CHAPTER - II
CONCEPTUAL CLARIFICATION OF AGRICULTURE AND COOPERATIVES AND A BRIEF REVIEW OF LITERATURE
CHAPTER – II

CONCEPTUAL CLARIFICATION OF AGRICULTURE AND COOPERATIVES AND A BRIEF REVIEW OF LITERATURE

This chapter presents two sections. The first section concentrates on the conceptual clarification relating to agriculture and cooperatives and the section-ii gives brief review relating to the cooperative banking in the country in general and the Karnataka State in particular.

Section-1: Conceptual Clarification of Agriculture and Cooperatives:

*The spread of co-operation would provide the best and the most lasting solution for the problems of agricultural credit in particular and those of the rural economy in general.*

Gadgil Committee.

That agricultural development should receive the foremost attention in primary-producing countries needs no emphasis. However, this is frequently not the conviction of national leaders of these countries. "Desire for self-sufficiency or military power, national pride or a purely romantic association of manufacture with affluence-these and other non-economic motivations frequently result in an almost contemptuous attitude towards farming and in the glorification of gigantic industrial or public utility projects."\(^1\) There is a predisposition in much popular discourse and even in some economic writings to identify economic development with large-scale industrialization and relegate by implication, if not explicitly, agriculture to a secondary position. This identification is based on two observations, namely, that in most countries with low levels of income *per capita*, agricultural activity predominates among economic activities; and within a country, the *per capita* income in agriculture is less than in industry. Granting that these observations are broadly correct, even then, it does not

\(^{1}\) Norman S. Buchanan and Howard Ellis; *Approaches to Economic Development*, The Twentieth Century Fund, New York 1955, p. 259.
follow that agriculture is inherently inferior to industry as a growth agent.

2.1a A Case for Agricultural Development:

It may be noted here that primary production by itself does not constitute a cause of poverty. Countries are generally found to be poor not because they are predominantly agricultural but because their agriculture is backward. Agriculture cannot be equated with poverty, for some of the predominantly agricultural areas like Nevada in United States, New Zealand, Australia, Denmark and Argentina are wealthy agricultural economies. Again, prosperity and industrialization are not always closely related.

There are many comparatively poor industrialised areas, including Hongkong, Italy and indeed some parts of India and Pakistan. The advanced industrialised countries were already relatively prosperous while still predominantly agricultural. Thus there is nothing inherent in agriculture as to make it an inferior sector of income and employment. Further, as rightly stressed by Prof. Kaldor "Economic growth requires a balanced expansion of various sectors of the economy and if the expansion potential in some crucial sectors (like agriculture) is low or non-existent, the expansion potential in other sectors cannot become effective. This is especially true of the critical division between industry and agriculture." The growth of industrial production necessarily presupposes the growth of agricultural production. Agriculture has to meet the increased demands for food, raw materials and supply of labour which arise from the growth of industry. Further, an environment of rising real incomes in agriculture,

1 Meir and Baldwin, Ecological Development; Theory, History and Policy p. 482.
2 Bauer, P. T., Indian Economic Policy and Development.
 rooted in increased productivity, is necessary to provide stimulus to the expansion of industrial production. In turn industry provides the means for raising the productivity of agriculture and transforming it from a way of life into a commercial activity. So proper planning can help the two sectors become complementary to each other at each stage of development, and thus aid the acceleration of balanced economic growth. A "balanced growth" is needed in the sense of simultaneous efforts to promote agricultural and industrial development. No doubt, there are severe limitations on the capacity of an underdeveloped country to do everything at once. But it is precisely this consideration which underscores the importance of developing agriculture in such a way as to both minimize its demands upon resources most needed for industrial development and maximize its net contribution to the capital required for general economic growth.

2.1b. Need for Agricultural Development in India:

The strategy of development depends to a large extent on the factor endowments and skills and the stage of economic development of the country. At the present stage of Indian economic development, agriculture should receive priority for more than one reason. It has to meet the increased demand for food of the rapidly growing population. As revealed by the 1961 Census, India’s population has increased to a total of 438 million. This means that in the past ten years population has increased by 76 million people-almost as many as in the preceding two decades. During the period 1952-54 to 1960-61 food production in India has increased at an annual rate of only 2.4 per cent as against 3 to 4 per cent increase in many Asian countries. Population in India has increased during the period at an annual rate of 2.1 per cent. The per capita increase in food production during the period is less than one-half per cent per annum. Such low
rates of increase if allowed to persist would lead to the continuation of the present low levels of consumption. The *per capita* consumption of food in terms of calories and proteins during 1959-61 was about 2060 calories and 55.6 grams per day as against the average *per capita* requirements of 2,300 calories and 62 grams of proteins per day. According to Dr. Sukhatma at least one in every four, and probably one in every three of India's population, are under nourished. Though his statement refers to the years 1958-60, it is still true of the current situation in view of the stagnation in agricultural production and the growth of population in recent years.

The predominance of agricultural sector in India is unquestioned either on the basis of numbers employed or income originated. According to the 1961 Census, 72 per cent of the workers are engaged in agricultural activities or what is called "the primary sector". Workers in the agricultural sector have constituted more than 70 per cent of the total working force throughout the present century. This employment pattern is likely to continue for some time to come in view of limited capacity of the non-agricultural sectors to absorb even the new entrants to the labour force though there is a shift of the employment from the production sector to the service sector in the liberalization regime.

Since a large number of workers are employed in agriculture, the productivity of persons so employed assumes critical importance. Agricultural productivity in India is very low relative to the other sectors. Labour productivity in agriculture is only about one-third of the productivity in manufacturing. Low labour productivity in agriculture pulls down the importance of the sector in income terms in comparison with its importance in employment terms. Agriculture, which employs about 69 of the total
work force, contributes only about 45 per cent of the net national income. However, agriculture still continues to be the predominant sector of Indian economy. Its pace of advance is, therefore, the most dominant factor in the overall growth of the economy.

In view of the critical importance of agriculture, agricultural development should receive the highest priority during the implementation of the Five-Year Plans. High priority to agriculture is often interpreted to mean a significant diversion of investment resources to agriculture from other sectors. But in the context of the need for "balanced growth", such a diversion is neither desirable nor essential.

Attention may be drawn in this connection to a fundamental feature of agricultural growth which distinguishes it significantly from growth in other sectors. The incremental capital output ratio in agriculture in the less developed countries is much lower than in the other sectors and is significantly lower than in the agriculture of industrially-developed countries. In the less developed countries yields can be raised substantially without much basic capital investment by the assimilation and wide application of the existing knowledge. This requires current inputs--of improved seeds, fertilizers and knowledge (modern techniques) in general--and they can lead to higher yields in a short time. Except for chemical fertilizers, they do not call for heavy investments, and even in the case of fertilizers the investments are really in the industrial sector (destined for use in agriculture). Thus while it is necessary to allocate the maximum necessary funds for agriculture, the development of other sectors will exercise an equal, if not, greater compulsion to deploy funds. In this context, it may be more appropriate to interpret priority as indicating the need for devoting greater

attention to the fuller and more efficient utilisation of the existing resources in the agricultural sector.

A substantial rate of increase in agricultural production can be achieved largely through the more effective use of resources already existing in the agricultural sector and with, only modest demands upon the scarce resources of high opportunity cost which are indispensable for industrial development. This proposition is essentially an empirical generalization.

Considerable support for the proposition is provided by the experience of countries in North America and Western Europe that have been successful in increasing agricultural productivity. More pertinent, however, is the historical experience of Japan. Comparing farm output and labour inputs during the years 1881-90 with the decade 1911-20, labour productivity in Japanese agriculture approximately doubled over a span of 30 years. Technological progress was the decisive factor responsible for such an increase in productivity. The three key elements in this economic transformation were (1) agricultural research leading to the development and selection of higher yielding varieties; (2) increased application of fertilizers and 3) activities that facilitated the wide use of the most productive plant varieties and of improved farm practices.\(^6\)

The design and implementation of a rational programme of agricultural development, however, is by no means a simple task. Although the experience of Japan, Taiwan, Denmark and other countries that have made notable progress in agriculture throws light on the type of approach that is likely to yield high returns, their

experience can only be suggestive. Each country will have to adopt a strategy of
development that is best suited to its resource endowments.

In India, there exists at present a large “excess capacity” in agriculture—the excess
capacity refers to the wide gap that exists at present between the actual and potential
yields in agriculture and the under utilisation of the existing assets. The contribution
that improved techniques and improved farm practices can make to higher yields is
indeed vast. It is well known that in India the pressure of population on land is very
high. This should have led to more intensive cultivation practices in view of the limited
scope that exists at present for extensive cultivation. But paradoxically on the great
majority of farms one finds today a low level of husbandry practices. Fields are often
weedy, planting is haphazard with respect to timing, spacing, depth and plant species
combinations, and seed bed preparation is usually poor. Such soil and water conserving
practices as contour ploughing and planting, terracing etc. are very rare. Though
virtually all the land is deficient in nitrogen, full use is not made of farmyard manure
and plant wastes. The under-utilisation of the existing capacity is best illustrated by
extent of the use of irrigation potential in India. Out of the irrigation potential created
by major and medium irrigation works during that last five decades, nearly 30 per cent
remained unutilised. The position is very unsatisfactory in case of minor irrigation
works. The Ford Foundation Agricultural Team reports that India gets only one-fifth
to one-fourth increase in crop yields on irrigated lands as compared to non irrigated
lands, and only about 12 per cent of irrigated acreage grows more than one irrigated
crop per year. This is a clear example of waste of resources. In the light of the situation

7 Ervin, J. Long, “The Economics of Land Reform in Underdeveloped Countries” in Viewpoints on Economic
The Team recommends: “India can make greater and more immediate gains in food production by intensifying expenditure of time and effort on better management of farms than by constructing large-scale irrigation projects.”

The facilities provided by costly major irrigation projects with long gestation periods should be fully made use of by developing minor irrigation channels. The construction of a comprehensive irrigation network channelling water to each village requires different type of planning and the diversion of water to each individual farm may be more efficiently performed at the village level by the co-operative efforts of the farmers.

The absence of intensive cultivation practices may be illustrated by the comparative consumption of fertilizers. In India, even now the consumption of chemical fertilizers per hectare is very much low compared to Korea, Taiwan and Japan. The present level of fertilizer consumption per hectare in India is only one-seventh of the world average. This reveals that even now we are not in a position to use sufficient fertilizer in our agricultural fields. However, with in the country, there is a regional disparity in terms of the usage of fertilizers. For example, the states like Punjab, Haryana, parts of UP, TN and AP are very high. Because one feels that they are over exploiting their soils.

