

CHAPTER - IVCooperative Policy with special reference to creditRetrospect

Our preview of the agrarian background of the district, followed by a general survey of the cooperative movement in the country and the state, set the stage for a closer view of the cooperative credit structure that has evolved over the last few decades. Our present cooperative credit structure is a result of a series of changes and reforms introduced in pursuance of the recommendations of a host of committees and commissions in the past. The purpose of this chapter is to study the trends of cooperative credit policy that have emerged in the wake of these changes from time to time.

From the seventies of the last century, the problem that dominated governmental thinking on the condition of the agriculturist was the provision of institutional credit at reasonable rates. The series of measures adopted to give relief to the farmer proved wholly ineffective. It was hoped that the organisation of cooperative credit on the Raiffeisen model of Germany and other European countries, would help to fight the perpetual indebtedness of the Indian farmer. Accordingly, the first Cooperative Credit Societies Act of 1904 was passed. It provided a framework for the setting up of cooperative credit institutions. Credit being the most urgent necessity of the

cultivator, it was believed that its provision would spark a number of allied activities in agriculture. It is no wonder therefore that credit cooperatives predominated over all other forms. It was only after 1912 that non-credit institutions came to be organised but even then its pace until 1939 remained halting and hesitant.

For the purposes of our study we would divide the period from 1904 to the present day into two broad stages. Our first period of reference would cover the years 1904 to nearly 1954, when the All India Rural Credit Survey having deliberated at length decided on a concrete cooperative credit policy. It is true that from 1945 onwards the reorientation of the cooperative credit structure and policy were on the anvil through the numerous high-level committees and study groups. But a clear, concrete and purposive cooperative policy came to be shaped only after the publication of the Rural Credit Survey Report. Our second period of reference would be from 1954 to the present day over which the policy, after being initially framed, also underwent a number of changes for sound as well as ideological considerations.

#### Perspective

The main plank of the government policy was to organise agricultural credit societies at the village level. A variety of nomenclature, like 'agriculture credit', 'agricultural

thrift and credit', 'multi-purpose' societies was given. All these organisations were principally credit societies, and the variations in nomenclature endowed them with additional functions. The pattern of organisation was a society of the voluntary type, based on the unlimited liability of the Raiffeisen model. The area of operation was generally restricted to a village. Credit again was to be supplied on the security of tangible assets. The main objective was to help ameliorate the conditions of the weaker sections of the rural community by associating them with the more substantial ones, with a view to improving their living and working conditions. Further, the entire organisation of the movement was thought of to be manned by philanthropic, dedicated, honorary workers who provided the requisite leadership. The whole period from 1904-54, was a period when cooperation proceeded on an unchartered sea as it were. No well-thought out policy guided the course of the movement. The measures that were adopted from time to time were ad hoc and taken to suit the need of the time. Nothing like a properly conceived policy emerged from the series of steps that were taken from time to time. Even the expert committees and commissions such as the Royal Commission on Agriculture,<sup>1</sup> and the Indian Central Banking Enquiry Committee<sup>2</sup>, while recognising the role of

---

1 "Report of the Royal Commission on Agriculture in India," 1928 p.450

2 "Report of the Indian Central Banking Enquiry Committee," 1931 pp.138-39

cooperation did not ~~not~~ provide a comprehensive policy. It would thus be seen that there was conspicuous absence of possible guidelines to assist future progress. It is also noteworthy that while continuing to harp on credit cooperatives, the relationship between agricultural production and credit and even of the marketing of produce was ignored, with the consequence that the problem of repayment of loans loomed large over the movement. The inevitable consequence of all this was the increasing proportion of overdues and moribund institutions leading to a further failure of the cooperatives.

All the efforts directed till then had fostered the impression that the root cause of the cultivator's malaise lay in his indebtedness. At the same time, however, it was also felt that the solution to the problems of the agriculturists did not lie merely in providing credit. Indebtedness was thought to be only a symptom. It was emphasised that instead of fighting the symptoms, it would be better to eliminate the cause of indebtedness itself.<sup>3</sup>

It was also realised that cooperatives to be effective for socio-economic betterment should cover the entire life of the rural community. The Reserve Bank of India recommended

---

3 Reserve Bank of India, "Report of the Banking Union at Kodinar, Baroda state, with suggestions about its applicability" Bombay, 1937, p.14

the enlargement of the scope and activities of village primaries as multipurpose societies which would cover the entire life of the cultivator.<sup>4</sup>

Some thought that the term 'multipurpose' was misleading. The name for such a group of activities should, rather be 'integrated cooperation.'<sup>5</sup> As a result of all this thinking process some of the fundamental problems, such as the size of the society, coverage, nature of functions, resources, etc. came under searching enquiry.<sup>6</sup>

Trends of thought:

The question of indebtedness of agriculturists once again came up for consideration before the All India Committee in 1944 which was asked to report on the ways in which indebtedness could be reduced and finance provided under efficient control for agricultural development. It observed that the spread of cooperation would provide an appropriate and lasting solution to the problems of rural economy in general and of agricultural credit in particular. It, however, stated that the present position of the movement was not such as to inspire

---

4 Reserve Bank of India, "Bulletin on cooperative village banks." p.41

5 Fay, C.R. "Cooperation at Home and Abroad." Vol.-II, p.390

6 Government of Madras, "Report of the Committee on Cooperation in Madras," 1940.

Government of Bombay, "The Joint-Reorganisation Report on Cooperative Movement in Bombay," 1937.

much confidence in its activity to play a substantial role in financing agriculture, much less in becoming the sole supplier of such finance in the immediate future.

