

Agriculture Credit by Co-operative Bank in India : An Analysis

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Abstract - The cooperative banking sector is one of the main partners of Indian banking structure, the cooperative banks have more reach to the rural India, through their huge network of credit societies in the institutional credit structure. The cooperative sector has played a key role in the economy of the country and always recognized as an integral part of our national economy. According to recent study by World Bank and National Council for Applied Economic Research, the Primary Agriculture Credit Societies (PACS) amount for about 30 percent of micro credit in India. This paper attempts to analyze the role of co-operative bank in agricultural credit.

Keywords: Cooperative Bank, Agricultural Credit, PACS.

INTRODUCTION

India is agricultural based country and its 70% population stay in rural area. The cooperatives which are the life blood of the Indian economy and the mechanism for any developmental programs. Especially in an agriculture dominated rural sector, cooperative banks play a pivotal role in bolstering the common individual and financing his business and personal needs. The cooperative credit structure is serving the Indian society since 1904 and since then it has seen several ups and downs. Despite of several limitations such as restriction of area of operations, limited clients, small volume of business, political interference, this movement is standing since last 108 years and serving the societies. Economy of the India is mainly dependent on agriculture as more than 80% of the total population is engaged in this sector. Empirical analysis results show that the increase in the level of agricultural loans granted by the cooperative banks positively influence development of agriculture in India.

Agricultural Credit

The Agricultural Credit Policy essentially lays emphasis on augmenting credit flow at the ground level through credit planning, adoption of region-specific strategies, rationalization of lending policies and procedures and bringing down the cost of borrowing. Bank credit is available to the farmers in the form of short-term credit for financing crop production programs and in the form of medium-term/long-term credit for financing capital investment in agriculture and allied activities like land development including purchase of land, minor irrigation, farm mechanization, dairy development, poultry, animal husbandry, fisheries, plantation, and horticulture. Loans are also available for storage, processing and marketing of agricultural produce.

Agricultural Cooperative Credit Structure

Short-term structure is a three tier structure with PACS in rural areas, Co-operative Central Banks at the district level and the Apex Bank at the state level. The short-term credit structure provides short-term credit for crop production and medium-term credit for small developments.

Performance of Agricultural Credit Institutional

Agricultural credit started depicting a growth after bank nationalization and it has been growing continuously since then (Table 1). This has resulted in a significant increase in the access of rural cultivators to institutional credit and the contribution of informal agencies as credit sources has declined. The share of institutional agencies in the total agricultural credit supply was 7 per cent in 1951, which rose to 66.3 per cent in 1991. The next decade witnessed a slight decline in its share and it fell to 64.3 per cent in 2002-03 (Figure 1). The government has made renewed efforts to enhance the credit supply and the agricultural credit through institutional sources has more than quadrupled in the past seven years in nominal terms (Table 1). The efforts like nationalization of banks, establishment of RRBs, strengthening of credit institutions etc. have been quite effective in reducing the role of informal agencies in rural credit market. However, still non-institutional agencies continue to play a significant role in the rural credit market. In spite of all these developments, the age-old problems of rural credit still persist. These include reliance of borrowers on moneylenders and other informal sources despite their usury and exploitation. Kumar *et al.* (2007) have reported that the interest rate being charged by the informal sources was to the tune of 36 per cent to 120 per cent per annum. The share of different institutional agencies in the agricultural credit flow is also depicted in Table 1. A perusal of Table 1 reveals that the institutional sources of agricultural credit flow have undergone a structural change. The share of scheduled commercial banks (SCBs) has increased from a mere 1.9 per cent in TE 1972-73 to 73 per cent in TE 2008-09. Prior to nationalization, the commercial banks were virtually not lending credit to the agricultural sector. The share of RRBs in institutional credit disbursement increased from about 5 per cent during TE 1981-82 to 10 per cent during TE 2008-09. The co-operative banks which were the primary source of institutional credit to agriculture have witnessed a sharp

decline in their share in agricultural credit, which has consistently declined from 86.5 per cent in TE 1972-73 to 18 per cent in TE 2008-09.

