

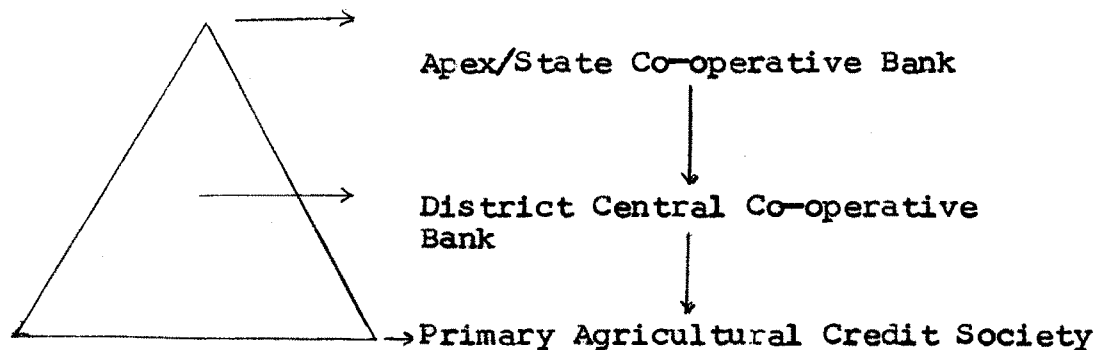
CHAPTER - ICO OPERATIVE CREDIT STRUCTURE IN THE COUNTRY

This chapter deals mainly with the historical background of three-tier (federal) structure of co-operative credit in our country. The attempts have been made to describe the evolutionary position of Primary Co-operative Credit Society and its reorganisation characteristics, functions and objectives etc. Primary Co-operative Credit and Service Society is the latest outcome of this evolutionary process.

The Co-operative Credit Structure in India is Pyramidal or federal in character. At the base, that is, at the village level there is a Primary Credit Society upon which the whole edifice of co-operative Credit is based. These societies are federated at the district level into a Central Society Called the Central Co-operative Banks are federated into an apex bank. The apex or State Co-operative Bank in its turn is closely linked with the Reserve Bank of India, which provides considerable financial assistance to Co-operative Credit Structure. This is the set up in regard to short and medium term financing. The long term Credit structure at the moment consists of two tier, there are Primary Land Development Banks at the base or taluka level and

and Central or State Land Development Bank at the State level.

The federal structure of Co-operative Credit shows in the following diagram..:



It is the merit of this setup that, though the institutions at the 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.

According to a Study Group of the National Credit Council presided over by Dr. D.B. Gadgil has stated, " The underlying Philosophy of this federal structure of Co-operative Banking system is an integrated one and because of its three-tier structure, hasb been enabled to extended 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. "These institutions constitute an effective machinery functioning balancing centres within the movement and supplementing the internal financial resources by borrowing from outside. Accordingly, they assist in supplying agricultural credit in the volume required, supervising its use and effecting its recovery on due dates.

APEX/STATE CO-OPERATIVE BANK :

The financial structure of the Co-operative Movement in India has been federal in character from the very inception of the movement. This federal character was recommended as early as 1914 by Maclagan Committee. It was soon realised that just as the Primary Societies required a Central Agency for supplying their demands, so the Central Banks also required an apex agency to cater to their needs and control and coordinate their work.

Therefore, the apex cooperative Bank was established at the provincial level with the chief object of coordinating the work of Central Banks and linking up the Co-operative Credit Organisation with the general money market and Reserve Bank of India. They are expected to act as a clearing house for capital, what is envisaged is that money should flow from the apex bank to the Central Banks and from Central Banks to the Primary Credit Co-operative Societies and from them to the individual borrower.

The underlying idea of this financial distributory system is that the resources of the society should be made available to thousands of cultivators.

The apex bank now occupies an important position in three tier structure. It is the head of the Co-operative Movement in the State and is expected to play positive role with regard to Co-operative Credit System.

The number of State Cooperative Banks increased from 15 in 1950-51 to 31 in 1980-81. Issued share capital also increased from Rs. 1.50 crores to Rs. 50.77 crores including Government contribution in the shares during the same period. These banks provided loans to DCC Bank amounted to Rs. 55.22 crores and increased to Rs. 747.59 crores in 1950-51 and 1970-71 respectively.

