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Revitalizing Rural Credit Cooperatives in India: Challenges, Opportunities, and the Role of NABARD

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ABSTRACT— This study examined the diverse nature of rural credit cooperatives in India, analyzing their history, challenges, and new roles in the context of microfinance. The cooperative credit movement, beginning with the Cooperative Societies Act of 1904, has undergone distinct phases marked by legislative developments, government interventions, and evolving challenges. PACS are crucial components of the cooperative credit movement, the study explored challenges they encounter. The emphasis is placed on the need for revival through legal and institutional reforms. The study examines the emerging role of cooperatives in microfinance. The study highlights the pivotal role of National Bank for Agriculture and Rural Development (NABARD) in India's agricultural and rural development. NABARD's functions, including refinancing, institution building, and research promotion, make it a key player in promoting sustainable rural development. Study concludes that promoting financial inclusion, rural development, and equitable growth requires revitalizing rural credit cooperatives. The comprehensive approach suggested involves legal reforms, institutional strengthening, and innovative initiatives. NABARD's central role, complemented by the recommendations of the Vaidyanathan Committee, sets the stage for a resilient and self-reliant cooperative credit system, contributing significantly to the prosperity of rural India.

KEYWORDS: Cooperatives in India, NABARD

1. INTRODUCTION

Rural credit cooperatives in India have played a significant role in facilitating financial inclusion and socio-economic development in rural areas. Envisaged as mechanisms to pool resources among individuals with limited means, these cooperatives aimed to provide access to various financial services for the rural population. Democratic in nature, they were initially established to address the financial needs of small and marginalized farmers, promoting agricultural productivity, food security, and overall rural development.

Rural credit cooperatives in India were initially envisioned as instruments to pool the resources of individuals with limited means, offering them access to various financial services. Democratically structured, these cooperatives aimed at developing degraded wastelands, enhancing productivity, ensuring food security, and promoting social and economic justice for the poor and vulnerable [6]. The history of the cooperative credit movement in India unfolds through four distinct phases, each marked by legislative developments, government support, and evolving challenges.

The cooperative credit movement in India has undergone distinct phases, shaped by legislative developments, government interventions, and evolving challenges. Beginning with the Cooperative Societies Act of 1904, which marked the inception of the movement, subsequent phases saw the pioneering role of the Reserve Bank of India (RBI), the establishment of the National Bank for Agriculture and Rural Development (NABARD), and later, the recognition of challenges stemming from state patronage and politicization. The need for reforms to revitalize these cooperatives became apparent, prompting the formation of committees and recommendations for strengthening the sector [3], [7].

2. HISTORICAL PHASES OF COOPERATIVE CREDIT MOVEMENT

The historical phases of the cooperative credit movement in India reflect the evolution, challenges, and transformative processes that have shaped the landscape of rural financial institutions. Envisaged as instruments for pooling resources and providing financial services to those with limited means, cooperative credit societies in India have gone through distinct periods, each marked by legislative changes, governmental interventions, and evolving socio-economic conditions.

The Cooperative Societies Act of 1904 laid the foundation for the cooperative credit movement in India. During the First Phase (1900-30), the movement gained momentum as cooperation became a provincial subject by 1919. The Second Phase (1930-50) witnessed the pivotal role played by the Reserve Bank of India (RBI) in guiding and supporting cooperatives. Signs of challenges, including issues with repayment and frozen assets, started emerging during this period. The Third Phase (1950-90) saw the establishment of the All India Rural Credit Survey and the creation of NABARD, emphasizing state partnership and equity in governance. The Fourth Phase, starting from the 1990s, highlighted the disruptive effects of state patronage and politicization, leading to the impairment of financial health and the initiation of reforms [1], [3].

a) First Phase (1900-30): Introduction of the Cooperative Societies Act (1904), with cooperation becoming a provincial subject by 1919.
b) Second Phase (1930-50): Role of RBI in guiding and supporting cooperatives; signs of sickness in the movement emerge.
c) Third Phase (1950-90): Emphasis on cooperative credit societies, setting up of NABARD, and recommendations for state partnership.
d) Fourth Phase (1990s onwards): Recognition of disruptive effects of state patronage, politicization, and the need for reforms.

