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**INTEGRATED CREDIT IN AGRICULTURE – ROLE OF FARMERS'  
SERVICE SOCIETIES IN THRISSUR DISTRICT**

By

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**T H E S I S**

Submitted in partial fulfilment of the  
requirement for the degree of.

*Master of Science in Co-operation and Banking*  
**(Co-operative Management)**

**FACULTY OF AGRICULTURE  
KERALA AGRICULTURAL UNIVERSITY**



**COLLEGE OF CO-OPERATION, BANKING AND MANAGEMENT**

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**KERALA, INDIA**

**2007**

*Declaration*

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## DECLARATION

*I, hereby declare that the thesis entitled "Integrated Credit in Agriculture – Role of Farmers' Service Societies in Thrissur District" is a bonafide record of research work done by me during the course of research and that the thesis has not previously formed the basis for the award to me of any degree, diploma, fellowship or other similar title, of any other university or society.*



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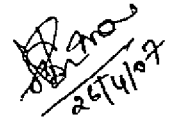
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*Certified that this thesis entitled "Integrated Credit in Agriculture – Role of Farmers' Service Societies in Thrissur District" is a record of research work done independently by Ms. Misha Davis. A. under my guidance and supervision and that it has not previously formed the basis for the award of any degree, fellowship or associateship to her.*

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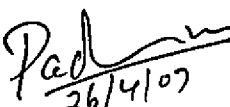
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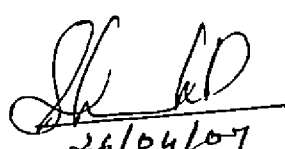
  
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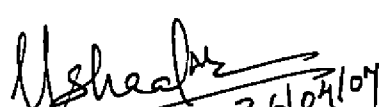
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## *Acknowledgement*

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## ACKNOWLEDGEMENT

*Words are often incapable of expressing heart's language. With in the units of lexicon, I express my deep sense of gratitude and indebtedness to my guide Dr. E. Vinaikumar, Head of the Department, Co-operative Management for his affectionate guidance, constant supervision, creative criticism and unstinted support shown during the research work and throughout my academic life. It has been a privilege to work under his priceless guidance.*

*I am highly indebted to Dr. P. Shaheena, Assistant Professor and Advisory Committee Member for extending her kind help and constructive criticism as a member of the Viva Board.*

*I gratefully acknowledge my indebtedness to Dr. E.V.K. Padmini, Associate Professor and member of the Advisory Committee for her valuable suggestions and advice.*

*I am extremely thankful to Smt. K.N. Ushadevi, Assistant Professor and Advisory Committee Member for her critical comments and timely help throughout the investigation and preparation of the manuscript.*

*It gives me great pleasure to record my heartfelt thanks to Dr. K.P. Mani, Dr. K.M. George and Shri. A. Saqeer Husain, my former advisory committee members for their timely help, restless support and valuable advises in the preliminary stages of the study.*

*I wish to express my gratefulness to Dr. M. Mohandas, former Associate Dean and Dr. U. Ramachandran, Associate Dean for their support and encouragement throughout my academic career.*

*I am highly indebted to all the Faculty Members of the college for their constant support throughout my studies.*



*I am thankful to Shri. C.K. Varghese, Managing Director of Adat FSCB, Smt. Latha Balan, Managing Director of Kodakara FSCB, Smt. Simmi G. Nair, Managing Director of Killimangalam FSCB and to all the staff of these banks for their wholehearted support in providing me the necessary information.*

*I may fail in words while thanking my most loving friends, Bibin, Sali, Sangeetha, Prameela, Anu, Anish, Sapna and Vijitha, who, consistently encouraged and helped me a lot throughout my studies. I am also thankful to Shri. Vijayakumar for his timely help in the initial phase of the study.*

*I have benefited immensely from the College Library, I owe my thanks to Shri. Sathian, K.P., Librarian and all library assistants for the help extended by them.*

*I am also thankful to all the office staff in CCBM for their help and co-operation in all academic matters.*

*I thank to Shri. R. Noel for the neat and prompt typing of the manuscript.*

*KAV Fellowship is duly acknowledged.*

*I thankfully acknowledge all the respondents of my study for their whole hearted co-operation with the investigation.*

*Mere gratitude is not enough to express the constant encouragement and affection rendered by my loving husband, father in-law, mother in-law and all family members at all stages of my study.*

*Above all, I bow my head before God, who blessed me with health and confidence to complete the work even in the difficult phases of my life.*

**Misha Davis. A.**

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## *Design of the Study*

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# CHAPTER 1

## DESIGN OF THE STUDY

Agriculture remains to be an important sector in every country, whether its share in Gross Domestic Product (GDP) is large or small. Agricultural development is considered as the foundation for industrial development and consequently for a country's overall economic development.

### **1.1. Status of agricultural sector in Indian economy**

Agriculture is the seedbed of Indian economy and it would continue to be the most predominant sector of Indian economy in future also. The agriculture sector acts as the main engine of economic growth. It forms the basis of many premier industries in India including the textile, jute and sugar industries. Being the largest source of employment and income to millions of people, it provides a vast market for our industrial products also. This clearly indicates the importance of agriculture in the Indian economy.

Agriculture in India shapes the culture, tradition, way of life and economic progress of the people since it sustains the livelihood of about 70 percent of our population. Although the share of agriculture in the national GDP has declined from 55 per cent in the year 1950–51 to around 20 per cent in the year 2004–05, agricultural growth is still recognized as the milestone for food security in our country.

Agriculture sector is one of the largest employers in the country. It accounts for over 256 million jobs out of a total workforce of 378 million, contributing about 20 per cent of GDP. Indian agricultural sector is the largest producer of milk, fruits, cashew nuts, coconuts and tea in the world, second largest producer of wheat, vegetables, sugar and fish and third largest producer of tobacco and rice and also a major exporter of rice and tea. Almost 60-70 per cent of GDP from agriculture is from subsistence agriculture. However our share in world trade is insignificant. With a negligible share of 0.7 per cent in world imports and 0.6 per cent in exports, we are not visible in the arena of international trade.

## **1.2. Problems in Indian agriculture**

Indian agriculture suffers from low productivity levels compared to the international standards, particularly in the case of food crops. The gap between the yield levels in India and other economies indicate the extent of challenges and opportunities faced by Indian agricultural sector. The strengths of agriculture sector in India are said to be the diverse agro climatic conditions, strong research support, strong crop based farmers organisation and innovative farmers. When weaknesses are examined, they are, vagaries of nature, weak marketing network and infrastructure, lack of co-operative marketing on large scale, lack of processing industries for value addition and lack of access to market information. There are problems like fragmentation of land holdings and adverse cost-risk-return structure. Indian agriculture is passing through a

difficult phase as our policies are more consumer oriented rather than being farmer oriented.

Agricultural growth has decelerated during the last decade resulting in decline in the percapita income of rural people. This has led to decline in the share of private investment in agriculture. Hence agriculture needs urgent attention and policy intervention to improve productivity and thereby generate additional income and employment opportunities. One of the immediate interventions could be to increase public investment in rural infrastructure. A strong political will is also needed to bring about institutional changes leading to redistribution of income yielding assets through land reforms. Besides this, sufficient financial support by way of adequate and timely credit facilities to the farmers and agri-entrepreneurs is the most crucial factor for encouraging private investment in agriculture.

### **1.3. Agricultural finance**

It is universally acknowledged that credit plays a pivotal role in the process of economic development. Credit constitutes an important developmental input. Gunnar Myrdal's considered opinion in this regard is that credit is an accelerator of development (Satyanarayana *et al.*, 2006). The provision of timely and sufficient credit to the needy rural farmers helps them to actively engage in agricultural operations in India.

Agricultural finance is fundamental to enhance productivity, competitiveness and farm income and also to reduce the risk and uncertainty of farming, in order to ensure the improvement of the rural economy. The basic principle of reforms in agricultural finance, which is an important policy to obtain agricultural development, is to repair and maintain instead of destroying the whole system. As agriculture is getting diversified, there is need for not only augmenting but also restructuring the pattern of investment in agriculture too. As agricultural credit is vital for the achievement of agricultural policy objectives, it should not be regarded and treated as a general finance system, especially during this era of agricultural trade liberalization.

Credit is an important input in agricultural operations. Timely availability of adequate credit at reasonable rate of interest can help the farmers reduce their cost of production and thereby earn reasonable profit. It will also help them to undertake capital expenditure. After initiation of financial sector reforms in early 90's, concerns have been expressed about flow of credit to agriculture sector as banks have become conscious about interest rate and Non Performing Assets.

#### **1.4. Institutional credit to agriculture**

Starting from the All India Rural Credit Survey Committee (1954), the necessity for an ideal credit delivery system is well accepted. Over the years India has adopted a multi agency approach for providing agricultural credit. The major institutions which provide agricultural credit are Co-operatives,

Regional Rural Banks (RRBs) and Commercial banks. Co-operative structure occupies a prominent position in institutional framework for agricultural credit. The major emphasis in Five Year Plans has been on strengthening of co-operative credit with regard to the structure, mobilization of resources and its operational efficiency. In recent years the technological breakthrough in agricultural production has been making very large demands on the co-operative credit institutions for current finance and investment capital. The loaning policies and procedures are therefore to be realigned to serve small farmers more effectively.

### **1.5. Co-operative credit structure**

The co-operative credit is considered to be the most important source of institutional credit in rural areas.

Besides their role in production, co-operatives have an important role to play in credit, marketing, agro processing and other agri-business activities, to protect the farmers from the vagaries of existing imperfections in the supply of inputs, production, value addition and marketing. The need is to find means and measures by which farmers can obtain greater control of the market channels and improve their chances of profit.

Co-operative credit structure in India can be broadly divided into two: viz., agriculture sector and non agriculture sector. Co-operatives have a three tier structure for disbursement of short term agricultural credit consisting of

Primary Agricultural Credit Societies, District Co-operative Banks and State Co-operative Bank. The long term agricultural credit is disbursed by a two tier model consisting of Agriculture and Rural Development Banks (ARDBs) at primary and state level.

Primary Agricultural Credit Societies (PACS) for disbursement of short term credit include Service Co-operative Banks (SCBs) Farmers' Service Societies (FSS) and Large sized Adivasi Multi Purpose Societies (LAMPS) FSS are unique type of co-operative institutions for the development of small and marginal farmers and agricultural labourers formed as per the recommendation of National Commission on Agriculture (NCA),1971. These societies are established with the objectives of providing along with credit a full package of services and technical guidance to needed farmers, creating a favourable condition for the flow of credit to weaker section and also to diversify the farm activities.

#### **1.6. Objectives of the study**

Since the FSS are formed specifically to cater to the requirements of the most vulnerable sections of the farming community, an attempt is made to study the role of FSS in providing integrated credit to agriculture with the following objectives:

- i) To examine the extent of integrated credit in agriculture provided by FSS in Thrissur district.
- ii) To assess the financial performance of FSS in Thrissur district.

- iii) To measure the attitude of farmers towards the services provided by FSS and
- iv) To identify the problems and constraints, if any, faced by FSS.

### **1.7. Practical utility/scope of the study**

Agriculture, which is contributing about 20 per cent of GDP and providing employment to 70 per cent of the population continues to be the backbone of Indian economy. Credit is one of the important factors determining the pace and rate of agricultural development, However, efficiency and effectiveness of flow of credit for accelerating agricultural and rural development, to a major extent depends on the delivery mechanism at the grass root level.

Since FSS were considered to be an ideal institutional agency as it cater to all requirements of farmers, by providing integrated credit and other services, the survival and growth of these institutions are of utmost significance for the development of agricultural sector.

Hence a detailed study of FSS covering the extent of integrated credit and other services provided by them, attitude of farmers towards these institutions and the problems and constraints, may provide an insight into their performance, which will enable them to streamline their functioning in a more effective and efficient manner.

### **1.8. Limitations**

The study has been undertaken at a micro level among three FSS each with its own peculiar characteristics. Therefore the results of the study can not be generalised to other banks or institutions. The objective of the study have been examined through a field level survey including only 90 members, as well as through the discussions with the officials of the FSS under consideration. Therefore the findings of the analysis may not be appropriate for a broader generalisation. Biased and prejudiced opinions from the part of the sample respondents cannot be ruled out.

### **1.9. Organisation of the report**

The study has been divided into five chapters of which the first chapter is introductory in nature, where the research problem is highlighted. The second chapter entitled 'Review of Literature' provides theoretical orientation about the study. The third chapter explains the concepts used and gives a description about the materials, methodology employed for the analysis of data. The results and discussions of the study are presented in the fourth chapter and the last chapter highlights the summary of findings and conclusion of the study.



## *Review of Literature*

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## CHAPTER 2

### REVIEW OF LITERATURE

Review of literature is an important part of any research which would enable the researcher to understand the research gap, which will justify the study. The objective of this chapter is to develop the conceptual framework for the study on the basis of the review of the studies already done. This would help in deciding the variables to be included, data to be collected and summarising what is already known regarding the problem under investigation. Further, the knowledge of these studies would in turn help the investigator to give an appropriate direction to the study on hand. The reviewed literature are classified under the following heads:

*2.1. Importance of agricultural credit.*

*2.2. Role of agricultural credit co-operatives.*

*2.3. Institutional problems related to rural credit.*

*2.4. Future strategies for development.*

#### **2.1. Importance of agricultural credit**

CRAFICARD (1981) opined that capital is considered to be one of the factors constraining development in developing countries. It lubricates the wheel of development in either agriculture or industry. Owing to the inherent

character of agriculture, a large number of cultivators can't manage necessary finance without resorting to borrowing. They further stated that agricultural credit is considered as an economic ladder helping in the upliftment of rural peasantry.

Prasad (1983) observed that in traditional agriculture, capital and hence credit play a relatively less role than do land and labour. But modern agriculture requires large infusion of credit to finance the use of purchased inputs.

Binswanger and Khandlyer (1992) in their study 'The Impact of Formal Finance on the Rural Economy of India', provided empirical evidence on the relationship between credit and output in agricultural sector. They found that rural credit led to modest increase in the use of fertilisers and investments in physical capital like tractors, pumps and animal stock. Further they observed that the expansion of rural financial system had a positive affect on rural non farm employment and output.

Shollapur (1997) in his article has attempted to trace out the main means underlying the entire gamut of end use of credit as adequacy of credit, responsiveness of scales of credit timeliness in disbursement, thrust of kind component and post sanction follow up. Co-operative credit is beset with a noble obligation to generate its own repaying capacity. This is possible only if the funds are used for productive purposes. Hence it can be concluded that the

aforesaid means go along way in ensuring the end use of credit, thereby creating, its own repaying capacity.

In the article, which highlighted the role of credit in capital formation in farms, Bhuvanewari and Varadarajan (1998) identified credit as the most important factor influencing capital formation. On the basis of results of analysis it could be viewed that institutional credit provided a major source of finance and played a significant role in encouraging capital formation on farms. The share of institutional credit is not small but it is inadequate, viewed against the demand of farmers to realise full potential of the farm business. Hence policy of agricultural finance had to ensure not only availability of credit but also adequacy and timeliness of institutional credit to the farmers because it was the cheapest source and made investment cost effective.

The committee on Agricultural Credit and Banking sector reforms (1998) reported that the agricultural community placed more importance on timely availability of credit rather than lower interest rates. According to the committee banks should have self set targets for lending to agricultural sector, prepare special credit plan aimed at increasing credit flow to it and improve quality of lending as well.

Jahangirdar (1999) revealed that demand for credit in agriculture had increased two fold after the introduction of recommended level of technology by Gupta Committee. The existing level of credit was inadequate for optimal

allocation of limited resources under recommended technology. An important implication of this result was that, to make the best use of it, the supply of credit had to increase almost twice the existing level.

In the opinion of Nair (2000) credit is an important input for increasing growth in farming operations. A strong, viable and professional system of credit disbursal is essential for adequately meeting the credit demands. Credit support needs to be increased for traditional sectors. Legal and administrative systems need to be changed in order to revitalise the co-operative credit structure and enable the system to respond adequately and effectively to the ever growing needs of the users and the markets. Higher investment in farm operations and related rural infrastructure is a necessary condition for speedier farm growth.

Mishra (2002) said that the nature of agriculture is being transformed by introduction of improved techniques and it is quite possible for farmers to get an increase in income if they are adequately assisted by credit for purchase of inputs.

Jeromi (2005) undertook a study to analyse the trend and issues relating to agricultural credit in the state of Kerala, in the backdrop of developments in the agricultural sector. It revealed that aggregate loans issued for agriculture and allied activities by all financial institutions in the state have been recording

good growth and the share of medium term loans in total loans issued, has been declining.

In his study Prasad (2006) concluded that credit is continuing input requirement of agricultural sector in India due to its economic characteristics of developing nature. So keeping sufficient funds on the 'move' strengthens agriculture sector for increasing production, which in turn, improves recovery of loan. Inflow and out flow of funds entirely depends on better utilization of funds for which they were lent on one hand and better recovery of them on the other. The institution can't hope to recover without providing fresh loans, and can't make flow of credit without improving recovery. The imbalance, if any, between them, affects the other so adversely that in the long run, results in merger or liquidation of the rural credit agency.

According to Reddy (2006) agricultural credit is a nucleus of the system of farm operation. It provides a flow to the system averting ruin which would have occurred due to the lack of monetary capacity of a farmer. Adequate and timely credit to the farmer is vital and indispensable for the rehabilitation and progress of agriculture.

According to Singh (2006) the main goal behind the disbursing of credit is the ability to get the input at the right cost so that farmers can be protected. There should be smooth credit flow, it must be quick, simpler and without any hindrances. Lack of transparency in the loan disbursal is the biggest problem.

We have to provide credit separately for the agricultural uses, for health, education, crop insurance etc. Government should provide agricultural risk fund. Whenever recurrent risk arises government should step in either by waiving loans or by taking some necessary measures. Insurance should be covered right from seeding to the post harvest operation including value addition of the produce.