According to the committee it was not possible to depend solely on voluntary cooperation for achieving definite results within a specified time which planning involved. It recommended that more state aid to cooperatives in those areas where they were well developed.<sup>7</sup> Where, however, cooperative credit structure was weak it is recommended the creation of a state-aided and state-controlled Agricultural Credit Corporation to finance all creditworthy cultivators. An important recommendation of the committee pertained to the type of security in providing credit. This recommendation had a far-reaching significance in the subsequent policy formulation of cooperative credit. According to it, the security for loans should be personal. In the orthodox philosophy of cooperation also personal security was recognised as a significant item, but in its actual implementation in India, the model had been altered. The creditworthiness of a borrower came to be assessed on his repaying capacity. The committee suggested that the cooperative society should have a charge on the crpp as an additional security for seasonal finance.

---

7 "Report of the Agricultural Finance Sub-Committee", Government of India, 1945, p.47

More or less at the same time, the Cooperative Planning Committee, popularly known as 'Saraiya committee' was appointed to draw up a plan of cooperative development. This committee, advocated a diversified pattern of the primary cooperative and stated that the supply of credit formed only a part of the life of the cultivator and that the activities of the cooperatives should be so expanded as to cover the whole life of the cultivator. Its other recommendation was that the primary credit society should be so reformed and reorganised as to serve as a centre for the general economic betterment of its members.<sup>8</sup> The committee further suggested an attempt should be made to bring 50 per cent of the villages and 30 per cent of the rural population within the ambit of the reorganised primaries within a period of ten years.<sup>9</sup>

The Fifteenth Conference of the Registrars of Cooperative Societies that met in 1947, approved most of the recommendations of the Saraiya Committee. It also accepted as a policy that provincial cooperative banks should be reorganised to give greater assistance to the primaries through the central financing agencies. For the first time the need for an effective link between credit and marketing was also stressed. In the meantime, the recommendations of Gadgil Committee were discussed a great deal. They were not acceptable to the

---

8 "Report of the Cooperative Planning Committee,"  
Government of India, 1945, p.19

9 Ibid, p.20

cooperators in particular all over the country. In view of the importance of the problem, the provincial governments gave further thought to it. These recommendations were discussed all over the country, but the lead was taken by the Bombay state. It enquired of the Bombay Cooperative Banks' Association of the feasibility of central financing agencies participating in the arrangements for the reorganisation of the system. The Association opined that it was not necessary to organise in the state a separate corporation on the lines recommended by the Gadgil committee if the same facilities were given to cooperatives as were proposed for the corporation.

As recommended by the Association the Government appointed Credit Organisation Committee with Sir M.B. Nanavati as its Chairman to examine how far the cooperatives in the province could finance all creditworthy agriculturists. The committee came to the same conclusion as the Association with regard to the setting up of an Agricultural Credit Corporation. It suggested that if the cooperative movement was suitably reorganised, it would provide finance to a large number of creditworthy agriculturists at reasonable rates of interest.<sup>10</sup> It also recommended a "scheme of Integrated Agricultural Credit."<sup>11</sup>

---

10 Report of the Credit Organisation Committee, 1947, Government of Bombay, p.45

11 Government of Bombay, GRRD No.2146 of 1945 dated 12th March, 1948

It was in fact this scheme which in a sense laid the foundation of what came to be subsequently recommended as the 'crop loan system' in the Rural Credit Survey committee in 1954. In this sense Nanavati committee would be said to have done some important pioneering thinking in the evolution of cooperative policy. According to the integrated agriculture credit scheme the creditworthiness for cooperative finance should be determined by and linked with production requirements instead of landed assets of the borrower. Another notable recommendation of the committee pertained to state partnership in cooperative credit institutions at upper tiers. The crop loan system that was gradually implemented from 1948 was more elastic and more liberal because its basis of determination was crop production related again to acreage of each crop. The new policy produced encouraging results. It was probably the successful working of this scheme which prompted the Rural Credit Survey Committee later to recommend it for adoption for the whole country.

Earlier, the term "crop loan" had been used in the former Bombay state in connection with loans for "financing of crops" to the agricultural debtors under the Bombay Agricultural Debtors' Relief Act (B.A.D.R. Act) of 1939. These loans were repayable when the crops for which loans were made were harvested. When the Act was amended in 1947 the words "financing of crops" were replaced by "seasonal finance".

