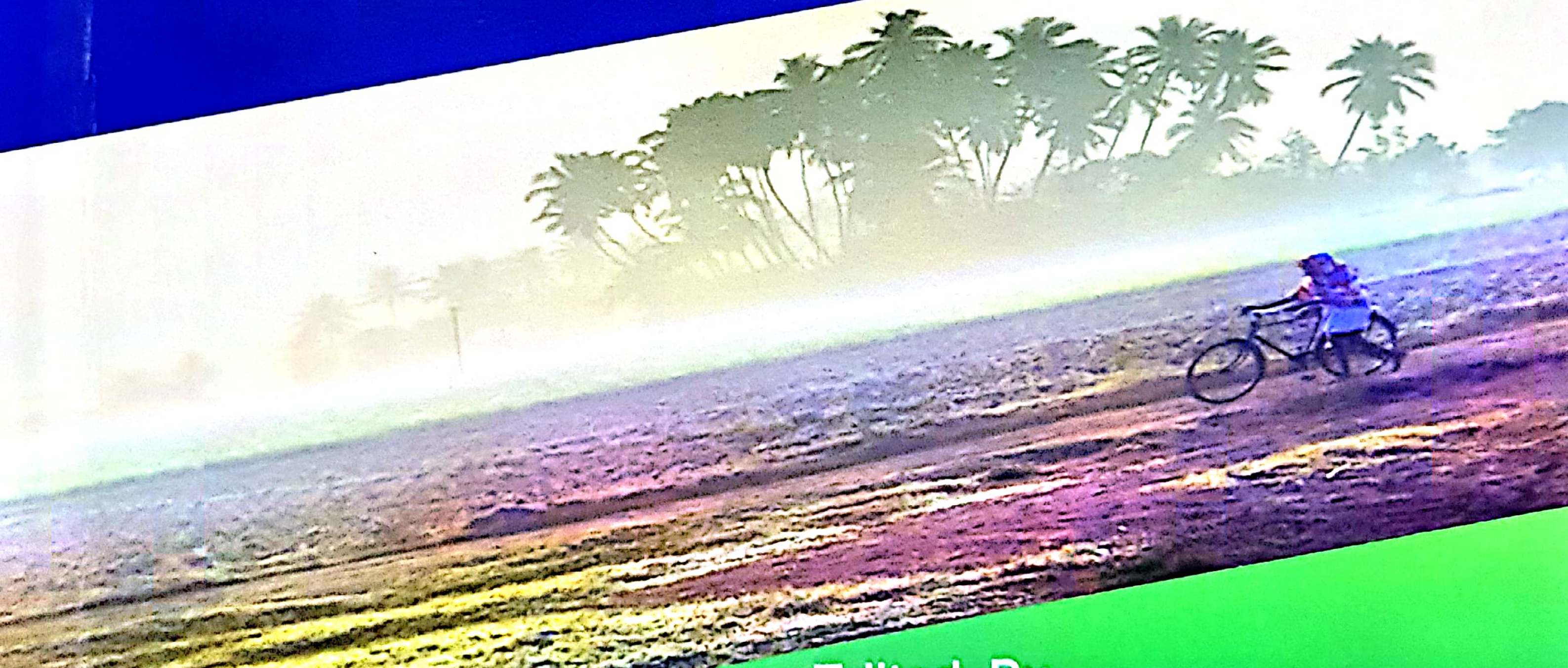
Rural Development of India



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SOCIAL BANKING IN INDIA- ROLE OF RURAL COOPERATIVE CREDIT AND BANKING INSTITUTIONS

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INTRODUCTION

The Social banking/ finance is an integral part of Social and Solidarity Economy (SSE). SSE is a concept that refers to enterprises and organizations, in particular cooperatives, mutual benefit societies, associations. Foundations and social enterprises, which specifically produce goods, services and knowledge while pursuing economic and social aims and foresting solidarity.

