

On Reorganisation of Co-operative Credit Societies

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Present Position:

1. The agricultural credit system in India to day is in a bad shape.
2. The commercial banks, which accounted for the larger part of the term loans to agriculture, have reduced their advances, despite the stipulation about priority sector lending. Bad debts and high cost of administering relatively small amount of loans to large numbers located in dispersed villages, are the major reasons for this. They are able to meet the stipulation about priority sector lending through deposits with NABARD, which is a convenient, trouble-free and profitable venue. That the state governments misuse a large part of this money is not a matter of concern to the commercial banks.
3. The co-operative credit societies are in a bad way. Many are now virtually defunct. But because of the stipulation of one village – one society, the farmers have no alternative co-operative source. The societies are defunct because huge amounts are overdue. The societies, even in developed agricultural regions, have not been able to attract much deposit from their members, since NABARD has been gracious to provide crop loans at low rates of interest. Since depositors can not get attractive interest rates from the society, they do not deposit there. Under such circumstance, the policy of the RBI, freeing co-operatives from stipulated rates of interest, is of no help and consequence. The Registrar has ceiling on the interest/dividend payable to members. This forecloses another line of attraction for the members.
4. Often the poor are excluded from co-operative credit. But they have no way of starting one of their own, since there can be a only one credit society in a village. The newest device is Self-Help Group (SHG). These (which properly speaking are essentially co-operatives) started as voluntary organisations. But now the government is the sponsoring agency. And, the stipulation is that there can not be more than 15 members or so in SHG. The government has subsidies for them. In addition, NABARD provides loans at highly subsidised interest rate. So 'self help' will come to an end in another decade at most, and the SHGs will go the way of primary co-operatives societies.

Suggestions for alternative arrangement:

5. What is the remedy? The 'one village, one society' policy should be given up. Any number of societies can come up, provided at least nine or ten members are there.
6. The primary societies should not be obliged to be members of the three-tier structure. A primary society may associate with a commercial bank, it is so chooses.
7. The Society should be registered under an Act like the New Andhra Act of 1994. It should have its own by-laws.
8. Every depositor and borrower should be full member of society. There should be no nominal members. While a borrower must become a member to qualify for borrowing, a depositor should cease to have any business with the society if he does not become a member by the end of the financial year.

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