

CO-OPERATIVE BANKS AND AGRICULTURE CREDIT-AN ANALYSIS

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ABSTRACT

Co-operative banks in particular and co-operative sector in general are the main sectors which promoting the financial and economic growth of the country like India. The rural cooperative banks have prime role to the rural development of the nation. This study has analysed the role of co-operative banks in agriculture credit by a sample survey. The structure and flow of agriculture credit, customer satisfaction level, recovery status of loans and repayment structure are subjected to analyse under this study with the relevant statistical tools. Out of total agriculture and allied loans, more than 80 percent were fully utilized and 22 percent of agriculture and allied loans are still not being repaid. More than 60 percent customers of the bank are delighted with the services of the bank and more than 50 percent of borrowers of the bank are opined that the interest rate of the co-operative bank is reasonable.

KEYWORDS: Agriculture, Co-operative, Customer, Loan, Repayment, Satisfaction.

INTRODUCTION

India is an agrarian economy and about 70% of its population stays in rural area with depending agriculture. The co-operatives that are the life blood of the Indian economy. Co-operation means voluntary association based on equality and acting together for a common purpose or benefit. The teaching on the importance of co-operation can be found in the writings of ancient philosophers like Plato, Aristotle. Co-operative societies provided a platform in providing the vital services like health, education, gender equality, the environment and agriculture improvement. Co-operative bank is a bank that holds deposits, makes loans and provides other financial services to co-operatives and member-owned organizations. Like other banks, co-operative banks are established by collecting funds through shares, accept deposits and grant loans. Co-operative movement in India was started primarily for dealing with the problem of rural credit. The co-operative societies act was passed in 1904 and co-operatives were seen as the premier institutions for disbursing agriculture credit (Rakesh Mohan 2006). The objective of this act was established by co-operative credit societies to encourage auditing and supply of credit. Credit plays an

important role in agriculture production. It capitalizes the farmers and entrepreneurs to undertake the investment. The investment in agriculture as percentage of GDP also declined from 1.6% in 1993-94 to 1.3 percent in 2000-01. Bank credit is available to the farmers in the form of short term credit for financing crop production programme and in the form of medium term or long term credit for financing capital investment in agriculture and allied activities like land development. Primary agricultural credit societies (PACs) provide mainly medium term loans and development banks provide long-term loans to the agricultural sector. The National Bank for Agricultural and Rural Development (NABARD) is the apex institution at the national level of agricultural credit and provide finance to primary lending institutions. The RBI plays a crucial role by giving overall direction to rural credit and financial support to NABARD for its operation. Since agriculture is the major sector as large portion of population depending on it, the agricultural credit has a key role for agricultural development in particular and overall economic development in general.

This study tries to explain the nature and role of agricultural credit for the agricultural development with the primary information collected from the customers of ‘Nediyirippu Co-operative bank’ in Malappuram district of Kerala.

PROBLEM OF THE STUDY

Generally, it is argued that banks play major role in the development of agriculture sector. Co-operative banks are supposed to play more decisive role in the economic development of rural areas, so it is important to study how far co-operative banks take the role as a strong supporter for the development of agriculture sector.

OBJECTIVES OF THE STUDY

- To analyse the structure and flow of agriculture credit in the study area.
- To examine the customer satisfaction level and recovery status of loans
- To analyse the repayment structure of agricultural credit.

HYPOTHESIS

Repayment capacity of borrowers does not depend on their income

METHODS

This study is descriptive and analytical in nature. It is based on both secondary and primary data. The primary data were collected from 50 agricultural borrowers with the help of well-structured schedule. To support replies of borrowers, information was also collected from the manager and employees of the bank. The purposive sampling technique was used to collect the primary data. The Likert-scaling technique is applied to collect the primary data. The secondary information were collected from RBI bulletins, Economic reviews, Dissertations, Annual reports of Nediyirippu co-operative bank, books and online data sources like INFLIBNET and Google Scholar. The statistical tools - descriptive statistics, ratios, graphs and Chi square were used to analyze the data with the statistical package Predictive Analytics Software (PASW).