Table : 1
Institutional credit flow to agricultural sector

Year (TE)	Co-operative banks	Region rural banks	Scheduled commercial banks	Total
TE 1972-73	824 (86.5%)	0 (0.0%)	18 (1.9%)	952
TE 1981-82	2109 (59.4%)	168 (4.7%)	1245 (35.0%)	3553
TE 1991-92	4763 (46.3%)	526 (5.1%)	4988 (48.5%)	10277
TE 2001-02	20923 (39.0%)	4082 (7.6%)	28709 (53.4%)	53713
TE 2008-09	42162 (17.5%)	23866 (9.9%)	174775 (72.6%)	240803

Note: During TE 1972-73, remaining 11.6 per cent of total loan was issued by the state government.

Sources:(a) Economic Survey and NABARD Databank (various issues) (b) Website of Reserve Bank of India (RBI)

Compound Annual Growth Rates of agricultural Credit in India :

The compound annual growth rates of institutional agricultural credit in real terms have been estimated and are presented in Table 3. The institutional agricultural credit in real terms has registered a significant positive growth (7%) and this positive growth rate has been registered by all the agencies involved in the disbursement of agricultural credit. During the past four decades, the average agricultural credit flow from SCBs has registered an annual growth rate of 13 per cent. The credit flow from RRBs has grown at an annual growth rate of 14 per cent during the period 1970-71 to 2008-09. The lowest growth has been registered by the co-operative banks (4%). The sub-period-wise results are more enlightening. The agricultural credit disbursement from the SCBs grew at the rate of 52 per cent per annum during the 1970s. It was attributed to the nationalization of commercial banks in 1969 and mandatory lending for the priority sector of agriculture. Later on, agricultural credit by commercial banks grew at the rate of 11 per cent per annum during 1980s and 12 per cent during the 1990s. From 2000 onwards, it has registered a growth rate of 25 per cent per annum. Similarly, the growth rate of agricultural credit by co-operative banks has increased in each decade. It was 2 per cent per annum during the 1970s and 4 per cent per annum during the 1980s. It stepped up to 8 per cent during 1990s and has been continuing at 8 per cent during 2000 onwards. A similar trend has been observed in lending by RRBs. The growth rates per annum were 10 per cent during the 1980s and 16 per cent during the 1990s. The RRBs have registered a higher annual growth rate of 27 per cent during 2000 onwards. The agricultural credit per hectare of GCA has also witnessed a significant growth in real terms. On average, it has registered 7 per cent growth per annum during the past four decades. The highest growth was achieved during the period 2000-01 to 2008-09 (18%).

Table : 2
Compound annual growth rates of institutional agricultural credit

Period	Co-operative banks	Regional rural banks	Scheduled commercial banks	Total	Credit / ha of GCA
1970-71 to 1979-80	1.79	-	52.36	6.29	5.71
1980-81 to 1989-90	3.81	9.51	10.82	6.42	6.03
1990-91 to 1999-00	7.88	15.93	12.41	10.08	9.66
2000-01 to 2008-09	7.99	27.05	25.28	21.15	18.20
1970-71 to 2008-09	3.89	14.41	13.27	7.47	7.00

Sources:(a) Economic Survey (2008) and NABARD Databank (various issues)

(b) *Agricultural Statistics at a Glance* (2008)

Table :3
Share of investment credit in total agricultural credit

(Per cent)

Years (TE)	Co-operative banks	Regional rural banks	Scheduled commercial banks	All
TE 1985-86	11.2	39.5	22.6	14.4
TE 1991-92	16.3	62.1	18.3	17.6
TE 1995-96	15.8	44.7	15.9	16.1
TE 2001-02	17.7	28.4	7.5	11.7
TE 2005-06	11.8	14.1	3.2	6.0

