

## Credit Based Marketing Mechanism Regulates the Base Shiftment of Farmers

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### **Abstract**

*The members of the credit society should be able to sell their produce through marketing society, and the primary credit society should act as the agent of the marketing society and assemble and arrange transport to marketing society. The first step in the process of linking of credit with marketing is the application of agricultural credit societies to marketing societies. Now, the primary credit society advances crop loans to the member on the understanding that they would sell their produce through the marketing society. This system of mutual assistance was expected to ensure better recoveries for the primary societies and better business for the marketing societies.*

*Keywords: Agricultural Development, Farmers, Marketing, Members, Primary Co-operative Credit Society and Primary Co-operative Marketing Society*

### **INTRODUCTION**

A continuing problem in the Indian economy is that of providing adequate credit facilities to the agriculturalists and others in the rural areas. For ages this is a field dominated by private money lenders of all types, who have profited at the expense of the poorer sections of the rural population. Attempts made to improve the lot of the rural borrower include legislation to curb usurious practices of money lenders on the one hand and establishment of a variety of institutions for supply of credit on the other. Besides loan directly extended by governments, the principal means of helping the rural borrower has been the development of the co-operative credit structure. Despite its long history, the co-operative movement has not fulfilled the promise it held for a variety of reasons. From time to time measures have been taken to enable the co-operative movement to establish itself more firmly and subserve the interest of the poor farmers rather than the bigger peasants. Even so the situation at present is that less than a third of total credit requirements of the rural sector is met by the co-operatives. And a good part of such credit is appropriated by the relatively better-off farmers.

Apart from the social and organisational factors inhibiting the co-operative movement, a major problem has been that of overdues. The mounting burden of overdues has meant in its turn a limitation of the co-operative society's ability to enlarge their lending operations. Of necessity, provision of additional credit to many members has had to be made conditional on repayment by them of past dues. In consequence, not only has the strength of the co-operative movement been sapped considerably, but the pattern of assistance they could give has been distorted.

As may be expected, there have been a variety of reasons for the accumulation of overdues. The causes range from wilful default at one end to crop failures and ineffective supervision at the other. Likewise, there has been default by borrowers of all types; but is not always the poor farmers who fail to repay his loan on time. It is, therefore, obvious that any policy directed towards bringing down the proportion of overdues should address itself to the co-operative movement as a whole rather than any particular part of it or any particular class of members.

As early as 1945, R.G. Saraiya Committee on the Co-operative Planning stated that 'for the proper development of agricultural economy credit should be linked with marketing.' To make this recommendation effective, the committee recommended that one of the conditions of loans given by a primary credit society should be that each member would sell all marketable surplus of his farm produce through the marketing society. The Committee on Co-operative Credit (1960) also strongly recommended that there should be a close link between the agricultural credit society and the marketing society.

Linking Co-operative Credit with Marketing has long been regarded as a 'sine qua non' not only for the satisfactory working of the co-operative marketing or co-operative credit societies but for the wholesome growth of the co-operative movement. Under this scheme the Primary Credit Society advances crop loan to the members on the understanding that they would sell their produce through the marketing society. This system of mutual assistance is to ensure better recoveries for the primary credit societies and better business for the marketing societies.

## **REVIEW OF LITERATURE**

To provide necessary background for the present study, an attempt is made here to review briefly important research studies.

Prakashgowda, A. N (2018) examined the impact of inadequacy of agricultural credit through the study entitled "Impact of Rural Credit Co-operative Societies on Rural Development and Relevance of Gandhian Concept of Co-operative Movement a Case Study of Mandya District" after compiling data from 400 respondents. The period of the study covers from 2005-06 to 2015-16. The study showed that the average available credit was less than the credit required at the optimum level of working capital of farmers. The study revealed that the average amount of short term and medium term credit requirement of the sample borrowers was Rs.10,418 and Rs.12,191 respectively. But the average amount of short term and medium term credit availed by farmers was only Rs.1,276 and Rs.4,152 respectively.

