



## ROLE OF COOPERATIVE BANKS IN RURAL DEVELOPMENT OF KERALA AND IMPACT OF DEMONETIZATION

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**Abstract:** Rural Development and inclusive growth have become the central theme of India's developmental policy. The post independent era in India has witnessed rational changes in operational policies and practices of the formal financial agencies in the rural areas and stressed an institutional structure for agricultural and rural credit where the cooperative sector ensured direct credit to farmers. The recession of 2008 affected the financial markets all over the world. Many financial institutions fell out but cooperatives could stand in the wave of the great recession. The cooperative movement in Kerala has a solid foundation and impressive records in terms of strength and financial stability and it is one of the most vibrant cooperative movements in the country. The objective of this paper is to analyse the role of cooperatives in rural development especially in the case of Kerala State. As of June 2015, there were about 14896 cooperatives societies out of which 30 are apex/federal societies, 3580 are banks, 4679 are consumer societies, 1127 n are women cooperatives and 832 are SC/ST Cooperatives. From the total households of the rural state 30.3% are the members of cooperatives. Since Primary Agricultural Cooperatives have larger presence in rural areas than the commercial bank branches, the banks may use the service of PACs to ensure the availability of adequate credit to the rural households. Rural economy may be paralyzed due to non-inclusion of co-operative banks and any disruption in the sector would result in irreparable damage to the state's economy.

**Keywords:** Cooperative, Agricultural Credit, Marketing, Policy Restructuring, wave of demonetization.

### Introduction

The financial needs of the farmers and rural entrepreneurs have increased manifold with the passage of time. To meet these ever-increasing credit needs, availability of formal financial institutions and accessibility to finance access points are the needs of the time. In the field of rural financing, the real challenge is to cover all the households with the formal financial network and strengthen the formal financial institutions in rendering services to these poor but needy rural masses. Under these circumstances, to ensure smooth flow of financial services in the rural areas and to improve investment climate in agriculture and rural industrial sector, co-operative movement has to play a vital and unavoidable role in every aspects in rural economy.

Cooperative banks came into existence in Kerala even before the formation of the state. It was part of a people's movement to free the people from the clutches of money lenders. The cooperative movement in Kerala has a solid foundation and impressive record in terms of strength and financial

stability and it is one of the most vibrant cooperative movements in the country. Kerala cooperative Act was amended in 2013 following the 97<sup>th</sup> constitutional amendment. 2013 amendment has made substantial change in the election of the management board of PACS, auditing and management of cooperative societies / bank. Co-operative banks serves as the lifeline of Kerala economy .These financial institution has Rs 90,000 crore in deposits and Rs 75,000 crore in credits. The deposit-credit ratio is 80%, much higher than Kerala's largest nationalized bank, State Bank of Travancore, which is at just 52.6%. The figures speak volumes about the importance of co-operative banks.

### Co-operative banks in India and Rural Development

Rural Credit Cooperatives were born more than a hundred years ago and have been decisive in providing agricultural credit, especially to small and marginal farmers and to agricultural workers. As on March 31, 2013, the short term credit cooperative

structure (STCCS) comprised 92,432 primary agricultural credit cooperative societies (PACS), 370 district central cooperative banks (DCCBs) and 31 state cooperative banks (STCBs). Though cooperatives are providing only 17 percent of agriculture credit, their share in total number of agricultural accounts held by the banking system is substantial. Cooperatives provided agricultural credit to 3.08 crore farmers during 2011-12, compared to only 2.55 crore farmers by commercial banks and 82 lakhs by the regional rural banks (RRBs). These included 67 lakhs new farmer financed during 2011-12, compared to 21 lakh by commercial banks and nine lakhs by RRBs. Cooperative exposure to small

and marginal farmers is 66 percent out of its total loan portfolio, far better than commercial banks' exposure to these categories at 55 percent. It is interesting to note that per account loan disbursed by cooperatives was Rs 28,467 (2011-12), compared to Rs 1.15 lakh for commercial banks and Rs 66,000 for RRBs. This signifies that cooperatives are supporting more people of the neglected, weaker and excluded categories of small and marginal farmers. These, as in 2010-11, accounted for close to 85 percent of total landholdings and 44 percent of total cultivable area in our country. Also, compared to commercial banks and RRBs respectively, the share of cooperatives in term deposits was about 10 percent and 17 percent.

