

Co-operatives and Rural Development-Assam's Experience

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Introduction:

Cooperation means the system of people voluntarily associated working together in terms of equality to eliminate their economic exploitation. H. Calvert¹ has defined cooperation as an economic organization to which people voluntarily associated together pooling their limited resources on the basis of equality for promoting their economic interest under certain definite rules. International Co-operative Alliance (ICA) has defined cooperation as a non-profit system of production and trade based upon voluntary and mutual self-help and organized in the interest of the whole community².

Co-operative society is not synonymous with cooperation. Cooperation is the soul while the co-operative society is the living body. Section-4 of the Indian Co-operative Societies Act 1912³ has defined co-operative society as a combination of persons with the object of promoting the economic interests of its members in accordance with co-operative principles⁴. Prof. Paul Lambert⁵ defined co-operative society as an enterprise formed and directed by an association of users, applying within itself the Democratic Rules and intended to serve both its members and the community as a whole.

Thus, in broader sense a co-operative society is a voluntary organization and democratically managed by its members for their economic benefits on mutual basis through service oriented business activities. Co-operative societies are the little democracies that operate at the door steps of the members. A co-operative society is not just an organ to promote and uphold some basic values rather it is a form of organization as a value based institution, committed to build a social order characterized by quality and distributive justice.

Assam's economy is rural in character. This is evident from the fact that a very high proportion (87%) of its population is living in rural areas. Further two third of its workforce is engaged in agriculture and allied activities. In a

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predominantly agrarian state like Assam, rural development is a sine qua non. To achieve a high rate of growth with available natural, human, material and financial resources it is necessary that the rural people be organised within an institutional structure. Cooperatives are the most commonly found form of people's organization.

Co-operative society as formal association came to be setup in India as well as in Assam in 1904⁶ mainly as credit societies followed by non-credit societies from 1912⁷. The Royal Communication on Agriculture in 1928 rightly emphasized the importance of co-operatives as an potential instrument of rural development "If cooperation fails there will fail the best hope of rural India."

After six decades of planned development the issues of unemployment and mass poverty are common in rural Assam. With a view to achieving the goal of rural development to boost up the rural economy State Government recognized the co-operative sector with the formation of Gaon Panchayat Level Co-operative Society (GPCS) in plain districts of Assam⁸. Prior to the formation of GPCS, Khrishi Sahayak Samabay Samities (KSS) had been functioning in the state as institutional source of micro-finance to the agriculture sector. To cope with the problems of inadequate supply of agricultural credit and poor performance of co-operatives due to mounting over dues, managerial inefficiencies, lack of devoted supervision, willful default and natural calamities the State Government restructured the co-operative credit structure by forming 663 Nos. of GPCS in 1973 on the line of Farmers Service Societies(FSS)⁹.

GPCS, the grass root level co-operatives are now serving more than 29 lakh families and covering 100 percent villages in the state. GPCS, a socio economic business organization have been playing a vital role in extending institutional credit to agriculture and allied sectors in the state. These multifarious co-operative societies were entrusted with the function of production, procurement of agricultural produce and distribution of essential commodities in addition to provide agricultural credit to poor and marginal farmers in the state¹⁰.

Objectives:

In this paper an attempt has been made to access the role of GPCS in rural development of Assam with the following set of objectives.

1. To analyse the growth of GPCS
2. Ao analyse the credit and business operations of GPCS and its impact on rural economy of the state.

Thus, the paper is consisted of four sections. The first section is of introductory. Second section deals with the growth pattern of GPCS and in the third section an attempt has been made to analyse the credit and business operations of GPCS. The final section gives an account of the findings and suggestions to overcome the problems confronted by the GPCS in the state.

Methodology:

The present study is carried out on both primary and secondary data collected from sample GPCS of three districts namely, Sivasagar, Dibrugarh and Jorhat district and from Govt. and non-Govt. sources in the state. Simple mathematical and analytical tools have been used to gauge the credit and non-credit performances of the GPCS.

