



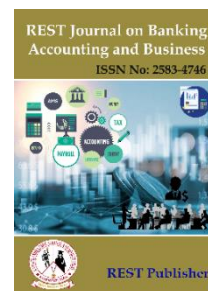
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Assessing the Role of PACS in Credit Allocation and Utilization: Insights from Kerala's Agricultural Sector

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Abstract: Institutional credit in India began in 1904 with the establishment of Cooperative Credit Societies aimed at providing agricultural credit. In Kerala, the Primary Agricultural Credit Societies (PACS) were established with the primary objective of supporting marginalized farmers in rural areas by offering sufficient credit for agricultural activities. Since their inception, PACS have held a dominant position in the disbursement of agricultural credit to farmers. However, over time, these societies shifted their focus from agricultural credit to non-agricultural purposes, thereby deviating from their original mission. This study seeks to examine the credit disbursement practices of PACS and the major challenges faced by farmers in accessing credit. This study made an attempt to know the usage of credit extended by PACS to farmers and also the major obstacles faced by the farmers while availing credit from PACS.

Key words: PACS, Agricultural Credit, Farmers, Utilization, NABARD.

1. INTRODUCTION

Agricultural Credit plays a major role in the transformation of traditional agriculture into a modern large-scale commercial type agriculture which enhances agricultural development of the country. It is necessary for purchasing inputs needed for effective adoption of modern agricultural. For hastened the pace development of this sector, it is necessary that the farmers are provided credit with the prerequisites like fertilizer, seeds, modern equipment's, irrigation facility etc. Adequate and timely credit is helped to make use these essential inputs. Thus, credit is very crucial for building sustainable and profitable farming systems along with other inputs.

Institutional credit in India made a beginning in the year 1904 when the Co-operative Credit Societies were started to provide agricultural credit. Later then, Institutional credit, which played a very important role in the development of agricultural sector, is instrumental in development of Indian agriculture. Both RBI and National Bank for Agriculture and Rural Development (NABARD) have been taken several initiatives for simplifying the agricultural credit system and designed various innovative credit delivery products in disbursement of agricultural credit through various institutional agencies. The major institutional agencies which provide agricultural credit to farmers are commercial banks, cooperative banks and regional rural banks. Out of these agencies, cooperative banks are considered as best for giving credit to the farmers. Cooperative credit structure consists of state Cooperative Banks at state level, District Cooperative Banks at district level and Primary Agricultural Credit Societies at village level.

Indian co-operative organizations have a deep-rooted history engraved in golden letters and have the strong and deep network across the country. The movement was initially snail, gradually spearheaded all over the country In India, The cooperative form of organizations consider as the crucial agency for providing credit to the farmers since the inception of these organizations under the cooperative societies Act 1904. Before the unveiling of cooperative societies, landlords, pawnbrokers and professional money lenders controlled the lending systems in India mostly to the agriculturists and they exploited the poor and illiterate farmers by charging ridiculous interest rate discarding rules and regulations made by the government. Hence, the formation of cooperatives was a great boon to the farmers to break the trap and clutch of money lenders. The agricultural finance subcommittee surmised that the spread of cooperation would provide the best and the most lasting situation for the problems and of the rural economy in particular.

Primary Agricultural Credit Societies in Kerala (PACS)

PACS has been playing a vital and discrete role in the development of socio-economic progress of the state with an exceptional hub on rural population and livelihood. Through the unrelenting attempt, PACS has made remarkable evolution in various segment of Kerala economy, particularly in the agricultural sector. They were close at hand with financial and non-financial support for rural farmers in the pre-independent period itself.

Statement of the Problem

Cooperative credit structure in India occupies a prominent position in the institutional framework of agricultural credit (Negi B.S,1990). But the entry of Commercial Banks and RRBs in the rural areas, the role of PACS in the agricultural credit has been decreasing over the last years and also they gave more concentration for lending non-agricultural purpose. During the 2018-19, the lion share of their advances were for non-agricultural space.in addition of these, agricultural credit issued by the PACS to the farmers is unsatisfactory in the sense that the productivity of the farmers are not increasing as compared to credit availed to them. In this back drop, study intended to know the deployment of agricultural credit by farmers and also to identify the major obstacles faced by them while availing credit from PACS.

Significance of the Study

Agricultural credit flow data is impressive but the small and marginal farmers are unable to get credit easily (Dr. Dushyant Kumar,2014). In order to easy access of credit to marginal farmers, scattered across the rural area, government should formulate well-structured policy to disburse agricultural credit through PACS because PACS taking the lead in the rural areas in providing short, medium and long term agricultural credit. To ensure the credit to farmers, small and marginal, PACS should be provided more and more finance to farmers. Therefore the study about the performance of PACS in disbursement of farm credit is very relevant in this economic era.

