Role of Primary Agricultural Credit Societies towards upliftment of Scheduled Castes and Scheduled Tribes

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Abstract

The present empirical study looks at the role of primary agricultural credit societies (PACS) towards empowerment of the Scheduled Castes and Scheduled Tribes. The investigation based on data from 2012-13 to 2017-18 on selected regions reveals the poor role of PACS. The result on aspects like number of PACS, growth in membership and borrowers, rise in the membership and borrowers from the SC and ST community shows the passive role of PACS. During the study period, there is a decline in performance in majority of the regions. However, there is a growth in respect of average borrowings per head. The overall findings show a lot more can be done by these institutions.

Keywords: PACS, SC, ST, Membership, Borrowers, Growth

1.   Introduction

The backbone of our Indian economy is agriculture as even today almost 70 percent of the rural population is directly or indirectly dependent upon agriculture for the livelihood (Census, 2011). This unorganized sector also provides employment directly or indirectly to a huge populace of the country. As per the last census, of the total worker strength of 490 million engaged in different sectors, almost 90% is engaged in the unorganized sector with the agricultural sector bearing the highest share. The employment in agriculture stood at 58.2 percent of the total employment in India as per the Census Report, 2011. Of the share in rural employment, agriculture takes the burden of 64.1 percent (Chand et al., 2017). It is true that the role of agriculture towards the remarkable development, growth and employment in the country cannot be denied. However, the sectoral contribution to the country's GDP shows a steady decline over the years.

But, at the same time the contribution to the GDP is declining as it was 14.1 percent in 2011-12.

In India, the agricultural sector is considered as the biggest private enterprise. The households which are engaged in agriculture feel the dearth of funds even though the banking sector has been playing a key role in supporting the farmers of the country by providing agricultural loans. The farmers feel the need for more financial support that can be used for making investment in the purchase of seeds, fertilizers, agricultural equipments, implementing modern irrigation methods, employing latest technologies etc. to improve the productivity and output levels. The agriculturists face a lot of hurdles in their farming activities due to the insufficient supply of funds from the banking sector. This is where the role of the lowest tier institution in the cooperative sector viz. the Primary Agricultural Credit Societies (PACS) comes into play. These rural-based institutions have been playing a key role in promoting the agricultural activities in increasingly and financially more inclusive growth through agricultural activities. They fulfill the needs of the farming households by offering loans at a low rate of interest from the deposit fund that is created by them.

If one glances through the cooperative structure, it will be observed that the cooperative sector has been playing a crucial role in the overall development of the rural economy. The cooperative credit structure in the country has a three-tier structure with the State Cooperative Banks (SCB) at the apex level in each state, the District Central Cooperative Banks (DCCB) at the middle level (or district level) and Primary Agriculture Credit Societies (PACS) at the lower level. Each of these institutions has different areas of focus with different functions. The State Co-operative bankstake control over the three tier co-operative credit structure in the state where the bank operates and provides funds to the DCCBs in each state. This apex bank plays a key-position because the financial assistance from the RBI and National Bank for Agriculture and Rural Development are invariably routed through them to flow down to the lower tiers. The District Co-operative Banks (DCCB) which operate at the middle level of the co-operative credit structure generally provide the normal banking activities in the District headquarter and also provide funds and other technical guidance and administrative support to the PACS. The formation of DCCBs actually meets the mutual help between DCCBs and PACS. The Primary Agricultural Credit Societies (PACS), which is the focal point of this study work at the lowest level of the co-operative credit structure and thereby lays the foundation to the cooperative structure of the country. They are mainly organized to provide the short-term and medium-term credit facilities among the rural people according to their needs at very cheap and easy terms and also provide funds to the rural farmers for agricultural purpose. Thus,

the role of these institutions towards the development of the rural economy is very significant in the Indian context as it produces 95 percent of the total agricultural produce of the country and not surprisingly contributes 35.3% of the non farm output and almost 50 percent of the non-farm employment (Chand et al., 2017). The importance of PACS for the rural economy is rightly pointed in the study by Yogarani & Padhmanaban (2019).

In respect of the functioning of PACS, it is seen that the share capital of PACS is contributed by the members and the main source of fund is the members' deposits. Apart from these two, the borrowings from the district level banks form an important element of working capital of PACS from where it issues loans to its members as per their requirements and credit worthiness. Thus, it is evident that these credit institutions have been playing a crucial role to ensure the prosperity of rural India which is considered to be the driver of India's economic growth.

