CO-OPERATION - CONCEPTS & PRINCIPLES

Co-operation means working together. The principle is as old as human society. It is truly the basis of domestic and social life. What is known as co-operative effort is ultimately the group instinct in man which enables him to live together, work together and help each other in times of stress and strain. Unconsciously the principle has always permeated the life of human race. The history of modern civilization is, in fact, the history of co-operation, for without it social and economic progress would have been impossible.

Man's evolution has not been competitive in terms of aggression as has been supposed by Darwin and his followers. It has been considered to be essentially co-operative rather than aggressive.

Modern biologists believe that the co-operative forces are biologically more important and vital. Prince Peter Kropotkin in mutual aid asserts that "sociability is as much a law of nature as mutual struggle." He has further observed that "the cunningest and the shrewdest are always eliminated in favour of those who understand the advantages of sociable life and mutual effort." He went so far as to assert that
human society itself could not be maintained for even so much as the lifetime of one single generation except by the practice of mutual aid. W.C. Allee, A.E. Emerson, R.W. Gerard and others have also argued that co-operation is more natural and competition in the life of both animal and man. Emerson said, "Co-operation has a more evolutionary force in the development of man than has the bitter competitive struggle for existence." Montagu says that "science points out the way to survival and happiness for all mankind through love and co-operation." According to E.R. Bowen, "Co-operation is the universal instrument of creation."

It is now acknowledged on all hands that civilization cannot flourish unless competition is supplanted by co-operation. Human beings have developed out of group life and hence naturally respond to group and social stimuli. Thus the co-operative spirit is innate and intrinsic in human beings, "Co-operation, not competition, is the password for the future." (Hyde Bailey) Even economists have found co-operation far superior to competition. In 1876, Mill wrote in his Principles of Political Economy that "Co-operation is the noblest ideal. It transforms human life from a conflict of classes struggling for opposite interests to a friendly rivalry in the pursuit of the common good.

of all." Charles Gide, noted French economist has stated that "competition is essentially a kind of warfare which means the triumph of the strong and the ruin of the weak", while "co-operation means nothing less than an economic system destined to supersede capitalism by mutual aid."\(^2\) The teachings of co-operation or association can be traced in the writings of ancient philosophers such as Plato and are found even today in the theories of modern scholars and thinkers.

Definitions of Co-operation

The term "Co-operation" as generally understood today is a term which like philosophy and religion defies exact definition and description. Almost every writer has tried to define this term in his own way. No two definitions are identical and no single definition has so far succeeded in including within a single unassailable formula all the ingredients of co-operative ideology. One important reason as to why the definitions differ so widely is that co-operative movement developed in different countries in different forms under different social environment. The difficulty in defining the term co-operation also arises because of

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the fact that in some countries they are aided and controlled by the state; in some they are used as instrument of state planning, in some they are state partnered while in some they are state organs, and in some they are voluntary organizations. Because of this difficulty, Dr. Laszlo Valke of the U.S.A. distinguishes between "welfare co-operatives" and "economic co-operatives." By the former he means societies which are largely state aided.

The concept and meaning of co-operation has been given by utopian socialists, religious thinkers, sociologists, economists and reformists in their own way in the context of the circumstances prevalent in their respective countries. Some of the definitions of co-operation and their critical analysis are given below:

Holyoake defined co-operation "as a voluntary concert, with equitable participation and control among all concerned in any enterprise."

It is worthwhile mentioning that Holyoake and his contemporaries had their attention fixed on the evils resulting from the early and rapid rise of capitalism. In those days, the onrush of the Industrial Revolution had necessitated the accumulation of the capital of many people in joint stock enterprise
As liability was still unlimited it was but natural that those who bore the risk should retain the control and take all the profits. During those days money was all powerful and the human element was at its mercy. Thus Holyoake's definition repeats the cry of men ground down in poverty, who thought their way of escape lay in securing fair dealing, fair opportunity, freedom to choose their own lives and emancipation from the capitalist and the middleman.³

According to Mr. C.R. Fay, "A co-operative society is an association for the purpose of joint trading, originating among the weak, and conducted always in an unselfish spirit, on such terms that all who are prepared to assume the duties of membership may share in its rewards, in proportion to the degree in which they make use of their association."⁴

An analysis of this definition shows that (1) a co-operative society is an association, (2) it originates among the weak, (3) its aim is joint trading, (4) its business is conducted in an unselfish spirit, and (5) the rewards are shared by members in proportion to the degree in which the association is used.

Sir Horace Plunkett's definition of co-operation is "self-help made effective by organization." He summed up theory and practice of co-operation in three famous maxims, "Better-Farming, Better Business and Better Living." This definition reflects the spirit of the co-operative enterprises. It however, lays over-emphasis on the principle of self-help, which is, no doubt, an important principle of co-operation but the only one.

