CHAPTER - I

INTRODUCTION AND RESEARCH DESIGN
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Agriculture is the most predominant sector of the Indian economy. At present 60 per cent of nation’s population is dependent on agriculture for its livelihood. It provides not only food and raw-materials but also employment to a very large proportion of the population in India. Agriculture along with allied activities contributes nearly 25.2 per cent to the Gross Domestic Product of the country (GOI, 2001). While the share of agriculture in national income has been declining from 56.5 per cent in 1950-51 to 25.2 per cent in 2000-01, the workforce engaged in agriculture has displayed only a marginal decline. Inspite of diversification in Indian economy, agriculture continues to be the backbone of the economy. The prosperity and well being of the entire population depend upon the development of agriculture. Thus, the need for sustained and rapid improvement in agricultural performance remains crucial for India’s future growth. Agricultural prosperity is the pivot around which the development of other sectors revolves.

Agricultural development presupposes a greater flow of inputs as well as institutional and organisational reforms. The technological breakthrough has already taken place in Indian agricultural sphere and proved that the need for availability of larger credit is essential. In the Union Budget 2002-03, the amount of Rs.3733 crore has been earmarked for the development of agriculture. Gunnar Myrdal termed credit as an important accelerator of development. For an accelerated growth of agriculture, a substantial increase in credit for short-term
production purposes as well as investment becomes important (GOI, 1992).

Indian agriculture has been undergoing a technological transformation since mid sixties. This has become possible through the use of high yielding varieties of crops which calls for an increased use of modern inputs such as improved seeds, fertilizers, pesticides, plant protection measures, irrigation etc. Since the farmers have little savings to procure these modern inputs, they have to depend upon the borrowed funds to meet the growing needs of farm expenditure. Thus, credit has an important role in transforming traditional subsistence farming into modern scientific farming. F.W. Schultz (1962) stated, “once there are investment opportunities and efficient incentives, farmers will turn sand into gold”. As the World Bank (1975) aptly describes, the credit is often a key element in the modernisation of agriculture. Not only can credit remove financial constraint but also may accelerate the adoption of new technologies. Credit facilities are an integral part of the process of commercialisation and higher productivity or income among the rural people. Thus the supply of timely and adequate institutional credit is an indispensable component of any programme of agricultural development. In this context, credit has a much greater relevance to the marginal and small farmers who have been cultivating 76 percent of the operational landholdings in the country. Even then, the access of marginal and small
farmers to formal credit agencies is quite limited (Sarap, 1991). The credit worthiness of marginal and small farmers is viewed with suspicion, because of their inability and unwillingness to provide acceptable collateral like owned land, houses as mortgage. They must be provided with a timely and adequate credit for their upliftment in the farming community by the institutional agencies. Among these agencies, the co-operative credit institutions with their century old background and experience are found to be most effective agency for lending to agriculture.

The institutionalisation of agricultural credit in India began with a passing of the Co-operative Societies Act 1904 as a defence mechanism against usurious moneylenders. The co-operative sector with a history of more than hundred years is socio-economic development movement in the country. With a large network of co-operative credit institutions in the short term as well as long term credit, co-operatives have been providing better services to the farmers. The short term credit structure is based on the three-tier structure consisting of State Co-operative Banks (SCBs) at the state level, Central Co-operative Banks (CCBs) at the district level and Primary Agricultural Credit Societies (PACS) at the village level. Even today, the Co-operative Banks continue to occupy the leading position in the sphere of productive finance, despite the very strong presence that
the commercial banks have to acquire in rural areas with their vast resources (RBI, 1989).

1.1 ROLE OF DISTRICT CENTRAL CO-OPERATIVE BANKS IN AGRICULTURAL CREDIT DELIVERY SYSTEM

In the three tier co-operative credit structure, the State Co-operative Banks (SCBs) at the state level provide financial support to the District Central Co-operative Banks (DCCBs) for the provision of agricultural credit to Primary Agricultural Credit Societies (PACs) at the grass root level. The DCCBs constitute important financial intermediaries in the pyramidal short term and medium term agricultural co-operative credit structure in India. They form an effective link between the Apex Bank at the state level and the PACS at the village level. They have occupied a unique place in the co-operative credit structure and are expected to assume the leadership in undertaking promotional and developmental programmes for the growth and success of the co-operative movement in each district. They shoulder a great amount of responsibility in providing financial assistance to the member-borrowers through their PACS at the village level. The DCCBs are viewed as an effective channel for creating an environment for socio-economic development in the society. They mobilise the resources from the local areas in the form of deposits and borrowings from the SCBs and National Bank for Agriculture and Rural Development (NABARD). They also channelise the adequate credit to agricultural needs of the PACS and receive the collections of PACS for loans advanced to the farmers.
Besides, they have been vested with the responsibility of supervision over the functioning of PACS, as the PACS are not well developed to manage themselves. They also carry on ordinary commercial banking operations such as acceptance of all types of deposits from the general public, granting of loans and advances, discounting and collection of bills and cheques on behalf of the customers and receiving of valuables for safe custody etc.

