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CHAPTER I
INTRODUCTION

This chapter deals with the introduction to the present study including the background information on cooperation; reports of various committees; cooperative legislations; statement of the problem and; the objectives, hypotheses, scope and limitations of the study.

1.1 The Background

Agriculture remains the backbone of the Indian economy even after over five decades of planned economic development. The primary sector contributes about one-fourth of the country's Gross Domestic Product (GDP) and continues to employ more than two-thirds of the total labour force of the country. The forward and backward linkages, it has with the other sectors of the economy is well documented in the economic literature. Sustained agricultural growth is a prerequisite for accelerating the pace of overall economic growth. The development of the primary sector depends mainly upon the timely, regular and adequate availability of necessary inputs. Credit is one of the vital inputs, which helps enhance not only agricultural production but also incomes of the farmers more so when they are entangled in the vicious circle of poverty.

The credit factor in agriculture is of paramount importance where the prospects of 'plough back' are rather weak when compared to trade and industry. With the adoption of new farm technology since the mid-sixties the credit needs of the farmers have increased manifold and the
availability of credit in adequate amounts is necessary to sustain agricultural development.

1.2 Rural Credit System

The rural institutional credit system for agriculture comprises:

1. Cooperative credit institutions (Short term and long term),
2. Commercial Banks,
3. Regional Rural Banks,
4. National Bank for Agriculture and Rural Development, and
5. Reserve Bank of India.

The rural credit cooperatives (RCCI's), one of the strong arms of the rural financial institutions (RFIs) have made significant strides in delivering credit for agricultural and rural development. The cooperative credit structure consists of two wings namely short term and long term. The short-term credit structure deals with medium term credit also for agricultural purposes and it is federal in character. It is mostly based on the three-tier pattern with the State Cooperative Banks (SCBs) at the Apex Bank level, District Central Cooperative Banks (DCCBs) at the intermediary level and Primary Agricultural Credit Cooperative Societies (PACS) at the village level. Of the institutions providing credit to the primary sector, the cooperative organizations occupy a predominant place. Cooperative credit sector in India is now the largest in the world with 5.03 lakh societies covering a total membership of over 20 crore and a working capital of more than Rs.71, 000/- crore. Beginning with the
first decade of the current century, the cooperative movement has taken deep-roots and culminated in a massive rural cooperative institutional structure.

Today cooperatives form the major component of the rural credit system in India. Of the total institutional credit for agricultural and rural development (including ST, MT and LT) disbursed during 1998–99, cooperatives accounted for more than 46.31 percent. About 50 percent of the total cooperative credit are estimated to have gone to small and marginal farmers and other weaker sections of the rural society. About 70 percent of the loans provided by the cooperatives are short-term agricultural production loans; the remaining 30 percent being medium and long term investment credit.

1.3 Present Cooperative Credit Structure

The RCCIs have been organized into short term and long term structures. The short-term structure is based on three-tier structure in almost all states, except the states in the northeastern region. They are organized at the level of the State (the SCB) district (the DCCB) and the Primary or Village level (PACS). The PACS at the village level form the base. The long-term credit cooperatives, however, are organized at two levels. These differ from State to State and have been categorized into:

The unitary structure in which state cooperative agricultural and rural development banks (SCARDBs) operates at the State level through their branches and have direct membership of individuals. This
structure has been adopted in the States of Bihar, UP, Maharashtra, Gujarat, Tripura, Jammu & Kashmir and the Union territory of Pondichery.

The Federal structure in which primary cooperative agricultural and rural development banks (PCARDBs) operate as independent units at the primary level and federate themselves into SCARDBs at the State level, has been adopted in the States of Tamil Nadu, Karnataka, Kerala, Orissa, Punjab, Haryana, Rajasthan and Madhya Pradesh.

A mixed structure is in operation in Himachal Pradesh, Assam and West Bengal where both unitary and federal types operate in one form or another. The integrated structure is in operation in the Union territory of Delhi, Daman and Diu and the States of Andhra Pradesh, Goa and other smaller states of northeastern region. There are no separate LDBs in these states and the long-term credit business is undertaken by the long-term section of the SCBs concerned. At present, RCCIs have emerged as one of the key players in the field of rural credit having an institutional network of 28 SCBs with 742 branches, 364 DCCBs with 11,663 branches and 93,278 PACS at the grass root level in the short term structure and 19 SCARDBs with 1772 branches and 733 PCARDBs with 647 branches in the long term structure accounting for more than two thirds of the rural credit outlets throughout the country (NABARD 1999).
Thus, over the decades and due to a number of initiatives taken, a very complex, huge super structure of cooperatives has emerged today. The most impressive features of RCCIs is their reach, covering a large part of the country, with the policy of merging small sized cooperatives and encouraging large sized cooperatives, the number of cooperative outlets at the primary level had declined but their geographical coverage has not declined.

