

REPAYMENT OF COOPERATIVE CREDIT AND RURAL DEVELOPMENT

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ABSTRACT

The problem of loan delinquency is common and a very serious one. It undermines the soundness of cooperative credit structure. Neither the increase in the volume of business nor increase in the number of borrowers reflects the efficacy of financial institution rather the credit recovery ratio measures the strength of the financial institution. The increasing trend of the overdues in the cooperative credit system has been causing a serious concern to the respective Governments and cooperative institutions. The mounting over dues can jeopardize the country's agricultural credit structure designed to accentuate the pace of economic development. It threatens to rob available resources of financial institutions for rerouting. If the over dues accumulate out of proportions the loanable funds would dry up, thereby bringing down the pace of agricultural development. If the overdues continue to increase, finances of the credit institutions get blocked in over dues and as a consequence the credit cycle will be affected so it is extremely important that the loans got back on time. Hence, the cooperatives have to ensure proper flow of credit, which should be production oriented this in turn decide the magnitude of returns. Now a day the comprehensive rural credit system is threatened by the malaise of chronic overdues which have choked fresh lending and recycling of funds. This has led to serious consequences on the one hand it has eroded the financial viability of several cooperatives and on the other side it has resulted in the emergence of new type of moneylenders in the rural scene whose usurious money lending practices have led to the suicide of farmers in many states.

Here is an attempt to assess the repayment performance of the loanees who have got short term agricultural loans from the PACS affiliated to Chitradurga District Central cooperative Bank in Karnataka state.

Keywords: Credit, Loan, Cooperative, Rural Development, Repayment

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Agricultural economy absorbs all sorts of labour force whether skilled,semi-skilled or unskilledⁱ and hence about two thirds of the total country's population live on agriculture and allied activities, therefore the Government's prime objective has been directed towards ensuring an inclusive economic growth where benefits of economic growth are to percolate to the poor and underprivileged. In this context, union budget 2012-13 entails the enhancement of agricultural credit flow, revitalizing agriculture extension, training and research, providing employment to the needy and creating durable agro related productive assets, ensuring empowerment of the poor, bringing more children under the purview of formal education and improving rural health care initiatives and hence these days the Government is striving to give credit in adequate quantity and at low interest to farmers when they need it and also there is special emphasis on bringing all farmers especially small farmers under institutional creditⁱⁱ.

The union budget of the government during 2007-08 to 2012-13 had witnessed an impressive improvement in the expenditure on priority social sectors viz. education, health, water and sanitation, irrigation, housing and employment which have a direct and lasting impact on the human development and overall economic growth.

The prospects of Indian economy centre mostly on the rural hinterland with agriculture still accounting for livelihood security of more than 80 per cent of the country's population in one way or another need no reiteration. It is presumably this proposition that has weighed in the mind of the union finance minister Mr. Pranab Mukherjee when he presented the UPA government budget in parliament on March 16, Recognizing the underlying fiscal constraints and the need to spread the available resources too thinly on a diverse range of programmes that do not pan out the desired results, the Budget has made some realistic calculations based on sound and sustainable ground realities. Thus in the case of agriculture, the fulcrum for rural development in its entirety, in order to help farmers' access to farm loans readily and adequately, the target for agricultural credit has been substantially stepped up to Rs 5.77 lakh crore during the fiscal 20112-13, the inaugural year of the Twelfth Five Year Plan (2012-17). A welcome feature is that the interest rate of 4 per cent recommended by the National commission of Farmers headed by farm scientist and Rajya Sabha Member Dr. M.S. Swaminathan has been retained for those who are prompt in repayment of loans contracted. Besides, the same interest subvention on post harvest loans up to six months against negotiable warehouse receipt would also be available so as to encourage the farmers to keep their produce in warehousesⁱⁱⁱ. The budget estimate for 2012-13 in case of MGNREGA is kept at Rs.33, 000 crore. The need of the hour is to improve quality of assets created and to

bring about synergy between MGNREGA and Agriculture and allied rural livelihood. This endeavor will not only uplift the under privileged and socially and economically vulnerable, but also support in making the agriculture a viable occupation^{iv}.

