

CHAPTER-I

INTRODUCTION AND METHODOLOGY OF THE STUDY

1.1 INTRODUCTION :

India has an underdeveloped economy. There is no doubt that the bulk of its population lives in conditions of acute misery and poverty. These are found as constant chronic maladies in India. At the same time there exists an abundant unutilised natural resources. It is therefore quite important to understand the basic characteristics of the Indian economy, treating it as one of the underdeveloped but developing economy in the world.

Following are some of the features of the Indian economy so far as the agricultural credit and finance are concerned.

1) Low Per Capita Income :-

Underdeveloped economies are marked by the existence of low per capita incomes. The per capita income of the Indian people is very low by world standards. The per capita incomes of India in U.S. dollar terms in 1993-94 was \$310.

As per the latest estimates (for 1992) the per capita income in Switzerland was as much as \$ 36,080, in Japan \$ 28,190, in Sweden \$ 27,010, in the USA \$ 23,240, and in the UK \$ 17,790. As against this the per capita income of an Indian was \$ 310

2) Occupational Pattern :

Primary production is one of the basic characteristics of an underdeveloped economy. A very high proportion of working

population is engaged in agriculture, which contributes a very large share in the national income. In India in 1981 about 71 percent of working population was engaged in agriculture and its contribution to national income was 36 percent.

3) Heavy Population Pressure :

The main problem in India is the high level of birth rates coupled with falling level of death rates. The rate of growth of population which was about 1.31 percent per annum during 1941-50 has risen to 2.11 percent during 1981-91. This rapidly increasing population raises different problems like unemployment, poverty, inequality, sub-division of land-holding etc.

4) Prevalence of Chronic Unemployment and Underemployment :

In India labour is an abundant factor and consequently, it is very difficult to provide gainful employment to the entire working population. In India unemployment is structural and is the result of deficiency of capital. The Indian economy does not find sufficient capital to expand its industries to such an extent that the entire labour force is absorbed.

Moreover, in the agricultural sector of the Indian economy, a much larger number of labourers are engaged in production than are really needed. The marginal product of labour in agriculture is negligible, it may be zero or negative. Thus there exists disguised unemployment in agriculture.

5) Poor quality of Human Capital :

In India for instance according to 1991 census, about 52 percent of the population is literate and 48 percent can neither read nor write. On the other hand, in Australia, Canada and United States, the level of illiteracy is below 5 percent.

6) Prevalence of Low levels of Technology :

In India the most modern technique exists side by side with the most primitive in the same industry. The Indian economy suffers from the basic weakness, that is the low productivity per hectare in Indian agriculture and the low level productivity per worker in agriculture and industry is largely a consequence of technological backwardness. In India the vast majority of farmers are too poor to buy even the essential inputs.

7) Lop-sided Economic Development :

The development of the Indian economy is lop-sided. One of the features of such lop-sided growth is that the balance of trade of the country largely depends on the export of agricultural products. Hence Indian farmer is exposed to changes in the international prices of some of the major exports of the country such as sugar, tea, cotton etc.

8) Low Rate of Industrialisation :

The rate of industrialisation in India is low. According to the World Development Report 1992 in India, industrial

sector contributed 29 percent of the national income as against 37 percent in Australia and 42 percent in Japan.

Its result is that a small percentage of the population has been able to find its livelihood outside agriculture.

9) Poor Economic Organisation :

Another important feature of the Indian economy is poor economic organisation. Creation of institutions necessary for economic developments are not adequately developed. For instance to mobilise savings, and more especially, the savings of the rural sector, the creation and development of financial institutions has been very sloppy and haphazard.

The development of co-operative agencies of credit for granting loans to farmers on easy terms is needed that is medium and long term loans for agriculture.

In view of the above mentioned features of the Indian economy. We shall try to discuss the need of agricultural credit.

1.1 CO-OPERATIVE CREDIT AND AGRICULTURE :

Agriculture is an important industry and like other industries it also requires capital. Due to the peculiarities of agriculture, specially its uncertainties, its small unit productions low returns, high rates of rent and limited scope for employment, a large proportion of cultivators cannot manage from one harvest to another without recourse to borrowing. For stimulating the tempo of agricultural production, it is imperative

that the farmers must be provided with essential prerequisites like fertilizers, improved seeds, irrigation facilities, modern implements, marketing facilities etc. The use of greater and better quality of inputs would mean greater demand for rural credit.

John D Black, professor of Economics Harvard University has stated " If we are all concerned about increasing total agricultural output in the a shorter time, we must provide credit first and foremost. This will enable them to buy more labour, more seeds and fertilizers".

