

CHAPTER - IIHISTORY AND GROWTH OF CO-OPERATIVE MOVEMENT IN INDIA2.1 INTRODUCTION :

The Co-operative movement in India was conceived for the first time at the end of the last century as a remedy to liberate the down trodden farmers from the grip of vicious circle of poverty. At the end of the last century, the peasantry was in the grip of the Sahukar and the rural debt was daily mounting. The condition of the agriculturists was really deplorable. The joint family system was breaking down. As a result of increase in population and the absence of rapid industrialisation, more and more people depended upon agriculture. The result is that there was too much pressure on land. Rural debt was increasing and this increased the burden on the farmer. The farmer did not have the incentive or the ability to improve his condition. The government felt that the farmer could be helped through some type of co-operative effort.

A group of officials of Government of India after studying the working of the agricultural Bank of Egypt recommended the co-operative experiments in India on the similar lines. In 1882 the Government of Madras province deputed Sir Fredrick Nicholson to investigate into the possibility of introducing land and

agricultural banks in that province. He in his monumental report recommended Raiffeisen model. Simultaneously, Mr. Duprnex of India Civil Service after an intense the study of the problem, experimented village banks in U.P. and Published an interesting book entitled " Peoples Banks in North India". On inspection of these two reports the Government of India in 1900 appointed a committee under Sir, Edward Law to make proposals in this regard after consulting the Government Officials of Punjab, U.P. and Bengal who had already started pioneering societies. On recommendations of this committee the co-operative credit societies Act, 1904 was passed which gave real impetuous to the Co-operative movement in India.

## 2.2 CO-OPERATIVE MOVEMENT BEFORE INDEPENDENCE :

From the time of inception numerous developments have taken place in respect of co-operative societies the most important of those are :

### 1. ENACTMENT OF CO-OPERATIVE CREDIT SOCIETIES ACT, 1904 :

The introduction of the co-operative credit societies Act in 1904 marked the beginning of the Co-operative movement in India. The laudable measure was hailed as " a turning point in economic and social history" by Henry W.Wolff, the great Co-operator and "The way from poverty to plenty" by Sir Danial Hamilton," The object of this Act, as stated in the preamble, was

to encourage thrift, self help and co-operation amongst agriculturists, artisans and persons of limited means. This Act authorised formation of co-operative Credit Societies by ten or more members in a locality for their mutual benefit.

2. ENACTMENT OF CO-OPERATIVE SOCIETIES ACT, OF 1912. :

The defects of the 1904 were remedied in 1912 when another Co-operative Societies Act was enacted. With the passing of the Act, the movement entered on the Second State of its progress in permitting the formation of non-credit Co-operative societies. It also made a provision for the formation of federal society in the form of Central Bank with limited liability. It led to pyramidal shape to the Co-operative Credit Structure in India.

3. MACLAGAN COMMITTEE REPORT (1914) :

This committee was appointed in 1914 under the Chairmanship of Sir, E.D.Maclagan to take stock of the situation or to review the working of Co-operative Societies in India. The committee made several important suggestions as follows :

1. Every member should have a knowledge of principles of Co-operation.
2. Careful selection of members of honesty and integrity.
3. Lending only to honest and deserving members for productive or for necessities which as essentials of daily life, can

fairly be classed as productive.

4. Punctual repayment of loans to be stressed.
5. Development of the thrift and real co-operation among members.
6. The borrowers should be required to satisfy that they are in a position to repay the loans from the income they will derive from their increased productive capacity.

4. REFORMS ACT OF 1919 :

With the introduction of Reforms Act of 1919, after the conclusion of world war I, Co-operation became a provincial subject and was placed under the charge of a Minister, This was another landmark in the history of this movement. With this movement entered the third stage. When Co-operation became provincial subject and was placed under the charge of a minister, which led to the indiscriminate and unplanned expansion of societies in India giving rise to the problem of mounting overdues.

5. ESTABLISHMENT OF THE RESERVE BANK OF INDIA IN 1935 :

As a result of these developments in Co-operative Credit movement during pre-independence period there was only quantitative growth of Co-operative Societies from 1904 to 1947 the number of Primary Credit Societies went up to 1.5 lakhs. During the same period, 505 Central Co-operative Banks, 15 State Co-operative Banks, 5 Central Land Development Banks and 286 Primary Land Development Banks were established. The contribution of

of co-operative credit in the total agricultural credit, however, remained negligible.

