



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

A Study on the Growth of Primary Agricultural Cooperative Credit Societies in Tamil Nadu

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Abstract

The Agriculture has a crucial role in the Indian economy. Institutional and non-institutional sources of agricultural loans exist in India. Institutional credit cooperatives play a significant role in the provision of finance to the agricultural sector. The formation of these societies dates back to 1904 when the first Cooperative Credit Societies Act was passed. The objective was to provide cheap credit to the farmers in order to relieve them from the clutches of money lenders are thought to be the foundations of the overall cooperative structure. The PACCS continue to be the main source of agricultural credit to the farmers in rural areas. The present analysis is based on secondary data from the years 2011-12 to 2020-2021. The data on number of societies, number of members, share capital, deposits, borrowings, working capital, loans issued, and overdues etc., were gathered from various websites and publications. This paper deals with the growth of primary agricultural cooperative credit societies in Tamil Nadu.

Keywords:

Primary Agriculture Cooperative Credit Societies, Share Capital, Deposits, Working Capital, Loan Operations, Cooperative Structure, source of funds, members.

Introduction

Agricultural cooperative credit system was started in India with the small beginning in the year 1904 by organizing Primary Agricultural Cooperative Credit Societies (PACCS). The main objective was to eliminate the role of moneylenders and to provide institutional arrangements of rural credit market. After independence, based on the recommendations of the All India Rural Credit Survey Committee 1954, the Government of India paid much attention for organizing such societies throughout the country. Today this system consists of short term and long term credit structures, which meet the different forms of credit needs of the cultivators and others in rural areas. The short term cooperative credit structure consist of 31 State Cooperative Banks at State level, 351 District Central Cooperative Banks at district level and 95509 PACCS at village level as on 2019-2020. PACCS are the base level institutions on which the whole cooperative edifice is built. These societies functioning at grass root level have direct contacts with the farmers and meet their financial and non financial requirements.

The PACCS play significant roles in the economic development of a country by promoting thrift and savings and deployment of those resources in the form of loans and advances. The resources available in the PACCS are to be carefully managed and distributed in order to maintain efficiency. The efficiency of PACCS lies not only in the efficient mobilization of resources but also in the effective and optimum deployment of resources. This argument is very much relevant in the present context because, out of the total resources of the PACCS, a good share is to be kept as reserves and the PACCS have to improve their spread by efficiently managing the remaining resources. The problem becomes further complicated in the current environment of global economic reforms and the resultant cut-throat competition. The PACCS are also not free from this global problem.

PACCS, being financial intermediaries, provide financial services with the objectives of growth, profit and services. However, the financial stability of these societies has a direct bearing on the extent of mobilization of deposits and the recovery of loans before they become overdue. If the overdue are not kept under control, they will have a crippling effect of curtailing the ability of the PACCS to recycle the funds and expand their business (*Government of Tamil Nadu Policy Note 2019-20, p. 20*). In this paper an attempt has been made to evaluate the performance of primary agricultural cooperative credit societies in Tamil Nadu.

Review of Literature

The subject of evaluation of PACCS has attracted considerable research attention during the recent past. Various Committees and Commissions of Government of India (GOI), Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), State Government and the studies conducted by individual researchers have covered various dimensions of the functions of PACCS. In their study, *Krishnaswami and Ganshyam (1969)* found that primary agricultural credit societies in Tamil Nadu have performed admirably in terms of deposit mobilization and credit deployment. The success of the PACS was determined to be contingent on effective workforce planning and management. *Dhakar (1971)* analyzed

the performance of Rajasthan cooperative banks in terms of owned funds, deposits, borrowings, loans and advances, investments, and other services given to customers. It was advised that cooperative banks take a progressive approach to their functions, expand their activities, and provide a diverse range of services to their members. The fundamental issue that cooperative societies face, according to *Varkey (1976)*, is raising resources. Instead of relying on government funding, cooperatives must focus more on deposit mobilization. *Pathania (1987)* examined the use of cooperative credit in the agricultural sector and concluded that farmers can boost their output by properly utilizing cooperative credit. PACS working on profit had a strong resource base, high rate of deposit mobilization, low borrowings, high distribution of agricultural advances, and a high rate of loan recovery compared to those incurring losses, according to *Sukhdev Singh, Maninder Kaur, and Gill S.S. (2001)* evaluated the performance of PACS in Punjab. In a study of the performance and regional diversity in PACS in Haryana, *Goyal, Satnam Karur, and Suhag (2006)* discovered that growth in the position of membership was critical for cooperative survival and success. *Rasal, R.G. (2012)* examined the performance of DCCB and discovered that, as compared to owned funds, the dependence on outside funds had been increasing. *Karuppaiah R. and Mathivanan N. (2017)* in a study on the trends in the sources of working capital of PACCS analyzed the trends in working capital of sample PACCS Dindigul District, suggested that PACCS should concentrate more on low cost deposits so as to reduce their cost of working capital.

