
REVIEW OF PERFORMANCE, MAGNITUDE AND GROWTH OF AGRICULTURAL CREDIT BY CO-OPERATIVES IN INDIA

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Abstract: Agriculture is one of the most important sectors of the Indian economy. It is the means of livelihood of almost two thirds of the work force in the country. However the fact is that agriculture has the smallest share in GDP of only about 14 per cent today. To improve this GDP share of Agricultural Sector more production is necessary and for more production adequate and timely credit flow at reasonable rates through the expansion of institutional framework becomes necessary. A multi-agency approach comprising co-operative banks, scheduled commercial banks and RRBs has been followed for providing credit to agricultural sector in India. As Adequate and timely flow of credit is always observed as a major threat to the growth of Agricultural sector in India there is a scope for Research in this field. Hence this Research paper proposes to study the problem on multi dimensional view which specially focuses on efficient credit management by co-operative banks and the efficient credit utilization by the beneficiaries in its end use. But before studying the research area it is also important for us to review the literature in this respect to enhance the various perspectives and check the prospective field of our study. It forms a theoretical base to understand the nature of the Research area already done in this aspect.

Keywords: Review, Agriculture, Credit, Co-operative.

Introduction: We cannot ignore some of the positive aspects of the economy which has made farmers life prosperous. Economical technology mechanism transfer was very well set up by the government. Resource agricultural analysts provided the required knowledge to the farmers. Farmers growing plantation crops were on a mode of making money. They wanted to grow crops within a short period of time, sell and obtain cash immediately. They just purchased seeds and fertilizers at the available price and quality. They did not even store some of the produce for their future growth, immediately converted it into cash. So gradually there was an increase in their cash requirements to produce the crops. As a solution to this Government provided easy crop loans to the farmers. But the negative aspect of this scheme was it encouraged non-payers of loans when they nullified the loan amount. Apart from this if the banks fail to recover the loan they reissued extra loan from which they credited the previous loan amount with interest and also were able to achieve their loan targets for the financial period. Later to avoid this, Government introduced priority sector banks to improve this situation. But even this system had its own loopholes which once again did not prove to be farmer friendly i.e. non-availability of credit at the right place and at the right time. Now the only way to farmers was approach the Private Money lenders (PML) who later became chemicals and fertilizers agents. Their recovery method was to purchase the produce from the farmer to whom they supplied the inputs at a price fixed by them and Government intervention slowly started deteriorating. Slowly Farmers felt

comfortable to procure credit form these PML rather than priority sector banks, ignorance of the fact he is being trapped into problems at the later stage receiving low quality seeds but pay high price for the inputs. By the time he realized this, PML had already spread their net all over our agricultural system. This depicted the worst situation of the farmers especially, small scale who find it very difficult to even cover the cost of production. It remains as an unanswerable question for the Government. Government now thought of a solution to introduce the co-operative societies to provide some relief to the farmers. But later it was realized that approaching co-operative societies was much more difficult than the banks at an earlier stage. This once again proved that Government schemes always have some loopholes which do not facilitate the farmers for a better living. At present production of agricultural goods has increased from 50mn to 250 mn ton. With the available updated technology production may be increased. Our economic system has been framed in such a way that as production increases price starts decreasing. If we think of exporting the extra production stored it leads to increase in price of domestic goods. Obviously the next step of the government is to curb food exports. This time gap to supply the goods demotivates the foreign countries and they reject to purchase goods from us in a long run. These are principles and policies issues at the macro level which also leads to problems and the final risk bearers are farmers. It is pleasant to note that India, America and China are three giants in food production. We can target the world market and make profits, a share of which will move improve the

conditions of the farmers in India. But immoral politics interference has spoiled our agricultural system. Migration as a resultant of this is also a serious issue in the agricultural sector. Migrating farmers leave the land uncultivated or lease it to uninterested parties, which may bring agricultural development to a stagnant position. Hence if risk can be distributed to all the stakeholders of agricultural produce from farmers to consumers we can see changes in the agricultural sector. Mainly to reduce burden of debt risk to farmers, when they fail to receive the minimum support price at the time of natural calamities and efficient credit system should be framed which is beneficial to the loan providers as well as farmers. Credit risk if reduced in the agricultural sector and farmers well educated in this field, we may find major changes which will not only develop the economy but also form a strong base for our future generation to lead their lives in a better way. Hence better management of agricultural credit plays a very important role in the progress of our economy. Therefore Co-operative Societies have their major role to be played in the agricultural credit market to retain farmers in their occupation and make them hassle free to serve our economy.

