

# PERFORMANCE OF PRIMARY AGRICULTURAL COOPERATIVE CREDIT SOCIETIES IN KARNATAKA – AN OVERVIEW

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**Abstract:** The cooperative sector in India has spread its activities in all spheres of economy like agriculture, poultry, dairy, fisheries, handlooms, spinning, consumer cooperatives and the like. The cooperatives have emerged as an important and vital sector of the Indian economy. Cooperative credit institutions in India provide credit to agriculture as well as non-agricultural sectors. Primary agricultural cooperative credit societies (PACS) are the main source of institutional finance for small and marginal farmers in India. PACS are the banks which are situated in rural area and play a very important role in rural credit system by performing their activities on co-operative principles. The PACS play a major role in financial inclusion of farmers and agricultural development in India. The main objective of PACS is to promote economic interests of members in accordance with the principles of cooperation. In compliance with this objective, PACS provide credit to cultivators, supply of agricultural inputs & also undertake marketing of agricultural produce. Through their variety of services, they are reaching the vulnerable sections of the society. They provide short term and medium term loan to rural people to meet their financial requirements. The objective of this paper is to analyze the progress and performance of Primary agricultural cooperative credit societies in Karnataka.

**Index Terms – PACS, Performance, Agricultural Credit, Overdue.**

## 1. Introduction

The cooperative sector has been playing an important role in the socio-economic development of the State. In Karnataka, Cooperative Societies cover almost all areas of social and economic activities. Consequently the State has different types of cooperative societies. Through sustained efforts, cooperatives have made remarkable progress in various segments of State economy particularly in agricultural credit disbursement. The agro based cooperatives, like poultry cooperatives, dairy cooperatives are playing a crucial role in the development of rural sector. The main reason for establishing cooperatives was to free the poor from the clutches of money lenders. The cooperative societies are the largest organized financial institution in rural India. Primary agricultural cooperative credit societies (PACS) directly interface with individual farmers, provide short-term and medium-term credit, supply agricultural inputs, distribute consumer articles and arrange for marketing of produce of its members through a co-operative marketing society. Primary agricultural cooperative credit societies (PACS) are the main source of institutional finance for small and marginal farmers in India. The main objective of PACS is to promote economic interests of members in accordance with the principles of cooperation. In compliance with this objective, PACS provide credit to cultivators, supply of agricultural inputs & also undertake marketing of agricultural produce. PACS have been playing an important role in the channelization of bank credit to the rural sectors. They provide short term and medium term loan to rural people to meet their financial requirements. Primary agricultural cooperative credit societies (PACS) are the main source of institutional finance for small and marginal farmers in India. PACS are the banks which are situated in rural area and play a very important role in rural credit system by performing their activities on co-operative principles.

## 2. Objectives and Methodology

The objective of this paper is to examine the progress and performance of Primary Agricultural Credit Societies in Karnataka. The study is mainly based on secondary data. Data is collected from the data bases of RBI, NABARD, NAFSCOB and Annual Reports of RBI, NABARD, journals, magazines, books and the websites. Present study makes an attempt to analyze the growth and performance of PACS in Karnataka over a period of five years (2012-13 to 2016-17).

## 3. Theoretical framework

### 3.1. Cooperative Movement

The Co-operative Movement in India took birth in 1904 by the enactment of Co-operative Societies Act 1904. The aim was to promote credit societies. The Second Act was passed in the year 1912. The Co-operative societies Act 1912 aimed at promotion

of thrift, self help among agriculturists, artisans, and persons of limited means. The major reason for establishing credit co-operatives was to free the poor & indebted farmers from the clutches of the traditional money lenders who provided credit at high interest rates. The Credit Cooperative was established in 1904 with the basic aim to provide cheap credit to the small and marginal farmers. Co-operative institutions have played a vital role in the socio-economic development of the country, particularly in the rural areas and in agriculture and allied sectors. The cooperative sector in India has spread its activities in all spheres of economy like agriculture, poultry, dairy, fisheries, handlooms, spinning, consumer cooperatives and the like. The cooperatives have emerged as an important and vital sector of the Indian economy. Rural co-operative credit institutions in India consist of two distinct sets – short-term and long-term institutions – each with specific objectives. Short-term co-operatives primarily provide short-term crop loans, working capital loans, and medium-term loans for investments in agriculture to farmers and for the rural sector in general, often with refinance support from the NABARD. Long-term co-operatives typically provide medium to long-term loans for making investments in agriculture, including land development, farm mechanization and minor irrigations; rural industries; and lately, housing. Short-term rural credit co-operatives operate in most of the states in a three-tier structure with State Cooperative Banks at the apex level, Co-operative Central Banks at the district level and PACS at the base (village) level with mainly farmers as their members. In principle, PACS are expected to mobilize deposits from farmer members and use them for providing crop loans to members. When deposits are not enough to meet the loan requirements of borrowing members, PACS draw support from higher tier institutions, Co-operative Central Banks or State Cooperative Banks. As on 31 March 2017, there were 95,595 PACS with a total membership of 15.19 crore, in India.

