

IMPACT OF FINANCIAL INSTITUTIONS ON CO-OPERATIVE CREDIT MOVEMENT IN KARNATAKA: AN ANALYSIS

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The origin of the co-operative credit movement in India dates back to 1904, when the co-operative credit societies Act was passed. The main reason for the introduction of the cooperative movement in India was the failure of Taccavi loans. At present, Co-operative Banks, Commercial Banks, Regional Rural Banks, National Bank for Agriculture and Rural Development and Government Departments provide Institutional Finance to Agriculture, whereas the Professional Moneylenders, landlords, commission agents, relatives and friends etc. The Taccavi loans were ineffective and inadequate. There was no institutional agency for the peasants to fall back upon. Hence, the farmers were under the grip of the money-lenders. The failure of crops and famines drove them to money-lenders. The failure of crops and famines drove them to money-lenders. There is need for single agency approach. Farmers should be encouraged to rely on single institutional credit. There is need for adequate, credit taking into account the production consumption requirements. With in this background the study proposes to examine Impact of Financial Institutions on Co-Operative Credit Movement in Karnataka: An Analysis

Keywords : Agriculture Credit Society

INTRODUCTION

The origin of the co-operative credit movement in India dates back to 1904, when the co-operative credit societies Act was passed. The main reason for the introduction of the cooperative movement in India was the failure of Taccavi loans. The loaning system adopted by Government had a number of defects, such as a high rate of interest, rigidity of collection, onerous terms regarding periods of repayment, delays in distribution, conditions relating to securities required etc, and all these contributed to the failure of Government loaning system. India's rural credit system is unique in its reach and diversity. Indian economy continues to be predominantly rural in character. The co-operative movement in the country originated as a measure against rural poverty, aggravated by chronic indebtedness of the farmers and practice of usury its worst by the moneylenders.

At present, Co-operative Banks, Commercial Banks, Regional Rural Banks, National Bank for Agriculture and Rural Development and Government Departments provide Institutional Finance to Agriculture, whereas the Professional Moneylenders, landlords, commission agents, relatives and friends etc., provide non-credit is more advantageous to agriculturists than the non-institutional credit, while co-operative will, by and large, continue to be the most important agency with regards to Indian agriculture. A large part of co-operative bank finance consists of short term and medium term credit to agriculture. The co-operative banks have a three – tier federal structure. The three-tier structure is formed by the primary agricultural credit societies at the base organized at the village level, central co-operative banks at the district level and state co-operative banks at the state level.

The first step towards the introduction of the cooperative movement was taken by the Government of Madras. The Madras Presidency afforded a hopeful field for the experiment because a number of indigenous societies called 'Nidhis' were running successfully. In 1892 the Governor of Madras, Lord Wenlock placed Mr. Fredrick Nicholson on special duty to study the theory and practice of agricultural and other banks in Europe, especially, in Germany, and to suggest measures by which a similar movement could be organized in India. Mr. Nicholson submitted his report in two volumes, one in 1895, and the other in 1897.

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After referring to the work done by re-farmers, such as, Raiffeisen who introduced a popular system of rural credit, he summed up his report in two words, "Find Raiffeisen". Raiffeisen societies were run on limited liability basis providing all services to the farmers under the motto of "one village, one society". But Nicholson did not recommend the abrupt adoption of Raiffeisen.

He recommended the organization of village banks. He suggested that the village banks should touch all the aspects of the farmers that is, they should act as agents and brokers for their members, arrange for sale of produce and purchase of necessities. The bank may also purchase goods necessary for the maintenance of members collect the produce of members and place it on the market for the benefit of such members.

The principal of a co-operative is as old as society. Co-operative is basis domestic and social life. There is a statement in Rig-Veda.

May you all have common purpose?

May your hearts be in unison?

May you all be same mind?

So that you can do the work efficiently well. In his work Arthashastra Kautilya states that whenever stays away from any kind of co-operative undertaking shall and his servants to carry on the work shall have a share in the expenditure but none in the profits.

Around the world modern co-operative have developed for over 200 years. Co-operative institutions exist all over the world providing essential service, which would otherwise be unattainable. In many third world countries, Co-operatives such as credit unions and agricultural organizations have been very successful in helping people to provide themselves, where private and other co-operate capitals do not see high profitability. In 90 countries of the world over 700 million individuals are members of co-operative institutions. Globally co-operative have been able to elevate its position as a powerful economic model. In some countries they are a sizeable force within national economy.

