



Transformation of The Co-operative Finance in India

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In this analysis, an attempt has been made to examine the changing pattern and the structure of co-operative finance to the Indian agriculture. The movement stagnated during the decades of 1950s, 1960s and 1970s. Its performance rose during the 1980s and reached to the height in the early 1990s.

New agencies in the field, bank nationalization (1969) and setting up of the RRBs (1982) changed the scene substantially. The new strategy of doubling the credit in every three years, started in 2004 also favoured the movement. As a matter of fact the PACs, the SCBs and the DCCBs at the different levels in the states and the NABARD at the highest level are not in the position to arrest its present relative decline. The percentage of total finance to the agriculture sector by the cooperatives may decline to 5-6% in the coming years.

Efforts also have been made to show the persistence of the village landlord-cum-money-lender. Various theories have been advanced; but the theory of interlinking the markets convinces to be appropriate. Massive subsidy in the past and waiving of the agriculture loan along with very low rate of interest; in the larger interest of the economy, misallocates the resources and distort the rural credit market. However, nearly in all respects the cooperative credit movement in India has undergone a stipend of transformation after independence in the period of planned cooperative development.

Key Words : Co-operative Finance, Agriculture Finance.

Introduction

The cooperative movement in India started, as an organized sector, after the passing of the Cooperative Act, 1904. The cooperative activity in the world was first started in England by Robert Owen (1771-1858) incorporating the idea of self-through-mutual-help to remove the sufferings of exploited poor. This idea got recognition during the Industrial Revolution first among the weavers. However, in India, it was the extension of a German variety known as Reiffiesonism.¹ Before the Act, the joint-Hindu family and the workers' shrenies, were the examples of the cooperative organizations. Agricultural banks were setup in Mysore state (1894) and Uttar Pradesh (1902). Government loan, known as Takkavi, used to provide at the interest of 6% under the Agricultural Loans Act 1984.

The working and strength of the cooperative credit in India had gone under three phases after independence (1951-2012) which covers a period of 63 years. In the decades of 1950s, 1960s and 1970s, it stagnated. It was, again reorganized as a part of socialism under the co-operation-must-succeeded-strategy.² It is started from All India Rural Credit Survey Report (1954). The movement revived in the 1980s and reached to its height in the early 1990s.

In the mid-1990s, exactly from 1994-95, the strength of the cooperative credit as a main partner of institutional credit to agriculture started declining. Its contribution reached to 61% in the year of 1994. There after its contribution, in term of percentage, started

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declining compare to the other partners. It delivered to 50% in 1994-95, to 40% in 1999-2000. The rapid decline continued and it slid down to 25% in 2004-05, 21% in 2006-07, the downward trend continued and it reached to 8-9% in the year 2009-10.³ On the other hand, the total institutional credit remained rising at the rate of 40% during the 10th Five-Year-Plan and at the rate of 50% during the 11th Five-Year-Plan (2007-2012). The total institutional credit of rural sector in the mid-year of the 11th Plan was Rs. 2,93,937 crore compare to Rs. 86,981 crore in the year 2003-04. The revised target for the year 2009-10 was Rs. 3,75,000 crore and, if the trend continues, the share of the commercial banks (including the share of RRBs) will go up to more than 90% in the year 2011-12. It is like too cross figure of Rs. 5,00,000 crore by the year 2013-14.⁴

From this trend, it can, very safely, be inferred that at present cooperative credit are not in a situation to fight in the side to the village landlord-cum-money-lender wellentrench in the rural economy; and on the other to the commercial bank spread in the rural and semi-rural areas. It is also likely that the cooperative credit to agriculture at the end of this decade will go down to less than 3% ,really to a position of insignificance. In spite of its massive quantitative growth and infusion of fund by cooperative banks.