Growth of GPCS and Their Capital Structure:

Since its inception GPCS have passed through several phases of ups and downs but has not yet achieved its desired goal. The growth of GPCS in the state hampered by the increasing incidents of uneconomic and dormant cooperatives. The growth of GPCS in No.s and their capital structure during 1973-74 – 2007-08 is shown in the following Table-1 & Graph-1 & 2.

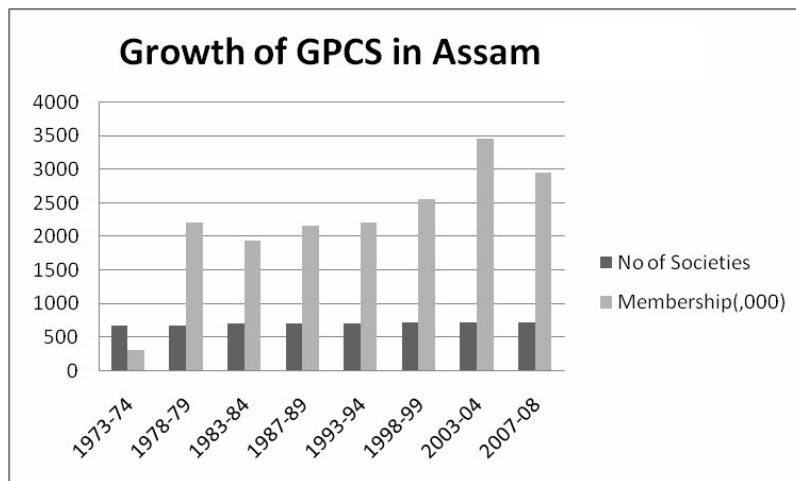
Table-1
Growth of GPCS in Nos., Membership, Average Membership, Share Capital, Working Capital (1973-74 – 2007-08)

Year	No of Societies	Membership ('000)	Av. Membership	Share Capital (Rs in Lakh)	Working Capital (Rs in Lakh)
1973-74	663	309	466	71.38	89.20
1978-79	665	2205	3315	354.00	798.21
1983-84	698	1940	2779	685.82	1837.93
1987-89	701	2153	3071	1099.06	4908.53
1993-94	704	2208	3136	1203.60	5155.24
1998-99	707	2560	3621	1196.46	5361.82
2003-04	707	3467	4903	1846.48	7587.27
2007-08	709	2947	4156	1372.03	10,468.83

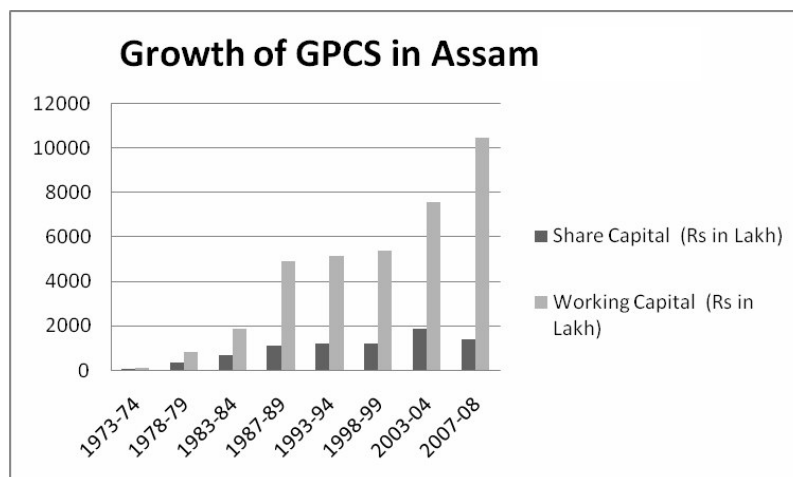
Sources: i. RCS, Assam,

- ii. Statistical Handbook, Assam,
- iii. Statistical Abstract Assam, 1978, Directorate of Eco & Statistics, Govt. of Assam.
- iv. Annual Progress and Performance Report on GPCS, LAMPS, etc. of Assam
- v. Economic Survey, Assam, 1980-81, 1981-82, 1983-84, 1996-97, 1997-98, 2004-05, 2006-07, 2009-10

