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Perils of the Cooperative Banks in India and the Relevance of Recent Policy Level Interventions

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Abstract

Although cooperative banks have become indispensable for the promotion of rural and farm sector, it is disheartening to note that the cooperative banks do not account for even 20 percent of the share of credit flow to the agriculture sector in India. This clearly shows that cooperative banks have not adequately met the credit requirements of the agriculture sector on the expected lines. It is obvious that at the all India level, only 46.12 percent of Primary Agriculture Credit Societies (PACSS) made profit in 2021. Cooperative bank failures have been reported from many parts of the country. Against this background, the formation of a separate Ministry of Cooperation at the Centre which works on the mantra of "Sahakar se Samriddhi can have far reaching positive effect on the cooperative sector in India.

Keywords: *Cooperative Banks, Commercial Banks, Non-Performing Assets. Credit Disbursement, Policy Level Interventions, PACS*

I. Introduction

The organized banking sector of India has been blessed with the presence of four kinds of banking institutions like Commercial banks, Cooperative banks, Regional Rural Banks(RRBs) and Foreign Banks. Among these Commercial banks encompassing nationalized banks, old private banks and new private banks which are included in the second schedule of the RBI Banking Regulation Act, 1935 lead the scenario with the largest number of branches and volume of business. However, burdened with the emerging roles that commercial banks are expected to perform in line with the policy changes introduced since 1991, these banks have not been able to satisfactorily meet the specific demands of the rural and agriculture sector

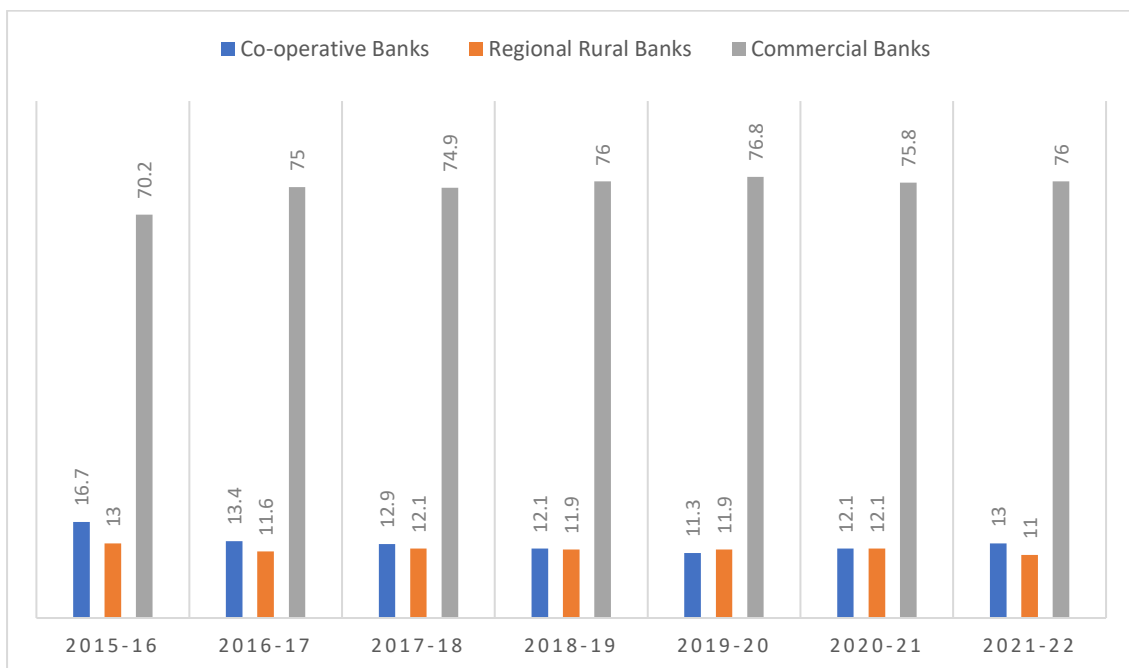
of the country. To address the lacuna in serving the majority of Indian farming community and rural households, cooperatives banks have been set up. But, cooperative movement in India has not been performing on the expected line. In the banking field, we have hardly heard any commercial banking failures in recent times. But, cooperative bank failures have become the order of the day in many states in India. It needs to be noted here that by 2021 the number of failed cooperative banks in India skyrocketed to 21. As a succour to the stranded depositors of these banks, their funds deposited in these cooperative banks had to be covered with insurance protection by the Deposit Insurance and Credit Guarantee Corporation (Shukla, 2021). Hence, it unequivocally calls for revamping the cooperative structure of the nation so that the sector can meet the unaddressed requirements of the rural and farming sectors without compromising the spirit of professionalism in banking operations. In this backdrop, the present paper addresses two pertinent questions. First, it delves into some key data which show how cooperative banks have failed to accomplish the goals for which they are supposed to have been set up by the governments using tax payers hard earned money. Second, it attempts to bring a gloomy picture of cooperative bank failures in India particularly the problems that have plagued the sector in Kerala, a State where such failings should not have happened given the highest financial literacy and regulatory exercises being put in place. Thirdly, the paper attempts to rationalize the wider and much acclaimed intentions behind forming the Ministry of Cooperation at the Centre with a view to scaling up the performance of the cooperative banks in India by making it the true institutional mechanism for bringing sweeping and far reaching transformation in the field of financing rural and farm sector.

