

**IMPACT OF RURAL CREDIT ON THE AGRARIAN STRUCTURE :  
STUDY OF THE CO-OPERATIVES IN ORISSA**

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## DECLARATION

Certified that the dissertation entitled  
"IMPACT OF RURAL CREDIT ON THE AGRARIAN STRUCTURE;  
STUDY OF THE CO-OPERATIVES IN ORISSA" submitted  
by Mr. Surendra Nath Niera in partial fulfilment  
for the award of the Degree of Master of Philosophy,  
has not been previously submitted for any other  
diploma or degree of this or any other University.  
This is his own work.

We recommend this dissertation be placed  
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SUVENDRA NATH MISRA

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## INTRODUCTION

The problem of agricultural credit is in many ways central to considerations of rural development policy, and without a proper solution to this problem, a beginning with the economic reconstruction of rural society would not be possible. As early as 1945, the Agricultural Finance Subcommittee had emphasized the futility of all efforts at scaling down of debts, or controlling the operations of money-lenders, as long as alternative institutional credit was not available to the agricultural producer.

Like any other sector of the economy, agriculture needs credit for its operations - both short-term and long-term. Where climatic factors are generally favourable and prices of agricultural products are not unremunerative, the ability of the farmers to adopt modern practices is related to the availability of easy and adequate credit. In other words, lack <sup>of</sup> credit acts as a constraint on agricultural development. For the agrarian sector, two types of credit are available: (i) Institutional credit, coming from commercial banks, co-operative credit societies, central and state government agencies; and (ii) Non-institutional credit, provided by the money-lenders, merchants, landlords, relatives and others. While so far, the non-institutional

agencies have played an important role, in terms of the amount of credit supplied, of late, the co-operatives as a source have become significant.

It may be pointed out here that as traditional agriculture is sought to be transformed into a modern one through the introduction of innovations, the credit market is called upon to act as the main vehicle of economic progress. If the credit market fails to act in response to the fresh demand for loans, then the agricultural growth process may be hampered. Here, it is imperative that the credit needs are fulfilled by the institutional sources; and to the extent they fail to do so, the gap will be filled by informal lending sources.

Even in a backward agriculture because of the high interest income, some of the informal lending operations may be highly organised, while others, though scattered, may have several opportunities to earn high interest income. Thus, the knowledge of the 'modus operandi' of these informal lenders is essential for the co-operative and public institutions operating in the organised sector of the agricultural credit market, to enable them to compete effectively with the former. The money-lender has come to be largely identified with the surplus-producer. It is possible that there is a very lucrative disposition for the surplus-farmers to

invest their agricultural surplus in a money-lending business which aligns with those credit needs. While the periodic and therefore the chronic credit-demand arises from the continuous mismatch between income and expenditure, the sporadic credit demand can be explained chiefly by crop failures and unusual high family expenses such as marriages and funerals. The agricultural surplus, then, performs a vital function in that it serves to balance out the dearth of capital with the 'deficit' sections of the population.

However, following T.W. Schultz's theory of transforming traditional agriculture to a higher production level, this kind of investment of the farmer-cum-money-lender is of crucial significance because it tends to preclude such a transformation, even in the long-term. Such a relationship (between the big farmer-money-lender and the small-farmer-borrower) would frustrate investment by both groups. The money-lender finds that further lending to the 'deficit' sections offers higher returns than investment on his own land can. The borrower, on the other hand, does not use spare cash for farm investment opportunities (even when they offer high expectation of return), because it has to be used to pay off old and costly debts.

Among the institutional sources of rural credit, the choice of the co-operative credit system for analysis is deliberate because:

(a) the credit co-operatives are the most important organised agencies in the rural sector; and

(b) they have been recognised as the main agencies to act as substitutes for the money-lenders and to promote gradually the integration of the money-market in the agricultural sector.

By their early induction, the co-operatives should have established firm roots in the rural areas of Orissa. For a state, where there are a large number of small farmers, their absence or failure to reach out to these sections has been particularly felt. The co-operatives, though, have made some progress in rural Orissa, but it is far short of the original intentions and expectations. The failure is more critical for a backward state like Orissa. There are strong indications that the benefits have largely gone to the richer sections. Further in recent years, the capacity of the co-operatives to shoulder the task of credit support to farmers has been considerably reduced to several factors such as shortage of owned resources and heavy overdues. It appears that the co-operatives have not been able to provide credit facilities to marginal and small farmers who by

themselves constitute a large section of the total farming population. This study shows that as long as the co-operatives do not reach the level of the small farmers and share-croppers, the supply of cheap credit which they will provide will only serve to reinforce the usurious practices of the non-institutional agencies. This is so because the co-operatives have been dominated by richer sections of the rural population and other vested interests.

For the purpose of this study, the Primary Agricultural Credit Societies (PACS) have been selected for a detailed study. This is because the primary agricultural credit societies are the ultimate links in the flow of organised funds to the cultivators. The PACS have been commended as ideal credit institutions at the grass-root level for the following reasons: (a) the rural community being directly involved in the operations of the primary co-operative, it is the best institution to look at while judging the effectiveness of credit; (b) deposit mobilisation can be promoted, and (c) the cost of service will be minimal as compared with other credit delivery systems.

This study attempts to look at the impact of institutional credit, on the agrarian economy of Orissa. At the outset, it should be noted that a major handicap in all such studies is the lack of appropriate data and published

material. Making a proper assessment of the impact of credit on the agrarian economy would normally require a detailed survey, including field studies. However, due to the constraints of time and resources such an undertaking was outside the scope of this study. Hence for the statistical analysis this study relies almost entirely on the data provided in Government reports, especially those of the Reserve Bank of India. An attempt has been made to look at the issue of credit in a more fundamental manner, i.e. who have been the real beneficiaries of credit and why has this been so.

In the evaluation of co-operative institutions the criteria used can be quantitative or qualitative. Obviously enough, the quantitative type is easily operated and can be used over a wide range. However, they have some major limitations particularly those inherent in statistics on co-operative affiliation and beneficiaries. The use of the concepts and categories of conventional economic theory for the analysis of agrarian issues is at times difficult to justify. Indeed, the influence extended by these concepts and categories on systems of data collection and on the formulation of hypothesis has brought about a neglect of some rather obvious facts. Hence, it is important to have a look at certain qualitative factors - an evaluation

which would be based on research on the relationship of desirable aims and results obtained, which taken together with economic indicators, would provide a satisfactory assessment of co-operative action. In order to do this, evaluation has to bypass the limits of economic indicators and deal with social and political ones too. Only thus can co-operatives be judged in terms of change. In certain spheres, social and political factors may even need more emphasis than economic ones. A study of these broader dimensions could help us in trying to suggest the means to improve the lot of the rural population.

This study consists of four chapters. In the first chapter "The Agrarian Scene", an analytical picture of the agrarian economy of Orissa has been given. Here an attempt has been made to identify the major weakness of the agrarian structure, which have impeded its development. Such an analysis is important because the operational context of the co-operative system has to be within the framework of the inter-relationships of different sections of rural society, as per their relative economic strength\*.

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\* The possession of inalienable rights in land undoubtedly makes for considerable difference in the extent and the terms of credit available to the producer.

The organisation of the cooperative credit system in rural Orissa has been described in the second chapter "Co-operative Organisation in Rural Orissa". The co-operative credit system is organised in a three-tier structure. Two sets of institutions cater to the short-term and long-term requirements respectively.

The third chapter "Progress of the Credit Co-operatives" is a study of the credit co-operatives - an attempt to analyse the record of the co-operative agencies mainly with reference to progress made in achieving the aims of agreed policies. Here the PACS have been studied in detail, for reasons mentioned earlier. The working of the State and Central Co-operative Banks - the first two layers of the existing three-tier structure - and also the long-term credit co-operative institutions (central and primary land development banks) have been discussed briefly. The performance of the co-operative societies has been looked at under the following heads: (i) Development and extent of coverage; (ii) Operation and financial strength.

Institutional factors are important to account for the failure of the co-operatives. The co-operatives have had to face tremendous opposition from the landlords and money-lenders. Further, in the workings of caste and class factors is something which has to be taken into account.



These and certain other social and political factors, which are more general and less identifiable in their impact, and which leads to the question of interrelationship between economics and politics, have been discussed in the fourth chapter "Crisis in the Credit Co-operatives".

CHAPTER I  
THE AGRARIAN SCENE

Orissa is one of the most backward states in India. It is primarily an agricultural state with very few industries. The state has the highest rural population of 91.6 per cent as against the national average of 80.6 per cent and most of them are engaged in agriculture. Agriculture employs 77.4 per cent of the workforce and contributes 62 per cent of the state's income. Yields are very low and agricultural development has been very slow. The development of the co-operative form of financing for agriculture is hence of crucial importance.

The backdrop for the development of the co-operative credit system in the state is provided by the nature of agrarian relations that have prevailed since the time of independence till the present. The question of agrarian social structure is of great significance to any discussion of the problem of agricultural development. Agrarian social structure is conditioned essentially by the extent character of property structure on land, on the basis of which arise a network of production relations which constitute the broad socio-economic framework within which production is carried on. Property structure and the production relations

arising from it bring about a decisive influence on production. A property structure which promotes parasitism, through various ways of exploitation of one class by another, causing under-utilisation of man-power and inefficient or inadequate use of land, tends to adversely affect agricultural development. On the other hand, a property structure which is essentially egalitarian in character, providing opportunities for self-development to all sections of producers and which brings about maximum utilisation of both land and man-power, promotes production, and raises the agrarian economy as a whole to higher levels.

At the time of independence, the prevailing agrarian structure was a legacy from colonial times. The state was largely under the zamindari system of land tenureship. In fact, it covered 81 per cent of the privately owned land.<sup>1</sup> This form of land tenure was a variant of the 'feudal' and 'semi-feudal' form of land ownership which was developed by the British to suit their interests. The British had established this system so as to facilitate the exaction of more rents from the cultivators, by making the landlord the absolute owner of the land and depriving the actual cultivators of all their traditional rights. The landlords generally indulged in many forms of expenditure such as share-cropping, rack-renting, ejection, forced labour,

usury, and so on. It was from amongst this class that a powerful landed aristocracy developed which has entrenched itself firmly in the agrarian society of the state. The growth of unprotected tenancy on a big-scale can be said to have been the result of the continued expropriation of the small cultivators.

Alongside the fact of a high degree of concentration of the population of the state in rural areas, there was the wide disparities in ownership of holdings between the upper and the lower strata of the rural population. Landholdings were characterised by a high degree of concentration at the upper levels.<sup>2</sup> Besides, there was a high degree of concentration of rural population at the lower levels of landownership. The natural outcome of this was a numerical preponderance of cultivators with small holdings. This can be seen from the percentage distribution of such holdings and the total area occupied by them. Thus, 71.47 per cent of the holdings were upto 5 acres (i.e. 2.02 hectares) with an area forming 24.91 per cent of the total land.<sup>3</sup>

Another aspect of the agrarian scenario was that land rent continues to be high even till the present day. Since the fifties, there has been some regulation of rents as defined by the Tenancy Acts and Land Revenue Codes. However,

the significant fact has been that the regulated rents applied only to those tenants who were recorded and enjoyed certain tenancy rights. The majority of the tenants did not fall in this category. They have been mostly tenants-at-will or share-croppers whose rent in cash or kind remained as high as 50 per cent of the gross produce.<sup>4</sup> Tenants and share-croppers were subjected to various types of extra-legal exactions. Although the Orissa Tenancy Act of 1936 had banned these exactions, yet in the context of the then prevailing landlord-tenant relationship, they did continue to persist in the fifties.

Hence, the structure of the agrarian society that prevailed in the early part of our (planned) development period, was one which was dominated by the big landowning interests. The agrarian society remained a backward one, hide-bound and restricted by archaic landlord-tenant relationship, rigid caste formations and social habits. The persistence of these primitive bondages of various types and the stranglehold of usury prevented the society from changing, in spite of the impact of modernising forces. The production process was characterised by a backward technique with low yields, waste of labour, extremely poor accumulation of capital and diversion of agricultural surplus into non-productive channels. So while land

concentration in the hands of the rural rich continued to grow, landlessness and land hunger increased among the lower peasantry.

The essence of the agrarian structure, for large parts of the country, that has developed since the fifties has been one of transition. The transition has been towards a seemingly commercialised agriculture, assuming the character of market oriented farming. However, this transition towards commercialised agriculture does not seem to have taken place in Orissa, as it has for other states like Punjab and Haryana. Whatever the form of change that has seen in rural Orissa, its direction and content has been small. The landowning classes have continued their domination over the agrarian economy. Share-cropping, exaction of high rents, usury, economic bondage or servitude, eviction of tenants, and social and caste oppression have continued to prevail over large parts of the state. Although, there can be said to have been an increase in money-commodity relations (i.e. increase in the degree of monetisation) but this monetisation has not been widespread. Due to the land reform legislations, there has been much resumption of land by the landowners ostensibly for the purpose of 'self-cultivation'. So there did result large-scale evictions of tenants. The area under concealed or illegal tenancy has not been revealed

by the National Sample Survey statistics, but we can presume it to be quite sizeable. Leasing out by the big to the small owners, thus have still continued.<sup>5</sup>

The emergence and growth of a class of modern entrepreneurial farmers in the state has been very restricted.<sup>6</sup> The little increase in the commercialisation of agriculture, the rise in agricultural prices, and whatever improvement in the technique of production appears to have all gone to strengthen the economic position of this class of big farmers. This class has also been the main beneficiaries of the governmental expenditure on agriculture and rural development. They have also to a large extent dominated and controlled credit institutions.

Another aspect of considerable significance, has been the persistence of the numerical weight of the petty peasants - a category of small and marginal farmers, who constitute the base of the state's agriculture. This group has persisted despite the impact of various influences such as changes in proprietary rights as a result of land reforms, and the increase in the commercialisation of agriculture. As a class or category they do not have much weight or social influence in the rural society; they have failed to secure adequate means to improve their methods of cultivation. The biggest obstacle in the way of their development has

been the paucity of land in their possession. (This we shall see in following chapters.) Although they dominate the agrarian scene numerically, their weight in the property structure is far less. With this, we may say that one of the negative features of the agrarian transition has been the continued concentration of land in the hands of the upper strata of rural society. The various ceiling laws have not yet reduced, appreciably, the prevailing concentration of land ownership at the top. Hence, as a result, there has been no significant qualitative change in the general structure of agrarian relations.

