Cooperative Credit Structure in India

Government of India realized that cooperatives were the only alternative to increase agricultural credit and development of rural areas, as recommended by AIRCSC headed by Sri. Gorwala. Hence, cooperatives received substantial help in getting credit from Reserve Bank of India and large-scale assistance and encouragement from both central and state governments for their growth and development.

Many schemes of government with components of subsidies and concessions to the weaker sections were enrooted through the cooperatives. With this the cooperative institutions registered a remarkable progress in the post-independence period.

Cooperative structure was delineated in to two types viz., three-tier structure for providing short-term and medium-term loans and two-tier structure for long-term loans in all states except Bihar, Jammu and Kashmir, Maharashtra and Uttar Pradesh, where the structure is unitary i.e. concentrated at a single point.

Cooperative Credit Organization

ST & MT Loans
(Three tier system)

LT loans
(Two tier system)

State Cooperative Bank (SCB)

Central Land Development
Banks

(At state level) (CLDBs) (At state level)

District Cooperative Central Bank (DCCB) Primary Land Development Banks

(At district level) (PLDBs)(Erstwhile taluk level)

Primary Agricultural Cooperative Credit Societies

(PACS)

(At village level)

State Cooperative Banks (SCB's):

These are the apex/highest credit organizations existing at the state level. District cooperative Central Banks (DCCB's) and primary agricultural cooperative credit societies will act as members of these banks. These SCB's will supervise the activities of the member banks and mobilize and deploy the financial resources among the member banks. They serve as a bridge between RBI and PACS.

Specific functions of SCB's are

- They help the state governments in formulating developmental plans pertaining to cooperative institutions.
- They also helping coordinating the cooperatives with the government.
- They formulate and implement uniform credit policies pertaining to cooperative development in the state.
- They act as Bankers Bank to DCCBs.
- They will grant subsidies for the smooth functioning of DCCBs

- Similar to any other commercial bank, they also perform the normal banking operations.

District Cooperative Central Banks (DCCBs):

They act as link between state cooperative banks and primary agricultural cooperative societies. DCCBs also undertake normal banking functions like accepting of deposits from public, collection of bills, cheque and drafts etc. They also provide required credit for needed persons. In DCCBs the area of operation varies from erstwhile taluk to district, but in most of them it is confined only to taluks.

In DCCBs membership is open to individuals and other societies falling under its area of operation. Marketing societies, consumers' societies, Farming societies, urban banks and PACS' will usually enroll as its members.

Specific functions of DCCBs are:

- They supervise and inspect the activities and functions of PACS' and help them to function smoothly.
- Apart from providing guidance they also provide leadership to PACS'
- They also undertake non-credit activities like supply of seeds, fertilizers and also consumer items like sugar, kerosene etc.
- They provide requisite credit for societies under their control.
- They accept deposits from the member societies as well as from public.

Primary Agricultural Cooperative Credit Societies (PACS'):

With the enactment of Cooperative Societies Act of 1904, PACS' came in to existence following the guidelines of Raiffeissen model. The cooperative principles are framed for their smooth and efficient functioning.

These societies will function at village level providing the farmers the required short term and medium term loans. Supply of other agricultural inputs and essential consumer items is also taken up by these societies. PACS' also helps in formulating and implementing the agricultural developmental plans.

Specific functions of PACS are:

- They borrow adequate and timely funds from DCCBs and help its members by providing required finances.
- So as to inculcate the habit of thrift they attract local savings of members towards share capital and deposits from the villagers.
- They supervise the end use of credit.
- They distribute fertilizers, seeds and pesticides to the needy farmers.
- They provide machinery to the farmers on hire basis.
- They also associate themselves with the plans and programmes meant for the socio-economic development of the village.
- They help the farmers in marketing of farm produce.
- They provide storage facilities and marketing finance.
- They help in supplying certain consumer goods like rice, wheat, sugar, kerosene, clothes etc at fair prices.

Central Land Development Bank (CLDB):

Central Land Development Bank is an apex bank in the two-tier cooperative credit structure providing long-term credit /finance to PLDBs and its subsidiary/affiliated branches. The branches of CLDBs, PLDBs and individual entrepreneurs are the members of CLDB.

National Bank for Agriculture and Rural Development and Life Insurance Corporation (LIC) subscribe for its debentures. NABARD is a refinancing agency to the CLDBs. CLDB is a link between NABARD and government in long-term transactions.