2.1. c Yields in India:

This is, however, no cause for pessimism as to the possibilities of expanding production with improved methods of cultivation and an increased use of improved agricultural inputs yields can be raised substantially from the present low levels.
The gap between actual and potential output may be indicated by the yield rates in India as compared to some developing countries. Average rice yield per hectare in India is estimated at 1450 Kg as against 2690 Kg in Mainland China, 3120 Kg in Taiwan, 4910 Kg in Japan and 6390 Kg in Australia. Similarly wheat yield in India was only 780 Kg per hectare as against 2360 Kg in Japan, 2600 Kg in France, 1430 Kg in U. A. and 3620 Kg in U. K.

The low crop yields in India are indicative of the vast potential that exists for using the yields. This is further confirmed by the inter-State differences in yield rates. The all India average yield of rice for example was 1450 kgs. per ha., whereas the State averages varied from 489 in Orissa to 1375 in Tamilnadu. As far as wheat is concerned, against the all India average yield of 780 KGs. per acre, the State averages varied widely from 200 kgs. in Mysore to over 800 to 900 kgs. in Punjab.

There is hardly any doubt, therefore, that the agricultural economy of the country is at present working much below its full capacity. A break through in agriculture is possible through advancements in the techniques of production. Technical advance may come through (1) Scientific improvements and (2) improved methods of husbandry. Scientific improvements include improved seeds and fertilizers, soil science and problems of soil fertility, control of plant pests and diseases. Improved methods over all husbandry operations: methods of cultivation, drainage, irrigation and use of manures and fertilizers to the optimum level.
2.1d. Technical Research:

These technical problems of agriculture have been the subject of research and experiment for a number of years. Though we can expect further advances in agricultural research, enough technical know how is now available to show what it can be done to raise agricultural yields over the present low levels. The problem is to secure the adoption of the necessary measures by the general mass of peasant cultivators. The producer must be provided with the motivations and instruments needed to make additional efforts for increased production. It is necessary to reform the present institutional framework to remove all sources of disincentive and obstacles for agricultural progress.

2.1e. The Problem of Incentives:

The most important problem of institutional planning relates to the problem of land tenure and settlement. If incentives exist, farmers would move forward and use the new techniques and facilities provided. But the incentives do not seem to be there. The agrarian system in India has been a major source of disincentive and a powerful obstacle to economic development. Nearly half of the cultivated land in India prior to Independence, was operated under a sort of “semi feudal” and inefficient land tenure system; generally referred to as the Zamindari system. In the rest of India where the Ryotwari system of tenure prevailed, in many cases there had been a separation of ownership from cultivation, insecurity of tenure, high rents and in many instances rack renting, all leading to low productivity. Together with divorce between use and ownership of land, the small size of the farm and excessive fragmentation made the solution of agricultural problems more difficult. Surplus production if any over the bare necessities of the tiller was expropriated by the agricultural and professional money
Enders and traders. However, in the recent years, especially from the liberalization regime we could come out from these problem, but still the shadow of the above is still bothering the Indian farming system and therefore, low productivity and insecurity of the farmers.

\textbf{1.1f. Land Reforms in India:}

During the past six decades the States of India have introduced many land reform measures with a view to remove such impediments to increase the agricultural production as arise from the agrarian structure inherited from the past and to eliminate all elements of exploitation and social injustice within the agrarian system. The main aspects of the land reforms introduced in the various States are: (1) Abolition of intermediaries, (2) Regulation of landlord tenant system including fixation of fair rent, security of tenure for the tenant and conferring ownership rights on the tenants, (3) Redistribution of land by placing ceilings upon the size of existing holdings and future acquisition of land, (4) Consolidation of scattered holdings into compact blocks and (5) encouragement of joint co-operative farming on voluntary basis.

It is generally agreed that misdistribution of land and defective tenurial relations produce adverse effects not only in the social but also in the economic sphere. However, some economists have started doubting the beneficial effects of land reforms. Some of the land reform measures like ceiling on land holdings, it is argued, will affect adversely agricultural productivity, and thus aggravate agricultural poverty, rather than relieve it. The discrimination shown against land owners in favour of peasant proprietors, it is argued, will adversely affect capital accumulation.\textsuperscript{9} But experience of

\textsuperscript{9} P. T. Bauer: \textit{Indian Economic Policy and Development}. 

44
Egypt, Mexico and other countries reveal that redistribution of land if accompanied by measures for strengthening co-operatives, providing credit and supplying technical assistance is more likely to raise than to decrease agricultural production. Similarly, distribution of land will have no adverse effects on capital accumulation where there are strong co-operatives which mobilize the small savings of the peasants and divert them to productive channels.

The economic and social gains from land reforms, as they have been carried out in India are not substantial. Though there has been some progress much remains to be done. Due to defective laws and their ineffective implementation, there were many shortcomings. Substantial areas in some regions of the country are still cultivated through informal crop sharing arrangements; there were resentments of tenants through the device of voluntary surrenders; the fair rent provisions were not enforced effectively in all cases; and the ceiling on land holdings had been evaded through the well known vice of transfers and partitions among the family members and not much land was made available for distribution to the landless. Consequently there still exist in many cases such features like separation of ownership from cultivation, insecurity of tenure, high rents, all leading to low productivity.

### Role of Co-operatives in Agrarian Reform:

Since the co-operatives are built up from below and directly associate the rural population with the development process, they should be considered as having a vital role to play in programmes of agrarian reform. They should be used for channelling information among agriculturists and for making the purposes, principles and methods

---

of the land reforms understood. Where appropriate suitable forms of land use should be encouraged. Their activities may range from the organisation of certain services and arming operations in common to the complete pooling of land, labour and equipment. Consolidation of fragmented land holdings on a co-operative basis may be encouraged in those States where it has not been attempted so far. With a view to improving employment opportunities, working conditions and income, landless agricultural workers should be encouraged and assisted to organise themselves into labour contracting co-operatives. Particular attention needs to be paid to the development of co-operative credit and marketing institutions as complements to the agrarian reforms. They will be of immense help not only to the beneficiaries of land reforms but to all those small farmers who want to help themselves against the exploitation of the middlemen, whether money-lenders, landlords, or traders.

1h. Marketing:

There are many exploitative features in Indian agricultural marketing system which are a source of disincentive for the Indian farmer. Sales to middlemen at the assembling markets is subject to various malpractices such as (1) manipulation of weights and scales against the seller; (2) arbitrary deduction under various pretexts; (3) discriminatory marketing charges etc. Nearly about 50 per cent of the cultivators, even now, do not take their produce to the assembling centres. Instead they sell the produce to local merchants. The predominance of village sales is partly due to the ignorance of the farmer regarding market outlets and prices, partly due to the malpractices in the assembling markets and largely due to the dependence of the cultivator for credit on the village money-lender-cum-trader. When the peasant is in debt to the merchant he
pledges his produce in advance and he has no choice but to sell the produce to his creditor. In all such cases, the bargaining position of the farmer is very weak and he gets a very low price for his produce. Marketing co-operatives can eliminate some of these abuses. They provide to the grower every incentive not only to produce but to produce crops of good quality.

11. Credit:

If institutional credit facilities are either limited or absent and if the middleman is banker as well as a seller, the greatest exploitation of the farmer takes place. Hence organisation and development of co-operative credit societies should be regarded as one of the first steps to be taken in any plan for institutional reform. Credit is one of the most urgent needs of the Indian farmer and without proper institutional facilities for providing credit, other services like co-operative marketing cannot develop very far.

Similarly in the field of agricultural processing co-operatives can play a very significant and useful role. Most field crops pass through a number of processes like grading, cleaning, packing, decorating curing, crushing, milling etc. Each of these processes carries a margin of profit and the more processes which a co-operative system can control, the greater the return which it ultimately makes to the producer.

11. Human Factor in Agricultural Development:

From the foregoing account it would appear that ultimately agricultural development depends not so much on State action as on the action of individual cultivator. State action, in the main, creates possibilities of wider, more intensive or better use of land and other natural resources; realizing these possibilities in fact is a
matter mostly for action of individual cultivator. Each of India’s millions of agricultural holdings is an autonomous unit of production and must remain so. Production in agriculture will therefore continue to be the ultimate and individual responsibility of all the peasants in the country. It will inevitably be conditioned by their inner motivations and attitudes, most of which are still rooted in or identified with religious belief and an obsolete tradition, are not integrated in a common value system, and are largely paralysed by limited aspirations. In these circumstances introduction of new techniques and institutions will help only to a limited extent. There will not be any spectacular improvement in the basic situation. The fundamental problem of increasing the economic effectiveness and efficiency with which cultivation is conducted may still remain. Development will not become a self-generating process with its own momentum unless the value system of the community, and the social structure containing it, are first altered and adjusted to be in harmony with the socio-economic objectives of planning.\textsuperscript{11} The development problems of rural India must be attacked on that deeper level of human attitudes and social relations. The human factor in development thus becomes of paramount importance. Any plan of agricultural development should centre round the human factor namely the cultivator.\textsuperscript{12} It should aim at changing the cultivator into an active partner in important decision making on all levels of farm and business management and thus assure his participation in development planning. This is most essential since no plan of agriculture can succeed without the willing co-operation of the people.


\textsuperscript{12} For details, See Jocoby Erich, H, “Institutional Planning as part of Agricultural Planning” in the \textit{Indian Journal of Agricultural Economics}, April-June, 1964.
1.1. People’s Participation:

The first step in ensuring the willing co-operation of the people is to encourage the right sort of leadership among the people themselves and improving the existing popular institutions through which they can function. People’s participation can come only through the gradual development of their faith in the efficiency of their own co-operative action in solving their local problems. Such participation is possible through the organisation of co-operative institutions and other democratic institutions. Thanks to the Community Development and National Extension Services, a desire for better things has been created in the minds of the villagers. As the village people become aware of the new opportunities for self-improvement through, for instance, the Panchayat Raj scheme now in operation in most of the States, they will find from experience that they can do more things effectively in organized groups than what they can do as individuals. The present need is to help the people learn to imbibe the principle of working together for development. Obviously this can be brought about only through encouragement of co-operatives and other democratic institutions. Margaret Digby rightly says that “if there is to be advance, the farmer must become more and not less of a person. He can do so by extending his interest through co-operatives into the fields once exclusively occupied by merchant, banker and technical specialist.”