Dr. R. Philips has given the following definition of co-operation:

"The co-operative association is an association of firms or households for business purposes- an economic institution through which economic activity is conducted in the pursuit of economic objectives." 5

This definition has number of limitations. It regards co-operative enterprise as an association of either firms or households while co-operation is always regarded as association of people and not capital. This definition also assumes that economic motive is the sole inducement of co-operative undertaking. In other words it assumes that co-operator in his role as a member of an association functions as an "economic

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Prof. Lambert's definition has attracted considerable attention in the co-operative world. It has been considered as "pertinent" by Mr. C. Vinney and has been explicitly approved by Mr. Rezsohazy. The greatest merit of this definition is that for the first time it has been made clear that a co-operative society is to serve not only the interests of its members but must also serve the interests of the whole community. Mr. Lambert has stated, "A co-operative society does not aim only at furthering the interest of its members, but in so far as it may legitimately do so and only in so far as this is compatible with the general interest" In this respect Lambert's definition is certainly an improvement over earlier definition.

Other Definitions

According to Talmaki; "Co-operation is an organization where a person voluntarily associates together with others on a basis of equality for the promotion of their economic interest by honest means."7

The Co-operative Planning Committee defined it as follows:

"Co-operation is a form of organization in which persons voluntarily associate together on a basis of equality for the promotion of their economic interests."8

8. Reports of the Co-operative Planning Committee (1946).
Dr. Louis P.F. Smith defines a co-operative as "an association belonging to economic units (whether of producers or consumers) controlled by them for service to themselves in which the risk of profit or loss is borne by a variable price of goods and services rather than the profit on capital." 9

Mr. W.P. Watkins, a former director of the International Co-operative Alliance defines co-operation as "a system of social organization based on the principles of unity, economy, democracy, equity and liberty."

Legal Definitions

In some countries a co-operative society is defined by law as an organization which has as its object "the promotion of the economic interest of its members" or "the promotion of thrift, self-help and mutual aid among agriculturists and other persons with common economic needs, so as to bring about better living, better business and better methods of production." Sometimes a co-operative is defined as a body formed and working under the "Co-operative Act" of the country concerned.

Under the Austrian Act, a co-operative society is an association with unlimited number of persons the object of which is the promotion of industry or trades of their members by means of common action or credit.  

Under the Japanese Law of 1921, a co-operative society is an association having legal existence, formed by persons of modest means in order to promote and develop, according to the principles of mutually, the exercise of their occupations and the improvement of their economic condition.

Under the British Columbia Agricultural Association Act of 1911: an association shall be deemed to have been organized on a co-operative basis if its constitution and bye-laws provide for securing to all producers who are its members a share in the profits of association in proportion to the value of the produce supplied by them after payment of a dividend upon the capital stock not exceeding a statutory maximum.

The German Law while placing emphasis on open membership and furtherance of the commercial interest of members by means of a common business undertaking, has defined it as an association of persons varying in

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10. Legal definitions are quoted from R.B. Tyagi's Book: Recent Trends in the Co-operative Movements in India, pp. 4-5.
number and grappling with the same economic difficulties and voluntarily associating on a basis of equal rights and obligations and endeavouring to solve these difficulties mainly by conducting at their own risk the undertaking to which they have transferred one or more of such of their economic functions as correspond to their economic needs, and by utilising their undertaking in joint co-operation for their common material and moral benefits.

Co-operative Principles

For a clear understanding of the co-operative ideology and to differentiate it from other business enterprises, the founding fathers of the co-operative movement laid down some definite principles which were expected to serve as a guide-post for the future development of the co-operative movement. These principles are of considerable significance for the growth of the co-operative movement. These principles, in the words of ICA Commission, are: "Those practices which are essential, that is, absolutely indispensable to the achievement of the co-operative movement's purpose." According to W.P. Watkins, a former Director of ICA: "Co-operative principles are the ideas, inherent in co-operation, which determine what it is as a mode of action........They are ideas which it is the
purpose of co-operative activity to realize." Mr. George Davidovic, a leading Canadian authority on co-operation defines them as, "a set of rules which govern the life and activity of co-operative organizations." In the opinion of late Professor D.G. Karve, a co-operative principle "is a way of organizing and conducting co-operative activity which is an inherent and indispensable corollary of the ideal or the objective of the co-operative movement.  

Co-operative principles, in fact, are fundamental characteristic features which determine the character of co-operation as a form of association. They are the guidelines and ground rules for co-operative enterprises. Without these principles no lasting co-operative system is possible. These principles are not abstract notions as is sometimes believed but are expressions of concrete realities. It is largely on their application that the success of the co-operative organization will depend.

