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Research Paper Economics

Developments and Progress of Primary Agricultural Co-operative Banks in State

S. Krishnana Ph.D., Research Scholar, P.G. & Research Department of Economics, Urumu Dhanalakshmi College, Trichy, TamilNadu

Dr. T. Semban Head & Research Advisor in Economics, P.G. & Research Department of Economics, Urumu Dhanalakshmi College, Trichy, TamilNadu

Introduction

The UN publication has observed, "most of the world's farmers have to borrow at some or the other time, many of them heavily; to raise agricultural production they will have to borrow still more. And more is almost always needed where there is redistribution of right in lands. It is, thus in the interest of agriculture and essential to agriculture and general progress, that credit be available to farmers in adequate amounts and at appropriate cost."

In Indian context, the need for agriculture credit is determined partly by the characteristics peculiar to Indian farming. This is mainly because of the extreme dependence of agriculture on nature and biological factors and the resulting element of unpredictable risk, the relatively small size of the farm, the destructibility of agricultural production and the consequent inability of the farmer to adjust himself quickly to changes in demand and the fact, that agricultural produce is brought to the market at the same time by a large number of small farmers, greatly weaken the bargaining position of the farmer.

Primary Agricultural Credit Society (PACS) has a significant role to extend credit to farmers. This unit abstracts the vitality and service potential of the co-operative movement in the country. Such societies are "the kernel of the co-operative movement of co-operative institutions. These societies are started not only with the objective of providing cheap credit but also to teach principles of co-operation to the members or farmers.

Structure and Objectives of PACS

Co-operative credit structure is a type of pyramid, the broad base of which is represented by the primary societies at the village level. At the top, are the apex societies at the state level and between these two are found the central societies.

State Co-operative BankàCentral Co-operative Banks àAgricultural Primary Credit Societies

The purpose of this federal type of structure is to strengthen the primary society which is at village or base level. If the borrower in a village needs credit, he applies to the society. If the Primary Society has no funds at its disposal, it applies to the Central Bank and Central Bank in need of fund applies to the State Bank. The fact that the structure is federal in character and that the institutions at different levels are independent legal entities, it also implies that the strength of the chain depends upon the strength of each of the links.

The main objectives of primary credit societies are given below.

1. Borrowing funds from members as well as others to be utilized in giving loans to the members for productive purposes.
2. Acting as the agent for the joint supply of agricultural, domestic and other requirements of the members, and of the joint sale of produce.
3. Purchasing and owning implements, machinery or cattle for renting it to the members.
4. Disseminating knowledge of the latest improvements in agriculture, handicraft, etc.
5. Encouraging thrift, self-help and co-operation among the members.

Registration of PACS

Any ten persons should apply unitedly for the registration of a PACS. Such persons should be above 18 years of age and should live within the area of operation of the society. Moreover, the area should not be so large that the cultivator finds it inconvenient to obtain the services which he requires from the society. The person should have a good character. The applicants are required to sign an application in a prescribed form, requesting therein for the registration of the society. This application along with the copies of the by-laws of the society and the prescribed fee, has to be submitted to the Registrar of the co-operative society of the place where the registered office is situated. If the Registrar is satisfied and all formalities have been completed, he may register the society and issue a certificate of registration.

Functions of PACS

The main functions of the credit societies are to provide short and medium term credit; supply agricultural and other production requirements and undertake marketing of agricultural produce. In addition to these functions, the co-operatives will help to implement the plan of agricultural production for the village and undertake such educative, advisory and welfare works as the members might be willing to take up. According to a committee on co-operative credit, following important recommendations are laid for the effective functioning of the society. These are:

1. To associate itself with the programme of production;
2. To lend adequate amount to its members for their agricultural production and consumption purposes;
3. To borrow adequate funds from the central financial agencies for helping the members adequately for the above purposes;
4. To attract local savings for share capital and fixed deposits;
5. To supervise the use of loans (especially medium term loans) and to see that they are paid regularly;
6. To distribute fertilizers, seeds, insecticides, agricultural implements etc. either on its own or as agent;
7. To supply certain consumer goods in common demand such as kerosene, sugar etc;
8. To store the produce of the members till it is sold;
9. To collect or purchase produce, where necessary, on behalf of a consumers society, marketing society, or government; and
10. To associate itself with programme of economic and social welfare for the village.

