

# *Role of Credit Co-operatives in the Agricultural Development of India*

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## **<<< Abstract**

*Agricultural development is essential for the overall development of any country for which credit is an essential input. Due to the disadvantages of non-institutional sources, the GOI launched various financial institutions in order to provide adequate, cheap and timely credit to the needy farmers. In the context of liberalization, privatization and globalization of the Indian economy, Cooperatives are recognized as the only institutions, which may improve the quality of rural households. On this backdrop, an attempt is made to analyze the role of credit cooperatives in the agricultural development of India.*

## **1. INTRODUCTION**

Agriculture is the most important and crucial sector of Indian economy. It provides food, shelter, income and employment to the largest section of population of the country. It contributes 17 percent to the Gross Domestic Product and provides employment to about 57 percent of the total working population (2008-09). It contributes to the exports as well as economic growth of the country. Agriculture and general economic development are part of a single process having reciprocal reaction between each other. If agriculture stagnates, it acts as a brake on industrial expansion and halts the real growth of the country. Hence development of agriculture forms the backbone of the overall development of the country.

Indian agriculture is mainly dominated by small, marginal farmers and landless labourers who live in the subsistence economy and are not in a position to finance agricultural inputs for the development of agriculture. So to meet their agricultural requirements, adequate credit is crucial which is necessary for the agricultural development. Credit is an important input which ensures adequate working capital as well as infrastructural development for agriculture. Initially the Indian agriculturists depend more on non-institutional sources for their credit requirements and these sources used to squeeze the blood of the poor peasants by charging high rates of interest. So as to prevent exploitation and help farmers to raise their productivity and maximize the income, institutional credit schemes by various institutions were launched. After the Independence, the Government of India has adopted a multi-agency approach for farm credit in order to provide adequate, cheap and timely credit. In the context of liberalization, privatization and globalization of the Indian economy, Cooperatives are recognized as the only institutions, which may improve the quality of rural households. The Credit

Cooperatives are the first and foremost institutional agencies to enter into the field of agricultural finance and were the first in the chain to extend institutional credit to the rural people. The credit cooperatives have three-tier structure having Primary Agricultural Cooperative Societies at the grass root level, Central Cooperative Banks at district level and State Cooperative Banks at apex/state level. The Cooperative institutions provide not only credit, but also non credit services for all activities under primary, secondary and tertiary sectors of rural economy. Further Cooperatives are considered as the agencies for mobilization and development of rural resources in a planned and cost effective manner besides providing inputs, services and marketing facilities to the rural economy.

## 2. REVIEW OF LITERATURE

As agriculture forms the backbone of the Indian economy, The Government of India recognized the importance of free flow of credit to agriculture and allied sectors. Sharma (1967) stated that for agricultural development, credit is an important input which ensures adequate working capital as well as infrastructural development. Adequate credit increases the agricultural output. Agricultural credit and agricultural development goes by hand in hand, hence the farmer should be provided adequate and cheap credit (Dutta and Sundaram, 2005). It is supported by Kanthimathinadhan (2005) suggested that without cheap credit is not possible for small and marginal farmers to survive. Shetty (2004) and Shivaloganathan suggested in their work that better institutional credit facilities is highly essential for agricultural growth. Shivaloganathan suggested multi-agency approach in order to fill gap between supply and need of credit in agricultural sector. Pathania (1987) analyzed the utilization of co-operative credit in agricultural sector and concluded that with the proper utilization of Co-operative credit the farmers can increase their productivity. It was strongly supported by Sharma (1989), Modi and Rai (1993), Sathey (1996) and Patnaik (1999). B. Subrahmanyam (2005) viewed that Co-operative rural credit delivery system has been farmer-friendly and has out reached to serve

agriculture. Calvert (1996) aptly argued that Cooperative credit is the practical alternative to usury. Subbaiah & Selvakumar (2005) observed that the institutional finance to agriculture which has contributed 22.1 percent of GDP in 2002-03. He also found that the govt. has estimated the credit flow from all lending institutions for the year 20003-04 at Rs. 80000 crores and has planned to enhance the level of flow to Rs. 105000 crores for the year 2004-05 which represents an increase of 30 percent over the previous year. Vilasrao Deshmukh (2005) said that the Co-operatives in India account for more than half of institutional finance advanced to agriculture and one-fifth of private capital formation. The Government of India recognizes Co-operatives' role in rural credit and appointed several committees to strengthen its performance. The Task Force Committee (2004) under the chairmanship of Sri Vaidyanathan recommended the Government of India for a revival package to restructure the cooperatives. Against this backdrop the present study is based.

