CHAPTER - I
INTRODUCTION

Agriculture hitherto played an important role in Indian economic context, still it is playing a catalytic role and in future also it is assured with continuous prominency in Indian economy. Majority of the country's populace finds its livelihood in primary sector that is agriculture and allied activities.

Development of agriculture depends on availability of adequate agricultural inputs and other natural factors. Among the agricultural inputs, credit is very vital input in the modern form that is institutional credit.

Predominance of agriculture in Indian economy is significant in various segments, viz. in national income, employment, industrial development process, foreign trade and economic growth and planning therefore the agricultural sector has to grow at a rate much faster than before not only for it's own sake but for the sake of the economy as a whole. The share of agriculture in the national income is around 26 percent and 70 percent of the people are dependent on this sector. It has a large potential to contribute to the national income while at the same time provide direct employment and income to the numerically larger and vulnerable sections of the society.¹

But the development of agriculture lies in the supply of cheaper and adequate credit from various agencies. The important agency among them is primary co-operative credit society which supplies short-term and
medium-term loans for agricultural operations and for the development of infrastructure respectively. While the term loans are issued by the land development banks or land mortgage banks.

India being an agriculture based country, agriculture is considered as the largest sector in the economy, which not only provides food and raw materials but also employment to a very large section of the population. As the largest section in the economy, improvement or any change in the national output directly depends on the output in this sector. Indian agriculture has been undergoing a technological transformation since mid sixties. This has been made possible through the use of high yielding varieties of crop which calls for an increased use of modern inputs, such as quality improved seeds, fertilizers, pesticides, irrigation facilities and plant protection measures and skilled labour. The transformation of traditional agriculture, due to the use of modern inputs has increased the demand for capital and credit considerably. Since the owned funds of the farmers are not sufficient to meet the growing demand for financing modern inputs. They have to be supplemented by borrowing from institutional agencies.2

Agricultural development pre-supposes a greater flow of inputs as well as institutional and organizational reforms and "when there is a technological break-through, credit bottlenecks may turn out as a real constraint of agricultural growth." Generation and reinvestment of savings as an internal source of finance is usually not possible because of subsistence nature of Indian agriculture, characterized by dis-savings and deficits of the common mass small and marginal farmers. The farmers are forced to depend on external finance for meeting various farm expenses. That is obvious in case of small and marginal farmers.
Agricultural credit is supplied by both institutional and non-institutional agencies. Co-operative banks, commercial banks, Regional Rural Banks, NABARD and Government are the important agencies of institutional finance. Whereas the professional money lenders, land-lords, commission agents, relatives and friends etc. are the non-institutional financial agencies. Now a day’s co-operative credit is very important source of agricultural finance in India. The significant part of co-operative credit is of short-term and medium-term loans to agriculture. Organisation of the co-operative credit structure has the pyramidal shape, known as three tier federal structure. The three tier structure is formed by the primary agricultural co-operative credit societies at the grass-root level in villages, central district co-operative banks at the district level and state (Apex) co-operative banks at the state level.

Importance of credit in Agriculture:

Credit is the life-blood of trade and industry and agriculture is no exception. Like any industry or sector agriculture requires short-term, medium-term and long-term credit for its sustained growth and development. The main heads of expenses of short-term credit are purchase of seeds, fertilizers, pesticides and for the maintenance of the current farm operations. Medium-term loan is used for the improvement of land, purchase of tools and equipments etc. long-term loan is meant for the permanent improvements in the land and making capital investments in the farm assets and such others, which adds the real assets to the existing assets. The extent of credit need is varied from farmer to farmer depending on other factors like stage of agricultural technology and the credit absorbing capacity of the farmer. The importance of agricultural
development in India is recognized properly after the commencement of the first five year plan during the year 1950-51 and credit came to be recognized as one of the most important inputs of agriculture. Prior to the All India Rural Credit Survey Committee (AIRCSC) 1951-54 no serious attempt was made to assess the credit needs of agriculture. Mostly the farmer was left to the mercy of the private moneylenders. Although the co-operative credit institution was launched as early as 1904, but it failed to develop agriculture in the proper way, this was clearly revealed by the findings of the All India Rural Credit Survey Committee Report (AIRCSC) 1954. According to the survey, about 70 per cent of the credit requirements of the farmers was met by the private moneylenders, the government and co-operatives account for only about 3.3 and 3.1 per cent respectively. Whatever little co-operative credit was provided, a major part goes to the big and medium farmers, paradoxically enough, a substantial part of the institutional credit was accounted for by household expenditure and very little of it was utilized for genuine agricultural development. Chronic poverty, bad habits, small holding and the backwardness of agriculture compelled the Indian farmer to absorb the greater part of low interest loan and for the unproductive purposes.

However, the post independence era witnessed a number of epoch-making events in the sphere of agricultural credit in the context of enhanced demand for agricultural credit due to the transformation of agriculture in the country. The important sea change in the process of agricultural lending policy was the launching of the "Integrated Scheme of Rural Credit" was to gradually institutionalize agricultural credit through the development of a countrywide network of viable credit co-operatives
with the active support and guidance of the Reserve Bank of India. This became the major plank of the agricultural policy and the programme of development of the co-operative credit structure formed an important component of the strategy for agricultural development.

