THE ROLE OF CREDIT COOPERATIVES IN DEVELOPING INDIA'S

AGRICULTURAL RESOURCES

by

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INTRODUCTION

"Every village should have three things, a panchayat, a cooperative and a school. Only then can the foundation of the country be strong." -- Jawaharlal Nehru.

India is essentially a rural society. In a country whose economic structure has its roots in the village, cooperation must be something more than a series of activities organized along cooperative lines. Basically, a cooperative community organization system must evolve which touches upon all aspects of life.

The First Five Year Plan states: Since the purpose of the plan is to change the economy of the country from an individualistic to a socially regulated and cooperative basis, success should be judged among other things, by the extent to which cooperative organizations are implemented.[1]

India is primarily an agricultural country. Over two-thirds of the people depend on farming for their livelihood. Nearly half the national income is derived from agriculture with small subsistence farms. A sample survey of 1950-51 found that nearly 60 percent of the country's 60 million farms have no more than five acres of cultivated land each; nearly 94 percent have less than 25 acres.[2]

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[1] First Five Year Plan Report. Government of India. New Delhi, 1952, p. 164.

[2] Agriculture in India, United States Department of Agriculture, Economic Research Service, Regional Analysis Division, January 1964, p. 9.

The majority of these farms are too small to provide an acceptable means of subsistence living. Poverty hinders the adoption of improvements that could be introduced.

In this context, the importance of adequate credit for agricultural development in India receives great attention. Considering the size of the problem, a powerful credit institution must emerge that will fulfill all the credit needs of farmers.

Six decades ago, the cooperative movement in credit started. However, after 50 years, the cooperatives provide only three percent of the total farm credit requirements. Individual money lenders serve a high percentage of the remainder. One need not stress the disadvantages of excessive credit flowing through these individual sources, who charge interest rates, sometimes, exceeding 100 percent.

Generally, agricultural credit is obtained in three ways: (1) individual money lenders, (2) commercial institutions, and (3) credit cooperatives. Considering the credit requirements of India's agriculture, it is necessary that the latter two sources be strengthened.

There is need for replacing these individual money lenders in the economic set up of India. The extent that cooperative credit institutions could act as a substitute is a question to be analyzed. From past experiences with the cooperatives, one could draw some suggestions for strengthening these credit organizations.

Statement of Problem

Monetary problems of rural India are of urgent importance. It is said that an Indian farmer takes birth as debtor, lives as debtor, and dies as debtor. One generation inherits debt from a preceding generation. Therefore, an effective solution to rural indebtedness is a crucial point for economic development.

The purpose of this report is to examine the role of credit cooperatives in developing India's agricultural resources and make some recommendations for their improvement.

CREDIT COOPERATIVES

The average Indian farmer is faced with an acute shortage of capital for agricultural production. Cooperative credit societies were established through Government in order to avoid high rates of interest charged by banks and individual money lenders.

According to the Third Five Year Plan, the number of primary cooperatives is expected to reach 230,000 by 1965-66. With a membership of 37 million, a large majority of the agricultural population will be covered. It is further indicated that a total of Rs. 6,800 million comprising Rs. 5,300 million as short and medium term credit and Rs. 1,500 million as long term credit, will be made available through these societies.[1]

A credit survey, conducted by the Government of India, reported some important findings:[2]

1. That credit granted by cooperatives and government agencies was only 6 percent of the loans used by cultivators. For the rest (94 percent) of their credit needs, the village farmers had to resort to money lenders and to other means. Even where credit societies have been most successful, only 30 to 40 percent of rural families can qualify for loans.

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[1]Third Five Year Plan. Planning Commission, New Delhi. Government of India Press, 1961, p. 204.

[2]All India Rural Credit Survey. Government of India, New Delhi, 1957, p. 216.

2. Vast majority of cooperative societies were uneconomic as business units with a high percentage of overdues outstanding that the system was not one to attract funds on its own merits and in the normal course of business.

