

**A STUDY OF PRIMARY AGRICULTURAL CO-  
OPERATIVE CREDIT SOCIETIES ON FARMERS IN INDIA****Sheeba Manoj****Research Scholar Department of Economics, Dr. APJ Kalam  
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University, Indore, MP****ABSTRACT**

Agricultural credit is one of the most crucial inputs in all agricultural development programmes. Access of rural credit has still remained scarce in India. Primary Agriculture Credit Societies (PACS) working at grass-root level, having direct contact with the rural people and meet their financial requirements. The problem of loan overdue is a serious concern in different regions of the country, as it affects the recycling of funds and loses its economic viability as a lending institution. The present study examines the recovery performance of rural credit given by PACS in six different regions of India namely Central, Northern, Southern, Eastern, North-East and Western. The result suggests that the performance of credit recovery has been low in north-eastern states and high in northern and southern states. Recovery performance of credit is directly proportional to non-agricultural loan to agricultural loan, trained-untrained staff ratio and average member per society and inversely related with proportion of government capital to working capital and real growth rates at constant price. To make all PACS viable and ensure adequate and timely flow of credit, appropriate policies are required from the Reserve Bank of India in collaboration with State Governments.

**KEYWORDS:** cooperative, credit, loan overdue, recovery, policy

**INTRODUCTION**

Agriculture forms the backbone of the Indian economy and can also largely stand for the prosperity of the Indian economy. According to Census 2011, about 68.8 percent people lives in rural area and their livelihood depends on agriculture either directly or indirectly. The share of agriculture and its allied sectors in the gross domestic product (GDP) has come down to 14 percent in 2011-12 (at 2004-05 prices). The sector has got potential to achieve higher growth rates and also be an engine of growth, so that growth in other sectors and overall growth rate of the economy can be achieved. Agriculture is an unorganized profession. Its success and failure depends, to a large extent, on climatic factors. Further, it is not always possible to distinguish between productive and unproductive loans of the farmers. Because of these factors, banks did not show much interest in advancing loans to agriculture and allied activities for a long time and farmers were forced to depend on moneylenders and mahajans. Agricultural credit is one of the most crucial inputs in all agricultural development programmes. Since independence, a multi

agency approach consisting of cooperatives, commercial banks and regional rural banks-known as institutional credit has been adopted to provide cheaper and adequate credit to farmers. Farmers need funds for short periods of less than 15 months for the purpose of cultivation or for meeting domestic expenses. With this fund they purchase seeds, fertilizers, fodder for cattle and other inputs related to agriculture. They may require funds to support their families in those years when the crops have not been good or adequate for the purpose. Such short period loans are normally repaid after the harvest. The main agents for granting short term loans are the moneylenders and cooperative societies. Medium term loans are generally obtained for the purchase of cattle, small agricultural implements, etc. The period for such loans extends from 15 months to 5 years. These loans are generally provided by money lenders, relatives of farmers, cooperative societies and commercial banks. The farmers need finances for the purpose of buying additional land, to make permanent improvement on land, to pay off old debt and to purchase costly agriculture machinery. These loans are for long periods of more than 5 years.

In the field of cooperation, the Primary Agricultural Credit Societies (PACS) provide mainly short term and medium term loans. Since, PACS perform at grass-root level, have direct contact with the rural people and meet the financial requirements of more than 121 million members in 2010-11. Our study is based on recovery performance of PACS in six different regions of the country. The cooperative movement has been in existence for more than a century. According to several critics, the movement is an utter failure and that it should be scrapped because it failed to abolish poverty of the rural masses and unable to increase agricultural production. The utter irrelevance of the cooperative movement was indicated by the fact that in 1954 (exactly after 50 years of its existence) the cooperative institutions supplied just 3 percent of the credit requirements of the farmers. It was true that the movement was not much of a success before 1954, but since then, with the Government and Reserve Bank taking active interest, the movement has made great progress. The problem of loan overdue is matter of serious concern, as it affects the recycling of funds and credit expansion on the one hand and economic viability of the lending institutions, specially the cooperatives and the Regional Rural Banks, on the other. Agricultural credit and recovery should go hand in hand. These two aspects are interlinked, mutually dependent and indivisible. Hence, the credit service embraces loan advancement along with its recovery in time. Performance of the loan recovery is considered as an index of evaluating the operational efficiency and organizational proficiency of a financing institution. Recovery of loans in time reinforces the resource position of cooperatives. Therefore, its borrowing power from financing institutions has been accelerated and the society enables to advance maximum amount of loans to its members. Thus, not only the confidence level of members of the society boosts up but it also improves morale and awareness among members. Conversely, poor recovery increases the number of defaulters and over dues which in turn reduces borrowing power consequently. Ultimately, there is a stiff downfall in the turnover of loans. If prolong over dues of PACS to the financing institutions surpass specific proportion of demand then it is unable to get funds and consequently makes no fresh loans to the members of the society. As a result, those members are willing and capable to repay do not do so, because

