

# ***COOPERATIVE BANKS FOR THE DEVELOPMENT OF AGRICULTURE SECTOR IN RAJASTHAN***

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## **Abstract**

*The cooperative credit structure in India is almost a century old. The cooperatives were the only institutions providing institutional credit to agricultural till the commercial banks emerged on the scene in a big way, particularly, after their nationalization in 1969 and social banking became their major thrust. Credit cooperatives today cover 69% of the rural credit outlets and their share in rural credit works out to about 45 % of the total credit for rural sector in the country. The economy of Rajasthan is continues to agrarian dominated and according to 2011 census, about two third of population still lives in rural areas, which directly or indirectly depend on agricultural sector for their livelihood. After 70 years of independence still large numbers of people in rural areas of Rajasthan are struggling for their basic needs of livelihood. In rural areas of Rajasthan a large number of peoples are still living below poverty line and they are not benefited by microfinance by cooperative sector. The role of credit in agricultural economy is crucial and it helps in enhancing productivity and promoting standard of living of the farmers. The economy of Rajasthan is agriculture based and thus cooperative movement in Rajasthan plays very significant role in the social and economic development of the state, particularly in rural areas. Initially, this movement was confined to agricultural credit, later on, it*

*rapidly spread to other fields like agro-processing, agro-marketing, milk production, rural industries etc. The very purpose of the present study is to examine the growth and performance of cooperative sector in respect to agriculture credit in India and with special reference to Rajasthan from 2005-06 to 2015-16. The study also analysis the role of PACS, DCCBS and SCBS separately in agricultural credit, for this purpose Average Annual Growth Rate (AAGR) has been calculated.*

**Keywords:** *Cooperative banks, Agricultural credit, PACS, DCCBS, SCBS, Rural credit, Rajasthan.*

## **I. INTRODUCTION**

The role of credit in agriculture economy is crucial and it helps in enhancing productivity and promoting standard of living of the farmers. The economic and financial sector reforms in India were initiated in 1991, as a step towards a broader process of international economic integration and globalization of financial markets. A healthy financial system being the principal pre-requisite for the globalization process, the banking sector being an important component there of came into sharper focus. The banking sector was required to strengthen its resilience and capabilities to intermediate in an economy integrated with the rest of the world. The cooperative credit structure in India is almost a century old. The cooperatives were the only

institutions providing institutional credit to agriculture till the commercial banks emerged on the scene in a big way, particularly, after their nationalization in 1969 and social banking became their major thrust. Until the late sixties, farmers and the rural borrowers could look to only one institutional credit agency in the cooperative sector to meet all their credit needs whether it related to seasonal agricultural operations, investment in land or redemption of debts. For historical reasons, two parallel wings of cooperative credit institutions have come into existence and developed, one for purveying short-term and medium term credit to the cultivators and the other for dispensing long-term credit at first for debt redemption and subsequently for investment in agriculture. Cooperative credit institutions have been accredited with playing a significant role in the deployment of credit for agriculture and rural sector. Credit cooperatives today cover 69 per cent of the rural credit outlets and their share in rural credit works out to about 45 per cent of the total credit for rural sector in the country. In purveying production and investment credit, it accounts for 57 per cent and 29 per cent, respectively.

Agricultural Cooperatives in India are the backbone of the cooperative system and involved in variety of functions and serving the rural masses by providing credit, Agro- chemicals, Agriculture implements, Fertilizers, seeds, etc. Their role has been commendable in making essentials inputs available to the rural masses for the development of the agriculture and allied activities. Rajasthan is basically an agrarian economy and is known as “Desert economy” Agriculture scenario in Rajasthan has witnessed fast transformation since 1991. Rajasthan is among the largest producers of edible oils in India and the second largest producer oilseeds.