The functioning of the cooperatives is guided by Rochdale principles which were modified in 1937 and in 1966 by the International Cooperative Alliance (ICA). According to ICA, “A Cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise”. Cooperatives are based on the values of self-help, self-responsibility, democracy, equity and solidarity. In the tradition of their founders, members of cooperatives believe in the ethical values of honesty, openness, social responsibility and caring for others.

1.4 Origin of Cooperatives

The word cooperation is derived from a Latin word ‘Co-opera’, where ‘Co’ denotes “with” and ‘Opera’ means “work”. A cooperative is one of the forms of organization representing group entrepreneurship where people get together to meet their common needs. A cooperative is a distinct organization in that it has the peculiar structure and the
The concept of cooperation has been defined in several ways but all these definitions emphasize the orientation towards members and democratic control. These are the basic factors that differentiate cooperatives from other forms of enterprise. The principle of cooperation is as old as the mankind. Right from the primitive society to the sophisticated community one or the other form of cooperation could be observed among the people.

The origin of cooperatives can be traced back to Europe when the Rochdale pioneers set up the first cooperative in 1844. Even before them, there were examples of experiments carried out by Robert Owen and William King in Britain, Charles Fourier in France and Raiffes in Germany. Cooperative movement in India started towards the end of the 19th century.

The history of cooperatives in India could be traced back to as early as 1891, when the first cooperative society was started in Punjab for controlling the common land of the village (Hough, 1960). However, the first official step to formalize the cooperative organization was taken in July 1901 and it got its final shape in 1904 when the first Cooperative Societies Act was passed. The Cooperative Credit Societies Act (1904) was restrictive in its scope, as it permitted only primary credit societies and kept non-credit and federal societies out of its purview. The Cooperative Societies Act of 1912 removed many of these short comings
and served as a model for subsequent Acts passed by various Governments when "Cooperative Societies" became a transferred subject under the constitutional reforms of 1919.

Although the principles of cooperation have been in vogue in India for centuries, the cooperative movement in its modern form has essentially been a child of 'distress', like in other countries. The main purpose of cooperatives during the pre-independence period was to provide relief to the farmers from moneylenders who exploited them. But in the post-independence era, particularly under the Five-year plans, the objective of cooperatives has changed from mere relief measure to a powerful instrument of socio-economic change.

The Rural Credit Survey Committee of 1954 recommended that promotion of cooperatives be accepted as a part of State policy in the development of various economic activities, particularly those providing support to agriculture. The policy led to State partnership in the share capital of cooperatives and in their management. The Committee on cooperative law (1955) appointed by the Government of India suggested a number of modifications in the cooperative legislation. For giving effect to the concept of the state partnership and accordingly various State Cooperative Societies Acts were amended which in effect also strengthened the government control on the cooperative institutions.

The National Development Council (1958) adopted a Cooperative Policy resolution, which inter alia examined the cooperative legislative
framework. The council had observed that “many of the existing procedures impede the development of cooperation as a popular movement in which small groups and communities can function freely and organize their work and activities along the cooperative lines without excessive official interference and red tape”. The restrictive features of existing cooperative legislation should be removed and both the present cooperative laws and model legislation and rules which have been under consideration should be modified in accordance with the approach outlined in this resolution.

While examining the role of Registrar of Cooperative Societies, the Committee on Cooperative Administration (1963) felt that in order to make cooperative movement the peoples' movement in the real sense of the term and to foster popular initiative within the cooperative movement, it is necessary that the role of Registrar should be converted to that of a friend, philosopher and guide to the cooperative movement and many of the powers which have been concentrated in his hands should be transferred to the federal cooperative organizations.

Mirdha Committee on cooperatives (1965) gave a new orientation to the cooperative law. The Committee analyzed criteria of genuine cooperative societies and removal of vested interests from them. However, on the pretext of promotion of genuine cooperative movement by removing vested interests, the state governments made cooperative legislation more and more restrictive and stringent, thus pushing
cooperative character of the movement to the background. The All India Rural Credit Review Committee (1966 – 69) constituted by the RBI under the chairmanship of Sri B.Venkatappaiah recommended the adoption of multi-agency approach in the field of agricultural credit, setting up of small farmers development agency, streamlining the credit policies and procedures emphasizing the need for establishing viable cooperatives and formation of Agricultural Refinance Cooperation.

The working group on Cooperative Administrative Reforms commission (1967) recommended that the law should aim at promotion of cooperation as peoples' movement full of self regulation and control. In view of this the process of audit, supervision and control that vests presently with the Registrar of Cooperative Societies should be gradually passed on to the federal bodies of the cooperatives institutions. Noting that in many states the federal cooperative organizations are not strong enough, the Committee recommended that the government by giving catalytic help to the cooperative movement should promote these federal organizations to which ultimately some of the statutory powers of the Registrar of Cooperative Societies should be transferred, but till that time the Registrar should continue to exercise checks and balances in order to maintain steady growth of the cooperative movement.

The Chief ministers' Conference (1968) considered certain important aspects of management of cooperatives with a view to contain the growth of vested interests in cooperatives and to ensure that
economic benefits conferred by the cooperatives flow in larger measure to the weaker sections. However, the suggestions of the conference and later the amendment of the Act by several states gave overriding powers to the state and this led to progressive erosion of the autonomy of cooperatives, an essential concomitant to their democratic character.

