

CHAPTER - III

Cooperative credit - origin and growth

The regional background of the district would provide the context of the agrarian conditions to the study of the rise and progress of cooperation. This chapter attempts to trace the development of cooperation as a form of economic organisation in agriculture. It is divided into two sections. The first section examines the origin and development of cooperation as a whole in India and Gujarat, while the second brings out specifically the progress of cooperative credit in the country and the state.

Section I

Cooperation:

Cooperation in the sense of joint working is as old as human society, but in its modern sense of conscious activity, a philosophy of life and a business proposition, its genesis can be traced to the Industrial Revolution in Western countries which had a tremendous impact on the society and its institutions. It was to fight the evil effects of poverty and economic distress consequent upon the new order that cooperation as a form of economic organisation originated first in England and thereafter in some of the other European countries. The intensity

of the wrong or injustice of the exploitative forces gave a degree of urgency to cooperation in one form or another in almost all the countries of the world. Each country developed a form of cooperation best suited to the economic conditions and the genius of its people. For example, Great Britain became the birth-place of consumer's cooperation; Germany developed the credit movement; France concentrated on producers' cooperatives; Italy developed labour contract societies; in U.S.A. and Canada marketing cooperatives grew up. Palestine and Russia had cooperative collective farms; and China had Induscos. Today, almost all countries have accepted the significance of the cooperative agency in the economy and also in their programmes of development. Thus, cooperation as a vital force for social and economic reorganisation developed out of economic necessity more than a hundred years ago and in consonance with the peculiarity of the economic set-up and the pattern of national economy.

Indian setting:

It would be useful to examine the circumstances that led to the beginning of cooperation in our country. During the seventies of the last century the problem of rural indebtedness assumed grave proportions. Frequent famines broke the back of the peasantry. The usurious rates of interest charged by the money-lenders aggravated the problem. The Government took

various measures to relieve the distress, such as restrictions on alienation of land, usury laws and provision of loans. These measures could not prove effective and they barely touched the problem. The riots in certain parts of the Deccan made the situation only worse. A scheme of the State Bank for financing agriculturists was formulated by Sir William Wedderburn and Justice Ranade, but was not accepted by the Government. Two pieces of legislation, viz., the Land Improvement Loans Act of 1883 and the Agriculturists' Loan Act of 1884 were subsequently passed to render direct financial assistance to agriculturists. These measures, however, were found to be wholly inadequate. The Government, therefore, turned its attention to the experience of countries in Europe where cooperative institutions had shown encouraging results. The Madras Government was the first to conceive of an idea to organise cooperatives for the benefit of the cultivators. It deputed Sir Fredrick Nicholson to study agricultural cooperation and land banks in Europe and to suggest measures by which similar programmes could be undertaken in India. His two exhaustive reports released in 1897 and 1899 still constitute a landmark in studies on cooperation in Europe. His summing up in the two words, "Find Raiffeisen" underlines not only the need for setting up rural credit societies organised by Raiffeisen but for genuine enthusiasts and for devoted and selfless workers to promote cooperatives for the requirements of our agriculture. These words have a refreshing sound and

even today have relevance to our situation. The Famine Commission of 1901 also advocated mutual credit associations for strengthening the resistance of cultivators to famines and indebtedness. Finally, the cooperative movement was accepted as the most suitable machinery for providing credit to the agriculturists. The Cooperative Societies Act 1904, which officially founded the movement, provided for the formation of credit societies only. Thus, cooperatives were given a push by the government and did not really spring from the people themselves.

The purpose of the Cooperative Credit Societies Act of 1904, was to provide credit to the cultivators. In fact, the preamble clearly stated that the object of starting a cooperative credit institution was to encourage thrift, self-help and cooperation among agriculturists, artisans and persons of limited means. Societies formed under the Act were classified as rural and urban. The institutions had unlimited liability. In the context of the situation at that time this policy was perhaps justified. The operational area of the society was restricted and an intimate knowledge and personal mutual contact among members were essential and possible. Loans could only be given on personal or real security. For urban societies, the question of liability was left to the discretion of members.

The Act was simple and elastic. It could not be so comprehensive as to visualize or provide for non-credit societies nor could it permit formation of federal societies. In retrospect it might appear to some that it was rather rigid, narrow and restricted in scope; but as pointed out by the MacLagan Committee; "The cardinal object of the Act was, by the simplicity and elasticity of its provisions, to permit a genuine Indian movement to spring up, based on these general broad principles which must necessarily underlie any organisation claiming to be cooperative."¹ After the passing of the Act, efforts were made to implement it by instituting a separate machinery for the organisation and smooth working of the cooperatives.

The Act of 1904 was subsequently found deficient in the face of growing needs. The deficiencies of the first enactment were removed by an amendment in 1912. This change gave a fresh impetus to the movement. Two years later World War I broke out. Both on account of conditions of rising prices in the wake of the war and because of the enabling legislation and far-reaching recommendations of the MacLagan Committee of 1915, cooperative institutions received a new momentum. Though the movement expanded in all directions the provision of credit dominated

1. Report of the Committee on Cooperation in India, 1915, p.3

all other purposes, The period of 1904-1915 is regarded as the period of initial effort and the first stage of cooperative development.²

To cope up with the administrative needs arising out of this expansion and probably also for reasons of practical expediency, cooperation became a transferred subject in 1919. The provincial governments showed keen interest in the development of cooperatives. The Bombay Government, for example, passed a separate act in 1925. The needs of the situation further improved the prospects for cooperative institutions. Little regard, however, was paid to quality as well as to the even spread of cooperation in the country. This could naturally not be achieved because there was no definite country-wide policy and central direction. The period 1915-29, which has been termed the period of "unplanned expansion" can be looked upon as the second stage of the cooperative movement.³

The great depression of 1929-32, that followed thereafter led to a slump in agricultural prices, decline in farm incomes, falling employment, mounting indebtedness and consequent increase in overdues of the cooperatives. Inevitably, all these adversely affected the working of cooperative institutions in general and credit institutions in particular. During the

2. R. Pantalu, Year Book and Director^y of Indian Cooperation, p.1

3. " " " p.1

period 1929-39, the provincial governments made several efforts to rectify, rehabilitate and reconstruct the movement. On account of this, the period, the third stage, came to be described as the period of consolidation of the working of cooperatives. These years also witnessed the winding up of a number of cooperatives.

The economic depression of 1929 also brought about some changes in the concept of cooperatives. Instead of mere supply of credit, the efficiency and usefulness of the multipurpose idea in cooperation came to the forefront. It was pointed out that "dearness of credit is by no means the only cause of their (Cultivators') plight" and the stage for a multipurpose approach in cooperation was set during this period.⁴ The activities of the primary societies in most of the states till then pertained to the supply of credit.

Right from the inception to the period of the World War II credit cooperatives predominated. Non-credit institutions grew up, but only slowly. Some of them came up during the First World War but languished later. During the period of 1929-39 most of the societies were moribund. The need, therefore, arose for enlarging the scope of activities. This led to the concept of multipurpose cooperation. The period of depression was followed by World War II. This has a great impact on our economy and the cooperative society.

4. Reserve Bank of India, "Cooperative Village Banks", Bombay, 1937, p.9

Growing scarcity of consumer goods for civilian consumption led to rise in prices. Cooperatives were given preferential treatment in the distribution of controlled articles and other daily necessities of life. Other forms of cooperation, such as consumer stores, milk supply institutions and those of cane growers, fruits and vegetable growers, weavers as well as other industrial cooperative also increased in number and recorded good turnover. The shift in the emphasis from credit to multipurpose working, broad-based and diversified the cooperative activity. The progress registered a rapid rise. During 1938-46 alone the number of cooperatives increased by 41 per cent, membership by 70 per cent, the working capital by 54 per cent and the coverage of population by 4 per cent.

The table below gives a synoptic picture of the history and development of the movement during 1906-50.

Table - 1 Progress of Cooperative Societies
of all types, 1906-1950

Average for five years ending-	Number of societies	Number of members (in thou- sand)	Working capital (Rs. in lakhs)
1909-1910	1,926	162	68
1914-1915	11,786	548	548
1919-1920	28,477	1,129	1,518
1924-1925	57,707	2,155	3,636
1929-1930	93,936	3,689	7,489
1934-1935	1,50,714	4,344	9,461
1939-1940	1,16,960	5,077	10,468
1944-1945	1,49,888	7,218	12,435
1949-1950	1,59,185	10,732	18,873

(Source : Reserve Bank of India, 'Statistical Statements
Relating to Cooperative Movement in India
(1960-61)

In 1951-52 cooperatives covered 19 per cent of the population. This is less than one fifth of the population, the bulk of which remained unserved by the movement. The proportion worked out at 35 per cent of the rural and 25 per cent of the agricultural population. The expansionary trend continued at an even pace during the post-war period but on an uncharted sea, as it were, till we reach the year of 1950-51 when planning which included deliberate organisation,

expansion and a new cooperative policy, was initiated. A more positive encouragement and impetus to cooperation was provided under planning. For prior to this, credit as a function had predominated cooperative organisation. Attention was till then concentrated on the treatment of the symptom rather than the disease. The cooperatives could not help farmers to redeem the debts of cultivators and improve their lot because the problem, it was pointed out, was not attacked on all sides and at the roots.⁵

The cooperative movement after planning was invigorated and it received further encouragement. The first plan accepted cooperation as an instrument of democratic planning. It was recognised as an indispensable instrument of planned economic action and set within the objective of a socialist pattern of society.⁶ The Second Plan continued to assign it a significant place. The building up of a cooperative sector as a part of the scheme of planned development was one of the central aims of national policy.⁷ The Third Plan also emphasized the role of cooperation in the implementation of developmental planning. The following table gives at a glance a

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5. Reserve Bank of India, "Report of the Banking Union at Kodinar, Baroda state, with suggestions about its applicability." 1937, p.14
 6. First Five Year Plan, p.163
 7. Second Five Year Plan, p.221

picture of the progress that the cooperatives made during the three plans.