After introduction of financial sector reforms in India in 1992, challenges of regulation, supervision, interest rate structure, prudential norms with specific to achieving mandatory level of Capital to Risk Weighted Assets Ratio (CRAR), adoption of technology, and human resource development etc. were emerged. Aftermath of financial sector reforms, various agencies involved in SSE made remarkable achievements. The network of rural credit cooperatives in rural areas both in terms of the number of clients and accessibility to the small and marginal farmers and other poorer segments is far large than that of Commercial Banks (CBs) and Regional Rural Banks (RRBs) in India.

Structure of Indian Cooperative Credit System

Credit delivery system has been envisaged as an effective channel for creating a environment for socio-economic development in the society. The institutional credit system for agriculture comprises of (i) Short Term (ST) and Long Term (LT) cooperative credit institutions, (ii) Commercial Banks (CBs), (iii) Regional Rural Banks (RRBs), under the supervision and regulation of Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD). The institutional credit delivery system for urban areas comprises of (i) CBs, (ii) Urban Cooperative Banks (UCBs) and (iii) Urban Cooperative Credit Societies (UCCS).

The Rural Cooperative Credit and Banking System consists of two wings namely ST and LT. The Short Term Cooperative Credit Structure (STCCS) deals with short and medium term credit and also credit disbursement for agricultural purposes and it is federal in character. It is mostly based on a three tire pattern with the State Cooperative Banks (SCBs) at the Apex Level, District Central Cooperative Banks (DCCBs) at the intermediary level and Primary Agricultural Credit Societies (PACS) at the village level. At national level the National Federation of State Cooperative Banks Ltd (NAFSCOB) was established on May 19, 1964 with a view to facilitate the operations of State and Central Cooperative Banks in general and development of cooperative credit in particular.

Services Provided by SCBs/DCCBs/PACS

The rural cooperative credit and banking institutions spearheading the cooperative movement provide assistance for the following:
(i) Banking,(ii)Agriculture,(iii) Fertiliser, (iv)Small Scale Industrial Units, (v) Poultry,(vi)Sheep &Goat Rearing, (vii) Rural Artisans, (viii) Consumer durables, (ix)Non-farm sector, (x) Kisan Credit Cards, (xi) Handloom, (xii) Public Distribution System, (xiii) Sericulture,(xiv) Dairying,(xv) Bio Gas Plants, (xvi) Housing, (xvii) Professional Education, (xviii) Cash Credit Accommodation, (xix) Others

In addition to extending banking services and channelizing credit to rural sector, Cooperative Credit Institutions extend many other services through marketing societies, Cooperative Hospitals, Industrial Societies, Urban Banks and Salary Earner's societies. The ratio of investment in priority sectors including agriculture, handloom weavers and transport by state cooperative bank is much larger than that of the commercial banks.

Social Banking

Social finance/banking is a concept which provides financial services to every section of the society. Social banking is referred to dealing with finance which delivers a social dividend and an economic return. Social finance includes community investing, microfinance, social impact bonds, sustainable business, social enterprise lending and recently financial inclusion. The social banking is related to developmental needs of the society along with earning profit for sustainable service by banking institutions to the society. Social banking is concerned about the community, contributing to the well-being of the masses. The details of various initiatives towards social banking in India are given as below:

Initiatives taken towards Social Banking in India

Microfinance: Microfinance is a source of financial services for entrepreneurs and small business lacking access to banking and related services. Starting from a modest scale as a pilot in the year 1992, the Self Help Groups (SHG)- Bank linkage programme under microfinance has turned into a solid structure with more than 74.30 lakh savings-linked SHGs (all banks) covering over 9.70 crore poor households as on 31 March 2014. The total savings of these SHGs with banks amounted to 9897.42 crore. As on 31 March 2014, total amount of loan outstanding was Rs. 42928 crore. Cooperative banks have been playing a very important role in SHG-Bank linkage programme which is a part of social banking.

