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A Study on the Performance of Co-Operative Banks in India and Their Contribution towards Financial Inclusion

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Abstract – The lack of access to financial services is a major roadblock towards economic development. India has the largest unbanked population and nearly 65% of adults across the country are excluded from the formal financial system. The onus of promoting financial inclusion rests on the government and financial institutions. Co-operative banks are low risk banks that were established to ensure rural credit, particularly to the farming sector, and thereby stabilize the wider banking system and facilitate economic development. India has the largest network of co-operative credit societies. The objective of the present study was to evaluate the performance of co-operative banks and assess their contribution in achieving financial inclusion in India. Operational and financial parameters like number of branches, population per branch, loans and advances, non-performing assets, credit flow to agriculture and net interest margin were considered for evaluation. The study found that even though there has been a significant increase in the number of branches, the distribution of these branches has been poorly strategized as indicated by the population covered by each branch. There are fewer number of branches in densely populated states which indicates the failure of the co-operative banks in promoting financial inclusion. Moreover, the growth of co-operative banks by numbers is not reflected in its share in credit flow to agriculture. The increase in total non-performing assets also indicates the mismanagement within the co-operative banks resulting in bad loans and low recovery. The findings of the study clearly indicate that the co-operative banks are unable to perform efficiently, profitably and promote financial inclusion.

Keywords – Financial Inclusion, Co-Operative Credit Banks, Co-Operative Banking

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1. INTRODUCTION

Lack of access to financial services for small and marginal farmers and weaker sections of the society is a serious threat to economic progress, particularly in developing countries. As per a World Bank report, a survey of 148 economies revealed that approximately 2.5 million people do not have a bank account and do not have access to affordable financial services (The World Bank, 2012). The same report found that nearly 55 percent of borrowers in developing countries use only informal source of finance (The World Bank, 2012). India has the largest unbanked population with only 35% adults having an account in financial institutions. As per data available from Census 2011, India is having population of around 1.22 billion and 65 per cent of adults across the country are excluded from the formal financial system.

Financial inclusion is important for inclusive growth and development of economies (Garg and Agarwal, 2014) and has been recognized as an enabler for 7 of the 17 sustainable development goals of the World Bank (www.worldbank.org). It is to provide equal opportunities to vast sections of population to access mainstream financial services for better life, living and better income (Garg and Agarwal, 2014). It is defined 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 (Rangarajan, 2008). A developing country like India can attain inclusive growth through financial inclusion by connecting the contribution of weaker or rural population of the country with the mainstream.

Financial institutions play a crucial role in fostering financial inclusion (Massey, 2010). The Government of India and the Reserve Bank of India have been making concerted efforts to achieve financial inclusion. Some of these major efforts include nationalization of banks, establishing robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, and lead bank scheme (Joseph and Varghese, 2014). These efforts can be further enhanced by the proactiveness on the part of capital market players and major stakeholders of the financial system. Joseph and Varghese (2014) analyzed five state bank group and five private sector banks to assess the state of financial inclusion in India. They analyzed bank growth rate in terms of number of branches, offsite and onsite ATM, and usage of credit and debit cards. They found that although there has been a tremendous increase in the number of ATMs and usage of credit and debit cards; the number of people with access to products and services offered by the banking system continues to be very limited.

Chattopadhyay (2011) studied the extent of financial inclusion in India and West Bengal in particular using an index of financial inclusion developed using data on three dimensions of financial inclusion- banking penetration, availability of banking services and usage of banking system. The study found that the state of Maharashtra has the highest IFI value (0.558) followed by Karnataka (0.511). In another study, Sethy (2016) proposed a multidimensional financial inclusion index and found that India is categorized under the high financial inclusion in case of demand side dimensions (such as banking penetration, availability of banking services, usage of banking system) but low financial inclusion in case of supply side dimensions (such as access to saving, insurance, bank risk).

In addition to the formal banking institutions, the non-banking finance sector, and micro-finance institutions are also important to improve financial inclusion (Chattopadhyay, 2011). *Co-operative banks* are low risk banks that can stabilize the wider banking system and facilitate the development of the local economy by ensuring available credit (Birchall, 2013). India has the largest the network of co-operatives in the world that have played an important role in promoting development in the field of credit, processing and marketing (Singh and Pundir, 2000).