### 2.3 PROGRESS OF CO-OPERATIVE MOVEMENT BEFORE INDEPENDENCE

TABLE NO.2.1

PROGRESS OF CO-OPERATIVE MOVEMENT BEFORE INDEPENDENCE  
(From 1906-1907 TO 1945-1946)

Year	No.of Societies	Members ( in Thousands)	Working Capital (Rs. in lakhs)
1906-1907	483	90.84	23.72
1911-1912	8177	4.7 (Lakhs)	335.7
1917-1918	25192	10.9 (Lakhs)	760.09
1938-1939	122(Thousand)	53.7 (Lakhs)	106.47 (Crores)
1944-1945	160	83.6 (Lakhs)	146.63 (Crores)
1945-1946	172	91.6 (Lakhs)	164.00 (Crores)

SOURCE : 1) Report of the Committee on Co-operation in India  
(1912) P.No.4.

2) Dr. Mathur B.S. Review of the Co-operative Movement  
in India 1939-1946, P.3.

### 2.4 SOME IMPORTANT CHARACTERISTICS OF CO-OPERATIVE MOVEMENT BEFORE INDEPENDENCE :

#### 1. OFFICIAL SPONSORSHIP OF THE MOVEMENT :

The first and the most important features of the Co-operative

movement before independence has been that it was sponsored by the state. The movement came as a Government Policy rather than as an urge from the people.

2. LARGELY CONFINED TO CREDIT :

Before independence, the co-operative movement was largely a credit movement. In 1947-1948 more than 73 per cent of the co-operative societies were credit societies. Non-credit movement was largely confined to consumer co-operatives.

3. DEVELOPMENT WITHOUT MUCH STATE AID :

Before independence though the co-operative movement was officially sponsored, it developed without much financial aid. The grants-in-aid or subsidies which were given by the state were very small. It was only 1.87 per cent of the total working capital in 1947-1948.

4. UNEVEN GROWTH :

Before independence the growth of co-operative movement was unbalanced or uneven. It was largely confined to the former Bombay State, Madras and Punjab. There were large part of the country where there was no trace of the movement. Even within the same state the progress was not on a uniform basis.

5 UNPLANNED EXPANSION :

Before independence the co-operative movement passed through

various phases but a distinctive feature of the development of the movement was its haphazard growth. There was hardly any co-ordination between its various branches. There was no link between credit and marketing or between consumers and marketing societies.

CAUSES OF SLOW GROWTH OF CO-OPERATIVE MOVEMENT BEFORE INDEPENDENCE :

The Co-operative movement could not achieve much success before independence due to following reasons.

1. Lack of knowledge of Co-operative Principles.
2. Lack of Careful Selection of Members.
3. Lack of Effective Supervision and Inspection.
4. Lack of Congenial Atmosphere.
5. Lack of Efficient Management.
6. Lack of Spontaneity.
7. Lack of Education and Inadequacy of Training.
8. Lack of Co-ordination between various co-operative institutions.
9. High overdues.
10. Over-emphasis on honorary services.
11. Laissez faire policy of state.
12. Movement did not take life of the individual as a whole.
13. Unlimited liability of societies.

#### 14. Inhabiting factors with in the movement.

- i) Aligning credit to ownership of property.
- ii) Indifference to recovery.
- iii) Inadequate attention to purpose of loans.
- iv) High rate of Interest.
- iv) Mismanagement by members of managing committee.
- vi) Inadequacy of finance provided.

#### 15. OTHER FACTORS :

- i) Deficit agriculture.
- ii) Illiteracy
- iii) Widespread indebtedness.
- iv) Uneconomic holdings.
- v) Inadequate transport and storage facilities.
- vi) Dearth of regulated market.
- vii) Great price fluctuations.