CENTRAL CO-OPERATIVE BANKS :

When the Co-operative Societies Act was passed in 1904, there was no provision for the formation of Central Banks. The sponsors of the Co-operative Movement expected that the rural credit societies would be able to attract substantial deposits from the members and well-to-do sections of the village community and their savings would be available to meet the need of the the needy in the villages. It was contemplated that any deficiency in the funds would be made good by loans from the



Government. But these expectations of the promoters did not materialise. The isolated and poorly managed Primary Societies failed to cater the financial needs of the members. Therefore, the Co-operative Societies Act was amended in 1912 with a view to permitting registration of Central Banks. As a result of which the period from 1906 to 1918 may be called the period of origin of the Central Co-operative Banks in various parts of the country. The decade from 1919 to 1929 which was roughly the period between the first world war and on set of the world depression was marked by expansion of Co-operative Banking System. The number of Central Co-operative Banks increased from 233 in 1919-1920 to 588 in 1920-30 and the later this number has come down to 380 in 1984-85. Issued Share Capital of District Central Co-operative Banks moved from Rs. 4.04 crores to Rs. 640 crores in 1980-1981. The deposits of these banks also increased from Rs. 30.79 crores in 1950-1951 to Rs. 1000 crores in 1980-1981. The short and medium term loans distributed by these banks during the same period increased from Rs. 105.64 crores to Rs. 16000 crores.

#### PRIMARY CO-OPERATIVE CREDIT SOCIETY :

##### 1.2 CO-OPERATIVE CREDIT AN EVOLUTION :

Towards 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 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 resulting in too much pressure on land. The land got increasingly divided and subdivided. Farmers who were once prosperous became petty peasants with tiny land holdings and were finally induced to the status of landless labourers. They were in the clutches of the money lenders. Rural debt was increasing and this increased the burden on the farmer while his economic position was deteriorating and he was finding himself in a hopeless conditions, 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 and passed the first Co-operative Act<sup>in</sup>/1904. This Act of Co-operative Credit Societies marked the beginning of the Co-operative Movement in India. The object of this Act, is stated in the preamble, was to encourage thrift, self help and Co-operation amongst agriculturists, artisans and persons of limited means. According to this act, any ten persons living in the same village or town able to form Co-operative Credit Society. As a result of which the Primary Credit Societies made significant progress during the initial stages.

Before this Act of 1904, the Government of Madras deputed Sir Frederick Nicholson in 1882 to study the possibility of introducing land and agricultural banks in that province. He pointed out in his report that India must find its own Raiffeisens. While Sir Frederick's enquiries were in progress, Mr. Dupernex of the Indian Civil Service, after a careful study of the problem, began to experiment with village banks in U.P. and submitted its report. These two reports came to the notice of the Government of India in 1900 and as a result, a strong committee under Sir Edward Law was appointed to make proposals for consideration of the Government. Their recommendations proved the basis of the Bill which was passed into law in 1904. As the Co-operative Credit Societies Act.

Primary Agricultural Credit Society is 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. Most of these societies have been organised with a view to provide credit facilities to their members. These societies were setup on Raiffeisen model with unlimited liability and a small area of operation, covering generally only one village.

### 1.3 REORGANISATION OF PRIMARY AGRICULTURAL CREDIT SOCIETIES :

The Primary Agricultural Credit Societies had functioned more or less as a money lending institutions and had rarely taken a deeper interest in the life of their members. Thus the Primary Credit Societies had failed to solve the many sided problems faced by the agriculturists. The process of reformation and reorganisation came in force in the following form

Small-Sized Societies

To

Multipurpose Societies

To

Large-Sized Primary Credit Societies

To

Co-operative Service Societies (PACS)

### MULTIPURPOSE CO-OPERATIVE SOCIETIES :

Experience of original small sized societies showed that they had been working under a number of handicaps. Due to small business their profits were meagre and they could not afford the services of skilled and trained staff. Very few of them having full time secretary or a regular office. Most of these societies were not in economically viable position. As a result of which



a large number of small sized societies were converted into multipurpose, societies.

The multipurpose society is a society which undertakes all activities affecting the daily life and business of the agriculturist. They supplied not only the credit needs of members but also made arrangements to distribute the produce of agriculture to collect the produce of the members and to help them in its processing and marketing. The Agricultural Credit Department of RBI being impressed by the success of these societies. As a result of which in 1946-47 there were only 9650 multipurpose societies with a membership of 3.5 lakhs and working capital of Rs. 2.78 crores, by 1951-52 their number had gone up to about 49000 with a membership of 21 lakhs and working capital of Rs.13 crores.