The Reserve Bank of India appointed a committee on integration of cooperative credit institutions (1975 – 76) under the chairmanship of Dr. R.K.Hazari for studying the possibility of integrating the two wings (Short and Long term) of cooperative credit structure of the country. It recommended “single window approach” under which the two credit structures were to be merged into single structure. There after the Reserve Bank of India appointed a committee on March 30, 1979 headed by Shri. B.Sivaraman, to review the arrangements for institutional credit for agriculture and rural development. The main recommendations of the committee were to set up National Bank for Agriculture and Rural Development, professionalisation in Central Cooperative Banks, “Evaluation and Monitoring Cell” and a “Recovery Cell” in each State Land Development Bank.

In 1984 the Multi State Cooperative Societies Act was passed to consolidate and amend the law relating to cooperative societies with the objectives not confined to one state and serving the interest of members in more than one state. The restrictive provisions like compulsory amendment of byelaws, compulsory amalgamation or division of

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societies, the veto power of the govt. nominees in respect of board resolutions etc., contained in the earlier laws were removed.

The main mission of this Act is to grant autonomy to cooperatives, arrange for inspection, monitoring and audit of society's accounts, besides strengthening the functioning of societies with responsibility to their constituents and the community as specified in the fifth schedule of cooperative principles. The Committee on Cooperative Law, popularly known as Ardhanareeswaran Committee (1987) examined various State Cooperative Acts and made the following observations:

1) The existing Cooperative Societies Act contains provisions, which militate against the democratic character and the autonomy of the cooperatives.

2) Over the years Registrar has acquired undue powers in respect of management decisions of the cooperatives which should be curtailed.

3) The role of the Registrar should be made more positive and he should be looked upon as a development agent.

4) The federal cooperative societies should play a more active part in the development functions relating to promotion, organization, proper functioning and growth of the affiliated cooperative societies.

The Model Cooperative Societies Act 1991, piloted by Choudary Brahm Perkash Committee, has attempted to give genuine character to
The procedures for registration of new cooperatives are simplified and all artificial restrictions by way of area of operation, economic viability etc., are removed. State policy on cooperatives and the principles of cooperation have been explicitly incorporated in the Act itself as a guide to the remaining provisions of the Model Act to facilitate the government to conform to the basic ideology of cooperation.

The Model Act gives no power to the Registrar or the government to issue orders for

a) Supersession of the Board of Directors
b) Compulsory amalgamation of the societies
c) Compulsory amendment of the bye laws
d) Vetoing / rescinding / annulling the resolution and
e) Issuing directives

Cooperative federations / unions are to assume greater responsibility towards the member cooperatives and to ensure regular conduct of elections to the Board of Management and timely conduct of annual audit of accounts. The role of the Registrar under the Model Act has been confined to the registration and liquidation of cooperatives, conduct of inquiry and in case of default to conduct elections audit and to convene meeting of General body. The Model Act prohibits the cooperatives from accepting funds from the Government by way of equity. To ensure the voluntary character of cooperatives as a member-user organization, special obligations have been imposed on members.
Board of Directors has been made accountable for timely conduct of audit of the books of accounts. The Model Act provides for the constitution of Cooperative Tribunal for settlement of disputes including appeals on matters relating to constitution, management and business of cooperative and to take cognizance of any offence under the Act. The Model Act prohibits officers of the Government to work in cooperatives on deputation.

Following the introduction of the policy of economic liberalization in 1991, the Reserve Bank of India freed in September 1994 the rural cooperative banks from the requirement of administered interest rates, for both loans and deposits.

The Draft National Policy on Cooperatives prepared by Ministry of Agriculture, Government of India, aims to recognize cooperatives by the Central Government as distinct economic entity which is an integral part of the socio-economic system in the country. The policy underlines the need for the cooperatives to mobilize local resources, diversify into new activities and ventures.

A Task Force was appointed by Government of India in 1999 to study the cooperative credit system and suggest measures to make the cooperative credit institution a member-driven professional enterprise, to restructure and improve their financial health to become efficient and effective instruments for delivery of credit and to strengthen the supervisory and regulatory arrangement of cooperatives. The Task Force
submitted its report in July 2000. The Task Force has recommended for recapitalisation for cleansing the balance sheets of the Cooperative Banks. For this purpose it has recommended the issuing of Government bonds favoring the banks to the extent of 90 percent of the support to be provided by the State and Central Governments on equal basis and mobilizing the balance 10 percent by way of additional share capital from members. These bonds will be taken back by the Government after 3 years in a phased manner.

The Task Force recommended that financially strong SCARDBs in the unitary structure may opt for conversion into full fledged banks which will work as Statewide Urban Cooperative Banks and financially strong PCARDBs in the federal structure can be converted into banks to work more or less like local area banks. Further, the Task Force suggests that integration of short-term and long-term structures as recommended by Hazari Committee would be ideal but rightly recognizes the difficulties in integration and states that if integration is not possible both the structures should provide both long and short term loans.

