

A STUDY OF SHORT TERM COOPERATIVE
AGRICULTURAL CREDIT INSTITUTIONS

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CHAPTER I

INTRODUCTION

1. Cooperation and Cooperative Credit Institutions⁽¹⁾

- 1.1 The International Labour Organisation (ILO) has defined Cooperative Society as "an association of persons, usually of limited means, who have voluntarily joined together, to achieve a common end, through the formation of a democratically controlled business organisation, making equitable contribution to the capital required and accept a fair share of the risks and the benefits of the undertaking".
- 1.2 The Indian Cooperative Societies' Acts do not provide any definition of cooperation as such, but define a 'cooperative society' as an institution which has as its objectives the promotion of economic interest of its members in accordance with the cooperative principles. The Act is however silent on cooperation or economic interests or cooperative principles.
- 1.3 When viewed from an economic angle, a cooperative society (enterprise) enables the member to secure economic services of various kinds at reasonable costs whether it is agricultural credit, production, marketing and processing, irrigation supplies of equipments, consumer goods and services.
- 1.4 A working definition of cooperative could be that it is a 'voluntary and democratic association of human beings based on equality (of control and opportunity) and equity (of distribution) and mutuality for the promotion of their common interests as producers or consumers. A cooperative directly serves its members interests by meeting their basic needs, but does not earn profit for itself as an independent

(1) For other definitions see (i) Bedi, R.D - Theory, History and Practice of Cooperation, 10th Edition - 1977; (ii) Hough, E.M. The Cooperative Movement in India, 5th Edition - 1966 etc.

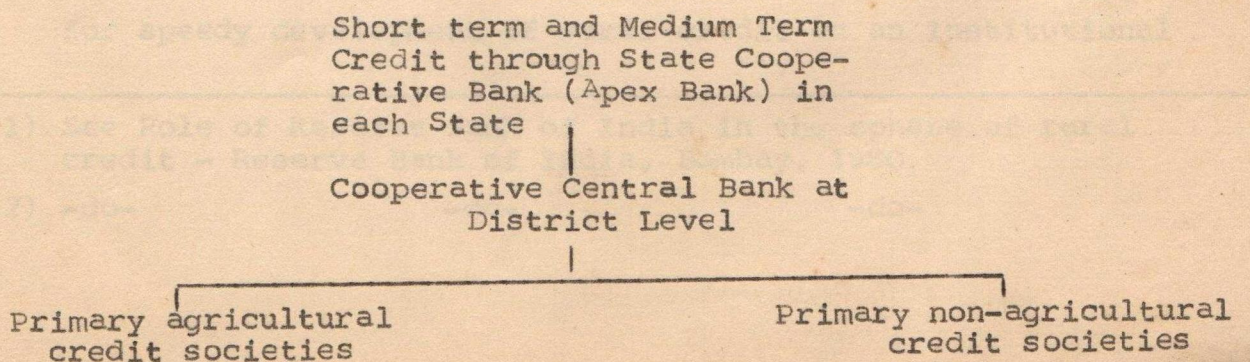
economic unit at their cost. It is not meant for earning profits for its owners by dealing with others; therefore the cooperative business is different from other undertakings which are owned and run for the personal profits of the owners by dealing with others.

2. Principles of Cooperation

- 2.1 Cooperation as a form of organisation has certain characteristics features which distinguish it from other forms of organisation. These principles are (1) Voluntary and Open Membership. (2) Democratic control, (3) Limited interest on capital, (4) Equitable distribution of surplus or patronage dividend, (5) Cooperative Education, (6) Cooperation among cooperatives.
- 2.2 While the first four principles are essential to preserve the genuine cooperative character of a cooperative organisation, the last two principles are essential to successful and effective cooperative practice.
- 2.3 In a cooperative society, the member and the user are one and the same person. Its affairs should be administered or managed in the best interest of members. What form of administration or management could ensure this? Obviously management by members i.e. democracy only. The principle of Democracy is thus the basic principle of cooperation.

