CHAPTER II

CO-OPERATIVE CREDIT SYSTEM IN INDIA AND THE ROLE IN FINANCING OF AGRICULTURAL DEVELOPMENT
Co-operation is a world-wide movement. It was introduced in this country in the early years of this century in the wake of famines which had resulted in economic hardship and an alarming increase in the indebtedness at the farmers to the moneylenders. Co-operative credit on easy terms appeared to be the best means of getting the farmers out of the vicious circle of indebtedness and poverty. The idea was to relieve the farmers from undue dependence on moneylender who lend at various rates of interest.

Keeping in view the need for the promotion of co-operative societies, the lines on which such societies should work, the privileges which should be accorded to them and the extent to which they should be aided by the government and subjected to government control, a law was passed on 25th March 1904 and subsequently Co-operative credit societies act was made with a view to encourage thrift among persons of limited means in the rural sector.

a) **GROWTH OF CREDIT CO-OPERATIVES IN PRE-INDEPENDENT PERIOD**

There was some deficiencies in the Act of 1904 and to remedy these defects the Government of India re-examined the whole provision and passed the co-operative societies Act, 1912. Provisions were made for the registration of all types of co-operative societies and supervising unions by making provisions for their registration with unlimited liabilities for primary agricultural credit societies. Under this reform in 1919, Co-operation became a transferred subject under the
charge of a minister in each state. A commission was appointed in 1926 with Mr. Calvert as Chairman, and the committee noted that if co-operation fails, there would fail the best hope of rural India.

From 1935 to 1939 there were three main developments in the fields of Co-operation. The Reserve Bank of India was established and its agricultural credit departments were charged with the duty of studying various problems relating to agricultural credit. All India conference of registrar of co-operative societies pointedly stressed the need for development of long-term credit through co-operative land Mortgage Banks. The concept of co-operative societies being organised as multipurpose co-operatives came to be increasingly accepted. The period of 1939 to 1947 was wholly connected with second world war there were considerable increase in the prices of agricultural commodities. It was at this time that, the co-operative movement began to give much greater importance of production and distribution of commodities to the people.

PROGRESS OF CO-OPERATIVES CREDIT SYSTEM UNDER FIVE YEAR PLANS

A BRIEF REVIEW

Although Co-operation had been in existence in the country since 1904, when the first legisitative measure was enacted on the subject and it received the attention of various committees from time to time to make it an effective
instrument of economic growth, it failed till recently to make an appreciable impact on the economic activities of the people. To revitalise the movement, the Reserve Bank of India set up in 1951 a committee to conduct the rural credit survey and make necessary recommendations for the purpose.

Recognising the co-operative form of organisation as an indispensable instrument of planned economic action in a democracy, the First Five Year Plan (1950-51 to 1954-55) clearly expressed preference for the Co-operative organization of the economic activities of the people, especially in regard to agriculture, Marketing, Cottage and processing industries and internal trade, which form the most important part of the development schemes included in the Plan. The main reasons for this shortfall lay in the fact that the Co-operative movement was not yet sufficiently broad-based and arrangements for credit were not linked generally with programmes for increasing agricultural production and with schemes of co-operative marketing of agricultural produce. The system of advancing short-term loans with reference to the anticipated crops and production programmes was also not developed to any considerable extent.

The second Plan (1955-56 to 59-60) is avowedly committed to the building up of the Co-operative sector. It provides scope for both individual as well as social ownership through voluntary action. The Third Indian Co-operative congress, held in New Delhi in the middle of April, 1958,
also recognised the importance of co-operative sector. Co-operation was assigned an important role in the second five year plan as an effective instrument for fulfilling the objectives laid down in the plan.

The scheme of co-operative development included were based on the recommendations of the Rural Credit survey committee (1956). Loans were to be advanced in terms of the production programme and anticipated crops, that is on the ability to repay than on the extent of land owned. Whatever possible loans were to be given in kind. Co-operative farming was to be encouraged as rapidly as possible so that in ten years or so a substantial proportion of agricultural land would be so cultivated.

The promotion of villages and small-scale industries through co-operative organization hopes to increase employment, avoid technological unemployment wherever possible and to provide the basis for the structure of an essentially decentralised society. In the co-operative field the targets of the second Five Year Plan were no doubt spectacular. The membership of co-operative credit societies was raised from 5 million to 15 million and the target of co-operative credit was raised from rupees 43 crores to 255 crores.