While explaining the system of crop loan Prof. D.R. Gadgil observed, "it would be quite clear that what is being attempted in this state is not merely an extension of cooperative credit. It is a cooperative credit organisation being deliberately adopted towards certain ends of the policy which has been accepted by the State Government." It was rightly recognised that every cultivator irrespective of the unit of cultivation and the status, should be supplied adequate means of production including credit. Under the system introduced in Bombay after 1948, finance came to be given for a definite purpose. This was a policy shift from "asset-nexus" to "production nexus", and is a landmark in cooperative credit policy.

It would thus appear that right from the initiation of cooperation in 1904 to 1954, the movement marched by trial and error. The main effort was to free agriculturists from the grip of moneylenders and also to enable them to obtain finance at a relatively cheap rate of interest. The system of credit till then was characterised by insistence on the form of security under which finance was provided to the land owners. Cooperative credit institutions provided finance to all credit-worthy cultivators which did not leave much scope for equitable disbursement of credit to really needy cultivators. The term "creditworthy" not having been defined by any of the committees, each supply institution followed the line of least resistance

under which its recovery was not hampered. The overall result was that despite all government efforts to ameliorate the conditions of the really deserving sections of the rural community, they remained outside the ambit of the movement.

Granting that the importance of tangible security such as land in the context of our economy cannot be entirely ruled out this could be only an additional security. The fundamental basis of security, should be the character of the borrower.

With the coming of Independence, the expectation about the functions of the state underwent a change. The approach to and concept of cooperative organisation also received modification. A cooperative institution had always been regarded as a voluntary association and the government merely registered it. In the new set-up, the orthodox attitude of state-neutrality gave place to state initiative and state participation. This new approach contributed substantially to the formulation of the revised credit policy in the era of planning.

#### Planning and policy changes:

The First Five Year Plan showed preference for cooperatives and set targets for development of cooperatives of various types. Cooperation came to be recognised as an

instrument of planning under democracy. The plan document laid down that "as an instrument of democratic planning, combining initiative, mutual benefit and social purpose, cooperation must be an essential feature of the programme for the implementation of the Five Year Plan!"<sup>12</sup> The need arose for formulating a longterm policy for cooperative development as an agency of agricultural change.

In view of this, the Reserve Bank of India, in 1951 constituted a Committee of Direction to conduct a comprehensive All India Rural Credit Survey. It published its report in 1954. This is a landmark in the development of cooperation and evolution of cooperative credit policy. It outlined a new lending policy, known as the "crop loan system." This marked a complete reorganisation of the movement. The main features of the reorganisation pertained to organising viable cooperative units, strengthening the financial resources through state-partnership, etc. The report also noted that the cooperatives provided only 3.1 per cent of agricultural finance, and had been concentrated in only a few states. A large proportion of agricultural population remained outside the purview of cooperatives, and met only a part of the credit requirements of their members.<sup>13</sup> Though the cooperative organisation had failed to achieve the desired results it was

---

12 First Five Year Plan, 1951, p.164

13 Reserve Bank of India, "Report of All-India Rural Credit Survey," 1954, p.254

regarded as the "least unsatisfactory" channel for rural credit. Its analysis led the committee to recommend an integrated scheme of Rural Credit based on the following three fundamental principles.<sup>14</sup>

- (i) State participation including financial partnership at various levels;
- (ii) coordination of credit with marketing and processing activities; and
- (iii) administration through adequately trained personnel responsive to the needs of the rural population.

The scheme as envisaged was bold and unconventional. The following paragraphs attempt to examine the evolution of cooperative policy since the implementation of Integrated Scheme in its various facets.

State partnership:

The central feature of the Integrated Scheme is state partnership in cooperative credit as well as in cooperative marketing and processing. The committee analysed the causes of the failure of cooperative credit structure and concluded

---

14 Reserve Bank of India, "Report of the All-India Rural Credit Survey," 1954, Vol-II, p.268

that conditions must be created for cooperation to function properly. These new conditions called for state assistance, guidance and participation. According to the Committee the choice before cooperation was indefinitely to continue to be unable to help itself or to be helped in order that eventually it may not only help itself but need no other outside help.<sup>15</sup> For the cooperative credit institutions, the programme suggested was to subscribe to the share capital of their respective state cooperative banks directly and to the share capital of central cooperative banks and primaries both directly, and indirectly. It was hoped that such financial participation would provide additional strength to cooperatives. But the Committee was unequivocal in its opinion that the essential basis of such a partnership was assistance and not interference or control.<sup>16</sup> The principle of state partnership in the cooperatives was generally accepted by the Second Indian Cooperative Congress (March, 1955) <sup>and</sup> State Ministers for Cooperation in April, 1955, <sup>This</sup> was accepted as the basis for future development and incorporated in the Second Five Year Plan. The methods and manner of state-participation in the cooperative credit institutions were examined by the Fifth meeting of the Standing Advisory Committee on Agricultural Credit. It was agreed that the normal pattern of state