Table - 2 Progress of Cooperatives of
all types in India, 1950-66

Item	Beginning of First Plan 1950-51	Beginning of Second Plan 1955-56	Beginning of Third Plan 1960-61	Beginning of Fourth Plan 1965-66
1 Number of societies (in lakhs)	1.80	2.40	3.30	3.46
2 Membership (in lakhs)	137.00	176.00	342.00	518.89
3 Share capital (Rs. in crores)	45.00	77.00	222.00	474.00
4 Working capital (Rs. in crores)	276.00	469.00	1,312.00	2,802.00

(Source : (1) Ministry of Community Development &
Cooperation, Government of India,
"Cooperation at a Glance", (1964)

(2) Reserve Bank of India, "Statistical
Statements Relating to Cooperative
Movement in India, (1965-66)

Thus till the first half of the present century, the progress of cooperation was far from uniform and steady. The movement started with State initiative and patronage to counter

the exploitative tendencies of usurious money lenders. With its limping start, the movement witnessed ups and downs during the period. On the whole its progress was halting upto the period of plan era. Under planning once again cooperation got a boost. It has since become a vital instrument of economic change in rural development.

GUJARAT

The state of Gujarat came into existence as a result of the reorganisation of the bigger bilingual Bombay state on 1st May, 1960. Before bifurcation, the pace of development of cooperatives in Gujarat, a part of the former Bombay State, had followed the general pattern of development in Bombay. The new state concentrated intensively and took concrete steps for the all-sided development of cooperative institutions in the region.

The first agricultural cooperative credit society was started in Vilaspur in Ahmedabad district, followed by a similar type in the village of Degam of the former Surat district and now forming a part of Bulsar district. Several such societies were formed in Gujarat region thereafter. The movement continued to broadly follow the pattern for the country and the province, but with its distinctive contribution in the fields of marketing, processing and housing.

The pioneering work and noteworthy features of the cooperative structure of Gujarat have a relevance and significance for the country. The Kodinar multipurpose experiment had all the seeds of state partnership and integration recommended by the former Nanavati Committee (1948) as also by the Rural Credit Survey Report (1954). The pioneering work of a few leading farmers in the cotton sale and fruits and vegetables societies in South Gujarat made it possible for them to erect their own cotton ginning and pressing units as well as a spinning mill. There are units on cooperative basis for processing of sugarcane, rice, groundnut and pulses in Gujarat. The Milk Producers' Union of Kaira has set the pattern for efficacious cooperative organisation for processing and distribution of milk. It has been the harbinger of similar organisations in Gujarat and other states of India. Cooperatives for the tribals in the Panchmahals also hold out important lessons to other parts of the country. The cooperative housing activity mainly organised for the middle class families in Ahmedabad and thereafter in other towns of Gujarat has immensely helped not only in providing residential accommodation, but also in the development of industries in other cities and towns. Thus, cooperatives of all types have flourished in Gujarat.. The variety of socio-economic conditions in the state provided the proper field for the growth of cooperatives of all types and the membership has gathered a wealth of experience. In the tribal and backward areas also cooperatives have forged

ahead. It is true that on account of varying agricultural conditions in different parts of the state, the rate of development of cooperative activity has not been uniform. There are well developed pockets like Broach, Surat and Junagadh, but there are also regions like Banaskantha , Panchmahals, Kutch and Dangs. A snap-shot of development of cooperation in Gujarat can be obtained from the following table.

Table - 3 Progress of cooperatives of all types in Gujarat, 1960-66

Item	(Rupees in lakhs)					
	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66 over 1960-61 per- centage increase
Number of societies (in thousand)	13.96	14.60	15.23	15.83	17.05	17.92 28
Membership (in lakhs)	20.53	22.02	23.81	26.14	28.19	25.67 25
Share capital Rs.	24.34	29.13	33.44	38.63	45.61	50.29 107
Reserves and other funds Rs.	11.76	13.39	15.48	17.35	17.47	20.08 71
Deposits Rs.	36.60	43.97	50.47	55.93	62.43	71.49 95
Borrowings Rs.	80.97	86.06	106.13	127.01	150.40	178.09 120
Working capital Rs.	153.68	175.55	205.52	238.92	275.92	319.95 108

(Source : The Registrar of Cooperative Societies, Gujarat State, Ahmedabad)

It is heartening to note that share capital, working capital and borrowings rose significantly during 1960-66. Deposits and reserves too did not lag behind. If the rise in the number of societies and their membership is not substantial that is probably because the movement had already marched ahead before 1960.

The progress of cooperation in the state has taken place in a diversified manner. Its expansion has been remarkable. No less remarkable has been the resilience that the cooperative sector has displayed as can be judged from the following table.

Table - 4 Progress of Primary Cooperatives, India and Gujarat, 1965-66

Sr No	Type of society	Number (in 00's)		Membership (in 000's)		Working capital (Rs. in lakhs)	
		India	Gujarat	India	Gujarat	India	Gujarat
<u>I. Primary Credit Societies</u>							
1.	Agricultural credit societies	1919.0	85.6	26.1	1.1	54655	6692
2.	Non-agricultural credit societies	134.5	11.0	6.5	0.5	27470	3039
3.	Grain banks	39.6	0.03	268.4	0.3	103	0.06
4.	Primary land mortgage bank	6.7	0.05	1844.6	23.7	13692	81
	Total - I	2099.8	96.68	2163.6	25.6	95920	9812.06
<u>II. Primary non-Credit Cooperatives</u>							
1.	Farming societies	72.9	2.7	187.9	7.8	1116	49
2.	Irrigation societies	15.6	3.2	72.1	10.1	382	82
3.	Other agricultural societies	106.5	0.9	694.9	4.6	1356	16
4.	Sugar factory societies	0.8	0.06	296.0	16.2	12343	459
5.	Marketing societies	32.0	2.9	2280.5	101.8	6372	686
6.	Milk supply societies	80.6	9.5	697.2	140.6	556	143
7.	Livestock product societies	7.2	3.4	22.5	12.8	72	45
8.	Sugarcane supply societies	80.7	-	2739.1	-	1617	-
9.	Cotton ginning & pressing societies	1.5	0.8	106.4	51.7	714	482
10.	Other agricultural processing societies	19.0	0.3	197.1	6.8	600	55
11.	Village weavers societies	129.5	2.0	1314.7	21.1	3382	75
12.	Other industrial societies	349.5	9.3	1599.5	47.8	3233	213
13.	Consumers stores	130.8	10.6	2930.0	219.9	1798	154
14.	Housing societies	117.7	29.0	756.8	94.5	11335	3160
15.	Fisheries	33.0	0.7	336.9	10.9	274	22
16.	Other non-agricultural societies	112.3	5.4	1056.5	74.6	2005	365
	Total - II	1289.6	80.76	15288.1	821.2	47155	6006

(Source : Statistical Statements Relating to Cooperative Movement in India, 1965-66)

A close look at the table will show that both India and Gujarat cooperatives have impressive results to their credit. All types of cooperatives catering to different requirements are here and they are associated with various economic activities of the agriculturists.

Section II

Progress of Cooperative Credit

A brief historical account of the growth of cooperation in India and Gujarat will now lead us to an analysis of its credit wing with which we are directly concerned in our research work.

The rural cooperative credit structure consists of two parts: one dealing with short-term and medium term finance and the other with long-term credit. The former functions through a three-tiered credit structure with the village primary at its base, the central financing agency at the district and the state cooperative bank at the apex. The long-term credit is looked after by the central land development bank which operates at lower levels through its branches at the district and taluka levels or the district primary units. The upper tiers function as balancing centres for the activities at various levels. The strength of the credit structure depends on the soundness of all these vital links in the chain. The progress of short-term financing credit institutions is outlined in the following paragraphs.

