close proximity in each area and were fully cognizant of each other’s circumstances and character. These persons pledged their unlimited
liability, worked together for the betterment of the society. Further, Raiffeisen wanted that the credit operations were to be strictly supervised by an elected committee in each society and the administration of the society was to be entirely gratuitous.

By the beginning of the 20th Century, the officials of the Colonial Government perceived the Indian farmers' dependence on the spurious moneylenders to be a major cause of their indebtedness and poverty. That the Co-operative Movement offers the best means of liberating the Indian farmers from the crushing burden of debt and the tyranny of moneylenders, the Indian officials began to take keen interest in promoting Credit Co-operatives in the country. Several Co-operative Societies were organised for the first time in the closing years of the 19th Century.

The Famine Commission of 1901 also endorsed the suggestion for the establishment of the Credit Co-operatives. But neither the Societies Registration Act No XXI of 1860 nor the Indian Companies Act No VI of 1882 provided for the organization and registration of Co-operative Societies for the purpose of promoting the economic interests of its members in accordance with co-operative principles. In 1901, the Government of India appointed a committee under the Chairmanship of Sir Edward Law, to study the prevailing economic conditions in the rural areas of country. The committee recommended the setting up of Co-operative Credit Societies in the Raiffeisen Model for the development of rural areas.

A Bill for the Co-operative Credit Societies was drafted by Sir Edward Law in 1901 with the objective of assisting the farmers, artisans and low-paid employees with credit. The Bill became the Co-operative Credit Societies Act, passed on 25th March 1904, which launched the Co-operative Movement formally in India.
The Co-operative Credit Societies Act in 1904, along with the more comprehensive Co-operative Societies Act of 1912, marked the beginning of policy initiative by the government for the encouragement and promotion of Co-operatives in the country. This government became popular and tolerated by provincial governments and thereafter, "Co-operation" became a provincial subject under the Government of India Act of 1919. The persistence of government interest in Co-operatives and the importance attached to them was reflected in the appointment of three different committees to review their growth and functioning of the Co-operative Societies working in the different parts of the country.

2.2.1.1. The Co-operative Credit Societies Act, 1904

The passage of the Co-operative Credit Societies Act of 1904 was another milestone in the history of Co-operative Movement in India. This Act was hailed as "a turning point in the country's economic and social history". The Act aimed at encouraging thrift habit among the poor artisans and peasants by setting up of Co-operative Societies. There was, however, no provision for the establishment of non-credit Co-operative Societies or central or federal level Co-operatives, such as, central Co-operative Banks/Federations. In course of time, the 1904 Act was found insufficient to meet the growing credit needs of the farmers.

2.2.1.2. The Co-operative Societies Act, 1912

In order to rectify the shortcomings of the 1904 Act, the Government of India passed the Comprehensive Co-operative Societies Act in 1912. This Act helped the Movement to make rapid strides and spread to many fields. In order to assess the quantitative and qualitative progress achieved so far by the Co-operative movement in India the Government of India, appointed a committee on co-operation in 1914 under the Chairmanship of Sir Edward

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Madagan. The Committee recommended the stoppage of registration of new Co-operative Societies, and the structural grouping of the cooperative societies in different classes: Primary Societies comprising individual members; Central Banks at the district level; and Provincial Banks and Federations of Societies as apex banks/unions at the Provincial level for the purpose of supervision of the lower level societies. Though lower level the recommendations of this committee could not be implemented, the report of this committee remained as the "Bible of Co-operation in India for sufficiently long time."

As early as 1913, briefly outlining the theory of co-operation, the Report of Maclagan Committee on Co-operation, an important document on co-operative credit movement in India, graphically describes:

"... that an isolated and powerless individual can, by association with others and by moral development and mutual support obtain in his own degree the material advantages available to wealthy or powerful persons, and thereby develop himself to the fullest extent of his natural abilities. By the union of forces material advancement is secured, and by united action. Self-reliance is fostered, and it is from the interaction of these influences that it is hoped to attain the effective realisation of the higher and more prosperous standard of life which has been characterised as better business, better farming and better living."

The classic study of Co-operative Societies by Frederic Nicholson, followed by the Edward Law Committee on Co-operative Legislation, confirmed and reiterated the need for the State to actively promote Co-operative Societies. A decade later, the Maclagan Committee (1915) advocated that "there should be one Co-operative for every village and every village should be covered by a co-operative". The Royal Commission on

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14 Report of the committee on co-operation in India, 1915.
Agriculture in India, which submitted its report in 1928, suggested among other things, that the co-operative movement should continue to focus on expanding the rural credit and that the state should patronise Co-operatives and protect the sector.

2.2.1.3. Government of India Act of 1919

The Co-operative Movement in India entered into a new phase with the passing of the Government of India Act of 1919. Under this Act, the Ancient Provincial Government could enact separate Co-operative Societies Acts to suit their special requirements. The Bombay Province was the first Province to enact separate Co-operative Societies Act in 1925. This was followed by the Madras Act of 1932, the Bihar and Orissa Acts of 1935; the Coorg Act of 1936; and the Bengal Act of 1940 while the remaining Provinces adopted the existing Act of 1912\(^{15}\). Thus the Act of 1919 gave great stimulus to the cooperative movement in the country. However Its success was more quantitative rather than qualitative.

The Royal Commission on Agriculture was appointed in 1928 to examine problems of agriculturists. It also dealt with the co-operation as a part of its enquiry. The Commission emphasized the importance of co-operation. It remarked, "if co-operation fails, it will fail the best hopes of rural India\(^{16}\).

In 1929, there was world wide economic depression which had also drastically affected India. This great depression gave a tremendous set-back to the co-operative movement in the country. It was during this period that on the recommendations of the Central Banking Enquiry Committee (1931), the Reserve Bank of India was set up in 1935. The bank was entrusted with the task of conducting research for the development of the co-operative sector in the country.

\(^{16}\) Report of Royal Commission on Indian Agriculture, p.450
Certain specific provisions were made in the Imperial Bank of India Act, 1934 both for the establishment of an Agricultural Credit Department (ACD) in the bank and for extending refinance facilities to the Co-operative Credit System in the country. During this period, emphasis was laid on setting up, strengthening and promoting financially viable Provincial Co-operative Banks, Central Co-operative Banks, Marketing Societies and Primary Agricultural Credit Societies in each province. The Imperial Bank, since 1942, also started extending credit facilities to the Provincial Co-operative Banks for seasonal agricultural operations and marketing of crops. In the annals of the co-operative movement in India, the establishment of the Reserve Bank of India (and the Agricultural Credit Department) in 1935 was a crucial landmark. The emergence of the RBI helped the co-operative movement to gain tremendous momentum during the World War II. This period also witnessed a gradual shift to the non-credit Societies.

In fact, the important phase of development of co-operative sector in India started with the outbreak of the Second World War in 1939. The Co-operative Movement got fillip during the Second World War as a result of the rise in the prices of agriculture commodities and increased incomes of the farmers. The overdues of Co-operative Societies began to be cleared and the area of their operations got widened. Several types of non-credit Co-operative Societies, such as, in the consumers Co-operative Societies Co-operative Marketing Societies and so on, were set up on large scale in the country.17

The World War II (1939-45) came as further boon in respect of the development of the Co-operative Movement in India. Prices of all the agricultural goods began to rise considerably. The repayment of co-operative loans was accelerated and deposits began to pour in. The number of Co-operative Societies also rose predominantly. Another interesting development in the co-operative movement during the war was the extension of the movement to the non-credit activities, viz., Consumer's Co-operative Marketing Societies, Consolidation Societies, etc. had coming into being in different parts of the country.