DCCBs developed both in their size in terms of their activities, operations etc. They have an important role to play in administering the rural credit system in the district in co-ordination with other agencies pertaining to rural development programmes. For a better management of rural credit environment through co-operatives, there has been a close and continuous supervision of credit disbursed. There is a greater responsibility for this middle tier for ensuring the prompt recovery of dues. The SCBs cannot show the same degree of responsiveness and control as DCCBs. Therefore, a strong DCCB is very essential for the sound development of the co-operative movement in the district. The movement cannot make progress with a weak link at the central level, even though the primary societies be strong (Mamoria, 1983). Thus the present credit structure has occupied pre-eminent position in the institutional framework of agricultural credit and as pointed out by the All India Rural Credit Survey Committee in many ways, the position of CCBs is of crucial importance in the co-operative credit channel. The liberalised economic policy and the resulting financial sector reforms have also posed new challenges to the DCCBs.
1.2 STATEMENT OF THE PROBLEM

Development of agriculture is a key factor for the overall economic growth of Indian economy. It is recognised that the breakthrough in agricultural sector largely depends on the availability of adequate credit at right time. The demand for agricultural credit has increased enormously over the years due to agricultural transformation in the country. Since 1969, the radical changes have been made in the credit policy. With the nationalisation of commercial banks in July 1969 the commercial banks entered the field of agricultural credit in a big way and the single agency approach was given up, thereby the multi-agency system has come to stay in the field of agricultural credit.

In rural area, the commercial banks have got a perfunctory look towards rural finance owing to high operational costs, urban orientation and overdue problems. The RRBs may not be compared to the co-operatives in the provision of credit to agriculture. In view of the above, the co-operatives should continue to dominate the rural credit scene for years to come. Though there has been a substantial expansion in the size, coverage and operations of DCCBs in the post-independence era with considerable encouragement and assistance, an in-depth micro analysis of their operations reveal certain gaps and blemishes.

There has been a criticism that DCCBs function merely as purveyors of credit from the NABARD /RBI down to the line of agriculturists in the villages through PACS, without bothering much about mobilising resources for deployment, availability and utilisation of credit, recovery of dues etc. Though the quantum of credit pumped in by
the PACS for the agricultural development has increased during the last several years, recovery of loans advanced is not at all improved and as a result of this, overdues are mounting up. In view of these facts there is a lurking fear of collapse of co-operative movement leading to large number of moribund and dormant societies. Hence, a paramount need was felt for an analysis of multiple causes responsible for mounting overdues. The higher level of chronic overdues has been eroding the very principle of co-operative lending and has been dwindling the lending capacity of the DCCBs. “The malignant problem of overdues has been crippling the DCCBs and in capacitating them to borrow additional funds” (Rath, Nilaknth, 1991).

In spite of their operational and financial problems, it is widely accepted that the DCCBs should be continued as an intermediary agency for routing the credit to the farmers through PACS. Several committees and commissions have emphasised the importance of these banks for the provision of financial support to the farmers through the PACS. They have a significant role in mobilising, channelising and institutionalising the savings of the rural people, allocate them to meet the needs of agricultural sector as also other sectors of the economy. It is absolutely essential that DCCBs have to put all efforts to accelerate the pace of resource mobilisation. They should be made available for productive investments. One of the tests of sound banking is the judicious and profitable utilisation of the resources. Allane (1949) stated that “co-operative capital should be employed that maximum benefits are derived with minimum expenditure in relation to results gained”. The
Central banks have to utilise the resources to help the weaker sections of the society to achieve the social-economic goals.

In the context of increasing the role of co-operative credit institutions in the rural credit delivery system in the country, it is necessary to make a comprehensive study about the working of the BDCCB pertaining to the provision of agricultural credit to the farmers through PACS in the Belgaum district. The studies conducted by many personalities regarding the co-operative credit system have not been able to probe into the problems faced by the farmers in getting adequate loans. Hence, it is felt that there is a need for in-depth study at the village level and family level right up to Central Co-operative Bank with a view to the utilisation and recovery of loan. The present research is an empirical study on the co-operative credit system in some selected areas to assess the impact of co-operative credit on the net income of the borrowers and the cost of cultivation in the region.

1.3 REVIEW OF LITERATURE

Keeping in view of the primacy of the role of the credit co-operatives and the need to revive and improve the functioning of the credit co-operatives, various Committees and Groups have been constituted from time to time.

The Committee on Co-operation (Maclgan Committee, 1915) was appointed under the chairmanship of Edward Maclagan which marked a historic document in co-operative history, to find the means for the smooth functioning of the credit co-operatives in the country. Some of the
recommendations were: confining to the business of CCBs to their members only, free hand to management in assessing and sanctioning credit limits to PACS, restricting the area of CCBs to a district only, linking of PACS borrowings to their shareholding, building up of owned funds etc.

