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**RURAL CREDIT THROUGH CO-OPERATIVES IN SHIVAMOGGA DISTRICT**

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**ABSTRACT**

*In India, Economy of the State depends mainly on agriculture as more than 70% of the total population is engaged in this sector. Rural Credit is an essential input for the progress of agriculture which in turn results in economic development. In a developing economy like India Agriculture Credit has greater significance on account of the fact that it is a critical factor to support and sustain crop production. Our rural credit markets are characterized by both formal and informal sources of finance which is basically fragmented. Farmers' dependence on the rural credit is increasing day-by-day and well recognized in the state of Karnataka and in shivamogga district particularly. The need for the government arises to bring some major changes in the policies to meet the local needs according to their specific requirements. This paper aims to throw light on role of co-operatives in providing rural credit and thereby help in poverty alleviation in Shivamogga district.*

**KEYWORDS**

Agriculture, Co-operatives, Credit, Rural Shivamogga.

**I. INTRODUCTION**

**R**ural credit in Karnataka: Rural Credit system should focus on credit delivery favoring the main beneficiaries in rural areas, i.e. farmers. In Karnataka KSC Apex Bank Ltd. is mainly responsible for supplying timely and adequate credit to rural sector formally through DCC banks and PACS. The vision of Apex bank includes Equitable and sustainable micro financial inclusion for overall rural prosperity through meaningful utilization of Human Resources and Capital and their mission aims to promote, develop and sustain micro finance inclusion by providing effective support for credit as well as other microfinance products and services, sound institutional network and enhanced capacity building through short term credit cooperatives(STCCS).Karnataka has been in the forefront of Co-operative enterprises and has produced several outstanding cooperatives.

**The Cooperatives in Karnataka were established to concentrate on the following fundamental objectives:**

1. To bring the people of common interest in the state to organize themselves for the betterment of their life
2. Their interest to enjoy democracy in mobilizing savings and lending credit for their necessities
3. Working with transparency and they should always be accountable to its members
4. A clean and neat audit to safeguard the interest of its members
5. Voluntary membership where cooperatives in the state enjoy maximum autonomy
6. To improve its quality by professional management and usage of advancement of technology
7. To increase the facilities to its members and ensure that the cooperatives function for poverty alleviation and for the uplift of weaker sections of the society in order to pave way for establishing an equalitarian society
8. The co-operatives should make use of the local human resources and establish itself as self supporting, economic service- oriented business concerns
9. It should always work with an aim to serve public interest as well as to the private interest of its members
10. To work towards national objectives by providing equal opportunities to all the members and thereby emerge as peoples bank

Following are the two tables showing Agricultural loans disbursed and number of loan accounts from 2006-07 to 2011-12:

**TABLE 1: AGRICULTURAL LOANS DISBURSED DURING THE YEAR (in crore)**

Agency	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Coops.	42,480 (18)	48,258 (19)	46,192 (15)	63,497 (17)	78,121 (17)	87,963 (17)
RRBs	20,435 (9)	25,312 (10)	26,765 (9)	35,217 (9)	44,293 (9)	54,450 (11)
CBs	1,66,485 (73)	1,81,088 (71)	2,28,951 (76)	2,85,800 (74)	3,45,877 (74)	3,68,616 (72)
Total	2,29,400	2,54,658	3,01,908	3,84,514	4,68,291	5,11,029

Source: (Reserve Bank of India, 2013)

Figures in brackets indicate percentage share of different agencies to total agricultural credit

It is very clear from the above table that Co-operatives have gained much importance in granting credit with an increase in the loan amount disbursed has almost doubled in five years from 42,480 crores in 2006-07 to 87,963 crores in 2011-12.

**TABLE 2: NUMBER OF LOAN ACCOUNTS FINANCED DURING THE YEAR (in lakh)**

Agency	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Coops.	189	202	178	204	242	309
RRBs	62	62	76	73	73	82
CBs	172	175	202	205	234	255
Total	423	439	456	482	549	646

Source: (Reserve Bank of India, 2013)

The numbers of loan accounts also show a tremendous uptrend from 189 to 309 lakh accounts. Although it is low when compared to commercial banks, its improvements are well appreciated. Although the numbers are favourable to the co-operatives and show an improved performance practical situation of the farmers do not support the same. This paves way for further research in the area to check the practical obstacles for mismatch between the disbursement and procurement of credit.