Digby Margaret, Co-operatives and Land Use, F.A.O., Rome, p. 108.
1k. Potentialities of the Co-operative Movement:

It is no exaggeration to say that "the most useful tool in rural development is the co-operative. It can at the same time function as an economic system and as a cradle for the growth of social attribute's essential to development of a community, such as self-help and democratic organisation and management of affairs." The co-operative principle, in its varying forms, is capable of adaptation for finding a solution to many problems of rural life. The co-operatives can be of immense help in the physical, the institutional and the social aspects of agricultural planning. They can bring the technical knowledge to the doors of the individual farmers and help to increase the effectiveness of agricultural extension work. With enough Government understanding and assistance, co-operatives can play a substantial part in administering credit, ensuring supplies of farm requisites, marketing of farm produce and advancing peasants confidence in new knowledge. Similarly in the filed of tenancy reforms, co-operatives can help in their effective implementation by disseminating information about them. Not the last of the advantages which these co-operatives have is their established reputation within the community. Since they are made up of local people with a demonstrated continuing stake in the community, farmers are more likely to accept their information than they might that reaching them through special information media or newly formed organizations. The co-operatives are the most suitable medium for the democratisation of economic planning. For "the co-operative society provides the local unit which can fulfill the dual function of educating the public opinion in favour of a


plan and of executing it". An I.L.O. Report states that "co-operation being an organisation built up from below, is the only one capable, by grouping in federated organisations units of personal and family character which are at the base of economic and social life; both in towns and the country, to link them up organically with any plan embracing the whole of general economy". Thus, in the formulation and implementation of agricultural development plans co-operation and organization are imperatively needed. The scattered agricultural producers should be organised into a total integrated co-operative system. Then only effective planning of agriculture is possible.

However, these are potentialities rather than achievements. Indeed, the gap between potentialities and achievements has lied to much anxious thought of recent years among those who have faith in the economic possibilities of co-operatives accordingly, especially during the last decade, co-operative policy underwent substantial changes in position on important matters. This is best illustrated by the history of credit co-operatives-the oldest and the most predominant form of co-operation in India.

2.11. Agricultural Credit Co-operatives in India:

In India co-operation struck its first roots in the form of credit. Credit societies still dominate the picture, agricultural credit societies far exceeding, both in number and membership, though not in working capital, all other types of co-operative organisation. In the first quarter of the present century and throughout the period of the Great Depression the cultivator was saddled with heavy burden of debt, and it is to free the

---

cultivator from the bonds of debt and usury the co-operative credit societies first came to be developed in India. However, as will be seen in a subsequent chapter, the debt burden tended to decline owing to the prosperous agricultural situation following the Second World War period. Its effects were also noticeable in the working of the co-operative credit societies. For instance, since the outbreak of the Second World War and upto about 1945, the general tendency was for a substantial decrease in the outstanding debts and in overdues, a glut of funds with the financing banks, a fall in the demand for fresh finance and, in the case of land mortgage banks, appreciable advance repayment of loans.

Since 1945, these trends have been reversed and instead there is a tendency today for fresh borrowing as well as out standings to increase rapidly, thereby leading to a situation in which the supply of loanable funds available with the co-operative banks and the societies falls considerably short of the demands on them. Since 1951 the gap between the requirements of cultivators for credit and the resources at the disposal of the co-operatives to supply that credit has been growing in the context of planned agricultural development envisaged in the Five-Year Plans.

The Government, through the Reserve Bank is pumping financial assistance to the co-operatives to facilitate liberal loan policies on their part. But paradoxically the credit limits sanctioned by the Reserve Bank of India are not being fully drawn by the co-operatives. This sounds astonishing having regard to the enormous need for credit by the farmers. One main reason for this is that the co-operative credit structure is not equal to the task of absorbing all the financial assistance offered by the Reserve Bank of India. The co-operative credit structure is weak at almost all the levels. So every effort
must be made to strengthen the financial position and improve the operational efficiency of the co-operative credit institutions to enable them to provide adequate and timely credit facilities.

Most of the difficulties which arise in the working of the credit co-operatives can be traced to the inadequate realization of the fact that their primary purpose is economic and they are intended as a better way of doing business. This aspect must always be stressed in the context of economic growth. There is much loose talk today about the social and moral virtues of co-operation without a clear understanding of its implications. The essence of co-operation is that each shall work for all and all for each in the attainment of the common good. In this sense the Movement has a greater moral element in it than the economic one. It must not, however, be conducted on purely ideological but on business lines.

No less a person than Henry Wolf, who is known for championing the cause of co-operation on orthodox lines, has emphasized the importance of operating the societies on business lines. He deprecated the tendency of people to talk mysteriously about 'co-operative spirit', about something so 'spiritual' and 'ethereal' as to defy definition.' Co-operative spirit', he said, is an excellent thing, one could heartily wish that there were more of it-more particularly in co-operative societies. But it is itself rather a product of success first attained than productive of it.

As rightly argued by Hon'ble Ramaswami Reddiyar, what is wanted in India is a form of co-operative enterprise in which the economic instincts of the individual has sufficient scope in the attainment of the common good. In other words, it has to be a

judicious combination of the best elements of joint stock commercialism and co-operative idealism. The habit of regarding the "social and moral" virtues of co-operation as goods to be purchased at the cost of economy and efficiency is a stumbling block in the way of progress and the time has come for emphasizing the business aspect of co-operation. It is a form of business, not of the capitalistic and profiteering type, but business run on honest lines governed by moral principles, but, nevertheless business in the strictest sense of the term.

Co-operation, we have noted earlier, is a masterly instrument to metamorphose a poor peasant economy into a strong and well developed one. As Europe proves, it is just the countryside where co-operation flourishes most and is widespread. Since India is mainly an agricultural country co-operation here may become the most important lever of general welfare, provided it is always kept in mind that it is a form of business, and needs to be run on efficient lines. Henry Wolf rightly remarked: "Without agriculture, co-operation would in India lose its chiefest field of action. And without co-operation, agriculture, however, well officered would lose its best instrument to work with." This statement remains true even today.

2.1m. Capital Formation and Credit in Indian Agriculture:

Capital formation, on the one hand, signifies additions to reproducible tangible wealth of the country and, on the other, measures that part of domestic national production which is retained for use in further production. Other factors remaining constant, a higher rate of growth of national product would be the result of higher rate of investment unless the increase in production follows from decline in the average capital-output ratio with constant or even lower rates of investment. The rate of capital
formation is, therefore the principal factor in the economic development of country. In a predominantly agricultural country like India, the magnitude of rural investment i.e., the net addition to the stock of capital employed in agriculture assume greater significance. An attempt is made in this section to indicate the level of private investment in agriculture and the way it is financed.

The question must now be asked as to the role of credit in rural capital formation. The Rural Debt and Investment Survey revealed that about 33 per cent of the total capital expenditure in farm business of cultivator households and about 38 per cent of that of non-cultivator households was financed through borrowings. In case of cultivator households, 43 per cent of the expenditure on purchase of land and 35 per cent of the expenditure on purchase of livestock was financed through borrowings. Even though per family borrowings exceed per family investment expenditure, savings are more dominant in investment because much of the borrowings are for current purposes either for business or household expenditure. Only about 20 per cent of the total borrowings are for meeting capital expenditure in farm business and nearly 58 per cent of the borrowings are for household expenditure. That investment in agriculture is predominantly from within the sector i.e., out of savings is further evident from the fact that the debt equity ratio is quite low in our country. In other words, the equity capital of farmers amounted to 93 per cent of the total assets. This figure excludes inter-sectoral loans. If we make allowance for them, equities in the sector as a whole would be over 96 per cent of the total value of assets including land. Owner's equity is much less in some advanced countries like U. S. A. In U. S. for example, debt as a percentage of value of land and buildings operated amounted to 19 per cent. In a sense, credit in U. S. performs the role of a catalyst, permitting dynamic entrepreneurs to acquire and
utilize resources in production on the basis of their ability to realize profits, rather than being entirely dependent on their own capital (assets) accumulated out of savings. Unfortunately in our country debt is often regarded as a necessary evil. Historically, debts have tended to accumulate during the period of the great depression and after until the Second World War period. It was this concern and also the high cost of borrowing, that led to the Rural Credit Survey. But debt in itself is not bad and borrowing as such cannot lead to indebtedness. Debts have tended to increase and became chronic not because of borrowing but because of failure to repay owing to the unproductive use of the funds borrowed. The usurious rates of interest charged by the money lenders coupled with the unproductive use of the borrowed funds made the debt burden heavy. But under the existing conditions of planned agricultural development an expanding volume of credit supply is a fundamental necessity. Credit facilities particularly institutional credits are indispensable instruments for increasing farm investments.

2.1n. Supply Aspect of Credit:

As noted earlier, self finance constitute the greatest source of capital formation in Indian agriculture, the credit system being still too undeveloped to exert its influence on finance. This is especially true of medium and long term credit facilities. Further, the little credit that is provided is not production oriented. Formulation of credit plans area-wise for promoting capital investment in agriculture is an important pre-requisite. Along with the preparation of such plans, steps must be taken to strengthen the Land mortgage Banking system so as to enable it to meet the increasing credit requirements of the farmers.
2.10. Demand aspect of Credit:

It is a well known fact that farming is subjected to a number of risks and uncertainties. This may lead to what is known as 'internal capital rationing' by the farmers. Instead of using credit for capital investment the farmers may limit investment to owned funds. This factor partly accounts for the high owners' equity in farm business in our country. Further, the rate of return on traditional forms of reproducible capital is very low so that there is little incentive to borrow for capital investment. In the absence of profitable investment opportunities for which the marginal return of capital is well above its marginal cost, the little credit that is supplied is often misused by the farmers for unproductive purposes. Only technological improvements can create new profitable investment opportunities.

2.1p. Technological Change:

Prof. Schultz has rightly pointed out that programmes designed solely to induce farmers in traditional agriculture to increase their investments in precisely the same type of agricultural factors they have been using for generations will fail; they will not be accepted by the farmers because the payoff is low. It is wrong to dub the farmer as unresponsible and un-business like. Programmes to promote capital formation in agriculture must be built on the foundation of high payoff capital items and new inputs. Innovations of high marginal productivity have to take the place of only marginally and peripherally productive alternatives available at present. And lastly, investment in social capital either by the local community or by the state has to precede any efforts to induce farmers to invest more in new forms of capital. Thus a

2.1q. Rural Debt and Credit:

"Credit is a necessity and borrowing and indebtedness are useful or dangerous in proportion not merely to the use made of the sums borrowed, but in proportion as they are the result of a prudential foresight or of necessity extraneous to the demands of agriculture."

