THE ROLE OF COOPERATIVES AS IT AFFECTS FINANCIAL INCLUSION IN INDIA

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Abstract: Cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise. Financial Inclusion is critical for achieving inclusive growth in the country. The Financial Inclusion initiatives will go a long way in not only financially empowering the people but also as an avenue of providing excellent business opportunities for the financial market participants. Experiences in the Developing nations have only reconfirmed the need for co-operative banking to bring about inclusion of this segment in the mainstream economy. The present study has two fold objectives. Firstly, to examine the role of cooperatives as it affects financial inclusion in India. The present study is based on secondary data collected from published government documents, reports, journals etc. With regard to financial education, it is crucial to harness the power of women. Just as it is said that a woman getting educated would educate the family, a woman being financially literate and included, would pave way for inclusion of all members in the family. Financial inclusion will act as a source of empowerment and allow people to participate more effectively in the economic and social process.

Keywords*:* Cooperatives, Financial Exclusion, Financial Inclusion.

Introduction

"A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise" (Anbumani, 2007). They are business entities where people work together to solve common problems, seize exciting opportunities and provide themselves with goods and services. A cooperative is managed on the basis that the customers of a business are also the owners of the business. Each customer is entitled to become a member of the cooperative society, thereby receiving the benefit of success via a dividend payout.

Financial Inclusion

Financial Inclusion can be referred to as delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the outcome for an open and efficient society. Banking services are in the nature of public good; it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy. This definition earmarks three key priority areas in promotion of financial inclusion:

a) Access to banking services;
b) Access to affordable credit; and

c) Access to free face-to-face money advice

Financial Inclusion is critical for achieving inclusive growth in the country. To achieve that, we have to expand our scope of financial inclusion initiatives to reach out to people at the grass-root level. We have adopted a two pronged strategy to achieve this objective:

i. Through voluntary effort by the banking community by evolving various strategies to bring unbanked people within the ambit of the banking sector, and, more importantly;

ii. By creating a demand by the people themselves to pull the banks, financial institutions and other service providers towards them to offer banking and financial services at a competitive and affordable rate.

The Financial Inclusion initiatives will go a long way in not only financially empowering the people but also as an avenue of providing excellent business opportunities for the financial market participants. Contrary to the common perception, financial inclusion is a potentially viable business proposition because of the huge untapped market that it seeks to bring into the fold of banking services. Financial inclusion prima facie, needs to be viewed as “money at the bottom of the pyramid” and business models should be so designed to be at least self-supporting in the initial phase and profit-making in the long run. It is important to keep in mind that service provided should be at an affordable cost.

Co-Operatives and Financial Inclusion

For the financial inclusion of this group to be successful little innovation would be made in the office of the bank. But if the Bankers move in the field, they will be able to innovate products and services on the basis of observing clients, households, markets and workplaces to tailor the financial services to suit the needs of this segment. Thus, to perform this challenging task of offering integrated financial services to the poor women, the Co-operative Banks are definitely more suited. The sense of co-operation is highly essential to harness the vast economic energy that is waiting to be unleashed in the poor women. Experiences in the Developing nations have only reconfirmed the need for co-operative banking to bring about inclusion of this segment in the mainstream economy. All over world poor women have proved to be reliable borrowers and borrowers who have the family interest in mind.

Objectives and Methodology

The present study has two fold objectives. Firstly, to analyze the problems and challenges associated with cooperatives in India. Secondly, to examine the role of cooperatives as it affects financial inclusion in India. The present study is based on secondary data collected from published government documents, reports, journals etc.

Analysis and Discussion

Cooperatives in India

Cooperative movement in India has celebrated its centenary year of service recently. Indian cooperatives are unique as they were initiated and supported by the government. Elsewhere it had always been organized only by volunteer members with least or no government intervention. In India it was introduced in 1904, as the planners of the country firmly believed that it could serve for national development and also could serve as a shied in protecting the vulnerable section of populace, especially the farmers from certain social evils like agricultural backwardness, poverty and rural indebtedness.

