

ROLE OF COOPERATIVE BANKS AND RRBS

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Abstract : The UPA the government is all hands on board for the progress and real time development of the nation. The government and the economist have come to realize this that to achieve and sustain a 7-8 percent growth one must consider and reach out to the so far tangibly neglected lower income groups both in the rural and urban areas. That means financial inclusion again in real and tangible sense. This can be achieved through many modes and mediums and two such mediums are cooperative banks and RRBS. These two were formed to cater to the financial needs of the economically lesser privileged section of the society. This paper studies the present status of the two institutions as the drivers of financial inclusion and their much needed and serious transformation.

Keywords: Commercial Banks, Institutional Credit, Para-banking Facilities, Recapitalization

1 INTRODUCTION

Financial Inclusion has become the buzz word in the political, government and financial fraternity. It has gained huge importance and is considered an eminent aspect in the inclusive growth and sustainable development of our economy. Financial inclusion is the delivery of financial services at affordable costs to sections of underprivileged and low-income segments of society. Government intends to rope in the vast population staying in rural and semi-rural parts in our country. This is because even after 67 years of independence, a huge slice of Indian population still remains unbanked without any banking habit and without the privilege of availing any financial products.

In order to address the issues of financial inclusion, the Government of India constituted a "Committee on Financial Inclusion" under the Chairmanship of Dr. C. Rangarajan. The Committee submitted its final report to Hon'ble Union Finance Minister on 04 January 2008.

The Committee on Financial Inclusion has defined Financial Inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

With the arrival of banking technology and advance telecommunications and Government initiatives financial inclusion project will strengthen financial deepening further. There is a big need for the banking technology initiatives meant for financial inclusion to be collaborative and innovative with an objective to reach out to the unbanked at a fast pace. Thus, financial inclusion along with the Governmental developmental programmes will lead to an overall financial and economic development in our country and as in the case for most developing countries, extending the banking services to everyone in the country will be the key driver towards an inclusive growth.

Research Methodology

This study is basically exploratory in nature and the entire study has been made on the basis of

Role of Cooperative Banks and RRBs

secondary sources. Secondary data are collected from various websites, reports on RRBs published by NABARD and the RBI bulletin, annual reports of RRBs, and other journals covering the mentioned topic.

Objective of the Study

- To analyze the role of Cooperative Banks in India in promoting financial inclusion
- To analyze the role of Regional Rural Banks in India in promoting financial inclusion

Data collection

The analysis is done on secondary data. The data collected is mainly from websites, annual reports, and research reports and already conducted survey analysis, and reports on RRBs published by NABARD and the RBI bulletin, annual reports of RRBs, and other journals.

Regional Rural Banks

Regional Rural Banks were established under the provisions of an Ordinance passed on 26 September 1975 and the RRB Act 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors. These were set up on the recommendations of The Narasimham Working Group during the tenure of Indira Gandhi's government with a view to include rural areas into economic mainstream since that time about 70% of the Indian Population was of Rural Orientation. The Regional Rural Banks (RRBs) were established with the objective to create an alternative channel to 'cooperative credit structure' with a view to ensure sufficient institutional credit for rural and agriculture sector. The RRBs are integral segment of the Indian banking system with focus on serving the rural areas. They have been created with a view to serve primarily the rural areas of India with basic banking and financial services. The main purpose of RRB's is to mobilize financial resources from rural / semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. The area of operation of RRBs is limited to the area as notified by Government of India covering one or more districts in the State.

Cooperative Banks

Cooperative banking is a form of retail banking. It is a commercial banking form which is organized on a cooperative basis. Cooperative Banking Institutions are run by credit unions, mutual savings, building societies, cooperatives and cooperative federations. The origins of the cooperative banking movement in India can be traced to the close of 19th century when, inspired by the success of the experiments related to the cooperative movement in Britain and the cooperative credit movement in Germany, such societies were set up in India. Cooperative banks are an important constituent of the Indian financial system. They are the primary financiers of agricultural activities, some small-scale industries and self-employed workers. The Anyonya Co-operative Bank in India is considered to have been the first cooperative bank in Asia.

Role of Cooperatives Banks & RRBs in the promotion of Financial Inclusion

Recently, the RBI Governor Raghuram Rajan outlined, in conceptual terms, what inclusion should be. "Simplicity and reliability in financial inclusion in India, though not a cure all, can be a way of liberating the poor from dependence on indifferently delivered public services and from venal politicians," he said.

Commercial banks are fundamentally urban in their orientation. Their basic aim is to cater to the financial needs of large and medium commercial and industrial sector. They are unable to reach out and are misfit to fulfill the needs of the rural dwellers. It is therefore sensed that commercial banks cannot improve credit delivery and financial requirements into far flung rural areas beyond a point, due to their inherent limitations. Cooperative Banks and RRBs are having rural experience and very good network in rural areas and they also have the advantage of having rural orientation. Therefore these are in a better position to facilitate Financial Inclusion in the rural areas.