Literature Review

Performance of Primary Agricultural Credit Societies: Mehta (1963) observed that the deposits to working capital and over dues to outstanding loans were two effective ratios to be considered in evaluating the functioning of cooperative credit societies. Patwardhan and Dharmaraj (1966) compared the performance of PACs in different states of Indian and found that the percentage of coverage of population by PACs increased in all the states between 1959 and 1962. RBI (1966) suggested that the percentage of over dues to loans outstanding is an important indicator of effectiveness of agricultural credit. Das and Hanumappa (1967) in their macro study of PACs in southern states during 1961-62 to 1964-65 indicated a variation in number of societies over the years. Rangachar (1969) while studying the performance of cooperative societies between 1950-51 and 1964-65, found that the volume of co-operative credit had been increasing over the years in different states and the increase has been uneven. Tiwari (1969) analyzed the working of the Agricultural credit cooperatives between 1951-52 and 1965-66 with 1960-61 as base year. He found that the working capital was the highest (Rs.122 crores) in Maharashtra and the least was in case of Assam (Rs.2 crores). Chauhan (1971) assessed the extent of Cooperative borrowings by small, medium and large farmers in one of the cooperatively advanced districts of Maharashtra. About 78% of the small, 84% of medium and 26.7% of large farmers borrowed from cooperatives during

1971-72. Galgalikar and Bhole (1972) pointed out that the success of the co-operative credit societies depended not only on the extent of advances but also mainly on the position of recoveries effected. Singh Gurbachan (1972) appraised the progress and functioning of six co-operative credit societies in Punjab and found that 37.5% of the working capital of those societies was derived from the members as deposits. Krishnaswamy (1973) stressed the need for deposit mobilization in the efficient running of the rural credit institutions. Thakur (1973) tried to probe into the generally conceived hypothesis that (1) cooperatives are biased towards big farmers in granting loans and (2) the big farmers are mostly responsible for mounting over dues of the cooperative societies compared to small farmers. On the basis of empirical test it was pointed out that both hypotheses could not be accepted. Mariyanathan (1974) found that Kerala had the highest average share capital (Rs.36, 806) and west Bengal (Rs.2, 769) the minimum during 1970-71. He found that the defaultness, inefficient management and dormancy which ever interlinked, as the important problems. Bhuyan and Mohanty (1975) attempted to examine the working of the primary cooperative societies in India on the basis of their bad debts and over dues. They found that the highest percentage of over dues was in west Bengal (6.12%), while the lowest was in Andhra Pradesh (0.14%) during 1957-58. Venkataram (1975) studied the short term financing by institutional and non-institutional agencies in Mandya district, Karnataka. He found that 50% increase in loan amounts of the cooperatives and commercial banks would provide a favourable situation for adaptation of new technology which provided about 52% increase in net returns. Bahaddur (1976) did the trend analysis of all the three types of cooperative credit societies in Andhra Pradesh during 1958-59 to 1969-70. He found that the number of societies declining over the years due to reorganization. The share capital and deposits showed an increasing trend. Sridharan et al (1976) evaluated the working of 15 PACs in a taluk of Tamil Nadu. The main findings were that the average deposits per member significantly contributed to the net profits of credit cooperative societies. Choubey (1977) was of the opinion that in spite of the spectacular growth of cooperative credit during the plan period, the credit gap continues and it was widening as development gathers momentum. Hence there a need for cooperative credit planning. Nair (1976) stated that the ability to mobilize deposits by the PACs continued to be poor. In 1974 the average amount of deposits per society was only Rs.5800 as against an average working capital of Rs.102743. Among the states, Kerala stood first in per society