India is a basically an agrarian economy with 72 per cent of its total population residing in rural areas. The rural people need lot of services in daily life which are met by village Co-operative Societies. The seeds of co-operation in India were sown in 1904 when the first co-operative societies Act was passed. Since then, the co-operative movement has made significant progress, co-operatives have extended across the entire country and there are currently estimated 230 million members' nations wide. The co-operative credit system of India has the largest network in the world and co-operatives have advanced more credit in the Indian agricultural sector than commercial banks. The villages Co-operative Societies provide strategic inputs for the agricultural sector; Consumer Societies meet their consumption requirement at concessional rates; Marketing Societies help the farmers to get remunerative prices and Co-operative processing units help in value additions to the raw products etc. In addition Co-operative societies are helping in building up of storage godowns including cold storage, rural roads, in providing facilities like irrigation, electricity, transport, and health. Various development activities in agriculture, small industry, marketing and processing, distribution, and supplies are now carried on through co-operatives. In fertilizer production and distribution the Indian Fertilizer Co-operative (IFFCO) commands over 35 per cent of the market. In the production of sugar the Co-operative share of the market is over 58 per cent and in the marketing and distribution of cotton they have a share of around 60 per cent. The co-operative sector accounts for 55 per cent of the loans in the hand-weaving sector. Co-operative process, market and distribute 50 per cent of edible oils, Dairy co-operatives under the leadership of the National Development Board and through 15 state co-operative milk marketing federation has now become the largest producer of milk in the world.

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OBJECTIVES

- * To examine the role Primary Agricultural Credit Societies Vis-à-vis the commercial banks.
- * To analyze the factors for success or otherwise of primary agricultural credit societies in India and Karnataka.
- * To suggest and policy measures for building up of viable primary agricultural credit societies in the state.

METHODOLOGY

Study will cover of Karnataka state will make use of based on secondary data. The analysis of growth, regional variations, state assistance to Co-operatives and problems will be based on secondary data collected from the Reports and RBI hand book, Central Statistical Organization, Karnataka at Glance, Annual Reports, Govt of Karnataka, documents published by NABARD and such other agencies, using simple tools Compound Annual Growth Rate, for volatility and consistency co-efficient of Variance (CV), percentage, ratio, growth rate, average, etc.

Period of Study

The period of study for the present work is from 1950-51 to 2007, which is divided into two sub periods 1950-1991 and 1991- 2007 i.e., Pre and Post reform period.

BRIEF REVIEW OF LITERATURE

Majority of the studies, using different methodology, have tried to look at who the preferred provider is? What are the reasons for choosing a particular provider and what is the most of Co-operative Credit Movement? These studies generally conclude that use of Credit sector is more prominent. The reasons for utilization of the Co-operative Credit services are identified by them as: distance, dissatisfaction with, long waiting Lack of Utilization of Co-operative Credit in Agriculture, inappropriate, other Society factors. (Krishna.K. Gupta 2005; Banking commission; Viadyanathan Committee Report, 2004; Srinath, 2000; Singh.R.P. Pandey.K and Singh S.K Over-dues in co-operatives credit sector, 1999) has done a work covering Karnataka with a sample of Co-operative credit society. However, the study was to investigate the possibility. Hence, there is a self necessity of understanding the present situation regarding the availability and Co-operative Credit Movement in Karnataka in all its dimensions. So that we can identify the future directions of improvements.

Financial Strength of PACs

To make all primary agricultural societies viable and ensure adequate timely flow of co-operative credit to the rural areas. The Reserve Bank of India in collaboration with state government had been taking a series of steps to strengthen the PACs and to correct regional imbalances in co-operative development. Steps were taken to re-organize viable PACs and for amalgamation of non-viable societies with farmers services societies or large sized multi purpose societies.

These efforts are being intensified by providing larger funds to weak societies to write off their losses, bad debts and over dues.

FINANCIAL INFRASTRUCTURE

Infrastructure in general facilitates growth. Financial infrastructure promotes growth through the effective mobilization of savings into productive capital and channels this capital to its most productive uses. To facilitate financial flows in both centralized and decentralized system of capital formation and distribution, there is a need to adequate financial infrastructure. Financial institutions are present in both at all-India level and state level. Financial infrastructure develops along with other economic development and they are complementary with each other. Economic development creates they are complementary with each other. Economic development creates surplus capital and such surplus capital gets absorbed when the state facilitates further economic development.