The co-operative principles, however, should not be confused with co-operative policies or practices which are actually the means and methods in the practical operation of co-operatives. A principle is a "governing law of conduct," "a settled rule of action,"

which describes and defines the basic and essential characteristics of a particular system or type of organization. A practice on the other hand, is the usual mode or method of doing something without the variety of law involved in it. Unlike a principle which may grow out of widely accepted and time-tested practices, a practice lacks universality of application and such essentiality to success or to accomplishing a broad purpose that it does not have the status of a law or dispensability.

Co-operative principles are the high ideal of the co-operative movement which ought to inspire all genuine co-operative activity while co-operative practices, like cash trading, are organizational or the operational rules of a co-operative society. These co-operative practices might be of considerable significance for a particular society at a particular time, but they are not considered essential to the attainment of co-operative ideals or objectives. Co-operative principles are of paramount significance while co-operative practices have to be checked in the light of changing structure of industry as well as the society. Co-operative practices depend on the overall economic and sociological structure and most of all the exigencies of the movement. They may be very expedient and necessary but they do not represent immutable or
inviolable principles which are valid for all times and for all cases in all countries. But it is highly imperative that these practices should be in consonance with the basic co-operative principles.

By the co-operative principles are understood a set of rules which govern the life and the activity of the co-operative organizations. Actually they make the co-operative economy what it is - an economy of the people, by the people and for the people. It is by the application of its own principles that the co-operative economy is distinct from the capitalist economy - the economy of capital, by capital and for capital and from the communist economy - the economy of state, by the state and for the state.12

Treatises have been written on what these co-operative principles are. However, there is no unanimity as to them and, as Professor D.R. Gadgil has pointed out, even in the interpretation or application of the commonly recognized principles, there is considerable diversity of views. For a clear understanding of the co-operative principles it becomes necessary to trace the sources of the principles.

One historian of co-operative ideas, G. Mladenatz, has classified co-operatives into three main groupings or systems. The Rochdale system, the Raiffesien system and the Schulze-Delitzsch system. These three systems were adapted to the needs of particular social categories: consumer, farmers and independent artisans or traders.

The main principles underlying these three systems can be presented as follows:13

(A) Rochdale Principles
1. Voluntary and open membership.
2. Democratic control by "one member, one vote".
3. Division of the surplus in proportion to patronage.
4. Limited interest on capital.
5. Political and religious neutrality.
6. Cash trading
7. Promotion of education.

(B) Raiffeisen Principles
1. Self-help without exclusion of state help, provided co-operative independence is preserved
2. Limited area (parish or village)
3. Allocation of the entire surplus to indivisible reserves.
4. Membership without subscription of shares.
5. Unlimited liability of members
6. Limitation of the business to members only.
7. Voluntary work by board members.

(C) Schulze-Delitzsch Principles

1. Self-help with exclusion of any outside help private or public.

2. Large territory of operation.

3. Division of the surplus in proportion to operations.

4. High interest on shares to attract large subscription of shares.

5. Limited liability of members (originally unlimited).


8. Allocation of 10% of the surplus to reserves.

A careful analysis of the three systems will, however, reveal, that they all have common features; they are actually based on the same principles, namely, voluntary association of people having common needs and interests; the improvement of the economic and social position of co-operative members by means of a common enterprise; the democratic management of co-operative associations expressed by rule of one-man one-vote; the independence of co-operatives from political and religious influence; and they all manifest educational and morale tendencies.\(^{14}\)

They differ only on certain operational aspects. Thus the Rochdale Pioneers insisted on cash tradings as

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\(^{14}\) George Davidovic, "Reformulated" Co-operative Principles, op.cit., p.22.
essential for the protection of consumers. But as both Raiffeisen and Schulze-Delitzsch began their co-operatives as credit organizations, they could naturally not insist on cash.

The fact, that the same principles are at the foundation of three systems and regulate different categories of co-operative organizations in every corner of the world, is of paramount significance. It suggests that all types of co-operatives have the same philosophical basis and are part of a united system. It suggests, too, that the co-operative character of an enterprise depends on the observance of principles, not on the social make-up of the membership, nor on the particular field of business activity. 15

In spite of the diversity of their sources, co-operative principles have come to be known the world over mainly as 'Rochdale' principles. This is due to two reasons: first, the clarity in the formulation of the Rochdale Pioneers; and second, the universality in their applications. 16 These principles have inspired the co-operative movement throughout the world. These principles are: (1) Democratic control; (2) Open membership; (3) Limited interest on capital; (4) Patronage dividend; (5) Cash tradings; (6) Political and

religion

cultural

and

Promotion of education.