average deposits and it was the lowest for West Bengal. Patel et al (1977) studied the performance of cooperatives in Mehsana district of Gujarat and found that the increase in membership of the societies results in substantial increase in number of non-borrowers because of over dues. Pandey and Muralidharan (1978) studied the socio-economic factors influencing the over dues in cooperative credit societies. According to their conclusion, the amount of loan and consumption expenditure were responsible for the over dues. Loans were issued without keeping the repaying capacity of the borrower in mind and were not properly supervised. Goyal (1979) studied the deposit mobilization by Apex Cooperative Banks in India during the period 1971-77. He concluded that total deposit mobilization was sufficient in all the State Cooperative Banks in India. Venkateswaralu and Rao (1980) studied the impact of cooperative finance on agriculture in Andhra Pradesh. The study revealed that there is significant impact of cooperative credit on agriculture with regard to the cropping pattern, adoption of improved technology such as improved seeds, fertilizer and plant protection and in terms of gross yields of major crops. Vagganer (1981) discussed the importance of primary agricultural credit cooperatives in the disbursement of credit to the small and marginal farmers, agricultural labourers and to other weaker sections in India in the creation of job opportunities for them. Lasley (1982) examined how the organizational and structural dimensions influence levels of membership participation and financial performance from a sample of 20 US cooperatives (10 federated and 10 centralized). The data showed that as centralization increased, membership participation decreased and the cooperative size has positively related to financial performance. Rao (1992) studied the extent of financial infrastructure in Karnataka in terms of the number of the number of commercial and PACs per one lakh population for every hundred sq.km. He found that the number of PACs per lakh population decreased from 32.2 in 1974-75 to 14.3 in 1988-89 due to liquidation of a large number of societies, which were incurring losses due to heavy over due to heavy over dues. Barman (1994) pointed out that priority sector lending by itself was not a draw back in the financial system. It was the appropriate system of selecting the borrowers, and monitoring the loan and disbursement, use and repayment which were important issues of cooperative bank loans. Singh (1996) reviewed the trends in expansion of the network of credit institutions at the national level and had showed that the share of cooperatives in the credit disbursement, which had been higher in earlier decades as compared to that of commercial banks

and RRBs, exhibited a declining trend after 1989-90 mainly due to expansion in the branch network of commercial banks and RRBs.

Magnitude and growth of Institutional credit to Agriculture: Sunil Jain (1998), in stating the problems of credit in the Indian agriculture, pointed out that the big impediment in the way of credit flow to the farming sector was poor recoveries. Tyagi and Singh (1998) indicated the power recovery of loan to be a major problem in rural areas. The various reasons offered to explain this problem included natural calamities, inadequacy of credit, fixation of unrealistic repayment programmes, poor supervision and follow up, lack of timely action, lack of coordination among various government developments and financial institutions. Sharada.V and Police Patil P.A (2000) in their study on "Co-operative Development in Karnataka"-A Case study of Dharwad district have emphasized the need for co-operation to be free from influence of vested interest groups, excessive state aid and ensure the introduction of professionals into co-operative sectors. Abate (2000) studied the loan and advances to agriculture from all of the financial Institutions shown significant compound growth rate over the study period. Compared to the growth in term loan (13.0 per cent), the growth in crop loan (17.2 per cent), which is a major index of agriculture production finance, has shown a higher growth rate in Karnataka state during the study period. Subramanya.B (2001) observed in his study on "Union Budget 2000-01, Its Implication on co-operative credits and banking Institutions" that the Co-operative system is a crucial channel for credit in rural areas. However, overtime problems have developed mainly because of excessive bureaucratization and overlapping jurisdiction of state Government and NABARD. Hence there is need to maximize the union budget proposal and ensure specific appropriate measures for co-operative measure for co-operatives to become dynamic, vibrant, viable and democratic. Zeratsion (2002) studied the performance of primary agricultural credit societies in Karnataka and found that the amount of loan advanced by primary agricultural cooperative societies increased in all the districts of Karnataka state during the study period. Dadhich.C.L (2002) in his paper on "Willful default of Co-operative credit in Rajasthan-Some issues" has mentioned that willful defaulters are those having large holdings, of higher costs with higher levels of managing committees of societies. The author has identified the causes for over dues and has suggested measures for solving this problem. Matpathi.S.C (2002) in his study on "Financing of Agriculture-A case study of Belgaum District credit co-operative