Rajasthan is also the biggest wool-producing state in India and the main opium producer and consumer. . In this process, farmers have become more capital intensive as they are shifted to raise the commercial crops which involves huge investments. The farming community mostly small and marginal farmers are not able to invest such huge investments on farms on its own as it does not have any assets or money. Thus their dependence on credit on credit has increased for meeting their agricultural requirements. The basic objective of the cooperatives was to eliminate exploitation of the farmers by money-lenders, by providing timely cheap credit at low rate of interest to the farmers for agricultural development. Cooperative banks are playing an important role for the diversification of agricultural like Dairy, Poultry and Fishery etc.

With a view to cater the seasonal financial requirements for agriculture & other allied activities at state level, The Rajasthan State Cooperative Bank Ltd.(RSCB) was established & registered under Rajasthan Cooperative Societies Act on 14th October, 1953. It is an Apex institution of the District Central Cooperative Banks (DCCBs) functioning in the state. The governance of village level Primary Agriculture Cooperative Societies, District Central Cooperative Banks & RSCB is ensured by elected board through a democratic election system under The Rajasthan Cooperative Societies Act.

## II. REVIEW OF LITERATURE

A number of studies related to performance of co-operative banking sector in India have been conducted. Here, an attempt is being made to provide an overview of various aspects and issues of this study through the review of existing literature.

Kurulkar (1983), in his published work on agricultural finance in backward region, reported

glaring defects in the set-up of co-operative credit system. He pointed that out of the ten sample owners who obtained long- term credit from the co-operative banks, 30% could not secure short- term credit. Lack of short- term or production credit to the farmers who availed long-term credit resulted in lower output per acre, thereby resulting in overdues.

Devadas (1987), in his book titled, “Co-operative Banking and Economic Development” studied the role of Assam Co-operative Apex Bank Ltd. in economy of the State. He found that apart from working as a commercial bank it had to discharge three other functions, i.e., to finance primary credit societies, to act as banking centre for primary societies, and to undertake supervision of primary societies. He found that bank had not been able to achieve much in these three fields due to lack of adequate support from government of the state.

Satyasai and Badatya (2000) conducted a study regarding restructuring Rural Credit Co-operative Institutions. They analysed performance of rural co-operative credit institutions on the basis of borrowings and lending operations, cost structure, financial viability, etc. and found that co-operative system, in general, had failed to perform its functions properly. They advised the co-operative banks to diversify their business and also to overcome internal (rising transaction cost, declining business level, mismanagement of overdues) and external (excessive bureaucratization, politicization) weaknesses.

NABARD (2005) conducted a study “Development in Co-operative Banking”, to evaluate the financial performance of 1872 urban co-operative banks and 1, 06,919 rural co-operative credit institutions. The findings of the study revealed that in all financial institutions in the rural sector (SCBs, DCCBs, SCARDBS, and PCARDBS), percentage of

NPAs in the substandard category declined, while it had increased in doubtful category. NABARD was worried about deterioration in asset quality of these banks. However, all the institutions were able to meet the necessary provisioning requirements. It further highlighted that NPAs ratio in DCCBs varied significantly across the states from 5% to 68% at the end March 2004. Only in four states (Haryana, Himachal Pradesh, Punjab and Uttaranchal), the NPA ratio was less than 10%. NABARD suggested that co-operative banks should implement One Time Settlement system (OTS) and refer small value advances to Lok Adalats and high value advances to Debt Recovery Tribunals (DRTS). Further, State Governments were requested to help co-operative banks in reducing NPAs by taking special recovery derives.

### III. OBJECTIVES OF CREDIT COOPERATIVES

1. Engage in rural financing and micro financing.
2. To remove the dominance of common man by the middle man and money lenders.
3. Ensure credit services to farmers at low rate of interest providing socio-economic conditions to the people.
4. Provide financial support for the needy people and farmers in the rural areas.
5. Ensure timely and increased flow of credit to the farming sector.
6. Reduce regional disparities throughout the country.
7. Provide cheap credit with or without any security.

### IV. OBJECTIVES OF THE STUDY

1. The very purpose of the present study is to examine the growth and performance of cooperative banks in respect to agricultural credit in India and with particular reference to

Rajasthan. The paper aims to an analysis the flow of the cooperative credit for agricultural development in Rajasthan.

