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Growth and structure of the cooperative agricultural credit system in India

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Abstract

Agriculture plays a crucial role in the development of the Indian economy. It accounts for about two thirds of the population is dependent on the agriculture sector. Agricultural development is necessary to feed population increasing with rapid rate. Agriculture credit has played a vital role in supporting farm production in India. The importance of the agricultural sector in India's development, the government and the Reserve Bank of India have played a vital role in creating a broad – based institutional framework for catering to the increasing credit requirements of the sector. A substantial proportion of farmers' credit needs are now met by co-operative societies. The co-operative societies have led to the use of better farming methods such as the use of improved seeds, fertilizers, etc. The marketing and processing societies have helped members to buy their requirements cheaply and sell their agricultural produce at acceptable prices. Hence agricultural credit appears to be an essential input along with modern technology for higher productivity. In view of all these an attempt has been made to study the growth and structure of the cooperative agricultural credit system in India.

Keywords: Co-operatives, Growth, Agriculture, Credit, Production

1. Introduction

Agriculture credit has played a vital role in supporting farm production in India. The importance of the agricultural sector in India's development, the government and the Reserve Bank of India have played a vital role in creating a broad – based institutional framework for catering to the increasing credit requirements of the sector. The agricultural credit market in India is characterized of Organized (institutional) agricultural credit; and unorganized (non-institutional) agricultural credit. The organized market comprises of cooperatives; commercial Banks; Regional Rural Banks and Non-Bank financial Intermediaries. The non-institutional credit market comprises landlords, agricultural money lenders, and professional money lenders etc. who usually charge unreasonable rates of interest. The entire cooperative network in India has two major segments of Rural Cooperative Credit Institutions and Urban Cooperative Banks.

A substantial proportion of farmers' credit needs are now met by co-operative societies. The co-operative societies have led to the use of better farming methods such as the use of improved seeds, fertilizers, etc. The marketing and processing societies have helped members to buy their requirements cheaply and sell their agricultural produce at acceptable prices.

The co-operative credit cooperation began in the latter part of the 19th century. The co-operative societies act was passed in 1904 and cooperatives were seen as the premier institutions for disbursing agricultural credit.

The cooperative banking structure is pyramidal or federal in character. At the base, i.e., at the village level there are primary credit societies upon which the whole edifice of cooperative credit is based. These societies are federated at the district level into a Central Society called the Central Co-operative Bank. The state cooperative bank in its turn is closely linked with the NABARD which provides considerable financial assistance to cooperative credit structure. This is the set up is regard to short-term financing. The long term credit structure at the moment consists of two-tiers; there are central land mortgage banks at the top. In some states central land development banks operate through their branches. There are, in addition a few industrial banks operating at the state or district level. But the present study is limited only to cooperative credit aspect of agriculture. Marketing and other aspects have not been taken for the present study. The diagram No. 1 shown below brings out the structure of the cooperative credit for agriculture.

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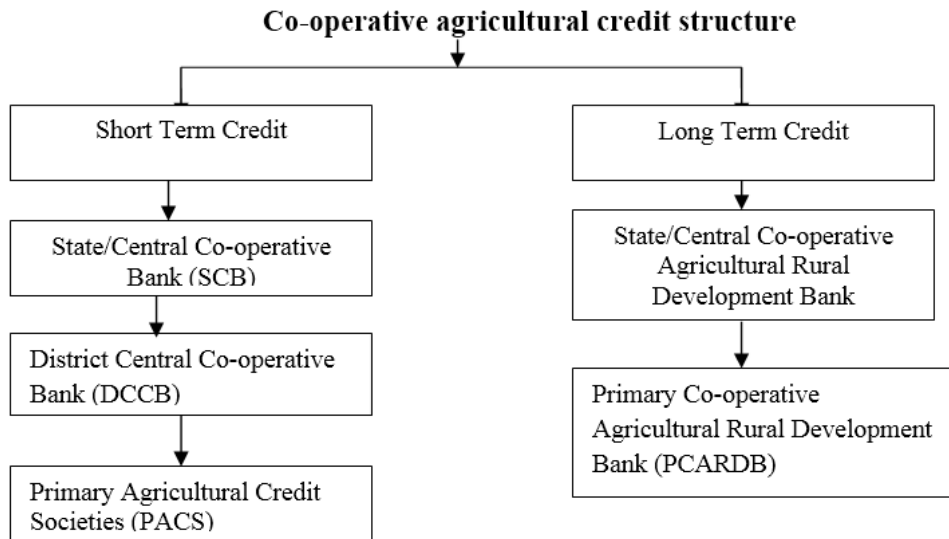