Agricultural labour as a class, composed of persons divorced from landownership and dependent on field labour for their livelihood, could not register much growth. Widespread prevalence of tenancy and sub-tenancy, subsistence farming, and general under-development of agriculture, seems to have tied them down to land and obstructed their numerical growth, and also the development of an independent labour market in the rural areas. (The markets happen to be interlocked i.e. the market for labour, land and credit are linked up with one another.) "This results from the peculiar feature that quite often the dominant party combines multiple functions enjoying power in a number of markets simultaneously. The links between the markets are provided



usually not by price but by direct compulsions. Thus, with the fact that with limited employment opportunities for wage labour in the state, this may compel those who own very little land or no land at all to lease-in land even on onerous terms. If the landlord is also a merchant, he may exploit the weaker position of the tenant on the lease market. If the tenant has limited sources of raising credit (or none at all) due to his having no pledgeable assets, he may borrow from the landlord, who in turn, may require him to commit his and sometimes his family labour.

Such interpenetration of markets not only increases the exploitative powers of the landlord but also has certain dynamic consequences. The freedom to take decisions or the area of feasible choices for the economically vulnerable sections shrinks and this may, over time, mean the perpetuation of bondage whose form is not so obvious".<sup>7</sup>

This classification of the state's agrarian structure has very important implications for the credit system. The classification is based on the inequitable distribution of assets in the rural areas, of which land happens to be the primary one. This inequitable land distribution provides for their relative bargaining position in the credit market. Credit from institutional sources such as the co-operatives are largely linked up with 'credit-worthiness' which is

nothing but the economic strength of the borrower in the market. So with an inequitable resource base, the requirements of credit would also be uneven. However, we then have a anomalous situation of those who need credit most are the ones who are likely to get the least from the institutional sources. Hence, to the extent that the institutional agencies, like co-operatives, remain out of reach of the cultivators, the requirements will have to be fulfilled by the money-lender (or in most cases, big landlord-money-lender). In this context it would be appropriate to examine the relative position of the money-lender and see as to how he has remained so significant in the agrarian scene.

The Importance of the money-lender:

An important feature of the Orissa rural scene, and which is relevant from the point of view of the development of progressive agriculture and the growth of the co-operative (and other rural institutions as well) has been the pre-dominance of the money-lender over time, (as we shall see in the third chapter) it is the agriculturist money-lender who has gained in importance. The money-lender then has come to be identified with the large landowning or surplus-producing farmer. The landlord-money-lender has been dominating the rural credit system, and this dominance has

been made possible by the ineffectiveness of the attempts made to organise a alternative agency for the supply of credit for rural areas. The main fact, here, is that the needs for credit exist and must seek such fulfilment as they can under the given conditions. It then may be argued that the money-lender does not merely exploit these needs; he also adapts himself to them. Among other things, it is this adaptation which can explain his survival in the village economy; while the legislation which has sought to control him has remained, by and large, only on paper. Hence it becomes necessary to understand the ways of the money-lender, as to how he adapts himself to the agrarian situation.

First, there is little that he does not notice, in the circumstance of his debtors or of those who may one day become his debtors. Thus, what the institutions, like the co-operatives, merely postulate, he actually possesses, namely, a local knowledge of the "character and repaying capacity" of those he has to deal with.

Second, he has different kinds and degrees of hold on those to whom he chooses to lend. The possibility of having recourse to the law thus becomes quite unimportant for him. So also is the possibility of acquiring his debtor's property. This predisposes him, in most cases, to dispense with the requirement of land as security. Usually,

the compulsion which he depends upon is one which he has reason to hope will operate more or less automatically. Further, if need arises, he would also be prepared to exert himself and set in motion the forces of compulsion. These forces are social or economic or both. They are different for different debtors, but are in each case related to the circumstances in which the debtor is placed in the village. The social compulsion is connected with considerations such as loss of 'face' or local prestige, caste disapproval, possible pressure through the caste, and a variety of other social sanctions which, because they happen to be intangible, do not happen to be less powerful.

Then there are also a number of ways of economic compulsion. One form of pressure is that which the money-lender can himself exert by threatening to withhold further credit. Another is that which it may be possible to apply through some other creditor, especially the trader, from whom the cultivator may have taken an advance. (Both these varieties of pressures become one and the same if the money-lender is himself the trader, as so often is the case.) Since the money-lender, trader and the landlord are not without their code of mutual obligations in the village, it may also happen, in some instances, that the money-lender approaches the borrower's landlord, if he has

ones for, to the owner of the land the cultivator is likely to have been bound already in more ways than one.

Third, it does not necessarily follow that he will invoke <sup>the</sup> forces of compulsion, the moment the payment has become due. This is a matter on which (being unhindered by institutional codes), he can be as rigid or as elastic as the situation warrants (though often he has to keep in mind the fact that both the debtor and he will have to continue to live in the same village).

Fourth, in view of these considerations, while deciding on whether and how much he is going to lend and on what terms, he is free to follow a flexible procedure in regard to the actual operation of lending. With due regard to what he wants, and having meanwhile arrived at his own assessment of the situation, he would then proceed to consider whether it is worthwhile to make the document (formal document of debt) conform to truth. If he concludes that it is not, his next step would be to decide on the precise extent to which the record shall deviate from the more accidental facts of the transactions such as principal, interest, period of repayment and security. Further, he may, if required, even decide to alter the nature of the transaction itself.

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Finally, and perhaps the most important of all, and at the same time illustrative of his adaptation to needs, is his ability promptly to hand over the money, so that some expenditure, which cannot be delayed, can be helped to be carried on at once. There is no need for him to await someone else's sanction, and the compulsion mentioned earlier enable him (if he so chooses) to dispense with or postpone all or any of the legal formalities.

Thus, to recapitulate, the creation of the class of zemindars (whose present counterpart happens to be the big landowning class) resulted in bringing about two broad classes - the 'landowners' on the one hand, and the actual 'cultivators' on the other. This broad classification holds true even till the present day. Sub-tenancy and rack-renting happened to be the associated features.<sup>6</sup> Over time and with growing "sub-inefficiency", the actual cultivators were rendered powerless to withstand the depredations of the landlords/money-lenders. Enhanced rents and the increasing cash needs of the cultivators between two production cycles, have raised the importance of the money-lender, without whose assistance it would have been impossible for the cultivators to pay the charges, which were generally collected irrespective of the timing and crop results.

The laws of inheritance have been enforced in such a way that each male member of the landowner's family is given the right to claim a share in the family land. This has led to sub-division and fragmentation of holdings. Consequently, the average size of the holdings has become uneconomic. Sub-division and fragmentation have gone to such a point that the small peasant has either to give up cultivation, or else mortgage his land to the money-lender and borrow heavily from him. Thus, all these have contributed to the growth of inequality in rural society, and this inequality has tended to perpetuate exploitation.

References:

1. See Report of the National Commission of Agriculture, 1976; Part XV; Agrarian Reforms, Government of India, Ministry of Agriculture and Irrigation, New Delhi, p.6; para. 65.1.18. For details of the land tenure systems prevailing in Orissa at the time of independence, see Report of the Administrative Enquiry Committee, 1958, Volume I, Revenue Department, Government of Orissa.
2. In Orissa, many big zamindari estates were, in course of time, divided among sub-proprietors or tenure holders; nonetheless, a high degree of concentration of land in the hands of the bigger landowning class continued. See Report of the National Commission of Agriculture, 1976, Part XV, Agrarian Reforms; p.8; para 65.1.25.
3. Ibid., p.10; para 65.1.29.
4. For details, see "Tenancy Reforms in Orissa" by Ajit Kumar Mitra in Land Reforms in Eastern India, (ed.) by Manjula Bose. Planning Forum, Jodhpur University, July 1981.
5. See Krishna Bharsadwaj and P.K. Das, "Tenurial Conditions and Mode of Exploitation: A Study of Some Villages in Orissa", Economic and Political Weekly, Annual Number, February 1975; Also Economic and Political Weekly, June 21 and 28, 1975 (Review of Agriculture).
6. In certain other states, there has been the emergence of this class, who are substantial landholders and cultivate their land through hired labour and with new technique. This class of farmers have grown notably in certain well-defined areas where material factors are favourable for modernised cultivation.
7. Krishna Bharsadwaj and P.K. Das, op. cit., Feb. 1975.
8. See Ajit Kumar Mitra, op. cit.



## CHAPTER II

### CO-OPERATIVE ORGANISATION IN RURAL ORISSA

Orissa occupies a special position among those states which are relatively less developed as far as the co-operative system of credit is concerned. Large parts of the state have remained relatively backward in various aspects of general economic development, which are relevant for the creation of demand for production credit, particularly in the form of money or inputs. Monetisation of the rural economy and the growth of co-operative institutions has been very slow due to (i) prevalence of subsistence agriculture which throws up limited surpluses for sale; (ii) the predominance of scheduled tribes over large areas of the state; (This is particularly true for the districts of South-Khondasale, Keonjhar, Koraput, Mayurbhanj and Sundergarh, and may be attributed to their general economic backwardness, characterised by factors such as shifting cultivation and barter); (iii) the impact which years of princely rule have left on the land tenure system in particular, and the socio-economic structure in general, in some parts of the state; and (iv) lack of proper communications in some areas, which has tended to insulate the villages from the influence of urbanisation, trade and industry.

The co-operative structure, in so far as agricultural credit is concerned, consists of two parts - one dealing with short and medium-term credit, and the other, in long-term credit. The short-term (and medium term) is based on a three-tier system. At the base, i.e. at the village level, are the primary agricultural credit societies. They federate into central banks at the district level. The central banks, in turn, federate into an apex bank serving the entire state. For long-term credit, there is a central land development bank (earlier known as mortgage banks) for the state at the apex level. It operates through primary land development (mortgage) banks, each serving an area of a district.

Thus, the short-term and medium-term co-operative credit structure comprises of a state co-operative bank (The Orissa State Co-operative Bank) at the apex level and 17 central co-operative banks, serving the thirteen districts and the primary agricultural credit societies (PACS).

#### SHORT-TERM CREDIT STRUCTURE:

##### Primary Agricultural Credit Societies (PACS):

The Primary Agricultural Credit societies at the village level form the base of the co-operative credit structure and the strength and effectiveness of the credit movement depend to a very large extent, on the economic viability of the primary units.

The most important function of the primary credit societies is to advance credit. And to provide credit, the PACS require funds. The funds or the working capital of a society is made up of: (a) share capital; (b) deposits; (c) loans from the central co-operative bank; and (d) surplus assets or reserve funds.

The share capital of a society is divided into units, called shares, contributed by those members, the ownership of which determines the rights and obligations of the holder to the society and its creditors. It is to be noted that the primary credit societies issue only ordinary shares to their members. The share capital held by a member is the measure of his stake in the financial stability and soundness of the society. It is also a measure of the attachment that the member has with a society. The larger the share capital contributed by its members, the more is the interest he takes in the affairs of the society. In short, it goes a long way in creating a sense of responsibility and fostering his loyalty among the members. The importance of a strong share capital base can be realised in that it inspires greater confidence among creditors and reduces reliance on outside funds. As per the recommendations of the All-India Rural Credit Survey Committee and the V.L. Mehta Committee, the State government has contributed to the

share capital of the primary societies indirectly at the primary level and directly at the secondary level. The state government has the same rights, privileges and obligations as other share-holders.

Deposits of savings of the rural people is another source of funds for societies. It is one of the important functions of the societies to mobilise rural savings.

The primary credit societies seem to have depended largely on borrowings. Borrowings constitute the most important element of their working capital. The maximum borrowing power of unlimited liability societies is fixed - in the general meeting of the society - at about one-sixth or one-eighth of the value of the total net assets of the solvent members which is certified by the panchayatdars of the society. The maximum borrowing power of the limited liability societies is generally fixed in relation to the owned funds. Thus, what the net assets of members are to an unlimited liability society, the owned funds are the same to a limited liability society.

Initially, the PACS but only to the peasant proprietors or to the landholders on the security of their land. As a consequence, the co-operative credit did not percolate to the small and needy cultivators. But this practice was discouraged, soon after the realisation that "the requirements

of small and medium cultivators, who constituted the bulk of the agricultural community, should be constantly studied and form part of the credit policy for agricultural development\*. The changed emphasis has resulted in the gradually shifting from tangible assets to productive requirements, and from the credit-worthiness of the person to the credit-worthiness of the purpose. This is significant because under the conditions prevailing in reality, even the best tenant cultivator requiring loans for a credit-worthy purpose, cannot get a loan since he is not a landowner, nor can he furnish a surety of landowners.<sup>1</sup>

Credit limits are fixed for each member on the basis of: (i) the purpose of the loan; (ii) the standing and character of the applicant; (iii) his repaying capacity; (iv) the security he can give; and (v) the number of shares he holds.

#### Central Co-operative Banks

The central co-operative banks function at the district level and raise resources by borrowing from the apex bank as well as by attracting deposits. In the pyramidal structure of the co-operative credit, the resources of a central bank are intended to serve as cushion to absorb the impact of defaults and arrears arising at the primary level. The

policy has been to have one central bank for each district.

The funds of a central co-operative bank are:

(i) shares; (ii) deposits; (iii) loans; (iv) reserve funds; and (v) government grants.

The central co-operative bank issues shares to individuals and society members. The major proportion of the shares are issued to the society share-holders. Following the recommendation of the All-India Rural Survey Committee, state partnership, including financial partnership has become an accepted fact. (At present, the state contribution to the share capital of the central co-operative banks is quite substantial.) Ordinarily, the share capital to be subscribed by the society members is linked with their borrowings from central banks.

Generally speaking, it has been the practice to relate the borrowing capacity of central banks to their owned funds.<sup>2</sup> The reserves maintained by the central banks may be of two kinds. Some of them may represent provisions for meeting specific or anticipated losses or contingencies, and others of permanent nature created out of profits, such as building fund, stabilisation fund, sinking fund etc. In view of the liberalised policy of the central banks of providing easy credit facilities to the affiliated societies, the importance of these reserves has increased during recent years.