#### 2.5 CO-OPERATIVE MOVEMENT AFTER INDEPENDENCE :

After independence Government of India accepted the socialistic pattern of society. In 1951 economic planning commenced in India. Obviously, co-operation occupied place of pride in free India as instrument of democratic planning. The major development in the co-operative field since independence was the appointment of Rural Credit Survey Committee by Reserve Bank of India in 1951 which submitted its report in 1954.



1) RURAL CREDIT SURVEY COMMITTEE ( 1954) REPORT :

The important findings of the committee were :

- a) The primary Agricultural Credit Societies inspite of their existence for over 50 years, catered only 3.1 per cent of the total credit requirements of farmers. Thus they had utterly failed to free the farmers from the clutches of indigeneous bankers and traders who supplied 70 per cent of their requirement.
- b) A large chunk of this little credit supplied by PACS went to big farmers who owned credit worthy securities, and only a small fraction percolated to the small and marginal farmers.
- c) A large part of country was not covered by the co-operative credit.

The committee found out that the PACS were the weakest link in the chain. The Central Banks were weak and largely unco-ordinated. The Co-operative Credit satisfies none of the requisits of either good co-operation or sound credit." The Committee recommended an Integrated Scheme of Rural Credit based on following principles.

a) STATE PARTNERSHIP :

The state should not only provide certain facilities to co-operative but it should also enter into partnership with

co-operatives so as to enable them to withstand the opposition of the money lenders and play effective role in over all rural development. The degree of partnership should be different at different level. At the apex level the partnership should be direct with the State Government contributing to the share capital apex institute. At the district level the State participation should be indirect i.e. ....through the apex institute. At the Primary level too it should be indirect.

b) LONG TERM OPERATIONS FUND :

To enable the State Government to contribute to the share capital of Co-operative Credit Institutions and for other purposes, the committee suggested that Reserve Bank should constitute National Agricultural Credit( long term operations) fund with an initial contribution of Rs. 10 crores. The planning and execution of the operations of this fund should remain the responsibility of Reserve Bank of India.

c) LOANS AGAINST ANTICIPATED CROPS :

Another important recommendation of the survey committee was with regard to loan operations. Its main emphasis was on crop loans, with following features.

- i) The loans should be given in suitable instalments.
- ii) The loans should be <sup>in</sup>kind to the maximum extent possible.

- iii) The societies should have a statutory charge on the crop.
- iv) There should be adequate supervision and efficient arrangements for recovery.
- v) Short term loans should be given on the basis of the anticipated crop rather than on the security of land and other tangible assets.

d) REORGANISATION AND AMALGAMATION :

In order to improve the ability of primary Agricultural Credit Societies it was suggested that small sized societies should be reorganised and amalgamated to that large sized societies with a compact group of villages within their jurisdiction and a sufficient business will be established.

e) LINKING OF CREDIT WITH MARKETING :

The survey committee suggested that there should be a close link between PACS and marketing societies. In order to improve the recovery of loans there should be establish links with marketing societies located at the market places and credit should be given to members on condition that their produce would be sold through the marketing societies.

f) EFFECTIVE SUPERVISION AND AUDIT :

It was suggested that Central Financing Agencies should supervise the credit whereas co-operative departments should

conduct audit and inspection of accounts of co-operative structure.

g) TRAINING OF PERSONNEL :

The survey committee suggested that training of staff at all levels should be organised under the guidance of the Central Committee for co-operative training.

h) ESTABLISHMENT OF SPECIAL FUNDS :

The survey committee was recommended that two more special funds should be constituted by R.B.I.

1) The National Agricultural Credit (Relief and Guarantee) fund—meant to provide relief to institutions during the period of widespread calamity affecting the stability of Co-operative Credit Structure and relief to Government when they had to fulfil the guarantee extended by them in respect of the accommodation received by the R.B.I.

