

Role of Cooperative Banks and Societies in Kerala's Agriculture Sector

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Abstract: This study has been undertaken to investigate the role of credit cooperative societies including cooperative banks in supporting agricultural sector of Kerala. This paper attempts to understand the growth of cooperative agricultural credit societies in Kerala through a descriptive study. The cooperative sector has played a key role in the economy of Kerala. Cooperative credit societies are flourishing in Kerala. Expanding number of societies shows the popularity of cooperative credit for agricultural and allied purposes. Credit is becoming an important input in agriculture. Cooperative credit is offered through different schemes. Cooperative banks are one of the accessible and reliable source of institutional agricultural credit in the rural economy and always recognized as an integral part of our national economy. Cooperatives have ideological base and economic goals with a social perspective.

Key words - Cooperative Bank, Agricultural Credit, Rural cooperative credit societies, credit schemes

1.1 Introduction

India is an agrarian economy with a 70% population depending on agriculture for their livelihood. Credit is one of the major factors that affect agriculture development. There are mainly two sources of agricultural credit; non-institutional (money lenders, friends, relatives, etc...) and institutional source (Cooperative banks, Regional Rural Banks, and Commercial Banks). Institutional source of agriculture credit aims to finance agriculture at low cost. In agriculture dominated rural sector, cooperative banks play a vital role in aiding the common individual and financing his business and private needs. They provide advances for the agrarian needs in the rural agricultural sector at various stages of agricultural production. The cooperative credit structure has started supporting Indian society in 1904 and since then it has seen several ups and downs. Despite several limitations such as restriction of the area of operations, limited clients, a small volume of business, political interference. The cooperative movement in Kerala has started in 1914 and continuing for the last 107 years and expanding its operations and widening itself. Cooperative banks and cooperative credit societies are major facilitators of agricultural credit in Kerala. The agriculture sector of Kerala has undergone several changes as part of the structural change taking place in the economy. The economy of Kerala is shifting away from agriculture which is evident from the shrinking labor force participation rate and depleting sectoral contribution of SGDP from the primary sector. Cooperative banks and credit societies have played a key role in supporting the agriculture activities in Kerala being a major source of institutional agriculture credit.

1.2 Objectives

- i. To understand the growth of cooperative credit societies in Kerala.
- ii. To examine the flow of cooperative bank credit to agriculture sector in Kerala.
- iii. To study the performance of different schemes of cooperative agriculture bank credit.

1.3 Statement of Problem

Kerala's rural credit system is unique in its reach and diversity. Besides the basic role of financial intermediaries, the Cooperative banks play a unique role in accelerating agricultural growth and support countries continuing efforts to reduce poverty and inequality. The agrarian economy of Kerala has largely been capital-starved and was under the control of indigenous moneylenders, who exploited the poor farmers in many ways. The cooperative movement in Kerala originated as a measure against rural poverty, aggravated by the chronic indebtedness of the farmers and the practice of usury at its worst by the moneylenders. Agricultural credit has been disbursed through a multiagency network consisting of commercial banks, regional rural banks, and cooperatives. Cooperative institutions both short-term and long-term emerged over the years as the prime institutional agency. For the dispensation of agricultural credit. Agricultural credit has been disbursed through a multiagency network consisting of commercial banks, regional rural banks, and cooperatives. Cooperative institutions both short-term, and long-term emerged over the years as the prime institutional agency. For the dispensation of agricultural credit. The study tries to examine the growth of cooperative credit societies and cooperative credit advanced over the years.

1.4 Method of Data Collection

A descriptive study is conducted to understand the role of cooperative bank credit in the agriculture sector of Kerala. The study was confined to Kodyathur panchayat. There is only one cooperative bank for rural agricultural credit in the panchayat. The study made use of both primary and secondary data. Primary data were collected using field surveys and discussions with bank manager staff and customers in Kodyathur Service Cooperative bank and its branches. They were personally interviewed with the help of a predesigned questionnaire.

Secondary data were collected from the bank's annual reports, office of the Registrar of Cooperative societies, Kerala, RBI website, NSSO publications, Govt. of Kerala website, and other journals. The data collected are arranged and represented graphically.

1.5 Limitation

The study tries to analyze the performance of the bank in the field of agricultural credit only. The study completely excluded loans given to industrial and tertiary sectors. So the findings of the study cannot reflect the overall performance of the bank. The present study also didn't take into account the impact of different agricultural schemes on the beneficiaries.