2. Review of previous studies

The researchers look into the previous literatures that help to understand the areas already explored and also highlight the research gap. There are several contributions on different institutions of the cooperative sector (Jain, 2001; Basak, 2009; Babu & Selkhar, 2012; Soni & Saluja, 2013).The overall problems of the rural credit structure are pointed in the academic study by Bansal and Thakkar (2012). A summary of the previous literatures on PACS as well as cooperative banks is discussed below. There are studies that look into the performance, financial viability and efficiency of the cooperative banks which gives an idea about the position of liquidity, operations, productivity and profitability. The studies point to less than desirable performance which calls for the need to tackle the mismanagement of funds and improve recovery performance (Asher 2007; Basak 2009; Chander & Chandel 2010; Das 2013; Dutta & Basak 2008; Rachana, 2011; Singh & Sukhmani, 2011). There are other set of studies that assess the performance of these institutions using various ratios under the heads of liquidity, productivity, profitability, working capital, total outstanding loans, business turnover, overdues, net worth and loans to weaker sections. The studies reveal the need to improve the performance of PACS in respect of owned funds, deposit mobilization, deployment of funds and diversification of lending, management information system and marketing arrangements (Chalam & Prasad, 2007; Kulandaiswamy & Murugesan, 2004; Mukherjee, 2011; Shah, 2007; Selvaraj, 2013; Thirupathi, 2013; Varkey, 2014). The performance analysis from the viewpoint of viability of PACS is seen in the contribution of Shah (2007). Bhaskaran and Josh (2000) study the recovery performance of PACS. Some of the contributions during the present decade also hover around the issues of management of non-performing assets and performance assessment

of the cooperative banking arena. The explorative studies point to the need for providing adequate and timely disbursement of finance and sound recovery of loans in order to reduce the need for creating provisions in the income statements for the impaired assets (Rakshit & Chakrabarti, 2012; Ratna & Nimbalkar, 2011). The identification of problems with regard to the performance is several studies. (Rachana, 2011; Agrawal & Solanke, 2012)

Research gap

Based on the understanding of the previous contributions, it is evident that the extent of focus on PACS in general is very low despite several research papers contributed in the area of cooperative banking. Moreover, there is least focus to understand how the PACS have been playing an important role for the upliftment of the tribal community. Hence, this empirical research aims to plug this gap by focusing on the role of PACS in empowering the economically and socially backward community (scheduled castes and schedule tribes). The present study is based on the region-wise analysis of the role of PACS in the empowerment of SCs and STs in India by looking at how these credit institutions have been supporting these backward communities in the Indian context.

Objectives of the study:

(a) To identify the growth rate of PACS in different regions of India.

(b) To identify the relative growth in participation of SC and ST groups in PACS as members and borrowers.

3. Research design

The success and correctness of results in line with the objectives depends on the appropriateness of the research design. The study uses secondary data for the period 2012-13 to 2017-18 which is collected from the reports published by the National Federation of State Cooperative Banks Ltd.

in different years. The researchers consider zonal data to see how much growth has taken place in the different zones. It is pertinent to mention that data is not collected for two regions, Central and Eastern due to incorrectness of the data.

For the computation of growth rate, the dependent variable is log-transformed in order to fulfill the normality criterion. Then, the growth rate is computed using the following semi-log method is applied:

$$\ln (Y_t) = a + b.t,$$

where, Y_t is the variable of interest, a is constant, b is the coefficient which represents the growth rate and t represents time (t = 1 to 6).

4. Analysis of the study:

The present study is analyzed with the help of trend analysis. The researchers determine the growth rate for different heads using the semi-log growth equation.

4.1 Growth rate in the number of PACS

The following table gives the growth in the number of these lowest-tier institutions in four zones of the country.

Table 1 : Growth rate in number of PACS

Region	Total PACS	
	Growth	|t-stat|
NEZ	- 0.31%	1.016
NZ	4.49%	4.066**
SZ	-0.541%	1.541
WZ	-0.197%	1.131
All India	0.514%	2.355*

Source: Computed by the researchers

*** 1% significance level, ** 5% significance level, *10% significance level.

Note: NEZ - North-Eastern Zone; NZ - Northern Zone; SZ - Southern Zone; WZ - Western Zone.

The growth in the number of PACS in different regions across the country shows that except in the North Zone (with 4.49% growth), all the other zones experience a negative growth. The all-India performance shows a positive growth of a minimal 0.514% during the study period. Thus, the performance in the country is not at a commendable level. In fact, it is really disappointing.