In the meantime, the British Government appointed the Agricultural Finance Sub-Committee under the Chairmanship of Gadgil in 1944 and a Planning Committee under the Chairmanship of R.G. Saraiya was setup in 1945 to study the problem of rural indebtedness. The Gadgil Committee expressed the view that "the co-operation would provide the best and the most lasting solution for the problems of agricultural credit in particular and those or rural economy in general".

The Government policy towards the Co-operative movement during this phase was not as active as before. There seemed to be a policy lull until 1945, when Co-operative Planning Committee was set up by the Government of India (GoI). This committee identified the limited size of the primary co-operative as the principal cause of failure of this movement. It also advocated state protection to the co-operative sector from the severe competition from the private money lenders.

The committee pointed out that the existing co-operative organizations could not handle all the problems of the farmers alone and that State's assistance was necessary. It, hence, suggested for setting up of an Agricultural Credit Corporation as an autonomous body at the Provincial level. It suggested that

a) Rural activities should be diversified by granting liberal loans to the agriculturists,

b) Close links between the credit and marketing activities. This should be established, and

c) 25 per cent of the total marketable surplus of the agricultural produce of the country should be brought within the purview of Co-operatives.

Eventhough there was a provision for organizing the Urban Societies, mostly the Rural Credit Societies were organized during the first phase of the co-operative movement. In order to diversify the movement for encouraging it

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to take up non-credit operations, the Co-operative Societies Act of 1912 was passed by the British. The Committee on Co-operation [1915], chaired by E.D. Maclagan emphasized the need for co-operative education, audit and supervision.

2.2.2. Co-operative Movement after Independence

After Indian independence, the co-operative movement assumed a new significance with advert of era of planned development. The Directive Principles of State Policy incorporated in the Constitution gave special importance to the Co-operatives for promoting the goal of social justice. Article 43 requires that the State shall endeavour to secure, by suitable legislation of economic organisation or in any other way, to all workers, agricultural, industrial or otherwise a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities and, in particular, the state shall endeavour to promote cottage industries on an individual or co-operative basis in rural areas. Further Article 46 requires that the state shall promote with special care the educational and economic interests of the weaker sections of the peoples and in particular, of the Scheduled Castes and 'the Scheduled Tribes, and shall protect them from social injustice and all forms of exploitation.

In accordance with its federal nature, the Constitution of India distributed the administrative powers among the Central Government and State Governments. The Co-operation became a sate subject. Thus the states are made responsible for the development and administration of Co-operative Societies.\(^{31}\)

In independent India, the co-operative movement has been assigned a very important role in different field such as the supply of credit to the farmers, processing and marketing of agricultural produces and so on. The

major development in the Co-operative sector immediately after independence was the appointment of a committee known as the All India Rural Credit Survey Committee under the Chairmanship of A.D. Gorwala in 1951. The Committee opined that Co-operative Societies were the best agencies for supplying credit to the agriculturists but the actual position revealed a sad picture. The All India Rural Credit Survey (1951) Coral Method by the RBI opined that the Co-operatives were "utter failure" in providing the credit to the farmers, but acknowledged that they had a vital role in agriculture development. The Imperial Bank was nationalised as SBI, which was visualised as a vehicle for rural banking.

Gradually, the co-operative sector started playing a notable role in bringing socio-economic changes in the rural areas through the process of democrotative process and co-operative effort with accent on assisting the weaker sections in the rural sector\textsuperscript{22}. Supporting the role of Co-operatives R.B. Tyagi observed: "in fact, co-operation has begun to be felt as the only panacea for all our maladies, both social and economic and especially of the rural sector"\textsuperscript{23}.

In 1954, the Rural Credit Survey Committee stated that the state's role in the co-operative movement up to that time had been to 'over administer and under finance.'\textsuperscript{24} The committee found that the movement was running in an inverted handicap race facing not merely severe competition but also in a large degree the opposition of a powerful group of private individuals and institutions. The problem was not so much one of re-organisations of the co-operative credit but the creation of new conditions in which it could operate effectively for the benefit of the poor farmers. It was argued that such conditions could not be transformed by the very persons who were oppressed and rendered weak by their existence. The forces of transformation had to be at least as powerful as those which were sought to be counteracted. Such

\textsuperscript{24} Report of the Committee of Direction All India Rural Credit Survey. (Bombay, Reserve Bank of India, 1954), p.376.
forces could be generated not by co-operation alone but by co-operation in conjunction with the State. The committee recommended therefore, participation of the State, as a major partner in the co-operative movement at all levels.

With the acceptance of the major recommendations of All India Rural Credit Survey, the issues of state aid and state control over the Co-operative Institutions assumed a wider significance. There was a greater recognition on the part of the state and the cooperative societies alike that the movement had a distinct role to play in the planned efforts undertaken for the country's economic development and also as an appropriate instrument of national policy for implementing various programmes for the welfare of weaker sections of the society. The recommendations of Rural Credit Survey were accepted and several Committees and Working Groups were set up for improving the functioning of Co-operative Institutions working in various states. The State has started providing massive aid to the co-operative institutions in various forms such as the share capital loans, subsidies and grants. Further various concessions were granted to the Societies.

"In 1958, the National Development Council in its annual meeting thoroughly discussed the role of the co-operative movement in increasing the agricultural production, in mobilising local manpower and other resources and generally, in rebuilding the rural economy. The council observed that many of the existing methods, procedures followed by the Co-operative Societies impeded the development of co-operation as a movement in which the rural peasantry could freely organise their activities along the co-operative lines without excessive official outside or interference. The council emphasized adverse features of the existing co-operative legislation should be removed and both the present co-operative laws and the model legislation and rules evolved by the states should be modified in accordance with the approach outlined by it in the resolution on Co-operative Policy."\textsuperscript{25}

\textsuperscript{25} Co-operative in Independent India, p. 9.
A Rural Credit Survey held in 1966 also exposed in its report the ineffectiveness of Co-operative Societies but stressed the importance of their effective functioning. Subsequently, few State Governments made laws to regulate the operations of money lenders but these laws were not implemented.

In 1960s the Community Development Programme, National Extension Service and Five Year Plans opened up new vistas for the co-operative movement in modern India. The foundation for the co-operative development in India can be traced in the state policy which was evolved basing on the recommendations of the Rural Credit Survey Committee Report. In the same decade, certain Committees and Study Groups, such as the Varde Committee (1963), the Study Group on Credit Co-operatives in Non-Agricultural sector (1963), and Working Group on Industrial Financing through Co-operative Banks (1968) have worked with Urban Co-operative Banks extending support to the micro agencies, to which the commercial banking sector was quite reluctant to lend.

2.2.2.1. Committees on Co-operation

However, at the same time, the Government of India, realized the fact that the increase of government assistance to the co-operative movement led to misuse of government assistance and other facilities. Hence it appointed a Committee on Co-operation in 1964 under the Chairmanship of R. N. Mirdha with the following objectives

(1) To lay down standards and criteria to judge the genuineness of Co-operative Societies,

(2) To review the existing laws and rules with a view to plug the loopholes which enabled vested interests to entrench themselves in Co-operatives, and

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(3) To examine the factors hitting self-reliance and self regulation in the co-operative movement\textsuperscript{36}. After examining the various issues relating to the working of Co-operative Societies in the country, several useful recommendations were made including suggesting the criteria to determine the genuineness of Co-operative Societies, audit of Co-operative Societies by an agency independent of Registrar, and setting up of National Co-operative Bank to make the movement self reliant.