3. OUTREACH OF THE COOPERATIVE CREDIT SECTOR

The outreach of the cooperative credit sector in India plays a pivotal role in providing financial services to rural communities, especially those with limited means. Cooperative credit institutions have been instrumental in fostering financial inclusion, generating employment opportunities, and supporting agricultural and rural development. The outreach is a reflection of the extensive network and services offered by these institutions, contributing significantly to the socio-economic fabric of the country.

As of March 2005, the Short-term Rural Cooperative Credit Structure (STCCS), a key component of the cooperative credit sector, consists of a three-tier system comprising Primary Agricultural Credit Societies (PACS), District Central Cooperative Banks (DCCB), and State Cooperative Banks (SCB). The vast network includes approximately 1.09 lakh PACS, 368 DCCBs with 12,858 branches, and 30 SCBs with 953 branches, totaling 122,590 service outlets. This expansive structure ensures a substantial presence in rural areas, with one PACS for every six villages and a membership exceeding 120 million rural individuals, making it one of the largest rural financial systems globally.

The cooperative credit sector's outreach extends beyond short-term credit, encompassing various financial services such as medium-term credit and acting as outlets for inputs and public distribution systems. Despite the rapid expansion of commercial banks and Regional Rural Banks (RRBs), the cooperative credit sector maintains a more extensive reach in terms of clients and accessibility to small and marginal farmers. Its significance is evident in covering nearly half of India's total population directly or indirectly, addressing the financial needs of rural India.

4. CHALLENGES FACING PRIMARY AGRICULTURAL CREDIT SOCIETIES (PACS)

Primary Agricultural Credit Societies (PACS), as vital components of the cooperative credit movement in India, encounter various challenges that impede their effective functioning. These challenges pose obstacles to the fulfillment of their intended role in providing financial support to individual members and contributing to rural development. Here is a brief overview of the challenges facing PACS:

4.1 Financial Health Issues

Low Resource Base: Many PACS struggle with a limited resource base, hindering their capacity to meet the diverse financial needs of their members.
Dependence on External Funding: PACS often rely heavily on external sources for funding, making them vulnerable to fluctuations in external support.

4.2 Governance and Management Challenges

Poor Business Diversification: Some PACS face challenges in diversifying their business activities, limiting their ability to adapt to changing economic landscapes.
Imbalances in Management: Issues related to governance and management can lead to imbalances within PACS, affecting decision-making and overall efficiency.

4.3 Operational Concerns

Dual Control: The dual control mechanism, with involvement from both state and central authorities, can create bureaucratic complexities and slow decision-making processes.
Accumulated Losses: A significant number of PACS experience accumulated losses, impacting their financial sustainability and capacity to provide credit.

4.4 Recovery and Non-Performing Assets (NPA)

Low Recovery Rates: Some PACS struggle with low recovery rates on loans, leading to financial strain and a reduced ability to provide credit to members.
High NPAs: Non-performing assets, as a percentage of loans outstanding, can be high in certain PACS, indicating challenges in managing credit risks.

4.5 Governmental Control and Intervention

Excessive Governmental Control: Excessive interference and control by government authorities can impede the autonomy and flexibility of PACS in decision-making.
Policy Infirmities: Historic policy decisions treating cooperatives as "refinance windows" rather than promoting them as genuine thrift and credit institutions contribute to challenges.

4.6 Member Confidence and Participation

Loss-Making PACS: The existence of loss-making PACS may erode the confidence of existing and potential members, depositors, borrowers, and lenders.
Inadequate Outreach: Despite their potential, some PACS may struggle to effectively reach and serve the entire rural population, particularly small and marginal farmers.
Addressing these challenges requires comprehensive reforms, including strengthening governance structures, enhancing financial viability, reducing external dependencies, and promoting sustainable business practices

within the PACS.