In order to make the central co-operative banks self-sufficient and self-reliant, deposits are of vital importance. The central banks may receive deposits in the current account and fixed deposit account. In view of the nature of their operations it has been generally agreed that the central banks should not increase their deposits in the current account and instead concentrate on their deposits under savings and fixed deposit accounts.

The credit worthiness of a society is the most important thing to be examined before sanctioning the loan. This is generally judged from the repayment performance and repaying capacity of the society and also by the repayment of loans by members of the society. Certain standards have been fixed by the Registrar of the Co-operative Societies in terms of permissible percentages of over-draws by the societies to the central bank and by the members of the societies, and also to the extent to which finance would be made available. Loans are sanctioned by the central banks on proper security, landed assets, house mortgage, cattle, agricultural produce, gold and jewellery, fixed deposit receipts, life insurance policies and Government Promissory Notes.

Under the crop loan system, the central co-operative bank advances loans to the cultivators based on the need for credit in relation to the activity undertaken by the

agricultural producer, on the one hand, and the repaying capacity of the borrower and safeguard against the abuse of credit, on the other. Advance planning is the essence of this system. While considering the loan application the bank thoroughly examines the question of eligibility of loans by the members with their societies and of the societies with the affiliated financing agency. Besides these safeguards, the Reserve Bank of India has also emphasised the need to provide against the possibility of a loan proving unrealisable and as a restraint on the borrower to keep him always conscious of his obligation to repay. The eligibility requirements for fresh loans under the crop loan system have been laid down as: (i) no default; (ii) holding of required number of shares; (iii) furnishing of security; and (iv) execution of necessary documents. The concept of security has been, no doubt, liberalised, but it does not mean that there is no need for security.

#### State Co-operative Bank:

The State Co-operative Bank provides the link of the credit movement with the Reserve Bank of India. Apart from this, it results in certain other specific advantages. For one thing, this bank is better placed than smaller institutions to find the necessary funds at relatively low rates of interest. For another, it acts as a balancing centre



for the Central Co-operative banks, eliminating the need for inter-lending. Further, it guides and co-ordinates the activities of the central banks and other institutions.

It has been unanimously agreed that the state co-operative bank should deal only with central co-operative banks, and not with primary societies and individuals. But in practice, these banks have been dealing with individuals as well as with the primary societies, although the number of societies and individual members have been decreasing over the years.

The State Co-operative Bank also raises its capital by issuing shares, and these shares are issued to state governments, central banks, primary societies, and (if permitted) to individuals. (The practice of issuing shares to individuals has gradually been waning.) The state co-operative bank maintains various types of reserves; such as statutory reserve fund, bad debt reserves, stabilization fund, etc. The share capital and statutory reserves thus constitute owned funds. The importance of funds can hardly be exaggerated. They provide security for the creditors, a cushion against overdues and increase their borrowing capacity. Besides, they ensure a free and continuous flow of credit.

Deposits are an important constituent of the working capital. Deposits are received from member and non-member individuals and companies. Special deposits are received from local boards, municipalities, and educational institutions. They also include reserve fund deposits of officiated central banks and societies, provident deposits of employees and security deposits.

Borrowings from the major source of the working capital of the state co-operative bank. The Bank borrows from the state government, Reserve Bank of India and other sources. Borrowings from the Reserve Bank happen to be the largest. The borrowing powers are defined under the rules framed by the state government under the Co-operative Societies Act.

Financing is done primarily for agricultural purposes in the form of (i) Loans, (ii) Cash credit, and (iii) overdrafts. A maximum credit limit is fixed for a particular year for every borrower in accordance with the rules and bye-laws. The rates of interest on various loans are fixed in consultation with the Registrar and the Reserve Bank of India.

#### LONG-TERM STRUCTURE:

##### Primary Land Development Banks:

The chief objective of a primary land development bank is to provide long-term loans, after arranging from the

central land development bank, to its members against the security of land and immovable properties. Loans are given for - (i) the settlement of old debts; (ii) improvement of agricultural lands; (iii) redemption of mortgage on agricultural lands; and (iv) purchase of land and machinery. Besides, there are other subsidiary functions performed by these banks.

The primary land development banks invest, as required under rules, a certain portion of their paid-up share capital, in the shares of the central bank. The amount, so invested, is generally determined by the amounts of their outstandings - which is a percentage of the loan outstandings. The loans to cultivators are repayable in 15 to 20 years by annual instalments. The person who wishes to take loan from the development bank has to enrol himself as a member and has to purchase a requisite number of shares. Then, on the basis of the valuations of the property to be mortgaged, loans are given upto a maximum of 40 to 50 per cent, depending upon the quality of land, etc. While recommending the loan amount, the repaying capacity of the borrower is also ascertained, with reference to his cultivation and consumption and other family expenses and income from the land and other sources.

The All-India Rural Credit Review Committee recommended that the state government contribute to the share capital of primary banks by obtaining loans from the Reserve Bank of India out of National Agricultural Credit (Long-term Operations) Fund. Hence, since 1969-70, they have been doing so.

The valuation of lands for the purpose of long-term loans was generally based on the average of sales statistics of similar land in the village over a period of a certain number of years preceding the year in which the application was made. Where the sales statistics were not available, the valuation was based on a specified multiple of the revenue assessment.

Central Land Development Banks:

The Orissa State Co-operative Land Development Bank was set up in 1938, (then known as the Orissa Provincial Co-operative Land Mortgage Bank). Its chief objective is to raise long-term funds for financing the primary development banks. Besides, it has to arrange for inspection, supervision and guidance of its members, to act as a link between the long-term banking in the state and the Reserve Bank and the government, to mobilise rural savings, and to stimulate capital formation in the agricultural

sector by the issue of debentures, to protect the farmers from the atrocities of the money-lenders and from alienation of land, to help them in effecting permanent improvements in their lands. The central land bank is thus the axis around which the entire long-term co-operative banking structure in the state revolves.

The All-India Rural Credit Survey Committee had recommended that subject to a minimum of 51 per cent, the proportion of the share capital to be contributed by the government should be larger than in the case of state co-operative bank and central co-operative banks.

Debentures form the main source of capital for the central land development bank. These are of three types; (a) Ordinary debentures; which are issued to the general public, including institutions and individuals. The rate of interest and price of these debentures depend upon market conditions. These are treated as trustee securities and are guaranteed by the state government.

(b) Rural debentures; which are issued with a view to mobilising rural savings. Under this scheme, the bank sanctions loans to agriculturists for productive purposes for a period of 15 years against the mortgage of land and on the strength of these mortgages, a special series of rural debentures are issued. The floatation was normally timed with the

harvesting of crops so as to enable the agriculturists to subscribe to these debentures, but now they can be floated at any time of the year. These debentures carry a slightly higher rate of interest than the ordinary debentures.

(c) Special development debentures, which are issued for providing finance to the agriculturists under special agricultural development or land improvement programmes. The Agricultural Finance Corporation subscribes upto 90 per cent of the amount of the special debentures and the balance to be contributed either by general public or by the state government.

#### Grain Banks

A special feature of the co-operative credit organisation in Orissa has been the existence of a large number of 'grain goles' or grain banks - larger in number than in any other state. Some of these have only grain transactions while others deal with cash and grain as well. The initial need for these institutions arose from the fact that, in vast areas of the state, agriculture was at a subsistence level and consequently, large parts of the rural economy were non-monetised. In the working of the grain goles in recent years, there has been a gradual shift or switch-over to more and more cash transactions. The change over to cash transactions is in keeping with the findings of recent

studies which have revealed that on account of the Hirakud Canal Irrigation Scheme, other hydro-electric schemes and extension programmes, the barter type of economy in these areas is gradually yielding place to a monetised economy. The objective of the government policy has been that the grain-goals in the relatively prosperous coastal districts should switch over exclusively to cash transactions as early as possible. At the same time, it cannot be denied that the composite grain-goals having their transactions both in grain and cash are meeting a genuine need of the cultivators for cash loans and grain goals in some parts of the state particularly in the hill areas and adivasi areas where the progress of monetisation is bound to be rather slow.

References:

1. The All-India Rural Credit Survey Committee had recommended the adoption of the crop loan system in which: (i) production is the main purpose of the arrangements for finance; (ii) short-term loans are given on the basis that a crop is anticipated; (iii) the loans are related in amount to the estimated outlay in raising the crop; and (iv) the recoveries are made, as and when the crop is sold, from the proceeds of the sale.
2. The borrowings of the central banks can be from:  
(i) State Co-operative Bank; (ii) Government;  
(iii) Reserve Bank of India; (iv) State Bank of India; (v) Other Central Banks. The apex co-operative bank is the most important source of finance for the central banks.



## CHAPTER III

### PROGRESS OF THE CREDIT CO-OPERATIVES

#### RELATIVE POSITION OF THE CO-OPERATIVES:

At the beginning of the fifties the outstanding fact of the agricultural credit situation in Orissa was the almost complete dependence of the cultivator on non-institutional agencies. This was clearly revealed by the All India Rural Credit Survey Committee (of the R.B.I.) in 1951-52. This is clearly seen from Table 1, the non-institutional sources accounting for the bulk of the borrowings from the institutional sources. The commercial banks contributed a negligible amount, the Government and the co-operatives contributed 1.6 per cent and 2.7 per cent respectively. Even in 1961-62, the bulk of the borrowings came from non-institutional sources, but here there was significant improvement among the institutional sources; the government contributed 4.2 per cent and co-operatives 16.6 per cent. However, though there is a decline in the share of non-institutional sources, the share is still very significant. For the non-cultivators, there was also an improvement. Borrowings from the government increased from 0.7 per cent to 2.1 per cent and from the co-operatives from 2.8 per cent to 4.6 per cent. Thus, here also the major proportion of the borrowings came from non-institutional sources.

**TABLE-1: PROPORTIONS OF AMOUNT BORROWED FROM DIFFERENT AGENCIES BY CULTIVATORS AND NON-CULTIVATORS (CRISSA) (in percentage)**

1	1951-52		1961-62		1971-72	
	C	N.C.	C	N.C.	C	N.C.
	2	3	4	5	6	7
Average Amount borrowed per family from all agencies (in rupees)	84.30	26.30	54.90	26.30	60.16	30.08
Proportion of Amount borrowed from:						
1. Government	1.4	0.7	4.2	2.1	4.0	1.9
2. Co-operatives	2.7	2.6	16.6	4.6	16.4	3.7
3. Relatives	7.0	5.7	3.8	2.4	13.2	42.9
4. Landlords	0.1	0.1	0.2	-	9.5	7.4
5. Agriculturist-Money-lenders	5.0	5.0	15.1	14.0	25.7	11.9
6. Professional Money-lenders	82.9	82.2	26.8	33.1	12.4	10.1
7. Traders & Commission Agents	0.1	1.4	19.8	6.7	1.5	3.3
8. Commercial Banks	-	0.7	-	-	3.4	-
9. Others	0.8	1.4	11.5	37.1	13.9	16.8

C = Cultivators; N.C. = Non-Cultivators; - = Negligible

Sources: 1951-52 - All India Rural Credit Survey, 1951-52; 1961-62 - All-India Rural Debt and Investment Survey 1961-62. 1971-72 - All-India Debt and Investment Survey, 1971-72, Table-2; pp.469, 471. Quoted from All-India Rural Credit Review Committee Report (1969) Table 2, p.103.

Ten years later, the picture remains by and large the same. Institutional sources continued to have a small share in the borrowings of both cultivators and non-cultivators. Borrowings from the government for the cultivating class was 4 per cent, from the co-operatives it was 16.4 per cent, and from the commercial banks it was just 3.4 per cent. The figures for the non-cultivating class were 1.9 per cent from the government, 3.7 per cent from the co-operatives and negligible amount from the commercial banks. Among the non-institutional sources, the money-lenders account for a very high proportion. There has been some change in the corresponding shares of the two types of money-lenders. A sharp decline in the share of the professional money-lender has been accompanied by a rise in the share of the agriculturist money-lender.<sup>1</sup> This may, possibly, be due to the fact that some of the professional money-lenders who had been absentee landlords earlier, resumed cultivation of the land in view of the land reform measures. Further the imposition of increased restrictions on money-lending and transfer of land, along with other factors, seems to have led to the migration of some of the professional money-lenders from the countryside to the urban areas. Besides these factors, the importance of the agriculturist money-lenders probably reflects the growing prosperity of the large cultivators resulting from

the adoption of modern practices and the increasing investment of these surpluses in loans to other cultivators. Orissa happened to be the state in which the professional money-lender was more important than anywhere else. The same is true of the share of the traders and commission agents. The bulk of the borrowings, therefore, came from non-institutional agencies, with the co-operatives and government not playing a significant role, over a span of two decades. It is more glaring in the case of the non-cultivators, who include the large number of rural artisans, agricultural labourers and others.

As we mentioned in the previous chapter, the failure of the institutional agencies in providing credit has been associated with the continued dependence of the rural population on the non-institutional sources, the money-lenders and traders in the main. The menace of sub-infeudation and landlordism has rendered the actual cultivators powerless against the depredations of the money-lender and other intermediaries. Enhanced rents, along with the increasing cash needs for other purposes have raised the importance of the money-lender, without whose assistance it is impossible for cultivators to pay charges (including past debt payments). These are collected irrespective of the timing of agricultural operations and the crop results.

Moreover, sub-division and fragmentation, resulting from the laws of inheritance, has gone to such an extent that the small farmer has either to give up 'cultivation' and seek alternative means of livelihood or else mortgage his land to the money-lender and borrow heavily from him.

The miserable economic condition of many of the cultivators makes it difficult for them to furnish any or adequate security which can be considered as sound and easily realisable investment. On the other hand, the absence of proper credit facilities creates circumstances which drive cultivators to the money-lending agencies that exploit the peasants' necessity and impose ruinous condition regarding terms and rates of loans, which weaken their economic position still further. The idiosyncracies of the money-lender, the circumstances of the debtor, the nature of the security and the locality to a large extent, determine the conditions of the loan. The money-lender does not recognise any distinction between borrowings for agricultural operations and borrowings for household expenditure. Mortgage of agricultural land forms the basis of long-term credit while current agricultural needs are provided on the basis of personal security on conditions expressed or implied that the produce is to be sold to or through him.

This naturally brings into focus the question as to why have the institutional agencies failed to be effective in advancing credit. The co-operative institutions have been recognised as the best alternative to the non-institutional sources of rural credit by the All-India Rural Credit Survey Committee in 1954. By their early induction, co-operatives should have established firm roots in rural areas.