2) The National Agricultural Credit (Stabilization) Fund—meant to provide medium term loans to the State Co-operative Banks when they fail to repay short term loans due to serious dislocation in the Co-operative Credit Structure of the State arising out of famine or draught.

ii) OTHER COMMITTEES :

After independence other committees and working groups were appointed to review the working of Co-operative Societies



from time to time and make suitable recommendations ( which committees are few important related to PACCS). These are as follows. :

- a) V.L.Mehta Committee on Co-operative Credit (1960).
- b) The working group on Panchayat and Co-operatives (1961).
- c) The study team on Co-operative Training.
- d) Mirdha Committee on Co-operation (1964).
- e) All India Rural Credit Review Committee (1969).

iii) ALL INDIA RURAL CREDIT REVIEW COMMITTEE REPORT (1969) :

This committee was appointed by the Governor of R.B.I. under the chairmanship of Shri. B.Venkatappaiah for reviewing the supply of Rural Credit. The committee made few concrete suggestions for the improvement in the working of PACCS which are as follows.

- a) The lending procedure should be streamlined to make them simple expeditious and flexible.
- b) The PACS should be reconstructed and vitalised so that only viable and potentially viable societies will exist which will be able to mobilise the deposits of different categories and offer all sorts of banking facilities to members. Even the weak Central Co-operative Banks should be vitalised and rehabilitated.
- c) In order to stop the neglect of potentially viable small and marginal farmers as per new agricultural strategy, a small Farmers Development Agency (SFDA) should be established in 30 selected districts. The task of such agency will be to identify

the problems of small but potentially viable farmers in its area and to ensure that requisite inputs are made available to them through existing institutions and where necessary otherwise.

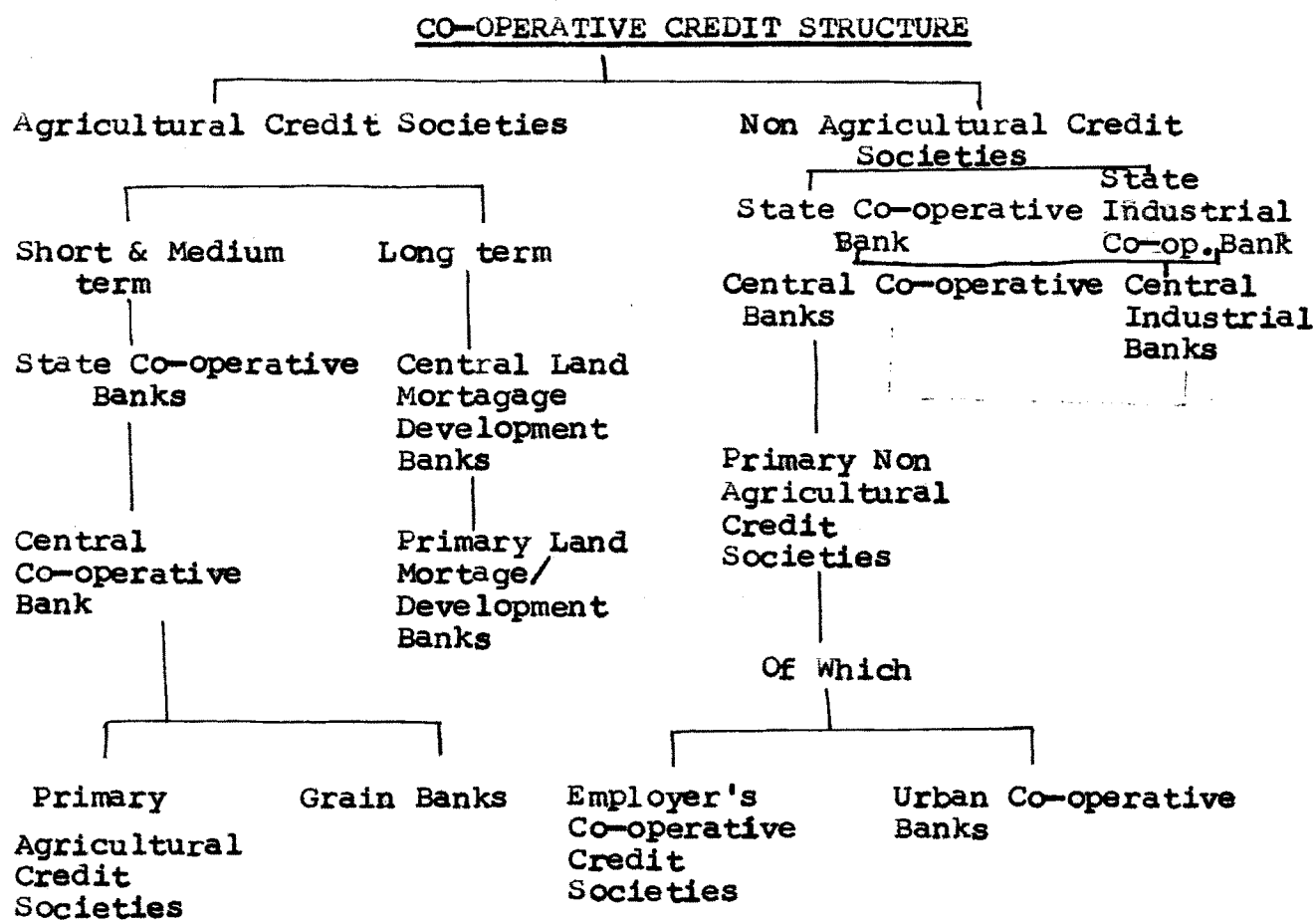
iv) OTHER DEVELOPMENTS :