#### V. RESULTS / FINDINGS

From the data it is clear that cooperative banks are serving in the field of agricultural credit and rural development. The level of service of cooperative banks is very high. Cooperative banks are playing extraordinary role for agriculture credit and rural development. In short we can say that Cooperative Banks are providing rural Rajasthan all round assistance and proved to be an institution where "Growth with Social Justice" exists. Cooperative Banks plays a major role in rural credit delivery of Rajasthan State. It could be observed from the table that the number of PACS in Rajasthan increasing with growth rate of 3.0% and in India it decline and registering -1.2 % growth rate, another important indicator that the membership of PACS in Rajasthan registering increasing growth rate with 4.2% and in India it slight increase with 0.5%.

#### PRIMARY AGRICULTURAL COOPERATIVE SOCIETIES (PACS)

PACS are playing a crucial role in improving the economic and social conditions of the common masses of Rajasthan. They provide short-term and medium-term loan to the members/farmers at reasonable interest rates to meet their various needs. They are providing credit to the farmers for agriculture purposes at cheap and easy terms. PACS is the foundation of the Cooperative Credit System on which the super structure of the short term cooperative credit system is built. PACS, as the foundation of the Co-operative system are meeting the development needs of the farmers by providing credit, inputs and storage and processing and marketing facilities. Loans are given for short-term

period, normally for the harvest season, for carrying on agricultural operations, and the rate of interest is fixed. The primary agricultural credit society was expected to attract deposits from among the members and non-members of the village and thus promote saving and self-help. But in actual practice PACS did not involve in the deposit mobilization. It encourages the people in the villages to deposits their money in the District Central Cooperative Bank as it has safe locker facilities and the rate of interest on deposits is higher than that of the commercial banks.

The particulars relating to the number of PACS and their membership in Rajasthan and India are presented in table 1 and shows that the number of primary agricultural credit societies (PACS) has increase from 4772 is 2005-06 to 6365 in 2015-16, registering an increase of 25.02 percent. The members of the PACS are the pillars of the cooperative credit movement in Rajasthan or elsewhere in the world. All the farmers are generally become the members of PACS. The membership of PACS in Rajasthan has increased from 3788 thousands in 2005-06 to 5587 Thousands in 2015-16, indicating a one and half fold increase whereas in case of India, there is half fold increase in the membership of PACS from 122575 in 2005-06 to 127321 thousands in 2015-16. The analysis reveals that the number of PACS in Rajasthan and the number of members in PACS have increased during the period 2005-06 to 2015-16, whereas the number of PACS decline in India.

#### Loans and Advances of PACS

The PACS have to provide short-term, medium term and long-term loans to its members. Mostly they are providing crop loans to the farmers (members) in there are of operation. The particulars relating to the loans issued to the agriculture sector by PACS in the

state of Rajasthan and India from 2005-06 to 2015-16 are presented in table 2. The data in the table 2 depicted that the loans issued by PACS to agricultural sector in Rajasthan and India has spectacularly grown during the study period. The average loan per society has also tremendously increased from Rs. 31.26 lakhs in 2005-06 to Rs. 238.94 lakhs in 2015-16 in Rajasthan whereas in case of India, the average loan per PACS has also tremendously increased from Rs.40.34 lakh to Rs. 193.67 lakhs during same period. It shows that the volume of loan amounts has tremendously increased during the last 10 years in both Rajasthan and India.