Godara (2014) conducted a study on the topic "Issues and Concerns of Agricultural Credit in India". For making the investigation more purposeful data collected from 90 farmers of six Primary Co-operative Credit Societies across three districts namely Jind, Sirsa and Bhiwani of Haryana State by the method of convenient sampling. The result indicated that all the farmers faced the problem of insufficiency of credit in comparison to their increasing credit requirements due to increasing cost of inputs. This inadequacy of credit was more severe among small and marginal farmers than large farmers. And also, the study reported that the inadequacy of credit was an important reason for lower productivity in agriculture sector.

Gurusamy and Subramaniam, (1991) through his paper "Agricultural Development and Economic Growth" tried to expose quantum of credit requirements that enabled the small and marginal farmers to adopt the high yielding variety of paddy in Kodumudi Panchayat Union, Periyar District. It is stated that the society was not able to function effectively and the farmers were not able to get adequate and timely finance from the Society. Further, the non-repayment of loans by farmers also affected the implementation of non-credit activities like distribution of seeds, fertilisers, manures and agricultural implements the study pointed out.

Through the article titled "Problems of Agricultural Loans" by E.A.Narayana, (1987) has made an attempt to examine the need of credit agencies. For making the investigation more purposeful Vysya Bank and co-operative credit society were taken into consideration. The study revealed that the farmers and others use more often the Vysya Bank for their credit requirements than the co-operative credit society. This is due to financial non viability of co-operative credit societies that results in the dominance of money lenders on farmers.

## **STATEMENT OF THE PROBLEM**

The consequences of mounting indebtedness of farmers are very serious indeed. This indebtedness is responsible for the low standard of living and worsening poverty amongst the cultivating classes. Due to heavy debts, the farmers are unable to properly market their produce. As a result, the income of the farmer is mostly spent on repayment and agricultural improvements tend to get neglected. Thus, the burden goes on increasing and is subsequently passed from one generation to the other. The Royal Commission on Agriculture remarked that the Indian peasant is born in debt, lives in debt, and dies in debt.

## **OBJECTIVES OF THE STUDY**

Objective of the present study is to evaluate the operations involved in the credit based marketing system.

## HYPOTHESIS OF THE STUDY

Hypothesis formulated to test the above objective is the operational efficiency of Primary Co-operative Credit Societies and Primary Co-operative Marketing Societies are varying year by year.

## METHODS

Present study is based on secondary data and primary data. Secondary data collected from text books and journals. Co-operative marketing society and Co-operative credit society is selected as the units of the study. Primary data is collected from interviewing members of co-operative marketing societies. A structured questionnaire was developed for this purpose. The analysis of the data has been done with the help of Excel from the total of 32 Primary Co-operative Marketing Societies and 32 Primary Co-operative Credit Societies. Frequency, percentages and growth rates are the important tools used in the study.

## RESULTS AND DISCUSSION

A Co-operative society is a complex mechanism combining economic and social aspects at the same time. Short-term co-operative credit and marketing institutions continue to occupy a significant position in institutional credit flows to agriculture. Several studies on the operational efficiency of the PACS and PCMS show that most of the units were inefficient in the mobilization of finances as well as in the operation of resources. One of the reasons of slow progress may be the poor operational and managerial practices of the PACS. The ramification of the problems that arise from the research question require to be addressed form empirical findings through identification and evaluation of relevant factors which can reduce the inefficiency level of fund and design its assets and liabilities mix to improve their performance.

It is necessary to evaluate various operations of co-operative credit and marketing societies in association with the practice of the scheme of ‘Linking Co-operative Credit with Marketing (LCCM)’. Based on the objective, 10 variables have been developed. The analysis of the data has been done with the help of Excel from the total of 32 Primary Co-operative Marketing Societies and 32 Primary Co-operative Credit Societies.