Objectives of the Study

- To evaluate the Growth of Funds Resources and loan operations through PACCS in Tamil Nadu.
- To analysis the trends in the various sources of funds and loan operations of PACCS in Tamil Nadu.
- To suggest suitable measures to strengthen the sources of funds and loan operations trends of PACCS in Tamil Nadu.

Methodology of the Study

In this paper an attempt has been made to study the past growth of primary agricultural cooperative credit societies in Tamil Nadu. The present analysis is based on secondary data from the years 2010-11 to 2020-21. The data on number of societies, number of members, share capital, deposits, borrowings, working capital, loans issued, and overdue etc., were gathered from various websites and publications. Personal interaction was held with the officials of PACCS to understand various issues involved in the increases on growth. The growth of different parameters is done by using Compound Average Growth Rate (CAGR) and trends in the sources of funds and loan operations by using Regression analysis of the data.

Position of Membership of PACCS in Tamil Nadu

The membership of PACCS comprises of farmers residing in the area of operation. To become a member, a person should have attained the age of 18 years and must be competent to contract as per by - law. In cooperatives, man remains master and organization is his servant (*Reddy,S.K: 1993, p.56*). These unique features could not be found in any other credit organizations. The positions of membership of PACCS in Tamil Nadu are given in *table 1.1*. Through the position of membership of PACCS has fluctuated at the State level, it increased to 11426000 in the year 2011-12 and 11726300 in the year 2020-21. The overall growth of membership in the study period at the State level was the highest at 15176300 in the year 2013-14. The average membership per society increased to 2518 in the year 2011-12 to 2590 in the year 2020-21 at State level. However, the CAGR stood at 0.20 per cent in Tamil Nadu.

Table 1.1
Position of Membership of PACCS in Tamil Nadu

(Number of Members for Figures in Numbers)

Years	No. of Societies	Number of Members	Average Membership per Society
2011-12	4538	11426000	2518
2012-13	4307	10420100	2419
2013-14	4310	15176300	3521
2014-15	4490	11695910	2605
2015-16	4436	12526930	2824
2016-17	4511	13201300	2926
2017-18	4520	12287850	2719
2018-19	4521	11269940	2493
2019-20	4525	11689000	2583
2020-21	4528	11726300	2590
Average	4469	12141963	2720
CGAR (%)	-0.20	-0.10	0.20

Sources: *Performance of Primary Agricultural Cooperative Credit Societies for Various Years*, www.nafscob.org.

Table 1.2
Growth of Funds Resources through PACCS in Tamil Nadu

(Rs. In Crores)

Years	Share Capital	Reserve Fund	Deposits	Borrowings	Working Capital
2011-12	967.72 (6.11)	519.70 (3.28)	5330.73 (33.65)	9024.77 (56.96)	15842.92 (-)
2012-13	849.37 (5.21)	939.03 (5.76)	4725.40 (28.99)	9788.66 (60.04)	16302.46 (2.82)
2013-14	981.50 (4.62)	1232.97 (5.80)	8065.78 (37.97)	10962.56 (51.61)	21242.81 (23.26)
2014-15	1078.71 (5.02)	962.24 (4.48)	7134.33 (33.19)	12318.81 (57.31)	21494.09 (1.17)
2015-16	1109.39 (5.01)	1113.84 (5.03)	7992.27 (36.09)	11932.10 (53.88)	22147.60 (2.95)
2016-17	1178.84 (5.34)	1372.59 (6.22)	9460.27 (42.86)	10061.41 (45.58)	22073.11 (-0.34)
2017-18	1265.14 (6.20)	1458.42 (7.15)	8270.36 (40.54)	11124.01 (54.53)	20398.33 (-8.21)
2018-19	1417.21 (6.75)	1459.31 (6.95)	8268.31 (39.35)	12534.91 (59.66)	21009.78 (2.91)
2019-20	1680.66 (6.43)	1595.34 (6.10)	8789.11 (33.63)	14504.07 (55.50)	26133.28 (19.61)
2020-21	1728.43 (6.29)	1634.62 (5.95)	8838.36 (32.15)	15962.89 (58.07)	27489.85 (4.93)
Average	880.79	805.01	5547.15	8376.86	15609.80
CGAR (%)	3.30	4.30	2.50	2.10	2.10