Development needs heavy capital investments whether it may be industrial sector or agricultural sector. The consequence of the launching of intensive development programmes based on modern technology in agriculture requires the application of modern inputs such as HYV seeds, chemical fertilizers and pesticides along with the development of land and water resources. All these changes led to intensive demand for credit. The problem of agricultural credit has assumed importance in view of the fact that the new technology depends on external finance for its wider adoption. In this context, credit has a greater relevance to the small farmers than to the big farmers. In the absence of credit the small farmers are bound to be left out of the developmental programme for agriculture. There is a time gap between investment and return in agriculture. The gestation period of crops varies from months to years. Credit is necessary till the income is generated, since increasing expenditure in agriculture is a continuous process with plenty of risk and uncertainty. The farmers have to spend money regularly for various purposes. Further, farm expenses and household expenses are mixed up in agriculture. The farmers get income only during harvesting season. Hence, to meet the continuing expenses, finance is needed by the farmers.  

There is lot of uncertainty in agriculture where we cannot obtain the regular flow of profit. The factors responsible for the uncertainty are spread over from the time of sowing to the time of harvesting, which are
risks and uncertainty of yield have direct relation to the income. Indian agriculture is susceptible to natural calamities due to the dependency on monsoon. He has to face enormous risk in the form of uncertain income, bad weather, drought, flood, cyclone, pest attack, unarm narrative prices, crop failures etc. just because loss sustained in a year, the farmer cannot abandon their farming forever. He has to borrow and put it into the production for the good result to continue cultivation in bad seasons, for which credit is required.

**Classification of Agricultural Credit:**

Agricultural credit is classified mainly on the basis of period, purpose and security offered for. The common basis to classify the agricultural credit is the period of repayment. Short-term credit is issued as a productive loan to various agricultural operations for the period of 15 months. It is utilized for the purchase of seeds, fertilizers, pesticides and other inputs alike and also for the payment of wages of labourers. To a limited extent, short-term loan is issued for consumption purpose also. Security for short-term loans depends on the purpose for which loan is required. Short-term agricultural credit is disbursed by primary agricultural credit societies, RRBs and commercial banks. Productive credit is disbursed under crop loan system where the security insisted is the anticipated crop, whereas on the basis of personal security consumption loans are issued.

Medium-term loan is issued mainly for productive purposes. It is to be repaid by latest within 5 years and not less than 15 months from the date of issue. Medium-term loan is required for investment purposes like, purchase of agricultural machineries, tools and implements, deepening the
wells and land reclamation. The significant agencies to supply medium-term loans are primary agricultural co-operative credit societies and commercial banks. Mortgaging of land is still insisted upon as security for medium-term loans. But the loans for purchase of machines are issued on the hypothecation of such machines.

Short-term and medium-term loans do not suffice for the overall development of agriculture. Long-term loan is so important that it can reverse the agricultural growth trend if it is not considered as agriculture credit. It is issued for more than 5 years to have permanent improvements on land in order to increase the value of land assets and for capital formation in agriculture. e.g., If the assured irrigation facilities are provided, the farm holding will be measured high priced. The institutional agency to supply long-term credit is land development bank. But the present study is confined to short-term loan to agriculture.

The advent of agricultural revolution in India in the mid 60s on account of the application of modern science and technology necessitated a strong financial base for agriculture. Hence, the development of country's economy like India needs a strong agricultural base. But the development of agriculture is constrained by the inadequate supply of inputs, specially credit, at low rate of interest. To have a sea change in the process of agricultural lending, financial reforms are needed over the years of progress.

The present economic scenario determines that in the context of agricultural transformation, progressively agriculture is becoming capital intensive and farmers need credit, specially for capital inputs. Such as, machinery, fertilizers, pesticides, seeds etc. The more the advancement in
agriculture, the greater is the requirement of the credit, generally, greater is the role of co-operative societies and commercial banks in supplying credit.

Both the institutional and non-institutional sectors supply agriculture credit. Inspite of the significant expansion of the institutional sector, the non-institutional agencies charge higher rates of interest and follow unethical practices. They continue to dominate the rural credit market because the farmers find it more expedient to resort to them than to the agencies in the organized sector. The main reason for this phenomenon is that their lending procedures are simple and credit assistance is timely.

However, the share of non-institutional sector in the total borrowings of farmers has recorded a decline from more than 95 per cent to 40 per cent in 1991-92. Today, by and large, all over India the farmers have adopted to the use of high yielding/hybrid varieties of seeds, specially in case of wheat, paddy, maize and others. These varieties have shown that they are capable of expanding agricultural production beyond all previous achievements and expectations, provided that necessary inputs like improved water facilities, fertilizers, pesticides etc. for which availability of timely and adequate cheaper credit is necessary.

