

Role of Cooperative Bank in Rural Credit



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Abstract

The Government of India and National Bank for Agriculture and Rural Development (NABARD) have given a high priority to the transformation of agriculture and rural economy. In this context, government envisaged the idea of "doubling farmers' income by 2022" and enhances capital formation activities in rural economy which is important for increasing agricultural productivity and providing timely and affordable credit to farmers and ensuring that innovations and technologies reach farmers with off-farm employment. But many factors such as unprecedented climate change, lack of productivity, depletion and degradation of natural resources, rising demand for foodstuffs, stable agricultural income, land holdings fragmentation that confronting our ability to achieve food security, poverty alleviation and sustainable development in the country. To increase the financial inclusion in the overall development of the country, the cooperative banking system plays an important role, especially at the grassroots level in Indian financial system. Cooperative banks are characterized by a relatively comprehensive network that extends to the bottom and having in-depth knowledge of the potential of local productivity and growth. These banks promote small savings among their members and increase productivity and agriculture credit for rural economy development.

Keywords: Financial System; Cooperative Banks; Credit system; Rural Credit Flow.

Introduction

Agricultural and allied sector is an important factor for food, nutrition and livelihood security and plays a vital role in development of India's economy as it employs about 54.6% of the total workforce (Census 2011) and accounts for 17.1% of the country's Gross Value Added (GVA) for the year 2017-18 (at current prices) as per Annual Report (2018-19) of Department of Agriculture, Cooperation & Farmers Welfare, Ministry of Agriculture, Government of India. This sector also support many industries depend for raw materials as input in the production process. Due to the close relationship with other economic sectors, development in agriculture has a manifold effect on the country's economy. Because of this reason, Agriculture and rural economy has become a high priority by the Government of India and envisaged the idea of "doubling farmers' income by 2022".

As part of the Indian financial system, the cooperative banking system plays an important role, especially at the rural level, where these banks have a relatively extensive network that extends to the grassroots level. Co-operative banks were created to protect poor farmers, agricultural workers and small entrepreneurs from lenders and indigenous bankers who charge very high interest rates in the absence of adequate financial support from regulated sectors. Credit Cooperative is a voluntary association of self-help members, which cater to financial needs based on mutual needs. These banks have in-depth knowledge of the nature and financial status of the members, the potential for local production and growth opportunities. These banks promote savings among their members and raise their own small savings for productive or other useful purposes

Objective of the Study

The study has been conducted mainly to:

1. To understand Cooperative Banking Structure in India.
2. Analyze the growth and development of cooperative banks in Indian Economy.
3. To study the challenges faced by Cooperative banks in rural development.
4. Provide suggestion for addressing challenges faced by Cooperative banks and bring these banks at same platform with the Commercial Banks.

Research Methodology

The proposed study is based on secondary data collected from sources such as the Annual Report of Co-operative Banks published by the National Bank of Agriculture and Rural Development (NABARD), RBI Report on trend and progress of Indian banking System, relevant books, periodicals and research articles papers and web-sites.

Review of Literature

S.V. Shinde in his book, "Financial Inclusion in India" highlights that cooperative banking has acquired renewed significance in the India financial system. Being member- driven institution working on a collaborative principles, they facilitates the pooling of the resource for the purpose of lending to their member who are also the banks' shareholder and therefore have a crucial stake in the affairs of the bank.

M.G. Warriar (2018) in his book, "Chasing Inclusive Growth: Reforms for Financial Inclusion" states that cooperatives have played a significant role not only in providing agricultural and rural credit, but in ensuring other linkages like input for farming and providing marketing avenues for product. He also analyze that initial enthusiasm of NABARD established in 1982, faded away in the absence of legislative and administrative support from central and state governments and the institution had to satisfy itself by continuing to be an appendage of RBI doing some safe business through establishing and credit-worthy cooperative banks and commercial banks. Legislative support in adequate measure for revitalizing the cooperatives which comprise state and district central cooperative banks and more importantly about a lakh primary agricultural credit societies is not forthcoming from central and state governments. At the time when the government and the regulatory and supervisory institutes are struggling to make a breakthrough in financial inclusion and improvement in productivity, if appropriate utilized, the already available infrastructure and membership of

