CHAPTER - 2

COOPERATIVE CREDIT MOVEMENT AND ITS ORGANISATION
The origin of the cooperative credit movement in India dates back to 1904, when the cooperative credit societies Act was passed. The main reason for the introduction of the cooperative movement in India was the failure of Taccavi loans. The loaning system adopted by the Government had a number of defects, such as a high rate of interest, rigidity of collection, onerous terms regarding periods of repayment, delays in distribution, conditions relating to securities required etc, and all these contributed to the failure of Government loaning system.

The Taccavi loans were ineffective and inadequate. There was no institutional agency for the peasants to fall back upon. Hence, the farmers were under the grip of the money-lenders. The failure of crops and famines drove them to money-lenders. To improve agricultural production and to modernise agriculture, cooperative credit institutions were thought of by the Government.

The first step towards the introduction of the cooperative movement was taken by the Government of Madras. The Madras Presidency afforded a hopeful field for the experiment because a number of indigenous societies called 'Nidhis' were running successfully. In 1892 the Governor of Madras, Lord Wenlock
placed Mr Fredrick Nicholson on special duty to study the theory and practice of agricultural and other banks in Europe, especially, in Germany, and to suggest measures by which a similar movement could be organised in India. Mr.Nicholson submitted his report in two volumes, one in 1895, and the other in 1897. After referring to the work done by reformers, such as, Raiffeisen who introduced a popular system of rural credit, he summed up his report in two words, "Find Raiffeisen." /\n
Raiffeisen societies were run on limited liability basis providing all services to the farmers under the motto of "one village, one society". But Nicholson did not recommend the abrupt adoption of Raiffeisen societies. He recommended the organisation of village banks. He suggested that the village banks should touch all the aspects of the farmers that is, they should act as agents and brokers for their members, arrange for sale of produce and purchase of necessaries. The bank may also purchase goods necessary for the maintenance of members collect the produce of members and place it on the market for the benefit of such members. /

Mr.Nicholson's report was reviewed in 1899 by the Madras Government, which thought that if a few rural banks were started on the lines of Raiffeisen model, and their working watched for

years, it might then be in a position to make recommendations. After the receipt of the Nicholson's report by the Government of India, the opinions of local Government were invited. Their suggestions were considered in June 1901 by a Committee appointed by Lord Curzon under the presidency of Sir Edward Law.

The Edward Law Committee felt that the Companies Act was unsuited for the registration of societies. It also reported on the legislation needed for credit societies. They concluded that cooperative societies were worthy of every encouragement. Quickness in framing a cooperative legislation was felt and the committee drafted a bill, and then, it was passed as the Coopertive Societies Act of 1904.

The Act of 1904 made no provision to register non-credit societies and apex societies. To remove this defect and other related issues, the Cooperative Societies Act of 1912 was passed which removed the defects of the 1904 Act. As a result, non-agricultural societies and central societies were registered. In order to assess the progress of the movement, the Government of India appointed a "Committee on Cooperation" in 1914 under the chairmanship of Veteran Cooperator Edward Maclagan. The report of this Committee is hailed as a historic document in the annals of Cooperative history.

'The Maclagan Committee recommended a federal structure for credit cooperatives with primary societies at village level, central banks at the district level and apex bank at the state level. The committee observed that the chief objective of cooperative movement in India was to deal with stagnation of the poorer classes, and more, especially, of the agriculturists who constitute the bulk of the population.

After 1919, cooperation became a provincial subject due to Montague Chelmsford Reforms. Various state governments passed their own Acts to organise and control cooperatives. Thereafter the provincial governments were empowered to pass their own Cooperative Societies Acts to make the path of credit movement smooth and sound.

During the twenties, the cooperatives were led into overdues, which adversely affected and clogged the credit channels of cooperatives. To meet the economic crisis and to make cooperative banks viable, the then Bombay Provincial Government passed the Bombay Cooperative Societies Act, 1925 with a view to inject the additional funds into the central banks.