The Third Plan (1960-61 to 65-66) considers co-operation as a vital factor for social stability and economic growth and visualises wider dimensions for it in the country.
In this plan an important place was given to co-operation as a major form of organization in many branches of economic activity, especially in the agriculture, small industry, marketing, processing and distributing supplies. The main scheme of co-operative development in the plan therefore, related to the rebuilding and strengthening of the structure. As a result of the various steps taken by the government to sponsor and strengthen Co-operatives for weaker sections of the community, various co-operative societies came into existence.

During the Fourth Plan period (1969-70 to 1973-74) an important development in India was the implementation of the new agricultural strategy which aimed at self-sufficiency in food through implementation of high yielding varieties programme. At this time the co-operatives found to be in a state of stagnation. The position of overdues affected flow of credit from higher financing agencies.

One of the primary objectives of the Fifth Plan (1973-74 to 1978-79) was not only to increase the production but also to make the goods available to the people. The S.F.D.A. and M.F.A.L. projects started functioning on a significant scale. For development of the Co-operative sector, measures were taken up at the government level as well as at the society level to reduce the overdues, and to improve the repayment performance. Implementation of the different
developmental programmes was started and other programmes like marketing, processing, storage, consumer Co-operatives too, various Co-operative organizations in the country undertook a number of steps to prepare their own action programme suiting to the rural situation.  

During the year 1985, under sixth plan period there were 91,749 primary Agricultural credit societies, 350 District central Co-operative Banks and 30 State Co-operative central Banks supplying short-term and medium-term credit while 19 state Land Development Banks and 890 primary Land Development Banks supplying long-term credit. Besides, there were 25,203 primary co-operative Banks serving the needs of urban and rural areas.

The Deposit of the Co-operative Banks amounted to Rs. 7280 crores as at the end of June 1985 and formed 8.5 percent of total Deposits of the Banking system. The short-term loans issued by the co-operatives increased to Rs. 2,323 crores at the same period of time. Medium-term credit for purchase of pumpset, milch animals, bullocks etc, amounted to Rs. 1,145 crores. The long term loan issued during the period amounted to Rs. 458 crores and, the outstanding loans amounted

to Rs. 2,407 crores. The co-operatives have played a useful role in implementing various programmes of rural developments as well.

ALL INDIA RURAL CREDIT SURVEY REPORT (1951 -54) :

A matter of great significance in the First Plan period was the carrying out of a rural credit survey in the country by the Reserve Bank of India. It assessed the past performance of the movement, ascertained the reasons for slow progress and also suggested the lines of its future developments. The Report came out in 1954, with its famous phrase "Co-operation has failed but co-operation must succeed\(^2\)" and gave authentic data to the planning commission for the formulation of a definite policy for the reorganization of the movement. The Report primarily dealt with Co-operative credit. It assessed that the total requirements of rural credit in the country were of the order of Rs. 750 crores. The committee reported that the co-operative movement was expected to provide controlled credit which firstly, must be adequate i.e. in quantity and must be commensurate with the production requirements of the borrowers, and secondly, must be suitable i.e. loan should be given at a reasonable rate of interest for production requirements. A review of the movement in the light of the above criteria

revealed that it did not came up to the expectations either an quantitative or in qualitative terms. It was found that most of the loans advanced were for short term purposes only. It was also found that there was no supervision over the proper utilization of loans as most of them were being spent for unproductive purposes.

The Report, however suggested that the Co-operative system of credit was still most suited to the country and therefore, it was necessary to create conditions in which the movement could make a swift progress. Its main recommendations were State partnership, establishment of the State Bank of India, creation of various funds, reorganization of Co-operative movement and, Co-operative training. ³

ORGANISATIONAL STRUCTURE OF CREDIT CO-OPERATIVES:

The Mehta Committee (1960) recommended that, as a rule, service co-operatives should be organised on the basis of the village community as the primary unit, provided that where the villages are too small, any number of villages within a radius of three to four miles from the head-quarter, villages may be grouped together in the interest of viability. Again in 1964, it was considered that size of the society depends on its viability. A co-operative society should have

Sufficient number of members and business turnover and its affairs should be efficiently managed so as to earn adequate profit. In 1977, the Reserve Bank of India gave guidelines to State Governments to recognise service societies in the interest of viability. In order to make the potentially viable societies over a number of years, the Government undertook to provide managerial subsidy on the condition that the society undertakes a programme to become viable in a period of three to five years by increasing membership, share capital, business turnover etc.