Financial Inclusion: With the developments in technology, financial inclusion has received a big boost in India and greater efforts have been laid on inclusive banking. The major objective of the Financial Inclusion is to increase the coverage of social banking. Initiatives taken under the Financial Inclusion drive in India are given as below:

Business Correspondents (BCs)/Business Facilitators (BFs) are retail agents engaged by banks for providing banking services at locations other than bank branches or ATMs. List of BCs approved by RBI is[2] (a) Retired Bank employees, (b) retired teachers, (c) owners of kirana stores, (d) retired government employees and ex-servicemen, (e) medical stores, (f)fair price shops, (g) cooperative societies registered under Mutually Aided Cooperative Societies Acts/Cooperative Societies Acts of States/ Multi State Cooperative Societies Act, (h) companies registered under the Indian Companies Act, 1956 with large and widespread retail outlets, excluding NBFCs. (i)NGOs, corporates, (i) post offices, and (k) individual Public Call Office (PCO)operators.

While the BCs are permitted to carry out transactions on behalf of the bank as agents, the BFs can refer clients, pursue the clients proposal and facilitate the bank to carry out its transactions, but cannot transact on behalf of the bank.

Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund(FITF): As per recommendation of Committee on Financial Inclusion Department is set up in NABARD under which two funds viz.,(i) FIF and (ii)FITF are constituted with NABARD3. The core objectives of the department are to promote task of financial Inclusion of the excluded population at national level as per the recommendations of the Report of the Committee on Financial Inclusion. Further, two advisory boards set up for FIF and FITF.

Objectives

- **FIF:** To support "developmental and promotional activities" with a view to securing greater financial inclusion, particularly among weaker sections, low income groups and in backward regions/hitherto unbanked areas.
- **FITF:** To enhance investment in Information Communication Technology (ICT) aimed at promoting financial inclusion, stimulate the

transfer of research and technology in financial inclusion, increase the technological absorption capacity of financial service providers/users and encourage an environment of innovation and cooperation among stakeholders.

Recent Initiatives:

(i) Committee on Comprehensive Financial Services for Small Business and Low Income Households:

Pursuant to the recommendations of the Committee (2014) on Comprehensive Financial services for Small Business and Low Income Households (Chairman: Dr. Nachiket Mor), RBI issued guidelines for licensing of Payment Banks and Small Finance Banks. The common objective of these bank is 'furthering financial inclusion'.

The vision document/statement made by the committee aimed primarily at Financial Inclusion and Financial Deepening in the country does not assign a specific role to the well spread cooperative credit institutions (CCIs) in the three tier STCCS. It also does not offer any viable solutions to the problems faced by these institutions. There are no suggestions as to how to energise the sector and support cooperatives to effectively play their role in ensuring Financial Inclusion.

The rural cooperative credit institutions need to be streamlined and further strengthened if this vision statement is to be fulfilled. The ability to take the CCIs into confidence leads to upward trend in the credit to deposit ratio. There are more than 6 lakh villages and each society serves an average of 6 villages. To start with if all the PACS are allowed to have a POS or Kiosk it will take care of all credit related transaction needs including that of other banks of most villages.

The Committee observed that it is clear from the data that is available that against an aspiration of 100 percent of the population- groupings of 10,000 people each having at least I credit access point, at a District level, 99 percent of such groupings within urban areas have at least I credit access point, and in rural areas this figure is 92 percent. The Committee observed that while this looks very positive on an overall basis, this will need to be verified using more exact data and particularly the level of activity of Primary Agricultural Cooperative Societies (PACS) and the range of products they are able to offer. The Committee further observed that if the PACS access points are removed from the analysis, the picture changes substantially. This figure of 92 percent becomes 59 percent when PACS are excluded. Therefore, the lesson that has to be learnt here is that PACS should necessarily be taken into consideration if this statement has to be achieved. Unless effective solutions are given to revitalize the PACS and also allow them to deal with NFS, RETAIL and other products the financial inclusion and deepening cannot be achieved.