After independence several important developments have taken place in co-operative movement in India, which are as following.

- a) After independence Government of India adopted the socialistic pattern of society and co-operation become an instrument of democratic.
- b) State entered in partnership with these co-operative by contributing to their share capital and lending its strength to the movement without erroring the co-operative character of these institutions and interfering in their day to day administration.
- c) The movement made considerable sides in credit as well as non credit sector.
- d) A sound three-tier structure of Agricultural Credit Societies developed throughout the country.
- e) The control of the movement was transfered from officials in order to make the movement self-reliant and self-regulatory.

f) The politics and politicians entered in these institutions in different degree in different states.

## 2.6 CO-OPERATIVE CREDIT STRUCTURE :



A study Group of the National Credit Council presided over by Dr. D.R.Gadgil, has stated : " The Co-operative Banking system is an integrated one and, because of its three tier structure, has been enabled to extend credit to agriculturists, artisans

and small men in general, The three tier system also allows a rationalised flow of resources from the metropolitan centres to the villages and combines this with fairly low costs of operations."

#### AGRICULTURAL CREDIT SOCIETIES :

Agricultural Credit Societies are the Kernel of the Co-operative movement in India. They are the very foundation stone of the Co-operative Credit Structure and constitute by far the largest number of co-operative institutions in India. The objects of these societies show a good deal of variation. Most of them have, however, been organised with a view to provide credit facilities and to inculcate the habit of thrift and economy among their members. Most of these societies were originally formed on Raiffeisen Model, though, recently there has been certain significant deviations from the orthodox principles. The essential elements of a Raiffeisen society inter alia are : a restricted area of operation, unlimited liability, gratuitous management and permanent indivisible reserve fund. Most significant deviations are in respect of liability, area of operation, honorary management and participation of the government in the society as a shareholder. These deviations have been regarded as revolutionary and they mark a complete break from the Raiffeisen Model."



A brief history of the co-operative movement which was virtually the history of the agricultural credit movement has already been given. By the end of June 1950, there were 1.17 lakh Agricultural Credit Societies with a membership and working capital of 48 lakhs and Rs. 35.22 crores respectively. About 7 per cent of the rural population had come within the Co-operative fold. The Agricultural Credit Societies have shown a remarkable progress since 1950 as may be seen from Table No. 2.2.

TABLE NO.2.2

AGRICULTURAL CREDIT SOCIETIES TREND OF PROGRESS: ALL INDIA :

Year	No.of Societies ( In lakhs)	Membership ( In lakhs)	Working Capital (Rs.in Crores)	Percentage of Villages covered	Percentage Population covered
1950-1951	1.15	51.44	40.96	-	7
1955-1956	1.60	77.91	79.10	-	12
1960-1961	2.12	170.41	273.92	75.1	24
1973-1974	1.56	349.0 0	1580.28	95.0	42
1976-1977	1.23	448.32	2394.29	96.0	48
1981-1982	0.94	631.71	4528.0	96.2	62
1983-1984	0.92	667.70	5416.0	97.0	62

A close scrutiny of the Table reveals that the progress of the Agricultural Credit Societies was not substantial during the