The 1961 Census showed that nearly 50 percent of India's towns and almost none of our villages had bank branches. In 1969 the National Credit Council, set up to guide the branch expansion programme, found that not even 1 percent of India's villages were served by commercial banks. It also noted that while industry accounted for a mere 15% of national income, its share in commercial bank credit was nearly 67%.

Role of Cooperative Banks and RRBs

On the other hand, agriculture that contributed 50% of GDP virtually got nothing from banks.

The RBI Report 2013 mentions that the predominance of the cooperatives as the key credit provider of agricultural credit continued till mid-nineties when it was still meeting about 50% of agricultural credit provided by the entire banking system to farmers.

Agricultural Loans Disbursed during the Year						
(` in crore)						
Agency	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Coops.	47,481	48,258	46,192	63,497	78,121	87,963
	(18)	(19)	(15)	(17)	(17)	(17)
RRBs	20,435	25,312	26,765	35,217	44,293	54,450
	(9)	(10)	(9)	(9)	(9)	(11)
CBs	1,66,485	1,81,088	2,28,951	2,85,800	3,45,877	3,68,616
	(73)	(71)	(76)	(74)	(74)	(72)
Total	2,29,400	2,54,658	3,01,908	3,84,514	4,68,291	5,11,029
Figures in brackets indicate percentage share of different agencies to total agricultural credit						

Source: RBI Report Jan 2013

Cooperative banks in India are best known as small people bank and in that cadre they can deliver better the benefits of financial inclusion efforts to the targeted mass. Cooperative banking is in a position to play a very constructive role in meeting the objective to a greater degree of financial inclusion in our country where the 70% of the population constitute the middle and lower income group.

Co-operative banks are known to be deeply rooted inside local areas and communities. They are basically involved in local development and contribute to the sustainable development of their communities, as their members and management board usually belong to the communities in which they exercise their activities. The first aim of a co-operative bank is not to maximise profit but to provide the best possible products and services to its members. They often provide the much-needed credit to farmers and others, allowing them to receive what they need to operate their farms, effectively running a tab until the current round of crops are sold. These banks which function in rural and semi rural areas have recruited rural staff in their organization and are in a better position to understand the needs and limitations and lifestyle of the people belonging to such places.

As the RBI Reports 2013 states, although cooperatives are providing only 17% of agriculture credit, the share of cooperatives in total number of agricultural accounts held by the banking system is substantial.

Number of Loan Accounts Financed during the Year						
(in lakh)						
Agency	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Coops.	189	202	178	204	242	309
RRBs	62	62	76	73	73	82
CBs	172	175	202	205	234	255
Total	423	439	456	482	549	646

Source: RBI Report Jan 2013

These banks are created to assist rural communities with their financial needs and often underwrite loans that can be used for everything from building improvements to purchasing large quantities of seeds or other elements required to produce a substantial crop. Thus, by increasing banking access in areas or markets where commercial banks are less present - SMEs, farmers in rural areas, middle or low income households in urban areas - co-operative banks and RRBs reduce banking exclusion and cultivate and promote the economic ability of millions of economically under privileged people. They play an influential role on the economic growth and increase the efficiency of the country's financial system.

Findings

- ✍ After the analysis it has been noted that these banks suffer from certain operational and administrative related ailments, hence following steps are recommended:
 - ✍ Some strategic constitutional amendments are required for the Cooperative Banks and RRBS.
 - ✍ There should be a single ownership for RRBs with a clear ownership and control regime. Responsibility and accountability should be categorically specified. These banks should their regulatory framework for strengthening the recovery mechanism.
 - ✍ These banks should be using the telecommunications and the IT to make themselves stronger organizations and to better cater to the targeted customers.
 - ✍ Their organization structure should also be modified to make the banking processes faster and less tedious for the illiterate or lesser educated customers.
 - ✍ The bank staff should be trained more and better to handle the vital function of serving the rural and semi rural mass.

Conclusion

This paper has attempted to explore the role of Cooperative Banks and Regional rural Banks in facilitating Financial Inclusion. It is studied that these Banks have their genesis which itself speaks volume about their role in the rural and semi-rural sector. They were created to economically help and develop the economically backward mass staying in rural and non rural parts of our nation. It is felt that these banks now should make use of all the resources very specifically the technology to provide their services to the underprivileged people and thus bring the project of financial inclusion to a success. They need to work on the promotion part as well wherein they need to be advertising their cheaper banking facilities like no frills account. Over all both RRBs and Cooperative Banks are extremely suitable to perform the task for which they were formed in the capacity of a district level organization as they continue to take the banking sector closer to the rural families. Altogether these banks need to work on professionalization of their management and administration. They necessary need to instill good corporate governance, and adopt modern technology and create and maintain a strong regulatory framework.

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