### ***1.1 TOTAL NO. OF PCM SOCIETIES AND THE SOCIETIES UNDER THE LCCM SCHEME***

In Kerala, there are 240 Co-operative Marketing Societies registered up to 31<sup>st</sup> March, 2019 under the administrative control of Registrar of Co-operative Societies. Of these, only 32 Primary Co-operative Marketing Societies are undertaking the scheme of ‘Linking Co-operative Credit with Marketing operation.

**Table 1.1: Total no. of PCM Societies and societies participating ‘Linking Co-operative Credit with Marketing operation’.**

<b>Years</b>	<b>Total PCM societies</b>	<b>Societies practicing the LCCM scheme</b>	<b>Percentage to total</b>
2014-15	270	12	4.44
2015-16	268	17	6.34
2016-17	258	20	7.75
2017-18	243	29	11.93
2018-19	240	32	13.33

(Source: Audit Report)

Table 1.1 shows the total number of Primary Co-operative Marketing Societies working in the State of Kerala from 2014-15 to 2018-19 under the administrative control of Registrar of Co-operative Societies. Among them, very few in number are practicing the scheme of Linking Co-operative Credit with Marketing. During the year 2014-15 only 4.44 percentages of the Societies were practicing the scheme. It is observed that the total number of societies undertaking the scheme was at maximum in the year 2018-19, which accounted to 32.

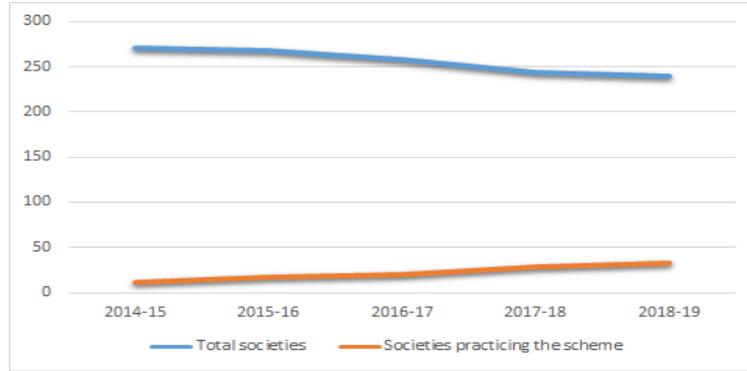


Figure 1. 1 Total no. of PCM Societies and societies participating Linking Co-operative Credit with Marketing operation.

**1.2 TOTAL NO. OF PCC SOCIETIES AND SOCIETIES UNDER THE LCCM SCHEME**

In Kerala, there are 580 Primary co-operative credit societies registered up to 31<sup>st</sup> March, 2019 under the administrative control of Registrar of Co-operative Societies. Of these, only 32 Primary Co-operative Marketing Societies are undertaking the scheme of ‘Linking Co-operative Credit with Marketing operation’.

**Table 1. 2: Total no. of PCC Societies and societies participating Linking Co-operative Credit with Marketing operation.**

Years	Total societies	Societies practicing the LCCM scheme	Percentage to total
2014-15	474	12	2.53
2015-16	486	17	3.50
2016-17	503	20	3.98
2017-18	544	29	5.33
2018-19	580	32	5.52

(Source: Audit Report)

Table 1.2 shows the total number of Primary Co-operative Credit Societies working in the State of Kerala from 2014-15 to 2018-19 under the administrative control of Registrar of Co-operative Societies. Total number of PCC Societies increased substantially from 474 in 2014-15 to 580 in 2018-19. Similar growth trend was found in societies practicing the scheme of ‘Linking Co-operative Credit with Marketing’.