In the context of the vital role assigned to the Co-operatives for the development of the rural areas and the extent of financial and other support extended by the States to co-operative sector, the Conference of Chief Ministers and State Ministers of Co-operation held in 1968 in Madras considered certain aspects of internal management of Co-operatives. The main objective of this is to ensure that the management of Co-operatives did not tend to be perpetually dominated by few a single person or a group of individuals belonging to a particular section of the community and that the benefits available through the Co-operative Societies percolated in larger measures to the weaker sections. One of the measures suggested by the conference was to reserve certain number of seats for the members of weaker sections on the Boards of Management of Co-operative Institutions.

In pursuance of the recommendations of the above mentioned committee and the Chief Ministers' Conference, many State Governments have accordingly amended their respective Co-operative Societies Acts. These measures have also helped to some extent to de-officialise the movement and make the movement self-reliant. As pointed out by the Ministry of Agriculture, Department of Cooperation, "the State Governments have been endeavouring to make the Co-operatives to function,

(a) In a democratic fashion, to the advantage of the weaker members, and

\textsuperscript{36} Report of the Committee on Co-operation (1966), p.1
(b) Become more self-regulated and self-reliant. This approach is sought to be implemented through such measures as:

(i) Elimination of the vested interests:

a) by restricting the number of terms for which anyone can hold office on the managing committee of the Co-operative,

b) by restricting the number of societies in which a person can hold office,

c) by providing open membership,

d) by reserving seats for economically weaker sections,

e) by excluding from membership of persons whose interests conflict with those of the Co-operatives,

f) by providing regular elections by an independent machinery,

g) by regulation of loans to office-bearers, and

h) by adequate audit arrangements.

(ii) Avoidance generally by State Governments of nominations on boards of management of Co-operative Societies.

(iii) Creation of co-operative tribunals.

(iv) Creation of Common cadres.

"These measures were intended to facilitate the de-officialisation of the co-operative movement. The creation of common cadre is meant to develop the spirit of self-reliance in the co-operative institutions instead of running them by the official agencies for assistance all the times."

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The Government of India enacted the Multi-State Co-operative Societies Act [1984] for regulating the Co-operatives working at different levels. The Committee on Co-operative Law for democratisation and professionalisation of management in Co-operatives appointed in 1987 came up with a number of suggestions to strengthen the co-operative movement. At the same time, an expert committee under the chairmanship of Chowdhary Brahma Prakash was appointed by the Planning Commission to draft a model co-operative law which could promote the time spirit of cooperation.

The approach of the model law was to give a genuine character to Co-operatives to facilitate building of an integrated co-operative structure so as to evolve a co-operative system, make the federal organizations at various levels more responsive and responsible towards their members, to minimize government control and interference, to enable co-operators and Co-operatives to develop self-reliance and self-confidence with power of decision-making and to eliminate politicization.

In due course, the cooperative societies had provided credit to the farmers on effective times. The Government of India failed in 1990 waved loans of farmers. This step had aggravated the defective features existing the cooperative system and led to the further deterioration of their financial position.

It was in this situation that the Agriculture Credit Review Committee (Khusro Committee) appointed in 1989 emphasized the importance of encouraging members' thrift and savings for the Co-operatives. It also stressed the need for better business planning at the gross root level and for strategies to enable the Co-operatives to become self-sustaining.

In course of time there had been an increasing realisation of the destructive effects of the excessive state patronage, politicisation, and the consequent impairment of the role of Co-operatives in general, and of Credit Co-operatives in particular.
Consequently several Committees (notably those headed by Chaudhary Brahma Prakash, Jagdish Capoor, Vikhe Patil and V. S. Vyas) were set up to suggest suitable reforms to revitalize the co-operative movement during this period. The Brahm Prakash Committee emphasised the need to make Co-operatives self-reliant, autonomous and fully democratic institutions and proposed a Model Law. Subsequent Committees have all endorsed this recommendation and strongly supported replacing existing laws with the proposed Model Law.

In 1990’s, the role of co-operative institutions acquired a new dimension with the changing economic scenario emerged because of the globalization and liberalization processes. In the absence of a national level co-operative policy, the co-operative sector in the country could not take full advantage of the first [1991] and second generation (2000) economic reforms packages initiated by the Government of India. At the same time, a number of Co-operatives emerged as business enterprises and most of them were not registered under the Multi-State Co-operative Societies Act.

In this grim situation, the Government of India thought of an alternative legislation. Accordingly a Producers Company was set up under the Indian Companies Act, following the recommendations of the High Powered Committee on Conversion of Cooperative Societies into Companies appointed in 2000 under the Chairmanship of Y.K.Alag. The newly producers to come under the purview of common legislation like all other business enterprises.

2.3. The growth of Co-operative Movement under the Five Year Plans

As stated by an official report, “Co-operatives in the country’s economy will not only avoid excessive centralization and bureaucratic control likely to result from planning itself, but also curb the acquisitive instincts of
the individual procedure or trader working for himself\textsuperscript{29}. For these reasons, various Five year Plans have provided a special space for the promotion of co-operative sector in the country.

In the pattern of development economic envisaged in the Five Year Plans, the co-operative sector is expected to become the principal basis of organization in several sectors of economic such as in agriculture, small scale industries, marketing, processing, distribution, construction and provision of essential amenities for local communities.

The measures initiated by the different Five Year Plans for the development of Co-operative Societies is briefly discussed in the following page.

2.3.1. First Five Year Plan (1951-56)

The First Five Year Plan recognized the co-operation as an "indispensable instrument of planned economic action in democracy, combining initiative, mutual benefit and social purpose"\textsuperscript{30}.

The First Plan spelt out its aim that: "as it is the purpose of the Plan to change the economy of the country from an individualistic to a socially regulated and co-operative basis, its success should be judged, among the other things by the extent to which it is implemented through co-operative organization"\textsuperscript{31}. However, the co-operative sector did not make much head way towards the fulfillment of the broad objectives of this plan.

2.3.2. Second Five Year Plan (1956-61)

Co-operation was assigned an important role in the Second Five Year Plan as an effective instrument of fulfilling its objectives, viz., a sizeable increase in national income, rapid industrialization, and expansion of employment opportunities, reduction of inequalities in income and

\textsuperscript{29} Government of India, \textit{Sahakari Samaj (New Delhi: Ministry of Community Development and Co-operation, Department of Co-operation, 1965)}, P.5.

\textsuperscript{30} Government of India, First Five Year Plan, (New Delhi: Planning Commission), P.163.

distributing of economic power. The Plan stated "the building up a co-operative sector as a part of the scheme of planned development is one of central aims of national policy"32. Accordingly the plan set of the following targets:

a) Supply of agriculture credit worth Rs. 225 crores through Co-operatives:

b) Membership of agriculture societies to be raised to 50 million persons; and

c) 10 per cent of the marketable surplus of the agricultural produce to be marketed through Co-operatives.

However, the actual results achieved were considerably short of the targets fixed. The membership could reach a level of 17 millions and covered only 75 percent of the villages. During this Plan, Sir Malcolm Committee was appointed by Planning Commission (1957) for the evaluation of the co-operative movement in the country33. The committee recommended for an effective structure at higher levels. During this Plan, another Expert Committee on Co-operative Credit was set up in 1960 under the Chairmanship of V.L.Mehta. It made several recommendations for the development of co-operative credit movement in the country.

