

An impact analysis of functions of Co-operative banks in rural development

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ABSTRACT: India is mainly an agrarian society with more than half of its population still residing in the rural areas. Rural sector is the major contributor to the overall GDP of the nation, hence lack of development in rural areas leads to lack of development in India. Rural Development aims at finding the ways to improve the rural lives with participation of the rural people themselves so as to meet the required need of the rural area. Cooperative institutions are playing the significant role in financing the developmental activities in rural sector through their vast network of credit societies. Cooperative Banks in India have become an integral part of the success of Indian Financial Inclusion story. They have achieved many landmarks since their creation and have helped a normal rural Indian to feel empowered and secure. The cooperative banks are expected to perform some duties, namely, extend all types of credit facilities to customers in cash and kind, advance consumption loans, extended banking facilities in rural areas, mobilize deposits, etc. This study provides conceptual analysis the role of cooperative banks in rural development.

Key Words: Co-operative Banking, Rural Development, Rural Economy, Economic Development

I. INTRODUCTION:

India is primarily an agrarian country. Therefore 80% of India's population lives in rural sectors. Hence it becomes important that proportionate amount of attention and funds be spent for betterment of the rural folk. Today, there seems to be a universal consensus that the ultimate objective of rural development is to improve the quality of life of rural people. Rural development aims at finding the ways to improve the rural lives with participation of the rural people themselves so as to meet the required need of the rural area. Rural development has to play a phenomenal role in the overall socio-economic development of a country like India, where the majority of the population lives in rural areas. The rural sector affects directly or indirectly almost all the economic activities in the country and provides employment to the maximum number of people. A large part of the revenue of the government is also generated from the rural. The necessity of rural finance was felt to provide protection & reliance to rural people like moneylenders, landlords & traders etc. but they exploit farmers and small entrepreneurs by charging exorbitant rate of interest & force farmers to sell their product at low price to them.

The co-operative movement in India was introduced with the chief object of making a breakthrough in the stagnation of the poor classes, especially the vast majority of agriculturists, who were growing under the heavy weight of indebtedness. Many of the farmers were literally, born in debt; lived in debt and died in debt, passing on their burdens to those who followed. It was on

this background, co-operative movement began in India. The characteristic feature of Indian co-operative movement is that, it is a credit-oriented movement. The first co-operative credit societies Act was passed in 1904. This act provides establishment of credit societies both in rural and urban areas for providing credit facilities of cheaper rates to common man. Thus, the Act recognized the need of urban co-operative banks along with the rural credit co-operatives.

Objective of the Study:

1. To study the role of Cooperative Banks in rural development in India.
2. To study the functioning of Cooperative Banks in rural development.

Methodology:

This study provides conceptual analysis of rural development and the dimensions of rural development. Further this study examines the role of cooperatives in rural development presented in the previous studies. The study is based on secondary sources of data/information. Different books, journals, newspapers and relevant websites have been consulted in order to make the study an effective one.

Rural Development:

In India rural development is recognized as a sine qua non for faster economic development and welfare of common masses. Rural development is not merely development of rural areas but also the development of the rural people into self-reliant

and self-sustaining modern little communities. Rural development is, therefore, the development of rural areas in such a way that each component of rural life changes in a desired direction and in sympathy with the other component. Besides, rural development also encompassed structured changes in the socio-economic situation in the rural areas in order that human welfare, which is the primary goal of all development, is secured at the earliest. Rural development, thus, should embrace all the objectives of enrichment and betterment of the overall quality of the rural life through appropriate development of manpower resources, infrastructural facilities and provision of minimum needs and livelihood.

Rural development programmes are designed to improve the socio-economic conditions and rural infrastructure in the rural area. It is a comprehensive and multidimensional concept and includes the development of agriculture and allied activities, village and cottage industries and crafts, socioeconomic infrastructure, community services and facilities, and above all, human resources in rural areas. Government and other participants implement different programmes to improve social, economic, political conditions and employment opportunities in the rural areas. Rural development is a national necessity and has considerable importance in India because of the following reasons.

1. About three-fourth of India's population live in rural areas, thus rural development is needed to develop nation as whole.
2. Nearly half of the country's national income is derived from agriculture, which is major occupation of rural India.
3. Around seventy per cent of Indian population gets employment through agriculture.
4. Bulks of raw materials for industries come from agriculture and rural sector.
5. Increase in industrial population can be justified only in rural population's motivation and increasing the purchasing power to buy industrial goods.
6. Growing disparity between the urban elite and the rural poor can lead to political instability.