3. Cooperative Credit Structure

- 3.1 The institutional arrangement for providing Short Term and Medium Term Cooperative Credit in India can be broadly represented as below:



3.2. Cooperatives form, by far the most important agricultural credit agency accounting for 66% of the total agricultural credit provided direct by institutions during the year 1978-79⁽¹⁾. The 3-tier short term cooperative credit structure consists of the State Cooperative Bank at the apex level, Central Cooperative banks at intermediate level i.e. district level and primary agricultural and non-agricultural ~~and~~ credit societies at the base level. The primary agricultural credit societies at the base serve a village or a group of villages. The primary non-agricultural credit societies are urban banks, Employees Credit Societies including salary, Earner's Society and other non-agricultural credit societies. (e.g. Autorickshaw Drivers Credit Society).

3.3. Short-term Cooperative Credit Structure

The short term cooperative credit structure in India is 'federal' in character. These institutions supply credit, supervise its use and recover the dues from the members. An important feature of this set up is that though institutions at 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 at that level. Another feature is that the 'Reserve Bank' though not a part of this 3-Tier set up takes up active interest in the agricultural credit and is associated with cooperative movement in the country.

3.4. Reserve Bank of India (RBI)

3.4.1. Reserve Bank⁽²⁾ plays a very significant role in agricultural finance. RBI has taken interest in formulating policies for speedy development of rural credit on an institutional

(1) See Role of Reserve Bank of India in the sphere of rural credit - Reserve Bank of India, Bombay, 1980.

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basis. In the sphere of rural credit it discharges the following functions:

- (1) Financial
- (2) Promotional
- (3) Advisory, and
- (4) Coordinating and Regulatory.

The RBI provides finance to cooperative institutions, advises 'Registrars of Cooperative Societies' on various aspects of management and administration and periodically inspects Cooperative Institutions. These responsibilities are discharged by the RBI through its 'Agricultural Credit Department' (A.C.D.). There is also an Agricultural Credit Board to coordinate the activities of the cooperative institutions with the policies of the RBI.

3.4.2. RBI under its statute is not empowered to lend to agriculturists directly. Financial accommodation to them is provided through the cooperative sector, the RBI having direct relationship with the apex tier of the cooperative structure i.e. State cooperative banks. Short-term and medium term finance is routed through them.

3.5. State Cooperative Bank ⁽¹⁾

The State Cooperative Bank (Apex Bank) is the apex cooperative institutions in the state and is expected to play a very crucial and important role in the formulation, execution and coordination of credit policies in the State. It is expected to provide the necessary leadership to the cooperative credit movement and control and regulate the Cooperative Credit institutions. The Apex Bank is expected to serve as a natural and effective link between the non-official wing of the movement on the one hand and the state government on the other.

(1) For detailed description of the functions of State Cooperative Bank - See Bedi, R.D., Theory, History and Practice of Cooperation, 10th Edition, 1977.

The function of Apex Bank is to discharge financial, supervisory, educational and promotional functions in relation to cooperative movement in the State. It has to establish and maintain close contacts with the money market and the RBI and act as a financing agency for the District Central Cooperative Bank (D.C.C.B). It also conducts regular banking business as any other commercial bank. It supervises and guides activities of the DCCB's in the State. Its supervising functions include annual inspection of DCCB's and other primary credit societies in the state. It is expected to convene periodical conferences of the District Cooperative Central Banks to discuss common problems faced by the movement. These conferences will have an educational value besides providing an opportunity for the exchange of experiences between all those who are involved in the Cooperative movement. Thus Apex Bank is expected to be a chief promoter of the Cooperative Movement in the State.

3.6. District Central Cooperative Bank (DCCB's)⁽¹⁾

3.6.1. DCCB's stand at the intermediary level in the Cooperative Credit structure and form a link between the primary societies at the base and the Apex Bank at the top. After the 'Survey Committee report'⁽²⁾ the DCCB's were reorganised to make them economically viable and efficient units. The current policy is to have one central bank in each revenue district. DCCB's provide the necessary financial resources to the primary societies and is responsible for their recovery. They lay down common policies and provide administrative guidance for the proper and efficient functioning of primary societies in their area of operation. They also supervise and control the working of primary societies. They develop and extend the

(1) For detailed description, see Bedi, R.D - op.cit.

(2) Reserve Bank of India - All India Rural Credit Survey - Report of the Committee of Direction, Vols. I and II - Known popularly as 'Survey Committee Report'.

banking facilities in rural areas and make the people banking minded. Central banks are responsible for the development of Cooperative movement in the District and are expected to act as its friend, philosopher and guide. Because of their strategic importance, the structure, composition and pattern of operation of the Central bank is expected to have a great bearing on both the Apex Bank and primary societies.