3. The more fundamental cause of failure is the soci-economic structure of the village, in which lack of education in general, and of education on cooperation in particular, is an important factor.

4. The survey, however, expressed the conviction that there is no alternative for the cooperative organization as the important base for agricultural credit. Success, and the conditions on which these are dependent, may be discovered in several instances in Madras, Bombay, Punjab and Uttar Pradesh.

Sources of Credit

Although farm credit societies are the oldest cooperatives in India and have numbered over 100,000 for many years, they have never been an important source of farm credit. A comprehensive rural-credit survey completed in 1951-52 revealed that professional money lenders, agricultural money lenders, and relatives provided over 80 percent of the credit advanced to Indian farmers. This survey shows the following sources of credit (in percentages of total money loaned.)[1]

	Percent
Professional money lenders	44.8
Agricultural money lenders	24.9

[1] *Ibid.*, p. 46.

Relatives	14.2
Traders and commission agents . .	5.5
Government	3.3
Cooperatives	3.1
Commercial banks	0.9
Landlords	1.5
All other sources	1.8
	100.0

Interest rates on credit provided by moneylenders, traders, and other individuals generally exceed the legal maximum by a large margin, but this credit is convenient. It is usually not secured and requires no waiting period, no formal papers are involved, and there is frequently no fixed date for repayment or restriction on use of the funds.

The reverse is true of credit advanced by cooperative credit societies. The rates of interest charged on loans by small societies range from 4½ percent to 12½ percent, and that by the larger societies from 3¼ percent to 12 percent. This contrasts sharply with rates of 25 to 70 percent applied by private sources. The societies generally have not been an adequate and dependable source of credit to farmers for many reasons, including inadequate capitalization, slow service, collateral required, and low individual loan limits.

Purpose of Credit Cooperatives

According to Kulkarni, the cooperative organization is useful in the following aspect of the community project work: "Supply of short term, intermediate, and long-term finance to farmers through thrift and credit societies, multi-purpose societies and land mortgage banks. The needs of the cultivator are many and these have to be met fully, if the food problem in the country is to be solved. Short term loans are required for raising crops, intermediate-term loans for the purchase of bullocks, carts and other agricultural implements and putting up small bunds, and long-term loans for making permanent improvements on land."[1]

In practice, cooperative credit is used for many different purposes. For example, cooperative credit societies advance loans for cultivation, chemical fertilizers, implements and the manufacture and use of rural compost. In Madras, the majority of loans are for installing gasoline engines and pumping sets for irrigation. There are many crop loan societies in Hydrabad and sugarcane societies in Uttar Pradesh which loan money for production of these crops. Due to lack of storage, the grain banks are generally unsuccessful. Loans for ceremonial functions have become rare.

In recent years, credit cooperatives have been converting to multi-purpose societies so that farmers not only get loans for improved seeds, fertilizers, etc. but also for marketing service.

The primary cooperative credit societies obtain their capital by borrowing from the Cooperative Control Banks or Unions. In each state, there is one cooperative bank whose working capital consists of deposits and borrowings from the State Governments, State Banks and the Reserve Bank.

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[1]K. R. Kulkarni, Theory and Practice of Cooperation in India and Abroad, Vol. I, Bombay, 1958, p. 353.

Organizing Credit Societies

The Cooperative Credit Society Act was passed in 1904 to combat rural indebtedness. In 1912, another Act was passed for non-credit cooperatives in such activities as production, purchase, sale, insurance, and housing. It also provided for the creation of unions of primary cooperative societies for mutual control and credit, and of central and provincial banks to help the primary societies with credit. Later, the Maclagan Committee appointed by the Government of India in 1914, recommended greater non-official participation in the cooperative movement.

Cooperative movement became a provincial subject under the 1919 Act. In 1935, Government of India established the Agricultural Credit Department in the Reserve Bank of India. In 1945, a Cooperative Planning Committee was formed which recommended the primary societies to be converted into multi-purpose societies to bring 50 percent of the villages and 30 percent of the rural population within the scope of the reorganized societies within a period of 10 years.