REVIEW OF LITERATURE

The performance of co-operative banking sector in providing agriculture loans was observed and analysed by many researchers. Some of the main studies selected for review are: Kalyankar (1983) in the study titled, “Willful Default in Loans of Co-operatives” examined the trends in deposits, working capital, share capital, outstanding loans and advances, overdues and recoveries. The socioeconomic factors responsible in projecting and promoting future development in the operations and approaches of the co-operative credit organizations were also considered to examine. The study revealed that the cropping intensity, irrigation facility and working capital of the societies were the major factors for explaining overdues at primary agricultural credit societies’ level. The socioeconomic aspects were not responsible for increasing overdues at the borrowers’ level, but overdues were mainly escalated due to the non-economic factors in case of willful defaulters. Devadas (1987), in his book titled, “Co-operative Banking and Economic Development” studies the role of Assam Co-operative Apex Bank Ltd in financing primary credit societies. He found that apart from working as a commercial bank it had to discharge three other functions, i.e., to finance primary credit societies, to act as banking centre for primary societies and to undertake supervision of primary societies. He found that bank had not been able to achieve much in these three fields due to lack of adequate support from government of the state. Patel (1995), in the paper on ‘Viability of Rural Banking’, commended that low volume of business per branch and per employee and high level of credit deposit ratio were two major factors causing losses in rural banking system. He further observed that relative share of non-farm sector loans in rural banks was going up. Reddy and Reddy (1996), in their study titled, “Nature and Dimensions of Willful and Non-Willful Default and impact of Co-operative Credit Policy with reference to Nellore District of Andhra Pradesh” applied a multi-stage sampling technique and relevant statistical tools to examine the reasons for overdues. They concluded that landholding, cropping pattern, income from agriculture, number of dependent family members and political interference had direct influence on recovery position of co-operative banks. They recommended that management of these banks should adopt a co-operative friendly approach instead of market approach. Murthi and Saraswati (1996), in their paper titled, “Reducing Overdues in Credit Co-operatives: Some Alternatives” by using the secondary data made available by RBI in Statistical Statements relating to Co-operative Movement in India for a period of 6 years from 1978 to 1983 and assessing the Loaning Policies of Girijan Co-operative Corporation, Visakhapatnam. The study concluded that the change of loaning policies like induction of liaison workers, efforts of elders committee motivated management would not have helped recovery of loans in the absence of homogeneity. Pathania and Singh (1998), in their study titled, “A study of performance of HP State Co-operative Bank” observed that the performance of the Himachal Pradesh State Co-operative Bank Ltd. In terms of membership drive, share capital, deposit mobilization, working capital and advances has improved over the period of five years (1991-92 to 1995-96). They found that the recovery performance was unsatisfactory and overdues had increased sharply. Verma and Reddy (2000), in their study analysed the causes of overdues in co-operatives under SWOOD, to assess recovery and NPAs position in these banks. Policy distortions in liberalized economy and inefficient management were identified as main reasons for poor recovery. Misutilization of credit, political interference at every level, successive crop failures, non-remunerative prices of agriculture produce, inadequate income