Management of PACS

The management of the society is democratic and honorary. It is based on the principle, 'one member, one vote'. The management is entrusted to two bodies a General Committee consisting of all members and a Managing Committee of 5 to 9 members chosen from among the members of General Committee constituting its general body. The general body is the ultimate authority on all matters concerning the society. Exclusive administration of the society is vested in the hands of a panchayat or the committee elected by the general body.

The General Committee elects the members of the managing committee, appoints an honorary secretary, adopts the annual balance sheet submitted by the managing committee considering the orders and reports of registrars and auditors, expels members, if necessary, fixes the maximum credit of the society as a whole and of the (individual members separately and amends the by-laws of the societies.

The Managing Committee is responsible for the routine and executive business of the society. It admits new members, recovers arrears due from members and exercises supervision over them, disposes the

loan applications, raises funds for the society and inspects the amount maintained by the secretary. The management is honorary and only the secretary is paid small remuneration for clerical work.

For further detail on management, refer booklet No. 46 on Management in Co-operatives.

Area of Operation
All India Rural Credit Survey Committee recommended the re-organization of primary rural credit society to cover a group of villages with a large number of membership and reasonably adequate share capital and provide it with adequate business. The committee on Co-operative Credit said that "A Co-operative Credit Society cannot afford to enlarge itself into an impersonal institution. Therefore, the membership must not be too large and the area of operation of the society should be compact. Mutual contact and knowledge are best secured in one village, especially where the village is not very large. But, even if the village is large with a population of 4000 to 5000, there should be one society for the village. No village included in a society should be at a distance of more than three or four miles from the headquarter of the village. The maximum number of families covered should be 600 families or about 3,000 persons.

Regarding the restriction on the distance of a village to the society headquarters the All India Rural Credit Review Committee felt that it should be permissible to vary from State to State as condition differ widely both in respect of agricultural potential and availability of communications.

Membership and Liability
Membership is open to all persons residing in the village but some protection is the against the notoriously imprudent or untrustworthy individuals or willful defaulters. It is open for farmers, artisans and small traders in the village. The minimum initial membership is ten and ultimately it may be moderate (50 or so). In 1987, the total membership in PACS was 7.44 crore.

Initially these societies have unlimited liability and these liabilities contribute an important factor in the confidence reposed in societies both by the central institutions inside the movement and by the joint-stock banks outside it

Sources of Funds
In order to perform the functions of providing credit, the primary credit, the society requires funds. Such funds are raised both from the internal and external sources. The internal sources refer to funds raised from the society's members and consist of the share capital, the entrance fees and the reserve funds and deposits from non-members, loans from the Cooperative Central Financing Organisation and the Government donations, grant, subsidies, etc.

Share Capital
The share capital of a society is divided into units called shares contributed by the members, the ownership of which determines the rights and obligations of the holder to the society and its creditors. The Primary Credit Society requires huge finances for meeting the requirements of the members. Simultaneously, the members have certain responsibility towards the society which is based essentially on the principle of mutual help and self-help and, therefore, every member has to fulfill that obligations. The share capital held by a member is the measure of his stake in the financial stability and soundness of the society. Again, the larger the share capital contributed by the members, the more the interest he takes in the affairs of the society. In short, it goes a long way in creating the sense of responsibility and fostering the spirit of loyalty among the members.

However, it may be noted that certain cultivators may not be able to contribute their share all at once. Hence, the PACS may need to raise funds from outside sources to meet the necessary requirements of the society. In such circumstances, Government contributes to the share capital.

The average share capital per society was only Rs. 727 in 1950-51 which increased to Rs. 2722 in 1978-79. A strong share capital base acts as a shock absorbing cushion so that the shock of overdue is absorbed and the liquidity and the financial stability of the institutions are not affected.

Entrance fees
A minor portion of the working capital is achieved through entrance fees charged on the admission of members. This amount will meet the preliminary expenses. Generally Re. 1 is charged as an admission fee from the members.

