



Evaluating the role of cooperative banks in promoting financial inclusion in India

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Abstract: *Cooperative movement started in India formally in the year 1904 with the passing of the cooperative credit society's act in 1904 to provide credit to distressed agricultural sector in the form of short-term credit to save the farmers from the clutches of the moneylenders. Cooperative sector has progressed since then to contribute to India's green and white revolution, by providing credit to agricultural and milk cooperatives. This paper seeks to analyse the recent performance of cooperative banks as compared to other commercial banks and regional rural banks operating in India in terms of credit extended to small and marginal farmers, to understand how the cooperative banks are performing in making the rural credit system more accessible and financially inclusive by analysing the secondary data obtained from the websites of cooperative bank regulators National Bank for agricultural and rural development and Reserve Bank of India.*

Keywords: *Cooperative movement, financial inclusion, Cooperative banks, Ground level credit (GLC)*

Abbreviation used: GLC (Ground Level Credit), NABARD (National Bank for agricultural and rural development, SF/MF (Small Farmers/Marginal Farmers, RBI (Reserve bank of India)

Introduction:

In India the concept of cooperation predates the formal cooperative structures coming into being through the passing of the cooperative law in 1904, the practice of the concept of cooperation and cooperative activities were prevalent in several parts of India with the name of Chit funds, Nidhi etc.

Second five-year plan after independence identified the cooperative sector as a focus area to promote cooperative development as a development driver for Indian economy.

(R.B.I,2021) In India cooperative banking is now a well-diversified and decentralised system of



banking spread across urban and rural areas we well. At end-March 2020, the sector consisted of 1,539 Urban Cooperative banks and 97,006 rural cooperative banks.

Rural cooperatives make up 65 per cent of the total asset size of all cooperatives taken together. Despite the crucial role played by the sector, its asset size was only around 10 per cent compared to that of Scheduled Commercial Banks at the end March-2020. Although the focus of rural cooperative lending is on agriculture, its share in total agricultural lending has diminished considerably over the years, from as high as 64 per cent in 1992-93 to 11.3 per cent in 2019-20 which is giving an impression that cooperative banking role is fast diminishing in promoting financial inclusion for rural communities.

In this light it becomes important to analyse the data to understand the cooperative sector banks evolving role in rural financial inclusion in the fast-evolving banking sector of the country.

Review of Literature:

Cooperatives banking as a form of rural financial organisation are very prevalent in both developed and developing countries of the world. They have a very important instrument role to play in rural development in a developing country like India. Since their birth in 1904, cooperatives in India have evolved through various phases with many success stories to its credit along with some worst cases of banking failures as well causing serious trust issues among the members of the cooperative banks. There cannot be a second opinion that cooperative banks have played an important place in India 's rural economy in terms of their membership, business turn over, and contribution to the socio-economic welfare of their members. They have performed well in some sectors in some places and badly in many other places. There is no reason for anyone to believe that they will not perform well soon with some innovations to survive along with other banking and financial institutions and play the unique role as envisioned for them.

In a study conducted in Chhattisgarh (Soni, Saluja 2012) to understand the impact of Cooperative banks it has been concluded that agricultural credits play several significant functions which primarily include the intensification and growth of the agricultural production. For a developing State like Chhattisgarh which has huge deficits in agricultural finance both in terms of quality and quantity, the State must rely on cooperative credit for meeting the requirement if agricultural credit. Considering the low living standards of common man, incomplete and imperfect markets, the cooperative credit becomes an important source of agricultural credit.

(Niyaz & Siddiq,2012) in a paper to understand the awareness level about cooperative bank among rural population concluded that the cooperative banks have a very important role to play for the development of the rural people and many studies justifies that the cooperative banks positively contribute in the empowerment of rural people by providing various financial services and making rural people financially strong, and they help in inculcating the habit of saving money and investing it for further development and progress of the household. This study shows that though there is some extent of utilization of various cooperative banking services and schemes. The banks still have much ground to cover in creating awareness for new schemes and services and give importance to better utilization of services and schemes.

