CHAPTER – I
INTRODUCTION

1.1 INTRODUCTION

Most of the developing countries are predominantly agriculture based where 65% of the people practice agriculture as their main occupation. Agriculture needs adequate financial support by the institutions. The developing countries do not have adequate capital to support such institutions. Obviously there is necessary for mobilising the resource. The farmers or any other non-industrial entrepreneur, small scale industrialists need to mobilise the capital. This kind of mobilisation is possible only through cooperatives in developing countries.

Cooperative organisation is one of the important instruments in the processes of development particularly in developing countries, the cooperative sector plays a pivotal role in the mobilization of resource like capital. India is a developing country where large percentage of farmers are small and marginal who are unable to mobilize the required capital to meet their needs like buying agricultural inputs. To meet such needs cooperative credit becomes necessary.

Cooperation refers to an institutional framework to organise self help among those who participate in it. In general such an organisation consists of persons of small means. Unable to face powerful market forces like competition, these people get to gather and organise themselves into cooperatives. They pool their resources and thereby enlarge them beyond what they would be if used separately. These weak individual through this institutions acquire strength to perform tasks which they would not be able to do otherwise.
In the words of Fifth Plan Draft the cooperation represents institutionalization of the principle and impulse of material aid. It has the merit of combining freedom and opportunity for the small man with the benefit of large scale management and organisation. Cooperation is therefore conveniently suited to bring about the desired socio-economic changes in the context of the existing conditions in the country.

In modern times, all economic activities have a very strong undercurrent of exploitation. Call it a feudal legacy or a legacy of industrialisation, it leads to unstable political conditions and is neither morally tenable nor psychologically sound. For mitigating the sufferings of these millions of people, the vicious circle of poverty and debt has to be broken. In order to usher in an era of peace, progress, and prosperity, there is unavoidable need to follow the path of cooperation. One of the International Labour Office reports has rightly observed that low wages, the rising cost of living, the adulteration of food-stuffs, unemployment and the long working day – in short, the increasing distress of the working classes – not only led to strikes and disorders but also gave rise to thought and concern among intellectuals and philanthropists to devise measures for improving the lot of workers by mutual cooperation. “Cooperation involves all aspects of human behaviour – political, religious, economic or cultural. Like the human system, it is the very life and blood of a modern societal existence. Where cooperation is strong, there the farmers, the small businessmen, the workers, etc., have a better standard of living. Cooperation, if followed and accepted earnestly by its constituents, can remove the evils of monopoly and concentration of power; it can check unhealthy inflation and depression; and it can safeguard all the people
against all types of ‘isms’. In other words, cooperativism is distinct from all other movements like Communism, Capitalism, Fascism, Socialism, etc. Political advantages apart, administratively, cooperative organisations strike a golden mean between the private administration on the one hand and Governmental/Departmental administration on the other. Unlike the former, it does not exist mainly for profit and unlike the latter, it is relieved of too much pressure of unresponsive bureaucratic structures. In fact, cooperative organisations combine the merits of freedom and flexibility of private enterprises and social objectives of the Governmental administration. H.E. Erdman, has nicely compared the economics of four prevailing methods of undertaking in any business. He asserts that cooperatives can establish their services provided these are efficiently operated, and their rationale and philosophy accepted and understood by the members. As such, cooperativism is the via-media, via amicabili”.

It is through cooperation that human beings are endowed with the qualities of honesty, loyalty, unity, equality, and service. It also teaches the people the lesson of unity, brotherhood and corporate feeling. These are the lasting qualities which can bring social and economic revolution in the country. The famous English Cooperator, George Jacob Holyoake, applauding the role of cooperation.

1.2 EVOLUTION OF COOPERATIVES IN INDIA

The cooperative movement in India owes its origin to agriculture and allied sectors. Towards the end of the 19th century, the problems of rural indebtedness and the consequent conditions of farmers created an environment for the chit funds and cooperative societies. The farmers generally found the cooperative movement an attractive mechanism for pooling their meager resources for solving common
problems relating to credit, supplies of inputs and marketing of agricultural produce. The experience gained in the working of cooperatives led to the enactment of Cooperative Credit Societies Act. 1904. Subsequently, a more comprehensive legislation called the Cooperative Societies Act was enacted. This Act, inter alia, provided for the creation of the post of Registrar of cooperative societies and registration of cooperative societies for various purposes and audit. Under the Montague-Chelmsford Reforms of 1919, cooperation became a provincial subject and the provinces were authorised to make their own cooperative laws. Under the Government of India Act, 1935, cooperatives were treated as a provincial subject. The item “Cooperative Societies” is a State Subject under entry No. 32 of the State List of the Constitution of India.

In order to cover Cooperative Societies with membership from more than one province, the Government of India enacted the Multi-Unit Cooperative Societies Act. 1942. This Act was an enabling legislative instrument dealing with incorporation and winding up of cooperative societies having jurisdiction in more than one province.

After India attained Independence in August, 1947, cooperatives assumed a great significance in poverty removal and faster socio-economic growth. With the advent of the planning process, cooperatives became an integral part of the Five Year Plans. As a result, they emerged as a distinct segment in our national economy. In the First Five Year Plan, it was specifically stated that success of Plan would be judged among other things, by extent it was implemented through cooperative organisations.
The All-India Rural Credit Survey Committee Report, 1954 recommended an integrated approach to cooperative credit and emphasised the need for viable credit cooperative societies by expanding their area of operation, encouraging rural savings and diversifying business. The Committee also recommended for Government participation in the share capital of the cooperatives.