The Task Force has strongly recommended for completing the process of legal / legislative reforms in cooperative law to provide operational freedom to the cooperative banks and to reduce the scope for interference by the Government in their business. It has also recommended amendment to the Banking Regulations Act to bring ARDBs under the supervisory power of RBI / NABARD.
The present cooperative legislations in the country were evolved when cooperatives were extensively supported by the Government and used as active agencies for planned development programs. As stated by Ch. Brahm Perkash, “In the post-Nehruvian period, cooperatives witnessed a sharp reversal of the entire process of democratization thereof on the plea of Government participation in the share capital of cooperatives and providing other financial assistance as also that of removal of vested interests from cooperatives, making the cooperative laws more stringent, undemocratic and restrictive in nature and approach. Cooperatives as they stand today lost their genuine character completely”.

Since the introduction of market economy and globalization of trade, state support to cooperatives is constantly declining. However, no perceptible change is taking place in the cooperative laws and government-cooperatives relationship. The Government continues to exercise control on the working of cooperatives including interference in the day-to-day affairs. The cooperative leadership also continues to look towards the government for guidance and financial support more than towards members. If this attitude is not changed, cooperatives will not be able to sustain for long. Cooperatives will have to compete with the private firms by showing efficiency and better service. This will also need changes in the existing cooperative legislative structure. With their hands and feet tied under the existing laws, in many cases, cooperatives
will not be able to compete and stand with the market forces. Therefore, there is need to examine the various existing cooperative laws in the country in today's context, so that cooperatives are able to stand and play an effective role to serve their members and needs of society at large. Though the Braham Perkash Committee has submitted its report on Model Cooperatives Bill it is yet to be implemented.

1.5 Cooperatives Through Five year Plans

During the five-year plans, especially the First, Second and Third Plans (1951-66), considerable emphasis was laid on the promotion, development and strengthening of cooperative structure in India. In the First plan document it was stated that the purpose of the plan was to change the country's economy from an individualistic to social and cooperative basis and its success should be judged, among other things, by the extent to which it is implemented through cooperative organisations. The Second Plan Document stated that building up cooperative sector, as a part of the scheme of planned development was one of the central aims of National Policy. The Third plan document observed that a rapidly growing cooperative sector with special emphasis on the needs of the peasants, the workers and the consumers was a vital factor for expansion of employment opportunities and for rapid economic development. However, the emphasis on the development of cooperative movement and structures got considerably slowed down since 1969. In the Sixth, Seventh and Eighth Five Year Plan Documents, there were no
separate chapters on the role of cooperatives in the Indian Economic Development.

1.6 Ninth Five Year Plan and Cooperatives

With the adoption of economic reforms in India since July 1991 and with greater emphasis on liberalization, operation of free market forces, structural adjustments and globalization, the cooperative sector has also to gear itself up to face this competitive environment. Even though the Ninth Five-Year Plan Document did not allocate a separate chapter on cooperation, a portion relating to cooperative development has been included under the chapter on Agricultural Sector. The following observations have been made with regard to the cooperative development.

Cooperatives are an integral part of the country's agricultural system and have now emerged as the largest in the world with 4.11 lakh societies. They have played a major role in the disbursement of agricultural credit. The agricultural credit support is a precondition for higher production and productivity in agriculture. Short term advances by credit cooperatives accounted for about 59 percent of the total disbursement, while Commercial Banks and Regional Rural Banks accounted for about 35 percent and around 6 percent respectively in 1995 – 96.

Measures have been initiated in the following areas for strengthening the country's cooperative movement.
a) The Multi-state Cooperative Societies Act is being amended to facilitate autonomy, democratization and professionalisation of the cooperative credit structure

b) National Policy on cooperatives has been formulated

c) A cooperative Bank of India is being set up

d) Cleansing of Balance sheets of the cooperative institutions is proposed

e) Strengthening of the resource base of institutions is being undertaken

f) Streamlining of cooperatives to facilitate supply of inputs at farmers’ doorsteps

g) Progressively increasing the quantum of refinance to cooperatives.

To strengthen the cooperatives, NABARD has setup a Cooperative Development Fund with a corpus of Rs. 10 Crore. The scope of the fund is being widened further.

The above measures incorporated in the draft National Cooperative Policy and also Draft Ninth Five Year Plan are being viewed as steps towards preparing the cooperatives for the twenty-first Century with a view to enable them to demonstrate their ability and potential as instruments for bringing about development in the areas of agriculture and rural development.
1.7 Primary Agricultural Credit Societies (PACS) – Salient Features

These are the societies having direct contact with the member agriculturists. These societies are generally organized and managed by the member borrowers. A PAC is an association of individuals particularly of limited means who join together to fulfil certain common socio-economic objectives by making contributions to the capital requirement and accepting share of both risks and benefits of the business ventures.