4.2 Growth rate of membership in PACS

The aspect of membership is a key to success in the case of the cooperative sector. This is because members contribute certain amount and make deposits which thereby improve the financial stability and liquidity position of the institutions. Since, the focus of the study is not just on PACS but more particularly on the tribal community, the growth across regions is computed for total membership and also for scheduled castes and scheduled tribes.

Table 2 : Region wise Growth Rate of Membership in PACS in India

Region	Total membership		SC membership		ST membership	
	Growth	|t-stat|	Growth	|t-stat|	Growth	|t-stat|
NEZ	2.32%	1.011	4.41%	1.592	-3.99%	1.079
NZ	3.53%	1.509	-20.77%	5.286	-11.05%	3.721
SZ	-0.452%	0.334	-5.41%	2.572	-3.69%	0.774
WZ	-0.241%	0.389	-1.21%	1.601	2.55%	5.218
All India	0.557%	0.750	-5.63%	5.644	-1.39%	1.324

Source: Computed by the researchers

From the above table 2, it is apparent that the importance of PACS at the country level seems to be declining due to which the membership strength of these institutions is growing at a minimal rate of 0.557% which is even less than one percent. The Northern and North-Eastern zones witness a growth rate of 3.53% and 2.32% respectively, whereas the membership

growth in the Southern and Western zones show a decline as per the records with NAFSCOB. Out of the total membership, the growth rate in SC membership is highest in the North-Eastern Zone (at 4.41%) and the rest of the regions of the country and the country as a whole experience a negative growth rate. In the case of ST membership, all the regions excepting Western Zone (2.55%) show negative growth rate. At the all-India level also, the ST membership de-growth stands at 1.39%.

4.3 Growth rate of borrowers & borrowings

The rise in the number of borrowers and borrowings is an important aspect for PACS also as for banks.

Table 3 : Region wise growth rate of Borrowers & Borrowings in PACS in India

Region	Total borrowings		Total borrowers		Avg. borrowings	
	Growth	|t-stat|	Growth	|t-stat|	Growth	|t-stat|
NEZ	-0.681%	0.166	-4.63%	3.93	3.95%	1.167
NZ	17.02%	8.215***	-11.12%	4.153	28.14%	11.506***
SZ	5.93%	4.585***	7.26%	3.452	-1.33%	0.452
WZ	6.20%	4.357**	-28.03%	3.782	34.24%	3.922**
All India	7.15%	9.017***	0.787%	0.760	6.36%	5.563***

Source: Computed by the researchers

*** 1% significance level, ** 5% significance level, *10% significance level.

The above table (no. 3) reveals that the growth in total borrowings in different regions across the country except North-Eastern Zone (-0.681%) is positive which is also true at the country level. The Northern Zone that has the agricultural states of Punjab, Haryana and Uttar Pradesh show the maximum growth of 17.02% which exceeds that of the other regions with Southern (5.93%) and Western (6.20%) being distant followers. This is a trend that shows the contribution of PACS to the agricultural farmers of these states which has resulted in a substantial rise in the borrowings. However, an interesting point that we observe from the table is that though borrowings is on the rise in a few cases, the number of borrowers is on the decline. The table shows that in terms of borrowers, the negative growth is quite high in the case of Western region (minus 28.03%) followed by the Northern zone (minus 11.12%). The comparison of the column for total borrowings and total borrowers show that per head amount of borrowings is on the rise which may be because of the rising cost of agricultural production or less willingness on the part of the banks because of loan defaults by this section of borrowers. The overall growth in respect of borrowings is at

a satisfactory level of 7.15%. In case of average borrowings, the highest growth rate is experienced in the Western Zone (34.24%) followed by Northern Zone (28.14%) which surpasses the overall average borrowings growth rate of 6.36% that is seen at the all-India level.

4.4 Growth rate in SC and ST Borrowers in PACS

The following table makes an important discussion on the number of borrowers from the economically and socially backward groups, viz. the scheduled castes and the scheduled tribes who access these lowest-tier institutions for meeting their financing meets.