In view of these recommendations, different States drew up various schemes for the cooperative movement for organising large-size societies and provision of State partnership and assistance. During 1960s, further efforts were made to consolidate the cooperative societies by their reorganisation. Consequently, the number of primary agricultural cooperative credit societies was reduced from around two lakh to 92,000.

In 1958 the National Development Council (NDC) had recommended a national policy on cooperatives. Jawaharlal Nehru had a strong faith in the cooperative movement. While opening an international seminar on cooperative leadership in South-East Asia he had said “But my outlook at present is not the outlook of spreading the cooperative movement gradually, progressively, as it has done. My outlook is to convulse India with the Cooperative Movement or rather with cooperation to make it, broadly speaking, the basic activity of India, in every village as well as elsewhere; and finally, indeed, to make the cooperative approach the common thinking of India . . . Therefore, the whole future of India really depends on the success of this approach of ours to these vast numbers, hundreds of millions of people”.2

With the emergence of national federations of cooperative societies in various functional areas and to obviate the plethora of different laws governing the
same types of societies, a need was felt for a comprehensive Central legislation to consolidate the laws governing such cooperative societies. Therefore, the Multi-State Cooperative Societies Act. 1984 was enacted by Parliament under Entry No. 44 of the Union List of the Constitution of India.

The cooperative sector has been playing a distinct and significant role in the country’s process of socio-economic development. There has been a substantial growth of this sector in diverse areas of the economy during the past few decades. The number of all types of cooperatives increased from 1.81 lakh in 1950-51 to 4.53 lakh in 1996-97. The total membership of cooperative societies increased from 1.55 crore to 20.45 crore during the same period. The cooperatives have been operating in various areas of the economy such as credit, production, processing, marketing, input distribution, housing, dairying and textiles. In some of the areas of their activities like dairying, urban banking and housing, sugar and handlooms, the cooperatives have achieved success to an extent but there are larger areas where they have not been so successful. The failure of cooperatives in the country is mainly attributable to dormant membership and lack of active participation of members in the management of cooperatives. Mounting overdues in cooperative credit institution, lack of mobilisation of internal resources and over-dependence on Government assistance, lack of professional management, bureaucratic control and interference in the management, political interference and over-politisation have proved harmful to their growth. Predominance of vested interests resulting in non-percolation of benefits to a common member, particularly to the class of persons for whom such cooperatives were basically formed, has also retarded the development of cooperatives. These are the
areas which need to be attended to by evolving suitable legislative and policy support.

Cooperative enterprises throughout the world raise the value of local farm output and natural resources, provide income opportunities and help to stabilize the rural development. Some cooperatives reached out horizontally and vertically to produce new services, benefiting farm and non farm sector through economic diversification and integration. They create new jobs by harvesting locally available resources. Cooperatives are sensitive to the business conditions of an area and the needs of its primary member users. They bring together members, capital, business and services in a competitive way under local leadership and control. At global level they are governed by internationally accepted principles.

Lack of economic performance by some cooperatives was often rationalized. Education and understanding have their roles, but the real name of the game is economics. A cooperative’s success or failure depends on how well it performs its economic purpose. The economic liberalization has already brought new opportunities to cooperatives to deal emerging competitions throughout the world so as to safeguard the interest of the weaker sections. Even during present day financial crises cooperatives alone safeguard the small investors. Opportunities are great, but successful new cooperative ventures do not spring up overnight. Large amounts of due diligence, time and hard work precede the startup of operations.

“Cooperatives are one of the important economic organizations, which came late after capitalism and public sector organizations. It was the result of efforts undertaken by dedicated leaders and masses who suffered during the times
of Industrial Revolution. Cooperatives have not been organized successfully at one stroke. During the formative days, it met with failure. It was Robert Owen who initiated the organization of cooperatives and ultimately became the “Father of Cooperation”. But his experiments in cooperatives failed. Later people like Dr. William King and host of British leaders took steps to organize cooperatives—all became failure. Only during 1844 the first successful cooperative society, namely “Rochdale Equitable Society” was formed by the famous Pioneers of England”.

With the first successful cooperative organized in England in 1844, the movement started its roots in other European countries also. The original successful cooperative was started in Consumer area, but the idea of cooperation was taken and cooperatives were started to suit fields like agriculture (Denmark), agricultural credit (Germany), labor problems (Italy), etc. Thereafter, efforts were taken to organise cooperatives in other European countries. The 20th century saw the organization of cooperatives in colonial countries at the initiative of European colonial government.

Mandal G.C. opined that to “create opportunities for individuals specially for those who are called underprivileged segments of the society, the major commercial banks of India were nationalised on 19th July, 1969. The basic objective of this step was to speed up the economic development and thus make a significant impact on the poverty and unemployment and to bring about progressive reduction of disparities between the rich and poor sections of people. Hence nationalisation was to ensure that no viable productive endeavour faltered for lack of credit support. Therefore, nationalisation of banks was in short, a
measure towards socialisation of credit. Prior to nationalisation of Commercial banks Co-operative banks alone had to meet the credit needs of the agriculturists. During 1975 few Regional Rural banks were established. At present 196 Regional Rural Banks are working for the economic development of rural areas. One hundred ninety-five RRBs are sponsored by the Commercial Banks and one RRB is sponsored by the Cooperative bank in U.P. For eradication of poverty from the rural areas, Commercial Banks, Regional Rural Banks and Co-operative Banks are the major players”.4

According to Jean Dreze and Amartya Sen, “the intrinsic importance of opportunities (one of the main objectives of economic development is to expand the effective freedom that different individuals enjoy) and the extensive instrumental role of individual opportunities in the promotion of other objectives. Opportunities, thus, have both direct and indirect significance”.5

Pandit Jawaharlal Nehru quotes “I know of no other instrument so potentially powerful and full of socio-economic purpose as the Co-operative Movement in the tribal areas. It is the only means for the development of tribal community and all efforts should be focussed on strengthening the co-operative structure in this region”.6

Goel B.B. reports that “the main purpose of Co-operatives during the pre-independence period was to provide relief to the farmers from the money lenders who exploited them. After independence, particularly, with the advent of planning, the object of Co-operatives changed from relief measure to that of becoming a powerful instrument of economic development”.