(Nayak,2012) In a paper concluded that growth of real GDP per head per annum is increasing in India but along with-it consumption inequality is also increasing rapidly in India after 2004-05. This is a cause for concern as poverty or the number of poor is decreasing over the years but the trend is not spectacular. The role of cooperatives become important here as being local in nature and intricately interwoven with the local community, cooperative banks have a clear advantage over commercial banks for financial inclusion. Cooperative banks are a feasible option for inclusive growth through rural development by creating opportunity for employment and income generation. The shortfalls of



cooperative banks should be mitigated and this will lead to inclusive growth in our country.

In this context it becomes important to analyse and understand if there is some macro data gathered by NABARD and RBI also conforming to some of the assertion made by these research papers.

Objectives

The objective of this paper is to evaluate how the rural cooperative banking system is performing as compared to its peers in India in promoting financial inclusion in recent years.

The paper is also going to understand the role of rural cooperative banks in promoting the more comprehensive forms of financial credit by understanding the qualitative aspects of the rural credit delivery by analysing some aspect of secondary data compiled from various reports of NABARD and Reserve Bank of India.

Research Methodology

The research methodology used for analysing the data is quantitative analysis using the secondary data obtained from the relevant reports of NABARD and RBI regarding the share of cooperative banks in total ground level credit in percentage terms by using Microsoft Excel Software tools.

Second important parameter for this analysis is to calculate the share of small and marginal farmers in the total agricultural credit for different types of credit providing agencies.

Third important analysis is used to analyse the average loan size for different lending agencies in the lending done to small and marginal farmers.

After tabulating relevant data points and doing the cross-tabulation bar graphs and chart is prepared for better understanding of the data.

Findings and Analysis:

Table-1 Share of various agencies in Ground level credit (Source NABARD)

Year	Commercial Banks		RRBs		Cooperative Banks		Total Ground level credit
	Amt in Crores	% to total	Amt in Crores	% to total	Amt in Crores	% to total	Amount in Crores
1999-2000	24,836	53.7	3,172	6.9	18,260	39.5	46,268
2004-2005	81,674	65.2	12,404	9.9	31,231	24.9	1,25,309
2009-2010	2,85,800	74.3	35,217	9.2	63,497	16.5	3,84,514
2013-2014	5,27,506	72	82,653	11	1,19,963	16	7,30,122
2014-2015	6,04,376	71.5	1,02,483	12.1	1,38,469	16.4	8,45,328
2015-2016	6,42,954	70.2	1,19,261	13	1,53,295	16.8	9,15,510
2016-2017	7,99,781	75	1,23,216	11.5	1,42,758	13.5	10,65,755
2017-2018	8,77,155	75	1,40,959	12.1	1,50,389	12.9	11,68,503
2018-2019	9,54,822	76	1,49,666	12.1	1,52,340	12.3	12,56,829
2019-20	10,70,036	76.8	1,65,326	11.9	1,57,367	11.3	13,92,729
2020-21	11,81,558	75.8	1,89,505	12.2	1,87,769	12	15,58,831



Table-1, Figure-1 and Figure-2 data analysis shows that in terms of absolute numbers the rural credit is growing constantly for all the financial years under consideration for this analysis.

The overall credit has grown from Rs.46,268 crores in 1999-2000 to Rs.15,58,831 crores in 2020-21 financial year.

Total GLC for the above period by the cooperative banks has also increased from Rs.18,260 crores in financial year 1999-2000 to 1,87,769 crores for the financial year 2020-21. This trend indicates that the overall credit in absolute terms has grown for the cooperatives as well as all other banks for the above period.

Despite overall credit growth, the share of cooperative banks in total ground level credit in percentage terms constantly decreased from 39.5% in 1999-2000 to 12 % in 2020-21. In the same time period, the share of the commercial banks in total credit increased from 53.7% to 75.8% and share of RRBs in the same period increased from 6.9% to 12.2%.