Figure 1: Advantages of co-operatives *(Birchall, 2013)*

Co-operative evolution in India was started primarily to solve the problem of rural credit. The origin of Indian Co-operative Banking commenced with the enactment of Co-Operative Societies Act, 1904 with the objective to found Agriculture Co-operative Credit Societies to boost, prudence, self-help and co-operation among agriculturists, artisans and persons of limited means. This Act led to the formation of co-operative banks which are registered under the Co-operative Societies Act, 1965 and regulated by NABARD and RBI. They are coordinated and formed on the principle of co-operation, self-help, mutual help and function under the rule of 'one member, one vote', function on 'no profit, no loss' basis.

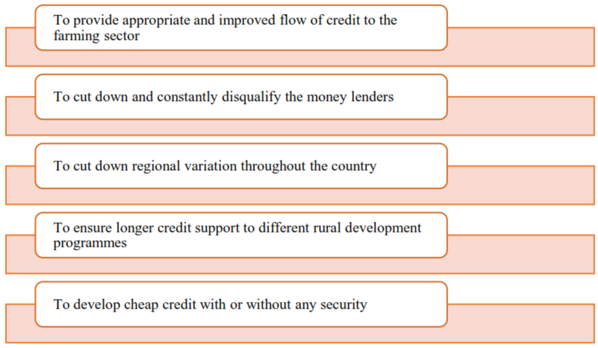

Figure 2: Objectives of Credit Co-operative Banks

Co-operative banks are the main component of the co-operative credit system at the district level in India. They facilitate savings from their consumers with various deposit schemes and advance credit facilities for agricultural as well as non-agricultural activities (Gomase, 2021).

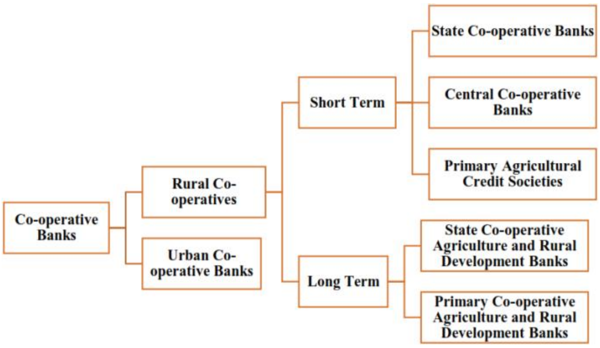

Figure 3: Classification of Co-operative Banks in India

The present study aims to evaluate the performance the co-operative banks and their role in promoting financial inclusion in India. In this study, secondary research methodology was adopted as it provides a broad understanding of the current subject matter. The secondary data was obtained from Reserve Bank of India Database, National Bank for Agriculture and Rural Development (NABARD) and annual reports of Credit Co-operative Central Banks. The secondary data was collected for the period between 2005 to 2019. The performance of co-operative credit banks in India was evaluated on the basis of financial and operational parameters: number of branches, population per branch, loans and advances, non-performing assets, credit flow to agriculture and net interest margin. The operational parameters were considered as indicators of the outreach of these banks towards the general population. Through these parameters, the overall contribution of Co-operative Banks in achieving Financial Inclusion was evaluated at aggregate level.

2. RESEARCH OBJECTIVES

The present study aims to evaluate the performance of co-operative credit banks and their contribution in achieving financial inclusion in India. The objectives of the present study are;

- To evaluate the performance of the co-operative banks by assessing operational and financial parameters
- To study their contribution towards financial inclusion using these operational parameters as indicators of financial inclusion
- To assess the effectiveness of the co-operative banks in achieving financial inclusion in India

3. RESEARCH FINDINGS

3.1 Operational parameters

3.1.1 Number of Branches

The growth of the co-operative credit banks in India is represented by the increase in the number of branches between the time periods of 2005 to 2019 as depicted in Table 1 below.

Table 1: Number of Branches over the Years

Year	Co-Operative Banks	Year	Co-Operative Banks
2005	13425	2013	14481
2006	12523	2014	14305
2007	13725	2015	14018
2008	13689	2016	15095
2009	13882	2017	15293
2010	13995	2018	15555
2011	14105	2019	15565
2012	14542		

Source: RBI Database

The secondary data analysis revealed that number of branches in 2005 were 13,425 as opposed to 15,565 in year 2019. This indicates a moderate growth in the number of branches across India during defined period of year 2005 to 2019. The rise in operational branches of co-operative banks is indicative of the increasing demand and growing outreach of co-operative banks that provide low-rate credit.