The Royal Commission on Agriculture (1928) observed, "If cooperation fails there will fail the best hope of rural India". The commission concluded, "If the rural community is to be contented, happy and prosperous, local governments must regard
the cooperative movement as deserving all the encouragement which
lies within their power to give." 3/

The Reserve Bank of India in its review of credit policy for
1939-40, expressed the opinion that the very prevalence of the
movement served to reveal that no better alternative was
possible. The movement for rural reconstruction can achieve real
and durable results only with the cooperative form of
organisation. /

Later, the Government of India appointed two Committees, one
in 1944, called the Agricultural Finance Sub-Committee headed by
the eminent economist, the late Dr. D.R. Gadgil, and the other in
1945, known as the Cooperative Planning Committee under the
Chairmanship of R.G. Saraiya. Both the Committees submitted their
reports in 1945. The Gadgil Committee recommended the unlimited
liability societies, and it remarked that the spread of
cooperation would provide the best and the most lasting solution
to the problem of agricultural credit in particular, and those of
the rural economy in general.

The Saraiya Committee recommended the limited liability
societies which should undertake multi-purpose activities and the
expansion of cooperative marketing societies.

3. Royal Commission on Agriculture (1928): Abridged Report,
Bombay, pp.44-46.
The cooperatives got fillip during the beginning of the planning era. The Rural Credit Survey Committee appointed in 1951 under the chairmanship of A.D. Gorawala submitted its report in 1954. The Committee found, "at the rural base, no form of credit organisation will be suitable except the cooperative society. Cooperation has failed, but cooperation must succeed." Among other recommendations, the "Integrated rural credit scheme" was another recommendation of the Committee, which paved the way for the growth of agricultural cooperatives in India.

To streamline the cooperative credit movement, efforts were being made by constituting various committees viz., Committee on Cooperative Law, 1956, Committee on Cooperative Credit, 1957, Committee on Cooperation, 1965, Working Group on Cooperatives, 1968, All India Rural Credit Review Committee, 1969, Study Team on Overdues, 1974, Report on the Integration for the Rural Development, 1975, Expert Committee (Provision for Consumption Finance by the Cooperatives), 1976, of the Expert Group, 1977. The Third Asian Conference on Agricultural Credit Cooperatives viewed that spread of cooperation would provide the best and the lasting solution to the problems of agricultural credit.  


5. All India State Cooperative Banks Federation and National Cooperative Land Banks Federation (Ed.), (1977), "Cooperative Credit for Agricultural Development", Bombay, p.6.
The Khusro Committee observed, "when massive amounts of external funds were injected into the credit cooperatives following the Rural Credit Survey Committee's report in 1954, the principle of thrift was forgotten and government assistance led to politicisation of credit cooperatives. With the proposed link in the interest rate on farm loans, the cooperatives may be able to pay attractive rates of interest on deposits."

Some of the unhealthy results of politicisation are interference in the recovery of cooperative dues or promise to write off the dues if elected to power, and determination of interest rates on considerations other than financial returns, i.e., with an eye on populist appeal. Such actions generate a general psychology of non-repayment, vitiating the recovery climate and jeopardising the financial interest of credit agencies. Besides, mass supersessions are resorted to on political consideration. Another lever for greater politicisation has been the incorporation of certain undesirable provisions in the Co-operative Societies Act and Rules of various States. Paradoxically, state partnership which was conceived as an effective measure for strengthening the co-operative credit institution, has paved the way for ever-increasing state control over co-operatives, culminating in virtually depriving the co-operatives of their democratic and autonomous character. The time has come to reverse this process.

Progressive officialisation and politicisation have caused damage to the co-operative system. This phenomenon has not reached such immense proportions that unless this trend is reversed, the agricultural credit system in general, and the co-operative system in particular, will get seriously jeopardised.

The net outcome of all the above factors has been to impart a great deal of inefficiency, high costs, low or negative profitability, inefficient service and lack of self-reliance in the co-operative organisations, especially at the level of the PACSs (Primary agricultural credit societies). It is thus necessary that the country recaptures the spirit of co-operation, its culture, its discipline and above all its ethos. This can be achieved only with a cohesive structure based on a strong foundation at the primary level deriving inspiration from the higher tiers which are professionally managed under a dynamic and motivated leadership.7

It is useful to clarify here the sources of and the uses of funds by the cooperative credit societies. Generally, the provincial or the state cooperative banks depend upon the Reserve Bank of India and the State governments for their funds, which they loan out to the central cooperative banks at the district level. The central cooperative banks may raise deposits. But they largely depend upon state cooperative banks

7. Ibid., p.17.
for funds to lend to primary societies. These primary credit societies are the real competitors of money-lenders. Apart from getting loans from central cooperative banks, primary credit societies may also raise owned funds to lend directly to member-cultivators. Thus the primary credit societies are the ultimate links in the flow of organised funds to the cultivators.