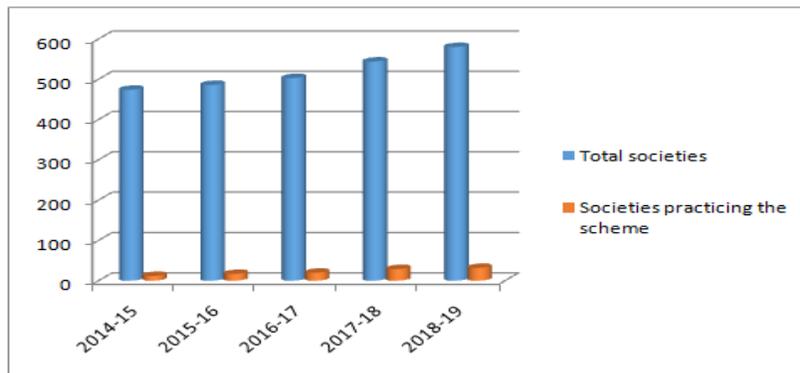


Figure 1. 2 Total no. of PCC Societies and societies participating Linking Co-operative Credit with Marketing operation.

### 1.3 TOTAL MEMBERS OF PCC SOCIETIES AND MEMBERS WHO HAVE AVAILED CROP LOAN UNDER THE LCCM SCHEME

On the basis of their information till 31<sup>st</sup> March 2019, only 32 co-operative Credit Societies were undertaking the scheme of Linking Co-operative Credit with Marketing operation in the state of Kerala and 910 farmers enrolled as individual members till that date.

**Table 1. 3: Total members and members who have availed crop loan under the LCCM Scheme**

Years	Members involved in selected Societies	Members who have availed crop loan	Percentage to total
2014-15	21531	519	2.41
2015-16	37302	658	1.76
2016-17	41603	798	1.92
2017-18	45695	816	1.79
2018-19	49410	910	1.84

(Source: Audit Report)

Table No 1.3 shows the total number of members of Primary Co-operative Credit Societies and members who have availed crop loan under the LCCM scheme. It can be noticed from the Table 4.3 that total number of members of Primary Co-operative Credit Societies and members who have availed crop loan under the LCCM scheme increased year by year. Similarly, percentage of borrower member to total member is seen maintaining a more or less stable level except in 2014-15. The value came to a minimum of 1.76 per cent in 2015-16 and 2017-18 and to a maximum of 2.41 during the first year i.e., 2014-15.



Figure 1. 3 Total members and borrower members of PCC Societies

### 1.4 TOTAL MEMBERS OF PCM SOCIETIES AND MEMBERS WHO HAVE AVAILED CROP LOAN UNDER THE LCCM SCHEME

On the basis of their information till 31<sup>st</sup> March 2019 only 32 co-operative Credit Societies were undertaking the scheme of Linking Co-operative Credit with Marketing operation in the state of Kerala and 910 farmers enrolled as individual members till that date.

**Table 1. 4: Total members and members who have availed crop loan under the LCCM Scheme.**

Years	Members involved in selected Societies	Members who have availed crop loan	Percentage to total
2014-15	41513	519	1.25
2015-16	48732	658	1.35
2016-17	51604	798	1.55
2017-18	55690	816	1.47

2018-19	55739	910	1.63
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(Source: Audit Report)

Table No. 1.4 shows the total number of members of Primary Co-operative Marketing Societies and members who have availed crop loan under the LCCM scheme. It can be noticed from the Table 4.4 that total number of members of Primary Co-operative Marketing Societies and members who have availed crop loan under the LCCM scheme was increased year by year. Similarly, borrowed member to total member is seen maintaining a more or less stable level during the study period. The value came to a minimum of 1.25 per cent in 2014-15 and to a maximum of 1.63 percent in 2018-19.