Graph-1



Graph-2



In the year 1973-74, 663 Nos. of GPCS were organized with 309 thousand memberships to function in plain districts of Assam to cater credit need and distribute essential consumer articles among rural people. In the year 1978-79 only a marginal growth in numbers of GPCS has been recorded and the figure stood at 665. Average membership of GPCS increased from 466 in 1973-74 to 3315 in 1978-79. This massive growth in membership may be attributed to membership drive undertaken by GPCS. Share capital of GPCS also registered a hefty growth which stood at Rs. 354.00 lakh in 1978-79 as against Rs. 71.38 lakh in 1973-74. Due to heavy sales turnover of consumer goods and reinvestment of profits in the working capital, the working capital of GPCS recorded a healthy growth (over 8 times) during this period.

In the year 1983-84 as many as 33 Nos. of GPCS were added to its previous total making it 698 with average membership of 2779 registering a fall in total and average membership. However, the share capital has registered 93 percent growth from Rs. 354.00 lakh in 1978-79 to Rs. 685.82 lakh in 1983-84. This growth of share capital can be attributed to the increase in Government share to total share capital of the societies. During this period working capital also recorded two fold growth.

During the period 1983-84 – 1987-89 only 3 Nos. of GPCS were organized whereas total membership increased from 1940 thousand in 1983-84 to 2153 thousand in 1987-89 and average membership increased to 3071. With an increase in total membership and further increase in Govt. share to total share capital, share capital of GPCS resulted a significant growth in the state from Rs. 685.82 lakh to Rs. 1099.06 lakh in 1987-89. During this period working capital recorded 167 percent growth. This signifies that business operations of GPCS has expanded significantly.

Due to liberalisation and ongoing financial sector reforms GPCS in the state has been facing numerous problems as the economy of the country opened up for private sectors. The major strength of GPCS is the fact that it has commanding share in agriculture credit and supplying essential consumer goods and services to its members. However, its survival itself says its success story. The period 1987-1994 witnessed a marginal growth in Nos. of GPCS, average and total membership (2.5%), share capital (9.4%) and working capital (5%).

In the year 1998-99 the number of GPCS increased to 707 and total membership went up to 2560 thousand and average membership rose to 3621. As against a marginal increase in working capital (4%) share capital recorded a

negative growth.

During 1998-99 – 2003-04 the number of GPCS remained stagnant. This stagnation of the growth of GPCS may be due to 100 percent coverage of villages by the GPCS. While the total membership has registered 35 percent growth during this period average membership increased from 3621 in 1998-99 to 4903 in 2003-04. During the period share capital and working capital recorded 54 percent and 41 percent growth respectively.

Currently, 709 Nos. of GPCS are functioning in plain districts of Assam. During the period 2003-04 --07-08 GPCS has experienced downward trend both in membership and share capital. This is indeed an unhealthy sign for GPCS. This fall in membership may be attributed to the falling faith of general people on the functioning of GPCS. On the other hand the negative growth in share capital signifies the deteriorating financial condition of the GPCS. The only good thing for GPCS has been the steady growth of working capital which has been due to increase in business operations.

Credit Functioning of GPCS:

The cooperative institutions as affective channels of credit for farm and non-farm sector have played a significant role in the development of rural economy of the country. Agricultural credit in India is disbursed through a multi-agency network consisting of commercial banks (CBS), Regional Rural Banks (RRBs) and cooperatives. There are 1,08,779 village level Primary Agricultural Credit Societies (PACS)¹¹, 370 District Central Co-operative Banks (DCCBs) and 31 State Co-operative Banks (SCBs) providing primarily short and medium term agricultural credit in India. Long term co-operative credit structure consists of 19 State Co-operative Agriculture and Rural Development Banks (SCARD) as a march 2005 and 772 Primary Agricultural and Rural Development Banks (PA&RDBs).