- i. The responds of agricultural credit borrowers depend on their trustworthiness.
- ii. Errors can occur in getting the correct information.
- iii. Study is limited to concept of cooperative and agricultural credit.

1.6 Review of Literature

- A study conducted by P K Singh and L M Upadhy Upadhy¹ entitled 'a study of loan recovery of the regional rural bank in Bihar' found that inadequate arrangements for recovery of the loan amount were the reason for the low recovery they also found will full default on the part of the borrowers. Crop failure, expenditure on marriage, and other social functions in the family were considered the important factors for nonpayment of loans from the point of view of borrowers.
- Devadas² (1987) in his book entitled 'cooperative banking and economic development' studied the role of Assam cooperative apex bank in the economy of the state'. He found that apart from working as a commercial bank it had to discharge three other functions; i.e. finance primary credit societies, act as a banking center for primary societies, and undertake supervision of primary societies. He found that the bank had not been able to achieve much in these three fields due to a lack of adequate support from the Govt. of the state.
- Jagdish Prasad and Sunil Kumar³, in their study, 'Role of the cooperative bank' found that role of cooperative banks in covering the weaker section of borrowers had been satisfactory. The study also revealed that the bank had covered a larger number of marginal and small farmers while lending to the farming community.
- A study entitled 'credit payment performance of borrowers of cooperative bank: A case study' by K Nagi Reddy and Rathna Kumari⁴ found that repayment performance is better among small farmers than marginal farmers and agricultural laborers.
- In an article entitled 'Agricultural financing in changing perspective: An overview'. Dr. Rajagopal⁵ emphasized the importance of institutional finance to agriculture. This study pointed out the main reasons for increasing over dues in institutional lending to, failure in the supply of loan, under financing, over financing, absence of proper credit marketing linkage, misapplication of loan, etc...
- Suresh⁶ in his study commented that cooperatives in Kerala have not only satisfied viability conditions but also far better than their counterparts in the rest of India under all norms.
- Nanjudappa⁷ in his study suggests that for speeding up agricultural development, an issue like according industries status to agriculture is relevant and even crucial. It is obvious because several incentives including tax holidays, capital subsidies, and high protection were given to the industry to promote its faster development.
- Badmin and Singh⁸ in their study examined the role of cooperative in agricultural finance and the nature and extent of cooperative loans. Finally ,they concluded that cooperatives play the vital role in agricultural planning
- Vaikunthel⁹ in his study suggests that the adequate loans should be to small and medium farmers to save them and other agencies. The loans, given by the supervised in order to ensure that optimum utilization of cooperatives credit available.

II ROLE OF COOPERATIVE SOCIETIES/BANKS IN AGRICULTURE CREDIT

2.1 History of Co- operative movement in Kerala

The co-operative movement in Kerala is one of the most vibrant Co-operative movements in the Country. About 15624 Co-operative Societies are functioning under the administrative control of the Registrar of Co-operative Societies, of which 3685 societies are credit societies. Co-operative Societies in the state have played a vital role in the economic uplift of the people particularly the weaker and downtrodden people in rural areas. There were three administrative units in erstwhile Kerala- Travancore, Cochin, and Malabar. In 1949, Travancore and Cochin merged into a single state known as Travancore- Cochin State. Kerala state was formed in 1956 by merging all three units.

2.2 Types of cooperative credit societies / Banks

Cooperative banks share a prime role in providing credit for agriculture and allied activities. Cooperative credit societies and banks cover the credit needs of the Kerala agriculture sector. The cooperatives have made significant progress in making advances to the agriculturist and also to weaker sections in addition to direct finance, central cooperative banks (CCBs) state cooperative banks (SCBs) provide indirect finance to the benefit of agriculture through loans for purposes such as marketing of agricultural commodities, fertilizer distribution, etc.

2.2.1 Kerala state cooperative bank

The Kerala state cooperative bank, with its headquarters at Trivandrum, is the apex cooperative society in the state. The SCB finances and controls the working of the central cooperative banks in the state. It serves as a link between NABARD from which it borrows and the cooperative central banks and village primary societies. The state cooperative bank obtains its working fund from its share capital and reserves, deposits from the general public, and loans and advances from NABARD, which constitutes between 50 and 90 percent of the working capital of the state cooperative bank.

The bank is doing the business of banking within the framework of rules/regulations/guidelines stipulated by the Reserve Bank of India and National Bank for Agricultural and Rural Development (NABARD).

