THE ROLE OF CREDIT COOPERATIVES IN DEVELOPING INDIA'S AGRICULTURAL RESOURCES

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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.