IARJSET

ISSN (Online) 2393-8021
ISSN (Print) 2394-1588

International Advanced Research Journal in Science, Engineering and Technology

Vol. 7, Issue 6, June 2020

Role of Cooperative Banks in Agricultural Development

Dr Ajit Singh[1]

Associate Professor and Head, Department of Commerce & Business Administration,

Govt. Postgraduate College, Ambala Cantt, Haryana, India[1]

Abstract: Agricultural sector play a significant role in economic development of any country. Adequate and timely credit to farmers is essential for agricultural development. Cooperative banking structure has a unique position in the rural credit delivery system in India where about 60 percent of its population residing in rural areas. The rural and agricultural sector remained somewhat neglected since the liberation and globalization policy of the government. Though significant efforts have been made by commercial and rural banks but cooperative banks still continue to enjoy an important place in the rural credit scenario of the country. The rural people need lot of services in daily life which can be met by village cooperative societies. But, now-a-days customers require latest services for which cooperative banks are far behind to other banks. Cooperatives can play an active role in the developing countries like India in the era of globalization. In this paper, an attempt has been made to identify the general sentiments, challenges and opportunities for cooperative banking in India.

Keywords: Agricultural Credit, Cooperatives, Farmers, Farm loans.

I. INTRODUCTION

Agriculture sector is an important component of Indian economy as it provides livelihood to a large section of the population. The history of every developed country reveals that every developing economy has to develop agriculture first before becoming industrially developed (Malik, 2000). India's real GDP decelerated during the previous years and outbreak of the COVID - 19 posed fresh challenges. Imposing lockdown to contain its spread, agriculture sector is the only hope that can contribute a lot in the growth of economy. However, agriculture, though a key area has not been subject to comprehensive reforms in India and that is why it is not fully equipped to compete with the global challenges. There is an urgent need to focus on research as well as better agricultural practices to ensure increase in productivity level in the shortest time possible.

Adequate and timely credit to farmers is indispensable for agricultural development. Agricultural institutional credit in India has been growing continuously since the nationalization of banks and cooperative credit system has the largest network in the world covering all the villages in the country. Globally, cooperatives have been able to elevate its position as a powerful economic model. Though cooperative movement has made remarkable progress in several areas, certain glaring defects have also developed in the movement which have been, in a way, defeating the very objectives of these institutions. It is well-known fact that year 1991 marked the beginning of a new era in economic policy of India. Liberalization, Privatization and Globalization (LPG) affected almost all the sectors of the economy including cooperative sector. Throughout the reform decade, the role and relevance of the cooperative sector remained on the background in spite of its predominant position in various fields of Indian economy.

Though cooperative banks have lost their dominant position and credit share of the cooperatives in agriculture has slipped down to 15 percent in 2016-17 from 53 percent in 1988-89 (Economic Survey, 2016-17), its share in total number of agricultural accounts held by the banking system is substantial. Due to various reasons, the financial health of this sector has deteriorated over the years and has reached a stage where it is struggling to survive. There is no significant reduction in the Gross NPA and its percentage to total advances of urban cooperative banks which shows inefficiency of these banks. Several committees have stressed the need for major role of cooperatives in providing credit and allied services in the rural sector. Moreover, Indian agriculture is dominated by small and marginal farmers (cultivating average size of farms of one hectare or less). These farmers have easy access to the cooperative banks and these cooperatives can play active role to meet their demands. Farmers are forced to depend on outside sources of finance for meeting their essential needs. As a result, most of them are heavily involved in debts and cannot afford to spend money for making improvements in land (Sahu & Rajshekhar, 2000). They are obliged to sell their production to the latter at reduced prices or they have to sell in the market immediately after the harvest when the prices of crops are usually the lowest in order to meet the demand of the private money-lenders for repayment.

The current status of cooperative reflects both a threat and an opportunity. It is threat because cooperatives need a combination of new technologies and better processes of credit and risk appraisal. The need of the hour for the cooperative sector in the era of liberalized environment is to seize every opportunity available to it. Now-a-days customers require RTGS/NEFT services vis-à-vis internal banking, mobile banking and ATM services in the globalized world for which the cooperative banks are far behind to other banks. It is now increasingly recognized that the cooperative system in India has the capacity and potentiality to neutralize the adverse effects emerging from the process of globalization. After economic liberalization under the new economic environment, cooperatives at all levels are making efforts to reorient their functions according to the market demands. The failure of public sector in several cases is a worrisome trend. Privatization has also failed to make an impact in the rural areas. Therefore, there is great hope on the cooperative sector. In comparison to the step-motherly treatment in the past, cooperatives are now considered an important plank of development. The cooperatives have inherent advantages in tackling the problems of poverty alleviation, food security and employment generation. It is therefore, necessary to know the causes of poor performance of the movement and steps to be taken for its faster growth. Attempt has been made in this paper to identify the challenges for cooperative banks, choice of farmers about the credit agency and expectations of farmers about the credit facilities.