2.3.3. Third Five Year Plan (1961-66)

The Third Five Year Plan also considered the co-operative sector as one of the instruments for social stability and economic growth of the country. During this plan, the Primary Agricultural Credit Societies were recognized and their number was reduced to a large extent. However, their

membership rose from 17 million to 27 million and nearly 90 per cent of the villages were covered as against 75 per cent at the end of the Second Plan. This plan also paid on to the co-operative marketing of agricultural produce and a number of Primary Marketing Societies were set up throughout the country.  

On the whole the third plan set the stage for a rapidly growing co-operative sector, with special emphasis on the need of the peasant, and also the consumer becomes a vital factor for stability, for expansion of employment opportunities and for rapid economic development.  

2.3.4. Fourth Five Year Plan (1969-1974)  

In the Fourth Five Year Plan, emphasis was laid on “growth with stability” in all the fields. In this plan, more emphasis was laid on Agricultural Co-operatives and Consumer Co-operatives with a view to institutionalize the various services needed by the farmers. The fourth plan stated that “some of the major lines of reforms in this plan will be in regard to the introduction of “crop loan” system linking of credit with marketing as part of intensified programme for the development of co-operative marketing and process and reduction of overdues and strengthening the resources of Co-operative Banks and Societies.”  

An important development during this Plan was the submission of the All-India Rural Credit Review Committee Report in 1969. Accordingly, the Governor, Reserve Bank of India appointed the All-India Rural Credit Committee in July 1966 in order to reassess the situation and make recommendations. This committee made altogether 322 recommendations covering almost all aspects of rural development, co-operative credit structure and the role of Commercial Banks and also suggested ways for covering small and marginal farmers under the ambit of institutional financing etc. The main theme of the recommendations was adoption the multi-agency approach.

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for providing institutional credit in order to achieve an integrated rural development. The Small Farmers Development Agency and Marginal Farmers and Agricultural Labourer Agency popularly known as SFDA and MFAKL agencies were set up in the country on the basis of recommendation of this Review Committee in 1969.37

2.3.5. Fifth Five Year Plan (1974-78)

During the Fifth Five Year Plan also, Co-operatives were recognised as an important institutional framework to ameliorate the conditions of weaker sections. The plan emphasized the need to make the cooperative societies important limbs of the National Public Distribution Scheme. As the plan stated, “there is no other instrument as potentially powerful and full of social purpose as the co-operative movement”38. The major development during the plan was the appointment of a Committee on Integration of Co-operative Credit Institutions. It submitted its report in 1975. The committee recommended a single apex credit institution to plan and execute the lending programme in a coordinated and better manner and also review the arrangements made for Institutional Credit for Agriculture and Rural Development under the name Craficard.

The Craficard, became a landmark in the history of co-operative structure of our country. The Craficard was constituted with P. Sivaraman as its Chairman to review the arrangements for institutional credit for agricultural and rural development 39. The most important recommendation of Craficard was the setting up of the National Bank for Agriculture and Rural Development (NABARD). These recommendations have been accepted by the Government of India and established NABARD in July 1982. The committee also suggested some improvements in the working of State Co-operative Banks, Central Co-operative Banks and the Primary Agricultural Credit Societies.

38 Government of India, Fifth Five Year Plan, (New Delhi: Planning Commission), P. 78.
2.3.6. Sixth Five Year Plan (1980-85)

The Sixth Five Year Plan made a thorough review of the co-operative movement operation in the country since 1951 and, in the light of the problems and constraints of the movements, it suggested a four-point programme which is as follows.

a) Strengthening of the Primary Co-operative Societies at the village level.

b) The setting up of Dairy Co-operative Societies to ameliorate the economic conditions of the rural poor.

c) Re-orientation and consolidation of the role of Co-operative Federal Organizations; and

d) Development of professional manpower and appropriate professional cadres to man managerial positions.

This plan outlined the recognized non-exploitative character of the Co-operatives, the voluntary nature of their membership and the principle of one man –one vote, decentralized decision-making and self-imposed curbs on profits. Hence, the plan considered them as an instrument of development combining the advantages of private ownership with public good\(^4^0\).

2.3.7. Seventh Five Year Plan (1985-90)

The Seventh Five Year Plan aimed at re-organizing the Primary Agriculture Credit Societies as multipurpose viable units, promoting professional management and strengthening of effective training for improving operational efficiency\(^4^1\). During this plan period, the Reserve Bank of India appointed the Agricultural Credit Review Committee (ACRC) in August 1986 under the Chairmanship of Khusro\(^4^2\). The plan appointed and the committee (ARDC) which reviewed the agricultural credit movement in the country established in early 50's.

\(^{4^0}\) Government of India, *Sixth Five Year Plan*, (New Delhi: Planning Commission), P. 177.
\(^{4^1}\) Government of India, *Seventh Five Year Plan*, (New Delhi : Planning Commission), P.26
\(^{4^2}\) National Co-operative Union of India, *12th Indian Co-operative Congress*, December 1992, P.4
The ARDC made several recommendations to promote the effectiveness of lending institutions, strengthen the apex level institutions involved in extension of works, improve the co-operatives agricultural credit efficiency and to enhance the organizational and managerial effectiveness of NABARD.

The plan also constituted an expert committee under the Chairmanship of S.R.Sankaran revitalization of Co-operatives for rural poor. The major recommendations of the committee are as follow:

1. The co-operative institutions should promote economic interests of the rural poor through collective actions

2. They should evolve a simple system of providing credit to the poorer sections of the society on the basis of their repaying capacity instead of insisting upon security for sanction of credit.

3. The Co-operatives provide an effective organizational support to the women for improving their economic conditions.

4. The labour Co-operatives should be strengthened to change the conditions of labour.

5. For the economic development of the tribals the committee strongly felt that the LAMPS (Large Sized Multiple Purpose Societies) should prepare a time bound programme. During this plan, the Planning Commission constituted another committee under the Chairmanship of CH.Brahma Prakash to prepare a Model Co-operative Act.

2.3.8. Eighth Five Year Plan (1992-97)

The Eight Five Year Plan appraised the progress achieved by the co-operative sector in different field in detailed manner. As it noted, the Co-operatives over the years have, significantly diversified their activities to

---

include the credit, banking, input distribution, agro-processing, storage and warehousing. In dairying and oil processing activities, co-operative sub-sector has emerged as an important countervailing factor to the 'private traders. Nearly 60 per cent of the handlooms accounting for 30 per cent of the total textiles production in the country are in Co-operative sector. Nearly 30,000 artisans and industrial Co-operatives are functioning. Co-operatives have also contributed significantly in the sphere of consumer protection.

The strategy adopted by the plan for the development of co-operative credit consists of the following components

i) building up the co-operative movement as a self-managed, self-regulated and self-reliant institutional set up by giving move autonomy to top Co-operatives and by democratizing the movement,

ii) enhancing the capabilities of Co-operatives for enabling them to play a significant role in improving the productivity of the economy and in creating employment opportunities for the people living in rural areas for service of weaker sections, viz. small farmers, laborers, workers, artisans, the scheduled castes, scheduled tribes and women,

iii) Development and training of co-operative functionaries in professional management, etc.

2.3.9. Ninth Five Year Plan (1997-2002)

Since, the Credit Co-operatives are the backbone of the country's co-operative movement, the Ninth Five Year Plan envisaged a pragmatic approach to strengthen the Rural Co-operative Credit System.