Deposits
Deposits from member and non-members are the main source of income in every Primary Credit Societies. These societies should mobilise rural savings and must be able to inspire confidence and invoke local interest. This can be achieved only when each units are made viable and managed efficiently and honestly. But in view of the fact that the rural people with some saving are tempted to lend privately to earn higher interest rather than deposits they make with the co-operative societies, the interest rates of society's deposits have to be higher and attractive.

Borrowing loans
The Primary Credit Societies depend largely on borrowings. This is the most important element of their capital. This is obtained from the central financing agencies viz., the Central Co-operative Banks and the State Cooperative Banks.

The maximum borrowing power of unlimited liability for the societies is fixed. It is generally fixed at 1/6th or 1/8th of the value of the total net assets of the solvent members which is certified by the Panchayat of the society. Credit limit is fixed by the Registrar or the central co-operative banks on the basis of a number of factors such as total assets of the members, their income, their repaying capacity, owned funds of the society, its audit clarification, repayment performance etc.

Financing by commercial banks
The scheme of financing the operations of primary credit societies by commercial banks was introduced in 1970. There were two major objectives of this scheme:

1. To fill up the production and investment credit gaps with respect to the requirements of small farmer; and
2. To improve the working of societies by increasing their membership and business.

The scheme was purely temporary in nature in the sense that the societies ceded to the commercial banks would revert to respective central co-operative banks as soon as they are strengthened through the rehabilitation programme.

Reserve funds
Sometimes some unforeseen loss or expenditure may occur in the societies. The reserve fund meets these expenses and serve as an asset and security in borrowing. This reserve fund also can be a source of income which may be drawn upon m lean years.

The reserve fund maintained by the society belongs to the society and can be utilised in the following cases:

1. To replace for the losses incurred by the society;
2. To meet such claims of the creditors of the society which cannot be met otherwise and;
3. To provide for other financial needs in times of special needs.

Loans and Loaning Policy
The underlying idea of the co-operative credit is that a group combining to furnish a collective guarantee can obtain funds at lower interest rates than they individually could command. The main objective behind co-operative credit is that it educates the borrower in the productive purposes and insists on punctual payments.

As mentioned earlier, PACSs supply two types of loans to their members; short-term loans are given for one year for the purchase of seeds, fertilizers, pesticides, manures, implements, payments of wages to workers in the farm and the payment of land revenue. The medium term loans are given for 3 to 5 years for the purchase of cattle, implements, equipments, construction of small irrigation facilities, including installing pumping sets, repair of wells, construction of bunds and improvement of land.

The loans sanctioned to a member is related, in each case, to his pro-

duction credit needs which are ascertained and recorded in detail. In some areas these particulars also known as "the normal credit requirements" are prepared by the society every year. Under this practice, the credit limit of each member is fixed in advance of the season which not only safeguards against lending of excessive amounts but also facilitates getting loans in time.

However, it may be noted that not more than 38 % of the members of the agricultural credit societies borrow from these societies. In no state the percentage of borrowing members exceeds sixty. This low proportion of borrowings is due to the delay in issue of loans, inadequacy of loans, unwillingness of the members to sell produce through co-operatives, high rate of interest, inconvenient repayment schedule, etc.

Security
The primary credit society does not advance loans to members limitlessly. It fixes the credit limit of each and every member on the basis of certain criteria like:

1. The purpose of the loan;
2. The standing and character of the applicant;
3. His repaying capacity;
4. The security he can give; and
5. The number of the shares he holds.

In most parts of our country, landed property is commonly insisted upon as the security for co-operative production credit. But this criterion ultimately helps only the big farmers, as smaller farmers or tenant farmers cannot offer such security and therefore, do not get loans.

However, loans are also given on the security of movable property and against the personal security of one or more members. The All India Rural Credit Survey Committee recommended that "security for landed property should not be sought for short term loans and that loans should be given on personal security of the borrowing member after creating a statutory charge on his crop. No cultivator should be denied of full production credit on the basis of the agreed scale of finance, if he can offer personal security".

Presently, the emphasis is being placed on the repaying capacity of the cultivators and the production proposed to be taken by them as the basis for credit. With regard to medium-term loans, landed property need not be taken as security for the loans up to Rs. 500 while a statutory charge created on land would suffice for loans of Rs. 501 to Rs. 1000. Loans for hIgher amounts need security in the form of mortgage of land.