Commercial Banks

Banking institutions play an important intermediary role in capital formation of the economy. Banks serve as financial intermediaries by matching the demand for credit and the supply of credit. Through credit creation, banks allow expansion of economic activity. Banking infrastructure in India is reasonably the financial sector. A unique feature of the financial sector in Karnataka is that it is the home for maximum number of commercial banks in the country. Nationalized Banks such as Canara bank, Syndicate Bank, Vijay Bank, Corporation Bank, State Bank of Mysore in the SBI group, ING Vysya Bank Limited, Karnataka Bank Limited in the private sector have found origin in Karnataka. At the end of June 2004, there were in all 4,851 branches of scheduled commercial banks in Karnataka, which accounted for 7.2 per cent of total such offices in India. Karnataka occupies fifth position. The average population per bank office (APPBO) is 11 for the state and Karnataka occupies the third place next to Kerala which has APPBO of 10 and Punjab takes the first place with APPBO of 9.

Table-1, Commercial Banks Branches as on June 30, 2005.

Name of state	No. of Branches	APPBO* in '000s
Karnataka	4851	11
Andhra Pradesh	5300	15
Tamil Nadu	4768	13
Kerala	3441	10
Maharashtra	6373	15
West Bengal	4469	19
Uttar Pradesh	8210	21
Gujarat	3677	14
Punjab	2645	9
All-India	67118	16

Note:*Average Population per bank branch

Sources: Report on Trend and Progress of Banking in India 2006-07, Reserve Bank of India.

The total bank offices in the state, 44.94 per cent is in rural areas, 21.22 per cent is in semi-urban areas, 17.31 per cent in urban and 16.53 per cent in metropolitan areas. Karnataka has opened 70 branches in

2002-03 and 54 branches in 2003-04 and out of 844 and 641 branches opened at all-India level respectively. It is quite interesting to note that more than 90 per cent of this nationalization of banks in June 1969. Likewise 71.5 per cent of the deposits mobilized occurred after June 1969 and 75.4 per cent of credit was deployed in this period. Therefore, nationalization of commercial banks was a significant turnaround in banking development not only in Karnataka but all over the country.

At the end of June 30, 2004, the number of such branches in Karnataka stood at 4,851. The branches have been increasing from 4,770 in June 30, 2002 to 4,814 in June 30, 2003 and further to 4,851 in June 30, 2004. Distribution among districts reveal that Bangalore Urban accounts for 17.48 per cent of the total branches followed by Belgaum (6.73 per cent), Dakshina Kannada (6.48 per cent), Mysore 5.15 per cent, Udupi 4.33 per cent, Tumkur 3.88 per cent and Davangere 2.66 per cent. These 7 districts together account for over 46 per cent of the state's total branches. In terms of deposits and advances, scheduled commercial banks in Karnataka have mobilized nearly 5.6 per cent (average) of the country's deposit.

Its share in all-India quantum has been increased albeit fractionally from 5.4 per cent in 1995-96 to 5.8 per cent in 2001-02. The credit deployed in Karnataka accounts on an average 6.3 per cent of the all-India credit. The state ranks 5th in deposit mobilization and 4th in credit deployment. In the recent period growth in both deposit and credit have been decelerating which is in tune with all-India phenomenon.

There is a steady rise in per capita deposit and per capita credit in Karnataka. As compared to the neighbouring states, the state's per capita deposit was lower than Kerala but higher than Andhra Pradesh. Credit was highest once again in Tamil Nadu followed by Karnataka. A deposit mobilized per office in 2001-02 was Rs. 1, 333 in Karnataka. This ratio was Rs. 1, 442 for all-India. More than 41 per cent of the outstanding credit of SCBs in Karnataka has been deployed for industry. Credit to agriculture formed 16.89 per cent below the stipulated level of 18 per cent. At all-India level, industry got a higher proportion of 49.15 per cent and credit to agriculture on the contrary was far below at 10.69 per cent. The credit outstanding to artisans and village industries was 0.56 per cent for Karnataka and 0.66 per cent for all-India. Other small scale industries received 8.48 per cent of credit in Karnataka and 8.22 per cent in all-India.

BANK CREDIT TO SERVICE SECTOR

Assistance to service sector has gone up from Rs. 13, 621.90 cr. in 1995-96 to Rs. 37,204.90 cr. in 2001-02 registering a growth rate of 18.13 per cent. The state has reported a lower growth rate of 17.77 per cent whereas Tamil Nadu and Maharashtra have reported higher growth rate. In terms of Rupee value, bank credit to the state has increased from Rs. 1,106.40 cr. to Rs. 2,952.40 cr. during this period. Karnataka's share on all-India remains at 8 per cent whereas the service industries in Tamil Nadu has increased their bank credit share from 12 per cent to 13 per cent whereas Maharashtra has increased its share from 21 per cent to 29 per cent during this period. Though the state is trying to project itself as country's service sector capital, the hard fact is there is no major change in the banking credit.