Source: NABARD Databank (Various issues)

Table : 4
Compound annual growth rate of agricultural investment credit in real terms
(Per cent)

Period	Co-operative banks	Regional rural banks	Scheduled commercial banks	All
1983-84 to 1990-91	3.04	8.99	1.05	4.12
1991-92 to 2000-01	8.33	6.45	-0.73	4.28
2001-02 to 2005-06	-9.30	0.19	22.90	2.95
1983-84 to 2005-06	5.89	5.65	-0.39	4.02

Source: NABARD Databank (various issues)

Investment Credit :

Investment credit is meant for building productive assets to enhance agricultural production. It plays a significant role in ensuring a sustainable agricultural growth. But, the share of investment credit in total agricultural credit has been declining continuously and it is pervasive across all institutional sources of agricultural credit. The share of investment credit has decelerated from 18 per cent in TE 1991-92 to 12 per cent in TE 2001-02 and further to 6 per cent in TE 2005-06 (Table 4). It is not favourable to accelerating agricultural growth. A balance between short-term operational credit and long-term investment credit has to be maintained to ensure sustainable agricultural growth. The declining share of investment credit indicates that farmers seem to borrow more short-term credit in order to meet their input needs to maintain continuity in agricultural operation and do not pay adequate attention to the long-term capital formation for agriculture. From the supply side, short-term credit entails a lower credit risk, lower supervision and monitoring cost and a better asset-liability management. These factors probably could induce a faster expansion of the short-term agricultural credit from financial institutions. The compound annual growth rates of institutional investment credit to agriculture in real terms have been estimated and are presented in Table 5. The investment credit in real terms has registered a modest positive growth of 4 per cent / annum. The agricultural institutional credit flow from co-operative banks has registered an annual growth rate of 6 per cent during the period 1983-84 to 2005-06. In fact, SCBs registered a slight decline. The sub-period-wise results are more revealing. The growth rate of co-operative banks was accelerated during the decades of 1980s and 1990s. It was 3 per cent per annum during 1980s and 8 per cent per annum during 1990s. But, during the next decade, it registered a sharp fall and was - 9.3 per cent per annum. The investment credit disbursement from the SCBs has depicted wide fluctuations. It grew at the rate of only 1 per cent per annum in 1980s, but dropped to - 0.73 per cent per annum in 1990s. However, from 2000 onwards, it has grown again at an impressive rate of 23 per cent per annum. The investment credit flow from RRBs has registered an annual growth rate of 9 per cent from 1983-84 to 1990-91. It has shown a growth rate of 9 per cent per annum in 1980s and of 6 per cent per annum in 1990s, but it has decelerated steeply during 2000s.

Sectoral Distribution of Agricultural Investment Credit

The sectoral distribution of agricultural investment credit, depicted in Table 6, has undergone a significant change during the past two decades. The shares of minor irrigation and government sponsored programs in total investment credit have witnessed a significant decline. The shares of fisheries and plantation & horticulture have also declined. The share of minor irrigation in total investment credit, which was about 28 per cent in TE 1990-91, declined to 11 per cent in TE 2000-01 and further to 7.5 per cent in TE 2005-06. The share of farm mechanization was about 15 per cent in TE 1990-91, it went up to 31 per cent in TE 2000-01, but dropped to 14 per cent in TE 2005-06. Similarly, the share of government sponsored programs has declined from 32 per cent in TE 1990-91 to 5 per cent in TE 2005-06. The shares of land development, animal husbandry and non-farm sector have witnessed substantial growths during this period. The most notable change has been observed in the case of non-farm sector. Its share of about 3 per cent in TE 1990-91 has increased to 29 per cent in TE 2005-06.