1937 Committee

In the course of time, the co-operative movement spread out in various countries and various forms of co-operations were developed. It began to be doubted whether Rochdale Principles formulated as early as 1844 would meet the needs and requirements of the various forms of co-operative organizations. The need for reformulating co-operative principles also arose out of two other factors: one, the ideological, and the other, practical or technological. With the establishment of socialist state in Russia, the co-operators of the world began to be seriously divided on account of ideological grounds. The other important factor which necessitated a second look at co-operative tenets and philosophy was the size and complexity of the operations of co-operative which had increased far beyond the simple ideas and forms of Rochdale Pioneers. Advanced technology was influencing procedures and organization in the co-operative sector. In 1934, the International Co-operative Alliance (ICA) was asked to appoint a special committee to examine and formulate the principles of co-operation. The committee divided the Rochdale principles into two classes:

1. Essential or obligatory principles, and
2. Non-essential principles.

Essential Principles: The 1937 Committee regarded the following as major essentials or obligatory attributes of the co-operative activity:

1. Open membership,
2. Democratic management,
3. Limited interest on capital,
4. Payment of dividend in proportion to transactions.

Non-essential Principles: The three traits described as of less importance and therefore, presumably, non-essential, were:

1. Religious and political neutrality,
2. Cash trading,
3. Education

It is worthwhile to mention that the 1937 ICA report came as a inch of salt to many co-operators. Neither the supporters of capitalist or classical form of co-operative, nor the leaders of co-operative activity in socialist states were satisfied with this report. The very concept of graded validity of principles was resented in many quarters. The snappy or summary manner in which the principles were expressed
failed to carry adequate meaningfulness to be either enlightening or helpful. It was the practical co-operator, and co-operative administrator, who sought guidance while making up his mind how he should make a correct co-operative choice, while promoting the objects of his co-operative organization. Is non-voluntary membership, even though open, compatible with co-operation? What are the limits on 'openness' of membership? Can or must, the principles of 'one man, one vote' be followed at all stages and in all circumstances? Must interest on capital be paid? Must dividend be distributed? These were very vital questions, even in regard to the principles, which the Committee had qualified as essential. As for the 'less essential principles', there was no guidance at all, as to how and how far they could be varied or abandoned. The co-operative movements in different countries went their own way, improving their own modifications to all the more and less essential principles set out in 1937 report. 18

After 1937 great changes took place all over the world. Conditions as they emerged after the Second World War were radically different in most of the

countries of the world. Social and political conditions of the various nations changed considerably and the co-operatives had to adapt themselves to these changing conditions. It was not possible for the co-operative movement to keep aloof from the far reaching changes taking place in technology and management. It was increasingly becoming evident that if co-operative enterprises were to survive and flourish, they must fully take advantage of the vast opportunities offered by modern technology. The fast moving changes were throwing a big challenge to the co-operatives to act not only in a big way but also to set up highly sophisticated organizations which could be economically efficient without being co-operatively unsound.

The seven principles classified by the International Co-operative Alliance as primary and secondary began to be considered as somewhat unrealistic and even out-dated in the rapidly changing times. In some of the countries some of the principles were not followed in actual practice. Particularly the agricultural co-operatives did not follow closely the plan and some of the principles were entirely abandoned.¹⁹

Many co-operators strongly felt that the original wordings of the principles were not clear and there

was an urgent need to review them in the light of the changes taking place.

In October, 1964, the Central Committee of ICA appointed a Commission "to ascertain how far the principles of Rochdale-as defined by ICA Congress at Paris in 1937 - are observed today and the reasons for any non-observance." The Commission was asked to consider, in the light of its study, whether the Rochdale Principles, so defined and stated, meet the needs of the co-operative movement, having regard to the present day economic, social and political situation, or whether any of the principles should be reformulated in order to contribute in the best manner to the fulfilment of the aims and tasks of the co-operative movement in its different branches.

The Commission's report, submitted in 1966, was characterized by two important features which distinguished it from 1937 report. Firstly, the Commission did not differentiate between some principles as essential, while, others as non-essential. Secondly in formulating the principles, brevity or brilliance of phraseology at the cost of its accuracy and adequacy was carefully avoided by the Commission. Having been asked to reformulate co-operative principles, the
Commissions came to the conclusion that "its formulations cannot be formulas". They must be attempts at exact, and at the same time comprehensive and adequate statement of the nature and extent of the trust underlying each formulation. True co-operative principles must be true in both senses; firstly, they must be appropriate ways leading to the common goal of co-operators; and secondly, they must explain, as fully as is necessary and possible, all the implications of their justification and results. This means a substitution of formulas by exact and adequate statements. The Commission, both in the body of its report, and in the summary of its findings, has presented carefully phrased formulations which are no more verbose than necessary but which do not leave out any of the essential implications of each statement. 20

According to the Commission, the following should continue to be considered essential to genuine and effective co-operative practice both at the present time and in the future as far as that can be foreseen:

1. Membership of a co-operative society should be voluntary and available without artificial restriction or any social, political or religious discrimination to all persons who can make

20. D.G.Karve, Co-operative Principles and Substance p.16.
use of its services and are willing to accept the responsibilities of membership.