In Assam GPCS as a multifarious cooperative society have been playing a vital role in rural development through disbursing agricultural credit to rural magical farmers since its inception. GPCS in Assam is the foundation on which the entire superstructure of the short term credit cooperative system is built.

Credit performance of GPCS is shown in following Table-2

Table-2
Credit Performances of GPCS During 1975-76--2007-08

Year	Loan issued during the year (Rs.In lakh)			Loan outstanding (Rs. In lakh)
	Short Term	Medium Term	Total	
1975-76	-----	-----	29.00	32.00
1980-81	-----	-----	137.00	364.00
1984-85	358.65	151.52	510.17	1414.86
1987-89	551.88	140.59	692.47	2715.75
1993-94	52.83	125.42	178.25	1262.50
1998-99	437.70	41.43	479.13	4037.47
2003-04	.79	Nil	.79	3091.05
2007-08	Nil	Nil	Nil	2602.65

Sources:

- i. Register of cooperative societies, Assam.
- ii. Statistical Abstract, Assam, 1978, Govt of Assam.
- iii. Annual programs and Performance Report on GPCS, LAMPS etc of Assam, 1983-84, 1984-85, 1995-86, 1989-90.
- iv. Statistical Handbook, Assam 1984, 1988, 1993, 1995, 2001, 2006.
- iv. Economic Survey, Assam, 1980-81, 1981-82, 1982-83, 1996-97, 1997-98, 2007-08, 2008-09.

GPCS in Assam extends both Short term¹² and Medium term¹³ loans to its members. In the year 1975-76 GPCS issued Rs. 29.00 lakh as agricultural loan to its members. In the year 1984-85 GPCS issued Rs. 510.17 lakh as agriculture credit, out of which Rs. 358.85 lakh was issued as short term and Rs. 151.52 lakh as medium term loan. Out of this total loan figure short term loan accounted for 70.30 percent and medium term loan accounted for 29.70percent. During the period 1987-89 the total credit issued by the GPCS had been to the tune of Rs. 692.47 lakh, out of this loan figure short term loan accounted for 79.70percent (Rs 551.88lakh) and medium term loan accounted for 20.30percent (Rs. 140.59 lakh). Thereafter credit functioning of GPCS has received a serious setback except in the year 1998-99 in which GPCS issued Rs. 479.13 lakh as agricultural credit. Both short term and medium term loan has recorded a negative growth. In the year

2003-04 GPCS issued only a negligible amount of Rs. 0.79 lakh as short term loan to agriculture sector. Credit functioning of GPCS has completely collapsed in 2007-08. The collapse of credit functioning signifies the fact that GPCS are grossly deviating from their assigned role of providing credit to agriculture sector and miserably failed to serve interest of rural farmers.

Another disappointing feature of GPCS has been the continuous accumulation of outstanding loan. As against Rs. 32.00 lakh in 1975-76 it went up to Rs. 4037.47 lakh in 1998-99. Huge accumulation of outstanding loan has been adversely affecting the credit functioning of GPCS. This also indicates the extent of failure of GPCS in recovering their outstanding loans. From 2003-04 the outstanding loan figure has witnessed a downward trend, but even then it is very high (Rs. 2602.65 lakh in 2007-08) and hindering the growth of GPCS.

The co-operatives once dominated the rural credit market in the institutional segment (with a share of around 65 percent going by the All India Debt and Investment Survey 1991), but now have a significantly smaller role. Data for the past decade indicates a fall in the share of cooperatives in the rural credit market, loan around 62 percent in 1992-93 to about 34 percent in 2003-04 in spite of an increase of just fewer than 10 percent per annum in the absolute disbursement on a compounded annual basis¹⁴. As at the end of March 2009, half of total rural cooperative credit institutions reported profits. Profits reported by the sector mainly emanated from DCCBs, PACS and PCARDBs reported overall net losses..., the asset quality witnessed deterioration during the same period¹⁵.