### Composition of Co-operative Societies in Kerala –An Overview

**Table No 1: Co- operatives under the Control of Registrar of Co-operative Societies as on March 2006 and On March 2016**

Sl. No	Type Of Societies	2006	2016
1	Federal Co-operatives	30	30
2	Consumer Co-operatives	754	4679
3	Marketing Co-operatives	531	576
	Women Co-operatives	889	1152
5	Miscellaneous Co-operatives	6098	3920
6	Credit Co-operatives	3148	3580
7	SC/ ST Co-operatives	801	834
8	Processing Co-operatives	37	57
9	Housing Co-operatives	269	459
	Total No	12557	15287

**Source:** Economic Review 2017

Co-operative banks in Kerala enjoy a rich legacy; they provided credit for farmers since the 1950s and 1960s, years before commercial banks found a foothold in the state. With a customer base of more than two million, the three-tier banking system is one of the largest in the country. The state and district banks follow the Reserve Bank of India (RBI)'s guidelines, while the primary banks come under the district banks and follow the directives of the Registrar of cooperative societies. Primary cooperative banks deposit money with the RBI-monitored district bank.

Kerala's robust cooperative banking sector, with as many as 15,287 banks, 736 scheduled caste

cooperative societies, 98 scheduled tribe societies, 1,152 women's cooperative societies, 6098 Miscellaneous Co-operatives consists of 232 fishermen's cooperative societies, labour contract societies are the main driver of these numbers. About 3.5 lakh Keralites keep their savings in cooperative banks and more than half of all savings in cooperative banks in India, or Rs 1, 40,000 crores, are held in Kerala, mostly in primary and district-level cooperative banks. The table above shows an increase in number of different types of co-operative societies over the period of ten years 2006-2016 in Kerala Economy.

**Table No 2: Physical Achievements under Co-Operatives During 2015**

Item	Achievements(Rs In Crores)
Short Term (Agriculture)	8201.61
Medium Term (Agriculture)	5150.64
Long Term (Agriculture)	208.68
Retail Sale Of Fertilizers	1238.12
Retail Sale Of Consumer Goods	521.177
Agriculture Produce Marketed	477.24
Storage In Co-Operatives	61994.50
Total	

Source: State Planning Board Report

**Table No 3: Annual Plan Outlay for Co Operatives during 2015-16**

Type of Societies	Amount-percentage wise
Credit Co-operatives	25
Marketing Co-opreatives	5.28
SC/ ST Co-operatives	7.20
Co-operatives academy for professional education	10.19
Housing Co-operatives	11.33
Miscellaneous Co-operatives	41
Total	100

Source: State Planning Board Report

The above table no 2 and 3 manifest the physical achievements in terms of its different activities such as Short Term, Medium Term, Long Term (Agriculture), Retail Sale Of Fertilizers, Retail Sale Of Consumer Goods, Agriculture Produce Marketed and annual plan outlay for co operatives during 2015-16 in Kerala. In the annual plan 2015-16 large outlay was assigned for credit co-operatives (25%) and there have been the flow of direct institutional credit for agricultural and allied activities through co-operatives.

#### **Selected Indicators of Performance of the Primary Agricultural Credit Societies**

Among the short term credit structure, Primary Agricultural Credit Societies (PACS) are the most important. There are 1642 PACS out of which 1084 are working very efficiently to the finance access points of ever-increasing credit needs of rural people. On the other hand around 558 PACS are under the threat of liquidation and loss. The

PACS are functioning with a paid –up share capital of Rs 1766.33 crores and reserves of 4119.38crores.The total loan disbursed during 2015-16 was 91308.88 crores and it was 94881.88 crores in the previous year. Compared to the previous year, there was an increase in the disbursement of medium and long term loans but short term loan has been declined considerably, It is unfortunate to note that out of total disbursement of 94881.88 crores, mere 10.55 per cent was for agricultural purposes in the year 2015-16.What is even more unfortunate is that only 150.60 crores (0.21 per cent) was met out for long term agricultural purposes. Among the three tier structure for short term credit, state and district level bodies have on the whole shown marked improvement on the parameters of profitability, recovery and reduction of non-performing assets in recent years, whereas the lowest tier (PACS) is beset with some problems.