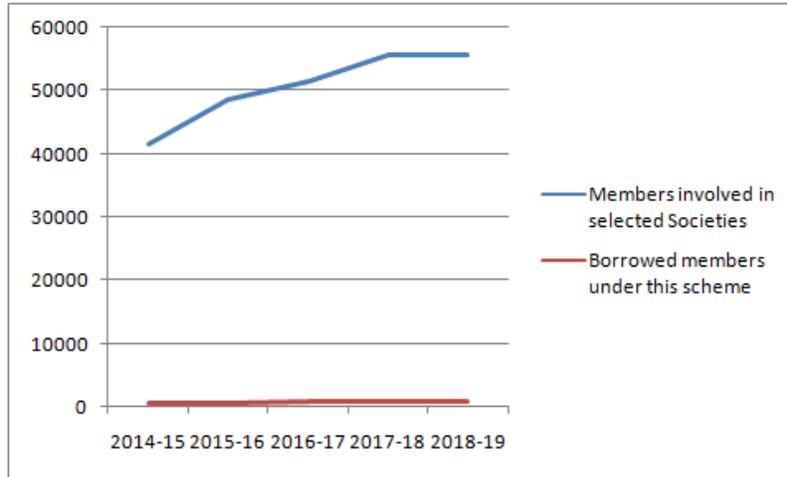


Figure 1. 4 Total members and borrower members of PCM Societies

### 1.5 TOTAL MEMBERS AND THEIR COMPOSITION INTO MARGINAL, SMALL AND LARGE FARMERS

Members are the vital ingredients of each and every co-operative society. No co-operative society can flourish without appropriate support from members and vice versa. Membership of a co-operative marketing societies and marketing societies are open to individual farmers, other co-operative societies within the area of operation and government. Any person who is a grower of any type of the agricultural produce with land owned or possessed, and who has no disqualifications as per provisions in the Kerala Co-operative Societies Act and rules and bye-laws shall be eligible for individual membership.

**Table 1. 5: Total members and their composition into marginal, small and large farmers**

years	Loan Borrowers	Small farmers		Medium farmers		Large farmers	
		no.	%	no.	%	no.	%
2014-15	519	129	24.86	202	38.92	188	36.22
2015-16	658	179	27.20	438	66.57	41	6.23
2016-17	798	189	23.68	521	65.29	88	11.03
2017-18	816	195	23.90	528	64.71	93	11.40
2018-19	910	227	24.95	562	61.76	121	13.30

(Source: secondary data)

It is observed from Table 1.5 that the number of farmers borrowing crop loan under this scheme is varying year by year. As far as medium and small farmers are concerned, there is an increasing trend found in case of loan borrowing. But in the case of large farmers, 36 per cent of members are borrowing loan under this scheme. Then a sudden decrease (6.23 per cent) was found in 2015-16. After that an increasing trend is found and it stood at 13.30 per cent in 2018-19.

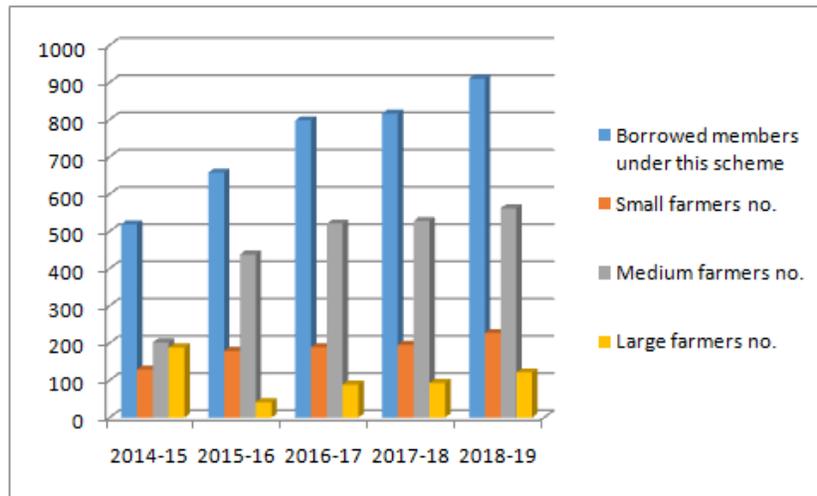


Figure 1. 5 Total number of member farmers and their composition into marginal, small and large farmers

### 1.6 SEASONALITY

The principle of the seasonality in lending and recovery has been accepted by the co-operatives in Kerala. Under the crop loan system, the Registrar decides the period of advances and recoveries for different seasons. However, the period can be enhanced or reduced on the ground of climatic conditions with the special permission of Registrar.