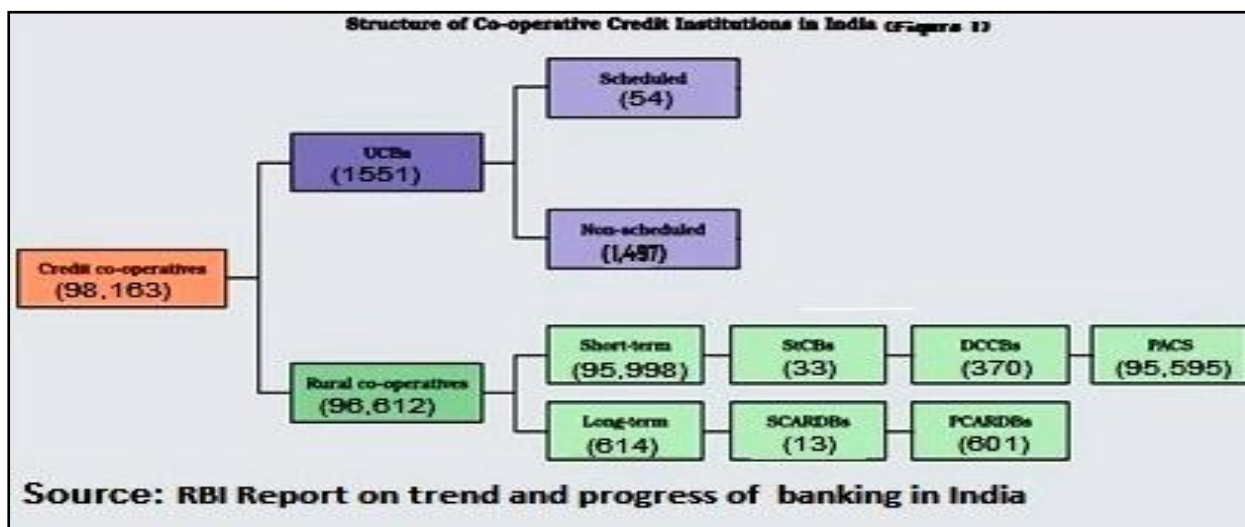
cooperative will make their much simpler.

Amit Basak (2010) in his book, "Co-operative Banks in India: Functioning and Reforms" reveals that Co-operative banks are an integral part of the Indian financial system. These include urban cooperative banks and rural cooperatives. Co-operative banks in India are over 100 years old. Rural co-operative banks mainly work for the benefit of rural areas, especially the agricultural sector. Although far less than scheduled commercial banks, co-operative banks are an important part of the Indian banking system. They have an extensive branch network and reach people in remote areas. They have traditionally played a key role in developing banking habits in lower and middle income groups and strengthening the rural credit distribution system.

Co-Operative Banking Structure In India

Co-operative banks came into existence in 1904 with the enactment of the Co-operative Credit Act, which provides for the formation of cooperative credit societies. Then, in 1912, a new law was provided for the establishment of cooperative central banks. A co-operative bank is a financial entity related to its members, who are the owners and customers of their bank at the same time. Co-operative lending institutions play an important role in the financial system of the economy in terms of its reach and scale of operations and offer a wide range of banking and financial services such as loans, deposits and bread accounts to its members.

There are two broad areas of urban and rural cooperatives in the cooperative banking system which are an integral part of the Indian financial system. The cooperative banking structure has evolved over 50 years, highlighting the dual role of members as lenders and borrowers. The rural cooperative credit system is divided into short-term and long-term cooperative lending institutions with a multi-tiered structure. At the end- March 2018, the country's short-term cooperative credit structure consisted of-



1. 95,595 Primary Agricultural Credit Societies (PACS),
2. 370 District Central Cooperative Banks (DCCBs)
3. 33 State Cooperative Banks (StCBs).
4. Within the long-term cooperative credit structure,

- the foundation consists of
5. 13 State Cooperative Agriculture and Rural Development Banks (SCARDBs) with 673 branches
 6. 601 Primary Cooperative Agricultural and Rural Development Banks (PCARDBs)

Performance of Rural Credit Support Institutions

With an extensive network and coverage, rural credit cooperatives have played an important developmental role in expanding institutional credit by

establishing banking habits among rural people. Recently, cooperative banks have tried to improve credit disbursement through some financial innovations. In most states of a country, short-term rural credit cooperatives operate in a three-tier structure with State Cooperative Banks (StCBs) at the apex level and District Central Cooperative Banks (DCCBs) as the intermediate structure and Primary Agricultural Credit Societies (PACS) at the base level with farmers as their members.