Structure of Cooperative Institution in India

In March 2009, there were 37 CCBs and 370 DDCBs and more than 94,000 PACS (along with LAMPs). The main player in cooperative credit at the village level in the PAC. This structure relates to short-term loans. For the long-term loans, there are the SCARDBs (The State Cooperative Agricultural Rural Development Banks) and the PACARDs (The Primary Agriculture and Rural Development Banks). SCBs which guide DCCBs and they in turn guide to PACS. Above all, at the highest level of the organization or at the central level are the ministry of Finance, the RBI and the NABARD. At present, the NABARD is the apex body. It, inter-alia, guides and monitors cooperative credit in India. A PACS (a Primary Agricultural Cooperative Society) may be started with 10 or more members normally belonging to a village. The value of each share is nominal so as to enable everybody to become a member. The PACS are grass root institutions for short-term credit. They directly deal with farmer-borrowers, grant short and medium-term credits and also under take distribution and marketing. The management of a PACS is under the elected body consisting of president, secretary, and treasurer on honorary basis only from the member of society. An accountant is also appointed. Loans are normally only for a year and normally for agricultural activities. The rate of interest is low, profit are not distributed to shareholders, but are used for welfare of the village, such as, construction of wells and maintenance of village schools. In number and advancing loan, the PACS have made a remarkable progress. In 1951 the loan advanced was only Rs. 23 crores it rose to 2,000 crore in 1961-62, and went to Rs. 43,000 crores in 2010-11. The membership of the PACS at present is more than 30 lacks (including the members of LAMPs and FILs). They have stepped up advances to the small and marginal farmers. They have made a spectacular progress, but it is not adequate considering the requirement. It still excludes large number of villagers, such as , landless rural people. The PACS have proved to be the weakest link in the cooperative structure in India.

A PACS is based on the principle of private ownership, public good, self-reliance, non-exploitation and taping of the resources of rural areas. Thus it is the foundation stones of the cooperative movement in India. They have succeeded remarkably in reducing the role

of village money-lenders. However, they suffer from the internal and external weaknesses. More than 40% of the PACS suffers from acute over-dues; half of them are defunct and non-functional.

The organizational set up is also heavily state-controlled and guided. The SCBs are weak and ill-organized. Their weakness is more pronounced in under developed states (for example in Bihar and Jharkhand). The PACS are starved-off the fund. Revamping and reorganization of the PACS and the DCCBs, so that they become viable, have not been completed yet. The over-dues are more than 45% of the loan ranging from 23% to 77% in some areas affecting the recycling of the loan. Agricultural being the state subject, usually the state government fails to meet the needs of the SCBs and DCCBs. As a result, the PACS and the LAMPS also remain starved-off the fund, Time-to-time waiving of agriculture loans and expectation and promise of more waiving in future have also weakened the position of DCCBs and the PACS, creating a position of **unstabilities** and risk.

The SCBs are apex banks at the state levels and control the working of DCCBs and PACs. They are also link between the NABARD, the DCCBs and PACs. Usually the state cooperative banks do not take interest in helping the rural cooperative banks. They are also engaged in other cooperative ventures. Cooperative banks had been asked by RBI to link with core banking solution (CBS).

Long-Term Credit

As shown in the above paragraphs, the long-term credit requirement of the farmers is met by SCARDBs and the PCARDBs. They provide fund for agriculture development, such as, redemption of old debts, loan for agricultural land purchase, purchase of costly equipment, sinking of wells and minor irrigation. A large amount of over-due reduces the capacity of their working. As a result, they are in viable. In many states, the operation of the SCARDBs and the PCARDBs is stand still. Problems of over-dues, inefficient management, exclusion of vital section, needs and areas, lack of diversification and rigid procedure are also hampering their operations and efficiency. Long term credits needs of the farmer - particularly infrastructure development is now taken by the RIDF.

National Bank for Agriculture and Rural Development (NABARD)

For widening the rural credit-base and also for covering the hitherto excluded areas and sectors the National Bank for Agriculture and Rural Development (the NABARD), a broad-based organization, was setup in July, 1982 by an act of parliament to take the function of the ABC and the RBI relating to cooperative banks. The NABARD was linked to the RBI which had contributed its half share and other half by the Government of India. The RBI used to nominate 3 members to its Central Board of Directors. A deputy Governor of the RBI was appointed as the chairman of the NABARD. In addition to this, the NABARD also get fund from the World Bank and the IBA. In recent years, a significant rise in the position of fund of the NABARD is due to deposit of the RIDF and acceptance of tax-free-capital-bonds and also deposits from private banks. The NABARD is playing a very significant role in strengthening and restructuring PACS with aim of providing strong-viable-sustainable-base is nearly complete. The NABARD has also achieved vertical integration of cooperative institution in the field of long-term and short-terms credit. It has constantly reviewed the rehabilitation programmes for cooperative banks by improving their efficiency. It has put

considerable efforts in channelizing fund from the RIDF (Estd. 1995-96). Up till 2009-10 it has channelized Rs. 78,000 crore for the creation of the infrastructure. The fund is utilized for irrigation, for rural-road, rural-bridges, water-shed-development, flood-protection measures, marketing and cold-storage, fisheries, forest development etc. It now includes many other projects, viz, construction of primary school and health Centre and mini hydel projects, nearly 88% fund is sanctioned for irrigation purposes. Thus the NABARD as an apex body is creating vital rural infrastructures. However, the fund remains unutilized mainly due to indifference and inefficiency of the state government in getting projects prepared and implementing them in time. Now nearly 99% fund is allotted by the government of India and only one member is nominated. The chairman is appointed by the government of India.