Though they were initially organized only as the credit institutions, Indian cooperatives today tirelessly serve in endless areas of services. They serve in credit and non credit areas. They deliver credits for agriculture as well as non agriculture purposes. Agricultural cooperatives have played a major role in India’s Green and White (dairy) Revolutions, providing income and employment for tens of millions of rural poor. There are over 150,000 primary agricultural and credit cooperatives serving over 157 million agricultural/rural producers. They operate their businesses in numerous non credit phases too. They work for milk producers, agricultural producers, weavers, consumers, fishermen, coir makers, employees, students of universities and colleges, and for many others. Agricultural cooperatives have played a major role in India’s Green and White (dairy) Revolutions, providing income and employment for tens of millions of rural poor. There are over 150,000 primary agricultural and credit cooperatives serving over 157 million agricultural/rural producers.

Important segments of Indian co-operatives

i. Cooperative education and training
ii. Agricultural credit cooperatives (production)
iii. Agricultural credit cooperatives (investments)
iv. Non agricultural credit cooperatives (urban banks)
v. Cooperative marketing
vi. Tribal cooperatives
vii. Fertilizer cooperative
viii. Consumer cooperatives
ix. Sugar cooperatives
x. Weaver cooperatives
xi. Cooperative spinning mills
xii. Industrial cooperatives (non weavers)
xiii. Dairy cooperatives
xiv. Fisheries cooperatives
xv. Housing cooperatives
xvi. Labour cooperatives
xvii. Poultry cooperatives

Benefits of cooperatives

1. Utopian principles: The principles themselves are the strength of cooperative business. The open and voluntary membership and democratic member control (one member; one vote) concepts strives to ensure equal growth opportunities to all citizens of the state who have common business needs and aspirations. It also ensures their direct participation in the business.

2. Non profit character: Cooperatives are basically welfare driven rather than being profit driven. This doesn’t mean they are charitable like, but protecting and promoting the economic and social well being of their members is the primary concern of cooperatives. The concept of „member economic participation‟ laid emphasis‟ on economic benefits to members via dividend payout in proportion to their business involvement, „the higher you participate in the business; the higher your dividend‟. This is an effective stimulus which encourages member’s involvement in cooperative business.

3. Root level functioning: They are root level organizations familiar to all, as they effectively operate public distribution system in each village of the country. Everywhere you go; there will be some cooperative society or bank. The point is that introduction is not needed if they could offer

attractive products which exactly meet their customer needs, cooperative businesses could be made successful and prosperous with their known customer band.

4. Governmental backing: Cooperatives are legally recognized institutions supported by governments. This legal backing is their main strength. They are exempted from taxes, stamp duties etc. Furthermore, they are offered with technical, financial and administrative assistance by the governments. This enables the cooperative businesses to generate the sufficient capital investments for their business operations with least effort.

5. Internationally recognized: The principle „cooperation among cooperative" is really unique. It serves as the base for cooperatives to expand their business operation as far as possible. Now a handloom product woven at Chennimalai area of Coimbatore district in Tamilnadu is being exported to Germany and USA.

Need for the study

Cooperatives today are viewed as failed institutions encircled by inefficiency and corruption. This should be changed. People do not believe what you intent to do, rather they judge you only by the things you have done. If cooperatives can give successful products, sure they will believe cooperatives are kick and alive. But can cooperatives give such products? Yes they can. All they need is morphing into new design of working so that these weaknesses can be managed effectively:

Raise your share capital: Cooperatives in general, collect very nominal contribution (as low as Rs10) from members towards share capital with a view to enable even the poor to become a member. This liberal approach is jeopardized. It has neither helped the business to grow nor has empowered the members. Rather it has eroded their bindings with the business.

Since the money investment is very meager, their real involvement in business operations has become a question mark. So raising share value will result both in increased member involvement as well as business soundness. For example, Oneota a successful consumer cooperative store in England collects $150 per share from their members so as to make sure their financial stature is strong and healthy. Since the money invested is higher, members showed real involvement in business operations and also receive higher dividend.