Sources: As in Table 1.1

Note: (1) Figures in brackets are percentage to total working capital

(2) Figures in brackets in working capital are percentage of change over previous years

In Tamil Nadu, a majority of the PACCS still depends on borrowings from DCCB as the main sources of their working capital. For example, the total borrowings at PACCS were increased from Rs. 9024.77 crores in the year 2011-12 to Rs.15962.89 crores in the year 2020-2021. Further, its percentage to total working capital also increased from to 56.96 per cent to 76.11 per cent during the period from 2011-2012 to 2020-2021 and stood at 45.58 per cent in the year 2016-17 (Table 1.2). However, it was found that the growth rate of working capital is -0.34 percent and -8.21 percent lower than the previous year between 2016-17 and 2017-18. Hence, the reason for this is that working capital has decreased between 2016-17 and 2017-18 due to currency devaluation during these periods.

Table: 1.3.

Trends of Sources Funds of PACCS in Tamil Nadu

Share Capital			
S.No	R-Square	Significance Level	
1	0.926	0.001	
2	Regression Coefficient: Equation $Y=b_0+b_1x_1+b_2x_2$		
Significance	$b_0 = 2.898$ (0.000)	$b_1 = 0.033$ (0.000)	$b_2 = 0.003$ (0.000)
Reserve Fund			
S.No	R-Square	Significance Level	
1	0.747	0.0001	
2	Regression Coefficient: Equation $Y=b_0+b_1x_1+b_2x_2$		
Significance	$b_0 = 2.833$ (0.000)	$b_1 = 0.043$ (0.001)	$b_2 = 0.009$ (0.000)
Deposits			
S.No	R-Square	Significance Level	
1	0.602	0.001	
2	Regression Coefficient: Equation $Y=b_0+b_1x_1+b_2x_2$		
Significance	$b_0 = 3.737$ (0.000)	$b_1 = 0.025$ (0.008)	$b_2 = 0.045$ (0.007)
Borrowings			
S.No	R-Square	Significance Level	
1	0.909	0.001	
2	Regression Coefficient: Equation $Y=b_0+b_1x_1+b_2x_2$		
Significance	$b_0 = 3.950$ (0.021)	$b_1 = 0.030$ (0.005)	$b_2 = 0.037$ (0.002)
Working Capital			
S.No	R-Square	Significance Level	
1	0.926	0.001	
2	Regression Coefficient: Equation $Y=b_0+b_1x_1+b_2x_2$		
Significance	$b_0 = 4.208$ (0.018)	$b_1 = 0.029$ (0.005)	$b_2 = 0.026$ (0.001)

The details on trends of source of funds for PACCS in Tamil Nadu presented in table 1.3 showed that, in this case of share capital the R^2 was 0.926 and significant at 0.0001 level of probability. The linear and quadratic had positive coefficients and significant indicating continuous growth throughout the study period. In the case of reserve funds the R^2 was 0.741 significant at 0.0001% level of probability indicating a good fit. The regression coefficients were positive indicating continuous growth rate. In the case of deposits the R^2 was 0.602 and was significant at 0.0001% level of probability. The regression coefficients for linear term were positive indicating slow growth rate in the beginning and the growth rate at the end. In this case of borrowings and working capital the R^2 was 0.909 and 0.926 and significant at 0.0001 level of probability. The linear and quadratic had positive coefficients and significant indicating continuous growth throughout the study period.

Loan Operations of PACCS in Tamil Nadu

PACCS deploy a major portion of their funds for granting different types of loans and advances. On the basis of duration, loans are mainly classified into short-term loan, medium-term loan and long-term loan. The financing bank reviews the loan disbursement statement taking into consideration the performance of the society under various norms, sanctions a credit limit to the society. The PACCS utilize the resources available under this facility. Together with its owned fund and deposit resources, PACCS uses these funds to sanction and disburse crop loans to the farmers. The primary responsibility of the PACCS is both the issue as well as collection of loans. The loans are collected immediately after harvest. The failure on the part of the society to collect the overdue in time resulted in default to the DCCB. Unless the society pays the dues to the higher financing agencies, it cannot get further finance from them and the society will also be put into hardship in managing the funds.

