



## Cooperative banks – An instrument of viksit Bharat through socio-economic-financial development

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### Abstract

Cooperative banks in India have played a pivotal role in fostering economic growth, social development and financial inclusion. To improve the socio-economic conditions of the Indian villages, Co-operative credit societies are best suited. They have the enormous knowledge of the local conditions and problems of rural areas. Co-operative Banks encourage entrepreneurship, self-employment and also offer job possibilities. As a result, it helps in increasing income, expenditure, savings as well as asset accumulation. Rural development is possible through greater income and general growth. These banks were founded with the principle of “no profit, no loss”. These organisations are the blend of collective effort and shared responsibility. It aimed at uplifting communities and promoting self-reliance. The cooperative business structure can help members build wealth and increase in community's economic power. It also plays a vital role in the implementation of development plans. Cooperative banks are very important for the effective functioning of the banking system in India. They have a favourable influence on socio, economic and financial well-being of individuals and hence, Co-operative Banks can be regarded as the foundation of Viksit Bharat

**Keywords:** Money lenders, cooperation, mutual needs, inclusive growth, financial inclusion, Viksit Bharat

### Introduction

Cooperation among the group for attaining certain common objectives has been basic requirement of civilization. Cooperation means people doing some of their economic activities together for their mutual benefit. By uniting their efforts, people gain from one another ideas, talents, skills and energies and thus, cooperatives are formed to co-operate each other to fulfil their mutual needs. The idea behind the formation of co-operative is that a goal which can be achieved together by a group that is not possible to achieve alone. United we stand, divided we fall is the idea behind formation of cooperatives. To meet the common economic, social and cultural needs and aspirations, when a group of person united voluntarily and form an autonomous entity is called a Co-operative. It is a jointly owned and democratically controlled enterprise.

The cooperative societies were founded in India basically to address the issue of rural lending, to provide relief to the farmers from the clutches of money lenders. ‘Anyonya Sahakari Mandali’ probably be the first known mutual aid society in India. It was formed in the year 1889 in the State of Baroda under the guidance of Vithal Laxman who was also known as Bhausahab Kaythekar. In the year 1903, the first credit cooperative society was formed in Banking with the support of Government of Bengal and was registered under the Friendly Societies Act of the British Government. The first urban cooperative credit society was found in Canjeevaram (Kanjivaram) in Madras province in 1904. The cooperative Societies Act of 1912 acknowledged the need for new organisations to be set up for cooperative credit provisions, monitoring and auditing. These banks have very low cost of establishment and operations. The Rural Banking Enquiry Committee (1950) recommended the establishment of these banks even in places smaller than taluka towns.

The names of a few cooperative banks are

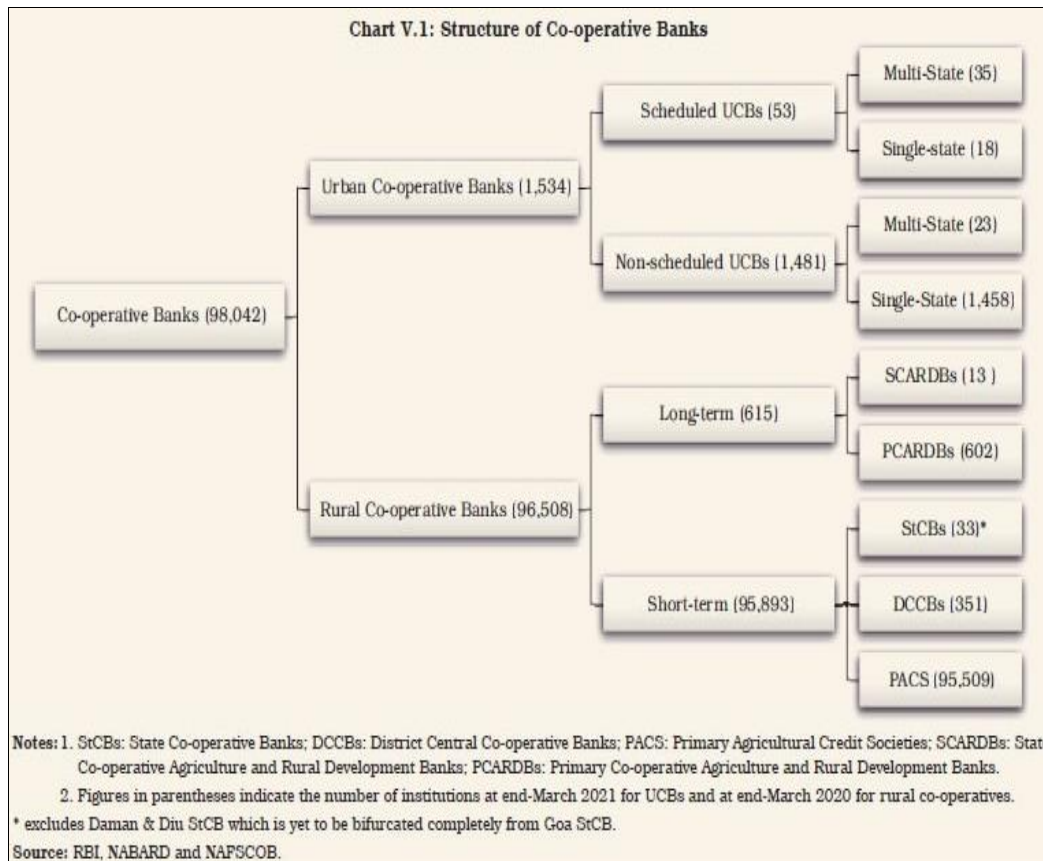
- Saraswat Cooperative Bank
- Shamrao Vithal Cooperative Bank (SVC Bank)
- Abhyudaya Cooperative Bank
- Cosmos Cooperative Bank
- Bharat Cooperative Bank
- The Punjab State Cooperative Bank etc.

