

## **Rural Development through Cooperative Banks: Achievements and Hindrances in Sikkim**

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**ABSTRACT:** *The cooperative sector is one of the main partners of Indian Banking systems, the cooperative banks have more reach to the rural India, through their huge network of credit societies in the institutional credit structure. The cooperative sector has played a key role in the economy of the country and always recognized as an integral part of our national economy. Cooperatives have ideological base, economic objects with social outlook and approach. The cooperative form of organization is the Ideal Organization for economically weaker sections in the country. The Primary Agriculture Credit Societies (PACS) amount for about 30 percent of micro credit in India and play a very crucial role in Community Development. This paper attempts to analyze the role of cooperative banks in rural development in the State of Sikkim in India. The paper analyzed the trends in rural credit, outreach of Credit societies and level of participation of rural communities in the mainstream financial system through PACS.*

**Keywords:** *Cooperative Bank, Agricultural Credit, Rural Development, PACS*

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### **I. INTRODUCTION**

In most developing countries including India, co-operatives were promoted by their governments as instruments of rural development. In India, the co-operative form of organization was born in 1904 consequent upon the enactment of the Co-operative Credit Societies Act. Co-operative assumed greater significance as an instrument of socio-economic development and became an integral part of India's Five Year Plans. The Government of India has provided massive financial, technical and administrative support to co-operatives both directly and indirectly through State Government (Dwivedi 1996).

Credit co-operatives societies and co-operative banks are the oldest and most numerous of all the types of co-operatives in India. The co-operative credit system in India is comprised of the Agricultural Short Term (ST), or Agricultural Production Credit structure and the Long Term (LT), or Investment Credit structure for Agricultural and allied sectors. The ST structure has at its base the Primary Agricultural Credit Societies (PACS) and all the base level societies are affiliated to District Central Co-operative Banks (DCCB) at the district level, which in turn, are affiliated to State Co-operative Banks (SCB) at the State level. The smaller states like Sikkim where no DCCB at the district level, have a two-tier structure, the credit requirements of PACS are directly met by SCBs (Singh & Pundir 2000).

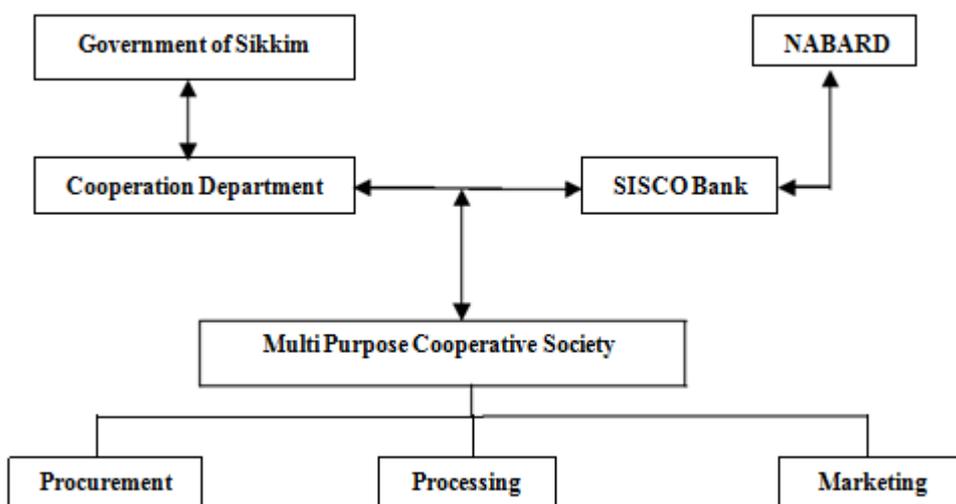
#### **1.1 Co-operatives as an Instrument of Rural Development**

With nearly one-third of India's rural population living below the poverty line and with most of the rural producers being small scale unorganized operators having virtually no bargaining power. Agriculture is the backbone of Indian economy and prosperity of agriculture can significantly contribute to the general prosperity of the nation. Cooperative societies are playing significant role in the development of the economy. The cooperative movement in India was started in the beginning of twentieth century. On the recommendations of different committees, the Cooperative Society Act 1904 was enacted. The objectives of the Act were to encourage thrift, self help and cooperation among agriculturist, artisans and persons of the limited means (Sharma 2014).

#### **1.2 Cooperative systems in Sikkim**

On the merger of Sikkim with the Indian Dominion in 1975 since then Government of Sikkim initiated the idea of forming a Co-operative Milk Unions in Sikkim, probably being encouraged with the success that had been achieved in the State of Gujarat in India. Subsequently, State Co-operative Societies Act, 1978 enacted which recommended to establishment of Multi Purpose Cooperative Societies (MPCS) at village level in line with PACS in other states for marketing surplus agricultural and allied produces at remunerative price for farmers.