Table: 1.4
Trends in Loan Operations of PACS in Tamil Nadu

(Rs. in Crores)

Years	Total Loans Issued	Total Outstanding	Total Demand	Total Collection	Total Overdue
2011-12	17755.31 (-)	13992.77 (-)	6317.17 (-)	5605.41 (-)	711.76 (-)
2012-13	16185.64 (-9.70)	11824.45 (-18.34)	10915.69 (42.13)	10190.82 (45.00)	724.87 (1.81)
2013-14	19347.63 (16.34)	16893.13 (30.00)	16669.03 (34.52)	15443.73 (34.01)	1225.30 (40.84)
2014-15	19618.19 (1.38)	19035.64 (11.26)	18190.61 (8.36)	16571.03 (6.80)	1619.58 (24.34)
2015-16	19133.39 (-2.53)	18194.58 (-4.62)	19862.48 (8.42)	17721.02 (6.49)	2141.46 (24.37)
2016-17	15035.74 (-27.25)	15189.02 (-19.79)	18217.27 (-9.03)	16110.23 (-10.00)	2107.03 (-1.63)
2017-18	17420.05 (13.69)	16654.23 (8.80)	16002.04 (-13.84)	16746.74 (3.80)	1953.19 (-7.88)
2018-19	19228.50 (9.41)	18473.45 (9.85)	17466.63 (8.39)	15642.53 (-7.06)	1824.09 (-7.08)
2019-20	19497.71 (1.38)	19635.70 (5.92)	19155.23 (8.82)	16907.63 (7.48)	2247.60 (18.84)
2020-21	19864.46 (1.85)	20132.91 (2.47)	19852.74 (3.51)	17257.35 (2.03)	2438.75 (7.84)
CAGR (%)	0.40	1.80	3.70	3.60	5.70

Source: As in Table 1.1

Note: Figures in bracket are percentage of change over the previous years

It was found that the total loans issued increased from Rs.17755.31 crores to Rs.19864.46 crores in the year 2011-12 to 2020-21. The overall growth of loan issued in the study period at the State level was the lowest at Rs. 15035.74 in the year 2016-17 (Table 1.4). Further, the total loans outstanding increased from Rs. 13992.77 crores to Rs. 20132.91 crores during the same period. Though there were fluctuations in the percentage of change over previous years, CAGR for total loan outstanding stood at 1.80 per cent. Generally the gap between total membership and borrowing membership is presumed as the credit potential available. Viewed from this, there is still a huge potential available for extending credit by PACS in Tamil Nadu. However, the growth of overdue has been a major hurdle for extending the credit by PACS. The cumulative result is that the members, who are mostly borrowers, have little or no interest on their stakes in the PACCS. On the contrary, the Governments policies related to loan and interest waivers and delaying of recovery have, in a way, led the borrowers to presume that they could with impunity, delay or even fail to meet their repayment obligations.

Table: 1.5.

Trends of Loan Operations of PACCS in Tamil Nadu

Loan Issued			
S.No	R-Square	Significance Level	
1	0.908	0.001	
2	Regression Coefficient: Equation $Y=b_0+b_1x_1+b_2x_2$		
Significance	$b_0 = 2.184$ (0.003)	$b_1 = 0.028$ (0.008)	$b_2 = 0.004$ (0.000)
Loan Outstanding			
S.No	R-Square	Significance Level	
1	0.602	0.001	
2	Regression Coefficient: Equation $Y=b_0+b_1x_1+b_2x_2$		
Significance	$b_0 = 3.737$ (0.000)	$b_1 = 0.025$ (0.008)	$b_2 = 0.045$ (0.007)
Loan Demand			
S.No	R-Square	Significance Level	
1	0.509	0.021	
2	Regression Coefficient: Equation $Y=b_0+b_1x_1+b_2x_2$		
Significance	$b_0 = 3.988$ (0.037)	$b_1 = 0.079$ (0.013)	$b_2 = 0.112$ (0.014)
Loan Collection			
S.No	R-Square	Significance Level	
1	0.482	0.026	
2	Regression Coefficient: Equation $Y=b_0+b_1x_1+b_2x_2$		
Significance	$b_0 = 3.953$ (0.036)	$b_1 = 0.082$ (0.013)	$b_2 = 0.107$ (0.014)
Loan Overdue			
S.No	R-Square	Significance Level	
1	0.755	0.001	
2	Regression Coefficient: Equation $Y=b_0+b_1x_1+b_2x_2$		
Significance	$b_0 = 2.884$ (0.057)	$b_1 = 0.071$ (0.011)	$b_2 = 0.265$ (0.011)