#### **DISTRICT CENTRAL COOPERATIVE BANKS (DCCBS)**

The District Central Co-operative Bank (DCCB) occupies and forms an important position in the Co-operative credit structure. The success of the Co-operative credit movement largely depends upon the role and financial strength of the DCCB. Their main function is to lend to primary credit society and undertake normal commercial banking business also, such as attracting deposits from the general public and lending to the needy against proper securities. The particulars relating to the number of offices and the membership of district central cooperative banks in the state of Rajasthan and India are furnished in table 3 and shows that the number of offices i.e branch network of DCCBS has grown in the state of Rajasthan and India. The increase in number of offices and membership of DCCBS from 415 and 12991 in 2005-06 to 454 in Rajasthan and 14241 in 2015-16 in India registering and increase of 8.56 percent and 8.78 percent in Rajasthan and India respectively. There is a considerable increase in the membership of DCCBS in Rajasthan (44.48 percent) and in India it first increases 42.95 percent but further

declined to 23.9 percent. However, the share of offices of DCCBS in Rajasthan to the total offices of DCCBS in India has marginally declined from 3.20 percent in 2005-06 to 3.18 percent in 2015-16. The share of membership of Rajasthan has gradually declined from 3.14 percent to 2.10 percent during 2005-06 to 2009-10 and further increased to 4.00 percent in 2015-16. The analysis reveals that there is increase in the membership and also the number of offices due the changes in the operations of DCCBS.

#### **Loans Issued To Agriculture Sector by DCCBS**

The Central Cooperative Banks have provided short-term and medium-term loans to the members of DCCBS. The DCCBS have to supply the required credit to the PACS for agricultural development. The DCCBS provides guidance for the improvement of the financial soundness of the PACS in its areas of operations. The particulars relating to the short-term and medium-term loans provided by the DCCBS for agriculture sector are furnished in table 4. The table 4 reveals that the short-term production credit supplied to the farmers through DCCBS has increased from Rs. 2197 crore in 2005-06 to Rs. 14000 crores in 2015-16, shows more than six- fold increase in Rajasthan whereas it has grown by about four fold increase in India during this period. Medium term loans in Rajasthan has tremendously increased from Rs. 130 crores in 2005-06 to Rs. 435 crores in 2015-16 registering about three-fold increase whereas these loans in India has risen by Rs. 4809 crores in 2015-16 over 2005-06, and its share in medium term loans issued by DCCBS in Rajasthan over total medium term loans issued by all DCCBS in India considerably increased from 5.00 percent in 2005-06 to 21.3 percent in 2009-10 and further declined to 3.95 percent in 2015-16. The data reveals that most of the DCCBS have concentrated more on the crops

loans which are payable within a year or after the harvest but in case of medium-term loans, the repayment may be more than 3 years. There is a problem of recycling of funds at DCCBS level it PACS delayed to repay the medium-term loans.

#### **STATE COOPERATIVE BANKS (SCBS)**

The State Cooperative Banks have a finance, co-ordinate and control the working of Central Cooperative Banks in each state. They serve as the link between the Reserve bank and the general money market on the one side and the Central Cooperative Bank and Primary Credit Societies on the other hand. The particulars relating to the number of offices and the membership of State cooperative banks in the state of Rajasthan and India are furnished in table 5. The state cooperative banks have opened their offices in the important towns and cities in their respective states with a view to provide finance to the DCCBS and monitor their activities for smooth functions of cooperative banks. The total number of offices of state cooperative bank (SCB) in Rajasthan has shown only 14 throughout the period from 2005 to 2010. There after it considerably increased to 17 which continued up to 2016 whereas in India the number of offices has significantly increased from 962 in 2005-06 to 1168 in 2015-16, registering an increase of 21.41 percent. The percentage share of number of offices of SCBS in Rajasthan over total SCBS in India has remained same 1.45 percent during the same period. The membership of Rajasthan SCB is only 87 throughout the period 2005-06 to 2010-11 than remain 40 in 2015-16 whereas the membership of all SCBS in India has increased from 153697 in 2005-06 to 600278 in 2015-16, shows more four-fold increase. The share of membership of SCB in Rajasthan when compared with all SCBS in India is negligible.