2.2.2 Kerala bank

Unfortunately The Government of Kerala has taken a policy decision to convert the present three-tier short-term co-operative structure within the state into a two-tier structure. The Reserve Bank of India had conveyed their consent for the amalgamation of 13 District Co-operative Banks who approved the scheme of amalgamation with Kerala State Co-operative Bank. The Registrar of Co-operative Societies has approved the resolution passed by 13 District Co-operative Banks on 07-03-2019 to transfer its assets and liabilities in whole to Kerala State Co-operative Bank and issued the order for amalgamation of 13 District Co-operative Bank

with Kerala state Co-operative Bank, based on the resolutions passed by General Bodies of respective District Co-operative Banks as provided under section 14A of KCS Act. Accordingly from 29-11-2019 onwards, Kerala State Co-operative Bank and 13 District Co-operative Banks are functioning as a single entity with brand name 'Kerala Bank'.

2.2.2.1 Functions of Kerala bank

- i. They act as a link between money market, RBI, NABARD and the central cooperative bank.
- ii. They act as a link balancing and clearing house for the central cooperative bank in the state.
- iii. They serve as a banker's bank and custodian of surplus resources of cooperative banks.
- iv. They help the state government in devising plans from cooperative department and implementation of these plans.
- v. The bank initiates the cooperative policy at the state level.
- vi. They are entrusted to provide all type of modern banking facilities to the public in the state.
- vii. They supervise and guide the activities of the central cooperative bank.

2.2.3 Role of NABARD

National bank for agriculture and rural development was established on 12th July 1982 to take over and decentralize the ribs function in the sphere of rural credit. It was set up for providing credit for the promotion of agriculture, small-scale industries, cottage, and village industries, handicrafts, and other rural crafts, and other allied economic activities in rural areas to promote integrated rural development and secure prosperity for rural areas.

NABARD does not help the farmers and other rural people directly rather it flows the credit to these people through cooperative banks, commercial banks, RBIs, etc. It is thus working as an apex body dealing with policy, planning, and other operational aspects of rural credit for the all-around development of the rural economy.

2.2.2.2 Functions of NABARD:

- i. To serve as a refining institution with a view to promoting integrated rural development.
- ii. To provide short term, medium term and long term credit to state cooperative banks, RRBs and other financial institutions approved by RBI.
- iii. To give long term assistance to state governments for subscribing to the share capital of cooperative credit institutions.
- iv. To maintain a research and development fund to promote research in agriculture and rural development to formulate and design project and program me to suit the requirements of different areas and to cover special activities.

2.4 District central cooperative bank

A District Co-operative Central Bank (DCCB) is a cooperative bank operating at the district level in various parts of India. It was established to provide banking to the rural hinterland for the agricultural sector with the branches primarily established in rural and semi-urban areas. At present 14 District Co-operative Central Banks are functioning in the state. 13 District Co-operative Banks on 07-03-2019 to transferred its assets and liabilities in whole to Kerala State Co-operative Bank and have amalgamated with Kerala state Co-operative Bank to form Kerala bank.

The members and their elected directors who represent a multitude of professional cooperative bodies like milk unions, urban cooperatives, rural cooperatives, agricultural and non-agricultural cooperatives, and various others, in turn, elect the bank's president. These banks are collectively represented by Kerala bank and it acts as the ultimate bank and apex body for the DCCBs in Kerala.

2.5 Kerala state Agricultural and Rural Development Bank

The Kerala State Co-operative Agricultural and Rural Development Bank Ltd is an apex financial organization of the two-tier federal structure, established in 1956, in a long-term credit structure. It has got 79 Primary Co-operative Agricultural and Rural Development Banks as its members functioning at the taluk level. The main objective of this organization is to provide long-term agricultural credit to the farmers in the state through its affiliated Primary co-operative Agricultural and Rural Development Banks through refinancing from NABARD. The bank has diversified its activities to achieve the prime objective of comprehensive agricultural and rural development. As part of diversification, the bank entered short-term loans for meeting various financial needs like Marriage assistance loan/Gold purchase, consumer loan, etc... under the NCDC line of credit.

The KSCARD Bank with its head office at Thiruvananthapuram is registered under Kerala Co-operative Societies Act 1969; its operations are regulated by the KSCARDB Act, 1984, and the rules and bye-laws framed thereunder. It has regional offices in all districts for operational conveniences.