**FUNCTIONS OF PRIMARY AGRICULTURAL CREDIT SOCIETY (PACS):**

According to the V.L. Mehta Committee report\(^4\) (1960), a PAC Society should perform the following functions.

1. To associate itself with programmes of agricultural development.

2. to lend adequate credit to members for their agricultural and consumption purposes limited to their paying capacity.

3. to attract local savings for share capital and fixed deposits.

4. to distribute fertilizers, seeds, insecticides etc.

5. to promote the economic interests of its members.

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There are mainly four components in the working capital of a Primary Agricultural Credit Society (PACS). These are:

1) paid up share capital
2) Reserve funds and other reserves credited out of surplus
3) deposits
4) Borrowings

**LOAN POLICY AND PROCEDURES:**

The underlying idea of the co-operative credit is that, a group combining to furnish a collective guarantee can obtain funds at lower rates of interest than they individually could command. The main point regarding Co-operative credit is that it educates the borrowers to put credit for productive purposes and insists on punctual repayments. The PACS supply short and medium-term loans to their members. Short-term loans are given for 15 months for the purchase of seeds, fertilizers, pesticides, manures, implements and payment of land revenue. Medium-term loans are given for three to five years for the purchase of cattle, implements, construction of wells, pumpset, repair of wells, improvement of land etc.

The loans sanctioned to a member is related, in each case, to his production credit needs which are ascertained and recorded in detail. In most parts of the country, landed

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property is commonly insisted upon as a security for Co-operative production credit. This insistence on landed property resulted in large amount of co-operative credit going to the bigger farmers, for smaller tenants could not offer such security and therefore did not get loans. However, loans are also given on the security of movable property and against the personal security of one or more members. Since, Co-operative credit is personal credit based upon character and repayment capacity of the cultivator, loans should be advanced on personal security and not on his property.

The rate of interest charged by primary agricultural credit societies on advances to member varied from region to region and it ranged from 9 to 12 percent, for small and medium-term credit. The general consensus is that the rates are somewhat high, and unless the rates of interest are brought in parity with that in the money market and there is sound working of the co-operatives, the movement as a whole is likely to suffer and the very benefit, which it aims at bringing to the cultivator will be retarded considerably.

RESERVE BANK OF INDIA AND CO-OPERATIVE SOCIETIES:

The Reserve Bank of India provides short-term, medium-term and long-term credit to agriculture. This is evidenced by the fact that both the amount and the outstandings has increased considerably in recent years. The Reserve Bank of India provides short-term loans at different rates, for
financing agricultural credit, marketing of crops, purchase of seeds and fertilizers etc, through state Co-operative central Bank. The medium-term credit is granted out of the National Agricultural credit fund for Agricultural improvement such as, (a) reclamation of land (b) Construction, development and maintenance of irrigation sources (c) purchase of machines, transport, equipment fertilizers etc and (d) Construction of farm houses and cattle sheds, these loans are granted for a period up to five years to state co-operative Banks against the guarantee of the State Government at a rate of interest below 3 per cent. The Bank also grants medium-term loans for converting short-term loans into medium term loans to farmers in circumstances of distress like drought, floods, failure of crops etc. The Bank also grants long-term loans to the state land Development Banks for more than five years as against the guarantee of the State Government.  

ROLE OF N.A.B.A.R.D.  

The National Bank for Agriculture and Rural Development (N.A.B.A.R.D.) came into existence on July 12, 1982. The new Apex is an organizational device for providing undivided attention, forceful direction and pointed focus to the credit

problems arising out of the integrated approach to rural development. It has an organic link with the Reserve Bank by virtue of the latter contributing half of its share capital, besides a Deputy Governor of the Reserve Bank being appointed its Chairman.

On its establishment N.A.B.A.R.D. has taken over the entire undertaking of the Agricultural refinance and Development Corporation (ARDC) and has taken over from the reserve Bank its financing functions in relation to the State Co-operative Banks and the Regional Rural Banks. NABARD is now the Co-ordinating agency in relation to all India institutions engaged in the development of rural industries. It is hoped that NABARD not only will help in refinancing but in revamping the co-operative credit system in order to make it a development catalyst in the changing rural scenario.

