

Polyvalent Financial Inclusion By State Cooperative Banks

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ABSTRACT

The robust three tier State Cooperative Bank (SCB) network based on cooperative principles at the grass root level is one of the major economic force in developed countries. Similarly, in developing countries like India it has become one of the most powerful engine boosting financial inclusion. And is set to achieve the PM's mission of doubling farmer's income by 2022.

Today as the country grapples with COVID-19 situation with the economy on ventilator, reforms are paving way for a better India. And the StCB sector too has a futuristic role to play.

Farming along with rural industries and MSME sector both help Financial inclusion hence making StCB a part of the financing plan to MSME credit could help the SCB and their network to become a economy driver and pave a way for a resilient GDP.

This paper gives a bird's eye view of how the SCB along with its DCCBs and PACS can help give larger scope to financial inclusion. This paper discusses 11 most prominent SCBs and their share in the peer group of 33 SCBs pan India. And also their relevance for covering farmer families understood through peer comparison ratio for DCCBs and PACS. Also this paper consists of case studies of some of the SCBs who have fortified their presence by not restricting themselves to agricultural credit and made more thrust through cooperative fundamentals and principles to serve larger areas of financial inclusion including the MSME sector too in its scope of operations.

Keywords : *State Cooperative Bank, Primary Agriculture Cooperative Society, financial inclusion, rural industries, MSME, Coverage of farmer families.*

Introduction :

Cooperatives fortified by chain of unity, are the mantra to create common wealth and achieve economies of scale and scope.

Armed with a poignant unique architecture the State Cooperative Banks or StCBs as they are commonly called, stand apart from the mainstream

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banking scenario built on a three tier structure following principles of cooperation. Also, catering to the short and medium term finance gaps of the small beneficiaries. The three tier short term cooperative credit structure (STCCS) consisting of Apex Bank at State-level, Central Cooperative Banks at the district-level (DCCBs) with the headquarters at district capital and their branches in various places of the concerned districts. And at the grass root level, Primary Agricultural Credit Societies (PACs) functioning at village level are articulated to work towards short-term and medium-term credit requirements of agriculture and rural economy.

Along with a unique architecture, the State Co-op. Banks (SCB) have a unique style of functioning too. As an Apex Cooperative Bank they function as balancing center for resources of the Cooperatives in the State and guide, support, assist the DCCBs and their members in improving their managerial capabilities, operational efficiency, technology adoption & upgrade, training, and any other activity as may be beneficial to the overall growth of Cooperative Credit Structure in the State. This style of functioning eliminates individual profit, distributes surplus earnings according to the established law to work for a common cause ensuring distributed multifaceted development and prosperity. At the same time, SCBs also act as investment agency for DCCBs. At the same time they act as a nodal agency for channelizing funds and implementation of schemes from RBI, NABARD and Government to DCCBs and farmers through PACs by providing refinance facility to DCCBs.

The Cooperative credit concept due to its widespread success is now accepted as the best agency for agricultural credit to reach millions of farmers and thereby establish grass-root contacts.

Financial Inclusion includes majorly rural and MSME credit. And the StCBs can channel their strength to fortify MSME credit along with rural credit.

On one hand, MSMEs face issues with short term finance like working capital finance and trade finance which can be efficiently catered by the SCBs. While on the other hand, small scale of operations and concentration of operations in farming sector has led the SCB to face major shortcomings. The emerging landscape of commercial banks has further dampened prospects of the SCB network. At one point of time the StCB network unarguably held strong in the area of farm credit.

Prospectively, thus the SCB network needs to diversify operations through intrinsic diversity and relate to state wise peer competition to overcome this challenge and synergize with the MSME sector.