they suspect about getting fresh loan. This intensifies overdue position. Therefore, recovery of loans in time has a great impact on the sound functioning of PACS. It is found that uneven distribution of cooperative benefits and considerable disparities in credit availability between different regions fade the cooperative credit movement. The most outstanding of the weaknesses, which indeed is at the root of many of the shortfalls in the cooperative programme, is the significant differences of recovery performance in different regions.

### **Banking System in India**

The banking system in India is controlled and regulated by none other than the Reserve Bank of India. It comprises a vast network of 20 nationalised Commercial Banks, 8 belonging to the State Bank group, network of Co-operative Societies at state, district and block levels and various development banks. Besides, the functioning of private and foreign sector banks also contribute their share of credit. The rural and agricultural sectors are well served by the cooperative societies. The Co-operative societies are considered as important constituent of the Indian banking system. The Co-operative societies are originated in the west but they have assumed prominence in India because of their vast network in providing credit to the needy which is rarely paralleled anywhere else in the world. Their role in rural financing continues to be important even today and their business in urban areas has also increased in recent years mainly due to the sharp increase in the number of primary co-operative credit societies.

Co-operative societies are part of the vast and powerful super structure of co-operative institutions which are engaged in the tasks of rural and urban banking, agriculture and agro processing including sugar products, dairy products, production of fertilizers, marketing of agricultural commodities and distribution of consumer articles through retail outlets and so on. The co-operatives by providing credit to rural occupations, promote employment opportunities and additional income generation and thus, helping in promoting quality of life of the rural and urban poor. The co-operative societies were started with the objectives of prevention of concentration of economic power, achieving wide dispersal of ownership of productive resources, active involvement of people in development programmes, augmentation of the productive resources, liquidation of unemployment and poverty and relieving the people from indebtedness to money lenders.

The co-operative credit structure in India includes the State Co-operative Agricultural and Rural Development banks at the apex level and the Primary Cooperative Agricultural and Rural Development banks are at the base level to provide long-term credit to the needy. The short-term credit has a three tier structure viz; the state co-operative bank at the apex level, the central co-operative banks at the intermediate level and the primary agricultural co-operative banks at the grassroots level do exist to meet the credit requirement in the country. At the district level, the Central Co-operative Banks are considered as nerve centre to control all the co-operative activities in respective areas of operation and plays a very important role in the development of agriculture and the rural people.

**Role of Co-operatives in India**

The co-operative movement originated in our country as a movement against rural poverty which caused an agrarian disturbance in 1875 in the Deccan against moneylenders. This led to the enactment of Taccavi legislation in 1892. Sir Frederick Nicholson recommended the establishment of co-operative societies on the Raiffeisen model which was popular in Germany. Thus, co-operatives as people's institutions have a long legacy and a rich tradition in India. The founders of Planning in India considered co-operation an instrument of economic development by combining the advantages of private ownership with public good. Rural credit co-operatives in India were originally envisaged as a mechanism for pooling the resources of people who have small means and providing them access to cheap and cost-effective financial services. The presence of democratic features in this movement, it was also an effective instrument for development of degraded waste lands, increasing the farm productivity, providing food security, generating employment opportunities in rural areas and ensuring social and economic justice to the poor and vulnerable. In light of this, the co-operatives occupy an important position in the Indian financial system. The Co-operatives are the first formal institutions which are conceived and developed to provide credit to rural India. And, the co-operatives are also considered as a key instrument of credit delivery to enable the farmers to meet their credit needs and help the rural agricultural farmers to increase the agricultural production in the rural areas.

**Non- agricultural loan proportion to agricultural loan:**

The PACS grants loans not only for agricultural operations but also grant non-agricultural loan to help the farmers in meeting all their credit requirements. It is essential from farmers' point of view otherwise; PACS would not have received full loyalty of the farmers. In this study, we required to find out whether a high proportion of non-agricultural loan to agricultural loan is accountable for deterioration of the recovery performance between the regions.

