

# Does the Co-Operatives Helps the Rural Development in India?

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## Abstract

In India, the co-operative movement has played an important role in meeting the developmental needs of the rural poor. Co-operatives are the organisation that help the individuals harness the power of collective bargaining in order to protect the financial interests of the impoverished and underrepresented in society. In India co-operative credit structure is three-tiered, with State Cooperative Banks (SCB) at the top of the each state, Central Co-operative Banks in the middle or central level, and Primary Agriculture Credit Societies (PACS) at the bottom level. Each of these institutions focuses on the development of their area of operation and performs distinct purpose for the purpose of the upliftment of the members of co-operatives. The present study discuss the role of co-operative societies in the rural development of our country.

## Keywords

Co-operation, PACSs, Rural Development.

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## INTRODUCTION

The Co-operative societies play a vital role in economic development and in resolving the regional imbalances of the country. Co-operative societies have a long history, dating back to the pre-Independence era, when they were formed in reaction to rural distress and overall indebtedness in the last of 19<sup>th</sup> century. The Co-operative Credit Societies Act of 1904 was the first co-operative society Act. And another Act was introduced in 1912 to address some of the drawback of Co-operative societies Act 1904. In 1919 co-operation was made as a provincial subject under the Montague-Chelmsford Reforms. It permitted the provinces the freedom to draught their own legislation to govern co-operatives. The next landmark Act came in 1942, [1] the British government passed the Multi-Unit Co-operative Societies Act, which included cooperative societies with membership spanning more than one province.

In post-Independent India, the National Development Council (NDC) had recommended a national policy on co-operatives as well as training personnel and setting up of co-operative marketing societies, in 1958. The Multi-State Cooperative Societies Act was enacted by Parliament in 1984 to eliminate a multitude of rules controlling the same types of societies. In 2002, the then NDA government, led by Atal Bihari Vajpayee, announced a National Policy on Co-operatives to support the promotion and development of cooperatives. It is also aimed at reducing regional imbalances and strengthening cooperative education, training and human resource development. In July 2021, [2] the government of India established a new ministry of co-operation for a separate administrative, legal, and policy structure to support the Indian co-operative movement.

The movement today includes 5.03 lakh co-operatives, 210

million members, a 100 percent rural network, 67 percent rural household coverage, 46.31 percent agricultural credit, 23.5 percent fertiliser production, 51 percent oil marketing, 55 percent handlooms, and 62.5 percent village storage facilities. Currently, the country has 21 national co-operative federations, 361 state co-operative federations, and 2572 district co-operative federations. Co-operation has an impact on every aspect of economic activity of our country.[3]

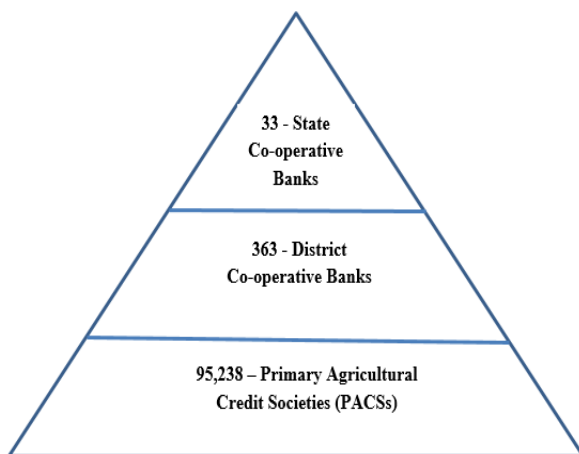
## Structure of Co-operatives in India

Co-operative banks are integral part of Indian financial system and plays an important role in rural as well as urban areas of our country. Co-operative banks are the financial entities supported by government that operate the principal of Co-operation, self-help and mutual help. The main objective of co-operative intuitions assist rural people with limited financial resources and protects them from money lenders and other services at a higher rate of interest. The co-operative provide both rural and urban financing includes financing to agricultural and allied activities, small scale industries personal finance, etc.[5] at lower cost and enhancing the standard of living of underprivileged group of the society. It plays a crucial role to the financial inclusion of the unbanked rural masses.