ROLE OF STATE CO-OPERATIVE BANK:

Central Co-operative Bank in each state organises their state level federation called the State Co-operative Bank, whose objects are to frame credit policies, co-ordinate and guide the working of Central Co-operative Banks, arrange financial accommodation for them and serve as clearing house of finance and information. The organized policy is to have one State Co-operative Bank in each state. Consequently there were

State Co-operative Banks and 19 State Land Development Banks supplying short-term, medium-term and long term credit in India up to 1985. To begin with the Apex Banks admitted not only the central Co-operative Banks to their membership but also the primary societies and individuals, all of whom were then entitled to receive loans from them. Now the policy is to give a dominant voice to the central Banks. Membership of individuals and societies has, by and large, been terminated and loan operations restricted to central Co-operative banks and State level-Co-operative federation.

PROGRESS OF PRIMARY AGRICULTURAL CREDIT SOCIETIES IN INDIA:

During 1955-56 there were 1,76,092 primary agricultural credit societies (P.A.C.S.) with the membership of 78 lakhs. Thereafter the number of societies increased up to 2,09,622 during the year 1964 with the membership of 2.37 crores. Then the number of primary agricultural credit societies declined from 2,09,622 in 1964 to 1,91,904 in 1966 with the membership of 2.61 crores. As a result of the programme of reorganization of primaries, the total number of primaries had been brought down to 162700 during 1969-70 with the membership of 2.98 crores. The membership of PACS rose to 3.2 crores in 1971-72. By the end of June 1979, there were 1.02 lakhs primary Agricultural credit societies covering about 43 percent of the rural people. The progress of Co-operative credit societies in the recent years is presented in table 2.1.
### TABLE 2.1

**PROGRESS OF PRIMARY AGRICULTURAL CREDIT SOCIETIES IN INDIA.**

<table>
<thead>
<tr>
<th>Items</th>
<th>1983-84</th>
<th>1984-85</th>
<th>1985-86</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Number of societies (PACS) in (000's)</td>
<td>92</td>
<td>92</td>
<td>92</td>
</tr>
<tr>
<td>2. Membership (000's)</td>
<td>66,669</td>
<td>69,182</td>
<td>72,118</td>
</tr>
<tr>
<td>3. Owned Funds</td>
<td>957</td>
<td>1,035</td>
<td>1,124</td>
</tr>
<tr>
<td>4. Deposits</td>
<td>464</td>
<td>524</td>
<td>572</td>
</tr>
<tr>
<td>5. Borrowings</td>
<td>3,164</td>
<td>3,743</td>
<td>3,927</td>
</tr>
<tr>
<td>6. Total loan issued</td>
<td>2,499</td>
<td>2,693</td>
<td>3,140</td>
</tr>
<tr>
<td>7. Total loan outstanding</td>
<td>3,898</td>
<td>3,981</td>
<td>4,224</td>
</tr>
<tr>
<td>8. Total loans overdues</td>
<td>1,575</td>
<td>1,620</td>
<td>1,807</td>
</tr>
<tr>
<td>9. % of overdues to loan outstanding</td>
<td>45</td>
<td>4.9</td>
<td>41.8</td>
</tr>
<tr>
<td>10. % of overdues to demand</td>
<td>42.9</td>
<td>42.1</td>
<td>44.1</td>
</tr>
</tbody>
</table>


From the table 2.1 it is evident that, there is not much of increase in the number of PACS from 1983-84 to 1985-86. The membership rose from 692 lakhs in 1984-85 to 721 lakhs in 1985-86. The deposits increased from Rs. 464 crores in the year 1983-84 to Rs. 572 crores in 1985-86, showing an increase of Rs. 108 crores as compared to 1983-84. A total loan amount of Rs. 3140 crores was disbursed by the PACS during 1985-86, showing an appreciable increase of 16.6 percent as against 7.8 percent in 1984-85. However, recovery performance of PACS continued to remain a matter of concern.
Overdues increased from Rs. 1630 crores as at the end of June, 1985 to Rs. 1807 crores in 1986 and found 41.8 percent of the total loans outstanding. The percentage of overdues to demand also increased from 42.1 to 44.1 percent over the same period. The interest charged by the PACS in respect of short-term and medium-term loans was remained unchanged since 1983.

There is, thus, an urgent need for upward revision of the viability norms and to reduce the percentage of overdues of the PACS. The recommendations of the senior expert group entrusted by NABARD, with the examinations of the aspects, are awaited.