Business Operations of GPCS:

GPCS, the credit institutions at the grass root level deal with individual members/clients through disbursing credit. In addition to this they also serve as outlets for inputs and for the Public Distribution System (PDS) for food and other essential items to the poorer sections of the rural people. Table -3 shows the business operations of GPCS.

Table-3
Sales Turnover of GPCS During 1984-85 – 2007-08 (Rs in lakhs)

Year	Agriculture produce	Consumer goods (PDS)	others	Total
1984-85	58.63	6820.75	65.75	6945.13
1987-89	20.34	11414.26	111.07	11545.67
1993-94	215.57	10500.30	205.21	10921.08
1998-99	167.51	16206.52	189.10	16563.13
2003-04	360.88	20481.58	860.96	21703.42
2007-08	7.29	39372.08	1337.11	40716.48

Sources:

- i. Register of Cooperative Societies, Assam.
- ii. Annual Progress and Performance Report on GPCS, LAMPS etc of Assam, 1985-86, 1989-90.
- iii. Statistical Handbook, Assam, 1988, 1993, 1994, 1995, 2001, 2005.
- iv. Economic Survey, Assam, 1996-97, 1999-2000, 2003-06, 2009-10.

Table-3 shows that business turnover of GPCS has recorded a considerable growth during the study period. In the year 1984-85 business turnover of GPCS amounted to Rs. 6945.13 lakhs out of this sales turnover, PDS items accounted for 98.22 percent while agriculture produce and others contributed 0.84 percent and 0.94 percent respectively. During the period 1987-89 business turnover of GPCS increased considerably. Out of total business turnover of Rs. 11545.67 lakh sales of PDS items accounted for 98.87 percent, share of agriculture produce fallen to 0.17 percent and others 0.96 percent. In the subsequent period (1993-94) also sales of PDS items dominates the total share of business turnover. In the total business turnover PDS items contributed 97.85 percent whereas agriculture produce and others contributed 1.01 percent and 1.14 percent respectively. In the later period also GPCS recorded a considerable growth in terms of sales turnover. Out of total business turnover of Rs. 21703.42 lakhs in 2003-04, PDS sales accounted for 94.37 percent (Rs 20481.58 lakh), agriculture procedure shared 1.66 percent (Rs 360.88 lakh) and others 3.96 percent (Rs.860.96 lakh) only. In the year 2007-08 also GPCS has witnessed a significant growth in business turnover. In the huge business turnover of Rs. 40716.48 lakh, PDS sales contributes 96.70 percent (Rs.39372.08 lakh),

agriculture produce contributes only 0.02 percent and others 3.28 percent.

Thus, it is quite clear from the Table-3 that business operations of GPCS have expanded significantly over the years. This is indeed a good sign for GPCS. However, the disappointing feature is that GPCS are heavily depended on the PDS items for their business operations which are of comparatively low margin and have never been trying to be self reliant.

Summary of Findings and Suggestions:

From the above study and field work the following have been observed.