Thanarathnam (2006) in his case study on Primary Agriculture Co-operative Bank opined that to meet the requirements of the growing population and rapidly developing economy, agriculture has to grow fast and get modernized. This requires the use of high pay off inputs. Adoption of HYV requires large quantities of fertilizers, plant protection chemicals, modernized equipments and machineries, which in turn, needs huge investment. The rural agricultural sector of the economy is labour-abundant, land poor and capital scarce. So it would be very difficult to set the benefits of modernisation of agriculture without adequate and timely supply of credit to the farmers.

## **2.2. Role of agricultural credit co-operatives**

Bapt (1979) in his study of Farmers' Service Society in Beneskanda district in Gujrat opined that the working of F.S.S. resembled that of many of multi purpose or service co-operative societies in terms of resource position and the type of activities undertaken.

Venketeswarlu and Hanumanthali (1984) in their study of Farmers' Service Societies in Andhra Pradesh observed that these institutions are committed towards economic upliftment of the poorest of the poor in the agricultural sector.

Panda (1985) conducted a study in Orissa with the objective of examining the indebtedness of the farmers in the selected farms of irrigated and non irrigated regions. With regard to pattern of credit distribution by institutional agencies, study indicated that the co-operatives and commercial banks channeled more of their funds to medium and large size farms as compared to small size farms. In the issue of different types of credit although the record of co-operatives was relatively better, essential feature of crop loan system were not observed. However co-operatives did meet a larger proportion of credit needs of large farmers than that of small farmers.

To examine the agricultural credit use in selected farms of Cuttack a study was conducted by Singh (1986) and he opined that there was a progress towards institutionalising the supply of farm credit during the study period. Co-operatives, which were universally acknowledged as the most desirable type of financing agency, stood in the forefront and their relative share in the total supply of farm credit increased materially. Co-operatives and commercial banks channelled more of their funds to medium and large size farms than small size farms.



Indira *et al.* (1988) in their study emphasised proper integration between agencies. Otherwise it will give rise to dangers like over financing leading to financial indiscipline of scarce resources for unproductive purposes and wasteful expenditure besides unhealthy competition. Study reveals that co-operative sector accounted for a major share of finance to the agricultural sector. In the case of short term credit it was found that co-operatives were more successful in helping farmers than commercial banks.

Singh and Tyagi (1995) in the study of co-operative finance and agricultural development concluded that the co-operatives by providing adequate and timely credit can create a favourable impact on agricultural development even in backward region. However to make such impact significantly felt, it would be necessary to further expand the services of co-operatives and increase this operational efficiency.

In a case study by Reddy and Narayana (1997) to analyse agricultural credit structure, they concluded that co-operative democracy in action can be ensured by widening the membership base and effectively monitoring the meetings of societies. The distribution of co-operative credit among small and marginal farmers is lower compared to that among medium and large farmers. Hence extensive rationing of credit is the need of the hour. Thus enlargement of membership and extensive rationing of credit are the two major planks on which co-operative credit delivery system has to be shaped and directed for ensuring economic growth and equality in the district.

Sali *et al.* (1998) in their paper have attempted to review the agricultural credit system in India with respect to its structure, progress, constraints, interest rates, costs and margins of institutional credit. Investigation reveals that the significance of private agencies in rural finance has come down due to effective working of the institutional agencies. The implication of the study is that promotion of nationally integrated formal rural financial market with sustained Government support is essential for the transfer of new technology for agricultural development.

Verma (1999) opined that credit co-operative constitute the main segment of Indian co-operative movement. Recognizing the significant catalytic role of credit and institutional credit structure in the process of accelerating the pace of agricultural and rural development, these credit co-operatives are providing required investment support for agricultural and rural development in urban and rural areas with their wide organisational network. The co-operative credit institution have been tremendously contributing in accelerating the economic development of rural and urban areas of the country, especially the economically weak people.

Kamesam (2001) in his article stated that as a significant part of the multi agency approach to credit delivery in India, co-operative banks both in short term and long term structure – hold an important position especially in the rural credit scenario and have played a pivotal role in the development of rural credit over the years.

Vishwanathan (2001) expressed the idea that co-operatives as rural credit institutions with their century old background and experience are found to be most effective institutional framework for lending to agriculture. These credit and banking institutions are farmers' organisations with more than 75 per cent equity holding by them.

Chawla (2002) has given the importance of co-operatives in rural credit structure. They are intended not only to cater to credit requirements of the members but also to provide several other credit linked services like input supply, storage and marketing of produce. A collapse of co-operative credit system will leave an unbreachable gap in the credit availability in the rural areas. Credit support to agriculture is important not only for enhancing crop productivity or increasing farmer income, it is also a means of capital formation in rural areas. It serves as an important tool of poverty alleviation and helps in bringing about greater equitable distribution of wealth. Therefore strengthening this sector through sound credit policies is crucial.

Rasure (2002) expressed his idea that co-operative banks are considered to be the most suitable agencies for financing farmers, especially small farmers. This is because a co-operative is an agency of farmers who pool their resources and share the benefits of the society. The co-operative credit institutions with their vast network, wide coverage and reach extending to remote parts of the country, continue to play an important role in dispensation of credit for agriculture and rural development-both in short term and long term structures.

Sisodia (2002) in his presidential address said that co-operatives are a unique form of farmers organisations and are prevalent in various countries of the world. In India, majority of farmer members of co-operatives are small and medium farmers. Co-operatives in the credit and fertiliser sectors are helping the farming community with supply of critical agriculture inputs for ensuring sustainable growth in agriculture products. Farmers organizations including co-operatives are playing a significant role in increasing agricultural production and in developing surplus generating capacity of farmers for export to other countries.

Pradeep (2003) opined that co-operatives have emerged over the years as the prime institutional agencies for dispensation of agricultural credit. In terms of network, coverage and outreach, co-operatives have a sizeable presence and play a significant role in meeting the credit requirements of agriculture.

Reddy (2004) in his presidential address opined that among institutions involved in rural credit, co-operatives have a special place in RBI and they should not be left out of the trend of providing multiple products through a single window. The supply leading strategy in regard to rural credit has not been successful, since institutional spread and directed lending have not had the desired impact. It will be inappropriate to conclude that supply should necessarily follow demand. There is increasing recognition that, the spread of literacy and generation of growth impulses in rural sector would be very

significant factors in enhancing effective supply and reducing true cost of rural credit.

Ramesh (2006) in his study of agricultural development through co-operatives concluded that co-operatives have played an important role in promoting agricultural and rural development in India, particularly in the field of credit, supply of production inputs, processing and marketing of agricultural produce. The co-operative network is expected to play a critical and crucial role on one hand, in meeting the farmers requirements in terms of inputs and services to facilitate the farmers to adopt new technologies of production to raise crop yield and production. Therefore co-operatives as a form of socio-economic organisation considered as an important instrument of development of agriculture and overall rural development. Co-operatives now occupy an important place in India rural economy in terms of their membership, business turnover and contribution to the socio-economic welfare of their members and hence agricultural development. Keeping in view the widespread network of co-operative structure, a vibrant and effective credit flow in rural India depends on the strength of co-operative credit societies.

### **2.3. Institutional problems related to rural credit**

From the point of view of Singh (1990) there are many problems which adversely affect the functioning of co-operative credit societies. He has outlined problems like failure on part of member borrower to repay loan

promptly, inefficient management and inadequate supervision, misutilisation of co-operative credit and its diversion from productive to unproductive uses, problem of over dues, forced lending policies for achieving statistical targets, lack of co-ordination between co-operative institutions and nationalised banks etc. Unless these are solved, it may not be possible for co-operative credit societies to help in the process of economic development of the region.

Prakash (2001) when outlined the challenges before agricultural co-operatives and farmers' organisations brought out aspects like lack of professional management. In his opinion to face the challenges and to stay in business, agricultural co-operatives have to realise that adoption of new techniques generate wealth. To dilute the group of private enterprise, agricultural co-operatives have, first of all, to demonstrate their strength by getting together under one common flag by creating a corporate identity through some slogan or symbol.

Mohanan *et al.* (2002) has thrown light on the various institutional problems relating to rural credit by their study. Besides increasing the quantum of credit, credit through co-operatives has become more diversified and spread over a number of rural economic activities and this has changed the rural credit scenario in the country considerably. Though the number of rural credit institutions is quite impressive they could cater to the credit needs of only a third of the cultivators of the country.

Ramasamy (2002) in his speech recognised that without adequate investments, agriculture can't make substantial contribution to the economic development of country. The share of agricultural sector in domestic product is declining over the years and one of the possible reasons could be relatively lower investment made both by the public and private sectors on agriculture. This is a clear warning signal.

Khuspe (2004) in his article outlined the problems in agriculture sector. In the scenario of implementation of WTO agreement, the major problems faced by Indian agriculture includes lack of modernisation, low productivity, inadequate quality, expensive, inefficient and insufficient production inputs, inadequate and non availability of timely credits and low marketing capabilities, all resulting in low rural income.

In a study of lending infrastructure, Yerramraju (2004) pointed out some problems of agricultural credit like high transaction costs and poor recoveries. There is need for integration between land markets, credit markets and product markets and that would be possible only with proper policy formulation and integrating the complicated legal system impacting on the farm sector with the market mechanisms. When the problems of the farmer lie in one corner providing solutions elsewhere is no answer. Credit is a necessary condition but not a sufficient condition for repositioning the farm sector as engine of growth.

According to Ahluwalia (2005) the co-operative credit system which was meant to be the backbone of agricultural credit has become financially weak. Part of the problem has been the politicisation of co-operative institutions as a consequence of interference by state Governments. The Central Government is considering ways of reviving the co-operative credit system by recapitalising the co-operative banks, provided state Governments agree to changes in the system of governance that would ensure professional management of co-operative banks without state Government interference.

When Gagan and Rajasekhar (2005) examined the factors preventing banks from extending credit to agricultural sector they found many factors. First one is that bankers are more interested in investing their funds in Government and other approved securities which may create less loanable funds. A lower lending rate is expected to decrease the supply of credit to agricultural sector. Increase in the rate of credit subsidy may also reduce supply of agricultural credit.

Sahoo (2005) in his article showed some weaknesses in the functioning of co-operatives. Though they were the oldest financial institutions dealing with rural banking, their health is deteriorating due to poor governance, lack of professionalism, low capital base, mounting overdue, high NPAs and high cost of credit. In spite of a wide network of branches, the co-operatives have not been able to mobilise resources locally and are depending more on higher credit institutions. Their own funds and deposits are much less and borrowings



are much greater. They are supposed to extend loans to farmers and other rural people to raise unutilised resources of local areas for productive use. They have not succeeded in this endeavour.

The article 'Farmer and the Quick Sand of Credit' (2006) describes that the main problem of farmers is the declining prices of agricultural commodities. The savings from cheaper credit is cancelled out by the lower prices. Effective measures need to be taken in this regard, so that our farmers are benefited and therefore are able to find easy ways to bail themselves out of the clutches of the credit system thereby making farming a viable and profitable profession and ensuring the growth of the nation as a whole.

Kumar and Pandey (2006) in their article regarding agricultural investment described the challenges ahead and added that agriculture needs urgent attention and policy intervention to improve productivity and generate additional income and employment opportunities. One of the immediate interventions could be to increase public investment in rural infrastructure. A strong political will is also needed to bring about institutional changes leading to redistribution of income yielding assets through land reforms. Besides, sufficient financial support by way of adequate and timely credit facilities to farmers and agri-entrepreneurs is the most crucial factor for encouraging private investment in agriculture. A mechanism for providing market intelligence and specialized agencies for marketing of rural products is also the need of hour.

Rao (2006) in his study on effectiveness of Kisan credit cards expressed the idea that one of the common elements in the strategy for agricultural development in developing countries has been to increase the role of institutional sources of credit. Given the enormity of credit requirements on the one hand and the vagaries of nature on the other, financing for agriculture has been a Herculean task for banks in India. The access to institutional credit for a large number of farmers particularly small and marginal farmers continues to be a challenge to the Indian banking industry.

#### **2.4. Future strategies for development**

According to Mittal (1975) the credit needs of the farmer are expected to increase further with the change in technology. Therefore efforts have to be made by lending institutional agencies to extend credit facilities to the farmers based on their crop plan so that the rate of adoption of new technology is not impeded. Further small farmers, who are capital starved, should be given due attention while advancing credit so that fruits of improved technology are reaped by nearly all sections of the farming community.

Desai (1988) in his paper discussed the institutional credit supply in past and future credit requirements for agricultural production and gave many recommendations. In his opinion not only credit needs are taken into account but the whole agricultural system also. Efforts to increase the available

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resources for short term credit should be done. Deposits available from rural sectors should be fully utilised for meeting short term credit needs.

Haque and Verma (1988) undertook a study with the objective of examining the nature and extent of inter regional and inter class variations in supply of institutional credit to agriculture and their policy implications. In the paper they concluded that there is need for a far more egalitarian credit plan to be made and monitored for rapid as well as balanced agricultural development in the country.

According to Reddy (1988) an effective system of farm credit is imperative to sustain, stimulate and strengthen farm business. All the developmental programmes in the field of agriculture and subsidiary activities to agriculture will naturally depend on the institutionalisation of agricultural finance. The problem of economic poverty can be tackled by injecting additional capital to agriculture sector. This additional capital is supposed to bring an improvement in land, irrigation, supply of inputs and provision of other facilities. To achieve this objective, co-operation is the only hope and the co-operative banks are the ultimate sources.

Prasad *et al.* (1994) when examined the strategies for development of agricultural co-operatives in India stated that at present agricultural co-operatives are mainly concerned with providing agricultural inputs and agricultural credit to the farmers to increase production. Certainly these

activities alone are not adequate to solve the problem of rural areas. The major role to be played by co-operatives is to uplift the rural economy. This can only be achieved if they can undertake activities which would raise the income level of farmers. This important goal of raising the income level of farmers can only be attained if programmes of marketing and processing of agricultural produce are widely instituted. Such activities will not only generate employment opportunities but will also provide value added benefits to the farmers.

The point of view of Gulati and Sharma (1998) was that credit could be advanced to groups of farmers, so that each member acts as surety for the other and in case of defaults the group could be penalised. In view of scarcity of credit and very high rates of interest charged in the informal sector, small and marginal farmers would benefit much more from easier and timely availability of credit from institutional sources than from the low subsidised rates of interest charged. The higher interest charges and less defaults will also help in improving the viability of rural financial institutions.

Hulspathale (1998) describes some measures of reforming agriculture. With intensive agriculture becoming the need of the hour, there is going to be increased demand for higher credit allocation. Availability of credit, needs to be enhanced. Credit needs of farmers should get adequate response from lending institution. Careful assessment needs to be done before lifting subsidy on credit as the present level of farming, involving low capital investment and small holdings, is hardly remunerative enough to bear high interest rates.

Measures need to be directed at meeting credit needs of small and marginal farmers particularly by strengthening lending routes like co-operative institutions.

In the study, which describes restructuring the co-operative credit system, Satyasai and Viswanathan (1998) concluded that the co-operative system in the country needs restructuring in view of changing demand pattern for rural credit, higher expectations from the co-operatives which are expected to provide quick and quality service and to enable them to be viable and vibrant. They consider integration of short term and long term co-operative structures as a favourable one as it helps in increasing flow of credit and cost control.

Ansari and Khan (2001) in their article showed great concern for falling investment in primary sector. New agricultural policy recommended increase in public investment for narrowing regional imbalances, accelerating development of supportive infrastructure for agriculture and rural development. Appropriate measures are to be taken for promoting farmers own investments as also investments by industries producing inputs for agriculture and agro-based industries. Private sector investments in agriculture will also be encouraged more particularly in areas like agricultural research, HRD, post harvest management and marketing.

Jeromi (2003) in his study identified many priorities in the agricultural sector. From the discussion on agricultural credit the priority tasks identified were, increase outreach of formal financial institutions especially to the small and marginal farmers, continuation of credit targeting for ensuring adequacy of credit in agricultural sector and progressively link SHGs with formal credit institutions for reducing transaction cost and high recovery.

Rawat (2003) emphasised in his report that a collapse of co-operative credit system will leave an unreachable gap in credit availability in rural areas. Towards this end, it has suggested that co-operatives need to be revitalized at the earliest as delays would be detrimental to the interests of rural population.

Srivastava (2004) in his article regarding setting up of Co-operative Resource Development Centres stated that agricultural co-operatives have to move from the regime of protection and patronage to the regime of competition, freedom, autonomy and democratic and professional management. A major initiative needed is to develop the primary agricultural co-operatives as multipurpose business entities. In this process of expansion and diversification participatory approach through an intensive process of education and training of the co-operative members and use of information and communication technology would be required on a large scale.

In looking at the problem of increasing the flow of credit to marginal and sub marginal farmers Rangarajan (2005) stated that it is important to

address both supply side and demand side problem. Credit has to be an integral part of an overall programme aimed at improving the productivity and income of such farmers. Putting in place an appropriate credit delivery system to meet the needs of marginal and sub marginal farmers must go hand in hand with efforts to improve the productivity of such farm households. It is this integrated approach which will provide a solution to the problems of these farm households. Banks have to go beyond the traditional role of purveyors of credit and become collaborators with others in finding a holistic solution.

Satish (2005) in his analysis clearly showed that there are two classes of borrowers of agricultural credit i.e. small and marginal farmers with less capital equipment and smaller land holdings and capitalist farmers with more capital equipment and larger land holdings. For these two types of clientele the approach and system for credit delivery has to be different. Commercial banks should be the preferred institutions for the second category of borrowers while co-operatives with their less formal and more user friendly system can serve the small farmer type of clientele. Keeping this factor in view, the co-operative banking and commercial banking system would need to tune their lending practices to suit these characteristics.

The fifth and final report of the National Commission on Farmers (2006) reveals that the banking system needs to explore the large unmet credit potential needed to raise agriculture to higher thresholds, and for the growth of rural and agri-business enterprises and employment we need to improve the

outreach and efficiency of the rural banking system. The financial services must reach all its users effectively; the credit must be in time, in required quantities and at appropriate interest rate. The delivery system has to be proactive and should respond to the financial needs of clients in the rural areas.

