e-ISJN: A4372-3114
p-ISJN: A4372-3115

ISSN: 2321-7782 (Online)
ISSN: 2347-1778 (Print)
Impact Factor: 7.327

Volume 7, Issue 1, January 2019

International Journal of Advance Research in Computer Science and Management Studies

Research Article / Survey Paper / Case Study

Available online at: www.ijarcsms.com

Financial Inclusion& Impact of Demonetisation through Cooperative Banks in Uttar Pradesh

Anshoo Dayal Gupta[1]
Research Scholar,
Shri Venkateshwara University,
Gajraula,U.P., India.

Prof. (Dr.) V. B. Singh[2]
Professor & Research Guide
Shri Venkateshwara University,
Gajraula,U.P., India.

Abstract: The objective of the paper is to understand how financial inclusion through cooperative banks can be a viable option for inclusive growth in India. The present study is based on secondary data. The report of trend and progress of banking in India by RBI, annual report of NABARD (National Bank for Agriculture and Rural Development), Report of the Task Force to Study the Cooperative Credit System and Suggest Measures for its strengthening by RBI have been used as the data base. Compound growth rate, percentage change with graphical and tabular representation have been used for the analysis. The study covers the period from 1981-2011. It is clear that Indian growth is not inclusive because it is seen that the real GDP percent change per annum and the growth of real GDP per head per annum follow an increasing trend whereas consumption inequality in India is increasing rapidly after 2004-05. Also, though poverty or the number of poor is decreasing over the years, the trend is not substantial. By being local in nature and intricately interwoven with the local community, cooperative banks have a clear advantage over commercial banks for financial inclusion. Labour costs of cooperative banks are considerably less than that of commercial banks and generally operating costs are also minimal. It is evident that cooperative banks have feasible options for inclusive growth through rural development, creating opportunities for employment, income generation.

I. INTRODUCTION

The importance of cooperative banks has soared in recent years with the emergence of financial inclusion as a key thrust of public policy in India. Financial inclusion is generally defined as the availability of banking services at an affordable cost to disadvantaged and low-income groups. According to the Rangarajan Committee (2008), "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost". In India the basic tool of financial inclusion is having a saving or current account with a bank. The scope of financial inclusion includes services like opening of bank accounts, immediate credit facilities, insurance facilities, financial advisory services etc.

Financial inclusion is a strategy of inclusive growth, but inclusive growth itself is a subset of a larger set of Inclusive development. Inclusive development means that the benefits reach all the poor in the region, particularly women and children, minority groups, the extremely poor in the rural areas, and those pushed below the poverty line by natural and human-made disasters.[1]

Financial Inclusion can be termed as a quasi-public good[2] because there is a meek doubt that financial inclusion meets the two criteria such as non-rival and non-excludability to a large measure; to that extent, it is a quasi-public good and further the degree of 'publicans' in 'financial inclusion' maybe different from the stand point of a typical public good like road or light house. Government has to implement it with the help of other agencies such as cooperative banks and other financial institutions.

In general there are two sides of financial inclusion: Demand side and Supply side[3]. The demand side of financial inclusion are education (which includes skill development) and health, irrigation, power, roads, transport, marketing arrangement etc. Supply side of financial inclusion includes availability of timely finance at affordable rate of interest.

The importance of this study lies in the fact that India being a socialist, democratic republic, it is imperative on the policies of the government to ensure equitable growth of all sections of the economy. Priority sectors such as cooperative banks lending in a socialistic economy is very significant as this directly affects the economic status of the poor. It is unanimously opined that the poor need financial support at reasonable costs and that also at uninterrupted rate. Nevertheless, the economic liberalization policies have always tempted the financial institutions to look for more greener pastures of business, ignoring the weaker sections of the society. It is crucial for any economy to aspire for inclusive growth connecting each and every citizen in the economic development succession. It is in this background that a study has to be made to understand the importance of priority sectors such as cooperative banks' lending in ensuring inclusive growth in the Indian context.