Table : 1
Agency-Wise Distribution of Institutional Credit to Agriculture in India.

(Rs. In crore)

Year	Institutions							
	Co-op banks	Share (percent)	RRBs (percent)	Share banks	Commercial	Share (percent)	total	Percent Increase
1	2	3	4	5	6	7	8	9
1985-86	3874	55	—	—	3131	45	7005	—
1986-87	4207	52	—	—	3809	48	8016	14
1987-88	4420	52	—	—	4009	48	8429	5
1988-89	4851	52	—	—	4233	47	9084	8
1989-90	5082	52	—	—	4719	48	9801	8
1990-91	3408	39	—	—	5438	61	8846	-10
1991-92	5800	52	596	5	4806	43	110202	27
1992-93	9378	62	831	5	4960	33	15169	35
1993-94	10117	61	977	6	5400	33	16494	9
1994-95	9406	50	1083	6	8255	44	18744	14
1995-96	10479	48	1381	6	10172	46	22032	18
1996-97	11944	45	1684	6	12783	48	26411	20
1997-98	14085	44	2040	6	15831	50	31956	21
1998-99	15916	43	2538	7	18443	50	36867	15
1999-00	18363	40	3172	7	24733	53	46268	25
2000-01	20801	39	4219	8	27807	53	52827	14
2001-02	23604	38	4854	8	33587	54	6245	17
2002-03	23716	34	6070	9	39774	57	69560	12
2003-04	26959	31	7581	9	52441	60	86981	25
2004-05	31424	25	12404	10	81481	65	125309	44
2005-06	39404	22	15223	8	125859	70	180486	44
2006-07	33174	22	15170	10	100999	68	149943	—
Up to December 2006								

Note: Commercial Banks and RRBs were clubbed together up to 1990-91.

Source: *Economic Survey and NABARD various issues.*

In the field of cooperative in the 1960s and 1970s main emphasis was to raise number of PACS and their membership, mobilizing the rural saving and linking them with cooperative marketing, revival of the cooperative, setting of the Agricultural Refinance Development Corporation and provision of long term credit to farmers. But the very slow growth of Agriculture cooperative continued. It started recovering very early in the 1980s mainly due to setting of NABARD the strategy followed in the 6th five year plan. Main thrust of the new strategy was on -

1. Comprehensive development of PACS ;
2. The alignment of the procedures of cooperative to ensure the supply of inputs and services particularly to the weaker sections;
3. Strengthening cooperatives so that it can play a vital role in the PDS;
4. Taking the special programme for the under developed state;
5. Promoting professional management to improve the operationality.⁵

The PACS were taken the sheet-anchors on which entire structure cooperative rested.

Table- 1 shows that the strategy paid-off. The cooperative credit in the total institutional credit reached the commanding position. Its share to total rural credit which was that 3.3% in 1951, rose to 33% in 1980, and rose to 55% in 1986 and rose to 61% in 1994-95.

Vaidyanathan Task-Force (2004)

As against the recommendation of Vaidyanathan task-force, revival package of 13,590 crore was approved by the government of India. For the purpose NABARD created the Department of Cooperative revival reform, DCR, at the head office. For implementing and monitoring the package it also created the national level implementing and monitoring committee (NLMLC) under the chairmanship of the governor of reserve bank of India. This financial package has been link to the reforms of cooperative credit sector. It shows that the NABARD is closely helping the revival and reforms of the cooperative credit system. Multiplicity of the institution is taking too much time. Different mechanism of implementation and different mode of operation bring delays and defaults, specifically in eastern states and other backward areas needs urgent revival. Instead of the revival short-term credit, some state government installing the package of revival. So far nearly all states have signed the MOUs and few other are ready to sign.