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Balaji C. and Prathap Reddy K. conclude that “cooperatives (henceforth referred to as co-ops) have been in India for almost a century, with their number growing every year. A staggering variety of co-ops exists in almost every nook and corner of the country at various geographical levels: village, taluka, district, state and national. They have been formed in many sectors: such as agriculture, credit, irrigation, labour, handlooms, housing and so on. They may deal with a single as well as with several commodities. Cooperatives perform various roles which include: providing credit, fertilisers, pesticides, seeds, undertaking processing and manufacturing activities, and providing marketing support to their members. Some co-ops undertake all the above activities, while others concentrate on only one or a few. There is wide range of co-op structures: those that are federated at the taluka, district, state and the national levels; and those that are not federated at any level at all”.

According to Biswa Swarup Misra “Credit cooperatives in India make up one of the largest rural financial systems in the world. Playing a vital role in disbursing credit in largely agricultural areas, they are also the weakest link in the formal credit delivery system. The author provides a valuable case of the traditional banking system in the developing economy, exploring the reasons for the poor performance of credit cooperatives in India and suggesting measures to revitalise them. Although the sector has grown along with the micro-credit sector to provide finance for the poor and the less creditworthy borrowers, financing for development of these category, still remains a major problem in the developing world. However, the financial health of credit cooperatives in India has been a matter of perennial concern. The author argues that cooperatives hold great
promise for financial inclusion if the financial position of the cooperatives can be consolidated. Providing a detailed analysis of the historical evolution of cooperatives in India, the book establishes the link between different segments of this institutional system and their performance in a commercial sense to show that cooperatives occupy an important place in India’s financial edifice as they play a key role in the multi agency framework for rural credit delivery. As such the analysis provides a valuable reference for scholars of economics, Asian economics and finance”.

### 1.3 IMPORTANCE OF AGRICULTURAL CREDIT IN INDIA

Agriculture occupies a position of fundamental importance in the Indian economy. Being the largest industry in the country, agriculture provides the employment to around 65 per cent of the total workforce in the country, it contributes about 30 per cent of the national income. Moreover, it provides raw materials to agro industries such as Cotton textile, Jute, Sugar, Vanaspati industries which are of the basic importance to the national economy. Thus, agriculture is an extremely important part of our economic structure. Agriculture is an occupation which requires finance like other occupation, there has been estimated that an average the Indian farmer are poor. An Indian farmer has no adequate finance for agricultural development, hence, the farmers has to depend upon credit. Due to irregularities and drought situation for last few years the farmers’ debt have been increased. Moreover, farmers spent more money on non productive activities rather than productive purpose such as fertilizers, irrigation, and land development, etc.
However, marketing of agricultural goods is much more complex than the marketing of goods and to have the best advantage in marketing of goods, the farmers should have adequate infrastructure facilities like storage, adequate and cheap transport; market information system of prices and also agricultural credit. Though the Government has taken various steps to improve the system of agricultural credit through establishment of Credit Cooperative Societies, Land Development Banks, RRBs, NABARD, etc. Looking to the globalization, Indian agriculture is the most important sector which could compete with Multinational Companies (MNCs). Therefore, if agriculture sector is to be made a powerful in the global environment, it needs global services with regard to credit as well as marketing so that it could proactively compete with Multinational Company.

Institutional finance for agriculture in India dates back to 1793 when the system of Taccavi loans initiated. Agriculture finance was given priority by the government for the rural credit system. Earlier the finance was provided to the farmers departmentally as well as through cooperative system. In the pre-independence period, agricultural credit to farmers was exclusively provided by cooperative banking system (1904). Such credit has no explicit relationship with input or farm investment and seen as an alternative to the village moneylender. The State Cooperative Agriculture and Rural Development Banks (SCARDB) then called the Land Mortgage Banks provided long term loans to repay the old debts.

1.4 AGRICULTURAL CREDIT IN INDIA – PRE/POST INDEPENDENCE

The pre-independence period witnessed the dominant role played by the Money Lenders and Indigenous Bankers in the supply of credit to agriculture. After recognizing credit as a ‘Social Good’ for agricultural development, further
changes were effected. The appointment of Rural Credit Survey Committee in August 1951 was the first move in this direction. The survey revealed that the existing institutional and non-institutional credit to agriculture was far from satisfactory and recommended integrated scheme for agricultural credit involving Co-operatives as the major institutional sources. But the Co-operatives were unable to fulfill with the demand for agricultural credit. Then, the Government of India nationalized 14 commercial banks in 1969 and furthers 6 more commercial banks in 1980, with the object of providing credit to agriculture and other neglected sectors of the economy. Thus, the doors of commercial banks were opened for agricultural credit. According to the recommendations of M. Narasimham committee appointed by the Reserve Bank of India, the Regional Rural Banks were setup in 1975, by passing Regional Rural Banks Act in 1975. The National Bank for Agriculture and Rural Development (NABARD) was formed in July 1982 as per the recommendations of Mr. Shivaraman committee which was appointed by the Reserve Bank of India in consultation with Government of India. The NABARD undertook the entire agricultural refinancing function of Reserve Bank of India. It finances farmers indirectly. Thus, the increase in the number of credit institutions resulted in a major change in the share of credit to the agriculture and also reduced the importance of non-institutional credit agencies. The Table 1.1 showed the relative share of different agencies in the total agricultural credit.
Table 1.1: Relative share of borrowing of cultivators from different sources

