Chapter - II

ROLE OF CO-OPERATIVES IN AGRICULTURAL CREDIT
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2.1. INTRODUCTION:

Promotion of credit co-operatives in its present day corporate form was the first ever efforts in the country at institutionalising credit for the rural areas. Efforts to build up the institutional credit system for developing rural areas commenced with the co-operative credit societies Act 1904. The modern co-operative movement in India thus started with the passing of this Act.

2.2 AGRICULTURAL CREDIT SOCIETIES:

Agricultural credit societies are the kernal of co-operative movement in India. They are the very foundation stone of the co-operative credit structure and constitute by far the largest number of co-operative institutions in India. The objects of these societies show a good deal of variation. Most of these societies were originally formed on Raiffeison model, though recently there has been certain significant deviation from the orthodox principles. The essential elements of Raiffeison society interalia are: a restricted area of operation unlimited liability, gratuitous managements and permanent indivisible reserve fund. Most significant deviations are in respect of liability,
area of operation, honorary management and participation of the governments in the society as a share holder. Thus deviation has been regarded as revolutionary and they mark a complete break from the Raifeison model.

2.3. ORGANISATION AND REGISTRATION:

Any 25 persons can apply for the registration of an agricultural credit society. Membership of a society is open to any person above the age of 18 residing with in the area of operation of a society and having a good character. The application for registration is to be submitted to the registrar accompanied by the copies of bye-laws. If the Registrar or his deputy is satisfied that the proposed bye-laws are in conformity with the co-operative Acts and Rules that the society has a fair chance of success, he registers the society and issues a certificate of registration.

2.4. OBJECTIVES OF CREDIT SOCIETIES:

i) To associate itself with programme of production.

ii) to lend adequately, i.e., to lend adequate amounts to all producers especially agricultural producers and in this process increasingly cater to the small producers.

iii) to attract local savings to the maximum possible extent not only as share capital, but also as fixed deposits etc.
iv) to supervise the use of loans

v) to recover the loans and to see that the loans are repaid punctually.

vi) to distribute fertilizers, seeds, agricultural implements etc either on its own behalf or as agent.

vii) to supply certain consumer goods in common demand such as rice, wheat, kerosene and sugar etc.

viii) to collect and purchase produce, where necessary on behalf of a consumer society, marketing society or government.

ix) Generally to associate itself with programme of welfare, economic and other for the village.

2.5. AREA OF OPERATION:

Till recently the area of operation of the agricultural credit societies was limited and the well known Raiffeison rule of “one village one society” was followed. A smaller area was preferred on account of the following reason.

i) When one society serves a village only the fundamental principles of mutual knowledge and mutual trust can be kept.
ii) A small society can be easily supervised and democratically managed.

iii) Such societies can work like a family with a strong feeling of brotherhood and comradeship.

iv) The one village one society one society principle is in accordance with the Indian tradition, as the village has been the unit of co-operative activity.

2.6. PURPOSE OF LOANS ADVANCED:

At present the agricultural credit societies advance two types of loans.

i) Short-term loan for the period of 12 months to meet the seasonal cultivation requirements of the agriculturists and

ii) Medium-term loans from one to three years for purchase of bullocks, milch, cattle, pumping sets and other improved implements.

2.7. UTILIZATION OF LOANS:

The importance of the purpose which is mentioned in the loan application is relevant only if the loan is utilized for the purpose stipulated in the application. It has however been noticed that a large proportion of loans are not actually utilized for the specified purpose. A sample survey conducted
by the programme Evaluation organisation of the planning commission revealed that nearly 28% of credit was diverted to purposes for which it was not intended, as much as 23% being used for non-agricultural and non-production purposes like repayment of debts and meeting of term loan the percentage of diversion was as high as 35%.

2.8. REPAYMENT OF LOANS:

The repayments of loans given by the agricultural credit societies to the members is of considerable importance for the success of the credit movement. The Maclagan Committee very rightly stated that “Unless loans are repaid punctually, co-operation is an illusion”. While recovering the loans, the due dates have to be so fixed so that is not too distant from the harvesting season and at the same time a reasonable time allowed is for enabling the cultivator to dispose off his produce.