Sir Bernarg O. Binnus, an agricultural expert of F.A.O. has observed that the provision of adequate credit which would not harass the farmer was an essential part of many schemes of agricultural development.

Need for Institutional Agricultural Credit :

The development of institutional credit is thus a basic condition for agricultural progress. The history of agricultural development in all advanced countries show that an integrated system of institutional credit laid the foundation of agricultural prosperity.

In most of the countries of the world an attempt has been made to develop institutional credit for agriculture on co-operative lines. The co-operative form of organizations are considered best for providing credit to the farmers.

In 1937 the statutory report of the Reserve Bank of India stated "An agency which satisfies the requisite conditions for agricultural finance is the co-operative society and it has been so recognized in almost all agricultural countries".

The Report of the "Grow More Food Enquiry Committee" (1952) emphasized the need for co-operatives in the following terms. "It would be useful at this stage, to stress the great part the co-operative movement. Can and should play in improving rural life. The co-operative Principle in its infinitely of rural life. In fact, it is only in the co-operative principle that such a solution can be found".

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

- 1) absolute proximity of lender and borrower.
- 2) complete security to the lender as regards the title of the property offered.
- 3) through safety and facility to borrower.

The co-operative organisations satisfy the basic conditions of proximity as they can have intimate knowledge of the character and the abilities of their members. They can supervise the use of credit.

1.2 REVIEW OF LITERATURE :

Development of agriculture plays an important role in the development of Indian economy. The development of agriculture depends upon availability of adequate credit in the right time. In fact in case of India, interest in the problems of agricultural credit, especially agricultural co-operative credit, can be traced back to 1904 when the first Co-Operative Act was passed in India, that is the Co-Operative Credit Societies Act. The main objective of this Act was to provide for the constitution and control of co-operative credit societies organisational structure and aims.

However barring some isolated attempts of the individual research workers major part of the study of co-operative credit was organised by the various committees appointed by the Government of India and the Reserve Bank of India for the purpose.

Dadhich (1977) made a study on agricultural co-operative credit. He made a comprehensive enquiry with a view i) to assess the structure of overdues in agricultural co-operative credit in Rajasthan and its impact, ii) to study the socio economic factors influencing repayment of co-operative dues, iii) to make an enquiry into the cause of overdues at various levels, and iv) to suggest measures for minimizing overdues. The period of the reference for the study was the co-operative year ended June 1968. The survey method has been used for the collection of data.

The study revealed the deteriorating position in respect of overdues in as many as 14 districts. Thus, the issue of overdues relegated all other issues to the position of secondary importance. Therefore, the author suggested the various corrective and preventive measures like rehabilitation and revitalisation of co-operatives, enhancing their own funds and deposits rate of interest curbing diversion of credit etc.

Mishra(1977) Studied Co-operative Banking in Bihar.

The study examined the development of co-operative banking during the period from 1955-56 to 1973-74. It was mainly concerned with critically examining the role and future possibilities of co-operative banking transforming the agricultural and industrial economy of the state. On the basis of secondary data the study revealed that co-operative banking has not been successful in catering to the credit needs of the agriculturists in the state. Therefore the author suggested the urgent need for reorganisation and restructuring of co-operative institutions from primaries to the apex level.

Chakrabarti(1983) has made a study on agricultural credit with reference to West Bengal. Through the sample survey, he made an attempt to study the working of primary agricultural credit societies during the period from 1974 to 1976. The author concluded that despite a number of rural reconstruction programmes in West Bengal, traditional relationship between farmers, money lenders and traders still prevailed. Further he observed that a

variety of factors made the recovery climate in different regions of the state unfavorable to the development of the co-operative movement.

Nagi(1990) Presented a comprehensive analysis of various issues of agricultural co-operative credit in Grahwal Himalaya region of Uttar Pradesh in particular and the country in general. His study was related to the growth rate analysis of agricultural co-operative credit, recovery, overdues, outstanding etc. in Grahwal Himalaya during 1971-81. The utilisation of agricultural co-operative credit has been assessed with the help of the survey. It was found that 49.25 percent of the borrower households did not utilise full part of the loan for intended purpose. To prevent the misuse and diversion of agricultural credit, along with other remedies, he suggested that the loans should be given not in one but two installment should be allotted only if the earlier one is properly utilised.

Kulkarni(1991) examined the distortions in cooperation in the Sangli District of Maharashtra during the period 1960 to 1985. His study is a combination of a case study and sample survey. It is a case study because it took co-operative movement in the District for intensive examination over a period of 25 years. It assumed the nature of sample survey because it dealt with a selected sample of different co-operative units belonging to different sectors and different talukas of the District.