The plan document highlighted the fact that lakhs of poor depositors and low income groups (pensioners, widows, widowers, daily wage earners, petty traders, self-employed persons, etc) have not moved the political leaders, administrators, regulators and supervisors. There is undesirable practice of dual control over the Co-operative Banks by the State Governments and Reserve Bank of India.

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During this Plan the following period committees were appointed for reforming the co-operative credit system in the country.

The Task Force to Study the Functioning of Co-operative Credit System and Suggest Measures for its Strengthening [Kapoor Committee], appointed by Government of India, in April, 1999.

The Expert Committee on Rural Credit [Vyas Committee], appointed by NABARD in 2001.

The Joint Committee on Revitalization of Co-operative Credit Structure [Vikhe Patil Committee] was appointed by India in 2001.

The Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System [Vyas Committee], appointed by RBI in December, 2003.

The Task Force on Revival of Rural Co-operative Credit and Banking Institutions [Vaidyanathan Committee], appointed by the Govt. of India in 2004.

The Task Force to Study the Long Term Co-operative Credit Structure for Agriculture and Rural Development [Vaidyanathan Committee: 2006], appointed by Government of India in January, 2005.

2.3.10. Tenth Five Year Plan (2002-2007)

To achieve the objectives enshrined in the National Policy on Agriculture, 2004 the Tenth Five Year Plan set the following objectives:

(i) All round development of rural population by organising and strengthening Co-operative Societies.

(ii) To strengthen the co-operative credit structure in order to increase the credit absorption by the co-operative banks of their balance sheets.

(iii) In order to increase the involvements and participation of women, Mahila Co-operative Societies, thrift and credit groups should be organised in every district for their upliftment.
(iv) Efforts should be made to maximize employment generation through the medium of co-operative to bring about social transformation and upliftment of people belonging to weaker section of the society.

(v) To improve the viability of credit institutions at all levels by massive deposit mobilisation scheme, recovery of overdues, diversification of business activities, etc., a deposit guarantee scheme for PACS shall be introduced.

(vi) To improve the quality and duration of financing to the farmers.

(vii) The consumer activities and public distribution system in rural areas to be strengthened by providing adequate infrastructural and training support. Further steps should be taken to strengthen the network of co-operative marketing by revitalising the apex and block level marketing societies.

(viii) Marketing, storage and processing facilities should be geared up with the help of National Co-operative Development Council.

In order to achieve the above objectives in the Tenth Five Year Plan, the plan adopted the following strategy.

(i) Flow of credit will be increased by revitalising the credit institutions at all level and making them operative and viable.

(ii) Credit requirements of the farmers will be fulfilled by drawing more short term and medium term refinance from the NABARD and other institutions.

(iii) Co-operative Credit Institutions which play a dominant role as rural growth centers in allround development of the rural economy will be strengthened.

(iv) Efforts will be made to bring about 90 per cent of the rural families within co-operative fold.
(v) Attention will be given to increasing the membership of the PACS and VMSS.

(vi) Efforts will be to re-orient the co-operative programme so as to shift the focus increasingly in favour of small and marginal farmers and other under privileged section of the society.

(vii) New schemes will also be implemented in the Tenth Five Year Plan to streamline the Co-operative Movement.

(viii) Setting up of Self-Supporting Cooperative under the newly enacted Bihar Self-Supporting Co-operative Societies Act based on the Model Cooperative Act.

2.4. Recent Trends in the Co-operative Sector

Over the last hundred years (1904-2004), the co-operative sector has made substantial contribution to the economic development of the country, particularly to the rural areas. The following table 2.1 depicts the impressive progress achieved by the cooperative societies in various fields of the Indian economy:
<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Credit Disbursed by Co-operatives.</td>
<td>46.15 per cent</td>
</tr>
<tr>
<td>Fertilizer Disbursed (6.049 Million Tonnes)</td>
<td>36.22 per cent</td>
</tr>
<tr>
<td>Fertilizer Production (3.293 MT- N&amp;P) Nutrient</td>
<td>27.65 per cent</td>
</tr>
<tr>
<td>Sugar Production (10.400 Million Tonnes)</td>
<td>59.00 per cent</td>
</tr>
<tr>
<td>Wheat Procurement (4.501 Million Tonnes)</td>
<td>31.8 per cent</td>
</tr>
<tr>
<td>Animal Feed Production/ Supply</td>
<td>50 per cent</td>
</tr>
<tr>
<td>Retail Fair Price Shops (Rural+Urban)</td>
<td>22 per cent</td>
</tr>
<tr>
<td>Milk Procurement to Total Production</td>
<td>7.44 per cent</td>
</tr>
<tr>
<td>Milk Procurement to Marketable Surplus</td>
<td>10.5 per cent</td>
</tr>
<tr>
<td>Ice Cream Manufacture : 45 per cent</td>
<td>45 per cent</td>
</tr>
<tr>
<td>Oil Marketed (branded) : 50 per cent</td>
<td>50 per cent</td>
</tr>
<tr>
<td>Spindle age in Coops (3.518 Million)</td>
<td>9.5 per cent</td>
</tr>
<tr>
<td>Cotton Yarn/ Fabrics Production</td>
<td>23.0 per cent</td>
</tr>
<tr>
<td>Handlooms in Co-operatives</td>
<td>55.0 per cent</td>
</tr>
<tr>
<td>Fishermen in Co-operatives (active)</td>
<td>21.0 per cent</td>
</tr>
<tr>
<td>Storage Facility (Village Level PACS)</td>
<td>65.0 per cent</td>
</tr>
<tr>
<td>Direct Employment Generated</td>
<td>1.07 Million</td>
</tr>
<tr>
<td>Self- Employment Generated for Persons</td>
<td>14.39 Million</td>
</tr>
<tr>
<td>Self Manufactured (18266 Metric Tonnes)</td>
<td>7.6 per cent</td>
</tr>
</tbody>
</table>

*Source: The Co-operator, June 2004*
2.5. Institutional Credit to Agriculture for Rural Development

The success of rural development in the country depends upon flow of institutional credit to agriculture. Before independence the role of institutional credit to agriculture was minimum but, after independence the flow of agriculture credit has been increasing. There are mainly three agencies namely Commercial Banks, Regional Rural Banks and Co-operatives providing institutional credit to agriculture.

An analysis of table 2.2(a) shows the flow of institutional credit to agriculture. In the year 1997-98, out of Rs.31,956 crore, 50 per cent of the loan was provided by commercial banks and the share of Co-operatives was 44 per cent.

