

## **Impact of Rural Credit on Local Economy with Special Reference to Cooperative Banks**

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Rural people of India find their livelihood in agriculture and allied activities. The vast majority of Indian population, calculated to be 70% lives in villages. Though the agricultural sector comes only up to 21% of India's GDP, the impact of agriculture on Indian economy is far more greater than the GDP indication. Agriculture is a determining factor in maintaining the strength of the socio-political and economic fabric of the nation. Rural cooperative banks and rural branches of commercial and nationalized banks have a vital role to play in the progress of agricultural and farming promotion of Kerala state. The role of rural financial institutions is very important for the sustainable agriculture and development of Kerala. Rural banking systems help the rural people for their economic development only at a minimum level.

Cooperative banks play a vital role in rural economy. The members of the cooperative banks deposit the savings in such banks so that it can be a help for its members in getting loans and other financial assistance. Moreover these banks save the rural people from the exploitation of the money lenders. Kerala cooperative bank is such an institution that fosters the rural economy positively by providing financial assistance to the people and negatively by preventing the people from the debt traps of money lenders.

### **I. Objectives of the study**

- To assess the impact of cooperative banks in assisting the poor folks of the villages.
- To give suggestions and recommendations for future policy making of rural banking system in Kerala.
- To know about the modern trends in co-operative banks.

### **Relevance of the study**

Credit requirement and saving habits are increasing among the rural people. At present the credit requirements are increasing rapidly among the people for small and large scale business and agricultural purposes. The government introducing financial schemes to rural business and agricultural needs through co-operative banks. They promote community development by improving the rural business and agriculture sector. The relevance of this study is that it will help to find how far the Indian rural economy is supported by rural banking systems especially the cooperative banks. The study conducted for analysing the role of rural banking system and its impact on local economy.

### **DATA COLLECTION**

The study is based on primary data collected from five Cooperative banks in Kottayam District.

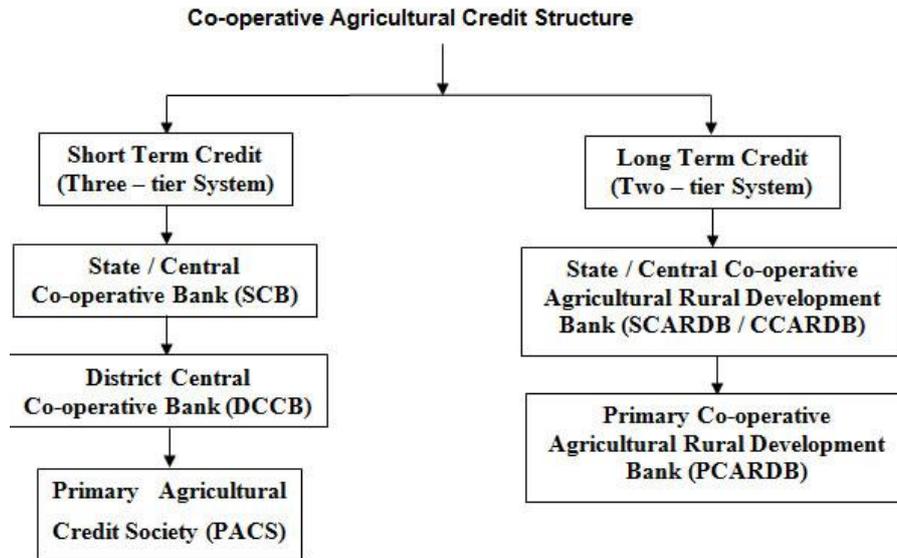
### **COOPERATIVE BANKS**

The term co-operation, as generally understood today, is a term, which like philosophy and religion defies exact definition and description. Some of the important definitions of co-operation includes:

C.R.Fay, "a co-operative society is an association for the purpose of joint trading, originating among the weak and conducted always in an unselfish spirit on such terms that all who are prepared to assume the duties of membership may share in its rewards, in proportion to the degree in which they make use of their association."

Sir Horace Plunketts definition of co-operation is "self-help made effective by organization". The three suggestive maxims with which he encapsules the theory of cooperation is worth quoting: "Better farming, better business and better living".