The Multipurpose societies were considered suitable in so far as they satisfied most of the common needs of the rural population with a view to breaking their contracts with the money lenders. Enlargement of business was also expected to reduce the overheads and improve the efficiency of management.

The All India Rural Credit Survey Committee (1954) assessed the performance of multipurpose societies and reported that undoubtedly the multipurpose idea has great possibilities in terms

CARD. DALAGUNTI SANKHAR LIBRARY  
SHIVAJI UNIVERSITY, KOLHAPUR.



of an individual society which happens to be really able to put into practice. But it was a mistake to have supposed that a more expansion of the idea of large number of societies, will make all of them automatically successful. The scope and nature of operation of a multipurpose society being complex, its control would fall in the hands of few educated or intelligent individuals and thus vitiate the true spirit of cooperation.

LARGE SIZED PRIMARY CREDIT SOCIETIES :

As the committee of Direction of the Rural Credit Survey found neither the small sized societies nor the multipurpose societies as a suitable pattern for the development of credit co operatives at the Primary level. They recommended large sized primary credit societies at the village level. The Scheme for the formation of large sized societies was duly endorsed by the Standing Advisory Committee on Rural Credit and the Second Indian Cooperative Congress in March 1955. The State Co-operative Minister's conference of 1955 also endorsed the same view. Since the beginning of the second plan the Co-operative department in all the states pursued the policy of encouraging the formation of large sized societies. The viability of these societies could be achieved firstly by enlarging membership and secondly by

enlarging loans and other business operations. On average, a large society was recommended to have a membership of 300 to 500 persons and a loan business of about Rs. 1.5 lakhs.

The organisation of large sized societies was taken up in the country on phased basis and it was proposed that by the end of the second five year plan, 10372 large sized societies would be organised. About 7312 large sized societies were organised during the first three years of the second plan. Some of these societies were organised by amalgamation of existing multipurpose societies while others by fresh registration.

The scheme of formation of large sized societies came in for scathing criticism at the hands of Sir Malcolm Darling who pleaded for the old rule of "One village one society". The Late Prime Minister Shri. Nehru, expressed himself categorically in favour of smaller societies.

#### PRIMARY CO OPERATIVE SERVICE SOCIETIES :

As a result of poor performance of large sized societies the National Development Council Reviewed the Co-operative Programme in 1958 and called for reorganisation of service societies throughout the country. The term "Service Co-operatives" is not a new one and is more or less synonymous with the

term multipurpose societies. This is the latest outcome of reorganisation process of co-operative credit in our country. The present structure of co-operative service societies in our country is emanated from the United States where from service co-operatives organised on co-operative basis. In case of our country the term "service co-operatives" was used by the Indian Delegation to China on Agrarian Co-operatives (1959). The National Development Council in their meeting on 9th November, 1958 discussed the formation of service Co-operatives at village level. The 64th session of the Indian National Congress held at Nagpur in Jan. 1959 described the service Cooperatives as the most important agency for the benefit of agriculturists, and recommended for their formation throughout the country. The term service co-operatives got wide currency after late Prime Minister Nehru used it in his speeches at the press conference held in New Delhi on 17th Feb. 1959 and in Rajya Sabha on 12th Feb. 1959. Mr. Nehru's statement is that "what we have decided at the Nagpur congress is that there should be service co-operatives all over the country within three years service co-operatives, not joint cultivation at the state, that is to say, people keeping their separate holdings, cultivating them separately, but meeting together in the village co-operatives for various other economic purposes.

A service co-operative is an organisation of villagers who have willingly combined for mutual help and co-operation in meeting their common economic requirements and increasing agricultural production. The idea is to relate the short term credit which the society gives, to the production plan of the farmer and to the yields he is likely to get from this.

#### 1.4 MODE OF CONVERSION :

As regards the conversion of existing credit or multipurpose societies, what was required to be done was to amend the bye-laws of them existing societies or to adopt model bye-laws of service co-operative society to be drawn by each state. On the basis of this in the third plan primary societies which were in the process of liquidation and dormant made the provision of rectification and revitalisation into service co-operatives with a view to setting up of viable units performing the necessary service functions.