Table 2.2 (a)

<table>
<thead>
<tr>
<th>Year</th>
<th>Co-operative</th>
<th>CGR</th>
<th>RRB</th>
<th>CGR</th>
<th>Com. Banks</th>
<th>CGR</th>
<th>Total</th>
<th>CGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
<td>(7)</td>
<td>(8)</td>
<td>(9)</td>
</tr>
<tr>
<td>1997-98</td>
<td>14,085</td>
<td>2,040</td>
<td>15,831</td>
<td>31,956</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(44)</td>
<td>(6)</td>
<td>(50)</td>
<td>(100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998-99</td>
<td>15,957</td>
<td>2,460</td>
<td>18,443</td>
<td>34,460</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(43)</td>
<td>(7)</td>
<td>(50)</td>
<td>(100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999-00</td>
<td>18,863</td>
<td>28.94</td>
<td>24,733</td>
<td>24,733</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(40)</td>
<td>(7)</td>
<td>(53)</td>
<td>(100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000-01</td>
<td>20,801</td>
<td>33.30</td>
<td>27,807</td>
<td>24,733</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(39)</td>
<td>(8)</td>
<td>(53)</td>
<td>(100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001-02</td>
<td>23,604</td>
<td>15.05</td>
<td>33,587</td>
<td>24,733</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(38)</td>
<td>(8)</td>
<td>(54)</td>
<td>(100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002-03</td>
<td>24,296</td>
<td>12.62</td>
<td>41,047</td>
<td>24,733</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(34)</td>
<td>(8)</td>
<td>(58)</td>
<td>(100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003-04</td>
<td>28,959</td>
<td>12.62</td>
<td>41,047</td>
<td>24,733</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(31)</td>
<td>(8)</td>
<td>(58)</td>
<td>(100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td>31,424</td>
<td>12.62</td>
<td>41,047</td>
<td>24,733</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(25)</td>
<td>(8)</td>
<td>(58)</td>
<td>(100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2005-06</td>
<td>39,404</td>
<td>12.62</td>
<td>41,047</td>
<td>24,733</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(22)</td>
<td>(8)</td>
<td>(58)</td>
<td>(100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006-07</td>
<td>33,174</td>
<td>12.62</td>
<td>41,047</td>
<td>24,733</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(22)</td>
<td>(8)</td>
<td>(58)</td>
<td>(100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: The figures in parentheses are percentages to the total
2. NABARD

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### Table 2.2.(b)

**Results of trend models**

<table>
<thead>
<tr>
<th>Variable</th>
<th>A</th>
<th>B</th>
<th>Seb</th>
<th>Value of t</th>
<th>Adjusted R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
</tr>
<tr>
<td>Co-operative</td>
<td>12074.9</td>
<td>2144.32</td>
<td>100.55</td>
<td>21.32</td>
<td>0.987</td>
</tr>
<tr>
<td>RRB</td>
<td>782.1</td>
<td>868.54 *</td>
<td>87.45</td>
<td>9.93</td>
<td>0.942</td>
</tr>
<tr>
<td>Com. Banks</td>
<td>7142.43</td>
<td>5853.29 *</td>
<td>560.03</td>
<td>10.45</td>
<td>0.947</td>
</tr>
<tr>
<td>Total</td>
<td>19862.1</td>
<td>8884.00 *</td>
<td>610.81</td>
<td>14.55</td>
<td>0.972</td>
</tr>
</tbody>
</table>

Source: Table 2.2.(a)

* Significant at 1 per cent level

### Table 2.2. (c)

**Results of Semi-Log Models**

<table>
<thead>
<tr>
<th>Variable</th>
<th>A</th>
<th>B</th>
<th>Seb</th>
<th>T</th>
<th>Adjusted R²</th>
<th>CGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
<td>(7)</td>
</tr>
<tr>
<td>Co-operatives</td>
<td>9.50</td>
<td>0.99</td>
<td>0.14</td>
<td>7.04</td>
<td>0.890</td>
<td>10.40</td>
</tr>
<tr>
<td>RRB</td>
<td>7.42</td>
<td>0.213 *</td>
<td>0.11</td>
<td>20.22</td>
<td>0.986</td>
<td>23.74</td>
</tr>
<tr>
<td>Com. Banks</td>
<td>9.46</td>
<td>0.196 *</td>
<td>0.008</td>
<td>25.30</td>
<td>0.991</td>
<td>21.65</td>
</tr>
<tr>
<td>Total</td>
<td>10.21</td>
<td>0.165 *</td>
<td>0.005</td>
<td>34.60</td>
<td>0.995</td>
<td>17.94</td>
</tr>
</tbody>
</table>

Source: Table 2.2.(a)

* Significant at 1 per cent level
The total amount of loan advanced by institutional agencies in 2003-04 was Rs.86,981 crore, out of which 60 per cent was contributed by Commercial Banks and 31 per cent by Co-operatives and 9 per cent by RRBs. The proportion of contribution made by Co-operatives had declined from 44 per cent to 31 per cent between 1997-98 and 2003-04. It means that over a period of time, the role of Co-operatives in providing agricultural credit to farmers had declined.

The analysis of table 2.2 (a) also shows the annual growth rates of agricultural credit of various institutional agencies. In 1998-99 the annual growth rate of all 3 institutional agencies was 13.30 per cent and it increased to 22.84 per cent in the year 2003-04. The credit through commercial banks increased from 16.50 per cent in year 1998-99 to 27.76 per cent in the year 2003-04, whereas the growth rate of Co-operatives which was 13.29 per cent declined to a level of 2.60 per cent in the year 2002-03 and to a level of 9.88 per cent in 2003-04. Hence the Co-operative Banks have registered relatively less growth in providing agricultural credit during 1998-99 to 2003-04.

The results of the trend models and semi-log models are given in tables 2.2.(b) and 2.2.(c). The trend models fitted for the agricultural credit reveal that the average annual increase of agricultural credit through Co-operative Banks stand in the 2nd place after commercial banks. The compound growth rates worked out from the regression coefficient of the semi-log linear regression models are 10.0 per cent for Co-operative Banks, 23.74 per cent for RRBs and 21.85 per cent for commercial banks. The compound growth of institutional credit provided by an agricultural sector is 17.94 per cent. This indicates that Co-operative Banks has recorded minimum growth rate.

\[44\] Dr. S.V Hariharan, S. Vigneswaran, (2005), Co-operative Credit to Agricultural Sector: Recent trend and problems, Indian Economic Panorama, pp. 35-37
Table 2.3

Flow of Ground Level Credit to Agriculture (Both Short Term and Long Term) Through Various Agencies and their Relative shares, After Liberalization

(Rs in crores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
</tr>
<tr>
<td>Cooperative</td>
<td>9,378</td>
<td>13975</td>
<td>20,718</td>
<td>23,524</td>
<td>23,636</td>
</tr>
<tr>
<td>Banks</td>
<td>(62.00)</td>
<td>(44.00)</td>
<td>(39.00)</td>
<td>(38.00)</td>
<td>(34.00)</td>
</tr>
<tr>
<td>Regional</td>
<td>831</td>
<td>2040</td>
<td>4,219</td>
<td>4,854</td>
<td>6,070</td>
</tr>
<tr>
<td>Rural Banks</td>
<td>(5.00)</td>
<td>(6.00)</td>
<td>(8.00)</td>
<td>(8.00)</td>
<td>(9.00)</td>
</tr>
<tr>
<td>Commercial</td>
<td>4,960</td>
<td>15831</td>
<td>27,807</td>
<td>33,587</td>
<td>39,774</td>
</tr>
<tr>
<td>Banks</td>
<td>(33.00)</td>
<td>(50.00)</td>
<td>(53.00)</td>
<td>(54.00)</td>
<td>(57.00)</td>
</tr>
</tbody>
</table>

Source: NABARD

The outstanding loans, under the head direct institutional finance for agriculture and allied activities of the Co-operative institutions is less than that of the scheduled commercial banks. In providing direct financial assistance to agriculture, co-operative institutions occupy the first place. It is evident from the table 2.3 that for the year 1992-93, the share of direct financial assistance of the co-operative institutions was 62 per cent and the share of scheduled commercial banks was 33 per cent in total. But the share of outstanding loan of the Co-operatives was 34 per cent and the share of scheduled Commercial Banks was 57 per cent in total by 2002-03.