Nicholson, Frederic\textsuperscript{22}

The Indian peasant is born in debt, lives in debt and dies in debt, according to a well-worn saying. Time was when rural debt was regarded as an unmixed evil, and a millstone round the neck of the Indian farmer. But times have changed and debt is no longer regarded as something undesirable, something which must be eliminated. The trend of thinking now is that efforts should be made for widening and strengthening rural credit (which is but another aspect of rural debt).

\textbf{4.1r. Trends of Indebtedness}\textsuperscript{23}:

It is known that during the latter part of the 19\textsuperscript{th} century there was witnessed in India the pathetic picture of agriculturists groaning almost everywhere under a heavy load of debt. The same situation continuing even now. During the 21\textsuperscript{st} century (2006) so many farmers have been committing suicide as they are not able bear the burden of debt. The causes are many and varied for such a state of affairs. The poverty of the cultivator, the easy availability of credit for unproductive purposes, the money lender and his system of usury were all responsible for the growing volume of indebtedness. The first cause explains the existence of debt, the second its volume, and the money

\textsuperscript{2} Report regarding the possibility of introducing Land and Agricultural Banks into the Madras Presidency Vol. 1, 895, Reserve Bank of India, Reprint May 1960, p. 3.

\textsuperscript{3} For a detailed treatment of the trend of indebtedness up till 1951 reference may be made to the All-India Rural Credit Survey Vol. 1; The Survey Report, Part 1 Rural Families; also Report of the Rural Banking Enquiry Committee, Government of India, Part 1, 1950, pp. 31-32 For a good summary discussion see, Panikar, P.G.K. The Burden of Debt in Indian Agriculture" in the Journal of Farm Economics Vol. 45 No.1 February 1963. But his analysis suffers from faulty inter-country comparison (See I.F.E. Vol. 46 No.1 February 1964).
lender and his system its continuance. Under these conditions debts have tended to increase and the passing of agricultural lands from the hands of the peasants to the money lenders became a common phenomenon. Under these conditions debt naturally comes to be identified with misery or catastrophe; it is not viewed as the converse side of enhanced productivity and income earning capacity.

2.1. The Post-Depression Period:

During the great depression and the following years the real burden of debt became heavier and the tragedy of foreclosures plagued thousands of farmers. Various debt relief measures were taken by provincial Governments in an attempt to remedy the situation. These measures, however, did not prove to be either adequate or effective. The root cause of the disease was rural poverty and in the absence of a comprehensive programme of rural reconstruction there seemed to be no escape from the debt burden.

2.1t. The War Period:

The period of world War II saw an improvement in the debt situation. With the turn in the tide of agricultural prices, the position of the agriculturists had improved to some extent. But the benefit was largely confined to the large and big cultivators and there was no improvement in the position of the small holder. However; there was no marked increase in the money burden of debt even on the small cultivators. At the same time the real burden of debts was reduced to a great extent as a result of the changed value of money. Further, debt accounts which appeared to have been immobile burdens during the period of the Depression had become more active during the War.

Period for all classes of cultivators.$^{26}$

1.1u. Post-War Period:

The trend of indebtedness in the period 1945-51 is not fully known for lack of appropriate data. It would, however, appear that towards the latter half of the war period, roughly after 1943-44 and upto 1946-47, costs were catching up with prices and there was an evidence of stabilization of position which meant no further rapid decrease in debt for all, and perhaps an increase in debt for some. The stabilization was disturbed by a large spurt of prices after decontrol and the agriculturist had another time in which he could improve his financial position. This was followed by another brief period of comparative stability upto 1951.$^{27}$ As the debt position has improved considerably during the post-war period, the situation did not call for any further legislative measures of debt relief.

Debt by itself is not bad and borrowing as such cannot lead to indebtedness. In the past debt has tended to increase and became chronic not because of borrowing but because of failure to repay owing to the unproductive use of the funds borrowed. Borrowing for unproductive purposes was facilitated by the easy credit provided by the money lenders. The usurious rates of interest charged by the money lenders, coupled with the unproductive use of the borrowed funds, made the debt burden heavy. It was under these conditions the usefulness of credit came to be questioned. But under present conditions of planned agricultural development, an expanding volume of credit

---

$^{26}$ From the R. C. s. C. data it appears that barring the Punjab and Pepsu region, the outstanding debt of cultivators in the extent of 80 per cent or more was of a standing of five years or less.

$^{27}$ In so far as comparisons can be ventured with the earlier material prepared by the various Provincial Banking Inquiry Committees for 1929-30 and in various independent studies thereafter, the evidence suggests that there as in general a very much lower burden of debt in 1951-52. See R.C.S. Vol. 1, The Survey Report, Part 1, p. 178.
supply is a fundamental necessity. The concept of "not free from debt" has no meaning.
for borrowing for purposes which will lead to an increase in the income flow creates its
own means of repayment and has little bearing on the problem of indebtedness. The
problem of rural credit in India at present is really that of strengthening the institutional
agencies and improve their operational efficiency. Among the institutional agencies, the
co-operative form of organisation is best suited to provide credit to the multitude of
small farmers throughout the country. Therefore, the necessary conditions, both
internal and external should be created for ensuring its success. The co-operative credit
structure should be helped to develop sufficient organisational, financial and economic
strength of its own to meet the powerful competition of private vested interests and to
expand according to the growing needs of economic development.

IV. Risk and Uncertainty in Agriculture In Relation to Credit\(^2\)\(^8\)

It is a well known fact that agriculture is subject to peculiar risks-natural,  
technical and commercial-owing to its close dependence on natural conditions and to
the characteristics of farm production and organization. And in general, the greater the
degree of risk the greater also is the uncertainty.\(^2\)\(^9\)  A useful distinction can be made
between the two concepts viz., risk and uncertainty. But in this chapter they are used
interchangably as it is adequate for the purpose. This section mainly deals with the
following problem: How do risk and uncertainty considerations affect the 'demand'
and 'supply' aspect of farm credit. It discusses the ways in which such 'risks' can be
reduced to the credit institution, to the investor in the credit institution and the borrower.

The high degree of risk associated with agricultural production impairs the

\(^1\) An abridged version of this chapter appeared in the I.J.A.E. Tan-Mar 1964.
\(^2\) For details, see Belshaw, H. The Provision of Credit with Special Reference to Agriculture, also Ray P. K.,
farmers ability to obtain credit on terms comparable to those received by his industrial or commercial cousins in urban centres. Even if he can secure adequate credit at reasonable rates the farmer may not use it because of the uncertainty as to the profitability of farm investment.

2.1w. Demand for Credit:

The risk and uncertainty factors affect the demand for credit in a number of ways. Because of the ‘inherent’ risks in farming farmers themselves find credit risky and costly and therefore severely curtail their uses of it. This accounts for the paradoxical situation that even though there is large scope for profitable application of capital in agriculture the effective demand for capital in production is not always found in the economy. However, this should not be taken to mean that agriculturists borrow very little. In fact, by borrowing excessively they expose themselves to another kind of risk. The reason why they borrow excessively is to be found in Reserve Bank’s statement that “profit in agriculture, as it is carried on in the majority of holdings in India, is more often than not a doubtful quantity. This uncertainty instead of leading to thrift and savings results in the creation of a psychology of living for the day. Debt comes to be looked upon as an ordinary condition of life and the fundamental principle that borrowings should be utilized for productive and self liquidating purposes tends to be forgotten.”
1.1x. Supply of Credit:

Risks inherent in farming influence not only the borrower but also the lender: for other things being equal, the greater the degree of risk and uncertainty involved in a given investment of resources in production the greater also is the degree or risk and uncertainty to the person who advances credit to enable production to be carried out. The lender's uncertainty may be even greater than that of the farmer; the farmer is better acquainted with the particular situation and may view technical yields, if not price prospects, with greater 'knowledge' than the lending agency. In addition the lending agency must form expectations, in respect to the honesty and integrity of its clients. Because of the risk and uncertainty involved to him, the lender will demand a high price for the use of credit. The farmer is prejudiced, not only by the losses which he may have to incur if the risks eventuate, but also by the higher price which he has to pay for loans because of their probability, whether they actually occur to him or not.

Restricted use of capital in agriculture may be due to either of two reasons. One, 'risk aversion' in the manner outlined in the demand aspect, represents the farmers' psychological discount of returns due to uncertainty. The other, termed 'capital rationing', is the inability of the borrower to obtain all of the capital funds which he might desire at 'reasonable' terms. Both these aspects are present in the Indian situation. However, their importance in restricting use of capital varies from locality to locality. Risk aversion rather than capital rationing is an important factor limiting use of credit in many backward agricultural regions.

1 For details see Heady E. O., Economics of Agricultural Production and Resource Use, p. 450.
A survey undertaken by the National Council of Applied Economic Research in one of the backward districts of Madhya Pradesh\(^1\) has revealed that the main reason for the lack of effective demand for capital in production is the unwillingness of farmers to take risks in production activity. Agricultural production depends more on nature than on farmers inputs, and since the return to each rupee spent by the farmer on production is not constant the risk of loss is an ever present fear. Most of the farmers live at subsistence level and have little or no margin to spare for investment in production. The tendency of the farmers has, therefore, always been to minimize monetary expenses connected with farming. Poverty and ignorance prevent farmers to undertake the 'risk of investment' and without taking such risk, poverty and ignorance cannot be removed.\(^2\)

On the other hand, in areas which are more commercialized capital rationing is the limiting factor of capital use in agriculture. Many Farm Management Surveys\(^3\) have revealed that the average farmer badly needs credit, but he is hardly credit worthy in the eyes of many private agencies with his small assets. This is the contradiction which retards progress in agriculture. Non-availability of credit in times of need often brings the farmer to utter ruin and destruction and knowing the predicament in which they would be thrown, the farmers have, perforce, to secure it on terms which may be very unfavourable to them. The amount advanced by the institutional agencies is so small that it cannot touch the fringe of the problem and consequently the farmers have no other source left but the mahajans to fall back upon in times of necessity.

---
\(^1\) *Rehabilitation and Development of Baste District*, N.C.E.A.R.
\(^3\) Studies it, the economics of Farm Management in West Bengal 1954-55, Government of India.
The Rural Credit Survey has revealed that more than 70 per cent of the total borrowings of the cultivators is from the Agricultural and Professional Money lenders. The credit provided by the institutional agencies is only about 7 per cent of the total borrowings by the cultivators. Though there has been some improvement in the performance of the institutional agencies in recent years, its impact on the total credit situation is not much and the private agencies still constitute a predominant source of rural credit supply. Even now rural credit falls short of the right quantity, is not of the right type and often fails to go to the right people: But the extent to which credit supply falls short of the requirements is difficult to estimate.