First Plan Period. The number of societies showed an increase only 39 per cent, while the membership moved by 50 per cent. The working capital, however, almost doubled during this period. It was during the Second Plan Period that the Agricultural Credit Societies showed the highest progress. The number of societies increased from 1.60 lakhs in 1955-1956 to 2.12 lakhs in 1960-1961; the membership increased from 78 lakhs to 170 lakhs and the working capital from Rs. 79.10 crores to Rs. 273.93 crores during the same period. The proportion of rural population covered moved from 12 per cent to 24 percent during the Second Plan period. The trend towards an increase in the total number of agricultural credit societies in the country which had been witnessed over the past several decades was reversed for the first time during the third plan period. From 1961-1962 there has been a continuous decline in the number of Agricultural Credit Societies. The same fell from 2.15 lakhs in 1961-1962 to 0.94 lakhs in 1981-1982. This fall in the number of these societies has been largely due to the policy of revitalisation and reorganisation of Primary Credit Societies by weeding out dormant and uneconomic units followed by the State Government during and after the Third Plan Period. In Table No. 2.2 it is evident that although the number of societies has been reduced yet membership and working capital of these societies have been increasing constantly. In 1981-1982 the membership was increased

to 632 lakhs and working capital was equal to Rs. 4528 crores.

PRESENT POSITION :

As on 30th June, 1985 there are 92496 Primary Agricultural Credit Societies covering more than 97 per cent of the rural areas. The membership of these societies was 6.91 crores. Owned funds and deposits amounted to Rs. 1035 crores and 524 crores respectively while the borrowings during 1984-1985 were of Rs. 3743 crores. During 1984-1985, these societies advanced loans to the tune of Rs. 2693 crores while the amount of loans outstanding was 3981 crores of rupees. The total loans overdue were Rs.1630 crores.

COVERAGE OF VILLAGE AND RURAL POPULATION :

The extent of coverage of villages by Agricultural Credit Societies is regarded as one of the basic factors determining the progress towards coverage of potential membership. There has been a substantial increase in the number of villages and the proportion of rural population covered by these societies. The proportion of villages covered to the total has gone up from 75 per cent in 1960-1961 to 96.2 per cent in 1981-1982. The proportion of rural population covered by membership, assuming that each member represents a coverage of five persons, has gone up from 24 per cent in 1960-1961 to 48 per cent in 1976-1977. In 1981-1982, Co-operative Credit Societies covered 62 per cent of

rural population.

The figures in respect of coverage of villages by co-operatives should not be however, taken at their face value. It has been reported that in some of the states, the coverage has been artificially inflated by the inclusion of a large number of villages within the area of operation of the Primary Credit Societies but most of such villages are not being effectively served by those societies. Again, though the coverage in terms of villages is almost complete in a majority of states but a proportion of these is covered by dormant societies which are ineffective. Non dormant societies, however, cover only 82 per cent of the villages in 1973-74 which increased to 96.2% in 1981-1982. Further, even these villages cannot all be assumed to be effectively served as, according to the definition adopted for the purpose, a society which has issued even one loan or even a society which has issued no loan at all but has undertaken some other activity during the year, is classified as a non dormant society. The All India Rural Credit Review Committee (1969) has stated. : We have reason to believe that several of the societies which have been classified as active or non dormant have infact been doing only token business and cannot be considered active. There has been thus a wide gap, in some states between the coverage with reference to all societies and that on the basis of active societies.

GEOGRAPHICAL DISTRIBUTION :

The agricultural Credit Societies are not evenly distributed in the whole country as may be seen from Table No. 2.3

Among the states, Maharashtra, with 18406 Societies, accounted for the largest number of societies. Bihar had 6757 Societies while in Andhra Pradesh, Uttar Pradesh, and Punjab there were 6873; 8607 and 3042 Primary Credit Societies respectively. These five states taken together accounted for 46 per cent of the total number of Primary Agricultural Credit Societies in the country. The smallest number was in Nagland viz. 229 Societies while in Haryana, Himachal Pradesh, Kerala.