In the context of prevailing conditions of Indian agriculture, by and large co-operative credit will continue to be the most important institutional finance while, other institutional agencies should not be neglected of their role in supplementing the resources of the co-operatives. In the field of agricultural finance commercial banks entered much later, with the introduction of social control of banks in 1968. In July 1969, nationalisation of 14 commercial banks strongly paved the ways to agricultural lending in which with various enthusiasm, both co-operative
and commercial banks have recorded significant progress in seventies and eighties. It has been reported that the share of co-operatives in cultivators borrowing has almost recorded manifold growth with Rs. 1349 crores as advances, covering 5.16 crore farmers and 36 per cent of the villages.

Government is another institutional agency in the field of agricultural lending. The All India Rural Credit Survey Committee has observed, "the record of taccavi loans has been record of inadequacies, inefficiency of supervision and incompletion of co-ordination". There is no record maintenance regarding the government lending to agriculture. It comes forward to lend only in times of emergencies therefore, it is not reckoned as a major source of credit. The money lenders charge not only high rates of interest but also resort to unfair means. However, the share of non-institutional sector has been declining gradually. There are some links between organized and unorganized sectors, but these are quite weak. Here the main problems are of strengthening the links between the two sectors to promote further integration.

A study of agricultural finance during the seventies and eighties shows that the multi agency approach has came to accepted in rural India. The co-operatives assisted by the commercial and Regional Rural Banks played a crucial role in meeting the credit needs of agriculturists. The establishment of National Bank for Agricultural and Rural Development (NABARD), exercising a significant influence on the working of these institutions in the country, particularly in financing agriculture and allied activities.

Agricultural credit co-operatives thus constitute one of the principal agencies ushering the farm revolution. The loan advanced by the 1.23 lakh
primary agricultural credit societies in India to the farmers amount nearly to Rs. 1300 crores every year. The benefits of these co-operatives have gone to more than 37 per cent of the villages covering nearly 5 crores of rural people.  

Short-term credit is pivotal because it plays an important role in generating income by enabling the farmer to furthering of cultivation. Adverse effect on the supply of inputs, adversely affects the development of agriculture and the development of economy, consequently short-term credit has lot of powers in it to develop agriculture, hence short-term credit should be cared.

Role of PACSs in Agriculture:

Credit is very essential for agriculture as other sectors of the economy needed at various stages of production process. The significant stage is its initial operational stage requiring new working capital, other than some given inputs for the production process. Hence in agricultural operation short-term credit is very important. The supply of such credit is successively provided by primary agricultural credit societies. As stated by many research works and studies no institution other than primary agricultural credit society at grass-root level fit for the supply of such credit. Since the introduction of planning and by the All India Rural Credit Survey Committee Report, they occupied an important place in the institutional credit framework, meant for agriculture. Primary agricultural credit societies helped in liberating the farmers from the strangle hold of exploitative money lenders.

The PACSs at the village level are very essential for the development of agriculture. They supply of credit at very low rate of interest for the
needy farmers in a crucial time necessary for increasing agricultural production level. They aim at helping each and every member of the society in all aspects in implementing agricultural programmes.

The important roles played by PACSs are:

1) To provide short-term loans for seasonal agricultural operations, medium term loans for building agricultural infrastructure and to a certain extent consumption loans;

2) Motivating the members to intensive deposit mobilization and inculcating the habit of banking in rural people;

3) Mobilising the small savings of non-members of the society, in addition to the members;

4) Lending to promote ancillary occupations like, diary farming, poultry, bee keeping etc., to supplement the agricultural income;

5) Lending the small business to promote entrepreneurship as B.D.P. Loan in rural area,

6) They may also try to help the villagers to establish schools, dispensaries etc. by liberally donating out of their charity fund:

Review of Studies:  

Here an attempt has been made to review the earlier studies, throwing light on the agricultural finance and co-operative credit societies.

P.C. Bancil8 (1971) projected Rs.987 crores as total credit needs for agriculture on the assumption that 50 per cent of the value of the three major inputs for farm business would be met through borrowings and the
estimated credit needs for miscellaneous purposes during 1973-74 would be Rs. 274 crores.

Sharma and Prasad (1971) estimated the credit needs by size of farm and by regions at different stages of technological development in agriculture in Tarai, Nainital and Rampur districts of Uttar Pradesh for the agricultural year 1968-69. Linear programming technique was used to estimate the credit needs by way of preparing farm plans at current technology and improved technologies with and without borrowing of cash. It was found that at the current level of technology, a large potential market of credit existed, which was expected to grow faster in relatively progressive areas than in less progressive ones. Introduction of improved technology without adequate credit facilities was not likely to create any significant impact on the incomes of farmers.

Sisodia (1971) in his micro-level study found that nearly 53 per cent of loans taken were utilized for unproductive purposes and only 47 per cent of the loans were utilized for the purposes for which they were actually obtained.

Shukla (1971) found that the flow of finance tends to gravitate to relatively better off states and states have been identified as less well-off states are neglected.

Batt's (1971) study on diversion of long-term loans advanced to selected borrowers found that the extent of diversion of loans was 37 per cent in Madhya Pradesh 21 per cent in Orissa and 11 per cent in Gujarat.