**Table 1. 6: Trend in crop loan in Kharif & rabi season from 2003-04 to 2007-08**

Years	Small farmers			Medium farmers			Large farmers		
	no.	K	R	no.	K	R	no.	K	R
2014-15	129	87	42	202	129	73	188	139	49
2015-16	179	87	92	438	212	226	41	22	19
2016-17	189	89	100	521	257	264	88	33	55
2017-18	195	91	104	528	259	269	93	49	44
2018-19	227	102	125	562	283	279	121	58	63

(Source: Audit Report)

Table 1.6 reveals numbers of farmers have taken crop loan in Kharif and Rabi season. In the case of small and medium farmers in both the season, the number of farmers demanding crop loan is increasing year by year. But in case of large farmers, there is a variation in the number of farmers demanding crop loan.

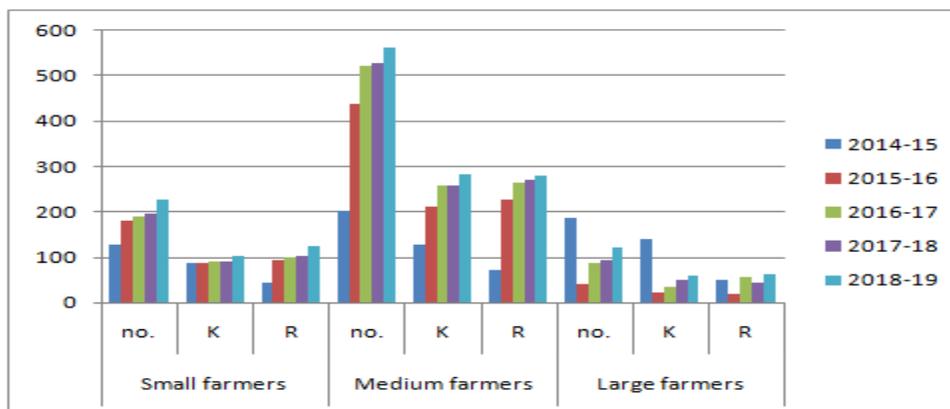


Figure 1. 6 Trend in crop loan in Kharif & rabi season from 2003-04 to 2007-08

**1.7 LOAN AMOUNT DEMANDED BY THE MEMBERS OF PCM SOCIETIES**

As crop loans are production oriented loans, they are demanded before the commencement of the sowing season. The scale of finance is determined at the field workers conference consisting of Assistant Registrar of Co-operatives, officers of Central Co-operative Bank, Officers of the Agricultural Department, Extension Officers and Representatives of Primary Credit Societies. The crop loan system largely depends on efficient co-operative marketing system.

**Table 1. 7: Loan amount demanded by the members of PCM Societies**

Years	Demand	GR (%)
2014-15	2033000	
2015-16	3597900	7.69
2016-17	4186590	10.59
2017-18	6915640	24.01
2018-19	8858160	33.57

(Source: Audit Report)

From the Table, it is clear that 7.69 percentage of increase in the amount of loan demanded is found during 2015-16 as compared to 2014-15. Thereafter 10.59 per cent of increase is found. During the year 2017-18, 24.01 per cent of increase is found as compared to the previous year. At the end of the study period, it stood at 33.57 per cent.

**1.8 DISBURSEMENT OF LOANS TO MEMBERS BY PCC SOCIETIES**

The crop loan disbursement depends on the area cultivated, type of land, the nature of crops, the level of cultivation, and whether improved practices of cultivation have been adopted. Interest prescribed by the PCCS has to be paid on the crop loan by the borrowers with a view to ensure that the loan is used for the purpose for which it has been given, regular follow up action by the PCCSs staff should be taken up.

