ISSN – 2277-7911
Impact Factor – 5.958
YOUNG RESEARCHER
A Multidisciplinary Peer-Reviewed Refereed Research Journal
January - 2025
Vol. 14
Special Issue
No. 1

Rural and Co-operative Development

Dr. Sanjay B. Kalamkar[1] & Mrs. Dipika S. Sonawane[2]
[1]Research Guide
[2]Research Student
Research Centre, New Arts, Commerce & Science Autonomous College, Ahmednagar.
Corresponding Author Dr. Sanjay B. Kalamkar

DOI - 10.5281/zenodo.14936292

Abstract:

This study examines the importance of rural credit cooperatives and the challenges they face in the Indian financial system, focusing on how they affect rural credit and financial inclusion. According to a survey of rural credit dynamics at institutional and non-institutional levels, a consistent 30– 41% credit share of non-institutional institutions reflects the challenges faced by formal institutions in meeting demand for rural credit. The Primary Agricultural Credit Union (PACS) survey reveals an increasing gap between loan actual utilisation and distribution. Identify potential barriers to meeting demand. A comparison of the performance indicators of central regional banks (DCCBs) and state-owned sector banks (SCBs) reveals an even bigger difference: while negative deposits in SCBs are indicative of financial challenges, DCCB's declining reserves combined with an increase in outstanding loans indicate pressure. The paper also discusses long-term trends in rural credit. Despite the decline in PCRDBs, the expansion of State Agriculture and Rural Development Banks (SCARDB) and Primary Cooperative Agriculture and Rural Development Banks (PCARDB) is reflected in increased deposits, loans disbursed, and loan defaults. In conclusion, cooperatives are essential for an inclusive rural economy. They also face challenges, including the changing needs of rural economies, to ensure their survival. The manageability and urgency of change throughout structural governance require that this be necessary to enhance rural development.

Keywords: Rural, Cooperatives, Financial Inclusion, Challenges, Loans and Governance

Introduction:

Credit cooperatives were set up in India to provide cheap institutional credit to the poor, especially those living in rural areas, and to free farmers from the debt imposed by money lending. After independence, cooperatives in general—and agricultural cooperatives in particular—became the driving force of public policy and were equally important for rapid economic growth. Today, 90% of rural Indian households are part of cooperatives and engaged in forestry, trade, insurance, and agriculture. According to 2013 NSSO data, corporate financing has expanded in rural areas, although farmers still obtain most of their loans from informal sources. It is worth emphasising that agricultural farmers use 64% of the informal economy. Although there is no serious problem with accessing credit in the villages, the government's efforts to involve the rural population in the financial inclusion process have not been effective. According to the 2013 farm household survey data, marginal and small farmers use only 14% of standardised credit, while large farmers borrow 72%. Instead, poor farmers are excluded from financial inclusion schemes and receive loans from institutional finance. Although a wide range of institutions, including cooperatives, have emerged to provide eligible credit, some may be subject to the forced exclusion of the poor. This study looks at (i) the nature and extent of this financial sector in rural areas and how it affects institutional and non-institutional credit in rural India. (ii) It seeks to assess the extent to which these sectors were able to mobilise village funds and reduce the possibility of borrowers being less willing to repay their debts.

Objective of the Study:

1. Evaluate the results and performance of credit unions: Evaluate how credit unions—such as PACS, SCBs, DCCBs, SCARDBs, and PCARDBs—effectively serve the credit needs of rural communities and promote financial inclusion.
2. Analysis of institutional and non-institutional credit recovery systems: examine the changing landscape of areas in rural credit by looking at the supports and challenges in the rural credit system and the growth in banks, cooperatives, and RRBs over time.
3. Assess the financial advantages and challenges of cooperation: analyse the financial condition and challenges being faced by various cooperatives such as SCB, DCCB, SCARDB, and PCARDB. Pay particular attention to things like deposits, loans, investments, loans, and outstanding loans.
4. Suggest Reforms to Improve Rural Credit Accessibility: Develop pointers and place forth strategic adjustments as a good way to guide the sustainability, resiliency, and functionality of rural credit score cooperatives. Place special emphasis on monetary reengineering, governance restructuring, and potential-building tasks.

Need of the Study:

The study highlights the important problem that many small farmers still have difficulty accessing adequate credit, even in the cooperative sector. It delves into the reasons for this difference and possible solutions. The aim is to find out how this agency can really help everyone get equitable funding for better development and growth opportunities in rural areas.

Research Methodology:

Research Design: Using secondary data, an empirical and exploratory research design is used. Data sources: RBI report on currency and finance, NAFSCOB report, and NABARD reports. Analysis Tool: In order to get meaningful results, the study's data was analyzed logically and meaningfully.