The performance of the cooperative credit movement in India is considered as poor and several reasons are advanced to explain the failure of the movement. They are:

1) **Financial:**

The existence of cooperative credit societies in the midst of peasants with low incomes and low credit worthiness itself accounts for the financial weakness of the movement. As a result, a large number of societies became 'dormant' i.e., societies which do not advance or recover loans for quite a few years. The financial weakness of many cooperative credit

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societies led to their poor absorptive capacity and, in some cases, much of the financial assistance from the central financing agencies could not be disbursed by the primary credit societies.\textsuperscript{11}

2) \textbf{Administrative:}

The administrative problem was one of the major obstacles that stood in the way of the effective functioning of the cooperatives.\textsuperscript{12} Chiefly with regard to their loan administration it may be said that, the lack of a sense of business management and administrative inefficiency led to insolvency of many primary credit societies.\textsuperscript{13} It also accounted for the poor recovery performance of many credit societies, particularly, after 1951.

Very few primary societies tried to harness the loans to really productive purposes and link fresh borrowing to repayments which might imply financing out of internal savings. Sometimes, dates for repayments fixed by credit societies created inconveniences

\begin{itemize}
\item \textsuperscript{13} Anwar Iqbal Qureshi, (1947): "The Future of Cooperative Movement in India, Madras, p.79.
\item \textsuperscript{14} R.B.I. (1969): Report of the All India Rural Credit Review Committee, Bombay, pp.176-77.
\end{itemize}
to the cultivators. Cases of book adjustments of old loans through renewals which overstated the amount of repayments were not rare.

Another Governmental measure required for restoring the health of normal credit institutions is an unambiguous message to the rural people that there will be no more loan write-offs or interference with credit institutions and loan recovery measures. At the same time, credit institutions should inject greater rationality and flexibility into their recovery procedures by fixing realistic dates for loan repayment and granting extension of time for repayment in cases of genuine distress. If the package of practices developed under NABARD's "Pilot Project for Improving the Credit Delivery System" (adequate field staff, greater mobility for field visits, regular inter-face between borrowers and bank staff, training of bank staff and technical advice to borrowers) is globally adopted, which may be feasible due to wider interest margins, there could be a perceptible improvement in the quality of formal lending and in loan recovery.

16. Ibid., p.218.
3) **Organisational:**

The problem of the organisation of credit cooperatives on sound lines and their coordination with other types of cooperatives may be regarded as quite important. Without proper organisation, even an efficient credit mechanism may not yield desirable results, unless its effects are buttressed by improving the supplies and services which an organised credit system produces.\(^{17}\) Lack of organisation in the cooperative credit structure was also responsible for the fragmented approaches of the cooperatives towards finding solutions to rural problems without trying to meet all the wants of cultivators.\(^{18}\) It was observed that in many cases coordination between the central cooperative banks and primary societies, as also between credit and non-credit societies was lacking.\(^{19}\) The necessity for the reorganisation of a large number of societies has not been denied in government reports.\(^{20}\)

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4) Factors Related to the Scale of activities and Coverage:

It is possible to trace one of the major causes of the failure of the cooperative credit movement to a limited scale of activities of the credit societies. In fact, the small size of credit societies accounted for a low volume of loan transactions, and this is supposed to have endangered the viability of the credit societies. Further, the coverage of credit societies is not regarded as satisfactory, and it is reported that a relatively small proportion of the total cultivators borrowed from the cooperatives. Among those cultivators who obtained relatively more are the poor and small cultivators.

Under the present system of concessional interest rate for agriculture, the well-off farmers with substantial saving potential continue to borrow formal agricultural loans to derive the benefit of lower interest rate and divert their own savings to investments in urban real estate or purchase of new agricultural land or purposes for which formal credit is either not available or is available at high rates of interest. With the abolition of concessional interest rate for agriculture, such


trends may disappear. Some well-off farmers may even decide to graduate from the formal credit system, thereby reducing the demand for it.

5) **Institutional:**

Institutional factors are also responsible for the failure of cooperatives. From the beginning the cooperative movement had to face tremendous opposition from the landlords and private traders. The influence of caste and village politics and big traders and landlords was predominant on the working of cooperatives. In states such as Madras, cooperatives suffered a lot because of government intervention. Such cases of government interference and government assistance at the cost of the rest of the economy has been questioned by some writers. Other institutional factors are:

(a) the absence of leadership because of the manner of organising the primary societies from above.