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<tbody>
<tr>
<td>Non-institutional agencies</td>
<td>92.7%</td>
<td>91.3%</td>
<td>68.3%</td>
<td>36.8%</td>
<td>30.6%</td>
<td>38.9%</td>
<td>29.7%</td>
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<tr>
<td>Money lender</td>
<td>69.7%</td>
<td>49.2%</td>
<td>36.1%</td>
<td>16.1%</td>
<td>17.5%</td>
<td>26.8%</td>
<td>21.9%</td>
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<tr>
<td>Institutional agencies</td>
<td>7.3%</td>
<td>8.7%</td>
<td>31.7%</td>
<td>63.2%</td>
<td>66.3%</td>
<td>61.3%</td>
<td>68.8%</td>
</tr>
<tr>
<td>Cooperative Societies/Banks</td>
<td>3.3%</td>
<td>2.6%</td>
<td>22.0%</td>
<td>29.8%</td>
<td>23.6%</td>
<td>30.2%</td>
<td>24.9%</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>0.9%</td>
<td>0.6%</td>
<td>2.4%</td>
<td>28.8%</td>
<td>35.2%</td>
<td>26.3%</td>
<td>25.1%</td>
</tr>
<tr>
<td>Unspecified</td>
<td>-</td>
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<td>3.1%</td>
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<td>1.5%</td>
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Source: All India Debt and Investment Survey, and NSSO

The above table reveals the lending of loan to the farmers from 1951-2010. In 1951, about 92.7% of loan borrowed from non-institutional finance of which 69.7% from the money lenders whereas institutional finance had limited share of just 7.3% of which cooperative banking extended loan of just 3.3%. However in the subsequent year the role of cooperative banks has been gradually increased which is about 24.9% in 2010, whereas the commercial banks and RRBs together lending loan upto 25% in 2010. Therefore the role of cooperative bank still needs to be improved.
1.5 INSTITUTIONAL CREDIT FOR AGRICULTURE AND ALLIED ACTIVITIES

The Government of India has changed the policy of single agency system for distributing credit through Co-operatives, to Multi-agency approach as per the recommendations of the Kamath Working Group. The institutions comprising under Multi-agency system are Co-operatives, State Governments, Commercial banks and Regional Rural Banks. The State Governments provide ‘Taccavi Loans’ to farmers and also extend financial support to State Co-operative Banks and State Co-operative Agriculture and Rural Development Banks (SCARDS). At the grass-root level, Primary Agriculture Co-operative Societies (PACS) provide short-term and medium term credit and Primary Co-operative Agricultural and Rural Development Banks (PCARDS) provide long term credit to farmers. The Commercial and Regional Rural Banks provide Multi-purpose and Multi-term credit for agriculture. The Multi-agency approach adopted by the Reserve Bank of India has helped to increase in the quantum of institutional credit for agriculture and rural development and this has, thus, helped to reduce substantially the dependence of rural households on exploitative non-institutional credit sources. The network of institutional agencies for agricultural credit is depicted in the following chart.
From this channel it has observed that NABARD is an apex bank in the field of agriculture and rural credit. However, the RBI is the sources of NABARD. The NABARD finance directly flows to the co-operatives, commercial banks and Regional Rural Banks with regard to the agriculture and rural credit. This channel
also indicates every main institution having its own branches around the country. For example state, district and village levels for operating their functions. From the same channel come to know that the rural branches are main sources of depositors and borrowers for their transactions with regard to agriculture and rural credit.

1.6 GOVERNMENT OF INDIA AND AGRICULTURE CREDIT

The Government provided only 3.3 percent of total credit in 1951 and this percentage rose to 3.6 in 1970. Thus, the role of the Government in agricultural finance was insignificant. Moreover, too many formalities have to be observed by the farmers in obtaining such loans. The farmers found it very difficult to get the ‘taccavi’ loans because of good deal of delay has caused in getting these loans. Again in many cases, the borrowers would pay some money to the officials by way of bribes in order to get their loans sanctioned. Further, the collection of taccavi loans has also very rigid. The farmers are required to pay back the loans on the due date. Otherwise, distress warrants are likely to be issued against their properties. Therefore, these loans have never become popular with the farmers.

1.6.1 National Bank for Agriculture and Rural Development (NABARD)

The National Bank for Agriculture and Rural Development is an apex bank of the country for promoting sustainable and equitable agriculture and rural development through effective credit support, related services, building institutions, and other innovative initiatives. NABARD today is at the center of the development activities in the rural areas and bedrock of prosperous rural India. The most important development in the field of agricultural credit is the setting up of the National Bank for Agriculture and Rural Development (NABARD) in
July 1982. NABARD is an apex organization in respect of all matters related to policy, planning and operational aspects, concerning the flow of credit for development of agriculture, rural industries and handicrafts and other allied activities in the rural areas. It is a single integrated agency for meeting the credit needs of all types of agricultural and rural development; it has taken over the entire operations of the Agricultural Refinance and Development Corporation (ARDC) as well as refinance functions of RBI. NABARD has been guiding all major agencies operating in the rural credit agencies namely the Commercial banks, the Regional Rural Banks and the co-operative credit institutions. NABARD has been envisaged as the leader of the entire rural credit system. The main functions of NABARD are as follows:

NABARD works as an apex body for development policy, planning, operational matters, coordination, monitoring, research, training and consultancy etc, relating to rural credit. It provides refinance to the cooperatives, Regional Rural Banks and commercial banks for short, medium and long-term requirements. It undertakes the inspection of cooperative banks and Regional Rural Banks and advises the government on related matters. NABARD has thus been playing a pivotal role in channelization of bank credit to the rural sector. It provides refinance and improves the resource base of institutions providing credit to the rural sector. In recent years NABARD has attempted to enhance the coverage of rural credit institutions by bringing in areas of non-traditional agriculture and new ventures in farm activities under its purview. NABARD is also taking steps to restructure the institutional credit system in India.
1.6.2 Commercial Banks and Agricultural Finance

The Commercial Banks endeavoured to increase their direct involvement in rural credit, firstly, by rapid expansion of branches in the rural and semi urban areas and secondly through a number of operational innovations such as, establishing specialized branches exclusively or mainly oriented to farm lending, intensifying their efforts in specific areas under the village adoption scheme, linking up their lending to schematic programmes under the five year plan with assistance of the ARDC (or NABARD), taking over PACS and organizing FSS. The Indian Banks’ Association promoted the Agricultural Finance Corporation (AFC) with a view to speeding up project lending by Commercial Banks in the agricultural sector. The banks have made serious efforts to move nearer to their clientele in the rural sector and to serve them better. In this, they have been additionally assisted by the Lead Bank Scheme and the setting up of RRBs in selected areas. The financing agricultural was considered to be the sole responsibility of the co-operative credit institution till 1967. However, with the growing demand for agriculture credit and allied activities and on account of increasing emphasis laid on agricultural production and also the technological breakthrough achieved by Indian farmers, the resources of co-operative sector was found to be inadequate.

Against this background, commercial banks were matter of national policy called upon for the first time in 1967 to provide finance to the agricultural sector. Their role in this direction expanded significantly after the nationalization of the 14 major scheduled commercial banks in 1969. Since then the commercial banks have been financing agricultural activities and development
on an increasing scale yearly and their financial involvement in this sector has been growing.

1.6.3 Regional Rural Banks (RRBs)

The Regional Rural Banks, which were established in 1975, are supported by public sector commercial banks. These banks were established to provide lending services specially to weaker sections of the society, viz. small and marginal farmers, agricultural labourers, rural artisans, small traders, self-employed persons, etc., those who have little access to commercial banks and cooperative lending.

1.6.4 Cooperative Bank

The cooperative movement in India began in 1904 with the establishment of Primary Co-operative Societies (PCS). Though the cooperatives were conceptually thrift and mutual self-help, self-reliant associations of farmers, those which came up in India owed their origin to government initiative and became lending agencies out of borrowed funds with an aim of freeing the farmers from the grip of money lenders and providing them with the production credit (Kurien, 1993). Two district structural patterns emerged in the country one for providing short term credit for raising crops and the other for providing long term credit for investment in agriculture.

1.6.4.1 Three-Tier Cooperative Credit System

Under this system both short and medium-term credit needs of agriculturists to meet their requirements. The three-tier system is structured as follows; At the apex level is the State Cooperative Banks (SCBs), while at the district level, the District Central Cooperative Banks (DCCBs) and finally at the
lower level, Primary Agricultural Credit Societies (PACS) this forming the base of the three-tier cooperative, credit structure.

### 1.6.4.2 Primary Agriculture Cooperative Credit Societies (PACS)

The Primary Agriculture Cooperative Credit Societies are the basic level institutions of the short-term credit structure. The societies provide short and medium-term credit to the farmers. These societies also undertake the supply of seeds fertilizers, insecticides, agricultural equipments and marketing of farm produce. The term of short and medium-term credit to be provided by these societies has duration of repayment of one year and three to five years respectively. The credit limits are fixed every year by these societies. The Reserve Bank of India, the Banking Commission, the National Commission on Agriculture-and the Working Group on Cooperatives (chaired by T.A. Pai) recommended that, all farmers should get all types of credit requirements at one contact point. Thus, the Farmers Service Societies (FSS) came into existence. These organizations work at the block level, and in the district, they form a district union which provide leadership in organizing the agricultural credit societies in the district. They are autonomous bodies with their own bye-laws. In order to get funds, concessional interest and marginal subsidy, FSS are treated as primary co-operative societies. Farmers Service Societies (FSS) provide short-term, medium-term and long-term credit, and also supply inputs and technical guidance relating to improved farm activities.

### 1.6.5 District Central Cooperative Banks (CCBs)

The District Central Cooperative Banks provide financial strength to PACS and other member societies at the district level, act as a balancing centre for the
resources of PACs attract local deposits, render banking services and supervise the working and management of affiliated societies.

1.6.6 State Cooperative Banks (SCBs)

The State Cooperative Banks are the apex institutions. These banks act as a Banker’s Bank of cooperative credit structure. It provides connecting link between the money market, cooperatives and NABARD, acts as a financing centre of all cooperative banks and other societies in the state.

1.6.7 Long Term Cooperative Credit Structure

The Cooperative Agriculture Rural Development Banks provides long term loans to the farmers for the purchase of land, tractor, pump set, sinking of well, installation of pipe line, land reclamation, horticulture and for project lending. The State Cooperative Agricultural and Rural Development Bank (SCARDBs) operate through either their branches (unitary structure) or through its affiliated Primary Agricultural and Rural Development Banks (federal structure).

