

ROLE OF PRIMARY AGRICULTURAL COOPERATIVE SOCIETIES IN RURAL FINANCING

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Abstract:

Co-operative credit institutions in India provide credit to agriculture as well as non-agricultural sectors. Short, medium & long term credits are being provided by cooperative credit institutions. Co-operative institutions are playing a vital role in the socio-economic development of the country, particularly in the rural areas and in agriculture and allied sectors. Primary agricultural cooperative credit societies (PACS) are the main source of institutional finance for small and marginal farmers in India. PACS are the banks which are situated in rural area and play a very important role in rural credit system by performing their activities on co-operative principles. The PACS play a major role in financial inclusion of farmers and agricultural development in India. They protect farmers from certain social evils like agricultural backwardness, poverty and rural indebtedness. Through their variety of services, they are reaching the vulnerable sections of the society. They provide short term and medium term loan to rural people to meet their financial requirements. The objective of this paper is to analyze the role of Primary agricultural cooperative credit societies in rural financing and rural development.

Keywords: Agricultural Credit, Rural Development, PACS, Rural finance.

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1. Introduction

Agricultural cooperatives in India are very actively involved in several agricultural related activities. The most important activities are the disbursement of short, medium term credit and distribution of fertilizers and other inputs such as seeds, pesticides, agricultural implements etc. Co-operatives play a very important role in disbursement of agricultural credit. In India, majority of the farmers belong to the category of small & marginal farmers. They depend heavily on credit for their agricultural operations. These farmers will not be able to adopt the modern agricultural practices unless they are supported by adequate and timely availability of credit. The co-operatives are playing important role in the agriculture sector by providing required financial support for its overall growth. Primary agricultural cooperative credit societies are the main source of institutional finance for small and marginal farmers in India. Agricultural credit is one of the most crucial inputs in all agricultural development programs. Primary agricultural credit societies working at grass root level, having direct contact with the rural people and meet their financial requirements. PACS have been playing an important role in the channelization of bank credit to the rural sectors.

2. Objectives and Methodology

The objective of this paper is to study the role of PACS in rural financing and to analyze the significance of PACS in rural development. The study is mainly based on secondary data. Data is collected from the data bases of RBI, NABARD, NAFSCOB and Annual Reports of RBI, NABARD and Department of Agriculture, Cooperation & Farmers Welfare, Economic Surveys of the Ministry of Finance, journals, magazines, books and the websites.

3. Importance of Co-operatives

The Co-operative Movement in India took birth in 1904 by the enactment of Co-operative Societies Act 1904. The aim was to promote credit societies. The Second Act was passed in the year 1912. The Co-operative societies Act 1912 aimed at promotion of thrift, self help among agriculturists, artisans, and persons of limited means. The major reason for establishing credit co-operatives was to free the poor & indebted farmers from the clutches of the traditional money lenders who provided credit at high interest rates. The Credit Cooperative was established in 1904 with the basic aim to provide cheap credit to the small and marginal farmers. Co-operative

institutions have played a vital role in the socio-economic development of the country, particularly in the rural areas and in agriculture and allied sectors. The cooperative sector in India has spread its activities in all spheres of economy like agriculture, poultry, dairy, fisheries, handlooms, spinning, consumer cooperatives and the like. The cooperatives have emerged as an important and vital sector of the Indian economy. The co-operatives are playing predominant role in the agriculture sector by providing required financial support for its overall growth. They play a very significant role in disbursement of medium term & long term credit needed by the farmer's for purchasing agricultural equipments, installation of tube wells & land development works etc. Credit in India is made available to the farmers through a multi- agency network consisting of cooperatives, commercial banks and RRBs. However, co-operatives accounts for a large proportion of the agricultural credit made available to the farmers.. The cooperative banks with the help NABARD are extending financial support to the various agro based units like dairying, poultry, fisheries, agricultural marketing & other allied activities. They have been playing a very significant role in making institutional credit accessible to farmers since the beginning of the cooperative movement.