Rate of interest
The Reserve Bank of India as a matter of policy is providing credit through co-operatives at a concessional rate of 2 % to the agriculturists. Thus the rate of interest charged by the PACS from their borrowers is the lowest. However, they vary from state to state. It varies from 6.75% per annum to 9.38% per annum. The highest rate of interest has also ranged from 12 % to 15 per cent.

Crop loan system
On the basis of decision taken on reorganizing the credit societies it has been recommended that societies should reorient their operational policies so that credit is production oriented, its use was supervised and its recovery was regular and would coincide with harvest time. The credit societies were expected to advance loans on the basis of what is called "the crop loan system". Special features of the programme are:

1. These loans are chiefly for productive purposes;
2. short-term loans are given on the basis of anticipated crop and not on land or any tangible security;
3. loans are related in amount to the estimated outlay on raising the crop: and
4. recoveries are made as and when the crop is sold.

It. would be seen that the size of the loan is not to be determined by the fact of ownership of land or by the value of tangible security but by the fact that:

1. He is a bonafide cultivator;
2. He requires credit for undertaking production; and 3. that he is able to repay the loan out of his production.

Since the recovery of loan is expected to be made from the sale of the crops, it follows that the advances should be confined to the period shortly before sowing and ending shortly before the harvest.

Utilization of loan
A large portion of the loans is not utilized for the purpose for which it is obtained. The programme evaluation organization of the Planning Commission conducted a survey which revealed that about 28 % of credit was diverted to a purpose which was not intended. It was also seen that as much as 23 % was used for non-agricultural and non-productive purposes. The percentage was as high as 35 in the case of medium-term loans. Such a diversion of loans can be attributed due to the lack of strict supervision over the utilization of loans by the members. Neither the members of managing committee nor the inspection staff of the societies were watchful.

Recovery of loans
The responsibility of recovering the loans lies with the members of the managing committee and office bearers with the help of bank supervisors and government staff. However, the punctuality in the repayment of loans is hardly observed by the members, with the result that there has been a steep run in the amount of overdue all over the country. Timely repayment of loan's advanced by the credit societies to their members is extremely crucial for the success of the society. In addition, the overdue can also be attributed to the following causes.

1. Ineffective supervision.
2. Apathetic attitude of central co-operative banks.
3. Finances being made available from different sources e.g. seeds and fertilizers distributed from agricultural department, marketing' societies provide production and pledge loans.
4. The advancement of loans in contravention to rules.
5. The undue pressure exercised by political leaders and unsatisfactory management by the committees.
6. The liberal attitude of the State Government.
7. Failure of crops.
8. Low rate of interest.
9. Non-linking of credit with marketing.
10. Defective loan policies.

To improve the situation, it is necessary that these defects are removed immediately and not only supervision is made effective but strong action is taken against defaulters.

Punitive measures against defaulters
There are very few punitive measures against defaulters, especially, for those defaulters who divert their loans for some other unproductive purposes. But few laws are existing to recover the money back from the borrowers. If any installment payable under a mortgage executed in favour of PACS or any part of such installments is remained unpaid for more than one month from the date on which it fell due, the committee, may in addition to any other remedy available to the bank, apply to the Registrar or any other persons on whom the power of the Registrar to recover any amount due by attachment and sale of property has been conferred by the Government under section 3 for the recovery of such installment or part thereof by seizing the holdings and sale of the produce of the mortgage land including the standing crops thereon and any other movable property of the defaulter under Co-operative Society Act, section 103.

Period of repayment
The period of loan is determined mainly by the possibility of repayment out of the income derived from its use or the resulting savings. Unless loans are repaid, co-operation is both financially and educationally an illusion.

Two or three annual installments usually are allowed for the repayment of advances taken for a short period and object such as the liquidation of previous loans, improvement of land or purchase of land and installment of agricultural machinery.

Weakness and Problems of PACS
In spite of many advantages and achievements, the PACSs do suffer from certain weakness.

1. The misuse and diversion of the loans is a common practice in PACS. This will lead the borrower to unproductive activities.