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Table-2, Commercial Banks Credit to Services Sector (Rs. Crore)

Service Industry	1995-96	1999-00	2001-02	Growth (per cent) 1995-96 to 2001-02
All-India	13621.90	22728.30	37024.90	18.13
Karnataka	1106.40	1923.80	2952.40	17.77
Maharashtra	2850.70	5291.40	10589.70	24.45
Tamil Nadu	1650.60	2587.70	4693.60	19.30
Gujarat	618.10	819.90	1083.70	9.81

Note: *Average population per bank branch

Source: Report on Trend and Progress of Banking in India 2006-07, Reserve Bank of India

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CO-OPERATIVE CREDIT IN KARNATAKA

Karnataka has a fascinating history of co-operative movement. Co-operative culture in various economic activities is the state in clearly evident. It is deep-rooted since the official launching of the movement in 1904. The first Primary Agricultural Credit Society to be founded in the country was at Kanaginhall Credit Society Gadag district on 18th May 1905 and it is still functioning. Similarly, the first Urban Co-operative Credit Society to be organized in the state was at Betageri on 18th October 1905 (in Gadag district, now defunct). The Swadeshi Movement of 1905 inspired many local leaders and social workers to start the co-operatives to cater to their local needs. Bangalore City Consumers Co-operative institution in princely Mysore State. By 1906, the places like Belgaum, Gokak, Mysore, Hubli, Dharwad and Sira were having Urban Co-operative Banks.

The erstwhile princely Mysore state promoted a unique breed of financial institutions called "Agricultural Banks" in 1894. A decade earlier to the official launching of the co-operative movement by the banks was such that, they had limited co-operative principles through their constitutions was of public company limited by guarantee movement. In course of time, non-agricultural credit societies emerged in large number all over the state. In the early years, the Governments of princely Mysore and the Bombay presidency earnestly encouraged the spread of the movement in rural areas by extending special incentives and appointment of honorary co-operative supervisors to guide the co-operative institutions. To cater to the needs of the local, special economic activities like fencing, hunting, bending, cattle breeding, insurance, farming grain banks, fisheries, forest, labour, special marketing, education, irrigation, house building, consumer goods selling etc, were taken under co-operative sector much earlier.

Arranging the Taluka and District level co-operative conferences to review the progress of the movement was regular feature in Bombay. Karnataka area in 1920-1930. In order to propagate the principles of co-operation in the rural areas and to have a mass appeal there was a special drama troupe to propagate the idea of co-operation at Amminabhavi of Dharwad District. Many of the District Central Co-operatives

Banks, specially the banks working at Dharwad, Madikeri, Sirsi etc., Came to the help of growing indebted farmers during the Economic Depression of 1929-1930, when the movement in general has also received a set back. Many of the farmers could not pay their overdues to the banks. Though, these co-operative banks purchased the pledged properties of debtors, the same was returned to them without any profit when the debt was cleared. This spirit of co-operation helped those co-operatives banks arranged debt reconciliation boards for settlement of loans.

Karnataka has many firsts in the co-operative ventures in the country. The Hubli Cotton Sales Society Ltd. Hubli was set up in 1915 is considered to be the first Indian Co-operative Marketing Society. The Farmer Service Society (FSS) sponsored by Canara Bank in 1973 at Bidadi in Bangalore District is such first society in the country. Similarly the Sports Promotion and Development Society at Chandargi of Belgaum District is a unique organization of All-India importance founded in 1984. Hulakoti Co-operative Education Society (1921), J.G.Co-operative Hospital at Ghataprabha (1951), (Belgaum Dist) and Rural Electricity Society at Hukkeri of Belgaum District (1969), are some of the earliest special type of Sankeshwar of Belgaum District founded in 1956 is considered as one of the best Co-operative Sugar Factories in the state. Karnataka is one of movement has emerged strong and Karnataka ranked third in the country next only to Gujarat and Maharashtra. Karnatak is first state in the country to have Federation of Urban Banks (1965). Co-operative credit in Karnataka had its beginning in the early of the century in the former old Mysore state which is now as Karnataka with its long history in the field of co-operative movement. The co-operative credit is considered as changes, amongst which mention should particularly be made of the liquidation of the central banks in the thirties and their re-establishment in the fifties after re-organization of the states in 1956. It was only in 1954 that the intermediate tier of the structure came to be organized on systematic basis. By 2006, each of the 27 districts of the present state has a central bank.

Even in relative terms, the quantitative performance of the co-operative movement of Karnataka is impressive compared to other states in the country. From the point of view of the number of societies, Karnataka occupies the 9 th place among the states of India. In respect of working capital, it occupies the 6 th place. In essence, both from the point of view of credit and non-credit co-operatives, the state of Karnataka is in a comfortable position compared with other co-operatively developed states of India.