The bank undertakes the following functions to achieve the above objectives:-

- (a) Floatation of Debentures;
- (b) Receiving Deposits;
- (c) Grant of loans to primary cooperative agriculture and rural development banks for purposes approved by the National Bank for Agricultural and Rural Development and Registrar of Cooperative Societies;
- (d) To function as the agent of any cooperative bank subject to such conditions as the Registrar may specify;
- (e) To develop, assist and coordinate the work of affiliated primary cooperative agriculture and rural development banks.

The bank issues long term and medium-term loans towards agricultural and allied activities like construction of cattle shed, farmhouse, purchase of lands, etc., and for minor irrigation purposes like construction of new wells, deepening of existing wells, etc., Also, long-term loans are sanctioned for animal husbandry, fisheries, plantation, farm mechanization, non-farm sector, and other non-minor irrigation schemes.

The state agriculture and rural development bank floats two types of debentures to raise funds required for issuing loans for developmental activities:

- (i) Special development debentures subscribed to by National Bank for Agricultural and Rural Development and the Central and the State Government.
- (ii) Ordinary debentures subscribed to by State Government, Government of India and other institutional investors.

2.6 Primary Agricultural and Rural Development Bank

The primary cooperative agriculture and rural development banks provide long-term loan assistance to farmers with the period of repayment ranging from 5 to 15 years. They provide credit for developmental purposes like minor irrigation, cultivation of plantation crops, and diversified purposes like poultry, dairying, and sericulture on a schematic basis. They get requisite financial assistance from the Kerala State Cooperative Agriculture and Rural Development Bank. At present 79 primary cooperative agriculture and rural development banks are functioning in the state.

2.7 Types of agricultural credit in India

Considering the period and purpose of the credit requirement of the farmers of the country agricultural credit in India can be classified into three major groups; short, medium, and long term.

Short-term credit: The Indian farmers require credit to meet their short-term needs viz purchasing seeds, fertilizers, paying a wage to hired workers, etc... for a period less than 15 months. Such loans are repaid after harvest.

Medium-term credit: It includes the credit requirement of farmers for a medium period ranging between 15 months to 5 years and it is required for purchasing castles, pumping sets other agricultural implements, etc... Medium-term loans are normally large than short-term credit.

The short-term and medium-term credit requirements are met by a three-tier system consisting of state cooperative banks at the middle level and 1606 primary agricultural credit societies at the base level. The state cooperative bank, now Kerala bank functions as the apex bank for the state of Kerala, the area of operation extends over the entire state. The memberships of the bank open to all district cooperative banks. The liability of the bank is limited to the paid-up share capital of the members. The object of the bank is to achieve all-around progress in the state provides financial assistance to the weaker sections of the society with the active support of the state government. It extends financial help to agriculture and traditional industries.

Long term credit: Farmers also require finance for a long period of more than 5 years just to buy additional land or for making any permanent improvement on land like digging of wells, reclamation of land, horticulture, etc .thus the long term credit requires sufficient time for the repayment of such loans.

Long Term Cooperative Credit Structure consists of Apex Bank viz., Kerala State Cooperative Agriculture and Rural Development Bank, and Primary Cooperative Agriculture and Rural Development Banks at taluk/block levels. These credit institutions are providing investment credit to the members for activities like minor irrigation, horticulture, plantation crops, and other agriculture and allied sectors.

2.8 Growth of Co-operative credit societies/ Banks

Table 2.1: Major credit cooperative banks/ societies

Types of Banks/ societies	2007-08		2012-13		2017-18	
	number	membership	number	membership	number	membership
Kerala State Cooperative Bank	1	15	1	15	1	15
District Cooperative Bank	14	10378	14	1439	14	10160
Kerala state Agricultural and Rural Development Bank	1	48	1	50	1	51
Primary Agricultural and Rural Development Bank	36	1046252	63	1046252	79	1126419