Two trends emerge from the overall flow of credit to agriculture from the co-operative sector. The share of Co-operative Banks had declined from 62 per cent in 1992-93 to 34 per cent in 2002-03. The number of rural branches of Commercial Banks has gone down marginally as part of the branch rationalisation programme. Eventhough the Commercial Banks almost meet their targets for lending to the priority sector, they have moved more towards larger customers. The average size of direct loans to agriculture in the portfolio of the Commercial Banks was Rs. 13,500 in 1997, and is
Rs 31,585\textsuperscript{45} now. The average size of loans of the PACS, in comparison, is currently only Rs 6,640\textsuperscript{46} per borrower. The average loan size was 5 times more in PSBs as compared to PACSs inspite of best efforts made by the government.

Thus, in a country predominated by small or marginal land holdings, the reach of the co-operative system is much deeper than the other institutional arrangements in the rural areas.

Notwithstanding the falling share of Co-operatives in the overall share of institutional credit, practically in all States, it was found that in States like Gujarat, Maharashtra, Haryana, Madhya Pradesh, Chattisgarh, Orissa and Rajasthan, the share of Co-operatives in institutional credit is currently 50 per cent or more. In States like Bihar, Jharkhand, Himachal Pradesh and Assam, their share is negligible.

The credit package announced in June 2004 stipulated doubling the flow of institutional credit for agriculture in the subsequent 3 years. The target of 30 per cent growth rate in agricultural credit in 2004-05 was surpassed by actual growth of 44 per cent in overall credit by all agencies in 2004-05.

The total direct institutional finance provided by the institutions for 2005-06 was Rs.13,099 crore of which the share of Co-operative Institutions was Rs.9,834.70 crore (53 per cent), State governments Rs.23 crore and the share of Regional Rural Banks was Rs.3,243 crore.

In January 2006, Government of India announced the package for the revival of Short-Term Rural Co-operative Credit Structure involving financial assistance of Rs.13,596 crore. Coming to the implementation of the legal, institutional and other reforms, so far 8 states namely Andhra Pradesh, Maharashtra, MP, Rajasthan, Orissa, Uttarakchal , UP and Gujarat have signed MOU with GOI and NABARD.

\textsuperscript{45} RBI Trend and Progress of Banking in India, Mumbai
\textsuperscript{46} NAFSCOB

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In the year 2006-07 the total amount of loan advanced by institutional agencies was Rs.1,49,343 crore, out of which 68 per cent was contributed by Commercial Banks and 22 per cent by Co-operatives and 10 per cent by RRBs. The proportion of contribution made by Co-operatives had declined from 44 per cent in 1997-98 to 22 per cent in 2006-07. It means that over a period of time, the role of Co-operatives in providing agricultural credit to farmers had declined.

There are 4,595 Primary Agricultural Co-operative Banks at the village level, providing short-term and medium-term credit facilities to the agriculturists. These banks have covered 85.96 per cent of the agricultural operational holdings in the State as on March 31, 2002, of which 79.57 per cent belong to weaker sections. The short term and medium term agricultural loans provided by the Primary Agricultural Co-operative Banks are Rs.4,476.45 crore and Rs.463.59 crore respectively during Ninth Five Year Plan period.

2.6. Role of Cooperatives in Achieving Rural Development

Since Independence, the Government of India took keen interest in promoting the co-operative sector for the achievement rural development. It is conceived as an instrument of economic rural development with social justice. Under, various Five Year Plans, various types of Co-operatives were for different purposes.

At present, the Co-operative Societies cover 98 per cent of villages in India, and 67 per cent of rural households are its members and encompass diverse sectors of the economy. Credit, marketing, processing and distribution are the major activities of the movement. The Primary Agricultural Co-operative Societies operating through out the country are nearly 7,27,911. They are engaged in various activities such as providing finance; marketing, processing, and distribution of inputs to the farmers and soon.
2.6.1. The Advantages of Cooperative Model

The cooperative framework meant for rural development can propel diffusion of technology and promote human values and welfare of the rural people which no other agency can be expected to achieve them on a continuous and sustainable basis. This is on account of the fact that basically, the Co-operative Societies have several other goals besides the economic goals that concern cultural and social problems to be solved. The Bureaucratic model has several built-in limitations in reaching the masses. While the voluntary agencies can achieve sporadic and discontinuous success. Unlike these two models, the economic activity is the pivotal around which the Cooperatives are organized and sustained and people's interests are harmonised to attain greater socio-economic justice. The best example of a successful framework is evidenced by Agricultural Co-operatives in Japan, wherein, the entire range of agricultural requirements is underpinned by cooperatives. A typical unit co-operative at the village level offers not only conventional services and inputs but also crop insurance / extension advice, etc. Apart from the economic needs of the farmers, the Village Co-operatives also cater to the social and cultural needs of these people.

2.6.2. Economic Integration

The Co-operative sector became an important component of the rural infrastructure. As such, it has the responsibility of providing feedback from farmers, acting as a mechanism through which their demands are articulated and processed. In a co-operative organisation, the human as well as material aspects are blended as to attain optimal results from the developmental stream. As a matter of fact, the co-operative movement has certain outstanding features and revealed its remarkable capacity to encourage the development of entrepreneurship amongst the peasantry⁴⁷.

In India the approach to rural development through the Co-operatives has been attempted in diverse fields such as agricultural credit, marketing and processing of agricultural produce, promotion of agro-industries, rural artisans and farming systems. The success of green as well as white revolutions in the country could not have been possible in the absence of an efficient input service system provided by the Co-operatives. The various Five Year Plans emphasised the importance of cooperation in the field of agricultural development and assigned significant role to cooperatives for implementing developmental programmes in the rural areas.

The farmers and rural artisans are the key factors for whom the rural co-operative sector has been built up and sustained. The thrust of development on putting the instruments of rural development in the hands of villagers and providing appropriate technology and management input to optimise the returns to capital.

2.6.3. Co-operatives and Societal Interface

The twin goals of development of co-operative sector and rural progress are interwoven. The agriculture development is the backbone to accentuate rural change. In this connection, agricultural cooperatives constitute the bedrock of a viable and non-exploitative rural development institutional system in terms of supply of credit, farm input, marketing and processing of farm output. The spectacular growth of Credit Co-operatives has been an instrumental for liberating the vast multitude of rural peasants and artisans from the stranglehold of traders and money lenders.

The Co-operatives in India are playing a vital role in different fields, such as Marketing, Dairying, Processing and Distribution. The network of Co-operatives are an instrumental in promoting and preserving the rural industrialization and in providing employment opportunities to the millions of artisans in different parts of the country. The benefits derived from such agencies lead not only to material gains but also enable to bring about a silent
revolution in the mental make up of its members, imbibing the spirit of self-help through mutual-help. The cooperatives, at the village level, are catering to the various needs and requirements of the villagers. The essential inputs are channellised through the Co-operative Societies. They supply agricultural implements at reasonable hire charges and providing the cold storage facilities for a variety of perishables. The supply of inputs like fertilisers, improved seeds, implements, plant protection material, such as pesticides and insecticides constitute the principal activities of Co-operatives. On the other hand, the Service Co-operatives are extending 'consumer services' to the villagers.

2.6.4. Co-operatives and Technology Transfer

The process of technology transfer is a difficult task. It needs suitable organisational arrangements for disseminating information about appropriate technology to the prospective users. One of the key areas, where the Co-operatives have been playing an effective role, relates to rural technology transfer. Agricultural technology is an area in which Rural Co-operatives have high stake in terms of business interest and productivity gains of the clientele.