Primary societies organized at the village level and dealing with individual members contribute the base of the cooperative structure. The position of Primary Agricultural Credit Societies in 1965-66 as compared with 1950-51 is shown in the following table.

TABLE I: Progress of Primary Agricultural Credit Societies

Year	No. of Societies (in thousands)	Membership (in thousands)	Total Credit (Rupees in Crores)	Long Term Credit (Rupees in Crores)	Short & Medium term credit (Rupees in crores)
1950-51	105	4,400	22.9	-	22.9
1955-56	160	7,800	62.6	13	49.6
1960-61	210	17,000	234.0	34	200.0
1965-66	230	37,000	680.0	150	530.0

N.B. The number of central land mortgage banks is 17 and of primary land mortgage banks 407.

(Source: *Rural India*, March 1962, p. 84)
One Crore (1,00,00,000) = Ten Million (10,000,000)
One million rupees = US $210,000.

COOPERATIVES IN COMMUNITY DEVELOPMENT PROGRAM

Farmer's cooperative organizations are essentially democratic bodies both in their outlook and day-to-day working. They work for the achievement of the triple ideal of better farming, better business, and better living. Cooperatives could, therefore, play a vital role in executing many of the items in the program of rural development in the community development area. The Planning Commission has recommended that in all the aspects of community development cooperative methods of organization should be adopted to the maximum possible extent.

It has been agreed by the National Development Council that as a general rule, cooperatives should be organized on the basis of the village community as a primary unit. Where villages are small, the number of villages to be served by a cooperative society may be increased. The aim should be to ensure viability with the inclusion of the smallest number of villages necessary, so that cooperative societies achieve both viability and the essential characteristic of cooperation, namely, voluntary basis, close contact, social cohesion and mutual obligation. However, such extension should be subject to certain maximum limits, namely, a population of 3,000 (e.e. 600 families or about 500 cultivators' families) at a distance of not more than three or four miles from the headquarters village. While a population of 3,000 might ordinarily be too high for a primary village society, it is desirable to avoid laying down unduly rigid rules on the subject of reorganization and the size of cooperative societies. Within this broad framework, the cooperative societies should be allowed to develop on their own. In this scheme of organization, provision is also made for state participation in the share capital under appropriate conditions. Outright contributions to the funds of primary societies and central banks have been proposed so as to enable cooperative societies to admit all classes of cultivators as members and to provide them with adequate credit on the basis of production requirements and repaying capacity. Management grants up to a maximum of $189 spread over a period of three to five years are also given to primary societies.

Over the period of the first two Plans, the number of primary agricultural credit societies has risen from 105,000 to about 210,000. Their membership has gone up from 4.4 million to about 17 million and the loans advanced have risen from about $48.3 million to about $420 million. The Third Plan envisages increase in the number of primary agricultural credit societies to about 230,000, membership to 37 million (representing 60 percent of agricultural population), annual level of lending of short and medium term credit to $1.1 billion and of long term loans (amounts outstanding) to $315 million. The Plan places considerable emphasis on the consolidation or revitalization of the cooperative movement where it is weak and provides for revitalization of about 52,000 primary societies in addition to about 42,000 taken up for revitalization during the Second Plan. The main consideration in fixing these targets is to ensure adequate support to the effort to achieve the larger agricultural targets in the Third Plan.[1]

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[1] "India News," December 7, 1952, p. 5.

The most important role played by these cooperatives can be summarized as follows:

1. The membership consists of a group of people having a common interest of keeping control of their savings and credit and to use them for the mutual benefit of the group.
2. They are the means of solving problems for short-term, medium-term and long-term loans. However, the emphasis is on short-term credit.
3. They provide only a service motive for the mutual benefit of its patrons.
4. They oppose ownership and control of means of production by the state government.
5. They favor distribution of income and are against any monopolistic gains.