## 3. METHODOLOGY

In India Co-operative credit institutions are playing significant role in extending credit to the farm sector besides providing inputs, marketing and extension services. The objective of the present study is to analyze the role of cooperatives' credit in the agricultural development of India. Agricultural development in the present work has been assessed through the flow of Cooperative credit to farm sector. In order to study the role of cooperative banks, the credit supplied by the cooperative banks to the agricultural sector has been analyzed. The credit supplied by the cooperative banks to different sectors such as short-term credit, long-term credit and credit to allied sector has also been analyzed. Consistent with the objectives of the study, different techniques have used for the analysis of the data. The data pertaining to the study has been analyzed and presented in tabular forms to make the findings meaningful and easily understandable with simple statistical tools of analysis like credit-deposit ratios, compound annual growth rate (CARG) etc. The structure of the credit cooperatives, their growth and development and their trend of credit disbursements

etc. have to be taken into consideration for the analysis of the objective. The data used for the analysis was of secondary in nature. The secondary data relating to the growth and development of Cooperatives in India etc. were collected from the various publications and websites of The RBI, NABARD, NAFSCOB, The Directorate of Economics and Statistics etc. The study has its own limitation as it is based on the secondary data. The present study is confined to 1998-99 to 2008-09. The cooperative credit was analyzed on the angle of State Cooperative Banks, District Central Cooperative banks and Primary Agricultural Cooperative Societies.

#### 4. ANALYSIS

The foundation of the institutional credit structure in rural India was laid with the organization of Co-operative Credit Societies at the beginning of this century (1904). After the Independence, the Government of India has adopted a multi-agency approach for farm credit in order to provide adequate, cheap and timely credit. But in the initial periods i.e., in the year 1951-52, the contribution of the institutional agencies to farm credit is 7.3 percent only where as the non- institutional credit is around 92.7 percent. Institutional sources include Commercial Banks, Credit Cooperatives, Regional Rural Banks and other financial institutions. The development of institutional sources is regarded as a basic requisite for agricultural development and rural transformation.

**Table-1**

**Agricultural Credit from different sources (in percent)**

Sources of Credit	1951	1961	1971	1981	1991	2001
Non-Institutional credit	92.7	81.3	68.3	36.8	30.6	38.9
Moneylenders	69.7	49.2	36.1	16.1	17.5	26.8
Institutional credit	7.3	18.7	31.7	63.2	66.3	61.1
Cooperative Banks	3.1	15.5	22.7	29.8	30.0	30.2
Commercial banks	0.9	0.6	2.4	28.8	35.2	26.3
Unspecified	3.3	2.6	3.6	4.0	3.1	4.6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Sources: Central Statistical Organization, New Delhi

The table 1 elucidates about different sources of agricultural credit from the year 1951 to 2001 which gives the comparative view of both institutional and non-institutional credit sources.

Initially in 1951 the informal sources occupied major share of 92.7 percent in the year 1951 which was decreased to 38.9 percent in 2001, whereas the share of formal credit was increased from 7.3 percent to 61.1 percent. The share of cooperative credit has been continuously increasing. In the year 2001 the share of cooperatives is much higher than the other institutional sources of credit to agricultural sector.

**Table--2**  
**Flow of Institutional credit**

Year	Institutional Agencies			
	Comme-rcial Bank	Regional Rural Bank	Cooper-ative Bank	Other Agencies
1998-99	34886	4940	31740	176
1999-00	49466	6344	20120	206
2000-01	55614	8438	41436	166
2001-02	67174	9708	47048	160
2002-03	79548	12140	47272	160
2003-04	57685	15162	53750	168
2004-05	163013	24808	62512	386
2005-06	250934	30449	78807	764
2006-07	331970	40873	104960	0
2007-08	362175	50126	91942	0
2008-09	457902	53530	92384	0
2009-10*	279466	44264	68426	0

\*As on December,2009

Source: Department of Agriculture & Cooperation, Credit Division

The table 2 depicts the flow of institutional sources for the period of 1998-99 to 2009-10. During that period, the institutional credit from all sources except other agencies are showing increasing trend. It is also observed that the other agencies stopped lending credit from 2006-07.