#### **Loans Issued to Agriculture Sector by SCBS**

The loans and advances of State Cooperative Banks issued to their members particularly SCBS in Rajasthan and India have shown in the following table 6. Table 6 reveals the short-term and medium-term agriculture loan issued by the state cooperative banks in Rajasthan and all over India 2005-06 to 2015-16. The short-term loans issued to the DCCBS by the SCB has risen by Rs. 5388 crore in 2015-16 over 2005-06, in Rajasthan registering about four-fold increase whereas the short-term loans issued by all SCBS in India have shown three and half-fold increase during the same period. It shows that there is an impressive growth in the short-term lending by the SCBS in Rajasthan and India.

It is disheartening to note that the SCB in Rajasthan has declined in medium-term loans to the DCCBS from 11.13 to 1.36 percent in 2005-06 to 2008-09 respectively. However, the medium-term loans issued by SCBS in Rajasthan is Rs. 251 crore in 2015-16 as against Rs. 168 crore in 2005-06 whereas the medium-term loans issued by the SCBS at all India level has increased from Rs. 1514 crore in 2005-06 to Rs. 8551 crore in 2015-16, registering an increase of 82.2 percent. The share of short-term loans of SCB in Rajasthan over all India level has increased from 8.20 percent from to 9.49 percent during the same period 2005-06 to 2015-16. This analysis reveals that the SCB in Rajasthan has not able to provide sufficient short-term loans to the farmers in the state through DCCBS and PACS because of low level of refinancing facilities whereas in medium term loans there were many up and downs in the loan issued.

#### **VI. SUGGESTIONS AND RECOMMENDATIONS**

The Cooperative Banks should try to increase their deposits by opening branches in business areas,

improve the services to their clients, introduce different types of deposit schemes and offer competitive rates of interest.

Cooperative Banks should change their loan policies on the basis of crop loan systems.

The Cooperative Banks must maintain adequate liquid resources, margin, properly scrutiny of loans and should try to qualitative improvement to the staff.

Cooperative Banks should try to co-ordinate between the Board of Management, Members, Depositors and Employees of bank.

Accountability and transparency need to be brought in the implantation of the schemes.

## APPENDIX

*Table 1 Number of PACS and Membership with PACS*

Year	No. of PACS		Membership in Thousand (in '000)	
	Rajasthan	India	Rajasthan	India
2005-06	4772	106384	3788.25	122575.91
2006-07	5129	93224	4487.22	125792.00
2007-08	5127	94950	4427.16	131530.00
2008-09	5255	95633	4256.13	132349.90
2009-10	5127	94647	4427.60	126419.14
2010-11	5264	93413	4411.76	121224.88
2011-12	5671	92432	4742.66	113595.62
2012-13	5671	93488	4742.66	127467.79
2013-14	5671	93042	4742.66	130119.64
2014-15	5671	92789	4742.66	121087.81
2015-16	6365	93367	5587.98	127321.84
AAGR	3.0%	-1.2%	4.2%	0.5%

Source: NAFSCOB

*Table 2 Loans issued to agriculture sector by PACS  
(Rs. In Lakhs)*

Year	Rajasthan	India
2005-06	149175	4291959
2006-07	259706	4961275
2007-08	320730	5764247
2008-09	299753	5878674
2009-10	307424	7493753
2010-11	396134	9130388
2011-12	728428	10730023
2012-13	728428	16190915
2013-14	728428	17141955
2014-15	728428	15905029
2015-16	1520878	18082350

Source: NAFSCOB

Table 3 No. of offices and Membership of District Central Cooperative Banks

Year	No. of offices with H.O			Membership		
	Rajasthan	India	% Share of Rajasthan	Rajasthan	India	% Share of Rajasthan
2005-06	415	12991	3.20	71254	2267850	3.14
2006-07	406	12928	3.14	65859	3264849	2.01
2007-08	427	13151	3.24	72943	3396881	2.14
2008-09	428	13233	3.23	76803	3528802	2.17
2009-10	433	13181	3.28	83836	3975660	2.10
2010-11	435	13327	3.26	108585	3146070	3.45
2011-12	442	13495	3.27	111196	3659385	3.03
2012-13	444	13656	3.25	117444	3915657	2.99
2013-14	447	13811	3.23	121684	3563497	3.41
2014-15	453	14060	3.22	126145	3048765	4.13
2015-16	454	14241	3.18	128354	3208720	4.00