Make your shop attractive: Cooperatives banks attract very limited deposits whereas the local commercial banks could attract a lot. The products in consumer cooperative stores are quality assured and honestly priced; still their sales curve falls lower than the sales curves of the local private shops, why? The answer is their location and infrastructure. If you really want to be successful, be near to your customer and present yourself in an attractive way. Unless their infrastructure gives a sense of safety and quality in the minds of their customers, cooperative businesses can not attract the modern day customers. So designing your location in an easily accessible area is essential.

Alter your working pattern: Cooperative business houses especially the consumer stores and marketing cooperatives whose business is selling something to consumers, can not run their businesses as government offices. They should be available to their customers at the place and time convenient to them. Sometimes they may need to start their business so early in the morning or stay late in the nights. In order to keep their response positive and continuous, cooperatives should offer them a wonderful shopping experience by introducing self service systems, computerized billing, packing and door delivery for bulk buying etc. Member's feed back related to non availability of certain goods, quality complaints, price variations, service complaints etc. should be viewed and followed up seriously. In short the customer should be made to believe that „whatever product the customer names, he will get it from cooperatives at a fair price with reasonable quality".

Be professional: The managers of cooperative businesses should be more professional in their market operations. They should be vigil enough to trace new marketing opportunities as at when they appear and make use of them for their further growth. They should make brilliant purchase decisions by studying the market trends, for example investing more in fast moving products may increase the returns. Quality should be the watchword in cooperatives and steps should be taken to reduce the wastages and cost of goods sold. In short, the manager or secretary of a cooperative store should deliver his service in a professional way to prove himself competent and his business successful.

Cooperative Banking

The cooperative movement involves autonomous association of persons united voluntarily to meet their common economic, social and cultural needs through a jointly owned and democratically controlled enterprise. Cooperatives, as business enterprises, are different from other firms, in view of the fact that their ownership and control are directly vested in the hands of the members. The cooperative structure is designed on the principles of mutual help, democratic decision making and open membership. As remarked by Mr. Ban Ki-moon, the UN Secretary General, *Cooperatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility*. Incidentally, the current year 2012 is declared by the UN as the International Year of Cooperatives. Voluntary and open membership, democratic control, economic participation, autonomy, training and concern for the community are some of the overarching values with which the cooperatives have been associated. Cooperative banks in India being recognized as small people bank can achieve the benefits of financial inclusion. Cooperative banking as an institution is still pertinent and can play a very constructive role in meeting the objective of greater degree of financial inclusion in the country. The Cooperative movement has a long history in India. Cooperative societies were set up in India towards the close of the nineteenth century drawing inspiration from the success of experiments related to the cooperative movement in Britain and the cooperative credit movement in Germany. Since inception, the Urban Cooperative Banks (USBs) have been playing an important role in the socio-economic development of the country by making available institutional credit at affordable cost, particularly in the urban and semi-urban areas. The extension of the Banking Regulation Act, 1949 to cooperative societies with effect from 1 March, 1966, brought the cooperative banks within the ambit of the Reserve Bank"s regulation and supervision. Correspondingly, deposit insurance cover was also extended by DICGC to the co-operative banks. While there has been a gradual growth in the UCB business over the period, with deposits growing from Rs 167 to Rs 2, 12, 031 crore and advances growing from Rs. 153 to Rs. 1, 36,341 crore during the period 1966 to 2011, the growth of UCBs in the total banking business has not been commensurate with the overall growth of the banking sector. Despite their large number, UCBs constitute a very small market share at 3.5 per cent (as at March 31, 2010) of the total banking sector

Access to banking services

Considering their long history and their existence in India for more than hundred years, cooperatives institutions have served its customers significantly. The Urban Cooperative Banks have shown their mushroom growth and established themselves as people‟s bank. Today these banks basically work towards providing cheap, easy and smooth credit access to the poor people and have contributed significantly in the shaping of life of the urban poor. As far as rural areas are concerned, the cooperatives have hundred percent penetrations in rural India through their network of Primary Agricultural Cooperative Credit Societies, meeting not only agricultural needs but supplying other allied and non agricultural requirements to the rural poor and the farmers as well. They enjoy unique selling proposition and that is their relationship banking. The managers of cooperatives know their customer personally and well aware of their need and aspirations from the institutions.