Table 4 : Region wise growth rate in SC and ST Borrowers in PACS in India

Region	SC borrowers		ST borrowers	
	Growth	|t-stat|	Growth	|t-stat|
NEZ	-1.76%	0.362	-4.50%	0.799
NZ	-43.85%	7.661***	-36.35%	2.881
SZ	4.62%	1.437	5.32%	8.17
WZ	-5.07%	6.395***	-4.05%	1.484
All India	-6.43%	3.529**	-2.84%	2.568*

Source: Computed by the researchers

*** 1% significance level, ** 5% significance level, *10% significance level.

From the immediately earlier table, it is seen that the total number of borrowers has seen a decline excepting in the Southern Zone in which borrower strength grew at the rate of 7.26%. At the all-India level also, the growth rate in number of borrowers stands at 0.787% which is a very low rate. In order to see whether the members from the SC and ST groups also show the same trend, the researchers look at the overall trend in the rise in loanees from these two groups. The participation of the two economically backward groups in respect of number of borrowers also shows an unsatisfactory growth. In the case of SC borrowers, except in the Southern Zone (where growth is 4.62%), all the others including all the regions combined show a negative growth rate at minus 6.43%. The ST borrowers also reveal a similar trend with a decline in all regions except the Southern Zone which shows a growth of 5.32%. At the all-India level, the number of ST borrowers shows a declining rate of 2.84%.

5. Conclusions

The sustainability of the cooperative sector depends on all the three tiers of the pyramidal structure which has the state cooperative banks at the top level, district cooperative banks in the middle and primary agricultural credit societies in the lowest tier. The strength

of the sector depends on the action and performance of all the three levels which, though have different roles to play have a vital responsibility in the growth of the rural belt of the country, especially the agricultural sector. The present empirical study looks at the contribution of the sector in terms of empowering the people from the SC and ST communities by looking at their participation in the activities of PACS as members and borrowers. Though, the government realizes the importance of these institutions, in terms of growth in their number in different regions of the country, the picture looks far from satisfactory. Of the four regions covered in the study, three of them show a decline in number; only the northern zone shows a rise. Consequently, the picture at the country level looks bleak. The appraisal in terms of growth in membership also shows disappointing results except in a few zones like the North and North-Eastern Zone. The highlight of the paper is to see the role of PACS in empowering the people from the socially and economically community that includes the SCs and STs. With respect to the growth in SC and ST membership, the picture is equally dark as three of the four zones show a decline in membership. In respect of SC and ST category, the rise is seen in the north-eastern and western zone respectively. Thus, it implies that there are barriers in the financial system that does not facilitate the movement of these community members to join PACS as members. The other

important angle looked at in the study is the rise in SC and ST borrowers as it gives an idea about their willingness and the supportive mechanism in the system that support their joining as members. It is seen that though the amount of borrowings show a rise in all but one region, the number of borrowers have come down with the maximum in the western zone. A possible reason is the more active role of the commercial banks in this part of the country and also the drought conditions that have been affecting the state of Maharashtra over the years that affect the capability of farmers to resort to funding during these times of crisis. The per head amount of borrowings shows an increase is on the rise which may be because of the rising cost of agricultural production or less willingness on the part of the banks because of loan defaults by this section of borrowers.

The overall growth in respect of borrowings is at a satisfactory level of 7.15%. In case of average borrowings, the highest growth rate is experienced in the Western Zone (34.24%) followed by Northern Zone (28.14%) which surpasses the overall average borrowings growth rate of 6.36% that is seen at the all-India level. Since the focus is on the SC and ST community, the investigators assess the status of number of borrowers from the community. It finds that the extent of participation of this section in the 'borrowers' category is missing as evident from the huge decline in the

number of loanees. The empirical investigation on this aspect of the study shows that the extent of empowerment of the scheduled castes and tribes is not a satisfactory one. With the government offering several schemes for the upliftment of this section, it is expected that these lowest-tier institutions should be playing a more important role for improving their status, both socially and economically. So far, the performance of PACS is not at a commendable level and thus these institutions should play a more proactive and efficient role that will facilitate the improvement of the condition of SCs and STs in the country.

6. Limitations of the study and scope for further study

The key limitation of the study is the improper data support that the researchers received even after collecting the annual reports of NAFSCOB which are published in various years. The data inadequacy limited the researchers to restrict to this analysis. The inability to include all the six regions due to data incompleteness and incorrect data acts as a limitation. Thus, in the future efforts in this line of study, it is necessary to cover all the six regions and work on new dimensions like employment scope for SCs and STs, income rise through PACS, repayment aspects, non-performing loans and the like.

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Annexure

Table 1 : Growth rate in number of PACS

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