This trend indicates that the balance of agricultural credit is shifting in favour of commercial banks and Regional Rural Banks and cooperative banks share in overall ground level credit is declining.

Year	Agency	Loan disbursed (Rs. crore)			Average loan amt of Small Farmers/Marginal Farmers
		Total	SF/MF	Share of SF/MF (%)	
2013-14	Com. Banks	5,27,506	2,01,296	38.2	86579
	Coop. Banks	1,19,964	69,352	57.8	33585
	RRBs	82,653	51,359	62.1	77116
	Total	7,30,123	3,22,007	44.1	63739
2014-15	Com. Banks	6,04,376	1,97,540	32.7	101095
	Coop. Banks	1,38,470	78,736	56.9	38824
	RRBs	1,02,483	70,390	68.7	80171
	Total	8,45,328	3,46,666	41.1	71286
2015-16	Com Banks	6,42,954	2,00,346	31.2	95312
	Coop. Banks	1,53,295	97,999	63.9	42078
	RRBs	1,19,261	81,653	68.5	84178
	Total	9,15,510	3,79,998	41.5	70318
2016-17	Com. Banks	7,99,781	3,62,675	45.4	75166
	Coop. Banks	1,42,758	89,178	62.5	46911
	RRBs	1,23,216	82,496	67	83329
	Total	10,65,755	5,34,351	50.1	69252
2017-18	Com. Banks	8,71,080	3,89,866	44.8	70009
	Coop. Banks	1,50,321	98,109	65.3	53401
	RRBs	1,41,216	92,482	65.5	88191
	Total	11,62,617	5,80,457	49.9	68655
2018-19	Com. Banks	9,54,823	4,28,063	44.8	67753
	Coop. Banks	1,52,340	1,06,849	70.1	55405
	RRBs	1,49,667	98,749	66	92539
	Total	12,56,830	6,33,661	50.4	68036
2019-20	Com. Banks	10,61,215	5,02,172	47.3	70294
	Coop. Banks	1,49,694	1,04,883	70.1	52809
	RRBs	1,62,857	1,07,301	65.9	98010
	Total	13,73,766	7,14,356	52	69866

Table-2 GLC share of different types of banks (Source: NABARD annual report)



Table-2, Figure-3 and Figure-4 data analysis indicates that though the share of cooperative banks in total credit is declining in percentage terms but the share of small and marginal farmers in the total credit that was given by the cooperative banks is highest from 2018-19 onwards.

The share of small and marginal farmers in the overall credit given by various banks in percentage terms for cooperative banks is second to RRBs from 2013-14 to 2017-18 period.

The ticket size of the loan for cooperative banks is the smallest among all types of banks for all the financial years for which analysis is done ranging from Rs.33583 in 2013-14 to Rs.52809 in 2019-20.

This indicates that cooperative banks are helping the small and marginal farmers with small ticket size loans thus contributing in qualitative improvement of rural credit by making credit available to the most marginalised even among the small and marginal farmers.