2. Co-operative societies are democratic organizations. Their affairs should be administered by persons elected or appointed in a manner agreed to by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participation in decisions affecting their societies. In other than primary societies the administration should be conducted on a democratic basis in a suitable form.

3. Share capital should only receive a strictly limited rate of interest, if any.

4. Surplus or savings, if any, arising out of the operations of a society belong to the members of that society and should be distributed in such manner as would avoid one member gaining at the expense of others. This may be done by decision of the members as follows:

(a) By provision for development of the business of the Co-operative;

(b) By provision of common services; or
(c) By distribution among the members in proportion to their transactions with the society.

5. All co-operative societies should make provision for the education of their members, officers, and employees and of the general public, in the principles and techniques of Co-operation, both economic and democratic.

To these the Commission has thought it important to add a principle of growth by mutual co-operation among co-operatives.

6. All co-operative organizations, in order to best serve the interests of their members and their communities, should actively co-operate in every practical way with co-operatives at local, national and international levels.

In submitting the above formulation, the Commission also added certain remarks. The first is, that these principles are not associated arbitrarily or by chance. They form a system and are inseparable. They support and reinforce one another. They can and should be observed in their entirety by all co-operatives, whatever their objectives and area of operations, if they claim to belong to the Co-operative Movement. The second remark is that, although the
principles originated as rules governing the relations of the individual members of co-operatives with one another and with their societies, their application is not confined to primary societies. They should be loyally observed by secondary organizations also, with such modifications as are necessary or desirable for institutions which represent the co-operation of co-operative societies rather than of individual persons. The third remark is, that those principles, accepted in 1937 but not retained by the present Commission, are not lightly to be disregarded or thrown aside. The fact that they are not a universal application in our time does not mean that they are no longer appropriate, particularly for co-operative societies which, by reason of their youth and inexperience, cannot afford to risk strains on either their finances or the unity of their membership.21

CO-OPERATION AND ECONOMIC DEVELOPMENT

In western countries, the co-operative movement developed spontaneously and was a movement of the weak against the strong, but in the developing countries like India, it has been born, natured and brought-up by the Government "not because it was desired but because it was desirable to do so for the peculiar conditions

that prevailed in our country during the last quarter of the 19th and the early 20th century." The main feature was that unlike the western countries, India had no suitable agency to take initiative. Further, the people being self-sufficient under the village economy did not think of combining themselves formally to undertake jointly the activities of common interest, though examples of co-operating with each other in times of need and during agricultural seasons was not conspicuous by its absence, as in the work of sowing, harvesting and irrigation the land. The money needed for agricultural and social operations was borrowed from the village money lenders of course at a high rate of interest, to whom the borrowers was often tied, merely as a slave for the life time. This make the economic conditions of the rural people rather miserable. This condition followed by other factors led to the government association with the development of co-operative movement in the country initially.

Co-operation in India has not arisen from within the hearts of the people. It has come from above, i.e. it has been introduced in the country at the initiative of the government for the sake of the improving the lot of the people. Deeply moved by the poverty and indebtedness of the agriculturists, the government after gaining the experience of other countries, where the
movement had achieved good results, took steps for starting the movement in the country as early as 1904. The co-operative in India owes the origin to the initiative of the state.

AGRICULTURE AND RURAL POVERTY

Agriculture forms the back-bone of Indian economy despite the concerted industrialisation, during the plan period, agriculture still occupies a pride or place. Prosperity of agriculture can also largely be responsible for prosperity of the entire Indian economy. Economic historians generally concur that there are no cases of successful development of a major country in which a rise in agricultural productivity did not precede or accompany industrial development. The Rostow stages Theory of Growth has historically observed that, "agriculture plays a distinct but multiple and converging role in the transitional process of the "take-off" into the self-sustained growth."