N.A.B.A.R.D. had circulated the detailed guidelines to all State Governments stressing the need for a time-bound programme for improving the quality and range of services rendered by PACS, by their assuming the character of rural banking institutions through provision of not only diversified credit facilities to their members but by extending facilities for marketing of produce, distribution of inputs, and mobilizing rural deposits. The State Governments have been advised to select 10 to 15 societies in each district, subject to 10 percent of the profit-making societies in each state, for their intensive development by 1982-83 and gradually extend the scheme to all the societies by the end of the year 1985.
As at the end of 1987, as many as 4,826 societies in 18 states/territories were selected for intensive development. Data collected in respect of 275 societies on a pilot basis from thirteen states revealed that, the selected PACS in the states of Haryana, Karnataka, Kerala and Madhya Pradesh had maintained a steady pace of development in membership drive, deposits mobilizations, increase in loan business and non-credit activities. States like Himachal Pradesh, Rajasthan, Tamil Nadu etc. had achieved sizeable progress.

PROGRESS OF PRIMARY AGRICULTURAL CREDIT SOCIETIES IN
MAHARASHTRA:

In the State of Maharashtra the Co-operative movement started in early 20th century. The Co-operatives, as a whole, in their history of 70 years, have been able to groom and develop the grass-root level leadership and bring about peaceful socio-economic changes and help institutionalise, the rural economy to a considerable extent. During the period from 1971 to 1981, there has been an impressive growth in the number of co-operatives, their operations, their share in the total economic activities, their coverage of villages and population in the state.

The Co-operative credit structure in Maharashtra comprises the Maharashtra State Co-operative Bank at the apex, thirty District Central Co-operative Banks and, 18,583 primary banks.

Agricultural credit societies (PACS) during the year 1983. Many different types of Co-operatives, besides primary Agricultural service Co-operatives, come to be organized in the State. These include Co-operatives of sugar cane growers, cotton growers, milk farmers, tribals, village artisans, fisherman and other vulnerable sections of the community.

Credit is crucial to the survival and development of an agrarian economy. Its timely and assured supply ensures smoother growth and development of the economy as well as of the people. In Maharashtra, it was the co-operative credit structure that had laid the sound foundation of the Co-operative movement.9

PROSPECTS OF CO-OPERATIVES IN INDIA:

Now-a-days the co-operative societies are mainly facing the problem of overdues. If the co-operatives come under the dead-weight of heavy overdues, their power to raise resources by way of deposits if curtailed, because heavy overdues cannot project a good image about their financial position, confidence among the investors, which is necessary to raise resources, is impaired due to heavy overdues and depositers may not come forward to invest money. Co-operatives with higher overdues, naturally cannot borrow more from the Apex Bank.

The Co-operatively Weaker states and Central Co-operative Banks in many states continue to be weak mainly because of mounting overdues. If they can clear their overdues, the Co-operative movement could be strengthened. This effect of overdues has been spelt out as excepts for a few whose deposits are substantial the majority of Central Banks are unable, to absorb the rising overdues and hence to draw funds from higher financing agencies. Past experience shows that the failure to insulate co-operative banks from the impact of long standing overdues on the one hand and arrears arising from crop failure or the other, this, unable to keep the level of overdues low and finally, the paucity of owned resources within which to absorb them are the main factors which have led to the current situation in this respect in many states.

The Co-operative structure occupies a pre-eminent position in the institutional framework of agricultural credit. The major emphasis in recent times has been on the strengthening of Co-operatives in regard to structure, mobilization of resources and operational efficiency. The technological breakthrough in agricultural production has been making very large demands on the Co-operative credit institutions, for current finance and investment capital. The loaning policies and procedures are, therefore, being streamlined to serve the small farmers more effectively. This new approach to co-operative credit envisages that (a) the main criterion for providing loan
to farmers will be, production potential through the adoption of the "crop loan system and not the value of security a farmer offers for loan (b) needs of small cultivators are to be met adequately on priority basis when resources are inadequate to meet requirements of all and (c) a relatively higher proportion of their borrowings will be contributed by the larger cultivators towards share capital.

In brief, the reduction of overdues, mobilization of deposits, revitalisation of the dormant societies, amalgamation of the Weaker ones into viable units, effective linking of credit with marketing and improving the overall efficiency of Co-operatives by toning up their management and better supervision of the use of loans at all level, are the most important aspects of future co-operative policy. If these objects are accomplished, Co-operative societies and Co-operative Banks may cease to be mere groups of borrowers as at present and emerge as effective banking agencies and serve the cause of agricultural production better than at present.