The above definition clearly indicates that a cooperative society is basically a business enterprise concerned mainly with raising the income of members through conducting viable economic activities. A PACS can be organized on the basis of occupational characteristics, economic conditions and developmental requirements. Based on these criteria, Primary Credit Cooperatives may be organized in more than one form depending upon the need-based activity.

The PACS have generally a small area of operation wherein all types of farmers, big, medium and small - would enroll themselves as members. The PACS advance short-term crop loans and medium-term loans for agriculture and allied activities. Its basic objective is to improve the standard of living and quality of life of its members residing in rural areas by undertaking various economic activities which help them to increase productivity and production of agricultural and allied activities
and thereby increase their income. The PACS provide agricultural credit, input and consumer goods, mobilize deposits and market outputs.

There are three types of PACS functioning at the grassroots level—Primary Agricultural Cooperative Society (PACS); Farmers Service Society (FSS) and Large Size Multipurpose Cooperative Society (LAMPS). They are categorized on the basis of area coverage, type of beneficiary, nature of credit business, nature of non-credit business and management. These are to function by integrating cooperative and business dimensions.

1.8 Reorganization of PACS - A Historical Perspective

Since their inception in 1904, the PACS have undergone a number of structural changes. The Maclagan Committee made the first attempt of reorganization in the year 1915. It classified credit societies into four categories:

a) Primary Societies

b) Cooperative Unions

b) Central cooperative banks

c) Provincial cooperative banks

The Agricultural Credit Department (ACD) of RBI in 1937 recommended the organization of multipurpose societies. The PACS were performing single-purpose activity of supplying loans to agriculture. On the recommendations of ACD the PACS were entitled to perform a number of functions other than just providing loans like providing other
inputs to agricultural sector on the same line like the states of UP, Madras, Bombay and Mysore recognized the PACS to perform multi-purpose functions.

In 1954 the All India Rural Credit Survey Committee (AIRCS) recommended an integrated approach to cooperative credit. The Committee was of the view that instead of small societies with uneconomic turnover there should be large societies operating as viable units of business so that honorary services might be replaced by competent paid personnel. The Committee suggested to reorganize the PACS in the direction of larger societies covering such areas of operation as could provide adequate business.

The report of the Ministry of Community Development and Cooperation (1959-60) said that "the functions of the village cooperatives should be multipurpose and should cover thrift, credit supplies required for agricultural production, consumer requirements and marketing. Every member should be provided these facilities irrespective of whether he/she owned any property. It is only through the provision of these facilities that persons who did not own land could, over a period of time, be made creditworthy".

In pursuance of the AIRCS Report and the Report of the Ministry of Community Development and Cooperation, schemes of reorganization were prepared by various states depending on the local conditions of the groups of villages with reasonably larger membership and share capital.
In 1958, National Development Council (NDC) had recommended radical reforms to reorganize the PACS. The NDC was of the view that for the development of cooperation as a people's movement, it was essential to organize PACS on the basis of the characteristics of the village community. Its responsibility should be to initiate the socio-economic development of the villages in collaboration with village panchayats. The small villages having a population of 1000 may form large sized societies with the consent of concerned communities.

Government of India appointed a Work Group to consider the administrative and organizational arrangements needed for the implementation of the resolution of NDC,s suggestions. The group recommended two patterns of organization:

a) Primary credit societies were to be organised with coverage as suggested by the NDC, that is, on the basis of village community.

b) Village societies were to be organized for all other activities except credit.

For dispensation of credit, cooperative unions covering a compact group of villages within a radius of three miles from the headquarters and with a population of about 4000 to 5000 were recommended. In 1959 the Government of India communicated broad outlines to the State Governments to revitalize the PACS to carry out diversified activities for rural development. The outlines are as below. Cooperatives should be
organized on the basis of the village community as the primary unit. Where villages are small they could with the consent of the communities concerned be grouped together to cover a population of about 1000.

Credit Unions (only for credit purpose) covering a number of villages may be organized in special areas and special conditions. The nature of liability of the members of village societies (limited or unlimited) was a matter which should be left to the village societies for decision.

Cooperative societies must open their doors to all eligible persons. A right of appeal should be provided against reprisal by a society to admit a person as member. The primary function of a village cooperative will be the provision of short term and medium term credit, supply of agricultural and other production requirements and the marketing of agricultural produce. A large-scale program of organization of new societies and for revitalizing and re-organizing existing societies should be taken up.

V.L.Mehta Committee (1959) on cooperative credit reviewed the working of PACS and made the following recommendations to revitalize and reorganize the PACS.

a) A systematic program of rectification, consolidation and revitalization of a large number of dormant primary credit societies should be chalked out before they can be relied upon to play their role in the expansion of rural credit.
b) All societies - old and new - should be strong enough not only to function efficiently at the start but to weather the strains and difficulties which will be inevitable as they assume additional and heavier responsibilities as time progresses, that is, viable units should be

c) The cooperative aspect is as important as that of viability, no village included in a society should be at a distance of more than three or four miles to the headquarters village and the population covered should not exceed 3000.

d) The need for flexibility in the approach to the pattern of organization should not be overlooked.

e) The pattern of Government assistance should be a flexible one. The contribution of the share capital from the State should range from Rs.1000/- to Rs. 10000/- on a matching basis. A subsidy of Rs. 1200/- to be given for a period not exceeding 5 years.