### Features of Cooperative Banks

1. Cooperatives Banks aim to offer credit at low interest rates to the poor and the low-income groups, eliminating the dominance of private money lenders
2. They provide agricultural loans and working capital loans to farmers and rural artisan.
3. Cooperative Banks also provide credit for non-agricultural purposes.
4. These banks provide easy access to credit for rural industries.
5. Cooperative banking in India is federal in structure.
6. The cost of establishment and operations are low.
7. They are regulated by the Reserve Bank of India (RBI) and governed as per the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1955.

### Structure and Types of Co-operative Banks

There exists a multi-tiered structure of co-operative banking in India. The main pillars are Urban Co-operatives Banks and Rural Co-operatives Banks (UCBs and RCBs). At the end of March 2021, there were 98,042 co-operatives, consisting of 1,534 UCBs and 96,508 RCBs, but data related to rural cooperative banks are available with a lag of one year, i.e., they relate to 2019-2020. The UCBs are further classified as Scheduled UCBs and Non-Scheduled UCBs whereas the RCBs are classified as Long Term RCBs and Short Term RCBs. The following chart V.I shows the structure and the number of cooperative banks in India.



There exists a 3-tier short-term rural cooperative bank structure. Tier-I includes State Cooperative Banks (StCBs) at the state level, Tier-II includes District Central Cooperative Banks (CCBs) at the district level and Tier- III includes Primary Agricultural Credit Societies (PACS). Their main functions are to provide short-term crop loans and working capital loans to farmers and rural artisans. State co-operative banks (StCBs) are the apex institutions in the short-term rural co-operative structure. They provide liquidity and technical assistance to the other two tiers. They had 2,072 branches across the country at the end of March 2020. State co-operative banks (StCBs) provide credit for a range of agricultural as well as non-agricultural purposes and also provide loans to MSMEs, housing and education. District central co-operative banks (DCCBs) are the middle intermediate tier in the short-term rural co-operative structure. They help in mobilisation of funds by taking public deposits, borrowing from StCBs and through refinance from NABARD. DCCBs give loan to individual borrowers as well as to PACS. The third tier in the rural co-operative structure is Primary Agricultural Credit Societies (PACS). They primarily provide short-term and medium-term agricultural credit to their members. Supply of agricultural inputs, distribution of consumer articles and marketing of produce are also arranged by the PACS. It also encourages savings among its members, accepts deposits from them, gives loans to the needy borrowers and collects repayments. They act as the last link between the ultimate borrowers, i.e., the rural people, and the higher organisations, i.e., District Central Cooperative Bank, State Cooperative Bank, and the Reserve Bank of India. PACS are found in 6,44,089 villages in India. The number of members they serve is 13.8 crore and the number of borrowers are 5.3 crore according to a Reserve Bank Publication on Development in Cooperative Banking

dated 28 December, 2021. They have reached to the marginal farmers of a remote village where Joint stock banks still have no reach and hence they act as the means of financial inclusion at the grass root level. The Long-Term Co-operative Credit Institutions have generally a two tier structure:

1. The State Co-operative Agriculture and Rural Development Banks (SCARDBs) operating at the state level and
2. The Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) operating at the district/block level.