From the above analysis it is clear that, the primary concern of the government is rural development. If government is to succeed in this novel task, the task has to be supported by agricultural cooperative credit societies because the very purpose of these cooperatives itself is rural development.

Importance: To save the peasant community from the clutches of money lenders the primary agricultural credit cooperative societies have been playing leading role in providing credit and farm inputs. The effectiveness of services offered by the cooperative societies depends upon their ability to increase the volume of business. However, the success of credit institutions is related to the capacity to get back the credit in full and in right time. If the recovery becomes sluggish, it will have a harmful effect on the growth, stability and profitability of the financial institutions. Financing and recovery forms two sides of the same coin, financing without recovery bears no fruits and recovery without financing has no seeds. Hence, these two aspects are interlinked, interdependent and inseparable. Therefore credit services should include not only loan advancement but also its recovery on time.

Agricultural credit becomes problem when it cannot be obtained adequately and is also a problem when it is not properly utilized for agricultural operations. If the borrowed money is not repaid within a stipulated time, it is considered as an overdue and if it is not repaid within three years it becomes chronic overdue. A high rate of recovery performance is therefore an improvement index of judging the operational result and viability of the credit institutions. Repayment of old credit is supposed to be significant in running the credit business but also benefits the farmers by relieving them from incidence of their debt on the one hand and enhancing their eligibility for further loan assistances on the other. Obviously mounting overdue not only reduces the recycling of funds but also compel the cooperatives into a sluggishness which is harmful for the lenders and borrowers as well. In the cooperative credit structure when the problem of overdue resumes a grave proportions it affects the non defaulting members too and as it leads to a shortage of credit for needy farmers it badly affects the investment and modernization process in social sector. So it is very clear that, cooperative credit institutions cannot succeed if the loan is not repaid on time.

The problem of loan delinquency is common and a very serious one. It undermines the soundness of cooperative credit structure^v. Neither the increase in the volume of business nor increase in the number of borrowers reflects the efficacy of financial institution rather the

credit recovery ratio measures the strength of the financial institution. The increasing trend of the overdues in the cooperative credit system has been causing a serious concern to the respective Governments and cooperative institutions. The mounting overdues can jeopardize the country's agricultural credit structure designed to accentuate the pace of economic development. It threatens to rob available resources of financial institutions for rerouting. If the overdues accumulate out of proportions the loanable funds would dry up, thereby bringing down the pace of agricultural development. If the overdues continue to increase, finances of the credit institutions get blocked in overdues and as a consequence the credit cycle will be affected so it is extremely important that the loans got back on time. Hence, the cooperatives have to ensure proper flow of credit, which should be production oriented this in turn decide the magnitude of returns. Now a day the comprehensive rural credit system is threatened by the malaise of chronic overdues which have choked fresh lending and recycling of funds. This has led to serious consequences on the one hand it has eroded the financial viability of several cooperatives and on the other side it has resulted in the emergence of new type of moneylenders in the rural scene whose usurious money lending practices have led to the suicide of farmers in many states.

Here is an attempt to assess the repayment performance of the loanees farmers who have got short term agricultural loans from the PACS affiliated to Chitradurga District Central cooperative Bank in Karnataka state.

Table: 1 Repayment performance in the more irrigational facilities area

(Amount in rupees)

Categories of farmers	Amount borrowed	Amount repaid	Amount out standing
Marginal farmers	2,42,000	93,412(38.6)	1,48,588(61.4)
Small farmers	4,15,000	2,32,400(56)	1,82,600(44)
Medium farmers	7,03,636	4,29,218(61)	2,74,418(39)
Large farmers	6,41,667	5,77,500(90)	64,167(10)
Total	20,02,303	13,32,530(66.55)	6,69,773(33.45)

Source: Field survey

The Table1 reveals the extent of amount borrowed, repaid and loans outstanding and percentage of repayment by the farmers in the more irrigational facilities area. It is found that the total borrowings were Rs.20, 02,303 and total amount repaid was Rs.13, 32,530. Hence the percentage of repayment was 66.55 and the total amount outstanding stood at Rs.