Objectives of the study

1. To evaluate the performance of PACS in providing credit and to compare the allocation of credit between the agricultural and non-agricultural sectors.
2. To analyze the problems faced by the farmers while availing agricultural credit from PACS in Kerala.
3. To analyze the utilization of credit by farmers obtained from PACS

2. METHODOLOGY

The present study is empirical and analytical in nature based on both secondary and primary data. Secondary data have been collected from different sources like journals, magazines, books and periodicals, websites of RBI, NABARD, NAFSCOB, NCUI, SLBC Kerala and Department of cooperation Kerala and primary data collected from farmers in Kerala who availed credit from PACS. In order to collect primary data, set of structured interview schedule was prepared and administered among the respondents.

Sample design

Study population was limited to Kerala state only. The nature of population was agricultural credit loan beneficiaries from PACS of Kerala state. Population is unknown, because of PACS official were not revealing the details of loan beneficiaries, and hence researcher used non-probability sampling method. The recommended sample size according to Cochran's sampling formula of beneficiaries at 5 per cent marginal error, 95 per cent confidence and 50 per cent response distribution is 385. Snowball sampling method was chosen for finding the sample from a large unknown population.

The Cochran's formula used for selecting the sample is given as under:

$$n = \frac{\frac{Z^2 pq}{d^2}}{1 + \frac{1}{N} \left(\frac{Z^2 pq}{d^2} - 1 \right)}$$

- Z = Statistic for a level of confidence (e.g. 1.96 for 95 percent)
 p & q = Expected proportion (0.5 used for sample needed)
 n = Sample size with definite population
 d = Precision (0.05 used for sample needed)
 N = Whole Statistical population

Performance of PACS in Kerala in the loan advances

PACS issues loans to their members to meet their financial requirement which may be agricultural, non-agricultural or other purpose. The major aim of them was to provide credit to the rural farmers. The following table shows the purpose of the loans issued by PACS during the period of 2007-2008 to 2018-19.

TABLE 1. Purpose wise loan issue(Amount in Crore)

Year	Non Agricultural		Agricultural		Total
	Amount	%	Amount	%	
2007-08	7673	48.89	3904	24.88	15693
2008-09	7488	60.22	4947	39.78	12435
2009-10	11293	45.32	4453	17.87	24918
2010-11	25033	71.48	9990	28.52	35023
2011-12	11293	45.32	4453	17.87	24918
2012-13	34073	85.66	5705	14.34	39778
2013-14	36204	84.57	6607	15.43	42812
2014-15	43841	82.96	9003	17.04	52844
2015-16	43290	78.78	11660	21.22	54950
2016-17	47967	81.73	10723	18.27	58690
2017-18	41366	68.62	18914	31.38	60279
2018-19	41523	65.67	21707	34.33	63231
2019-20	69442	86.04	11259	13.96	80701
CAGR	18.46		8.49		13.42

Source: Department of Cooperation

In 2007-08, PACS had advanced ₹15693 crores to its members for various purposes which comprised of ₹ 3904/- crores for agricultural purpose and ₹ 7673/- for non-agricultural purposes. Out of the total loan issued by PACS in 2019-20, 13.96 per cent advanced to the agricultural sector and 86.64 per cent to non-agricultural purposes. The CAGR results indicate that the growth rate of loans disbursed to the non-agricultural sector is 18.46%, whereas the agricultural sector's growth rate is only 8.49%. This suggests that a significant portion of credit is being diverted from agricultural activities to non-agricultural areas.

In 2019-20, a significant majority (86.04%) of the total loans disbursed by PACS were directed toward non-agricultural purposes. This indicates that PACS prioritized providing more advances to their members for non-agricultural activities rather than agricultural purposes. This shift highlights a strategic focus on supporting non-agricultural sectors, potentially aligning with profitability or diversification goals.