(b) lack of education and the feudal background of Indian villages.

(c) defective system of land tenure and the subsistence nature of the economy.

(d) lack of the right cooperative conduct.  

In this connection Gadgil observes "with the excessive government" intervention in the affairs of the cooperatives, effective non-official leadership along with the democratic management disappeared altogether.

Among the causes leading to inefficiency, it appears that the basic reasons are related to the low scale of activity of cooperatives, their financial weaknesses and the problems emanating from loan administration. The institutional factors are quite important but an enquiry into them takes us beyond the scope of the present analysis. The important problem is the low income of the agricultural community, and this largely accounts for the financial weakness of credit societies. It is not surprising, therefore, that when the credit cooperatives could not successfully mobilise internal resources, they had to depend on external funds.


The shares of different institutional finance in agricultural and allied activities is presented in the table - 1.

### TABLE - 1

Direct Institutional Finance for Agriculture and Allied Activities (Rs.in Crores)

<table>
<thead>
<tr>
<th>Sources of finance</th>
<th>Loans issued during 1988-89 (July - June)</th>
<th>Percentage of loans to the total</th>
<th>Loans outstanding as on June 30, 1989</th>
<th>Percentage of loans to the total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Co-operatives</td>
<td>4873</td>
<td>51.94</td>
<td>9408</td>
<td>39.53</td>
</tr>
<tr>
<td>State Governments</td>
<td>275</td>
<td>2.93</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Scheduled Commercial banks</td>
<td>3814</td>
<td>40.65</td>
<td>12840</td>
<td>53.95</td>
</tr>
<tr>
<td>RRBs</td>
<td>420</td>
<td>4.48</td>
<td>1552</td>
<td>6.52</td>
</tr>
<tr>
<td>Total direct finance</td>
<td>9381</td>
<td>100.00</td>
<td>23800</td>
<td>100.00</td>
</tr>
</tbody>
</table>


The Khusro Committee (1989) recommended the setting up of the National Cooperative Bank of India which was expected to bridge the gap.
COOPERATIVE CREDIT MOVEMENT IN KARNATAKA

Cooperative credit in Karnataka had its beginning in the early part of this century in the former the old Mysore state which is now known as Karnataka. With its long history in the field of cooperative movement, the cooperative credit is considered as the cradle of the cooperative movement. It has witnessed many structural changes, amongst which mention should particularly be made of the liquidation of the central banks in the thirties and their re-establishment in the fifties after re-organisation of the States in 1956. It was only in 1954 that the intermediate tier of the structure came to be organised on a systematic basis and by 1956, each of the 19 districts of the present state had a central bank.

At the primary level, there were 4,875 agricultural credit cooperative societies at the end of 1990. A major development during the last decade was the conversion of a number of unlimited liability societies into those of limited liability ones which might have helped to some extent to boost their membership.

Quantitatively speaking, there has been a significant improvement in the amount of loans advanced by the cooperative societies. It has increased from Rs.202.08 crores in 1970-71 to 800.45 crores in 1991-92. In addition to this, the cooperatives
have covered all the 26,826 villages and 90 per cent of the agricultural families and 90 per cent of the population of the state.

Even in relative terms, the quantitative performance of the cooperative movement of Karnataka is impressive compared to other states in the country. From the point of view of the number of societies, Karnataka occupies the 9th place among the states of India. In respect of working capital, it occupies the 6th place.

In essence, both from the point of view of credit and non-credit cooperatives, the state of Karnataka is in a comfortable position compared with other cooperatively developed states of India.

But even with all the credit worthy record, cooperatives in Karnataka are burdened with mounting overdues. In respect of overdues of societies, Bellary, Raichur, and Gulbarga districts account for more than 50 per cent. Bidar, Hassan, and Shimoga districts have more than 40 per cent overdues. Excepting Bangalore and Dakshina Kannada the remaining districts have more than 20 per cent overdues. This problem of overdues is regarding the progress of cooperative movement in the state. The overdues have been mainly responsible for the crippling cooperative movement in Karnataka.