- i. Through every village of the state is under the umbrella of GPCS, average and total membership trend has witnessed a fluctuating trend during the study period. In the later part of the study it has recorded a negative growth which signifies the falling faith of general people on the functioning of GPCS.
- ii. Internal resource mobilisation of GPCS has been very poor and unsatisfactory. Due to limited membership total share capital of GPCS consists only a nominal part of working capital. GPCS continue to rely heavily on external support to continue their business operations and have never tried for self reliance. To run their business operations GPCS are dependent on Govt. and their agents.
- iii. As far as the loan recovery is concerned the performance of GPCS has been very poor and disappointing. Huge accumulation of outstanding loan corroborates this fact. Though a downward trend in outstanding loan has been noticed since 2003-04, yet it is still very high and jeopardizing the growth and credit extension of the GPCS.
- iv. Credit functioning of GPCS has been deteriorating year after year and it has received serious setback in the later part of the study. In 2007-08 credit functioning of GPCS has completely collapsed. Since GPCS constitute the foundation of the entire short term credit cooperative structure, their ill health affects the higher tiers viz., the DCCBs and SCBs as well.
- v. Phenomenal growth in business turnover of GPCS can be attributed to heavy sales of PDS items which constitutes more than 95percent of total sales proceeds. Now GPCS are running with PDS business which is unremunerative non-credit function. If Govt. financial support and PDS items are withdrawn GPCS will collapse completely.

- vi. Honesty, dedication to the service is missing in cooperative department in the state. More than 90 percent cooperative officials and secretaries of GPCS are corrupt or involve in corruption practices. Misappropriation of society's fund is a common feature of GPCS.
- vii. Excessive Govt. control is another factor responsible for sluggish growth of co-operative sector in the state. NABARD, setup in 1981 on the recommendations of the Sivaraman Committee found sagacity in supporting a state partnered and state governed cooperative credit structure. Instead of tackling the root cause of their weakness the state started behave like patrons rather than a provider of financial services¹⁶. In many cases co-operative department is found responsible for unhealthy and deteriorating condition of credit societies.

Thus, fluctuating membership, low capital base, collapsing credit functioning, mounting over dues, unsatisfactory recovery percentage, high dependence on external sources of funding, excessive Govt. control, poor business diversification, mismanagement, lack of professionalism all these present a dismal picture of GPCS. It is clearly understood from the above study that GPCS have miserably failed in bringing about rural development in the state.

Recommendations of the Task Force on Revival of the Co-operative Credit Structure (Vaidyanathan committee)¹⁷:

The task force observes that the Short Term Co-operative Credit Structure (STCCS) never realized the enormous potential opened up by its vast outreach, while they were originally visualized as member driven, democratic, self governing, self reliant institutions, cooperatives have over the years, constantly looked up to the state for several basic functions. The committee has described in detail how the state Governments have become the dominant shareholders, managers, regulators, supervisors and auditors of the co-operative societies.

For the revival of the STCCS, the Vaidyanathan Committee has suggested an implementable action plan with a financial package of Rs. 14839.00 crore for rural credit co-operative institutions. The committee suggested for

1. **Introduction of strict legal and institutional reforms for their democratic self- reliant and efficient functioning.**
2. **Provision of liberal financial assistance to bring the system to an**

acceptable level of health, through cleansing of balance sheet.

3. Initiating measures to improve the quality of management.

To remove these constrains discussed above and better functioning and promoting viability of the GPCS following suggestions are put forward.

- i. Co-operative education to the members and proper training is highly essential for success of the co-operative movement in the state. Proper training to the office bearers and managerial staff of GPCS can ensure better service delivery as well as better functioning of the society.
- ii. To improve financial health, neutralise government control and to become self-reliant GPCS should try to mobilize their internal resources and invest their capital on profitable business.
- iii. To improve the recovery performance, there is a need for an affective mechanism. In this regard the Working Group (Brahm Prakash Committee 1991) recommended the establishment of Co-operative Banks Debt Recovery Tribunals on the pattern of the commercial banks or co-operative courts on the pattern of Maharashtra.
- iv. Although the membership of GPCS in terms of principles has increased manifold over the years, the presence of dormant membership and their inactive participation in management have not only resulted in the sickness but also encourage the dominance of vested interest. Therefore, member awareness and participation is highly essential. The members should jointly work to derive the benefit from the society.
- v. GPCS should follow an appropriate credit planning and right loan appraisal system. The quality of loans, timely monitoring, adequate securities and proper follow up can ensure recovery.
- vi. The country has been experiencing social and economic development through Self Help Groups (SHGs) revolution. If the existing co-operatives could start operating as micro -finance institution by organizing, adopting, promoting and financing SHGs, this could pave a way to economic uplift of the rural people and ensure an empowering for the members.
- vii. GPCS are involved in non-profitable business of PDS. They should confine their activities only to rural credit and they should not get themselves involved in non-credit activities like PDS etc. Therefore, it is suggested that they should diversify their business to other fields which is need of the hour.