The efficiency and effectiveness of the flow of co-operative credit is dependent on the delivery mechanism at the beneficiary level. In the three tier credit structure, the Primary Agricultural Credit Societies (PACS) happen to be ones which are directly associated with the rural population. Incidentally, the PACS have been the weakest link in the chain of co-operative financing system. The co-operative opinion in the country has generally not been in favour of periodic changes in the base level structure of co-operative credit. What, therefore, has been sought in the process of reorganisation was a programme of consolidation and strengthening of the existing co-operative credit institutions. For this, efforts have been going on since about two decades for reorganising them into economically viable units.

The reorganisation programme involved amalgamation or liquidation of weak societies. While this programme of reorganisation was being carried out, the Working Group on Cooperation for the Fifth Five Year Plan (1973), translated the viability criteria into concrete terms to mean a minimum credit business of Rs.2 lakhs by way of outstanding short-term agricultural loans, (taking into account the cost of operation of the society). Later in May 1976, the RBI suggested to the state governments that a normal cropped area of 2,000 hectares of land should be able to provide the minimum business of Rs.2 lakhs envisaged. It is on this basis that the present round of reorganisation is in progress. However, the reorganised societies seem to have made slow progress in regard to increasing borrowing membership and loaning operations, and also in their diversification of their operations. This has been revealed by the enquiries conducted by the CRAFTCARD.<sup>2</sup>

#### DEVELOPMENT AND EXTENT OF COVERAGE OF THE CREDIT COOPERATIVES:

The position at the beginning of the fifties, was that the PACS in Orissa on which the entire rural credit structure was based happened to be relatively weak, as compared with most other states in India. During these years, a feeling had emerged that provision of credit should no longer be considered in isolation, but should

be organically linked to other rural development activities, including provision of marketing facilities, and distribution of good seed, etc., at the primary level itself. Thus, evolved an integrated approach which meant to make co-operative credit useful and of enduring benefit to the agriculturists. The fifties then saw the gradual development of the multi-purpose idea. However, multi-purpose co-operation did not make much progress by the end of the fifties. A few such societies were organised in the state, and the non-credit activities undertaken by these multi-purpose societies and the credit societies as well, were of very little significance.

The poor progress in multi-purpose activities may be attributed to various factors, the most important of which would be the absence of competent technical personnel, so very essential for the efficient management of these societies. The lack of competent personnel was, in a large measure, due to their limited resources, which prevented them from employing such staff. Other reasons which impeded the progress of these societies were lack of assistance from financing agencies, and the disloyalty of most members of the societies. No effective attention appears to have been paid to certain qualitative aspects of their working; like active participation of members in



the activities of the societies, the promotion of loyalty of members to the societies, the undertaking of various non-credit functions on a large-scale, and the provision of paid staff for their management. This perhaps, explains why all the advantages claimed by these societies over ordinary credit societies did not materialise.

In November 1959, the National Development Council considered that for the development of co-operation as a people's movement, it was essential that co-operatives should be organised on the basis of the village community as the primary unit, and that responsibility and initiative for social and economic development at the village level should be placed fully on the village cooperative and the village panchayat. The beginning of the sixties then saw the emphasis on the demarcation of functions of co-operatives at the primary level, and the panchayati raj institutions. As co-operatives had been recognised as the most suitable agency for carrying out several of the Plan schemes relating to the rural sector, it was found necessary to demarcate their functions vis-a-vis the panchayats, which are civic and developmental bodies with the general responsibility of attending to collective welfare of the village community.

The general pattern of development of the primary credit co-operative societies is shown in Table-2. The

TABLE-2: PRIMARY AGRICULTURAL CREDIT SOCIETIES (Extent of Coverage)  
(ORISSA)

YEAR	Total Number of Societies	Total Number of villages		Percentage of villages served by societies to total no. of villages	No. of societies dormant at least one year) (for total)	Percentage of societies dormant to total (per cent)	No. of villages served by the societies	Percentage of villages in total in col.7	Population in the villages (in thousands)			Percentage of population in total in col.11
		In the State	Served by the societies						In the State	Served by societies in col.4	Served by dormant societies in col.12	
1	2	3	4	5	6	7	8	9	10	11	12	13
1960-61	6,630	46,466	23,586	51	2,942	44.4	4,023	17.1	16,439	8,322	N.A.	N.A.
1965-66	3,727	46,466	35,431	78	1,120	30.1	3,411	9.4	17,144	11,632	1,663	16
1970-71	3,759	46,466	46,466	100	927	24.7	4,891	10.5	17,144	17,144	2,708	15.9
1975-76	3,358	46,466	46,466	100	142	4.2	1,035	2.2	22,679	22,679	469	2.1
1979-80	2,793	46,466	46,466	100	65	2.3	297	0.6	25,837	22,679	73	0.3

TABLE-2 (continued)

PRIMARY AGRICULTURAL CREDIT SOCIETIES (Extent of Coverage)  
(ORISSA)

YEAR	No. of Members (in thousands)		Percentage of borrowing members to total	Member- ship of dormant societies	Percentage of members in col.5 to col.2
	Total	Who bor- rowed during the year			
1	2	3	4	5	6
1960-61	409	164	40.1	N.A.	..
1965-66	814	259	31.8	72	8.8
1970-71	1,410	312	22.1	144	10.2
1975-76	2,005	391	19.5	34	1.7
1979-80	2,251	826	36.7	7	0.3

Sources: (i) Statistical Statements Relating to the  
Co-operative Movement in India, 1960-61 (Part I);  
(ii) -do- 1965-66 (-do-);  
(iii) -do- 1970-71 (-do-);  
(iv) -do- 1975-76 (-do-);  
(v) -do- 1979-80 (-do-).

statistics give us a picture of the primary co-operatives since 1950-51. It is relevant to consider the data from the beginning of the sixties, because of a change in policy of the government. Since May 1959 (in pursuance of the Resolution of the National Development Council in 1956), formation of large-sized societies was discontinued. From then on, greater attention was paid towards revitalising the small-sized societies.<sup>3</sup>

The number of societies at the end of 1950-51 was 3,768, besides 339 Grain Banks. (See Table-3.) In 1955-56, their number had gone up to 6,672, and that of Grain Banks to 372. These Grain Banks have been an important feature of Orissa's credit co-operatives, at least till the mid-sixties. (This can be seen from Table-3.) Membership of the co-operatives in 1950-51 formed only 1 per cent of the rural population in the state. This was very low when compared with some of the other states like Coorg (10.4%), Punjab (3.3%), Madras (3.2%) and Bombay (3.1%).<sup>4</sup> Both the small-sized and the large-sized societies did make progress in the fifties, in so far as number of societies, membership, loans for society are concerned. The position of the two types of societies at the end of 1960-61 revealed that the membership of an average large-sized society was about four and a half times that of an average small-

TABLE-3: GRAIN BANKS - Operations  
(ORISSA)  
(Amount in lakhs of rupees)

YEAR	Number of Grain Banks	Number of Members	Loans advanced during the year	Loans repaid at the end of the year	Loans outstanding at the end of the year	Of which overdue	Percentage of overdue to loans outstanding
1	2	3	4	5	6	7	8
1950-51	339	..	..	..	..	..	..
1955-56	372	85,368	21.11	9.59	19.88	4.75	25.2
1960-61	2,110	552,062	163.92	132.59	241.00	89.67	37.2
1965-66	1,701	584,000	217.80	151.57	401.78	221.67	55.2
1970-71	301	76,000	24.78	23.71	159.23	39.34	24.7
1975-76	117	22,124	3.39	8.74	28.08	24.01	85.5
1979-80	92	12,936	1.09	1.27	18.86	16.94	89.8

.. Not available.

Sources: Statistical Statements Relating to the  
Cooperative Movement in India: (R.S.I., Bombay)  
(i) 1950-51; (v) 1970-71  
(ii) 1955-56; (vi) 1975-76  
(iii) 1960-61; (vii) 1979-80 (SABARD, Bombay).  
(iv) 1965-66;

sized society and the working capital about seven times. The amount of loans advanced per borrowing member of a large-sized society was however much less than that of a small-sized society. The picture is revealed in Table-4, given below.

**TABLE-4: COMPARATIVE POSITION OF LARGE-SIZED AND SMALL-SIZED PRIMARY AGRICULTURAL CREDIT SOCIETIES AT THE END OF JUNE 1961 (ORISSA)**  
(Amount in lakhs of rupees)

Type of Society -	Large-sized	Small-sized
No. of Societies	593	6,037
Membership (in thousands)	125	284
Borrowing Membership (in thousands)	79	85
No. of Villages served	8,601	14,985
Working Capital	200.08	327.91
Amount of Loans advanced	98.41	157.09
Average Membership per society	211	47
Average Working Capital per society	0.34	0.05

Source: Statistical Statements Relating to the Co-operative Movement in India, 1960-61, R.S.I., Bombay.

However, while assessing the figures relating to membership and coverage of villages by PACS, two points have to be taken into consideration. One is the large number of societies which exist only on paper, and are

dormant; the other relates to the fact that there are several societies in which a majority of members may not be able to borrow, because of strict eligibility conditions. This is a fact, which we shall take up later in the chapter. Therefore, it would be more appropriate to look at the proportion of borrowing members.

The bulk of the primary societies at the end of 1961 were very small-sized, therefore many of them being inadequately staffed, and with their activities virtually frozen because they had lent out money, which they could not recover, and thus had become dormant. Therefore, the main problem here was to reorganize the existing structure of societies and form large-sized ones covering several villages.<sup>5</sup> The new societies thus formed, or the amalgamations of old societies, however, often had neither the resources nor expertise to take up new functions. Many of them merely became large and unwieldy and in 1959, it was decided to give up this policy, and instead, aim at small co-operative societies without interference.

The programme for the reorganisation of primary agricultural credit societies, which was originally scheduled to be completed by 1966-67, continued well into the seventies. We may briefly note the factors that have caused the delay in the implementation of the programme

of reorganisation. They are:

- (i) administrative slackness;
- (ii) desire of some societies to maintain their identity;
- (iii) disagreement between amalgamating societies in the matter of location of headquarters of new societies;
- (iv) rivalry and differences between the members of the amalgamating societies; and
- (v) lack of interest shown by the central banks and state co-operative banks in the programme.<sup>6</sup>

The trend towards an increase in the total number of primary credit societies in the state was reversed from the mid sixties. The number of societies in the state declined over the sixties and the seventies. This reflects the efforts of the state government towards revitalisation and reorganisation of primary agricultural credit societies, by trying to weed out dormant and uneconomic units, the need for which was emphasised by the Committee on Co-operative Credit (the V.L. Mehta Committee). The details regarding the position of dormant societies can be seen in Table-2.

There has been a significant decline in the number of dormant societies over the period 1960-61 to 1979-80. While 44.4 per cent of the societies were dormant in 1960-61, this proportion declined over the period, with



30 per cent in 1965-66, 24.7 per cent in 1970-71, 4.2 per cent in 1975-76 to 2.3 per cent in 1979-80. Even <sup>the</sup> proportion of villages covered by the dormant societies out of the total number of villages served by the credit societies declined significantly from 17 per cent in 1950-51 to 0.6 per cent in 1979-80. Also on the other fronts like the population covered by the dormant societies (declining from 16 per cent in 1955-56 to 0.3 per cent in 1979-80) and the members affected by the dormancy (declining from 8.8 per cent in 1955-56 to 0.3 per cent in 1979-80), there was tremendous improvement.

One of the important factors, that was often mentioned, contributing to the poor performance of the credit co-operatives in the fifties was that the cooperative societies did not cover all the villages in the state. Hence, the establishment of a credit co-operative society in the villages which did not have such societies was one of the primary requirements for extending the role of co-operative societies. Thus, by 1950-51, 51 per cent of the villages had been covered by the societies, 78.4 per cent by 1965-66, and all villages in the state by 1970-71. However, it may be pointed out that in the fifties and even till the mid-sixties there were a large number of grain banks operating in the state, which would have made up for the

deficiency in the primary agricultural credit societies. The grains banks were quite active and had a large coverage in terms of membership. The membership increased greatly over the period and, in fact, at the end of 1960-61, the membership of grain banks was much larger than the membership of the PACS. Even then the cooperatives do not seem to have made any significant impact.

The analysis in terms of area and population covered would, therefore, not be of much use. The effectiveness of co-operative could be judged more appropriately in terms of the (i) membership coverage of primary credit societies in relation to total number of Households, and (ii) the proportion of members borrowing from cooperatives.

Membership coverage of the primary credit societies can be seen from the following table. This table has been compiled from table-2. It has been assumed that a member of the co-operative society represents a household and a household on an average consists of five members. Therefore, when we divide the total population of those villages served by the primary credit societies by five, we may obtain a rough estimate of the total number of households in those villages.

TABLE-5: PRIMARY AGRICULTURAL CREDIT SOCIETIES

At the end of the year	Total Number of Societies in the state	Members-ship affect- ed by dormant socie- ties	No. of Members (in thousands)		Propor- tion of borrow- ing mem- bers to total members (%)	Population (in thousands)		Propor- tion of Members to total number of house- holds in these villages (%)	Propor- tion of borrow- ing Mem- bers to total no. of House- holds in these villeges (%)
			Total	Who bor- rowed during the years		In the village served by the societ- ies	No. of House- holds in these villages		
1	2	3	4	5	6	7	8	9	10
1960-61	6,630	..	409	164	40.1	8,322	1,664	24.6	9.9
1965-66	3,727	09.8	614	259	31.8	11,632	2,326	34.9	11.1
1970-71	3,759	10.2	1,410	312	22.1	17,144	3,429	41.1	9.1
1975-76	3,358	01.7	2,005	391	19.5	22,679	4,536	44.2	8.6
1979-80	2,793	0.3	2,251	626	36.7	22,679	4,536	49.6	19.2

The membership coverage of primary credit societies in relation to the total number of Households steadily increased from 24.6 per cent in 1960-61 to 49.6 per cent in 1979-80. This means that a large part of the rural population has been taken into the co-operative fold, at least, in terms of membership. However, it may be said that the all the households having membership in a primary cooperative society may not necessarily be borrowers during a particular year. The proportion of borrowing members to total membership declined sharply from 40.1 per cent in 1960-61 to 19.5 per cent in 1975-76, though it did increase to 36.7 per cent in 1979-80. The fact that there was a steady decline in the proportion of members actually borrowing in a year meant that a large section of the members have, in effect, been outside the co-operative fold. It is <sup>be</sup> also noted that this fall in proportion of borrowing members has been accompanied by a fall in the membership affected by dormant societies. A more effective way of looking at it perhaps would be study the proportion of borrowing members to the total number of households in these villages covered by these societies. This shows that the figure was quite low at 9.9 per cent in 1960-61 and only about 10 per cent in 1979-80. It remained around 10 per cent right upto 1975-76. This

reveals an even worse kind of situation where such a low proportion of the rural households are participants in the cooperative credit movement. Here, it is also worth noting that this has been the situation inspite of the fact that all the villages in state had been covered by 1970-71.