In India, co-operative banking is organised as a federal structure. Primary Agricultural Credit Societies are at the bottom level, followed by Central Unions or Central Co-operative Banks, and finally State Co-operative Banks, also known as "Apex" banks. The primary societies operate in various villages, with Central Co-operative Banks in district headquarters and State Co-operative Banks at state capitals serving as the apex of the system.[4]

The Primary Agricultural Credit Societies (PACSs) are rural-based financial institutions that have been instrumental in encouraging agricultural operations in order to achieve

more economically and socially inclusive growth of rural people by providing low-interest loans from a deposit fund that they have collected.[6] The PACSs provide short term and medium term credit to rural people according to their needs at very cheap rate of interest and also provide funds to rural farmers for the agricultural purpose. The District Co-operative Banks, which operate at the middle level of the co-operative credit organisation, provide ordinary banking services in the district level as well as funding, technical advice, and administrative assistance to the PACS. The District Co-operative Banks were formed in response to mutual assistance between DCBs and PACSs. The State Co-operative Banks control the three-tier co-operative credit structure in the state where they operate and supply funding to DCBs in that state. The SCB performs an important role because, financial support from the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD) is generally routed through the State Co-operative Banks. According to NABARD's annual report for 2019-20, the country has 95,238 PACSs, 363 DCBs, and 33 state co-operative banks.[8]



(Source : NABARD's annual report 2019-20)

### Role of NABARD in Development of Co-operatives

The rural financial system necessitates a strong and efficient credit distribution mechanism in the country. National Bank for Agriculture and Rural Development (NABARD) is an apex institution in the field of agriculture and rural credit. It has been launching the projects and other activities that promote the long term and sustainable development of rural financial system of the country. The NABARD take initiatives to promote and improve the health of Co-operative banks and Regional Rural Banks in collaboration with the Government of India, the Reserve Bank of India (RBI), and state governments. The government of India set up two funds in NABARD such as Short Term Co-operative Rural Credit (Refinance) Fund and Long Term Rural Credit Fund (LTRCF). [12] Short Term Co-operative Rural Credit (Refinance) Fund provides Co-operative Banks with low-cost short-term refinance for crop credit lending. Such refinancing is granted to banks at a 4.5 percent annual interest rate in exchange for the banks

lending to the eventual borrower at a 7% annual interest rate up to a maximum of 3 lakh per borrower. During the 2018-19 fiscal year, a total of 45,000 crore has been set aside for the Fund. Long Term Rural Credit Fund (LTRCF) was established to provide Co-operative Banks and Regional Rural Banks (RRBs) with long-term refinance support at a reduced rate of interest for lending to agricultural investment activities. During the 2018-19 fiscal year, the government has allocated an additional 15,000 crore to this Fund. [15]

### Role of Co-operatives in Rural Development

The essential objectives of the development of the co-operative sector are prevention of economic power concentration, active involvement of members or people in development programs, wider dispersal of ownership of productive resources, liquidation of poverty and unemployment etc. Simply the role of co-operative society is to improve the livelihood of members or people in rural community by way of employment generation, poverty alleviation, women empowerment, creation of rural markets for the marketing of products produced by the co-operatives, protect the weaker sections especially SC/ST community and encourage the saving habit of the people of the society for the economic and sustainable development of our nation. [17]

- Providing credit facilities to farmers, artisans and labours to protect them from the hands of landlords.
- Providing financial assistance to small scale organisations and entrepreneurs in the rural areas for the creation of employment opportunities. As a result, it help to improve the standard of living of the rural people.
- Co-operative credit society that instils saving habits in the populace. The poorer sections of society, who have less money, have a tendency to overspend without planning for the future.
- Co-operatives help the members or rural peoples from Moneylenders and Jaminders by providing them with financial security.