During the period 1960 – 61 to 1967 – 68, there were a few major shifts in the policy regarding the size of PACS. In pursuance of the NDC resolution village societies came to be known as Service Societies.

The AIRCS committee suggested the large societies to have viable units in village areas. Mehta Committee also emphasized the viability of PACS. A viable unit was one which might be expected, within reasonable time, to render more important of the services expected by credit societies both adequately to as large number of producers as possible
without depending on financial assistance from the government except for a limited period. A viable society was expected to not only command the services of competent personnel but at the end of the stipulated period be able to meet fully the expenses incurred on such personnel as well as expenses spent on rent, audit and supervision and provide for contribution to education fund or common fund and reserves and a reasonable return on share capital.

The conference of State Ministers of Cooperation held at Hyderabad in 1964 also emphasized the viability issue and recommended that

a) Areawise standards of the quantum of business, credit and non-credit services to enable the society to attain viability have to be worked out.

b) A survey should be carried out to delimit areas within the accepted population coverage, which will ensure adequate business potential.

c) All Government assistance, mainly share capital participation, subsidies, advances for godowns etc., should be restricted to the societies selected for being developed into viable units.

Thus the recommendations highlighted the formation of viability norms by the State Governments, to locate viable and potentially viable units and to implement the program accordingly. The entire program of reorganization was to be completed by 1966-67. As a result, the number of PACS came down to 1.20 lakhs. The All India Rural Credit Review Committee also went into the question of structuring of cooperative
credit at the primary level. In the opinion of the Committee, “the success of the entire credit structure runs very much round the efficiency and the soundness at the primary level, for, the society is closest to the cultivator”. However the committee remarked that “there will be no major changes with regard to the structure”.

The National Commission on Agriculture examined the organizational structure for rural credit with reference to small and marginal farmers and suggested to establish Farmers Service Societies (FSS) for the survival of relatively large number of small and marginal cultivators and to provide for all their needs through integrated scheme of credit service.

The group headed by Shri. T.A.Pai regarding institutional credit structure for rural areas felt that only a viable, multipurpose, professionally managed cooperative society organized on the lines of FSS as recommended by the National Commission on Agriculture, would fulfil the requirements of the rural areas.

An Expert Committee (Bawa Committee) was appointed by Government of India for suggesting an appropriate cooperative institutional framework for the tribal areas. The Committee suggested Large Sized Multi-purpose Cooperatives (LAMPS).

In pursuance of the Working Group on Cooperation for the Fifth Five-Year Plan, the reorganization plan for PACS was implemented by the State Governments. However, there was no uniformity among them. The
Committee to Review Arrangement for Institutional Credit for Agricultural and Rural Development (CRAFICARD) urged a time bound program duly supported by technical assistance from State Governments, and where necessary by financial and from SCBs / CCBs and State Governments to vitalize and develop the reorganized societies so that they could evolve themselves into the pattern of FSS in regard to services and operations.

1.9 **Business Development Plan (BDP)**

The Agricultural Credit Review Committee in 1989 exposed the weaknesses of cooperative credit structure, particularly the qualitative aspect of the working of PACS. The Committee recommended, besides other things, a Business Development Plan (BDP) to revitalize and strengthen PACS. BDP is a rational process of deciding the objectives of a cooperative society in the light of its strengths and weaknesses as well as business prospects and threats of its area of operation and selecting a suitable line of action in order to achieve the objectives. It is prepared well in advance for a period ranging from one year to five years.

The Pant Committee (1990) and Sankaran Committee (1991) recommended specific lines of actions so that during the Eighth Five Year Plan all PACS are covered under the program of BDP and are enabled to emerge as self-restraint and autonomous institutions. The BDP is launched in each and every PACS in the Country under a phased program so that these institutions are enabled to emerge as self-reliant
and autonomous organizations. In 1992 the Banking Commission in its report stressed the need to strengthen the PACS. The commission stated that "the structure of banking institutions in the rural sector should be improved by strengthening the PACS in such a way that they can provide adequate credit and develop the banking and closely allied services".

During the Ninth Plan it is proposed to convert PACS into profitable institutions on the lines of BDP for remunerative development of resources of SCBs and DCCBs. NABARD has decided to liberalize the norms for organizing cooperatives to generate 8 - 9 million employment opportunities per year. Emphasis is proposed to be given to non-farm activities in which the cooperative credit institutions can play a significant role by sanctioning loans for various economic activities and projects. Involvement of SHGs in cooperative has been proposed. The cooperative law is likely to be changed by the State Governments in the framework of Chowdary Brahma Perkash Committee recommendations.