The loans are gradually to be repaid in two or three instalments. If the period of loan is too long, the danger is that the cultivator may sell his produce and filter away the sale proceeds to repay the loan. The practice of some central co-operative banks is to fix the due date at the end of twelve months from the date of drawal is inconsistent with the concept of seasonality.
2.9. STRUCTURE OF CO-OPERATIVE CREDIT:

The co-operative banking structure is federal in character. At the base that is at the village level there is a primary credit society upon which the whole edifice of the co-operative credits is based. These societies are federated at the district level central society called central co-operative bank. At the state level, the district banks are federated into an apex bank. The Apex (or) state co-operative bank in its turn is closely linked with the NABARD, which provides considerable financial assistance to co-operative credit structure.

The Long-term credit structure at the movement consists of two tiers. There are primary land mortgage banks at the base and central land mortgage banks at the top. In some states central land development banks operate through their branches. There are, in addition a few industrial banks operating at the state or district level.
CHART.

Co-operative Credit Structure

Agricultural Credit Societies

Short-term & Long term
Medium

State Co-op Banks State LD Banks

PLDB's

Central Co-op Banks

Central Co-op Banks Primary Non-Agricultural Credit Societies

Of which

PACB Grain Banks

Employees Co-op Credit Societies Urban Co-op Banks

Non-Agricultural Credit Societies

State Co-op Banks

Central Industrial Banks

State Industrial Co-op Banks
A study group of national credit council presided over by Dr. D.R. Gadgil stated the co-operative banking system is an integral part of the national economy and because of its three-tier structure, has been enabled to extend credit to agriculturists and small industries in general. The three-tier system also allows a rationalised flow of resources from the metropolitan centres to the villages and combines this with fairly low costs of operation.

2.10 WEAKNESSES OF AGRICULTURAL CREDIT SOCIETIES:

2.10.1. Non-Viable units:

One of the most important weaknesses of agricultural credit societies, moreover in India, has been that the primary credit societies, the base of the movement is feeble and non-viable units. Most of them have poor membership and are working with inadequate working capital.

2.10.2. Democracy of societies:

Another significant problem about the agricultural credit societies is that many of them are lying dormant. Moreover, several of the societies which have been classified as active or non-dormant have been doing token business and cannot be considered 'active'. The existence of such a large number of dormant societies at the primary level is really the one of the most disturbing features of the co-operative movement in India.
2.10.3. Uneven growth:

The agricultural credit movement has not developed on a uniform basis in the country. There is marked regional disparity and unevenness in its development.

2.10.4. Inadequacy of credit provided:

A significant weakness of agricultural credit societies is that the quantum of loan supplied by them is not only inadequate but in some states is woefully far below even the absolute minimum credit requirements of the agriculturists.

2.10.5. Defective loan policies:

The following defects are still to be observed in their lending operations:

i) There are no proper timings for either disbursement or recovery of loan.

ii) The entire loan is left out in one lump sum in a year instead of being paid in instalments.

iii) Loans in kind are not generally given.

iv) Loans are still given on the security of landed property and not on anticipated crops.
2.10.6. Delay in loan disbursement:

There is also inordinate delay on the part of the lending agencies in actual disbursement of loans. There is a big time-lag between the loan-application and its disbursement. The process is sometimes delayed by a period of three to four months.

2.10.7. Inadequate supervision and defective Audit:

At present there is no satisfactory arrangement for strict supervision over the proper utilization of loans by agricultural credit societies to their members.

2.10.8. No linking of credit with marketing:

One important condition for the extension of agricultural credit movement was that these societies should be able to forge an organic link with the marketing societies.

2.10.9. High overdues:

One of the most disquieting features of the agricultural credit societies in India is the increasing amount of overdues. The rise in over dues is not restricted to one region. There is an unmistakable trend of rising over dues in almost all the states. In some of the states the position has reached such an
unsafe level that if the menace is not stemmed it would bring about it collapse of the whole movement.

2.10.10 Ineffective Management:

Many of the weaknesses of the primary credit societies arise an account of ineffective and inefficient management. The members of the managing committee do not take sufficient interest in the working of their societies. In some of the societies annual general meetings are not held regularly. Most of the societies do not have paid and trained managers or secretaries.