But even with all the credit worthy record, co-operative in Karnataka are burdened with mounting overdues. This problem of overdues is regarding the progress of co-operative movement in the state. The overdues have been mainly responsible for the crippling co-operative movement in Karnataka.

Some of the concessions that the Government of Karnataka has granted are the waiver of co-operative dues from small and marginal farmers and penal interest on co-operative dues. For this the Government has constituted District level Committee under the Chairmanship of the Deputy Commissioners to scrutinize the applications of the farmers who request to waive and recommend to the Government the extent to which the farmers can be given concession. The Government has taken a decision to the effect that only in case of term loans overdues will be eligible for waiver. The Government has also waived the penal interest on the overdues and interest accrued respect of short, medium and long term loans availed of from all the co-operative institutions in the state with regard to small and marginal farmers. In respect of big farmers, penal interest is waived on short, medium and long-term loans in case of their repaying the entire dues within the date prescribed by the Government. It was later realized that most of the defaulters were rich farmers.

GROWTH AND DEVELOPMENT OF THE CO-OPERATIVE MOVEMENT IN KARNATAKA

It is conspicuous that after the reorganization of the state, the orbit of the co-operative movement has been expended in all its phases. Some of the apex institutions at the district and state level have established

their record growth vertically and horizontally. Increased financial participation in the form of share capital, subsidy, grants by the central, state governments NCDC etc., have facilitated the increase in the number processing, textile, sugar, tiles, food processing etc., have been started in state in the co-operative sector. The growths of co-operative movement in Karnataka are shown in Table -

Table-3, Growth and Development of Co-operative Movement in Karnataka

(Rs. in Lakhs)

Years	No. of. Societies	Membership	Share Capital	Working Capital
1905-06	5	386	0.11	0.14
1910-11	111	9043	2.31	3.71
1915-16	800	64857	20.26	44.21
1920-21	1500	92121	34.34	81.92
1925-26	1603	92292	35.52	112.38
1930-31	2213	137615	48.88	189.32
1935-36	1906	144459	52.60	226.05
1940-41	1956	143370	53.08	271.77
1945-46	2525	226595	75.80	363.88
1950-51	5190	501218	138.74	690.90
1955-56	6008	784432	278.52	1299.31
1960-61	14871	2433000	1738.39	10340.91
1965-66	18303	3415000	2892.00	16931.00
1970-71	19437	4345000	8235.00	52336.00
1975-76	22713	5945009	12543.00	91637.00
1980-81	23159	8289000	17570.00	126128.00
1985-86	24059	9731000	26953.00	224879.00
1990-91	25083	11800000	43108.00	315833.00
1995-96	26411	13558480	76565.76	1026550.00
2000-01	29930	16167000	147316.00	2119867.65
2001-02	30862	18600000	149990.00	2157543.00
2002-03	31908	19521567	162740.00	2265420.00
2003-04	32786	20764390	174650.00	2344320.00
2004-05	33900	21432280	182210.00	2465210.00
2005-06	34650	22501072	205105.00	2543021.00
2006-07	35453	23443071	214210.00	2790621.00

Source: Co-operative Movement in Karnataka at a Glance, Department of Co-operation Government of Karnataka -2006-07

Table-4, District Wise Primary Agricultural Credit Societies in Karnataka (PACs) (Amount: Rs. Lakhs) 2006-07

District	Total No. of Societies	Membership (Thousands)	Working Capital	Loans advanced	Loans Outstanding
Bagalkote	190	197	1,796	1,444	1,369
Bangalore (U)	29	62	250	57	94
Bangalore (R)	142	156	414	313	308
Belgaum	594	422	4,275	1,558	2,921
Bellary	134	161	960	442	543
Bidar	170	151	3,314	1,916	2,485
Bijapur	227	258	1,823	1,371	1,455
Chamarajanagar	82	84	546	109	356
Chikmagalur	114	165	1,166	770	771
Chitradurga	127	159	259	170	172
Dakshina Kannada	108	218	4,175	2,540	2,975
Davanagere	170	182	1,137	361	788
Dharwad	157	93	1,017	309	831
Gadag	160	111	843	568	646
Gulbarga	220	249	475	239	304
Hassan	168	285	948	376	735
Haveri	228	145	1,034	206	576
Kodagu	70	115	2,514	1,021	1,375
Kolar	216	130	798	820	654
Koppal	87	31	202	224	131
Mandya	228	248	1,429	304	1,085
Mysore	165	205	1,083	411	821
Raichur	104	102	514	320	366
Shimoga	153	149	799	533	537
Tumkur	227	284	807	377	560
Udupi	49	212	2,051	1,484	1,329
Uttar Kannada	157	146	2,527	1,753	1,819

Sources: Directorate of Economics and Statistics, GOK -2006-2007, Bangalore.