and natural calamities, were some other factors, which affect the working culture of co-operative banks considerably. To improve the working of these banks, the study suggested that available credit size should be need based and production-oriented. Effective supervision of loans to minimize misutilization and close social relations with loanee members were two other suggestions to improve the profitability and productivity of these banks. Das (2001), in the study titled, "A study on the Repayment Behaviour of Sample Borrowers of Arunachal Pradesh State Co-operative Apex Bank Limited", examined the repayment behaviour of loanees, covering a period of 1994-95 to 1998-99. On the basis of primary data collected, the researcher concluded that incidence of default was highest among borrowers for agriculture and allied activities loans. The study further concluded that the number of defaulter loanees was highest in government sponsored loan schemes. Viswanath (2001), in the study titled, "An analysis of performance of agricultural credit Co-operatives and their overdues problems in India" accomplished that the period 1950-51 to 1995-96, the total loans advanced by PACs increased from Rs.24 crore to Rs.14201 crore, i.e., 590 times, but unfortunately this increase was followed by a corresponding increase in overdues. Using correlation technique, the extend of relationship between overdues and four variables i.e., number of societies, total membership, working capital and total amount of loans advanced was studied. This study concluded that there was a direct and positive link between overdues and membership on one hand, and overdues and working capital, amount of loans advanced on the other. NABARD (2005), conducted a study on "Development in Co-operative Banking" to evaluate the financial performance of 1872 urban co-operative banks and 106919 rural co-operative credit institutions. NABARD suggested that co-operative banks should implement One Time Settlement System (OTS) and refer small value advances to Lok Adalats and high value advances to Debt Recovery Tribunals (DRTs). IMF (2007), conducted a study on co-operative banks and their financial stability. The study was based on individual bank data drawn from the Bank Scope Database for 29 major advanced economies and emerging markets that were members of the organization of Economic Co-operation and Development (OCED). They found that co-operative banks in advanced economies and emerging markets had higher scores than commercial banks, suggesting that co-operative banks were more stable. These findings, perhaps somewhat surprising at first, were due to much lower volatility of co-operative banks' return, which offsets their relatively lower profitability and capitalization. Singh and Singh (2010), in the study titled, "Technical and Scale Efficiency in District Central Co-operative Banks of Punjab- a nonparametric analysis" had attempted to investigate the extent of technical efficiency across 20 DCCBs of Punjab with the help of Data Envelopment Analysis. This study disclosed that DCCBs of Punjab were suffering from problems of managerial irregularities and improper production scale. This study suggested appropriate policy interventions by state government, RBI and NABARD. Shastry (2017), in the study titled, "Role of cooperative banks in rural development through agricultural credit" examines the different aspects of agricultural credit of the bank. This study concluded by recommending to promote agriculture credit by assisting customers to complete banking formalities and reduce lengthy procedures in banks.

All the earlier studies emphasizes on the importance of co-operative financial institutions in providing agriculture credit even though the recovery of credit is a difficult task.

RESULTS:

PURPOSE OF LOANS

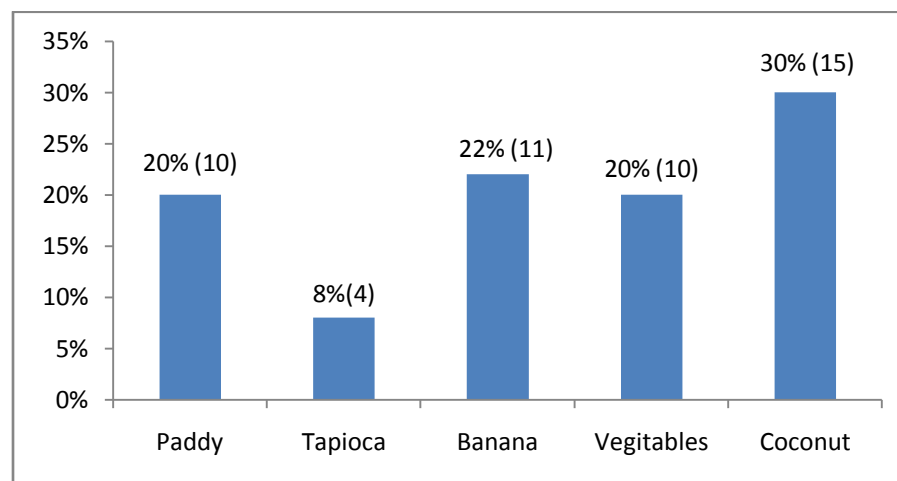
Out of 50 sample beneficiaries of the bank, 28 percent utilized the loan for agriculture and allied activities. 40 percent of the sample beneficiaries were approached the bank for loans to business purposes while 14 percent each for marriage and household purposes respectively. Only 4 percent sample beneficiaries approached for education loans.

LOAN UTILIZATION STATUS

All the loans granted to the loanees were partially or fully utilized. Out of the 29 crop loans passed, 83 percent were fully utilized and remaining 17 percent were partially utilized. Out of the 21 agricultural and allied loans passed, 17 (81%) were fully utilized while the remaining 19 percent were partially utilized. Nobody reported the misuse of the loan even partially due to the timely supervision of the bank officials.

The crop wise utilization status shows that more amount of crop loans were utilized for coconut cultivation (fig.1.)

