# Role of Co-operative banks in empowering peasants: An economic analysis

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**Abstract:**

Agriculture is a primary sector of the Indian economy as about 70 percent of the total population depends on it and its dependence continues unabated. The pulls and pressures in the farm factor continue to extent their influence on the overall course of economic activity. Farming one of the most challenging of all economic enterprises, because it is wholly out-door venture exposed perilously to the unpredictable vagaries of weather. The crops are vulnerable to damage to several factors like diseases, birds, stray animals, rats, natural and unnatural calamities such as floods, droughts, cyclones, fires etc. So provision of an effective insurance cover for farm activities is indeed very difficult. The insurance companies which had rich experience is providing the insurance cover and other types of business are not inclined to take up crop insurance business due to higher risk factor prevailing in the farm sector. Cooperative credit structure was the first to realize that increasing rural incomes through enhanced agricultural production and generating employment in non-farm activities as critical to expanding home market for accelerated investment and industrial growth. In view of the support of cooperative credit, it has been possible to register higher rate of income growths. Prices of agricultural produce have been largely responsible to arrest the rate of inflation. Short term cooperative credit structure silently has been working on this philosophy. The institutional rural credit system has been envisaged as an effective channel for creating an environment for socio-economic development in the society. The institutional rural credit delivery system for agriculture comprises of (1) Short Term and Long Term Cooperative Credit Institutions (2) Commercial Banks (3) Regional Rural Banks (4) National Banks for Agriculture and Rural Development (5) Reserve Bank of India. The institutional credit delivery system for urban areas comprises of (1) Commercial Banks (2) Urban Cooperative Banks and (3) Urban Cooperative Credit Societies. This paper makes an attempt to analyse the role of co-operative societies in empowering the agricultural farmers and improving their standard of living.

**Key words:** Agriculture, co-operatives, Employment, Financing, standard of living.

**Introduction:**

The cooperative credit structure consists of two wings namely short term and long term. The short-term cooperative credit structure deals with medium term credit also for agricultural purposes and it is federal in character. It is mostly based on a three tier pattern with the SCBs at the Apex Level, DCCBs at the intermediary level and PACS at the village level. While the commercial banks and Regional Rural Banks with a network of about 67000 branches put together account for only 38 percent of the rural credit, the cooperative credit structure, in existence for about a century and consisting of over 1,22,988 outlets purveys more than 63 percent of the total agri-rural credit. Indeed, the above facts cover only the short-term cooperative credit institutions comprising 30 State Cooperative Banks with 953 branches at Apex level, 368 District Central Cooperative Banks (DCCBs) with 12858 branches at intermediary level and over 1,08,779 Primary Agricultural Credit Societies (PACS) indicating that the structure has a formidable rural presence in terms of geographical coverage.

Appreciating the above facts as well as its potential and spatial spread, the cooperative banking system is being continuously assigned a very critical role in the economic development of the rural areas in so far as the dispensation of the credit is concerned right from the commencement of planning in India. Some of the important features of the structure are as follows:

- Cooperative Credit Structure was the first to realise that increasing rural incomes through enhanced agricultural production, generating employment in farm activities as critical to expanding home marketing for accelerated investment and industrial growth. Cooperative Credit Structure has helped stabilizing the growth rate of economy by way of its agricultural credit which contributed in boosting agricultural production in the country.
- Short term cooperative credit institutions alone have the capabilities to meet and cater to the agricultural credit needs of the farmers. Cooperatives with less than 6 percent of the total deposits in the banking sector cater to around 62 percent of the short-term agricultural credit needs of the farmers. They alone have issued over 70 percent of the total Kisan Credit Card.
- Refinance for agricultural credit through cooperatives from RBI which was almost 75 to 85 percent in Eighties has now come down to less than 24 percent.
- 76 percent of the total agricultural credit provided by cooperatives is put of their own resources and the cost of mobilizing their resources is very high. The all inclusive cost of lending of the cooperative credit structure works out to 14.45 percent. However, they lend at an interest rate ranging from 9 percent to 14 percent.
- Farmers want adequate and timely credit. As such farmers are not averse for higher rate of interest on agricultural credit but lower rates of interest does not help, it was realized by farmers. SHGs which are being indiscriminately encouraged by Government of India and other agencies charge exorbitant interest rates ranging from 24 to 36 percent per annum.
- Cooperative credit institutions have neither such avenues nor permitted to take up such other activities. Cooperatives do not have scope from cross subsidization of its losses of agricultural financing. Yet, they cater to agricultural credit needs of farmers. If these institutions divert their attention towards business/service, the priority will shift from agricultural financing.

Indian agriculture as a whole has still not achieved the desirable degree of development and modernization, and transformation. The challenges here (to the credit provision) have been to convert the “nonviable” farmer into a “viable” one. Out of all sources of the institutional credit to farming the “Cooperative Credit” was regarded as the ideal and most desirable for India’s agricultural development. Cooperative credit ably supported by the State was regarded as almost the panacea for agricultural development.