2.11. NEED FOR AGRICULTURAL CREDIT:

Agricultural is an important industry and like other industries its also requires capital. Due to the peculiarities of agriculture, specially its uncertainties, its small unit production, scattered operation, low returns, high rates of rent and limited scope for employment a large proportion, of cultivators cannot manage from one harvest to another without recourse to borrowings. Sir F.A. Nichalson stated in his monumental report, ”The history of rural economy, alike in Europe, America and India, has no lesson more distinct than this, that agriculturists must and will borrow.” This necessity is due to the fact that an agriculturists capital is locked up in his land stock, and
must be temporarily mobilized, hence credit is not necessarily objectionable nor is borrowing necessarily a sign of weakness”.

United Nations publication has again stressed the need for credit for farmers when it observed: “Most of the world’s farmers have to borrow at some time, many of them heavily. To raise agricultural production they will have to borrow still more. And more is almost always needed where there is a redistribution of rights in land. It is thus in the interest of agriculture, and general progress, that credit be available to farmers inadequate amount and at appropriate costs.

The importance of credit for agriculture has assumed added significance in India in view of the pivotal position agriculture occupies in the national economy. Agriculture provides employment to 60 per cent of the population, contributes about 37 percent of our national wealth and accounts for about 26 percent of the total export earnings. It is quite obvious that the prosperity and well-being of the entire people of India hinges on the progress and prosperity of agriculture. An efficient and developing agriculture is now considered to be major factor in accelerating the pace of economic development.

Agriculture is not merely a way of making money by raising crops. It is not merely an industry or a business. It is essentially a public function or
service performed by private individuals for the care and use of land in the national interest and farmers in the course of their pursuit of a living and a private profit are the custodians of the basis of the national life. Agriculture is therefore, affected with a clear and unquestionable public interest, and its status is a matter of national concern calling for deliberate and far-sighted national policies, not only to conserve the natural and human resources involved in it, but to provide for the national security, promote a well-rounded prosperity and secure social and political stability."

In many regions such as Indian, and South-eastern Asia, Central American and south America and may farmers through low incomes and through operation of money lenders and merchants have been compelled to borrow excessively. “In such region”, says a United Nations publications, much of the outstanding rural credit is to be regarded more as imposing heavy obligations on farmers than as promoting increase in farm production”. In the Agrarian unrest in South East Asia, Erin Jacoby Says, “He (moneylender) seldom cares about the use of the money he lends and frequently encourages his clients to continue borrowing as long as they could give additional security.”
2.12. NEED FOR INSTITUTIONAL AGRICULTURAL CREDIT:

The development of institutional credit is thus a basic condition for agricultural progress. The history of agricultural development in all advanced countries shows that an integrated system of institutional credit laid the foundation of agricultural prosperity. The objective of the institutional credit is to make a break through in the various circle of poverty, rack-renting, usury and debt and to stimulate the farmer to boost agricultural productivity. This would mean in the words of Dr. Horace Belshaw “the conversion of static into dynamic credit”.

These institutional arrangements are expected to do the following functions:

i) Facilitate and encourage savings and their mobilization for productive investments;

ii) Reduce the cost of credit administration.

iii) Pool the risks of lenders.

iv) Increase competition between private money lenders and effectively counter the local monopolies which many of them now enjoy.
v) Help farm families fully to understand the opportunities which wise use of credit affords, and in this way as well as by flexible repayment provisions.

vi) Minimise risk of losses by borrowers.

Though the importance of institutional credit for the needs of peasantry is reorganised as basic to the development of agriculture, yet the same is conspicuous by its absence in most of the underdeveloped countries.

2.13. AGRICULTURAL CREDIT AND CO-OPERATIVES:

In most of the countries of the world an attempt has been made to develop institutional credit for agriculture on co-operative lines. The co-operative form of organisations is considered best for providing credit to the farmers. Attention was drawn to the unique role of co-operatives in the provision of agricultural credit, as far back as 1927 by the World Economic Conference held by the league of Nations in Geneva. A special resolution of the conference defined this role as follows:

"The increase of agricultural production is intimately bound up with the organisation of agricultural credits, which will place at the disposal of agriculturist the necessary capital on favourable terms. The first condition for surrounding these difficulties in the organisation of credit institutions in
those countries where they do not exist and their development where they are already in existence. The best form of institution appears to be the co-operative credit society operating by means of resource which the very fact of association enables it to procure and to increase with or without the assistance of the public authorities.”