Figure.1: Crop wise utilization status of loans



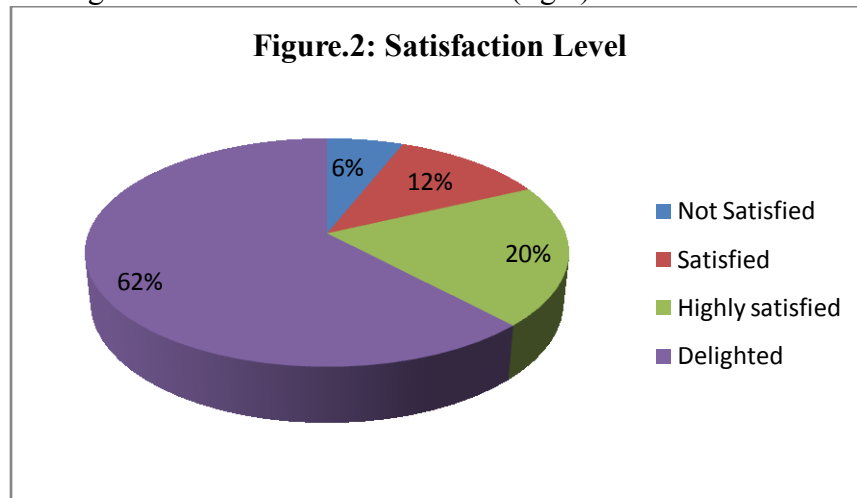
Source: Sample survey result

RECOVERY OF LOANS

Recovery is a great task with respect to the agricultural loans. Banks have laid down a system of recovery in which the loan is expected to repay by the borrower at the time most convenient to him. Usually, the installment dues of agriculture loan may set at the time of harvesting. Banks inform the borrowers of their outstanding dues from time to time. Defaulters are often reminded for paying back the loan to the bank. Sometimes the farmers fails to repay their outstanding dues due to the reasons like failure of crops, fall of product price, repayment of other loans etc.. Out of sample beneficiaries of the bank, 24 percent beneficiaries fully repaid their outstanding loans while 54 percent partially paid their outstanding loans and 22 percent beneficiaries were not repaid the outstanding amount due to various reasons.

Satisfaction Level

The satisfaction level of customers towards banking services says that 62 percent of sample customers were delighted in the services of the bank (fig.2).



Source: Sample survey result

RATE OF INTEREST CHARGED

The bank charged rate of interest on advance from credit users. Since the bank is trying to uplift the weaker sections of the society, it should try to provide financial assistance to the needy at minimum rate of interest possible (table.1)

Table.1: Opinion of customers on rate of interest charged by Bank

Opinion	Crop loans		Agriculture allied loans	
	No of beneficiaries	% of beneficiaries	No of beneficiaries	% of beneficiaries
Reasonable	18	62	12	57
Unreasonable	7	24	4	19
No opinion	4	14	5	24
total	29	100	21	100

Source: sample survey

The above table reveals that 62 percent of crop loan beneficiaries and 57 percent of agricultural allied loan beneficiaries opined that the rate of interest charged by bank is very reasonable while 24 percent of crop loan borrowers and 19 percent of agriculture allied loan borrowers opined that the interest rate is unreasonable.

REPAYMENT CAPACITY VERSUS INCOME LEVEL OF BORROWERS

H_0 : Repayment capacity of borrowers does not depend on their income

H_1 : Repayment capacity of borrowers depends on their income

The Pearson's Chi-square value is 11.98

Degree of freedom is 4

5% level of significance value is 0.013.

Since the value of significance is less than 0.05, the null hypothesis is rejected. Therefore, repayment capacity of borrowers depends on their income.

CONCLUSION

The review part says that the recovery of agriculture and allied loans is a difficult task. The study reveals that 28 percent of the total borrowers utilized the loan for agriculture and allied activities. More than 80 percent of crop and agriculture and allied loans were fully utilized. In the repayment of loans, 22 percent agriculture and allied loans were not still being repaid. The study concluded that the satisfaction level of borrowers of the bank and timely repayment of loans is due to the net result of strict follow-ups of the bank officials.

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