Literature Review :

In advanced economies, such as the United States (US), France and the Netherlands, Financial Cooperatives compete with commercial banks in retail banking and lending to small and medium enterprises (SMEs). The market share of loans to SMEs of Rabobank in the Netherlands is 39.6 per cent and of the Credit Agricole Group in France is 34 per cent. In comparison, the lending of Indian urban co-operative banks (UCBs) to micro, small and medium enterprises (MSMEs) is 14.5 per cent of the total commercial bank lending in 2018-19. Financial Cooperatives showed considerable resilience during the global financial crisis of 2007-08 as they out performed commercial banks and continued lending to SMEs (**Source: Co-operative Banks: a Cross-Country Comparison**). Thus, SCBs explore such an option on large scale.

Recently, there have been suggestions to evolve the SCB network with greater supervision of the architecture by RBI than earlier which will give more thrust to banking operations with cooperative principles in background. This intervention will help SCB financing also the non-farm MSME sector by creation of cooperatives or association of the MSMEs sector wise who can seek collective credit . For eg automobile ancillary units having a wide export base can access short term credit based on cooperative principles. This will help risk mitigation and at the same time help diversify SCB portfolio of operations.

Optimizing Financial Indicators through Intrinsic Diversity

The SCB network is not alien to key financial indicators in the general banking system. NPAs below the 10% mark, high recovery to demand ratio, ideal credit to deposit ratio in the second tier and higher profitability margins count at the same level as that of the general banking levels. However, limitations have restricted the SCB market share as compared to SCBs.

Limitations arising from,

1. Announcement of farm loan waivers which affect credit to deposit ratio, in times of draught like conditions wherein recovery becomes thin affecting profitability.
2. Reliance on short term lending to agricultural cooperatives and its allied activities restricts profitability due to concentration of risk in one sector with a mediocre deposit to credit ratio.
3. The StCB face stiff competition from Scheduled Commercial Banks, small finance banks and payments banks. The share of rural co-operatives in this category of short term loans which was as high as 64 per cent in

1992-93 fell dramatically over the years due to the spread of commercial bank network offering easy financing options.

4. Heavy reliance on deposits which are the dominant component of the liability structure of StCBs, and especially of DCCBs whose extensive branch network enables higher deposit mobilization leads to lower scope for earning a good credit to deposit ratio.
5. The DCCBs persistently have higher NPA ratios and lower recovery to demand ratio than StCBs. As the share of agricultural lending in the portfolio of DCCBs is higher than that of StCBs as such, their balance sheets are exposed to the volatility in agricultural prices and output.

Thus the above limitations makes it imperative for the StCBs to diversify itself in terms of beneficiaries while holding their portfolio in reference to short term lending based on principles of cooperation intact.

MSME sector which forms a major part of financial inclusion providing 40 million jobs and contributing about 40% to the GDP is suggested as the best choice. Already there has been a major thrust by some of the StCBs financing ancillary industries such as the sugar manufacturing cooperatives or the cotton ginning cooperatives, textile cooperatives etc . However there is still an immense scope for the StCBs to incorporate more non- farm sectors in their field of operations. Thus, optimizing on their financial indicators through intrinsic diversity.

Research Methodology

In order to understand how the State Cooperative Bank network can not only sustain but at the same time overcome its limitations , it becomes pertinent to understand the lacunae and where there can be scope to turn weakness into an opportunity. Thus we consider two aspects which can help us understand to a preliminary extent owing to the limitation of this paper . An indepth study will prove to be a game changer for the StCBs to have larger market share not only in scope but also in profit and larger extent in distribution of this profit for the purpose of CSR activities in the same area. DCCBs and PACs are the veins and arteries of StCBs which not only help deliver the principles of cooperation but at the same time facilitate credit through the network. Though number of districts remain fixed number of PACs can be modified for better coverage. This analysis will also help back an analogy for creation of more districts for a state to help foster better facilitation of state services especially in times of natural calamities and disasters.