---

15 Ibid, pp.376-77

16 Second Five Year Plan, Planning Commission, Government of India, p.225

partnership should be such as to bring about a fully integrated structure of cooperative credit in each state with the apex bank as the leader of the organisation. It also recognised that no uniform formula could be prescribed for all the states and direct participation by the Government at various level including the primary level was found to be necessary.<sup>17</sup> This was further diluted in the next meeting.<sup>18</sup>

Long before implementing the principle of state participation in cooperatives, both the Saraiya and Nanavati committees while opining against an idea of setting up Agricultural Credit Corporation suggested by the Gadgil Committee had advocated the same measure and type of aid to cooperatives.<sup>19</sup> Realising the need for state participation, Sir Manilal Nanavati wrote, "Many of the tasks of agrarian reconstruction in under-developed countries are in their very nature beyond the capacity of any strictly autonomous institution. But if these are not to be left to the Government and the bureaucracy with all their known defects, democratic movements like cooperation must agree to the co-partnership with the state machinery. Champions of the cooperative movement should think twice before rejecting partnership on honourable terms with government enterprises.

- 
- 17 Fifth Standing Advisory Committee on Agricultural Credit, Reserve Bank of India, p.203
- 18 Sixth Standing Advisory Committee on Agricultural Credit, Reserve Bank of India, pp.99-100
- 19 Cooperative Planning Committee, Government of India, 1945, pp.73-74  
Report of the Credit Reorganisation Committee, p.9

Such collaboration will mean a desirable fusion of collective powers of the state and their democratic application."<sup>20</sup>

Progress:

While implementing the programme of state participation as a part of wider cooperative credit policy, certain deviations took place. The Government's share predominated in certain cases. This created some misunderstanding and difference of opinion. The misunderstanding arose because the purpose for which state participation was recommended was not properly appreciated. The idea of state participation provided for strengthening the financial basis of cooperatives. This cannot be regarded as interference or officialisation or even bureaucratisation. The scheme had also envisaged for retirement of the share capital of the state. It was never a part of the Committee's intention that the government should exercise control by this method. It was a product of misunderstanding and misinterpretation.<sup>21</sup>

The Third Indian Cooperative Congress in April 1958 took up these important questions for consideration. The Prime Minister criticised at this Congress the Report of Rural Credit Survey. The discussion echoed the classical controversy over the role of the state in cooperation. At the same Congress

---

20 Sir Nanavati Manilal B., "Cooperation in Kodinar," pp.73-74 Introduction-

21 Mehta, V.L. "Khadi Gramodyog", 1958

the President of the All-India Cooperative Union felt disconcerted about the growing official influence and dominance over the cooperatives. According to him the lack of self-reliant character of Indian cooperatives was the result of the wrong policy dating back to its very inception in British days. He put up a strong plea for a complete change of approach on the part of the Government towards the movement.<sup>22</sup>

In connection with the operational side of state participation, Prof. Dantwala raised two vital issues: (i) nature and extent of state's contribution, and (2) nature and extent of state control. He rightly stressed that if the self-reliant character of the movement was to be ensured the increasing proportion of state participation had to be discriminatingly reduced.<sup>23</sup> We have to remember in this behalf that the experience of the former Bombay state belied many of the fears of state control and interference. It is true that the government would exercise some control through the Department. But it has to be realised that the concept of the state has also changed after Independence. This would also mean a change in approach to cooperative organisation. As observed by Prof. Dantwala, "There would be much to recommend in a partnership between the Government and the cooperative movement in which the former

---

22 Malviya, K.D. - All-India Cooperative Review, May 1958, pp.112-20

23 Dantwala Prof.M.L. - "State and the Cooperative Movement", Kurukshetra, December 1960, p.6

assumes the risk and the latter the responsibility of administration.<sup>24</sup>

He further mentioned, "If in the context under discussion the inadequacy of laissez-faire procedures and the dangers of totalitarianism are understood, the creation of suitable machinery for the economic advancement of under-developed countries obviously requires an official approach. In these countries Government participation in rehabilitation must be vigorous and at the same time, the administrative machinery must as far as possible be popular and not bureaucratic nor government controlled."<sup>25</sup> The Committee on Cooperative Credit (1960) endorsed state participation but recommended that the state partnership should ordinarily correspond to the efforts made by the individual members of the societies and added that "the share capital contributed by the state should not be more than the contribution made by members of societies."<sup>26</sup>

As the principle of state partnership has been accepted as a policy it would be better to see how it has worked in practice. Both autonomy in working and the cooperative element are observable where state partnership has existed whereas

---

24 Dantwala Prof. M.L. - "Agricultural Credit in India," the missing link, Pacific Affairs, December 1952

25 Ibid

26 Report of the Committee on Cooperative Credit 1960, Government of India, pp.122-25

they have been absent inspite of there being no state partnership. On the whole the non-official character of the movement in Bombay does not appear to have been disturbed and yet the officials also did not play a second feedle to them.