11. Agencies of Credit:

Private credit agencies are very unsuitable for providing credit to agriculture. The lender or money lender must 'recoup himself for heavy risks by heavy charges'. Dealing with unorganised individuals, he is not concerned with lessening risk, but with heaping up compensation. Their risks are further increased by the limited capital at their command and the restricted location of their operations. That is why the rates charged by them is 'out of all proportion to the risks inherent in farming'. Hence there is a need for institutional agencies which not only pool the risks of lenders but help farmer families to fully understand the opportunities which wise use of credit afford and in this way as well as by flexible repayment provisions minimise the risk of losses by borrowers.

The only agency which combines in itself all these functions is the cooperative agency. In their case the risks involved in any particular loan are transferred from the lender to a group of borrowers, Commercial Banks also do likewise and 'spread' the risks. The co-operative agency, however, not only reduces the risk to the lender but also
It's the risk to the borrower by making possible close supervision over the productive utilisation of the loans borrowed. The Co-operative Society concerned as it is with the interests of its members—unlike the private agencies—attempts to lessen risk rather than heap up compensation by a heavy insurance against it in the gross interest charged.

This serves to emphasize the need for strengthening and developing the co-operative credit structure. Their loan policy should be such as to lessen risk of loss for them. Besides, the societies must be strong and viable economically so that they can bear the risk 'of loss if it takes place'.

2.1z Lessening Risk to the Credit Institution:

Since a credit institution must cover itself against risk by the cost and condition of loans, it is to the interests of the borrower as well as of the investor in it, that its own risk should be reduced as far as practicable and provided against as economically as possible. Important aspects of the problem is the assessment of the value of security, supervision of the use of loan monies and provision for repayment and receipt of loan monies. The co-Operative societies should follow such criteria in their loan policy as it will raise production and promote rural betterment. By doing this they will be not only lessening 'the risk of loss' for themselves but also avoid the risk of excessive indebtedness to the borrower. The primary criteria should be repayment capacity, which implies ability to maintain assets and output and meet charges and repay a loan without reducing living standards. This can only be satisfied if credit is given on the security of crops grown and is integrated with marketing and with satisfactory arrangements for supervision of the use of loan monies.
Further, the co-operatives must be made very strong and viable units to withstand the problems arising out of risks and uncertainties in agriculture. At the present stage of their development and the limited reserve funds with them, the co-operatives require an outside partner who cannot only lend the finance they initially require but also share the risks. The Committee of Direction of the Rural Credit Survey has suggested such an ‘Integrated Credit Scheme’. But the suggestions, as revealed by the Follow-up Surveys, are honoured more in precept than in practice.

In the case of exceptional hazards which may arise either from a drastic fall in prices or from natural causes, the stability of the credit institution itself may be threatened. The problem in such cases is to meet losses which actually occur so that the continuance of the farm operation is not unduly prejudiced, the necessity to borrow from private lenders on onerous terms and the threat of liquidation to the credit institution are avoided. In such cases Government must come to the assistance of the producers as well as the lending institutions as a matter of public policy. The National Agricultural Credit (stabilization) Funds created by the Co-operatives at various levels will no doubt serve to lessen the rigours of such losses but they are not enough. The Government may reconsider its decision and set up the National Agricultural Credit Relief and guarantee Fund as recommended by Rural Credit Survey Committee to meet all contingencies arising out of exceptional losses.

2.1aa. Safeguarding Investors in a Credit Institution Against Risk:

Here the problem is mainly one of ensuring ‘liquidity’ to the investor in the credit institution. In the field of long-term credit some steps have already been taken in this direction. The issue of rural debentures, and the recent decision of the State Bank to
provide loans on the security of the debentures floated by the Central Land Mortgage Banks. are instances in point. In the field of short-term credit, insuring the deposits with co-operative societies is worth exploring.

2.1ab. Reduction of ‘Financial Risks’ to the Borrower:

The quantum of credit and the manner in which it is made available has an important bearing on the risks to the borrower. Insufficient and untimely credit may force the borrower to divert the borrowed funds for unproductive purposes. The time of repayment is also important. It should fall at such a time or times as the income from the project for which the loan was made will be available. If this ‘time of payment’ principle is not followed the farmer will not have funds to repay the loan when it is due. Under such circumstances, he will be obliged to renew the loan; which usually adds to its cost; or failing in this he will find himself in an embarrassing situation.

Often poor timing of loan leads to further indebtedness, which may ultimately bankrupt the farmer. Linking of credit with marketing will enable the coincidence of time of payment and receipt of income. Therefore, credit provision must be coupled with organized provision of marketing information and development of orderly marketing arrangements. This incidentally will go to reduce the ‘price risks’ to a certain extent. Further, as stressed by Edward Maclagan, “agricultural finance must be based on the agricultural cycle, and this cycle though usually of the duration of one year, may occasionally be a matter of months, but is frequently a matter of from two to five years.” At present most of the co-operative credit societies provide credit on a twelve months basis. They should employ flexible payment provisions; raising the repayment schedules during high income years and lowering them during low income years. In this
way they can circumvent the consequences of income variability due to agricultural cycles. Secondly, Co-operatives must promote the habit of thrift amongst its members and encourage savings as a reserve to tide over between seasons.

Provision of adequate credit at reasonable rates, though essential may not stimulate investment. An increase in farm investment will take place only when the risks and uncertainties, in the minds of the farmers are removed. Along with credit supply steps must, therefore, be taken to reduce natural and technical risks in farming. Natural causes of loss include those due to pests and disease and to the perishability of products as well as to weather. Technical risks arise, inter alia from the failure in farming methods, storage and processing. Credit itself may reduce risks by providing the means to obtain improved seed, plants, livestock and implements, or undertake farm improvements. But the relationship between techniques and credit again warrants the reiteration of the importance of associating with credit provision of agricultural extension and the organization of the supply of improved seed, plant, implements etc. In short credit should form an integral part of an overall economic development programme of agriculture.

Development of Primary Agricultural Credit Societies:

"The whole object of the movement is to get groups of humble and unimportant individuals to join together on an equalitarian basis, in order to assist each other morally and materially and hence the strength of the movement depends on the soundness and energy of each of the primary societies. Of the latter the rural credit society still form the mainstay."
The co-operative credit structure in India, so far as rural finance is concerned, may be said to consist of two parts, one dealing in short and medium term credit and the other in long term credit. The former is a three tiered federal system. The primary agricultural credit societies at the village form the base, the central and State Co-operative Banks constituting the upper tiers. In the case of long-term credit there is a Central Land Mortgage Bank for each State at the apex level and primary Land Mortgage Banks at the Taluk level.

It is no exaggeration to say that the success or failure of the movement largely depends on the strength or weakness of the primary societies. The primary societies are the point of co-operative contact with the cultivators. It is in these societies and the services they render that the cultivators see the co-operative movement at work. They are the foundation on which the co-operative structure stands. Yet how weak the foundation is! The Rural Banking Enquiry Committee observed in 1953 that “the weakness of the co-operative structure seem to be mainly in these institutions (primary co-operative credit societies) where it comes directly into contact with the rural people rather than in the superstructure and more thought and effort should be devoted to their development.” The R.C.S.C. has observed “the weakest link of all in a chain which is weak at almost all points is the primary co-operative credit society. It satisfies none of the requisites of either good co-operation or sound credit. Its failure to promote thrift and savings is followed at not too great a distance by its failure to provide in the village a system of credit which is at once adequate, prompt - and productive. “We cannot

build a mighty fabric of co-operative credit structure on this insecure foundation. The primaries need revitalisation and strengthening of their financial position. This chapter deals with the progress recorded by the primaries over the last decade.

The primaries cover different types of credit societies, though the common feature of all these different co-operatives is that most of their members are agriculturists. This group includes ‘Large-size societies’ (which includes Rural Banks, Agricultural Banks and Credit Unions), ‘Service Co-operatives’ and ‘Small-sized societies.’ The small-size societies constitute a composite category and include single purpose societies, multipurpose societies and for that matter any societies organized before the advent of ‘Large-size’ societies in 1955-56. According to the present co-operative development policy, on the basis of which the district development plans are formulated the emphasis is on promotion and development of ‘service co-operatives’ whose primary functions are provision of short and medium term credit, supply of agricultural and other production requirements, collection of agricultural produce for sale through marketing societies etc. Though organisation of Large-size Societies has been discontinued, the existing ones are to continue.

2.1ad. Functions Other than Credit of Credit Co-operative Societies:

It was realised soon after the depression of the thirties that mere provision of credit was no panacea for the economic ills of the agriculturist and there was need for coordinated effort at simultaneous improvement of the economic, social and cultural life of the villages. In 1937, a Bulletin entitled ‘Cooperative Village Banks’ published by the Reserve Bank of India pointed and that the true original objective of co-operative societies was the betterment of rural life and they could best succeed in their
him by taking within then: ambit every possible aspect of his (farmers) life and
endeavouring to help him not only in regard to supply of credit but in all matters which
combine 'to make farming uneconomic at present. The idea of integrated approach to
agriculturists problems gradually gained ground and societies were organised on a
multipurpose basis. But they did not make much headway. At, the end of 1951 the
R.C.S.C. found that many societies which were called multipurpose societies were in
reality single purpose societies. Of the 777 primary co-operative credit societies studied
by the R.C.S.C. 173 were dormant. Out of the remaining 604 working societies only
25 societies reported multipurpose activities and a majority of them were operating in
I.P. alone. There is not much improvement in this direction during the last decade

At the end of June 1961, only about 3 per cent of the credit societies in the
country were undertaking marketing activities; though 28 per cent of the societies were
engaged in distribution-activities (of agricultural requisites etc.). But if figures for Uttar
Pradesh are ignored where 67 per cent of the societies undertook distribution activities,
the performance of other States in this respect was not noteworthy and in seven of them,
the proportion of societies, engaged in this type of activity was less than 10 per cent. If
the multipurpose societies are to play their role in. the field of rural rehabilitation
effectively their, resources must be increased and activities diversifed to make them
function as economic units. But unfortunately in India the business aspect of co-
operation is not only less emphasized but even sacrificed at the alter of rigid orthodox
co-operative gospels.
Need for Rethinking on Rural Credit:

The strategic role of credit for farm production and investment cannot be overemphasized. The significance of farm finance is all the more great under the present conditions of food scarcity. The cultivators can use improved farm practices only when adequate and timely credit is available for them at reasonable rates. Theoretically, co-operatives are the best agencies for providing credit to the farmers. But the performance of the co-operatives has not been quite commensurate with the growing need for farm finance.

