CHAPTER - 7

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Credit is an essential and important input for production and development. Agriculture, like any other industry, also needs capital investment for development for realising higher production. Agriculture being the most important occupation of the majority of our people, investment in it assumes more importance in our country, where, even today 70% of the population depends on agriculture. Rightly, for this reason, its development has always received highest priority in the rural development and plan programmes of the country.

Transformation of Indian agriculture from the traditional subsistence type to modern scientific farming involves the extensive use of modern inputs, most of which need to be obtained from outside the farm. These inputs involve heavy financial investments, which the majority of farmers cannot afford. It is in this context that agricultural credit assumes great importance.

The agricultural credit needs of farmers in our country are met both by institutional and non-institutional agencies. Among the institutional agencies, cooperatives form the most important agency in supplying credit to agriculture and it estimated that
about 35-40 per cent of credit needs of the farmers are now met by cooperatives. Though it is a long way to go for meeting the total rural credit needs, the present position compares favourably with that obtaining in the fifties, when cooperatives met hardly 3 per cent of the rural credit needs as revealed in the Report by the Rural Credit Survey Committee of 1954.

Before introduction of cooperative movement in our country in 1904, the private money-lenders dominated the rural credit scene, except that in a small way, the Government provided long-term loans under the Land Improvement Loans Act of 1883. The Cooperative movement was introduced specifically to fill the gap in the rural credit sector and to create institutional arrangement for credit service to the farmers. Historically, two distinct structures emerged - one dealing with short-term loans for provision of production credit to buy inputs like seeds, fertilizers, and pesticides for raising crops and, the other, for meeting the long-term credit needs to create capital assets on land for increasing production and productivity of land on a continuing basis. Investment in agriculture becomes critical for sustained development to meet the increasing needs of farm produce. The Maclagan Committee is the beginner in reshaping the model of farm finance to boost up farm output. But this Committee did not emphasise the need for cooperative education to the members and officials and to make them realize that the society is organised on voluntary basis.
After 1925, the subject of cooperation was shifted to the provincial governments with a view to making and running the district Central Cooperative Banks effectively. So, great emphasis has been laid on the nationalised financial institutions. As an outcome of this corollary, the Agricultural Credit Department in 1935 came into being and is providing agricultural finance through cooperatives.

Cooperative credit in Karnataka had its beginning in the early years of this century in the area of the old Mysore State. Karnataka, with its long history in the field of cooperative movement is considered as the cradle of the cooperative movement. It has witnessed many structural changes, mainly the liquidation of central banks in the thirties and their reestablishment in the fifties after the reorganisation of the states in 1956. It was only in 1954 that the intermediate tier of the structure came to be organised on a systematic basis, and by 1956, each of the 19 districts of the present state had a central cooperative bank.

The Karnataka Central Cooperative Bank, Ltd., Dharwad, achieved tremendous progress since its inception in 1916. By the end of 1985, its share-capital had increased to Rs.308.67 lakhs, and Deposits to the extent of Rs.3448.66 lakhs and reserve fund to the tune of Rs.101.17 lakhs and working capital had increased to Rs.5294.02 lakhs.
The performance of any financial institution depends upon its financial strength, credit limits set by the Reserve Bank of India and the apex bank, its deposits and share capital. So, the credit limit sanctioned indicates the financial background of the central bank. Owned funds indicates the self-reliance of cooperative institutions. Strong owned funds base means that the banks can stand on its own legs and it need not depend heavily on external resources. A Cooperative institution could enjoy its democratic freedom and financial stability only by depending upon strong owned funds. A sound owned funds structure can create good confidence in the minds of the investors, especially the depositors. So, to attract more deposits, the position of owned funds must be stabilised.

The Karnataka Central Cooperative Bank has no doubt, made significant progress in the matter of opening branches in rural areas. Now, it has 86 branches in both rural and urban area. The District Central Cooperative Bank, on the whole, has done well, and has, to a considerable extent, achieved the main objective for which the bank was started.

Under the crop loan system, the Karnataka Central Cooperative Credit Bank Ltd., Dharwad, is distributing the cash and kind components of loan through primary agricultural credit societies. The kind component is distributed through the taluka cooperative marketing societies. The Bank does not permit
anybody, other than the cooperative marketing societies, to purchase these kind components.

Seasonality in agricultural production should be observed by the central bank in lending and recovery of loans. Earlier, the cooperatives have been used to advancing loans throughout the year as and when members applied for them, and recovering them normally twelve months after their issue. Its seasonality be strictly observed and there should be distinct time gap between the repayments and fresh lendings. Another important requirement in the crop loan system is the timelines of credit. The loan procedure should, therefore, be so designed that the borrower gets the loan at the time he needs it with the least possible difficulty. The Reserve Bank of India, now the NABARD, gives guidelines for the issue of loans and recovery, regularly to the D.C.C.Bank. While dealing with the loan applications, the authorities should examine the economic background and experience of the applicant with regard to the credit worthiness, security etc.