**Government capital proportion to working capital:**

The power which vest in the government under the cooperative law and rules are all –pervasive. Over the years, State has come to gain almost total financial and administrative control over the cooperatives, in the process stifling their growth. Instead of strengthening the base, a weak base was vastly expanded. The driving principle seemed to be: 'If people cannot or will not do it, the State can and will do it'. As a result, the cooperatives have virtually become 'government-directed, government-controlled and government-regulated enterprises' giving rise to red-tapism and administrative interference by the government in the day to day working of the cooperatives. More serious consequences of this 'politicization' of cooperative societies are interference in recovery of cooperative dues or promise to write off dues if elected to power, and determination of interest rates on considerations other than financial returns. Such actions generate a general psychology of non-repayment, vitiating the recovery climate and jeopardizing the financial interest of credit agencies. Here, we wanted to know the significance of government's involvement across the six regions.

**Primary Agricultural Co-operative Credit Society (PACS)**

A PACS can be started with 10 or more persons normally belonging to a village or a group of villages. The value of each share is generally nominal so as to enable even the poorest farmer to become a member. The members have unlimited liability, that is each member is fully responsible for the entire loss of the society, in the event of failure. Loans are given for short periods, normally during the harvest season, for carrying out agricultural operation and for which the rate of interest is fixed. There are about 92,000 PACS in the country with a membership of over 100 million. The PACS is expected to attract deposits from the well-to-do members and non-members of the village and thus ultimately promote thrift and self-help. It should give loans and advances to needy members mainly out of these deposits. It lies at the grass root level of the short-term structure of the rural cooperative credit institutions and deals directly with individual borrowers, grant short-term and medium-term loans and also undertake distribution and marketing functions. The PACSs are formed in big villages or by grouping a number of hamlets. In Tamil Nadu, at least 25 members are required to register a PACS. The members of PACS are the farmers who take shares in the PACS to borrow money for agricultural purpose. The working capital of the PACS is derived from its owned funds, deposits and borrowings. It accepts deposits both from members and non-members but only the members are entitled to borrow from the society. The deposits are received for the purpose of lending to the farmers and strengthening the working capital. The different types of deposit accepted are fixed deposit, savings deposit, recurring deposit, thrift deposit and staff security deposit.

The loan issued at the time of the commencement of agricultural operations is recovered back when the harvest is over. The loan is not only advanced by way of cash but it also in kinds consisting of fertilizers, seeds, pesticides, etc. The PACS also meet the medium-term loans required by the farmers. The other types of loan given by the PACS are consumer loan, jewel loan, fixed deposit loan and non-farmers loan (non-agricultural loan) which are mainly given to small businessmen, artisans, petty traders, etc. The loans are provided for improving the well beings of women under self-help group programme and Kisan credit card loan to small farmers.

**Need for Agriculture Credit**

The adoption of modern agriculture technology requires the application of input like chemical fertilizers and pesticides along with the development of land and water resources. All these lead to an intensive demand for credit. The problem of agricultural credit has assumed greater importance in view of the fact that the new technology depends on external finance for its wide spread adoption. In this regard, credit has a much greater relevance to the small farmers than of the well to do farmers. In the absence of credit, the small farmers are bound to be left out of this programme for agricultural for development. They help people by providing them agricultural inputs, consumer goods and credit. They have diversified their activities in number of ways, especially in the field of agriculture marketing societies which are doing good work in Himachal Pradesh for the development of the agriculture sector as well as, bettering the standard of living of the rural people.

The co-operative credit structure in India is now a century old and happens to be the largest in the world. Co-operative banks form an important segment of the Indian financial system. It is only the Co-operative banks that opened the doors of banks to the smallest of small man. The Green Revolution, White Revolution, Yellow Revolution etc., in our country are made possible only through the Cooperative Credit organizations. Though commercial banks, after nationalization, and later RRBs, have entered the rural areas, Co-operative Credit Societies still continue to enjoy an important place in the rural credit scenario. The Co-operative Credits Societies have been so far emerged as the most important agencies supplying the largest amount of institutional finance for the development of agriculture. It plays a key role in the development of economy by mobilizing financial resources needed by Indian farmers. The primary co-operative credit societies are potential sources of credit agencies for seasonal and emergent needs of farmers in village level.