Table : 5
Progress in the distribution of Kisan Credit Cards (Agency-wise)

Year	Co-operative banks	Regional rural banks	Scheduled commercial banks	Total
1998-99	0.16	0.01	0.62	0.78
1999-00	3.75	0.18	1.99	5.91
2000-01	9.6	0.8	5.38	14.56
2001-02	14.8	1.66	8.45	23.9
2002-03	19.38	2.62	11.15	32.14
2003-04	24.2	3.89	14.24	41.39
2004-05	27.82	5.62	18.64	51.07
2005-06	30.42	6.87	22.8	59.08
2006-07	32.72	8.28	27.61	67.59
2007-08	34.81	10.05	32.21	76.05
2008-09	35.87	11.26	33.67	80.80
Share in Total (%)	44.39	13.94	44.67	100
CAGR (%)	45.87	75.27	42.12	44.25

Note: Term loan financing under KCC was introduced in August 2004.

Source: NABARD and Economic survey.

The higher growth rate witnessed in the distribution of KCCs is reflected in higher density of KCCs. On an average, two-thirds of the farming households possess KCCs in India. However, the distribution of KCCs has depicted a significant variation across states. The distribution of KCCs and its intensity in terms of per unit farming household and per unit farm size is presented in Table 10. The highest intensity in distribution of KCCs was observed in Punjab (2.02). The distribution of KCCs was more than two-times the number of operating households in Punjab. Some other states which have distributed more number of KCCs than the number of farming households are: Haryana (1.44), Andhra Pradesh (1.06) and Orissa (1.04). The performance of states like Assam, Bihar, Himachal Pradesh and Jammu & Kashmir in distribution of KCCs has been dismal. For instance, only 5 per cent of the farming households in Jammu & Kashmir and 13 per cent in Assam have obtained KCCs. In Bihar and Himachal Pradesh, only about one-fourth of the farming households have received KCCs. The density of KCCs in terms of operational area varied from 0.07 / ha in Jammu & Kashmir to 1.76 / ha in Kerala.

Review of literature :

Deshmukh, P. G. (1991) has studied the working of District Central Co-operative Banks in India; he has studied the evolution and growth of DCC Banks. In this study, he states that, Employees of every DCC Banks in the state have to formulate their own representative union. Mutual co-operation between union and directors of DCC Bank was seen because of which Union-Management relations did not pose a serious problem. There was serious problem of overdues of DCC Banks in Maharashtra. To eliminate it, he says that there should be close co-operation and co-ordination between officials and non-officials to have an effective campaign of recovery of overdues. Jugale (1991) pointed out that, 'Co-operation in India started with agricultural credit and even today agricultural credit dominates the spectrum of co-operative activity in the county.' Further he has stated, 'Co-operative form of organization has today assumed a place of pride as a distinct economic system. Moreover, co-operative credit is cheaper than other credit agencies. All principles of agricultural credit are tested well in the co-operative credit agencies. The co-operative credit has few features. Those are: (a) credit is cheap and safe, (b) has an effective linkages for recoveries, (p) is available also for consumption purposes, (d) issue of all types of credit various types of co-operatives, (f) is disbursed only after examining the need.' Ofcourse, all the tests are not found in every credit cooperatives.

Deepak Shah (2008) analyzes the impact of financial sector reforms in case of co-operative credit institutions in India. He has observed that credit flows through the co-operatives in rural India and their sustainability, viability and operational efficiency have become major focus of attention of various policymakers in the era of financial sector reforms. He concludes that financial sector reforms have accorded greater flexibility to the co-operatives to invest in non-target avenues like shares and debentures of corporate, units of mutual funds, bonds of public sector undertakings, etc.

Mandira Sarma and Rajiv Kumar (2008) carried out primary studies on the rural short-term co-operative credit structure. They observed that the Non-Performing Assets (NPAs) level in the Rural Short-term Co-operative Credit Structure (RSTCCS) was very high compared to that in the commercial banking system in India. They concluded that in spite of significant development in India's financial sector over the last decade, a large number of poor, particularly large and marginal communities remained "financially excluded" even today.