In 1937 the statutory report of the Reserve Bank of India stated: “An agency which satisfies the requisite conditions for agricultural finance is the co-operative society and it has been so recognized in almost all agricultural countries.” In 1945 the Agricultural finance sub-committee was of the view that the spread of co-operation would provide the best and the most lasting solution for the problem of agricultural credit and of those, rural economy in particular. The Report of the Grow More Food Enquiry Committee (1952), emphasized the need for co-operatives in the following terms:

“It would be useful at this stage to stress the great part the co-operative movement can and should play in improving rural life. The co-operative principle, in its infinitely varying forms, is capable of adaptation for finding a solution to all problems of rural life. In fact, it is only in the co-operative principle that such a solution can be found.” In 1954 the Rural Credit Survey Committee Stated: Today, more than ever before, there is every reason for an institutional system of rural credit to be based on a co-operative association in
the village....the re-organisation of agricultural credit in India must be based on some form of co-operative association of cultivators within the village itself”.

Co-operative organisation have been recognised as the best institution for providing rural credit to the farmer because they satisfy all the important criteria of sound agricultural credit. The fundamental postulates of agricultural credit, as pointed out by Mr. F.A. Nicholson are

i) Absolute proximity of lender and borrower,

ii) Complete security to the lender as regards the title of the property offered.

iii) Through safety and facility to the borrower. To these may be added the requirement that credit should be positive, productive, thrift-creating, instead of negative, unproductive and dangerously facile.

To quote Nicholson again ... it must be credit which shall only be so obtainable that the act and effort of obtaining it shall educate, discipline and guide the borrower....the method of providing it must teach the lessons of self and mutual help, and suggest the expansion of those lessons to matters outside of mere credits, it must be safe not
merely in eliminating the dangerous of usury, but in being controlled, needful and productive.

The co-operative organization satisfies the basic conditions of proximity as they can have intimate knowledge of the character and abilities of their members. They can supervise the use of credit and see that members employ the money obtained by them in improving the productivity of land. The credit provided by these societies is bound to be cheap as they can have very low administrative cost because much of their work is done voluntarily. The credit provided by co-operative institutions is neither too rigid nor too elastic. The finance as is available from them formally purports to be short-term in most part, whereas in actual practice it tends to be medium-term or even long-term. The credit provided is also safe. It assists and does not hamper the borrower's stability and productive capacity.

Co-operative organization which is actuated by service motive can play a unique role in providing not merely a facile credit but a safe and productive credit. In fact, the very act and effort of obtaining co-operative credit educates and guides the borrower; it teaches the borrower the lesson of mutual and self-help. The co-operatives can instill in members strong feelings of responsibility for prompt payments of interests and repayment of loans and can provide strong incentives to thrift and savings.
2.14 CLASSIFICATION OF CREDIT:

Credit can be classified period-wise, purpose-wise and credit wise. The term of period of the loan is the most commonly accepted classification. According to it credit is classified as short-term, medium term and long-term.

2.14.1. Short-term credit:

Short-term credit is given for seasonal agricultural operations directed towards raising of crop on land, including a reasonable amount for the maintenance needs of the farmer and his family. Short-term loans are generally made for 12 months. They are given for purchasing seeds, manure and fertilizers or for meeting labour charges, etc., and are to be repaid after the harvest.

In the words of All India Rural Credit Review Committee, the short-term credit is a kind of a lump-sum accommodation to fill up the gaps in outlay which cannot be met from the cultivators own resources during the non-income period between two harvests.

2.14.2. Medium-term credit:

The medium-term loans are given for a period ranging from over 12 months to 5 years for purposes such as reclamation of land, building and other
land improvements, purchase of live-stock machinery and other implements, sinking of walls, construction of fucca drains in the field, etc.

2.14.3. Long-term credit:

Long-term credit is given for period ranging between 5-20 years, for purposes such as the redemption of land liquidation of debts, purchase of tractors and land and improvements of a permanent nature in land.

2.15. CONCLUSION:

It is merit of this set up, though the institutions at the different levels are connected with each other by the bond of affiliation, they are, in financial and legal terms, distinct entities, each serving a set of specific purposes which justify its existence as an independent unit. In agriculture the co-operative banks are playing an important role.