### CO-OPERATIVE BANKS ROLE IN POVERTY ALLEVIATION THROUGH RURAL CREDIT: ISSUES AND CONCERNS IN SHIVAMOGGA DISTRICT

All 28 branches of DCC Bank in Shivamogga district has adopted CBS and CTS (Core banking Technology) facilitating farmers in the present context. Rupay Card, SMS banking facility is in the process to be provided to farmers through training to employees by the CEO. Every hobli branch will be established to take the banking facility to farmers' doorstep. State Government project to provide loan with 0% interest has reached in the year 2013-14 to 81,210 farmers who have received 346 crores and in the year 2014-15 1,00,000 farmers have received 417 crores worth of credit. This has covered 80% of the farmers in Shivamogga District. Also 17,536 women farmers' have procured credit. Out of 1.2 lakh farmers in the District co-operative banks have reached 1 lakh farmers' and 20,000 to be reached very soon. In the present 158 Co-operative societies in district in April-May 2014-37,000 farmers have procured 150 crores of credit and by this 40% target has been reached. Bagarhukum farmers will also receive credit by organizing Joint Guarantee Group. Women self help groups loan amount has been increased from 3 lakhs to 5 lakhs. With a pending amount of 1271 lakhs from Government towards loan nullify and interest nullify scheme the DCC bank has achieved a magnificent profit of 1.4 crores in this financial year. (Dr. Manjunath Gowda R.M., 2014)

### SELF HELP GROUPS IN SHIVAMOGGA DISTRICT

During the early seventies, Government took its initiative in the Fourth Five Year Plan to focus on small and marginal farmers. This was done to promote sustainable income generation under Integrated Rural Development Programme. Inadequacies inherent in running programs focused on individual households called for shift to a group based approach. The first step towards setting up self help groups (SHGs) was taken by Mysore Resettlement and Development Agency (MYRADA) was built upon rural chit funds and informal lending networks to evolve a credit management group.

In 1996, Reserve Bank of India included financing of SHGs as a main stream activity of banks under the priority sector lending programmes. The SHG Bank linkage programme covered over 24.3 million families by March 2005. Under the Bank-SHG Linkage Programme 2.24 million SHGs were linked, up to 31<sup>st</sup> March 2006, of which 90 percent were women groups. Today Shivamogga district has 20041 SHGs as on 31.03.2013. DCC bank with the help of Co-operatives was managing these Self help groups. But nowadays private organizations have also started Swa sahaya Sanghas which have become more popular in rural areas. The simple procedure and door to door approach is the main reason for the farmers to divert to these sanghas for procuring credit. Some of the Grameena Banks and Shri Dharmasthala Manjunatheshwara swa sahaya sanghas are really doing well in shivamogga district especially in villages through Joint Guarantee Group (a batch of 10 farmers brought together who guarantee each other). If one of the members is unable to repay the loan, his group members are liable to pay on his behalf. This helps in recovery of the loan and the groups are well disciplined. A team of employees, especially women are working hard towards the achievement of these sanghas. Incentives and motivation to their women employees who belong to the same village is identified and well appreciated here. These Sanghas not only concentrate on lending activities but also motivate the beneficiaries by providing training programmes to make their lives better. Tailoring, basic computer knowledge, handicrafts etc. are some of the examples of their training programmes. They also identify the basic problems in the society and put their efforts to eradicate them, for e.g. Prevent Alcohol addiction & Recovery. 75% of their members are insured and so as their crops and animals. They attend weekly meetings and the report of the same is submitted to the higher authority on the basis of which future lending decisions are made.