A review of the performance of agricultural credit in India by Mohan (2006) revealed that though the overall flow of institutional credit has increased over the years there are several gaps in the system like inadequate provision of credit to small and marginal farmers, paucity of medium and long term lending and limited deposit mobilisation and heavy dependence on borrowed funds by major agricultural credit purveyors. These have major implications for agricultural development and also the well being of the farming community. Efforts are therefore required to address and rectify these issues. In the changed scenario, strong and viable agricultural financial institutions are needed to cater to the requirements of finance for building the necessary institutional and marketing infrastructure.

In the opinion of Patel (2006) what is needed is a clear, consistent and favourable policy environment which on one hand helps to make the farming more profitable and on the other facilitates sustainable provision of banking services to the agricultural sector. More than this is the essential element of institutional development. Grass root entities providing financial services at the farm level in the form of savings and loan facilities are one of the more promising approaches for building a viable and sustainable financial system for



small farmer. Their possible integration in an apex organisation and/or their effective linkage with existing banks remain a challenge and a precondition for an expanded outreach of financial services to the rural population.

Phadke (2006) in his article, discussing whether to institutionalise money lending, expressed his opinion that banks should set new targets, including lending to landless labourers, marginal farmers and women entrepreneurs. Technical teams should be created to give cropping advice to farmers and suggest alternative means of livelihood to farmers in lean times. Bank targets need to have a non financial component, a one-size-fits-all solution can never work in Indian villages. If targets are not adhered to, the penalty should be punitive. Credit is a gateway to rural welfare and that should be opened wide.

Sidhu and Sucha (2006) pointed out that our economy and agricultural sector is changing. Credit delivery system has been found wanting with respect to meeting adequately the credit requirements of high tech-high value agriculture and non crop agricultural activities. There are changes in livelihood pattern, pattern of holdings and input-output mix. The rural credit institutions shall have to shed their inhibitions to support the process of agricultural diversification and development. A progressive integration of financial market with emphasis on self regulation, accountability and autonomy of the institution with social responsibility will be required.

Upadhyay (2006) concluded that we need to focus on diversified activities. The rural areas are under going through a transformation process in respect of consumption and dietary habits from cereal to non cereal products. The financial institution should shed their conservative outlook and identify the emerging areas to address the needs of rural farmers through perspective analysis. The conventional approach and credit delivery practices will not augment the net credit plan to agriculture. The financial institutions should rise to the occasion and identify the areas and supplement the credit needs of the location specific and area specific manner and applicability.

Swaminathan (2007) while narrating the major components of the action plan for the year of agricultural renewal stated that inputs are needed for outputs. Hence right inputs should be available at the right time and place at affordable costs. We should not remain silent spectators to a steady agricultural decay. Both human security and national sovereignty are at stake. Overall economic growth rates have little meaning if we do not look after the economic health and survival of over 60 per cent of our population. The year of agricultural renewal programme if implemented with speed and dedication, help the country to realize the full benefits of Bharat Nirman.

## *Materials and Methods*

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## CHAPTER 3

### MATERIALS AND METHODS

The study entitled “*Integrated credit in Agriculture – role of FSS in Thrissur District*” has been carried out with the objectives of examining the extent of integrated credit provided by FSS, assessing their financial performance, measuring the attitude of farmer members and finding out the problems of constraints. This chapter gives a picture of concepts and methods used for the purpose of the study.

#### 3.1. Conceptual clarification

The various concepts used in the study are explained below:

##### *i) Integrated Agricultural Credit Service*

It refers to the provision of credit along with organization of facilities for its conversion into inputs and services required by the farmers to use the credit effectively. The primary aim of this service is to provide to the farmer one contact point for obtaining his credit, input and other requirements.

##### *ii) Farmers' Service Society (FSS)*

According to NCA, 1971 a Farmers' Service Society is formed as a registered co-operative body with bye-laws to ensure autonomy, efficient management and freedom from official intervention to provide the integrated agricultural credit service to the small and marginal farmers and agricultural labourers.

*iii) Marginal Farmers*

Marginal farmers means those farmers having land holdings below 1 hectare.

*iv) Small Farmers*

Small farmers are those who have land holdings between 1-2 hectares.

*v) Large Farmers*

Large farmers means those having land holdings of 10 hectares or above.

*vi) Agricultural Labourer*

Agricultural labourer refers to a person who works on another person's land for wages. He has no risk in cultivation and no right of lease or contract on land on which he works.

*vii) Share capital*

It means the paid up value of shares subscribed by individuals, institutions and government.

*viii) Owned fund*

It is the sumtotal of the paid up share capital and reserves.

*ix) Borrowed fund*

It includes deposits received and the borrowings.

*x) Deposits*

It refers to all type of deposits outstanding at the end of the year.

*xi) Credit*

It refers to total credit outstanding at the end of the year.

*xii) Time deposits*

It is the sum total of Fixed Deposits and Recurring Deposits.

*xiii) Working capital*

It is calculated by the formula “share capital + reserves + deposits + borrowings – fixed assets”.

*xiv) Total business volume*

It is the total value of credit, deposit, agricultural produce marketed and consumer goods distributed.

*xv) Total funds*

Total funds is arrived at by subtracting the contra or non-fund items from any of the two sides of balance sheet.

*xvi) Interest paid*

It means sum total of interest paid on deposits, interest paid to borrowings etc.

*xvii) Interest received*

It means sum total of interest received on loans advanced and other investments.

*xviii) Attitude*

It refers to a person’s consistently favourable or unfavourable evaluations, feelings and tendencies towards an object or an idea.

**3.2. Methodology of the study**

The study is done using the following methodology:

### ***3.2.1. Sampling procedure***

*There* are nine FSS in Thrissur district. All of them were ranked on the basis of a composite index of the selected performance variables such as sharecapital, membership, deposits, loans advanced and total funds. On the basis of the rank obtained, three FSS, the one at top, the one in the middle and the one at the bottom level were selected as sample societies. They were Adat FSCB, Kodakara FSCB and Killimangalam FSCB respectively. Thirty farmers from each society were selected randomly, thus making ninety sample respondents.

### ***3.2.2. Study period***

The period of study was from 1995-96 to 2004-05.

### ***3.2.3. Data base***

Both primary data and secondary data were used for the study. Primary data were collected from the farmers with the help of a pre-structured and pre-tested schedule. Secondary data were collected from the books and records of the sample societies.

### ***3.2.4. Statistical tools used***

Various tools were used for the analysis of the data. For ranking societies composite index was used. The first objective was studied using simple tools like percentages, growth indices and Annual Average Growth Rate (AAGR). For analysing second objective, certain ratios viz. owned fund to borrowed fund, time deposit to total deposit, loans to working capital, credit to

deposit, total expenses to total income, interest paid to interest received and net profit to total funds were used.

*I To find out efficiency in mobilization*

- i) Owned fund to borrowed fund ratio. This ratio is used to measure the contribution of owners to the long term finances of concern as compared to contribution of long term creditors. Though a high proportion of owned fund is favourable for the bank, it is not practical in real situation. It is calculated by the formula:

$$\frac{\text{Owned fund}}{\text{Borrowed fund}} \times 100$$

- ii) Time deposits to total deposits ratio. This ratio helps to measure the quantum of time deposits in the total deposit mix compared to the demand deposits. A high proportion of time deposits will affect the functioning of bank as it is involving more risk. It is calculated by the formula:

$$\frac{\text{Time deposits}}{\text{Total deposits}} \times 100$$

*II To find out efficiency in deployment*

- i) *Credit deposit ratio*

Credit deposit ratio is an indicator of the banks' performance with matter of credit deployment from the locally raised funds. This ratio is calculated using the formula:

$$\frac{\text{Credit}}{\text{Deposit}} \times 100.$$

Generally the ratio is low in Kerala compared to other states.



ii) *Credit to working capital ratio*

This ratio helps to measure the proportion of credit given out of the working capital of the bank. The efficiency of banks depend on the effective working capital deployment. It is calculated by the formula:

$$\frac{\text{Credit}}{\text{Working capital}} \times 100$$

III *To find out efficiency in operation*

- i) **Total expenses to total income ratio.** This ratio is used to measure the operational efficiency. A ratio below 100 is desirable for the bank. It is calculated by the formula:

$$\frac{\text{total expenses}}{\text{total income}} \times 100$$

- ii) **Interest paid to interest received ratio.** This ratio is used to ascertain extent of cost incurred by bank for mobilization of resources and that of interest received by bank on loans and advances. As in the case of above ratio a number below 100 is desirable. It is calculated using the formula:

$$\frac{\text{Interest paid}}{\text{Interest received}} \times 100$$

- iii) **Net profit to total funds ratio.** This is known as profitability ratio which is very important. This ratio helps to determine the banks profitability and indicates efficiency with which a banks deploys its total funds so as to maximize profits. It is calculated using the formula:

$$\frac{\text{Net Profit}}{\text{Total funds}} \times 100$$

In order to study the attitude of farmer members Likerts' scale of summated ratings was used.

AAGR have been worked out using the following formula.

$$\text{AAGR} = \left[ \text{Anti log} \left( \frac{\log Y_n - \log Y_o}{n-1} \right) - 1 \right] \times 100$$

where,  $Y_n$  = Current year value of the variable

$Y_o$  = Base year value of the variable

$n$  = Number of years

In order to select three societies from among the nine societies in the district, a composite index of the selected performance variables was constructed. For this, all the nine societies were ranked based on their average value of performance variables like share capital, membership, deposits, loans advanced and total funds. The maximum possible score for a society will be  $9 \times 5 = 45$  and minimum possible score is  $1 \times 5 = 5$ . First rank was given to the society having score of 7 and last rank was given to society having score of 41. The society at middle level was selected which have a score of 23  $\left( \approx \frac{45+5}{2} 25 \right)$ .

In order to measure the attitude of farmer members towards the services provided by FSS, Likert's scale of summated ratings was used. Under this method, the respondents were given a few statements. They were asked to respond to each of the statements in terms of several degrees of agreement or

disagreement; ie. Strongly Disagree, Disagree, No opinion, Agree and Strongly Agree. These five points constituted a scale.

Each point on the scale carries a score or value. Response indicative of the least favourable attitude (strongly disagree) is given lowest score -2, while the one conveying most favourable attitude (strongly agree) is given highest score +2 as shown below:

I	II	III	IV	V
Strongly Disagree	Disagree	No Opinion	Agree	Strongly Agree
-2	-1	0	+1	+2

Next step is to compute the total score (index value) of each statement using the following formula:

Index value of a statement =

$$\frac{(f_1 \times -2) + (f_2 \times -1) + (f_3 \times 0) + (f_4 \times +1) + (f_5 \times +2)}{N \times 2} \times 100$$

where,  $f_1, f_2 \dots f_5$  = number of respondents for each point on scale

$N$  = Total number of respondents

Maximum value obtained will be 100

Opinions obtained from the sample respondents were classified on the basis of following scale:

Index value < 33.33 least favourable

Index value 33.33 – 66.66 moderately favourable

Index value > 66.66 most favourable.

## *Results and Discussion*

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## CHAPTER 4

### RESULTS AND DISCUSSION

Agricultural credit is the life blood of farm operations. It provides a flow to the system averting ruin which would have occurred due to the lack of monetary capacity of a farmer. All India Rural Credit Survey Report quotes the French proverb which says that, "*credit supports the farmer as the hangman's rope supports the hanged*". Adequate and timely credit to the farmer is, therefore, vital and indispensable for the rehabilitation and progress of agriculture.

Farm production technology being advocated at present is sophisticated in nature. Besides, it is highly input and labour intensive. It is interdependent on several interrelated practices, each one of which has to be applied in time and in the manner recommended by the specialists. Thus, scientific crop planning has created an unprecedented upsurge in the demand for various types of inputs of production such as high yielding variety seeds, fertilizers, pesticides, tractors etc. This in turn has created a heavy demand for credit.

The extent of integrated credit provided by Farmers' Service Societies in Thrissur District, their financial performance and the attitude of farmer members were assessed by the present study. The data collected, both primary and secondary, were subjected to detailed analysis using appropriate tools and

the results are presented in this chapter. Keeping the objectives in view, the results have been organized under the following headings:

***4.1. Profile of the organizations under study***

***4.2. Integrated Agricultural Credit Service***

***4.3. Financial Performance of Organizations***

***4.4. Attitude of farmer members towards the services***

**4.1. Profile of the organizations under study**

In Thrissur district, there are nine Farmers' Service Societies namely Adat Farmers Service Co-operative Bank, Nadathara Farmers Service Co-operative Bank, Kodakara Farmers Service Co-operative Bank, Kuttikat Farmers Service Co-operative Bank, Poovathumkadavu Farmers Service Co-operative Bank, Engendiyur Farmers Service Co-operative Bank, Venkitangu Farmers Service Co-operative Bank, Pazhayannur Farmers Service Co-operative Bank and Killimangalam Farmers Service Co-operative Bank.

For the study, these nine societies were ranked based on their selected performance variables ie., share capital, membership, deposits, loans advanced and total funds and a composite index was developed. Based on this, three societies were selected each at top level, middle level and bottom level. The selected societies are Adat Farmers Service Co-operative Bank, Kodakara Farmers Service Co-operative Bank and Killimangalam Farmers Service Co-operative Bank.

#### ***4.1.1. Adat Farmers Service Co-operative Bank Ltd. No.R-689***

The Adat Farmers Service Co-operative Bank, which was established on 26<sup>th</sup> January 1980, provides a wide variety of services to meet the various requirements of small and marginal farmers in their area of operation.

The bank provides different types of credit and accepts deposits like other banking institutions. The bank procures agricultural products such as arecanut, paddy, coconut etc. and helps farmers in efficient marketing of their produce which gives the farmer reasonable price.

The bank also provides agricultural inputs like fertilizer, seeds, pesticides etc to promote agricultural production. The bank is also engaged in distribution of consumer goods by running a supermarket where members can avail credit facilities. As a part of encouraging processing activities of agricultural produce, bank is running a rice mill for the processing of procured paddy.

A picture of the selected performance indicators of the bank is presented in the Table 4.1.

The table shows that all the performance variables have shown an increasing trend over the years under study. The value of share capital which was Rs. 27.98 lakhs in 1995-96 showed a threefold increase and became Rs. 92.93 lakhs in 2004-05. The membership has also shown a small increase during these years. Deposits have increased from Rs. 843.63 lakhs in 1995-96 to Rs. 4554.77 lakhs in 2004-05, showing a five fold increase over the years.

Advances showed a twofold increase in which the value was increased from Rs. 1700.87 lakhs in 1995-96 to Rs. 4660.03 lakhs in 2004-05.

Table 4.1. Selected performance indicators of Adat FSCB

(Rs. in lakhs)

Year	Share capital	Growth index	Member-ship	Growth index	Deposits	Growth index	Advances	Growth index
1995-96	27.98 (0)	100.00	15965 (0)	100.00	843.63 (0)	100.00	1700.87 (0)	100.00
1996-97	35.59 (27.20)	127.20	17381 (8.87)	108.87	1109.98 (31.57)	131.57	1734.11 (1.95)	101.95
1997-98	43.88 (23.29)	156.83	176.39 (1.48)	110.49	1449.21 (30.56)	171.78	1608.22 (-7.26)	94.55
1998-99	48.26 (9.98)	172.48	17748 (0.62)	111.17	1586.66 (9.48)	188.08	3078.39 (91.42)	180.99
1999-00	60.81 (26.00)	217.33	18616 (4.89)	116.61	2194.16 (38.29)	260.09	3425.00 (11.26)	01.37
2000-01	72.79 (20.00)	260.79	18954 (1.82)	118.72	2815.54 (28.32)	333.74	3179.56 (-7.17)	186.94
2001-02	80.45 (10.25)	287.53	19209 (1.35)	120.32	2998.32 (6.49)	355.41	3890.93 (22.37)	228.76
2002-03	89.07 (10.71)	318.33	19435 (1.18)	121.74	3474.29 (15.87)	411.83	4652.32 (19.57)	273.53
2003-04	91.83 (3.10)	328.20	19717 (1.45)	123.50	3973.21 (14.36)	470.97	4900.71 (5.34)	288.13
2004-05	92.93 (1.20)	332.13	19755 (90.19)	123.74	4554.77 (14.64)	539.90	4660.03 (4.91)	273.98

Source: Annual Reports of the bank

Figures in parenthesis indicates annual growth rate

#### 4.1.2. Kodakara Farmers Service Co-operative Bank Ltd. No.R-761

The Kodakara Farmers Service Co-operative Bank which was a service Co-operative Bank was converted into Farmers Service Society on 1<sup>st</sup> January, 1977. The main objective of the bank is to advance adequate credit to small farmers, marginal farmers, rural artisans and agricultural labourers within the area of operation.



The bank provides consumer goods which is distributed through the Neethi store. They also run Neethi Medicals which helps the consumers to get medicines at a reasonable rate. The bank has the agency function of Rubco Beds. The bank also distributes agricultural inputs such as seeds, fertilizers, pesticides etc. to the farmers. They are not undertaking any processing and marketing activity of the agricultural produce.

The selected performance indicators for the bank is given in Table 4.2.

Table 4.2. Selected performance indicators of Kodakara FSCB

(Rs. in lakhs)								
Year	Share capital	Growth index	Member-ship	Growth index	Deposits	Growth index	Advances	Growth index
1995-96	13.19 (0)	100.00	6659	100.00	245.15 (0)	100.00	226.47 (0)	100.00
1996-97	15.83 (20.02)	120.02	6887	103.42	301.96 (23.17)	123.17	263.94 (16.55)	116.55
1997-98	19.97 (26.15)	151.40	7081	106.34	373.69 (23.75)	152.43	257.07 (-2.60)	113.51
1998-99	21.30 (6.66)	161.49	9124	137.02	586.51 (56.95)	239.25	488.92 (90.19)	215.89
1999-00	25.41 (19.30)	192.65	9758	146.54	921.93 (-62.16)	90.53	713.74 (45.98)	315.16
2000-01	37.43 (47.30)	283.78	10251	153.94	1060.77 (377.98)	432.70	941.13 (31.86)	415.56
2001-02	52.21 (39.49)	395.83	10554	158.49	1338.99 (26.23)	546.19	1025.46 (8.96)	452.80
2002-03	61.03 (16.89)	462.70	10716	160.93	1573.75 (17.53)	641.95	1152.53 (12.39)	508.91
2003-04	61.01 (-0.03)	462.55	11215	168.42	1736.00 (10.31)	708.14	1195.89 (3.76)	528.06
2004-05	58.73 (-3.74)	445.26	11802	177.23	1889.94 (8.87)	770.93	1387.80 (16.05)	612.80

Source: Annual Reports of the bank

Figures in parenthesis indicates annual growth rate

The Table revealed that all the variables have shown an increasing trend over the years of study. The share capital has increased from Rs. 13.19 lakhs in 1995-96 to Rs. 58.73 lakhs in 2004-05 recording a four fold increase during this 10 years. Deposits also have increased from Rs. 245.15 lakhs in 1995.96 to Rs. 1889.94 lakhs in 2004-05 showing a seven fold increase. The advances

have shown a six fold increase where the value has increased from Rs. 226.47 lakhs to Rs. 1387.80 lakhs in 2004-05.