The committee has not recommended any clear role for cooperatives, most probably, according to them, they performed poorly inspite of receiving many benefits. Feel that the We may recall that it was RBI, right from the year 1951 that pushed CCls deep into agriculture credit and loaded more than what the system can bear the risks and the fragile financials of coops were never understood the absence of mechanism for price risk and yield risk management with the farmers or the system has resulted in the pile up of bad debts at society level (high NPA at PACS level).CCls need a higher capital adequacy. One needs to appreciate the fact that prudential norms except capital adequacy norms have been sought to be implemented in CCLs without infusing capital whereas a whopping sum of capital has been infused to nationalized banks before prudential norms are made applicable to them. Indeed the CCls were initially savings oriented institutions. The share-linking was systematically reduced by NABARD which wanted to achieve its refinance targets at the cost of the system.

(i) **Pradhan Mantri Jan Dhan Yojana (PMJDY):**

In order to provide the much needed thrust, a flagship programme called the " '**Pradhan Mantri Jan -Dhan Yojana**' was announced by the Hon'ble Prime Minister in his Independence Day address on 15 August,2014. This is a National mission on Financial Inclusion encompassing an integrated approach to bring about comprehensive financial inclusion of all the households in the country. The plan envisages universal access to banking facilities with at least one basic banking account for every house hold, financial literacy, access to credit, insurance and pension facility. In addition, the beneficiaries would get RuPay Debit card having inbuilt accident insurance covers of Rs.1 lakh. The plan also envisage channeling all Government benefits (from Centre/State/Local Body) to the beneficiaries accounts and pushing the Direct Benefits Transfer (DBT) scheme of the Union Government. As on 08 July 2015, 16.73 crore accounts opened, 14.87 crore RuPay debit cards issued and Rs. 19.99 thousand Crore total amount of deposits were recorded under PMJDY. The progress of PMJDY is given as below.

Table 1 : Progress of PMJDY (Accounts opened as on 08.07.2015)

(All figures in crores)

Type of Bank	**No. Of Accounts**			**No. of Ru-Pay Card**	**Balance in Account**	**% Of Zero Balance a/c**
	Rural	Urban	Total			
Public Sector	9.69	6.36	16.05	14.26	18873.84	51.47
Private Banks	0.4	0.28	0.68	0.61	1116.69	50
TOTAL	10.1	6.64	16.73	14.87	19990.52	51.1

Disclaimer : Information is based on the data as submitted by different banks/SLBCs. Source: http://pmjdy.gov.in/account- statistics-country.aspx.

(ii) Social Security Schemes

a) Pradhan Mantri Jeevan JyotiBima Yojana, Pradhan Mantri Suraksha Bima Yojana and Atal Pension Yojana:

Government of India through the Budget Speech announced three ambitious Social Security Scheme (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY) and an the Atal Pension Yojana (APY) to move towards creating a universal social security system, targeted especially for the poor and the under –privileged. Hon'ble Prime Minister launched PMJJBY and PMSBY schemes nationally in Kolkatta on 9th May, 2015[4]. Status of these scheme is given as below:

Table 2 : Summary of APY/PMJJBY/PMSBY as on 13.07.2015

Scheme	Rural		Urban		Grand Total
	Male	Female	Male	Female	
APY	95,560	58,716	197,524	133,308	**485,108**
PMJJBY	8,581,932	5,049,320	8,641,317	4,799,349	**27,071918**
PMSBY	24,801,528	14,296,906	25,225,770	14,379,050	**78,703,254**
Grand Total	**33,479,020**	**19,404,942**	**34,064,611**	**19,311,707**	**106,260,280**

Source : http://www.jansuraksha.gov.in /files/Reports/13.07.2015.pdf

RuPay KCC and RuPay Debits Cards:

The Kisan Credit Card (KCC)scheme introduced in August 1998 has emerged as an innovative credit delivery mechanism to meet the production credit requirements of the farmers in a timely and hassle-free manner. But, 2013 onwards, technology based RuPay KCC and RuPay Debit Card were implemented. Under Financial Inclusion, Banking institutions including CCIs are undertaken steps towards adoption of RuPay KCC and RuPay Debit Cards.

Cooperatives and Food Security

Cooperatives provide opportunities and a wide range of services, including improved access to markets, natural resources, information, communications, technologies, credit, training and warehouses to small agricultural producers in villages. Through this support, smallholder producers can secure their livelihoods and play a greater role in meeting the growing demand for food on local, national and international markets, thus contributing to poverty alleviation, food security and eradication of hunger.