Rural co-operative credit institutions in India consist of two distinct sets – short-term and long-term institutions – each with specific objectives. Short-term co-operatives primarily provide short-term crop loans, working capital loans, and medium-term loans for investments in agriculture to farmers and for the rural sector in general, often with refinance support from the NABARD. Long-term co-operatives typically provide medium to long-term loans for making investments in agriculture, including land development, farm mechanization and minor irrigations; rural industries; and lately, housing. Short-term rural credit co-operatives operate in most of the states in a three-tier structure with State Cooperative Banks (StCBs) at the apex level, Co-operative Central Banks at the district level (DCCBs) and PACS at the base (village) level with mainly farmers as their members. In principle, PACS are expected to mobilize deposits from farmer members and use them for providing crop loans to members. When deposits are not enough to meet the loan requirements of borrowing members, PACS draw support from higher tier institutions, Co-operative Central Banks or State Cooperative Banks.

4. Role of Agricultural Co-operatives

The main objective of PACS is to promote economic interests of members in accordance with the principles of cooperation. In compliance with this objective, PACS provide credit to cultivators, supply agricultural inputs & also undertake marketing of agricultural produce. They inculcate the habit of thrift & savings among members .PACS are grass root institutions functioning at the village level to meet the financial requirements of members. Primary Cooperative Credit Societies occupy a strategic position on account of their direct link with the farmers and weaker sections of people at the grass root level. In India, majority of the farmers belong to the category of small & marginal farmers. They depend heavily on credit for their agricultural operations. The coverage by PACS in providing agricultural credit was very high when compared to Commercial Banks and Regional Rural Banks. Financial Inclusion is not a new concept as far as Cooperative Sector is concerned. Various Commissions and Committees appointed to review the functioning of cooperatives also praised the role of Credit Cooperatives in catering to the requirements of small and marginal farmers. Cheap and affordable credit is given by the PACS to the low and middle-income groups in rural area and thus helps in extending banking services.

4.1 Rural Financing Initiatives of PACS

Service and not profit is the main motto of PACS. PACS are rural oriented and have very good network in rural areas. They create opportunities for employment and income generation in rural areas. Financial inclusion can be achieved with the help of primary level cooperative institution like PACS which has spread its service to all parts of the country. It is the PACS which provides loan to small and marginal farmers. This fact implies that the outreach of PACS in meeting the credit requirements of vulnerable group is very high.

PACS help rural people in the following ways:

No frill accounts: Similar to that, no minimum balances required to opening a savings bank account. By this even weaker sections can avail the banking services.

Agricultural loans: More than 90% of the agricultural loans are disbursed through PACS. They provide agricultural loans at a very affordable rate.

Loan against NSC, KVPs etc: Generally commercial banks do not give loans against KisanVikas Patras or National Savings Certificates. The poor people get easy loans against these certificates for emergency purposes.

Kishan Credit cards: On behalf of district cooperative banks, PACS gives KCCs to the farmers. The main objectives of the Scheme are to meet the short term credit requirements for cultivation of crops, post harvest expenses, produce marketing loan, consumption requirements of farmer household, working capital for maintenance of farm assets and activities allied to agriculture.

SHG-Bank Linkage programme: The role of PACS in promoting, developing and nurturing the SHG is well known fact. The recent initiatives of SHG-Bank Linkage programme further strengthened the fact that the PACS are inseparable instrument in rural financial sector. PACS continued to receive support from NABARD for promoting and nurturing SHGs.

PACS form the grass-root level tier of the short-term co-operative credit structure that directly interfaces with individual borrowers to provide them short and medium-term credit. Reflecting co-operative culture, PACS advances loans only to their members. They arrange for the supply of agricultural inputs, distribution of consumer articles and marketing of produce for their members through co-operative marketing societies. Borrowings from higher tier co-operative credit institutions constitute the majority of funds for the PACS, which cater to a variety of other associated activities. NABARD provide both financial as well as technical support to rural cooperative credit institutions. Financial support is provided through the Cooperative Development Fund [CDF] while technical, capacity building and knowledge sharing support comes from the Centre of Professional Excellence in cooperatives [C-PEC]. Besides this, NABARD also provides assistance to PACS Development cells [PDCs].

As on 31 March 2017, the short term cooperative credit structure [STCCS] in the country comprised 95,595 PACS, 363 Dist. Central Cooperative Banks and 32 state cooperative banks.