3. DATA ANALYSIS AND DISCUSSION

TABLE 2. Distribution of Respondents by Demographic Profile

characteristics		Total	
		N	%
Gender	Male	292	73.92
	Female	103	26.08
	Total	395	100.00
Educational Qualification	Primary Level	123	31.14
	Secondary level	137	34.68
	Higher Secondary	61	15.44
	Graduation	55	13.92
	Post-graduation	19	4.81
	Total	395	100.00
Age group	21-30	51	12.91
	31-40	104	26.33
	41-50	126	31.90
	Above 50	114	28.86
	Total	395	100.00

Source: Primary data

Sample of this study consists of 385 farmers who availed agricultural credit from PACS in Kerala. Table shows distribution of respondents on the basis of various characteristics such as Gender, educational qualification and age. As far as the gender is concerned, 292 (73.92 per cent) are male and 103(28.6 per cent) are female. As far as

the distribution of sample respondents on the basis of their educational qualifications is considered, 34.68 percent respondents have only secondary education followed by 31.14 per cent respondents with primary level education. The remaining, 15.44 per cent respondents have higher secondary education and 13.92 per cent of the respondents are graduates. Only 4.81 per cent of respondents are post graduates. Age-wise classification of the respondents revealed that, 31.90 per cent come in the age group of 41 to 50 years and followed with 28.86 per cent belong to the age group of above 50 years and 26.33 per cent and 12.91 per cent fall in the age group of 31-40 year and 21-30 year respectively.

Problems faced by farmers while availing credit from PACS

PACS are voluntarily formed by the people with an intention to support the farmers financially by providing adequate credit on time in hassle free manner. However, in the light of earlier studies, farmers faced a lot of obstacles at the time of availing credit from PACS. These problems are mentioned in the following tables with their Friedman mean rank.

TABLE 3. Friedman Mean Ranks

Variables	Mean Rank	Chi-Square	Asymp. Sig.
Unsuitable scale of finance	4.54	1566.709	.000
High interest rate	5.70		
Lack of interest subsidy	4.47		
Rigid formalities and Cumbersome procedures	4.62		
Lack of accessibility	8.07		
Time delay for getting credit	2.78		
Negative Attitude of officials	6.07		
High transaction cost	6.94		
Inadequacy of credit	1.82		

Source: Primary data

Table 3 shows the result of Friedman mean Rank analysis. There are 10 identified problems that faced by the farmers while availing credit from PACS. Based on the lowest mean rank, study observed that 'inadequacy of credit (1.82)' get 1st Rank and Time delay for getting credit (2.78) get 2nd rank which means these are the main obstacle faced by the respondent while availing credit from PACS. This is further validated statistically by observing the lowest mean rank of these cases, as rank goes to the highest preference, which should have the lowest mean value in the matrix and the mean rank variation is found significant at 5 percent level of significance in the output of the Friedman chi square test (p value<.05).

Utilization of Agricultural credit

The prime aim to constitute PACS in Kerala was providing adequate credit to farmers for meeting their farm related expenses. Even though PACS has been granting credit to the farmers, majority of them are utilizing their credit for non-agricultural purposes.

TABLE 4. Utilization of Agricultural Loan

Variables	Mean Rank	Chi-Square	Asymp. Sig.
Acquisition of farm machinery	4.42	1565.619	.000
For paying electricity	5.67		
Farm expansion	8.01		
Meeting family expenses	4.61		
Working capital	4.40		
Repay old debt	2.72		
For non-agricultural purposes	3.07		
To pay off expenses	6.94		
Purchase seeds/Fertilizers	1.82		

Source: Primary data

Table 4 shows the result of Friedman mean Rank in connection with the utilization of agricultural credit disbursed by PACS to their members. Based on the lowest mean rank, study observed that most of them are using their loan amount for purchasing seeds/fertilizers (1.82) and it get 1st Rank. For Repaying old debt (2.78) and using credit for non-agricultural purposes (3.07) get 2nd rank and 3rd Rank as per the fried man rank analysis which means that majority of the members are channelizing their credit for their personal requirements. This is further validated statistically by observing the lowest mean rank of these cases, as rank goes to the highest preference, which should have the lowest mean value in the matrix and the mean rank variation is found significant at 5 percent level of significance in the output of the Friedman chi square test (p value<.05).

4. CONCLUSION

PACS have unique identity and a special role in Kerala banking sector when compared to other segments such as Commercial Banks and Regional Rural Banks since PACS are formed to extend credit and other facilities to the farmers. They have for long been recognized as principal institutional agency for providing agricultural credit in Kerala. However, the contribution of PACS in the agricultural credit has been declining for the last decades. The study found that PACS were channelizing their loans to non-agricultural sector as they focused more to earn profit in their business rather than service and welfare of their members. The study also observed that the credit provided by PACS to members is inadequate and the farmers didn't get credit on time. Majority of the farmers/members are utilizing their farm loans to their personal necessities because of the lack of strict monitoring by the PACS authorities. Therefore authorities should take necessary actions and strict follow-up to ensure the usage of fund in a right way.

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