It would be useful to take stock of the situation by finding out how far the purpose of state participation has been actually fulfilled. The main aim of share capital contribution by the state at the primary level was to strengthen its financial base and thereby to raise its borrowing limit so that the primaries can effectively provide loans on an adequate basis. The borrowing limit of a primary credit institution is ordinarily fixed at eight times the owned funds less losses, if any. It would be illuminating to study how far the primaries have been able to avail of and utilise their enhanced borrowing limits. Under-utilization of the borrowing limit prescribed would be noticeable not only with reference to primaries from the central banks but by the members from primaries also. The central financing agencies similarly in their turn do not fully draw upon their prescribed limits. Such facilities provided by the Reserve Bank of India to the apex cooperative banks also behave likewise. One is struck by a series of such paradoxical situations at various levels whereunder there is increasing demand for more liberalised credit facilities on the one hand and at the same time under-utilisation of prescribed borrowing limits.

The impression we gather at the end of our survey of the policy of state participation is that except in a few isolated instances, the central purpose of the new policy has been defeated. State participation which should have become the means for financial stability and cooperative development has in fact become an end in itself.

Cooperative credit and viability:

According to the reorganised credit scheme, cooperative credit society at the village level was to be the ultimate dispenser of finance to the agriculturist. The policy recommended by the Rural Credit Survey Committee was bigger societies covering larger areas. It was suggested, therefore, that primary agricultural credit institutions should hereafter be established or reorganised so as to cover groups of villages with a reasonably large membership, adequate share capital and secure adequate business.<sup>27</sup> The Committee did not lay down in any precise terms the viability of the primary unit. The Second Five Year Plan defined such a large-sized society as one having a minimum membership of 500, a share capital of Rs. 15,000 and a turnover of Rs. 1.5 lakhs. But even the Plan document did not prescribe the number of villages which were necessary for setting up a large-sized society.<sup>28</sup>

---

27 Report of the All India Rural Credit Survey, Reserve Bank of India, Vol.II, p.450

28 Second Five Year Plan, Planning Commission, Government of India, pp.222 and 225-26

The orthodox view point about the size of society was expressed by the Maclagan Committee that there should be one society for one village and one village one society.<sup>29</sup> As against this, large village banks were advocated at the Fifteenth Conference of Registrars of Cooperative Societies.<sup>30</sup> At this Conference the idea of large-sized societies was also not acceptable to certain cooperators of Madras.<sup>31</sup> The Conference ultimately advocated one village one society.<sup>32</sup> The controversy which started earlier was set at rest in 1947. This was once again raised in the scheme of reorganisation of the Rural Credit Survey. During the first two years of the Second Plan, while the question of strengthening and revitalising smaller units was being discussed in greater details, it was realised that the organisation of large-sized societies had not proceeded on the right lines, at least in some states.<sup>33</sup>

---

29 Report of the Committee on cooperation in India, 1915, p.16

30 Proceedings of the Fifteenth Conference of Registrars of Cooperative Societies, 1947, p.148

31 Shri Chettiar, Ramlingam. pp. 148-49

32 Proceedings of the Fifteenth Conference of Registrars of Cooperative Societies, 1947. pp.150

33 Report of India's Food Crisis and steps to meet it (Ford Foundation Team) Government of India, pp.78-80. Dr. Desai, M.B. "Cooperation in Karjan", pp.33-34. Prof. Shah, B.G. "Cooperation in Sinor-Mahal" pp.22-25. Report of the Committee on Cooperative Credit, Government of India, 1960, pp.73-75



A few societies were formed which embraced as many as 30 villages. One society in U.P. served 30 villages within a radius of 3 miles; another in Rajasthan also had the same number but with a radius of 5 miles.<sup>34</sup> Even the policy-makers seemed divided on this question of coverage. They could not resolve the conflict between economic viability and the concept of mutual knowledge. The whole controversy was brought ahead by the late Prime Minister Jawaharlal Nehru in his inaugural address of the Third All India Cooperative Congress, when he condemned large-sized societies, and confused them with government control. As a result in September 1958 the Government of India advised a policy of caution regarding large-sized society, laying down specifically that a large-sized society should not comprise more than 4 to 5 villages, but suggested that more villages could be included in societies for backward areas. The National Development Council resolution of November 1958 ultimately sealed the fate of large-sized society by deciding against their formation.<sup>35</sup> The Committee on Cooperative Credit (1960) emphasised the need for flexibility in the approach to the pattern of organisation at the primary level.<sup>36</sup>

---

34 Sir Darling Malcolm, "Report on certain aspect of cooperative movement in India," 1957, pp.9-10

35 Annual Report of the Ministry of Community Development and Cooperation, Government of India, 1959-60, pp.6-11

36 Report of the Committee on Cooperative Credit, Government of India, 1960, pp.75-77

The National Development Council in September 1960 considered the proposals of Mehta Committee, and agreed that as a general rule cooperatives should be organised on the basis of village community as a primary unit and where the villages were small, they could be grouped in the interest of viability.<sup>37</sup>