6, 69,773 in the more irrigational facilities area. The percentage of repayment was not consistent among different categories of farmers. The percentage of repayment was 90 in case of large farmers following by medium farmers (61%), small farmers (56%) and marginal farmers (38.6%). It shows that the percentage of repayment increases with percentage of funds utilized for agricultural operations. The larger the percentage of funds utilized for agricultural operations higher will be the repayment performance. The overall borrowing and repayment by different categories of farmers in this area is satisfactory. Because all the categories of farmers have more repaying capacity as they got more yield from their agricultural operations. More importantly farmers' belongs to more irrigational facilities area had more cautious attitude to repay the loan to the primary agricultural credit cooperative societies. Hence PACS have succeeded in recycling their funds for agricultural operations satisfactorily.

Table: 2 Repayment Performance in the less Irrigational facilities area

(Amount in rupees)

Categories of farmers	Amount borrowed	Amount paid	Amount out standing
Marginal farmers	1,05,000	37,800(36)	67,200(64)
Small farmers	2,70,300	1,58,126(58.5)	1,12,174(41.5)
Medium farmers	3,05,107	1,64,148(53.8)	1,40,959(46.2)
Large farmers	1,58,400	1,18,800(75)	39,600(25)
Total	8,38,807	4,78,874(57.1)	3,59,933(42.9)

Source: field survey

The above Table 2 reveals that the amount borrowed, amount paid, amount outstanding and percentage of repayment by the loanee farmers in the less irrigational facilities area. The repayment performance is relatively very poor by different categories of farmers in this area. It is found that the total borrowings was Rs. 8,38,807, the total amount repaid stood at Rs. 4,78,874, the total amount outstanding was Rs. 3,59,933 and the overall percentage of repayment was 57.1 only and is not consistent among different categories of farmers. The highest repayment percentage was found in the case of large farmers (75%) followed by small farmers (58.5%), medium farmers (53.8%), and marginal farmers (36%) respectively. It also tells us that, the percentage of repayment is more in the case of large, small and medium farmers due to their more repaying capacity as they have got more yields from the agricultural operations than marginal farmers and it also infers us that though medium

farmers borrowed more than the small farmers, the percentage of repayment is very poor because they have misutilized more funds to the extent of 48.7 percent compared to the percentage of misutilization in the category of small farmers(39.6 percent). In less irrigational facilities area also the positive relationship between utilization of funds for agricultural operations and percentage of repayment is confirmed. Hence it is concluded that the amount borrowed, amount repaid and percentage of repayment was more in more irrigational facilities area than in less irrigational facilities area. But the percentage of amount outstanding (33.45%) was less in more irrigational facilities area than the percentage of amount outstanding (42.9%) in less irrigational facilities area.

Poor recovery performance leads to many consequences and ultimately making the funding institutions non-functional, sometimes resulting in closure, depriving of further capital investment in agriculture and thereby hampering agriculture production itself. The recovery percentage in the less irrigational facilities area ranges from 36 to 75 percent only.

CONCLUSION

Agricultural credit cooperative societies may provide credit for consumption purposes to avoid misdirection of productive credit. Officials of cooperatives should access repaying capacity of each farmers seeking loan by taking in to consideration the past repayment behavior and repayment potential of the family members before sanctioning the loan. the most important are follow up action by the funding agencies followed by the realization by the stakeholders will go a long way in improving the conditions of cooperatives. Apart from these, the rural households should identify their financial and non financial needs for income generating activities in rural farm and nonfarm sectors. State and union governments need to allocate adequate financial resources in their annual budgets to tackle issues of poverty, hunger, child nutrition, food security and rural infrastructure, implementing agencies including banks should have serious concern, commitment and be accountable to achieve expected goals. District, state and region wise, information about the benevolent benefits of cooperation should be made available to the public every month through local print and electronic media as also through seminars, workshops and conferences at district level.

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