The overdues position of the primary agricultural credit societies works out at 53.06 per cent of the total out standings
at the end of June, 1990. This percentage is much higher than the all-India average of overdues which was 45 per cent for the same year. With regard to the District Central Cooperative Banks, the overdues in Karnataka stands at 40.25 per cent compared to the All-India overdues position which was 44.45 per cent at the end of June, 1990. In respect of State Cooperative Bank, Karnataka's overdues is of the order of 12.02 per cent compared to the All India position of 10.83 per cent during the same year. Thus in the agricultural credit sector, the cooperative have suffered due to mounting overdues.

A major factor contributing to the poor repayment performance in some of the districts such as Bellary, Bijapur and Raichur was the frequent incidence of drought. 27

In line with the demand all over the country to write-off the cooperative loans, there is demand in Karnataka to waive loans taken by agriculturists from the cooperative societies. The Government has given concessions regarding this demand.

Some of the concessions that the Government of Karnataka has granted are the waiver of cooperative dues from small and marginal farmers and penal interest on cooperative dues. For

this the Government has constituted District level Committee under the Chairmanship of the Deputy Commissioners to scrutinise the applications of the farmers who request to waive and recommend to the Government the extent to which the farmers can be given concession. The Government has taken a decision to the effect that only in case of term loans overdues will be eligible for waiver. It has granted Rs.120 lakhs in 1990 for waiver of short and medium term loans to small and marginal farmers. The Government has also waived the penal interest on the overdues and interest accrued up to 30th June 1990 in respect of short, medium and long term loans availed of from all the cooperative institutions in the state with regard to small and marginal farmers. In respect of big farmers, penal interest is waived on short, medium and long-term loans in case of their repaying the entire dues within the date prescribed by the Government. It was later realised that most of the defaulters were rich farmers. It was found, for instance, that out of the total of Rs.110 crores dues in 1991-92 65 per cent was from the big farmers. While the recovery of dues from the small farmers had gone up from 45 per cent in 1970-71 to 55.28 per cent in 1991-92, it had dropped in the case of big farmers from 65.45 per cent to 55.93 per cent during the same period.

Cooperative credit in Karnataka presents a picture of uneven development. In a few districts, such as those transferred from
the erstwhile Bombay State, the credit structure is fairly strong in terms of resources and operational efficiency. Poor repayment performance has continued to be a major weakness of cooperative credit in the state, and has had a significantly restrictive effect on it, as several cooperative banks do not command sufficient resources of their own within which to absorb such overdues. \(^{28}\) To some extent, the overdues reflect the impact of unfavourable crop conditions and can be expected to be met in future by strengthening stabilization arrangements, an effort for which has began only recently.

Generally speaking, the cooperatives in Karnataka should be able to meet the expected increase in demand for agricultural credit. Even so, in quite a few districts, institutional credit can show better results than hitherto only if agriculture moves to a higher plane of technology and cooperative credit moves to a higher level of operational efficiency.

**Cooperative Credit Movement in Dharwad District:**

The Karnataka Central Cooperative Bank, which is the District Cooperative Central Bank started its operation on 23rd November 1916, with only Rs.30,000/- as its working capital and

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with the help of 41 individual shareholders and membership of 71 cooperative societies with its jurisdiction of Dharwad and Belgaum Districts. After 1918 when the separate Belgaum District Cooperative Central Bank was established the Karnataka Central Bank restricted its operation only to Dharwad District. By 1920, the bank opened its two branches, one in Gadag and the other in Haveri, and increased its working capital to Rs.3 lakhs.

Till the onset of the great economic depression in 1930 it had progressed greatly through advancing loans to cultivators. During this period most of the banks in the country were closed. The depression pushed down the activities of the central bank and also led the affiliated societies to unfavourable financial position which had its bearing on the agrarian economy of the region.

During the post-depression period the bank achieved tremendous progress. By 1934, the bank's membership increased to 520 individual share holders and 540 cooperative societies membership and its share capital increased to Rs.5,43,250 and deposits to Rs.36,42,635 working capital to Rs.44,28,922 and net profits to Rs.52,949.

At the time of the silver jubilee function on 23-11-1941, the bank's working capital increased to Rs.46,68,260 and
loans given to Rs.17,50,000 and branches to 16 in the District. The bank's progress increased year after year.