The co-operative movement in India was expected to be predominantly concentrated in the agricultural sector, with co-operatives playing a prominent role in operations spanning production, distribution, and consumption. National Co-operative Development Corporation (NCDC) is a national level organisation for planning and promoting programmes for the co-operative production, processing, marketing, storage, export and import of agricultural produce, foodstuffs, industrial goods, livestock, and certain other commodities and services, as well as matters related to or incidental thereto. NCDC has disbursed Rs.1.77 lakh crore to co-operatives for development since its start and until 31.03.2021. [18] Assistance to agricultural and horticultural co-operative societies is included in this amount. The NCDC's financial support programmes encourage and attract people to form new co-operatives for the purpose of conducting business. As of 30.06.2021, the NCDC had provided co-operatives with a total of Rs.1.86 lakh crore in financial support. In the previous seven years (from

2014-15), Rs.1.31 lakh crore has been disbursed, representing a 286 percent increase over the period 1963-2014. [20]

#### **Major Highlight of NCDC for the development of co-operatives:-**

- NCDC has reached out to approximately 10000 Primary level co-operative societies through its SAHAKAR-22 activities in the past two years.
- To encourage youth to join co-operatives, the NCDC has developed the YUVA SAHAKAR Co-operative Enterprise Support and Innovation Scheme, which intends to enable co-operative sector start-ups to engage in a variety of business operations throughout India.
- NCDC's SAHAKAR MITRA plan provides internship opportunities for students to get expertise in NCDC's operations and related co-operative features.
- NCDC's AYUSHMAN SAHAKAR scheme provides funding to co-operatives that are establishing healthcare infrastructure and providing services.
- The Pradhan Mantri Matsya Sampada Yojana (PMMSY) provides for the registration and assistance of new co-operatives as FFPOs, with NCDC serving as an implementing agency for such FFPOs.

#### **Problems faced by Co-operative sector in India**

Co-operation is a state subject under the Constitution of India and state co-operative laws are differ from state to state. The majority of the co-operatives are controlled by political parties. And majority of the directors come from political background. As a result, the sole aim of co-operative credit is overlooked. In India, lack of professional management is one of the major problem faced by co-operatives.it create inefficiency in proper fund management of the co-operatives and leads to increase the level of NPAs in co-operative sector. The society controlled by the board of directors, the people on the board are not accountable for many inconveniences. Lack of fund is another important problem faced by the co-operative sector in India. [22]

#### **Role of New Ministry of Co-operation for Co-operative Movement**

India is an agricultural country that helped to establish the world's largest co-operative movement. In India a co-operative based economic and sustainable development model is significant were each member work with sense of responsibility. Despite tremendous development, the co-operative movement's overall progress over the past years has been underwhelming. It is therefore the government of India recently established a separate Ministry of Co-operation with the aim of 'Sahkar se Samridhhi' means Prosperity through Co-operation to give a new push to the co-operative movement in our country.[25] It will establish a distinct administrative, legal and policy structure for strengthening the co-operatives in the country. It will help to the development of co-operatives as a truly people-centred

movement that reaches all levels of society. The ministry will also aims to streamline processes for co-operatives for 'Ease of Doing Business' and enable the establishment of Multi-State Co-operatives (MSCS). The new ministry will empower co-operative members to become responsible owners, ensuring the safety of members' financial interests and co-operative sovereignty while also encouraging the development of new co-operatives.[24]

#### **CONCLUSION**

Nearly 65 percent of the people living in rural areas. Village co-operative societies provide a variety of services to rural people in their daily lives and play a vital role in encouraging collectivism and sustaining the country's social capital basis. Hence, there is a need to improve the performance of grassroots level intuitions (PACSSs) with respect to the mobilisation effective deployment of fund, management and other related arrangements with the co-operatives. The government should provide financial assistance to co-operative societies in the form of share capital contribution in order to strengthen their share capital base and enable them to run their business effectively and efficiently and generate income in order to improve the income and socio-economic condition of the rural poor. And also the ministry of Co-operation should develop regulatory and operating frameworks that cover the whole range of co-operative activities all over the India. This would ensure that the co-operative movement's benefits are felt by people from all walks of life.

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