With only 34 percent of population engaged in formal banking, India has 135 million financially excluded households, the second highest number after China.4 Further, the real rate of financial inclusion in India is also very low and about 40 percent of the bank account holders do not use their accounts even once a month.The rationale behind choosing cooperative banks for the study is that the percentage change of cooperative bank credit for the year 2009-10 is 38.14% which is higher than regional rural banks (31.58%) (Table 2) which is higher than commercial banks. The percentage of rural credit by cooperative banks occupies second position i.e. 16%(Graph 4) after commercial banks. This figure shows the potential of cooperative banks for financial inclusion.

II. DATABASE AND METHODOLOGY

The present study is based on secondary data. I will be using the report trend and progress of banking in India by RBI, annual report by NABARD (National Bank for Agriculture and Rural Development), Economic Intelligence Unit, (EIU), and India stat, Report of the Task Force to Study the Cooperative Credit System and Suggest Measures for its Strengthening by RBI. Compound growth rate and percentage change with graphical and tabular representation are used for the analysis. The study covers the period from 1981-2011. Basically the paper is confirmatory in nature because the above techniques are used to prove whether India's growth is inclusive or not.

The main objective of the paper is to understand how financial inclusion through cooperative banks can be a viable option for inclusive growth in India.

The following hypothesis can be derived on the basis of the stated objectives:

Hypothesis 1: India's growth rate is inclusive.

Hypothesis 2: Financial inclusion through cooperative banks can be a feasible option for inclusive growth.

The paper is divided into six sections. In the introduction section, we discussed the concept of financial inclusion, importance of the study, the data base, objectives and hypothesis. In the second section we shall deal with literature review, which will enable us to find out the research gap. In the third section we shall discuss how inclusive our growth is. In the fourth section we shall describe financial inclusion through cooperative banking. The role of cooperative bank for rural development and as an instrument of inclusive growth will be discussed in the fifth section. In the sixth section we conclude by discussing the results of the study.

1 Ganesh Rauniyar and Ravi Kanbur, 2009, Inclusive Growth and Inclusive Development: A Review and Synthesis of Asian Development Bank Literature, Page. no.2
2 Vijay Kelkar,2010, Financial Inclusion for Inclusive Growth
3 Greg Fischer,2010
4 Barhate G. H. and Karir M. A,Dec 2011

III. Literature Review

According to Dr. Chakrabarty, Deputy Governor, Reserve Bank of India, "Economic growth in India has not been inclusive; unemployment and poverty remain high and a vast majority of the population remains excluded from health and education facilities." The financial literacy agenda has no effect on the likelihood of opening a bank savings account, but has modest efforts for uneducated and financially illiterate households. In contrast, small subsidy payments have a large effect on the possibility of opening a savings account. These payments are more than two times more cost-effective than the financial literacy training.[5]

Growing propagation of mobile services and ATMs in rural areas of India has created a new chance to achieve financial inclusion and is a valuable tool to provide financial services to the un-banked areas, with reduced overheads for providing access to banking services in isolated rural destinations of India.6 D. Subbarao, Governor, Reserve Bank of India highlighted the significance of cooperatives as models of inclusive growth. The growth of cooperatives in India has been remarkable and covers a wide array of activities including credit & banking, fertilizer, sugar, dairy, marketing, consumer goods, handloom, handicraft, fisheries and housing. The Indian cooperative movement, comprising around six hundred thousand cooperatives, is arguably the largest cooperative movement in the world, providing self-employment to millions of poor people.

Urban Co-operative Banks have a duty to upscale to meet these aspirations, convert the perceived weakness into exciting opportunities and facilitate inclusive growth.7 We can achieve our goal of inclusive growth if all the available resources including technology and expertise available with the banks, support of the government, optimum utilization of the Micro Finance Institutions (MFIs), NGOs and Self Help Groups are geared towards including more and more people under the banking net. Initially it may appear that taking banking to the sections constituting "the bottom of the pyramid" may not be profitable but various studies reveal that even the relatively low margins on high volumes can be a profitable proposition. Banks therefore need to work out their appropriate business delivery models and financial products to cater to the needs of the people. Reserve Bank's endeavour has been to strengthen the urban cooperative banks so that they run on sound principles without posing any systemic problems.8

To boost micro financing initiatives and financial inclusion programs, banks are deploying Biometric ATM solutions to its rural customers, helping illiterate or barely literate folks to become part of the banking user community[9].