Village primary:

The organisation of the primary cooperative society is numerically the most important. In fact it is the base of

the credit structure and operates at the village level, dating back to 1904 when the credit movement was first initiated. Originally when this institution was first organised it worked on the Raiffeisen pattern. Under this, the area of operation was generally restricted to a village and the liability of the members was unlimited. The principle of unlimited liability was advocated to attract funds as well as to ensure continuous participation by members. In actual practice it discouraged members of substantial means. Over the years there has been a shift in the emphasis and working. The functions of the primary society, have become broad-based and diversified. Nevertheless, credit functioned as a pivotal force in the transformation of agriculture under planning. Under the First Plan cooperation was assigned the task of boosting up agricultural production and definite targets were laid down for expansion of cooperative credit.

For short-term credit the target was Rs. 100 crores and for medium term and long term Rs. 25 crores and Rs. 5 crores respectively. A more detailed programme of development of credit cooperatives was included in the Second and Third Plans. The table below presents details of progress of cooperative credit during the three plans.

Table - 5 Cooperative Credit in India, 1955-66

Item	Position in 1955	Targets of Second Plan	Achievement of Second Plan	Third Plan Target	Third Plan Achievement
Membership of credit institutions (in millions)	6	15	17	37	28
Per cent of agricultural population coverage	-	-	33	60	60
Loans advanced (Rs. in crores)	43	225	239	680	551

The table brings out the sharp increase that took place in membership particularly during the period of the Second Plan. The performance during the Third Plan slackened, but the coverage of agricultural population increased from 33 to 60 per cent. Cooperative credit has been stepped up from Rs. 43 crores in 1955-56 to Rs. 551 crores in 1966. This is quite striking. During the year 1967-68, the quantum of credit supplied is estimated at Rs. 600 crores. An examination of the increase in the volume of cooperative credit reveals that the proportion of borrowings from cooperatives rose from 3 per cent in 1951-52 to 26 per cent in 1961-62.⁸ It would be observed that while on

8. Fourth Five Year Plan, p.136

the one hand cooperative credit has increased, its progress throughout the country has not been uniform.

The progress of primary agricultural credit societies from 1950 to 1966 is indicated in the table below.:-

Table - 6 Progress of village primary societies, 1950-66

Item	1950-51	1955-56	1960-61	1965-66
Number (in lakhs)	1.15	1.60	2.12	1.92
Membership (in lakhs)	51.54	77.91	170.41	261.35
Share capital (Rs. in crores)	8.40	16.80	57.75	115.32
Statutory Reserves (Rs. in crores)	6.22	8.53	11.98	19.70
Other Reserves (Rs. in crores)	2.65	3.92	5.83	13.90
Owned funds (Rs. in crores)	17.26	29.25	75.55	148.92
Deposits (Rs. in crores)	4.48	7.05	14.59	34.49
Borrowings (Rs. in crores)	19.21	42.80	183.79	363.15
Working capital (Rs. in crores)	40.96	79.10	237.92	546.56
Loans advanced (Rs. in crores)	22.90	49.62	202.75	341.75
Percentage of overdues to outstandings	21.90	25.00	20.30	29.40

(Source : Reserve Bank of India, "Statistical Statements Relating to Cooperative Movement in India, Part-I, 1965-66").

It may be noticed that since 1960-61 there has been a fall in the number of primaries. The final picture of 1966 shows that there were 1.92 lakh societies. It has been estimated that these societies cover 89 per cent of villages and 87 per cent of the rural population. More significantly, in Kerala practically all the villages are served by primary credit institutions. The healthy of the credit movement is not uniformly sound in the country. There are states such as Assam where the number of dormant institutions is as high as 70 per cent or Orissa, Rajasthan and West Bengal where it is over 25 per cent against the national average of 12 per cent for such societies. The performance of the more progressive states is of course superior.

The total membership of primaries rose from 5 millions in 1950-51 to 17 millions in 1960-61 which further went up to 26 million in 1965-66. The increase between 1960-61 and 1965-66 is certainly creditable and works out at 53 per cent, but it still falls short of the Third Plan target of registration of 37 million members. Further not all these members borrow. The proportion of borrowing members was only 42 per cent in 1965-66. This all-India average was exceeded by five states, viz. Madhya Pradesh (62%), Gujarat (60%), Maharashtra (55%), Punjab (52%) and Mysore (50%). In Madras and Assam this proportion was only 20 and 11 per cent respectively. The working

capital registered a marked rise from about Rs. 41 crores to 547 crores, of which share capital constituted 21 per cent and deposits 6 per cent. Borrowings at Rs. 363 crores represented 66 per cent. The table that follows portrays the progress of cooperative credit during 1950-66.

Table - 7

Cooperative Credit in India, 1950-66

Year	Member- ship per society No.	Share capital per society Rs.	Share capital per member Rs.	Deposit per society Rs.	Deposit per member Rs.	Loans advanced per bor- rowing member Rs.	Working capital per society Rs.	Percentage of overd- ues to outstan- dings
1950-51	45	727	16	388	9	44	3,547	22.0
1955-56	49	1,051	21	441	9	64	4,946	21.9
1957-58	61	1,695	27	518	8	94	8,031	21.3
1958-59	65	2,033	31	540	8	105	9,346	20.0
1959-60	71	2,312	32	585	9	117	11,011	21.0
1960-61	80	2,722	34	688	9	119	12,913	20.3
1961-62	91	3,190	35	820	9	229	15,126	24.5
1962-63	103	3,766	37	963	9	246	17,526	25.5
1963-64	114	4,402	39	1,243	11	272	21,009	22.5
1964-65	126	5,166	41	1,620	13	288	24,207	25.9
1965-66	136	6,009	44	1,797	13	314	28,481	29.4

(Source : Reserve Bank of India, Statistical Statements Relating to
Cooperative Movement in India.)

Over the decade and a half, the membership per society rose three times from 45 to 136. The average membership of 136 for the country as a whole was exceeded by Kerala (526), followed by Madras (338) and Jammu and Kashmir (281). Surprisingly, it is in the agriculturally and cooperatively less developed states that the average is exceeded. The figures reveal a considerable increase in the share capital and the working capital per society. The deposits per society swelled five times during the period. The seven-fold increase in quantum of loans advanced per member from Rs. 44 in 1950-51 to Rs. 314 in 1965-66 is an evidence of liberalisation of loan assistance to cooperative members. The statewide picture shows more uneven development. The average loan of Rs. 314 per member was exceeded by Gujarat with Rs. 692, Maharashtra Rs. 505 and Madras Rs. 395. The unevenness in the size of loans advanced can also be judged from the fact that Gujarat, Maharashtra, Madras and Uttar Pradesh appropriated 58 per cent of the total advances made by the cooperatives. It is also significant that the main source of working capital is through borrowings. Owned funds represent only a small proportion. The position of overdues, showing a rise from 22 per cent to 29 per cent, otherwise an unhealthy feature, could be largely due to coverage of economically vulnerable sections in the cooperative credit structure.

The appraisal of working of primary credit cooperatives reveals expansionary forces in setting up cooperative

institutions. But these impressive figures of performance have to be taken with caution. We have seen above the uneven progress in the supply of finance through cooperatives. This is further corroborated by the evidence of four Follow Up Surveys so far undertaken by the Reserve Bank of India.

Table - 8

Cooperative borrowings in selected districts, 1951-60

District	Borrowings from co-operators to total advances (1951-56)	District	Borrowing from co-operators		District	Borrowings from co-operators		District	Borrowings from co-operators	
			1951-52	1957-58		1951-52	1958-59		1951-52	1959-60
Broach	33	Burdwan	2	2	Ahmedabad	6	42	Midnapur	1	11
East Khandesh	48	Monghyr	-	2	Hissar	0.3	14	Bhagalpur	-	5
Dharwar	21	Deoria	5	6	Mirzapur	3	7	Kanpur	-	11
Coimbatore	7	Jullendar	9	27	Cuddapah	2	3	Mohindargarh	-	2
West Godavari	22	Jaipur	-	7	Jalapai-guri	0.3	1	Barmer	-	8
Ferozpur	5	Sagai	1	7				Bilaspur	1	63
Etawah	11	Sorath	-	38				Bijapur	3	19
Mandasur	8	Akola	7	31				Tanjore	-	8
Gaya	-	Nizamabad	3	3				Krishna	-	11
Nadia	1	Bangalore	-	4						
Bikaner	-	Chingleput	1	19						
		Quilon	5	1						

(Sources : (1) Reserve Bank of India, Rural Credit Follow-up Survey, 1956
 (2) Reserve Bank of India, (Second) Rural Credit Follow-up Survey, 1957-58,
 (3) Reserve Bank of India, (Third) Rural Credit Follow-up Survey, pp.110-14
 1958-59, pp.95
 (4) Reserve Bank of India, (Fourth) Rural Credit Follow-up Survey, 1959-60, pp.94 and 188-89