The whole problem of the size of society came up because of the misunderstanding and lack of precise interpretation of the term "large-sized." What the Rural Credit Survey Committee had in mind was financial viability so that the primary credit institution could run efficiently. If the issue of the size of the society were examined in its proper perspective, one would certainly grant that at the primary level, the unit must be operationally efficient, if it has to translate the official policy into action meaningfully. It also needs to be pointed out that a big unit by itself does not necessarily become viable, nor for that matter does a small unit promote cooperative spirit and mutual knowledge. Economic viability and cooperative spirit are not mutually exclusive but are complementary concepts. As a matter of fact, the ideology of cooperation has to be sustained and assisted by economic criteria for its smooth and sound functioning.

Crop-loan system:

A noteworthy feature of the Integrated Scheme as we have seen, was the reorientation of cooperative loan policy from

property-nexus to production-nexus. For providing short-term credit requirements of cultivators, the "crop loan system" was recommended. It envisaged production as the keystone of the entire machinery. Loans were to be given on the anticipated crop not primarily by title.<sup>38</sup> This scheme could be effective only when there was a clear enough link between cooperative credit and marketing. Loans advanced by a primary credit institution to a cultivator for raising crops have to be recovered out of the sale proceeds of the crops. Every borrowing member is therefore expected to sell his produce through the marketing society to which the credit institution is affiliated. The essential feature of the scheme was that a genuine cultivator would be eligible for a certain amount of loan determined by production. The other main object of the new system was to rectify the inadequacy of the supply of credit to the medium and small farmers who are not regarded as "credit-worthy". This shift was in favour of more of modest farmers.

It is not intended to convey that under crop loan system security was dispensed with altogether, because after all the recovery of loan is also important. But the system envisaged that the type of security should be such as would be convenient to the borrower and that obviously could be from the sale proceeds of the crop. In connection with all types of loans

---

38 Reserve Bank of India, "Report of the All India Rural Credit Survey, Vol. II, p.433 and 452-53

including crop loan, one problem is to ration the available funds as they fall short of credit requirement. Such rationing upto now had operated against the small and medium farmers.

Even though the crop loan system was in operation in Bombay since 1948, there was no precise idea of its working. The Rural Credit Survey Committee observed that even highly placed officials of the state cooperative bank and the cooperative department, and even of central cooperative bank had no clear and comprehensive idea of the implications and the operation of crop loan system.<sup>39</sup>

The practice of providing credit to the individuals with regard to the security differed considerably from state to state. Even in one state also there would be different methods of loan determination. In quite a few states declaration in writing had to be given creating a charge on the property owned; in a few states mortgage of land for loans exceeding certain amount had been prescribed; individual loans were also fixed on the basis of land revenue paid; in a limited liability society in certain cases there was certain eligibility to get finance on per acre basis but it was also stipulated that the amount did not ~~to~~ exceed a certain multiple of share holding in a society. Such insistence on tangible assets as security for loans would ration out credit not according to needs nor

---

39 Reserve Bank of India, "Report of the All India Rural Credit Survey, Vol.II, p.268

the prospective net increase in production but in terms of available material security offered.<sup>40</sup> It would thus be seen that the crop loan system in practice did not materially differ in regard to the security of loan for determining individual credit limits.

It has also to be accepted that the scheme had been made operationally effective only in respect of important cash crops where the linkage of credit and marketing has been clear and well-laid. The major task of establishing link between credit and marketing of entire agricultural production remains yet to be tackled to make it a success.

Supervised credit:

One more recent and important policy development in the evolution of cooperative credit policy has been found in providing agricultural credit through cooperatives combining it with agricultural extension and rural development, under the scheme of Intensive Agricultural Districts Programme. It has been launched by the Government of India as an outgrowth of the recommendations of the Ford Foundation Team on agricultural production in 1959. A major part of the programme is planned production credit or supervised credit. One of the main features is the preparation of farm and village production plans which would form the basis for making the credit and

---

40 Report of the Committee on Cooperative Credit, 1960, pp.78-84

supplies available to the cultivators as and when needed. In the formulation and implementation of these plans supervision and guidance are to be provided by agricultural and cooperative extension workers. The endeavour under this scheme was to be made to encourage farmers to accept and use a "Package" of inputs constituting fertilizers, seeds, insecticides, water, improved implements and cultural practices.<sup>41</sup>

Under this scheme the underlying objective was to remove finance as a major bottleneck in agricultural development by even providing the same more liberally. The purpose was to reach all types of farmers to fulfil the goals of stepping up agricultural production. The cooperative credit policy was accordingly adjusted to support the effort needed to achieve agricultural targets set in the Plan.<sup>42</sup>