Diagram 1

2. Progress of Co-operatives

The Co-operative Movement was introduced into India by the Government as the only method by which the farmers could overcome their burden of debt and keep them away from the clutches of the money-lenders. The Co-operative Credit Societies Act, 1904 was passed by the Government of India and rural credit societies were formed. Under the Act of 1904 a number of cooperative credit societies came into existence and the cooperative credit movement recorded considerable progress. The cooperative legislation was itself a sequel to the problems of agricultural indebtedness which assumed serious proportion in the last quarter of the 20th century with the eruption of agrarian unrest in the Deccan (Southern part of India).

At the time of the All India Rural Credit Survey, cooperatives supplied a little over 3% of the credit needs of farmers. By 1961-62, the All India Rural Debt & Investment Survey put this figure at 25%, with coverage of about 83% of the villages and 40% of agricultural population and by the end of sixties, this had further multiplied.

The average growth of short-term credit however stagnated at around 15%, while that of the long-term credit actually

declined from 20.2% in the 70s, to 11.9% in the 90s. Although recently with the steps taken to increase the flow of credit to agriculture, credit disbursed by cooperatives had increased to 42.8% of total credit to agriculture in 2004, it has since declined to around 18% presently.

Table -2.1, reveals that the number of State Cooperative Banks stood at 31 as at the end of the year 2008-09 and all the years same. The number of District Central Cooperative Banks as at the end of the year 2008-09 stood at 373 and decreased to 371 at the end of the cooperative year 2010-11. Further the number of District Central Cooperative Banks came up to 372 at the end of the year 2012-13. To total number of Primary Agricultural Credit Societies stood at 95633 at the end of the year 2008-09 and further the number has come down to 94647 at the end of the year 2009-10. The total number of Primary Agricultural Credit Societies stood at 93488 at the end of the year 2012-13. Compared to the years 2008-09 and 2012-13 the total number of PACS came down from 94647 to 93488. This is mainly because of the implementation of the reorganization programme for strengthening and future development of cooperative structure.

Table 1: Progress of Cooperative in India (Number and Deposits) (Rs. In Billion)

	Cooperative year				
	2008-09	2009-10	2010-11	2011-12	2012-13
a) State Cooperative Bank					
Number	31	31	31	31	31
Deposits	7131507	8483773	8166424	8665296	8990513
b) District Central Cooperative Banks					
Number	373	372	371	371	372
Deposits	12372182	14630314	16130882	17682238	19572643
d) Primary Agricultural Credit Societies					
Number	95633	94647	93413	92432	93488
Deposits	2624538	3528607	3723816	5025279	6711310

Source: NAFSCOB

The deposits in the state cooperative banks stood at Rs. 7131507 crores at the end of the year 2008-09 and further it has gone up to Rs. 8166424 crores at the end of 2010-11. The total deposits of State Cooperative Banks stood at Rs. 8990513 crores at the end of the year 2012-13 against Rs.

8665296 cores in 2012-13. The Deposits of the District Central Cooperative Banks increased from Rs.12372182 crores in the year 2008-09 to Rs. 16130882 crores in 2010-11, and further the total deposits of District Cooperative Banks gone up to Rs. 19572643 at the end of the year 2012-

13. Deposits in the PACSs stood at Rs. 2624538 crores in 2008-09 and to Rs. 3723816 crores at the end of 2010-11 and further to Rs. 6711310 crores at the end of the year 2012-13.