During 1976-77, most of the economically non-viable, week primary societies were amalgamated. This process of amalgamation on large scale strengthened the based of primary societies and their number was reduced considerably. Recognizing the prominent position of the state in the co-operative sector, the Institute of Co-operative Management was founded in Bangalore (1962). In 1990, the National Agricultural and Rural Development Training Institute were founded in Bangalore to train officials of co-operative banking sectors. Represents the growth of co-operative of types in Karnataka from 1971 to 2006. Strengthened the base of primary societies and their number was reduced considerably. Recognizing the prominent of the state in the co-operative sector, the Institute of Co-operative Management was founded in Bangalore (1962). In 1990, the National Agricultural and Rural Development Training Institute were founded in Bangalore to train officials of co-operative banking sectors represents the growth of co-operative of all types in Karnataka from 1971 to 2006.

Table – 5, Loans Disbursed by Cooperative Credit Institutions in Karnataka

Year	Short-Term Loan	Medium-Term Loan	Long-Term Loan	Total
1990-1991	58.65	5.75	58.12	122.52
1991-1992	73.50	3.59	97.21	174.30
1992-1993	195.93	6.34	120.57	322.84
1993-1994	230.00	9.12	134.54	373.66
1994-1995	303.54	24.42	107.15	435.11
1995-1996	450.67	37.25	153.66	642.28
1996-1997	531.35	37.25	168.06	736.66
1997-1998	727.48	57.06	177.58	962.12
1998-1999	823.36	69.13	150.36	1042.85
1999-2000	994.00	82.14	163.19	1239.33
2000-2001	1150.98	48.95	140.62	1340.55
2001-2002	1384.44	32.33	120.00	1536.77
2002-2003	1232.76	30.35	127.57	1281.68
2003-2004	1300.00	20.00	83.44	1411.44
2004-2005	1325.20	21.05	115.60	1565.20
2005-2006	1480.00	22.42	102.30	1675.82

Source: Reserve Bank of India , Govt of India, 2006.

Since the policies and some of the parameters such as NPA ratio etc., are all at individual bank level, regional level data on NPA management, profitability and income and expenditure of financial sector are not available. But in karnataka it can be inferred there are no alarming levels of NPAs and not many willful defaulters.

The recovery performance of all the categories of rural cooperative banks did not show any improvement in Karnataka, in the five-year period ending 2004-05 which is in line with the all-India phenomenon. Only the PCARDBs improved in 2004-05. Among the different institutions of the cooperative banks the recovery performance of state cooperative banks and CCBs was better. But the lower level institutions like SCARDBs and PCARDBs showed not only low recovery performance was very good in Haryana (100%), Tamil Nadu (97 to 99%), Chhattisgarh, Punjab, Kerala and Mandya Pradesh all have reported over 90% recovery in respect of state cooperative banks.

AGRICULTURAL LOANS TO FARMERS AT THE RATE OF FOUR PERCENT

Government has implemented with effect from 01-04-2006 the scheme of providing short Term, Medium Term and Long Term loans to farmers and government will reimburse 7.5 per cent interest subsidy on the loans issued to farmers through credit co-operative societies. Under this scheme a budget provision of Rs.76.50 crores has been provided during the year 2006-07. This scheme has been extended to weavers and fishermen.

Table-6, Advancement of Loans in Karnataka in Year 2006-07

(Rs. in Crores)

Year	Type of Loan	Target	Achievement	% of Achievement to Target
2002-03	S.T.Loan*	1775.00	1200.88	67.65
	M.T.Loan#	137.00	29.13	21.26
2003-04	S.T.Loan	1605.00	1300	80.97
	M.T.Loan	72.16	28.00	38.80
2004-05	S.T.Loan	1500.00	1219.55	81.00
	M.T.Loan	70.00	70.91	101.31
2005-06	S.T.Loan	2149.19	2512.48	116.44
	M.T.Loan	135.20	179.57	132.82
2006-07 (up to Dec06 Tentative)	S.T.Loan	2652.03	2026.7	76.42
	M.T.Loan	113.95	82.55	72.44

Note: *-Short-term, #-Medium-Term

Sources: Dept of Co-operation, Annual Report-2006-07, GOK, Bangalore.