#### FORMATION OF SERVICE CO-OPERATIVES :

As per Co-operatives Societies Act any more than ten members living in the same village can apply for the registration. But as stated by NDC in 1958 and Mehata Committee 1959, service Co-operative Society should be formed on the basis of village

community as the Primary unit. Where villages are too small the number of villages to be covered by a society may be increased in the interest of viability. The extension should be subject to the maximum limit of population of 3000 and a distance of not more than 3 or 4 miles from the headquarters village.

The service Co-operatives should be organised on the basis of viability which measured in terms of a programme of fulfilling certain essential conditions, such as bringing into the Co-operative fold all rural families, effective implementation of the village agricultural production plan, linking credit with production and with marketing supervision of the use of credit, undertaking the functions of distribution and supply and attracting local savings to the maximum possible extent as share capital and as deposits.

As for as liability is concerned All India Rural Credit Review Committee (1969) stated that, as like Primary Co-operative Societies service societies should be organised on the basis of the limited liability and the scheme of the formation of service Co-operatives was launched in our country about a decade on the limited liability basis.

The National Commission on Agriculture also stated that Agricultural Service Co-operative Society is the sole agency taking care of all the development needs of small and marginal farmers and village artisans. Service Co-operatives are not to be merely multiple societies combining credit with purchase and sale but the very care of the Co-operative movement a central organ in the village which should cover all families and be the centre round which all functional societies will revolve and from which they receive guidance and through which they will be integrated with the entire programme of Co-operative Development.

#### 1.5 MANAGEMENT OF SERVICE CO-OPERATIVE SOCIETY :

The management of service Co-operatives like other Co-operatives will be conducted in the general meeting. The members can meet together discuss and decide upon the various matters concerning the society. The general meeting of a society should be held generally one in a year to elect the managing committee consisting of seven to nine members including president on democratic line. This committee should be held responsible for day to day functions of society. The secretary and clerks should be appointed for the accounting matters by the managing committee. The managing committee is the representatives of all members of the society which should perform the functions of protecting the interest of these members of the society.

### 1.6 FUNCTIONS OF SERVICE SOCIETY :

With the considering objectives of improving agricultural yield and aiding production, the service co-operatives have to perform the following functions, .

1. To arrange the supply of farm requirements such as improved seeds fertilizers and insecticides. Societies should also stock for sale of small implements such as sickless, grass-crappers pickaxes, plough, chaff cutters and other small improved implements which are required by farmers. For procuring these implements the societies may establish a link with some industrial societies.
2. To provide short and medium term credit to the members for agriculture.
3. To provide household requirements. It is not intended that the society should open full fledged general stores. Only essential commodities in short supply such as sugar, kerosene oil, food grains, cloth etc. may be stocked for distribution.
4. To maintain and supply of hire light agricultural machinery. The range of this machinery will depend upon local requirements subject to which the society may possess such things as plant protection equipment like sprayers, dusters incubators,



threshers winnowers and cane crushers.

5. To raise funds for meeting the above mentioned requirements mainly by catering to the saving of members. The function of inculcating the habits of thrift and saving among members is very important in order to make the people as much self sufficient as possible.

As for as the functions of service Co-operatives are concerned various committees on Co-operation have stressed on the services needed by the agriculturists, village artisans and village consumers which are necessarily to be fulfilled by these societies.

#### 1.7 DIFFERENTIAL OBJECTIVES OF SERVICE CO-OPERATIVES TO OLD PRIMARIES :

The latest model of service Co-operative is different from the old primary Credit Co operatives from in the point of view of scope as well as manner of operation. Following are the basic objective points which have been differentiated as far as these two credit models are concerned.

1. The objectives of new service Co-operatives are circumscribed by a more dynamic philosophy which revolves round the field of cultivator and overall problems of low yields and farming inadequacies. While the old primary societies looked to credit as their main function and the other being ancillary.

2. The service Co-operatives are expected to embrace the whole economic and business life of the village community. The function of the Co-operative would include not only supply of agricultural resources but also mobilise the entire manpower resources for intensifying agricultural production and rebuilding the rural economy.
3. In pursuance of these objectives the service Co-operatives should be expected to assess the farming needs and take measures to fulfil them. So far as possible the society should even create demands for better seeds, more fertilizers, better implements etc. by educating the people about their advantages, and also it is the duty of the society to propagate the best method of using fertilizers and provide farm guidance services. These functions were never envisaged in the working of old primary societies. Thus it is the unique model of Co-operative Credit Structure in our country.