Table 1 exhibits the share of cooperatives in financing the rural India and their growth trajectory shows that there are huge potential for this sector to expand their reach and cater for the poor people especially in rural India through the massive network of cooperative societies. Today when commercial banks, private banks and foreign banks are moving from conventional banking to service based on fund-banking business; cooperatives enjoy a strategic position as far as catering for the unbanked are concerned. Cooperatives can target the unbanked population and move forward from their member centered activities to public centered activities without losing the ideology of cooperation and achieving the much-needed viability. It is this ideology which is considered as a root cause that has involved and given cooperatives their identity and is contributing significantly towards their sustenance.

Agricultural credit and share cooperatives and growth rate					
Cooperative banks	**RRBs**	**Commercial banks**	**Total**	**Cooperative banks share (%)**	
1991 to 1992	5,800	596	4,806	11,202	52
1992 to 1993	9,378	831	4,960	15,169	62
1993 to 1994	10,117	997	5,400	16,494	61
1994 to 1995	9,406	1,083	8,255	18,744	50
1995 to 1996	10,479	1,381	10,172	22,032	48
1996 to 1997	11,944	1,684	12,783	26,411	45
1997 to 1998	14,085	2,040	15,831	31,956	44
1998 to 1999	15,916	2,538	18,441	36,897	43
1999 to 2000	18,363	3,172	24,733	46,268	40

2000 to 2001	20,801	4,219	27,807	52,827	39
2001 to 2002	23,604	4,854	33,587	62,045	38
2002 to 2003	23,716	6,070	39,774	69,560	34
2003 to 2004	26,959	7,581	52,441	86,981	31
2004 to 2005	31,424	12,404	81,481	125,309	25
2005 to 2006	39,404	15,223	125,859	180,486	22
2006 to 2007	33,987	15,170	100,999	150,156	24
2007 to 2008	35,875	17,987	128,876	182,738	20
2008 to 2009	36,165	19,325	132,761	188,251	19
2009 to 2010	32,871	23,984	121,879	178,734	18

Commercial Banks and RRBs were clubbed together up to 1990 to 1991. Source: Economic survey and NABARD various issues.

Financial Inclusion and Urban Cooperative Banks

Mention UCBs in corporate circles or even public sector commercial banking and chances are that will evoke a smirk of dismissal. There are over 1,650 UCBs with close to 7,000 branches in the country. Yet they form a tiny part of the banking system accounting for less than 3% of the total banking assets and deposits and less than 3.5% of total advances. They also follow the 80 to 20 rule to the T. The top 20% of UCBs account for almost exactly 80% of its deposits (Rajesh, 2011).

In spite of being present in 25 States, much (almost 80%) of the action happens in the five states of Gujarat, Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu – with the lion‟s share going to Maharashtra. As at 31 March, 2010, the State accounted for over a third of all UCBs, almost half of all UCB branches, around 60% of total extension counters of UCBs and more than 85% of all its automated teller machines (ATMs). Accordingly, more than 60% of the total banking business of the UCB sector was concentrated there but their numbers have been dwindling in recent years. During 2000 to 2010, 132 banks had their licenses cancelled and 62 merged with other banks. In this scenario, it is perhaps understandable why this sector does not exactly steal the limelight in banking policy discussions.

Financial inclusion advantages of UCBs

While a large section of the financially excluded population inhabits rural areas, financial exclusion is widespread in urban and semi-urban areas as well. Generally farmers, small vendors, agricultural and industrial labourers, people engaged in unorganized sectors, the unemployed, women, older and physically challenged people are the most commonly excluded segments. These segments are best addressed by the UCBs. The key advantage that UCBs enjoy over commercial banks is derived from their cost structure. The labour costs of UCBs are considerably less than that of commercial banks and generally the operating costs are also minimal.