A study of the figures presented in the Follow-up Survey Reports brings out that in many of the districts cooperatives have come to occupy an important place. Though the proportion of borrowings from cooperatives has increased, the rise is not uniform in all the districts and states. The study undertaken by Sir Malcolm Darling also brings out that the increase in number of cooperatives has not been commensurate with improvement in quality. According to him, there are a few states where the quality differences are wide.⁹ Another significant feature about cooperative credit highlighted by the Rural Credit and Follow-up Surveys is the percolation of its benefits chiefly to substantial farmer leaving the small farmer virtually untouched by the movement. Only the better-off in the rural areas have availed of cooperative finance. Mr. Daniel Thorner's study on cooperatives shows that cooperatives are in the hands of dominant village farmers.¹⁰ The study of the Reserve Bank of India, viz. All-India Rural Debt and Investment Survey (1961-62) also tends to substantiate this finding. It showed that 3.5 per cent of the total cash loans advanced by cooperatives goes to rural households with assets of less than Rs.1,000

9. Darling, Sir Malcolm, "Report on Certain Aspects of Cooperative Movement of India, p.7 (1957)

FAO: "Agricultural Credit Through Cooperatives and other Institutions", pp.45-46

10. Thorner, Daniel, "Agricultural Cooperatives in India, a field report." p.33

constituting 30 per cent of the total rural households. By contrast it is revealed that, a third of the total credit goes to no more than 5 per cent of the rural households having assets of Rs.20,000 and more.¹¹ This is quite natural and inevitable in an asset-bound cooperative credit and also in a credit system run on business lines. Moreover, productivity and capacity to repay are the factors that distribute these benefits. And in this the handicaps of small farmers and farms appear to assert themselves. Even the crop loan system cannot avoid reflecting these trends altogether, as the area of various crops and the cropping pattern would largely be conditioned by the size of farm holding. The study of Maharashtra state Crop Loan Evaluation Committee underlines the need for the improvement of the situation.

The main purpose of crop loan was to enable the cultivator to pay for such expenses as purchase of seeds, manures and fertilizers, pesticides, etc. incurred for raising various crops. It has been found in India and in all developing countries that these loans are diverted to consumptive uses particularly by small and medium farmers.¹² The study of Programme Evaluation Organisation of the Planning Commission shows that nearly 28 per cent of cooperative credit is misutilized and diverted to

11. Reserve Bank of India Bulletin, September, 1965, p.1301

12. FAO: "Agricultural Credit through Cooperatives and other Institutions." p.45-46

other uses than asked for. About 30 per cent of it was used for household expenditure. It was also noticed that the cooperative finance was used to set off debts of cultivators. In certain areas, the cooperative finance borrowed is again loaned out to other small farmers on more exploitative terms. The cooperative credit is provided, according to rules, for production purposes. This is quite natural but if this principle is rigidly and indiscriminately applied, it would not lead to its proper distribution. Not only that but in a predominantly subsistence-oriented farming it would be hard to distinguish between economic and social needs. Till the economy becomes more and more market-oriented all credit to the marginal and sub-marginal farmers would include productive and consumption requirements of the cultivators. Other studies in similar situations have highlighted these features.¹³ If the cultivator becomes better-off and less improvident, may be he would be able to put up some reserves. But so long as the life and mentality of the farm families do not change it would be better if we make a mental note that such diversion would be inevitable. In such a situation mere quantitative expansion of credit supply to fulfil certain plan targets would not solve the basic problem of rural economy, which is to increase the repaying capacity of the borrowers. These trends also point to the need for caution in passing judgement on the performance of cooperatives and also bring out the need for consolidation and revitalisation of primary credit institutions. In addition, a greater degree of coordination between

13. Belshaw, Horace : "Agricultural Credit in Economically Under-developed Countries," p.43-44

supply of cooperative credit and agricultural production programmes becomes all the more necessary. The Package Programme envisaged to make a beginning in this direction. It would, however, be illuminating to have more precise information showing the degree of success achieved in this field.

Gujarat

The cooperative policy decisions were common for Gujarat and Bombay under the bilingual set-up. As elsewhere credit predominates in cooperative activity in Gujarat, but unlike in other places the movement there made better progress under a devoted leadership. The problems of credit cooperatives in the former Bombay state were examined as early as 1937 by a Committee (Known as Bhansali-Mehta Committee). As a result of its recommendations the cooperative credit structure was enlarged to include number of activities such as maintenance of grain stores, supply of loans in kind, providing agricultural inputs and domestic requirements and sale of agricultural produce on agency basis, etc. The security for the advances had to be personal and mortgage security was to be only collateral.¹⁴

The Government accepted most of the recommendations of the Bhansali-Mehta Committee. The policy of the state thereafter was to organise new societies as multipurpose cooperatives

14. Government of Bombay, Joint Reorganisation Committee, Report on Cooperative Movement, 1939, p.9-12

and to convert the existing credit societies into multipurpose institutions. The credit movement was further reinforced by the former Bombay State as a result of the recommendations of the Cooperative Planning Committee¹⁵ appointed by the Government of India in 1945 and the Agricultural Credit Organisation Committee appointed by the Government of Bombay in 1947. The Agricultural Credit Organisation Committee was constituted to examine the recommendations of the Agricultural Finance Sub-Committee (1945) appointed by the Government of India and to consider its recommendation to set-up an Agricultural Credit Corporation.¹⁶ After studying the position of the cooperative financing agencies and examining their ability to absorb new customers, the Nanavati Committee concluded that the existing cooperative agencies could, with suitable reorganisation and state aid, carry out the work expected of the Agricultural Credit Corporation. The Committee recommended measures to secure an integrated credit organisation with state participation and state aid, so as to enable it "not only to undertake increased financial commitments but also to function as powerful agencies for rehabilitation of rural economy." The Committee recommended contribution to the share capital of

15. Government of India, Report of the Cooperative Planning Committee, 1946.

16. Government of Bombay, Report of Agricultural Credit Organisation Committee, 1948.

the apex and central cooperative banks; (2) subsidies for opening of uneconomic branches in rural areas and (3) creation of a "credit stabilization fund" out of the dividends earned by the Government on its share capital to meet losses arising out of the expansion of credit. The Government accepted most of the recommendations, which were implemented under the scheme called "The Scheme of Integrated Agricultural Credit," in 1949.¹⁷ To facilitate the smooth implementation of the scheme certain amendments were made in cooperative legislation and the rules thereunder. This brought about some organisational changes also in the working of credit institutions. The major change in respect of loan policy pertained to security of loan under which the shift from "asset base" to production requirement took place. Under this system crop loans were given with state participation. As part of this arrangement the cooperative credit structure was so geared as to provide short-term finance to all creditworthy agriculturists. Instead of fixing credit limits on landed assets it was decided to supply credit on crop acreage.¹⁸ The assumption of this new responsibility of financing all creditworthy agriculturists was accepted in former Bombay state with full understanding of a definite purpose viz. planning and development and largely

17. Government of Bombay, G.R.R.D. No.2146 of 1945 dated 12th March, 1948

18. Reserve Bank of India, Report of All-India Rural Credit Survey, 1954, vol.II, pp.236-38

reinforced by state participation in share capital. Since then, there has been a noticeable development of credit cooperation, particularly in terms of increase in the number of societies, their membership and working capital as well as in the short-term loans provided by cooperative agencies.¹⁹

Under the crop loan system prevalent then in the former Bombay State the Government agreed to subscribe to the share capital, not only of the state cooperative banks but also of the district central banks and other central financing institutions through the state cooperative banks.

The report of the Committee of Direction on All-India Credit Survey constitutes a landmark in the cooperative credit development in India. The Committee after inquiring into and analysing the issues of rural credit, drew attention to the seriousness of the problems and recommended an integrated scheme of credit. Under this, the need for state guidance, state-aid and state-partnership were emphasised. The scheme was implemented in 1956. The system of loan assistance that prevailed formerly in the areas of the former Bombay state was of course not as comprehensive and ambitious as the Integrated Credit Scheme, but one can first see the beginnings made in this direction as early as 1948. In fact a claim could be

19. Reserve Bank of India, Report of All-India Rural Credit Survey, Vol.I part 2, p.215

Ibid, Vol.II, pp.239

made to an even earlier date viz. 1939, when the Bombay Agricultural Debtors' Relief Act specially provided for financing agriculturists whose cases were taken up for adjustment of debts. Against this background of the working of credit cooperatives it would be useful to review the progress made by credit cooperatives in Gujarat which is the field of our study. The performance can be judged from the figures presented in the table below.:-

Table - 9 Cooperative Credit Movement in Gujarat, 1951-66

Year	Number of societies	Membership (Thousands)	Share Capital Rs	(Rupees in lakhs)		
				Deposits Rs	Working capital Rs	Loans advanced Rs
1951-52	2,849	226	81	76	407	188
1958-59	4,675	427	245	135	1,011	899
1959-60	7,053	700	655	151	2,609	2,126
1960-61	7,441	812	812	152	3,278	2,395
1961-62	7,728	895	953	165	3,618	2,587
1962-63	7,920	957	1,094	196	4,213	2,879
1963-64	8,190	1,023	1,263	235	4,995	3,299
1964-65	8,337	1,076	1,433	285	5,634	4,090
1965-66	8,557	1,140	1,576	289	6,692	4,623

(Source : { (1) The Registrar of Cooperative Societies, Gujarat State }
{ (2) Reserve Bank of India, Statistical Statements Relating }
{ to Cooperative Movement in India }

The progress of cooperative credit institutions after 1958-59 has been rapid. The expansion was spectacular after 1960-61 when the new state came into existence. During 1960-66 the number of societies rose by 15 per cent, their membership registered a rise of 34 per cent and the share capital swelled by 94 per cent in which the share of Government contribution was to the extent of 15 per cent. During 1960-66 deposits went up by a hundred per cent; the amount of loans advanced proliferated by 96 per cent over the period. It has been estimated that these credit cooperatives in Gujarat cater to as much as 90 per cent of the rural population.