TABLE NO.2.3

PRIMARY AGRICULTURAL CREDIT SOCIETIES  
STATE WISE POSITION IN 1981-1982

State	Number of Societies	Coverage of Village (Percentage)
Andhra Pradesh	6873	100.00
Bihar	6757	100.00
Gujarat	7473	93.4
Haryana	2382	100.0
Himachal Pradesh	2152	100.00
Kerala	1574	99.8
Karnataka	4870	100.00

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(Contd.... Table No. 2.3)

1	2	3
Madhya Pradesh	5572	100.00
Maharashtra	18406	100.00
Orissa	2793	100.00
Punjab	3042	100.00
Rajasthan	5222	99.2
Tamil Nadu	4736	100.00
Uttar Pradesh	8607	100.00
West Bengal	7574	88.7
Manipur	698	100.00
Nagaland	229	41.6
Tripura	378	100.00
Assam	2429	97.9
Meghalaya	180	100.00
Jammu & Kashmir	1473	68.2
Union Territories	469	96.9
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All India	93889	98.2
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\* Including Haryana

Manipur and Tripura, the number of Agricultural Credit societies was less than 2500 each.

It may be seen that about 100% villages have been covered

by the Agricultural Credit Societies in the states of Uttar Pradesh, Tamil Nadu and Kerala, Punjab and Madhya Pradesh, Maharashtra, Orissa and Bihar. In all other states the percentage of villages covered ranged between 41 to 99.

It may thus be observed that in spite of the accelerated pace of expansion during the last decade the fact remains that the bulk of the rural population is outside the orbit of the co-operative movement and the objective of the movement to bring all the rural families within its fold still remains a long desideratum.

#### ORGANISATION AND REGISTRATION :

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

It was envisaged that by the end of the Third Plan itself only viable and potentially viable societies numbering 1.2 lakhs

would remain all over the country. But the process of organisation of the Primary Credit Structure undertaken in different states a few years ago had been slow. Indecision on the part of some of the State Governments, inadequate arrangements administrative and financial for the implementation of the reorganisation programme even on agreed lines, reluctance of honorary office bearers to amalgamation of societies are the major reasons for the delay.

The working Group on Co-operation for the Fifth Plan had suggested that Credit Potential calculated on the basis of Rs. 125 per hectare of dry land and Rs. 250 per hectare of irrigated land in the jurisdiction of a credit society should be concentrated in increasing the credit business to at least Rs. 2 lakhs per society. Even in the situation of ineffective reorganisation programmes, the average membership of Agricultural Credit Societies has been very high, this average was 80 in 1960-1961 which increased to 227 in 1973-1974 and further to 673 in 1981-1982.

#### SOURCES OF WORKING CAPITAL :

The sources of working capital of Primary Agricultural Credit Societies generally consist of share capital, deposits from members loans from Central Co-operative Banks, Government and other agencies and Reserve Fund. Table No. 24 shows the growth and composition of working capital of these societies.



TABLE NO.2.4AGRICULTURAL CREDIT SOCIETIES

## Growth and Composition of Working Capital

(Rs. in Crores)

Year	Share Capital	Reserve Fund and Other Funds	Deposits	Borrowings	Total Working Capital
1950-1951	8.40	8.86	4.48	19.21	40.96
1955-1956	16.80	12.45	7.05	42.80	79.10
1960-1961	57.75	13.80	14.59	183.78	273.92
1973-1974	271.06	82.01	89.27	918.19	1580.27
1975-1976	327.31	109.56	113.30	1154.44	1989.70
1981-1982	629.92	208.78	316.44	2633.75	4528.00
1983-1984	720.75	N.A.	463.93	3164.00	5416.79

SHARE CAPITAL :

In the early stages of the Co-operative movement a large proportion of Agricultural Credit Societies in India had no share capital as it was considered contrary to Raiffeisen principles. It was, however, soon realised that such societies failed to attract members and did not achieve substantial progress. Therefore, the principle of share was introduced in many provinces like Madras, Punjab and Uttar Pradesh. The above Table (2.4)

Shows that there has been a substantial increase in the share capital of the Agricultural Credit Societies during the plan period. The growth was rather slow during the First Plan Period but during the second Plan there was a spectacular increase in share capital of these societies. From above Table (2.4) share capital moved from Rs. 8.40 crores in 1950-1951 to Rs. 720.75 crores in 1983-1984 ( i.e. 8580.35 per cent ) increase.