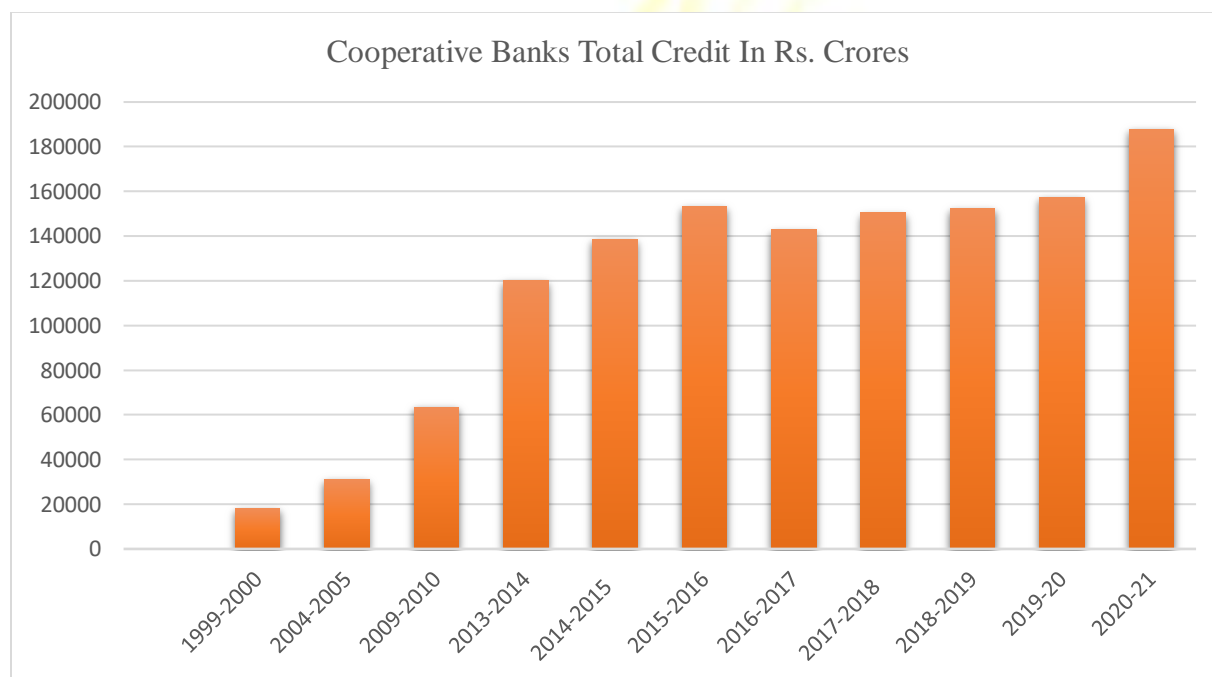


Figure-1 Cooperative banks total credit in Rs. Crores

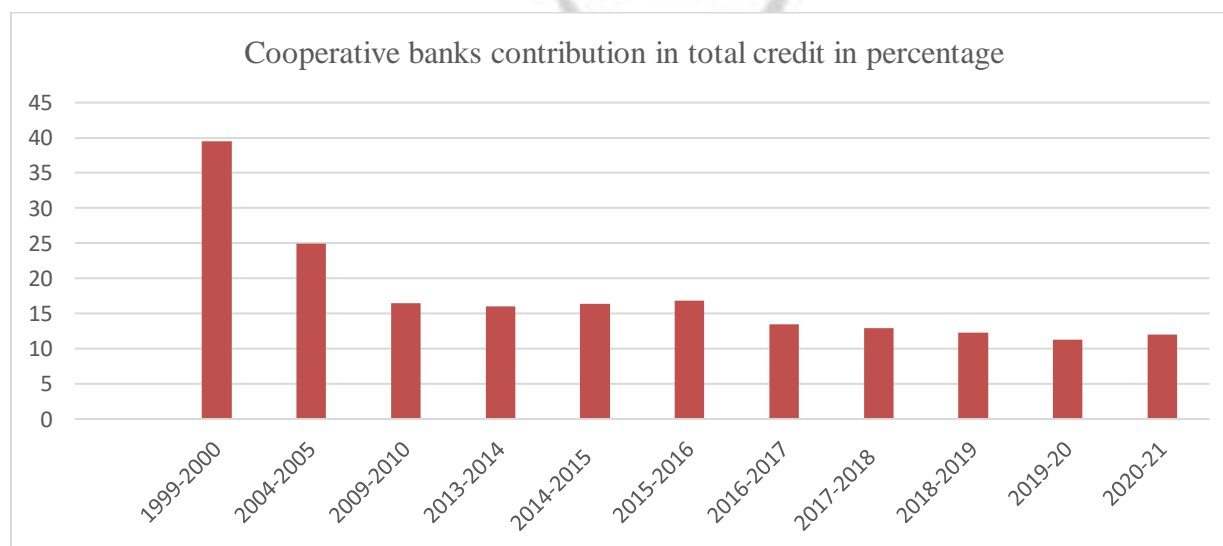




Figure-2 Cooperative banks