- viii. GPCS suffer from lack of professionalism. There is an urgent need for appropriate HRD policies to be implemented by these institutions. Capoor Committee (2000) has rightly recommended on these lines besides professionalism, HRD and setting up of a Co-operative Rehabilitation and Development Fund. The Committee also cautions against excessive control and regulations. To improve operational efficiency the recruitment policy should be transparent and above politics.

Through GPCS have completed 38 years of their service to the nation (state), yet the role played by them in bringing about rural development in the state is far from satisfactory. A reorientation of co-operative policies towards the changing environment is necessary. The most important factor for success of a co-operative society is co-operative education to members and their active participation in the process. Finally, state government should view the co-operatives as dependable organization to deliver economic benefits at least cost but most efficiently.

Notes and References:

1. Calvert, H. (1959): *The Law and Principles of Co-operation*, Thacker Spink and Co. Pvt. Ltd, Calcutta, p-19.
2. Weeraman, P.E. (1979): *The Aims and Principles of Co-operatives and their Application in Developing Countries*, Speech on co-operation, No-15, ICA, New Delhi, p-6.
3. The Co-operative Societies Act 1912, Delhi Law House, Delhi, 1985, sect-4, p-3.
4. The present day cooperative societies throughout the world are being run on six basic principles laid down by the ICA in 1966,
 - i. Voluntary and open membership.
 - ii. Democratic control.
 - iii. Limited interest on capital.
 - iv. Equitable distribution of surplus.
 - v. Co-operative education.
 - vi. Cooperation amongst co-operatives.
5. Lambert; Paul (1963): *Studies in Social Philosophy of Co-operation*, Cooperative Union Ltd., Manchester.

6. *The first cooperation societies Act 1904* permitted to organize only credit co-operatives in the country.
7. *The Co-operative Societies Act 1912* provided for organization of credit as well as non-credit societies including co-operative union federation.
8. In this study 27 plain districts of Assam are taken into account. Two hill districts i.e. Karbi Anglong and N.C. Hills are out of the preview of this study. In two hill districts LAMPS are providing credit and other services to its members.
9. Following the recommendations of *National Commission on Agriculture (1970)*, Farmers Service Societies were organized in other parts of the country in early Seventies of the 20th century.
10. Section 2 (1) 8 (2) of the model By law for Gaon Panchayat Level Co-operative Societies entrusts the responsibility on GPCS to provide agriculture credit to marginal farmers, marketing of agricultural produce and distribute essential consumer goods to its members.
11. Rural credit co-operatives in other part of the country are known as PACS. In Assam rural credit co-operatives are known as GPCS.
12. Short term loan is issued for seasonal crops i.e., Kharif and Rabi crops. The loan is payable after the harvesting period of 6 months.
13. Medium term loan is issued to members for various purposes; such as, for purchasing cattle, tractor, piggery, grocery, cottage and small scale industries etc. the duration of this type of loan is 7 years or as term determined by the financing bank.
14. *Task Force on Revival of Co-operative Credit Institutions, 2004*, (Vaidyanathan Committee); Govt. of India, p-16.
15. *Trend and Progress of Banking in India, 2009-10*, RBI, P-116-117.
16. Committee to Review Arrangements for Institutional Credit for Agricultural and Rural Development (Sivraman Committee).
17. In August 2004 the Govt. of India constituted a task force under the chairmanship of Prof. A. Vaidyanathan for suggesting measures for revival of co-operative credit institutions.