Issue of demand notice is not enough to recover the loan fully but is a first step for approaching the borrowers by the bank personnel. This method is known as recovery by persuasion. In this programme a target has been fixed to each Bank-Inspector by allocating to him the number of societies or the area of the bank operation. The District Co-operative Officer or Deputy Registrar of Co-operative Societies in the District will be in charge of recovery to review the collection target periodically. Normally, the recovery of loans will be done after the harvest.

Table-7, Details of recovery of short term and medium term loans

Year	Type of Loan	Demand	Collection	Balance	% of recovery
2002-03	S.T.Loan*	1802.20	1115.51	686.69	61.90
	M.T.Loan#	203.93	38.75	165.18	19.00
2003-04	S.T.Loan	891.03	175.89	715.14	19.74
	M.T.Loan	195.06	29.22	165.84	14.98
2004-05	S.T.Loan	2167.99	1595.66	572.33	73.60
	M.T.Loan	211.33	119.15	92.18	56.38
2005-06	S.T.Loan	1559.61	1114.41	445.20	71.45
	M.T.Loan	138.86	69.87	68.99	50.31
2006-07 (up to Dec06 Tentative)	S.T.Loan	1138.12	578.76	559.36	50.85
	M.T.Loan	59.20	9.40	49.80	15.88

Note: *-Short-term, #-Medium-Term

Sources: Dept of Co-operation, Annual Report-2006-07, GOK, Bangalore

FINANCIAL HEALTH OF COOPERATIVE CREDIT INSTITUTIONS

Short-Term Cooperative Credit Structure

The short-term cooperative credit structure consists of 31 State Cooperative Banks (SCBs), 365 District Central Cooperative Banks (DCCBs) and 1,05,735 Primary Agriculture Credit Societies (PACS) as on 31 March 2004. 16 States are having a three-tier structure, 13 States have a two-tier structure and two States have a mixed structure. Jharkhand SCB is yet to become operational. The status of the SCBs, DCCBs and PACS is given in the following paragraphs:

State Cooperative Banks (SCBs)

a. Share Capital

The aggregate paid up share capital of the SCBs increased from Rs.897 crore, as on 31 March 2003 to Rs.951 crore, as on 31 March 2004. On an average, the State Government contribution towards the share capital of the SCBs was 10 per cent. The average contribution under the two-tier structure was higher at 65 per cent as compared to 5 per cent under the three-tier and mixed structure. The share capital contribution varied from zero to 96 per cent, with the highest by the Government of Sikkim (96 per cent), followed by Manipur (91 per cent), and Arunachal Pradesh (77 per cent). Out of the 31 SCBs in the country, 7 are not complying with the provisions of Section 11(1) of the Banking Regulation Act, 1949 (AACS), of which six have not been complying for more than 3 years.

b. Deposits

The deposits of the SCBs in the country aggregated Rs.43495 crore, as on 31 March 2004, representing an increase of 10.4 per cent over the previous year. The SCBs in the North Eastern Region, with deposits totaling Rs.1616 crore, accounted for 3.7 per cent of deposits of all SCBs.

c. Credit Outreach

The aggregate loans issued by the SCBs decreased from Rs.38104 crore as on 31 March 2003 to Rs.33177 crore, as on 31 March 2004, registering a negative growth rate of 12.9 per cent. The SCBs of Chhattisgarh, Gujarat, Maharashtra, Rajasthan, Assam, Goa, Tamilnadu, West2 Bengal, Jammu and Kashmir, Arunachal Pradesh, Chandigarh, Manipur and Meghalaya have recorded a negative growth whereas Andhra Pradesh, Bihar, Haryana, Orissa, Uttar Pradesh, Himachal Pradesh, Andaman Nicobar, Goa, Mizoram and Sikkim have recorded a good positive growth rate.

Table-8, Loans Issued by SCBs in Karnataka (Rs. Crore)

Type of SCBs	2001-02	2002-03	2003-04	2004-05	2005-06	Percent Growth Rate
Three Tier + Mixed Tier	34013	37389	32382	31325	30292	(-) 13.40
Two Tier	641	715	795	802	815	11.19
Total	34654	38104	33177	32127	31107	(-) 12.90

Source: National Federation of State Co-operative Bank Ltd (NAFSCOB), GOK-2006.

Table-9, Loans Outstanding at SCBs (Rs. Crore)

Type of SCBs	2001-02	2002-03	2003-04	2004-05	2005-06	Percent Growth Rate
Three Tier + Mixed Tier	31563	33469	33202	32195	33165	(-) 0.8
Two Tier	1148	1292	1400	1445	1550	8.44
Total	32711	34761	34602	33640	34715	(-)0.46

Source: National Federation of State Co-operative Bank Ltd (NAFSCOB), GOK-2006.

d. Recovery Performance

Table-10, Classification of SCBs according to range of recovery

Percentage Recovery	No. of SCBs				
	2001-02	2002-03	2003-04	2004-05	2005-06
Up to 40	10	8	5	4	3
41-60	2	3	6	9	12
61-75	7	6	6	8	10
Above 75	11	13	14	15	16
Total	30	30	31	36	41

Source: National Federation of State Co-operative Bank Ltd (NAFSCOB), GOK-2006.