Specific functions of CLDB are:

- CLDB inspects, supervises and guides PLDBs in their banking operations.
- It floats/invites debentures for raising the necessary funds.
- It inculcates/develops the spirit of thrift among the members by mobilizing savings and stimulating capital formation i.e. asst creation.

- It provides loans to the member banks for the redemption of old debts, development of land, purchase of machinery and equipment and development of minor irrigation etc.

Primary Land Development Banks (PLDBs):

The establishment of land mortgage banks on cooperative lines was initiated in Punjab during the year 1920 itself. During the 1920-29 i.e. in the expansion phase many Land Mortgage Banks (LMBs) were established in Mysore, Madras, Assam and Bengal, Bombay etc.

Even though there was slow progress of these banks until 1945, good progress of these banks was achieved in the post independence era i.e. 1948-53. During this period only large and affluent farmers obtained from the LMBs and small and marginal farmers were benefited very little.

Later on LMB's received massive support from institutional agencies like RBI, SBI, LIC and ARDC. With this LMBs directed their lending policies towards small and marginal farmers emphasizing agricultural development.

In the year 1974, LMBs were renamed as Land development Banks (LDBs) in Andhra Pradesh. The area of operation of PLDB was at erstwhile taluk level.

Specific functions of PLDBs are:

- To provide long-term credit to the needy farmers for the land development increased agricultural production and productivity of land.
- They provide loans for minor irrigation, purchase of land and for redemption of old debts.
- They finance farmers in purchase of tractors, machinery and equipment.
- They provide finance to farmers for the construction of farm buildings.

- They mobilize rural savings.

Single Window System of AP:

Till 1987 the farmers in Andhra Pradesh depended on primary agricultural credit societies functioning under three tier structure for short-term and medium-term credit requirements and on primary land development banks functioning under two-tier structure for long-term credit needs. It means that the farmers have to obtain their total credit requirements from two different cooperative institutions. In addition to this the performance of PLDBs was not satisfactory. In marketing their farm produce also farmers faced many difficulties in getting marketing services from PACS in three tier structure.

With this backdrop, to make cooperatives rendering their useful services, the government of A.P thought to bring some appropriate organizational changes in the working of cooperatives in the state. Subsequently, a committee under the chairmanship of Sri. Mohan Kanda an IAS officer was to bring out some meaningful and practicable alternatives in the structure of cooperatives. The committee submitted its report in May, 1985 and recommended the establishment of “Single Window System” and a bill was passed for its establishment in the AP state assembly in January, 1987.

The main intention and idea of introducing the single window system is to supply all types of agricultural credit needed by the farmers through PACS and provide adequate marketing facilities to farm produce through District Cooperative Marketing Societies (DCMS).

Single window system is a three-tier structure in cooperative credit and two-tier structure in cooperative marketing as shown below.

Single Window System

Credit (Three Tier Structure)

The AP state cooperative

(ST, MT &LT)

↓

Andhra Pradesh State Cooperative Bank

for Agriculture & Rural Development

(APCOBARD)

↓

District Cooperative Bank for

Agriculture & Rural Development

(DISCOBARD)

↓

Primary Agricultural Cooperative

Credit Societies (PACS)

Marketing Federation Ltd

(MARKFED)

↓

District Cooperative Marketing Societies

(DCMS)

With the introduction of single window system in Andhra Pradesh during the year 1987

- No of PACS were reduced from 6801 to 4257.
- Primary Cooperative Agricultural Development Banks (PCADBs), 218 in number were merged with DCCBs.
- Primary cooperative marketing societies were amalgamated/merged with DCMSs

Major functions of PACS under single window system are:

- To advance short, medium and long term loans.
- To supply required farm inputs like seeds, fertilizers and pesticides.
- To distribute essential commodities like rice, wheat, sugar, kerosene etc.

- To arrange fore marketing of farm produce of the members through DCMS.

Credit co-operative: A financial organization owned and controlled by its members, who can borrow at low interest rates from an amount of money they have saved as a group. Credit co-operatives provide financial services to poor and low-income people.