While there may be certain factors responsible for this low coverage of rural households, we may suggest that the following type of members would not need or cannot get credit from such a society:

- (a) The well-to-do members who do not require loans but who have joined the society due to some reason or the other;
- (b) defaulting members; and
- (c) members being not considered credit-worthy to receive a loan.

The relative proportions of different types of non-borrowing members during a year would vary, depending upon several factors.

Hence a low proportion of borrowing members would mean either a large number of well-to-do members in the co-operatives or a large number of poorer sections (including the landless agricultural labourers, village craftsmen,

etc.) who are unable to borrow or both. Membership by itself is then no index of effective coverage, particularly of the weaker strata. As regards access of the poorer sections of the rural community is concerned, it would be pertinent to reproduce the observations of the All India Rural Credit Review Committee (1969) as under:

"The comparative neglect of the small cultivators by the co-operatives results from more factors than one. One of these is that the principle of open membership is not always effective and several co-operatives operate as a closed shop for the benefit of one particular economic group or caste or faction. Secondly, the repaying capacity of the small cultivator is called into question and the loan often ruled out on this ground. Thirdly, in the distribution of the limited funds available, it is the small farmer who gets left out. These are some of the factors which keep some restrictive practices alive in practice, even though on paper they are supposed to have ceased to exist".<sup>7</sup>

This observation still holds good and restrictive practices in lending on account of caste, faction etc. continue. It must be noted here that the restrictive practices in the matter of financing weaker sections were

prevalent despite the Reserve Bank of India's stipulation that not less than 20 per cent of the short-term agricultural loans issued to PACS by central cooperative Banks should go to finance small farmers and weaker sections. However, such stipulations would not produce the desired results unless these are accompanied by suitable administrative action. In several places, it may be said, and as the CRAFTCARD in its report observed, that there was prevalent a tendency on the part of the bigger farmers and rich landlords to block the flow of co-operative credit to the weaker sections.

Studies carried out by the Reserve Bank of India in select areas in 1979-80 to find out the reasons for low borrowing membership revealed certain important causes. Some of these which can be identified with Orissa are:

- (a) though a number of members of a family have been enrolled as members of PACS, only one of them is borrowing;
- (b) several affluent members do not resort to borrowing;
- (c) tenant cultivators with no recorded rights in the lands tilled by them, being ineligible to obtain credit on the normal scale, have to go to non-institutional sources for meeting their agricultural outlays; and

(d) Members with very small holdings seldom obtain institutional finance for fear of their inability to repay on due dates.

Besides these, there could be other factors, which may come in the way of the weaker sections borrowing from a society such as lending procedure not being in conformity with the need, risk involved in borrowing, lack of programmes for these groups and structural inability of the society to lend. The rise in membership (particularly the multi-membership in respect of several households), is perhaps the consequence of membership drives/campaigns launched during special occasions like the "All-India Cooperative Week", provision of share capital subsidy, implementation of various development programmes such as the Small Farmers Development Agency (SFDA) programme, or the Command Area Development Programme (CADP) etc.

#### **OPERATIONS AND FINANCIAL STRENGTH:**

##### **SHORT-TERM:**

Primary Agricultural Credit Societies: The PACS were primarily conceived as people's institutions for promoting thrift and mutual aid among members. The principle of state partnership in share capital and management of societies enunciated by the All-India Rural Credit Survey



Committee (1954) was intended, inter-alia, to boost their image and prestige so that they could attract rural savings and build up their financial strength through deposit resources. However, this objective has, by and large, remained unfulfilled and the societies have come to be perceived as mere lending agencies.

A large deposit basis provides a countervailing force of depositors which is extremely desirable as a balancing factor against the group of borrowers. Such balancing of forces will help in evolving sound lending policies and practices and ensuring prompt repayments, besides bringing in larger resources. This will also bring into the organised channels large untapped savings potential generated in the rural areas for productive deployment. And that this is not difficult to achieve has been demonstrated by the societies in Kerala and Punjab. Deposits being cheaper than even borrowings from higher financing agencies, have immense potential in augmenting the viability prospects of primaries.

The State Co-operative Bank and the Central Co-operative Banks as leaders of the cooperative movement in their respective spheres should therefore fully involve themselves. In as much as there is considerable potential for loaning under credit-oriented integrated rural development, and that a sizeable proportion of the rural households

is still outside the orbit of the cooperative credit, the deposit mobilisation efforts of the PACS will not be repugnant to the interests of the Central Cooperative Banks. Here we have the example of Kerala where despite the increase in deposits held by PACS, there has been a substantial rise in the deposits held by Central Cooperative Banks too. The Central Banks would then act as balancing centres by absorbing the unutilised surplus resources, if any, with PACS.

The PACS also require adequate assistance in the form of subventions and grants by the higher level institutions - the Central Cooperative Banks and State Cooperative Banks - which in the three-tier structure are expected to provide a positive leadership in developing the strength and soundness of the system. Their own progress, strength and resilience are inextricably linked to the development of the base-level cooperatives, it is in their interest that they should substantially aid primary agricultural credit societies to enable them to become effective credit institutions.

If the co-operatives are to grant loans to a larger proportion of cultivators and other artisans and agricultural landless labourers, the need therefore for a rapid rise in the deposits. A rapid rise in deposits can be

obtained with a rise in interest rates. However, this may push up the ultimate lending rate to cultivators, and the demand for loans from cooperatives may fall. What, therefore, is necessary here is the use of loans in a productive way and their repayment in due time. This is, however, a problem of loan administration and supervision.

The following table gives us a financial coverage of the PACS.

**TABLE-6: PRIMARY AGRICULTURAL CREDIT SOCIETIES**  
(Amount in rupees)

YEAR	Average Deposits per society	Average Deposits per member	Average Loan advanced per member	Average Loan advanced per borrowing member
1	2	3	4	5
1960-61	201	3.25	62.47	155.79
1965-66	1,320	6.05	94.62	297.39
1970-71	3,953	10.54	61.97	280.07
1975-76	5,768	9.69	65.80	439.96
1979-80	7,472	9.27	278.54	759.07

Compiled from Table-7 and Table-8.

The average deposits per society increased greatly from Rs. 201 in 1960-61 to Rs. 7,472. This would mean then that deposit mobilisation efforts by the societies were satisfactory. But at the same time, it has to be realised that deposits per member was abysmally low throughout. It was as low as Rs. 3.26 in 1960-61 and increased to Rs. 10.54 in 1970-71. Since then it has remained around Rs. 10. This rather reveals more truly the failure of the cooperatives to mobilise rural savings. Average loans advanced per member increased, and increased very sharply between 1975-76 to 1979-80, from Rs. 85.80 to Rs. 278.54. The rise in loans advanced per member was much greater than rise in deposits per member. In each of the different years, the average loan advanced per member was much higher than the deposit per member. Further, if we consider the average loan advanced per borrowing member, then the differences would be truly great.

This implies that a substantial proportion of loans advanced by credit societies was financed not by deposits but by external sources like borrowings. These points may be clearly understood through a closer examination of the composition of the working capital of the primary agricultural credit societies. The composition of the working capital is given in Table-7. The table clearly reveals

**TABLE-7: COMPOSITION OF WORKING CAPITAL OF PRIMARY AGRICULTURAL CREDIT SOCIETIES**  
(Amount in lakhs of rupees)

YEAR		Total Working Capital	Owned Funds		Deposits	Borrowings	Other Liabilities
			Paid-up Capital	Reserves			
1	2	3	4	5	6	7	8
1960-61	Amount	527.96	99.85	22.09	13.33	392.69	—
	Percentage	100.0	18.9	4.2	2.5	74.4	—
1965-66	Amount	1219.75	213.51	52.79	49.21	904.24	—
	Percentage	100.0	17.5	4.3	4.0	74.2	—
1970-71	Amount	3671.63	535.28	210.41	148.61	1400.59	1376.74
	Percentage	100.0	14.6	5.7	4.0	38.2	37.5
1975-75	Amount	7206.58	1029.73	424.55	194.37	2787.58	2770.35
	Percentage	100.0	14.3	5.9	2.7	38.7	38.4
1979-80	Amount	14779.05	1712.27	525.06	208.70	8485.20	3847.82
	Percentage	100.0	11.6	3.6	1.4	57.4	26.0

Sources: i. Statistical Statements Relating to the Cooperative Movement in India, 1960-61;

ii. -do- 1965-66;

iii. -do- 1970-71;

iv. -do- 1975-76;

v. -do- 1979-80, HASARD, Bombay.

1960-61;

1965-66;

1970-71;

1975-76;

1979-80, HASARD, Bombay.

H.S.I. Bombay

that borrowings were the single most important component of the working capital. Deposits, on the other hand, were the least important of the components of working capital. Hence, the societies depended largely on borrowings for their operations.

The financial strength of a society may be said to have improved if:

- (a) the proportion of owned funds to working capital has risen;
- (b) the proportion of deposits to working capital has risen; and
- (c) the proportion of overdues to loans outstanding has fallen.

In regard to the proportion of owned funds to working capital, it has to be said that not only was the proportion much less than the proportion of borrowings in the different years; but that the proportion declined over the years. In 1960-61, it formed 33.1 per cent of the working capital, in 1970-71, it was 20.3 per cent, and in 1979-80, it was just 15.3 per cent of the working capital.

The proportion of deposits to working capital did show a rising trend upto 1970-71, but after that it declined to an insignificant 1.4 per cent in 1979-80. In 1960-61,

it formed 2.5 per cent of the working capital and then increased to 4 per cent in 1970-71.

The proportion of overdue to loans outstanding was also high throughout the period. This can be seen in table-6. In 1960-61, it was 20 per cent, but increased to an alarming level of 65.7 per cent in 1970-71, and was still as high as 56.4 per cent in 1975-76. The proportion, though had declined thereafter, but was still significant at 28.2 per cent in 1979-80.

Hence, by the three factors, we can say that the financial position of the societies deteriorated, and this in turn had its effect on the working of the cooperative credit societies. The primary co-operative societies depended more heavily on borrowings rather than upon either owned funds or deposits. This also reflects the inability of the primary agricultural credit societies to mobilise more deposits from the rural economy. A greater amount of funds had to be borrowed if the loans advanced if loans advanced also increase. The inability to mobilise rural deposits need not be matter of serious concern if the repayment performance is sound. Unfortunately, this has not been the case. The proportion of overdue to loans outstanding was significant all throughout. In fact, an important indication of the financial viability of credit

societies is the change in the proportion of overdues to loans outstanding.

Recovery Problems: The high level of overdues of societies would then be taken to constitute the major factor inhibiting their expansion in terms of coverage and lendings. (See table-8.) This can be understood in the following way. Poor recovery performance impedes the progress of societies on account of their prima facie ineligibility to draw fresh finances from their financing banks if their overdues exceed a specified percentage of demand.<sup>8</sup> It results in PACS defaulting to central cooperative. The defaults Banks of the primary credit societies to the central cooperative Banks impair their capacity to draw funds from higher financing agencies, particularly the Reserve Bank of India. This is so because the central cooperative Banks whose overdues exceed 60 per cent of the demand are not normally eligible for refinance from the Reserve Bank. Hence, we may say, that overdues have the effect of choking up the credit channels.

The Reserve Bank's Study Team on Overdues of Cooperative Credit Institutions (1974) had come to the conclusion that defaults were, by and large, willful and that lack of will and discipline among cultivators to repay and the unhelpful attitude of the state governments in creating a



**TABLE-8: PRIMARY AGRICULTURAL CREDIT SOCIETIES - Operations**  
(CRISSA) (Amount in lakhs of rupees)

YEAR	Number of societies	Number of members (in thousands)	Loans advanced during the year	Loans repaid at the end of the year	Loans outstanding at the end of the year	Of which overdue	Percentage of overdue to total loan outstanding
1	2	3	4	5	6	7	8
1950-51	3788	160*	44.89*	34.04*	76.19*	23.14*	29.3*
1955-56	6872	400	137.13	89.63	198.46	50.05	25.2
1960-61	6630	409	255.50	199.00	411.10	82.14	20.0
1965-66	3727	814	770.23	626.51	1019.19	232.37	22.8
1970-71	3759	1410	872.83	874.45	2107.04	1383.94	65.7
1975-76	3358	2005	2056.00	1720.23	3871.81	2260.01	58.4
1979-80	2793	2251	6259.98	3899.87	9112.45	2567.43	28.2

Source: i. Statistical Statement Relating to the Cooperative Movement in India, 1950-51 (Part I);  
ii. -do- 1955-56 (-do-);  
iii. -do- 1960-61 (-do-);  
iv. -do- 1965-66 (-do-);  
v. -do- 1970-71 (-do-);  
vi. -do- 1975-76 (-do-);  
vii. -do- 1979-80 (-do-).

favourable climate for recovery were the primary factors responsible for the prevalence of the overdues. It had further observed that there was no positive correlationship between the level of overdues and the extent and frequency of natural calamities.<sup>9</sup>

The tendency of the state government to exempt whole classes of defaulters from the payment of their dues to PACS and pay those amounts to the cooperatives from the state exchequer has dangerous import and wider implications for the entire institutional credit system. Viewed from the long-term interest of the system, such general steps, without case-by-case examination of the need for such relief, are bound to vitiate the climate of recovery and encourage wilful defaults besides generating a psychology of non-repayment of not merely cooperative dues but also the dues of other credit institutions, thereby endangering the survival of the institutional credit structure itself.