The recovery of SCBs decreased from 82 per cent as on 30 June 2002 to 80 per cent, as on 30 June 2003 but increased to 84 per cent, as on 30 June 2004. The Haryana SCB recorded 100 per cent recovery, 4 SCBs recorded recovery level above 90 per cent while 21 SCBs registered recovery levels lower than the all-India average of 84 per cent. The recovery performance of SCBs continued to be poor in the North-eastern region and ranged from 27 per cent (Manipur SCB) to 45 per cent (Tripura SCB). Distribution of SCBs in terms of recovery performance during 3 years (2001-02, 2002-03 & 2003-04) is indicated in the following

e. Costs and Margins

The average returns on funds as a percentage to working capital (all India average) stood at 8.39 per cent while the average cost of funds stood at 5.66 per cent. The average cost of funds of SCBs under the three-tier structure was higher as compared to those under the two-tier and mixed structures. The average returns of the three-tier SCBs were higher as compared to the two-tier and mixed tier structures. The transaction costs reduced from 1.56 per cent during 2002-03 to 1.43 per cent during 2003-04. The average financial margin in respect of SCBs was 2.73 per cent. The SCBs as a group earned a net margin of 0.80 per cent, as compared to 0.46 per cent during the previous year. Four SCBs, namely, Assam, Manipur, Nagaland and Tripura had a negative net margin. The costs and margins as a percentage to working capital of the SCBs are indicated in the following

Table-11, Costs and Margins as a Percentage to the Working Capital of SCBs

Type of SCBs	Financial Margin	Transaction Cost	Risk Cost	Misc. Income	Net Margin
Three Tier	1.95	0.77	0.66	0.39	0.91
Two Tier	3.65	2.28	1.93	1.13	0.57
Total	2.73	1.43	1.21	0.71	0.8

Source: National Federation of State Co-operative Bank Ltd (NAFSCOB), GOK-2006.

The Reserve Bank of India and now the NABARD has been advising the central co-operative banks from time to time not only on the need for effective supervision on the use of loans sanctioning them for various agricultural needs. The R.B.I's guidelines in this regard are:

1. Effective procedure for verification and utilization of loans and technical assistance to the loan in under-taking the proposed development, so that makes the repayment regularly out of the extra income earned.
2. If any genuine condition warrants to borrower for non-repayment of loan i.e., crop failure, the central bank is permitted to convert such short-term loans into medium-term loans.
3. The central bank is empowered to convert such loans as replacement loans when certain conditions are operating seriously and continuously.

Soundness and efficacy of DCB's can be judged on the basis of deployment of credit and recovery of loans granted to members of P.A.C.S. engaged in rural development. In India since majority of the population lives in rural areas and predominant occupation being agriculture, no distinction is being made between rural development and agricultural development. Hence, the efficiency of DCCB is examined by its role in agricultural development.

Deployment of credit needs to be studied in various stages, primarily credit extended to PACS should be (1) adequate, (2) timely, (3) Effective, (4) Recovered fully, credit should result in increased capacity of earning income for the borrowers, credit, should be recovered fully and regularly so that the liquidity of the bank would not be jeopardized. It enables the bank funds to be employed continuously and profitably.

CONCLUSION

The finally, concluded that findings of the study Medium – term credit is issued mainly for production purposes. Medium –term credit is for a period more than 15 months but which is repayable in 5 years or less. The credit gap is more in case of non-irrigated villages than it irrigated villages. The Capital gap is more in the case of big farmers compared to the small and medium farmers, both in the irrigated and non-irrigated areas. Many of these cooperatives are in districts where the DCCBs are defunct or moribund. Such PACS could provide valuable services to their members if they get access to a commercial bank. Recommended within this but a farmer is prompt in repaying the loan his subsequent loan application should be considered and sanctioned without delay. PACS should be reduced credit gap is Non-irrigated area by fulfill the credit requirements of the farmers. Reducing the interference in the affairs of the co-operative banks. Loan recovery camps may be arranged at the village level such camps may be arranged soon after the harvesting. i.e., during the period when farmers may be expected to have money for repaying the loan. These PACS could originate credit proposals, disburse loans, collect repayments and even collect savings on behalf of the commercial bank. They could also act as payment channels.

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