STRUCTURE OF CO-OPERATIVE CREDI INSTITUTIONS IN INDIA

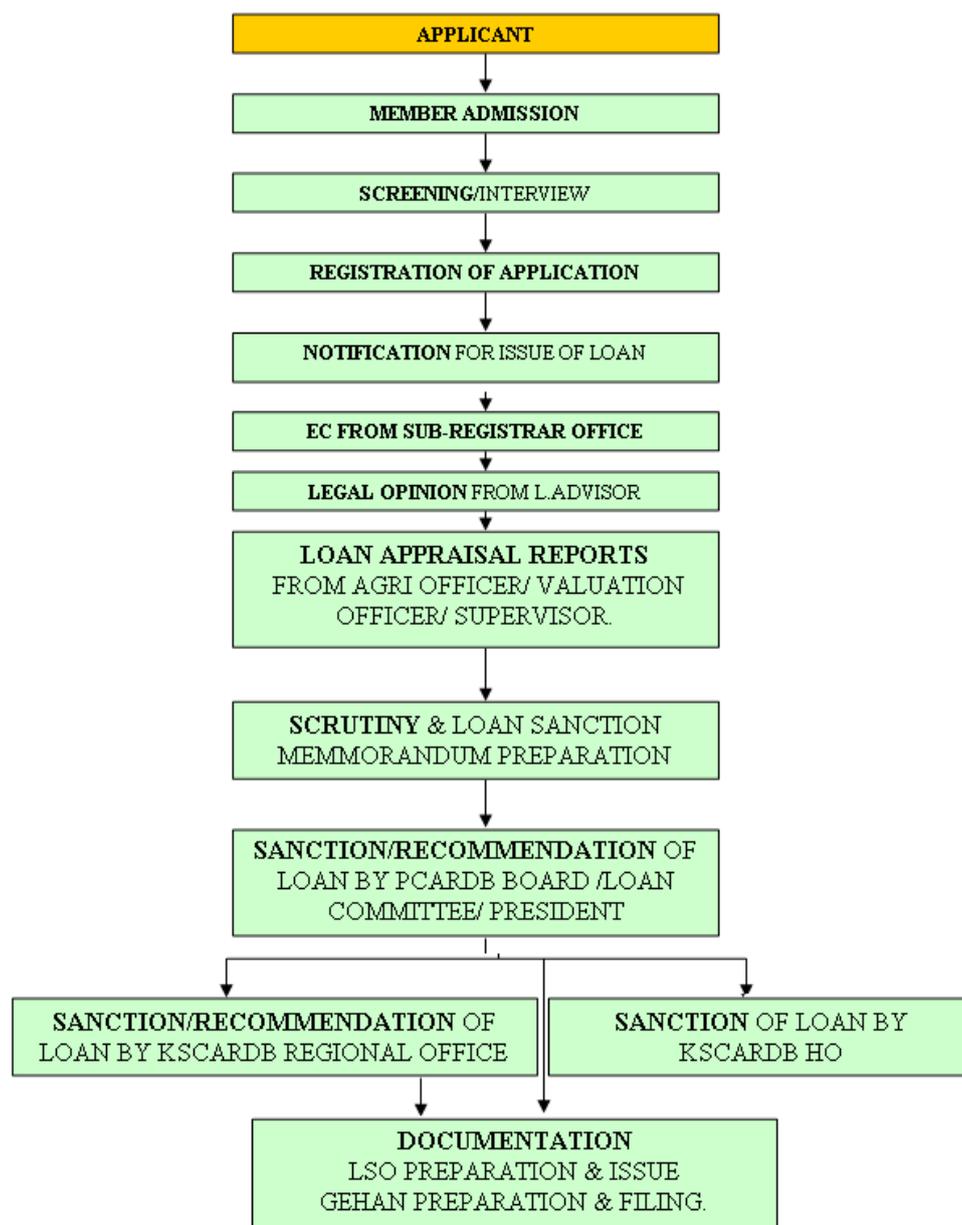


Urban cooperative institutions are known as Urban cooperative banks (UCBs). They function on a single tier structure. Whereas the Rural cooperatives banks have a Federal three tier structure. They are the Primary Agricultural Credit Societies (PACS), Central Co-operative Banks (CCBs) and State Co-operative Banks (StCBs) at the state/apex level.

The long term rural co-operative structure has two tiers, viz, State Co-operative Agricultural and Rural Development Banks (SCARDBs) at the state level and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) at the salute level.

In Kerala, the state co-operative union conducts co-operative education and training. Kerala state co-operative union has established many institutions for co-operation at different states. All the state co-operative marketing federations are affiliated to the national level federation i.e. National Agricultural Marketing Federation.

The cooperative banks have a well structured net work system at the grass root level and they are in constant touch with the daily economic and social life of the rural people. Therefore they work as inclusive systems minimizing the possibilities of exclusion. However they lack professionalism in management. Still it is worthwhile to study the impact of those societies on the life of the rural people while allowing them to be participants of an inclusive socioeconomic system.



Banks have to go beyond the traditional systems of banking, and to be innovative in all aspects of economic interests and interactions of the people. Even the rural India has international and national students and workers in the customer list of the banks.

#### CUSTOMERS

Customers are the households who receive services from banks. Customers approach banks to utilize the facilities like deposits, loans and the emerging modern trends like ATM. The primary data shows about the number of customers of co-operative banks and other banks. The study shows that majority of households i.e. 54% approaches other banks for services and 46% approach the co-operative banks for their services and transactions.

#### SOURCE OF INCOME

From primary data it can be concluded that 44% of the households are daily wage earners and 24% of people are weekly wage earners. 32% of people are monthly wage earners.

#### INCOME DISTRIBUTIONS

The income distribution pattern of the customers shows that majority of about 32% spend their income for educational purpose. 30% agriculture, 16% for medical needs, 18% for food and 4% for entertainment.

#### UTILIZATION OF COOPERATIVE BANKS

For different types of financial helps and services, majority of the customers approach cooperative banks. Almost 66% approach of the customers approach these banks for loan services; only 20% of the customers have regular savings in these banks; a very small percentage of the customers, 6% approach the banks for other services. The number of customers use credit facilities offered by the bank is only 8%. One noteworthy thing is that Cooperative banks do not provide ATM facility for its customers.