The details on trends of loan operations for PACCS in Tamil Nadu presented in table 1.5 showed that, in this case of loan issued the R^2 was 0.908 and significant at 0.0001 level of probability. The linear and quadratic had positive coefficients and significant indicating the fluctuated growth throughout the study period. In the case of loan outstanding the R^2 was 0.602 significant at 0.0001% level of probability indicating a good fit. The regression coefficients were positive indicating continuous growth rate. In the case of loan demand and loan collection the R^2 was 0.509 and 482 and the level of significant was low, hence the function was not fit for interpretation. In this case of loan overdue the R^2 was 0.755 and significant at 0.0001 level of probability. The linear and quadratic had positive coefficients and significant indicating the fluctuate growth throughout the study period.

Financial Results of PACCS in Tamil Nadu

Though the main aim of cooperatives is not maximizing of profits, they should earn profit in order to render efficient services to members. At the same time, a cooperative society without profit cannot have a strong financial base and withstand severe competition. Profit is one of the indicators of development, which depends on various factors such as proportion of owned funds in the capital structure, high proportion of deposits in borrowed funds, effective recovery of loans and lower level of total expenditure.

Table 1.6
Position of Financial Results in India and Tamil Nadu

(Figures in Numbers and Rs. in Crores)

Year	Tamil Nadu					Average per Society in Tamil Nadu	
	No. of PACCS in Profit	Amount	No. of PACCS in Loss	Amount	No. of Villages Covered by Societies	Profit	Loss
2011-12	3472	279.11	1066	568.42	16564	0.08	0.53
2012-13	2377	189.5	1930	234.06	18794	0.08	0.12
2013-14	2803	414.73	1507	485.96	18540	0.15	0.32
2014-15	2758	385.44	1732	511.75	18285	0.14	0.30
2015-16	2289	110.86	2147	304.84	18978	0.05	0.14
2016-17	2357	209.74	2154	263.55	16603	0.09	0.12
2017-18	2358	178.48	2162	205.36	16549	0.08	0.09
2018-19	2510	173.43	2011	482.4	17258	0.07	0.24
2019-20	2090	188.71	2435	587.36	16093	0.09	0.24
2020-21	2134	195.34	2394	596.65	16176	0.09	0.25
Average	2515	232.53	1954	424.04	17384	0.09	0.24
CGAR (%)	-1.70	-2.40	2.90	0.10	-0.60	-0.80	-1.90

It was found the position of profit has come down from Rs.279.22 crores in the year 2011-12 to Rs.195.35 crores in the year 2020-21 in Tamil Nadu. At the same time, the number of profit PACCS position has fluctuated decreased from 3472 to 2134 during the same period (Table 1.6). However, the CAGR for

number of PACCS profit stood at -1.70 per cent and number of PACCS loss stood at 0.10 percent, and number of villages covered by PACCS stood at -0.60 per cent. This has been due to the support extended by the State Government to protect the interest of PACCS by diversifying their business operations. Hence, majority of the PACCS in Tamil Nadu have started to enlist the opportunities existed for increasing non-interest income from allied business activities.

Conclusions:

From the above analysis it is found that there was a growing trend in the number of PACCS and the average number of membership of a PACCS was increasing at Tamil Nadu during the study period. The position of loans and advances of PACCS had a fluctuated trend at Tamil Nadu level during the study period. In Tamil Nadu the PACCS showed better performance lending loans and also accepting deposits, the PACCS deployed higher level of their funds on general jewel loans and agricultural jewel loans. The problem of NPA was high among the PACCS in Tamil Nadu. Hence, the problem of NPA continues even after the introduction of waiver schemes and full interest subversion schemes in crop loans. It is concluded that internal resources helped the PACCS to reduce their cost of funds as well as dependency on DCCB. Further, without compromising on the regular commitment towards crop loans, the viable PACCS heavily invested on jewel loans, which provides higher yield than other loan. PACCS still depend on interest income only. It is the time that they should concentrate on the harvesting of opportunities to earn non-interest income by diversifying their business to meet the requirements of members.

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