A STUDY ON CO-OPERATIVE BANKS IN THE INDIAN FINANCIAL SYSTEM: AN OVERVIEW

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ABSTRACT

Co-operative Banks are an integral part of the Indian financial system. Co-operative Movement in India was started in 1904 mainly to provide farm credit to agriculture and allied sector. They are the first formal institution to be conceived and developed to purvey credit to both rural and urban India. The Government of India (GOI) developed the cooperatives as an institutional agency to tackle the problem of usury and rural indebtedness. After the Independence, the GOI had adopted a multi-agency approach in order to provide adequate, cheap and timely credit. Cooperative Banks have done wonders by acting as a balancing centre and become a key instrument of financial inclusion in reaching out the needy people even at remote areas. They comprise Urban Cooperative Banks which deals with credit to urban and semi-urban areas and Rural Cooperative Banks which concentrates on farm credit in rural areas. Even though the contribution of Cooperative Banks towards credit is smaller than the Commercial Banks, it forms as an essential component of the Indian financial system. They have an extensive branch network and played an important role in creating banking habits among the lower and middle-income groups and in strengthening the credit delivery system and hence are considered to be a significant component for the development of the entire nation. On this backdrop, an attempt is made to overview the performance of Cooperative Banks in the Indian financial landscape.

Keywords: Usury, rural indebtedness**,** Cooperative credit, Urban and Rural Cooperatives

1. INTRODUCTION:

"In the village itself no form of credit organization will be suitable except the Co-operative society, Co-operation failed, but Co-operation must succeed".

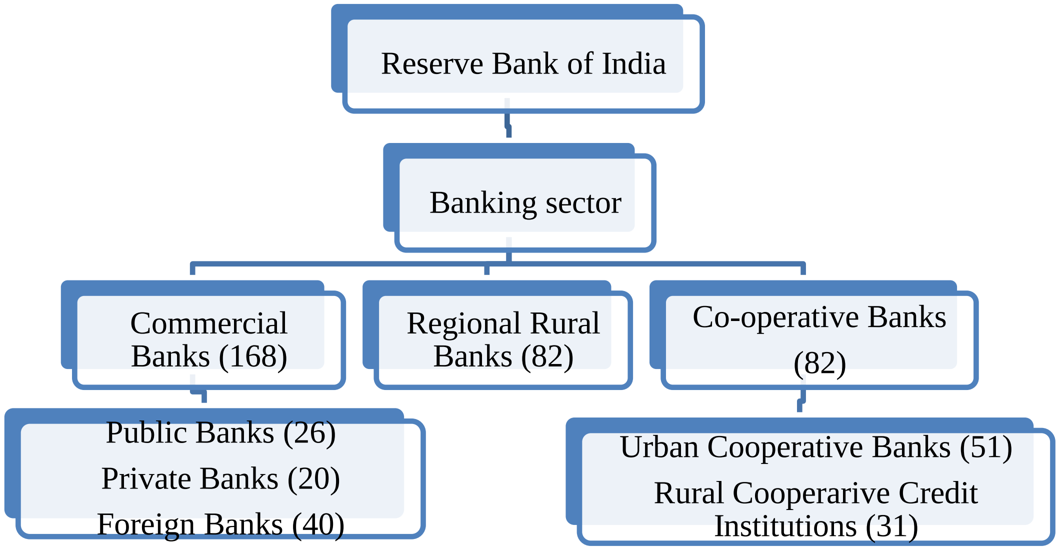
-All India Rural Credit Survey.

The Indian Financial system acts as the *nervous system* for the nation's economy and for its economic development. The financial services sector, whose performance is more closely linked to the economy, has stood as an "*Engine of Growth*" in the last few decades. It was one of the fastest growing sectors and contributed 7 percent to India's GDP in 2010. The financial system in India today handles financial flows not only between individual savers/investors but also between institutional savers/investors. The Indian Financial system was broadly categorized into three main segments:

1. *Organized sector:* Consisting of banks, insurance companies, stock markets, financial institutions, Non Banking Financial Corporations (NBFCs) etc.
2. *Unorganized sector:* Includes trade merchants, indigenous bankers, chit fund, money lenders, landlords etc.
3. *Semi organized sector:* Includes Microfinance Institutions consisting of Self-Help Groups (SHGs) and alike sub systems

Credit is an important input which ensures adequate working capital as well as infrastructural development of any sector. It serves as an instrument for stimulating increase in output, income and employment. Adequate and timely credit provision significantly increases the income levels which lead to the economic development of people. After the Independence, the GOI has developed a multi-staged network of banking consisting of Commercial Banks, Regional Rural Banks and Cooperative Banks through which credit has been provided. Commercial banking is an unique system which performs usual banking operations and also participate in Poverty Alleviation Programmes etc. Regional Rural Banks are mainly focused on the agro sector and are in every corner of the country. Cooperative Banks are small-sized units registered under the Cooperative Societies Act that essentially lend to small borrowers and businesses.