Cooperative banks can play a bigger role than scheduled commercial banks in achieving financial inclusion. Role of cooperative banks is very important in the real last-mile financial inclusion. Co-operative banks need to use advanced technology and recruit more efficient people to compete with commercial banks.[10]

SHG, MFI, MFI-NBFC and bank- post office linkage models have been discussed and new models like rural students banking model, RBI-Education institute linkage models etc. were proposed. A new approach to banks is to reach wider population in rural areas by establishing mobile-banks/ representatives/agents, who operate on commercial basis rather than just through self-help groups. These agents/representatives work on commission basis and hence are self-motivated and cost effective in assisting banks in service provision/deposit mobilization.11 The Post Office Saving Bank (POSB) can be used to cater the financial needs of rural India where Microfinance Institutions (MFIs) have very little presence in the total demand of finance.

5 Cole et al,2009
6 Gupta and Gupta, 2008.
7 Anand Sinha,2012
8 K C Chakrabarty(2009)
9 Biswas, 2010
10 Uma Shankar(2010)
11 Reddy ,2010

IV. RESEARCH METHODOLOGY

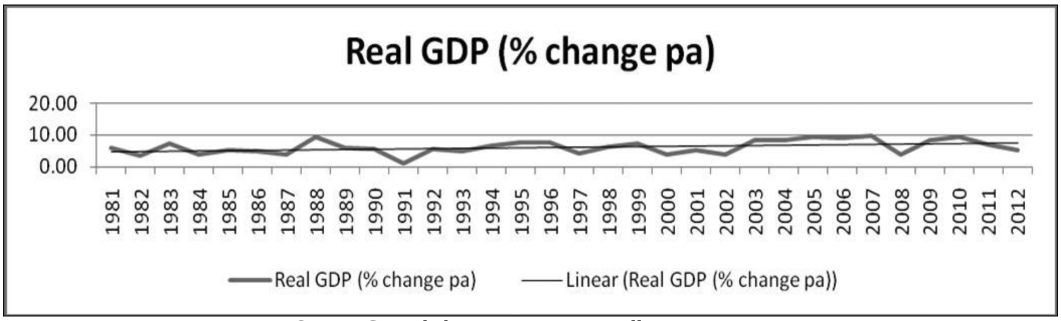
From an annual average growth rate of 3.5 percent during 1950 to 1980, the growth rate of the Indian economy accelerated to around 6.0 percent in the 1980s and 1990s. In the last four years (2003-04 to 2006-07), Indian economy grew by 8.8 percent. In 2005-06 and 2006-07, Indian economy grew at a higher rate of 9.4 and 9.6 percent, respectively (Graph 1). Reflecting the high economic growth and a moderation in population growth rate, the per capita income of the country also increased substantially in the recent years. Despite the impressive numbers, growth has failed to be sufficiently inclusive, particularly after the mid-1990s. Agricultural sector, which provides employment to around 60 percent of the population, lost its growth momentum from that point, though there has been a reversal of this trend since 2005-06.[12] The percentage of India's population

5.1Real GDP % Change per Annum:

Below poverty line has declined from 36 percent in 1993-94 to 26 percent in 1999-2000.[13] While India has witnessed unprecedented economic growth in the recent past, its development has been lopsided with the country trailing on essential social and environmental parameters of development. The approach paper to the Eleventh Plan indicated the absolute number of poor to be approximately 300 million in 2004-05. Accordingly, the 11th Five Year Plan has adopted "faster and more inclusive growth" as the key development paradigm.

Real GDP percentage change per annum, growth of real GDP per head, trends in consumption inequality and trends in poverty (%) in India are discussed as follows:

Graph 1: Real GDP % Change per Annum



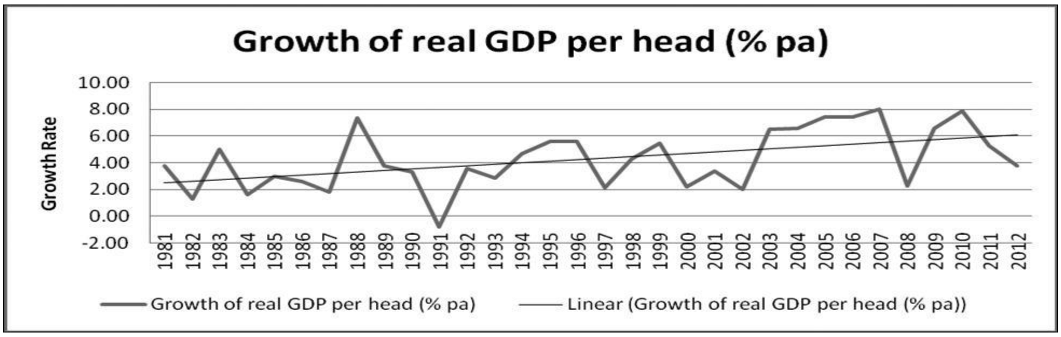
Source: Compiled From Economic Intelligence Unit Data Base

The above graph shows that the real GDP percent change per annum shows an increasing trend from 1981 to 2012. There is a sudden decline in the years 1991 and 2008.

5.2 Growth of Real GDP per Head % per Annum:

Let us see the growth of real GDP per head to know the trend from 1981 -2012.

Graph 2: Growth of Real GDP per Head % per Annum:



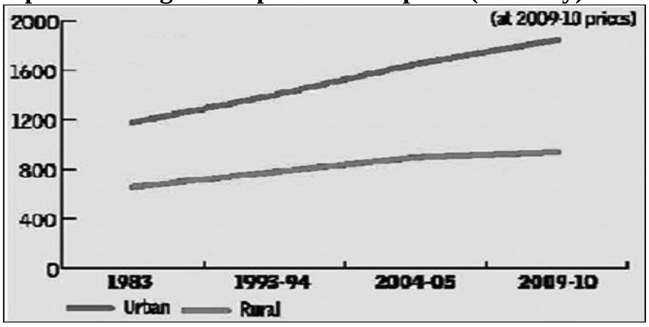
Source: Compiled From Economic Intelligence Unit Data Base

12. Indian Economic Survey,2007-08
13. Report of the Expert Group to Review the methodology for Estimation of Poverty,2009

The above graph shows the growth of real GDP per head per annum. The trend is also increasing in nature similar to the growth of real GDP percent change per annum.

5.3Trends in Consumption Inequality in India:

Graph 3: Average Percapita Consumption (Monthly) in Rupees:



Source: Source: Compiled from Different NSS Round up to 66th Round (July 2009 - June 2010)

Graph 3 shows that average urban consumption (at constant 2009-10 prices) has been increasing much faster than rural consumption, and the latter, in fact, narrowed off in the most recent five-year period. The ratio of urban to rural consumption rose from 1.79 in 1983 to 1.96 in 2009-10, with the most rapid widening of the gap coming after 2004-05.

But even within locations, there were significant differences between the upper and lower ends of the consumption spectrum in the matter of time trends.

5.4 Table 1: Trends in Poverty (%) in India

Year	Rural	Urban	Total	Number of Poor in Million
1973-74	56	49	55	321
1983-84	46	41	45	323
1993-94	37	32	36	320
2004-05	28	26	28	302

Source:Indiastat

From the above table it is clear that poverty declined from 55 percent in the early 1970s to 28 percent in 2004-05. Although there has been progress in decline, still more than 300 million continue below the poverty line.

From the above discussion it is clear that the Indian growth is not an inclusive growth because the Real GDP percent change per annum, growth of real GDP per head per annum show an increasing trend but the consumption inequality in India is increasing rapidly after 2004-05. Again, though poverty or the number of poor has decreased over the years, the trend is not spectacular. Though there are other criteria to measure inclusive growth considering income, asset of people etc., for the analysis we have taken per capita real GDP, consumption inequality and poverty to understand the nature of inequality.

V. Financial Inclusion through Cooperative Banks (CBs)

By their very nature, Urban Cooperative banks in India can play a vital role in financial inclusion. The distance - relational as much as physical - of commercial banks from their clientele has arguably been a key reason for the low penetration of banking services among the financially excluded groups. This is where the cooperative banks have a clear advantage, being local in nature and being intricately interwoven with the local community.[14] It is much easier for the cooperative banks to crack the psychological barrier that proves unaffordable in the 'last mile' of financial inclusion, create trust for the bank among its target community and fetch customers within its fold. These days when big commercial banks work hard to set up branches and make use of technology to reach out to hit her to untapped regions of the country, it is time for the cooperative banks to step into the game that is naturally theirs to triumph.