The PACS have undergone many structural changes. Since their inception, the main thrust of the program was to reorganize PACS into viable units by amalgamation / liquidation of weak units, and to organize FSS, LAMPS and BDP.

1.10 Present PACS Scenario – An overview

The PACS, FSS and LAMPS are the grassroot level organizations. The PACS constitute the largest number of village level institutions in India numbering 93,278 as on March 1998-99. The number and
quantum of business of PACS has shown a steady progress in the past one-decade. This is evident especially during post-economic reform period. Significant growth rates could be observed regarding the reserves (36.35 percent), deposits (21.40 percent) and advances (23.16 percent) during the reform period.

Quantitatively speaking the performance of PACS is quite impressive. The villages covered by them in 1998-99 were 100 percent, comprising 67 percent of the rural households. The total membership rose to 93.197 million. The total share capital has reached Rs. 26,287.7 million and total deposits to Rs. 67,299.7 million. The all-India position of PACS has shown satisfactory results with 64.3 percent of them reported to be in the viable category. The government's contribution to paid-up share capital of PACS was less than 15 percent. The relative position was highest in Sikkim (76.92 percent) and the lowest in Maharastra (2.71 percent). The percentage of overdues to demand in PACS was 33.6 percent, showing divergent trends across the states. The all- India profit earning position of PACS was reported to be 44 percent. This varied from less than 12 percent in Pondichery to more than 55 percent in Himachal Pradesh.

On the basis of key indicators of performance, PACS in States have been classified into three categories, viz., high, medium and low. On these criteria PACS in Kerala have emerged on the top and those in Chandigarh remained at the bottom. Generally speaking, the cooperative
credit sector is underdeveloped in the eastern and northeastern states of the country.

1.11

Karnataka is one of the few states where cooperative movement has gained considerable progress. Indeed the first PACS in the country was established in 1905 in Kanaginhal village in Dharwad district of the State. The country’s first farmer’s service cooperative society was established at Bidadi village in Bangalore rural district in 1973.

Karnataka has a widespread network of 26,048 cooperative institutions serving various sectors of the state’s economy. The Government holds a substantial share, i.e., about one-third of the total share capital. The cooperatives working under profits constitute about 48%, those under loss 28% and with breakeven 14%. Moreover, cooperatives have been reported to be successful in districts like Managalore, Udupi in South Canara, Karwar in North Canara and Kodagu, while the movement is rather weak in Gulgarga and Raichur districts. In Karnataka, production credit requirements (ST and MT loans) are channeled through three-tier structure comprising Karnataka State Cooperative Bank (State Apex Bank), 19 DCCBs, and 4437 PACS at the village level. Refinancing facilities are available from NABARD for the state cooperative institutions. Karnataka State Government has drafted the amendments to the Karnataka State Cooperative Societies Act 1959. The proposed amendments have been formulated adopting the special
features of the Model Cooperative Act as recommended by Chi. Brahman Perkash Committee. The name of the proposed new Act is Karnataka Souharda Sahakari Act 2000.

The special features of the Act are as follows:

The procedure for registration of a new cooperative is simplified and all restrictions by way of area of cooperation, economic viability, etc., are removed.

The Model Act gives no rule making power to the government. The law itself lays down the broad parameters necessarily to be observed by cooperatives and leaves all other matters relating to constitution, management and business of the society to be decided in accordance with its bye-laws.

The Model Act gives no power to the Registrar or government to issue orders for any of the following in a cooperative.

a) Supersession of the Board of Directors
b) Compulsory amalgamation or division of societies
c) Compulsory amendment of bye-laws
d) Veto/Rescind/Annul the resolution
e) Issue of directives

Cooperative Federation / Unions are to assume greater responsibility towards the member cooperatives and in particular to ensure regular conduct of elections to the Board of Management and timely conduct of annual audit of accounts.
The role of the Registrar under the Model Act has been confined to the registration and liquidation of cooperatives, conduct of enquiry and in the case of default in the conduct of elections, audit and convening of general body meeting.

The Model Act prohibits cooperatives from accepting funds from the Government by way of equity. To ensure the character of cooperatives as a member user organization, special obligations have been imposed on members. Board of Directors is made accountable for timely conduct of elections, regular convening of meetings of the managing committee and the general body, for participation therein and for the timely conduct of the audit of the books of accounts. The Model act prohibits officers of the government to work in a cooperative. It also provides for the constitution of cooperative Tribunals for settlement of disputes including appeals on matters relating to constitution, management and business of a cooperative and to take cognizance of any offence under the Act.

1.12 Statement of the Problem

Cooperative undertakings have long been accepted as an alternative to the private and public sector enterprises in India in organizing key economic activities, especially where people of small means are involved (Cowda 1994). The PACS form the basic edifice on which the entire short-term and medium term cooperative credit system is built. These societies have direct contact with the member
agriculturists. In the year ending 2000, there were 4437 PACS (representing close to 50% of the cooperative societies) covering the largest membership of 5.81 lakhs. Hence it would not be an exaggeration to state that the success of the cooperative movement in general and credit structure in particular depends to a very large extent on the success of the PACS.