Source: statistical abstract, Department of cooperation: Govt. of Kerala

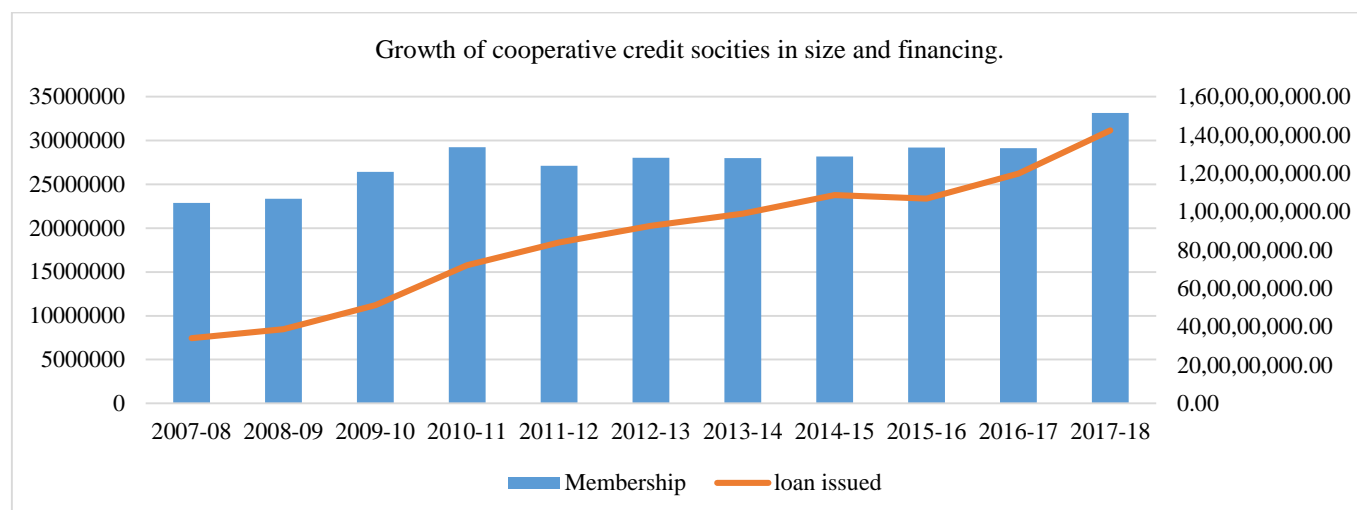
Credit cooperative societies and banks has grown over the years in size over the years. Popularity of credit cooperative societies has increased which is evident from the increasing membership in credit cooperatives. Kerala State Cooperative Bank, now Kerala bank and Kerala state Agricultural and Rural Development Bank are functioning as apex Cooperative Banks. District Cooperative banks along with its branches, Primary Agriculture Rural Development banks and Primary Agriculture Credit Societies (PACS) are structurally more approachable to common people.

Table.2.2: Growth of credit cooperative societies

Year	Number of Societies	Membership	Loan issued
2007-08	4197	22879320	339938276
2008-09	4237	23332252	387744595
2009-10	4474	26414701	512581878
2010-11	4504	29233115	720778618
2011-12	4552	27099076	839813653
2012-13	4656	28038103	926612977
2013-14	4743	27998960	989956477
2014-15	4816	28178447	1086416839
2015-16	4896	29207875	1068302417
2016-17	4891	29114897	1198327342
2017-18	4930	33147531	1424156494

Source: statistical abstract, Department of cooperation: Govt. of Kerala

Figure 2.2: Growth of cooperative credit societies in size and financing



Cooperative credit societies have grown in size over the years. The number of cooperative credit societies has increased 14.8% from 4237 in 2008-09 to 4930 in 2017-18. Membership of cooperative credit societies increased to 30.97% from 2007-08 to 2017-18. The amount of loans advanced by cooperative credit societies in the Kerala economy is witnessing a steady increase over the years. Cooperative credit societies have managed to disburse more than one lakh forty-two thousand crores of credit over in 2017-18 increasing by 76.1% of the increase in credit advancement over the years. Kerala's cooperative credit societies have experienced tremendous growth in terms of size and loan advancement over the years.