Origins of the cooperative movement in India can be traced back to the Cooperative Credit Societies Act, 1904. The wide geographical coverage of cooperatives especially in rural areas was primarily established to save small borrowers hailing from rural areas from usurious interest rates charged by money lenders. Since its inception, it has been playing an important role in the socio-economic development of the country by making available institutional credit at affordable cost particularly to the agricultural sector.

Co-operatives had traditional background in

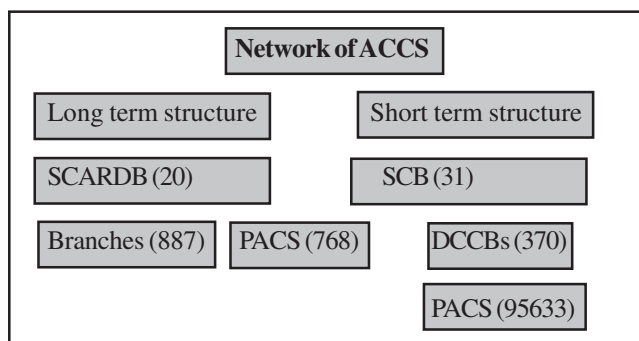
servicing the agriculture and allied sectors. It extended its services to remote areas also. These branches were spread over to the rural areas by providing not only credit but also by providing HYV seeds, fertilizers, pesticides and other agricultural inputs at cheaper rates.

**Network of Agricultural Co-operative Credit**

**Structure in India:** The cooperative banking system has been identified with agricultural cooperative banks mainly because of their magnitude of operations and importance. There are two wings of the cooperative credit structure viz., one supplying short term credit and medium term requirements and the other long term investment credit. According to the National Federation of State Cooperative Banks (NAFSCOB), the three-tier short term structure

consists of nearly 95,633 PACS, 370 DCCBs and 31 State Cooperative Banks. PACS are the grass root level institutions dealing with individual members, nearly 120 million rural people. The PACS were working in rural, remote and unbanked areas so as to provide institutional support to the poor farmers.

It is evident that there is an enormous increase in the short-term loan disbursements of the bank. Whereas there is a steady growth in MT/LT loans from 1998-99 to 2008-09. It is found that there is a decrease of ST loans in 2008-09 where as there are fluctuations in the LT loans of cooperative banks. The CARG of total agricultural loans is 76.57%. Where as the CARG of ST loans is 93.43% and the LT loan is -18.47%. From this it is clear that the LT loans showing negative growth rate when compared to ST loans. It is clear from the table 4 that the trend of different financial parameters of PACS for 17 years i.e. 1992-2009. All the parameters show increasing trend. Even though there is increase in deposits, there are slight fluctuations in the credit. Hence the credit-deposit ratio showed decreasing trend. The deposits for 2008-09 were Rs.26245 crores and advances were Rs.48022 crores. The District Central Co-operative Bank acts as an intermediate tier serving the rural clients directly and through PACS. The success of PACS at the primary level and the State Co-operative Bank at the apex level is largely dependent on the efficiency



Sources: NAFSCOB

- ACCS : Agricultural Co-operative Credit Structure
- SCB : State Cooperative Bank
- SCARDB : District Cooperative Bank
- PACS : Primary Agricultural Cooperative Societies

Table - 3

Total credit disbursements of Co-operative Banks

Year	Total short-term loans		Total long-term loans		Total Agricultural loans	
	Amount	Increase/Decrease	Amount	Increase/Decrease	Amount	Increase/Decrease
1998-99	12514	-	3356	-	15870	-
1999-00	14771	+2257	3489	+133	18260	+2390
2000-01	16528	+1757	4190	+701	20718	+2458
2001-02	18787	+2259	4737	+547	23524	+2806
2002-03	19668	+881	3968	-769	23636	+112
2003-04	22640	+2972	4235	+267	26875	+3239
2004-05	27157	+4517	4074	-161	31231	+4356
2005-06	34930	+7773	4474	+400	39403	+8172
2006-07	38622	+3692	3858	-616	42480	+3077
2007-08	40515	+1893	3169	-689	48258	+5778
2008-09	40230	-285	5962	+2793	46192	-2066
2009-10*	32514	-7716	1549	-4413	34363	-11829