### 3.2. Cooperative Movement in Karnataka

The first co-operative society of our country was registered in 1905 at Kanaginahal village of Gadag district in Karnataka. Sri Siddanagouda Sannaramana Gouda Patil is considered as the pioneer in the co-operative movement as he is the founder president of the said co-operative society in our country. The Mysore Co-operative Societies Act 1959 is the first legislation in our State pertaining to the co-operative societies and has come into being from 25-05-1960. Karnataka occupies third position in the co-operative movement in India. It has been playing an important role in improving the economic condition of people involved in co-operative movement and has spread to almost all sectors of economic activities, both in rural and urban areas. Karnataka has wide variety of cooperative societies. Karnataka is the first state where in Agricultural loans through co-operatives are available at 3% which is the lowest in the country. This facility is also extended to the loans borrowed by weavers and fishermen. Loans are available, if borrowed through co-operatives, for self-help groups at 4%. Government of Karnataka is subsidizing the co-operatives by providing Interest- subsidy through budgetary provisions. Economy of the State is mainly dependent on agriculture as more than 65% of the total population is engaged in this sector. In a developing economy, Agriculture Credit assumes greater significance on account of the fact that it is a critical input to support and sustain crop production. The Co-operative Credit system is the oldest sector of the co-operation movement and consists of short term credit, medium term credit and long term credit structure. In Karnataka, there are 41,410 Cooperatives under the control of Registrar of Cooperative Societies, of which 36,237 are functional. Among all the types of cooperatives, it is the PACS which play a crucial role in rural development by providing credit facilities to agriculture at a cheaper rate.

**Table 1: Demographic Characteristics of PACS in Karnataka**

Year	2012-13	2013-14	2014-15	2015-16	2016-17	Growth Rate (%)	
						2012-16#	2016-17*
No. of PACS	4789	4915	5625	5337	5679	4.35	6.41
No. of Members ( in thousands)	6128.36	5930.35	5191.68	8846	6696.68	2.24	-24.29
Borrowing Members ( in thousands)	2124.88	2148.4	2283.51	2536	5130.71	24.66	102.31

# : Compound Annual Growth Rate, \*:Percentage change over previous year

Source: Compiled from NAFSCOB, Annual Reports.

It is clear from the above Table 1 that the number of PACS increased from 4,789 in the year 2012-13 to 5,679 in 2016-17, showing a compound annual growth rate of 4.35 percent. As on 31 March 2017, there were 5679 PACS with a total membership of 6696.68 lakhs, of which 5130.71 lakhs [76.6%] were borrowing members. As compared to the previous year, while the total membership decreased by 24.29 percent, the borrowing membership of PACS increased by 102.31 percent. The compound annual growth rate of borrowers (24.66 %) is more than growth rate of membership (2.24%) during the period under study. The membership of PACS has been fluctuating with heavy ups and downs.

**Table 2: Composition of Capital of PACS**

(Amount in Lakhs)

Year	2012-13	2013-14	2014-15	2015-16	2016-17	Growth Rate (%)	
						2012-16#	2016-17*
Paid up	68528.62	75866.68	132924	145545	173751	26.19	19.38

Capital							
Reserves	43368.86	48211.93	85220	89600	102870	24.1	14.81
Deposits	258639.28	285640.95	602449	585990	749701	30.48	27.94
Borrowings	502176.7	516278.59	852100	1063059	1128455	22.44	6.15
Working Capital	855959.2	924480.76	1767803	1803773	2316084	28.26	28.40