Table 1: DETAILS OF PRIMARY AGRICULTURAL CREDIT SOCIETIES IN INDIA

	2012-13	2013-14	2014-15	2015-16	2016-17	Growth Rate (%)	
						2012-16#	2016-17*
No. of PACS	90,958	93,042	92,789	93,367	95,595	-	-
Total Membership (in thousands)	1,10,068	1,30,120	1,21,088	1,27,322	1,51,857	5.48	19.27
Total No. of Borrowers (in thousands)	42,629	48,081	49,858	46,214	70,234	3.06	51.98
Paid up Capital (Amount in Crores)	8,008	9,789	11,068	12,281	14,122	15.42	14.99
Total Reserves (Amount in Crores)	6,668	9,135	10,607	12,162	18,860	22.59	55.07
Total Deposits (Amount in Crores)	37,561	81,895	84,616	1,01,065	1,15,884	46.93	14.66
Total Borrowings (Amount in Crores)	81,385	95,836	99,980	1,12,690	1,24,831	11.60	10.77
Total Working Capital (Amount in Crores)	1,48,939	2,12,429	2,23,711	2,01,304	2,39,967	12.64	19.21
Total Loans Issued (Amount in Crores)	98,440	1,71,420	1,59,050	1,80,824	2,00,678	26.87	10.98

: Compound Annual Growth Rate, *:Percentage change over previous year

Source: Compiled from NAFSCOB, Annual Reports

As on 31 March 2017, there were 95,595 PACS with a total membership of 15.19crore, of which 7.02crore [46%] were borrowing members. As compared to the previous year, while the total membership increased by 19%, the borrowing membership of PACS increased by 52%.As compared to compound growth rate , growth rate of membership from the year 2012-2016 is 5.48%, while compound growth rate of borrowers is only 3.06%. The aggregate share capital of PACS stood at Rs.14, 122crore as on 31 March 2017 as against Rs.12, 281 crore as on 31 March 2016, indicating an increase of 14.99 per cent. The reserves was Rs.18, 860 crore as on 31 March 2017 as against Rs. 12,162 core as on 31 March 2016, reflecting an increase of 55.07 per cent. There is a compound growth rate of 46.93% in total deposits. The deposits of Rs. 1, 15,884 crore as on 31 March 2017reflected a growth of 14.66 per cent over 31 March 2016. Above table shows that deposit mobilization of PACS have been in increasing trend. Total Loans issued increased from 1,80,824 crores in 2015-16 to 2,00,678 crores in 2016-17, indicating an increase of 10.98%. Compound Annual Growth Rate is 26.87%. Loans issued by PACS are in increasing trend over the years. There is an increasing trend in deposit mobilization and loans issued by PACS over the years. It indicates the role of PACS in rural financing. They are playing a significant role in rural areas.

NABARD extended financial support to PACS to develop PACS as multi service centres (MSCs) so that they can increase their business portfolios and avenues of earning revenue and become self-sustainable entities. Union Budget2017-18 has made an allocationof 1,900 crore over three years for bringing digital banking to PACS. This will link 63,000 societies with Core Banking Solutions of DCCBs allowing new generation banking services to be made available to the small and marginalized farmers who are members of these co-operative societies for the first time. All these measures are expected to improve the performance of the PACS going forward.

5. Conclusion

The Government has taken many policy initiatives for strengthening of farm credit delivery system for providing credit at lower rates of interest to support the resource requirements of the agricultural sector. The emphasis of these policies has been on providing timely and adequate

credit support to farmers with particular focus on small and marginal farmers and weaker sections of society .It enables them to adopt modern technology and improved agricultural practices for increasing agricultural production and productivity. The policy essentially lays emphasis on augmenting credit flow at the ground level through credit planning, adoption of region specific strategies and rationalization of lending policies and procedures and bringing down the rate of interest on farm loan. The various incentive schemes introduced by the Government for rural development can be implemented successfully through PACS. PACS can play very constructive role in meeting the objective of greater degree of financial inclusion in rural areas. To get the best from their land, farmers need access to affordable credit. PACS have been playing an important role in this regard. There has been a massive expansion of institutional credit to agriculture over the years. By providing greater access to agricultural loans, PACS play a vital role in the progress of financial inclusion in India by increasing accessibility of goods and services in the rural areas and providing opportunities for employment and income generation in the rural areas. This will lead to inclusive development of rural areas in the country. The Government recognizes saving and credit societies as important grassroots organization that can extend financial products and services to the rural people on non exploitative terms.

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