\*As on December, 2009

Source: Department of Agriculture & Cooperation, Credit Division

**Table-4**  
**Trend of financial parameters of PACS for 17 years (Rs. in crores)**

Year	Owned funds	Deposits	Borrowings	Loans issued	Loans outstanding	Credit-Deposit ratio
1992 -93	2,120	1,943	7,898	6,891	8,438	354.65
1993-94	2,694	2,102	9,117	7,511	10,535	357.32
1994-95	3,412	2,962	10,170	10,795	12,141	364.44
1995-96	3,943	3,740	11,381	12,732	14,463	340.42
1996-97	4,250	5,108	12,106	13,606	16,008	266.37
1997-98	4,673	5,279	12,164	13,724	17,121	259.97
1998-99	4,900	7,062	17,326	17,768	21,301	250.18
1999-00	5,338	12,459	22,349	23,661	28,546	189.91
2000-01	5,594	13,481	25,890	25,698	34,522	190.62
2001-02	6,855	14,846	29,475	30,770	40,779	207.26
2002-03	8197	19120	30277	23629	24518	123.58
2003-04	8397	18142	34257	29326	30808	161.64
2004-05	9197	18976	40249	31887	32481	168.04
2005-06	9292	19561	41017	35624	34140	182.12
2006-07	11038	23484	43714	40796	37764	173.72
2007-08	10983	25449	47847	47390	43696	186.22
2008-09	11805	26245	48938	48022	45686	182.97

Sources: Co-operative perspective, Vol. 39, No.3, Oct- Dec'04 and NAFSCOB

**Table-5**  
**Statistical Details of District Central Co-operative Banks (Rs. In lakhs)**

Year	No. of DCCBs	Total Membership	Paid-up capital(Rs.)	Total Deposits(Rs.)	Advances(Rs.)	C/D ratio
1996-97	367	1797587	190682	3200935	4078057	127.4
1997-98	367	1742213	216724	3626271	3977824	109.69
1998-99	369	1839147	254368	4553775	4290543	94.22
1999-00	369	2281449	278648	5382693	4127042	76.67
2000-01	370	1986370	301578	6207013	4081745	65.76
2001-02	371	18374	338800	6679721	630249	91.77
2002-03	366	2183731	357680	7239443	5903366	81.54
2003-04	368	2149071	381003	7688452	5752901	74.83
2004-05	368	2145876	411547	8049350	6535578	81.19
2005-06	370	2267850	451147	8665222	6931761	80.00
2006-07	371	3264849	509813	9208136	7670381	83.30
2007-08	372	3396881	582923	10599372	8722909	82.30
2008-09	373	3528802	607141	12372182	8802869	71.15

Source: NAFSCOB

of the DCCBs. Financially sound and organizationally strong DCCBs are sine qua non for providing required financial assistance to PACS and support to SCBs. Table.5 depicts the several parameters of DCCBs for the period 1996-97 to 2005-06. During the period the no. of DCCBs, its total membership and paid-up capital was increased. But its credit-deposit ratio showing fluctuations and decreasing trend. In the year 1996-97 the deposits were Rs.3200935 lakhs where as the deposits for

2008-09 were Rs.12372182 lakhs. The loans for 1996-97 were Rs.4078057 where as it was Rs.8802869 lakhs for the year 2008-09. The State Co-operative Banks are the apex institutions in the three-tier co-operative credit structure. The State Co-operative Bank has continued its efforts to provide increased financial assistance to the farming community through the DCCBs and PACS by bridging gap between the assistance from NABARD and the credit requirements at the grass root levels augmenting the credit support from its own

resources. The NABARD constitutes 50 to 90 percent of the working capital of State Co-operative Banks.

The data shown in table.6 explains that the all India position of State Co-operative Banks. It depicts the clear picture of its growth rate in

Rs.15099 crores while it was Rs.58787 for the year 2009. The CARG of loans issued is 117.05 percent.