Status of Financial Inclusion in India:

After more than six decades of independence, poverty and financial exclusion continue to exist in Indian economy. The impact of economic liberalization yet to reach all section of the society, as a result India has 1/3rd worlds poor. As per estimate of Census of 2011, only 58.7 % of the total households have access to banking services. Number of total banking outlets (including bank branches, villages covered by BCs and others) during 2010 were 67,674 same are increased to 3,83,804 with registering an increase of 467.14 % in 2014. Numbers of Basic Savings Deposit Accounts (BSDA)at branch level were also increased from 60.19 million to 126 million with registering an increase of 109.34 % during the period 2010 to 2014. Total number of BSDA at Business Correspondents (BCs) level also increased from 13.27 million in 2010 to 116.90 million in 2014 with an increase of 780.93 %. In the same fashion there is also increase in Over Draft (OD) facility during the period. Total number of KCCs increased from 24.31 million in 2010 to 39.90 million in 2014 with registering an increase of 64.13%. Total number of SHGs increased from 69.53 lakhs to 74.30 lakhs with registering 6.86 % increase and amount of savings also increased from 6198.71 crores to Rs. 9897.42 crores with indicating an increase of 59.66 %

during the same period. Table 3 depicts the impressive growth in number of branches, coverage of villages, accounts, total number of KCCs and linking of SHGs with banks.

Table 3: Progress of Financial Inclusion in India (All Banks including RRBs)

Particulars	2010	2011	2012	2013	2014
1.Banking Outlets in Villages					
a) Branches	33,378	34,811	37,471	40,837	46,126
b) Villages covered by BCs	34,174	80,802	1,41,136	2,21,341	3,37,678
c) Other models	142	595	3,146	6,276	-----
d) Total	67,674	1,16,208	1,81,753	2,68,454	3,83,804
2. Urban Locations through BCs	447	3,771	5,891	27,143	60,730
3. Basic Saving Bank Deposit A/c- branches					
a) No. in millions	60.19	73.13	81.20	100.80	126.00
b) Amount in billions	44.33	57.89	109.87	164.69	273.30
4. Basic Saving Bank Deposit A/c					
a) No. in millions	13.27	31.63	5730	81.27	116.90
b) Amount in billions	10.69	18.23	10.54	18.22	39.00
5. OD facility availed in BSBDA's account					

a) No. in millions	0.18	0.61	2.71	3.92	5.90
b) Amount in Rs. Billions	0.10	0.26	1.08	1.55	16.00
6. KCCs (No.in millions)	24.31	27.11	30.24	33.79	39.90
7. Linking of Shelf Help Groups					
a) No. in lakhs	69.53	74.62	79.60	73.18	74.30
b) Amount of Savings in Rs. Crores	6198.71	7016.30	6551.41	8217.25	9897.42

Source: Pradhan Mantri Jan Dhan Yojana- A National mission on Financial inclusion, Dept, of Financial Services, MoF, Got (2014) & Status of Micro Finance in India- 2010,201 &,2014, NABARD.

Note : BSBDA=Basic Saving Bank Deposit, OD= Over Draft, Rural areas=Less than population 10,000

From initial period, cooperatives are treated as "refinance windows" instead of incentivizing them into becoming genuine thrift and credit institutions. Therefore, necessary steps have to be taken to treat and let cooperatives work as genuine thrift and credit institutions. Cooperatives ought to change their perception towards financial inclusion and have to adopt ICT for full-fledged involvement in financial inclusion drive.

Round Table Dialogues

Round Table Dialogue (RTD) between Cooperative Banks, Social Finance and Social Initiatives was organized on 03.04 April 2015 at Mumbai on the theme entitled "Enhancing the role of cooperative banks and social finance institutions in financing social initiative and solidarity enterprises in the Real

The RTD at the end of two days deliberation identified the following themes for possible action, identified them-wise key players at different levels:

i. Policy Issues
ii. Capacity Building
iii. Communications / Data Bank
iv. Promotional Aspects
v. Governance
vi. Human and Financial Resources
vii. Regulation
viii. Sharing of Best Practices

The outcome of deliberations provides an opportunity to continue to concentrate on various and variety of issues to prioritise them.