Nature and Extent of Credit Cooperatives Characteristics and Limitations of Credit Cooperatives:

Financial services provided by credit unions include those provided by urban cooperative banks and rural cooperative lenders. Thirty-six percent of the total credit requirement in rural areas is provided by Rural Co-operative Credit, which accounts for 70 percent of all rural credit centres. It provides financing for long-term goods, land acquisition, equipment purchases, and agricultural activities. Black Bank (three institutions known as SCB) provides short-term loans, and Rural Cooperative Development

Agriculture (PCARDB) is an example of a long-term lender. With the enactment of the Cooperative Credit Union Act of 1904, the credit union began to materialize. Even with the current boom, the rural financial sector is not considered competitive. Noninstitutional lending is an important financial sector in India.

Table 1: Rural Credit from Institutions and Non-Institutions (percentage)

Sources of Credit	199192	200102	201112	201516	202021
Institutional	66.3	61.3	60.3	59	63.8
Regional Rural Banks	8	8.71	10.65	13.41	12.2
Cooperatives	18	30.54	17.21	26.99	22.1
Commercial Banks	29	60.29	72.13	59.61	68.3
Non-Institutional	30.6	38.9	39.7	41	36.2
[Source: National Bank for Agriculture and Rural Development (NABARD) Annual Reports, Various Issues]					

Table 1 provides information on the sources of rural credit by showing the percentage distribution of rural credit from institutional and non-institutional sources over several years. In 1991–1992, institutional lending accounted for 66.3% of rural lending, and commercial banks accounted for 29% of the total. Non-institutional loans accounted for 30.6% of the total. In the following years, the organisation’s debt ratio fell, reaching 59% in 2015–16. This trend is due to changes in some institutions: peers vary, peaking at 30.54% in 20102 and then falling to 22.1% in 202021, while community rural banks increased from 8% in 19919 to 13.41% in 2015-16. However, as long as growth continued, commercial banks continued to account for a larger share, reaching 68.3% by 2020–2021. Non-institutional loans, on the other hand, showed very little change over time, ranging from 30.6% to 41%. These data reflect changes in ratings given to various institutions and reflect the evolution of the rural credit landscape. It emphasises the importance of institutions such as commercial banks in extending credit to rural areas and the need for long-term mechanisms to support institutional lending for rural development.

This means that many consumers do not have access to the easy-to-credit market. excessive number of legal routes, identity problems, village fees, refinancing, etc. People seek help from other sources of credit. Despite the fact that rural cooperatives have large networks and are widely considered important for economic inclusion, the experiences of small and marginal farmers tell us that they do not have the money to meet their needs. Several committees had already been set up to examine the issues faced by poor farmers, but there seemed to be no connection between credit availability and demand. To understand the network of credit union support schemes, we first examine the structure of cooperatives working in rural areas. The corporate structure of shortterm finance is characteristic of the government. By 202021, its branch count will be 32 national corporate banks (1205 branches), 351 regional central corporate banks (1429 branches), and 95,576 primary agricultural associations across India. According to the latest data, the number of primary agricultural societies, state cooperative bank branches, and district central cooperative bank branches has increased slightly in time, but as per the latest data in Table 1, problems relating to financial exclusions and the unavailability of institutional financial availability No further adjustment is required.

Table 2: Development in State Cooperative Banks

Year	Number	Reserves (Rs Crores)	Deposits (Rs Crores)	Borrowings (Rs Crores)	Loans Issued (Rs Crores)	Loans Outstanding (Rs Crores)
200607	31	0.89	5.88	30.37	9.48	18.39
201920	32	571.45	202,283	NA	NA	114,537

[Source: Trends and Progress of Banking in India 201920. Available: https://www.rbi.org.in/Scripts/Publications/Documents/TREND_PRO_201920.pdf]

The growth observed in the State Banks (SCBs) during the period indicated is shown in this table. The number of SCBs increased slightly from 31 to 32, indicating sustained efforts to expand banking services, especially in rural areas. However, there are some signs of pressure on the financial position of SCBs. Deposits fell sharply, from Rs 0.89 crore to a worrying Rs 571.45 crore, indicating growing losses and financial difficulties. Even so, continued public confidence in SCBs was reflected by a remarkable increase in deposits, which rose from Rs 5.88 crore to a whopping Rs 202,283 crore. With the government focusing on financing, combined with the competitive interest rates offered by SCBs, we can conclude that—although precise data on lending and disbursement is not available for 2019–20—the increase in outstanding loans from Rs 18.39 crore to Rs 114,537 crore indicates that SCBs may continue to extend loans to meet the credit requirements of their customers. Conflicts require immediate action. While the small increase in the number of SCBs is consistent with the objectives of financial inclusion, the steady decline in deposits calls for urgent refinancing and stringent control mechanisms for the sustainability of SCB varieties and their important role in rural banks.

