

# Agricultural Credit Constraints and Distress sales- Role of Co-operatives in Shivamoga District

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**Abstract – Rural credit has nowadays become a nightmare for the poor farmers who find it difficult to fulfill the process on one hand and repay the borrowed money on the other hand. This is due to absence of transparency in the credit structure of banks. Co-operative sector once started with a view to relieve the farmers from the clutches of Zamindars and financiers in informal sector, but now the farmers seem to be struck in the hands of co-operative officials and finding it hard to borrow money from formal sector. Hence this study will help us analyse the credit constraints of farmers and this resulting in distress sale of their agricultural produce.**

**Keywords – Agriculture, credit, Co-operatives, Constraints, distress sales**

## I. INTRODUCTION

Agriculture is one of the most important sectors of Indian economy. It is the means of livelihood of almost two thirds of the work force in the country. However the fact is that agriculture has the smallest share in GDP of only about 14 per cent today. As Adequate and timely flow of credit is always observed as a major threat to the growth of Agricultural sector in India there is a scope for Research in this field.

Co-operative Movement played a significant role in development the Socio-Economic life of the rural and urban folks in the district. It eliminates the exploitation from the money lenders and middlemen. Department of Co-operation is having a specific aim and objective in improving the co-operative sector in all walks of life of the people. The aim of the co-operatives was to provide timely and adequate credit to the farmers and thereby increase agricultural production contributing to economic development of the country.

There are 961 different types of Co-operatives in the Shivamogga district of which 805 are working, 81 are defunct and 75 are under liquidation. District department is headed by Deputy Registrar of Co-operative societies. Each sub-divisions headed by Assistant Registrar of Co-operative Societies. Taluk Panchayats, Zilla Panchayat, State Government, National Cooperative Development

Corporation and National Bank for Agriculture and Rural Development provide financial assistance in the form of share capital, loan and subsidy through their annual action plans. District co-operative central bank, Shivamogga through Primary Agricultural Co-operatives (PACS) provides advancing seasonal agricultural operational loans, Medium term loans to the farmers. PACS are collecting deposits, provide banking facilities and implements the government sponsored schemes effectively and efficiently. Primary Co-op. Agriculture and development banks (PCARDB) advances long term loans such as Minor irrigation, Sericulture, Horticulture, Diary, Tractors, Tiller and for non-agricultural activities in creating assets to the farmers. Processing co-operatives played a vital role in primary marketing facilities to the farmers produce like, fruits, vegetables, flowers, Areca nut and milk by fixing reasonable rates and also adopt modern technology in the sector.

It is pleasant to note that India, America and China are three giants in food production. We can target the world market and make profits, a share of which will move improve the conditions of the farmers in India. But immoral politics interference has spoiled our agricultural system. Migration as a resultant of this is also a serious issue in the agricultural sector. Migrating farmers leave the land uncultivated or lease it to uninterested parties, which may bring agricultural development to a stagnant position. Hence if risk can be distributed to all the stakeholders of agricultural produce from farmers to consumers we can see changes in the agricultural sector. Mainly to reduce burden of debt risk to farmers, when they fail to receive the minimum support price at the time of natural calamities and efficient credit system should be framed which is beneficial to the loan providers as well as farmers.

Credit risk if reduced in the agricultural sector and farmers well educated in this field, we may find major changes which will not only develop the economy but also form a strong base for our future generation to lead their lives in a better way. Hence better management of agricultural credit plays a very important role in the progress of our economy.

Therefore Co-operative Societies have their major role to be played in the agricultural credit market to retain farmers in their occupation and avoid them from distress sale of agricultural produce.

Hence an attempt has been made in this article to analyse the credit constraints of farmers in securing the loan resulting in distress sale of the agricultural produce and suggest the necessary measures to improve the condition.