Figure 1: Cooperative Organizational set up in Sikkim



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Government of Sikkim enacted Sikkim State Cooperative Bank Act in 1998 to established State Cooperative Bank in the state. The objective of the Act “to serve as an Apex Organization of Cooperative societies in Sikkim, raise deposits from members of societies and do business as per section 5 and 6(1) of Banking Regulation Act, Government of India, 1946. The National Bank for Agriculture & Rural Development (NABARD) is the refinance support agency for cooperative banks. Till now, there are 166 MPCS established in Sikkim. Very few of them are functioning properly, others are only undertaking sale of seeds/ fertilizer/ other commodities under Public Distribution System. These societies are not viable due to low level of business and inadequate infrastructure in rural areas (NABARD, 2013).

## II. RURAL CREDIT DISBURSEMENTS:

The credits advanced by Banks in India fall broadly under five categories, namely, crop production loans, agricultural investment loans and agricultural allied activity loan (Medium and Long term), non-farm activities and non-priority sector loans. Crop loans are given for a period of 6-12 months for purchase of inputs for seasonal agricultural operations. Crop loans has a fixed annual interest rate of 7% upto Rupees 3 Lakh (0.3 million) and additional 3% interest subvention from Government of India on regular repayment for small and marginal farmers. Agricultural investment loans are given for buying agricultural equipments and bullocks and also for taking up land development including installing on farm irrigation. Agricultural allied activities loans are given for purposes like dairying and sheep and goat rearing. The agricultural investment and allied activities loans are term loans given for a period ranging from 3 to 15 years. The non-farm loans are given for meeting both short-term working capital and long-term investment needs of households engaged in activities like manufacturing, trade, business and service. The non-priority sector loans, on the other hand, are mainly consumption loans which are also at times given for meeting even production needs.

Table 1

An Overview of Rural Credit Flow in South Sikkim district								In million
Sl No.	Type of Loan/Agency	2011-12		2012-13		2013-14		
		Target	Ach	Target	Ach	Target	Ach	
1	<b>Crop Loan</b>							
	Commercial Bank	101.49	33.27	96.00	14.47	300.00	8.96	
	State Coop Bank	53.23	3.72	49.00	29.39	20.00	38.46	
2	<b>Agri Term Loan</b>							
	Commercial Bank	76.71	17.76	75.80	17.54	105.00	29.90	
	State Coop Bank	6.99	0.12	7.20	0.32	15.00	33.53	

4	<b>Non Farm Sector</b>						
	Commercial Bank	7.63	15.72	7.65	0.33	8.50	2.12
	State Coop Bank	1.56	0.00	1.50	0.00	0.70	0.15

(Source: Potential Credit Plan, NABARD, 2014)

The purpose-wise composition of annual rural credit performance of commercial banks and SISCO bank branches located in South Sikkim district during 2011-12 to 2013-14 is given in Table -1. Broadly the following types of trend are discernible from Table 1. The share of Crop loan which includes, commercial banks shows a heavy decline in comparison to the Sikkim state cooperative bank. Despite more outreach in rural areas of Sikkim, commercial banks has failed to achieved its target under Crop loans but it has increase in the share of non-agricultural loans, particularly those under the non-priority sector loans, namely, industries loans, personal loans for government employees etc. is the result of deliberate attempt on the part of the commercial banks to increase its profits and loan recovery (Shylendra 1995).

Because the non-agricultural loans not only carry on an average a higher interest rate than Crop loans but also have relatively better recoveries. On the other hand, despite limitation, Sikkim state cooperative bank has achieved in the crop loan targets, but it has failed to achieve in the Agriculture term loans and Non Farm loans in comparison to commercial banks. The SISCO bank official mentioned that due to capital adequacy, high risk involvements the bank cannot achieve its targets. The Multi Purpose Credit Societies (MPCS) are the primary mobilizes for SISCO bank, but over the years the performance of MPCS in credit delivery has shows a negative trends. It occurs due to conflicts among the members of MPCS, high bad loans in MPCS, lack of financial discipline etc. The MPCS members informed that due to lack of capacity building training from both the government and banks has creates this panic situation. Apart from crop loan, focus should also on developing cooperatives on animal husbandry, organic farming, tourism and other non-farm sectors with the help of different stakeholders. These cooperatives would be primarily involved in mobilization of educated unemployed youth in various potential livelihoods activities.

### III. CONCLUSION:

Various policy stipulations of the government had prevented the cooperative banks to act fully according to its financial compulsions. Unlike other commercial banks, the cooperative bank has to mobilize considerable deposits, allocate a good percentage of its funds to priority areas like agriculture and allied activities and take part compulsorily in lending to the poor who cannot afford any security. The following concluding remarks may be made from the analysis carried out in the paper. The Cooperative Bank under study was found to have been functioning under financial stress for reasons arising out of increasing cost of operations, dwindling profits and prevalence of high overdues mainly because of poor performance of cooperative societies. In order to cope up with the situation of declining vitality the cooperative banks, the government and NABARD has to rethink about this sector and take some measures to revive the cooperative sector through more capacity building efforts on rural livelihoods in grassroots levels for better bank-borrower relationship, financial inclusion and social security in rural India.

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