#### RESERVE FUNDS :

The Reserve Fund is meant to meet unforeseen losses and also to serve as an important asset and security in borrowings and hence forms an important element in the working capital of the society. The Table No. 2.4 shows the growth of Reserve Funds during the Plan period. It may be seen that it increased from Rs. 8.86 crores in 1950-1951 to Rs. 208.78 crores( i.e. 2356.43 percent) in 1981-1982.

#### DEPOSITS :

Deposits raised locally have always been considered as an ideal method for raising the capital required by the Co-operative Societies. These deposits do not merely imply the presence of thrift among the villagers, they as well signify a living interest on their part, in the management of the societies. Table No. 2.4 shows the growth of deposits during the plan period. It may

be seen that it increased from 4.48 crores in 1950-1951 to Rs. 443.93 crores ( i.e. 1p355.58 per cent) in 1983-1984.

#### BORROWINGS :

Preponderance of borrowed capital as distinguished from owned capital has always been a chief characteristic feature of Agricultural Credit Societies in India. These borrowing come from Central Co-operative Banks, State Governments and Commercial Banks, etc. These outstanding borrowings, which were envisaged to be resorted to in times of financial stringency for supplementing their resources, have now become the most significant sources of finance for Agricultural Credit Societies in India. The Table No. 24 shows the borrowing of these societies increase from Rs. 19 crores in 1950-1951 to Rs. 3164.00 crores (i.e. 16470.59 per cent) in 1983-1984.

#### WORKING CAPITAL :

The sources of working capital of Primary Agricultural Credit Societies generally consist of share capital, deposits from members and non-members, loans from Central Co-operative Banks, Government and other agencies and Reserve Fund. Table No. 2.4 shows the growth and composition of working capital of these societies during the plan period. It may be seen that it increased from Rs. 40.96 crores in 1950-1951 to Rs. 5416.79 crores

( i.e. 13224.59 per cent) in 1983-1984.

## 2.7 CROP LOAN SYSTEM :

The most essential feature of the crop loan system is that the eligibility of the cultivation to loan and the size of the loan are determined not by the fact of ownership of land or by the value of tangible security ( gold, ornaments, house property etc.) that he can offer, but by the fact that :

- i) He has a bonafide cultivator,
- ii) He is in need of credit for undertaking production and,
- iii) That he is able to repay the loan out of his production.

The Agricultural Credit Societies are expected to advance loans on the basis of what is called 'Crop Loan System! The Rural Credit Survey Committee mentioned the following some essential features of the <sup>crop</sup> loan system.

- 1. Production is the main purpose of the crop loan system.
- 2. Short term loans are given on the basis of anticipated crop and not on land or tangible security.
- 3. Loans are related in amount to the estimated outlay on raising the crops.
- 4. Recovery are made as an when the crop is sold, from the proceeds of the sale.

5. The provision of as large portion the total credit as possible in kind.

The crop loan system is, thus, intended to ensure that the cultivators are given loans with reference to their production requirements in cash and kind. Under the system the size of the loan is to be determined by the national assesment of the needs in relation to the production activity undertaken by the Agriculturist. The Credit requirements of the cultivators are to be assessed on the basis of the acreage and cost of cultivation of the crop grown, subject to the repaying capacity.

The nature of crop loan suggests following percenditions, for the successful implementation.

- a. The loan should be disbursed shortly before sowing and the due date for the repayment should be shortly before harvest.
- b. The disbursement of loan in kind ( i.e. Fertilizer, seeds, pesticides, oil cake etc.) popularly known as B Component should be maximum. The disbursement in cash ( i.e. A Component) should be minimised to ensure productive utilization of loans.
- c. The recovery of loans should be ensured out of sales proceeds of such crops by compelling of marketing of produce through agencies which are linked with credit societies.

- d. The appropriate scales of finance for various varieties of the crop should be fixed from time to time in order to ensure adequate finance to farmers.
- e. The quantum of loans should be a certain percentage of crop linkely to be raised from the loan.
- f. The land record which serves as one of the bases for preparing annual credit statement should up-to-date and accurate.

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