In spite of their advantage of being rooted in the local community, cooperative banks have to get their own house in order to make a meaningful incursion in financial inclusion. They have been burdened with numerous problems in current years which need to be addressed before consequences can be expected in the financial inclusion space.

A large section of the financially excluded population inhabits rural areas; financial exclusion is widespread in urban and semi-urban areas as well. Financial inclusion problem in these areas can be solved by urban cooperative banks, who are part of the cooperative banking sector in India. Normally farmers, small vendors, agricultural and industrial labourers, people engaged in unorganised sectors, unemployed, women, older and physically challenged people are the most commonly excluded segments. These sections are best addressed by the Coperative Banks (CBs). The key advantage that CBs enjoy above commercial banks originates from their cost structure. The labour costs of CBs are significantly less than that of commercial banks and generally the operating costs are also less. Likewise the local nature and resultant informational advantages of the CBs are also essential. Being an vital part of the community, CBs have an advantage over their commercial competitors in terms of having information, both about forthcoming 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 CBs also manifest themselves in the flexibility that these banks can provide to their local clientele. Unlike their commercial counterparts, who require to hold on to nationwide and global policies to alter their practices, CBs can be far more responsive to the needs of the local community and the changes there. Once again, that provides a massive competitive advantage. Recently the CBs have increasingly started adopting the three-pronged financial inclusion strategies used by commercial banks - Banking Correspondents (BC), "no-frill" accounts and promoting microfinance activities. Once again, their local nature provides them an advantage over their national opponents in executing these moves better. CBs enjoy an indisputable edge in the area of relationship banking[15].

VI. Role of Cooperative Banks for Rural Development: An Instrument of Inclusive Growth

Before a discussion of the role of cooperative banks as an instrument of inclusive growth for rural development, let us see the position of cooperative banks in agency-wise ground level credit flow and cooperative banks' share percentage of rural credit.

Agency-wise Ground Level Credit Flow (Table 2)

It is clear from the above table that the amount of cooperative credit in India has increased from 2006-07 to 2008 and suddenly decreased by 2,292 crores in the next year and again increased up to 70,105 crores in the year 2010-11. On the other hand there is a continuous increase in credit in Regional Rural Banks and Commercial Banks. The compound growth rate of credit for cooperative banks from the year 2006-2010 is 15.66 percent and for Regional Rural Banks and Commercial Banks is 20.4 and 20.01 respectively. The percentage change of cooperative bank credit for the year 2009-10 is 38.14 percent which is higher than regional rural banks (31.58 percent), and commercial banks (24.83 percent). Again the percentage change in credit of all the banks has declined for the year 2010-2011, whereas the percentage change of credit for cooperative banks is very massive in comparison to other banks for the current years. It may be due to the stringent licensing policy and entry point norm regulation of Reserve Bank of India.).