There is a separate revival package or distress farmers. The Task-force further feels that rehabilitation should be taken with regard to the potential, so that the credit channels which are clogged should be declogged. They should be organized on sound and democratic lines. The reforms by the state government are the yardstick of rehabilitation. The recent rapid decline of the cooperative credit may be attributed to the internal factors such as, overs-dues, inefficiency, exclusion, of large rural people, exclusion of development loan, waivers etc. external factors include the village money lenders and other superior revivals such as, the commercial banks and the RRBs. At present, RRBs '2000 branches and commercial banks' '60000 branches are better equipped and provide loan at better rates with better delivery systems and operational efficiency. These institutional are basically supplanting the cooperative in the rural credit market. In the way, the new innovations includes SHGs, the supervision of NABARD, agents for private loan are other aspects. The existence of landlord-cum-money-lender is also being considered especially in this respect.

Inter-Linking of Markets-Theory

Let us turn to the interlinking of market theory of Prof. Bhaduri, in the Indian rural economy rural credit has certain basic flaws; there are weaknesses of the competitive forces, weak legal enforcement, lack of accountability, income transfer practices, poorly designed products and lack of incentive along with patronage and corruption. But the theory interlinking the rural credit market to input markets so, therefore, it is an offshoot of the share-cropping theory of Prof. Bhaduri though the rural credit has some basic flaws but it is peculiar that landlord-cum-village-money-lenders are still surviving. This can be explain in terms of some old theories, such as exploitation, easy processing and better scrutinizing, improved devices, low rates of interest, better assessment of credit-worthiness; but none of them is satisfactory. The tying of the credit contract with other input and output markets is the basic feature of the theory. We have to see the role of village money lender and land lord in the rural areas. Even after so many land reforms and credit reforms and modernization and diversification of the Indian agriculture, the existence of the village landlord cum village money lender cannot be explained in terms of the superfluous factors sated above, it is, In fact above all that at the time of credit, the contract of input and output markets are taken into account. This mechanism or practice is prevalent in rural areas and have social and moral sanctions. Share cropping contracts are, quite often, linked with credit contract. Credit contract between the landlord and the tenants (share cropper) is, in this form, is tied to the production purposes such as fertilizer irrigation and other forms of capital.⁶ The landlord advances loans on different rate to different tenants. The exploitation theory of choosing tenants fails to explain this type of contractual system and equilibrium.

With the help of the modern theory of contractual equilibrium along with imperfect information; it focuses on moral hazard and adverse selection. The moral hazards interlink it to the labour market land market and the credit market. As the tenants gets in accordance with the efforts put to the production and also the land-lord to this involvement and allocation of efforts. Of course, there are some elements of share cropping. Share cropper in his contract gets the full marginal product of this labour. He has discretion in labour and choice of techniques. The landlord may not direct the tenant of the reactions.

In this type of borrowing both the parties get certain amount of externality and they move upon their utility functions. There is a win-win situation for the both.⁷

Another factor associated with interlinking is the adverse selection effect also the curving up the utility functions. In this situation there is also a rationing of credit and intervention in the market. This may not maximize the credit flow. The theory of incentive and monitoring may correct the misuse.

The credit market along such as ceiling on interest rate may distort the market and reduce efficacy. Sound policy, therefore, required a consideration of the rural economy. Without such objectives and without such credit system. The growth of output would slow down. Therefore, any objective must be cost-effective. Subsidize and low rate curtest, generally give impetus to more credit and misuse of it. The growth of agriculture may not be associated with supply of credit alone. Taking credit supply in isolation, this regards other social and institutional factor, creates a peculiar situation.

Table : 2
Distribution of State Wise Flow of Institutional Agricultural
Credit in Different States of India.