3.1.2 Population per Branch

The availability of financial services in India is reflected by the population covered by each branch of co-operative banks in every state. The state wise population per branch for co-operative banks is depicted in Table 2.

Table 2: Population per Branch (state wise)

State	Population per Branch	State	Population per Branch
Jharkhand	4,824,244	Maharashtra	65,087
Jammu & Kashmir	4,535,440	West Bengal	59,080
Uttar Pradesh	2,143,088	Assam	19,597
Tamil Nadu	1,692,201	Arunachal Pradesh	14,816
Bihar	1,540,740	Tripura	9,743
Andhra Pradesh	1,540,097	Delhi	9,460
Kerala	1,274,980	Meghalaya	5,583
Rajasthan	1,174,387	Puducherry	5,013
Chhattisgarh	981,208	Himachal Pradesh	4,597
Madhya Pradesh	812,943	Chandigarh	3,123
Haryana	742,229	Andaman & Nicobar	2,606
Punjab	412,896	Sikkim	2,448
Odisha	383,110	Manipur	1,409
Karnataka	365,204	Mizoram	1,215
Uttarakhand	255,701	Goa	1,099
Gujarat	141,939	Nagaland	612

Source: RBI Database

It is evident that densely populated states such as Jharkhand, Uttar Pradesh, Bihar, Andhra Pradesh, and Tamil Nadu have lower number of branches. On the other hand, in sparsely populated states like Nagaland, Goa, Mizoram, Manipur and Sikkim, the population covered by each branch is less than 1000 indicating greater access to financial services. It was found that more than 50 per cent of the states have population more than 50,000 per branch indicating insufficient financial infrastructure and service availability. This factor may obstruct the growth of the co-operative banks as burden of large population may cause delay in major services of the banks.

3.2 Financial Parameters

3.2.1 Loans and Advances

Co-operative credit banks provide loans and advances for both agricultural and non-agricultural purpose. The loans are a source of long-term financing while the advances are the source of short-term financing. Table 3 below depicts the total amount of loans and advances given by co-operative banks between 2005 to 2019.

Table 3: Performance of Co-operative Banks-Loans and Advances

(2005-2019) (In Crores)

Year	Loans And Advances	Year	Loans And Advances
2005	73125	2013	183970
2006	79200	2014	203003
2007	89038	2015	219397
2008	101220	2016	242730
2009	100453	2017	252655
2010	110598	2018	277079
2011	130811	2019	300034
2012	157315		

Source: RBI Database

It was found that there has been a phenomenal rise in the total loans and advances given by co-operative banks since 2005. The total loans and advances of co-operative banks during the year 2005 was 73,125 crores which reached at 3,00,034 crores during year 2019. There was a moderate rise in loans and advances given during year 2005 to 2010; whereas there has been a significant surge during the years after 2010 up to 2019. This indicates that the outreach of co-operative credit banks has increased exponentially as more people have benefitted by taking loans and advances at low credit.

3.2.2 Non-performing Assets (NPA)

Non-performing assets are bad loans that are harmful for any financial institution. Higher values of NPA suggest that the bank's management and recovery programs are inefficient. The value of NPA of co-operative banks in India for the years 2019 and 2020 are given in Table 4 below.

Table 4: Non-performing Assets of Co-operative Banks

Year	NPA (Rs. Crore)
2019	28316
2020	39430

Source: RBI Database

The non-performing assets for co-operative banks in the year 2019 amounted to Rs. 28316 crores and later increased to Rs. 39430 in 2020. These findings suggest that the Indian co-operative banks need to devise strategy to recover bad loans so as to reduce their NPA.

3.2.3 Ground Level Credit Flow to Agricultural Sector

One of the primary goals of co-operative banks is to provide appropriate and improved credit flow to the agriculture sector. The following table depicts the ground level credit flow to the farming sector between 2007 to 2020.