It may thus be observed the agriculture occupies a major place in the dualistic set-up of the national economy. This development operation has snow-ball effect over the whole of the economy. It constitutes the most important constraint on the process of growth.
PROBLEMS OF INDIAN AGRICULTURE

India leads all other countries in the production of ground-nuts and tea and enjoys a monopoly in the production of lac. She is the second largest producer of rice, raw jute, sugar, rape-seed, sesamum cotton and castorseed; and it ranks third in the production of millets. Though India compares favourably with other countries of the world in agricultural production, her position is not very satisfactory in so far as the yield of crops per hectare is concerned. It is this low yield which made Dr. Clouston to remark, about 60 years ago that "India has depressed classes, she too has depressed industries and unfortunately agriculture is one of them." This remark still holds true. Yields per hectare in India are comparatively low and these too are reduced to nothing in the periods of drought. The Ford foundation team has reported that, "the best in Indian agriculture is comparable to the best in other countries but the average is unduly low. One significant reason for low productivity per worker is the employment of too many people in agriculture that what is actually needed. In some countries of the world only a fifth of the population produces a diet that gives a person some 8000 calories a day i.e. a family adequately feeds five families; while in India one farm family cannot support itself properly and needs help of another family."
(i) Indian agriculture is "a gamble in monsoon." Agricultural production function in India is highly responsive to the uncertainty of rainfall. Risks arising out of national factors such as hailstorm, unfavourable weather conditions, insufficient rains or badly distributed rainfall, frosts, diseases or insects - excessive rains, droughts, floods, etc., are exert a very unfavourable influence on agriculture. Monsoons are irregular, ill-distributed and uncertain. They also set in too early or too late. The inevitable result is failure of crops. So far only 40% area is irrigated. Continued absence of adequate facilities for 80% of the area for irrigation have made the poor cultivator a helpless tool in the hands of his 'fate'. It has been rightly said, "Farm production cannot be quickly expanded or contracted but may be seriously and unexpectedly reduced by bad weather, pests and diseases."22

(ii) The poor equipment, inadequacy and obsolete nature of tools has been a contributory factor. The prices of new implements and equipments are unreasonably high and beyond the reach of majority of small and medium cultivators. Further, the wide variation in the prices of their different makes lead to a lack of confidence and hampers the cultivators to make use of them.

(iii) The subsistence type of farming remains deficit agriculture economy. Agriculture remains 'low income occupation', which follows low savings, low investment and low agricultural incomes. This poverty has created a vicious circle which starts with and ends in low agricultural production. Low production leads to low marketable surplus, low bargaining power, low incomes, low investment for land improvement and ultimately ends in low agricultural production.

(iv) The density of population depending upon agriculture also has a direct bearing on the unit yield of the region. The yields of cereals are lower in more purely agricultural countries than in more industrialised countries because excessive pressure results in disproportionate utilisation of land for cereals unsatisfactory system of crop rotation and less possibility of recuperation of the soil.

(v) Agriculture in India lacks in organisation and leadership. It has never offered phenomenal prosperity to anybody like an industry. The philosophy attached to it is a way of life retarded entry of the talent into its fold. Inclemencies of the weather, vagaries of monsoon, fluctuating prices, outmoded tools and implements, bad rural living conditions, harassment by village factions and petty officials etc. have made agriculture and rural living unattractive to the
talented youth. The result is a heavy erosion of the resourceful talent from agriculture and this considerable reduces the capacity of the farming community to compete and progress.

(vi) Low output of research is also one of the causes of the failure in our agriculture. In the last 25 years, research has in many cases reached only general conclusions and very often the research results are neither in a usable form nor have reached the cultivators. Extension is confined to individual good practices and no complete pattern of farming has been advocated. It is so because the support given to agricultural and biological research has been extremely meagre so far.

(vii) Small size of large number of holdings about 62.96% of households cultivate less than 5 acres or a large number of uneconomic holdings of cultivable land which are also fragmented and subdivided. This makes difficult appropriate investment for modernisation of cultivation methods.

(viii) Land concentration in a few hands, the owners of which do not utilise it to the fullest extent and below them are large number of medium and small cultivators. Rigid and oppressive land system and high rates of land rent discourage investment for permanent improvements in land.
(ix) Restricted storage facilities for holding the produce which depresses unduly the price in market, and bad communications and imperfect marketing facilities prevent realisation of a fair price for the produce. This situation does not induce the cultivator to produce more.

(x) Lack of adequate non-farm services like provision of cheap credit and the resultant indebtedness and poverty of the peasant and lack of marketing facilities hinder improvement in techniques of production.

(xi) Indian society is a faction-ridden society. The case studies reveal "a far greater role of caste's negative functions in terms of constant breaks in village solidarity and any spirit of co-operation, promotion of insecurity, and acts of violence against person and property, litigation, rivalry and groupism. Besides, discontent, mutual bitterness, factionalism, illiteracy, ignorance, caste rivalries, group conflicts social tensions chronic under employment characterise rural society. These social factors impede agricultural production." 23

(xii) With the depletion of forest resources, fuel supply is becoming scarcer, hence most of cow dung is

being burnt, and lesser and lesser quantity of it goes to the field. 24

(xiii) **Credit and Finance**

The demand for capital in agriculture as a composite demand made up of demands for different types of capital goods which vary greatly in the degree of their fixity or permanence.

