



## Performance of Primary Agricultural Credit Cooperative Societies in Maharashtra: An Assessment

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### Abstract

*Credit cooperatives, played a crucial role in the channeling of institutional credit to agriculture with a multi-agency approach along with commercial banks and regional rural banks to disburse credit in rural and urban areas. The present study investigates the performance of the primary agricultural credit cooperative societies, analyses the different phases of growth and distribution of PACS credit, and understands the multiple dimensions of the phenomenon of crops and social groups in Maharashtra. The loan advance amount increased year after year but decreased in the COVID pandemic year, with more than 50 percent of the total credit disbursed to the Pune and Nashik divisions and far less to the Kokan division. There is an imbalance in credit distribution in the state. Further, SCs and STs Members receive only an average of 5 percent of the society's credit.*

**Key Words:** PACS, Rural Credit, Maharashtra

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### 1. Introduction:

The agriculture sector is crucial to India's employment, Gross Domestic Product (GDP), and livelihood. The majority of the population lives in rural areas and is therefore heavily dependent on agriculture. Agriculture continues to be India's economic engine, providing a livelihood for more than 70 percent of the population and accounting for 52 percent of total employment in the economy (Census 2011). This sector's contribution to export revenue exceeded \$50 billion in the fiscal year 2022. It is a source of raw materials for agro-based industries and a demand for many industrial products like fertilizers, pesticides, agricultural implements, and a variety of consumer goods. This is India's single largest private-sector occupation. This sector has the potential to achieve a higher growth rate so that other sectors and the overall growth rate of the economy can be achieved.

Agriculture is an unorganized profession in which success and failure highly depend on climatic change. However, timely and affordable agriculture credit reduces failure and enhances productivity. That is why it is called the most crucial input in agricultural development. Credit to agriculture derived from institutional and non-institutional sources. Non-institutional sources comprise agricultural moneylenders, landlords, mahajans, traders, adatyas, friends and relatives, et cetera. Marx, Ambedkar, and Annie Besant, all in one



voice, said in one sentence, "People are exploited by those for whom they work." Moneylenders and landlords exploit their tenants and farmers (Balvindar 2000). There was a need to give special attention to agriculture through institutional credit. Institutional sources followed the "supply-lending approach," in which the government, RBI, NABARD, commercial banks, cooperative societies, and regional rural banks provide short-, medium-, and long-term cheaper credit to farmers.

The longest-serving institution, credit cooperatives, played a crucial role in the channelling of institutional credit to agriculture with a multi-agency approach along with commercial banks and regional rural banks to disburse credit in rural and urban areas (Chakrabarty 2003). Nowadays, credit cooperatives are working across India and providing short-, medium-, and long-term credit to rural areas in general and agriculture in particular.

Maharashtra state was formed in 1960. Since then, it has continued to be the leading state in terms of the number of credit cooperative societies. The state has had a consistently high ratio of two villages per primary agricultural credit society (PACS), whereas in all of India, the average has ranged between four and seven villages. Maharashtra has a three-tiered structure for short-term cooperative credit that includes primary agricultural credit societies such as Farmer Services Societies (FSS) and Large-Sized Adivasi Multipurpose Societies (LAMPS) at the village level, district central cooperative banks at the district level, and the Maharashtra State Cooperative Bank at the top level. PACS has direct contact with farmers and meets their financial needs. Over the years, the number of cooperative outlets at the primary level has declined due to the merger of small cooperatives, but their geographical coverage has not. Cooperative banks were deeply rooted in rural ethos and satisfied the needs of rural credit for several decades.

Even though cooperative banking is one step behind commercial banks in credit delivery in rural areas, they reach out to more individuals (College of Agriculture and Banking 2008). This agency suffers from large loan defaults and a virtual erosion of repayment ethics. "Even in the states where the cooperative institutions are working very satisfactorily, the credit provided by them is far 100 percent inadequate to satisfy the needs of agriculture." (Bhide 1977). They have chronic problems such as low repayment rates and high non-performing assets (NPAs), state patronage, undercapitalization, political rent-seeking, and corruption (Shah 2001; Vaidyanathan Committee 2005). Although rural cooperative financing is focused on agriculture, its percentage of all agricultural credit has decreased significantly over time, from as high as 64 percent in 1992–1993 to 11.3 percent in 2019–20 (RBI 2020).

The present study investigates the performance of the primary agricultural credit cooperative societies in Maharashtra. The rest of the paper is organised as follows: In Section 2, a literature review of the study is presented. Section 3, the research objective; Section 4, the research methodology; and Section 5, the discussion of the result and the conclusion.

## 2. Literature Review:

Dandekar and Wadia (1989) point out that the intervention of external forces, such as loan waivers and concessions in various forms towards repayment of principal and payment of interest had a significant impact

on credit institutions' recovery performance.

Binswanger et al. (1993) A Primary Agricultural Credit Society (PACS) is a small organization that operates at the village level. Since 1954, the credit demands of farmers have been increasingly met by cooperative credit societies. The money lenders were contributing more than 70 percent of their share of the total farmers' demand, but now they contribute only 35 percent. Therefore, the importance of credit cooperatives increased to the point that village moneylenders would no longer be necessary for rural finance.