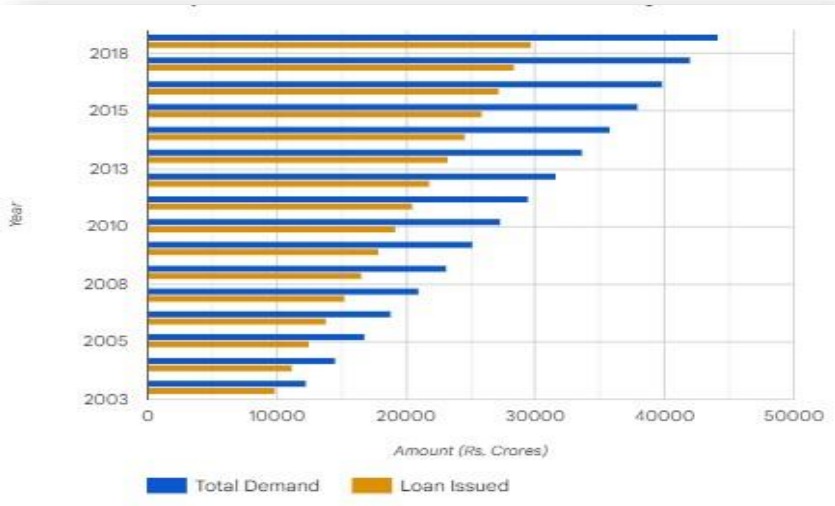
Table 3: Development in District Central Cooperative Banks

Year	Number	Reserves (Rs Lakhs)	Borrowings (Rs Lakhs)	Loans Outstanding (Rs Lakhs)
200506	365	5241	2283	NA
201819	351	5,53,630	NA	5,53,07,236

[Source: Trends and Progress of Banking in India 201819. Available: https://www.rbi.org.in/Scripts/Publications/Documents/TREND_PRO_201819.pdf]

The data shows the change in tenure in District Central Co-operative Banks (DCCBs). The decline in the number of DCCBs from 365 to 351 reflects the consolidation of these organizations. Smaller DCCBs are often merged during the merging process to improve efficiency and simplify operations. However, there are significant concerns about DCCB's financial position. A sharp decline in deposits—from $5,241 million to a worrying $553,630 million—indicates a serious economic crisis. Increasing non-performing assets and increased financial competition may be responsible for this reduction. Despite the lack of concrete figures on loans for 2018–19, the impressive increase in outstanding loans to Rs 55307236 million highlights DCCB's commitment to expanding lending and possibly meeting the objectives of financial inclusion with the government. Examples call for immediate action. The merger may have reduced the number of DCCBs, but the sharp decline in deposits calls for urgent financial restructuring and effective risk management mechanisms, with DCCBs having to address these issues effectively to maintain their important position in the rural economy and contribute meaningfully to the Indian economy.

Fig 1: Overall Requirement and Credit Awarded by PACS



[Source: Reserve Bank of India].
(2023). FiftySecond Annual Report of the National Federation of State Cooperative Banks. [Online]. Available:
https://www.rbi.org.in/Scripts/Publications/Documents/52nd_NAFSCAB_AR202223.pdf]

The figure shows the trend of total demand and loans disbursed by Primary Agricultural Credit Societies (PACS) between 2003 and 2018 in India in millions of rupees. Total demand (blue line):

This line represents the total financial demand, or demand for credit, under PACS for a specified period. It started with Rs 12,345 crore in 2003 and has increased every year since then to Rs 44,123 crore in 2018. Loans issued (orange line): shows the actual loans PACS has issued to meet these requirements. It also shows increasing growth over time, starting from Rs 9,876 crore in 2003 to Rs 29,728 crore in 2018. Both aggregate demand and credit outflows show a steady increase over time. The persistent gap between aggregate demand and credit is striking. The fact that loan disbursements consistently track total demand indicates that there is unmet loan demand in PACS. For instance, in 2018, there was a huge gap of about Rs 14,395 crore between what the actual and total PACS loans required, which is Rs 44,123 crore, and the disbursed loans of Rs 29,728 crore. This graphic image suggests a growing appetite for credit in PACS, but it also highlights the difficulty of providing adequate financial support for this need, making it vulnerable that members of these associations may have barriers to credit.