1. Analysis of State wise Distribution of DCCBs and PACS vice versa Peer Strength

Under this topic we understand, percentage spread of peer network as compared to individual strength in context to DCCBs and the PACS. Observations are made based on Chart1 for DCCBs and Chart2 for PACS. For this paper 11 peer states have been considered. We arrive at a Peer Comparison figure by considering the total number of DCCBs and PACS i.e 365 and 95595 compared with each of these 11 StCBs .This enables us to find the share and thrust of each of these 11 StCBs in terms of DCCBs and PACS as compared to total of 33 SCBs.

2. Analysis of Key Sustainable Schemes by SCBs increasing efficiency and Self Reliance

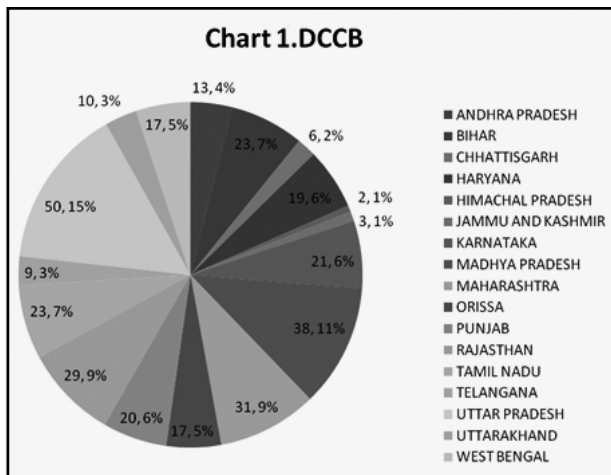
Some of the sustainable schemes implemented by The Maharashtra State Co-operative Bank Limited (MSCB), Tamil Nadu State Apex Co-Operative Bank (TNSC), Rajasthan State Coop Banks(RSCB), Odisha State Cooperative Bank (OSCB) and Andhra Pradesh State Cooperative Bank (APCO) have been discussed which are working in pro financial inclusive sectors other than rural agriculture and which could be a building block for implementing such schemes related to rural industries and MSME in larger scale.

Observations and Suggestions :

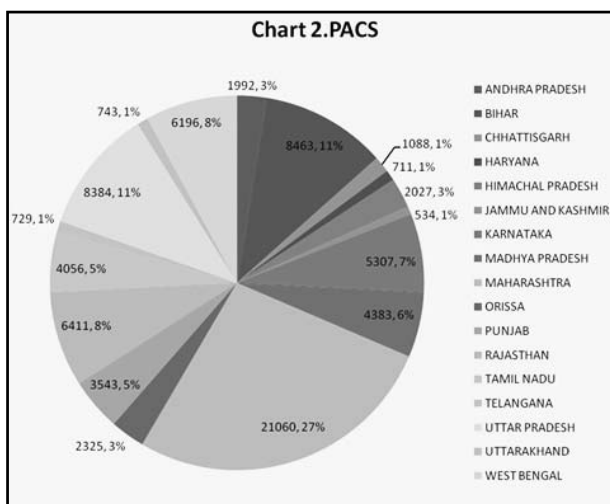
1. Analysis of State wise Distribution of DCCBs and PACS vice versa Peer Strength

The StCB network is armed with 363 DCCBs and 77952 viable PACS pan India with itself being 33 in total. A fact that DCCBs which have been limited per district needs to be revisited as they play an important role in the administration of PACs. In states have poor presence of PACs inspite of larger farmer base also needs to be revisited.

Chart 1 indicates the percentage spread of peer network and we note that only 4 out of the 17% have share of above 9%in context to DCCBs. In states having lower district count but higher landholdings it becomes imperative to have suggestive number sub levels so as to enhance coverage and administration. Chart 2(Figures are calculated number of PACS versus landholdings (in approximated values)) indicates only Maharashtra having the largest share of PACS 27% while most of the others having share of 11 and less than 11% thus indicating the fact that the cooperative movement is strongest in Maharashtra in the entire universe of StCBs. Thus Maharashtra ranking first as compared to its peer strength.