2. The growth of the credit movement has not been uniform throughout the country. Northern and eastern states are very weak in co-operatives, while western and southern states are strong.
3. Inadequate deposit in co-operative societies have failed to attract the depositors.
4. Due to improper attention, the timely recovery is affected and a large proportion of the outstanding loans is represented by overdue.
5. The disbursement of loan has been inadequate in most of the cases. Moreover, delay in granting the loan led the members to borrow money from money lenders.
6. These societies have not been able to inculcate the habit of thrift and saving among the members.
7. About 15 % of the total societies are dormant and these societies are either inactive or performing only the taken business.
8. The operational efficiency of these societies has been adversely affected by the domination of vested interests. Political parties have used them to perpetuate their hold on the rural masses.
9. The loaning policies of the credit societies are defective as they are still based on personal security, insist on cash and not kind, also the improper timing of their disbursement.
10. A major defect in the working of these societies is that they have not cared to help the small farmers.

The shortcomings of the co-operative credit system vary from state to state, but some major problems faced by almost all co-operatives are the problem of overdue, indifferent management, dominance of co-operatives by vested interests, shortage of resources, lack of efforts to mobilize deposits, untrained staff and faulty arrangement for linking credit with marketing.

Suggestions for Improvement

A strong co-operative unit at the base level is very important to establish the organization at the top level. At present, our co-operative credit structure needs rebuilding and reorientation. But this is extremely difficult and costly. Few of the following suggestions may help in the process of restructuring of PACS at the local level.

1. The society should cover as many villages and members as possible in a given area so that efficient and economic management could be possible.
2. Dormant societies should either be revitalized or closed down so that organisation connected to them may be saved from losses.
3. It is essential to make sure of the proper recovery of loans which will help the society to expand their works.
4. Strict punitive measures should be taken against the defaulters which will check the heavy outstanding overdue and make business easy in the society.
5. Other complementary services like agricultural extension, wholesale prices for farm requisites, marketing, storage facilities and consumer cooperatives should also accompany credit facilities.
6. Staff and members involved in supervision, audit, management, and secretarial works should be trained properly to follow the principles of co-operative.
7. The society should embrace as many farmer members as possible in a given agricultural geographical area, considering primarily the membership contact.
8. They should be properly set up to give loans and technical advice to small and marginal farmers in areas where opportunities and desire to increase agricultural production exist.
9. Society should give priority to deposit mobilisation and should inculcate the habit of thrift amongst the members.
10. Society should have limited liability in order to guard against any failure on account of unsatisfactory management.
11. The membership of co-operatives should be divided into formal groups of about 20 to 40 farmers each, on the basis of proximity of residence and similarity of farm business.

In summing up, the reduction of overdue, mobilization of deposits, revitalization of the dormant societies, merger of the weaker ones into viable units, introduction of crop loan systems, efficiency of cooperatives by toning up their management and better supervision of the use of loans at all levels are the most important aspects of future co-operative policy.

Present Position of P ACS

The development of PACS in India is gradual and the situation as on June 1986 is given in the Table.1.

Table:1 Present position of PACSs as on 30th June 1986

Sl. No	Activities	(Rs in lakhs) (Membersin Thousands)
1	Total number of societies in India	92,408
2	Total membership	7,21,17
3	Total paid up capital	8,31,54
4	Reserve fund	2,96,08
5	Deposits	5,71,98
6	Borrowings	39,27,22
7	Working capital	65,47,61
8	Number of borrowers	1,96,57
9	Loans advanced as short-term	27,46,87
10	Loans advanced as medium-term	3,93,30
11	Loans outstanding as short-term	32,37,07
12	Loans outstanding as medium-term	10,86,13

Conclusion

Indian cooperative movement has gone a long way and has emerged as the largest in the world. Two third of the co-operatives are in rural areas for supporting agriculture and allied activities.The co-operative structure occupies a pre-eminent position in the institutional framework of agricultural credits. The major emphasis in recent times has been on the strengthening of co-operatives in regard to structure, mobilization of resources, and operational efficiency. The technological breakthrough in agricultural production has been making very large demands on the co-operative credit institutions for current finance and investment capital.

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