The mandate of long-term co-operatives is to provide funding for investment in agriculture, including land development, farm mechanisation and minor irrigation, rural industries etc. Rural co-operatives banks comprise of around 67 per cent of the assets of all co-operatives at the end of March 2020. Urban Co-operative Banks (UCBs) are the financial intermediaries in urban and semi-urban areas. They play an important role to fulfil the needs of the non-agricultural sector, particularly small borrowers. UCBs are further divided into Scheduled UCBs and Non-scheduled UCBs. Depending on the area of operation all the Scheduled and Non-scheduled UCBs are further classified into Single State UCBs and Multi State UCBs. The State Registrars of Co-operative Societies (RCS) regulates the functioning of the Single-state UCBs while the Central Registrar of Co-operative Societies (CRCS) regulates the functioning of the multi-state UCBs. There was the general realization that urban banks have an important role to play in economic construction as they are the best agencies for small people in whom Joint stock banks are not generally interested.

### Importance

Cooperative banking is an alternative to the traditional defective credit system of the village money lender which has broken the money lender's monopoly. Cooperative banking has developed the habit in rural population to save more and invest rather than hoard money. They also discourage unproductive borrowing.

The Maclagan Committee of 1915 observed that such institutions were eminently suited to cater to the needs of the lower and middle income strata of society and would inculcate the principles of banking amongst the middle classes. The Indian Central Banking Enquiry Committee (1931), the Mehta-Bhansali Committee (1939), the Co-operative Planning Committee (1946), the Rural Banking Enquiry Committee (1950), all had the general realization that urban banks can play vital role in economic construction. They can be considered as the best agencies for low income class people in whom Joint stock banks are not generally interested. During the banking crisis of 1913-14, when no fewer than 57 joint stock banks collapsed, there was a flight of deposits from joint stock banks to cooperative urban banks. For over 160 years now, cooperatives have been an effective way for people to exert control over their economic livelihoods (Agarwal, R & Gort, M. 1996). When around 70% of the Indian population is rural or semi-urban as per the 2011 census, it further enhances the value of cooperative banks in India.

Cooperative Banks have a favourable influence on different elements of the financial well-being of individuals. They play an important role in increasing income, expenditure, savings and asset accumulation (McKillop, French, Quinn, Sobiech, & Wilson, 2020). Co-operative Banks encourage entrepreneurship, self-employment, offer job possibilities. Women who receive cooperative microfinance loans have a favourable influence on their property ownership, company capital, savings capacity and asset portfolio, leading to overall business growth (Kimaro, 2023).

It helps in socio economic empowerment in various sectors such as, education, financial, economic, employment, family, social, health, and religious through financial participation of cooperative efforts.

Cooperative banks are an integral part to the smooth running of India's banking sector. It plays a very important role in the process of development goals. Cooperative banks are known for the last-mile delivery of credit and banking services. Thus, it became an important tool for financial inclusion.

### Challenges

Despite the various advantages of these banks, they also face some challenges as well.

Though there were 98,042 co-operatives at the end of 31.03.2021 and it reached to 6,44,089 villages in India but only around 45% rural population has become the members of the Co-operative banks. The coverage of co-operative banks is still inadequate and certainly it is a matter of concern.

These banks are often run by the members themselves who may not have the proper knowledge and training and hence, they may not run efficiently. Due to inadequacy of trained personnel, it has been seen that many of them were running at a loss.

The size of most of the cooperative banks is small. They generally have a small number of members, and their area of

operation is also limited to only one or two villages. As a result, they do not possess enough resources. It is tough for them to find good number of investors and hence they face difficulties in lending money to the needy borrowers. This makes impossible for them to expand their means and extend their area of operations.

There is difference in the development of Co-operative Banks across the country. A few states have more functioning, beneficial and profit making banks, while in some states co-operative banks have faced loss. There is always a risk of losing customers with new types of banks opening up.

The amounts of Non-performing Assets (NPAs) and over dues of co-operative banks have been increasing over the years. Audits in the co-operative banks are mainly conducted by department officials. But the conduct of audit is neither regular nor comprehensive.

Corporate governance issues in cooperatives are often more prominent than in commercial banks. These banks have also suffered due to political interference.

There is a problem of collective action which might lead to empire-building by management.

The regulation and supervision of co-operative banks poses several challenges in view of the large number of such banks, and also the multiple controls by supervisors, including the Reserve Bank, the State Governments and NABARD. Hence, sometimes it resulted in cross directives from the controlling agencies which undermine the working of co-operatives. There is also no clear demarcation of regulatory powers as such.

### Growth and Future Prospect

Co-operative Banks have grown significantly in number, size and volume of business handled over the years. On 31st March, 2021 there were 1534 UCBs compared with 1,106 in 1966. As on March 31, 2020, the number of StCBs was 33, of DCCBs was 351 and of PACSs was 95509. A significant growth is also seen in volume of business handled in respect of SCBs, CCBs and PACSs. The loans advanced by StCBs were Rs. 75600 crore, by DCCBs were Rs. 14400 crore and by PACSs were Rs. 91200 crore as on March 31, 2012. But at the end of March 2020, the amounts of loans and advances were increased to Rs. 1,99,943 crore, Rs. 2,79,272 crore and Rs. 2,14,533 crore respectively for StCBs, DCCBs and PACs. The amount of Deposits for these three banks were Rs. 210342 crore, Rs. 345682 crore and Rs. 165476 crore as on 31<sup>st</sup> March, 2020. The deposits and advances for UCBs as on March, 2020 were Rs. 5,00,830 and Rs. 3,05,289 crore respectively (Reserve Bank of India Publication dated Dec 28, 2021 on Developments in Cooperative Banking).