### **METHODOLOGY**

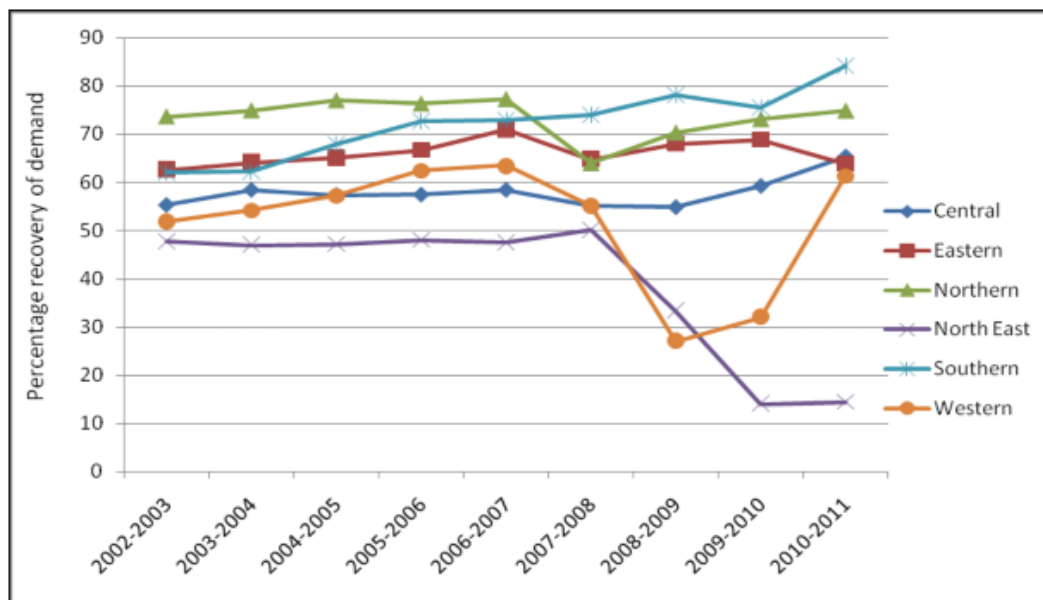
For the present study is based on data from the secondary sources. The data on agricultural credit of PACS of different regions were collected. The regional disparity and the determinants of regional disparity in the recovery performance of agricultural credit of PACS were analyzed across six regions in India namely Central, Eastern, Northern, North-East, Southern and Western region. The analysis is carried out by taking the time period from 2002-03 to 2010-11. All the states and the union territories were included in the analysis irrespective of the time period.

These factors are (a) nonagricultural loan proportion to agricultural loan, (b) government capital proportion to working capital, (c) trained- untrained staff ratio, (d) real growth rates at constant prices and (e) average members per society. The study made an attempt to identify the factors which contribute to the region wise variation of recovery performance of the PACS.

**RESULTS OF DISCUSSION**

**Table 1: Descriptive Statistics on Recovery Performance of Credit in Different Years and Regions**

<i>SUMMARY</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>	<i>Standard Deviation</i>	<i>Coefficient of Variation</i>
2002-2003	6	353.06	58.84	85.94	9.27	15.75
2003-2004	6	360.87	60.14	90.57	9.51	15.82
2004-2005	6	371.62	61.93	107.25	10.35	16.72
2005-2006	6	383.53	63.92	107.33	10.36	16.20
2006-2007	6	390.41	65.06	120.50	10.97	16.87
2007-2008	6	362.85	60.47	75.46	8.68	14.36
2008-2009	6	331.42	55.23	437.95	20.92	37.88
2009-2010	6	322.6	53.76	631.70	25.13	46.74
2010-2011	6	363.84	60.64	586.86	24.22	39.94
<b>Region wise Descriptive Statistics</b>						
Central	9	521.03	57.89	10.40	3.22	5.57
Eastern	9	594.51	66.05	7.33	2.70	4.10
Northern	9	661.69	73.52	17.70	4.20	5.72
North East	9	349.03	38.78	218.66	14.78	38.12
Southern	9	649.34	72.14	51.86	7.20	9.98
Western	9	464.6	51.62	174.08	13.19	25.55



**Figure 1: Trend of Recovery Performance of Credit in Six Regions**

**Table 2: Average Value of Five Factors in Six Regions**

Region	Proportion of non-agricultural loan to agricultural loan	Proportion of government capital to working capital	Trained-Untrained staff ratio	Real growth rates at constant prices	Average member per society
Central	6.62	1.86	55.24	8.14	0.62
Eastern	9.52	1.70	49.79	7.91	1.66
Northern	7.51	0.79	73.53	7.93	0.98
North-East	12.72	5.74	31.66	7.73	1.08
Southern	68.68	0.49	96.53	8.19	3.28
Western	17.40	0.17	65.48	9.64	0.51