## II. ANALYSIS

### *Cooperative Credit Structure v/s Distress Sale of Agricultural production in Shivamogga District*

Co-operative movement has widespread in all the developmental sectors such as aim to provide timely and adequate credit, proper channels of marketing, adequate storage through well equipped godowns etc. Agriculture Credit plays an important role in improving agricultural production, productivity and mitigating the distress of farmers. Government has taken several measures for improving agricultural credit flow and bringing down the rate of interest on farm loans.

Karnataka has a good banking network spread all over the State, which has been steadily growing to cater to more and more population. As on 31 March 2013, there are 8430 branches of various banks in the State (excluding PACS) with more than 60% of these branches being in rural/ semi-urban areas. The branch network in the State increased from 7885 in 2011-12 to 8430 in 2012-13, improving the per branch population from 7748 in 2011-12 to 7252 in 2012-13.

Amalgamation of RRBS paved way for Government of India, MOF, Department of Financial Services, taking a decision to amalgamate/merge 26 RRBs in 6 States viz., Karnataka, MP, Chhattisgarh, Uttarakhand, Punjab and Orissa into 10 new entities, reducing the total number of RRBs in the country from 82 to 66. Accordingly, as on 31 Dec 2012, the existing 6 RRBs were amalgamated into 4 entities, viz., Kaveri Grameena Bank, Karnataka Vikas Grameena Bank, Krishna Grameena Bank and Pragathi Gramin Bank. As per the Govt. of India notification dated 23.08.2013, Pragathi Grameena Bank and Krishna Grameena Bank have been amalgamated into a single Regional Rural Bank called as Pragathi Krishna Grameena Bank. Therefore, as on 23 August 2013, the total number of RRBs in the State was 03 viz., Kaveri Grameena Bank, Karnataka Vikas Grameena Bank and Pragathi Krishna Gramin Bank. Self Help Group (SHG) bank linkage programme was a step further for Karnataka to become one of the pioneer states in promoting and propagating the self-

help movement. The State has always been in the forefront in innovating and furthering the SHG movement in the country. During 2012-13, 1,20,561 SHGs were formed and 1,27,598 lakh SHGs were credit linked in the State, taking the cumulative SHGs formed and credit linked in the State to 8,11,231 and 7,51,231 respectively as on 31 March 2013. Further, the average loan per SHG has risen from `1.44 lakh during 2010-11 to ` 2.03 lakh during 2011-12, however the same declined to `1.66 lakh during 2012-13. [1]

Important initiatives taken by the Government in recent years include a decision which was made by the Government of India in June, 2004 to double the flow of agriculture credit in three years with reference to base year 2003-04 was quite successful. The flow of agriculture credit since 2003-04 has consistently exceeded the target. Against the agriculture credit flow target of Rs. 325,000 crore during 2009-10, the achievement as on March, 2010 is Rs. 384514 crore forming 118% of target. Target of credit flow for 2010-11 is Rs. 375000 crore. The achievement as on March, 2011 is Rs.468291 crore. The target of credit flow for the year 2011-12 has been fixed at Rs. 475000 crore and achievement as on March, 2012 is Rs. 511029.09 crore forming more than 108% of the target. The target of credit flow for the year 2012-13 has been fixed at Rs. 575000 crore and achievement as on October, 2012 is Rs. 3,08,025 crores.

From Kharif 2006-07, farmers are receiving crop loans upto a principal amount of ` 3 lakh at 7% rate of interest. In the year 2009-10, Government provided an additional 1% interest subvention to those farmers who repaid their short term crop loans as per schedule. This subvention for timely repayment of crop loans was raised from 1% to 2% in 2010-11, further 3% from the year 2011-12. Thus the effective rate of interest for such farmers will be 4 % p.a. As proposed in the Union Budget 2013-14, Interest subvention scheme for short-term crop loans to be continued scheme extended for crop loans borrowed from private sector scheduled commercial banks. The limit of collateral free farm loan has been increased from 50,000 to 1, 00,000. Kisan Credit Card (KCC) scheme was introduced in 1998-99 to provide farmers with adequate and timely credit support from the banking system for agriculture and allied activities in a flexible and cost-effective manner. The State Governments have been advised to launch an intensive branch/village level campaign to provide Kisan Credit Card to all the eligible and willing farmers in a time bound manner. It has been decided to convert KCCs into smart cards to facilitate its operation through ATMs. Upto June, 2012, 11.39 crore KCC have been issued. The aim of the Government is to cover all the farmers and facilitate the above mentioned facilities very soon. [2]. All these changes