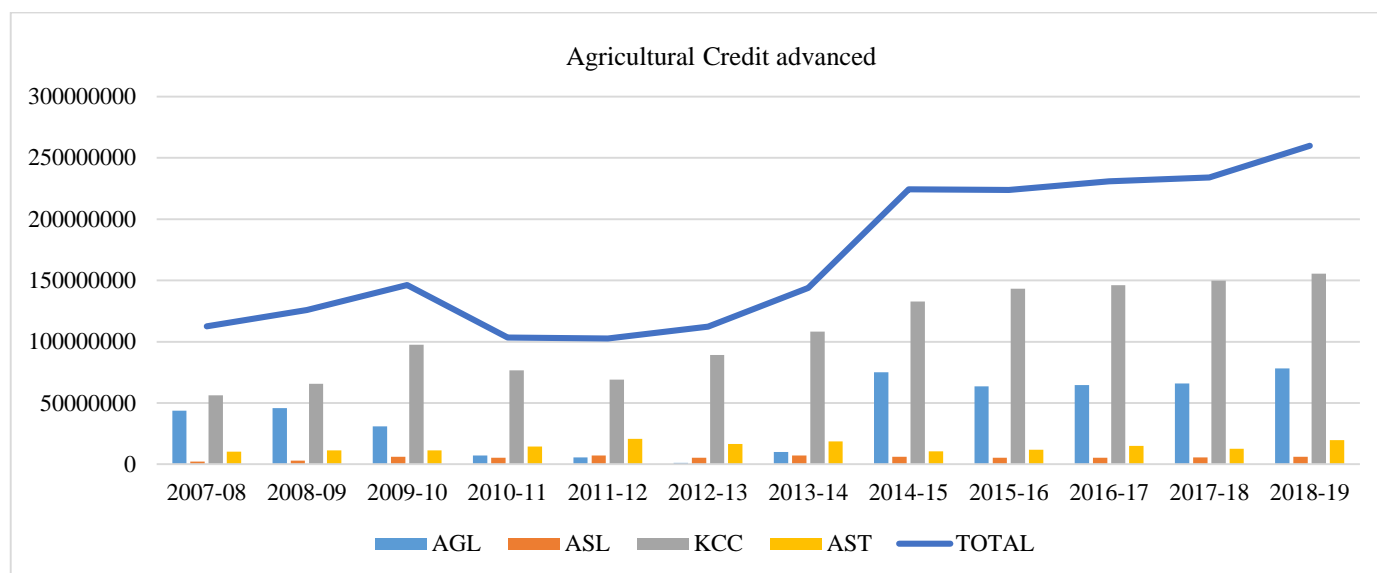
2.8.1: Cooperative banks and agricultural credit: An empirical analysis of Kodyathur service cooperative bank.

Table 2.3: Agriculture Loan Advanced

Year	AGL	ASL	KCC	AST	TOTAL
2007-08	43855806	2218440	56291150	10324455	112689851
2008-09	45945600	2989420	65631000	11350030	125916050
2009-10	31021840	6149288	97609450	11402350	146182928
2010-11	7221000	5221300	76620041	14375000	103437341
2011-12	5532140	7154220	69136615	20805550	102628525
2012-13	1083462	5420335	89215261	16542445	112261503
2013-14	9952500	7182034	108164315	18634190	143933039
2014-15	75020134	6152061	132716851	10475000	224364046
2015-16	63682050	5226571	143207751	11739300	223855672
2016-17	64514560	5318510	146215990	14870308	230919368
2017-18	65892400	5640500	149876200	12653580	234062680
2018-19	78159920	6216970	155625633	19791500	259794023