Figure 1: Multi-agency structure of Banking in India



Note: The figures in brackets represent number of respective banks as on 31st March 2012
Source: RBI, Report on Trend and Progress of Banking in India 2012-13

Table 1: Market share of Co-operatives banks in Indian Banking (In Percentage)

Year	Co-operative Banks		RRBs	Commercial Banks
	UCBs	Rural Cooperative Banks		
2001	6.3	7.2	2.9	83.6
2002	6.4	7.2	3.0	83.4
2003	6.3	7.0	3.0	83.7
2004	5.8	6.6	3.1	84.5
2005	5.3	6.3	3.1	85.2
2006	4.6	5.4	2.9	87.2
2007	4.0	4.7	2.7	88.6
2008	3.7	4.1	2.7	89.5
2009	3.4	3.9	2.6	90.1
2010	3.5	3.7	2.7	90.1

Source: RBI Publications

Figure 1 depicts the multi-stage network of banking sector in India. Table 1 gives the details of market share by the formal sources in the country for the period of 2001 -10. Of the formal sources, the contribution of commercial banks is high when compared to other two components.

1.1. Differences between Commercial Banks and Co-operative Banks

Co-operative Banks perform all the banking functions but they differ from commercial banks in the following respects:

- Commercial banks are joint-stock companies established under the Companies' Act of 1956 whereas Co-operative Banks were established under the Co-operative society's Act.
- Commercial Bank structure Is Branch Banking Structure whereas Co-operative banks have a three tier structure with State Co-operative Bank at apex level, District Central Cooperative Banks at district level and Primary Agricultural Co-operative Societies at grass root level.
- Only some of the sections of Banking Regulation Act of 1949 are applicable to Co-operative Banks whereas it is fully applicable to Commercial Banks. It results in partial control by RBI over the Cooperative Banks.
- Co-operative Banks function on the principle of mutual help and cooperation with commercial parameters.

The origin of Indian Co-operative Banking started with the enactment of Cooperative Societies Act, 1904 with an objective "*to encourage, thrift, self-help and co-operation among agriculturists, artisans and persons of limited means".* Cooperative Banks are organized and managed on the principle of co-operation, self-help and mutual- help and function with the rule of "*one member, one vote*", function on "*no profit, no loss*" basis. Co-operation as principle does not pursue the goal of profit maximization.

1.2. Features of Cooperative Banks:

- Cooperative banks are customer owned entities and hence the main aim of them is not to maximize profit but to provide the best possible products and services to its members.
- They are organized on the principles of cooperation, self-help and mutual-help.
- These are owned and controlled by their members, who democratically elect the board of directors.
- They function with the rule of "*one member, one vote*" and on "*no profit, no loss*" basis.
- They perform all banking functions such as deposit mobilization, supply of credit and provision of remittance facilities etc.

- They are characterized by functional specialization.
- They do banking business mainly in the agriculture and rural sector.
- These are the first *government sponsored*, *government –supported* and *government-subsidized financial agency* in India.
- Cooperative banks belong to both the money and capital markets.
- These are financial intermediaries only.
- Cooperative banks also subject to Cash Reserve Ratio (CRR) and liquidity requirements.
- Allocates part of profit to reserves and the surplus is to be distributed to the cooperative members, with legal or statutory limitations

1.3.Strategy of Co-operative Banks:

The Cooperative Credit Policy has s been oriented to meet the needs of the weaker sections of the population by targeting an increase in output, income and employment levels. And hence they are providing micro credit to youth, women for the entrepreneurial growth. They are also providing inputs at subsidized prices along with credit in order to update them with the latest technology and know-how. The cooperative credit acts as a catalyst in accelerating the overall development of the economy. They have been promoted and organized for the achievement of social and economic betterment of the people in a democratic structural framework in pursuance of the National and State objectives, such as:

- Provision of adequate, timely credit to farmers to enhance agricultural output.
- To reduce and gradually eliminate the money lenders
- To reduce regional disparities throughout the country
- To provide longer credit support to various development programmes
- To provide cheap credit with or without any security
- Provision of gainful employment and alleviation of poverty and destitution
- Decentralization of economic development, effort and Development through mutual-help and cooperative effort.

2. **REVIEW OF LITERATURE**:

Co-operative credit occupied a predominant position in the Co-operative movement to fulfill the economic needs of nearly 80 percent of the population. Cooperative credit as a tool in increasing productivity has attracted considerable attention of the researchers. The earlier studies provided the necessary cushion for a proper understanding of the role of cooperative credit and its role in Indian financial system.