# : Compound Annual Growth Rate, \*:Percentage change over previous year

Source: Compiled from NAFSCOB, Annual Reports

The above table shows that there is a tremendous increase in the paid up capital during the study period. It increased from Rs.68528.62 lakhs in the year 2012-13 to Rs.173751 lakhs in the year 2016-17 showing a compound annual growth rate of 26.19 percent. The reserves was Rs. 102870 lakhs as on 31 March 2017 as against Rs. 89600 lakhs as on 31 March 2016, reflecting an increase of 14.81 per cent. Reserves show a gradual increase during the study period reflecting annual compound growth rate of 24.1 percent. The deposits of Rs. 749701 lakhs as on 31 March 2017 reflected a growth of 27.94 per cent over 31 March 2016. Above table shows that deposit mobilization of PACS has been in increasing trend. There is a compound annual growth rate of 30.48 percent in deposits. The borrowings increased from Rs. 502176.7 lakhs in 2012-13 to Rs. 1128455 lakhs in 2016-17, showing a compound annual growth rate of 22.44 percent. There is a significant increase in the working capital of the PACS over the years. The working capital of PACS has been in increasing trend during the study period. There is a compound annual growth rate of 28.26 percent in working capital.

**Table 3: Loans Issued and Outstanding of PACS**

(Amount in Lakhs)

Year	Short Term Loans		Medium Term Loans		Total Loans and Advances Issued	Total Loans and Advances Outstanding
	Issued	Outstanding	Issued	Outstanding		
2012-13	571326 (93.40)	512368.6	40393.11 (6.60)	63662.1	611719.11	576030.7
2013-14	644584.81 (94.12)	572991.61	40241.37 (5.88)	65393.53	684826.18	638385.14
2014-15	1415746 (83.85)	1097967	272711 (16.15)	271884	1688457	1369851
2015-16	1191621 (89.78)	1104759	135609 (10.21)	224734	1327230	1329493
2016-17	1495658 (90)	1308592.79	166046 (10)	293476.42	1661704	1602069.21
Growth Rate (%) 2012-16#	27.2	26.42	42.39	46.53	28.38	29.14

# : Compound Annual Growth Rate.

Source: Compiled from NAFSCOB, Annual Reports. Figures in parenthesis indicate percentage to total.

From Table 3 it is clear that the total loans issued by PACS had increased from Rs.611719.11 lakhs in the year 2012-13 to Rs.1661704 lakhs in the year 2016-17 at Compound Annual Growth Rate of 28.38 percent. The total loans outstanding shows an increasing trend during the study period, indicating 29.14 percent growth rate. It is clear from the above table that out of total loans issued, the percentage of short term loans is more than 80 percent in all the five years period under review.

**Table 4: Purpose wise Lending Status of PACS**

(Amount In Lakhs)

Nature of Loan	2012-13	2013-14	2014-15	2015-16	2016-17	Growth Rate(%)#	2016-17*
<b>Agricultural</b>	442897.99	507495.23	1124765	957922	937032	20.60	- 2.18
<b>Nonagricultural</b>	82468.42	95470.49	485308	337315	580229	62.87	72.01
<b>Others</b>	86353.58	81861.34	78384	31993	144443	13.72	351.48
<b>Total</b>	611719.99	684827.06	1688457	1327230	1661704	28.38	25.20

# : Compound Annual Growth Rate, \*:Percentage change over previous year

Source: Compiled from NAFSCOB, Annual Reports.

The data on lending activities shows that there is a significant increase in the case of loans provided for nonagricultural purposes, showing a CAGR of 72.01 percent. Agricultural loan reveals fluctuations during the study period, indicating CAGR of 20.60 percent. The agricultural loans of PACS stood at Rs. 937032 lakhs on 31 March 2017 as against Rs957922 lakhs as on 31 March 2016, indicating decrease of 2.18 per cent.

**Table 5 : Demand, Collection and Over dues Position of PACS (Amount In Lakhs)**

Year	Short Term			Medium Term			Total Demand	Total Collection	Total Overdue
	Demand	Collection	Overdue	Demand	Collection	Overdue			
2012-13	464078.38	398176.04	65902.34 (88.67)	26836.89	18429.54	8420.35 (11.33)	490915.27	416605.58	74322.69
2013-14	522429.28	457978.35	64450.93 (89)	29453.21	21505.64	7960.57 (11)	551882.49	479483.99	72411.5
2014-15	923740	916504	7236 (43.04)	70870	61293	9577 (56.96)	994610	977797	16813
2015-16	987453	976072	11381 (55.02)	74580	65277	9303 (44.98)	1062033	1041349	20684
2016-17	1261551.31	1188321.62	73229.69 (87.96)	147644.13	137623.4	10020.73 (12.04)	1409195.44	1325945.02	83250.42
Growth Rate (%) 2012-16#	28.4	31.44	2.67	53.15	65.31	4.45	30.16	33.57	2.88
2016-17*	27.76	21.75	543.44	97.97	110.83	7.72	32.69	27.33	302.49

# : Compound Annual Growth Rate, \*:Percentage change over previous year

Source: Compiled from NAFSCOB, Annual Reports

Figures in parenthesis indicate percentage to total.