The All India Rural Credit Survey Committee (1954) found out the failure of co-operatives in purveying the agricultural credit. It stated “co-operatives have failed but they must succeed”. Its recommendations to strengthen the CCBs were: state partnership in the share capital, linking of credit with marketing, provision of short term loans on the basis of crop outlay, maintenance of Agricultural Stabilization Fund, continuation of financial assistance by the RBI to CCBs in short term and medium term credit limits.

The Committee on Co-operative Credit (1959) was appointed under the chairmanship of V.L. Mehta to review the adequacy of co-operative credit. The important recommendations relating to the CCBs were: determination of borrowing power, linking of borrowing to share capital, competitive interest rates on deposits, linking of credit with marketing etc.

The All India Rural Credit Review Committee (1969) under the chairmanship of B. Venkatappaiah found that the CCBs could not have come up to the expectations. It recommended to increase the share capital of the government in the weak CCBs, re-organisation of the weak CCBs, maintenance of financial discipline in CCBs, re-organisation of staff and training facilities to the staff of the CCBs.
The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD, 1981) highlighting the indispensability of CCBs, recommended the considerable diversification of purposes for which credit is made available and effective co-ordination with other institutional agencies for proper representation of co-operative credit structure.

The Agricultural Credit Review Committee (Khusro Committee, 1989) felt that the CCBs, besides exercising supervisory functions over the PACS, should extend to them legal and other help when needed. It also stated the important role in the district development planning and district credit planning. The government has implemented this recommendation of the committee for improving the financial health of the CCBs.

Ch. Brahma Prakash Committee (1990) highlighted the salient features of Model Co-operative Law. Basically these features are related to removal of various restrictive provisions from central and state co-operative laws. In this context, Mutually Aided Co-operative Societies Act was passed in Andhra Pradesh, Madhya Pradesh, Bihar, etc.

The Government of India appointed a Task Force on the 9th April 1999 under the chairmanship of Jagdish Capoor, Deputy Governor of RBI, to suggest measures to strengthen the co-operative credit system in the country. It submitted its report on the 24th July 2000. It envisages a four-dimensional programme encompassing financial, operational, organisational and systematic aspects. Further, it has recommended
merger of short term and long-term co-operative credit structures and abolition of dual control of co-operatives by state governments and RBI.

The high powered Committee (Dr. Y.K. Alagh Committee, 2001) examines and recommends conversion of the co-operatives into companies relating to the few unique elements of co-operative business. The co-operatives are also required to restructure to meet the challenges posed by the market driven economy.

A Committee of Experts (2001) under the chairmanship of Prof. V.S. Vyas was formed by NABARD on rural credit system, which submitted its report in July 2001.

The recent Committee (2001) headed by Balasaheb Vikhe Patil, Minister of State of Finance, is formed by the Central Government in August 2001 to go through the recommendations of the Capoor Committee and it has been asked to submit its report at the earliest.

All these Committees/Groups emphasised the need to revitalise the co-operative credit system in the country. They have focussed on overall working of the co-operative credit system in the country. They were usually macro-level studies and did not give an in-depth assessment of the performance of the particular co-operative credit institution. The individual efforts in evaluating the performance of these banks are very few and are confined to two or three aspects of their working.

A number of studies have been undertaken in the field of agricultural credit in India. In the following section, an attempt has been
made to present a brief review of available literature on the agricultural credit.

Krishna Rao (1964) in his study “Six agricultural credit societies-case study in Madurai and Salem districts” reviewed the working of co-operative credit societies in the light of members’ economic conditions. The study revealed that the farmers were indebted to private moneylenders.

Sharma (1964) discussed the role of co-operative credit societies in providing timely credit and other services to the farmers. This study showed the declining trend in the disbursement of loans provided by the credit societies. The study found an increase in the overdues during the study period.

Choudhary and Ojha (1968) had analysed the performance and suitability of co-operative credit in high yielding variety area and found that 45 per cent of credit requirements of the farmers were met by the credit co-operatives.

Sharma and Choudhary (1970) have studied the crop loan system in two states namely Andhra Pradesh and Punjab. They have studied the relationship of credit with various inputs used in the cultivation of land holdings. It shows that 80 to 90 percent of borrowings were used for meeting the expenses of labour and 63 to 89 percent of borrowings were used for buying seeds, fertilizers, manures and pesticides.

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

Dadhich (1971) points out that willful defaulters are those, having large holdings, of higher castes with higher level of education and members and ex-members of the managing committees of the societies. Further, he analysed the causes for the overdues and suggested the remedial measures for solving this problem.

Ghosal (1972) observed the cost of credit borne by the borrowers at the time of taking loans from the co-operative credit societies. He made an attempt to study the cost benefit analysis of credit.

Acharya, Dhogade and Lopes (1972) found that the marginal farmers utilised nearly 45 percent of the credit for consumption purposes, whereas large farmers utilised 23 percent for it. They also stated that marginal and small farmers are financially backward and forced to divert the credit for consumption purposes.

Rao (1975) surveyed three villages of Vishakhapattanam district of Andhra Pradesh. He found that the small farmers borrowed more from moneylenders and big farmers from the co-operatives. He also mentioned the influence of large farmers on the working of the co-operatives.