Table 4: Long-term credit structure trend: SCARDBs

Year	Number	Share Capital (Rs Crores)	Borrowings (Rs Crores)	Deposits (Rs Crores)	Loans Issued (Rs Crores)	Loans Outstanding (Rs Crores)
2006- 07	20	-0.5	-2.02	-7.52	-16.2	-5.35
2018- 19	18	129.8	NA	1,414	3,328	8,824

[Source: Reserve Bank of India.
(2019). Trend and Progress of Banking in India 2018-19. Available:
https://www.rbi.org.in/Scripts/Publications/Documents/TREND_PRO_201819.pdf]

Statistics: There were 18 SCARDBs in 2018–19, compared to 20 in 2006–07. Share income: There has been a significant increase in share income between 2006–07 and 2018–19, from -0.5 crore to Rs 129.8 crore. Substantial investments in these institutions are reflected in the good value of their shares. Debt: No debt information is available for the 2018–19 financial year (NA). However, banks borrowed Rs 2.02 crore during 2006–07, which may indicate underfunding. Reserves: Reserves increased significantly from 7.52 crore to Rs 1,414 crore in 2018–19. This means that savings and public confidence in these institutions have increased dramatically. Loan disbursements: Loan disbursements increased sharply from Rs 16.2 crore to Rs 3,328 crore, indicating that these banks are expanding their lending to meet the demand. Outstanding loans: The amount of outstanding loans increased sharply from Rs 5.35 crore to Rs 8,824 crore, indicating that these banks still owe a lot of money to their customers. Overall, the table shows examples of both positive and negative financial aspects of SCARDBs. It shows growth in certain categories, such as deposits, loans issued, and loans outstanding, but also shows periods when loan and dividend amounts were below average.

Table 5: Trend in long term credit structure – PCARDBs

Year	Number	Share Capital (Rs Crores)	Borrowings (Rs Crores)	Deposits (Rs Crores)	Loans Issued (Rs Crores)	Loans Outstanding (Rs Crores)
2006-07	696	-0.3	-3.15	-9.7	-14.1	-5.36
2018-19	636	583	NA	7,697	5,044	35,322

[Source: Trend and Progress of Banking in India, RBI (2018-19)]

Statistics: The decline in the total number of PCARDBs over time is due to the fact that it decreased from 696 in 2006–07 to 636 in 2018–19. Share

Capital: The capital base of these companies has improved significantly, as seen in the increase in share capital from -0.3 crore to Rs 583 crore. Borrowing: No borrowing information for FY 2018–19 (NA) The amount lent in 2006–07 was -3.15 crore. Reserves: Reserves increased significantly from -9.7 crore to Rs 7,697 crore in 2018– 19, indicating a significant increase in public confidence in these institutions. Loan disbursements: The increase in lending activity was accompanied by an increase in loan disbursements, which increased from -14.1 crore to Rs 5,044 crore. Non-performing Loans: The amount of nonperforming loans has increased sharply from Rs 5.36 crore to Rs 35,322 crore, further increasing the amount that these banks are still defaulting on. The Table of Growth and Confidence shows positive growth in terms of dividend growth, deposits, loans granted, and loans outstanding; however, the decline in PCARDB figures over time shows a decline in their overall numbers. Initiatives to increase and improve long-term rural credit through governance reform may be needed.

Recommendations:

1. Strengthen Financial Inclusion: Addressing the cutting-edge economic exclusion in rural areas, implement customised guidelines to assure small and marginal farmers true access to institutional financing.
2. Corporate restructuring: The regulatory regime of the corporation should be changed to strengthen its financial stability, accountability, and efficiency and promote its long-term growth.
3. Strengthen Rural Credit Infrastructure: To increase the reach and efficacy of rural credit score institutions and their capacity to better serve the numerous lending requirements of rural groups, put money into infrastructure and technical trends.
4. Policy Alignment and Support: For rural credit unions to participate in rural economic development, national policies must be aligned with their needs. This can be achieved through incentives, legal support, and capacity-building.

Conclusion:

The survey of rural credit cooperatives sheds light on the challenges and areas of difficulty related to financial inclusion in India's rural credit sector. A comprehensive survey of institutional and non-institutional lenders in rural areas shows that, despite sustained efforts to expand formal credit channels, informal resources go away, highlighting the challenges faced by incumbent financial institutions in rural lending. A closer examination of several credit unions, such as PACS, reveals a significant gap between the loan offered and the extended loan requirements. This discrepancy suggests that these countries may have substantial unmet financial needs due to constraints on adequate borrowing capacity. Moreover, a survey of District Central Cooperative Banks (DCCBs) and State Cooperative Banks (SCBs) reveals both encouraging and unsettling patterns. Rising reserves have shown public confidence, but urgent attention is needed to reduce the economic vulnerability implied by negative reserves and other economic shocks.

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