Equally important is the local nature and the consequent informational advantages of the UCBs. Being an integral part of the community, UCBs have an advantage over their commercial rivals in terms of having information both about upcoming business opportunities as well as borrower quality, which national-level banks have a hard time gathering. Finally, the advantages of the local nature of the UCBs also manifest themselves in the flexibility that these banks can provide to their local clientele. Unlike their commercial counterparts who need to adhere to national and global policies to alter their practices, UCBs can be far more responsive to the needs of the local community and the changes there. Once again, that provides a massive competitive advantage.

Strategies for effective financial inclusion by cooperatives

The entire procedure for financial inclusion through cooperatives is a different and unique exercise to be undertaken. Necessary changes will be needed by the cooperatives in their corporate structure to encompass the unbanked. The strategies need to be formulated for identifying target group and focusing on meeting their unfulfilled need of banking services. Some key indicators need to be looked in or adhere to when any strategy needs to be designed for financial inclusions which are discussed as follows:

1. Focus on the core financially excluded people: The core financially excluded poor people are most likely to suffer the negative consequences of a fierce circle of exclusion. Access to banking could be the key to unlocking access to other financial services. Banking services would assist in savings among these people thereby increasing the standard of living and improving the socio economic scenario of the society.

2. Deliver through trusted intermediaries and public bodies: Today cooperatives alone cannot achieve the progress on their own. They need to get the support from other agencies to swiftly move in their objective of financial inclusions among the poor because, the financially excluded are already in contact with such intermediaries, such as NGOs, self-help group (SHGs), Cast based groups, etc. Cooperatives need to canalize or harness their reach and build relationships to work in partnership could be an effective way to achieve results.

3. Focus in financial exclusion hotspots: There are many states in India such as Bihar, Orissa, Rajasthan Uttar Pradesh, Chattisgarh, Jharkhand and not to forget large number of North-Eastern states, where the average population per branch office continues to be quite high compared to the national average. As you would be aware, the new branch authorization policy of Reserve Bank encourages banks to open branches in these under banked states and the under banked areas in other states. The new policy also places a lot of emphasis on the efforts made by the bank to achieve, inter alia, financial inclusion and other policy objectives. Such hotspots can deliver the much required inclusion of unbanked in the mainstream banking and would equally assist the Cooperative institutions in expanding their reach and viability in future.

Conclusion

It is beyond any doubt that no financial institutions can match the unmatched reach of the cooperatives in the country. Cooperative banking as an institution is still pertinent and can play a very constructive role in meeting the objective of “greater degree of financial inclusion in the country” as pronounced by RBI Governor Y V Reddy in the Annual Policy Statement 2005-06, and the welfare of the common man (aam admi) as vocalized by the Prime Minister and his men. The current policy of inclusive growth with financial stability cannot be achieved without ensuring universal financial inclusion. The financial inclusion for the underprivileged will lead to host of downstream opportunities such as jobs for the participants to work as BCs at remote villages, technology providers etc. not to speak of the huge economic growth the financial inclusion measures trigger. Banks need to perceive Financial Inclusion as a profitable business model and not as an obligation. This would be possible only if banks strive towards offering more and more credit products to customers captured as part of the Financial Inclusion Plan and lower transaction cost by leveraging technology. The key is to establish an appropriate business delivery model through the involvement of all stakeholders to make financial inclusion a reality.

With regard to financial education, it is crucial to harness the power of women. Just as it is said that a woman getting educated would educate the family, a woman being financially literate and included, would pave way for inclusion of all members in the family. Given that levels of general and financial literacy are fairly low among women, the effort should be to devise innovative programmes of financial literacy targeted towards women. Financial inclusion will act as a source of empowerment and allow people to participate more effectively in the economic and social process. Banking on the poor could turn out to be a rich banking proposition. Financial inclusion is a win-win opportunity for the poor, for the banks and for the nation. Co-operative Banks have a duty to rise up to meet these aspirations, convert the perceived weakness into exciting opportunities and facilitate inclusive growth.

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