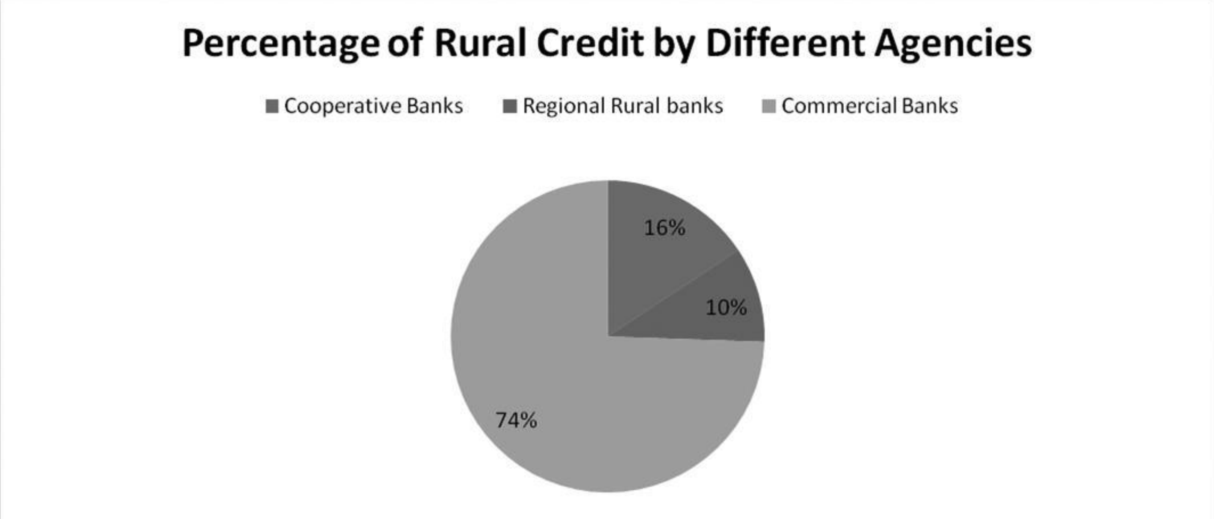
Table 2: Agency-wise Ground Level Credit Flow

Agency	2006-07	2007-08	2008-09	2009-10	2010-11	Growth Rate (%)		
						2006-10#	2009-10*	2010-11*
Cooperative Banks	42480	48258	45966	63497	70105	15.66	38.14	10.41
Regional Rural banks	20435	25312	26765	35217	43968	20.4	31.58	24.85
Commercial Banks	166485	181088	228951	285800	332706	20.01	24.83	16.41
Total	229400	254658	301908	384514	446779	18.97	27.36	16.19

:Compound Annual Growth Rate,*:Percentage change over previous year Source: Compiled from NABARD, 2010 report

14 Rajesh Chakrabarti,2011, http://forbesindia.com/article
15 Relationship banking: A strategy used by banks to enhance their profitability. They accomplish this by cross-selling financial products and services to strengthen their relationships with customers and increase customer loyalty.

Graph 4: Percentage of Rural Credit by Different Agencies



Source: Compiled from NABARD, 2010 report

The above chart depicts the percentage of rural credit by cooperative occupies in second position i.e. 16 percent. Commercial banks contribute the highest i.e.74 percent and regional cooperative banks the least i.e. 10 percent. So, we conclude that cooperative banks play a significant role in providing rural credit facilities.

7.1. Cooperative Banks and Rural Development

The above arguments asserts that cooperative banks play a vital role for rural development in India. The following are arguments, on how these banks play this crucial role. Cooperative banks create opportunities for employment and income generation in the rural areas. They increase accessibility of goods and services, all of which also contribute to economic growth.They encourage performance and competitiveness, as their members are also the beneficiaries. This also applies to deprived groups such as indigenous populations and disabled persons. They tend to choose sustainable development options because of their member-driven nature, a key approach for rural areas whose population depends on the resilience of natural resources such asland, water and soil quality.[16] They promote modernization by facilitating the dissemination of new technologies and processes. Cooperative banks are firmly rooted in their community, and are hence more likely to influence it positively. They are directed by a set of underlying values and beliefs and are schools of social dialogue and democracy. These are based on the values of self-help, democracy, equality, self-responsibility, equity and solidarity, as well as ethical values of honesty, openness, social responsibility and caring for others. They can alter survival-type activities into legally protected and productive work. They mobilize self-help and motivate people to make better use of their self-help potential.

Cooperative banks also balance the need for profitability with the broader economic and social development needs of their members and the larger community, because members are both producers and beneficiaries. They are often the only provider of services in rural communities, given that other types of enterprises often find it too costly to invest in these areas or anticipate low levels of economic return. This is the case for electricity, water resources, financial services, and consumer supplies. In India, for instance, the consumer needs of 67 percent of rural households are covered by cooperatives.[17] It helps address many social and economic concerns such as community identity, and strengthen the social fabric, particularly important in post-crisis contexts. It offers an economic future for youth in rural areas, and thus prevents rural depopulation.