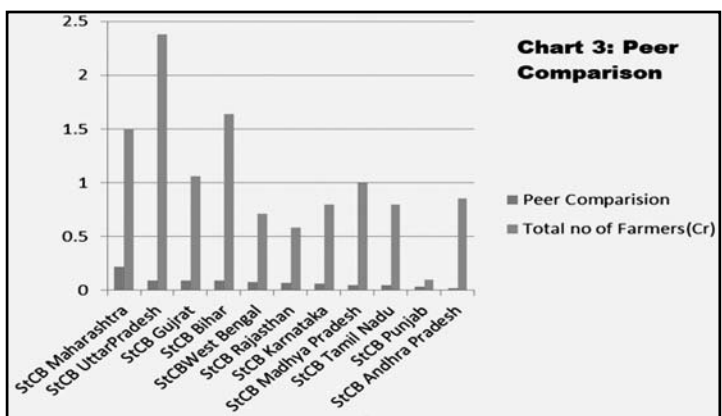
It is observed that Maharashtra State Cooperative bank has already scaled its operations not only in farm sector but also in ancillary farm sector at a larger scale . Rural industries based on agro products have been receiving credit. This has made Maharashtra State Cooperative Bank to be ranked far ahead of its peers. Maharashtra’s success in having a strong cooperative base has helped the farmer community and now many of these cooperatives are in process of transforming into Farmer Producer Companies further value adding their strength of operation with a business angle.



Secondly, analysis of peer comparison of PACS network per state versus total number of land holding families (in Crores) in Chart 3 indicates that there is a huge scope for thrust in increasing this network across many of the states. Particularly in case of Uttar Pradesh and Bihar having * 2.38 Cr and 1.64 Cr

farm families with the peer comparison ratio of PACS being very low of 0.0093 which indicates very low coverage of rural area by PACS as compared to peer states of Gujarat, Maharashtra or Karnataka . Thus, there needs to be a larger boost of outreach to farmer cooperatives by increasing the number of PACS. The cooperative movement needs to be boosted in states so that more and more farmers become aligned towards a common goal and reap benefit of the financing cooperatives. Cooperative farming has presented many successful business models like Amul, IFFCO, KRIBHCO and has helped marginal farmers to seek economies of scale opening the gates of export orientation. Also, PACS are one of the strong drivers of UN Sustainable Development Goals or SDGs having scope to boost living standards above the poverty line.

At a time when the socio economic conditions mandate dependence on agriculture for a living, greater coverage will help marginal farmers to overcome the need to give up small portions of land and turn to migration in search of petty jobs.



Figures in Chart 3 indicate high agriculture landholding as against the peer comparison values. The states of Bihar and Uttar Pradesh display higher number of landholdings against poor peer comparison values. At time when there is maximum exodus of temporary labor from these states during the unseasonal months. Especially for their cash needs in search of short term jobs in micro units based in tier 1 or 2 cities. Though this needs to be explored in context to other constraints with probable solutions to encounter the same. Thus there needs to be strong drive to boost the number of PACS by encouraging farm cooperatives.

Broadly, SCB catering to both the micro SME and farm credit will in turn help mobilizing jobs for this migrated labor in the micro units and help farming at the same time.

(Peer Comparison is calculated as Total number of PACS/DCCBS to the total strength. Peer Comparison helps us to understand where a state stands in terms of network of PACS/DCCBS)

2. Analysis of Key Sustainable Schemes by SCBs increasing efficiency and Self Reliance

Analysis of some of the StCBs in the All India state wise peer group have shown accelerated growth in terms of relevance of banking principles in the cooperative scenario. The entire network consists of 33 StCBs representing the individual states pan India. Some of the StCBS like MSCB, TNSC, OSCB, RSCB, APSCO have displayed their strengths in unique business models which have helped grow not only the StCB but at the same time the surrounding beneficiary base. The introduced novel schemes have facilitated introduction of finance to non-farm sectors which has optimized scale of operations. And this has helped grow profitability along with social benefit. The above mentioned banks and their products in peer comparison need to be exchanged across the network through exchange seminars so as to create a revolution in the State Cooperative Banking sector.