1.7 COMMITTEES ESTIMATION ON AGRICULTURAL CREDITS

Estimating the total credit requirement and all the actual borrowers by the Indian farmers has always been a very challenging task. In fact, realizing the importance of agricultural credit several committees were constituted to evolve the modality of extending the credit facilities from time to time attempts are made to estimate credit requirement of farmers. Some important estimates are as follows:

All India Rural Credit Survey Committee (1954) has estimated the total agricultural credit requirements of the country would be Rs. 2000 crores of which Rs. 1200 crores are to refinance by the institutions and Rs. 800 crores were to be self financed. The Working Group (1955) was set by the Agricultural Board’s of
the Government of India in 1965 estimated the total credit needs of agriculture in 1970-71 of Rs. 1,160 crores. The All India Rural Debt and Investment Survey in 1961-62 estimated the annual borrowings of the farmers to be of Rs. 1,034 crores. The All India Rural Credit Review Committee (1969) was estimated the short-term credit requirements at Rs. 2,000 crores, Medium-term credit of Rs. 500 crores and Rs. 1,500 crores for long-term credit, this brought to the total credit requirements of Rs. 4,000 crores in 1973-74. The estimation made by Reserve Bank of India in the monthly Review of February 1968, expected the total agricultural credit requirement by 1970-71 to be of the order of Rs. 1,300 crores for short-term type, Rs. 480 crores of medium-term type and Rs. 555 crores of the long-term type. The Fifth Five Year Plan (1954-1979) estimated that by the end of plan period, the requirement of the short term agricultural credit was Rs. 3,000 crores. The National Commission on Agriculture (NCA) observed that by 1985, the credit requirements of the farmers for short-term, medium and long term credit was of Rs. 16,594 crores. The Ministry of Food and Agriculture estimated the short-term credit at Rs. 1,550 crores and medium and long-term requirements of Rs. 1,650 crores at the end of 1973-74. The above committees estimated reveal that the pace of increase in the total farm credit requirements.

1.8 AGRICULTURAL CREDIT UNDER FIVE-YEAR PLAN PERIOD

Realizing the importance of agricultural development and hence agricultural credit, it has been vital area of consideration throughout the planning period. The First Five Year plan recommended the annual Credit of Rs. 100 crores for short-term, Rs. 25 crores for medium-term and Rs. 5 crores for long-term requirements by the end of Fourth year of plan. The Second plan fixed a target of
Rs. 225 crores including Rs. 15 crores towards short-term, Rs. 50 crores for medium-term and Rs. 25 crores towards long-term requirements. The Third Plan has envisaged a total allocation of Rs. 687.6 crores for this purpose. The first annual plan decided to distribute a total amount of Rs. 482.50 crores while the other two annual plans however, fixed a target of Rs. 570 crores and Rs. 625 crores respectively. During Fourth plan supplementary line of credit were arranged in the field of long-term credit, institutional support from Reserve Bank of India, State Bank of India and Life Insurance Corporation were sought for the purchase of debentures of Central Mortgage Banks. By the end of Fifth Five Year plan the sum of Rs. 2,250 crores were supplied towards agricultural credit. The Sixth Five Year Plan set a target of Rs. 5,415 crores to be distributed by 1984-85. During the Seventh Five year plan it increased to Rs. 12,750 crores. The Eight Five year plan strategy stressed that the attention should be paid to meet the requirements of short, medium and long-term credit in larger measure. In Ninth Five Year Plan (1997-98 to 2001-02) the total credit of Rs. 22,97,500 million for both short and long-term was estimated to agricultural sector. This meant the 16 per cent of annual growth rate of credit flow during the plan. Finally, Y.C. Nanda provide the latest estimates on the magnitude of demand for agricultural for Tenth plan the demand of credit for production was estimated to lie between Rs. 8,60,000 million to Rs. 12,29,280 million short and long-term agricultural credit. In Eleventh Five Year Plan Period the growth of agricultural credit has set to exceed target set for 2007-08. For 2008-09, the target set was Rs. 2,80,000 crores, with short-term crop loans continued to be disbursed at 7 per cent per annum with the initial provision of Rs. 1,600 crores made for interest subvention in 2008-09. The Eleventh Five
Year Plan has a target of 4 per cent for agricultural sector with the overall GDP growth target of 9 per cent. In this context, the need for affordable, sufficient and timely supply of institutional credit to agriculture has assumed crucial importance.

The analysis of plan period would reveal the efforts of planners towards agricultural credit. The unfortunate fact is that, these ambitious targets of the plan were not adequately met. Since the institutional and non-institutional support were not upto the exceptions. A look at the institutions engaged in agricultural credit and an evaluation of their performance is expected to throw light on the reality of the situation and also given more attention towards agricultural sector.

1.9 TASK FORCE

Revival of Short Term Credit Structure

During 2004, the Government of India constituted a Task Force under the Chairmanship of Prof. A. Vaidyanathan to formulate a practical and implementable plan of action to rejuvenate the cooperative credit structure. The revival package suggested by the Prof. Vaidyanathan Committee is a financial package for wiping of accumulated losses, covering invoked, but unpaid guarantees given by the State Governments, increasing the capital to a specified minimum level, retiring Government share capital and technical assistance. It has also laid down the eligibility criteria for institutions amongst which implementation of the recommendations for legal and institutional reforms is an important condition. Government of Karnataka had signed the memorandum of understanding with the Government of India and NABARD on 25-3-2008 for the implementation of revival package for short term cooperative credit structure in the state. In the study area, out of 65 PACS, 59 PACS are eligible for
recapitalization assistance as per special audit of accounts of PACS. The assistance released to DCC Bank, Bangalore amounts to Rs. 8,20,22,539. The revival package is under implementation stage.