Further there is a wide regional disparity in the development of the co-operatives. The co-operatives are fairly well developed only in a few States namely Maharashtra, Tamilnadu, Gujarat, Andhra Pradesh and Punjab. Elsewhere, the record is far from satisfactory. Heavy reliance for funds on the Reserve Bank, excessive dependence on Government agencies, slow accretion of deposits and increasing over-lues have been the baneful features of the co-operative credit system of our country. The co-operatives must be organised in a business-like manner and need to be strengthened at all levels and especially at the primary level. The service societies must be made viable if they are to be of real service to the farming community. They must have adequate coverage and enough profits so as to enable them to employ regular paid-staff.35

Owing to the existing limitations of the co-operatives several alternative systems are being considered for deploying rural credit. On the recommendation of an informal
study group of the Reserve Bank of India it was decided to start Agricultural Credit Corporations in the co-operatively un-developed States. The Union Government has constituted a six-man working group to draw up a model scheme for the proposed agricultural credit corporations which are shortly to be established in Assam, Bihar, Orissa, Rajasthan and West Bengal and other small states like Tripura and Manipur.

The Agricultural Finance Sub-Committee had recommended the setting up of State Agricultural Credit Corporations early in 1945 but the suggestion was then rejected on the ground that such a step would have deleterious effects on the growth of the Co-operative movement in the States. It was hoped that the money and effort that would be needed, to start such corporations could be more fruitfully utilised in strengthening the Co-operative Movement. But the failure of the Co-operative Movement to come up to the expectations has led to rethinking over the issue of starting Agricultural Credit Corporations. Every care needs to be taken to avoid any overlapping of areas and duplication of effort between the existing credit co-operatives and the agricultural credit corporations. The Corporations should supplement the activities of the co-operatives. They should not come in the way of co-operative development in those States.

The commercial banking sector is another agency which can supplement and complement the work of the co-operatives. The recommendation of the Gadgil Committee needs to be reiterated in this connection. The Committee said, "all reasonable facilities which do not in any way hamper the growth of co-operative credit system should be afforded to the commercial banks to enable them to play an important part in the rural credit structure." There is greater awareness now about the necessity of
study group of the Reserve Bank of India it was decided to start Agricultural Credit Corporations in the co-operatively un-developed States. The Union Government has constituted a six-man working group to draw up a model scheme for the proposed agricultural credit corporations which are shortly to be established in Assam, Bihar, Orissa, Rajasthan and West Bengal and other small states like Tripura and Manipur.

The Agricultural Finance Sub-Committee had recommended the setting up of State Agricultural Credit Corporations early in 1945 but the suggestion was then rejected on the ground that such a step would have deleterious effects on the growth of the Co-operative movement in the States. It was hoped that the money and effort that would be needed, to start such corporations could be more fruitfully utilised in strengthening the Co-operative Movement. But the failure of the Co-operative Movement to come up to the expectations has led to rethinking over the issue of starting Agricultural Credit Corporations. Every care needs to be taken to avoid any overlapping of areas and duplication of effort between the existing credit co-operatives and the agricultural credit corporations. The Corporations should supplement the activities of the co-operatives. They should not come in the way of co-operative development in those States.

The commercial banking sector is another agency which can supplement and complement the work of the co-operatives. The recommendation of the Gadgil Committee needs to be reiterated in this connection. The Committee said, “all reasonable facilities which do not in any way hamper the growth of co-operative credit system should be afforded to the commercial banks to enable them to play an important part in the rural credit structure.” There is greater awareness now about the necessity of
securities and secondly by granting of loans to co-operative credit societies. They can also provide direct loans to farmers on the pledge of agricultural produce to free the farmers from “distress” sales immediately after the harvest. For this banks must be given all facilities and assistance to develop their own warehouses in the market centres.

The Banks can jointly participate with the land mortgage banks in financing special schemes of agricultural development and obtain refinance facilities from the Agricultural Refinance Corporation. The Banks are now thinking of starting an Agricultural Finance Corporation with an authorized capital of Rs. 100 crores and a paid-up capital of Rs. 10 crores in the first instance. The issued share capital shall be offered to and taken up by only scheduled banks in proportion to their Deposits. The objects of the proposed corporation, among others, are as follows:

(a) To provide medium-term and short-term loans for seed farms
(b) To provide medium-term loans for mechanisation
(c) To finance integration of processing industries with agricultural production
(d) To finance construction of warehouses, silos and running storage industry godowns,
(e) To finance transport of agricultural produce
(f) To finance modernisation of agricultural processing industries
(g) To finance regulated market construction
(h) To finance building up of subsidiary food industries through development of poultry, fisheries, piggery etc.
(i) To finance medium-term loans for pump sets, lift irrigation, bore-wells, leveling of lands, etc.
(j) To provide short-term agricultural loans through intermediaries like fertilizer companies or directly
(k) To provide loans for extensive spraying operations and finance pesticide companies, and
study group of the Reserve Bank of India it was decided to start Agricultural Credit Corporations in the co-operatively un-developed States. The Union Government has constituted a six-man working group to draw up a model scheme for the proposed agricultural credit corporations which are shortly to be established in Assam, Bihar, Orissa, Rajasthan and West Bengal and other small states like Tripura and Manipur.

The Agricultural Finance Sub-Committee had recommended the setting up of State Agricultural Credit Corporations early in 1945 but the suggestion was then rejected on the ground that such a step would have deleterious effects on the growth of the Co-operative movement in the States. It was hoped that the money and effort that would be needed, to start such corporations could be more fruitfully utilised in strengthening the Co-operative Movement. But the failure of the Co-operative Movement to come up to the expectations has led to rethinking over the issue of starting Agricultural Credit Corporations. Every care needs to be taken to avoid any overlapping of areas and duplication of effort between the existing credit co-operatives and the agricultural credit corporations. The Corporations should supplement the activities of the co-operatives. They should not come in the way of co-operative development in those States.

The commercial banking sector is another agency which can supplement and complement the work of the co-operatives. The recommendation of the Gadgil Committee needs to be reiterated in this connection. The Committee said, "all reasonable facilities which do not in any way hamper the growth of co-operative credit system should be afforded to the commercial banks to enable them to play an important part in the rural credit structure." There is greater awareness now about the necessity of
a limited number of studies that look into the parameters determining performance at grassroots level. PACS form the grassroots level cooperative institution and differ from other forms of cooperative organisations at different levels. Hence the parameters to be considered for performance evaluation also differ. The very objectives of PACS are distinct and a set of new evaluation criteria may evolve as a result of the present study. In this context it is necessary to look into the existing literature for examining the PACS in order to ascertain the factors that influence their performance.

The literature pertaining to various evaluative aspects of the cooperatives in general and PACS in particular has been reviewed in this chapter under the following sections.

2.1 Growth and Growth Rate of PACS
2.2 Factors determining Performance of PACS
2.3 Causes for economic non-viability of PACS
2.4 Perceptions of members about the functioning of PACS.

2.1 Growth and Growth Rate of PACS:

Garodian and Crammer (1968) compared the growth of merging and non-merging, supply and marketing cooperatives in the USA. Growth in sales and total assets were the criteria used to represent the growth of the cooperatives.

In a case study on District Cooperative Bank in Uttar Pradesh, Agarwal et at (1972) employed trend analysis in evaluating the growth of the institutions. Data for ten years were used in the linear trend analysis. Share capital, working capital borrowed funds, loans advanced and profits were considered as variables.
Growth and pattern of financial resources of the State and Central Cooperative Banks as well as Agriculture Credit Cooperative Societies in India was studied by Srinivasa Murthy (1973).

Sridharan, et al. (1975) analysed the growth of Tudiyalur Cooperative Agricultural Credit Society in Tamil Nadu in terms of total membership, total assets, total owned funds, sales and average asset per member etc. Orthogonal polynomial function was fitted to the data from 1954-55 to top 1972-73. The growth rate was found out by taking the first order derivative of the function.

While examining the methodological issues in measuring the agricultural growth. Krishnaji (1980) observed that R2 is not a very reliable guide for choosing the correct form of growth equation, the common procedure would be to choose the form of regression that gives the highest value of R2 from among a set of pre-specified trend functions.

Chamola and Hasija (1982) appraised the progress of PACS in India by employing trend analysis for the period 1966-67 to 1976-77. The results revealed the highest growth rate in overdues (14.6 percent). The number of societies decreased by 10 percent while the membership increased by 50 percent. The share capital showed 148 percent increase and member deposits rose by 180 percent. The share capital and loans advanced recorded the same rate of growth as that of member deposits indicating that whatever was deposited by members was given out as loan. The regression analysis also indicated that one-percent increase in membership was associated with 2.13 percent increase in advances and 1.73 percent increase in deposits.
Bhatia and Rao (1982) evaluated the growth of PACS in Karnataka during 1965-78. They reported that the number of societies decreased by about 40 percent while the membership increased by 110 percent. Total advances registered five-fold increase and overdues recorded highest increase (7 times). The study concluded that in qualitative terms the progress of cooperatives was not remarkable because of increase in overdues. The per member overdues increased from Rs. 57 in 1963 to Rs. 203 in 1978. Average deposits per member showed continuous increase from Rs. 11 in 1965 to Rs. 20 in 1978. They observed that the probable reasons for the poor performance of cooperatives were that the commercial banks emerged as the major source of agricultural finance after nationalization.

Winfred (1985) analyzed the operational growth of LOB’s by measuring the rate of growth of operations like membership, resources, government support, floating of debentures, investments, loan operations, overdues, cost of management and profits for ten years from 1969-70 to 1978-79.

The compound growth rate was calculated by using the formula: $Y_t = Y_o (1+r/100)^t$
where $Y_o =$ base year value, $Y_t =$ $t^{th}$ year value, $t =$ number of years and $r =$ the compound growth rate. It was found that banks with limited loan transactions, non-diversification of their lending programs and mounting overdues could not make any marked impact in the field of agricultural credit.

Pandey and Ashok Kumar (1981) examined the structure and growth of cooperative credit in different states and investigated the factors responsible for the flow of credit covering the period 1977-78 to 1983-84. The analysis indicated that the compound growth rate was maximum in Punjab. The factors such as fertilizer
consumption, area under high yielding varieties and area under cash crops were identified as responsible for causing variation in the flow of credit.