**Table 4. 8: Disbursement of loans to members by PCC Societies**

Years	Advances during the year	GR (%)
2014-15	1903530	
2015-16	2967740	5.59
2016-17	3128760	6.43
2017-18	5389520	18.31
2018-19	6666758	25.02

(Source: Audit Report)

From the Table, it is clear that 5.59 percentage of increase in the amount of loan disbursement is found during 2015-16 as compared to the previous year. Thereafter, 6343 per cent of increase is found. During the year 2017-18, 18.31 per cent of increase is found as compared to the previous year. At the end of the study period, it stood at 25.02 per cent.

**1.9 LOAN RECOVERED BY PCC SOCIETIES**

The repayment tenure is fixed by the PCCS based on the anticipated harvest and the marketing period of the crops. It is usually fixed at 1 year for regular crops and at 18 months for crops like sugarcane, banana, pineapple, etc. However, an annual review is conducted, and the credit limit may be upgraded based on the customer requirements.

**Table 1. 9: Loan recovered by PCC Societies**

Years	Recoveries	GR (%)
2014-15	955540	
2015-16	1827733	9.12
2016-17	1950950	10.41
2017-18	2918380	20.54

2018-19	3578688	27.45
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(source: Audit Report)

From the Table, it is clear that 9.12 per cent of increase in the amount of loan recovery is found during 2015-16 as compared to 2014-15. Thereafter, 10.41 per cent of increase is found. During the year 2017-18, 20.54 per cent of the increase is found as compared to the previous year. At the end of the study period it stood at 27.45 per cent.

### 1.10 DEFAULT AMOUNT TO PAY BY PCM SOCIETIES

The All India Rural Credit Survey Committee (1969) rightly pointed out “linking of credit with marketing to the extent that it can be built up should certainly help to check overdues”. This scheme has certain urgency because of the mounting overdues in co-operative credit. Thus, the risk of overdues and losses is considerably reduced where there is effective linking of credit. The main function of the scheme is the disbursement of loans to members with a view to improve their economic conditions.

Table 1. 10: Default amount to pay by PCM Societies

Years	Overdues	GR (%)
2014-15	1077460	
2015-16	1770167	6.42
2016-17	2235640	10.74
2017-18	3997260	27.09
2018-19	5279472	38.99

(Source: secondary data)

Table 1.10 reveals that the overdues to demand showed an increasing trend, during the period from 2014-15 to 2018-19. The position of overdues with regard to PACS is alarming. From the table, it is clear that 35.5 percentage of increase in the amount of loan default are found during 2015-16 as compared to the previous year. There after 20.85 per cent of the increase is found. During the year 2017-18, 44.07 per cent of the increase is found as compared to the previous year. At the end of the study period it stood at 24.27 per cent.

### 1.11 TESTING OF HYPOTHESIS

Various operations of co-operative credit and marketing societies in association with the practice of the scheme of ‘Linking Co-operative Credit with Marketing’ are evaluated with the help of 10 variables. The total of 32 Primary Co-operative Marketing Societies and 32 Primary Co-operative Credit Societies were selected for the Study. Secondary data for the period of 5 years from 2014-2015 to 2018-2019 were collected for this purpose. From the study it can be easily identified that the growth trend is found in the following variables like loan amount demanded by the members of PCM Societies, Disbursement of loans by PCCS to the members of PCMS, loan recovered by PCCS and default amount to pay by PCMS. The study revealed that operational efficiency of Primary Co-operative Credit Societies and Primary Co-operative Marketing Societies while practicing the scheme of linking credit with marketing is varying year by year. Therefore, the present study accept the null hypothesis that the operational efficiency of Primary Co-operative Credit Societies and Primary Co-operative Marketing Societies while practicing the scheme of linking credit with marketing is varying year by year.

### CONCLUSION

Linking Co-operative Credit with Marketing has long been regarded as a ‘sine qua non’ not only for the satisfactory working of the co-operative marketing or co-operative credit societies but for the wholesome growth of the co-operative movement. Under this scheme the Primary Credit Society advances crop loan to the members on the understanding that they would sell their produce through the marketing society. This system of mutual assistance is to ensure better recoveries for the primary credit societies and better business for the marketing societies.

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