This sector of banking industry needs to be sustained in original if cooperative fundamentals coupled with banking needs have to be fulfilled.

Thus we discuss below some of the best peer examples to understand the diverse functional depth of these StCBs.

The **Maharashtra State Co-operative Bank Limited (MSCB)** is the only co-operative bank in India which has figured 9 times among the top 1000 banks in the world on the basis of financial soundness (Capital Adequacy) as surveyed by 'The Banker' published from London, periodically. The bank is listed in Schedule II of RBI Act 1934.

Apart from agricultural lending the bank has promoted organizations of co-operative and ancillary industries for the production of agricultural inputs such as fertilizers, agricultural machinery like oil engines, pump sets, tractors, etc. And was first to promote the first co-operative sugar factory in the country at Pravara Nagar in Ahmednagar district. The bank also helped to set-up secondary and tertiary industries manufacturing paper, alcohol and lately ethanol based on the by-products of the agro processing industries.

Optimizing scale of operations, the Bank has constituted within itself a separate cell the Co-operative Industries Commission consisting of experts from various universities, technical institutes, industrial houses and consultancy organizations. In addition, bank has constituted a Credit Stabilization Fund to ably meet natural calamities and at the same time created a Special Credit Stabilization Fund for strengthening Fishery, Agro Co-operatives. The funds are used to rehabilitate poor farmers through PACS and DCCBS.

Another salient feature of the financial assistance extended by MSCB is that although it caters mainly to the needs of the agricultural sector, it takes care of financial needs of the non-farm sector also by providing refinance facility to district banks under NABARD's general refinance and composite loan schemes to enable them to help rural artisans and small scale industries.

The **Tamil Nadu State Apex Co-Operative Bank (TNSC)** has teamed up with Small Industries Development Bank of India (SIDBI) for extending credit facilities for small scale industries, National Coop. Development Corporation (NCDC) and from National Handicapped Finance Development Corporation (NHFDC) for financing for the development of physically challenged persons through DCCBs.

TNSC has diversified into other fields by extending refinance facility to DCCBs for issuing jewel loans directly by them and through PACBs. Also, the Bank has been extending the facility of NRO/NRE accounts at 7 of its branches.

The Bank along with DCCBs is also contributing 5% of the net profit every year to the Primary Coop. Development Fund (PCDF) created in the state in order to help PACBs to purchase jewel safe boxes, putting up modern counters and construction of bank buildings from this fund. "Cooperation among Cooperatives" and "Cooperative Education" are two important principles of Cooperation. In order to uphold cooperative principles, every coop. institution along with TNSC has been contributing 5% of its net profits to the "Coop. Research and Development Fund" and "Cooperative Education Fund" maintained by Tamil Nadu Cooperative Union.

The Bank has been implementing Best Performance Award Scheme from the year 1990-91 based on their performances to encourage healthy competition among the CCBs.

The USP of Rajasthan State Coop Banks(RSCB) is its broad network of Self Help Groups which have been the key drivers of RSC Bank. These SHG groups upon required training are linked with DCCBs and PACS. Since inception of the SHG-Pilot project 87,010 new SHGs have been formed of which 85,768 SHGs were benefited by providing cumulative credit of Rs 55,251.98 lac up to 31.03.2019. Besides this interest subvention is being provided by the State Govt. for Women SHGs since July 2010. Under this scheme 50% interest subvention against the interest rate levied by bankers is provided to those credit linked SHGs who repay loan installments in time. About 65,706 SHGs are being benefited by providing Rs.4.07 crore interest subvention. State govt. is also providing financial assistance to impart vocational training to the credit linked SHGs since . Presently, 67,445 women are being benefited with the cumulative financial assistance of about Rs. 143.47 lac (upto 2018-19).