*Bhat (1991)* studied the agricultural credit absorption in Karnataka for the period 1975-76 to 1988-89. He found that the growth of per-hectare short-term credit absorption is attributed to irrigation (10.28%), HYV (6%), fertilizer consumption (37.7%) and term agricultural credit (27.82%). Branch expansion and deposits were found to contribute negatively to the growth of short-term agricultural credit. He further showed that the contribution of commercial crops was insignificant as farmers used to obtain credit from indirect sources.

In a study on Growth of Orissa Cooperative and Rural Development Bank, *Mishra (1998)* found that the CARD Bank has incurred losses due to poor recovery of loans. The study called for managing credit business efficiently to accomplish the given objectives of credit cooperatives.

Examining the growth of agricultural advances during 1990-96, *Puhazhendhi and Jayaraman (1999)* pointed out that despite the phenomenal growth in absolute terms, the proportion of outstanding advances to the priority sector showed a declining trend from 16.9 percent in June 1990 to 14.3 percent in March 1996. A reversal of the trend was observed in 1996-97 when loans issued for agriculture constituted 16.3 percent of the net bank advances. The share of priority sector lending at all India level, which had declined from peak of 42.9 percent in 1985, marginally improved to 41.7 percent in March 1997.
The foregone review of the literature relating to the growth rate of PACSs in terms of performance reveals that in the process of PACSs development there are many obstacles. The important ones among them are: the growth rate of outstanding loans is high, the over dues are still high and moreover poor recovery rate. In addition to these the access to credit by the various categories of farmers has come down due to nationalization of banks. Specially the CBs in the rural areas have been giving a tough fight to the cooperative banks in terms of lending. Various studies highlight that liberalization policy in the loan advancement and encouraging commercial crops will help to a greater extent for the performance of banks.

2.2 Factors Determining Performance of PACS:

**Reserve Bank of India (1966)** observed that the percentage of overdues to loans outstanding is an important indicator of effectiveness of agricultural credit. The ratio of deposits to working capital, percentage of borrowing members to total members, loan amount per member and deposits per member constituted other criteria.

In their macro study of PACS in southern states during 1961-62 to 1964-65, **Das and Hanumappa (1967)** gives a state-wise variation in the number of societies over the years. The highest increase of 8 percent was found in Andhra Pradesh, while Kerala and Tamil Nadu had a 4 percent increase in the number of societies. Karnataka had 7 percent reduction in the number of societies in 1964-65. The membership of PACS in all the states had increased over the study period except in the case of Karnataka. The share capital, total loans advanced and the overdue position were on the increase over the years in all the southern states.
While studying the performance of cooperative societies between 1950-51 and 1964-65, Rangachar (1969) found that the volume of cooperative credit had been increasing over the years in different states and the increase has been uneven. About 25 percent of the societies were found to be dormant. In terms of overdues, the highest percentage (74%) was found in Assam and the lowest was in Rajasthan.

Tiwari (1969) analysed the working of the Agricultural credit cooperatives between 1951-52 and 1965-66 with 1960-61 as the base year. He found that the working capital was the highest (Rs.122 crore) in Maharashtra followed by Gujarat and Uttar Pradesh (Rs.67 crore), and the least was in Assam (Rs.2 crore). Inequality was also observed between states in the case of loan amount and deposits per member. He suggested deposit mobilization drive for better working of the Agricultural Credit Cooperatives. He also conducted an opinion survey on marketing of agricultural produce through cooperative marketing societies in Punjab and Haryana states regarding the factors influencing the farmer's choice of agencies. The survey revealed that: (1) Private traders have an edge over cooperative marketing societies, (2) Producers did not sell their products through cooperatives even though they were members, (3) Private traders were successful entrepreneurs compared to cooperatives because of the absence of complicated and legal procedures in their transactions and the additional facilities provided by them to their customers such as liberal loans, free storage, transport, supply of consumer goods and farm inputs on credit, personal relations and hospitality.

Thakur (1973) tried to probe into the generally conceived hypotheses that: (1) cooperatives are biased towards big farmers in granting loans and (2) big farmers are
mostly responsible for mounting overdues of cooperative societies compared to small farmers. On the basis of an empirical test it was pointed out that neither of the hypotheses could be accepted.

Mariyanathan (1974) found that cooperatives in Kerala had the highest average share capital (Rs. 36,806) and West Bengal the minimum (Rs. 2,769) during 1970-71. Gujarat had the maximum per-member share capital (Rs. 182) followed by Maharashtra, Bihar and Jammu and Kashmir, while Assam recorded the minimum (Rs. 18). Kerala cooperatives had the highest average working capital (Rs. 193,287) followed by Gujarat and Bihar. The minimum was recorded by West Bengal (Rs. 163,28). He found that the defaults, inefficient management and dormancy all of which were interlinked, as the important problems faced by cooperatives.

Bhuyan and Mohanty (1975) attempted to examine the working of the primary cooperative societies in India on the basis of their bad debts and overdues. They found that the highest percentage of overdues was in West Bengal (16.2 percent), while the lowest was in Andhra Pradesh (0.14 percent) during 1957-58. The situation however improved by 1960-61 in all the states except in Assam. Bad debts decreased from 6.12 percent in 1957 to 1.81 percent in 1960-61 in West Bengal. It was also observed that Jammu and Kashmir had the highest percentage increase in bad debts during 1961-64 (0.04 percent to 3.32 percent).

In a case study of a District Cooperative Bank in Uttar Pradesh, Agarwal et al (1972) employed trend analysis for evaluating the growth of the institution for 10-year period. The items considered in the analysis were share capital, owned and working capital, borrowed capital, loans advanced and profits. Linear trend equations were fitted
for the above variables and the trend coefficient for all variables were found to be positive and except profits and all of them were significant. Because of heavy expense on management and huge outstanding loans, profits did not keep pace with the physical progress. The recovery percentage was high ranging from 80 to 90 percent of the total advances.

Sridharan et al (1976) evaluated the working of 15 PACS in a Taluk of Tamil Nadu. A linear multiple regression model was used in the analysis. The main findings were that the average deposits per member significantly contributed to the net profits of the credit cooperative societies, the other factors such as average owned funds, average amount of loan per member and percentage of borrower members to total membership, though important, did not influence the net profit significantly.

Choubey (1977) observes that in spite of spectacular growth of cooperative credit during the plans, the rural credit gap continues and it is widening as development gathers momentum. Hence there is need for cooperative credit planning. He suggests that cooperative credit societies have to be multipurpose and viable.

Nair (1977) observed that the ability to mobilize deposits by the PACS continued to be poor. In 1974 the average amount of deposits per society was only Rupees 5,800/- as against an average working capital of Rupees 1,02,743/-. Among the states, Kerala stood first in per-society average deposits and which were lowest for West Bengal. The per member average deposit was highest in Himachal Pradesh followed by Punjab, the least being in Assam.
**Patel and Mahesh (1977)** studied the performance of cooperative agricultural credit in Mahesana district of North Gujarat. They have found that there is no effective coverage of the population. Only the credit needs of selected borrowers are met. The savings of the community are not effectively mobilized in the form of deposits. Repayment of loans is not satisfactory as overdues accumulate and fresh loans are taken to repay the old ones. Farmers continue to resort to the alternative sources of borrowing. There are also diversions in the utilization of loan.

**Rao (1978)** reviewed provisions of the Andhra Pradesh Cooperative Societies Act 1976, for reorganization of primary cooperative societies and to classify societies into viable, potentially viable and non-viable societies. Non-viable societies were to be merged or amalgamated with viable and potentially viable societies. If a society was either viable or potentially viable nor to be liquidated, then it was to be merged or amalgamated with a viable society.

**Desai (1979)** reviewed in aggregate terms the performance of the rural financial markets in India considering three different aspects namely: sectoral allocation of credit, sectoral mobilization of deposits and sectoral contribution to national income. Using time series data relating the rural banking system in India, the author discussed issues such as the long term structure of the rural market, extent of financial independence, default rate and distribution of rural credit and purchasing power of rural borrowers and the distribution of benefits arising from the concessional lending rates among different categories of farmers. He highlighted the extent of achievements, various problems and suggestions for solving the problems.

**Taking a sample of 20 cooperatives, Lasley (1982)** studied how the
organizational and structural dimensions influence levels of membership participation and financial performance. The study showed that as centralization increases, membership participation decreases and the size of the cooperative was related positively to financial performance.

Phansalkar and Srinivasan (1985) identified certain parameters for the success of rural cooperatives. They maintained that the cooperatives should establish credibility with the members, have tight internal control, provide openness and accessibility to the members.

Attwood and Baviskar (1987) analyzed the factors that made a cooperative successful. They highlighted the common economic interest which underpins the alliance between large and small farmers. They argued that it was the volume of activity, which demanded a good capacity utilization, which in turn depended on a responsible membership that contributed to the collective good of the cooperative. They attributed the success to the nature and the location of cooperatives. They further emphasized the technical and social criteria on which a cooperative alliance could be based. Successful cooperatives, according to them, were those having responsive leadership, good technical and economic efficiency and the members who attend and vote in the Annual General Meetings of Cooperatives.

Shaker (1990) observed that the indicators of sickness of cooperatives never centered only on the measurement of surpluses, though the creation of surplus was the bedrock of efficiency measurement in broad theory. He also stressed the inapplicability of earnings indicator to cooperatives since it was a matter of discretion as to how much of the revenues should be kept for use in business and how much should be distributed
unlike in the corporate entities, where no such discretion could be applied ex-ante before the surplus figure was arrived at. The author suggested that the study of cooperatives be undertaken on the following lines: 1) Study of cooperatives with alternate organizational forms in the same industry and 2) Comparison over time, within the organization itself after allowing for inflation.

Shah (1990) attempted to explain what a successful cooperative meant. He deemed cooperative business is like any other business. Obviously its viability and financial growth formed two important indicators of its success, both of which depended on the patronage of the members. This in turn determined the usefulness of the services rendered to its members. Phansalkar and Srinivasan termed this as the intensity of affiliation.

Sidhu and Sidhu (1990) measured success or failure of cooperatives on the basis of a set of parameters such as: consistency and stability in the growth of membership; average lending per member; the pattern of overdues; capital formation reflected by the capital contributed by members and in the ratio of borrowings to the capital contributed by the members (i.e., Debt-Equity ratio); the business expansion pattern and the measures of income, expenditure and profits.