Impediments to Social Banking:

No doubt, the concept of social banking has inherent merits. But cooperative banks face impediments in social banking.

i. Lack of stable and reliable ICT to ensure speedy and efficient execution of social banking.
ii. Limited product innovations in the area of social banking to cover the poor and the financial excluded.
iii. Lack of policy compulsions on social banking.
iv. Lack of effective monitoring mechanism at all levels.
v. Lack of Database/update about status of social banking.
vi. Perception barriers and income discrimination among potential beneficiaries of social banking.
vii. Extensive gender bias.
viii. Self-exclusion of people of low income groups in the social banking due to psychological, cultural as well as religious barriers.

ix. Tendency of the financial services providers to target the only the economically active population.

x. Legal identity

xi. Limited literacy

xii. Affordability

Support Measures required towards Social Banking:

- Promote technological, institutional innovation including addressing infrastructure weakness.
- Innovation in delivery and design of financial services targeting the poor and the excluded.
- Formulation of Board approved social banking/finance plan.
- Stable and reliable Information and Communications Technology.
- Apart from No Frills Accounts, other services- A Savings cum overdraft account, remittance product, entrepreneurial credit such as General Credit Card (GCC) and Ru Pay KCC.
- PACS may be used exclusively by CCLs for social banking.
- Social banking plan must be integrated with Banks' Business Plan.
- Capacity building of village level persons handling finance.
- Uniform Structured format for monitoring at State/ District bank level.
- Policy compulsion of social banking.

Future Initiatives/Opportunities

- Member-driven- Members centred organization/Member education.
- Efficient banking institutions as per the statutory requirements/BASEL norms
- Contribution towards Financial Inclusion

- Strengthen the area of Insurance Protection System/Institutional Protection System (IPS)
- Human Resource Development
- Involve Government intervention rather than invite Government interference
- Adherence of KYC Guidelines / Money laundering standards
- Risk Management
- Consolidation /Merger
- Research and Studies/Training
- Corporate governance
- Cooperative Bank of India to bridge the existing systemic gap in the cooperative banking system
- Legal/ Statutory reforms to ensure freedom of autonomy in the management Ethics and values- corporate governance
- Strong state participation
- Resource mobilization- independence
- Linking credit with marketing
- Professionalization/ modernization, redefining the role and responsibilities

Conclusion

Cooperative banks and social finance/access to rural finance in India are being well prepared to face challenges in the competitive environment, to regain business and regain leadership. The challenges are many. All these challenges emerged after initiation of financial sector reforms in 1992, without addressing basic issues of cooperative banks. Some of the key parameters of challengers are: Regulation, Supervision, Interest rates, Refinance related issues. Prudential norms more particularly attaining stipulated Capital Adequacy Ratio, Constrains in adoption of Technology. Human Resource Development and Management, training aspects, micro credit related innovations, role of cooperative banks in promoting micro credit etc. The investment Policy, Risk Management, Asset and Liability Management (ALM), Anti Money Laundering etc. are also some of the important parameters which needs to be addressed by cooperative banks.

Under social banking several delivery channels have been involved. But each delivery channel has its own limitation/ weakness of course potential strength. Social banking should be cost effective social banking. However, cooperative credit institutions has to refine its pricing practices in order to ensure that the basic goal of social orientation is maintained while ensuring viability and sustainability of social banking initiatives. Diversification of business by cooperative credit institutions with a view to ensure sustainability and self- reliance is also very important for efficient social banking. Besides being technologically conversant with the innovative platforms being adopted by banks, the employees need to have adequate and appropriate training to handle technology based banking activities with confidence. At the same time, government and other higher agencies should encourage cooperative banks to undertake more and more social social banking activities by helping/guiding them with financial support in implementation of new modern technology based banking activities.

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