Though the loans and advances have increased significantly by the co-operative banks but it has also seen that many of the banks had to shut their shop due to financial weaknesses. The Reserve Bank initiated a process of consolidation in the sector, which includes amalgamation of unviable UCBs with their viable counterparts, closure of non-viable entities and suspension of issuance of new licenses. As a result, the number of UCBs progressively declined from 2,105 in 2004 to 1,534 by the end of March 2021. 17 banks shut shops in the year 2023, with the highest number of annual licence cancellations by the Reserve Bank of India (RBI). There was a major concern for the financial health of these banks. The RBI remained anxious over the elevated non-

performing assets (NPAs) at UCBs. Hence, the strengthening of the quality of governance, based on compliance, risk management, and internal audit, are needed absolutely.

Over the years RBI has tightened its scrutiny and supervision on cooperative banks. Failures of cooperative banks like the Madhavapura Mercantile Cooperative Bank, Punjab and Maharashtra Cooperative Bank compelled RBI to tighten regulations along with Government efforts. To bring all urban and multi-state cooperative banks under the direct supervision of RBI, the Central government approved an Ordinance in June 2020. To give more powers to the RBI, the Banking Regulation Act has been amended in September 2020. Four tier structures for the UCBs have been suggested by the Committee appointed by RBI in 2021. In 2023, RBI brought the regulation of the cooperative banking sector at par with other banking entities. The regulated cooperative banks are now allowed to enter into digital lending platforms to enjoy more flexibility in doing business. It is also needed that RBI should interpret the Act's provisions so that they do not disrupt UCBs and people's faith is restored in the cooperative banking system. The following different measures have been undertaken by the Reserve Bank of India to strengthen cooperative banking structure and to promote cooperative credit:

1. The weaker cooperative units have been given special attention for their rehabilitation and revitalisation.
2. Arrangements have been made to involve commercial banks to finance the primary agricultural societies so that the flow of cooperative credit is maintained.
3. Efforts have been given in improving the lending policies and operational efficiency of cooperative credit institutions.
4. To train the personnel of state, central and urban banks it conducts special training courses at the Cooperative Bankers' Training Colleges.

Having a good Cooperative Bank in every town and village is the need of the hour and country. Hence, there is a need to undertake institutional reforms like transparency in recruitment and implementation of a robust accounting system, which are necessary for their growth. To take cooperative forward there is utmost need to bring in new, young and professional people in managerial roles. An appropriate internal control system, good investment policies, sound credit risk management, commitment to better customer services, a good corporate governance can strengthen the cooperative banks. Also requirement is there to focus on newly emerging business areas like micro finance. To expand their operations and improve their financial health, robust internal governance practices, innovation and continuous technological up gradation are utmost need of the day.

### Conclusion

Cooperative Banks are providing formal financial services to the people living in rural, semi urban and urban areas with its huge network, having 98042 institutions as of March, 2021 (RBI, 2021). The role of cooperative banks has become more significant as the Indian economic policy is focussing now more on inclusive growth. Cooperative efforts have an influence on greater financial participation in all the communities in society especially rural sections of

society (Barot and Barot, 2015; Bosire, Mugo, Owuor, Oluoch, & Kakiya, 2014; Jayakumari, 2015; Lal, 2018).

By providing cheap institutional credit, especially in rural areas, Cooperative banks have played a vital role in the country's socio-economic development. Cooperatives, specifically Primary Agricultural Credit Societies (PACS), play an important role in increasing community financial involvement and socio-economic development.

Cooperatives have a bright future in India provided they are turned into member-owned independent organisations controlled by elected members' representatives and managed professionally. But the accountability of the management to the organization's members and other stakeholders should be maintained. They should be free from unwanted government supervision. Government should ensure its autonomous nature and democratic functioning but must have a check on its financial viability to avoid future failures of cooperatives. Failure of cooperatives would mean failure of best hope especially in rural India.

In India, cooperative banks have become an important component of the country's financial inclusion policy. It can expand its footprint in order to reach finance to grass root levels. They are treated as the last-mile delivery of credit and banking services. Co-operative Banks are the foundation of Viksit Bharat without which country's social, economic and financial vikas, as a whole, cannot be possible.

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