Table 1: A Profile of Rural Co-operatives

(At end-March 2017)

(Amount in ₹ billion)

Item	Short-term			Long-term	
	StCBs	DCCBs	PACS	SCARDBs	PCARDBs
1	2	3	4	5	6
A. Number of Co-operatives	33	370	95,595	13	601
B. Balance Sheet Indicators					
i. Owned Funds (Capital + Reserves)	154	384	330	43	27
ii. Deposits	1,220	3,309	1,159	24	13
iii. Borrowings	809	914	1,248	155	155
iv. Loans and Advances	1,270	2,527	2,009	212	151
v. Total Liabilities/Assets	2,329	5,055	2,400*	304	291
C. Financial Performance					
i. Institutions in Profits					
a. Number	31	315	46,586	8	236
b. Amount of Profit	10	17	64.7	0.7	1.2
ii. Institutions in Loss					
a. Number	2	55	38,036	5	362
b. Amount of Loss	0.2	8	32.1	2.52	6.5
iii. Overall Profits (+)/Loss (-)	9.8	9	33.6	-1.83	-5.7
D. Non-performing Assets					
i. Amount	52	265	533	52	49
ii. As percentage of Loans Outstanding	4.1	10.5	26.6	23.6	33
E. Recovery of Loans to Demand Ratio** (Per cent)	93.5	78.9	73.4	50.8	44.3

Notes: **StCBs**: State Co-operative Banks; **DCCBs**: District Central Co-operative Banks; **PACS**: Primary Agricultural Credit Societies; **SCARDBs**: State Co-operative Agriculture and Rural Development Banks; **PCARDBs**: Primary Co-operative Agriculture and Rural Development Banks.
 *: Working Capital.
 **: This ratio captures the share of outstanding non-performing loan amounts that have been recovered.

Source: Reserve Bank of India Report on Trend and Progress of Banking in India 2017-18

1. Primary Agricultural Credit Societies (PACS) form the core layer of a short-term cooperative credit structure that interacts directly with individual borrowers to provide short and medium-term loans to them. Reflecting the cooperative culture, PACS only provides loans to its members. The loans from top-tier cooperative lending institutions make up the majority of the funds for the PACS system, which carries out various other related activities. They arrange to distribute agricultural inputs, consumables and market products to their members through cooperative societies. In principle, the role of PACS is expected to raise deposits from members of farmers and provide crop loans to members. The PACS receives support from higher institutions i.e. DCCB / StCBs when deposits are insufficient to meet the loan requirements for the borrowing members.
2. On the other side, District central cooperative banks (DCCBs) was formed as small banks in

small cities, so that they could collect deposits from the public and support the credit needs of PACS and its members.

3. State Co-operative Banks (StCBs) are the apex institutions in the short term rural cooperative structure thus raising deposits and providing liquidity and technical support / guidance to both DCCB and PACS enabling them to fulfill their obligations to farmers and their family members. StCBs also can raise liquidity and refinance support high-refinancing institutions such as NABARD to support crop loan needs of affiliated DCCBs and PACS. With the support of NABARD refinancing, StCBs have diversified their functions towards providing a medium-term loan for investment in rural sector.

In addition to short-term requirements, farmers should purchase equipment for long-term (5 to 20 years) such as pump sets, tractors and other development purposes such as reclamation of

land, fencing, digging of new wells, reservoirs or pipelines and purchasing additional land. These requirements are generally met by long-term cooperative lending institutions with a two-story structure

4. State Co-operative Agriculture and Rural Development Banks (SCARDBs) form the upper tier of long-term cooperative credit structures that allocate investment loans. It offers long term loans and relies heavily on borrowing for their finances. To strengthen their resource base,

Agency-Wise Institutional Credit to Agriculture and Allied Sectors

During the year 2018–19, banks had disbursed ₹12,54,762 crore as ground level credit to

SCARDBs were allowed to raise fixed deposits for a minimum period of twelve months. They may increase long-term deposits subject to certain conditions.

5. Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) are the lowest levels of long-term credit cooperatives. PCARDBs work closely with borrowers - farmers, artisans, craftsmen and other qualified people - to develop their economic conditions in a sustainable manner.

agriculture (agriculture and allied activities, agri-infrastructure, and ancillary activities), and surpassed the yearly target of ₹11 ,00,000 crore (Table 2).

Table 2: Agency-wise Ground Level Credit Flow (₹ crore)

Agency	2014–15	2015–16	2016–17	2017–18	2018–19 (P)
Commercial Banks	6,04,376	6,42,954	7,99,781	8,71,080	9,49,622
RRBs	1,02,483	1,19,260	1,23,216	1,41,216	1,51,258
Cooperatives	1,38,469	1,53,295	1,42,758	1,50,321	1,53,882
Total	8,45,328	9,15,509	10,65,755	11,62,617	12,54,762

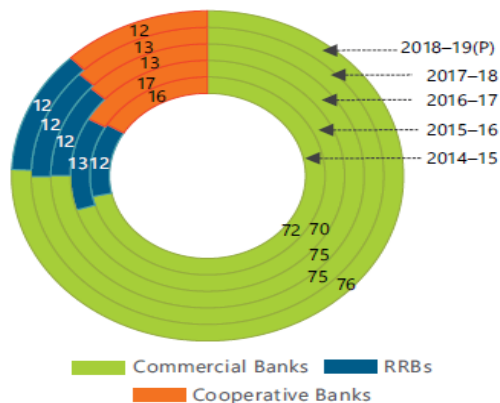
Source: NABARD, Annual report 2018-19, Pg 14

The shares of Commercial banks, Cooperative banks and Regional Rural Banks (RRBs) disbursed (provisional) Rs 9,49,622 crore, Rs 1,53,882 crore and Rs 1,51,258 crore, respectively for year 2018-19.

Agricultural credit disbursement continues to be dominated by Commercial Banks (76%). The share of Regional Rural Banks (RRBs) has remained constant at 12%, while Cooperative Banks have gradually lost out to Commercial Banks and their share in credit flow has declined over the years to reach 12% in 2018–19

Significance of Cooperative Banks in Rural Development

After analyzing the dramatic increase in the status of cooperative banks in Agency-wise Share (%) of Credit Flow to agricultural credit , the study is continue by discussing the significance of cooperative banks as a tool of inclusive growth for rural development in a country.



Agency-wise Share (%) of Credit Flow to Agriculture

Source: NABARD, Annual report 2018-19, Pg 14

1. Cooperative banks have deep roots in their community and thus positively affect the local population. They are guided by a set of core values and beliefs of self-help, equity and solidarity, democracy, self-responsibility, equality, as well as moral values of honesty, openness and caring for others.
2. Co-operative banks generate employment and generate income in rural areas. They increase access to goods and services, all of which contribute to capital formation in the rural economy that stimulate infrastructure and rural development, increased prosperity of villages and improved the quality of life to farmers which is important for increasing agricultural production and productivity.
3. Due to its member-driven nature, the tendency to choose sustainable development options is available to those members who have better understanding about their population needs and fully utilization of natural resources of their area.
4. Presence of Cooperative bank helps in strengthen many social and economic concerns such as community identity and social fabric. It provides an economic future for youth in rural areas, thus preventing factors associated with the decline of rural population.
5. The Co-operative Bank offers a number of development initiatives to the local agricultural business to increase its capacity and productivity which becomes competitive with others.
6. Finally, this financial institution operates within an uncertain ecosystem, economic cycles and shocks, seasonal dependency, floods and droughts that prevail in rural economy. Therefore anything that affects the farmers will also affects the cooperative financial system.