Dadich (1971) in his study points out that willful defaulters are generally those having large holdings of higher castes, with a higher level
of education and members and ex-members of the managing committees. He gave reasons for willful default, they are re-lending co-operative credit committees, uncertainty in availing of fresh credit and an element of fear about the future financial positions of the co-operative society.

Galgalikar, Gadre and Bhole\textsuperscript{14} (1975) in their empirical study, "Small Farmers and Institutional Credit", in two villages of Aola district of Maharashtra, financed by the Central Bank of India, observed that besides interest, the cost of finance was to the extent of 3.82 per cent and 2.83 per cent for short-term loans in the two villages respectively.

Bihari, Singh and Singh\textsuperscript{15} (1975) in their study in Tanda Block, Faizabad, Uttar Pradesh observed that the cost of a loan is higher because more amount is wasted in conveyance and incidental expenses.

According to Kumar, Joshi and Muralidharan\textsuperscript{16} (1978) the demand for credit by the marginal farmers was inelastic with respect to prices of both inputs and outputs and steps to bring down interest rates on loans to marginal farmers could not be of much help.

Tiwari and Sharma\textsuperscript{17} (1978) have analysed the disparities in the flow of rural bank credit by using multiple regression analysis. The study found that due to the expansion of rural branch network in recent years, the inter-state disparities have declined slightly. The main reasons for the regional imbalances in agricultural advances are; (1) difference in the percentages of area under HYVS, (2) progress of rural electrification, and (3) the spread of bank branches.

Rao\textsuperscript{18} (1983) in his study, conducted in Madala village, Guntur District, Andhra Pradesh finds that institutional borrowings account for
about 69-98 per cent and the non-institutional borrowings account for 30.02 per cent of the total borrowings of farmers. The small farmers have borrowed both from institutional and non-institutional sources, out of the total institutional borrowings of medium and large farmers, 62 per cent are from the Land Development Banks. In the case of marginal farmers this percentage is only 3.75, while the proportion of loans taken from commercial banks is 39.65 in this case.

In the case of marginal and small farmers non-institutional borrowings, money-lender's share is high. Another important observation of the study is that the medium and large farmers are relending non-institutional funds at higher interest rates.

Venkiteswaran19 (1984) has formulated a model for quantitative analysis of operational efficiency of Primary Agricultural Credit Societies (PACSs) in Kerala, based on a set of variables.

Narasimhan20 (1986) in his study "Banks and agricultural credit in India", points out that the growth of agricultural credit has been phenomenal since nationalization of banks in 1969 there is an increase in the number of borrower's accounts. The actual observers that there has been a sharp decline in average size of amount borrowed which today is less than Rs. 5000/-. This shows that banks are financing small and marginal farmers.

Sunilkumar21 (1987) infers that the commercial banks have turned towards rural areas since nationalization, but still their coverage in terms of financing is inadequate.
Pandey and Ashok Kumar\textsuperscript{22} (1988) examined the structure and growth of co-operative credit in different states and the disparity in disbursement of credit in different categories of holdings. The study was based on secondary data. The study indicates that the number of primary agricultural societies have come down in all the states during the period 1970-81. The compound growth rate of short-term credit was maximum in West-Bengal whereas growth-rates in medium-term credit were positive and statistically significant in all the states except in Punjab. The study further indicates that per hectare credit availability on small and marginal farmers is higher than on farmers above 2 hectares in almost all states. The study further revealed that the disparity in distribution of credit on per hectare basis has increased during the period 1977-78 to 1983-84.

J.S. Sidhu and R.S. Sidhus\textsuperscript{23} (1990) study of “case studies of successful and unsuccessful primary co-operative service society and milk products co-operative society in Punjab” has peeped into the causes for success and failures of the primary co-operative societies. They inferred that successful societies were characterised by the honest and dedicated management resulting in the loyalty of its members consequently, the successful societies were able to break the barriers of unfavorable socio-economic system. In the case of the successful co-operative service society, the overdues were kept under check and the flow of credit was maintained. The society maintained a high degree of self reliance and hence continued to progress. On the other hand the main cause of the failure of the unsuccessful service society was dishonest and inefficient management. The leaders and big farmers were the main defaulters which, encouraged the other members to default. Secondly, the society
failed to mobilise internal resources and failed to absorb high overdues, which resulted in choking and drying up of the credit channel. The overdues went on increasing, which furthers caused deterioration in the financial position of the society.

Mr. M.M. Vagganavars' (1990) study entitled "Overdues in Primary Agricultural Credit Co-operatives in Karnataka", highlights the causes for mounting overdues mainly (a) economic factors, (b) administrative factors (c) Social, political and educational factors, (d) natural factors and (e) circumstantial factors. He found that default is more intense among the leased out farmers and farmers solely dependent upon hired labour.

V.S. Bhat (1993) in his study; PGS (Paddy Growing Societies) and AGS (Areca Nut Growing Societies) made a comparative study and found that scope for expanding membership, meager participation of SC/STs, lower percentage of borrowing members to total members and the higher percentage of defaults in PGS than in AGS. He suggests for improving financial position and profitability of the societies.