The new credit policy had some, though not all, the features of the supervised credit scheme. It would be useful to know the essential features of the supervised credit scheme as there prevails some confusion and misunderstanding about it. In quite important quarters of cooperators and officials a view prevails that in supply of all credit needs of agriculturists, if there is supervision over its use, it can be called supervised credit. This is obviously not true. Supervised credit is that kind of advance which is integrated with

---

41 Ibid, p.87

42 Report of the Third Five Year Plan, Government of India, p.204

agricultural extension. The object of the scheme is not merely to step up agricultural production by teaching better methods of agricultural production but it has an element of education integrated with it, which might help the farmer change his habit to improve his economic conditions. In this scheme it is contended that credit by itself would not create new resources. But if they are provided under proper conditions, production capacity would be raised and that would provide for future well-being. It is suggested therefore in this context that not only the loans have to be supervised to the point where the farmer spends the money, but one has to "wet-nurse" the whole enterprise until the farmer is on a sound footing and has learnt new habits and new attitudes that go with development. This will make credit expensive but as an investment in people it will be rewarding.<sup>43</sup> Obviously the supervised credit cannot be effectively undertaken all over the country in view of the shortage of competent technical personnel which can take up the task of supervision. Ultimately the technique of supervised credit should work in such a manner that the borrower's capacity to repay is improved.

Credit under Package Programme:

It would be useful to examine the translation of cooperative credit policy in the areas of package programme.

---

43 Mr. Aziz, "Proceedings of the Ninth International Conference of Agricultural Economists," 1955, p.210

The Surat district has been one of the districts for such an intensive district development programme. As we have already examined, as a part of the Package Programme, district cooperative credit institutions were geared to suit the programme. We have also seen the loan policy adopted by the Package Committee through liberalised credit for different crops year after year. The scales of finance applicable to different crops were determined and fixed in the field workers' conference. It has also been shown that these rates have been changed from time to time on an ad-hoc basis without any scientific basis of cost or of production data or a scientific criteria to determine production needs in respect of each crop. At the most, the basis of determination could be said to be pragmatic. It is also likely that the consideration of repayment capacity on the basis of yield and price of each crop be considered as additional weighty factors. The whole approach of loan policy under the new pattern seems to be a banking approach rather than a promotional one of changing agriculture and farm economy. In the whole policy one would notice the dominance of financial prudence determining loan assistance. If one closely examines the circulars issued from time to time in this behalf one would find that there has been an increase in the proportion of cash component of the loan as compared to the kind lending. Formerly, 80 per cent of the loan was allowed to be drawn in cash only after 50 per cent of the kind loan was drawn on. This provision was diluted by

providing that the society before liberalizing cash withdrawal should satisfy that members made honest efforts in lifting a good portion of credit in kind. This arrangement was further liberalised in 1966 because of difficulties of supplies both of super-phosphate and other nitrogenous fertilizers. The Surat District Cooperative Bank also found that the loans were drawn in one instalment instead of being gradually availed of. A close scrutiny would also reveal that the primary societies did not try to strengthen their share capital base though they had to play an important role in the package programme by providing finance on a higher scale than before for agricultural development.

It is often argued that cooperatives do not provide adequate funds for certain crops. If this allegation is to be sustained, the aggrieved cultivator should be able to come forward with enough evidence and argument to convince the society of his rightful demand. Afterall, he is very much a part of the cooperative society and it is not fair that he should go on expecting facilities from the institution without doing enough in return. He should help the institution in determining the basis of loan advances and concretise processes of assessment and scrutiny. A correct credit policy can be evolved only if every member actively contributes to its formulation. This he can do by helping to lay down norms of production requirements and their translation into actual practice.

Credit and development:

It is also likely that we have not been able to clearly pinpoint the functions of cooperatives leading to misconception about their role. Cooperation is not a relief movement for the disadvantaged sectors of the economy. Nor could it be expected to remedy the structural imbalances of the economy. The ideas regarding spread and progress about relieving agricultural indebtedness through cooperatives would gain right perspective once the cause and effect relations are understood fully.

While describing the role of cooperation in programmes of agricultural development the plan document mentioned as under.:-

"A rapidly growing cooperative sector with special emphasis on the needs of the peasant, the worker and the consumer, becomes a vital factor in social stability, for expansion of employment opportunities and for rapid economic development."<sup>44</sup> It then goes on to add, "Cooperation is one of the principal means for bringing about change of a fundamental nature within the economy."<sup>45</sup> We should be clear whether cooperation can bring about fundamental economic or structural change. Again the document avers, "Within the rural economy in particular, cooperation is the primary

---

44 Third Five Year Plan, p.200

45 Ibid, p.200

means for raising the level of productivity, extending improvements in technology and expanding employment so as to secure the basic necessities for every member of the community."<sup>46</sup> In a subsequent para, however, the ground shifts, "Once the process of social and economic change gather force and the rural community attains higher levels of skill and productivity, cooperation has to meet larger and more complex demands."<sup>47</sup> It is obvious that the objectives and scope of cooperation are not properly spelt out and tasks are hazily and haltingly defined. The movement in our circumstances of necessity gave an impression of being relief-oriented and to be available more for rehabilitation than for development. We have to realise that the cooperatives have to function under given conditions, but they are hardly capable of conditioning them.<sup>48</sup> It will be too much to expect cooperation to bring about fundamental changes in the rural economy. To expect cooperation to overthrow an existing order or bring about basic or structural changes is to assign to it too much of the responsibility, which may not be feasible and which may ultimately lead us to disappointment. This has nowhere happened in the world. It should be conceded that cooperatives have to grow within a given setting and can succeed according to that frame of operation.