**Table No 4: Selected Indicators of credit operations of Primary Agricultural Credit Societies**

Sl. No	Indicators	2015	2016
1	No of Societies	1638	1642
2	No of Advanced Societies	1288	1354
3	No of members	4.3 crores	4.38 crores
	SC	15.78 lakh	15.77 lakh
	ST	1.50 lakh	1.80 lakh

4	No of borrowing Members	2.95 crores	3.01 crores
5	Paid up share capital	1473.80 crores	1766.33 Crores
6	Reserves	2088.29 Crores	4119.38 Crores
7	Deposits	67785.06 Crores	69925.89 Crores
8	Working Capital	90245.74 crores	9164.75 crores
9	Loan issued	94881.88 Crores	91308.88 crores
10	Loan outstanding	68854.43 crores	62086.57 crores
11	Loan overdue	10097.68 Crores	10530.47 crores
12	Demad	71757.58 crores	71811.28 crores
13	Short term loan for agricultural purpose	7095.37 crores	4534.54 crores
14	Short term loan for non-agricultural purpose	64375.91 crores	43.004.36 crores
15	Medium term loan for agricultural purpose	4472.81 crores	2842.05 crores
16	Medium term loan for non-agricultural purpose	15371.82 crores	17522.60
17	Long term loan for agricultural purpose alone	170.38 crores	150.60 crores
18	Long term loan for non-agricultural purpose	3035.59 crores	3247.55 crores
19	Value of fertilizer sold	2346.52 crores	2178.64 crores
20	Value of agricultural produce marketed	597.41 crores	442.61 crores

Source: State Planning Board

The co-operative Credit structure at the village level plays a crucial role in the development of the rural economy. In Kerala, the lowest level that is the PACS are very strong. The selected indicators of credit operations and financial performance of the

Primary Agricultural Societies (Table No'4 and 5) show a mixed trend. While deposit rate and working capital and reserves show an increase trend, the loan provided for agricultural purposes has declined considerably.

**Table No 4: Status of the PACS in Meeting the Credit Needs of the Rural Economy**

Sl. No	Indicadores	2015	2016
1	Average membership per society	13855.85	15308.23
2	Average share capital per society	111.63 lakh	120.95 lakh
3	Average deposit per society	4494.25 lakh	5454.26 lakh
4	Average working capital per society	32435.78 lakh	35535.74 lakh
5	Average loan per member	5730.53 lakh	6370.53 lakh
6	Percentage of borrowing members to total	88.62	92.84
7	Average loan advanced per society	6437.65 lakh	6635.62 lakh
8	Average loan advanced per borrowing members	38312.42 Rs/-	39123.35 Rs/-
9	Percentage of overdue to demand	14.61	15.01
10	Percentage of overdue to outstanding	16.61	17.23

Source: State Planning Board

### Co-operative Societies and Self-Help Groups

An important development in the state under peoples planning programme is the rapid growth of Self Help Groups. (SHGs) The formation of self-help groups by co-operative societies began in 1997. Co-operative societies are exempted from clause 59 (1) of the Kerala state co-operative Act in order to provide loans to self-help groups. Agricultural crops of self-help groups are to be brought under the master insurance scheme of District Co-operative Banks. In Kerala, under Co-operative sector, the SHG scheme is implemented through PACS.

The SHG scheme has made stupendous progress, and as on March 2015 the number of SHG links with banks has neared more than a million and the bank loans to SHG has crossed Rs.2900 crores. The SHG scheme has been a catalyst in improving the income and standard of living of poor and could inculcate the habit of saving and thrift. This system can help financial inclusion to reach greater heights in coming years. Co-operative Structure in the economy is supporting the government in achieving universal financial inclusion through its link with SHGs. Since Primary Credit Agricultural

Cooperatives have larger presence in rural areas than commercial bank branches, they have greater access in the perspective of financial inclusion and strengthening direct credit availability to the rural economy. The present need is not only to empower existing SHGs but also to make them the Business Correspondents (BCs) model effective in reaching the poor villages through the cooperative banks.

### **Impact of Demonetization on Co-Operative Sector of Kerala**

*Kerala is one of the few states where demonetization of Rs 500 and Rs 1,000 currency notes generated so much heat.* The demonetization of high-value currency has brought the cooperative banks in Kerala under glare. The decision of the Reserve Bank of India to keep them out of the currency exchange business has put the entire sector with a network of over 2,500 branches across the state in the dock. The demonetization wave destroy the sector that caters to nearly one crore people, especially in the rural areas, with a huge deposit of Rs.1.27 lakh crore. They are not able to withdraw the deposits since cooperative banks have not been provided with new currency notes. Cooperative banks have to go to regular banks to exchange the defunct notes. Since the current restriction on the withdrawal of money is applicable to cooperative banks as well, they will not be able to disburse large amounts at present.

It was ordered to verify the money deposited in cooperative banks across the state and requested to take the necessary action against tax evasion. The Income Tax Department has already begun the process. It has started issuing notices to cooperative banks to furnish details of the deposits. The I-T men are trying to take advantage of the helplessness of the depositors in pulling back the deposits in the current situation. The move to weaken the PACS is also an attack on the peasantry and other rural people, leaving these sections left at the mercy of usurious moneylenders, micro finance institutions (MFIs) and chit funds that are mushrooming in the countryside and semi-urban areas. Monthly welfare pensions to 4.4 lakhs of widows, elderly people and other vulnerable groups of people receiving financial support through the primary co-operative institutions were in jeopardy.