Objectives of Rural Development:

- a) To improve the living standards by providing food, shelter, clothing, employment and education.
- b) To Increase productivity in rural areas and reduce poverty.
- c) To involve people in planning and development through their participation in decision making and through centralization of administration.
- d) To ensure distributive Justice and equalization of opportunities in the society.

Themes of Rural Development by Govt. of India:

Sl. No.	Schemes	Objectives/Purposes
1	Integrated Rural Development Programme (IRDP)	Increasing production and productivity in agriculture and other sectors in rural areas, creation of substantial employment opportunities and making the rural families viable and self-sufficient.
2	Service Area Approach (SAA)	Intended to bring about a major change in the quality and productivity of rural lending.
3	Lead Bank Scheme (LBS)	Enabling the commercial banks to assume the role of leadership for the development of banking and credit facilities throughout the country on the basis of area approach.
4	Differential Interest Rate (DIR)	To provide bank credit to the weaker sections of the society at a concessional rate by PSBs.
5	Small Farmers Development Agency (SFDA)	To help those cultivators who have small, yet potentially economically viable holdings.
6	Marginal Farmers and Agricultural Labourers Development	To help sub-marginal farmers and agricultural labourers.

	Agencies (MFAL)	
7	Farmers Service Societies (FSS)	To offer to small farmers a full package of services and technical guidance instead of just credit.
8	Swarnajayanthi Gram SwarozgarYojana (SGSY)	To bring the assisted poor families above the poverty line by organizing them into self help groups (SHGs), through the process of social mobilization, training, capacity building and provision of income generating assets through a mix of bank credit and government subsidy.
9	Indira AwasYojana (IAY)	Rural Housing Programme for economical backward people.
10	Prime Minister's RozgarYojana (PMRY)	Assistance to educated unemployed youth in the age group of 18-35, with upper age relaxation provided to women, SC/ST and physically handicapped persons whose annual income is below Rs.40,000/-.
11	PradhanManthri's Gram SadakYojana (PMGSY)	To develop rural roads connectivity.
12	Central Rural Sanitation Programme (CRSP)	Improving the quality of life of rural people and providing privacy and dignity to women.
13	SampoornaGramenRozgarYojana (SGRY)	Providing additional wage employment in the rural areas as also food security, along with the creation of durable community assets in the rural areas.
14	SwajalDhara Scheme (SDS)	Empowering Panchayaths to formulate, implement, operate and maintain drinking water projects.
15	Watershed Development Programme	Development of wastelands / degraded lands.
16	HariyaliProgramme	Empowering Panchayath Raj Institutions (PRIs) both financially and administratively in implementation of watershed development programme.
17	People's Planning Programme (PPP)	Participation of people in both formulating, planning and implementation of the so planned activities on a time bound basis.
18	Self Help Groups (SHGs)	The poor, particularly women are organized into small homogenous groups for taking their own decisions about the saving and credit operations.
19	Vikas Volunteer Vahini Clubs (VVs)	Propagation of revival of repayment ethics and promotion of people's participation.
20	Kisan Credit Card (KCC)	Provision of adequate and timely credit support from the banking system to the farmers for their cultivation needs.

Co-operative Banks as Instruments of Rural Development:

The co-operative banking system, with two broad segments of urban and rural co-operatives, forms an integral part of the Indian financial system. With a wide network and extensive coverage, these institutions have played an important developmental role in enlarging the ambit of institutional credit by way of inculcating banking habits among the poor and those in remote areas. In recent times, co-operative banks have tried to improve credit delivery through some financial innovations.

The majority of people in rural India have no access to demand-oriented banking services which might help them to improve their economic situation. This is especially true of poorer households, smallholder farmers and women. Cooperative banks and other regionally active banks, as well as credit cooperatives and self-help groups would be able to provide financial services for these population groups. However, such institutions generally have only low operative and innovative capacities. For this reason, the Government of India has charged the National Bank for Agriculture and Rural Development (NABARD) with the implementation of programmes to promote rural finance and financial inclusion.