contribution in total credit in percentage

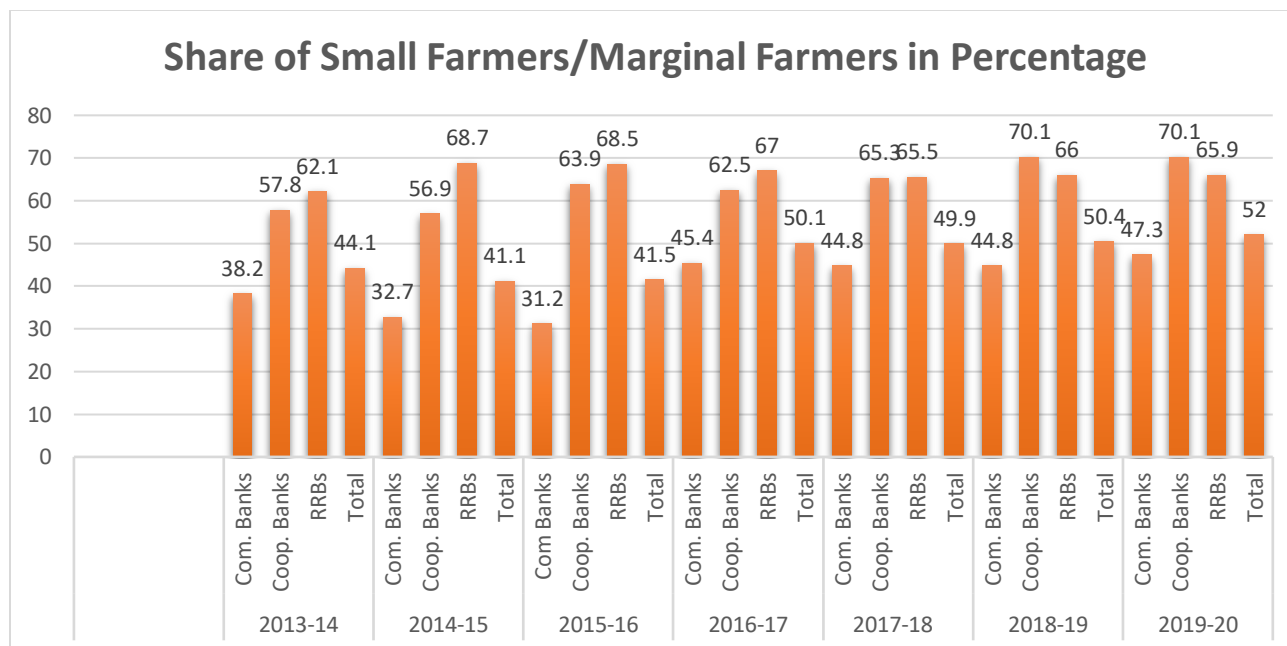


Figure-3 Share of small and marginal farmers in percentage in total GLC by various agencies