However the credit co-operatives had made remarkable progress in the rural segment of Indian economy. Co-operatives are disbursing nearly 46 percent of total agricultural credit. They are

**Table-6**  
**Statistical Details of State Co-operative Banks (Rs. In lakhs)**

Year	No. of SCBs	Total Membership	Paid-up capital(Rs.)	Total Deposits(Rs.)	Advances(Rs.)	C/D ratio
1999-00	29	19064	278648	5382693	4127042	76.67
2000-01	30	122464	301578	6207013	4081745	65.76
2001-02	30	104607	338800	6679721	6130249	91.77
2002-03	30	133688	357680	7239443	5903366	81.54
2003-04	30	150975	381003	7688452	5752901	74.83
2004-05	30	156623	411547	8049350	6535578	81.19
2005-06	30	153697	451147	8665222	6931761	80.00
2006-07	31	148771	509813	9208136	7670381	83.30
2007-08	31	150917	582923	10599372	8722909	82.30
2008-09	31	200772	607141	12372182	8802869	71.15

Source: NAFSCOB

performance by giving several parameters. During the period the no. of SCBs, its total membership and paid-up capital was increased. But its credit-deposit ratio showed fluctuations, so far decreasing trend during the above period due to an enormous increase in its deposits and decrease in its credit. The deposits for 2008-09 were Rs.12372182 lakhs where as loans advanced were Rs.8802869 lakhs. From the table 7, it is evident that the total loans including both short term and long term loans showing increasing trend. In the year 1999-00 the ST loans were Rs.17255 crores and it was increased to Rs.48022 in 2008-09. Similarly the LT loans were Rs.8423 crores in the year 1999-00 and increased to rs.10765 crores in 2008-09. The total loans amounted to Rs.58787 for the year 2008-09 where as it was only Rs.25678 for the year 1999-00. The CARG of total loans is 51.31 percent, where as the CARG of short term loans are 66.83 percent and CARG of long term loans is 13.05 percent.

Table 8 elucidates the direct institutional credit of Co-operative banks to agriculture and allied sectors. The total loans issued show an increasing trend during 1999-2009. At the same time the loans outstanding also show an increasing trend. The loans issued for allied sector for the year 1999 was

**Table -7**  
**Direct institutional credit of Cooperative Banks to Agriculture sector (Rs. In Crores)**

Year	Short term loans	Long term loans	Total loans
1999-00	17255	8423	25678
2000-01	18556	8739	27295
2001-02	21670	8899	30569
2002-03	23629	10411	34040
2003-04	29326	10723	40049
2004-05	31887	13122	45009
2005-06	35624	12499	48123
2006-07	40796	13223	54019
2007-08	47390	10253	57643
2008-09	48022	10765	58787

Source: RBI & NABARD

**Table -8**  
**Direct institutional credit of Cooperative Banks to Agriculture & Allied sector (Rs. In Crores)**

Year	Loans issued	Loans outstanding
1999	15099	22199
2000	25678	41950
2001	27295	46135
2002	30569	52110
2003	34040	59064
2004	40049	71403
2005	45009	78822
2006	48123	82327
2007	54019	89443
2008	57643	65666
2009	58787	64045

Source: RBI & NABARD

distributing 36 percent of fertilizers in the country. The Government of India has initiated various measures under the process of economic reforms to strengthen the credit cooperatives.

## 5. CONCLUSION

India's Cooperative Credit System constitutes one of the largest financial systems in the World. Co-operative Banks have a prominent place in the Indian financial landscape owing to their potential role in providing adequate, cheap and timely credit to the agricultural sector. Indian planners considered co-operatives as an instrument of agricultural development as Cooperatives have played an important role in diffusion of Green Revolution in India. The share of cooperative credit has been continuously increasing from 3.1 percent (1951) to 30.2 percent (2001). The CARG of total agricultural loans is 76.57 percent. During the period of study the no. of Cooperative banks, its total membership and paid-up capital was increased. It has wide branch network covering the rural, remote and unbanked areas through its' PACS. Nearly

95633 PACS are operating in serving the agricultural and allied sector. The amount of deposits and loans issued also has a positive growth. The total credit to agriculture sector including both ST and LT loans were increased during the period of study. The CARG of short term loans are 66.83 percent and long term loans is 13.05 percent. The loans issued to allied sector also showed an increasing trend. The CARG of loans issued to allied sector is 117.05 percent. Hence it is clear from the above study that the credit cooperatives are playing a significant role in the development of agriculture and allied sectors by providing timely, adequate and cheap credit to the small and marginal farmers through its' three-tier approach. The banks act as a linkage between the credit and agricultural growth in the country. Cooperatives have occupied an important place in agricultural development of the country as they provide basic credit which lubricates the wheel of agriculture. Still banks have to render more service to this sector to develop the standard of agriculture in the country by way of providing timely credit.

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