II. LITERATURE REVIEW

Murthy (1972) found in his study that cooperatives, commercial banks and money-lenders are the main sources of credit to the farmers. The study revealed that the cooperatives are the most important source accounting for 61.73 percent followed by the commercial banks and money-lenders constituting 12.61 percent and 25.66 percent respectively. It was observed that the commercial banks which started financing agriculture recently had made a significant contribution in the field.

A study (Bhatia, 1975) revealed that per farm borrowing is higher on the large farms, but per hectare borrowing is higher in small farms. It was examined that borrowed funds accounted for 46.6 percent of the total investment on the small farms and 20.9 percent in large farms. Overall, the investment per hectare of operating land is higher on large farms. It was observed that Cooperative societies are active and providing 40 percent of the credit to both types of farms. Commercial banks, however, concentrated only on large farms.

Patil (1976) examined the extent of financing agriculture by cooperative and commercial banks in Cuttack district of Orissa. He observed in his study that cooperative credit institutions have played a vital role in the rural credit. He found that on an average 85.7 percent of credit is met by Cooperative Banks and the role played by the commercial banks is not so prominent in the Cuttack district of Orissa.

Rao (1994) pointed out in his study that various factors such as poverty, illiteracy, consumption and ceremonial expenditures and increase in cultivation expenses are responsible for large-scale borrowings by farmers. They were dependent on private agencies which generally exploited them. Soon after independence, the Government of India realizing the need of institutionalizing rural credit structure relied heavily on cooperatives for a long time. At this juncture, the endeavors of the credit cooperatives in meeting adequately the credit requirements for the cultivators, paved the way of multi-agency approach.

Reports of Reserve Bank of India (1954, 1963 & 2000) revealed that with Governmental support to the co-operative sector for several years, its credit to the agricultural sector increased from 3.1 per cent in 1951-52 to 18.6 per cent in 1990-91. But the credit requirements met by the commercial banks increased from 0.9 per cent in 1951-52 to 29 percent in 1990-91. It was also observed that during the corresponding period the supply of credit met by the money lenders reduced from 69.7 percent to 15.7 percent due to various actions taken by the Government.

Satish (2005) focused on identifying the characteristics which distinguish commercial bank and cooperative sector borrowers. The difference in characteristics was examined in terms of: land-ownership, ownership of capital assets, farm expenditure, technology etc. It was observed that cooperative borrowers are mainly small and marginal farmers with limited land and capital. Bank borrowers, on the other hand, are mainly commercial farmers who have larger landholdings and higher amounts of capital.

III. OBJECTIVES OF THE STUDY

The specific objectives of the present study are:

1. To identify challenges for cooperative banks in the era of liberalized environment.
2. To know the dependence of farmers on Cooperative institutions.
3. To find out the choice of farmers about the credit agency.
4. To know the reasons for choice of credit agency.
5. To find out the expectations of farmers about the credit facilities.

IARJSET

ISSN (Online) 2393-8021
ISSN (Print) 2394-1588

International Advanced Research Journal in Science, Engineering and Technology

Vol. 7, Issue 6, June 2020

IV. RESEARCH METHODOLOGY

The study is confined to 640 borrowing farmers of Haryana State applying 'Multi-stage Stratified Random Sampling Technique'. In order to make the sample analytical, more purposeful and representative of borrowing farmers, they were grouped into four categories as marginal farmers, small, medium and large farmers. Efforts have been made to choose samples from each of the above category. The primary data has been collected through questionnaires filled by the loanee-farmers of the State which included both open ended and close ended questions. The collected primary data has been analyzed by using various statistical techniques such as t-test, mean, mode, percentages, ratio analysis, transmuted rank score etc.

V. ANALYSIS AND INTREPRETATION

The study highlights the following main findings of the study and puts forth the suggestions to overcome the prevailing problems related with cooperative structure in India.