According to the R.B.I.'s study reports and the observations of the CRAFTICARD, the principal reasons for the overdues can be identified as:

- (i) failure to tie-up lending with development programmes;
- (ii) defective loaning policies, including untimely loan disbursements; under-financing/over-financing

- and unrealistic scheduling of loan repayment;
- (iii) neglect of/or absence of efforts for marketing arrangements and linkage of credit recovery with sale of produce;
  - (iv) ineffective supervision;
  - (v) misapplication of loans;
  - (vi) apathy and indifference of management of societies to taking coercive measures for recovery; and
  - (vii) foremost of all, want of a sense of discipline and responsibility among loanees in regard to prompt repayment of debts.

From the statistics provided by the Reserve Bank,<sup>10</sup> it would appear that loans for productive purposes formed the bulk of the fresh advances of the societies in each year. However, in the absence of an appropriate machinery to supervise the use of credit, it is, however, doubtful if much significance can be attached to the purpose which is mentioned in the loan application. In some cases, the failure of a loan to be used for the purpose for which it is intended would have led, in turn, to the failure of its repayment to conform to the period appropriate for the purpose.

The propensity of borrowers, especially, the comparatively better-off farmers amongst them, to deliberately

withhold repayment of their dues to PACS, despite their ability to pay is, particularly more serious, while relief in the matter of repayment, may become necessary in times of widespread natural calamities, or under circumstances beyond the control of the loanee; there is certainly no justification in accepting default in repayment during periods of good harvest. These defaults are, by and large, wilful, and this has been established by the studies conducted by the Reserve Bank. Despite this, there appears to have been no effective action against this form of default by the powers - that - be. As a result, these wilful defaulters have been able to hold the cooperatives to ransom with a sense of impunity, thereby deliberately interrupting smooth flow of cooperative credit to the most needy sections of the rural community.

Quantum and Security of Loans: In deciding upon the quantum of loans to be issued by primaries, the criteria normally adopted was (i) requirements of crop production; (ii) the value of security that a borrower would offer; and (iii) a multiple of his share holding in the society subject to a maximum as laid down in its bye-laws. A ceiling for loans per individual is laid down and the actual amount is worked out within this limit by adoption of a scale of

finance for individual crops or by relating them to the shares held by a member in the society.

The Committee on Cooperative Credit (V.L. Mehta Committee) had observed that insistence on mortgage security for short-term loans deprived a large section of the agricultural community of the benefit of co-operative credit. In Orissa, mortgage security was insisted upon for practically all loans. This insistence on mortgage security for all loans, irrespective of the amounts, results in denying such loans even to tenants who have a heritable tenancy rights, but no right to mortgage land.<sup>11</sup>

Certain land reform measures sought to confer on tenants, protection against arbitrary eviction and ensured to them a good share of the crops raised by them. Their status and economic position were thus expected to improve. It has, therefore, been felt necessary that co-operatives should provide funds even to this class of cultivating members, provided they were honest and possessed the necessary repaying capacity, and produced sureties who need not necessarily be owners of land. The table below gives a picture of this state of affairs even as late as 1979-80. Even in 1979-80, a large proportion of members among the poorer sections have in effect remained outside the fold of co-operative credit. For the lower classes in

the economic groupings, the proportion of borrowers is abysmally low. The proportion goes on increasing as we go upwards in the economic groupings. Hence, even after 30 years of cooperative efforts in the field of credit, the weaker sections have been practically left outside the cooperative fold. The difference between the lowest category and the highest category is too wide to leave any doubt.

**TABLE-9: PROPORTION OF BORROWING MEMBERS TO TOTAL MEMBERS, ACCORDING TO SIZE OF HOLDINGS (from PACS) 1979-80**

Size of Holding	Members (in thousands)	No. of borrowers (in thousands)	Proportion of borrowing members to total membership
TOTAL	2251	826	36.7
Agricultural Labourers	89	-	0.6
Rural Artisans & others (including tenant cultivators)	53	10	1.9
Upto 1 hectare	787	280	35.6
1 - 2 hectares	672	221	32.9
2 - 4 hectares	411	174	42.3
4 - 8 hectares	191	119	62.3
Above 8 hectares	46	31	64.6

Source: Statistical Statements Relating to the Cooperative Movement in India: 1979-80; NABARD, Bombay; Part I: Credit Societies. - : Less than 500 members; but we have considered them to be 500.

Central Cooperative Bank and the State  
Co-operative Banks

Central Banks: The Central Co-operative banks form the pivot of co-operative credit in each district as they constitute the agency which mobilises resources by collecting deposits as well as by borrowing from the apex bank and higher financing agencies and meets the credit requirements of the affiliated primary agricultural credit societies. The progress of cooperative credit in any region would, therefore, be reflected in the progress in credit performance of central co-operative banks. Hence, considering the responsibility of central co-operative banks to extend their services throughout the district, and to mobilise rural savings, a phased programme of opening branches, at the rate of one at each district headquarters was considered necessary. And this process of rationalisation of the credit structure at the intermediate level continued well into the seventies. While pursuing this policy, it was also agreed that more than one bank in the same district may be allowed to function provided such banks have either attained or nearly attained viability. So, while there was one bank for each district, three districts had more than one bank. <sup>12</sup>

Table-10 gives an operational picture of the Central Co-operative Banks in the state. There seems to an

TABLE-10: CENTRAL COOPERATIVE BANKS - Operations  
(ORISSA) (Amount in lakhs of rupees)

YEAR	Number of Banks	Number of members		Loans advan- ced during the year	Loans repaid at the end of the year	Loans outsta- nding at the end of the year	Of which overdue	Percen- tage of overdues to total loans outstan- ding
		Indivi- duals	Socie- ties					
1	2	3	4	5	6	7	8	9
1950-51	22	1188	4710	104.43	92.67	90.29	14.25	15.8
1955-56	25	1450	7528	159.19	104.02	205.83	31.12	15.1
1960-61	17	1351	9365	347.88	268.20	507.05	61.32	12.3
1965-66	17	1166	7733	1010.31	862.33	1196.97	173.15	14.5
1970-71	17	38	5857	910.52	991.63	1525.83	731.42	47.9
1975-76	17	42	5133	2216.73	1913.07	2995.21	1091.98	34.1
1979-80	17	41	5071	7515.07	4743.67	9513.08	1574.95	16.6

Sources: Statistical Statements Relating to the Cooperative Movement in India; RBI; Bombay - (i) 1950-51 (Part I); (ii) 1955-56 (Part I); (iii) 1960-61 (part I); (iv) 1965-66 (Part I); (v) 1970-71 (Part I); (vi) 1975-76 (Part I); (vii) 1979-80 (Part I).



unevenness present in the expansion of credit among the central banks. This may be attributed to a wide variety of factors some of which are internal to the cooperative credit system. Firstly, it was the lack of progress in bringing about the necessary structural reorganisation, especially at the primary level.<sup>13</sup> Secondly, ineffective implementation of agreed policies such as the adoption of the crop-loan system (in all its aspects) and the absence of timeliness and adequacy of credit. Thirdly, the presence of several restrictive features in the loaning policies and procedures in the matter of security, surety, loans, maximum borrowing limit etc., and the low operational efficiency arising from inadequately qualified and trained staff. Finally, overdues, which were quite high in seventies, rendered a large number of societies ineligible to get fresh finance from the central bank and prevented the central banks from showing adequate non-overdue cover for borrowings from the apex bank. Heavy overdues at the primary level rendered a large section of the rural population from getting credit from the central banks.<sup>14</sup>

A Central Cooperative Bank was considered viable if it had a minimum level of Rs.100 lakhs as average loan outstandings. This would then enable it to play efficiently its expected role as a central financing agency in the

district.<sup>15</sup> However, since 1976-77, it was assumed that a Central Cooperative Bank should have a minimum level of Rs.2 crores of loan outstandings on an average, so as to be treated as viable.<sup>16</sup> So on this basis, we have the following table:

TABLE-11: AVERAGE LOAN OUTSTANDINGS PER CENTRAL BANK  
(Amount in lakhs)

Year	Number of Banks	Loans outstanding at the end of the year	Average Loan outstandings per bank
1	2	3	4
1960-61	17	507.05	29.83
1965-66	17	1196.97	70.41
1970-71	17	1525.83	89.75
1975-76	17	2995.21	176.19
1979-80	17	9513.08	559.59

Compiled from Table-10.

Thus, by the above assumption of viability condition, the central banks could reach the minimum level of Rs.100 lakhs by 1975-76. Further, by 1979-80, it had gone well beyond the minimum level of Rs.2 crores. However, one point that should be kept in mind, is that within this overall picture, there are some Central Banks which are weak and not viable. On the basis of the criteria adopted at the Seminar<sup>17</sup> of Chief Executives of the State Cooperative

Banks held at Poona in 1970, certain central Banks were identified as weak, and their rehabilitation was thus sought. The following table gives us the details:

TABLE-12:

Year	No. of Central Banks in the State	No. of Banks identified as weak on the basis of the criteria of the seminar
1	2	3
At the end of 1971-72	17	1
At the end of 1973-74	17	6
At the end of 1975-76	17	7
At the end of 1977-78	17	3

Sources: Review of Cooperative Movement: 1970-72; 1972-74; 1974-76; 1976-78.

The table shows that the position had deteriorated in the seventies. This certainly must have had its effect on the effectiveness of the Central Cooperative Banking, at least, as far as those weak Central Banks are concerned.

It has generally been the practice of Central Banks to insist on a high percentage repayments of the loans due to them by a society as a condition for making fresh advances to it. This naturally made loaning very restrictive and led to denial of credit even to such of the members of the societies who had paid their dues promptly.

It was imperative to fix some standards in this regard, because a Central Bank cannot continue to finance a society irrespective of the degree of default; first by members to the society; and secondly, by the society to the Bank. The extent of recovery from societies in the state stipulated as a condition for making fresh advances was followed very rigidly; and hardly any loans were being advanced to societies in default.<sup>18</sup> This is evidenced by the fact that the level of loans outstanding per bank had not reached the minimum required level till 1975-76.

It was important for the central banks to adopt the system of issuing loans to coincide with the beginning of the cultivating season for the various crops cultivated or of fixing due dates for recovery of loans to synchronise with the period of harvest and sale of produce; but the Central Banks in the state issued loans throughout the year and tried to recover them after a twelve-month period. The Committee on Cooperative Credit (1960), i.e. the V.L. Mehta Committee, had recommended that, in the context of the expansion of credit envisaged through the cooperatives, central cooperative banks would have to assume the responsibility for supervision of primary credit societies affiliated to and financed by them. However, the actual arrangements for supervision did not conform to this

requirement. The Central Banks, as it appears, had only general control and no effective supervision of societies.

Overdues with the Central Banks were quite low in the fifties and the sixties, but greatly increased in the seventies. This poor recovery performance can be attributed to certain factors. Apart from natural calamities affecting the repaying capacity of the borrowers, it was mainly due to the inadequate or inefficient supervision provided by the Banks; the poor quality of the management of the societies and banks; absence of linking credit with marketing; reluctance on the part of the authorities to resort to coercive measures, or where resorted due to the inability of the machinery to promptly execute the decrees.<sup>19</sup>

#### State Cooperative Banks:

The State Cooperative Bank in the state is important in the sense that it provides the vital link with the Reserve Bank of India. In other words, the R.B.I. finance can reach the cultivators and other sections of rural population only through the medium of a State Cooperative Bank. Hence, at the beginning of the period of planned development, the reorganisation of the apex co-operative bank was a necessary preliminary to the general development or rehabilitation of the Cooperative Movement. It has come a long way since then. Table-13 gives an operational

TABLE-13: STATE CO-OPERATIVE BANK - Operations  
(ORISSA) (Amount in lakhs of rupees)

YEAR	Number of Members		Loans advanced during the year	Loans repaid during the year	Loans outstanding at the end of the year	Of which overdue	Percentage of overdues to total loans outstanding
	Individuals	Banks and Societies					
1	2	3	4	5	6	7	8
1950-51	93	45	126.46	118.50	43.62	..	..
1955-56	104	54	78.10	55.72	81.67	1.79	2.2
1960-61	80	47	189.52	148.55	244.28	0.33	0.1
1965-66	69	44	757.55	639.04	700.67	4.17	0.1
1970-71	1	43	679.44	824.14	509.37	59.12	11.6
1975-76	2	62	1889.66	1669.66	1504.08	7.04	0.5
1979-80	3	54	7254.67	10348.00	6761.63	2.24	0.03

.. Not Available

Sources: Statistical Statements Relating to the Co-operative Movement in India, R.B.I., Bombay: (i) 1950-51 (Part I); (ii) 1955-56 (Pt I); (iii) 1960-61 (Pt I); (iv) 1965-66 (Pt I); (v) 1970-71 (Pt I); (vi) 1975-76 (Pt I); (vii) 1979-80 (Pt I).

picture of the State Co-operative Bank.

#### LONG-TERM:

Long-term credit is advanced by the Land Development Banks - the primary land development banks at the primary level and the central land development (Orissa State Land Development Bank). At the end of 1950-51, there were just 10 primary land development banks, the number went up to 54 at the end of 1979-80. (See tables 12 & 13.) The nominal members were more in number than the regular members. The proportion of borrowing members to regular members which was quite low in 1950-51 declined over the years. So then the effective coverage of the primary land development banks can be said to be poor. The situation with the State Land Development Bank was, however, a lot better. The average loan outstanding per bank went up over the years.

The purposes for which long-term credit has been advanced by the State Land Development Bank are the repayment of debts, land improvement (like deepening and repairing old wells, and constructing new ones), purchase and installation of pumps and other machinery, for the construction of godowns, sheds and the like and purchase of cattle.<sup>20</sup> Incidentally, there has been no borrowing for purchasing

TABLE-14: CENTRAL LAND DEVELOPMENT BANK - Operations  
(ORISSA) (Amount in lakhs of rupees)

YEAR	Number of Banks	Number of Members		Loans made during the year	Loans repaid at the end of the year	Loans outstanding at the end of the year	Of which overdue	Proportion of overdue to loans outstanding (per cent)
		Individuals	Banks					
1	2	3	4	5	6	7	8	9
1950-51*	1	4336	10	1.93	0.64	10.35	..	..
1955-56+	1	9357	10	6.37	1.15	20.04	0.03	0.2
1960-61	1	26271	21	4.03	0.55	64.87	0.32	0.5
1965-66	1	28521	44	70.08	14.66	272.34	2.37	0.9
1970-71	1	-	54	363.45	60.56	1228.66	8.83	0.7
1975-76+	1	1	55	303.76	252.12	1949.38	227.37	11.7
1979-80	1	1	54	1169.90	352.74	4283.86	391.80	9.2

\* : Figures for these years relate to loans made to individuals only;

+ : Data relate to the year 1974-75;

.. : Data not available.