#### 4.1.3. Killimangalam Farmes Service Co-operative Bank Ltd. No. 25

The bank started its functioning in the year 1916 and became a Farmers Service Society in 1982. The area of operation includes three villages of Panjal Panchayat ie. Atoor, Panjal and Killimangalam.

The major activities of the bank are provision of agricultural inputs like seeds, fertilizers and pesticides, running Neethi Store for distribution of consumer goods and marketing of agricultural produce. They are not undertaking any processing of agricultural produce of the members.

The performance indicators for Killimangalam FSCB are given below in Table 4.3.

Table 4.3. Selected performance indicators of Killimangalam FSCB.

(Rs. in lakhs)

Year	Share capital	Growth index	Member-ship	Growth index	Deposits	Growth index	Advances	Growth index
1995-96	4.99 (0)	100.00	6194 (0)	100.00	120.99 (0)	100.00	106.81 (0)	100.00
1996-97	5.45 (9.22)	109.22	6271 (1.24)	101.24	141.15 (16.66)	116.66	115.86 (8.47)	108.47
1997-98	5.66 (3.85)	113.43	6277 (0.10)	101.34	159.27 (12.84)	131.64	130.18 (12.36)	121.88
1998-99	5.08 (-10.25)	101.80	6606 (5.24)	106.65	163.71 (2.79)	135.31	114.53 (-12.02)	107.23
1999-00	6.05 (19.09)	121.24	6566 (-0.61)	106.01	209.25 (27.82)	172.95	113.66 (-0.76)	106.41
2000-01	13.82 (128.43)	276.95	6688 (1.86)	107.98	290.72 (38.93)	240.28	180.19 (58.53)	168.71
2001-02	20.22 (46.31)	405.21	3837 (2.23)	110.38	367.87 (26.54)	304.05	215.34 (19.51)	201.61
2002-03	32.79 (62.17)	657.11	7158 (4.70)	115.56	486.14 (32.15)	401.80	369.61 (71.64)	346.04
2003-04	37.79 (15.25)	757.31	7198 (0.56)	116.21	609.13 (25.30)	503.45	429.77 (16.28)	402.37
2004-05	44.21 (16.99)	885.97	7642 (6.17)	123.38	710.83 (16.70)	587.51	494.23 (15.00)	462.72

Source: Annual Reports of the bank

Figures in parenthesis indicates annual growth rate

It is vivid from the Table that the values have increased for all the variables. Share capital showed an eight fold increase where the value which was Rs. 4.99 lakhs in 1995-96 increased to Rs. 44.21 lakhs in 2004-05. Deposits showed a five fold increase and the value which was Rs. 120.99 in 1995-96 rose to Rs. 710.83 lakhs in 2004-05. Advances have increased from Rs. 106.81 lakhs in 1995-96 to Rs. 494.23 lakhs in 2004-05 showing a four fold increase during the reference period.

An examination of the selected performance indicators of the sample banks reveal that all the indicators have shown a good growth during the period of study. Based on analysis of these selected indicators we can conclude that banks are performing well.

#### **4.2. Integrated agricultural credit service**

Inspite of effective operation of co-operative banks as well as commercial banks in the field of agricultural finance, especially since 1968, small and marginal farmers and agricultural labourers had neither not much access to agricultural credit, nor have facilities to convert credit into essential inputs needed to raise the level of production and income. Thus small and marginal farmers were mostly left out of the sphere of finance both by co-operative banks and commercial banks.

A comprehensive organization specially for this target group was deemed necessary to offer adequate support in respect of credit and other requirements. It was in this background, the National Commission on

Agriculture (NCA) in their (interim) report in December, 1971 recommended for the formation of "Farmers Service Societies". The distinct feature of these societies was provision of Integrated Agricultural Credit Service.

The concept *Integrated Agricultural Credit Service* means provision of credit along with organization of facilities for its conversion into inputs and services required by the farmers to use the credit effectively. The primary aim of this system is to provide to the farmer one contact point for obtaining his credit and input requirements.

As the study focuses on farmers service societies, it is essential to examine the extent of integrated credit provided by these and hence taken as an important objective also. The performance of the sample banks in this aspect was analysed using growth rates, growth indices and percentages.

#### ***4.2.1. Disbursement of agricultural credit***

Disbursement of agricultural credit to small and marginal farmers and agricultural labourers is the major function of a FSS in order to help them to undertake production activities. All types of loan ie. short term, medium term and long term loans are provided by these societies. Timely availability of credit is necessary for the farmers to undertake farming operations and which would enhance the earning capacity of the farmers.

The data collected regarding disbursement of agricultural credit of Adat FSCB is given in the Table 4.4.

Table 4.4. Disbursement of agricultural credit by Adat FSCB

(Rs. in lakhs)				
Year	Total credit	Agricultural credit	Growth rate	Growth index
1995-96	1700.87	425.22 (25.00)	0	100.00
1996-97	1734.11	450.87 (26.00)	6.03	106.03
1997-98	1608.22	425.37 (26.45)	-5.66	100.04
1998-99	3078.39	831.17 (27.00)	95.40	195.47
1999-00	3425	993.25 (29.00)	19.50	233.58
2000-01	3179.56	906.17 (28.50)	-8.77	213.11
2001-02	3890.93	1167.28 (30.00)	28.81	274.51
2002-03	4652.32	1442.22 (31.00)	23.55	339.17
2003-04	4900.71	1506.97 (30.75)	4.49	354.40
2004-05	4660.03	1491.21 (32.00)	-1.05	351.40
AAGR	11.85	14.96		

*Source: Annual Reports of the bank*  
*Figures in parenthesis indicates percentage to total*

The Table reveals that the percentage of agriculture credit to total credit has increased during years under study. The share of agricultural credit which was 25 per cent in 1995-96 increased to 32 per cent in 2004-05. The growth rates were positive in most of the years showing an annual average growth to the tune of 14.96 per cent for agricultural credit where as it was 11.85 per cent for total credit. The amount of agricultural credit disbursed has also increased from Rs. 425.22 lakhs in 1995-96 to Rs. 1491.21 lakhs in 2004-05 which

shows it has increased more than three fold. This indicates a favourable position.

In the Table 4.5. the data regarding disbursement of agricultural credit by Kodakara FSCB is presented.

Table 4.5. Disbursement of agricultural credit by Kodakara FSCB

(Rs. in lakhs)				
Year	Total credit	Agricultural credit	Growth rate	Growth index
1995-96	226.47	18.11 (8.00)	0	100.00
1996-97	263.94	20.94 (7.93)	15.63	115.63
1997-98	257.07	23.07 (8.97)	10.17	127.39
1998-99	488.92	33.62 (6.88)	45.73	185.64
1999-00	713.74	33.27 (4.66)	-1.04	183.71
2000-01	941.13	38.97 (4.14)	17.13	215.18
2001-02	1025.46	37.81 (3.69)	-2.98	208.78
2002-03	1152.53	36.61 (3.18)	-3.17	202.15
2003-04	1195.89	32.07 (2.68)	-12.40	177.08
2004-05	1387.8	36.49 (2.63)	13.78	201.49
AAGR	22.31	8.10		

*Source: Annual Reports of the bank*  
*Figures in parenthesis indicates percentage to total*

Table 4.5 clearly shows that though the value of agricultural credit disbursed has increased from Rs. 18.11 lakhs in the year 1995-96 to Rs. 36.49 lakhs in 2004-05, the percentage to total credit has decreased from 8 per cent to 2.63 per cent. During the ten year reference period. Kodakara FSCB is

showing negative rates during the years, thereby recording an annual average growth of 8.10 per cent only Compared to the annual average growth of total credit which is 22.31 per cent, this is very low. The amount of agricultural credit has shown a two fold increase.

The disbursement of agricultural credit by Killimangalam FSCB is exhibited in the Table 4.6.

Table 4.6. Disbursement of agricultural credit by Killimangalam FSCB

(Rs. in lakhs)				
Year	Total credit	Agricultural credit	Growth rate	Growth index
1995-96	106.81	20.62 (19.31)	0	100.00
1996-97	115.86	28.49 (24.59)	38.17	138.17
1997-98	130.18	29.43 (22.61)	3.30	142.73
1998-99	114.53	26.63 (23.25)	-9.51	129.15
1999-00	113.66	27.79 (25.45)	4.36	134.77
2000-01	180.19	69.6 (38.63)	150.45	337.54
2001-02	215.34	93.4 (43.37)	34.20	452.96
2002-03	369.61	121.75 (32.94)	30.35	590.45
2003-04	429.77	137.24 (31.93)	12.72	665.57
2004-05	494.23	167.22 (33.83)	21.84	810.96
AAGR	18.56	26.18		

Source: Annual Reports of the bank  
 Figures in parenthesis indicates percentage to total

From the above Table it is inferred that the amount of agricultural credit disbursed has increased from Rs. 20.62 lakhs in the year 1995-96 to Rs. 167.22 lakhs in 2004-05. The share of agricultural credit in total credit has also shown

a considerable increase from 19.31 per cent to 33.83 per cent. The growth rates are positive showing an annual average growth of 26.18 per cent where the annual average growth of total credit is 18.56 only. The agricultural credit has shown an eight fold increase during the period of study.

When we analysed the data of agricultural credit disbursed by the three sample banks, it clearly showed that the value for Killimangalam FSCB has increased considerably followed by Adat FSCB and Kodakara FSCB which is proved by the high AAGR for the same (26.18). Therefore in the field of agricultural credit Killimangalam FSCB is showing a good performance level.

#### ***4.2.2. Distribution of agricultural inputs***

Distribution of agricultural inputs along with the disbursement of agricultural credit, is carried out by the Farmers Service Societies. They distribute agricultural inputs like seeds, fertilisers, pesticides etc. to the farmer at a reasonable price so they get both cash and kind component through the same window.

The distribution of agricultural inputs by Adat FSCB is presented in the Table 4.7.

It is deduced from the Table that value of agricultural inputs distributed has increased from Rs. 8.99 lakhs in 1995-96 to Rs. 62.01 lakhs in 2004-05 recording a growth in the share of agricultural inputs from 0.53 to 1.33 per cent. The growth rate is also showing an increasing trend, recording an annual average growth of 23.93 per cent. Compared to the annual average growth of



total credit (11.85) it is showing a better condition. A six fold increase has occurred in the value of agricultural inputs distributed.

Table 4.7. Distribution of agricultural inputs by Adat FSCB

(Rs. in lakhs)				
Year	Total credit	Agricultural inputs distributed	Growth rate	Growth Index
1995-96	1700.87	8.99 (0.53)	0	100.00
1996-97	1734.11	8.66 (0.50)	-3.67	96.33
1997-98	1608.22	31.27 (1.94)	261.09	347.83
1998-99	3078.39	36.19 (1.18)	15.73	402.56
1999-00	3425.00	47.96 (1.40)	32.52	533.48
2000-01	3179.56	50.50 (1.59)	5.30	561.74
2001-02	3890.93	41.33 (1.06)	-18.16	459.73
2002-03	4652.32	37.59 (0.81)	-9.05	418.13
2003-04	4900.71	57.22 (1.17)	52.22	636.48
2004-05	4660.03	62.01 (1.33)	8.37	689.77
AAGR	11.85	23.93		

Source: Annual Reports of the bank  
 Figures in parenthesis indicates percentage to total

The Table 4.8. gives a picture regarding the distribution of agricultural inputs by Kodakara FSCB.

Table 4.8. Distribution of agricultural inputs by Kodakara FSCB

(Rs. in lakhs)				
Year	Total credit	Agricultural inputs distributed	Growth rate	Growth index
1995-96	226.47	30.42 (13.43)	0	100.00
1996-97	263.94	35.65 (13.51)	17.19	117.19
1997-98	257.07	34.60 (13.46)	-2.95	113.74
1998-99	488.92	43.85 (8.97)	26.73	144.15
1999-00	713.74	40.10 (5.62)	-8.55	131.82
2000-01	941.13	43.87 (4.66)	9.40	144.21
2001-02	1025.46	44.86 (4.37)	2.26	147.47
2002-03	1152.53	36.25 (3.15)	-19.19	119.17
2003-04	195.89	46.44 (3.88)	28.11	152.66
2004-05	1387.80	41.88 (3.02)	-9.82	137.67
AAGR	22.31	3.61		

*Source: Annual Reports of the bank*

*Figures in parenthesis indicates percentage to total*

The Table reveals that though the agricultural inputs distributed has increased in value from Rs. 30.42 lakhs in 1995-96 to Rs. 41.88 lakhs in 2004-05, the share in total credit has decreased from 13.43 to 3.02 per cent. Compared to annual average growth of total credit (22.31 per cent), agricultural inputs distributed has recorded only an annual average growth of 3.61 per cent. The value has shown a less improvement.

The distribution of agricultural inputs by Killimangalam FSCB is given in Table 4.9.

Table 4.9. Distribution of agricultural inputs by Killimangalam FSCB

(Rs. in lakhs)				
Year	Total credit	Agricultural inputs distributed	Growth rate	Growth index
1995-96	106.81	10.25 (9.60)	0	100.00
1996-97	115.86	10.11 (8.73)	-1.37	98.63
1997-98	130.18	9.98 (7.67)	-1.29	97.37
1998-99	114.53	9.89 (8.64)	-0.90	96.49
1999-00	113.66	9.84 (8.66)	-0.51	96.00
2000-01	180.19	8.35 (4.63)	-15.14	81.46
2001-02	215.34	6.16 (2.86)	-26.23	60.10
2002-03	369.61	6.61 (1.79)	7.31	64.49
2003-04	429.77	12.29 (2.86)	85.93	119.90
2004-05	494.23	9.57 (1.94)	-22.13	93.37
AAGR	18.56	-0.76		

*Source: Annual Reports of the bank*

*Figures in parenthesis indicates percentage to total*

The Table clearly shows that in the case of distribution of agricultural inputs, the bank is presenting a dismal picture. The value of agricultural inputs which was Rs. 10.25 lakhs in 1995-96 reduced to Rs. 9.57 lakhs by 2004-05. The share has also decreased from 9.60 per cent to 1.94 per cent. The growth rates are negative with an annual average growth of -0.76 per cent during the ten year reference period. Compared to the annual average growth of total credit (18.56 per cent) it is negligibly low. The growth index has decreased over the years except the last two years under observation.

The analysis of data of agricultural inputs distributed by the sample banks, makes it clear that only Adat FSCB has shown an increase in the share of agricultural inputs to total credit whereas the other two banks have shown a decrease in the share of agricultural inputs distributed.

#### ***4.2.3. Marketing of agricultural produce***

The provision of integrated credit is the prime function of FSS. Marketing of agricultural produce comes under this service. FSS helps to market the produce of farmers effectively by avoiding middlemen by which they get reasonable price for the produce. Out of the sample banks selected, Kodakara FSCB is not engaged in providing this service.

The data regarding the agricultural produce marketed by Adat FSCB is given in Table 4.10.

The Table given above clearly shows that the value of agricultural produce marketed has increased from Rs. 251.29 lakhs in 1995-96 to Rs. 933.99 lakhs in 2004-05. The share in total business has also shown an increase from 8.90 per cent in 1995-96 to 9.03 per cent in 2004-05. The value has made a three fold increase during the years. The total business has recorded an annual average growth of 15.52 per cent whereas the agricultural produce marketed has also shown an annual average growth of 15.70 per cent.

Table 4.10. Marketing of Agricultural produce by Adat FSCB

(Rs. in lakhs)			
Year	Total business	Agricultural produce marketed	Growth index
1995-96	2824.10	251.29 (8.90)	100.00
1996-97	2987.97	85.55 (2.86)	34.04
1997-98	3280.92	150.11 (4.58)	59.74
1998-99	4962.82	203.55 (4.10)	81.00
1999-00	5986.83	265.17 (4.43)	105.52
2000-01	6374.31	266.08 (4.17)	105.89
2001-02	7313.26	294.00 (4.02)	116.99
2002-03	8788.11	503.56 (5.73)	200.39
2003-04	9809.10	749.58 (7.64)	298.29
2004-05	10345.96	933.99 (9.03)	371.68
AAGR	15.52	15.70	

*Source: Annual Reports of the bank*  
*Figures in parenthesis indicates percentage to total*

The data of agricultural produce marketed by Killimangalam FSCB were analysed and are presented in Table 4.11.

It is evident from the Table that though the value of agricultural produce marketed has increased from 7.58 lakhs in 1995-96 to Rs. 27.10 lakhs in 204-05, the share in total business has decreased from 3.17 per cent in 1995-96 to 2.17 per cent in 2004-05. The annual average growth of agricultural produce marketed (15.21 per cent) is found less than that of total business (20.19 per cent). The value has shown a threefold increase during the reference period.

Table 4.11. Marketing of agricultural produce by Killimangalam FSCB.

(Rs. in lakhs)			
Year	Total business	Agricultural produce marketed	Growth index
1995-96	239.06	7.58 (3.17)	100.00
1996-97	268.85	7.99 (2.97)	105.41
1997-98	301.89	8.18 (2.71)	107.92
1998-99	291.76	8.25 (2.83)	108.84
1999-00	346.54	9.53 (2.75)	125.73
2000-01	503.38	14.13 (2.81)	186.41
2001-02	617.05	20.14 (3.26)	265.70
2002-03	902.09	26.99 (2.99)	356.07
2003-04	1085.35	29.37 (2.71)	387.47
2004-05	1251.54	27.10 (2.17)	357.52
AAGR	20.19	15.21	

*Source: Annual Reports of the bank*  
*Figures in parenthesis indicates percentage to total*

The analysis of marketing of agricultural produce by the 2 sample banks show that Adat FSCB is performing better in the field than Killimangalam FSCB. The share of agricultural produce marketed to total business has increased in the case of Adat FSCB whereas it has decreased in the case of Killimangalam FSCB.