It is viewed that this move is part of the government of India's 'reforms' for intensifying the corporatization of agriculture, to enable the big capital to establish its predominance over the vast agricultural credit sector, to the detriment of the small, middle and marginal farmers in particular.

### **Crisis and Transparency Issues**

The crisis began almost a week after Prime Minister Narendra Modi's surprise announcement that made 1000 and 500 rupee banknotes illegal tender. On November 14, the RBI stopped primary co-operative banks and district co-operative banks from accepting and exchanging the demonetized banknotes. In the interim period that had passed, between November 9 and 14, Rs 280 crore worth of old notes had been collected as deposits from account holders, though banks did not give out new notes.

It is believed that money-laundering suspicions forced the RBI to impose curbs on these financial transactions. The apex bank has not given any specific reasons for the decision so far, but this order paralyzed the primary co-operatives. While the district banks are issuing new currency, primary banks can now neither accept scrapped notes nor issue new ones. They just have to do a balancing act with a meager amount of Rs 24,000, provided by the district banks every week. This restriction questioned the existence or identity of PACS as banks/societies. CP John, former planning commission member, alleged that the union government aimed to discredit co-operative banks after demonetization. "The Centre gave money transaction nod to post offices and petrol bunk, and not the co-operative banks. It is part of a conspiracy to provide ideal fodder for new-generation banks to widen their presence in Kerala."

At the core of the current crisis lies the issue of transparency. It is alleged that primary co-operatives do not follow the KYC (Know Your Customer) process, thus making it easy to stash black money in benami accounts, i.e., accounts whose beneficiary is not the account holder on record. Successive state governments have objected to the RBI's attempt to bring primary co-operatives under its ambit and make the system more transparent. It was prompted by the unwillingness of the cooperative banks to follow the RBI's banking norms in their operations. They feel this

may be because black money is the lifeline of cooperative banks in the state. The black money estimated by the I-T departments of cooperative banks in Kerala is roughly Rs 30,000 crores. The state-level bankers committee reported an increase of 71.31 percent in the domestic deposits in Kerala during 2014. The domestic deposits in the banks as on 31 December, 2014 were Rs 3.3 lakh crores. The NRE deposits grew only by 15.77 per cent during the period. The high growth of domestic deposits despite the recession has been baffling economists. VA Joseph, former managing director of Thrissur-based Catholic Syrian Bank, feels that the higher interest offered by banks and opening of new accounts under the Pradhan Mantri Jan Dhan Yojana could be the main factors behind the sudden jump in the domestic deposits. The current interest offered by commercial banks on NRE deposits is between six and seven percent while the cooperative banks offer between nine and 10 percent for one-year terms and beyond. Even Non-Resident Keralites have opted for cooperative banks for parking their money. The NRKs were showing preference for cooperative banks as they were offering higher interest rates compared to commercial banks — without paying tax.

This can only be self-defeating as it would adversely affect the credit needs of small and marginal farmers or landless labourers

### Conclusion

Earlier, the customers in these institutions were mostly farmers and small traders, who deposited money in the banks only after striking a deal or selling

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some property. The situation changed after the Income Tax men started keeping track of banking transactions. This forced many from cities and towns to park unaccounted money in cooperative banks in rural areas. Furthermore it is unfortunate to note that out of total disbursement of 94881.88 crores, mere 10.55 per cent was for agricultural purposes in the year 2015-16. What is even more unfortunate is that only 150.60 crores (0.21 per cent) was met out for long term agricultural purposes. There have been continuous decline in the share of total direct institutional credit to agricultural and allied activities through cooperatives in India. It was 87.1% in 1971 and reduced to 50.2% in 1991 and even to 22.65 % in 2011. The same trend can be seen in Kerala cooperatives even with more intensity. NABARD had issued a revised circular on September 6, 2013, amending its earlier circular on the issue of technological linking of the PACS with the national payment system. The delegation strongly raised the issue of exemption of cooperatives from income tax.

With the Centre adopting a tough stand on unaccounted black money, observers believe that the primary co-operative banks have to fall in line and commit themselves to follow RBI guidelines, if they wish to resume banking services. Economists also think that the co-operative system should be cleaned of black money. Dr BA Prakash, chairman of the fifth Kerala State Finance Commission, said that allegations of stashing black money in co-operative banks should be examined. "Co-operative societies should be protected at any cost. So the government should make it black-money free."