planned by the Government of India are quite successful but still not reached the small and medium farmers in shivamogga district. They are still struggling to get the benefits from the Government. At one time they were in the clutches of the Zamindars, later caught in between the middlemen and now the co-operative officials who make them struggle secure credit and are trying hard to continue their sacred occupation i.e. Agriculture.

TABLE I  
STATISTICS OF CO-OPERATIVES IN SHIVAMOGGA DISTRICT

Sl. No	Particulars	2011-12	2012-13	2013-14 (tentative)
1	No. of cooperatives	36,481	37,468	38,448
a)	of which working	32,029	33,172	33,716
b)	of which defunct	2,212	2,014	2,381
c)	of which liquidated	2,240	2,282	2,351
2	Share Capital (Rs. in crores)	3,023	3,129	4116.18
a)	of which Govt	196	193	175.43
b)	of which Members	2,827	2,936	3940.75
3	Membership ( in lakhs)	215.15	218.11	230.15
4	Working Capital (Rs. in crores)	51,864	58,692	65,662
5	Deposits (Rs. in crores)	24,544	28,901	35,230
6	No. of villages covered by co-operatives %	100%	100%	100%
7	No. of cooperatives under profit	19,963	21,017	22,209
	No. of cooperative under loss	16,518	16,451	16,239

Source: Co-operatives Annual Report 2013-14

The above table explains the fact that Co-operative sector in shivamogga district is performing well and has shown an increase in its working capital, deposits and membership. The number of co-operatives under profit is increasing year by year covering 100% of the villages in the district is a remarkable performance.

Only the recent arrest of the President of Shivamogga DCC Bank has shown some deteriorating trend but soon to be overcome by the Co-operatives.

TABLE-2  
AGRICULTURAL PRODUCE ARRIVALS AT  
APMC, SHIMOGA

S. No.	Commodity	2011-12		2012-13	
		Kg	%	Kg	%
1	Areca nut	506309	23.38	464695	21.12
2	Paddy	557313	2.65	485887	22.09
3	Rice	91400	4.22	98721	4.48
4	Maize	979068	45.21	1114540	50.67
5	Ragi	6244	0.29	3368	0.02
6	Jowar	93	0.01	245	0.01
7	Vegetables	----	----	20473	0.91
8	Cotton	25109	1.16	11411	0.50
9	Total	2165536	100.00	2199340	100.00

Source: Data collected from APMC, Shivmoga

But at the same time it is a true fact that small & medium farmers are facing problems of distress sale that mostly comprise of growers of paddy, Ragi, Jowar and cotton and they comprise of maximum number of farmers in the district. The above table clearly states that Areca nut and Maize growers are the maximum market holders at APMC who are almost Large farmers comprising only few in number out of the total farmers in Shivamogga district.

TABLE-3  
PROBLEMS FACED BY FARMERS IN SECURING  
CREDIT FROM CO-OPERATIVES

Sl. No.	Credit Constraints	Farmers	
		No.	%
1	Absence of adequate & timely credit	24	48.00
2	Tedious process	16	32.00
3	High Rate of Interest	4	8.00
4	Security problem	3	6.00
5	Bank officials don't co-operate	3	6.00
	Total	50	100.00

Source: Data collected through Field Survey

The above table clearly makes us understand the difficulties faced by the farmers in securing credit at co-operatives in shivamogga District. Small farmers are the mainly deprived portion of the total farmers who find it very difficult to approach the bank for adequate and timely credit. They feel it's a very lengthy process and unless they bribe the employees', loan is not sanctioned to them. But Problems persist from farmers' side also. Non-repayment of interest and loan at the appropriate time, absence of securities, No proper documents etc.