Capital/credit in agriculture is needed both for productive and non-productive business needs of cultivators.

The U.N.O. publication has 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...." 25

An agricultural expert of F.A.O. has observed that "the provision of adequate credit which would not harass the farmer is an essential part of many schemes of agricultural development." 26

Rural indebtedness has long been one of the most pressing problems of India. Rural people have been under heavy indebtedness of the village moneylenders

and sahukars. The burden of this debt has been passed on from generation to generation in as much as the principal and interest went on increasing, for most of the debt has been unproductive. According to Wolf, "the country has been in the grip of Mahajans. It is the bond of debt that has shackled agriculture."

According to Dr. K.N.Raj, "Raising productivity of land requires not only more inputs like labour, water and fertiliser but incentives to make these inputs worth while to agricultural producers."

To sum up we may say that the traditional agricultural sector has not yet completely got over the unnerving influences of nature and it still continues to be dominated by people who are illiterate, ignorant, and mostly uninformed of the latest methods and techniques of production; land holdings and majority of individual cultivators continue to be uneconomic, fragmented and subdivided; cultivation of marginal lands; poverty of cultivators and lack of service facilities have all continued to be a drag on the general, operational efficiency. It now needs to be disengaged from the banes of traditionalism and lacks of organisation.

INSTITUTIONAL FINANCE - SIGNIFICANCE

The institutions supplying finance are (a) Money-lenders, (b) Co-operatives, (c) Government, and (d) Commercial banks.

The moneylender continues to exist in the Indian economy because it has got an important place in the scheme of rural credit structure. The farmers especially small and marginal, being in the urgent need of finance, borrow from such class of persons more for meeting unproductive expenses and past debt burdens and less for the sake of productive purposes.

The reasons of the significant position of the moneylenders in the rural money market is because of the informal moneylending procedure, willingness to lend on personal security and also for unproductive purposes. Another cause of the important position of the moneylending class is the intimate knowledge and relations with the debtors from generations.

The moneylenders have often been not only criticised but condemned because of charging exorbitant interest rates, unscrupulous act as well as malpractices followed by them. The following are the most common practices followed by them:28

(a) At the time of advancing money, the moneylender usually deducts in advance the total interest for the year from the principal. He makes the borrower sign a bond to the effect that the full amount has been received. The moneylender can easily demand payment of the interest after a year because no receipt is given for the interest in advance.

(b) Many moneylenders get the thumb impression or signature of the borrower on blank sheets of paper before lending money. Later on they enter more than the actual amount if the debtors is not regular in the repayment.

(c) Moneylenders generally manipulate the figures in registers in such a way as to show a larger amount than is actually lent.

(d) Whenever the borrower is illiterate the sum inserted in written documents is very often shown to be larger than what is actually lent.

(e) Not only that, some moneylenders also do not take the trouble of entering in his books some instalments of the money received as interest.

(f) Some moneylenders charge "Girah Khulai" (i.e. purse opening) before any business is transacted
Many other charge such as "Gaddi Kharcha" "Salami" and "Katauti".

Lastly, sometimes conditional sale deeds are also taken by some of the moneylenders to ensure against the possible evasion of payment by the debtors. The high interest rates and malpractices are because of the following reasons:

The absence of any effective alternative source of credit, greater risks which agricultural credit entails, small sized farm-holdings, sometimes in some cases, the absence of ownership of occupancy rights in land are said to be the causes of high rate of interest. Besides, there is a lack of contact between the town and remote country areas as supplying credit to agriculture tends to become more difficult and costly. The most important difficulty before the Indian farmers is related to finance. The lack of finance is the major factor in keeping the Indian agriculture backward. It has rightly been said that the cumulative effect of exorbitant rates of interest paid by cultivators, low prices received from the sale of agricultural commodities and the effect of various malpracti-
ces by moneylenders who are also dealers in agricultural produce is that debt once contracted keeps on accumulating. 30

The need was, therefore, felt to mend the style of functioning of the moneylenders. The Agricultural Finance Sub-Committee was constituted to study the problem. The committee recommended mainly for:

(a) Registration and licensing of moneylenders, (b) maintenance of accounts in prescribed form, (c) prohibition against showing in books of account a sum larger than what has been actually lent, (d) furnishing of periodical statements of accounts to the debtors, (e) issue of receipts to the debtors for every payment received, (f) limitation of rate of interest (g) prohibition against taking unlawful charges for expenses, (h) provision to deposit in part or in full payment of a loan in a court of law, (i) protection of debtors from intimidation, and (j) institutional credit should be developed for this purpose and marketing should be regulated by law. 31

In view of the recommendations, the Government of India took steps to regulate the activities and operations of moneylenders through legislative enactments. The main objectives of such legislative

enactments are (i) to bring about an improvement in the term on which private credit was available to agriculturists, (ii) to place legal restrictions on the unreasonable exactions of moneylenders, and (iii) to enable civil courts to do greater justice as between the lenders and borrowers.  