Bhupat M. Desai and Jhon W. Mellor's (1993) work on "Institutional finance for agricultural Development". An analytical survey of critical issues devoted to an analysis of the development of institutional credit agencies and the impact of the real interest on rural loan demand as well as supply of rural deposits. It makes an indepth study of the critical issues involved in this process, drawing from the experiences of a large number of countries including India. An elaborated analysis of the organisation, functional structure viability of the rural financial institutions is made. The authors concluded that promotion of a vertically and horizontally integrated RFI system has a much higher impact on its net
contribution to public resources, compared with the effects of increases in interest rates on rural loans and rural deposits.

Bhupat M. Desai and N.V. Namboodiri (1993) in their study on "Rural Financial Institutions: Promotion and Performance," the performance of two rural financial institutions in the co-operative sector in Kerala has been examined. The two societies under the study are Anand farmers co-operative Bank and Aruvikara farmer’s co-operative Bank from Trivendrum district. Both have undergone structural changes in accordance with the changes taking place in the co-operative sector. It was reported that low delinquency rate is apparent in both the societies as a plus point.

Amalesh Banarjee(1993) in his study entitled "Reforming Agriculture Real and Financial" examined the aspects of new economic policy of agriculture and the direction of emerging agricultural production, the formulated financial structure is proposed corresponding to the change in production aspect in the agricultural sector and the impact of financial reforms on agriculture and requirement. His suggestions being substantial investment in infrastructure, power, irrigation and research is the first set of work. Structural and operational redirection of rural financial institutions lender the NABARD will usher in a vibrant rural money market based on decentralized principles.

"Agricultural Co-operatives in Transitions" edited by (Csaki and Yoav Kisleva (1993) is a collection of twenty one papers presented at the inter conference symposium of the International Association of Agricultural Economics to discuss the status of agricultural co-operatives.
The major forms is directed on the recent political developments in the former socialist countries and their impact on the co-operatives.

S.C. Anand (1993)<sup>30</sup> through his study “priority sector lending still a drag on profitability” made an observation that perusal of considerable amount of literature on agricultural credit reveals that different issues of agricultural credit- relation between agricultural lending and loss.

Gurdev Singh (1995)<sup>31</sup> has made a study on “Agricultural Finance in the Context of Technology-led development of Agriculture”. The study has pointed out that institutional credit has made important contributions to the growth in agricultural output. This has occurred through facilitating land, labour and intermediate inputs with complementary capital augmenting technological change. In the context of adequacy of loan or credit, viability of investment was considered as an important aspect. It was noticed that less than 50 per cent of the farmers availed of the institutional credit for crop production and the amount was hardly sufficient for the purchase of fertilizer alone.

The important remedies suggested are, to meet demand for credit for agriculture was the organisation of self-help groups, higher interest rate might not adversely affected the loan demanded and provisioning of timely and adequate credit,

Tushar Shah’s (1995)<sup>32</sup> study on “Liberalisation and Indian Agriculture: New Relevance of Farmers Co-operatives”, emphasised the role of co-operatives in organising the people for development and also brought that co-operative law is the hurdle for progress of co-operatives. The study recommended that urgent reform of co-operative law, administrative and macro policy framework is necessary and formation of
a simple law, guarding the basic constitutional freedom for association, imposes least restrictions and allows minimum external interference in the manner in which people can form, govern and manage co-operatives and member organisations.

C. Jayalatha, S. Varadarajan and K. Lokanadhan33 (1996) conducted study on, “Extent of Credit Supply by Primary Agricultural Co-operative Banks in Madurai District, Tamilnadu” to assess the extent of credit supplied by PACBs to estimate demand and supply of loans, gap factor influencing supply.

Veerashekharappas34 (1996) "Rural Credit in VIP District : A Study in Uttar Pradesh", attempted to examine the influence of political intervention on the expansion and delivery of institutional credit in Raibareli and Sultanpur districts, he observed complicated procedures, inadequacy of loans and transport problem.

B.S. Baviskar and Donald W. Attwood, (1996)35 have made a research, entitled “Finding the Middle Path: The Political Economy of Co-operation in Rural India”. This study has covered co-operative in sugar, dairying, cotton, credit, joint farming, fisheries, tea and oilseeds. The study found number of successful co-operatives in Maharashtra and Gujarat.

Kumud Sharma’s (1997)36 Ph.D research on “Co-operative v/s. Commercial Bank Finance to Agriculture - A Case Study of North Kanara District”, is a comparative study of the co-operatives and commercial banks particularly in regards to cost of loans, adequacy and timeliness, procedures and profitability. The study pointed out that, borrowing of long-term loan from commercial banks is profitable as compared to borrowing from PCARDBs and features of a good credit system are
sanctioning the loan adequately, quickly (timely) at a cheap rate and involving good human factor. She suggested that loan waiving schemes should not be announced which adversely affects the lending operations of financial agencies.

Meenakhsi Rajeev and Sharmistha Dev's (1998) "Institutional and Non-Institutional Credit in Agriculture-Case Study of Hugli District of West Bengal", highlighted the growth trend of the country in general and West Bengal in particular and found that increase in the productivity requires higher amount of credit and suggested for the strong institutional credit market for agriculture to lessen the dominant role of non-institutional agencies.