The position of credit cooperatives showing relevant details of their working in the districts of Gujarat for the year 1964-65 are presented in the table that follows.

Table - 10

Districtwise breakdown of Cooperative
Credit in Gujarat, 1964-65

District	Member- ship per society No.	Number of borrowing members per society	Average advance per society Rs. in 000	Average advance per member Rs. in 000	Average advance per borrow- ing member Rs. in 000
Ahmedabad	110	87	83.64	0.75	0.95
Banaskantha	97	64	24.06	0.24	0.37
Gandhidham	110	104	N.A.	N.A.	N.A.
Kaira	152	58	31.23	0.20	0.54
Mehsana	132	66	28.14	0.21	0.42
Sabarkantha	134	69	39.19	0.29	0.56
Baroda	126	77	73.88	0.58	0.95
Broach	138	92	258.12	1.87	2.79
Bulsar	222	109	21.77	0.07	0.14
Dangs	186	68	2.11	0.01	0.03
Panchmahals	92	47	9.94	0.10	0.21
Surat	149	85	28.55	0.19	0.33
Amreli	111	75	61.55	0.59	0.82
Bhavnagar	125	94	42.49	0.34	0.44
Jamnagar	126	65	21.99	0.17	0.33
Junagadh	142	82	42.02	0.29	0.50
Kutch	112	71	16.87	0.15	0.23
Rajkot	185	90	48.69	0.26	0.54
Surendranagar	120	75	95.74	0.80	1.28
Gujarat	129	74	48.90	0.38	0.65

(Source : The Registrar of Cooperative Societies, Gujarat State)

The average membership per credit society for Gujarat was 129. This was far out-stripped in quite a few districts such as Bulsar (222), Dangs (186), Rajkot (185), Kaira (152), Surat (149) and Broach (138). Such membership for Banaskantha and Panchamahals was as low as 97 and 92 respectively. It is further significant to note that as against 74 borrowing members per society in Gujarat, Bulsar had (109), Gandhidham (104), Bhavnagar (94) and Rajkot (90). In this matter also, Banaskantha and Panchmahals ranked low, with 64 and 47 members respectively. It is interesting to note that in Kaira only 58 availed of credit supplied. Such a low figure for Kaira could be due to the functioning of Milk Producers' Cooperatives and partly due to the nature of the economy of the region. Advances per society for the state as a whole worked out at Rs. 48,900. This again was surpassed in quite a few districts - Broach (Rs. 2,58,120), Surendranagar (Rs. 95,740), Ahmedabad (Rs. 83,640) and Baroda (Rs. 73,880). The figure for Panchmahals was as low as Rs. 9,940. Advances per member showed an average of Rs. 380 for the state which again was exceeded by Broach with an average of Rs. 1,870, Surendranagar Rs. 800 and Ahmedabad Rs. 750. For Bulsar and Dangs these figures were Rs. 70 and Rs. 10 respectively. A similar analysis of advances per borrowing member gives a figure of Rs. 650 for the state. Broach with Rs. 2,790 exceeded this followed by Surendranagar with Rs. 1,280 and Ahmedabad with Rs. 950. Such average was as low as Rs. 140 in Bulsar and Rs. 30 in Dangs.

The progress of the district is indicated by these figures. It was not uniform in all the cases. The overall picture, however, presents a bright front particularly in the more prosperous agricultural regions. Favourable agricultural conditions contributed not a little to the superior performance of the movement in certain regions.

Central Financing Agencies:

The cooperative credit structure as it has evolved is pyramidal. The village primaries would be unable to raise sufficient funds on their own. There does arise a need for higher financing agencies which will tap funds from the urban areas for loaning to the primaries. Such a crucial function is performed by the district central bank which forms an important link between village primaries on the one hand and the apex banks on the other. It attracts deposits and also borrows from the apex bank. The central cooperative bank acts as a balancing centre mobilising resources within the district.

One does not find any systematic pattern of these agencies all over the country. Both organisationally and operationally central financing agencies have developed by force of historical circumstances. Some of them originally worked as urban banks which were converted into central cooperative institutions while others replaced branches of a unitary credit structure. To ensure uniformity of pattern and operational efficiency and economic viability central cooperative banks had to be reorganized to equip them to play a more active role in credit structure. It is from this logical thinking that both the Standing Advisory Committee on Agricultural Credit of the Reserve Bank of India and the All-India Rural Credit Survey Committee advocated the policy of one central bank for each

district. The economic viability has ultimately taken into consideration the volume of business. The standards recommended for a central cooperative bank, to be an economic unit, are that it should have owned funds of not less than Rs.3 lakhs and the working capital to the tune of Rs. 20-25 lakhs.

A brief account of the working of central cooperative banks would be useful for a correct perspective of the cooperative credit structure. In 1950-51 there were 505 central cooperative banks. Because of the policy to rationalise the central banking structure in the light of what is stated above the process of amalgamation and elimination of weaker units or to start a new unit and then to establish a financially strong central cooperative bank in the district, the number of central cooperative banks went down to 346 in 1966. A review of the progress of central cooperative banks in different states makes fascinating reading. The progress is brought out by the table that follows.

Table - 11

Central Cooperative Banks, 1966

Name of state	(Rupees in crores)						
	No. of central banks	Share capital	Of which contrib- ution by governm- ent ⁴	Statutory Reserves	owned funds	Deposits	
1	2	3	4	5	6	7	
Andhra Pradesh	25	5.75	1.75	1.52	8.70	11.37	
Assam	9	.46	.14	.01	.53	.78	
Bihar	28	1.42	.46	.19	1.86	3.02	
Gujarat	19	9.28	1.78	1.17	11.99	36.65	
Jammu & Kashmir	4	.17	.05	.04	.24	.46	
Kerala	9	2.44	.72	.24	3.02	6.93	
Madhya Pradesh	44	6.43	2.15	1.14	8.69	17.94	
Madras	15	8.62	1.74	1.77	12.88	19.46	
Maharashtra	25	14.22	3.77	1.73	18.20	70.25	
Mysore	19	5.21	1.59	.70	6.56	18.13	
Orissa	17	2.02	.49	.34	2.81	5.82	
Punjab	31	3.61	1.13	.83	5.71	16.92	
Rajasthan	26	2.92	.75	.16	3.30	4.92	
Uttar Pradesh	54	11.97	.39	1.61	14.88	18.94	
West Bengal	21	1.74	.36	.29	2.55	5.01	
India	346	76.32	19.27	11.75	101.94	235.59	

(Source : Reserve Bank of India, Statistical Statements
Relating to Cooperative Movement in India, 1965-66)

Table - 11 (Contd.)

Name of state	Borro- wings	Working funds	Loans advanced	Outstan- dings	Overdues	Percentage of overdu- es to out- standings	Bad and doubtful debts
	8	9	10	11	12	13	14
Andhra Pradesh	15.59	35.66	21.17	26.34	5.92	23	1.08
Assam	1.75	3.06	.48	2.24	1.74	77	.47
Bihar	5.29	10.16	8.21	8.03	3.03	38	.27
Gujarat	22.57	71.22	44.06	51.55	6.79	13	.61
Jammu & Kashmir	1.04	1.74	.68	1.47	.87	59	.11
Kerala	7.74	17.70	9.22	13.61	1.80	14	.13
Madhya Pradesh	32.52	59.14	37.87	46.48	9.44	19	.37
Madras	23.05	55.40	34.24	44.99	7.02	16	.63
Maharashtra	44.04	132.49	85.15	99.52	21.63	22	.57
Mysore	20.11	44.79	23.10	35.40	7.29	20	.25
Orissa	7.18	15.80	10.10	11.97	1.73	17	.30
Punjab	17.32	39.95	26.07	27.94	3.33	11	1.07
Rajasthan	8.64	16.87	8.84	11.40	4.08	36	.63
Uttar Pradesh	31.38	65.20	47.22	45.82	9.47	19	.44
West Bengal	6.77	14.34	9.68	10.96	2.93	27	.35
India	244.99	583.52	366.09	437.72	87.05	20	7.28