The second source of rural credit is the cooperative movement. Co-operation is not new in India. In ancient India, it was found in four forms, viz., Kula, Grama, Shreni and Jati. Kula was both a political and socio-economic organisation in which kinsmen, friends and relatives worked co-operatively to promote their economic, social and political interests. The co-operation at the Grama level emerged after Kula. The Shreni is later development which emerged in the post-Vedic era. It was a co-operative and economic organisation of artisans, industrial and handicrafts workers, merchants, traders and bankers. Co-operation at Jati level was mostly for social purposes as education, charity and relief work. The Co-operative Movement in its modern form has been the growth of little over half a century. It is largely dependent for its origin on the Government.

The rural credit societies were started to carry on business of the rural banking and replace the money-lenders. In fact it was through co-operation that the problem of agriculture as a whole was solved.

The third main agency of providing finance to the cultivators is the Government. It lends money to the farmers in the form of taccavi loans especially in times of floods and famines. The Land Improvement Loans Act, 1883, provides for long-term loans for effecting permanent improvement while short-term loans for current agricultural needs are given by the Government under the Agriculturists Loans Act, 1884. However, such loans obtained under these Acts are small in number and amount. These loans are also obtained on the occasion of distress such as famines, floods and cattle epidemics. The red tapism and corruption among the subordinate revenue staff are the important reasons of its limited use. The extreme rigidity in the recovery of such loans has been another important cause as an agency of credit to a limited efficiency. No doubt, the amount of taccavi loans have been greatly rising in the recent years. The Government has been making liberal grants and loans to the farmers for sinking wells, purchasing bullock, seeds and fertilisers. In spite of all this Government remains a small agency.
Commercial banks in India were a negligible source of agricultural credit providing a small percent of the total rural credit. But through the introduction of social control over commercial banks in 1968, such banks are doing important services to the farmers. The nationalisation of 14 commercial banks in 1969 have further extended the credit facilities to the farmers to a considerable extent.

LAND DEVELOPMENT BANK AS DEVELOPMENT AGENCY

The Land Development Banks supply long-term credit to the cultivators. The necessity of such banks arose because the primary co-operative societies do not give loans to the cultivators for long-term. Primary Co-operative Societies themselves draw their funds from the Central Co-operative Banks for short-term as well as medium-term purposes. The long period loans are made on the basis of landed property. Such loans require expert assistance for valuation and title deeds. The primary co-operative societies do not possess such expertise. These banks can work satisfactorily if they are assisted by the State Government in the matter relating to the provision of requisite staff for managerial and evaluation work. These banks have a two-tier structure. One is the Central Land Development Bank at the State level. another is the Primary Land Development Banks at the tahsil/subdivision/district level.
The objective of the Land Development Bank is to provide long-term credit to farmers. Other agencies of rural credit do not provide long-term finance to the farmers for the development of agriculture.

NEED OF STUDY OF LAND DEVELOPMENT BANK

Commercial banks and co-operative credit societies cannot afford to grant long-term loans as their resources are limited and inadequate. They cannot mortgage the agricultural land. It is an admitted fact that suitable agency for supplying long-term financial requirements of the cultivators is Land Development Bank.

Capital/credit in agriculture is needed both for productive and non-productive business needs of cultivators. The institution of Land mortgage Bank known as Land Development Bank in India is more than 70 years old and now may be found in all over country.

The need of the present study is to focus the attention on the specific points as mentioned below:

(a) To study the different categories of farmers who have been benefited from the loans disbursed by Land Development Banks.
(b) To analyse the factors and their relative importance in influencing credit use.

(c) To make a comparative analysis of the advantage derived from the loans obtained by the different categories of borrowers from the Land Development Banks.

(d) To make a comparative analysis of recovery from the three categories of beneficiaries namely large farmers, small farmers and marginal farmers.

(e) To identify the factors associated with the overdues among different categories of defaulters and to find out their compulsions.

(f) To assess how far Land Development Banks could be instrumental in reducing the dependence of farmers on the moneylenders particularly in view of most recent developments in the field of institutional finance.

(g) To suggest that in what ways the Land Development Banks could be made more effective operationally.