---

46 Third Five Year Plan, p.201

47 Ibid, p.201

48 Desai, M.B., "Cooperation, its virtues a Limitation,"  
The Economic Times, 5-4-1961

Having cleared the objectives of role of cooperation, we must remember that the crop loan system has now been with us for the last about 20 years and we have tried to work it with considerable doctrinaire zeal. The underlying assumption has been that the two separate organizations viz. the primary credit society that advances loans to the cultivators and the marketing society that handles crops will somehow work in close collaboration, if not in an integrated fashion. This integration, in fact, is the central point in any scheme of crop loan system as it functions today. Now, if there is anything that strikes one in the present situation, it is the almost complete absence of such integration. With the loyalties of the members divided between two separate organizations, it is not surprising that the record of the crop loan system should be so dismal. When production finance provided by the credit societies has nothing to do with the marketing of produce, it is only natural that the crops get siphoned off into private hands, the marketing societies are starved of production and recoveries lag far behind the schedule. What is surprising is that little thought is given to find out why this happens. It is important to decide whether the rigidity and unimaginative way in which the system is spelt out is at fault or whether the cultivator is in fact financially hard up.

For a long time the cooperative credit policy was guided by considerations of "creditworthiness" as indicated by land

assets owned. What seems to have been overlooked is that no measure of creditworthiness, howsoever sound, can by itself make for the success of a credit system. Only a judicious use of funds in the larger interests of production and increased productivity can do that. Our focus of attention, therefore, in evolving any effective credit system should be on the precise and specific use of funds by the cultivator and adequate consciousness on his part of the implications of the facilities provided by the organisation. No external system of checks and balances, however, carefully operated can ensure recovery of funds if every member of a cooperative society is not imbued with a sense of self-imposed economic discipline.

Summing up:

The above account of the evolution of cooperative credit policy brings out its fluctuating character and vacillated policy. We opted for large-sized society abandoning the orthodox pattern of small village society. The experiment of large-sized society having failed was again given up. Direct participation of government undertaken was diluted to bring it in line with the voluntary character of the movement. The controversy during the decade of planning centred around the role of the state in cooperative development and the size of cooperative society. This created fluidity to an extent. Finally, a pattern appeared to emerge under which the features

of the crop loan system and supervised credit scheme come to stay within the overall policy under the Plans according to which state participation but with as large a measure of popular initiative and voluntarism as possible, became focal to the policy. Significant developments took place in the field of cooperative credit in the last decade and a half. And yet a number of issues might still be obscure and confront us and demand our attention as we go along. Eventhough dependence on private agencies has been declining, other more serious problems are casting their shadows on the institutional structure. The major issue about the extent of benefits to the small farmer from institutional arrangement persists. Various Follow-up Surveys and other studies referred to earlier, reveal that inspite of the increased quantum of cooperative finance the problem of finance to the disadvantaged sector remains as intractable as ever. The progress of the cooperatives has not been rapid enough. As compared to the cost of official sponsorship, nurturing and patronage, the results might appear modest.

From the very beginning cooperative credit has run into difficulties. Adjustments have been made from time to time in the working of institutions to suit the requirements of farmers and their economy. As we have seen the working of crop loan system itself, so far has been far from satisfactory. The emphasis in the system has to shift from expediency of the

cultivator to productivity and marketable surplus of the community. This alone could ensure the creation of a cycle of viability of its own on the basis of which an automatic process of higher production and higher income generation could be built up through marketable surplus and cash returns to the cultivator. It should be expected that the system can finance farmers, big or small, to the extent to which they are able to adjust to this requirement. It is, therefore, not possible to visualise that cooperative credit, with its lever of production finance can afford to permanently hang on to the cultivator irrespective of what he achieves or does. In the final analysis, it is the cultivator who should have to hang on to the system of cooperative credit through an honest and concerted effort to meet the demands made on him by the crop loan system.

We might have also to consider whether we can shift our emphasis from production requirement to marketable surplus. Even the small farmer has to be able to orient himself to the significance of marketable surplus, otherwise productivity to repay the borrowed funds suffers. We must be clear that mere subsistence farmer has no place in any viable scheme of agricultural finance. Even while providing farmer with inputs such as water and fertilizers, what we need is commercialisation of farming by creating a consciousness<sup>t.</sup> market requirements. The smallest farmer must pass through such economic metamorphosis, painful though it might be for some in the initial stages.