#### **4.2.4. Distribution of consumer goods**

Along with the above mentioned services, banks provide consumer goods to the members ie. quality goods at reasonable price. This is carried out

by running supermarkets or Neethi stores. The members can get the special advantage of credit purchase also by showing special cards allotted to them.

The distribution of consumer goods by Adat FSCB is given in Table 4.12.

Table 4.12. Distribution of consumer goods by Adat FSCB

Year	Total business	(Rs. in lakhs)	
		Consumer goods distributed	Growth index
1995-96	2824.10	28.31 (1.00)	100.00
1996-97	2987.97	58.33 (1.95)	206.04
1997-98	3280.92	73.38 (2.24)	259.20
1998-99	4962.82	94.22 (1.90)	332.82
1999-00	5986.83	102.50 (1.71)	362.06
2000-01	6374.31	113.13 (1.77)	399.61
2001-02	7313.26	130.01 (1.78)	459.24
2002-03	8788.11	157.94 (1.80)	557.89
2003-04	9809.10	185.60 (1.89)	655.60
2004-05	10345.96	197.17 (1.91)	696.47
AAGR	15.52	24.07	

*Source: Annual Reports of the bank*  
*Figures in parenthesis indicates percentage to total*

From the Table it is seen that the value of consumer goods distributed by the bank has recorded tremendous increase. It increased from Rs. 28.31 lakhs in 1995-96 to Rs. 197.17 lakhs in 2004-05. The share in total business has also increased from 1 per cent in 1995-96 to 1.91 per cent in 2004-05. The value has shown a seven fold increase by recording an annual average growth

of 24.07 per cent whereas it is 15.52 per cent for total business during the reference period.

The distribution of consumer goods by Kodakara FSCB is presented in Table 4.13.

Table 4.13. Distribution of consumer goods by Kodakara FSCB

(Rs. in lakhs)			
Year	Total business	Consumer goods distributed	Growth index
1995-96	505.41	33.79 (6.69)	100.00
1996-97	601.12	35.22 (5.86)	104.23
1997-98	668.44	37.68 (5.64)	111.51
1998-99	1115.35	39.92 (3.58)	118.14
1999-00	1679.54	43.87 (2.61)	129.83
2000-01	2042.01	40.11 (1.96)	118.70
2001-02	2409.31	44.86 (1.86)	132.76
2002-03	2776.76	50.48 (1.82)	149.39
2003-04	2987.48	55.59 (1.86)	164.52
2004-05	3348.36	70.62 (2.11)	208.98
AAGR	23.38	8.53	

*Source: Annual Reports of the bank*  
*Figures in parenthesis indicates percentage to total*

The Table reveals that, though the value of consumer goods distributed has increased from Rs. 33.79 lakhs to Rs. 70.62 lakhs during the reference period, the share in total business has shown a decrease from 6.69 per cent in 1995-96 to 2.11 per cent in 2004-05 showing an annual average growth of 8.53



per cent only. The value of consumer goods distributed has shown twofold increase during the ten years of study. Total business has shown a good annual average growth of 23.38 per cent.

The consumer goods distributed by Killimangalam FSCB is presented in Table 4.14.

Table 4.14. Distribution of consumer goods by Killimangalam FSCB

(Rs. in lakhs)			
Year	Total business	Consumer goods distributed	Growth index
1995-96	239.06	3.68 (1.54)	100.00
1996-97	268.85	3.85 (1.43)	104.62
1997-98	301.89	4.26 (1.41)	115.76
1998-99	29.76	5.27 (1.81)	143.21
1999-00	346.54	14.1 (4.07)	383.15
2000-01	503.38	18.34 (3.64)	498.37
2001-02	617.05	13.70 (2.22)	372.28
2002-03	902.09	19.35 (2.15)	525.82
2003-04	1085.35	17.08 (1.57)	464.13
2004-05	1251.54	19.38 (1.55)	526.63
AAGR	20.19	20.28	

*Source: Annual Reports of the bank*  
*Figures in parenthesis indicates percentage to total*

Table 4.14 reveals that the value of consumer goods distributed has increased from Rs. 3.68 lakhs in 1995-96 to Rs. 19.38 lakhs in 2004-05 whereas the share in the total business has shown only a marginal increase

from 1.54 per cent in 1995-96 to 1.55 per cent in 2004 -05. The total business has grown with an annual average growth of 20.19 per cent and the value of consumer goods distributed has shown a fivefold increase with an annual average growth of 20.28 per cent.

The analysis of consumer goods distributed by the sample banks, makes it clear that though it has increased in value during the reference period for the 3 banks, the share in total business has increase only for banks except Kodakara FSCB. The increase is small in the case of Adat FSCB where as it is marginal for Killimangalam FSCB showing no improvement in this activity.

#### **4.3. Financial performance of the organisations**

Finance is the life blood of any business enterprise. It is the master key which provides access to all other sources that could be well employed in manufacturing and merchandising activities. As the banks under study are basically financial institutions, its efficiency or inefficiency to a larger extent reflects in the financial performance. Hence, an attempt is made to assess the financial performance.

Ratio analysis is employed to assess the financial performance of the selected societies. Ratios are simple and most popular tools for financial analysis and hence an integral part of process of financial appraisal. Ratio analysis helps to understand the mute language of absolute figures contained in financial statements and to derive meaningful conclusions. So certain

important accounting ratios are used here for assessing the financial performance of the sample banks.

#### ***4.3.1. Ratios used for the study***

The ratios used for the study are, owned fund to borrowed fund ratio, time deposits to total deposits ratio(to find out efficiency in mobilization), credit deposit ratio, credit to working capital ratio(to find out efficiency in deployment),total expenses to total income ratio, interest paid to interest received ratio and net profit to total funds ratio(to find out efficiency in operation).

#### ***4.3.2. Owned fund to borrowed fund ratio***

This ratio is used to measure the contribution of owners to the long term finances of concern as compared to the contribution of long term creditors. Owned fund consists of share capital and reserves whereas borrowed fund consists of deposits and borrowings.

The owned fund to borrowed fund ratio for Adat FSCB is presented in the following table.

Table shows that, the proportion of owned fund to borrowed fund is declining ie., compared to owned funds, contribution by borrowed funds is more. The ratio which was 3.27 in the year 1995-96 decreased to 1.72 in the year 2004-05. the increasing amount of borrowed funds will affect the cost of operation of the bank. Therefore, increase in the amount of owned fund is essential.

Table 4.15. Owned fund to borrowed fund ratio of Adat FSCB  
(Rs. in lakhs)

Year	Owned fund	Borrowed fund	OF/BF x 100
1995-96	28.41	869.80	3.27
1996-97	36.02	1121.70	3.21
1997-98	44.81	1501.21	2.98
1998-99	49.19	1668.57	2.95
1999-00	61.74	2205.92	2.80
2000-01	73.90	3083.80	2.40
2001-02	81.38	3132.40	2.60
2002-03	90.0	3732.61	2.41
2003-04	92.76	4738.53	1.96
2004-05	93.86	5457.46	1.72

Source: Audit Reports of the bank

Now we can have a look at the owned fund to borrowed fund ratio of Kodakara FSCB which is given in the table below:

Table 4.16. Owned fund to borrowed fund ratio of Kodakara FSCB  
(Rs. in lakhs)

Year	Owned fund	Borrowed fund	OF/BF x 100
1995-96	15.04	263.35	5.71
1996-97	17.68	335.33	5.30
1997-98	21.82	403.14	5.41
1998-99	23.15	587.82	3.94
1999-00	27.26	278.45	9.79
2000-01	39.28	1064.81	3.69
2001-02	54.06	1352.29	4.00
2002-03	62.88	1574.05	3.99
2003-04	65.02	1736.21	3.74
2004-05	67.09	1890.12	3.55

Source: Audit Reports of the bank

The table depicts that as in the case of Adat FSCB, there also the proportion of owned fund to borrowed fund is coming down. The ratio which was 5.71 in 1995-96 reduced to 3.55 in the year 2004-05. As the volume of owned fund is decreasing the bank must try to improve the level of owned fund or atleast not to increase that of borrowed funds.

The owned fund to borrowed fund ratio of third bank ie., Killimangalam FSCB is given in the following table.

Table 4.17. Owned fund to borrowed fund ratio of Killimangalam FSCB  
(Rs. in lakhs)

Year	Owned fund	Borrowed fund	OF/BF x 100
1995-96	5.55	171.59	3.23
1996-97	6.01	199.10	3.02
1997-98	6.22	221.30	2.81
1998-99	5.64	223.27	2.53
1999-00	6.61	255.80	2.58
2000-01	14.38	365.39	3.94
2001-02	20.78	398.49	5.21
2002-03	33.35	587.26	5.68
2003-04	38.35	713.55	5.37
2004-05	44.77	895.66	5.00

Source: Audit Reports of the bank

It is evident from the table that the proportion of owned fund to borrowed fund which was 3.23 in 1995-96 has increased to 5 in 2004-05 which a desirable trend. Compared to other two banks, the bank is having a good proportion of owned fund to borrowed fund which must be maintained in the coming years too.

An examination of owned fund to borrowed fund ratio for the three banks revealed that except for Killimangalam FSCB, the proportion decreased throughout the study period. In the case of Killimangalam FSCB, the proportion has increased which is a favourable condition. The other 2 banks must try to improve the ratio so as to decrease the cost of fund and become efficient.

#### 4.3.3. Time deposits to total deposits ratio

This ratio is used to measure the proportion of time deposits in the total deposit mix. Time deposits include fixed deposits and recurring deposits. Total deposits consists of time deposits and demand deposits like current deposit and savings account.

The time deposits to total deposits ratio for Adat FSCB is given in the table below:

Table 4.18. Time deposits to total deposits ratio of Adat FSCB

Year	Time Deposit	Total Deposits	(Rs. in lakhs)
			TD/TD x 100
1995-96	981.43	1109.98	88.42
1996-97	1148.53	1449.21	79.25
1997-98	1454.57	1586.66	91.67
1998-99	1743.06	2194.16	79.44
1999-00	1994.09	2815.54	70.82
2000-01	2293.54	2998.32	76.49
2001-02	2873.25	3474.29	82.70
2002-03	3310.27	3973.21	83.31
2003-04	3759.94	4554.77	82.55
2004-05	4510.63	4893.72	92.17

Source: Audit Reports of the bank

It is deduced from the table that around 80 per cent of deposits are time deposits in the total deposit mix. The proportion which was 88.42 in 1995-96 has increased to 92.17 in 2004-05 which will increase risk for the bank as the denomination is also high. The bank has to take care of demand deposits also which are of low risk though income received is less.

Table 4.19 shows the time deposits to total deposits ratio of Kodakara FSCB during the period of study.

Table 4.19. Time dposits to total deposits ratio of Kodakara FSCB

Year	Time Deposit	Total Deposits	(Rs. in lakhs)
			TD/TD x 100
1995-96	225.73	245.15	92.08
1996-97	197.88	301.96	65.53
1997-98	263.79	373.69	70.59
1998-99	295.74	586.51	50.42
1999-00	413.28	921.93	44.83
2000-01	549.12	1060.77	51.77
2001-02	617.06	1338.99	46.08
2002-03	805.42	1573.75	51.18
2003-04	996.74	1736.00	57.42
2004-05	1240.24	1889.94	65.62

Source: Audit Reports of the bank

The table shows that the proportion of time deposits to total deposits has decreased during the study period. The ratio which was 92.08 in 1995-96 has come down to 65.62 in 2004-05 which is a favourable condition for the bank.

If this tempo is maintained it will help the bank to manage its deposits most efficiently.

The table below shows the time deposits to total deposits ratio of Killimangalam FSCB.

Table 4.20. Time deposits to total deposits ratio of Killimangalam FSCB

(Rs. in lakhs)			
Year	Time Deposit	Total Deposits	TD/TD x 100
1995-96	81.04	120.99	66.98
1996-97	91.47	141.15	64.80
1997-98	100.98	159.27	63.40
1998-99	102.24	163.71	62.45
1999-00	118.09	209.25	56.43
2000-01	192.02	290.72	66.05
2001-02	248.68	367.87	67.60
2002-03	337.97	486.14	69.52
2003-04	471.19	609.13	77.35
2004-05	538.80	710.83	75.80

*Source: Audit Reports of the bank*

The above table indicates that the proportion of time deposits to total deposits has increased. The ratio which was 66.98 in 1995-96 increased to 75.80 in 2004-05. This will also increase the risk factor for the bank and will affect its earnings.

It is evident from the above three tables that except for Kodakara FSCB, the ratio has increased during the period of study. In that case equal



consideration should be given for mobilising both demand and time deposits which will otherwise affect the smooth functioning of the banks.

#### 4.3.4. Credit deposit ratio

Credit Deposit Ratio is an indicator of the banks performance in the matter of credit deployment from the locally raised funds. Credit is the term given for temporary rising of funds for defraying various obligations like raw materials to the manufacturing industry, deposits are to be banking institutions. They turn deposits as investments to the borrowers.

The Credit Deposit Ratio of Adat FSCB is given in the form of a table below:

Table 4.21. Credit deposit ratio of Adat FSCB

Year	Credit	Deposit	(Rs. in lakhs)
			Credit/Deposit x 100
1995-96	1700.87	1109.98	153.23
1996-97	1734.11	1449.21	119.66
1997-98	1608.22	1586.66	101.36
1998-99	3078.39	2194.16	140.30
1999-00	3425.00	2815.54	121.65
2000-01	3179.56	2998.32	106.04
2001-02	3890.93	3474.29	111.99
2002-03	4652.32	3973.21	117.09
2003-04	4900.71	4554.77	107..60
2004-05	4660.03	4893.72	95.22

Source: Audit Reports of the bank

The Table depicts that CD ratio of the bank is decreasing during the period of study. The ratio which was 153.23 in 1995-96 decreased to 95.22 in 2004-05. The ratio measures bank's ability to provide credit out of deposits mobilized.

The following table shows the credit deposit ratio of Kodakara FSCB.

Table 4.22. Credit deposit ratio of Kodakara FSCB

Year	Credit	Deposit	(Rs. in lakhs)
			Credit/Deposit x 100
1995-96	226.47	245.15	92.38
1996-97	263.94	301.96	87.41
1997-98	257.07	373.69	68.79
1998-99	488.92	586.51	83.36
1999-00	713.74	921.93	77.42
2000-01	941.13	1060.77	88.72
2001-02	1025.46	1338.99	76.58
2002-03	152.53	1573.75	73.23
2003-04	1195.89	1736.00	68.89
2004-05	1387.80	1889.94	73.43

*Source: Audit Reports of the bank*

It is evident from the table that the CD ratio shows a decreasing trend for Adat FSCB. The ratio which was 92.38 in 1995-96 decreased to 73.43 in 2004-05. This points to the capacity of the bank to lend out of its deposits decreases during the period of study. This has to be considered seriously.

The credit deposit ratio of Killimangalam FSCB is shown in the table below:

Table 4.23. Credit Deposit ratio of Killimangalam FSCB

Year	Credit	Deposit	(Rs. in lakhs)
			Credit/Deposit x 100
1995-96	106.81	120.99	88.28
1996-97	115.86	141.15	82.08
1997-98	130.18	159.27	81.74
1998-99	114.53	163.71	69.96
1999-00	113.66	209.25	54.32
2000-01	180.19	290.72	61.98
2001-02	215.34	367.87	58.54
2002-03	369.61	486.14	76.03
2003-04	429.77	609.13	70.55
2004-05	494.23	710.83	69.53

*Source: Audit Reports of the bank*

This table also reveals the same trend i.e., the CD ratio is declining during the period of study. The ratio which was 88.28 in 1995-96 came down to 69.53 in 2004-05. Here also we can see that the credit creation capacity from deposits is not showing a favourable trend.

The credit deposit ratio for the 3 banks, as clearly indicated by the tables, shows decreasing tendency throughout the period of study. Compared to other banks, Adat FSCB has highest CD ratio which shows it is more efficient in the matter of credit deployment from locally raised funds. In Kerala the

percentage of CD ratio tends to be on a decent side. This is one of the problems faced by the banks in our state. The banks, therefore have to frame their lending policies in such a manner which would help them to create more credit out of deposits mobilised.

#### 4.3.5. Credit to working capital ratio

This ratio helps to measure the proportion of credit given out of the working capital of the bank. The efficiency of bank depends on the effective working capital deployment.

The table below shows the credit to working capital ratio of Adat FSCB.

Table 4.24. Credit to working capital ratio of Adat FSCB

Year	Credit	Working capital	(Rs. in lakhs)
			Credit/Working capital x 100
1995-96	1700.87	1160.01	146.63
1996-97	1734.11	1474.76	117.59
1997-98	1608.22	1635.94	98.31
1998-99	3078.39	2462.71	125.00
1999-00	3425.00	3050.31	112.28
2000-01	3179.56	3290.48	96.63
2001-02	3890.93	3626.14	107.30
2002-03	4652.32	4565.02	101.91
2003-04	4900.71	526464	93.09
2004-05	4660.03	5837.80	79.83

Source: Audit Reports of the bank

It could be deduced from the table that the ratio has come down during the period of study. The ratio which was 146.63 in 1995-96 reduced to 79.83 in 2004-05. The fact that the capacity of bank to create credit out of the working capital is on the decline needs to be attended by the bank.

The following table shows the credit to working capital ratio of Kodakara FSCB.