Under the leadership **Odisha State Cooperative Bank (OSCB)** PACS are being transformed as One Stop Shop to provide all the requirements of the farm families under one roof. The Bank has also facilitated organization and credit linkage of Self Help Groups (SHGs) and Joint Liability Groups (JLGs) to meet the credit requirements of the share croppers and oral lessees.

A tailor made approach has been adopted keeping in view the credit requirement of the large number of handloom weavers, rural artisans etc and adequate credit have been sanctioned in favour of the Primary Weavers Cooperative Societies and artisan members of the PACS.

The Bank has established a State-of-the-Art Core Banking Data Management Centre in its Head Office premises and linked all the Branches of DCCBs to the Data Centre alongwith its functional units as a part of the Core Banking Solution (CBS) being assisted by the State Government.

The key achievements of **Andhra Pradesh State Cooperative Bank (APCO)** is the CCB Development Fund. This fund has been created to strengthen self reliance in the Cooperative Credit Structure by providing financial assistance/grant to PACS and DCCB for development of infrastructure facilities. Under the fund, Bank extend grant-in-aid/financial assistance facility for construction/repairs of building viz. Godowns, Office buildings and purchase of infrastructure items, keeping in view of business development activities of PACS and DCCB. Allocation of funds to CDF are made out of the net profit of the Bank after such apportionments made by the General Body of the Bank, from time to time. The fund is allocated equally among the DCC Banks and sanctions made to the respective DCC Bank from out of each of their allocations. The bank has also been implementing the Personal Accident Insurance Scheme for CKCC holders to the extent of coverage up to Rs.1.00 lakh under the directives of NABARD/RBI and Govt. of India.

Some of the State Cooperative Banks representing states of Maharashtra, Tamil Nadu, Rajasthan, Odisha, Andhra Pradesh like MSCB, TNSC, RSCB, OSCB, APSCB have shown state of the art schemes based on cooperation and diversification in terms of its credit products to ancillary and non farming sector .

Conclusions

Arduous scale of operations of the StCBs facing shortcomings at the hands of Limited bandwidth of operations and secondly due to Liberalization, Privatization and Globalization of the Indian banking industry need to receive more attention in context to technology upgrade in tune with the technology match adopted by the SCBs . Also, limited bandwidth of operations in SCBs

focusing only on short and medium credit requirement has recently led to gaps in profitability. Sharp focus only on short term financing operations has also restricted expansion in profitability volumes and efficiency of operations. Thus it is a common and emerging thought by the Banking Seers that StCBs along with their network of DCCBs, PACS and its member farmers can flourish economically when they take up other business activities over and above agricultural activities.

Secondly, "Financial Accountability" to society is another aspect which is core to the StCBs . Thus a strong corporate governance forms one of the essentials in the entire system. It is observed that the StCB sector accounts for just 10.6 percent of the commercial banking sector. Owing to its predominant domestic orientation and massive financial inclusion quotient and its sheer presence across the country, especially in lower tier towns and villages makes it pertinent to strengthen financial stability. Exemplary boards imply stronger Governance at the board level. Exemplary boards complete with environmental, social and governance frame work form the soul of a structure working for the social benefit cause and is undoubtedly the most spice ingredient for efficient operations of the socially conscious StCB architecture.

It is now pertinent that the StCB network to bow to the reigning transformations and yet perform its functions based on cooperative principles. Increase in scale of operations by having more number of district level DCCBs network with more number of PACS depending on the number of land holdings will help the StCB reach more to the last mile of the society.

Inclusion of MSME credit based on cooperative principles by forming MSME cooperatives or associations will help expansion of scope and scale for the StCBs, thus realizing the goal of polyvalent Financial Inclusion.

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Data Collection

*Approximate values obtained from State government website

All charts are built on data from NAFSCOB and State Government Websites