The Task Force also submitted its report relating to the revival package for Long Term Cooperative Credit structure during August 2006. Though the union cabinet has approved the revival package for Long Term Credit Structure on 26th February 2009, still the package has not been implemented.

**Yashaswini Cooperative Farmers Health Care Scheme**

Yashaswini Cooperative Farmers Health Care Scheme is considered to be world’s largest health insurance scheme working for a cooperative member farmers in Karnataka. To avail the benefit of the scheme, a person should be a member of a cooperative society at least for six months. He should contribute a sum of Rs. 150/- per year as premium towards pool fund. An individual has insurance coverage of maximum of Rs. 2 lakhs per annum with sub-limit of Rs. 1 lakh for single admission and free outpatient diagnosis which does not include any surgical procedure. About 1600 different types of surgeries can be taken under the Scheme. The surgical package cost includes cost of medicines, cost of operation theatres, surgeries fee, consultant fee, para medics fee, accommodation fee, etc.
The benefits availed by the farmers in the study are as hereunder.

(Amount in lakhs)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>No. of farmers enrolled under the scheme</th>
<th>Amount of premium collected from the farmers</th>
<th>No. of surgery conducted</th>
<th>Amount released to the hospitals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2007-08</td>
<td>1,40,081</td>
<td>168.09</td>
<td>2304</td>
<td>214.23</td>
</tr>
<tr>
<td>2</td>
<td>2008-09</td>
<td>83,805</td>
<td>100.57</td>
<td>2856</td>
<td>273.21</td>
</tr>
<tr>
<td>3</td>
<td>2009-10</td>
<td>79,677</td>
<td>102.79</td>
<td>2828</td>
<td>245.71</td>
</tr>
<tr>
<td>4</td>
<td>2010-11</td>
<td>81,280</td>
<td>112.39</td>
<td>2389</td>
<td>194.11</td>
</tr>
</tbody>
</table>

Source: Department of Cooperation

It could be seen from the table the amount released for the surgeries are more than the premium collected from the farmers in the study area.

**Agriculture Loans at Concessional Rate of Interest**

During 2004-05, the farmers were getting short term and medium term loans at 12.5% interest from PACS. The PCARD Banks were advancing Long Term Loans at 13.5% interest. Government of Karnataka had formulated interest subsidy scheme to make available agricultural credit at low interest. Under the scheme the short term, medium term and long term loans were made available at 6% with effect from 1-4-2004. Subsequently Government has accorded approval to provide short term loan, medium term loan and long term loan at 4% interest with effect from 1-4-2006. In order to further reduce the interest burden on the farmers Government has modified interest subsidy scheme through which farmers would get short term loan medium term loan and long term loan at 3% interest. Government has further reduced the interest on short term loan, which was made available to the farmers at 1% interest with effect from 1-4-2011 upto a ceiling of crop loan advance of Rs. 3 lakhs. Over and above this ceiling the farmers
will have to pay the normal rate of interest on the loan. The Government has undertaken to reimburse the loss to the cooperative credit institutions by way of interest subsidy.

The interest subsidy given to farmers in the study area for the period from 2005-06 to 2009-10 are given hereunder.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>No. of farmers</th>
<th>Amount (lakhs)</th>
<th>Average subsidy per farmer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2005-06</td>
<td>2080</td>
<td>130.70</td>
<td>6283</td>
</tr>
<tr>
<td>2</td>
<td>2006-07</td>
<td>2870</td>
<td>152.30</td>
<td>5306</td>
</tr>
<tr>
<td>3</td>
<td>2007-08</td>
<td>8985</td>
<td>213.24</td>
<td>2373</td>
</tr>
<tr>
<td>4</td>
<td>2008-09</td>
<td></td>
<td>213.24</td>
<td>2373</td>
</tr>
<tr>
<td>5</td>
<td>2009-10</td>
<td>11850</td>
<td>341.42</td>
<td>2881</td>
</tr>
</tbody>
</table>

Source: DCC Bank, Bangalore

1.10 CONDITIONS NECESSARY FOR THE ORGANIZATION OF COOPERATIVES

“Certain conditions are needed for starting cooperatives successfully. Such conditions are as follows:

1) The cooperative that is to be started must be socially viable. Those who are starting such cooperatives must be willing to provide all needed cooperation. “The persons forming local organization have to be prepared to cooperate – there has to be a minimum of sociability” – Munkner.

2) The members who are entrusted in starting a cooperative must commit themselves to mobilize needed resources. This should be on a voluntary basis and not for a pressure from outside.

3) There should be the community of interest between the proposed members. That means, the proposed members should have a common problem to be solved among them. “The persons forming the local organization have to have
at least one economic interest in common, a broader base of interest is favourable” – Munkner.

4) The cooperative must be economically viable and provide at short notice tangible advantages for the members individually or as a group, otherwise, the interest in the cooperative will rapidly decline.

5) There must be the questions to be raised among the members as to why the cooperative must be formed and the uses of group action.

6) The proposed cooperatives must be given the chance to develop on their own. Any stimulation from outside is desirable but should not lead to artificial growth. This is the bane of state-sponsored cooperatives in certain developing countries.

7) The proposed cooperatives must be given the opportunity of evolving their own rules, regulation and patterns of organization.

8) Certain external forces like the governments, taxation policy, land policy, and political developments are to be considered while starting new cooperatives”.