The bank celebrated its Golden Jubilee and Diamond Jubilee in 1967 and 1976 respectively. At the time of its Golden Jubilee celebrations on 10-1-1967 the bank had 15 Branches and 23 pay offices, 2197 individual shareholders and 1103 cooperative societies' membership. Its share capital had increased to Rs.44 lakhs and working capital was raised to Rs.9 crores, and the net profits increased to Rs.8.5 lakhs.

At the time of its Diamond Jubilee Celebrations in 1976 the bank completed sixty years of its service to the people of Dharwad District. Its branches increased to 16, and pay offices to 49, working capital to Rs.15.5 crores, its membership of cooperative societies to 1371, individual shareholders to 572 and nominal members to 23229.

From 1976 to 1993 the bank progressed considerably. By the end of 1992, the bank's total membership had increased to 72,765 of which 1,445 were cooperative societies, 70,780 nominal members, 41 associated members and 499 individual shareholders. Its capital had increased to Rs.308.67 lakhs, and deposits to the

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extent of Rs.6150.09 lakhs and reserve fund to the tune of Rs.124.35 lakhs, working capital to Rs.8149.49 lakhs and the net profits to the extent of Rs.172.58 lakhs.

**Organisation Structure:**

The present pattern of short and medium term credit is a three tier structure and federal in nature, comprising of the primary agricultural credit societies at the village level, the central cooperative bank at the district level and the apex bank at the state level. Though cooperation is a stage subject, the organisation structure is uniform throughout the country. The primary agricultural credit society is a federation of individual (farmer) members. These societies in turn become the members of the central cooperative bank. These central banks again federate at the state level and form an organisation called the 'Apex Bank' or 'State Cooperative Bank'. It stands at the top of the agricultural credit structure in a State. It occupies a key position in the entire structure of short-term and medium-term cooperative credit and plays an important role in the economic development of the country. It pools the resources and channelises surplus funds from one locality to meet the deficiency of the other to the advantage of the state as a whole.


The function of the highest organisation is to act as a balancing centre at each level of the cooperative structure and strengthen the lower organisation. The cooperatives are functioning at different levels independently of each other and on democratic lines. But they are linked with each other by affiliation. This is what called, "the principle of cooperation among cooperatives".

Channel of Three Tier Set-up:

1) **State Cooperative Bank or Apex Bank:**

Ever since the cooperative movement was launched, it was realised that there should be a strong bank at the state level to coordinate the functioning of the primary agricultural credit societies and the district central cooperative banks in the state. Such an apex bank was to work as a final link in the chain between the primary agricultural credit societies and the district central cooperative bank on the one hand and the money market on the other. The idea was based on the view that just as the primary agricultural credit societies in the village need a district central cooperative bank to finance and supervise them, the district central cooperative banks scattered throughout the state also needed a central agency which would act to them as the 'lender of the last resort' and control and coordinate their
work. It is a leader to all short and medium term credit cooperatives in the state.

The State Cooperative Bank and the District Central Cooperative Banks have been traditionally dealing mainly with the provision of agricultural credit. The massive agricultural production programmes require a considerable stepping up of the supply of credit for various purposes, such as, seasonal agricultural operations, distribution of fertilizers, seeds and pesticides, marketing of agricultural produce, farm investment etc. Only such banks which have achieved efficiency in their working and attained a viable status could reasonably be expected to play a development role.

The State Cooperative Bank (SCB) as the leader of agricultural credit in the state pays special attention to the problem of overdues of the district central cooperative banks which are their main clients. The SCB also reviews over-dues position and investigate the causes in a through manner and provide help in the recovery of such overdues.

2) District Central Cooperative Banks:

The structure of the cooperative credit institutions in the states resembles a pyramid. At the top is the state cooperative
or apex bank and, below this bank are a number of district central cooperative banks (DCCB) and below them are the primary agricultural credit societies. The DCCBS occupy an important place in planning and controlling the whole cooperative credit system. These banks are established at the district level, which is a very compact area and they know whether the development schemes are viable both financially and economically for the furtherance of agricultural growth. They also undertake the responsibility for the efficient functioning of the primary agricultural credit societies in their area of operation.

The District Central Cooperative Banks were established to finance the primary societies and to act as their balancing centre. They stand at the intermediate stage in the structure of the cooperative credit system in India. In the absence of such organisation, it would be difficult for the State Cooperative Banks to extent the financial facilities to the primary units.

On the basis of the recommendations of the All-India Rural Credit Survey Committee, there is one Central Bank in each district.