Mazumder et al. (2014) conclude that even though PACS has consistently been the weakest link in the entire cooperative structure, it is crucial for providing a large quantity of finance to farmers at the grassroots level. Chavan Pallavi (2015) points out that, according to data reduction in primary societies' borrower-to-member ratio, cooperative credit was usually on the decline. Sugar cane receives the largest portion of the state's overall crop credit, yet the distribution of cooperative credit has always remained extremely unequal. The expansion of credit cooperatives is characterized by a clear preference for Western Maharashtra; the cash crops produced there, particularly sugar cane, and the landed section of the rural population. In Eastern and Central Maharashtra, where cotton and other crops are farmed, tenant cultivators and SCs and STs have generally avoided.

Devi and Govt (2012) state that by giving the agriculture sector appropriate, affordable, and timely credit, cooperatives are operating in the most effective way possible. This sector offers non-credit services as well as credit services for all areas of the rural economy. By expanding their agricultural output through cooperative finance, farmers were able to maximize their output in terms of both employment and income. Thus, it can be said that cooperative credit has evolved into an effective force for the growth of agriculture.

### 3. Research Objectives:

1. To analyze the different phases of growth and distribution of PACS credit in Maharashtra.
2. To understand the multiple dimensions of the phenomenon of crops and social groups.

### 4. Research Methodology:

The present paper is based on secondary data, which was collected from the cooperative movement at a glance in Maharashtra varies issues, the district socio-economic review; the economic survey of Maharashtra varies issues, and the NABARD report. The data will be analyzed with the help of the percentage tool. The study is limited to Maharashtra state only.

### 5. Discussion and Result:

**Table 1: Number of Primary Societies and Members of Primary Society, Maharashtra**

Year	1961	1971	1981	1991	2001	2011	2017	2018	2019	2020	2021
Number	21438	20453	18605	19597	20585	21451	21123	21102	20747	20744	20897
Members	22.55	38.83	64.47	90.07	114.96	150	156.08	150	151	153	151

(In lakh)

Source: Calculated from Cooperative Movement at a Glance in Maharashtra; Economic Survey of Maharashtra varies Issues  
Primary Agricultural Credit Societies were operational in all regions of Maharashtra. The growth in PACS in Maharashtra has followed three broad phases. During the first phase (1961 and 1981), in 1971, there was

a fall in the number of PACS of 4.95 percent, and the mid-1970s witnessed again a particularly sharp fall in the number of societies of 13.21 percent due to droughts between 1972 and 1974. However, members of societies increased during this phase by 285.89 percent. This is a positive sign that rural people have access to banking facilities. In the second phase, 1991–2000, after the liberalization policy and financial inclusion, there was an increase in the number of societies by 10.64 percent and the number of members of societies by 78.31 percent compared to 1981. During the third phase—2011 and 2021—there was a decline in the numbers of societies because of the COVID-19 effect, and the members of those societies just increased by 0.66 percent. As a result, there has been a fall in the intensity of primary societies and the growth rate of members in societies.

**Table 2: Composition of Credit from Primary Societies, Maharashtra, 1981–2017 (Rs. In lakh)**

Year	Short-term loans	Medium/Long-term loans	Total loans
1961	27,712 (86.8)	3,281 (13.2)	24,993 (100.0)
1981	29,164 (76.1)	9,181 (23.9)	38,345 (100.0)
1991	83,756 (62.0)	51,436 (38.0)	1,35,192 (100.0)
2001	3,24,821 (61.2)	2,06,006 (38.8)	5,30,827 (100.0)
2011	6,79,649 (84.3)	1,26,113 (15.7)	8,05,762 (100.0)
2017	12,91,263 (84.5)	2,37,666 (15.5)	15,28,929 (100.0)

Figures in brackets indicate percentage share in total credit.

Source: Cooperative Movement at a Glance in Maharashtra, various issues

PASC disburses short-, medium-, and long-term loans to farmers. Primary Societies' ground level credit advance amount was increased from Rs. 24,993 lakh to Rs. 15,28,929 lakh from 1961 to 2017. In 2017, about 84 percent of short-term loans out of total credit were disbursed to farmers. Since 1961, the short-term loan percentage has been higher than the medium- and long-term loan percentages. However, from 1981 to 2001, the percentage rate of loan disbursement reduced by 76 percent and 62 percent, respectively.