Cooperatives have an important role to play in the process of economic development of India. But they have not been quite successful in accomplishing the objectives for which they have been established. The main problem encountered by PACS for a long time is their non-viability due to the interplay of several factors. The cooperatives under liquidation represent as high as 22% of the existing cooperatives.

Considering the commitment and interest of the state in the development of such institutions and the outlay on promoting such institutions, it is very important to take all measures a to avoid the occurrence of the inevitable act of closing down a cooperative.

Though PACS have made a substantial progress in providing credit during the last few decades and have assumed great importance not merely because of their number, network and involvement of the government in their activities, the doubts are raised about the efficient functioning of the PACS. The most serious problems faced by PACS are a) low rate of recovery and b) high rate of liquidation.
The available studies concentrate only on certain aspects of PACS leaving unexplained the important aspect of economic viability. The studies on PACS are not only very few but also far between. Hence the present study is designed to fill the said research lacunae. More specifically, the study aims at evaluating the economic performance of PACS in Karnataka. The present study, it is hoped, would help formulate a workable model for strengthening the PACS and improving their performance in the State. The study is also justified on the ground that there exists a wide gap between evaluation of mere quantitative performance and that of qualitative evaluation of both the physical and financial performance from the viability standpoint.

The present study aims to evaluate the economic performance of PACS in Karnataka between the years 1986 - 2000. During these years government instead of encouraging opening more number of PACS has given importance to strengthening the existing ones and makes them economically viable.

1.13 Objectives of the Study

Against this backdrop, the present study has the following specific objectives:

a) To analyse the growth of PACS,

b) To evaluate the performance of PACS,

c) To examine the causes for economic non-viability of PACS,

d) To document the perceptions of members about functioning of PACS,
e) To develop a viability model for strengthening of PACS.

1.14 Hypotheses

To serve as a basis for investigation with the above-mentioned objectives, the following *priori expectations* of outcomes were hypothesized:

1. The performance of select PACS in the study area was uniform.
2. The overdues of PACS have no influence on their performance.
3. The perception of members about the functioning of PACS is not encouraging.
4. Assumed variables in the model have direct bearing on the viability of PACS.

1.15 Scope and significance of the study

The aim of the present study is to develop a system of early warning indicators of non-viability and to identify the factors that determine the performance of PACS, so that timely corrective action can be taken by the appropriate authorities. Hence, the study is confined to PACS which directly influence the various economic activities in rural areas covering cross sections of the rural people. Cooperatives are generally governed by the state cooperative legislation and the state plays a decisive role in the performance of the cooperatives. This is particularly true in the case of cooperatives rather than in any other type of organization, for, the state also has a stake in the cooperatives in the form of share capital and investments. It has also been observed that in
many states, the management of cooperatives has been taken over by a single order or ordinance. This change in the management of the cooperatives would also influence the sample to a considerable extent. It was therefore decided to confine the study to a single state, so that such extraneous considerations, which may affect the sample, can be isolated.

The provision of inputs is a prerequisite for speedy agricultural development. Credit is one of the major inputs in increasing agricultural production and incomes of farmers. The cooperatives account for a lion share in the supply of total agricultural credit in India. In the light of the above, the study of the PACS assumes paramount importance. The findings of the study, it is hoped, would be quite useful for policy makers, planners, cooperators, administrators, academicians, researchers and development functionaries in the area to undertake suitable modifications for the healthy functioning of PACS.

1.16 Limitations of the study

Karnataka state has 4437 PACS spread all over the state. These societies fall under different agro-climatic zones with varied physical and socio-economic characteristics. The size of membership in PACS as well as the range of operations varies from one PACS to another. There are some PACS, which combine banking with trading activities. The PACS thus exhibit heterogeneous characteristics with varying degrees of financial viability to undertake the assigned functions. Hence, there is a limitation in extensively generalizing the findings of the study to the
PACS in all the districts of the state. The study was conducted subsequent to the implementation of Business Development Plans (BDP) in select PACS, which concentrate mainly on credit and trading activities. However, the other areas such as governance of PACS, management, manpower development, marketing strategies etc., could not be covered in the present study due to paucity of time and resources at the disposal of the researcher.

The study was developed on the post-facto-appraisal design. Though sufficient time and care has been taken to collect the most reliable data by the researcher herself, the memory bias on part of the respondents cannot be ruled out completely.

1.17 Plan of the Thesis

For analytical convenience and to facilitate easy review of the contents, the thesis is systematically organized into six chapters. The first chapter provides the introduction including the background information on cooperation; reports of various committees; cooperative legislations; statement of the problem and; the objectives, hypotheses, scope and limitations of the study. The second chapter deals with review of available literature on different facets of PACS and their functioning. The third chapter deals with methodology of research including the location of the study area, sample design, database and the statistical techniques used in the present study.
The fourth and fifth chapters present and discuss the major findings respectively of the study. The sixth chapter presents the summary and conclusions of the study as well as the policy implications and avenues for further research.