An Analysis of Collaboration among Agricultural Cooperatives that Improves Repayment Rates of Agricultural Credit Cooperatives

-A Case Study in Maharashtra State, India-

Takuji KUSANO

Summary

Although the condition of Primary Agricultural Credit Societies (PACS) suffering from low repayment rates is prevalent in India, PACS with high repayment rates are seen in cases of PACS collaborating with a Cooperative Sugar Factory (CSF). The purpose of this paper is to analyze and confirm this linkage system and present the factors responsible for the system's success.

The results of our analysis are as follows: One of the factors for the system's effectiveness is that the repayments are made to PACS by CSF instead of borrowers (these borrowers are CSF members and PACS members) and that they take the form of deductions from sugarcane earnings. A second factor for the system's effectiveness is that asymmetric information is reduced by sharing CSF information with PACS.

However, this system gives rise to disadvantages for members and for CSF. It also gives rise to the question of why the system has been maintained for so long (50 years). To answer this question, we investigated system incentives for members and for CSF. Our findings in the case of members were the advantages of a sense of safety that accompanied being able to borrow funds when needed and the convenience and ease of the borrowing procedure. The results of analysis clarified that the incentives of participation exceeded the disadvantages. In the case of CSF, it's management essentials that members stabilize their sugarcane production by giving members the opportunities to borrow agricultural funds. Thus, the advantage of members being able to borrow agricultural funds served as the incentive that encouraged CSF participation.