### THE MAIN PROBLEMS AND PROBABLE SOLUTIONS OF THE CO-OPERATIVES IN FACILITATING RURAL CREDIT ARE AS FOLLOWS:

- Dual Control of State Government and RBI:** The co-operatives are under the control of the Apex bank at the state level and RBI at the central level. This dual control restricts the co-operatives from its smooth functioning due to time consumption for policy formulation and implementation. By the time they reach the co-operatives they become outdated or useless. The policies framed by the central Government may or may not be suitable for the local co-operatives.
- Absence of Technology & Professional Management:** The co-operatives are still in the process of upgrading their services by usage of latest technology and the absence of professional management is one more hurdle which has created more problems to the beneficiaries. Innovative Practices in this era of transformation: The banks are trying to fully computerize their operations and go for core banking solutions. Only when this kind of innovative & ICT practices are brought forward in co-operative sector the real changes may happen.
- Lack of Need based, Sound, Healthy & Quality Banking Services:** When the services do not meet the actual needs of the beneficiaries or they do not reach the needy beneficiaries, such unhealthy and disqualified services of co-operatives may not bring positive changes in our economy. Banking services should be provided in such a way that it should benefit the beneficiaries and at the same time facilitate the cooperatives work profitably. Train beneficiaries to use cash point, Increase usage of Debit/Credit cards
- Problems being faced to sanction credit beyond their Authority power:** The auditors of NABARD as per the directions of RBI fix the limit for credit facilities to the co-operatives through the Apex Bank. The cooperatives usually come across such situations where they will be able to work out more profitably by sanctioning a higher loan amount beyond their powers but as it is not in their hands they refuse the befitted opportunity.
- Low Capital Base:** Strengthening capital base and Increasing Deposits of Co-operative banks has been in the forefront objectives of all co-operatives. Some of the current issues of DCC bank in shivamogga district has created fear and made the customers to withdraw the deposits held by them. Absence of transparency in the working of the co-operatives has posed a serious problem for the cooperative sector.
- Dividend Payout Restrictions:** Although some of the cooperatives are running with huge profits they donot have sufficient freedom to declare dividend, which will attract more capital indirectly and hence this has made the sector unattractive to the investors.
- Lack of Product & Process:** The traditional practices on one side and policies suitable for the central level on another side may not fit the local needs of the farmers. Technological innovation both Regulatory and Structural is necessary to bring new product and process which best suit the actual needs of the beneficiaries. Crop insurance and health insurance schemes for better living of the farmers are also not proved to be successful.
- High Transaction Cost:** Cooperatives should use updated technology and IT tools & applications to reduce their transaction costs. Linkages through SHGs & NGOs cooperatives may reduce their cost of operation as well as work for the real practical requirements of the beneficiaries. Also initiatives like development of common MIS and other software for all Cooperatives can be adopted to make the operation more transparent and efficient.
- High Level of NPAs:** Decreasing the gross NPA position is the aim of almost all the cooperatives in the present situation. The Apex bank can avoid sanctioning loans to the noncredit worthy borrowers by adopting certain measures. They are careful appraisal of the project which involves checking the economic capability of the project. The problem of NPAs has been a major issue for the banking industry. The RBI which is the apex body for controlling level of non-performing assets has been giving guidelines and getting norms for the banks in order to control the incidents of faults. Reduction of NPAs in banking sector should be treated as national priority item to make the Indian Banking system more strong, vibrant and geared to meet the challenges of globalization
- Lack of Strategies to Mitigate Risks:** Efficient Credit risk management is a positive sign for the efficient working of the cooperatives. But the credit as available in gigantic proportion is basically difficult to be managed and the strategies like loan waiver may not work if the mistakes of the past are repeated. If we have to evolve a strategy for mitigating the incidence of credit risk, particularly in the case of providing credit to the farmers cooperatives should be very careful while collecting the securities as well as recovering the debt and interest.
- Impact of External Factors:** Dual Government Control, competition in the market by other formal and non formal financial Institutions, Tax implications by the income tax authorities and other external factors also restrict the cooperatives to work effectively and provide timely and adequate credit to the beneficiaries.



12. **Imprudent funds & Investment Management:** On the basis of the policies framed by the Government from time to time cooperatives may sometime disburse loans irrespective to the requirements of the beneficiaries and if their investment is not properly adjusted with their borrowing they are sure to suffer. Professionalised Management system should be evolved where impartial loan disbursement is the utmost priority.
13. **Farmers are ignoring co-operative sector:** The farmers should be motivated to bank with Co-operative sector. Human Resource Development to assist the farmers has become necessary. User friendly technological assistance and hassle free banking services by the co-operatives may create interest amongst the farmers to bank with co-operatives.

## CONCLUSION

Mckinsey and Company in their 2013 Report published that people Below Poverty Line has decreased from 45% to 22% between 1994 to 2012 and this includes 27 crore Indians out of the total population in India. 98.5 billion had been induced in PACS & DCCS in this financial period in spite of which farmers are not able to meet the present standard of living. Although India, America and China are three giants in food production, farmers in the rural areas are striving for good food, shelter and health. The problems and suggestions have always been identified by the well wishers for Co-operative sector but until and unless Government and its representatives make it a point to bring some real changes for this sector, the benefits will not reach the rural people and farmers depend on other informal sector which makes their lives worse.

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