Sources: Statistical Statements Relating to the Cooperative Movement in India, R.B.I., Bombay: (i) 1950-51 (Pt I); (ii) 1955-56 (Pt I); (iii) 1960-61 (Pt I); (iv) 1965-66 (Pt I); (v) 1970-71 (Pt I); (vi) 1975-76 (Pt I); (vii) 1979-80, (NABARD, Bombay).



TABLE-15: PRIMARY LAND DEVELOPMENT BANKS - Operations  
(ORISSA) (Amount in lakhs of rupees)

YEAR	Number of Banks	Number of Members		No. of Borrowing Members	Percentage of Borrowing Members to Regular Members	Loans made during the year	Loans repaid at the end of the year	Loans outstanding at the end of the year	Of which overdue	Percentage of overdues to loans outstanding
1	2	3	4	5	6	7	8	9	10	11
1960-61	10	2,177		..	-	4.03	0.55	3.48	-	-
1965-66	37	49,960	16,572	6,498	13.0	67.29	10.42	291.13	2.28	1.0
1970-71	54	73,276	102,202	15,535	21.2	436.17	62.23	1290.26	53.21	4.1
1975-76	55	126,925	192,045	12,412	9.8	337.30	268.21	2071.24	129.16	6.2
1979-80	54	223,618	230,437	44,111	19.7	1171.87	270.89	4241.16	354.44	8.4

Sources: Statistical Statements Relating to the Cooperative Movement in India (R.B.I., Bombay)

- (i) 1960-61 (Pt.I)
- (ii) 1965-66 (Pt.I)
- (iii) 1970-71 "
- (iv) 1975-76 "
- (v) 1979-80 " (NABARD; Bombay).

land and acquiring ownership rights in the years we have looked except for 1975-76, where the amount was very small. Though statistics show that debt redemption was not the major item of the long-term borrowings and land improvements were the largest item, it may be believed that in the absence of any effective machinery to supervise utilisation of credit, the diversion of loans for purposes other than specified would have been quite common.

In the fifties, the Orissa Provincial Cooperative Land Mortgage Bank<sup>21</sup> financed the agriculturists directly. However, its operations were confined to the districts of Puri, Cuttack and Ganjam, and even in these districts, its area of operations was further confined by government notification, to only canal-fed areas.<sup>22</sup> The loans granted were only for the discharge of prior debts. However, in so far as some of these prior debts were incurred for the purchase of land and effecting improvements on the land already owned by the borrowers, the funds lent by the bank could be considered as given indirectly for productive purposes. There was a reason why the Bank was unwilling to give land improvement loans, and later on when it did give, it had to be dependent on sufficient government help. This was because of the fact that the administration of land improvement loans is stated to be costlier as it would have required the maintenance of special technical

staff for the supervision of their utilization.

The situation improved from the sixties and more and more land improvement loans were forthcoming from the development banks. The beginning of the sixties was marked by an important development in the sphere of long-term credit. It was the formulation of the scheme for the issue of special development debentures for financing agriculturists under special projects of agricultural development or land development.<sup>23</sup>

The lending activities of the development banks were constrained because of their financial resources. The funds for these long-term financial institutions came mainly from floating debentures (which carry the guarantee of the state government for the repayment of principal and interest). So when money market conditions are tight, considerable difficulty is experienced by the state or the bank in securing the subscriptions for their debentures.

We observed earlier of the very low proportion of borrowing members to regular members. (Table-14.) This is directly linked to the question of valuation of security for lending purposes. The continued low proportion of borrowing members over the years can then be taken as the failure to determine the issue on a priority basis. This failure has been partly due to the lack of adequate

appreciation of its importance and partly in persisting with certain methods of valuation of security. Till recently, the valuation of security was the most important criteria of determining the credit-worthiness of the cultivator. In other words, the loan was given more on the basis of the mortgage security which the cultivator could offer rather than the production potential of the investment for which he wanted to borrow. This approach resulted in very limited progress of long-term financing.

Later, however, some modifications were adopted. The valuation of lands was to be made on the basis of a particular multiple of revenue assessment with or without the cost of investment which the cultivator proposes to make. This would be the case where sales statistics about land prices were not available where they were available, land valuation was based on the average of sales statistics of similar land in the village over a period of a certain number of years preceding the year in which the application was made.

However, both these methods suffer from a certain limitation. There is nothing to guarantee the adequacy of the loan. The inadequacy of the loan could result from an incorrect valuation of land.<sup>24</sup>

Overdues of the land development banks were not high (tables 12 & 13) but certainly have shown a steady rise over the years. Overdues prove to a retrogressive development in so far as they render certain sections of the borrowers either eligible for restricted borrowing or ineligible to undertake any fresh lending programmes. The causes for overdues in the sphere of long-term financing may be bad programming of investments, faulty loan appraisals, slackness in post-disbursement follow-up and supervision, lack of sufficient internal control over accounts, inadequacy of staff for recovery work and above all, wilful default on the part of the borrowers. Added to these, are the factors like natural calamities, lack of cooperation and assistance from the state government in creating a proper recovery climate, and political tendencies to render the recovery machinery ineffective at the time of elections. The CRAFTCARD in its report has observed that "in the matter of realising overdues, LOBs are considerably handicapped for want of bidders in auction of lands mortgaged to them by borrowers. The Committee is of the view that an effective way of assisting LOBs to get over this difficulty is for the state governments themselves to purchase the mortgaged lands in settlement of LOBs' claim and arrange to dispose them either by outright sale or on long-term lease to



identified groups consisting of small and marginal farmers and agricultural labourers in the area. This method, the Committee feels, will not only help thwart the attempts of habitual and wilful defaulters to gang up but will also enable the vulnerable groups to improve the size of their holdings and their viability.<sup>25</sup>

Thus we find that in the progress of the credit co-operatives a large section of the rural population has been left out. There appear to be certain structural drawbacks which have resulted in this state of affairs. A large number of these societies are dormant ones. Besides, here we may add that most of the existing PACS continued to function without a full-time paid Manager/Secretary.

Hence, we may agree with Prof. M.L. Dantwala that the reorganisation scheme of the co-operatives has been "no more than a scheme of reduction in the number of PACS" because there has been no discernible improvement in the quality of their functioning.<sup>26</sup> This goes to reflect a lack of political will on the part of the state leadership to push through the reorganisation measures. This can be easily seen when we compare the position of Orissa with that of Haryana, Uttar Pradesh and Kerala. In these states, the reorganisation of cooperatives has also been followed by efforts to build up the resources. Hence,

these cooperatives in these states have shown real improvement in their performance.<sup>27</sup>

However, what may be pointed out here is that in the process of reorganising the societies, absolute emphasis has been laid on viability. The concept of viability has been framed in terms of credit business and one whole-time paid Secretary only. No emphasis was laid on transforming these societies into a single contact point in the village for all types of credit and not merely for agriculture in the narrow sense. In other words, no serious thought seems to have been given to the societies' capacity to serve other rural producers such as artisans, craftsmen and the landless agricultural labourers in respect of their economic activities.

The underlying objective of the programme of reorganisation is to ensure that reorganised societies are developed into viable ones so as to make them effective institutions in development by advancing credit and undertaking such other activity (such as marketing) for the rural population, paying greater attention to the needs of the poorer sections. This need to reorient the functioning of PACS to meet in full measure, the requirements of weaker sections of the rural population and build in them a managerial system which would be responsive to this

commitment has not been appreciated. Further, it has also to be realised that the PACS, as they are at present, are neither competent enough to handle multi-purpose credit nor in a position to diversify their activity. The necessary steps, essential for strengthening and activating them so that they could rapidly build up their organisational effectiveness and capacity, has not been taken along with the reorganisation programme. The organisational effectiveness and capacity is largely dependent on the financial soundness and managerial efficiency. But both these factors were lacking as we found in our analysis in the previous chapter. The composition of the working capital remained vulnerable, and the societies were largely dependent on external financial assistance. The build-up of internal resources particularly deposits, therefore, becomes very important.



## REFERENCES:

1. A money-lender was considered to be agriculturist or professional depended on whether he was assumed to have earned a substantial portion of his income from agriculture or money-lending.
2. Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) Report; Reserve Bank of India, Bombay, 1981, p.122.
3. See Review of the Co-operative Movement in India 1958-60, Reserve Bank of India, Bombay, 1962, p.3.
4. See Review of Cooperative Movement in India, 1950-52, Reserve Bank of India, Bombay, Bombay, p.8.
5. The object of forming large-sized societies was to secure a larger volume of business, resulting in a better resource position and so make possible better premises, better staffing and more efficient administration.
6. See Review of Co-operative Movement in India, 1970-72, Reserve Bank of India, Bombay, 1974, p.87.
7. See AIRCRC Report, R.B.I., p.174.
8. This is generally taken to be 50 per cent of the demand.
9. Report of the CRAFICARD, p.55.
10. Statistical Statements Relating to the Cooperative Movement in India, publishes by the Reserve Bank of India annually. See statistics on borrowings from PACS, according to purpose.
11. This then would be an important factor explaining the low borrowing membership.
12. These were the districts of Cuttack, Puri and Ganjam.
13. In the early sixties, it was the inadequate coverage of villages and rural population, pressure of a large number of dormant societies etc., and the absence of concerted action for the implementation of the programme of revitalisation of the PACS.

14. Review of Cooperative Movement, 1964-66, p.35;  
Review of Cooperative Movement, 1966-68, p.61;  
Review of Cooperative Movement, 1972-74, p.80;  
Review of Cooperative Movement, 1974-76, p.84.
15. Review of Cooperative Movement, 1972-74, RBI, Bombay, p.85.
16. Review of Cooperative Movement, 1976-78, RBI, Bombay, 1981, p.75.
17. The Seminar had laid down that such of the Central Banks whose bad and doubtful debts, accumulated losses and other overdues over 3 years exceeded 50% of their owned funds should be considered weak and taken up for rehabilitation.
18. Review of Cooperative Movement, 1960-62, p.44.
19. Review of Cooperative Movement, 1972-74, p.85;  
Review of Cooperative Movement, 1974-76, p.85;  
Review of Cooperative Movement, 1976-78, p.73.
20. From: Statistical Statements Relating to the Co-operative Movement in India, 1960-61 (Pt I); 1965-66 (Pt I); 1970-71 (Pt I); 1975-76 (Pt I); 1979-80 (Pt I).
21. Land Development Banks were earlier known as Land Mortgage Banks.
22. Dry lands were gradually allowed to be accepted as security, but the major portion of the land mortgaged was irrigated.
23. The R.S.I. agreed to subscribe 75% of the amount of such development debentures and the balance of 25% was to be contributed by the public or the State government.
24. For instance, certain studies conducted by the Maharashtra State Cooperative Land Development Bank in analysing the reasons for overdues in the cases of chronic defaulters have revealed that in quite a few cases the overdues have arisen because of the fact that the loan that could be offered by land development bank was not adequate to cover the expenses of the land improvement. This led the borrower-cultivator to borrow money from alternative

contd...

fn.24..contd...

sources at exorbitant rates of interest. In other words, inadequate loans were given to the borrowers, which compelled them to borrow from other sources or which left them in the lurch, with half-complete investments not giving sufficient returns. See G.P. Bhava, "Long Term Finance and Agricultural Development", in Cooperative Dynamics of Change, (ed.) Chinchankar & Namjoshi, Somaiga Publications Pvt. Ltd., Bombay, p.212.

25. Report of the CRAPICARD, p.323.
26. See Report of the CRAPICARD, 1981, p.122. The effort has been mainly in weeding out many dormant societies, as is evidenced by their declining number.
27. Ibid., p.123.

## CHAPTER IV CRISIS IN THE CO-OPERATIVES

So far we have concentrated on the manner in which co-operatives function and their weaknesses. We now turn to a consideration of social and political factors which affect their working. A careful and dispassionate analysis of social and political factors underlying agrarian issues has been generally thwarted by the fascination with the technocratic approach. For a poor agrarian economy as that of Orissa, the pattern of landholding is a major correlate of rural political power, social hierarchy and economic relationships. Possession of land confers on the owner the mutually reinforcing attributes of political privilege and social prestige. Land tenure relations get reflected in the internal productive and social organisation of farms (i.e. the manner in which land and labour are combined for production purposes), and in the relations of farmers with other individuals, groups and institutions. Our analysis would be largely confined to the credit relations, in so far as the co-operative institutions are concerned.

Land has continued to be the most important factor in determining the flow of co-operative credit to the

farming community. This is revealed in Table-16. Beginning with 1950-51, when 70 per cent of the loans were advanced against immovable property, the amount declined to about 22 per cent by 1970-71. In this category of immovable property, for the rural population land happens to be the primary one. This number declined to 5.6 per cent in 1975-76, and further to 4.5 per cent in 1979-80. Alongside this decline, there has been an increase in the amount advanced against surety. This category of security refers to those persons, who were owners of land or other assets, and stood as security for other persons. Here again, the landownership factor was very important. The amount advanced under this category increased over the years; beginning with 0.42 per cent in 1950-51, the amount increased to 76.5 per cent in 1970-71, and further to almost 95 per cent in 1979-80. Loans against other categories remained very insignificant all throughout the period. Hence, during this period, it may be said that landownership has had a very prominent role. Further, a large section of the rural population who are landless labourers or tenant cultivators have been effectively left out, as seen in Table-9 and Table-17 (later). Similar is the case for the small and marginal farmers.