Table 4.25. Credit to working capital ratio of Kodakara FSCB

Year	Credit	Working capital	(Rs. in lakhs)
			Credit/Working capital x 100
1995-96	226.47	256.90	88.15
1996-97	263.94	306.05	86.24
1997-98	257.07	360.21	71.37
1998-99	488.92	444.25	110.06
1999-00	713.74	677.99	105.27
2000-01	941.13	1055.29	89.18
2001-02	1025.46	1121.57	91.43
2002-03	1152.53	1441.44	79.96
2003-04	1195.89	1690.40	70.75
2004-05	1387.80	1825.32	76.03

*Source: Audit Reports of the bank*

The table reveals a similar trend of decreasing values for credit to working capital ratio. The ratio which was 88.15 in 1995-96 decreased to 76.03 in 2004-05. Therefore measures have to be taken to increase the credit creation capacity out of its working capital.

Table 4.26 below exhibits the credit to working capital ratio of Killimangalam FSCB.

Table 4.26. Credit to working capital ratio of Killimangalam FSCB

Year	Credit	Working capital	(Rs. in lakhs)
			Credit/Working capital x 100
1995-96	106.81	152.68	69.96
1996-97	115.86	228.16	50.78
1997-98	130.18	261.70	49.74
1998-99	114.53	376.52	30.42
1999-00	113.66	406.30	27.97
2000-01	180.19	608.03	29.64
2001-02	215.34	741.81	29.03
2002-03	36.61	952.38	38.81
2003-04	429.77	1010.80	42.52
2004-05	494.23	1078.27	45.84

Source: Audit Reports of the bank

The table shows the same trend again is decreasing trend for the ratio. the ratio which was 69.96 in 1995-96 came down to 45.84 in 2004-05 showing a considerable decrease. In the case of this bank, the credit creation capacity out of working capital has decreased tremendously.

Credit to working capital ratio, which is an indicator of bank's performance in the matter of credit deployment, is also highest for Adat FSCB indicating it is more efficient. The ratio as given by the 3 tables, has shown a

decreasing trend and the banks, in order to improve the ratio, have to deploy the credit effectively, so that the funds are utilized to the maximum.

#### 4.3.6. Interest paid to interest received ratio or spread ratio

This ratio is used to ascertain extent of cost incurred by bank for mobilization of resources and that of interest received by bank on loans and advances. It is actually spread ratio. a value below 100 is considered favourable.

The table given below shows the interest paid to interest received ratio of Adat FSCB.

Table 4.27. Interest paid to interest received ratio of Adat FSCB

Year	Interest paid	Interest received	(Rs. in lakhs)
			IP/IR*100
1995-96	109.56	159.02	68.90
1996-97	152.4	173.33	87.92
1997-98	126.85	171.37	74.02
1998-99	197.33	299.76	65.83
1999-00	259.25	379.22	68.36
2000-01	348.88	486.39	71.73
2001-02	343.75	516.8	66.52
2002-03	408.5	552.25	73.97
2003-04	459.22	611.3	75.12
2004-05	511	514.91	99.24

Source: Audit Reports of the bank

From the table, it is clear that ratios are below 100 which is favourable to the bank. The ratio has increased from 68.90 in 1995-96 to 99.24 in 2004-05 which indicates the margin earned has been decreased by the bank. This indicates the amount of interest expenditure has increased or interest income has reduced.

The following table exhibits the spread ratio of Kodakara FSCB.

Table 4.28. Interest paid to interest received ratio of Kodakara FSCB

(Rs. in lakhs)			
Year	Interest paid	Interest received	IP/IR*100
1995-96	37.1	41.95	88.44
1996-97	31.17	37.54	83.03
1997-98	47.32	60.26	78.53
1998-99	63.71	100.6	63.33
1999-00	85.6	131.76	64.97
2000-01	97.44	137.96	70.63
2001-02	139.62	138.41	100.87
2002-03	194.67	138.78	140.27
2003-04	233.13	162.92	143.09
2004-05	154.24	259.24	59.50

Source: Audit Reports of the bank

The table reveals that ratios are below 100 which is a favourable condition. The ratio which was 88.44 in 1995-96 has reduced to 59.50 in 2004-05 which shows that the margin or spread has increased during the period of study. The increase may be due to reduction in interest expenditure or increase in interest income.

The spread ratio of Killimangalam FSCB is shown in Table 4.29.



Table 4.29. Interest paid to interest received ratio of Killimangalam FSCB

Year	(Rs. in lakhs)		
	Interest paid	Interest received	IP/IR*100
1995-96	25.9	22.37	115.78
1996-97	28.6	23.72	120.57
1997-98	21.3	19.2	110.94
1998-99	31.93	27.25	117.17
1999-00	37.95	36.18	104.89
2000-01	48.5	51.83	93.58
2001-02	63.13	62.17	101.54
2002-03	63.1	79.13	79.74
2003-04	71.91	98.78	72.80
2004-05	71.53	88.93	80.43

Source: Audit Reports of the bank

The table reveals that the ratio has decreased during the period of study which is favourable to the bank. The ratio which was 115.78 in 1995-96 has decreased to 80.43 in 2004-05. This may be due to decrease in interest expenditure or increase in interest income.

The spread ratios for the 3 banks show that except for Adat FSCB, the ratio has decreased indicating increase in the margin earned by the banks. The increase can be attributed to either reduction in interest expenditure or addition in interest income. In the case of Adat FSCB, the interest income has not been increased as the increase in the case of interest expenditure.

#### 4.3.7. Total expenses to total income ratio

This ratio is used to measure the operational efficiency of the bank. A value below 100 is considered favourable for the bank.

The table below shows the total expenses to total income ratio of Adat FSCB.

Table 4.30. Total expenses to total income ratio of Adat FSCB

(Rs. in lakhs)			
Year	Total expenses	Total income	TE/TI*100
1995-96	324.67	334.79	96.98
1996-97	331.72	329.14	100.78
1997-98	209.52	215.34	97.30
1998-99	401.67	420.1	95.61
1999-00	665.18	684.8	97.13
2000-01	559.71	562.97	99.42
2001-02	496.95	507.62	97.90
2002-03	929.31	969.09	95.90
2003-04	1776.83	1826	97.31
2004-05	1704.13	1790.27	95.19

Source: Audit Reports of the bank

The table reveals the fact that the ratio has slightly decreased from 96.98 in 1995-96 to 95.19 in 2004-05. It may be due to increase in total income or decrease in total expenditure.

The total expenses to total income ratio of Kodakara FSCB is given below:

Table 4.31. Total expenses to total income ratio of Kodakara FSCB

(Rs. in lakhs)			
Year	Total expenses	Total income	TE/TI*100
1995-96	28.8	30.29	95.08
1996-97	32.54	34.14	95.31
1997-98	41.07	43.18	95.11
1998-99	45.05	47.44	94.96
1999-00	47.6	49.23	96.69
2000-01	41.01	43.7	93.84
2001-02	44.13	46.87	94.15
2002-03	59.6	61.52	96.88
2003-04	109.11	115.27	94.66
2004-05	123.94	131.61	94.17

Source: Audit Reports of the bank

The table reveals the fact that the ratio has slightly decreased from 95.08 in 1995-96 to 94.17 in 2004-05 which is favourable for the bank.

The table below indicates the total expenses to total income ratio of Killimangalam FSCB.

Table 4.32. Total expenses to total income ratio of Killimangalam FSCB

Year	Total expenses	Total income	(Rs. in lakhs)
			TE/TI*100
1995-96	28.36	29.23	97.02
1996-97	30.04	30.8	97.53
1997-98	24.85	25.38	97.91
1998-99	20.48	20.93	97.85
1999-00	16.36	16.87	96.98
2000-01	25.98	26.96	96.36
2001-02	30.11	31.16	96.63
2002-03	34.32	36.69	93.54
2003-04	31.67	34.06	92.98
2004-05	25.91	27.52	94.15

Source: Audit Reports of the bank

It is inferred from the table that the ratio has decreased from 97.02 in 1995-96 to 94.15 in 2004-05 which is favourable for the bank. The burden has improved for the bank by increasing the non-interest income. This is through the supply of food articles under ICDS to Anganwadis where they get 10 percentage as commission.

When the total expenses to total income ratio is examined for the 3 banks we can see that in all the cases the ratio has decreased slightly indicating bank is making more margin out of its level of activities or is efficient in managing its level of activities.

#### 4.3.8. Net profit to total funds ratio or profitability ratio

Profitability can be defined as ability to earn profit. To measure the financial performance of a bank, profitability ratio is very important. This ratio is a familiar tool to determine the bank's profitability. It indicates efficiency with which a bank deploys its total funds so as to maximize profits. Total funds is arrived at by deducting contra items from any of the two sides of balance sheet.

The profitability ratio of Adat FSCB is given in the following table.

Table 4.33. Profitability ratio of Adat FSCB

Year	Net profit	Total funds	(Rs. in lakhs)
			Net profit/Total funds x 100
1995-96	9.25	1462.82	0.63
1996-97	-250.73	31.99.50	-7.84
1997-98	9.54	2070.58	0.46
1998-99	40.65	2843.09	1.43
1999-00	5.66	3819.64	0.15
2000-01	5.05	4109.90	0.12
2001-02	27.26	4485.61	0.61
2002-03	1.34	5600.09	0.02
2003-04	-22.66	6482.06	-0.35
2004-05	-81.24	7458.04	-1.09

Source: Audit Reports of the bank

The table shows that ratios are low for the bank. The ratio which was 0.63 in 1995-96 decreased to -1.09 in 2004-05. The ratio was highest in the year 1998-99 as the net profit was highest in that year. The efficiency with which bank deploys its total funds to maximise profit is less.

The following table depicts the profitability ratio of Kodakara FSCB.

Table 4.34. Profitability ratio of Kodakara FSCB.

Year	Net profit	Total funds	(Rs. in lakhs)
			Net profit/Total funds x 100
1995-96	-17.70	491.16	-3.60
1996-97	-11.47	530.57	-2.16
1997-98	-1.56	843.54	-0.18
1998-99	2.13	1195.52	0.18
1999-00	12.24	1465.09	0.84
2000-01	29.00	1861.57	1.56
2001-02	10.76	2138.13	0.50
2002-03	10.63	2286.37	0.46
2003-04	20.63	2470.33	0.84
2004-05	4.41	2788.47	0.16

Source: Audit Reports of the bank

The table reveals that the ratio has increased from -3.60 in 1995-96 to 0.16 in 2004-05 which is desirable. The ratio was highest in the year 2000-01 when the net profit also was the highest. The bank is more efficient in deploying its total funds compared to Adat FSCB.

The following table gives the profitability ratio of Killimangalam FSCB.

Table 4.35. Profitability ratio of Killimangalam FSCB

(Rs. in lakhs)			
Year	Net profit	Total funds	Net profit/Total funds x 100
1995-96	-68.62	274.30	-25.02
1996-97	-75.82	295.08	-25.69
1997-98	-95.58	339.90	-28.12
1998-99	-109.20	478.79	-22.81
1999-00	-112.03	545.48	-20.54
2000-01	-104.31	774.57	-13.47
2001-02	-116.90	982.90	-11.89
2002-03	-92.34	1225.52	-7.53
2003-04	-87.60	1347.36	-6.50
2004-05	-34.56	1463.05	-2.36

Source: Audit Reports of the bank

The table shows that bank had net loss during all the 10 years of the period of study. Though negative the ratio has shown increase in value from -25.02 in 1995-96 to -2.36 in 2004-05. The amount of net loss has decreased from 68.62 in 1995-96 to 34.56 in 2004-05 which is a desirable condition for the bank.

When the profitability ratio of 3 banks was examined we could see that for Adat FSCB profitability declined for Kodakara FSCB it increased and for Killimangalam FSCB the amount of net loss has been reduced during the 10 years of study, which indicates there is chance for improvement.

Thus an analysis of financial performance of the three banks show that compared to the other two banks, Kodakara FSCB is financially viable. This fact is supported by its profitability ratio and the other two ratios to find out efficiency in operation. The time deposits to total deposits ratio is also showing a decreasing trend for the bank. Adat FSCB is in the second place which incurred loss only during the last two years under study. The bank is less efficient in mobilization of funds as revealed by the ratios. The spread ratio also showed an increasing trend. As shown by the profitability ratio, Killimangalam FSCB had loss throughout the years under observation. Though the ratios are unfavourable for the bank, the amount of loss has been reduced during these years.

#### **4.4. Attitude of farmer members towards the services**

The main objective of Farmers Service Society is to provide integrated credit to its members i.e., credit along with other services like distribution of agricultural inputs and consumer goods, processing of agricultural produce, marketing of agricultural produce etc. Thus FSS provides one contact point for obtaining their credit and input requirements. Therefore farmer's attitude towards the services provided by FSS is an item to be considered. In the study, this was measured using a pre-structured and pre-tested schedule. The data obtained were analysed using Likerts scale of summated ratings. The analysis of attitude of farmers is preceded by a discussion on socio-economic variables collected through survey and results are presented in a Table.

#### 4.4.1. Socio-economic profile of the respondents

Data regarding some socio-economic variables of the respondents were collected and analyzed using percentages.

The selected variables are age, sex, educational level, occupation, monthly family income and monthly family expenditure which are represented by the following table.

Table 4.36. Socio-economic profile of respondents

Parameters	Adat FSCB	Kodakara FSCB	Killimangalam FSCB	Total
<b>Age</b>				
20 - 30	4 (13)	5 (17)	7 (23)	16 (18)
30 - 50	20 (67)	15 (50)	18 (60)	53 (59)
50 and above	6 (20)	10 (33)	5 (17)	21 (23)
Total	30 (100)	30 (100)	30 (100)	90 (100)
<b>Sex</b>				
Male	27 (90)	29 (97)	28 (93)	84 (93)
Female	3 (10)	1 (3)	2 (7)	6 (7)
Total	30 (100)	30 (100)	30 (100)	90 (100)
<b>Educational level</b>				
Primary	11 (37)	15 (50)	18 (60)	44 (49)
Secondary	18 (60)	12 (40)	10 (33)	40 (44)
Above secondary	1 (3)	3 (10)	2 (7)	6 (7)
Total	30 (100)	30 (100)	30 (100)	90 (100)
<b>Occupation</b>				
Agriculture and Allied	10 (33)	15 (50)	12 (40)	37 (41)
Industry	14 (47)	10 (33)	11 (37)	35 (39)
Services	6 (20)	3 (10)	6 (20)	15 (17)
Self employed	-	2 (7)	1 (3)	3 (3)
Total	30 (100)	30 (100)	30 (100)	90 (100)
<b>Monthly family income</b>				
Rs.3000 - Rs.5000	7 (23)	10 (33)	16 (53)	33 (37)
Rs.5000 - Rs.7000	18 (60)	15 (50)	12 (40)	45 (50)
Rs.7000 and above	5 (17)	5 (17)	2 (7)	12 (13)
Total	30 (100)	30 (100)	30 (100)	90 (100)
<b>Monthly family expenditure</b>				
Rs.2000 - Rs.4000	3 (10)	2 (7)	5 (17)	10 (11)
Rs.4000 - Rs.6000	18 (60)	18 (60)	17 (57)	53 (59)
Rs.6000 and above	9 (30)	10 (33)	8 (26)	27 (30)
Total	30 (100)	30 (100)	30 (100)	90 (100)

Source : Compiled from field survey

Figures in parenthesis indicates percentage to total



It is clear from the table that 59 percent of total respondents are of the age group 30-50. The percentage of respondents in the age group, 20-30 is 18 and 50 and above is 23. Out of the total respondents, 93 percent are males.

When the level of education of sample respondents is considered, 49 percent are having only primary education, whereas another 44 percent having secondary education and 7 percent having education above secondary level. The details of occupation show that 41 percent are engaged in agriculture and allied activities, 39 percent in industrial activities, 17 percent in services sector and 3 percent are self employed.

Monthly family income as vivid from the table, 50 percent of respondents is in the category Rs.5000-Rs.7000. In the first category and last category percentage of respondents are 37 and 13 respectively. In the case of monthly family expenditure, 59 percent of respondents spend Rs.4000-Rs.6000, 30 percent spend Rs.6000 and above and 11 percent spend Rs.2000-Rs.4000.

#### ***4.4.2. Distribution of land holdings***

The data regarding land holdings of the sample respondents were collected and presented in table 4.37.

Table 4.37. Distribution of land holdings of respondents

Size of land holdings (ha)	Irrigated		Non-irrigated		Total
	Owned	Hired	Owned	Hired	
< 1	25 (83)	-	5 (17)	-	30 (100)
1 – 2	30 (60)	2 (4)	18 (36)	-	50 (100)
2 – 5	8 (80)	1 (10)	1 (10)	-	10 (100)
5 above	-	-	-	-	-
Total	63 (70)	3 (3)	21 (27)	-	90 (100)

*Source : Compiled from field survey*

*Figures in parenthesis indicates percentage to total*

The table depicts that out of the total 90 respondents, 70 percent were having irrigated owned land, 3 percent having irrigated hired land and 27 percent having non-irrigated owned land. Thirty respondents had land holdings below 1 ha, 50 persons had 1-2 ha, 10 persons had 2-5 ha and no one had 5 ha and above. Among the 30 persons, 83 percent were having irrigated owned land and 17 percent non-irrigated owned land. among the 50 persons, 60 percent were having irrigated owned land, 4 percent irrigated hired land and 36 percent non-irrigated owned land. Among the 10 persons, 80 percent were having irrigated owned land, 10 percent irrigated hired land and 10 percent non-irrigated owned land.

#### **4.4.3. Major source of income**

The table below exhibits the data collected regarding the major source of income of the respondents.

Table 4.38. Major source of income of respondents

Bank	Source of income		Total
	Agricultural activities (Nos.)	Non-agricultural activities (Nos.)	
Adat FSCB	10	20	30
Kodakara FSCB	5	25	30
Killimangalam FSCB	23	7	30
Total	38 (42)	52(58)	90 (100)

Source : Compiled from field survey

Figures in parenthesis indicates percentage to total

The Table reveals that out of the total respondents, 42 percent were deriving their income from agricultural activities and majority of respondents, ie., 58 percent from non-agricultural activities.

#### 4.4.4. Reason for joining FSS

The reason for joining was asked to the respondents and the data are given in table 4.39.