His analysis of secondary data revealed a multi-dimensional picture of imbalances in the growth of co-operative

movements with reference to national level, the state level, and district level. He suggested to have some kind of an agency at the taluka level to achieve inter regional and intersectoral balanced development of the co-operative movement.

Rayudu, C. S.(1992) evaluated the role and working of co-operative Agricultural Development Banks in the Rayalaseema region of Andhra Pradesh. He emphasised the progress made by these banks enrolling members, mobilisation of resources, extent of beneficiaries, credit disbursement, outstanding, recovery, overdues problem etc. during the period from 1977-78 to 1986-87. A Bank level sample based age of the banks is used and accordingly units are identified and selected for the study. Both primary and secondary methods of data are adopted. Records of the unit banks and apex banks, circulars, action plans, policy letters and audit reports are the main sources of data. Similarly personal interviews, observations and discussions with the co-operators and the personnel of co-operative agricultural development banks formed a part of the data source.

Jadhav, J.G.(1993) has made an attempt to evaluate the performance of the primary agricultural co-operative credit societies with special reference to Raigad District of Maharashtra. For the evaluation study, he has taken different variables like memberships, share capital, deposits, reserve funds, borrowings, composition of working capital, overdues of loans, outstanding etc. He applied the comparison and calculation of percentage method for his study. He compared these variables as regards to the

Panvel Taluka and Raigad District.

All the above mentioned studies provide a valuable information regarding the understanding of various aspects of the co-operative credit institutions in different parts of the country. The present study is an attempt to study the functioning of the co-operative credit societies in Solapur District of Maharashtra, as no study has yet been undertaken for this District.

1.3 THE STUDY :

The study undertaken by the researcher is an evaluation of the primary agricultural co-operative credit societies with special reference to Solapur District, based on primary as well as on secondary information.

1.4 AREA OF THE STUDY :

The present study relates to the primary agricultural co-operative credit societies in the Pandharpur Taluka of Solapur District.

1.5 LIMITATIONS OF THE STUDY :

The study is undertaken as a part of fulfilment of requirements of the degree course of " Master of Philosophy in Economics ".

The study of the evaluation of the primary agricultural credit co-operative society has been undertaken by the

researcher by limiting the scope of the study to the evaluation of primary agricultural credit co-operative societies in Solapur District only. All the findings and conclusions are based on the evaluation of such societies of Pandharpur Taluka of Solapur District.

The dissertation is required to be submitted to the University within a prescribed period of time. Therefore the time is the main constraint because of which the study has been confined only to the selected societies of and in the Taluka. In fact the study of this nature calls for a more intensive study of evaluation of primary agricultural co-operative credit societies not only in the Taluka but at the District/State levels requiring greater amount of time and money, to arrive at more constructive conclusions and make suggestions to improve upon the working of such societies.

1.6 OBJECTIVES OF THE STUDY :

The specific objectives of the study are :

1. To study and evaluate the working of the primary agricultural co-operative credit societies.
2. To study the structure of primary agricultural co-operative credit societies.
3. To find out the effectiveness of the performance of primary agricultural co-operative credit societies in Solapur District.
4. To find out the effectiveness of the performance of primary agricultural co-operative credit societies in Pandharpur Taluka.

5. To highlight the problems and difficulties of such societies.

6. To suggest measures to overcome various bottlenecks and problems for better prospects.

1.7 METHODOLOGY :

Depending upon the nature of the study the researcher has decided to study the working of primary agricultural co-operative credit societies in Solapur District of Maharashtra, firstly by reviewing the available literature on the subject and secondly, by examining the performance of primary agricultural co-operative credit societies in Solapur District of the Maharashtra State. It is further supplemented by a study of the performance of the primary agricultural co-operative credit societies in Pandharpur Taluka in Solapur District of Maharashtra. A rigorous attempt is made to evaluate the performance of primary agricultural co-operative credit societies in respect of

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| i) Membership | ii) Share Capital |
| iii) Reserve Funds | iv) Working Capital |
| v) Deposits | vi) Loans and Advances |
| vii) Overdues | viii) Borrowings |
| ix) Investments | x) Dividend |

The study is based upon both the 'People Source' and 'Paper Source'. The primary data has been collected through the scheduled, questionnaire and the personal interviews with the management and the members of the societies. The selection of the members of each society as the respondents was on random basis.

The scheduled, questionnaires were administered to these selected respondents and the personal interviews were held with them to solicit their considered views and opinions about the working of their societies.

The secondary data required for the study was collected through the published literature like Books, Journals, Annual Reports of such societies, Records/Reports with the Deputy, Registrar (co-operative societies) in Pandharpur Taluka. The data was also collected from various offices of co-operatives in the District (Solapur) and in the state (Pune). The study covers the working of these societies for the last 5 years. (i.e. 1989-94).