1.11 STUDY AREA

Bangalore rural district is located to the South-East of Karnataka State. The district lies between the latitude of 12°15’ North and 13°35’ North and longitude and meridians 77°05’ East and 78° East. The district is bounded by Kolar and Tumkur districts in the North, Ramanagara, Bangalore (Urban) Districts in the South and the Tamil Nadu State in the East, and Tumkur district in the West.

Bangalore rural district has a geographical area of 2259 kms, constituting 1.18% of the State falls in “Maidan” – agroclimate zone. Nearly 4.93% of the geographical area is covered by forests.
Bangalore rural district has four taluks with 951 inhabited villages. The district consists of population 8.50 lakhs, of which 6.70 lakhs in rural areas. Average population density is 377 per square kilometre ranging from 345 in Doddaballapura taluk to 430 in Devanahalli taluk. Literacy rate of the district is 69.7%.

The net area sown is 1.04 lakh hectares. 25.63% of the sown area is having irrigation facilities. The cropping intensity is 103% with 0.09 lakh hectares sown more than once. The cropping pattern reveals 43.59% of the area under cereals, 6.13% covered under pulses, 2.45% covered under oil seeds, 13.12% covered by fruits and vegetables and 34.64% covered by non-food crops. The district has good potential for commercial horticulture and covered under three AEZs for Gherkins, Rose Onion and Flowers respectively.

There are 66 PACs working in the study area with 1,36,843 membership. About 49.87 crores of rupees are lent by the credit cooperatives as short term loan.

**Sectoral assessment of potential:** The potential under crop loan has been estimated at 126.80 crores, agriculture term loan has been estimated at Rs. 129.60 crores. Non-farm sector has been estimated at Rs. 31.34 crores, food and agro processing at Rs. 5.65 crores and other priority sectors has been estimated at Rs. 141.82 crores.

Major constraints / infrastructure gaps in increasing the credit flow include lack of extension support for providing information about cropping pattern suitable for the area, delay in energisation of pump sets, lack of assured and quality power supply in rural areas, lack of awareness about alternate crops for better income, lack of post-harvest facilities, absence of milk route in some parts
of district, inadequate basic infrastructure like transport facilities, communication network in rural areas.

1.12 SCOPE OF THE STUDY

Cooperative organisation has been playing a significant role in the economic development of India. Though it has many weaknesses, has been a great relief to the farming community in India. Cooperative practice has been found in various spheres like housing, industries, milk production, handloom, consumerism, etc., however it has been playing a vital role in agricultural sector. Hence the topic is chosen for research confining to Bangalore rural district of Karnataka State.

The study is focus to find out the impact of agriculture credit cooperative societies on the socio-economic conditions of small and marginal farmers of the study area. There are good numbers of studies pertaining to the cooperative organisation in India. However the related to micro level study is limited. The proposed study would bring out the impact of cooperative credit on the socio-economic changes of farmers.

In a developing country where 65% of the people still depends on agriculture for their livelihood and source of income, the credit at affordable rate of interest is a must. The study is also important from the point of view of eradicating the indebtedness in India. Hence the topic is chosen for study.

1.13 METHODOLOGY

The study is based on primary and secondary data. The secondary data are available in the form of books, articles, annual reports, audit reports, progress reports of various cooperative credit institutions. Books, journals and reports will
be referred to draw the concept and approaches on the cooperative organisation in
general and particular in India. Apart from this, the reports brought out by the
department of cooperation in Karnataka Government will be used to get the
basic data.

Primary data is collected through field survey conducted in the study area
by preparing the structured schedules. The schedules contain the questions
pertaining to the objectives of the study. The collected primary data compiled and
analysed for drawing the conclusions. Tables and graphs are prepared for
interpreting the data.

The primary data has been collected from 304 farmers. The selection
of the farmers was on the basis of random sampling method giving due weightage
to small and marginal farmers and spatial distribution. The farmers are
selected from all the four taluks of the study area. Of the 304 farmers, 81 farmers
are from Devanahalli taluk, 73 farmers from Hoskote taluk, 90 farmers are
chosen from Nelamangala taluk and 51 farmers are selected from Doddaballapura
taluk.

1.14 OBJECTIVES OF THE STUDY
1. To find out the functional efficiency of cooperative institutions in the study
area.
2. To study the various types of services rendered to the small and marginal
farmers.
3. To study the socio-economic conditions of the beneficiaries.
4. To assess the utility of credit by the farmers.
5. To find out the specific problems faced by the small and marginal farmers.
1.15 HYPOTHESES OF THE STUDY

1. Cooperative organisation strengthens the economic conditions of small and marginal farmers.

2. Cooperative credits lend financial relief to the farmers.

3. Cooperative banks act as catalyst for rural development.

1.16 ORGANISATION OF THE STUDY

The research work has been divided into six chapters.

The first chapter of the thesis deals with concept, introduction of the cooperative organisation, the structure of cooperative organisation in India and Karnataka. It also deals with objectives, hypotheses and methodology used for research.

The second chapter of the thesis is devoted for review of literature. Important books and journals related to the topic have been referred to understand the approach and functioning of cooperative organisation.

The third chapter of the thesis gives the profile of the study area where the general information like geographical area, cropping patterns, population density and the banking institutions are depicted.

The fourth chapter of the thesis comprises the existing system of cooperative organisation in Karnataka and with particular reference to study area, the financial situations and the lending pattern is discussed.

The fifth chapter is devoted for discussion and analysis of the primary data, to know the objective of the study. The data is compiled and interpreted with help of tables and graphs.

The sixth chapter of the thesis explains the findings of the study. Based on the findings, appropriate suggestions are recommended with conclusion.
1.17 END NOTES