Table 4.39. Reason for joining FSS

Reasons	Adat FSCB	Kodakara FSCB	Killimangalam FSCB	Total
Credit	25	26	25	76 (84)
Agricultural inputs	3	2	3	8(9)
Technical assistance	2	1	1	4 (5)
Others recommendation	-	1	1	2 (2)
Total	30	30	30	90 (100)

Source : Compiled from field survey

Figures in parenthesis indicates percentage to total

It is vivid from the table that out of the total respondents, 84 percent joined FSS for obtaining credit, 9 percent for obtaining agricultural inputs, 5 percent for technical assistance and 2 percent on others recommendation.

#### ***4.4.5. Purpose of opening deposit account***

All the respondents were having deposit account with the respective banks. The purpose of opening deposit account was asked and is presented in Table 4.40.

Table 4.40. Purpose of opening deposit account by respondents

Reasons	Adat FSCB	Kodakara FSCB	Killimangalam FSCB	Total
Savings	3	4	6	13 (14)
Credit	26	24	23	73 (81)
Others	1	2	1	4 (5)
Total	30	30	30	90 (100)

*Source : Compiled from field survey*

*Figures in parenthesis indicates percentage to total*

It is clear from the table that out of the total respondents, 81 percent opened deposit account in order to get credit, 14 percent for savings and 5 percent for other purpose like other's compulsion.

#### ***4.4.6. Sources of credit for the respondents***

The major sources of credit were asked to the respondents and the data are given in the Table 4.41.

Table 4.41. Sources of credit for the respondents

Sources	Adat FSCB	Kodakara FSCB	Killimangalam FSCB	Total
FSS	25	21	26	72 (80)
Money lenders	-	1	-	1 (1)
Commercial banks	5	6	4	15 (17)
RRBs	-	-	-	-
Friends/Relatives	-	2	-	2 (2)
Total	30	30	30	90 (100)

*Source : Compiled from field survey*

*Figures in parenthesis indicates percentage to total*

The table shows that out of the total respondents, majority ie. 80 percent depended on FSS for meeting their credit requirements, 17 percent on commercial banks, 2 percent on friends/relatives and 1 percent on money lenders.

#### **4.4.7. Attitude measurement**

Attitude refers to a person's consistently favourable or unfavourable evaluations, feelings and tendencies towards an object or an idea. Here the attitude of farmer members towards the services provided by FSS was measured using Likert's scale of summated ratings.

The statements used for analysis were classified as those related to pre-sanctioning aspects of credit, disbursement aspects of credit, post credit follow up aspects of credit, marketing and other services. The score for each bank was calculated and the results were classified as least favourable statements having

value less than 33.33 and most favourable statements having value more than 66.66.

#### 4.4.8. Credit – pre-sanctioning aspects

Six statements were used to measure the attitude of farmers towards the pre-sanctioning aspects of credit and the scores are given in the following table.

Table 4.42. Credit – pre-sanctioning aspects

Statements	Scale of response		
	Adat FSCB	Kodakara FSCB	Killimangalam FSCB
S1	78.33	21.67	-16.67
S2	38.33	58.33	28.33
S3	3.33	41.67	-3.33
S4	-26.67	-6.67	-25.00
S5	20.00	23.33	20.00
S6	60.00	-16.67	38.3

Source : Compiled from field survey

As evident from the table, regarding pre-sanctioning aspects of credit, the favourable statement for members of B<sub>1</sub> is the statement 1, ie. ‘loan application form is not lengthy and cumbersome’ and unfavourable is S<sub>4</sub> ie., ‘there is no interference of politicians in loan sanctioning’. For members of B<sub>2</sub> favourable is S<sub>2</sub> ie., ‘bank staff helps to fill up form properly’ and unfavourable is S<sub>6</sub> ie, ‘there is no delay in sanctioning of loan’. For members of B<sub>3</sub> favourable is S<sub>6</sub> and unfavourable is S<sub>4</sub>.

The attitude of members of 3 banks B<sub>1</sub>, B<sub>2</sub> and B<sub>3</sub> is very favourable to S<sub>1</sub>, S<sub>2</sub> and S<sub>6</sub> respectively. Their attitude is least favourable to S<sub>4</sub>, S<sub>6</sub> and S<sub>4</sub> respectively.

#### 4.4.9. Credit-disbursement aspects

Four statements were used to measure the attitude of farmers towards the disbursement aspects of credit and the scores are presented in the Table 4.43.

Table 4.43. Credit-disbursement aspects

Statements	Scale of response		
	Adat FSCB	Kodakara FSCB	Killimangalam FSCB
T1	38.33	23.33	23.33
T2	63.33	35.00	-1.67
T3	20.00	53.33	10.00
T4	-18.33	41.67	-1.67

Source : Compiled from field survey

It is inferred from the table that for B<sub>1</sub>, the favourable statement is 2 ie., 'adequate amount is disbursed' and unfavourable is T<sub>4</sub> ie., 'security demanded is reasonable'. For B<sub>2</sub> favourable is T<sub>3</sub> ie., 'interest rate is reasonable' and unfavourable is T<sub>1</sub> ie., 'disbursement of credit is timely'. For B<sub>3</sub> favourable is T<sub>1</sub> and unfavourable is T<sub>2</sub> and T<sub>4</sub>.

The attitude of members of three banks ie., B1, B2 and B3 s most favourable to T2, T3 and T1 respectively. They have no favourable attitude towards T4, T1, T2 and T4 respectively.

#### 4.4.10. Credit-post credit follow up aspects

Six statements were used to measure the attitude of members towards post credit follow up aspects and scores are presented in Table 4.44.

Table 4.44. Credit-post credit follow up aspects

Statements	Scale of response		
	Adat FSCB	Kodakara FSCB	Killimangalam FSCB
U1	-28.33	-18.33	1.67
U2	3.33	-41.67	-20.00
U3	25.00	-15.00	-30.00
U4	30.00	20.00	35.00
U5	3.33	-3.33	25.00
U6	-8.33	-1.67	-36.67

Source : Compiled from field survey

It is deduced from Table 4.44 that for B1 the favourable statement is U4 ie., 'in genuine case of default in repayment of credit, the period is extended' and unfavourable is U1 ie., 'post credit supervision is carried out effectively'. for B2, the favourable one is U4 and unfavourable is U2 ie., 'technical advise is provided when needed'. For B3 favourable is U4 and unfavourable is U6 ie., 'proper incentive is given for prompt repayment'.



Here we can see that the attitude of members of all the 3 banks is very favourable to U4. They have least favourable attitude towards U1, U2 and U6 respectively.

#### 4.4.11. Marketing

Five statements were used to measure the attitude of farmers towards marketing service other than credit and results are presented in Table 4.45.

Table 4.45. Marketing

Statements	Scale of response		
	Adat FSCB	Kodakara FSCB	Killimangalam FSCB
V1	55.00	-76.67	61.67
V2	61.67	-75.00	55.00
V3	50.00	46.67	48.33
V4	-1.67	-21.67	15.00
V5	-25.00	-10.00	35.00

Source : Compiled from field survey

The table reveals that, when marketing service is considered, for B1 the favourable statement is V2 ie., 'procurement is assured by FSS' and unfavourable is V5 ie., 'payment of sale proceeds is regular and timely'. for B2 favourable is V3, ie., 'reasonable price is obtained for the produce marketed through FSS' and unfavourable is V1 ie., 'FSS helps in efficient marketing of agricultural produce'. For B3 favourable is V1 and unfavourable is V4 ie., 'FSS provides sufficient storage facilities'.

The attitude of members of 3 banks is most favourable to V2, V3 and V1 respectively. their attitude is least favourable to V5, V1 and V4 respectively.

#### 4.4.12. Other services

Other services include provision of agricultural inputs, distribution of consumer goods, medicine, imparting training to farmers, undertaking processing activities etc. Five statements were used to measure the attitude of members towards other services provided by FSS and they are shown in the Table 4.46.

Table 4.46. Other services

Statements	Scale of response		
	Adat FSCB	Kodakara FSCB	Killimangalam FSCB
W1	63.33	53.33	56.67
W2	65.00	25.00	25.00
W3	1.67	-18.33	-26.67
W4	23.33	-40.00	-45.00
W5	13.33	35.00	26.67

Source : Compiled from field survey

As shown in the table; for B1 the favourable statement is W2 i.e., 'FSS supply essential household articles' and unfavourable is W3 i.e., 'FSS provides training and technical services'. For B2 favourable is W1, i.e., 'FSS provides adequate quantity of agricultural inputs' and unfavourable is W4, i.e.,

'processing and value addition activities are undertaken'. For B3 favourable is W1 and unfavourable is W4.

The members of 3 banks have most desirable attitude towards W2, W1 and W1 respectively. The least favourable attitude is towards W3, W4 and W4 respectively. Thus a knowledge regarding the attitude of members, towards the services provided by the banks, will help them to identify their strengths and weakness in various activities. The banks can design their future strategies based on these results and overcome the problems they are facing at present.

#### ***4.4.13. Problems/constraints faced by FSS***

It is natural that any institution will have some problems or constraints related to its field of activities. Farmers Service Societies also are not free from such constraints. It is having some basic problems of co-operative sector.

In order to know the problems faced by FSS, officials were interviewed and discussions were organized. Some problems, general to all the three sample societies are discussed here.

Poor fund management can be quoted as one of the problems of the societies. It is because of lack of planning in the deposit mix, lack of profitable lending mix, huge borrowings, poor proportion of owned fund to borrowed fund, poor credit deposit ratio and huge investment in fixed assets. Deposit mix is important as it influences the cost of fund. Banker has to carefully plan and design mix to improve financial margin. Among the agricultural loans

investment loans must be encouraged. The resource mix is an important factor for the financial viability of the banks. The high proportion of borrowed funds compared to owned funds will affect profitability of bank adversely.

Lack of creativity is another problem. A shift is required in the present schemes and the banks should change according to the present circumstances. The banks should also create awareness among the people regarding its activities which will deliver good results.

Last but not the least, one of the serious problems is that of overdues. Poor repayment may be attributed to many reasons such as poor identification of purpose of loan, sanctioning of loan for non-productive purposes and poor monitoring in the utilization of loan. Proper recovery measures are to be adopted by the societies in order to reduce overdues. These banks are also experiencing tough competition with new generation banks.

Profit may not be a motive of co-operative but for giving quality and continued service, the co-operatives have to get a reasonable profit. Therefore, the banks have to analyze their profitability, plan their funds efficiently and effectively utilize the work force to get a reasonable profit and survive in this competitive environment.

## *Summary and Conclusion*

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## CHAPTER 5

### SUMMARY AND CONCLUSION

India is predominantly a land of agriculturists and credit is an indispensable factor for agriculture. Agricultural credit is one which is needed by the agriculturists to meet their needs in the field. A farmer cannot carry on his business without external financial help. From sowing to harvesting the farmer is in need of money. He has to purchase seeds, manure, cattles, dig wells, reclamation of land and so on.

Credit is an important input for increasing growth in farming operations. A strong, viable and professional system of credit disbursement is essential for adequately meeting the credit demands. Credit support needs to be increased for traditional sectors. Legal and administrative systems need to be changed in order to revitalize the co-operative credit structure and enable the system to repent adequately and effectively to the over growing needs of the users and the markets higher investment in farm operations in a necessary condition for speedier farm growth.

Co-operatives have played an important role in promoting agricultural and rural development in India, particularly in the field of credit, supply of production inputs, processing and marketing of agricultural produce. The co-operative network is expected to play a critical and crucial role on one hand, in meeting the farmers requirements in terms of inputs and services to facilitate

the farmers to adopt new technologies of production to raise crop yield and production.

Co-operatives as a form of socio-economic organisation is considered as an important instrument of development of agriculture and overall rural development. Co-operatives now occupy an important place in India's rural economy in terms of their membership, business turn over and contribution to the socio-economic welfare of their members and hence agricultural development keeping in view the widespread network of co-operative structure, a vibrant and effective credit flow in rural India depends on the strength of co-operative credit societies.

In the back drop, the present study was undertaken with the following objectives:

- i) To examine the extent of integrated credit in agriculture provided by FSS in Thrissur district.
- ii) To assess the financial performance of FSS in Thrissur district.
- iii) To measure the attitude of farmers towards the services provided by FSS and
- iv) To identify the problems and constraints, if any, faced by FSS.

For the purpose of the study, nine FSS in Thrissur district were ranked based on their averages of selected variables and three societies were selected each at top level, middle level and bottom

level. Both primary data and secondary data were used for the study. Primary data were collected from ninety respondents (30 from each society) randomly selected from among the members with the help of an interview schedule. Secondary data were collected from the books and records of the society and also by discussion with the officials. Data collected were analysed using tools like percentages, growth rates, average annual growth rate (AAGR) and Likert's scale of summated ratings.

## **Summary of findings**

The summary of findings is presented under the following headings:

*5.1. Integrated credit provided by FSS*

*5.2. Financial performance of FSS*

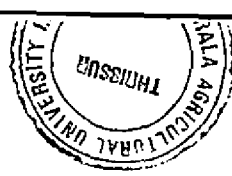
*5.3. Attitude measurement of farmer members*

*5.4. Problems or constraints faced by FSS*

### **5.1. Integrated credit provided by FSS**

The extent of integrated credit, ie., credit along with other services, was studied for the three sample banks selected. The provision of agricultural credit, distribution of agricultural inputs, marketing of agricultural produce and distribution of consumer goods were analysed, using percentages and growth indices, to get an idea regarding the services provided by FSS.





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When the disbursement of agricultural credit was examined it was revealed that among the 3 sample banks, Killimangalam FSCB recorded highest annual average growth of 26.18 per cent and the share of agricultural credit disbursed in total credit has increased considerably from 19.31 per cent in 1995-96 to 33.83 per cent in 2004-05. Adat FSCB comes in the next place with an annual average growth of 14.96 per cent and share of agricultural credit has increased from 25 per cent in 1995-96 to 32 per cent in 2004-05. Last comes Kodakara FSCB with the lowest annual average growth of 8.10 per cent and has shown a decrease in the share of agricultural credit from 8 per cent to 2.63 per cent.

The examination of agricultural inputs disbursed by the banks clearly owed that Adat FSCB performed well compared to other two banks. It has shown an annual average growth of 23.93 per cent and the share of agricultural inputs distributed in total credit has increased from 0.53 per cent in 1995-96 to 1.33 per cent in 2004-05. Kodakara FSCB with a annual average growth of 3.61 per cent comes in next place though the share agricultural inputs has decreased from 13.43 per cent in 1995-96 to 3.02 per cent in 2004-05. Killimangalam FSCB shared a dismal picture with an annual average growth of -0.76 per cent. The share has decreased from 9.60 per cent in 1995-96 to 1.94 per cent in 2004-05.

Marketing of agricultural produce was analysed for the two banks (Kodakara FSCB does not undertake marketing of agricultural produce) and it

showed that Adat FSCB had the best performance with an annual average growth of 15.70 per cent and the share of agricultural produce marketed in total business has increased from 8.90 per cent in 1995-96 to 9.03 per cent in 2004-05. In the case of Killimangalam FSCB, the share has decreased from 3.17 per cent in 1995-96 to 2.17 per cent in 2004-05 with an annual average growth of 15.21 per cent.

When the distribution of consumer goods was analysed for the three banks, it was deduced that Adat FSCB was performing well with an annual average growth of 24.07 per cent. The share of consumer goods distributed in total business increased from 1 per cent in 1995-96 to 1.91 per cent in 2004-05. Then comes Killimangalam FSCB with an annual average growth of 20.28 per cent. The share has shown a marginal increase of 1.54 per cent in 1995-96 to 1.55 per cent in 2004-05. Kodakara FSCB showed an annual average growth of 8.53 per cent only and the share was decreased from 6.69 per cent in 1995-96 to 2.11 per cent in 2004-05.

The examination of extent of integrated credit provided by FSS revealed that regarding the credit disbursement aspect, Killimangalam FSCB was the best performing bank and regarding the other services like distribution of agricultural inputs, consumer goods and marketing of agricultural produce Adat FSCB performed well.

## 5.2. Financial performance of FSS

Ratios were used to on the financial performance of the sample banks, namely owned fund to borrowed fund ratio, time deposits to total deposits ratio, credit deposit ratio, credit to working capital ratio, total expenses to total income ratio, interest paid to interest received ratio and profitability ratio.

When owned fund to borrowed fund ratio was calculated, the proportion of owned fund has increased for Killimangalam FSCB from 3.23 in 1995-96 to 5.00 in 2004-05. Whereas the ratio has decreased for the other two banks, Adat FSCB and Kodakara FSCB. The calculation of time deposits to total deposits ratio showed that the ratio has decreased for Kodakara FSCB from 92.08 in 1995-96 to 65.62 in 2004-05 which is considered favourable for the other two banks, the ratio increased.

The analysis using credit deposit ratio owed that for all the three banks ie., Adat FSCB, Kodakara FSCB and Killimangalam FSCB the ratio declined during the reference period from 1995-96 to 2004-05. The credit to working capital ratio also owed the same trend ie., decreasing for all the three banks.

The interest paid to interest received ratio showed that except for Adat FSCB, it decreased indicating increase in the margin earned by the two banks Kodakara FSCB and Killimangalam FSCB. The total expenses to total income ratio showed that for all the three banks the ratio has decreased slightly indicating more margin out of its level of activities. When the profitability

ratio was examined, it was clear that for Kodakara FSCB it increased slightly, for Adat FSCB it declined and for Killimangalam FSCB net loss has been reduced.

Thus an analysis of financial performance of the three banks showed that compared to the other two banks, Kodakara FSCB is financially viable. This fact is supported by its profitability ratio and the other two ratios to find out efficiency in operation. The time deposits to total deposits ratio is also showing a decreasing trend for the bank. Adat FSCB is in the second place which incurred loss only during the last two years under study. The bank is less efficient in mobilization of funds as revealed by the ratios. The spread ratio also showed an increasing trend. As shown by the profitability ratio, Killimangalam FSCB had loss throughout the years under observation. Though the ratios are unfavourable for the bank, the amount of loss has been reduced during these years

### **5.3. Attitude measurement of farmer members**

The attitude of farmer members was analysed using Likerts scale of summated ratings for which a pre tested pre structured schedule was administered for the respondents. The analysis of attitude of members was preceded by a discussion on variables collected through survey.