The extent of ownership of land is an important indicator of one's socio-economic status, particularly

**TABLE-16: PRIMARY AGRICULTURAL CREDIT SOCIETIES - Classification of Loans outstanding at the end of the year - By Security (Amount in lakhs of rupees)**

YEAR	TOTAL	Fixed Deposits	Government Securities	Anticipated Crops	Merchandise	Agricultural produce	Gold and Silver	Immovable Property	Surety	Uncured	Others
1	2	3	4	5	6	7	8	9	10	11	12
1960-61	411.10	0.79	-	..	0.28	0.06	-	288.14	1.74	120.09	-
(Percent)	100.00	0.19	-	-	0.07	0.01	-	70.09	0.42	29.21	-
1965-66	1019.19	-	-	-	-	2.33	-	464.91	537.40	-	14.55
(Percent)	100.00	-	-	-	-	0.22	-	45.62	52.73	-	1.43
1970-71	2107.04	0.32	-	2.65	-	5.49	-	467.39	1611.83	-	19.36
(Percent)	100.00	0.01	-	0.23	-	0.26	-	22.18	76.50	-	0.92
1975-76	3871.81	-	-	-	-	-	-	216.31	3654.95	0.55	-
(Percent)	100.00	-	-	-	-	-	-	5.59	94.43	0.01	-
1979-80	9112.45	-	-	0.79	-	13.48	-	413.66	8644.93	39.25	0.34
(Percent)	100.00	-	-	-	-	0.15	-	4.54	94.87	0.43	-

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- Nil or Negligible  
.. Not Available

Sources: Statistical Statements Relating to the Cooperative Movement in India: (i) 1960-61 (Pt I);  
(ii) 1965-66 (Pt I);  
(iii) 1970-71 (Pt I);  
(iv) 1975-76 (Pt I);  
(v) 1979-80 (Pt I).

**TABLE-17: PRIMARY AGRICULTURAL CREDIT SOCIETIES - Loans Advanced According to size of Holdings: For the year 1979-80**  
(Amount in lakhs of rupees)

SIZE OF HOLDING	No. of Borrowers (in thousands)	Per Cent	Amount Advanced	Per Cent
Upto 1 hectare	280	33.9	1512.17	24.1
1 - 2 hectares	221	26.8	1493.09	23.8
2 - 4 hectares	174	21.1	1515.06	24.2
4 - 8 hectares	119	14.4	894.09	14.2
Above 8 hectares	31	3.8	845.65	13.5
Tenant Cultivators	1	-	0.47	0.2
Agricultural Labourers	-	-	2.47	
Others	-	-	6.90	
<b>TOTAL</b>	<b>826</b>	<b>100.0</b>	<b>6269.90</b>	<b>100.0</b>

- Less than 500 members

Source: Statistical Statements Relating to the Cooperative Movement in India, 1979-80 (Part I: Credit Societies). NABARD, Bombay.

in an economy where land is much valued by the people. There happens to be a positive correlation between the extent of landownership and adoption of modern practices by the farmers due to certain reasons. Adoption of modern practices, at times requires substantial capital outlay which is beyond the investment and credit resources of the smaller cultivators. Besides, ownership of large farms can also indirectly influence the extent of adoption by way of making possible a high degree of educational status and access to other resources.

Even as late as 1979-80, credit extended by the co-operatives is found to increase significantly with increase in area owned. Wherever concentration of assets is higher, concentration of co-operative credit is also higher. This is revealed in Table-17 for the Primary Agricultural Credit Societies (PACS). Although the table shows that the absolute amounts are more for the lower categories, this is largely due to their numerical strength. However, when we look at the proportions this gives us a skewed distribution. In other words, those owning up to one hectare of land constituted 34 per cent of the total number of borrowers for that year, but borrowed only 24 per cent of the amount advanced by the PACS. On the other



hand those owning above 4 hectares, constituted 18 per cent of the borrowers, but obtained nearly 28 per cent of the credit from the PACS. The position of the agricultural labourers, tenants and others (including rural artisans) is quite miserable. Though numerically they are quite large, they could have only 0.2 per cent of the credit. This is then the position prevailing at the end of 1979-80. As far back as in 1969, the All-India Rural Credit Review Committee had revealed on the basis of the All-India Rural Debt and Investment Survey (1961-62) a similar picture of a positive correlation of concentration of credit and concentration of assets.<sup>1</sup>

Thus, the co-operatives are linked up in a very fundamental way to relations on land. And because political power relations get linked up with land relations, the process of change in the co-operative field inherently becomes a political process.

At the beginning of the period of planned development, the caste system largely remained the existing social system in rural Orissa. The caste system determined the social status of a group, and the members composing it as well as its relations to other groups, and finally, the political power of the group and its members. In part as a result of the changes that occurred in the process

of development, the foundations of the caste system were gradually eroded and replaced by elements of a class system. These elements have gone on to influence the structure of power in the agrarian society. It is the wealthier members, i.e. members from the economically dominant groups who exercise the greatest power. They are the ones who have more time to exercise leadership and the resources to perform the small favours and strengthen the obligations necessary to achieve and maintain village support. Hence for the continued dominance of these groups, certain conditions were necessary. Land had to be the main source of economic power, so that landholding insured the economic dominance for the landholding groups.

In a democratic set-up, with universal suffrage, it would imply that the higher caste groups and other higher groups in the social hierarchy would tend to lose political power or have to share it with other groups. Since they are rarely dominant in terms of number they would stand to gain relatively less from these institutions set up by the state. With the gradual breaking up of the old social order, these dominant sections seemed to be losing the traditional base of political power and social status which they have historically enjoyed. They have sought

labourer, just as a landlord may also be a money-lender and a trader. In a strict sense, these sub-groups are neither stable nor clearly distinguishable. However, what makes it worthwhile to distinguish between the two basic groups (while ignoring their sub-groups) is the fact that an essential motivation can be defined quite unambiguously for each. From empirical observation, the first group i.e. the group which works the land, is virtually identical with the rural poor. Survival is the main concern for this group, and their 'survival strategies' are dependent on employability and exchangeability of their labour. They receive incomes from a combination of sources, such as self-cultivation of own land, share-cropping and wage labour. On the hand, those belonging to the second group, try to maximise their share of the produce of the land, which they receive in the form of profit, rent, trading margin and usurious interest. Here it has to be remembered that these categories of income can often be clearly differentiated. For example, the payment received by a landlord from his share-cropper often includes an element of profit, and rent. Furthermore, a single individual may at the same time be landlord, trader and usurer.

to make up through economic strength which not only helps them in gaining control over these institutions, such as the co-operatives.

At this point it would be appropriate to take a little digression to consider certain theoretical aspects of the relationships that prevails between the big landowning classes and the rural poor. So we go back to our agrarian structure that prevails in the state. Generally speaking, in the agrarian economy of Orissa, there are clearly two distinguishable agricultural classes. One of them comprises of those who work on the land, and the other comprises of those who basically do not work on land, but receive a share in its produce. The first category includes peasants, share-croppers, bonded labourers, and various types of hired landless labourers. On the other hand, the second category includes landlords, (those who lease out land, or work on the basis of hired labour), traders, and usurers. The dynamism of the agrarian system, hence, must be sought in the sphere of the relationships between these two basic groups.

It should be noted that neither group, as defined here, is internally homogenous. Nevertheless, there are good reasons for defining the groups in this manner. A marginal farmer may also be a share-cropper and a hired

Hence, we may say that the production relations that prevail follow from the simultaneous operation of two sets of mutually contradictory strategies - 'survival strategy' on the part of the impoverished peasants and landless labourers, and a 'surplus appropriation strategy' on the part of the landlords, traders, money-lenders (which involves a minimal direct intervention in production). The operation of these strategies have their effects on the field of credit, including the cooperatives. This can be understood from the two general features which result from the operation of these strategies. They are personalised economic relations and a very low remuneration for labour. For individual members of the labouring class, the very employability and exchangeability of labour depends typically on the nature of their personal relationships with the land-owning-trading-money-lending classes. For instance, a marginal farmer who may not be credit-worthy in the usual commercial sense, but needs to borrow for his working capital so as to be able to employ his own labour on his own hand. He would be able to obtain credit only on the basis of his personal relationship with particular money-lenders. A landless person seeking to lease in land, or to offer his labour would be competing with a large number who are like him. Thus,

he can obtain access to land and work only on the basis of his personal relationship (goodwill) with particular landowners or employers. So we may say that, it is a situation where access to credit, land and work is more important than the terms and conditions of this access.

It must be emphasized that the personalised economic relations come from economic rather than socio-political compulsions. The basic source of economic compulsions are the two interrelated phenomenon: the poverty of the labouring groups and a relative surplus of labour i.e. the landless labour primarily. Hence the continued existence of a surplus of this landless class in each village has resulted in perpetuating the personalised form of relations. All institutional and agrarian reforms, therefore, have to consider both the supply side and the demand side as well. For instance, mere land reforms without simultaneously following them up with an effective organisational set-up for advancing credit and distributing supplies and arranging for marketing would only result in disturbing the existing relationship without substituting a new arrangement in their place. Similarly a mere expansion of cooperatives and state for agriculture without the necessary break-up or preventive measures against unfair

practices in regard to rents, wages, interests and trade commissions, and also providing for legal protection of the vulnerable sections,<sup>2</sup> would remain by and large un-effective. Membership of the cooperatives would have no meaning for the landless and other labouring class so long as they have no common needs and have no individuality of their own. Most of them have remained tied down to particular landlords and money-lenders.

In order to understand the relationship between political and economic change, in so far as it affects the field of cooperatives, we have to realise the fact that although such a region may be backward in an economic sense, it does have a well-established structure of social and political power. What economic development does, is that it almost inevitably upsets this existing structure. This change may not occur initially or deliberately, but it certainly will - as new groups start to gain economically, or as there are shifts in relative economic position. Those groups that gain also try to increase their political power, their status position or both; and those groups that lose, either in an absolute or a relative sense, seek to protect their former position or minimise the shifts.

When the office-holders in the village co-operatives stem from the land-owning, influential upper class of

farmers; it leads to the negation of the concept of co-operation. This upper class of farmers who control the institutional credit apparatus of the village also control the key positions of the village panchayats, labour-market and loan market. By taking over the control of the village co-operatives, the traditionally conditioned inequitable power structure in the village gets further strengthened and even institutionalised. The fact that a small land-owning rural upper class controls the key positions of the village panchayat, money-market and village co-operatives quickly leads to the inference that a personal union exists between the office-holders in the village co-operatives and the money-lenders/landlords. Thus, the grotesque situation arises that one and the same group of people guard over interests which pursue opposite objectives, since the co-operatives were primarily organised in order to curb the power of the money-lender. It is a paradoxical situation in which these people administer the institution which was created to eliminate them. The enormous economic power which gets concentrated in the process in the hands of the landlords and the rich peasants makes them politically powerful and allows them to dominate over the social and economic activities of the area. They also claim the bulk of the benefits that flows in the area in the name of the developmental



activities of the government. It is no wonder that these landlords and rich peasant classes shun rapid development in their area because it is likely to improve the economic condition of the poor peasants who can thereby free themselves from the bondage.

So, on the one hand, if the government officials have been tardy and hesitant in implementation, the political leadership, on the other hand, has also been willing to collude with the rural rich. And the reason is to be found in the interdependence of interest among all these groups. In such a milieu, to blame "lack of political will" among the relevant quarters is not sufficient. Rather it looks plausible that only by the mobilisation of these people, that is, the rural poor, and official support to their legitimate demands, can co-operatives become effective.

However, there are certain difficulties which confront the rural poor. These difficulties in part emanate from their extremely low social and economic status, and partly from the structural peculiarities such as local level power relationship. Firstly, in terms of primary interest structure and communication style they are nearer the village level functionaries, and are far away from higher administrative limbs. It is therefore almost impossible for them to develop appropriate links with the top and middle-level officers. At the same time, these officials

have a key role in influencing or deciding on the resource allocations. Secondly, a major difficulty results mainly because of their illiteracy and extremely low informational access, has been their inability to understand the operational dynamics of the existing rural institutions. The high incidence of illiteracy prevents them from making use of written communication channels.

Hence, when one considers these difficulties of the small farmers in the wider context of rural power structure, one can clearly see their pitiable existence. This large mass of rural poor are surrounded by a small affluent and modernised elite whose income and education have enabled them to forge links with the top and middle level administrators. Besides, with mass politics, and the consequent forging of links between local, regional and national levels has given the rural elites a new role as vote mobilizers. They mobilise electoral support on the basis of the patronage demands which are fulfilled through successful manipulation of the rural development institutions.

#### CONCLUSION:

Thus, in so far as co-operative credit is concerned, whether it is an instrument for reducing the disparities in income and wealth in the rural economy actually depends on the awareness and beginning position of the small and

marginal farmers, the landless agricultural labourers and artisans. These sections constitute the rural poor, i.e., the economically weaker sections. Poor economic position means that they cannot support and sustain any political base or pressure group. Hence, their interests do not seem to offer an attractive source of power for political parties, for whom the returns from alternative sources continue to be higher. The bargaining position of the small farmers in the credit field can be improved by raising their economic strength. Their economic strength then can get reflected in their credit-worthiness. And credit-worthiness has remained the vital link in the flow of co-operative credit. This goes to mean that they require a credit policy which should be such as to generate more assets which are of the self-liquidating type, so that they improve the bargaining position of the small farmer.

As a final comment, we may say that the co-operatives along with other institutional agencies, have to meet the credit needs of various target groups in rural areas. This would, on their part, call for a large-scale coverage of families belonging to the poorer sections. However, this raises a host of basic issues which have been very aptly stated by the Dantwala Committee on Regional Rural Banks (1977):

"This phenomenon needs a deeper analysis than it has received so far, especially in the context of our endeavour to ensure universal membership. Who are these non-borrowing members? Do they belong to a class of farmers (and others) who have no need to borrow because they have enough resources of their own? Or are they ineligible for borrowing because they are not "credit-worthy"? Or worse still, are they eligible but are unable to borrow because the management of the societies is averse to accommodating them? Do the societies suffer from paucity of funds, as a result of which they can accommodate only 40 per cent of its members? Whether the structural and operational innovations we have introduced and propose to introduce are meaningful or not for solving the problems of rural credit, will depend on precise answers to these questions".<sup>3</sup>

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1. See Report of the All-India Rural Credit Review Committee, 1969, Reserve Bank of India, Bombay, p.130.
2. These vulnerable sections are those who have un-economic holdings or those who are on the margin. These holdings become uneconomic over time due to sub-division or sale to non-agriculturists for redeeming debts.
3. Quoted from Report of CRAPICARD, p.79.

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