3. Cooperative Credit Structure in Andhra Pradesh

Cooperative movement in Andhra Pradesh has achieved some noticeable progress in its activities like disbursement of loans, distribution of fertilizers, and creation of employment opportunities to weaker sections construction of houses in urban as well as rural areas.

In order to keep these on the right track reorganization programme has been launched as recommended by the Hazari Committee. The Andhra Pradesh Government proposed new co-operative structure called “Single Window System” during 1985 in three districts of Andhra Pradesh

with the consent of RBI, NABARD and Government of India on an experiment basis. With the successful implementation of this system GOI has accepted in principle, on 4th September, 1985, to implement this system in the entire state.

The Hazari Committee felt it necessary that the integration of the two wings of the cooperative credit structure viz., short term and long term should be done at village, district and state level as well. But this committee has suggested in its report that the integration at all levels is not practicable and it can be done first at the village level taking the area under the jurisdiction of the primary land development bank as a unit. After completion, integration in this manner throughout the districts is to be done at the state level.

Cooperative Credit Structure in Andhra Pradesh

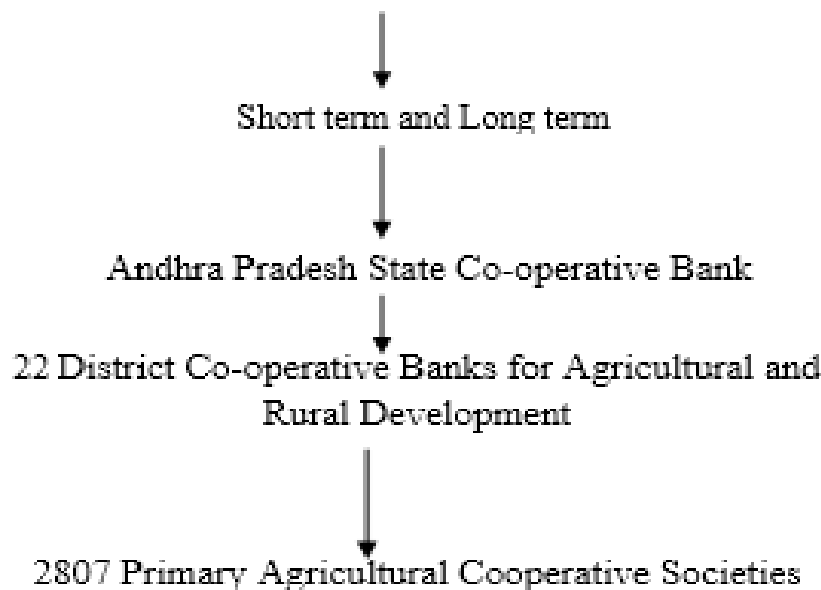


Fig 1: The following diagram shows the cooperative credit structure in Andhra Pradesh

The APCOB, through the DCCBs and PACS, provides re-finance support for agricultural production credit for seasonal agricultural operations (crop loans), investment credit for investments in agriculture for Minor Irrigation, Farm Mechanization, Land Development, Horticulture, Dairy, Poultry, Fisheries and other diversified investments and allied activities. Under this cooperative credit structure the farmers get the credit facilities (both short-term and long-term) and other non-credit services such as fertilizers, seeds and other farm services through a single window. As a result

of this the cost of cooperative credit will get reduced and result in time savings.