There are wide variations in the working of central banks in different states. The total working capital was Rs. 584 crores, of which owned funds, which include share capital and reserves, come to Rs. 102 crores or 18 per cent. Only in Maharashtra the working funds of the central banks aggregated Rs. 133 crores, while in most other states they were well below Rs. 50 crores. The total deposits amounted to Rs. 236 crores comprising 41 per cent of the working funds. Borrowings amounting to Rs. 245 crores represented about 42 per cent of funds. The average amount of owned funds per bank for the country as a whole was Rs. 29.46 lakhs. Among the states, the average was exceeded chiefly in Madras with Rs. 86 lakhs, Maharashtra had Rs. 73 lakhs and Gujarat had Rs. 63 lakhs. As against this, the average was quite low at Rs. 6 lakhs in Bihar, Assam and Jammu and Kashmir. It is also noteworthy that out of 13 central financing institutions having owned funds exceeding Rs. 1 crore, 8 were located in Gujarat and Maharashtra and the remaining 5 were in Madras. Similarly, out of 66 central banks having deposits above Rs. 1 crore, 47 were found to be working in Gujarat, Maharashtra and Madras. Overdues for the country as a whole worked out at 20 per cent, while for Assam it was 77, Jammu and Kashmir 59 per cent, Bihar had 38 per cent, Rajasthan 36 per cent, West Bengal 27 per cent and Andhra Pradesh had 23 per cent. The lowest proportion was in Punjab having 11 per cent, followed by Gujarat with 13 per cent. The financial resources of central banks are

considerably strengthened by the flow of funds from the Reserve Bank. The drawal of concessional finance from the Reserve Bank of India by the central financing agencies through the Gujarat State Cooperative Bank over 1961-68 is presented in the enclosed table. The details are self-explanatory. The statement provides information regarding not only the amounts sanctioned but the actual drawals against each sanction over a period of years. While there are some institutions which have fully drawn and utilised the facilities, there are quite a few others which have not been able to avail of the accommodation provided.

Table - 12

Statement showing concessional finance sanctions & drawals
to central financing agencies in Gujarat, 1961-68

Sr No	Name of District and Taluka Bank	1961-62		1962-63		1963-64	
		Sanc- tions	Withd- rawal	Sanc- tions	Withd- rawal	Sanc- tions	Withd- rawal
1	The Ahmedabad District Coop. Bank Ltd	1.40	1.39	1.50	1.50	1.75	1.75
2	Amreli District Central Coop. Bank Ltd	0.50	0.50	0.65	0.65	1.00	0.95
3	Baroda Central Cooperative Bank Ltd	2.00	1.60	2.00	2.00	2.50	2.06
4	Broach District Central Coop. Bank Ltd	2.25	1.75	2.25	2.25	3.00	2.75
5	Kaira District Central Coop. Bank Ltd	0.90	0.90	1.00	1.00	1.50	1.33
6	Kodinar Taluka Cooperative Bank Ltd	0.18	0.18	0.21	0.21	0.30	0.21
7	Mehsana District Central Coop. Bank Ltd	1.25	1.25	1.35	1.31	1.64	1.35
8	Panchmahal Central Coop. Bank Ltd	0.20	0.20	0.30	0.27	0.30	0.30
9	Banaskantha Central Coop. Bank Ltd	0.60	0.60	0.80	0.80	1.12	1.09
10	Bhavnagar Central Coop. Bank Ltd	1.45	1.45	1.75	1.55	2.10	1.75
11	Junagadh Central Coop. Bank Ltd	1.42	1.42	1.50	1.50	2.13	1.62
12	Jamnagar Central Coop. Bank Ltd	0.51	0.51	0.45	0.45	0.85	0.81
13	Kutch Central Cooperative Bank Ltd	0.52	0.40	0.55	0.48	0.67	0.61
14	Rajkot Central Cooperative Bank Ltd	0.72	0.66	0.82	0.51	0.82	0.52
15	Sabarkantha Central Coop. Bank Ltd	0.77	0.77	0.82	0.82	0.99	0.99
16	Surendranagar Central Coop. Bank Ltd	0.66	0.66	0.76	0.76	1.20	1.05
17	Surat Central Cooperative Bank Ltd	-	-	0.40	-	0.40	0.40
18	Bulsar District Cooperative Bank Ltd	-	-	-	-	-	-
19	Vankaner Taluka Coop. Bank Limited	0.12	0.09	0.12	0.10	0.14	0.14
20	Morbi Taluka Central Bank Limited	0.15	0.15	0.15	0.11	0.20	0.14
21	Limbdi Taluka Central Bank Limited	0.13	0.10	0.12	0.11	0.14	0.14

(Source : Records of Gujarat State Cooperative Bank)

Table - 12 (Contd.)

	1964-65		1965-66		1966-67		1967-68	
	Sanct- ions	Withd- rawal	Sanct- ions	Withd- rawal	Sanct- ions	Withd- rawal	Sanct- ions	Withd- rawal
1	2.20	2.20	3.00	2.87	2.75	2.75	3.25	3.25
2	1.30	1.10	1.35	1.19	1.25	1.24	1.40	1.22
3	3.00	2.23	2.70	2.70	3.50	3.35	4.50	4.50
4	3.00	2.35	3.50	3.35	3.75	3.75	4.00	4.00
5	1.60	1.60	1.60	1.42	1.40	1.40	1.60	1.60
6	0.50	0.40	0.45	0.45	0.70	0.65	0.70	0.70
7	1.80	1.43	1.80	1.57	1.80	1.55	1.85	1.21
8	0.40	0.40	0.50	0.48	0.40	0.40	0.60	0.43
9	1.22	1.18	1.45	1.33	1.40	1.37	1.50	1.43
10	2.25	1.51	2.05	2.05	2.50	2.50	2.85	2.66
11	2.25	1.78	2.00	1.79	2.00	2.00	2.30	2.26
12	0.85	0.85	1.00	0.84	0.95	0.95	1.00	1.00
13	0.75	0.66	0.20	0.20	0.30	0.27	0.05	0.05
14	0.90	0.90	1.50	1.50	2.00	2.00	2.45	2.30
15	1.64	1.13	1.60	1.47	1.70	1.49	2.00	1.92
16	1.40	1.18	1.64	1.64	2.00	2.00	2.40	2.40
17	0.40	0.20	0.50	0.50	0.75	0.75	1.60	1.50
18	-	-	-	-	0.15	0.15	0.15	0.15
19	0.20	0.20	0.19	0.15	} Amalgamated with Rajkot District Central Cooperative Bank Ltd Amalgamated with Surendranagar District Central Coop. Bank Ltd			
20	0.15	0.15	0.22	0.20				
21	0.20	0.19	0.24	0.24				

Apex Banks

On the top of the three-tier cooperative credit structure is the state cooperative bank in each state. It provides the link between the Reserve Bank and the entire state credit structure on the other. Its area of operation is the entire state. All the central cooperative banks and other state level cooperative institutions are members of the apex bank. Individual members are no longer admitted to the membership of the apex institution.

The apex bank works as a balancing centre of the credit structure for the state as a whole, obtaining surplus funds from the central financing agencies and providing loans to those who need them. The state cooperative bank is also expected to coordinate the credit policy at the state level and plays an important role in formulation and execution of the loan policy. In fulfilment of this function, the apex bank's finances are substantially strengthened by the Reserve Bank.

There were apex cooperative banks in all the states at the commencement of the Second Plan. The table that follows provides details of progress of state cooperative banks.

Table - 13

Progress of State Cooperative Banks, 1950-66

Particulars	1950-51	1965-66
Number	15	22
Membership	20,932	20,900
i) Institutions	12,666	12,900
ii) Individuals	8,266	8,000
Share capital (Rs. in lakhs)	157.98	2,882.54
Reserves (Rs. in lakhs)	221.82	1,612.73
Owned funds (Rs. in lakhs)	379.80	4,495.00
Deposits (Rs. in lakhs)	2,207.94	14,651.00
Borrowings (Rs. in lakhs)	854.35	19,852.00
Working capital (Rs. in lakhs)	3,442.09	38,998.00
Loans advanced (Rs. in lakhs)	421.10	30,793.29

(Source : Reserve Bank of India, Statistical Statements Relating to Cooperative Movement in India, 1965-66)

Their membership consisted of about 12,900 banks and 8,000 individuals, with a working capital of Rs. 390 crores. The share capital contribution by the state governments on the implementation of the Integrated Scheme of Rural Credit further reinforced the finances of the apex banks. This also gave a spurt to the borrowings which were determined by the multiple of owned funds. At the end of 1966 the owned funds comprising the share capital and reserves were Rs. 45 crores, which were 12 per cent of the working capital. Deposits were Rs. 147 crores constituting 38 per cent of all resources. The balance of Rs. 198 crores representing 50 per cent of the working capital comprised of outside borrowings. The Reserve Bank of India contributed 83 per cent of outside finance which further meant 43 per cent of the working capital, being the highest of all sources that make the total funds of the apex banks. Among all the apex banks, the Maharashtra State Cooperative Bank has the largest working funds. The proportion of owned funds has been steady. There has been a decline in the proportion of deposits during 1950-51 to 1965-66. It is made up by the borrowings, the bulk of which has been from the Reserve Bank of India.