The Saga of Belied of Expectations

The agriculture sector requires credit of varying terms for different purposes. For instance, sometimes when the sowing season kicks off, it will be in dire need of short term credit to meet the immediate requirements of sowing season. Such credit, however, could be paid immediately after harvesting. But, at the same time, farmers seek credit to meet their medium term requirements. As a solution to this problem, and to streamline the credit flow to the rural sector, cooperative banking sector has been given top most priority in the financial arena of our country. But the question that raises eyebrows of many is: have the cooperative banks lived up to the expectations of the country? Certainly in some spheres they might have performed well, especially in ensuring the participation of farmers in bodies that shape the decisions in credit allocations. This naturally happens because clients have to be members of such cooperative banks. However, when it comes to examining the data pertaining to the share

of cooperative banks in the total credit disbursement for the agriculture sector, the picture quite unfortunately turns out to be much disappointing. It is disheartening to note that the cooperative banks do not account for even 20 percent of the share of credit flow to the agriculture sector in India. Recent data show that in 2015-16, 70.2 percent of agriculture credit was contributed by the commercial banks, whereas the cooperative banks could contribute only 16.7 percent. In 2019-20, only 11.3 percent of the share of credit to agriculture could be contributed by the cooperative banks (Figure No.1). Looking into a longer trend, it could be found that the share of cooperative banks in agriculture credit plummeted to 11.3 percent in 2019-20 from a level as high as 64 percent in 1992-93. This clearly shows that cooperative banks have not adequately met the credit requirements of the agriculture sector on the expected lines.

Figure 1 Share in Credit Flow to Agriculture (In Percent)

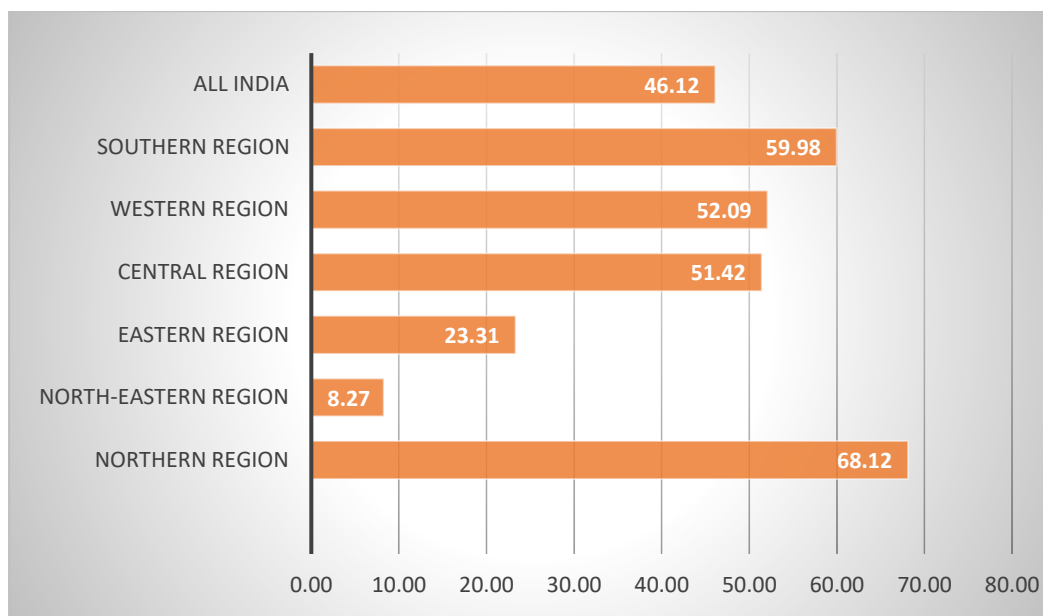


Source: RBI data on Report on Trend and Progress of Banking in India, 2022

Turning to the next important aspect to judge whether the cooperative banks have performed or not, we have to look at the profit making Primary Agriculture Credit Societies in different regions of India. It is obvious that at the all India level, only 46.12 percent of PACSs are making profit in 2021 (Figure No.2). Region wise, it is obvious that Northern Region has the highest percent of profit making PACSs followed Southern Region (59.98), Western Region (52.09). Nevertheless, it is highly embarrassing to note that North-Eastern Region has

the lowest percent of profit making PACS. To put it in a nutshell, it is apparent that most of the PACSs do not appear to be profit making PACSs in India.

Figure 2 Profit Making Primary Agriculture Credit Societies in different Regions in India



Source: RBI data on Report On Trend and Progress of Banking in India, 2022

A glance at the State Wise data on profit making PACSs shows that Himachal Pradesh has the highest percentage of profit making PACSs (87.37 percent) followed by Jammu & Kashmir (78.06) and Rajasthan (77.67 percent). The least percentage of profit making PACSs has been found in Haryana (6.71 percent), Bihar (13.94 percent), and Mizoram (19.48). Only in 18 states, more than 50 percent of PACSs make profit which is a deplorable condition as far as the cooperative banking sector is concerned.