Agency-wise Dependence of Farmers for Loans

Table 1: Agency-wise Dependence of Farmers for Loans

Type of Farmers	Type of Agency (%)				
	Commercial Bank	Private Bank	Cooperative Society	Land Mortgage Bank	Total
Marginal (Upto 2.5 Acres)	43.8	0.0	53.4	2.8	100.0
Small (2.6 to 5 Acres)	48.9	3.3	47.8	0.0	100.0
Medium (5.1 to 10 Acres)	50.3	3.1	46.0	0.6	100.0
Big (Above 10 Acres)	46.9	2.2	50.9	0.0	100.0
Total	48.0	2.5	49.1	0.5	100.0

Agency-wise dependence of farmers according to landholding size has been depicted in Table 1. It has already revealed that most of the farmers avail crop loans. Hence, Cooperative Society has been found the most convenient source of agricultural credit for the famers. It is evident from the Table that the marginal, small, medium and big farmers availed loan from commercial banks to the extent of 43.8 percent, 48.9 percent, 50.3 percent and 46.9 percent respectively. It may be due to fact that as the size of landholdings increases, the farmers' demand of loan from commercial banks also increases. However, some farmers also depend upon Gramin Banks to meet their demand for loan. Only a very few people are attracted by the private agencies because of high rate of interest and hidden cost. Thus, Cooperative society and Commercial banks are found the most suitable and convenient source for meeting loan requirements of farmers.

Problems of Farmers in availing loan from Cooperative Society

Table 2: Problems of Farmers in availing Loan from Cooperative Society

Sr. No.	Problems	Test Value = 3		
		Mean	Mean Difference	t-value
1	Procedural Difficulties	2.21	-0.792*	-35.012
2	Disbursement Difficulties	2.16	-0.841*	-38.822
3	Inefficient Organizational Structure	2.10	-0.902*	-49.294
4	Inability to pay Membership fees	1.94	-1.059*	-59.940
5	Insufficient Amount of Credit	1.96	-1.037*	-62.387
6	No Previous Experience	1.97	-1.027*	-62.438
7	Distant Location	2.01	-0.987*	-63.824

* Significant at 1 % level

Although Cooperative Society is the most preferred agency by the farmers. Efforts were made to know their views about the performance of Cooperative Societies. Respondents were asked to give their views at Five-point scale i.e. Strongly Agree, Agree, Neither agree or disagree, Disagree and Strongly Disagree and weights have been given to these scales as 5, 4, 3, 2 and 1 respectively. Table 2 ranks the problems being faced by farmers in availing loan from Cooperative Society. The Table shows that Procedural Difficulties' with mean value of 2.21 (t = -35.012), 'Disbursement Difficulties' with mean of 2.16 (t = -38.822) and 'Insufficient Amount of Credit' with mean of 2.10 (t = -49.294) have been found to be the most dominating problems to which the farmers are disagree as they generally avail loan from this agency. Mean values of all problems are found to the lower side of the hypothetical value implying that farmers like to borrow form cooperative society and they are not agree with these problems and also significant.

Choice of Credit Agency

Table 3: Choice of Agency by Farmers

Sr. No.	Agency	Mean	Mode	Rank
1	Cooperative Society	2.33	1	1
2	Nationalized Bank	1.92	2	2
3	Private Money Lender	4.31	3*	3
4	Private Bank	4.60	3*	4
5	Regional Rural Bank	4.32	5	5
6	Land Development Bank	5.03	6	6
7	Private Agency	5.48	7	7

*Being the same mode of Sr. No. 3 and 4, ranks have been given on the basis of Mean values of variables

Various financial agencies are providing agricultural credit to meet the requirements of farmers. To know the choice/liking about credit agencies, preferences were sought regarding seven credit agencies stated in the following Table 3. The above Table shows that 'Cooperative Society' is the most preferred agency as it is the most convenient and easily approachable institutional credit agency for the farmers. 'Nationalized banks' have been ranked second due their large network of branches and services. 'Private Money Lender' has been ranked third (Mean 4.31) followed by 'Private Banks' (Mean 4.60). 'Private Agency' has been ranked the last because of high rate of interest and high hidden charges.

Reasons for Choosing Agency by Farmers

Table 4: Reasons for Choosing Agency by Farmers

Sr. No.	Agency	Mean	Mode	Rank
1	Quick Service	2.38	1	1
2	Low Interest	2.41	2	2
3	Personal Contacts	3.91	3	3
4	Simplified Procedure	3.87	4	4
5	Surety of Sanction of Full amount of Loan	5.14	6	5
6	Suitable timing of Instalment	4.92	7*	6
7	Exemption in recovery of loan in case of crop failure due to natural calamity	5.36	7*	7

*Being the same mode of Sr. No. 6 & 7, ranks have been given on the basis of Mean values of variables

Efforts were also made to find out the reasons for preferring a particular agency by farmers. Table 4 represents the reasons for preferring the credit agency by the respondent farmers. It is evident from the Table that 'Quick Service' is the most important reason for choosing any particular credit agency. 'Low Interest' is the second important reason as farmers need agricultural credit in time. It is hard knowing fact that farmers prefer Cooperative Society and Nationalized Banks due to low interest as compared to private banks and other private agencies. The next important reasons found are 'Personal Contacts' and 'Simplified Procedure'. As Cooperative Societies are located near to the farmers, personal contracts can be developed between them. Other reasons stated in the Table are found less important.