A major feature of the working of state cooperative banks that has crystallised over the last decade is the extent of borrowings from the Reserve Bank of India. Gujarat also carried this feature along with others. The following table

gives the financial accommodation provided by the Reserve Bank of India to the Gujarat State Cooperative Bank and the maximum drawal by the latter from year to year.

Table - 14 Financial accommodation by the Reserve Bank of India to Gujarat State Cooperative Bank, 1961-68

(Rs. in lakhs)			
Year	Loan sanctioned	Maximum withdrawal	Percentage of maximum withdrawal of total sanctioned (Percentage of 3 to 2)
1961-62	1,642.00	1,125.86	68.51
1962-63	1,740.00	1,509.61	86.76
1963-64	1,919.00	1,356.45	70.69
1964-65	2,274.00	1,810.38	79.61
1965-66	2,452.50	2,074.85	84.60
1966-67	2,775.00	2,156.05	77.70
1967-68	3,820.00	2,469.15	64.64

(Source : Gujarat State Cooperative Bank, Ahmedabad)

In pursuance of its policy of liberalised loan assistance the Reserve Bank of India stepped up loan amounts to the Gujarat State Cooperative Bank. This increase in loans sanctioned for the period 1961-68, was to the extent of 137 per cent. Increase similarly took place in withdrawals and touched a new high of 227 per cent over the period. But it is paradoxical

that the percentage of utilisation of loans sanctioned has gone down from 69 to 65 per cent during the period.

Reserve Bank of India:

Among the various sources of finance for the cooperative movement, the most important is the Reserve Bank of India. It would, therefore, be useful to describe its role in agricultural finance. Section 54 of the Reserve Bank of India Act (1934) lists its functions in respect of rural credit. According to this the Bank had to create an Agricultural Credit Department with expert staff to study questions of agricultural credit and provide consultation service to all and also to coordinate the operations of the bank in regard to agricultural credit. The Bank was also required to submit reports for improving the machinery of agricultural finance.

In the pre-Independence period, the Reserve Bank was engaged in examining the lines on which cooperative agency in respect of agricultural finance could be reorganised. Its main function was of that of a lender of last resort, stepping in to provide temporary accommodation to the state cooperative banks to tide over emergencies. It was realised, however, that it was necessary to provide finance to the apex banks to enable them to lend more liberally to the cultivators at a reasonable rate of interest. This led to the scheme of concessional finance for the marketing of crops in 1942 and for seasonal agricultural operations in 1944.

In the post-Independence period there was a marked change in the Bank's policies and practices. The report of the Rural Banking Enquiry Committee advocated liberalised facilities to cooperative institutions. A landmark in the Bank's role was the report of Rural Credit Survey Committee as a result of which the Reserve Bank was assigned a significant role in not only providing concessional finance but also in building up a strong cooperative credit structure in the whole country. As a result of this, the finance provided by the Reserve Bank has increased phenomenally. The short term finance for production and marketing provided by the Reserve Bank is shown in the table below.:-

Table - 15 Short-term loans to apex cooperative banks by the Reserve Bank, 1950-67

(Rupees in crores)		
Year	Amount drawn	Outstandings
1950-51	5.37	3.39
1955-56	23.00	12.33
1960-61	131.66	79.14
1965-66	249.37	144.72
1966-67	305.07	149.15

(Source : Reserve Bank of India, Report of Currency and Finance, 1966-67)

Short term finance drawn by the state cooperative banks from the Reserve Bank recorded a steep rise from Rs. 5.37 crores in 1950-51 to Rs. 305.07 crores in 1966-67. The outstandings at the end of 1967 also rose to Rs. 149.15 crores from Rs. 3.39 crores in 1950-51. The increased drawals were partly due to relaxation of conditions in regard to the eligibility of accommodation of central banks in famine stricken areas and partly due to the implementation of High Yield Varieties Programme. After the amendment of the Act in 1953 the Reserve Bank of India is also authorised to give medium-term loans for agricultural purpose to cooperative institutions. The table below gives data regarding loans given under this head by the Reserve Bank to apex banks.

Table - 16 Medium-term loans to cooperative by
the Reserve Bank of India, 1955-67

(Rupees in crores)		
Year	Amount drawn Rs	Outsta- ndings Rs
1955-56	0.41	0.51
1960-61	4.68	7.63
1965-66	7.06	11.65
1966-67	7.46	12.21

(Source : Reserve Bank of India, Report of Currency and Finance, 1966-67)

The medium-term loans drawn amounted to Rs. 41 lakhs in 1955-56. The same rose to Rs. 7.46 crores in 1967. The outstandings similarly increased from Rs. 51 lakhs to Rs. 12.21 crores during the period. The increase registered under both the heads has been encouraging as it connotes partly the increase in development expenditure in the field of agriculture.

In addition to provision of short-term and medium-term loans by the Reserve Bank, long-term financial assistance is made available to the cooperative land mortgage banks to enable them to contribute to the debentures floated by land mortgage banks. The table below provides information of contribution made in this field.

Table - 17 Investments by Reserve Bank in debentures, 1950-67

Year	(Rs. in crores)			
	<u>Rural Debentures</u>		<u>Ordinary Debentures</u>	
	<u>Purch-</u> <u>ases</u>	<u>Outst-</u> <u>andings</u>	<u>Purch-</u> <u>ases</u>	<u>Outst-</u> <u>andings</u>
1950-51	-	-	0.12	0.18
1955-56	-	-	0.10	0.73
1960-61	0.33	1.07	0.03	0.67
1965-66	1.29	5.48	4.50	15.45
1966-67	1.64	7.12	4.37	19.76

(Source : Reserve Bank of India, Currency and Finance Report, 1966-67)

The volume of investments in debentures by the Reserve Bank has not been very substantial. Nevertheless, it is a pointer to the realisation of a sense of urgency and the need for incurring developmental expenditure in agriculture.

The role of Reserve Bank of India in the field of rural credit has brought out that the bank has undertaken added responsibility, especially since the Rural Credit Survey Committee reported on the subject. There is an increasing dependence of the cooperative credit structure on the Reserve Bank of India. The responsibility is not only extended to short-term loans for production purposes and marketing of produce but even to loans for the fulfilment of their

medium-term and long-term requirements, thereby increasingly channeling resources required by the farm families for current agricultural operations as well as for the purposes of development. The effort of the Reserve Bank of India in promoting and strengthening the cooperative credit structure has been impressive. Such active participation about an important sector of the economy like agriculture will ultimately enable it to control the credit mechanism effectively enough to secure agricultural development.

On the other hand, a feeling has grown in our country that such liberal financial accommodation to the cooperative banking structure is in conflict with the overall policy of Reserve Bank of India to maintain monetary stability with growth. There is a powerful opinion which raises the question whether the funds made available to the cooperative credit structure filter down to the farm levels without leakage and are utilised solely productively. This criticism brings in sharp focus the conflict of the Reserve Bank of India in implementing promotional cooperative credit policy and its main regulatory function as the Central Bank of the country. Should the Reserve Bank of India take upon itself, direct or indirect, promotional work on an increasing scale with its attendant costs and risks which would very probably conflict with the fulfilment of its normal functions? Even though such a doubt might be valid and might carry force, it is not advisable yet to give a final opinion

on the policy. After all, these responsibilities have been taken up by the Reserve Bank gradually and on the strength of the experience gained over many years.

Finance and Marketing:

For a long time credit had been by far the only function performed by the cooperatives. In spite of setting up of primary institutions such as the multipurpose and service cooperatives, their essential character and basic function of credit supply did not materially change. Once we advocate primary institutions providing production credit, the second important task to attend to is the sale of produce, which is closely related to the former. It was contemplated that there should be an organic and functional link between the credit operations of the credit cooperatives and marketing societies. All the credit institutions operating at the village level are expected to be affiliated to a marketing society for sale of members' produce. It was envisaged that village primaries, while providing production credit, stipulate that every borrower sells his produce through the marketing cooperative. The members would also agree to the deduction of the dues of societies out of sale proceeds. Such a link would assist and ensure the credit societies in the recovery of their dues from the borrowers. This arrangement, at the same time, was also expected to help marketing cooperatives in the collection of agricultural produce through the agency of village

primaries. Agricultural credit societies, in most parts of the country have been able to secure the agreements from the borrowers committing to sell the produce, but in actual practice it is not insisted upon how is it effectively implemented. This could be explained on the ground of inadequate appreciation of the importance of functions of marketing cooperatives on the part of the primaries or the availability of limited marketable surplus. In some cases the failure could be attributed to the ineffectiveness and incompetence of service facilities offered by the marketing cooperatives. Inadequate financial resources with the marketing institutions also could be an additional factor in not undertaking a large volume of transactions. All these factors put together explain the limited linking of credit and marketing. The consequence was failure of strong cooperative marketing institutions to emerge in a big way.