**Relative share of borrowing of cultivator households from different sources**

| Sources of Credit | 1951 | 1961 | 1971 | 1981 | 1991 | 2002 |
|---|---|---|---|---|---|---|
| Non-institutional | 92.7 | 81.3 | 68.3 | 36.8 | 30.6 | 38.9 |
| Of which Money Lenders | 69.7 | 49.2 | 36.1 | 16.1 | 17.5 | 26.8 |
| Institutional | 7.3 | 18.7 | 31.7 | 63.2 | 66.3 | 61.1 |
| Of which cooperative banks/Societies | 3.3 | 2.6 | 22.0 | 29.8 | 23.6 | 30.2 |
| Commercial Banks | 0.9 | 0.6 | 2.4 | 28.8 | 35.2 | 26.3 |
| Unspecified | - | - | - | - | 3.1 | - |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** |

Source: All India Debt and Investment Survey and NSSO

The efforts to increase the flow of credit to agriculture seems to have yielded better results in the recent period as the total institutional credit to agriculture recorder a growth of around 21 percent during 1995-96 to 2007-08 from little over 12 percent during 1986-87 to 1994-95. In terms of total credit to agriculture, the commercial banks recorded a considerable growth (from around 13 percent to about 21 percent), while co-operative banks registered a fall (over 14 percent to over 10 percent) during the above period

**Institutional Credit to Agriculture (Rs. Crore)**

| INSTITUTIONS | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Co-operative banks | Share (%) | RRBs | Share (%) | Commercial Banks | Share (%) | Total | Percent increase |
| 1991-92 | 3408 | 39 | 495 | 4 | 5438 | 61 | 8846 | 10 |
| 1992-93 | 5800 | 52 | 596 | 5 | 4806 | 43 | 11202 | 27 |
| 1993-94 | 9378 | 62 | 831 | 5 | 4960 | 33 | 15169 | 35 |
| 1994-95 | 10117 | 61 | 977 | 6 | 5400 | 33 | 16494 | 9 |
| 1995-96 | 9406 | 50 | 1083 | 6 | 8255 | 44 | 18744 | 14 |
| 1996-97 | 10479 | 48 | 1381 | 6 | 10172 | 46 | 22032 | 18 |
| 1997-98 | 11944 | 45 | 1684 | 6 | 12783 | 48 | 26411 | 20 |
| 1998-99 | 14085 | 44 | 2040 | 6 | 15831 | 50 | 31956 | 21 |
| 1999-00 | 15916 | 43 | 2538 | 7 | 18443 | 50 | 36897 | 15 |
| 2000-01 | 18363 | 40 | 3172 | 7 | 24733 | 53 | 46268 | 25 |
| 2001-02 | 20801 | 39 | 4219 | 8 | 27807 | 53 | 52827 | 14 |
| 2002-03 | 23604 | 38 | 4854 | 8 | 33587 | 54 | 62045 | 17 |
| 2003-04 | 23716 | 34 | 6070 | 9 | 39774 | 57 | 69560 | 12 |
| 2004-05 | 26959 | 31 | 7581 | 9 | 52441 | 60 | 86981 | 25 |
| 2005-06 | 31424 | 25 | 12404 | 10 | 81481 | 65 | 125309 | 44 |
| 2006-07 | 39404 | 22 | 15223 | 8 | 125859 | 70 | 180486 | 44 |
| 2007-08 | 33174 | 22 | 15170 | 10 | 100999 | 68 | 149349 | - |

Source: Economic Survey and NABARD Various Issues.

The growth of direct finance to agriculture and allied activities witnessed a decline in the 1990s (12%) as compared to the 1980s (14%) and 1970s (around 16%). Furthermore, a comparative analysis of direct credit to agriculture and allied activities during 1980s and since 1990s reveals the fact that the average share of long-term credit in the total direct finance has not only been much lower but has also decelerated (from over 38 percent to around 36 percent), which could have dampening effect on the agricultural investment for future growth process. Sectoral deployment of gross bank credit reveals that the share of agriculture since the second half of 1990s has ranged between 11 – 12 percent. As at end March 2008, the share at around 11.9 percent.