Table 1 Percentage of Profit Making Primary Agriculture Credit Societies-State Wise

State	Profit Making PACSs (Percent)	State	Profit Making PACSs (Percent)
Himachal Pradesh	87.37	Uttar Pradesh	50.80
Jammu & Kashmir	78.06	Manipur	50.19
Rajasthan	77.67	Tamil Nadu	49.64

Uttarakhand	77.45	Madhya Pradesh	48.31
Chandigarh	76.47	Maharashtra	43.37
Gujarat	71.46	Tripura	42.54
Karnataka	66.26	Assam	40.34
Sikkim	64.77	Meghalaya	36.31
Andhra Pradesh	64.06	Andaman & Nicobar	32.76
Telangana	63.03	West Bengal	32.30
Kerala	58.67	Puducherry	28.30
Goa	56.76	Odisha	27.80
Western region	52.09	Mizoram	19.48
Chhattisgarh	52.07	Bihar	13.94
Punjab	51.58	Haryana	6.71
Arunachal Pradesh	51.43		

Source: RBI data on Report on Trend and Progress of Banking in India, 2022

Cooperative Banks Failures in India

Indian cooperative sector including banks has gone through struggling times. The ‘dual control’ over the cooperative banks by the Reserve Bank of India (RBI) and the government through the Registrar of Cooperatives has turned out to be much callous for the cooperative banks in some sense. The excessive and inept control coupled with inherent structural issues have culminated in the failure of 165 cooperative banks in the state of Maharashtra alone over the last years (Dalal, 2016). Urban cooperative banks failures have been a regular story in India for many years. For instance, in 2018, India faced nearly 1551 urban cooperative bank failures, although down from 1926 such failures that surfaced in 2004. The failure of Punjab and Maharashtra Cooperative Bank (PMC Bank) in 2019 caused a lot of worries among its’ customers due to delinquency in the allocation of credit by the Bank (Kazmin & Singh, 2019). For a country like ours, it is not only a great loss to the nation but it also sends signals of instability in the field cooperative banks.

Turning to Kerala, a state with relatively better financial literacy in the nation, and a state which claims to have been ‘full banked’, cooperative bank failures have occupied headlines in newspapers and electronic media. On July 29, 2022, it was reported that 164

cooperative societies in the state were not in a position to meet withdrawal needs of depositors. This has led to a trust deficit among the potential and existing customers of cooperative banks in Kerala. The unprecedented and unparalleled increase in the number of Non-Performing Assets (NPA) of the cooperative banks is yet another major menace that Kerala has been confronting with in recent times. At the end of December 2021, it is reported that the NPAs of the cooperative banks in Kerala amounted to 38.3 percent of total advances while during the same period commercial banks reported only NPA equal to 3.99 percent of their total advances (Phillip & Mathew, 2022).

Recent Policy Level Interventions

In an attempt to save the interest of depositors in cooperative banks and to strengthen the cooperative banks in India, two important policy interventions have been made by the Union government in recent times. Specifically speaking, one is a legislative intervention where the Government of India amended the Banking Regulation Act of 1949 so as to make it applicable to cooperative banks (Kalyanasundaram, 2020). This would extend the powers of RBI to the domain of cooperative banks. However, critics point out that this has led to a ‘dual control’ of the cooperative banks as the amendments in the Act, 1949 in no way dilute or affect the powers vested with the State Registrars of Cooperative Societies. Moreover, Primary Agriculture Credit Societies (PACs) still stay outside the purview of the Amendments made to the Banking Regulation Act of 1949. Notwithstanding this minute lacuna, it is expected that RBI control would be a speed-breaker to the tendency of cooperative banks failures in India. The second policy level intervention to revamp the cooperative banking sector in India is the formation of the Ministry of Cooperation at the Centre under the stewardship of Home Minister Shri Amit Shah. This is for the first time that the Union government in India has made an attempt to bring cooperative filed under the ambit of the central government. Created on 6th July, 2021, the Ministry aims to bring in a separate administrative, legal and policy framework for the development of the cooperative sector in the country. Providing an ‘ease of doing business’ policy environment for the cooperative sector and developing Multi-State Cooperative Societies are the main agenda of the Ministry of Cooperation. This ministry aims at the progress of each and every village in India with the help of cooperative movement, and it works on the mantra of “*Sahakar se Samridhi*”. It is obvious that this ministry can do a lot for the progress and stability of the cooperative societies and banks in India.

II. Conclusion

Cooperative banks have been vital in the development of rural and agriculture sector in India. They are expected to fill the credit gap in the rural sector. But, in India, although in some spheres, cooperatives have immensely contributed to the development of the country, in certain core areas of their function such as allocating enough credit to the agriculture sector, their performance has been proved to be not up to the mark. Adding fuel to this, failures of cooperative banks have gone to the extent of eroding the faith of people in it. In this background, the step that the Centre government has taken in establishing a separate ministry of cooperation is expected to be a brave one towards revamping the cooperative sector in India.

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