The socio-economic profile of respondents revealed that 18 per cent were in the age group 20-30, 59 per cent in age group 30-50 and 23 per cent in the age group 50 and above. When educational level was studied 49 per cent

were having only primary education, 44 per cent having secondary education and 7 per cent having education above secondary level. The occupational details showed that 41 per cent engaged in agriculture and allied activities, 39 per cent in industrial activities, 17 per cent in services sector and 3 per cent are self employed. Monthly family income showed that 50 per cent were in the category Rs.5000-Rs.7000, 37 per cent in Rs.3000-Rs.5000 and 13 per cent in Rs.7000 and above. When monthly family expenditure was considered, 59 per cent were in category Rs.4000-Rs.6000, 11 per cent in Rs.2000-Rs.4000 and 30 per cent in Rs.6000 and above.

The distribution of land holdings of the respondents showed that out of total respondents, 70 per cent were having irrigated owned land, 3 per cent having irrigated hired land and 27 per cent non-irrigated owned land. The major source of income of respondents was non agricultural activities (58 per cent) and rest from agricultural activities (42 per cent). Out of the total respondents 84 per cent joined FSS for obtaining credit, 9 per cent for agricultural inputs, 5 per cent for technical assistance and 2 per cent for other reasons. Out of the 90 respondents, 81 per cent opened deposit account to get credit, 14 per cent for savings and 5 per cent for other reasons. Majority of respondents i.e., 80 per cent depended FSS for credit, 17 per cent commercial banks, 2 per cent friends/relatives and 1 per cent money lenders.

Attitude of farmers was studied using some statements divided to sections namely credit – pre-sanctioning aspects, credit disbursement aspects,

credit-post credit follow up aspects, other services – marketing and other services.

In the credit – pre-sanctioning aspects, the attitude of members of 3 banks B<sub>1</sub>, B<sub>2</sub> and B<sub>3</sub> is favourable to statements S<sub>1</sub>, S<sub>2</sub> and S<sub>6</sub> respectively and least favourable to statements S<sub>4</sub>, S<sub>6</sub> and S<sub>4</sub> respectively. In the credit disbursement aspects the attitude of members of three banks B<sub>1</sub>, B<sub>2</sub> and B<sub>3</sub> is most favourable to statements T<sub>2</sub>, T<sub>3</sub> and T<sub>1</sub> respectively and least favourable to statements T<sub>4</sub>, T<sub>1</sub>, T<sub>2</sub> and T<sub>4</sub> respectively. Regarding post credit follow up aspects the attitude of members of B<sub>1</sub>, B<sub>2</sub> and B<sub>3</sub> is most favourable to statement U<sub>4</sub> and least favourable to statements U<sub>1</sub>, U<sub>2</sub> and U<sub>6</sub>.

Regarding marketing aspects, the attitude of members of B<sub>1</sub>, B<sub>2</sub> and B<sub>3</sub> is most favourable to V<sub>2</sub>, V<sub>3</sub> and V<sub>1</sub> respectively and least favourable to V<sub>5</sub>, V<sub>1</sub> and V<sub>4</sub> respectively. Regarding other services the attitude of members of B<sub>1</sub>, B<sub>2</sub> and B<sub>3</sub> is most favourable to statements W<sub>2</sub>, W<sub>1</sub> and W<sub>1</sub> respectively and least favourable to W<sub>3</sub>, W<sub>4</sub> and W<sub>4</sub> respectively.

#### **5.4. Problems or constraints faced by FSS**

The problems were identified by interviewing the officials of FSS and organising discussions. The problems general to the 3 banks were discussed.

Poor fund management was identified as one of the problems which arise from lack of planning deposit mix, lack of profitable lending mix, huge borrowings, poor proportion of owned fund to borrowed fund and poor credit deposit ratio. Lack of creativity is another problem. Banks must adopt

changes in the banking environment to compete in the present scenario. There is problem of overdue too which can be attributed to poor repayment.

In order to satisfy the objective of service, co-operatives have to get a reasonable profit. Therefore banks have to analyse their profitability, plan their funds efficiently and effectively utilise the work force to get a reasonable profit and survive in this competitive environment.

### **Conclusion**

The study was conducted in Thrissur district for the three selected sample banks namely Adat FSCB, Kodakara FSCB and Killimangalam FSCB. The extent of integrated credit provided, the financial performance, the attitude of farmer members and the problems faced by FSS were studied.

FSS are providing integrated credit to farmers ie., credit along with other service like distribution of agricultural inputs, marketing of agricultural produce, distribution of consumer goods etc. They are performing well in their activities but in some cases their share in total business has come down, which indicates that they have to consider those areas and try to improve. When the financial performance was analysed it revealed certain general facts like declining share of owned fund compared to borrowed fund, increasing proportion of time deposits compared to demand deposits, decrease in the credit deposit ratio and decrease in the profitability of the banks.

The attitude of farmer members was studied for each category like credit pre sanctioning, disbursement, post credit follow up, marketing and other services. The most favourable statements and least favourable statements for each bank in each section were found out, by considering which the bank can improve its objective of service to the members. Some of the problems faced by FSS were sorted out. Major ones include poor fund management, mounting overdues, lack of creativity etc.

Thus FSS have to spread their area of activities which will help themselves and members and enhance the overall functioning of the bank. They must find out solution for the problems faced by them which has to be initiated by the top level management. We hope that by the efficient functioning of all rural financial institutions including commercial banks and RRBs, The farmers will be able to meet their credit and other requirements which in turn will help them to increase earnings and thus the standard of living in the future.



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*Annexures*

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## ANNEXURE I

### INTEGRATED CREDIT IN AGRICULTURE – ROLE OF FSS IN TRICHUR DISTRICT

#### SURVEY SCHEDULE FOR FARMERS

##### I BASIC DATA OF RESPONDENT

1. Name and Address :
2. Age :
3. Sex : Female/Male
4. Religion : Christian/Hindu/Muslim

5. Educational qualification:

Illiterate  Primary  Secondary  Higher Secondary   
Graduate  Post-graduation  Professional  Others

6. Occupational status: Primary Secondary

Agriculture & Allied

Industry

Services

Self employed

Agricultural Labours

Non-Agricultural Labours

7. Land holdings:

Irrigated		Non-irrigated		Total
Own	Hired	Own	Hired	

## 8. Area under cultivation:

Name of crop	Area

**II FAMILY PARTICULARS**

1. Nature of family : Joint  Nuclear

## 2. Structure of family

Name	Relationship with respondent	Age	Sex	Education	Monthly income

## 3. Monthly family income:

(a) From agriculture :

(b) From others :

Total :

6. Monthly family expenditure :

**III ORGANIZATIONAL DETAILS**

1. Name and Address :

2. Year of joining :

## 3. Details of shareholdings:

Number	Value/share	Amount (Rs.)

4. Reason for joining : For Credit / Agricultural inputs / Technical Assistance / on others recommendation/Others (specify)

5. Type of deposit, if any : Current / Savings / Fixed / Recurring/Others (specify)

6. Purpose of opening deposit account : Savings/Credit/Others (specify)

7. Loan profile:

Type of loan taken, if any <sup>1</sup>	Principal amount (Rs.)	Purpose <sup>2</sup>	Subsidy, if any	Interest rate	Period	Security <sup>3</sup>

1 Short term – S; Medium term – M; Long term – L.

2 Purchasing agricultural inputs - 1

Farming operations - 2

Others (specify) - 3

3 Land - L; Crop - C; Jewel - J; Others - O.

8. Repayment details:

Year of taking loan	Principal repaid	Interest repaid	Mode of <sup>1</sup> repayment	Outstanding

(Monthly – M; Quarterly – Q; Annual – A)

9. Frequency of Supervision : Monthly/Weekly

10. Other sources of credit, if any : Money Lenders / Commercial Banks/ RRBs/Friends/Relatives/Others

11. Details of marketing through FSS.

Produce	Quantity	Price	Mode of payment <sup>1</sup>

1 Spot - S; Advanced – A; Credited to Deposit A/c. – D; Credited to Loan A/c. – L; Others (specify) - O

## 12. Details of marketing through other channels (if any):

Channel	Produce	Quantities	Price

13. Reason for marketing through FSS : Price advantage/proximity/  
Cash payment / linking of credit  
with marketing/assured procurement

## 14. Other services rendered by society (specify):

- Provision of agricultural inputs
- Provision of consumer goods/medicines
- Technical assistance to farmers
- Processing of produces
- Linkage with other institutions
- Market information
- Others

## IV ATTITUDE TOWARDS FSS

(Please '√' your opinion [SA – Strongly Agree; A – Agree; NO – No Opinion;  
DA – Disagree; SDA – Strongly Disagree])

## I. CREDIT

i) *Pre-sanctioning*

1. Loan application form is not lengthy and cumbersome.

SA  A  NO  DA  SDA

2. Bank staff helps to fill up the form properly

SA  A  NO  DA  SDA

3. Documents asked for are easily available

SA  A  NO  DA  SDA

4. There is no interference of politicians in loan sanctioning.

SA  A  NO  DA  SDA

5. Banker explains all details regarding loan

SA  A  NO  DA  SDA

6. There is no delay in sanctioning of loan

SA  A  NO  DA  SDA

**ii) Disbursement**

1. Disbursement of credit is timely

SA  A  NO  DA  SDA

2. Adequate amount is disbursed

SA  A  NO  DA  SDA

3. Interest rate is reasonable

SA  A  NO  DA  SDA

4. Security demanded is reasonable

SA  A  NO  DA  SDA

**iii) Post-credit follow up**

1. Post-credit supervision is carried out effectively.

SA  A  NO  DA  SDA

2. Technical advise is provided when needed

SA  A  NO  DA  SDA

2. FSS supply essential household articles like consumer goods, medicine, Neethi gas etc. at reasonable prices.

SA  A  NO  DA  SDA

3. FSS provides training and technical services for undertaking subsidiary occupations.

SA  A  NO  DA  SDA

4. Processing and value addition activities are undertaken by FSS for benefit of members

SA  A  NO  DA  SDA

5. FSS maintains member-user relationship efficiently

SA  A  NO  DA  SDA

15. Problems/Constraints, if any :

16. Suggestions for improvement :

3. The repayment schedule is convenient

SA  A  NO  DA  SDA

4. In genuine cases of default in repayment of credit the period is extended.

SA  A  NO  DA  SDA

5. The penal interest charged is not high.

SA  A  NO  DA  SDA

6. Proper incentive is given for prompt repayment.

SA  A  NO  DA  SDA

## II. OTHER SERVICES

### *i) Marketing*

1. FSS helps in efficient marketing of agricultural produce

SA  A  NO  DA  SDA

2. Procurement is assured by FSS

SA  A  NO  DA  SDA

3. Reasonable price is obtained for the produce marketed through FSS

SA  A  NO  DA  SDA

4. FSS provides sufficient storage facilities

SA  A  NO  DA  SDA

5. Payment of sale proceeds is regular and timely

SA  A  NO  DA  SDA

### *ii) Others services provided by FSS*

1. FSS provides adequate quantity of agricultural inputs like seeds pesticides, fertilizers etc. as and when required

SA  A  NO  DA  SDA



2. FSS supply essential household articles like consumer goods, medicine, Neethi gas etc. at reasonable prices.

SA  A  NO  DA  SDA

3. FSS provides training and technical services for undertaking subsidiary occupations.

SA  A  NO  DA  SDA

4. Processing and value addition activities are undertaken by FSS for benefit of members

SA  A  NO  DA  SDA

5. FSS maintains member-user relationship efficiently

SA  A  NO  DA  SDA

15. Problems/Constraints, if any :

16. Suggestions for improvement :

## ANNEXURE II

### STATEMENT FOR THE MEASUREMENT OF ATTITUDE OF FARMERS TOWARDS THE SERVICES PROVIDED BY FSS

#### I CREDIT

##### (i) Pre-sanctioning

1	Loan application form is not lengthy and cumbersome	S1
2	Bank staff helps to fill up the form properly	S2
3	Documents asked for are easily available	S3
4	There is no interference of politicians in loan sanctioning	S4
5	Banker explains all details regarding loan	S5
6	There is no delay in sanctioning of loan	S6

##### (ii) Disbursement

1	Disbursement of credit is timely	T1
2	Adequate amount is disbursed	T2
3	Interest rate is reasonable	T3
4	Security demanded is reasonable	T4

##### (iii) Post-credit follow up

1	Post-credit supervision is carried out effectively	U1
2	Technical advise is provided when needed	U2
3	The repayment schedule is convenient	U3
4	In genuine cases of default in repayment of credit the period is extended	U4
5	The penal interest charged is not high	U5
6	Proper incentive is given for prompt repayment	U6

## II OTHER SERVICES

### *(i) Marketing*

1	FSS helps in efficient marketing of agricultural produce	V1
2	Procurement is assured by FSS	V2
3	Reasonable price is obtained for the produce marketed through FSS	V3
4	FSS provides sufficient storage facilities	V4
5	Payment of sale proceeds is regular and timely	V5

### *(ii) Other services*

1	FSS provides adequate quantity of agricultural inputs like seeds, pesticides, fertilizers etc. as and when required	W1
2	FSS supply essential household articles like consumer goods, medicine, Neethi gas etc. at reasonable prices	W2
3	FSS provides training and technical services for undertaking subsidiary occupations	W3
4	Processing and value addition activities are undertaken by FSS for benefit of members	W4
5	FSS maintains member-user relationship efficiently	W5

**INTEGRATED CREDIT IN AGRICULTURE – ROLE OF FARMERS'  
SERVICE SOCIETIES IN THRISSUR DISTRICT**

By

**MISHA DAVIS. A.**

**ABSTRACT OF THE THESIS**

Submitted in partial fulfilment of the  
requirement for the degree of

*Master of Science in Co-operation and Banking*  
**(Co-operative Management)**

**FACULTY OF AGRICULTURE**

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**KERALA, INDIA**

**2007**

## ABSTRACT

The study entitled "*Integrated Credit in Agriculture – Role of Farmers' Service Societies (FSS) in Thrissur District*" was undertaken with the following objectives:

1. To examine the extent of integrated credit in agriculture provided by FSS in Thrissur district.
2. To assess the financial performance of FSS in Thrissur district.
3. To measure the attitude of farmers towards the service provided by FSS and
4. To identify the problems and constraints, if any, faced by FSS.

The study was conducted in Thrissur district. The nine FSS in the district were ranked based on selected performance indicators and three societies were selected each at top level, middle level and bottom level. Both primary data and secondary data were used for the study. Primary data were collected from ninety respondents (thirty from each society) randomly selected from among the members with the help of an interview schedule. Secondary data were collected from the books and records of sample societies and also by discussing with the officials. Percentage, growth under AAGR and likerts scale of summated ratings were the major statistical tools used for analysis.

When the extent of integrated credit was examined it was revealed that, in terms of AAGR, Killimangalam FSCB performed well regarding disbursement of agricultural credit and Adat FSCB performed well regarding distribution of agricultural inputs, marketing of agricultural produce and distribution of consumer goods. When the financial performance of the sample societies were assessed using ratios, it was found that the owned fund to borrowed fund ratio won favourable in the case of Killimangalam FSCB and the time deposits to total deposits ratio was favourable for Kodakara FSCB. The credit deposit ratio and credit to working capital ratio showed a decreasing trend for all the three banks. The interest paid to interest received ratio was favourable for Kodakara FSCB and Killimangalam FSCB whereas the total expenses to total income ratio showed a slight decrease for all the three banks. The analysis of profitability ratio showed that Kodakara FSCB performed well as they started to each profit compared to the first 3 years.

Thus an analysis of financial performance of the three banks showed that compared to the other two banks, Kodakara FSCB is financially viable. This fact is supported by its profitability ratio and the other two ratios to find out efficiency in operation. The time deposits to total deposits ratio is also showing a decreasing trend for the bank. Adat FSCB is in the second place which incurred loss only during the last two years under study. The bank is less efficient in mobilization of funds as revealed by the ratios. The spread ratio also showed an increasing trend. As shown by the profitability ratio, Killimangalam FSCB had loss throughout the years under observation. Though the ratios are unfavourable for the bank, the amount of loss has been reduced during these years

Attitude of farmers was studied using some statements divided to sections namely credit – pre sanctioning aspects, credit disbursement aspects, credit-post credit follow up aspects, other services – marketing and other services. In the credit – pre-sanctioning aspects, the attitude of members of 3 banks B<sub>1</sub>, B<sub>2</sub> and B<sub>3</sub> is favourable to statements S<sub>1</sub>, S<sub>2</sub> and S<sub>6</sub> respectively and least favourable to statements S<sub>4</sub>, S<sub>6</sub> and S<sub>4</sub> respectively. In the credit disbursement aspects the attitude of members of three banks B<sub>1</sub>, B<sub>2</sub> and B<sub>3</sub> is most favourable to statements T<sub>2</sub>, T<sub>3</sub> and T<sub>1</sub> respectively and least favourable to statements T<sub>4</sub>, T<sub>1</sub>, T<sub>2</sub> and T<sub>4</sub> respectively. Regarding post credit follow up aspects the attitude of members of B<sub>1</sub>, B<sub>2</sub> and B<sub>3</sub> is most favourable to statement U<sub>4</sub> and least favourable to statements U<sub>1</sub>, U<sub>2</sub> and U<sub>6</sub>.

Regarding marketing aspects, the attitude of members of B<sub>1</sub>, B<sub>2</sub> and B<sub>3</sub> is most favourable to V<sub>2</sub>, V<sub>3</sub> and V<sub>1</sub> respectively and least favourable to V<sub>5</sub>, V<sub>1</sub> and V<sub>4</sub> respectively. Regarding other services the attitude of members of B<sub>1</sub>, B<sub>2</sub> and B<sub>3</sub> is most favourable to statements W<sub>2</sub>, W<sub>1</sub> and W<sub>1</sub> respectively and least favourable to W<sub>3</sub>, W<sub>4</sub> and W<sub>4</sub> respectively. The problems faced by FSS as identified by the study were, poor fund management, lack of creativity, mounting overdues and declining profitability. In order to satisfy the objective of service, co-operatives have to get reasonable profit. Therefore banks have to analyse their profitability, plan their funds efficiently and effectively utilise the workforce in order to survive in this competitive environment.

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