Source: Annual reports of kodyathur cooperative bank

Figure 2.2: Agricultural Credit advanced

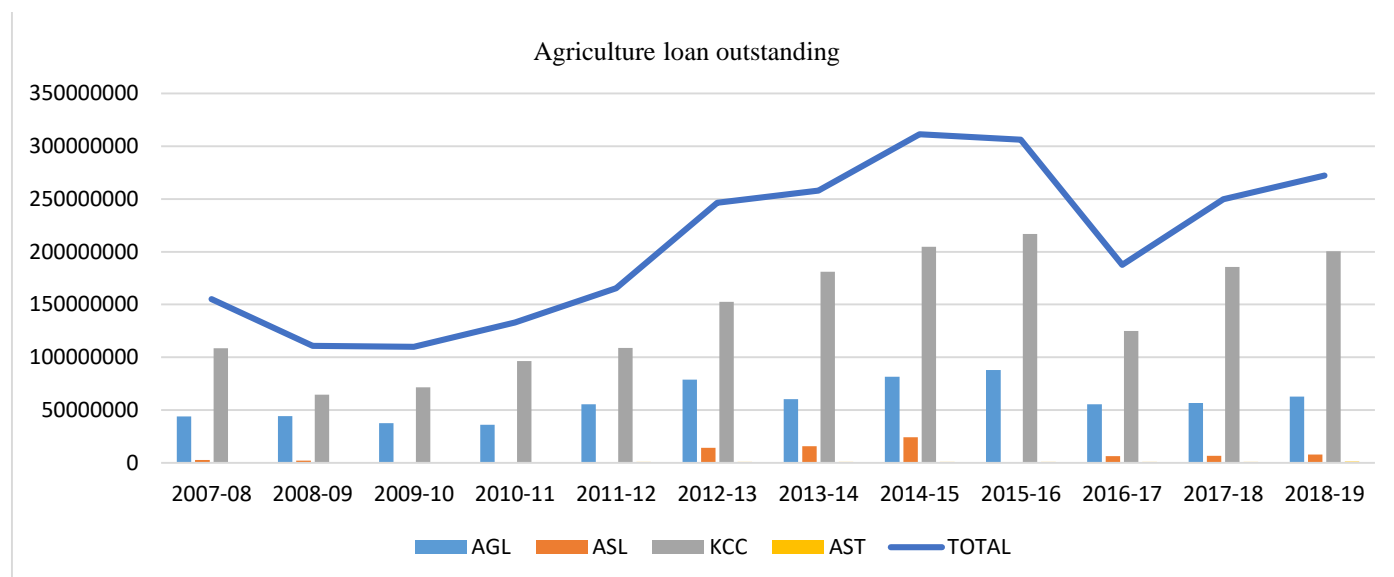


Agricultural credit is advanced through different credit schemes like agricultural gold loan (AGL), Kisan credit card (KCC), and short-term agricultural loan (AST), loan for agriculture allied/subsidiary activities (ASL). 65% of the loan during the period of study is advanced through the KCC scheme. AGL is the second-highest credit scheme used by the borrowers for availing credit; 24% of the total loan advanced over the period is of AGL. Loan schemes like ASL and AST are less popular and availed than KCC and AGL with a share of 3% and 8% respectively. Agriculture loan advancements over the years increase from 2007-10, declines from 2009-10 to 2010-11, and remain stagnant for a while from 2010-11 to 2011-12. Thereafter it increases steadily from 2011-12 onwards.

Table 2.3: Agriculture loan outstanding

Year	AGL	ASL	KCC	AST	TOTAL
2007-08	43855806	2553528	108654075	90929	155154338
2008-09	44282597	1957643	64655908	68929	110965077
2009-10	37733257	633514	71678533	47417	110092721
2010-11	36192203	269738	96417263	72478	132951682
2011-12	55486201	200000	108781270	954500	165421971
2012-13	78886096	14144590	152609644	944590	246584920
2013-14	60313104	15624188	181162330	824188	257923810
2014-15	81597329	24334219	204641055	964500	311537103
2015-16	87903529	505210	216846080	979502	306234321
2016-17	55421250	6226000	124879500	990213	187516963
2017-18	56618820	6630020	185684650	1015003	249948493
2018-19	62649520	7990230	200659400	1124503	272423653

Figure 2.3: Agriculture loan outstanding



Agriculture loan outstanding in the KCC scheme is the highest in all the years. 68% of the total loan outstanding is coming through KCC. AGL scheme accounts for the highest loan outstanding amount of more than 8.7 lakh crores in 2015-16. Loan outstanding amounts for ASL and AST are the lowest.

III RESULTS AND FINDINGS

From the above data, it is clear that cooperative banks are serving in the field of agricultural credit and rural development. Cooperative banks are playing an extraordinary role in agriculture credit and rural development. Cooperative banks are growing in size and quality. Cooperative banks are a reliable and accessible source of agriculture loans for agriculture credit borrowers. Agriculture credit borrowers are offered a variety of credit schemes at a low rate of interest by cooperative banks.

3.1 Suggestions and recommendations

1. 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.
2. Cooperative Banks should change their loan policies on the basis of crop loan systems.
3. The Cooperative Banks must maintain adequate liquid resources, margin, properly scrutiny of loans and should try to qualitative improvement to the staff.
4. Cooperative Banks should try to co-ordinate between the Board of Management, Members, Depositors and Employees of bank.
5. Accountability and transparency need to be brought in the implantation of the schemes.

3.2 Conclusion

Cooperative banks belong to the oldest forms of collective action in India playing an essential role in the realization of agricultural and local development. They serve both rural and urban populations and are the main banks in India supporting the development of agriculture and rural areas. Their key role is to give credits for financing various rural-based entrepreneurship. Agricultural credits play several significant functions of which the primary include the intensification and growth of agricultural production. In a developing State like Kerala with huge deficits in terms of quality and quantity, the State has to carry the primary responsibility of providing cooperative credit. Considering the low living standards of the 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.

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