Lavenia, Bhalerao and Tiwari (1976) conducted the survey in Gazhipur district of Uttar Pradesh and found that the rich farmers were benefitted more from institutional finance while the poor farmers were deprived of benefits. This study shows that all institutional agencies have a tendency of assisting large farmers.
Ravindra Prasad (1976) in his study "Co-operative Administration - A case study of Central Co-operative Bank in Andhra Pradesh" focuses on organisation structure and administrative aspects of the Bank. He has pointed out the practices of deliberative wing in personnel management.

Rajput and Singh (1977) have observed that the highest number of borrowers took loans for the extension of irrigation facilities and purchase of improved agricultural implements. The number of borrowers who took loan for purchase of fertilizers and for dairy development was the least.

Prasad, D.V (1978) made study on "Co-operatives and Rural Development- A case study of DCCBs in Andhra Pradesh". He covers only administrative aspects of DCCBs but not the credit problems faced by the farmers.

Sinha (1979) has studied the development and prospects of agricultural credit in India since 1951. The study reveals that neither the co-operatives nor the commercial banks have succeeded in providing credit needed for the weaker sections of the community. He also pointed out that the available credit is inadequate, unevenly distributed and mainly in favour of rich farmers.

Pandey and Muralidharan (1979) have examined the recovery performance of different categories of farmers in Banda district of Uttar Pradesh. The study reveals that even though the number of defaulters is higher amongst marginal and small farmers as compared to the medium and large farmers. Nearly 59.3 percent defaulters are willful defaulters who are from higher castes.
Elavia B. H (1980) has studied the functioning of the District Central Co-operative Bank, Baroda, Gujarat State. In his study he mentioned the norms for viability of the DCCBs.

The study made by Ramamuni Reddy (1980) on “ Financing Agriculture by Central Co-operative Bank" attempted to focus its attention on organisation pattern, resource mobilisation and provision of credit and mode of vigilance on utilisation of loans.

Reddy R.C (1980) in his study "Co-operative Farm Credit - A case study of Cuddapah Central Co-operative Bank” has dealt with the constraints that are faced by the farmers in respect of credit in drought-prone district. This study attempts to quantify the flow of credit actually obtained and utilised by the farmers.


Khatry and Chamoka (1981) in their study “Utilisation pattern of loan advanced by the Primary Agricultural Credit Societies in Haryana” have probed that small farmers have utilised 60.50 per cent of the total loan for productive purposes and diverted 39.50 per cent of loan to unproductive purposes. The large farmers have utilised 70.20 per cent loan for productive purposes and misutilised 29.80 per cent for unproductive purposes.
Rathod C.S (1981) “An inquiry into the management of Central Co-operative Banks in Gujarat” has dealt with the Management of CCBs in Gujarat, covering selection and training, promotion schemes, service conditions, audit classification, cost of management, managerial difficulties faced by these banks.

John Winfred A. (1982) has reviewed the Co-operative Central Banks in Tamil Nadu with reference to resource mobilization and utilisation. He also pointed out the causes for the failure of the mobilisation of adequate resources for the development of agriculture.

Kutumb Rao (1985) in his study “Management of Central Co-operative Banks – A case study of Krishna District” has attempted to study two banks of Krishna District on comparative basis and has revealed that the elected management is able to keep CCBs in a better position when compared to nominated management.

Panda (1985) has examined the problem of agricultural indebtedness in irrigated and dry regions of Puri district of Orissa. The study shows that the farmers of irrigated regions borrow more from institutional agencies compared to dry farming. An interesting finding is that the diversion of credit for non-productive purposes was less for small farmers. The study also observed that the default of the large and medium farmers was willful whereas small farmers were due to their non-repaying capacity.

Hugar S.S (1986) in his study on “Financial Analysis of DCCBs in Karnataka” has attempted to apply ratio analysis to throw light on the
financial and operational dimensions of all the DCCBs in Karnataka as a whole.

Banakar and Suryaprakash (1987) made an attempt to identify the borrowing and utilization pattern of production credit in irrigated and unirrigated areas of Harpanahalli taluka of Bellary district in Karnataka. Many farmers preferred to get the loans from the RRBs. This might be due to the inefficiency of Co-operative Societies and the reluctance of commercial banks. It was concluded that the per acre loan was increased with increase in the size of holdings and the diversion of loan was also less.

Pandey and Ashok Kumar (1988) examined the structure and growth of co-operative credit in different states and disparity in disbursement of credit in different categories of holdings. This study indicates that per hectare credit availability on small and marginal farmers is higher than that of other holdings.

Suryawanshi (1988) examined the requirement, availability and credit gap in irrigated area in Bhima Command Area of Western Maharashtra. The study pointed out that the area under cash and commercial crops increased significantly due to irrigation facilities resulting in increased demand for credit. There is more credit gap found in the irrigated area compared to the non-irrigated area.