3.6.2. A majority of the DCCB's are of mixed type. Though primary agricultural credit societies form the bulk of their membership, there are other types of cooperatives also which are affiliated to the central bank i.e. consumer societies, farming societies, lift irrigation societies, urban banks, weaver's societies, Industrial societies, Staff Cooperative societies (including salary earners cooperatives) etc. Besides these individuals are also allowed to take the membership to attract more deposits. The Government is also a shareholder.

3.7. Primary Agricultural Credit Societies (PACS)⁽¹⁾

3.7.1. In the short-term cooperative credit structure, the primary agricultural credit society at the village level constitutes the base. They are the foundations on which the whole cooperative edifice is built. They are organised covering a small area, generally one village, so that the qualities of proximity and mutual knowledge are not lost. The organisation of PACS have undergone so many changes after independence. On the recommendations of the 'Survey Committee'⁽²⁾ large sized cooperative societies and rural banks were organised for more than one village. They were multipurpose in character. After 1960 the idea of large sized societies and rural banks slowly gave way to service cooperative societies. Though service coopera-

(1) For detailed description - See Bedi, R.D. - op.cit.

(2) 'Survey Committee Report' - Reserve Bank of India - op.cit.

tives are multipurpose in character, in actual practice, credit remains their most important function. They are expected to play an important role in the formulation and execution of plans for agricultural production of individual cultivators.

3.7.2. PACS are responsible for providing short (for period of 12 to 15 months) and medium term credit (for periods 3 to 5 years), supply of agricultural inputs and marketing of the produce. Their other functions include attracting local savings through share capital and deposits, distribution of loans, supervision of their proper utilisation, their timely recovery and supply of consumer goods. They are also to be associated with the production and socio-economic welfare programmes of the village.

3.8. Cooperative Departmental Organisation⁽¹⁾

3.8.1. The Cooperative movement in India has not originated from the grass roots but has been ushered in by the Government. Cooperation in India is not a movement "but a policy" created by resolutions of the Government. Therefore it is the responsibility of the State to formulate the plans and policies, pass legislation, enforce the laws and regulate the working of the cooperatives. It is out of this imperative need there has grown an official machinery in the Government at the national and state levels.

3.8.2. The Registrar of Cooperative Societies (Registrar) occupies a key position in the Governmental set up. He is vested with many powers to run and regulate the movement on sound lines. The Cooperative Societies Acts have devolved on him many responsibilities of both administrative and promotional nature. As the head of the Cooperative hierarchy in the state he guides

(1) For detailed description - see Bedi, R.D., op.cit.

and controls the cooperative movement and is responsible for the expansion and consolidation of the movement in the whole state. He is responsible for overall cooperative policy, proposing new developments and suggesting changes in administrative structure, prosecutions under cooperative laws, amendments to bylaws of cooperative institutions and winding up and liquidation of cooperative societies.

3.8.3. An elaborate administrative machinery has been created from State to block level to supervise and guide the co-operative institutions at various levels. The interaction between this vast net work and the cooperatives is fairly continuous. While the interaction is inevitable, the dominant role of Governmental Organization can be clearly seen in the working of the cooperatives in India.

4. BRIEF HISTORY OF COOPERATIVE CREDIT MOVEMENT IN INDIA

4.1. The 'Cooperative Credit Societies Act 1904' provided for the organisation of only primary credit societies - urban and rural and societies organised for purposes other than credit did not have legal protection under the Act. It also did not envisage the organisation of federation of Cooperative Societies. 'The Cooperative Societies Act of 1912' remedied the situation. The Act of 1912, recognised also those in other activities like supply, distribution, marketing, farming etc; and also federal organisations and banking unions. A committee appointed by the Government of India under the Chairmanship of Sir Edward Maclagan ⁽¹⁾ to review the cooperative movement, recommended, smaller societies, smaller area of operation, unlimited liability of member, audit, building up of reserve fund, evaluation of borrowing capacity, greater control by Government etc. In 1919, cooperation became a 'State' subject under 'Montagu-Chelmsford Reforms'. Each province of India was empowered to enact its own cooperative legislation.

(1) Edward Maclagan: Report of the Committee on Cooperation - 1915 (Bombay, Reserve Bank of India, Reprinted 1957)