#### LOANS BORROWED

The study shows that 85% of the customers approach it for borrowing loans. Different loans are lended by the Cooperative bank.

#### PURPOSE OF LOANS

The loan borrowed from the bank is used for different purposes. Majority of the customers, about 50% utilise the loans for agricultural purposes. 25% of the customers utilize the loan for educational purposes. 12% of the loan serve for other purposes like marriage, debt, etc. 3% of the loan is used for medical purpose and 10% of the loan is utilised for industrial purpose.

#### MODE OF ACCOUNT

People approach bank mainly for the purpose of loans and for deposit. Bank is an institution where financial transactions takes place. Customers have different kinds of accounts / deposits on Bank. Majority of the customers have current deposit. 56% has current deposit. 30% has savings deposit and 15% has fixed deposit in bank. Many customers possess fixed deposit also with either savings/current deposit.

#### SELECTION OF BANK

Customers select the bank on the basis of many terms. Most of the customers, of about 60% choose the nearest bank. 35% of customers choose bank by looking its profit, and 5 % opt looking other factors.

#### LAND HOLDINGS

When it comes to the land holdings of the customers, most of them do not possess more than one acre of land. Many of the customers are daily employees . About 70% of the customers have land holding below one acre. 20% of the customers own land holding between 1 acre – 3 acres and only 10% possess above 3 acres.

#### ANNUAL INCOME

The annual income pattern of the customers shows that, majority of, about 60% of customers have an annual income less than 75000. 14% of the customers have an annual income between 75000-1 lakh . 10% of the customers has an annual income of 1 lakh – 2 lakh . 6 % of the customers has an annual income above 2 lakhs.

#### REGULAR SAVINGS

Majority, of about 80 % has regular savings . About 14 % does not have regular savings . But they save their income irregularly . 6% do not have any saving .

#### BANKING INSTITUTIONS

Preference for taking loans from financial institutions differ from person to person . Many of the customers prefer the financial institutions in which the rate of interest is low for loans . Some customers opt for the bank which is at the nearest place . Some prefer the financial institution or bank from which the requested credit is completely given to the customers .

Co-operative banking is the banking system organised on a co-operative basis. Like any other banking institutions Co-operative banks also perform banking functions in most parts of the world. Studies related to co-operative banks reveal that these banks have remained the prime institutional agency with their vast network, wide coverage and outreach to the remotest parts of the nation.

In the primitive societies, the germs of cooperation would be observed in religious institutions & tradition customs. Cooperation as in understood today, as an economic system, was born as a peaceful reaction against the mercantile economy and industrial revolution which had resulted in mass poverty & degradation.

## II. Findings

- These banks are institutions created by persons belonging to same local or professional community or sharing a common interest.
- Co-operative banks are owned & controlled by their members who are democratically elected by the Board of directors.
- Co- operative banks are deeply rooted in the local area & community.
- Funds are limited for rural cooperative banks. So loans given by these banks are also limited.
- Rural cooperative banks have not introduced high tech banking facilities because most of the members of these banks are rural poor.
- The study reveals that nearly 46% customers approached cooperative banks for transaction & 54% approached other bank.
- Majority of customers are daily income getting people.

- People spend their income basically for agriculture & education. Other uses include food, medical, entertainment etc.
- About 60% of the customers approach cooperative banks for the purpose of loan. 20% approaches for the saving purposes. Some approach for credit & other purpose.
- Majority, of about 60% take gold loans from cooperative banks. Other loans includes housing loans, overdraft, DL1, PL1 etc.
- The money obtained from loans is used by 50% of the people for agricultural purpose. Other purposes include education, medical etc.
- About 56% of customers possess current deposit & 30% possess saving deposits & 14 % possess fixed deposit in cooperative bank.
- The study reveals that people opt or select banks by looking forward the nearest bank. People also look the profitable bank.
- About 70% of people own land holding below 1 acre & about 20% owns land holding about 1-3 acres.
- The annual income of majority of people is below Rs.75000
- About 80% of the people have regular saving from their income.

### **III. Suggestions**

- The rural population must be educated about the new banking services and should be trained to use them.
- The time period for the repayment of loans must be increased.
- A customer friendly atmosphere must be created in banks to attract more customers.
- More funds must be provided and more schemes must be implemented for the welfare betterments.
- The banking formalities must be simplified in such a way as to make it accessible to all sections of the people.
- More loan schemes like educational loans, vehicle loans etc. should be implemented.
- Modern trends of banks like ATM, credit and debit card, net banking etc. must be implemented in co-operative banks to make the banking transactions more easy.
- The adequate rural infrastructure to tackle the various problems of farmers must be implemented.
- Full freedom to the banks for distributing their funds must be granted.
- Professionalization in management of co-operative bank must be taken into the consideration.

### **Acknowledgement**

I acknowledge the help I received from my esteemed institution, friends and students in preparation of this article.

### **CONFLICT OF INTEREST**

The author declares no conflict of interest.

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