Sharma (1989) points out that the small farmer is more conscious of his obligation to repay. It also points out that non-recovery affects not only further availability of production credit but also the health of the institution and its eligibility to borrow.
Shollapur M.R. (1992) attempted to evaluate the efficiency and effectiveness of credit management in DCCBs. This study also focuses on the operational efficiency of the CCBs in ensuring adequate and timely credit flow to agriculture.

Jugale V.B. (1994) analysed the role of co-operatives in providing agricultural finance in Maharastra State. It is pointed out that the co-operation is the most effective means for transforming the rural socio-economic milieu. It is found that the landless and rural artisans are neglected in the movement. He also mentioned the interference of the politics in the functioning of the co-operatives.

Palleri (1998) has studied the performance of the Karnataka Central Co-operative Bank, Dharwad in connection with the management of credit distribution to the PACS. Further the researcher also suggested the remedial measures for the smooth functioning of the Bank.

Bhat (1998) examined the working of the Service Co-operative Societies in North Kanara District in his study “Working of the Farmers Service Co-operative Societies”. He also studied the problems of the societies and suggested measures for improving their working.

Sinha (1998) has analysed the problems of rural credit and steps to be taken for making co-operative credit structure more viable, vibrant and effective channel of rural credit delivery system. This study also points out the problems of overdues and the remedial measures for solving this problem.
Sharma (1999) has made a comparative study of co-operative societies, commercial banks and primary land development banks in connection with the cost, adequacy and timeliness of rural credit. The researcher tried to find out the suitable agency for the farmers for getting the credit.

Devaraj (1999) in his study “An analysis of working of District Central Co-operative Bank, Hassan, Karnataka State” has evaluated the performance of the Bank pertaining to the credit planning and management of the funds. In this study the credit gap was also studied.

Namboodri N.V. (2001) studied the economies of scale and scope of DCCBs. He has also examined the viability of co-operative rural financial institutions at the grass root level. This study also reveals the cost structure of the banks and economies of scale for future expansion in the banking operations. It also points out that the loan portfolios have superior scale of economies compared to deposit portfolios. Borrowings from other sources are more cost-effective than different types of deposits.

The review of studies presented above clearly indicates that they were either general in nature or covered only certain aspects of DCCBs. Though the above studies have been useful in highlighting the different issues relating to agricultural financing. They have not been able to probe deep into various aspects of financing agriculture. The studies on micro level seem to be very few. So it is felt that there is need for detailed study about the important issues of financing agriculture at the grass root level. It is essential, in view of increasing importance of DCCBs to make a
comprehensive study and identify the gaps. As the present study aims at examining various crucial issues connected with deposit mobilisation, utilisation and recovery of loans and overdue position in the Belgaum district, this will be a valuable contribution to co-operative banking system for framing the appropriate policies related to the financing agriculture. The Belgaum District Central Co-operative Bank for the present study has been selected. Further any individual or institution before has not undertaken the study of short term and medium term credit facilities to the farmers of the region. Another reason for undertaking this study is due to the fact that the researcher is quite familiar with the region. It will be convenient to collect the required information. It is a humble attempt in this direction with regard to the financing of agriculture. The comparative picture of irrigated and unirrigated areas has been presented in the study. In this context, the present study is an empirical with reference to financing agriculture by the co-operative credit institutions in the district of Belgaum.

1.4 OBJECTIVES OF THE STUDY

Considering the importance of Co-operative Credit in agriculture and resource gap, the present research study has been taken up with the following explicit objectives.

1. To trace the growth of co-operative credit movement in India and Karnataka State in general and Belgaum district in particular.

2. To assess the financial sources of the Belgaum District Central Co-operative Bank, Belgaum (BDCCB).
3. To estimate the need for credit in agricultural sector.

4. To evaluate the end-use of loan and magnitude of loan diversion.

5. To analyse the impact of co-operative credit on borrower-members with regard to their incremental income.

6. To examine the problems of overdues and the repayment performance.

7. To suggest policy measures for effective functioning of the BDCCB.

1.5 HYPOTHESES

In the framework of the objectives outlined above the study seeks to test the following hypotheses.

1. The loaning operations of the BDCCB are effective in terms of adequacy and timeliness of credit.

2. The farmer members do not use the entire amount of loan for the purposes for which it is granted.

3. The fulfillment of credit requirements is related to the size of land holdings.

4. The net income of the borrowers is independent of the size of the land holdings.

5. The loan repayment is satisfactory in the irrigated area as compared to the unirrigated area.

6. The percentage of defaulters decreases with the increase in the size of land holdings.
1.6 METHODOLOGY

The present study is based on primary and secondary data. A multi-stage sampling design is used for the study. In the first stage, the Belgaum District Central Co-operative Bank, Belgaum was purposively selected to examine its role in the rural credit delivery system through its affiliated societies such as PACS. The second stage is related to select 8 PACS, which were randomly chosen from irrigated and unirrigated zones in Belgaum district. The selection of the borrower-households for in-depth analysis of the impact of co-operative credit on their income levels in the study area is made in the third stage of sampling.