Policies Implemented By the Reserve Bank and National Bank For Agriculture and Rural Development For Strengthen Cooperative Banks

Since independence, Institutional funding for agriculture and rural development has been a priority agenda for policy makers. As cooperative banks play an important role in the Indian financial system, the Reserve Bank has always sought to strengthen the regulatory and supervisory framework so that it appears financially strong and has sound governance. In this context, Department of Cooperative Bank Regulation (DCBR) having a charge of prudential regulations of cooperative banks in the country takes the following initiatives. It will strengthen the agenda to ensure that rural cooperative banks have sufficient capitalization to meet any challenge and mitigate the risks posed by changes in the banking landscape. The harmonization of regulatory policies is a continuous process for all cooperative banks. As part of this, the regulatory process of opening a current account with the Reserve Bank has been simplified for all cooperative banks. The Reserve Bank of India also evaluates banks compliance with current prudential standards on income recognition, asset classification and provision as part of their supervisory functions. All StCBs and DCCBs were advised to minimize differences between bank asset classifications in NABARD oversight by ensuring strict adherence to Income Recognition and Asset Classification (IRAC) standards by a continuous audit on an ongoing basis

In recent time, NABARD strives to strengthen the capacity of these institutions through various developmental and supervisory initiatives so that they can withstand with risk of disturbances due to economic shocks effectively. Important supervisory directives issued by NABARD to supervise the practices of cooperative banks by appointing nodal staff in regional offices to address each cooperative bank in the state, should monitor progress to analyze all financial parameters of banks and properly applied in their banking structure.

Challenges Faced By Cooperative Banks in Rural Development

The cooperative financial institution has many challenges such as limited mobility of resources, low levels of recovery and high transaction costs, which limit the smooth flow of credit for rural development of the country. Furthermore, due to law and cooperative management, government intervention has become a regular feature of the daily operations of the cooperative. The deliberate control of the cooperative by the government, the work of government officials to the cooperatives and the nomination of the board by the government are problem areas arising from the application of the cooperative law. In fact, many regulators have come into existence in the way of effective regulation and control of cooperative banks. Co-operative banks have to depend heavily on refinance facilities from the government, RBI and NABARD. Having own resources of deposit, these banks are unable to become self reliant themselves as there operating areas are limited to a particular area. These banks are

not having modern banking practices in there working environment, which create unfavorable competition with commercial banking systems using modern marketing and financial terminology in their regular activity.

Recommendations for Addressing Challenges

For improving their functional efficiency, cooperative lending institutions and cooperatives need to take various initiatives such as human resource development, management information system improvement, special studies, seminars or workshops and other organization building activities, Cooperative Banks plan to introduce new schemes to attract new customers and satisfy existing customers. It focuses on increasing resources for its operations and diversifying its operations to meet working capital requirements. Bank also ensures a proper document for loan issues that will help in reducing default cases in debt collection. It may be mandatory for some professionals to appear on the board of a cooperative bank. All members of the board should be properly educated about their roles, responsibilities and duties, so that they are actively involved in the management of the bank.

Cooperative Banks should carefully manage their growing business on a commercial basis, so that the profitability of these banks can be increased in line with their productivity. To equip the employees with the latest technical skills, increase their knowledge and change their approach to accept new challenges, banks need to strengthen their training institutions and provide intensive and effective training to each employee. The guidelines of RBI and NABARD need to be following by implementing internal control system, inspection and internal audit detection systems in every financial activity. Accounting standards should be developed and mandated for these banks. In the absence of these standards, the accounting standards issued by the Institute of Chartered Accountants Institute of India should be currently followed. Similarly, the ratio of accounting / financial / banking terms used in all rural cooperative banks should be in line with the banking industry.

Conclusion

A healthy and vibrant agricultural sector in a country is an important foundation for rural development by establishing strong links with other economic sectors. Credit is one of the major elements in modernizing agriculture. It provides not only overcome financial barriers, but can also accelerate the adoption of new technology. Cooperative banks are the most important source of rural finance, through their specialized knowledge; it can provide adequate credit facility to farmers, landless laborers and small and marginal entrepreneur. Cooperative law has played a major role in shaping the road map of the cooperative movement in the right direction. Although significant steps have been taken, there is an urgent need to facilitate the modernization of cooperative banks by facilitating new technologies and processes and balancing the need for profitability with the macro-economic and social development needs of its members and society. They organize self-help and motivate people to make better use of their

self-help capacity, thus providing an economic future for the youth of rural areas. Because cooperative banks are local in nature, they have a distinct advantage over commercial banks for economic inclusion and the operating costs of these banks are also considered to be the lowest among other financial institutions. Co-operative banks are a viable alternative to the financial development involved by rural development, by generating income and employment opportunities.

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