V.B. Jugle (1998) "asserted that there are lot of distortions in the PACSs, so there is a need for restructuring of PACSs into co-operative village Banks (CVBs) and attempts should be made for achieving greater mobilization of local resources for local development.

M.D. Dodke and D.B. Kuchhadiyas (1998) Study on "Short-Term Credit Gap and Credit Requirements For Different Category of Farmers In Junagadh District", estimated the credit requirement and credit gap, where, the proportional share of institutional credit supplied was maximum in small size group (33.58%) followed by medium farmers (31.76%), large farmers (28.70% and marginal farmers (5.96%). Here the positive relation was observed between the size of farm and the credit available per farm. The average credit availability per small farm is higher than other farms and the credit gap was less on marginal farms (20.01%) followed by small (20.54%), while it was higher on large farms (47.39%), followed by medium farms (32.22%) and suggested that the financial
institutions should increase its scale of finance in accordance with the credit requirements of the farmers, so as to minimise the credit gap.

Dr.V.K.Singh, Dr.R.A. Singh and Dr.B.N.Singh40 (1999) through their study, “The Flexibility of Co-operative Credit in Increasing Income and Employment of Households, in Jaunpur District (U.P)”, observed that, lending by co-operative bank was minimum (51.09%) followed by commercial banks and regional banks, which was 38.95 and 9.96 per cent respectively. It is also observed that co-operative credit in the Jaunpur district is functioning well to meet out the credit requirements of the marginal, small and medium farms. The credit has helped in meeting out the input cost incurred on crop and milk production. The borrower farmers adopted modern and new technology and high yielding varieties of seeds on their farms. Credit has played an important role in increasing their employment and income. Due to availability of credit on borrower farmers all operations are carried out timely resulting in higher income than non-borrowers (2001).

K.Devadasan41 (2000) made an appraisal of “Primary Service Co-operative Banks in Calicut District (Kerala) An Appraisal”. He observed that at present Co-operative Banks have unique positions in the field of finance, which are recognised as an institution of the common man. Inspite of the rapid Progress of Commercial Banks, co-operative banks preferably primary service co-operative banks (PSCBs) have firm roots in the banking field particularly with regard to rural finance.

A.R.Viswanath42 (2001) in his study, “An Analysis of the performance of Agricultural Credit Co-operatives and Their Overdues Problems in India”, attempted to analyse the qualitative performance of

21
agricultural credit co-operatives and their problem of overdues, particularly in India. He suggests that the transactions of co-operatives have to be diversified so as to be competent with other financial institutions in the rural credit delivery system.

Udayakumar M. and Dr. Gabriel Simon Thattil\textsuperscript{43} (2001) have examined the status of Kisan credit cards business in India. In the backdrop of the current Kisan credit card scenario, a micro level study presenting the utilisation pattern of credit available under the scheme by a group of kisan credit holders of Anand Farmers Co-operative Bank Functioning in Trivendrum District is undertaken. The study revealed that farmers with small land holdings and generally low income were getting exposed to the benefit of kisan credit cards and the eventual easy access to such credit facility is the missutilisation of loan sanctioned to the beneficiaries.

R.P.Singh, A.K. Pandey and S.K.Sing\textsuperscript{44} (2001) were realised the existence of strong and efficient credit institution in the developing countries and the credit system. In order to meet the expanding credit needs in agriculture and allied activities, institutional sources of credit has been strengthened.

Adinew abate, T.R.Keshava Reddy, N.Mahesh and Lalita Achoth\textsuperscript{45} (2002) have made an overview on "Magnitude and Growth of Institutional Credit Flow to Agricultural Sector", During the study period a significant growth of advance has been recorded particularly in agricultural lending. The recovery performance in the short-term credit advances has been improved, whereas it was deplorable in the long-term credit advances.
Leelabai's study on "Agricultural Finance in Underdeveloped Economies with Special Reference to India", has highlighted evolution of the rural credit policy, nature of borrowings, credit problems of different classes of farmers and role of borrowings in capital formation.

In the light of afore quoted studies the emerged inferences are here under. Credit is indispensable ingredient of the process of cultivation, which needs concrete and concerted efforts by the government through co-operatives to meet the increasing demand for agricultural credit in the context of technological break-through. New agricultural technology made an epoch making changes in the production level and productivity in Indian agriculture. The success and failure of the new agricultural technology has its' roots in the adequacy and timely supply of credit. But, the flow of credit is not harmonious in all the states and regions of the country led to disparities in the flow of credit in India. Thus, immediately after the advent of 'green revolution', the commercial banks have entered the rural credit scenario. Instead of consequential increased institutional credit flow to agriculture, still their coverage in terms of financing is inadequate.