Further, 4 PACS operating in M.K.Hubli, Kittur, Dastikop and Turamari of Bailhongal taluk were selected based on the high density of irrigation covering 85.40 per cent of the total cultivated land. On the other hand, 4 PACS functioning in Chikkumbi, Yadravi, Inamahongal and Munavalli villages with the low density of irrigation covering 16.31 per cent of the total cultivated land in Saundatti taluk were chosen. The geographical and demographical features of the study areas are presented in table 1.1.
Table 1.1: Geographical and demographic features of the selected villages in Belgaum district (1991 census)

<table>
<thead>
<tr>
<th>Villages</th>
<th>Total Geographical area (sq.kms)</th>
<th>Population</th>
<th>Irrigated area (in hect.)</th>
<th>Unirrigated area (in hect.)</th>
<th>Source of Irrigation</th>
<th>Total cultivated area (in hect.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>M.K.Hubli</td>
<td>2162.75</td>
<td>10908</td>
<td>1774.71 (93.70)</td>
<td>119.45 (6.30)</td>
<td>Tube well</td>
<td>1894.16</td>
</tr>
<tr>
<td>Kittur</td>
<td>1822.06</td>
<td>13908</td>
<td>1428.80 (95.90)</td>
<td>61.11 (4.10)</td>
<td>Tube well</td>
<td>1489.91</td>
</tr>
<tr>
<td>Dastikop</td>
<td>498.09</td>
<td>3304</td>
<td>375.01 (82.99)</td>
<td>76.82 (17.01)</td>
<td>Tube well</td>
<td>451.83</td>
</tr>
<tr>
<td>Turamari</td>
<td>1487.75</td>
<td>3042</td>
<td>675.15 (69)</td>
<td>302.97 (31)</td>
<td>Tube well</td>
<td>978.12</td>
</tr>
<tr>
<td>Chikkumbi</td>
<td>907.88</td>
<td>2812</td>
<td>265.78 (34.57)</td>
<td>503.05 (62.43)</td>
<td>GC</td>
<td>768.83</td>
</tr>
<tr>
<td>Yadravi</td>
<td>1987.39</td>
<td>2329</td>
<td>56.81 (3.15)</td>
<td>1745.40 (96.85)</td>
<td>Rivers</td>
<td>1802.21</td>
</tr>
<tr>
<td>Inamhongal</td>
<td>1954.51</td>
<td>3171</td>
<td>55.93 (3.06)</td>
<td>1771.36 (96.94)</td>
<td>Tube wells</td>
<td>1827.29</td>
</tr>
<tr>
<td>Munavalli</td>
<td>2756.39</td>
<td>15126</td>
<td>345 (24.47)</td>
<td>1065.14 (75.53)</td>
<td>GC</td>
<td>1410.14</td>
</tr>
</tbody>
</table>

Note: The figures in the brackets show the percentages to the cultivated area.
G.C. = Government Canal
Source: GOI, 1992, Belgaum District Census Handbook Part XII-B.

The stratified random sampling method is adopted in selecting the borrower-households in the study area. From each selected PACS, the farmers were classified into four size groups based on the size of landholdings (GOI, 1997).
1. Marginal Farmers – those holding land below 2.5 acres.

2. Small Farmers – those holding land between 2.5 acres to 5 acres.

3. Medium Farmers – those holding land from 5.1 acres to 10 acres.

4. Large Farmers – those holding land above 10 acres.

The classification of farmers into four categories is made exclusively for the purpose of the study. It is applied to both irrigated and unirrigated areas. Some farmers have also possessed dry land in addition to their irrigated lands.

The table 1.2 presents the selection of PACS and the borrower households for the present study.

### Table 1.2

**Selection of Sample PACS and Borrower-households**

<table>
<thead>
<tr>
<th>No. of selected societies</th>
<th>Name of the Talukas</th>
<th>Total Members</th>
<th>No. of Borrowing Members</th>
<th>No. selected Borrower Households</th>
</tr>
</thead>
<tbody>
<tr>
<td>M.K. Hubli</td>
<td>Bailhongal</td>
<td>720</td>
<td>260</td>
<td>26</td>
</tr>
<tr>
<td>Kittur</td>
<td></td>
<td>650</td>
<td>250</td>
<td>25</td>
</tr>
<tr>
<td>Dastikup</td>
<td></td>
<td>630</td>
<td>249</td>
<td>25</td>
</tr>
<tr>
<td>Turamari</td>
<td></td>
<td>533</td>
<td>252</td>
<td>25</td>
</tr>
<tr>
<td>Chikkumbi</td>
<td>Saundatti</td>
<td>530</td>
<td>250</td>
<td>25</td>
</tr>
<tr>
<td>Ydravi</td>
<td></td>
<td>425</td>
<td>260</td>
<td>26</td>
</tr>
<tr>
<td>Inamhongal</td>
<td></td>
<td>650</td>
<td>248</td>
<td>25</td>
</tr>
<tr>
<td>Munavalli</td>
<td></td>
<td>900</td>
<td>310</td>
<td>31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>5038</strong></td>
<td><strong>2080</strong></td>
<td><strong>208</strong></td>
</tr>
</tbody>
</table>

Source: Field Survey
Table 1.3 provides the data on distribution of the selected borrowing members of the PACS among the four categories of farmers.