Table 5 shows that the total demand had increased from Rs. 4,90,915.27 lakhs in the year 2012-13 to Rs.14,09,195.44 lakhs in 2016-17 showing 30.16 percent CAGR. The difference between loan amount due for recovery (Demand) and collection of dues, is called overdues. The collection increased from Rs.4,16,605.58 lakhs in the year to Rs.13,25,945.02 lakhs in 2016-17 indicating CAGR 33.33 percent. The overdues of PACS have come down from Rs. 74322.69 lakhs in 2012-13 to Rs.20684 lakhs in 2015-16. The overdue position increased in the year 2016-17. It may be due to demonetization and expectation of loan waiver scheme by the borrowers. It is clear from the above Table that out of total over dues, the percentage of short term overdues are more than medium term overdues. The compound annual growth rates for the short term and medium term loan overdues found to be 2.67 percent and 4.45 percent respectively.

**Table 6: Percentage of overdues to demand**

Percentage of overdues to demand	2012-13	2013-14	2014-15	2015-16	2016-17
Short Term Loan	14.2	12.34	0.78	1.15	5.8
Medium Term Loan	31.38	27.03	13.51	12.47	6.79
Total Loan	15.14	13.12	1.69	1.95	5.91

Source: Compiled from NAFSCOB, Annual Reports.

The percentage of overdues to demand has come down from 15.4 in the year 2012-13 to 5.91 in the year 2016-17. Percentage of overdues to demand of both the short term and long term loans shows a decreasing trend over period under review. Since the CAGR of collections is more than CAGR of demand, the percentage of overdue to demand is decreased over the study period.

**Table 7: Credit deposits ratio of PACS**

Year	Credit (in lakhs)	Deposit (in lakhs)	C.D. ratio
2012-13	611719.11	258639.28	2.36
2013-14	684826.18	285640.95	2.39
2014-15	1688457	602449	2.80
2015-16	1327230	585990	2.26
2016-17	1661704	749701	2.21

Source: Compiled from NAFSCOB, Annual Reports.

The Credit Deposit Ratio of PACS from 2012-13 to 2016-17 has shown a fluctuating trend. While the highest Credit Deposit Ratio was 2.80 in 2014-15, the lowest ratio was recorded in the year 2016-17. The compound annual growth rate was -1.63 percent. The credit deposit ratio indicates efficient utilization of deposits. The credit deposit ratio greater than one is an indication of excess lending than deposits mobilized. High credit deposit ratio implies that the amount of deposits mobilized was very small as compared to the amounts of loan disbursed by PACS during the study period.

**Table 8: Operating Status of PACS**

Year	No of PACS in profit	Profits (in thousands)	No of PACS in loss	Loss (in thousands)
2012-13	2860	1086458.54	1689	502744.94
2013-14	3030	995550.01	1652	453991.83
2014-15	3711	637614	1191	459558
2015-16	3867	320322	1470	459558
2016-17	3858	631576.54	1457	340949.08

Source: Compiled from NAFSCOB, Annual Reports.

From the Table 8, it is clear that the number of PACS working on profit increased from 2860 in the year 2012-13 to 3858 in the year 2016-17. But profits earned by PACS shows decreasing trend during the study period except in the year 2016-17. The number of PACS working on loss decreased from 1689 in 2012-13 to 1457 in 2016-17. Amount of loss incurred by PACS also decreased during the period under review.

### Conclusion

The analysis of the performance of PACS in Karnataka reveals that there is a positive growth in the performance of members, deposits and reserve funds. But the total outstanding loans increased during the study period. Now a day's political parties promise to write off loans of farmers during election time. Such promises induce the borrowers not to repay loans. It badly affects the recycling of funds and the credit chances of the prospective borrowers. The efficiency of PACS as a financial intermediary depends to a great extent on the timely recovery of the loans. By providing greater access to agricultural loans, PACS play a vital role in the progress of financial inclusion in India NABARD extended financial support to PACS to develop PACS as multi service centres (MSCs) so that they can increase their business portfolios and avenues of earning revenue and become self-sustainable entities. Union Budget 2017-18 has made an allocation of 1,900 crore over three years for bringing digital banking to PACS. This will link 63,000 societies with Core Banking Solutions of DCCBs allowing new generation banking services to be made available to the small and marginalized farmers who are members of these co-operative societies for the first time. All these measures are expected to improve the performance of the PACS going forward.

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