

## Indian Cooperative Credit and the Sustainability Issue

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*Resource allocation in non-farm sector of less developed economies is generally not done according to any accepted theoretical behaviour pattern. Rural Credit cooperatives or credit unions as they are being called in many African countries provide one such illustration. Lack of efficiency in allocating credit is intimately associated with the sustainability issue of such cooperatives. The paper discusses the factors that need to be taken into account in formalizing cooperative behaviour. Two alternative criteria of efficiency namely optimizing returns and minimizing transaction cost have been highlighted in the paper. It does not however, develop a full fledged model depending on either of these behaviour assumptions.*

Approach towards agricultural development has undergone significant changes over the years. Initially it was believed that industrialization would result in lesser pressure on land, labour will be released from agriculture to join industry and productivity in agriculture will automatically go up. Then came the second phase in policy making when a bold import substitution policy of industrialization was formulated and it was believed that under the incentive of an expanding market for agricultural produce an era of demand led growth will come to stay. This no doubt reflected the prevailing faith in percolation theory. The third shift in policy was witnessed with green revolution with its emphasis on high yielding seeds, greater use of fertilisers, good water management etc. Throughout these policy changes supply of credit remained to be the most important input to be provided to agriculture. The fourth or the final phase in agricultural development is however marked by directing credit to targeted needs as opposed to untargeted credit during the earlier phases. Coming into existence of self-help groups and the support they are getting from institutional agencies surely make them an important tool in rural credit distribution. In a sense it indicates a loss of faith in percolation approach to development also. In what follows we address the issue of sustainability of cooperative credit societies as the most significant provider of agricultural credit over a long-run period.

### Cooperative Credit and Investment

Credit is an important component of financial mix of any economic enterprise be it farming, manufacturing activity or provision of service. Without availability of credit functioning of an enterprise is restricted to internal sources of finance only. This might impose a constraint on its day to day functioning (short run credit) and long run growth prospects as well because it involves a contractual obligation of repayment. Lack of timely repayment severely impairs the capacity of the credit distributing agency and sometimes may even lead to its liquidation.

Development banks, ordinary commercial banks and cooperative credit societies sometimes called credit unions are three agencies engaged in the distribution of credit in rural areas. The main difficulty faced by commercial banks was in regard to imperfect information about borrowers. It was impossible for them to know the existence of a

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