### Table 1.3

**Distribution of borrowers by different size groups**

<table>
<thead>
<tr>
<th>Categories of Farmers</th>
<th>No. of Borrowing Members</th>
<th>Selected samples</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Irrigated</td>
<td>Unirrigated</td>
</tr>
<tr>
<td>Marginal Farmers</td>
<td>270</td>
<td>190</td>
</tr>
<tr>
<td>Small Farmers</td>
<td>280</td>
<td>410</td>
</tr>
<tr>
<td>Medium Farmers</td>
<td>240</td>
<td>200</td>
</tr>
<tr>
<td>Large Farmers</td>
<td>220</td>
<td>270</td>
</tr>
<tr>
<td>Total</td>
<td>1010</td>
<td>1070</td>
</tr>
</tbody>
</table>

Sources: Field Survey

From each stratum of the borrowing members, 10 per cent of them has been selected making a sample of 208 beneficiaries. Further, out of 208 respondents, 101 farmers from irrigated area of which 27 marginal, 28 small, 24 medium and 22 large farmers are selected. On the other hand 107 farmers from the unirrigated area of which 19 marginal, 41 small, 20 medium and 27 large farmers are chosen for the present study. The SC/ST farmers are also included in the total sample.
The following chart 1.1 shows the procedure of the sample.

Belgaum District Central Co-operative Bank Ltd., Belgaum-I

↓

Primary Agricultural Credit Societies-II

(8)

↓

Borrower-households-III

(208)

1.7 SOURCES OF DATA

A comprehensive questionnaire was designed for the survey. The researcher for collecting primary data followed the interview method. Field survey was personally carried out by the researcher in January 2001 and the data pertaining to agricultural year 1999-2000 was collected. Besides the actual survey, personal discussions with officials, agricultural economists, co-operative officials and other experienced persons provided clues to the vital issues involved and revealed some of the information which would not be covered by structured schedules used for respondents. Several visits were made to the BDCCB in order to collect secondary data pertaining to the functioning of the bank especially connected with the agricultural credit to the farmers through its affiliated PACS. The collected data was processed and tabulated. For the collection of data, two types of questionnaires were prepared.

1. The first schedule was used to collect the necessary information regarding the loaning operations and supervisory functions of the selected PACS.
2. The second schedule was used for the collection of primary data from borrower-households that had taken loans from PACS.

A number of Government agencies, published works of officials and researchers formed the source of secondary data. Books, Reports and Journals were additional sources.

The secondary data has been collected from the following sources.

**A. NATIONAL AND STATE LEVEL**

2. Dossier on Co-operatives published by NABARD
3. NAFSCOB Bulletin, Navi Mumbai
4. Co-operative movement in India published by NABARD
5. Co-operative movement at a Glance in Karnataka from Research and Evaluation Cell, Bangalore.
6. Annual Reports of CCBs in Karnataka state.
7. RBI Bulletins

**B. DISTRICT LEVEL INFORMATION**

1. The Records of the Joint Registrar of Co-operative Societies Belgaum.
2. Records of the District Deputy Registrars of Co-operative Societies, Belgaum.
3. Lead Bank Reports, Syndicate Bank, Belgaum.

4. District Credit Plans for Belgaum district.

5. Annual Action Plans for Belgaum district.

6. NABARD district office, Belgaum.


C. DATA FROM BELGAUM DISTRICT CENTRAL CO-OPERATIVE BANK, BELGAUM

1. Annual Reports

2. Audit Reports

3. Inspection Reports of the Bank.

4. Proceedings of the Board meetings and Executive Committee meetings.

5. Tour programmes of supervisors.

6. Overdues Registers.

7. Files of legal actions.


10. Self Help Groups Registers.

11. Kisan Credit Card Registers.

12. Loan Registers of the Bank.

13. PACS Registers of BDCCB.
Besides the above documents, the data was collected for the study through personal discussion with the bank's officials such as General Manager, the section Managers of all five branches, Field staff of the bank etc. The articles related to co-operative banking published by the eminent authors in various newspapers are also used as external source of secondary data. In order to present the policy changes various committees' reports were also studied.

1.8 STATISTICAL TOOLS APPLIED

The data so collected were processed and reduced to tables in order to present the matter lucidly and systematically. The data has been analysed by using statistical methods such as ratios, percentages, tables, graphs, charts and diagrams. The data were converted into averages and percentages for the period under review for the purpose of comparison. The relevant information is presented in the form of tables with suitable titles followed by necessary explanations. The co-efficient of correlation has been used to study the relationship between working capital and deposits of the BDCCB. The linear regression analysis has been used to know the trend of owned funds of the bank during the study period.