From Table 1 it shows that the average recovery rate in northern region (73.52 %) is maximum compared to that of other five regions whereas the performance level of the north-east region is at its lowest level (38.78%). As recovery performance level is concerned, eastern region shows high level of consistency (Coefficient of Variation = 4.10) and then come the central region



(Coefficient of Variation = 5.57) and the northern region (Coefficient of Variation = 5.72). On the other hand, north-east region shows high variability (Coefficient of Variation = 38.13) in recovery performance. From the graph, it is comprehensible that the southern region is showing steady upward progress in recovery performance (Average recovery rate is 72.15 %) and the performance of north-east till 2007-2008 was in steady state level but after that, there is a sharp fall in the two consecutive years 2008-2009 and 2009-2010. The gap between the lines indicates the difference in recovery percentage. Comparing with northern and southern region (the average recovery performance apparently looks same in both regions) the former one has started with high level of recovery rate than the later one with its steady recovery till 2006-2007 and then downfall helped progressive southern region to surmount it.

In Table 2, the mean value of five factors in six regions has been reflected. The proportion of non-agricultural loan to agricultural loan in southern region (68.68) is highest, whereas in central region it is lowest amount (6.62). Southern region shows steady upward recovery performance over the years. Hence, it can be stated that recovery performance is not inversely related to proportion of non-agricultural loan to agricultural loan. Pearson's correlation coefficient between these two variables is  $0.352 > 0$ . The variable, proportion of non-agricultural loan to agricultural loan is insignificant because  $p > 0.05$  (1-tailed test at 5% level of significance). The amount of average contribution of government capital proportion to working capital in north-east region (5.74) is highest whereas as per recover performance is concerned this region shows very poor performance. Therefore, it illustrates that there is a negative relationship between recovery performance and contribution of government capital proportion to working capital. This variable is significant because  $p < 0.05$ . North-East region is showing the lowest level of trained-untrained staff ratio (31.66) whereas southern region is holding the highest level (96.53). Hence, we may draw the inferences that the trained untrained staff ratio is having the positive impact on recovery performance of credit. Correlation coefficient between these two variables is 0.764 and this variable is significant because  $p < 0.05$ . In case of real growth rates at constant prices, there is no such significant difference between the regions and also some regions (Northern and Southern) are showing good recovery performance even if the growth rate is lower than that of the other region (growth rate of Western region and Central region are 9.64 and 8.14 respectively). The later one is insignificant because  $p > 0.05$ . Average member per society is maximum in southern region (3.28) and minimum in western region (0.51). The correlation coefficient between average member per society and recovery performance of credit is positive (0.505), but the former one is insignificant at 5% level of significance.

## **CONCLUSION**

The present study evaluates the agricultural credit recovery performance of PACS in six regions in India. The paper delineates some important results on which appropriate agricultural lending policy can be designed by the policy planners. The performance of credit recovery has been low in north-eastern states and high in northern and southern states. From 2002-2003 till 2010-2011 southern region has shown steady and upward progress in recovery performance, whereas, north-east region was having steady performance till 2007-2008, but after that there is a sharp fall in

the next three years. The standard deviation and coefficient of variation is also higher than other regional states. So, the degree of variability or inconsistency level in terms of recovery performance is also very high. Recovery performance of credit is directly proportional to nonagricultural loan to agricultural loan, trained- untrained staff ratio and average member per society and inversely related with proportion of government capital to working capital and real growth rates at constant price. To make all PACS viable and ensure adequate and timely flow of cooperative credit to the rural areas, the Reserve Bank of India in collaboration with State Governments have been taking a series of steps to strengthen PACS and correct regional imbalances in cooperative development. Government role on providing larger funds to weak societies to write off their losses, bad debts and overdue intensify the poor recovery performance. The coordination must exist between the PACS and the branches of commercial banks in rural areas so that banks can assist such of those members of the PACS who are eligible for loans but are unable to get finance from PACS for lack of funds. They can also help the PACS with advice on proper maintenance of books of accounts, accounting procedures etc. Finally it is said that although the PACS has continued to remain the weakest link in the entire cooperative structure yet it has a great importance for supplying the considerable amount of finances to the farmers at grass root level.

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