Utilisation of loan is examined under four heads --
1) Adequacy of credit
2) Timeliness of credit
3) Effectiveness of Credit
4) Diversion of credit.
Main Findings:

1) In the study, we found that the farmers in the irrigated area require more credit than the farmers in the non-irrigated area.

2) The expenditure on seeds, fertilizers, and pesticides is more in the irrigated area, compared to the non-irrigated area.

3) The capital requirement is more in the case of big farmers compared to the small and medium farmers.

4) The credit gap is more in the case of big farmers compared to the small and medium farmers, both in the irrigated and non-irrigated areas.

5) The credit gap is more in case of non-irrigated villages than in irrigated villages.

6) The big farmers in the irrigated villages require more of kind components rather than cash components compared to the small and medium farmers in the same area.

7) In the non-irrigated villages the farmers irrespective of their size, required more of cash components rather than kind components for their cultivation.
8) In the irrigated villages, 86.66% of the farmers used the loan for the agricultural purposes or productive purposes and the remaining 13.33% of the farmers utilised the loan amount for unproductive purposes. In the case of non-irrigated area, 82.22% of the farmers used the loan for productive purposes and the remaining 17.78% of the farmers utilised for it unproductive purposes.

9) Diversion of loan is more in the case of non-irrigated villages compared to the irrigated villages. In the case of irrigated villages it is hardly 13.33% but in the non-irrigated villages it is 17.78%.

Prompt recoveries may provide the central cooperative bank to avail the full utilisation of credit limits, and once the institution works effectively deposit mobilisation would be better. Recovery is a factor responsible either for success or failure of any financial agency.

1) The percentage of repayment is more in case of big-farmers compared to the small and medium farmers both in the irrigated and non-irrigated villages.

2) The number of defaulters is more in the case of non-irrigated villages compared to the irrigated
villages i.e., it is, 43.33% in the non-irrigated and 41.11% in the case of irrigated villages and the amount of loan due is 61.61% and 36.00% respectively.

3) During the course of the field study, it is found that 90% of the farmers replied that the crop failure was the main reason for overdues.

Suggestions:

Even after large expansion of institutional credit, credit from private sources continue to be the important in the rural areas, private credit is easily available and thereby is comparatively more capable of meeting the immediate needs of the farmers. However, the private credit is exploitative in nature. Such credit is, usually used for unproductive purposes and carries a very high rate of interest. On the other hand, institutional credit is cheap and is usually used for productive purposes. As such, expansion of institutional credit on a large scale is an imperative.

1) If a farmer is prompt in repaying the loan his subsequent loan application should be considered and sanctioned without delay.
2) There is need for increasing the area under irrigation to free the cultivators from uncertainty.

3) There is need for adequate, credit taking into account the production and consumption requirements.

4) There is need for single agency approach. Farmers should be encouraged to rely on single institutional credit.

5) There is need for again linking credit with marketing.

6) There is need for continuous and effective supervision of the agricultural activities of the borrowers.

7) The farmers must be motivated and educated to realise the fact that repayment of loan is in their interest, as it enable P.A.C.S. to provide more credit for them. It will help to check wilful default.

3) Loan recovery camps may be arranged at the village level. Such camps may be arranged soon after the harvesting, i.e., during the period when farmers may be expected to have money for repaying the loan.

What is lacking today in the management of the central cooperative banks is the developmental approach. This is being
proved by deficiencies in regard to adequacy, timeliness, supervision and recovery. Hence it is not development oriented. The central banks at present are drawing funds from the apex institutions and passing them to the primary agricultural credit societies and through them to the farmers. This function has almost become a mechanical function without an active understanding that the short-term credit is given by the cooperatives in support of agricultural production programme. It would, therefore, be necessary that a cooperative central bank should have the development plan of the district in view and draw-up a programme of its involvement in this regard.

The linking of cooperative credit with marketing, besides enabling members of credit societies to reap the benefits of organised marketing, helps in the recovery of loans out of the sale proceeds of the produce and thus reduce, if not completely eliminate the possibility of overdues.

In conclusion, it can be pointed out that the financing of agricultural development as apart of rural development, through the concerned central cooperative bank has been partially effective. In order to see that the objectives of rural development including agricultural development are carried out satisfactorily. Though it is a case study of the Karnataka Central Cooperative Bank, Ltd., Dharwad, an analysis of the organisation appears more or less to hold good in respect of
many central cooperative banks in the state in particular and in India in general.