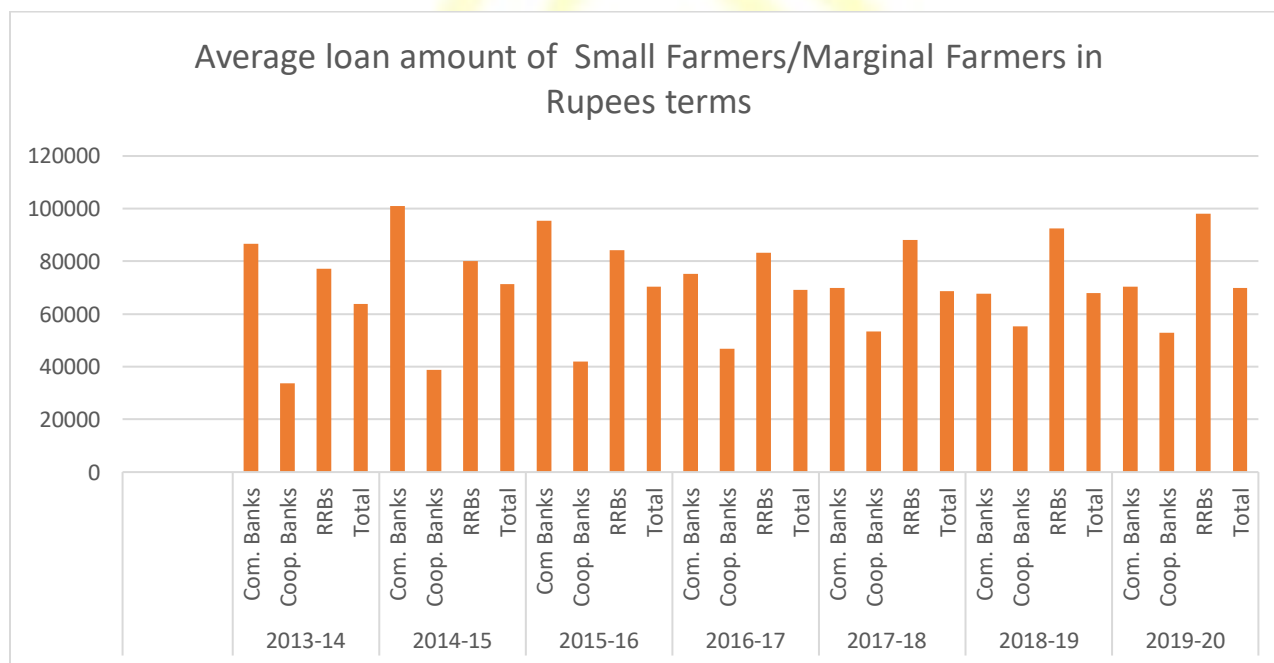


Figure-4 Average loan amount of small and marginal farmers for different agencies

Discussion:

From the above analysis it can be observed that the vast rural masses need of credit for the most underprivileged section of farmers even among the small and marginal farmers is still being met by the



cooperative banks operating in the rural areas.

This indicates that cooperative banks still hold great importance for meeting the rural credit requirement in most effective and customised way for the small and marginal farmers.

There are many cooperative banks which are scripting success stories by functioning at grassroot level in India and making a difference in the lives of local people.

This Macro level data analysis also conform to the success stories of cooperative sector banks In India (NDTV,2011) reported one such success story of a small cooperative bank known among villagers as 'Didi Bank' having a roster of 847 members from 87 self-help groups successfully running a bank in a remote village of Jharkhand's West Singhbhum district.

(Telegraph,2011) In a news report discussed that The Kendrapara Credit Cooperative Society has scripted a success story by opening 13 branches in Jagstinghpur, Jajpur and Cuttack apart from Kendrapara.

These reports also indicates that the cooperative banks are still preferred banks for some most unserved sections of the society for seeking credit due to their best suited solutions to the local financial needs.

Conclusion and Recommendations:

It can be said from the above analysis in conclusion that cooperative banks are contributing in promoting financial services to the most underserved section of the rural population. Even the most marginalised farmers among the marginalised farmers and small farmers are provided with customised financial services by the cooperative banks.

Cooperative banks have a major role to play in promoting financial inclusion in the rural area and they need to upgrade their technology adoption for better servicing their clients (Sreejith M & Manikumar S,2018).Focus on creating better customer awareness(Niyaz&Abbokar Siddiq,2021).The cooperative banks need to be capitalised better(Singh R.K,2018) and follow better corporate governance(Desai AY,2018) are some suggestions given at a national level seminar organised at Bankers Institute of rural development titled "National Seminar on Best Practices in Co-operative Banks 05-06 January 2018 at Lucknow".

Thus, it can be said in the light of above findings that cooperative banks have a major role to play in the current financial sector in India, being a local level customised financial service provider for the most marginalised section of the society and they need to be adequately supported and equipped to effectively cater to the rural population.

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