**Sectoral Deployment of Gross Bank Credit**

| Sectors | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross Bank Credit | 258991 | 300283 | 342012 | 400818 | 469153 | 536727 | 669534 | 764383 | 1040909 | 1445837 |
| Priority Sector | 84880 | 99507 | 114611 | 131827 | 154414 | 175259 | 211609 | 263834 | 381476 | 509910 |
| Agriculture | 31442 | 34869 | 39634 | 44381 | 51922 | 60761 | 73518 | 90541 | 125250 | 172279 |
| Share of agriculture in total | 12.14 | 11.61 | 11.59 | 11.07 | 11.07 | 11.32 | 10.98 | 11.84 | 12.03 | 11.92 |
| Small Scale Industries | 35944 | 43508 | 48483 | 52841 | 56002 | 57119 | 60394 | 65855 | 74588 | 90239 |
| Other Priority Sector | 17494 | 21130 | 26494 | 34362 | 46490 | 57299 | 77697 | 107438 | 181638 | 247379 |
| Industry | 102604 | 117350 | 130516 | 147319 | 162837 | 172324 | 235168 | 247210 | 352304 | 458808 |
| Share of industry in Total | 39.62 | 39.08 | 38.16 | 36.75 | 34.71 | 32.11 | 35.12 | 32.34 | 33.85 | 31.73 |

Source: Report on Trend and Progress of Banking in India, Various Issues.

## Statement of the Problem

In the wake of introduction of economic reforms in India since 1991 with emphasis on globalization and liberalization, financial sector reforms have assumed considerable importance. The basic objective of reforms in the financial sector has been to improve the efficiency, competitiveness, transparency and productivity of financial system as a whole. Under the process of financial sector reforms, Government of India gave considerable financial help to Public Sector Banks as also RRBs. However, cooperative banking sector have been denied this pattern of financial assistance despite the fact that the cooperative banks were engaged in the vital task of transforming rural economy of the country. It is known that cooperative credit sector including agriculture and rural development banks constitutes an important segment of Cooperative Movement and is playing a critical role in financing short-term, medium-term and long-term agriculture operations including investment oriented projects for promoting rural development. Keeping in view the importance of cooperative credit sector in the context of socio-economic development of the rural areas, the common minimum programme of the present

Government has emphasized on the need to nurse back the weak cooperative credit sector to health and it has been proposed to double the flow of rural credit in the next three years so as to ensure that the coverage of small and marginal farmers by institutional lending is expanded substantially.

It is known that the financial position of a few State Cooperative Banks and a large number of District Central Cooperative Banks and PACs leave much to be desired. It is also known that at the operational level, cooperative banks have suffered losses for last many years due to their implementation of government sponsored policies and programmes. The interference by the government in the recovery process as also the relief and concessions announced by the government on account of natural calamities, floods and drought in different parts of the country have increased their losses. The Agriculture and Debt Relief (ADRS) Scheme of 1990, sponsored by Government of India did an unrepairable damage to the climate of loan repayment culture traditionally prevailing in the rural areas.

**Objectives of the Study**

1. To study the dimensions of cooperative movement in India in general and Karnataka in particular.
2. To assess the viability of the financial assistance extended to the farmers.
3. To examine the utilization of the cooperative banks credit by the agricultural farmers in Mysore district.
4. To find out the impact of the cooperative bank loan on the socio-economic conditions of the farmers in Mysore district.
5. To suggest the suitable measures for further effective functioning of cooperative banks in advancing agricultural credit.

**Research Design:** For the study 350 sample beneficiaries have been chosen. From each taluk 50 respondents. Mysore district consisting of seven taluks namely, H.D.Kote, Hunsur, K.R.Nagar, Mysore, Periyapatna, Nanjangud and T.Narasipura.

Details of activity-wise respondents in Mysore district

| Sl. No | Activity | Number of beneficiaries | Percentage |
|---|---|---|---|
| 01 | Crop loan | 100 | 28.57 |
| 02 | Tractor loan | 55 | 15.71 |
| 03 | Digging Wells | 50 | 14.30 |
| 04 | Purchase of bullock carts | 30 | 8.57 |
| 05 | To purchase modern implements | 30 | 8.57 |
| 06 | For small estates | 25 | 7.14 |
| 07 | To build a cow shed | 35 | 10.00 |

| | | | |
|---|---|---|---|
| 08 | For sprinkler irrigation | 25 | 7.14 |
| | **Total** | **350** | **100** |

**The main areas of operation of co-operatives in India are as under:**

- Agricultural Credit.
- Agricultural supplies.
- Agricultural Marketing.
- Agricultural Processing.
- Industrial co-operatives.
- Public Distribution of essential commodities through consumer co-operatives.
- Urban credit Co-operatives.
- Housing co-operatives.

Co-operative movement in India is the result of a deliberate policy of the state and is vigorously pursued through formation of an elaborate governing infrastructure. The successive Five year plans looked upon the co-operation movement as the balancing sector between public sector and the private sector and the success is evident. Almost 50 percent of the total sugar production in India is contributed by sugar co-operatives and over 60 percent of the total fertilizer distribution in the country is handled by the co-operatives. The consumer co-operatives are slowly becoming the backbone of the public distribution system and the marketing co-operatives are handling agricultural produce with an astounding growth rate.