We have the examples of successful and unsuccessful co-operatives. The success of successful societies attributes to honesty, dedicated management, loyalty of the members and removal of unfavourable socio-economic barriers, check on overdues, maintenance of continuous credit flow and self-reliance. Whereas the causes for the failure of societies were dishonest and inefficient management, high percentage of overdues, dishonesty of its members, political interference and failure to mobilize sufficient internal resources.
The main bottleneck in the co-operative sector is the overdue. Most of the PACSs become defunct mainly due to high percentage of overdues. Inspite of the regular flow of credit and improvement in the repaying capacity of the farmers, most of the defaulters are willful defaulters as there are no strict rules and regulation as well as offensive actions against the committers. Moreover inadequacy of the loan amount, diversion of loan for the purpose other than the purpose for which loan has been sanctioned, vested interest of the politicians, recurring crop failures, relending of co-operative loans by the (few) farmers etc. are the important causes for overdues. Hence, the government at regular intervals opted for research and appointed number of committees to reduce this chronic problem. But still the desired success has not been brought in the co-operative sector. Therefore, it is still needed that reform of co-operative law, administrative, macro policy framework in this sector. Loan waiving schemes should be reviewed and checked. This task of reforming the co-operative system needs ground level empirical evidences and experiences which can be obtained from micro-level studies and committees. Hence, micro-level studies and committees have to be given more importance so as to realise the famous verdict Co-operation has failed but it must succeed.

Statement of the Problem:

Credit is indispensable to the agriculture and today credit no more remained the "hungman's rope supports the hanged", but it is an elevator. Specially in under developed countries, where generally majority of the farmers are small and tiny cultivators inevitably forced to borrow from outside and gestation period is long, there the role of agricultural finance is
emphasised. However it is a problem when it cannot be obtained and it is also a problem when it is not properly utilised, various institutional and non-institutional agencies supply agricultural credit, still the non-institutional agencies dominate, but the proportional share of them is decreasing and share of institutional agencies is increasing. Therefore, we should not undermine the pivotal role of co-operatives in rural credit in particular and agricultural development in general.

In the beginning of the 20th century co-operatives entered in the field of agricultural finance as the ultimate source to relieve the farmers from the clutches of money lenders or non-institutional agency. In the course of modernisation and transformation of agriculture, day by day supply of adequate, timely and cheaper credit is a major problem of concern as the modern technology is based on larger investment in capital assets and modern inputs, which in turn compels the farmer to borrow from outside sources, because of his inability to save and flough back his surplus income over consumption needs.

Rural cooperative credit system has acquired rich experience in meeting the diverse investment and production credit needs for promoting agriculture and rural development through institutional credit. The positive features of PACSs include the rural base covering nearly all the villages of the country which makes them the effective channels of agriculture credit. However the credit cooperative system in our country is plagued by several inadequacies in organizational, financial and managerial matters. The deficiencies of PACSs are; non-viability, high level of overdues and problem of lower margins due to high transaction cost. At grassroots level the philosophy of thrift, self-help, mutual help and
cooperative spirit are conspicuous by their absence. The resource base of the PACSs is weak, as a result of which their dependence on higher financing agencies is very high. The present study attempts to analyse the nature, extent and dimensions of the problems of PACSs. Large numbers of studies of agricultural cooperative credit have been conducted at macro-level and very few studies have been conducted at micro-level highlighting the credit utilization by the farmers. Hence there is a need for conducting a micro-study.

Research being a continuous process the past studies in similar areas need not preclude a researcher's interest in probing a fresh and reassessing the functional role of the grass root credit institutions like primary agricultural cooperative credit societies.

Objectives of the Study:

1) To study the progress of co-operative movement in India and in Karnataka;
2) To study the working of primary agricultural co-operative credit societies in the study area;
3) To examine the loan utilization pattern by the sample farmers and its impact on their income level;
4) To assess the extent and causes of overdues in order to determine the viability of PACSs under study;
5) To suggest remedial measures based on the findings of the study.

Hypotheses:

1) Financial and operational weaknesses of PACSs are responsible for the short fall in meeting the credit needs of the farmers;
2) Willful defaults and high cost of cultivation leads to mounting overdues and poor performance of PACSs.
Methodology:

Belgaum district has been selected for the present study, which is considered as the developed district with 35.06 per cent of irrigated area, but it is subject to variations in irrigation and development of agriculture in the district and in the regions of same taluka also. The district has a strong co-operative environment, which is the part and parcel of agricultural development having lot of potentialities to materialize the development in agriculture in the future too.

Three stage sample design has been employed in the present study. Selection of the talukas is the first stage of sample design. Second stage is the selection of villages where PACSs are existing and the third stage concerns to selection of borrower households.

For this study, out of 10 talukas in the Belgaum district, 2 talukas have been chosen for the purpose of comparison considering one as developed taluka and another taluka as under developed taluka. While selecting the talukas, major role has assigned to irrigation so as to determine the position of the talukas, because irrigation plays an important role not only in terms of yield and crops of high returns but in terms of cropping intensity also. At the same time other economic indicators have not been relegated.