The structure of co-operative banking that has evolved over more than fifty years highlights the dual role of members as lenders and borrowers. The co-operative credit structure in the country can be divided into two broad segments: the urban co-operative banks and the rural co-operative credit institutions. Urban Co-operative Banks (UCBs) play an important role as financial intermediaries in urban and semi-urban areas catering to the needs of the non-agricultural sector, particularly small borrowers. The short-term rural co-operative credit system in India comprising State co-operative banks (StCBs) at the apex (State) level, central co-operative banks (CCBs) at the intermediate (district) level and primary agricultural co-operative Societies (PACS) at the grass root (village) level, is designed essentially to provide for short-term credit needs for production purposes. In rural parts of India even today the required capital or funds for agricultural activities were raised through unorganized money market agencies i.e. money lenders who were providing moneys at higher rate of interest. The co-operative banks has been moved towards rural areas for overcoming such problems and providing the capital required through short term and long terms borrowings at a reasonable rate of interest. Due to this effort of co-operative banks' attempt was made to bring about

unity unorganized and organized parts of the Indian Financial Market.

Role of Co-operative Banks:

Institutional credit entered the rural area in the form of co-operatives in 1904. The cooperative finance is the cheapest and the co-operative banks are the best friends of rural people. They provide short term, medium term and long term loans to rural masses. The co-operative banking system, today, forms an integral part of the Indian financial system. With a wide network and extensive coverage, these institutions have played an important role in enlarging the ambit of institutional credit by way of inculcating banking habits among the people, especially, the poor in every nook and corner of the country.

Rural credit cooperatives came into existence essentially as an institutional mechanism to provide credit to farmers at affordable cost and address the twin issues of rural indebtedness and poverty. With its phenomenal growth in outreach and volume of business, rural credit cooperatives have a unique position in the rural credit delivery system. Through the short and long-term structures, they continue to play a crucial role in dispensation of credit for increasing productivity, providing food security, generating employment opportunities in rural areas and ensuring social and economic justice to the poor and vulnerable. Several committees, from the All India Rural Credit Survey Committee to the Vaidyanathan Committee have stressed the relevance and importance of cooperative credit societies to the development of agriculture and rural economy.

Today, short term cooperative credit structure has 32 state cooperative banks and 371 district central cooperative banks operating through 14907 branches. There were 92,996 Primary Agricultural Credit Societies (PACS) as on March 31, 2014 at the grass root level catering to the credit requirements of the members but also providing several non-financial services like input supply, storage and marketing of produce, supply of consumer goods, etc. (Shri R. Gandhi, Deputy Governor - February 9, 2016 - at the "National Conference of Cooperative Banks)

Cooperative Outreach:

Despite its impressive progress, commercial banking in India has not penetrated sufficiently to serve the large mass of rural people in a meaningful way. Rough estimates indicate that of the six lakh habitations in the country, only about 30,000 centers are covered by commercial banks. The PACS, on the other hand, are spread in all the villages. In 2474 centers in the country, cooperatives are the only banking outlet available

for the rural population. With 131.53 million plus membership and 45 million plus borrowing membership, the STCCS already exceeds the combined client base of commercial banks and

RRBs (Table 1). In terms of number of agricultural credit accounts, the Short Term Cooperative Credit Structure has nearly 50% more accounts than the commercial banks and RRBs.

Table 1: Outreach of Cooperatives vis a vis Commercial Banks

	Scheduled Commercial Banks (Incl. RRBs)	Short Term Cooperative Structure		
		State CB	DCCBs	PACS
Number of offices	48751*	31	271	94942
Membership in Million	NA	0.15	3.40	131.53
Number of Borrowers (Million)	57.57	**	**	79.4
No. of Staff	70973	14857	90035	278842

(Source: NAFSCOB and Banking Statistics, RBI)

Note: (1) * Semi Urban and Rural branches (2) **Majority of the borrowers in the cooperative system are at the grass root PACS level (3) In addition to ST coop credit structure, there are 20 SCARDBs and 697 PCARDBs under the long term cooperative credit structure.

Agency-wise Ground Level Credit Flow

Table 2: Agency-wise Ground Level Credit Flow (Rs. in Crore)

Agency	2009-10	2010-11	2011-12	2012-13	2013-14	Growth Rate %	
						2009-10 To 2012-13	% Change 2012-14 to 2012-13
Cooperative Banks	63497	78007	87963	111203	118422	20	6
Regional Rural Banks	35217	44293	54450	63681	83307	22	31
Commercial Banks	285800	345877	368616	432491	521496	14	21
Total	384514	468291**	511029	607375	723225	16	19

** Provisional Data for 2012-13 and 2013-14
Source: NABARD, Annual Report 2013-14

It is clear from the above table that the amount of cooperative credit in India has increased from 2009-10 to 2012-13 at rate of 20%. On the other hand there is a continuous increase in credit in Regional Rural Banks and Commercial Banks at

the rate of 22% and 14% respectively. The rate of percentage change from 2012-14 to 2012-13 in Cooperative Banks is 6%, Regional Rural Banks is 31% and Commercial Banks is 21%.