**Table 3: PACS Loan Advance, Loan Recovered, outstanding and overdue loans (Rs. In Crore)**

Year	1961	1971	1981	1991	2001	2011	2017	2018	2019	2020	2021
Advance	40.36	115	250	769	3734	8060	15289	15662	13093	13816	14189
Recovered	31.25	92	201	784	2766	6765	10914	11061	10670	11179	10975
Outstanding	42.96	165	383	1352	5308	12024	13477	13406	13823	14512	13890
Overdue	8.65	62	150	493	1644	6404	5453	6214	6143	5824	6021
% overdue to outstanding loan	20.14	37.58	39.16	36.46	30.97	53.26	40.46	46.35	44.44	40.13	43.35

Source: Calculated from Cooperative Movement at a Glance in Maharashtra; Economic Survey of Maharashtra varies Issues

Table 3 shows the PACS credit disbursement, recovery, and outstanding and overdue amounts of credit. Since the inception of Maharashtra, the initial four-decade growth of the credit supply was slow, but after 1991, it has drastically increased by 485.56 percent between the years 1991 and 2001. This is the impact of the new economic policy of the government. The credit disbursement trend increased following years, but from 2019, this trend decreased due to the COVID-19 effect. The recovery rate of loans was an average of



70 percent during the entire period. However, the outstanding loan amount is always higher than the advance loan amount, which shows an increasing trend during the period. An average overdue amount of total outstanding loans is near 40 percent. This is not a good sign for the PACS because it impacts its working capital.

**Table 4: SC/ST Number of Members, Borrowers and Amount of Credit from Primary Societies, Maharashtra, 1980–81 to 2016–17**

Year	SC/STs Members as Percentage of total Members	SC/STs Borrowers as percentage of total Borrowers	Credit to SC/STs as percentage of total credit
1980-81	20.44	14.24	6.09
1990-91	19.64	10.17	2.52
2000-01	16.41	12.21	4.1
2005-06	15.6	11.9	5.4
2009-10	11.0	13.1	6.7
2016-17	12.4	12.06	5.87

Source: Cooperative Movement at a Glance in Maharashtra, various issues; GoM (1981, 1991, 2003, 2017)

Scheduled Castes (SC) and Scheduled Tribes (ST) members' percentages are decreasing year after year in total PACS members. In 1980–81, the percentage was 20.44 percent, but it dropped to 12.4 percent in 2016–17. In 2000-01, the population percentage of the SCs and STs was 24.3 percent in the state population, but their share in PACS membership was 16.41 percent. All the members had not taken credit from PACS. The borrower share was 11 percent of total state borrowing. They constitute about 12.4 percent of the members of societies in 2016–17, although the SCs and STs Population in the state was 27 percent as of the 2011 census. They also derived little benefit from credit cooperatives in Maharashtra. Their share of total credit was 6.09 percent in 1980–81, and it went down by 2.52 percent in 1990–91, but after that, the trend showed an increase but did not cross the 1980–81 shares. SCs and STs Borrowers only receive an average of 5 percent of the total credit of their societies.

**Table 5: Division wise Primary Societies Credit Share in Maharashtra 1964-2010**

Division	1964	1970	1980	1990	2000	2010
Pune	25.2	26.9	24.7	24.1	34.5	31.9
Nashik	31.2	23.4	28.9	35.5	27.7	29.1
Aurangabad	17.7	26.7	16.0	24.7	22.2	22.8
Amravati	15.0	12.6	19.1	9.6	8.5	9.1
Nagpur	8.0	7.3	8.6	4.9	6.0	5.1
Kokan	3.0	3.1	2.8	1.3	1.1	1.9
Maharashtra	100.0	100.0	100.0	100.0	100.0	100.0

Source: Calculated from Cooperative Movement at a Glance in Maharashtra, various issues; district socio-economic review of each district for various years.

Maharashtra is divided into six divisions. There were glaring regional disparities in the distribution of ground-level cooperative credit societies' credit. In 1964, about 31 percent of the total cooperative credit disbursed was in the Nashik division, followed by the Pune division with 25 percent. This trend was constant up to 1990. After that, the highest credit was disbursed to the Pune division instead of the Nashik division. In 2010, about 32 percent of the total cooperative credit was disbursed in the Pune division. Primary societies disbursed more than 50 percent of their credit to the Pune and Nashik divisions, and the remaining 50 percent was disbursed throughout the rest of the division. Out of a total of 50 percent credit, the Aurangabad division received 23 percent from cooperative societies. In 2010, about 14 percent of the total PASC credit was disbursed in the Amaravati and Nagpur divisions. In the Kokan division from 1980, credit was disbursed at merely 3 percent. In 2010, disbursed credit was only 2 percent.

### Conclusion:

The number of primary agricultural credit societies in rural areas decreased after 1961 and did not increase with population growth in the state. From formation state, initial first two decade societies give high weightage to short-term loan disbursement, and after they shift somewhat more percentage weightage to medium- and long-term credit, the short-term loan growth again picked up after 2011. The loan advance amount increased year after year but decreased in the COVID pandemic year, with more than 50 percent of the total credit disbursed to the Pune and Nashik divisions and far less to the Kokan division. There is an imbalance in credit distribution in the state. Further, SCs and STs Members receive only an average of 5 percent of the society's credit. Overdue percentage to outstanding loans is about 44 percent in the current year, which adversely affects the working capital of societies. However, PACS plays a crucial role in the disbursement of short-term credit to farmers at ground level in rural Maharashtra and helps reduce the dependency on non-institutions.

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