38.56 per cent of the cultivated area is irrigated in Athani taluka, however it is higher than the district average. But it is concentrated only in the river belt of Krishna. The annual rainfall is very scarce that is around 398.9mm, which is lowest among other talukas in the district. 28.44 per cent of the gross cropped area is occupied by commercial crops and out of 159322 hectares of cultivable land 23213 hectares is under HYVs, which
accounts for 14.56 per cent. Number of cattle population in the taluka is 255985. The Decadal growth rate of population during 1981-1991 is 16.2 per cent. Whereas, the percentage of irrigated land in Raibag taluka is 81.49 per cent with 30.42 percent of gross cropped area under commercial crops and out of 68609 hectares of cultivable land, 22362 is occupied by HYVs, which accounts for 32.59 per cent. The number of cattle population in Raibag taluka is around 305572 and the decadal growth rate of population stood at 10.0 per cent during 1981-1991. This indicates that Raibag is in a better position than Athani taluka. Hence Raibag is considered as developed taluka and Athani as underdeveloped taluka and accordingly both the talukas have been selected for the present study.

At this stage of sample design, purposive sampling method has been adopted to select the villages. Totally 89 villages are there in Athani taluka and 55 villages in Raibag taluka. In Athani taluka 66 villages are served by PACSs out of which 5 un-irrigated villages have been selected and Raibag taluka is served by 37 PACSs out of which 5 highly irrigated villages have been selected. In all the study covers 10 primary agricultural credit societies to form the sample design at the second stage.

To select the borrower households, a list of farmers who have borrowed loans from the PACSs was obtained from every sample society. Proportional representation has been assigned to small, medium and large farmers. Hence, 13 small, 8 medium and 9 large farmers constitute the sample from each village of both talukas at random. In all 65 small, 42 medium and 43 large farmers have been selected from non-irrigated area and the same number of farmers has been picked up from irrigated area also, which totally amounts to 300 sample farmers. The percentage of
small, medium and large farmers to the sample size comes about 43, 28 and 29 respectively for the purpose of interview which is 3 per cent of 9775 borrower farmers.

Data Base:

The present study is based on both the primary and secondary statistical information. Two detailed schedules are used for collection of primary information.

1. The first schedule is used to collect the information pertaining to membership, advances, recovery, cost of funds, resource mobilization etc. from the particular PACSs;

2. The second schedule tentatively interacts with the concerned farmer obtained loan from PACSs during the study period constitutes the core of the research.

Secondary data is collected through Annual Reports of the DCC Bank Belgaum, statistical statement relating to co-operative movement in Belgaum district from the statistical department, Belgaum and information relating to co-operative movement in the district from the Deputy Registrar and Assistant Registrar of co-operatives, different five year plan drafts, National Sample Survey Reports, Articles published in different journals etc. Besides this discussion with the official authorities of District Statistical Office, Assistant Registrar of Co-operatives, Deputy Registrar of Co-operative Union, Co-operative Development Office and some of the staff members of the PACSs has been made. In addition to this number of Government publications found much use in providing information.
Tools of Analysis:

Simple statistical tools like percentage, mean or average, ratio etc. Have been utilized for the present study for the purpose of comparison and analyses.

Limitations of the Study:

Majority of the Indian cultivators are illiterate and ignorant who are not aware of keeping book of records in regards to cost of cultivation, loan amount, cost incurred for the loan, interest and penalties paid, time taken for obtaining loan and repayment made etc. The data relating to all these aspects has collected through the interview method which enabled the researcher to get an insight into the utilization of loans as well as the full particulars of farm operation. However, the data is not free from the ill-effects like memory bias and other built in biases of the responses of borrower farmers. Even then, the response from the subjects was quite satisfactory and the recall bias was minimized by several cross checks made while interviewing. Hence, to extract a clear-cut and unbiased data, the period of study is restricted to only from 1997 to 2000.

Plan of the Study:

The present study contains seven chapters:

First chapter is the introductory part presents the 'Research design and methodology'. It emphasizes the significance of agricultural credit and PACSs in agricultural finance, explains the research problem, reviews the earlier studies, states the objectives, hypotheses and methodology.

Second chapter gives the details of evolution of co-operation, Co-operative Movement and its progress in India and Co-operative
Movement in Karnataka as well as the Co-operative credit structure and present position of Co-operatives in the field of agricultural finance.

Third chapter examines the working of PACSs in terms of resource base, deposit mobilization, borrowing and lending operations in the study area.

Fourth chapter examines the loan utilization pattern by the farmers and its impact on their income level.

Fifth chapter attempts to analyse the problem of overdues, impact of overdues on PACSs and suggests the measures for reducing overdues.

The last chapter provides main findings, important conclusions emerged from the study and offers useful suggestions for improving the performance of PACSs.
References:


6. Ghatak Subrata "Rural Money Markets in India", the macmillian Company of India Ltd., Delhi, 1976, P.29


33


34. Veerashekharappa; “Rural Credit in VIP District - A Study in Uttar Pradesh”, EPW, Sept. 28, 1996

35. B.S.Baviskar and Donald W.Attwood, “Finding the Middle Path: The Political Economy of Co-operation in Rural India” Vistar Publications, New Delhi, 1996.


38. V.B. Jugle ; “Credit Co-operatives in Rural Maharashtra; Grave to restructure” EPW Nov. 21. 1998