Table 5: Ground Level Credit Flow to Agricultural Sector (Rs. Lakh Crore)

Year	Ground level credit flow	Year	Ground level credit flow
2007-08	2.54	2014-15	8.45
2008-09	3.01	2015-16	9.15
2009-10	3.85	2016-17	9.6
2010-11	4.68	2017-18	11.63
2011-12	5.11	2018-19	12.57
2012-13	6.07	2019-20	13.68
2013-14	7.3		

Source: NABARD Report

As per the data found, the credit flow to agriculture has been increasing over the years indicating that more and more farmers are availing the financial services of co-operative banks. However, India being largely an agricultural country, the increase in ground level credit flow is not as significant as expected. This indicates there is still scope for the co-operative banks to expand their reach.

3.2.4 Share in Credit Flow to Agriculture

The basic role of credit in the agriculture is to provide capital. The credit improves the quality of products and also increase operations or activities in the agriculture. Table 6 gives the share of co-operative banks in credit flow to agriculture from 2014 to 2020.

Table 6: Share in Credit Flow to Agriculture

Year	Share in Credit Flow to Agriculture (Percent)
2014-15	16.4
2015-16	16.7
2016-17	13.4
2017-18	12.9
2018-19	12.1
2019-20	11.3

Source: RBI database

As discussed in the previous sections, the primary role of co-operative banks is to improve credit in farming sector. But the data found revealed that the share in credit flow specifically for agriculture has been decreasing the years. In the year 2014-15 it was 16.4 per cent but it diminished to 11.3 per cent in the year 2019-20. This indicates that even though there has been a rise in the number of co-operative banks, they have been majorly focused in the urban areas thereby failing to cater their primary goal of providing rural credit for agriculture.

3.2.5 Net Interest Margin

This parameter is indicative of the profitability and efficiency of the co-operative banks. The data revealed that there has been a decrease in the net interest margin. It was 3.17 per cent in the fiscal year 2012-13 and has been gradually decreasing to nearly 1.89 per cent in 2019-20 indicating inefficiency and non-profitability of the co-operative banks.

Table 7: Net Interest Margin (Percentage)

Year	Net Interest Margin	Year	Net Interest Margin
2012-13	3.17	2016-17	2.79
2013-14	3.08	2017-18	2.92
2014-15	2.97	2018-19	2.91
2015-16	2.95	2019-20	1.89

Source: RBI Database

4. CONCLUSION

Co-operative banking is primarily focused on providing credit to farmers and the backward categories of society (Rautrao, 2020). There has been a steady increase in the business operations of co-operative banks in various geographical segments which is reflected by the increase in the number of offices and memberships (Gomase, 2021). Although co-operative banks have made considerable progress in providing credit to agriculture and allied activities, they suffer from the problem of low recovery which has been further exacerbated by populist measures such as loan waivers, disbursement of loans in loan melas and stay orders on legal processes of recovery (Singh and Pundir, 2000).

The present study was carried out to analyze the overall performance of co-operative banks in India. Operational and financial parameters were assessed to evaluate the performance of co-operative banks. The study found that even though there has been a significant increase in the number of branches, the distribution of these branches has been poorly strategized as indicated by the population covered by each branch. There are fewer numbers of branches in densely populated states as indicated by the high population covered by each branch in states like Uttar Pradesh, Andhra Pradesh, Bihar, Jharkhand and Tamil Nadu. These are largely agricultural states and the high population per branch in these states indicates the failure of co-operative banks in contributing towards financial inclusion.

The growth of co-operative banks by numbers is not reflected in its share in credit flow to agriculture. Although the co-operative banks were first established to provide rural credit to the farming sector, their share in the credit flow in the farming sector decreased considerably. Developing marketing strategies to promote banking schemes and products can help attract more customers and ensure credit availability to the rural populace in India (Sumaya, 2021).

The study also found that there has been a significant rise in loans and advances provided by co-operatives but at the same there has been an increase in total non-performing assets. This clearly indicates the mismanagement within the co-operative banks resulting in bad loans and low recovery. The net interest margin has also been decreasing indicating non-profitability and inefficiency. Thus, it can be concluded that although there has been some positive effect of co-operative banks in terms of low-rate credit, the increase in non-performing assets and high population per branch clearly suggest that the co-operative banks are unable to perform profitably and efficiently and have failed in ensuring financial security for the poor.

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