CONCLUSIONS AND RECOMMENDATIONS

No credit can be easy if it is not applied to remunerative production. There are many methods, if not of making sure, at least of helping towards that end. First of all, a cooperative society has to work openly under the members' control. Its purpose of providing credit at low cost cannot be fulfilled without careful selection of risks, that is, by avoiding great risks. Secondly, a desperate situation may become less desperate by attaching to the credit technical advice and control of the employment of the loan. That is the purpose of making credit cooperatives strictly local and making the members jointly responsible for the repayment of loans. Farmers are experts under their own conditions and certainly keep an eye on each other's doings. Thirdly, credit can be combined with cooperative buying and selling. To make the best use of any credit the farmer must be able to buy at reasonable prices the commodity for which the loan was intended. Agricultural and consumers' cooperation here come into the picture. The other contribution is made by associating credit with selling. A farmer who borrows money to improve his production has the chance to repay his loans when he can sell his produce. At the same time, reasonable selling prices to the farmer are a prerequisite, and one of the objects of a marketing cooperative is to help maintain such prices.

The preceding discussion leads to the conclusion that where credit cooperatives are to be set up, especially in the underdeveloped countries, they should take the form of multi-purpose service cooperatives. Administration will be too expensive for many specialized local cooperatives where few skilled managers are available at any price.[1] Strong state and central government influence seems necessary at the start in order to guide the development. This, while reducing the dangers, facilitates more comprehensive planning from the very beginning.

It appears that credit cooperatives have a prime rôle in developing India's agricultural resources. In the final analysis, the rate at which cooperatives attain their full potential of influence will depend upon the willingness, aggressiveness and general "know-how" of their agricultural leaders.

[1] Review of International Cooperation, Vol. 56, No. 1, January 1963, p. 26-27.

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ABSTRACT

Cooperative organizations are of vital importance to the development of India. The late Jawaharlal Nehru said "Every village should have three things: a panchayat, a cooperative and a school. Only then can the foundation of the country be strong."

The First Five Year Plan placed emphasis on the role of cooperatives in the economy by changing from an individualistic philosophy to one of socially regulated and cooperative.

Over two-thirds of the people of India earn their livelihood from agriculture with small farms of no more than five acres of cultivated land each. The majority of these farms cannot provide a subsistence living.

The development of the Country's agricultural resources is of prime importance to the total well being of the Nation. Since credit is the most limiting factor in improving agriculture, a powerful credit institution must emerge that will fulfill the credit needs of farmers.

Performance of cooperatives over the past six decades gives a dim picture about their future prospects. At present, they provide only three percent of the total farm credit requirements. Individual money lenders serve the remainder, who charge interest rates, sometimes exceeding 100 percent. There is need for replacing these individual money lenders in the economic set up of India. Cooperative credit institutions may fill this need.

Figures about the progress of primary agricultural credit societies are impressive. For example, the number of societies rose from 105,000 in 1950-51 to 210,000 in 1960-61. However, they have not been an adequate and dependable source of credit because of their inadequate capitalization, slow service, collateral required and low individual loan limits.

Credit cooperatives, although limited in their influence, do provide a very valuable service. In addition, a self-help philosophy is emerging since they exist for the sole purpose of service to patrons and have no profit motive. They oppose ownership and control of agricultural production by the State Government and they are against monopolistic gains.

Some suggestions for improving the effectiveness of the credit cooperatives include:

(1) Provide more technical advice to the persons seeking a loan.

(2) Hold the members of the cooperatives jointly responsible for the repayment of loans.

(3) Give the individual more assistance in buying and selling commodities.

One conclusion seems evident in that where cooperatives are to be set up, especially in the underdeveloped countries, they should take the form of multi-purpose service cooperatives. Administration will be too expensive for many specialized local cooperatives where few skilled managers are available. Strong governmental influence seems to be necessary at the start to insure success.

It appears that credit cooperatives have a prime role in developing India's agricultural resources. In the final analysis, the rate at which cooperatives attain their full potential will depend upon the willingness, aggressiveness and general "know-how" of its agricultural leaders.