**Cooperatives and Agriculture Development in India**

Cooperatives are the oldest rural credit institutions in India. They have the widest network covering every state and union territory. The long term credit needs of the farmers are being taken care by the Agriculture and Rural Development Banks in India, which was started for this sole purpose only. Timely and adequate agricultural credit is important for increase in fixed and working capital for farmers. In order to provide sufficient credit to the farmers, many institutional and non-institutional agencies are working. Under institutional agencies, cooperative, commercial, regional rural banks and different Government organisations are supplying credit to the needy farmers on priority basis. But, it is seen that cooperative carries the largest network in an agricultural credit supply in the country.

It is observed that till 1970-71, cooperatives had virtually a monopoly in meeting agricultural credit needs of the farmers in India. From the data plotted for years 1997-98 to 2008-09, it is seen that the total institutional credit for the 1997-98 was Rs.31,956 crores and this figure for 2008-09 year was Rs.80,000 crores. This gives an average increase of more than Rs.8000 crore per annum. It is also marked that due to advent of commercial and rural banks into the credit market, the overall percentages of credit supply through cooperatives were decreasing from 44 percent (1997-96) to 37 percent (2008-09). Accordingly, the rate of credit supply by commercial banks is increasing from 50 percent (1997-98) to 55 percent (2008-09). The share of RRBs in credit supply is limited to 6% (1997-98) to 8 percent (2008-09). As per the credit requirement estimates, the short-term credit supply is always more in comparison to medium term and long term supply. It is nearly70:30 percent for cooperatives, 55:45 for commercial banks and it is 3:1 in RRBs.

**Major Findings of the Study**

- Cooperatives occupy an important place in India's rural economy in terms of their coverage of population and their share in the total supply of agricultural inputs including credit.
- Cooperatives have brought improved technology nearer to the farmers. They have provided improved agricultural inputs like fertilisers, seeds, insecticides and also agricultural implements to their members. Cooperatives now account 34 percent of the total quantity of fertilisers distributed.
- The village cooperatives have not made much progress in supplying consumption loans to the farmers. This is due to lack of funds with the primaries. Another aspect is to supply essential commodities, particularly to the weaker sections.
- The study reveals that there is a marginal improvement in the recovery of loans from the cultivators and there is plenty of scope for improvement.
- Mysore district consists of seven taluks. The cooperative banks allocated more credit to Periyapatna of 21% in 2007 and 24% in 2008, followed by K. R. Nagar, 17% and 21%, H. D. Kote 17% and 15%, Hunsur 12% and 2%, T. Narasipura 7% and 7% and Mysore 8% and 7% in 2007 and 2008 respectively.
- Cooperative banks agricultural activities covered for credit are; crop loan, minor irrigation, land development, farm mechanization, plantation and horticulture, animal husbandry, allied activities, other priority sectors etc.,
- Agricultural activities of cooperative banks consisted nearly 50% of credit for crop loan and 25% for other priority sector and remaining 25% for eight other activities in all the years of 2006, 2007 and 2008. It is concluded that the cooperative banks have been prepared comprehensive credit plan for all agricultural activities.
- Out of 350 respondents, the 93.4 per cent of the respondents are quite satisfactory about the cooperative bank credit for their livelihood security. And only 6.6 per cent of the respondents have negative opinion on the bank credit. It indicates that the favourable impact of Socio – Economic Development of the farmers in the study area due to cooperative bank finance.
- The study indicates that the 86.3 per cent of the respondents' availed short-term credit and 13.7 per cent borrowed medium-term loan in the study area.
- Out of 350 sample farmers, among them 78.9 per cent of respondents were purchased Bullockcart by cash. Where as, only 21.1 per cent of sample farmers purchased through credit. It clearly indicates

that about 84 per cent farmers in the taluks of K.R. Nagar and T. Narasipura respondents' have purchased bullock cart by cash, followed by Periyapatna and Nanjangud with 78 per cent and 76 per cent respectively. Where as 30 per cent of respondents purchased Bullock cart through credit in H.D. Kote, but only 8 per cent respondents purchased by credit in both the taluks of K.R.Nagar and T. Narasipura.

**Conclusion**

The importance of agricultural credit in a country like India, which is essentially rural in nature hardly, needs elaboration. The policy maker should aim at securing the economic and political empowerment of the people (agricultural farmers) through agricultural credit. They should regard the principles of finance and accounting, but they should not be overemphasized. Agricultural credit is a matter which affects millions of people and in democracy, it is important that the people should wrongs of borrowing matters which affect them. Their participation and opinion will shape the government policy. It is pleased to state that India is the third country in the world and first among the developing nations to provide crop insurance facility to the agriculturists. Let us hope that soon India will top the list in global scene by taking new strides in crop insurance field also and prevent ever increasing suicides of the farmers in the years to come.

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