Government of India (2014) in its annual publication „Economic Survey 2013-14“ has pointed out that the agriculture sector was disbursed Rs. 6,07,375.62 crore in 2012-13. According to this report, Commercial banks, Regional rural banks (RRBs), and Co-operative banks extended credit to 152.77 lakh new farmers, increasing the total number of agriculture loan accounts financed as of March 2013 to Rs. 7.04 crore. As per the provisional figures available, as against the farm credit target of Rs.7,00,000 crore for the year 2013-14, an amount of Rs. 7,30,766 crore was disbursed during the year

Objectives :

1. To study the role of cooperative bank in agricultural credit in India.
2. To study the agricultural credit structure of the cooperative bank.

Hypothesis :

Cooperative banking is an important sector in India as far as its role in agricultural credit and socioeconomic development of India is concerned. It has no alternative in the era of economic reforms also.

Research Methodology And Data Collection

The present study is based on the secondary data published by RBI The required data and literature for the study purpose were collected from the number of reference books, Journals and Internet.

Conclusions

Cooperative banks belong to the oldest forms of the collective action in India playing essential role in the realization of the agricultural and in local development. They serve both rural and urban population, and are main banks in India supporting development of agriculture and rural areas. Their key role is to give credits financing various rural based entrepreneurships. Agricultural credits play a number of significant functions of which the primary include the intensification and growth of the agricultural production. In a developing Country like India with huge deficits in terms of quality and quantity, the State has to shoulder the primary responsibility of providing cooperative credit. Considering the low living standards of common man, incomplete and imperfect markets, and other socio political considerations it is the primary duty of the government to ensure that its citizens

have easy access to cooperative credit.

The agricultural performance engrosses many production factors; agricultural credit is one of them. The performance of institutional credit to agriculture and the determinants of institutional agricultural credit use at households' level have been analyzed. The study has shown that the institutional credit flow to the agriculture has been increasing for the past four decades. However, different patterns in the growth of agricultural credit have been observed during different sub-periods. The structure of the sources of credit has witnessed a clear shift and commercial banks have emerged as the major source of institutional

credit to agriculture in the recent years. Further, the portfolio of institutional credit to agriculture has also changed and the share of investment credit in total credit has declined over time. The declining share of investment credit may constrain the agricultural sector to realize its full potential. Regional disparity in disbursement of agricultural credit has been glaring, though in recent years it has shown some evidence of convergence. Inequity in the distribution of institutional credit across different categories of farmers also persists. The choice of a credit outlet and the quantum of institutional credit availed by farming households have been found to be affected by a number of socio-demographic factors. The effect of education has indicated the need for capacity building of borrowing farmers. Imparting training to borrowers regarding procedural formalities of financial institutions could be helpful in increasing their access to institutional credit. Further, procedure for loan disbursement could be made simple so that it may not be difficult for the less-educated and illiterate households to access institutional financing agencies for credit. The weaker sections of the society like SCs, STs and OBCs and smallholders are more exposed to non-institutional sources for their borrowings and thus end up paying higher rates of interest, which have a negative bearing on their economic situation. This needs to be ameliorated by strengthening the on-going special schemes for these groups. From the above data it is clear that cooperative banks are serving in the field of agricultural credit and rural development. Maximum numbers of respondents are satisfied with functioning of cooperative bank. The level of service of cooperative banks is very high. Cooperative banks are playing extraordinary role for agriculture credit.

Suggestions And Recommendations

The Cooperative Banks should try to increase their deposits by opening branches in business areas, improve the services to their clients, introduce different types of deposit schemes and offer competitive rates of interest. Cooperative Banks should change their loan policies on the basis of crop loan systems. The Cooperative Banks must maintain adequate liquid resources, margin, properly scrutiny of loans and should try to qualitative improvement to the staff. Cooperative Banks should try to coordinate between the Board of Management, Members, Depositors and Employees of bank. Accountability and transparency need to be brought in the implantation of the schemes.

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