Marketing Cooperative: *Co-operative marketing organisations are association of producers for the collective marketing of their produce and of securing for the members the advantages that result from large-scale business which an individual cultivator cannot secure because of his small marketable surplus. In other words, co-operative marketing societies are established for the purpose of collectively marketing the products of the member producers.*

Consumer Cooperative:

These societies are primarily for consumers who wish to buy household goods at lower prices. The society buys goods or products in bulk amounts directly from the producer on wholesale rates and sells them to the members, thus eliminating the need for a middleman. The purchased goods are sold to members and non-members in cash. Capital is raised by issuing low denominational shares to the members who also get dividends on the shares.. They ensure a regular supply of goods at reasonable rates. They set up stores or outlets to sell goods and avail huge trade discounts from producers. Some of the best examples of a consumer co-operative society are Super Bazar and Apna Bazar.

Processing Cooperatives:

Cooperatives that involve in processing of agricultural and allied activities produce are called processing cooperatives. India being an agrarian economy, processing of agricultural produce is of vital importance. It not only helps in value addition, but also in employment generation and exports of agri-produce. NCDC has been promoting cooperatives involved in processing of foodgrains, plantation crops and oilseeds, by providing financial assistance through State Governments, as well as directly to the processing societies, to meet the needs of these cooperatives.

Cooperative warehousing:

These warehouses are owned, managed and controlled by co-operative societies. They provide warehousing facilities at the most economical rates to the members of their society.

Farmers Cooperatives:

An agricultural cooperative, also known as a farmers' co-operative, is a cooperative where farmers pool their resources in certain areas of activity. A broad typology of agricultural cooperatives distinguishes between 'agricultural service cooperatives', which provide various services to their individually farming members, and 'agricultural production cooperatives', where production resources (land, machinery) are pooled and members farm jointly.

Multi-Purpose Cooperative Society (MPCS):

The cooperatives formed for different purposes such as credit, marketing, production, consumption etc., are called as multi-purpose cooperative societies.

Whenever a cooperative society is established to attain multi-purpose objectives is called multi-purpose cooperative society. It is an organization which is owned and operated by a group of individuals for their mutual benefit. This cooperative attempts to gain various objectives whereas other cooperative objectives are limited. Whenever any cooperative society establishes to attain various goals such as production, purchasing, selling, credits sanction and so on this cooperative is called multi-purpose cooperative society. As the name indicates its responsibility for a different purpose for which it has been set up. It can work for arranging credit, improved seeds, agricultural implements, fertilizers, sanitation, health, etc.

Farmers Service Societies (FSS)/ Farmers Service Cooperative Societies (FSCS)

Farmers Service Societies are well organized and registered units functioning on the principles of cooperation. As many cooperatives are rendering their services only to affluent farmers, the National Commission on Agriculture (NCA) strongly felt that separate societies for meeting the needs of weaker sections in rural areas are envisaged.

Hence with the recommendations of NCA, the FSS were organized in the year 1971, on cooperative lines to provide integrated credit services to weaker sections of rural areas viz., small farmers, marginal farmers and agricultural labourers and rural artisans.

Important functions of FSS are:

- To supply all types of loans i.e. crop loans (ST), MT and LT Loans to weaker sections.
- To provide adequate supplies of requisite inputs and technical guidance for their development.
- To encourage dairy, poultry, fisheries, farm forestry and other subsidiary occupations in rural areas.
- To make arrangements for bringing about improvements in agriculture markets.
- To mobilize deposits and small savings from weaker sections by providing incentives.

The area of operation of these societies is SFDA and MFAL districts. The sponsorship of these societies is done by Lead Bank of the respective district. The number of directors in the board of management varies from 9 to 13 based on the size of the society. One full- time Managing Director is deputed by Lead Bank. Of the nine members, five will be elected members (3 from SF& MF category and 2 from LF category) and four will be representatives of financial institutions, Department of Agriculture, cooperative societies and Block development officer (BDO).

Large-Sized Adivasi Multipurpose Cooperative Societies (LAMPS):

In line with the objectives of FSS, LAMPS were organized for the first time in December, 1971 n recommendations of Bawa team appointed by Government of India in tribal areas of the country.

Objectives of LAMPS:

- To provide all types of credit including consumption credit.
- Intensification and modernization of agriculture with appropriate technical guidance.
- Improving the marketing of agricultural and forest products in tribal areas.

Management of LAMPS include eleven board of directors. These eleven members are

- Five tribal members
- Two Non-tribal members
- Two nominated by registrar of cooperatives.
- Two nominees of lead bank.

Books referred

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