The chi-square (χ²) method has been applied to test the significance of the relationship between the variables used in this study. The chi-square formula is

\[ \chi^2 = \sum \frac{(O_i - E_i)^2}{E_i} \]

Where 'O_i' represents the observed frequencies and 'E_i' indicates the expected frequencies. This follows chi-square distribution with
(r-1) (c-1) degrees of freedom at 5 percent level of significance, where ‘r’
shows number of rows and ‘c’ deals with number of columns of the table.

1.9 REFERENCE PERIOD

The study of the BDCCB is confined to ten years beginning from
the co-operative year 1991-92 to 2000-2001. The primary data collected
from the respondents is for the co-operative year 1999-2000.

1.10 SCOPE OF THE STUDY

The study has been undertaken to analyse the working of the
Central Co-operative Bank whose area of operation is confined to the
district of Belgaum in Karnataka. The important aspects of the BDCCB
such as membership, working capital, deposit mobilization, loaning
operations, credit management, recovery of loans, profitability etc, have
been examined.

The study also aims at analysing the problems faced by the
member-borrowers for getting adequate loans from PACS for which the
loans are granted from the BDCCB. The study intends to examine the
impact of credit on the net income of the farmers between the pre-loan
period and post-loan period. The incremental income is also worked out.
The study overlooks the effect of inflation on the cost of cultivation. As
the information collected from the respondents, the prices of agricultural
inputs during the pre-loan period and post-loan period remained the
same.

The study gives the comparative picture of irrigated and unirrigated
areas in connection with the use of loans and repayment behaviours of
the member-households. It also aims at drawing the attention on the reality of the co-operative credit system in the rural area. Notwithstanding the fact that we have a number of studies on co-operative credit, the need for more study on the financing of agriculture can not be denied. Still this study has some unique features and differs from other studies conducted in this area. It also evaluates the recovery performance of the bank and analyses the causes and extent of overdues. The study aims at projecting strategies and techniques for the mobilization and utilisation of loans for the development of agriculture and allied activities in the Belgaum district.

1.11 LIMITATIONS OF THE STUDY

The researcher is aware of the limitations of the present study. Most of the borrower-households do not maintain records in respect of loan amount, interest charged for the loan, the amount disbursed after deducting, the share capital contribution, interest and penalties paid, time taken in getting the loan and information communicated by the Central Bank.

The data relating to all these aspects had to be collected by the survey method. Most of the respondents were reluctant to give correct information about their income, area leased-out etc. Sometimes they gave inconsistent answers to the questions. But the researcher tried to obtain, by probing, as much reliable information as possible. Since the questionnaires covered various aspects, the respondents were unable to answer certain questions. As such logical conclusions were drawn on the
basis of replies obtained. Even then, the response of the respondents was quite satisfactory.

Despite these limitations, the researcher feels that data and information that has been collected, analysed and presented are good enough to meet the objectives of the study.

1.12 CHAPTER SCHEME OF THE STUDY

The present study has been divided into seven chapters.

CHAPTER – I: INTRODUCTION AND RESEARCH DESIGN

This chapter covers the importance of the co-operative credit in agriculture, the role of BDCCB in the credit delivery system, review of existing literature, statement of the research problem, objectives, hypotheses, research methodology and study design.

CHAPTER –II : CO-OPERATIVE CREDIT MOVEMENT : AN OVERVIEW

This chapter presents briefly the historical perspective of co-operative credit movement in India and Karnataka in general and Belgaum district in particular. It also deals with the organisational structure of co-operative credit in terms of State Co-operative Bank at the state level, District Central Co-operative Banks at the district level and PACS at the village level and their objectives, functions and area of operations.

CHAPTER –III : NEED FOR AGRICULTURAL CREDIT

This chapter covers the significance of credit in Indian agriculture, sources of agricultural credit, classification of agricultural credit, present
position of agricultural credit, problems and conditions of agricultural credit institutions. It also deals with the policy of the government and criteria for the sound for agricultural credit system.

CHAPTER-IV : FUNCTIONING OF THE BELGAUM DISTRICT CENTRAL CO-OPERATIVE BANK LTD., BELGAUM.

This chapter focuses on the agronomic features of the Belgaum district, rationale behind the birth of the BDCCB, objectives, functioning of the bank, loaning operations, credit supervision, recovery of the loans, profitability of the bank, performance of the sample PACS affiliated to the BDCCB.

CHAPTER-V : AVAILABILITY AND UTILISATION OF LOANS

This chapter deals with assessment of the credit requirements of the farmers, credit gap, availability of short term and medium term credit, end-use of loans, magnitude of credit diversion, impact of credit on the cost of cultivation and incremental incomes of the borrower-households and co-operative awareness.

CHAPTER-VI : REPAYMENT PERFORMANCE AND OVERDUES

This chapter highlights the need for effective recovery machinery, repayment performance of co-operative credit in the irrigated and unirrigated areas, position of overdues, causes for overdues and measures for reducing the overdues.
CHAPTER-VII : FINDINGS AND SUGGESTIONS.

The last chapter provides important conclusions emerged from the study and offers useful suggestions for solving the problems that are faced by the farmers in getting the required co-operative credit and reducing their overdues. It also suggests measures for effective functioning of the BDCCB.
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