Problems being faced by Farmers in getting Loans from Formal Credit Agencies

Table 5: Problems being faced by Farmers in Getting Loans from Formal Credit agencies

Sr. No.	Problems	Test Value = 3		
		Mean	Mean Difference	t-value
1	Unwillingness to Compromise with Officials	3.99	0.989*	46.766
2	Inability to comply with formalities	3.96	0.964*	46.187
3	Lack of Awareness about various Schemes of Credit	3.79	0.789*	30.236
4	Non-cooperative Attitude of Employees	3.75	0.750*	27.508
5	Inability to provide Security	3.79	0.794*	25.548
6	Cumbersome Procedure	3.14	0.139*	3.290
7	Personal Differences with Management	2.49	-0.706*	-12.168
8	Previous Loan Outstanding	2.29	-0.514*	-16.753

* Significant at 1 % level

Farmers face numerous problems when they approach to the formal credit agencies for getting loans. Although a few number 7.3 percent has reported for refusal of loan by these agencies. Table 5 depicts various problems faced by farmers and ranked in order of importance reflected by their mean values. For determining the relative importance of various problems being faced by farmers, two-tailed t-test of mean values has been conducted. Weights such as 5, 4, 3, 2 and 1 have been allotted to the responses of Always, Mostly, Seldom, Rare and Never respectively. 'Unwillingness to Compromise with Officials' (mean = 3.99, t = 46.766) and 'Inability to comply with formalities' (mean = 3.96, t = 46.187) have been found to be the most common problem faced by the farmers. 'Lack of Awareness about various Schemes of Credit' (mean = 3.79, t = 30.236), 'Non-cooperative Attitude of Employees' (mean = 3.75, t = 27.508) and 'Inability to provide Security' (mean = 3.79, t = 25.548) are found the next significant problems being faced by farmers followed by 'Cumbersome Procedure' (mean = 3.14, t = 3.290) . Mean values of all these problems are found to be the higher side of hypothetical value and significant at 1 percent level. On the other side, mean values of last two variables are found to the lower side of hypothetical value but, significant at 1 percent level.

VI. CONCLUSION

Sound and effective banking system in India is essential for healthy economy. Cooperative banking is an integral part of Indian banking system. Though cooperative movement has made remarkable progress in several areas, certain glaring defects have also developed in the movement which have been, in a way, defeating the very objectives of these institutions. Throughout the reform decade, the role and relevance of the cooperative sector remained on the background in spite of its predominant position in various fields of Indian economy. After economic liberalization under the new economic environment, cooperatives at all levels are making efforts to reorient their functions according to the market demands. The failure of public sector in several cases is a worrisome trend. Privatization has also failed to make an impact in the rural areas. Therefore, there is great hope on the cooperative sector. In comparison to the step-motherly treatment in the past, cooperatives are now considered an important plank of development. The cooperatives have inherent advantages in tackling the problems of poverty alleviation, food security and employment generation. It is therefore, necessary to know the causes of poor performance of the movement and steps to be taken for its faster growth. Customers require latest services such as RTGS/NEFT, internal banking, mobile banking etc. for which cooperative banks are far behind to other banks.

REFERENCES

[1]. Bhatia, J.P. (1975). Problems of small farming – A case study of Tribals of Uttar Pradesh. Indian Journal of Agricultural Economics, p. 240.
[2]. Economic Survey (2016-17). State of the Economy and Prospects, Chapter 1, pp. 22
[3]. Malik, M.S. (2000). Management of Rural sector – The changing scenario. Indian Journal of Commerce, 53 (3), July-September:80.
[4]. Murthy, R.K. (1972). Credit needs and availability to farmers. Financing Agriculture, 4(2), 9-12.
[5]. Patil, S.C. (1976). Financing agriculture by Cooperative and Commercial banks in Cuttack Sadar Block. Department of Agricultural Economics, College of Agriculture, Bhubaneshwar, India.
[6]. Rao, K.P. (1994). Role of Cooperative Banks in Financing Agricultural Credit. Indian Cooperative Review, Vol. XXXII (2).
[7]. Reserve Bank of India (1954). All India rural credit survey report, RBI, Bombay, Vol. II, p.167.
[8]. Reserve Bank of India (1963). All India Debt and Investment Survey, 1961-62, p.14
[9]. Reserve Bank of India (2000). Reserve Bank of India Bulletin, February, Vol. LIV (2), p.99.
[10]. Sahu, G.B. and Rajshekhar, D. (2000). Gaps in the Agricultural Credit Cycle Flow: Some Lessons for Bankers, State Bank of India Monthly Review, 39(11), Novermber: 574.
[11]. Satish, P. (2005). Agricultural credit: are there two distinct classes of borrowers? Indian Journal of Agricultural Economics, 60 (3), 309-318.