Forty eight percent of the farmers have shown dissatisfaction due to absence of timely and adequate credit whereas thirty two per cent of them are fed up with the tedious process. They regret to say that some of the bank officials do not even respond to them & answer their queries in relation to credit procurement. They show a strong opinion of regret that credit facilities of co-operative banks are for relatives of bank employees and rich farmers only and not to the needy farmers.

As such small & medium farmers are finding it difficult to grow crops profitably. They are still caught under the clutches of middlemen and money lenders as they find it difficult to borrow money from co-operative banks. This in turn has shown a distress sale of their produce majorly consisting of Paddy, Ragi, Jowar & cotton. They depend on credit for the three main process of their occupation-growing crops, marketing their yield and bringing them to the place of sale i.e. market.

But the bank officials say that they are intact with all the formalities necessary during the credit process and any above mentioned complaints are not received by them till date. They are of the opinion that the report to be brought from the Advocate delay their process and it is their responsibility to bring it. According to them Credit facilities are to facilitate all kinds of farmers and they don't differentiate anyone to that matter.

### III. CONCLUSION

Agricultural sector is considered to be the important growth factor of our economy. On one hand it's interesting to see that well settled software engineers are returning to their homeland and lending their helping hand to the agricultural sector whereas on the other hand farmers who were in this occupation for decades are migrating to urban areas in search of better income jobs due to absence of timely & adequate credit facilities, support price, profitable markets, storage & distribution facilities etc.

If we just concentrate on one main factor for disinterest of young farmers in the agricultural sector it is surprisingly the difficulties they face from production to sale of their agricultural produce, is absence of sufficient fund. If we raise the question, how it can be fulfilled? We find a very simple solution that our government has implemented fantastic schemes through Co-operatives for encouraging the farmers to grow in their occupation. Some of them are doubling of credit, low interest rate, zero interest credit, easy repayment facilities, and toll free help lines, mobile banking, ATMs, health insurance, crop insurance etc. The main motto of the Karnataka Apex bank is to keep them moving along with developments, both national and international, in the field of Micro Finance and Financial Inclusion. Also analyse its various activities with a view to make an effective contribution and to provide benchmarked services and facilities leveraging on cost-effective technologies and processes.

We have a very good researcher's team on one side to enhance agricultural production of our country. Hence India is one among the three giants of food production other than china and America and self sufficient for another twenty years to go. On another side our government has implemented very useful schemes for the farmers to produce market and sell their agricultural produce. So the Analysis clearly states that absence of proper management of credit provided by the Apex bank, misutilised to some extent by the co-operatives and not reachable to small farmers are the main reasons for the distress sale of necessary crops i.e. Paddy, Ragi, Jowar & cotton. Due to insufficient funds small farmers are not able to manage their

produce and hence selling it to middlemen or moneylenders to fulfill their necessities. Most of their produce don't reach the APMC market for sale. They are directly sold in the retail market at a higher price. Thereby middlemen will be able to make more profits and small farmers are left with barren hands and they struggle hard to continue in this sacred occupation.

Some of the changes if brought forward can change the situation of distress sale of small & medium farmers in shivamogga district. They are:

1. Transparency in credit structure of Co-operatives
2. Additional credit schemes for small and medium farmers without any officials hindrance
3. Educating farmers towards credit procurement & repayment procedure
4. Special support price at APMC for Paddy, Ragi, Jowar and Cotton grown by small farmers in Shivamogga District
5. Transparent Inspection of Loan sanctioning department at regular intervals
6. Cordial relationship of the co-operatives with farmers
7. Preference to small farmers regarding timely & adequate credit
8. Stop sanction of loans to recover the past loan through proper check system
9. Funding marketing & Transportation facilities to small farmers by clubbing their produce by APMC

It is the time to think Global but Act Local for sanctioning loans to farmers to save them from distress sale so that they continue in this sacred occupation for a longer period of time serving people and thereby resulting in the tremendous growth of the Indian Economy.

### IV. ACKNOWLEDGMENT

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