The scheme of linking of cooperative credit with cooperative marketing has been such as to make the primary institutions the centre or the keystone of the policy. The marketing society steps in with the harvesting of crops and undertakes to sell them at a reasonable price as agents. The sale proceeds go to the credit primary which after deducting the loan amount it had advanced, makes over the balance of the proceeds to the farmer. The underlying assumption in the whole cycle has been that out of this arrangement a well-integrated and strong credit and

marketing structure would evolve and sustain to the advantage of credit, marketing and the farmer. However, as our discussion has established and as any objective examination of the state of affairs will indicate, this has at best been partially achieved. The system in practice has not been fruitful enough.

One would notice that in the pre-plan era, only a few sporadic attempts were made to organise marketing cooperatives with the consequence that in 1951, the All-India Rural Credit Survey, observed that out of 75 districts surveyed, only 12 districts showed sales through the marketing cooperatives. Even in these districts, in only 4 districts the value of sales marketed through them exceeded 10 per cent of the total sales. Unfortunately the trends have still not been materially altered. In 1965-66, out of 3,300 marketing societies functioning in the country only 525 societies, constituting 16 per cent, assisted in the linking of credit with marketing. These marketing cooperatives recovered loans amounting to Rs. 12.20 crores on behalf of 16,823 primary societies. This again was restricted to a few states like Maharashtra, Uttar Pradesh, Madhya Pradesh and Mysore which account for about 91 per cent of the total loans recovered through the marketing institutions.²⁰ If the loans recovered by the processing units is included in the above the amount would be Rs. 22.13 crores which works out at

20. Reserve Bank of India, Statistical Statements Relating to Cooperative Movement in India, 1965-66, pp.19

8 per cent of the total recoveries effected by primary agricultural credit societies, during the year.²¹

Even though the developments in the last few years have improved the conditions of cooperative marketing in India, yet its slow pace is shown by the small turnover of marketed surplus handled by marketing cooperatives. The position in respect of cooperative processing is also similarly lop-sided, showing significant developments only in case of sugarcane and cotton.

One noteworthy feature of the cooperative marketing societies is their undertaking to provide marketing finance and the supply of production credit, leading to problem of overlapping of functions and jurisdiction between the marketing cooperatives and primary credit societies. In quite a few regions this has also resulted in an unhealthy competition between the two. The progress of primary cooperatives has also consequently suffered in these regions. Another result has been drawals from multiple agencies through multiple membership creating even problems of excess finance and recovery for quite a few cooperative institutions.

21. Reserve Bank of India, Statistical Statements Relating to Cooperative Movement in India, 1965-66, pp.(ii)

In Surat district, over a period of time, various types of marketing cooperatives such as cotton-sale, fruits and vegetable cooperatives and sugarcane processing units, have developed. The table that follows provides data regarding the working of marketing cooperatives in Surat.

Table - 18 Marketing cooperatives in Surat, 1961-65

Type	Number of societies					Sales (Rs. in lakhs)				
	1961-62	1962-63	1963-64	1964-65	1965	1961-62	1962-63	1963-64	1964-65	1965
1	2	3	4	5	6	7	8	9		
Cotton sale societies	35	35	32	30	270.00	211.17	355.54	308.62		
Fruits and vegetable growers' societies	17	19	16	9	11.95	95.79	101.55	159.31		
Other marketing cooperatives	9	8	4	5	21.13	20.01	23.21	22.87		
Purchase and sales unions	16	16	9	11	N.A.	1.85	-	23.96		

(Source : District Registrar of Cooperative Societies, Surat)

Note : Information for 1961-62 and 1962-63 pertains to Surat and Bulsar; for 1963-64 and 1964-65 it is only for the reorganised Surat district.

Table - 18 (Contd.)

Type	Advances (Rs. in lakhs)				Recoveries (Rs. in lakhs)			
	1961-62	1962-63	1963-64	1964-65	1961-62	1962-63	1963-64	1964-65
1	10	11	12	13	14	15	16	17
Cotton sale societies	102.31	190.89	268.78	150.98	285.17	218.36	275.80	141.56
Fruits and vegetable growers' societies	13.65	17.35	27.10	29.94	14.57	16.43	2.40	26.49
Other marketing cooperatives	11.95	6.62	5.36	8.60	13.71	5.96	4.48	3.69
Purchase and sales unions	0.03	0.04	0.22	0.04	-	0.02	0.20	0.10

In addition to their principal activity of sale of produce, they have also undertaken production finance directly to the growers. The loans are made against promisory notes from the members and not landed assets. If one closely examines the origin, organisation and working of cotton sale societies, it would be found that they have grown spontaneously and in a manner unplanned with overlapping areas and jurisdictions and yet they are financially sound and extend finance to cotton growers, adequately, promptly and at reasonable rates. It is also heartening to note that there is no problem of recovery of the finance. The coordination of marketing and finance takes place as members deal with the cooperators for both. The recovery thus become a matter of adjustment by the marketing societies.

The Reserve Bank of India objected to this system of financing on the ground that such a lending activity directly affected the working of primary credit societies and the central financing agency. It has held that such a method to short-circuit of funds through marketing institutions has obstructed the growth of organic relationship between the two credit institutions. It also objected on the ground that such a system would by-pass the small and needy cultivator and would also lead to duplication of finance.

As against this there is a powerful section of opinion prevailing in the area that since the system has been evolved

and has been working effectively, it should be allowed to continue. It is held that the district has developed to a pattern from long experience and with farsightedness which holds out important lessons of linking of marketing and credit through the marketing cooperatives, as against through credit and marketing societies as district institutions. There are no compelling reasons to liquidate the pattern that has proved to be efficacious.

While indicating the progress of development of cooperative marketing in India, Prof. M.L. Dantwala analysed clearly the weak performance of marketing cooperatives, criticised a high degree of spoon-feeding to them and showed the limitations of the outside stimulus in this context and succinctly observed that the higher successful cooperative cotton marketing societies in Gujarat developed spontaneously.²²

Conclusion:

The cooperative credit structure had a slow start. The movement was invigorated in the post-independence period. Favourable agronomic and social conditions also contributed in a great measure to the successful working of the credit cooperatives. The last decade saw numerous policy changes on cooperation.

22. Dantwala Prof. M.L., Presidential address, 'Agrarian Structure and Economic Development,' Indian Journal of Agricultural Economics, Vol.XVI, No.1-1961, p.22

The integrated credit scheme gave a fillip to the process. Under the scheme of integrated credit, finance is based on production needs and a little remotely oriented to the size of the crop and the quantum of its sale. The credit is extended by one cooperative, whereas marketing is looked after another. The major assumption in the arrangement is member's loyalty and his willingness to honour the undertaking to sell his produce through the marketing cooperative. The arrangement for its success relies on effective integration at three ends and a rigorous supervision to ensure that produce flows through the cooperative sale society. That these expectations have not materialized is borne out by the limited proportion of crop loan finance in the total cooperative lendings.

The marketing finance, on the other hand, is oriented to the anticipated marketable surplus which the farmer pledges to sell while drawing a part of the sale price from the cooperative. Over years the practice has worked satisfactorily. There are no overdues, defaults or disloyalty of members on a scale. It is true that under both the systems much depends on how we look at the cooperatives and the traditions we build-up. May be, over time the institutions under integrated credit would do this and attain the levels of proficiency of the marketing-cum-finance societies. But till then it will be useful to continue the practice of marketing finance, if not for any other consideration, to provide checks and balances in the

system. The fact that integrated credit has made limited headway over roughly two decades of its working shows that we might have to draw lessons from marketing finance in a good measure to make crop loan with credit primary as a fulcrum a workable success. It is, thus good to proceed with caution.

The working of the three tier system, likewise, might stand one more scrutiny. The extent to which central financing agencies have fulfilled their objectives and the measure in which apex institutions serve as effective intermediaries of assessing financial needs and transmit them to the Reserve Bank of India to ensure a two-way traffic might similarly stand a second look, if not for anything, at least to make the institutional credit function in a manner which is cheap, prompt and effective.

The activities of the Reserve Bank of India in supplying agricultural credit evolved gradually and the policy is in harmony with the developmental approach of the Government towards agriculture. Independence, nationalisation of the Reserve Bank of India, the economic policy oriented to the socialistic pattern and the goal of planned economic development have all contributed to the expansion of the role of the Reserve Bank of India in rural finance and a heightened status and role of cooperation in all spheres. The working of cooperative institutions, credit and others, employ their resources and energy to the promotion of agricultural progress.

The role of the Reserve Bank in institutional agricultural finance has been promotional and such as would involve risk. It is unique as it has few parallels. It is also unconventional as it is not strictly in keeping with the orthodox functions of a central bank of the country. Perhaps, it might detract it from other legitimate activities in monetary and fiscal policy making and execution. And yet, the role of the Reserve Bank in agricultural finance has been pioneering and has meant taking great strides of institutional farm loaning. There is no doubt that it will have to continue its fruitful participation and increase it over time. In the ultimate analysis, however, the Reserve Bank of India might have to steer clear of this work after the movement establishes its viability and take firm and abiding roots.