State/ region	1990-91		2001-02		Annual increase (percent)	% GCA (1998-99)	Rs./ hectare of GCA		Annual in
	Rs. crore	%	Rs. Crore	%			1990-91	2001-02	
1	2	3	4	5		7	8	9	10
Northern	1314	12.9	8236	19.9	43.9	20.25	377	2132	38.9
Punjab	642	6.3	4304	10.4	47.5	4.22	856	5352	43.8
Haryana	285	2.8	1821	4.4	44.9	3.22	482	2964	42.9
Rajasthan	326	3.2	1490	3.6	29.7	7.7	168	667	24.7
Himachal Pradesh	20	0.2	248	0.6	93.2	0.51	207	2555	94.5
Jammu & Kashmir	20	0.2	83	0.2	25.5	0.57	191	764	25
Northern Eastern	41	0.4	207	0.5	34	2.9	96	374	31.4
Assam	20	0.2	124	0.3	42.4	2.09	54	311	39.9
Eastern	846	8.3	3062	7.4	21.8	14.71	463	1092	22.8
Orissa	3.6	3	414	1	3	453	319	479	4.2
West Bengal	285	2.8	1573	3.8	37.6	4.83	329	1708	34.9
Bihar (includes Jharkhand)	245	2.4	1076	2.6	28.3	5.25	233	1075	30.1
Central	1722	16.9	5835	14.1	19.9	27.57	349	1110	18.2
Madhya Pradesh (includes Chhattisgarh)	746	7.5	1821	4.4	11.5	13.67	320	698	9.9
Uttar Pradesh (includes Uttaranchal)	958	9.4	4056	9.8	27	13.9	376	1529	25.6
Western	1386	13.6	5959	14.4	27.5	7.06	430	1831	27.4
Gujarat	520	5.1	2980	7.2	39.5	5.56	501	2809	38.3
State/ region	1990-91	2001-02	Annual increase (percent)	% GCA (1998-99)	Rs./ hectare of GCA	Annual in	387	1352	20.8
	Rs. crore	%	Rs. Crore	%			1990-91	2001-02	
1	2	3	4	5	6	7	8	9	10
Karnataka	642	6.3	4041	9.7	43.8	6.13	546	3432	44.1
Kerala	835	8.2	2276	5.5	14.4	1.56	2766	7666	14.8
Tamil Nadu	1895	18.6	6166	14.9	18.8	3.44	2857	9403	19.1
All India	10188	100	41385	100	25.5	100	549	2169	24.6

Misplaced Aggregation and Illegitimate Isolation⁸

This type of aggregation and isolation of rural credit provided by the cooperatives in Indian situation also suffers from the internal weakness of misplaced aggregation and illegitimate isolation. When credit is aggregated in so many crores with so many PACS, and so many DCCBs and SCCBs, and also so many CCBs, regardless other supplementary and complementary factors and also regardless of other institutional factor in the Indian rural economy, is illogical and to abstract. Automatically, they limit its achievement and its correlation with growth. If we delve, abit, deeper, such abstraction may manifests and maintains that all other factors particularly in agricultural sectors, remain constant or automatically change according to the change in the cooperative credit. Change in credit market affects the different markets. Simply, the cooperative credit cannot bring the desired goal. Real situation refuses to admit such contradiction, it creates confusion and difficulties. Things are changing in the Indian agriculture sectors and cannot be treated with such simplification. It needs a holistic approach including even the technological

change and cultural change.

In sum, this analysis shows that after a long period of stagnation and revival/rehabilitation, the cooperative credit to agriculture dominated scene (% in 1993-94). Particularly from the second half of the 1990s, their roles viz-a-viz, the role of commercial banks are started declining. It is likely to be insignificant by 2020. The persistence of village landlord-cum-money-lender can best be explained in terms of interlinking of rural markets with the credit market.

However, the rural credit with a heavy element of subsidies and low rate of interest creates a situation of sub-optimum. The use of scarce resources, particularly by the state, cannot be justified. We now cannot say that the village money lender is the creator, the sustainer and destroyer of the cooperative society in the villages. In this rapid transformation his position has declined considerably. Doubts have been expressed in the misplaced aggregation and illegitimate isolation of rural cooperatives. Regardless of the social and institutional situations of the Indian rural society. In the last, three tables 1, 2 and 3 attached to the article, the first relates to the agency-wise distribution of institutional credit in India, the second shows, the flow of institutional credit in different states and the third relates to the relative shares of borrowings by the farmers, household from different sources.

GCA refers to Gross Cropped Area

Source: Report of the Advisory Committee on Flow of Credit of Agriculture and Other Activities from the Banking System, RBI, Mumbai, 2004

Table : 3
Relative Share of Borrowing of Cultivators House Hold from Different Sources

Sources	1951	1961	1971	1981	1991	2002	2010
1	2	3	4	5	6	7	8
Non instructional of which	92.7	91.3	68.3	36.8	30.6	38.9	29.7
Money lenders	69.7	49.2	36.1	16.1	17.5	26.8	21.9
Institutional of which	7.3	18.7	31.7	63.2	66.3	61.3	68.8
Cooperative Societies/ Banks	3.3	2.6	22.0	29.8	23.6	30.2	24.9
Commercial banks	0.9	0.6	2.4	28.8	35.2	26.3	25.1
Unspecified	—	—	—	—	3.1	—	1.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: All India Debt and Investment Survey and NSO

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