5. NEED FOR REVIVAL

Despite challenges, the cooperative movement's outreach is significant, covering nearly half of India's population.

The financial health of many cooperatives has deteriorated, emphasizing the need for revival through legal and institutional reforms.

6. ROLE ENVISAGED FOR COOPERATIVES IN THE PLANNING PROCESS

Cooperatives play a crucial role in credit dispensation, with projections for substantial credit flow during successive Five Year Plans.

The Vaidyanathan Committee's revival package aims to strengthen cooperatives and promote growth with social justice and financial inclusion [8], [9].

7. EMERGING ROLE OF COOPERATIVES IN MICROFINANCE

The emerging role of cooperatives in microfinance is a significant development that has gained prominence in recent years, particularly with the aim of fostering financial inclusion and empowering marginalized communities. Cooperatives, through their structure and principles, are being recognized as effective vehicles for delivering microfinance services to those who are excluded from traditional banking systems. Here is an overview of the emerging role of cooperatives in microfinance:

a. The Andhra Pradesh Mutually Aided Cooperative Societies (APMACS) Act has led to the creation of over 30,000 new cooperatives supporting savings and credit services [2].
b. Cooperatives are recommended as effective forums for financial inclusion through Self Help Groups (SHGs) and community-based microfinance initiatives.
c. Cooperatives are increasingly being recognized as facilitators for enabling financial inclusion through SHGs. In districts like Bidar in Karnataka, Chandrapur in Maharashtra, and Mandsaur in Madhya Pradesh, cooperatives have successfully linked with SHGs.
d. Legislation in certain states allows SHGs to become members of Primary Agricultural Credit Societies (PACS), emphasizing the cooperative structure's role in expanding financial inclusion.
e. Some states have enacted legislation admitting SHGs as members of PACS, further solidifying the role of cooperatives in microfinance. Recommendations have been made to enact similar legislation in other states to enable cooperatives to emerge as effective Self-Help Promoting Institutions (SHPIs).
f. PACS and primary cooperatives, particularly in rural areas where traditional financial services are limited, can serve as BCs for commercial banks. These cooperatives can originate credit proposals, disburse loans, collect repayments, and act as payment channels, contributing to the financial inclusion agenda.

8. ROLE OF NABARD

The National Bank for Agriculture and Rural Development (NABARD) plays a pivotal role in India's agricultural and rural development by functioning as an apex financial institution. Here is an overview of NABARD's roles:

a) NABARD serves as the apex organization for all matters related to policy, planning, and operations in the field of credit for the promotion of agriculture, small-scale industries, cottage and village industries, handicrafts, and other rural crafts (NABARD Act, Preamble).

b) It acts as a refinancing agency for institutions providing investment and production credit for developmental activities in rural areas (NABARD Act, Section 6[1]).

c) NABARD focuses on institution building to improve the absorptive capacity of the credit delivery system.

This involves monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, and training of personnel (NABARD Act, Section 6[1]).

d) NABARD coordinates the rural financing activities of all institutions engaged in developmental work at the field level. It maintains liaison with the Government of India, State Governments, Reserve Bank of India, and other national-level institutions concerned with policy formulation (NABARD Act, Section 6[1]).

It annually prepares rural credit plans for all districts in the country. These plans form the basis for the annual credit plans of all rural financial institutions (NABARD Act, Section 8).

e) NABARD undertakes monitoring and evaluation of projects refinanced by it to ensure their proper implementation (NABARD Act, Section 13).

f) NABARD promotes research in the fields of rural banking, agriculture, and rural development, contributing to the knowledge and understanding of issues in these sectors (NABARD Act, Section 6(1)(f)) [3].

9. CONCLUSION

Revitalizing rural credit cooperatives in India is imperative for promoting financial inclusion, rural development, and growth with equity. The challenges faced by these cooperatives require a comprehensive approach, including legal reforms, institutional strengthening, and innovative initiatives. NABARD's pivotal role, coupled with the recommendations of the Vaidyanathan Committee, sets the stage for a more robust and self-reliant cooperative credit system, contributing to the prosperity of rural India.