**Functions of District Central Cooperative Banks:**

The main functions of the D.C.C. Bank are -
1) To finance the affiliated primary agricultural credit societies (PACS) in their areas of operation, and, for that purpose, to collect the saving of the people in their areas so that credit is dispensed equally to both agricultural and non-agricultural sectors.

2) To act as a balancing centre for the resources of the PACS in the pyramidal structure of cooperative credit.

3) To attract local deposits by creating confidence in the minds of the local people.

4) To supervise the working and management of the affiliated PACS and to train their members in the principles of cooperation.

5) To open branches in suitable centres for the disbursement of loans and control of the client members and for effective deposit mobilisation and recovery.

6) To provide a safe avenue for investing the funds of the primary societies.

7) To conduct periodical conferences and maintain proper records.
3) Primary Agricultural Credit Societies:

The primary agricultural credit societies at the village form the base. It is on this base that the whole edifice of cooperative credit structure has been built. These federate into central cooperative banks at the district level. At the state level, these are federated into an Apex Bank or State Cooperative Bank serving the entire state. The apex-bank in its turn is closely linked with the Reserve Bank of India. The purpose of this federal type of structure is to strengthen the primary societies. If the borrower in the village needs credit, he applies to the cooperative credit society. If the primary society has no funds at its disposal, it applies to the DCC Bank and if the DCC Bank is in need of funds it applies to the apex Bank. That is why, it is said that the cooperative movement links the farmers in the remote village with the money market of the country. The fact that the structure is federal in character and that the institutions at different levels are independent legal entities of it also implies that the strength of the chain depends upon the strength of each of the links.

After independence, the organisation of the primary agricultural credit societies has undergone a change. Multi-purpose societies have been instituted on the

8) To help the development of the cooperative movement on should lines by all possible measures in the area of their operation.

Besides these, most of the D.C.C. Banks do other banking business such as accepting deposits of various kinds from the public on current, fixed and saving accounts, collecting bills, cheques, hundis, dividend warrants, issuing drafts, and hundis, safe custody of valuables, purchase and sale of securities and advancing loans at times to individual members against fixed deposit receipts, government paper, gold, silver and agricultural produce.

The DCCBs are also expected to maintain close and continuous touch with PACS, by being sympathetic and responsive to their needs and difficulties and providing leadership to them from the point of view of policy. It is coming to be increasingly appreciated that it is the DCCBs which are eminently fit for what is described as "financial supervision". i.e., activities relating to scrutiny of loan applications, verification of disbursements, watch over the use of loans, prompt recovery through the sale of crop and so on.
recommendations of the All-India Rural Credit Survey Committee (1954). Recently, the service cooperative societies came into existence. The societies are multi-purpose in character, yet credit remains their important function.

Functions of Primary Agricultural Credit Societies:

The main functions of the PACS are to provide short and medium term credit, supply agricultural and other production requirements and undertake marketing of agricultural produce by borrowing funds from the DCCBs. In addition to these, the cooperatives help in formulating and implementing a plan for agricultural production for the village and to undertake such educative, advisory, and welfare functions as the members might be willing to take up. The societies are also expected to inculcate the habit of thrift and saving among their members.

In short, the primary agricultural credit societies are intended to promote the economic interests of its members in accordance with the cooperative principles. The PACS are production-oriented and also associated with socio-economic welfare programme of the village.

Department Organisation:

Formulation of the plans and policies, framing the laws through the means of legislation and its implementation, controlling and guiding the cooperatives are the basic functions of the state government. The hierarchy of cooperatives at the national level is under the direct control of the Ministry of Cooperation and Civil Supplies. In Karnataka it is headed by the Minister of Cooperation. The subject of cooperation in the state is divided between the Secretariat and Executive Department. The former makes the policies through legislation and the latter implements the orders of the farmer. The Registrar's Office functions as the executive department in Karnataka, as elsewhere, in India.

The Registrar of cooperation is responsible for the development of cooperative movement in the state. He is assisted by different section heads. The Joint Registrar of Cooperative Societies is in charge of the cooperatives at the divisional level. There are 4 revenue divisions in Karnataka i.e., Bangalore, Mysore, Belgaum and Gulbarga. At the District level, the Deputy Registrar of Cooperative Societies is incharge of the cooperatives in the district, and at the sub-division level the Assistant Registrar of Cooperatives Societies is incharge of cooperatives who will supervise the activities of the primary
Agricultural Credit Societies at the taluka level, and who is assisted by cooperative Extension Officers. There is a separate Audit wing with the Director of Audit at the State level, Joint Director at the divisional level, Deputy Director at the district level, Assistant Director at the sub-divisional level and inspectors at the taluka level.