7.2 Failure and Necessary Steps to Restructure Cooperative Banks

It has been seen that the cooperative banking sector is unorganized in the present day due to scams or corruption. RBI found 25 urban co-operative banks across Gujarat, Maharashtra and West Bengal to be in violation of RBI norms. In all, these banks are suspected to have run up losses of around Rs. 500 crores.[18] As more than one co-operative bank is involved, it is feared that this could be only the tip of the iceberg, due to which RBI has not given licenses after year 2001.

The above failure can be mitigated if the shortfalls in management, governance i.e. the dual control by both RBI and state government, human resource management, customer service, investment policy, computerisation and upgraded technology, transparency in corporate governance and social corporate governance etc. are removed in due course of time. This will help the cooperative banks to focus more on the important aspect such as financial inclusion and that might lead to inclusive growth.

VII. CONCLUSION

From the above discussion it is clear that Indian growth is not an inclusive growth because the real GDP percen change per annum, growth of real GDP per head per annum are increasing whereas consumption inequality in India is increasing rapidly after 2004-05. Though poverty or the number of poor is decreasing over the years the trend is not spectacular. By being local in nature and intricately interwoven with the local community, cooperative banks have a clear advantage over commercial banks for financial inclusion. The labour costs of cooperative banks are considerably less than that of commercial banks and generally the operating costs are also minimal. Cooperative banks are a feasible option for inclusive growth through rural development by creating opportunity for employment and income generation. The shortfalls of cooperative banks should be mitigated and this will lead to inclusive growth in our country.

16 Hagen Henry and Constanze Schimmel,2011, Cooperatives for People-Centred Rural Development
17 Katar Singh and RS Pundir, August 2000, Co-operatives and Rural Development in India
18 The Hindu,Coop. Bank scams: Effective governance structure crucial,2002 May 27

References

1. Barhate G. H. and Karir M. A, (2011). Financial Inclusion in India: an Evaluation of Trends and Progress, AJRSH, Dec, 1(4).
2. Biswas, N. (2010). Biometric ATM: Boon to Indian Rural Bank Customers. http://ssrn.com/abstract= 1686926[accessed 15 Aug 2011].
3. Chakrabarti R. (2011). The Role of Urban Cooperative Banks in Financial Inclusion. http://forbesindia.com/ article.
4. Chakrabarty, K.C. (2012). Technology, financial inclusion and the role of urban cooperative banks, at the Foundation Day and Inauguration of the Core Banking Solution Project of the A.P. Mahesh Co-op Urban Bank Ltd., Hyderabad.
5. Cole, S., Sampson, T. & Zia, B. (2009). Money or Knowledge? What drives demand for financial services in emerging markets?. Harvard Business School Working Paper, 09-117.
6. Ghosh, A. (2007). Financial Inclusion through Micro Finance in India and Emerging Role of POSB: An Analysis. http://ssrn.com/abstract=1655737 [accessed 25 Oct 2011].
7. Government of India (2006). Towards Faster and more Inclusive Growth - An Approach to the 11th Five Year Plan. Planning Commission.
8. Kelkar, V. (2010). Financial Inclusion for Inclusive Growth. ASCI Journal of Management, 39 (1), 55-68.
9. Rangarajan Committee (2008). Report of the Committee on Financial Inclusion. Government of India.
10. Rauniyar, G. and Ravi Kanbur (2009). Inclusive Growth and Inclusive Development: A Review and Synthesis of Asian Development Bank Literature. Occasional Paper No. 8, Asian Development Bank, Metro Manila, Philippines.
11. Reserve Bank of India (2011). Report of Trend and Progress of Banking in India 2000-11, Mumbai.
12. Sahasrabudhe, S.(2010). Financial Inclusion and Role of Cooperative Banks. http://www.asmedu.org/uploadfiles/ image/file/pdf/INCON13-FIN-023.pdf.
13. Sinha, A. (2012). Financial Inclusion and Urban Cooperative Banks, at the launch of the Financial Inclusion program of Cosmos Bank.
14. Thorat, U. (2007). Taking Banking Services to the Common Man - Financial Inclusion. Deputy Governor, Reserve Bank of India at the HMT-DFID Financial Inclusion Conference 2007, Whitehall Place, London, UK, June 19.
15. Vaidyanathan A. (2004). Draft Final Report of the Task Force on Revival of Cooperative Credit Institutions.