Source: NAFSCOB

Table 4 Loans Issued To Agriculture Sector by DCCBS  
(Rs. In Lakhs)

Year	Short term Loans			Medium term Loans		
	Rajasthan	India	Share %	Rajasthan	India	Share %
2005-06	219793	3202761	6.86	13078	259357	5.00
2006-07	271393	3581869	7.57	25428	337584	7.53
2007-08	346766	4113718	8.42	25715	239844	10.7
2008-09	298312	3974546	7.50	28143	255891	10.9
2009-10	342494	5168183	6.62	64682	302545	21.3
2010-11	513928	6460688	7.95	45431	368434	12.3
2011-12	717229	7631374	9.39	23704	362917	6.5
2012-13	1047654	10141581	10.3	28787	366994	7.8
2013-14	1439188	11349254	11.8	33169	415732	7.97
2014-15	1427688	12135621	11.7	37586	613446	6.12
2015-16	1400055	13169161	10.6	43506	730263	3.95

Source: NAFSCOB



Table 5 No. of offices and Membership of State Cooperative Banks

Year	No. of offices inclusive H.O			Membership		
	Rajasthan	India	% Share of Rajasthan	Rajasthan	India	% Share of Rajasthan
2005-06	14	962	1.45	83	153697	-
2006-07	14	938	1.49	87	148771	-
2007-08	14	994	1.40	87	200768	-
2008-09	14	992	1.41	87	200772	-
2009-10	14	1015	1.37	87	330808	-
2010-11	14	1028	1.36	87	234827	-
2011-12	17	1036	1.64	40	254358	-
2012-13	17	1018	1.67	40	339896	-
2013-14	17	1096	1.55	40	338455	-
2014-15	17	1131	1.50	40	555479	-
2015-16	17	1168	1.45	40	600278	-

Source: NAFSCOB

Table 6 Agricultural Loans Issued by SCBS  
(Rs. In Lakhs)

Year	Short term Loans			Medium term Loans		
	Rajasthan	India	Share %	Rajasthan	India	Share %
2005-06	162024	1956294	8.28	16866	151472	11.13
2006-07	163854	2266260	7.23	18549	120968	15.3
2007-08	156809	2255415	6.95	12801	91014	14.06
2008-09	138124	2647386	5.21	1162	85182	1.36
2009-10	138404	2485266	5.56	3360	65574	5.12
2010-11	257584	3727114	6.91	44001	165055	26.65
2011-12	331902	4789779	6.92	1470	111436	1.31
2012-13	527042	5407632	9.74	9948	152639	6.51
2013-14	778571	7613699	10.22	20517	144932	14.15
2014-15	785815	7493708	10.48	18039	239572	7.52
2015-16	700843	7379532	9.49	25154	855108	2.94

Source: NAFSCOB

## VII. CONCLUSION

Cooperative banks belong to the oldest forms of the collective action in India playing essential role in the realization of the agricultural and in local development. They serve both rural and urban population, and are main banks in India supporting development of agriculture and rural areas. Their key role is to give credits financing various rural based entrepreneurs. The cooperative approach is one of the best means of self-protection for small farmers mainly due to its self-help concept and member's participation. It is therefore vital for agricultural cooperatives to strengthen cooperative credit,

improve the efficiency of agricultural credit supply, and enhance capital market flexibility to overcome the weakness of the banking business of agricultural cooperativeness. Agricultural credits play a number of significant functions of which the primary include the intensification and growth of the agricultural production. In a developing State like Rajasthan with huge deficits in terms of quality and quantity, the State has to shoulder the primary responsibility of providing cooperative credit. Considering the low living standards of common man, incomplete and imperfect markets, and other socio political considerations it is the primary duty of the

government to ensure that its citizens have easy access to cooperative credit

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