Rao (1991) studied the operations and performances of Cooperative Land Development Banks in India for the year 1989-90. The indicators such as membership, share capital, reserves and other funds loaning performance, purpose-wise lending, advances to weaker sections and recovery performance were considered in the analysis.
Multi Crops Association which works for the betterment of the Cooperatives in Andhra Pradesh also tried to identity the reasons why Primary Cooperatives failed. Its major findings were: over dependence of the cooperatives on external finance, loan overdues, lack of support services and of trained personnel, lack of members' interest, and restrictive laws. These factors were regarded as general reasons for the failure of cooperatives. It may be observed that five of the six factors were relating to the internal management of the cooperative while the last related to the state. The study revealed that the cooperatives which had overcome the above factors were generally successful. It is interesting to note that only two of the above factors relate to financial management, while the others relate to the general management of the cooperative. However, the above factors have not been substantiated with data and therefore need to be tested out.

Samakhya, a public trust for the promotion of cooperatives, has instituted an award for the best multi cooperative to be given every year. In identifying the most successful cooperative, they have quantified, several factors of success in a cooperative. The factors have been broadly classified into five major areas.

They are Funds, Services, Efficiency, Returns and Accountability. Each of these factors was assigned weights by the Trust to arrive at an ultimate score in order to measure the extent of success of the cooperatives.

Barman (1994) observed that priority sector lending by itself was not a drawback in the financial system. It was the appropriate system of selecting the borrowers, monitoring the loan and disbursement, use and repayment, which were the important issues confronting cooperative bank loans.
The report on trend and progress of banking in India showed that PACS formed the pivot of the short-term structure of cooperative credit institutions (Anonymous, 1997).

During the last few years PACS continued to depend mainly on borrowings from financing agencies to fund their operations. As most PACS were totally dependent on the finance provided by CCBs, resource mobilization was a weak spot in their growth due to the fact that most of the CCBs are not financially strong. This affects the credit expansion strategies of PACS. The total deposits of PACS in 1996 aggregated to Rs. 3,450.2 crore showing an increase of around 13.0 percent over the previous year. Besides Kerala, the other leading states that mobilized sizeable deposits were Tamil Nadu, Karnataka, Andhra Pradesh and Punjab for the period ended 1996. The total loans issued by PACS rose to Rs. 11,805 crore in 1996 from Rs.10,459 crore in 1995, a rise of 12.5 percent. The outstanding rose by 9.5 percent during 1996. Based on the criteria for viability determination of PACS, it had been estimated that by 1996, only 65 percent of the PACS were viable and another 28 percent were considered to be potentially viable.

Tyagi and Singh (1998) observed poor recovery of loan to be a major problem in rural areas. The reasons offered to explain this problem included natural calamities, inadequacy of credit, fixation of unrealistic repayment schedules, poor loan supervision and follow-up, lack of timely action, lack of coordination among various government departments and financial institutions. More importantly the root cause of poor recoveries in rural credit was found to be the utilization of credit by the borrower for some unproductive purposes. The most serious problem was lack of awareness among the envisaged beneficiaries about the development opportunities through credit.
In a case study on non-performing assets management in Dharmapuri Town Cooperative Bank, Selvan and Lopoyetum (2000) found that the management of non-performing assets and improvement of recovery rate are extremely essential to revitalize the banking system. They stressed that 'prevention' should be the first agenda for which the banks need to ensure fool-proof project appraisals, formulate realistic repayment schedules and have continuous monitoring and follow-up of the use of borrowed funds. Banks should comply with the provisions of the Banking Regulation Act and adhere to the prudential norms to ensure profitability and viability.

Various studies by different scholars on the performance of the cooperative banks/societies reveal that deposits to working capital and the ratio of overdues to outstanding loans were two crucial ratios to be considered. Few more studies mention that the percentage coverage of population, the working capital increased over the years. However, there is a limitation in this regard that per member loan amount has come down, which is a serious concern. Few more studies give the reasons for the performance as the membership has gone up but the deposits by the members has come down. However, this differs from state to state and region to another region. Another set of scholars opined that the success of cooperative credit societies depends not only on the extent of advances but also on the position of recoveries. These scholars considered share capital as an important indicator of growth. One group of studies reveal that big farmers are mostly responsible for meeting overdue of cooperative banks/societies compare to the small farmers. Lastly, the savings of the community are not effectively mobilized in the form of deposits. Repayment of loans is not satisfactory as overdues accumulate and fresh loans are taken to repay the old/ones.
2.3 Causes for Economic Non-Viability of PACS:

Das and Hanumappa (1967) in their macro study of PACS in southern states during 1961-62 to 1964-65 observed variation in the number of societies over the years. The membership of PACS had increased over the years in all the states except Karnataka. The share capital, total loans advanced and the overdues were on the increase over the years in Tamil Nadu, Kerala, Andhra Pradesh and Karnataka. Based on the basic indicators such as borrowing, membership, member of dormant societies, percentage of kind loan, increase in advance as per borrower member, the authors concluded that, the management had not been able to follow the balanced approach in the development of PACS in southern states.

In a study of the performances of cooperative societies between 1950-51 and 1964-65, Rangachar (1968) found that the volume of cooperative credit had been increasing over the years in different states and the increase has been uneven. The results indicated that a large proportion of cooperative credit was appropriated by large and well-to-do farmers. An analysis of the working of the PACS indicated that about 25 percent of the societies in the country were dormant. The dormancy was highest in the eastern states as well as in Rajasthan and Andhra Pradesh. In terms of overdues, the highest percentage (74 percent) was found in Assam followed by Bihar (44.5 percent), Karnataka (34 percent), West Bengal (33 percent), and Rajasthan (30.6 percent), though the position improved a little over the years.

The working of the Agricultural Credit Cooperatives between 1951-52 and 1960-61 was analyzed by Tiwari (1969). The study found that the working capital was highest (Rs. 122 crore) in Maharashtra and least was in case of Assam (Rs. 2 crore). The
nequality was also observed between states in the case of loan amount and deposits per member. The author suggested deposit mobilisation drive for better working of the Agricultural Credit Cooperatives.

Thakur (1973) tried to test the generally conceived hypothesis that cooperatives are biased towards big farmers in granting loans and the big farmers are mostly responsible for mounting overdues of the cooperative societies compared to small farmers. On the basis of an empirical test, he pointed out that neither hypothesis could be accepted.

Mariyanathan (1974) found in his study that Kerala had the highest average of share capital (Rs. 36,80) and West Bengal (Rs. 2,769) the minimum during 1970-71. Gujarat had the maximum per-member share capital (Rs. 182) followed by Maharashtra, Bihar and Jammu and Kashmir, while Assam recorded minimum (Rs. 18). Kerala had the highest average working capital (Rs. 1,92,287) followed by Gujarat and Bihar. The minimum was recorded by West Bengal (Rs. 16,238). He found that the default in payment, inefficient management and dormancy were interlinked as the important problems of cooperatives.

Bhuyam and Mohanty (1976) made an attempt to examine the working of the primary Cooperative Societies in India on the basis of their bad debts and overdues. They found that the highest percentage of overdues was in West Bengal (6.12 percent) while the lowest was in Andhra Pradesh (0.14 percent) during 1957-58.

Sridharan et al., (1976) evaluated the working of 15 PACS in a taluk of Tamil Nadu. A linear multiple regression model was used in the analysis. The main findings
that the average deposits per member significantly contributed to the net profits of the Credit Cooperatives. The other factors such as average owned funds, average amount of loans per member and percentage of borrower member to total membership, though important, did not influence the net profit significantly.

Many scholars have pointed out that the management has not been able to follow the balanced approach in the development of PACSs. Therefore, this was a major problem for the non-viability of the PACSs/Banks in the countryside. In addition to these, various studies reveal that lack of progressive attitude, biasness towards big farmers resulting in granting loans to them abruptly and these are mostly responsible for mounting overdues, the extent of defaulters in repayment, inefficient management, political interference are most important problems in the functioning of cooperatives. Hence, over a period of time though the cooperatives/banks gaining importance they are losing in terms of business.

2.4 Perceptions of Members About Functioning of PACS:

Chand et al (1986) analysed the factors responsible for the success of the Lahaul Potato Growers Marketing-cum-processing Society in Himachal Pradesh, using the indicators, viz., types of sale, Structure of organization, provision of support price, fairness in dealing, honesty and sincerity of officials, nature of administration and management, availability of facilities, and efficiency of marketing system. They found that almost all members (96.7 percent) of the Lahaul Potato Growers Marketing-cum-processing Society were satisfied with its performance.

Shabeena and Rajitha (1991) analysed the utilisation and repayment of loans in Meenangadi Service Cooperative Bank in Kerala. They interviewed 18 small farmers,
14 marginal farmers and 18 large farmers for this purpose and found that: 1) 35.71 percent of the marginal farmers had diverted the loans supplied by the society. 2) defaulters were more among large farmers, because of their clout with the Board of Directors. 3) the scheduled caste borrowers constituted a major portion of the borrower defaulters (66.66 percent) due to liberal policy of the government towards them.

Most of the beneficiaries who have borrowed loans from the cooperative banks/societies have felt that they are benefited a lot. They are in terms of adequacy of loans repayment schedule, etc. However, very low percentage of beneficiaries have highlighted few shortcomings of the societies/banks. They are non-availability of credit at the time of requirement, quality and quantity of inputs supplied and few are unhappy over timely schedule of payment. This apart, the members as such are quite satisfied over the performance and timely assistance.

**Major Findings and Research Gaps:**

On an analysis of the above literature pertaining to different facets of PACS functioning, it may be inferred that majority of studies focused more on organisational analysis confined to be a case study which obviously throw very limited light on the larger area of operations of PACS in the face of implementation of Business Development Plan across the country.

Some studies concentrated heavily on profitability analysis making the study a piecemeal approach, while others selected only those parameters from the view point of academic interest but necessarily not based on practical orientation of field level experience gained over a period of time.
Many practicing cooperators time and again expressed the view that the primary
level cooperative institution continues to be the beckon of hope for socio-economic
transformation of the rural folk. As such any investigation aimed at studying the overall
functioning must address such issues as members participation in different institutional
environment, their attitude, perception about functioning, level of commitment etc. The
past studies thus are either methodological specific or approach specific and thereby
neglecting comprehensive practical problems.

The present study is undertaken with an intention to provide a proper direction
for diagnostic investigation of the PACS functioning and more specifically tackling the
problem with multi-thronged strategy based on field level observations. This approach it
is felt. necessary as the cooperative reforms in the country have already taken a definite
shape keeping in view the much awaited National Cooperative Policy. The Policy, it is
said inter alia has given top priority for reposition the cooperatives in the light of the
changing global scenario. It was therefore felt that there is a need to have a different
kind of study which addresses the above issues that the past studies have failed to
address successfully. The present study, it is hoped to fill some of the serious
limitations as revealed above and is expected to provide the systematic direction for
further research in the field of cooperation.