**Purpose for which Loans are Issued:**

Recently the Reserve Bank of India has introduced the norms for financing subsidiary occupations besides agriculture. The purposes for which loans are granted by the central bank are -

A) **Short-term Loans:**

1) Money lent for seasonal agricultural operations.

2) Money lent for consumption purposes.

3) Money lent for purchase of fertilisers, manures, pesticides etc.

4) Money lent for marketing of crops.

5) Money lent to meet water charges.
B) **Medium-Term Loans:**

The central bank has issued medium term loans for the -

1) Purchase of oil engines, pumpsets, electric motors, submersible pumpsets.

2) Purchase of *milch* cattle, poultry, pigs, sheep and goat.

3) Purchase of bullocks and bullock carts.

4) Purchase of shares of cooperative factories, such as sugar, spinning etc.

5) Construction of cattle sheds and farm houses, gobar gas plants, etc.

6) Repair of wells and minor irrigation works.

C) **Cash Credit Facilities:**

The central bank also provides cash credit facilities for the following purposes:
1) Cash Credit Account No.1 for urban banks, urban societies and employees societies, marketing societies and other societies for loaning to their members and for their general business.

2) Cash Credit Account No.3 (B) to the marketing societies for open/pledged loan.
   Account No.3 (C) for the sugar factory and cooperative spinning mills for the working capital loan.

3) Cash credit No.4 to the wholesale stores, hypothecation loan for distribution of essential commodities like sugar, cloth, kerosine, food grains etc.

Area of Operation:

The area of operation of the District Central Cooperative Bank is limited to the revenue district. But in some states like West-Bengal, Bihar, Orissa, Punjab and Andhra Pradesh the number of DCCBs are more than the revenue districts. But in Karnataka there are 19 DCCBs; each revenue district has one DCCB.

The demaration of operation of the central bank mainly depends upon the number of societies and the volume of business.
It should not be so large as to paralyse the accessibility of the central banks and their service to the PACS. The Maclgan Committee had recommended that a central bank should cover as large an area as was compatible with at least 200 to 250 societies. In general, it can be laid down that they must cover an area which may provide them adequate business to enable them to function efficiently and profitably. So the reorganisation of the DCCB was taken up, and, as a result of this, the number of central cooperative banks has come down from 505 in 1950-51 to 338 at present.

The area of operation of the primary agricultural credit societies varies from region to region. At some places the society has a jurisdiction of more than one village, while in others, it is limited only to one village. However, no fixed rules have been laid down. The Maclagan Committee recommended a small beginning in every case. It recommended membership between 50 and 100 and the policy of "one society one village" was followed. But the idea was given up when the All India Rural Credit Survey Committee (1954) gave its verdict against 'one village one society' and it recommended the reorganisation of primary agricultural credit societies so as to cover a group of villages with reasonably large membership and a reasonably adequate share capital so as to provide them with adequate business.
The Committee on Cooperative Credit (1960) said, "A cooperative credit society cannot afford to enlarge itself into an impersonal institution. Therefore, the membership must not be too large and the area of operation of the society should be compact. The maximum number of families that should be covered should be 600 or about 1000.\(^{34}\)

The All India Rural Credit Review Committee recommended that an agricultural credit society might be permitted to cover a population of more than 3,000, and that no limit should be set in this regard. As regards the restriction on the distance of a village to the society's headquarters, the Committee felt that it should be permissible to vary it from state to state, as conditions differ widely both in respect of agricultural potential and availability of communication.\(^{35}\) In May 1976, a meeting of the Registrars of Cooperative Societies and the representatives of the Government of India recommended that every primary agricultural credit society should cover 4942 acres within the radius of 10 Kilometers.\(^{36}\)

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34. R.B.I., (1960): Report of the Committee on Cooperative Credit, Bombay, p.75
Branches of the Central Banks:

The All India Rural Credit Survey Committee viewed that for the effective linking of the higher level structure with societies at the gross root level, it was necessary that the bank headquarters should have branches at some intermediate level between the village and the district headquarters. They would inculcate in the people the habit of banking besides cooperative awareness.