2.6.5. Democratic Transition

The Co-operative Societies extend loans at cheaper rates to the small and marginal farmers and offer subsidies to the weaker sections, particularity to the tribals and other target groups. For diversifying the farm activities, Co-operatives assist the farmers in taking up subsidiary activities like Dairying, Poultry and Sheep Breeding. In the marketing and distribution activities also the co-operative agencies cater to the needs of backward areas and also to the backward sections of the rural community. For example, the Sugar Co-operatives in some parts of the country, especially in Maharashtra have served as an effective nodal agency to bring about integrated rural development. They have been providing considerable socio-economic services to the rural
community. These services related to the development of irrigation facilities, education and medical facilities, other agriculture extension services and development subsidiary industries. These sugar factories have been an instrumental in rural industrialisation and thereby adding economic opportunities in the regions. In Gujarat and Maharashtra, the Co-operatives have undertaken several other development activities, such as drinking water supply, building schools, and hospitals to serve the rural masses.

2.6.6. Agricultural Growth and Cooperative Movement

There is symbiotic relationship between the co-operative development and agricultural growth. Co-operatives provide a supportive culture for diffusion of technologies in terms of hardware’s (for example sugarcane processing) as well as software’s (farm support and extension services). The areas which have recorded substantial agricultural development are also generally areas which have a well developed agricultural cooperative systems at the grassroot level. The higher production of wheat in Punjab, sugarcane in Maharashtra, milk and cotton in Gujarat provides some examples where the co-operative organisations are well developed.

The Primary Agricultural Credit Co-operative Societies (PACS) are the largest and the oldest organised financial intermediaries functioning in the rural India. The short and medium term loans are channellised through the three-tier cooperative credit structure. Despite wide performance variations amongst states in India, the cooperative movement, as a whole, had recorded creditable achievements in terms of delivery of credit and allied agro-services to the farmers in the nook and corner of the country. The volume of agricultural inputs handled by the Co-operatives has been increasing year after year. These include seeds, fertilisers, pesticides and farm machinery.

Agricultural marketing is another important area where the Co-operative Societies have achieved significant progress. In achieving the integrated rural development, the Marketing Co-operative Institutions play a
vital role as they ensure economic utilisation of the available resources in the rural areas by creating potential markets. The network of marketing co-operatives in the country comprises 5926 primary marketing societies (including 3290 special commodity/societies), 157 District/Central co-operative Marketing Societies, 29 general purpose State Co-operative Marketing Federations and National Agricultural Co-operative Marketing Federation at the National Level. In the marketing arena, Co-operatives extend from primary marketing centres to most of the important secondary and terminal markets. They form a basis for comprehensive development in agriculture which in turn contributes to rural development. They provide farm inputs, storage, transportation, pledge financing etc., to the needy farmers.

2.6.7. Money-lenders sidelined

The Co-operative Societies receive credit from the National Bank for Agriculture and Rural Development (NABARD) for providing not only financial assistance to the different sectors of the economy but also undertaking the promotional activities for improving the marketing of the products manufactured by the Co-operatives. They also help in the skilled artisans scattered in the rural areas under the co-operative fold to strengthen the craftsmanship and to improve their standard of living. The State Co-operative Banks have provided the above financial assistance by availing themselves of the credit facilities from the NABARD. Co-operative Credit Institutions have relieved the farmers from the clutches of money-lenders and indigenous bankers and Weavers Co-operative Societies have relieved the weavers from the clutches of master-weavers and helped them to earn substantial livelihood.

2.6.8. Small-scale industries and cooperatives:

The Co-operative Societies provide financial assistance for setting up of small-scale industries and encourage rural artisans to develop their craftsmanship. These Co-operatives provided Rs. 500 as loan to women to
start a small business, inculcate entrepreneurial culture among the rural people in order to utilise the resources available locally and help to create assets to weavers, fishermen, artisans, etc. The financial assistance extended by the Co-operatives improve the asset position of the rural people.

2.7. Co-operatives as Viable Tool for Socio-Economic empowerment of Rural People

In the fifties several countries, Non-Governmental Organizations (NGOs) and even the United Nations agencies realized that the cooperatives provide solution for the social and economic problems confronting the rural masses. Further the businessmen, politicians, NGO workers, and others in the development field turned their attention to the Co-operatives. The planners in India were romanticized with the idea of spreading the cooperative movement to every nook and corner in the country to root out poverty. The co-operative movement has traversed a long way. The resources were poured in a big way to create new cooperatives, especially in the developing countries like India.

2.7.1. Co-operatives as Tools of Poverty Alleviation

The Co-operative spirit is the very foundation of society. No society can survive without the spirit of co-operation. At the policy level it started as a movement of social developments, particularly in the economic domain. The aim was clear in promoting self-reliance, self-help and self-government among members. It is said that it would help in the equitable sharing of gains and losses.

In India the Co-operatives have helped to alleviate rural poverty in a big way. It works two fold, i.e., as sources of credit at a reasonable cost and as providers of both inputs and market access for produce at reasonable rates/remunerative prices. The extension of credit at cheaper, rates has freed the rural folk from the clutches of moneylenders. The credit is extended for crops and investment. It has increased agricultural production. About 60 per cent of production credit and 30 per cent of investment credit from
institutional sources is contributed by the cooperatives. With 89,000 Primary Agricultural Credit Societies and 2,500 primary units of Land Development Banks, the co-operative sector in India has reached the remotest corners of the country, thus substantially improving the access to credit for small and marginal farmers.

Further, the Co-operatives ensured remunerative prices for a large number of farmers through collective bargaining, but the small and marginal farmers are still largely deprived of these benefits. Earlier, farmers used to end up selling their produce at a very low rate to commission agents and did not get remunerative prices. These Societies also helped the farmers in selling their produce at competitive prices.

The Co-operatives have also created facilities like godowns for proper storage of the produce by the farmers. They have helped in avoiding wastage and loss of agricultural produce. The storage facilities have helped in storing the horticulture and other perishable products for a longer period thus ensuring their availability during all the seasons.

2.8. Summing up

As revealed by the above dimension, among all the institutional agencies providing credit to rural sector, Co-operatives play a major role. No doubt, numerically, the co-operative movement made significant progress during pre-independent era but qualitatively it suffered from certain intrinsic as well as extrinsic factors. In spite of these handicaps and weaknesses, the movement relieved the farmers from the clutches of money-lenders at least to a certain extent and the spirit of co-operation and thrift were inculcated into the minds of rural masses.

In the Post-independent period, the co-operative sector has been assigned a notable role in bringing about socio-economic transformation of the rural areas through the process of democratic planning with accent on
assisting in the peasantry. Since independence, the movement has progressively expanded in the rural areas of the country in terms of membership, resources and transactions. A salient feature of the Indian co-operative movement is that is has not only quantitatively expanded but has continuously diversified its activities over the years. It has left no sector of the rural economy untouched.

It is widely realized that the Co-operatives are the viable agencies for rural credit and rural development: Hence the development of co-operative sector is given a greater space in the country's developmental strategies, initiatives and planning through its achievements and contribution.

However, the co-operative sector has become an inseparable part of the rural development efforts of the Government of India. The process of ongoing liberalization process presents to the co-operative sector both challenges and opportunities. These challenges are in the form of reduction in the government support, the loss of the advantage of monopoly, increased competition from the private sector and the need to adapt to market forces. On the other hand, liberalization and globalisation going on in the country necessities to restructure entire Co-operative frame work. Co-operatives can realize their full potential, if the government adopts a realistic and holistic approach and initiatives reforms in this sector vibrant and productive in the changed context.