The existing structure of an agricultural credit societies in India achieved some noticeable progress in recent years. Primary Agricultural credit societies which issue short and long term loans recorded a considerable progress. The indirect finance to agriculture by a state cooperative bank and central cooperative banks have also recorded a substantial growth in lending activities. Table No. 2 shows the direct and indirect loans during the year for agricultural purpose by cooperatives

Table 2: Direct and Indirect Finance for Agriculture & Allied Activities by Cooperatives (Rs. In Billion)

	Loans issued during the year				
	2008-09	2009-10	2010-11	2011-12	2012-13
I. Direct Finance	587.87	634.97	781.21	879.63	1112.03
a) Short term loans	480.22	569.46	690.38	818.29	1025.92
b) Long-term	107.65	65.51	90.83	61.3	86.11
II. Indirect Finance	-	-	-	-	-
Total I +II	587.87	634.97	781.21	879.63	1112.03

Source: RBI, Handbook of Statistics on the Indian Economy, 2013-14

As in the earlier year direct finance by cooperative continued to account for bulk of the credit disbursed during 2008-09 (Rs. 587.87 billion). Credit disbursed by cooperatives which stood at Rs. 634.97 billion in 2009-10 is estimated to have increased to Rs. 781.21 billion in 2010-11 and further it was increased to Rs. 879.63 billion in 2011-12 and to Rs. 1112.03 billion in 2012-13.

The short-term loans during the year 2008-09 is Rs. 480.22 billion and it is estimated to have increased to Rs.569.46 billion in 2009-10 and to Rs. 690.38 in 2010-11 and further to Rs. 818.29 billion in 2011-12 and to Rs. 1025.92 billion during 2012-13.

The long-term loans during the year 2008-09 is Rs. 107.65

billion and it is estimated to have decreased to Rs.65.51 billion in 2009-10 and to Rs. 90.83 in 2010-11 and further to Rs. 61.3 billion in 2011-12 and to Rs. 86.11 billion during 2012-13.

The cooperative movement may not withstand too long a situation in which almost the entire owned funds are getting blocked in over dues. The situation in credit cooperatives arising out of non-repayment of crop loan has not received the attention it deserves. A thorough investigation of the various aspects of the problem of default in repayment of cooperative loan is utmost importance both for policy makers and the lending institutions with a view to take corrective measures.

Table 3: Direct and Indirect outstanding loans of Agricultural & Allied Activities in Cooperatives (Rs. In Billion)

	Loans outstanding during the year				
	2008-09	2009-10	2010-11	2011-12	2012-13
I. Direct Finance	640.45	597.91	766.74	725.45	-
a) Short term loans	456.86	357.17	496.45	445.17	-
b) Long-term	183.59	240.74	270.29	280.28	-
II. Indirect Finance	-	-	-	-	-
Total I +II	640.45	597.91	766.74	725.45	-

Source: RBI, Handbook of Statistics on the Indian Economy, 2013-14.

Table No. 3 Shows that the total direct outstanding loans cooperative increased from Rs.640.45 billion at 2008-09, to Rs. 597.91 billion as at 2009-10, to Rs.766.74 billion as at the 2010-11, 2012-12 and further it increased to Rs. 725.45 billion. There is a net increase of Rs. 2730.55 in direct outstanding loans by cooperative compared to the year 2008-09 to 2013-14.

The outstanding short –term loans as at the 2008-09 was Rs. 456.86 billion and it is estimated to have increased to Rs. 357.17 billion in 2009-10 and further it rise to Rs. 496.45 billion in 2010-11 and to Rs. 445.17 billion at the years 2008-09 to 2013- 2014 respectively.

The outstanding long-term loans at the year 2008-09 was Rs. 183.59 billion and it is estimated to have increased to Rs. 240.74 billion in 2009-10 and further to Rs. 270.29 billion in 2011-12 respectively.

4. Conclusion

The cooperative banking structure is pyramidal or federal in character. These societies are federated at the district level into a Central Society called the Central Co-operative Bank. The state cooperative bank in its turn is closely linked with the NABARD which provides considerable financial

assistance to cooperative credit structure. Many studies revealed that the agricultural credit is one of the main factors for the production and productivity of agricultural commodities but not only the factor credit. There are other factors like rainfall, irrigation facility, quality of the seeds; Minimum support price, environmental conditions etc. may influence the production and productivity. Hence, the Government has to take necessary steps to improve the Co-operative credit structure to disbursement of more credit to the farmers.

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