Bank Limited” made an attempt to evaluate the functioning of Belgaum DCCB in relation to its credit deployment, repayment, performance and overdue position during a period of 10 years from 1991-92 to 1999-2000. The study has revealed significant trends in above parameter of the bank credit managements in relation to financing of agriculture. Chellani D.K. and Rita Rai (2004) in their study “The performance of DCCBs in Gujarat” examined the growth in business parameters and the angle of operational efficiency parameter and suggested some corrective measure for revitalizing the sector, particularly in the context of application of new stringent prudential banking norms. Krishna.K.Gupta (2005) in his study on “Evaluation of Co-operative Credit Institutions in India; A viewpoint” has highlighted that no initiative of strengthening the co-operative credit institutions will sustain unless it comes from the co-operative system itself. The apex co-operative institutions therefore should come forward for the revival of the whole co-operative credit system rather than the system waiting for the Governmental fiat for its strategy. Dr. Thanikodi.R (2005) in his study on “Central Co-operative Banks in India problems and Remedies” has identified the problem of CCBs in which they have promoted the healthy functioning and development of PACs in rural areas. R.Sambashivam (Dec 2006) in his study on “An evaluation of the performance of DCCBs in Karnataka-A case study of Shimoga district” has recommended to concentrate more on quality of advances in order to increase yield and loan portfolios of the bank. Waiving of interest decision on loan and advances by the government leads to emergence of unhealthy practice in its working. Ravikumar.G (2008) in his thesis “Agricultural finance in Primary Co-operative Agricultural and Rural Development Bank, A case study of Shikaripura Taluk in Shimoga District” states that the bank requirement of any productive activity is based on its finance as well as its resources. Hence repayment period in agricultural loans should be increased, speedy process of loan, simplified bank formalities, education to farmers related to provision of credit is necessary. Veerendra Kumar Gupta (2000) in his research study examines the problem of long-term credit to agricultural sector and the lending policies followed by the land development banks in economically backward region like Budaun district. He made 2 important suggestions on issue of farmers’ credit pass book by the state and integration of short term and long term Co-operative banks. Vishwanath (2001) identified that defective agrarian structure, misutilisation of loans, natural calamities and welfare defaults were external factors that made unfavorable climate for the loan recovery. Dr.Amrit Patel (2004)

in his study revealed that the Co-operative are ineffective, inactive (dormant) and are dying (moribund). Jayaprakash.M (2005) in his study analyzed relating to operational management, lending and recovery procedure and HRM in PCARDBs in Karnataka. Sikander and Rakesh (2008) in their study, assess the over dues and fresh flow of credit by agricultural co-operative credit societies and to estimate the repayment capacity of the borrowers in the study area. In order to reduce the over dues and fresh flow of credit, it is suggested that the professional approach, operation using art of state technology, computerized accounting and participative decision making, crop insurance etc. can improve the efficiency of the cooperative societies. Mahadeva and Veena (2008) have observed in their study utilization of loans by borrowers show that minor irrigation loans were fully utilized; there was a high degree of misutilisation of borrowed loans against land development and improvements. Shivaprakash.M (2009) in his critical analysis says that debt waiver cannot become a permanent solution to the farmers’ financial crunch. Rather it creates unwanted problems such as willful defaulters, financial commitment to the Government and political influence. Sukhpal.et.al.,(2009) in his study, in spite of measures to rejuvenate farm credit, the flow of credit to agricultural sector remained inadequate quantitatively and qualitatively; they made following suggestions, issuing of a simple but comprehensive record book to farmers containing information relating to his land record and institutional transactions, computerization of land records by the state Government, simplification of loan, application form and maintenance of proper record of loan application .Sharma (2009) in his study has made an attempt to examine the organization and performance of agricultural credit system in India. Satpal.et.al (2010) has conducted a study on co-operative credit in rural and urban sector in Rohtak District, Haryana State. They have identified that majority of the respondents of rural area pointed out the negative attitude of bank staff towards respondents is a matter of serious concern. H.S.Manjunath (2010) in his study has mentioned that PCARDBs are the only specialized long-term financing agency. In the present context of Agriculture and rural development, suitable policy orientation is needed and PCARDBs have to realize the constructive role in the development of agriculture and rural.

Conclusion: The Co-operative sector since its incorporation is serving to save the farmers from the clutches of the money lenders by providing agricultural credit to meet their timely needs. Its main motto is to provide adequate and timely credit

to the beneficiaries mainly through PACs and RRBs. But even today it is facing some of the main problems such as absence of professionalism, ICT and efficient loan recovery mechanism, tough dual regulatory system, Lack of strategies to mitigate risk and mismanagement of funds. The literature Review has revealed the fact that the past Research have either concentrated on the performance and functions of the Co-operative banks or on the problems faced in

recovery of credit. The extent to which the study is conducted with regard to Agricultural Credit Management in Shivamogga District, Karnataka is also very meagre. There is a severe mismatch in the requirement of the beneficiaries and the working of the co-operative banks towards Agricultural credit. This mismatch has opened its area of further study in Agricultural credit management by Co- operative banks in Shivamogga District, Karnataka.

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