Agriculture Cooperatives and Rural Credit Structure:

Table 3: Agriculture Cooperatives and Rural Credit Structure (2012-13) (Rs. in Crore)

Particulars	SCBs		SCARDBs		PCARDBs	
	2012	2013	2012	2013	2012	2013
Number	31	32	20	20	714	714
Share Capital	3508	3063	1827	1829	1383	1386
Reserves	11824	11384	4613	5172	3407	3492
Deposits	86429	94508	1029	1065	3407	3492
Borrowings	43424	50856	16099	15427	13928	13886
Loans Issued*	84080	97639	4206	3526	3707	3434
Loans Outstanding	77644	91894	19417	18775	12600	12457

* Provisional Source: NABARD, Annual Report 2013-14

SCBs: State Cooperative Banks

SCARDBs: State Cooperative Agriculture and Rural Development Banks

PCARDBs: Primary Cooperative Agriculture and Rural Development Banks

Table 3 shows that there is a steady growth in the deposits in all types banks from the 2012-2013. The borrowings in SCBs has increased at a rate of 14% from 2012-2013, however there is a decrease in the borrowing positions in both SCARDBs and PCARDBs at the rate of 4% and 0.27% respectively from 2012-2013. Loans Issued position is increased in the case of SCBs from 2012-13 at a rate of 16%, where as the loan issued position is decreased in both the cases of SCARDBs and PCARDBs from 2012-13. At the same time the loan outstanding position is increased in the case of SCBs from 2012-13, where as the loan outstanding position is decreased both in SCARDBs and PCARDBs. It is evident from the data that the SCARDBs and PCARDBs are performing quite well in comparison to SCBs in the cases of borrowings, loans outstanding.

Cooperative Banks and Rural Development:

The above arguments assert that cooperative banks play a vital role for rural development in India. The following are arguments, on how these banks play this crucial role.

Cooperative banks create opportunities for employment and income generation in the rural areas.

1. They increase accessibility of goods and services, all of which also contribute to economic growth.
2. They encourage performance and competitiveness, as their members are also the beneficiaries. This also applies to deprived groups such as indigenous populations and disabled persons.
3. They tend to choose sustainable development options because of their member-driven nature, a key approach for rural areas whose population depends on the resilience of natural resources such as land, water and soil quality.
4. They promote modernization by facilitating the dissemination of new technologies and processes. Cooperative banks are firmly rooted in their community, and are hence more likely to influence it positively.
5. They are directed by a set of underlying values and beliefs and are schools of social dialogue and democracy. These are based on the values of self-help, democracy, equality, self-responsibility, equity and solidarity, as well as ethical values of honesty, openness, social responsibility and caring for others. They can

alter survival-type activities into legally protected and productive work.

6. They mobilize self-help and motivate people to make better use of their self help potential. Cooperative banks also balance the need for profitability with the broader economic and social development needs of their members and the larger community, because members are both producers and beneficiaries.
7. They are often the only provider of services in rural communities given that other types of enterprises often find it too costly to invest in these areas or anticipate low levels of economic return. This is the case for electricity, water resources, financial services, and consumer supplies.

In India, for instance, the consumer needs of 67 percent of rural households are covered by cooperatives. It helps address many social and economic concerns such as community identity, and strengthen the social fabric, particularly important in post-crisis contexts. It offers an economic future for youth in rural areas, and thus prevents rural depopulation.

II. CONCLUSION:

Co-operative banks take active part in local communities and local development with a stronger commitment and social responsibilities. These banks are best vehicles for taking banking to doorsteps of common people, unbanked people in urban and rural areas. Their presence in the social, economic and democratic structure of the country is essential to bring about harmonious development and that perhaps is the best justification for nurturing them and strengthening their base. These banks are sure to win the race because they are from the people, by the people and of the people.

Rural development is a major challenge before the government in the era of economic development. Both central and state government implements several programmes for the development of rural area. Cooperatives joined their hands in the rural development process along with the governments and other agencies. Previous studies identified the significant contributions of cooperatives in rural development. Cooperatives succeeded in achieving the goals of poverty eradication, employment creation, food security and social integration.

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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