The need for institutional credit arises because of the weaknesses or inadequacy of private agencies in the supply of credit to farmers. In order to release the poor peasants from the clutches of the private agencies, development of institutional credit is inevitable. The All India Rural Credit Survey (1954) reported that only 3.1 percent of credit needs had been met by all the Cooperatives. Mosher (1986) described institutional credit agencies as efficient agencies in extending credit acts as an accelerator for economic development. Jacob (1995) observed that in order to increase the productivity, sufficient and timely institutional credit should be provided. Srivastav (1995) suggested that banks should provide adequate credit for increasing production and productivity for the prosperity of the nation. Indian planners considered Co-operatives as an instrument of economic development. The Co-operative movement in India was started with a view to providing agriculturists funds for agricultural operations at low rates of interest and to protect them from the clutches of money lenders (Datta and Sundaram, 2005). Calvert (1996) argued that Cooperative credit is considered to be the best alternative to relieve the poor from indebtedness. Verma (1999) viewed that Credit Co-operatives play a significant catalytic role in accelerating the pace of agricultural and rural development by providing required investment support for agricultural and rural development. Bhagat Singh (1999) opined that today, Co-operatives had emerged as a very strong economic force committed to provide a host of services to our farmers, artisans and other weaker sections of community for their socio-economic upliftment by having a nation-wide spread and Federal structure. Amin (2003) strongly promulgated that the co-operative effort had to be deemed and accepted as the only economic system to reduce poverty in India. Kurien (2003) aptly viewed that the co-operation and cooperative movements were the most effective tools for rural development and empowerment of our economy. Robby Tulus (2004) viewed that Co-operatives were positioned as prime vehicles to carry specific programmes in order to meet national development targets of the Govt., analogous to sustaining the life blood of the Co-operatives in India so far as external aid was available. Subrahmanyam (2004) found that unless Co-operative Banks were healthy and credit worthy, it would not be possible to reach credit to every farmer in need of hour for credit. Sanjiv Chopra (2004) observed that the Co-operative sector had the strength to achieve the desired socio-economic transformation and to attain the national objectives. Tangirala (2004) viewed that Co-operatives have a tremendous role in nation building in a different form *i.e*., as professional organizations.

Sharma (2005) observed that Co-operatives played an important role in unshackling farmers and weaker sections from the stifling hold of moneylenders by lending 60 percent of their loans and advances. Chatterjee (2005) said that Co-operatives constituted a systemic tool for ensuring a dignified existence to the poor and the oppressed in any capitalist economy. Ranjana Kumar (2005) observed that long-term credit structure played an important role in the rural credit scenario and made a significant contribution in getting the indebted farmers out of the clutches of the money lenders and also in the private capital formation of rural areas. The Rural Credit Survey Committee recommended that promotion of Co-operatives be accepted as a part of state policy in the development of various economic activities, as visualized in the Tenth plan (2002-07). Yadav (2006) opined Co-operative Banks have to be spread over to rural areas to provide timely credit.

Today, India's Co-operative credit structure with over 13 crore members (including 6 crore borrowers) constitutes one of the largest financial systems in the World. The over one lakh PACS could be regarded as the *veritable bedrock of India's rural economy*. The Co-operative credit structure has 50 percent more clients than Commercial Banks and RRBs. Directly or indirectly, it covers nearly half of India's total population. Katar Singh (2003) observed that Cooperative Banks were based and managed on the principle of Co-operation, self-help and mutual-help, and its main aim was to provide cheaper credit to their members, but not to maximize profits. Vilasrao Deshmukh (2005) said that the Co-operatives in India account for more than half of industrial finance advanced to agriculture and one-fifth of private capital formation. Balraj Vishnoi (2006) opined that Co-operatives can play the role of promoter to strengthen economic status of rural people. Sisodia (2006) viewed that with sincerity, dedication and focus on goals, Cooperatives were well poised to become an engine of socio-economic growth in the coming years.

The literature review extended valuable information relating to the research work while analyzing the different aspects of cooperative credit. It also framed some guidelines in analyzing the strengths and weaknesses of co-operative credit structure which formed crucial in drawing conclusions of the present research work.

3. DATABASE AND METHODOLOGY:

In India Co-operative Credit Institutions are playing significant role in extending credit to various sectors of the economy. Many researchers have undertaken the study on different aspects of Cooperative Banks, formulated conclusions and recommended various suggestions on the performance of Cooperative Banks. Even then certain gaps still remained as Cooperative Banking is a wide and powerful concept. In order to bridge the gaps, the present study "*A STUDY ON CO-OPERATIVE BANKS IN THE INDIAN FINANCIAL SYSTEM: AN OVERVIEW*" has been undertaken with the following objectives:

- To study the need for institutionalization of credit and the various components of multi-agency system
- To study the origin of cooperative movement and the growth of Cooperative banks in India
- To study the structure of Cooperative Banks
- To analyze the Deposits, Credits and C/D Ratios of Cooperative Banks.
- To study the reforms undertaken in Cooperative Credit Structure
- To study the importance of Cooperative Banks in the Indian financial system

In order to accomplish the above objectives, secondary sources have been used which has been obtained from various journals, reports, magazines and websites. To make the findings meaningful and easily understandable, the data is to be presented in figures and tables and analyzed the data with simple statistical tools of analysis like ratios, percentages etc.

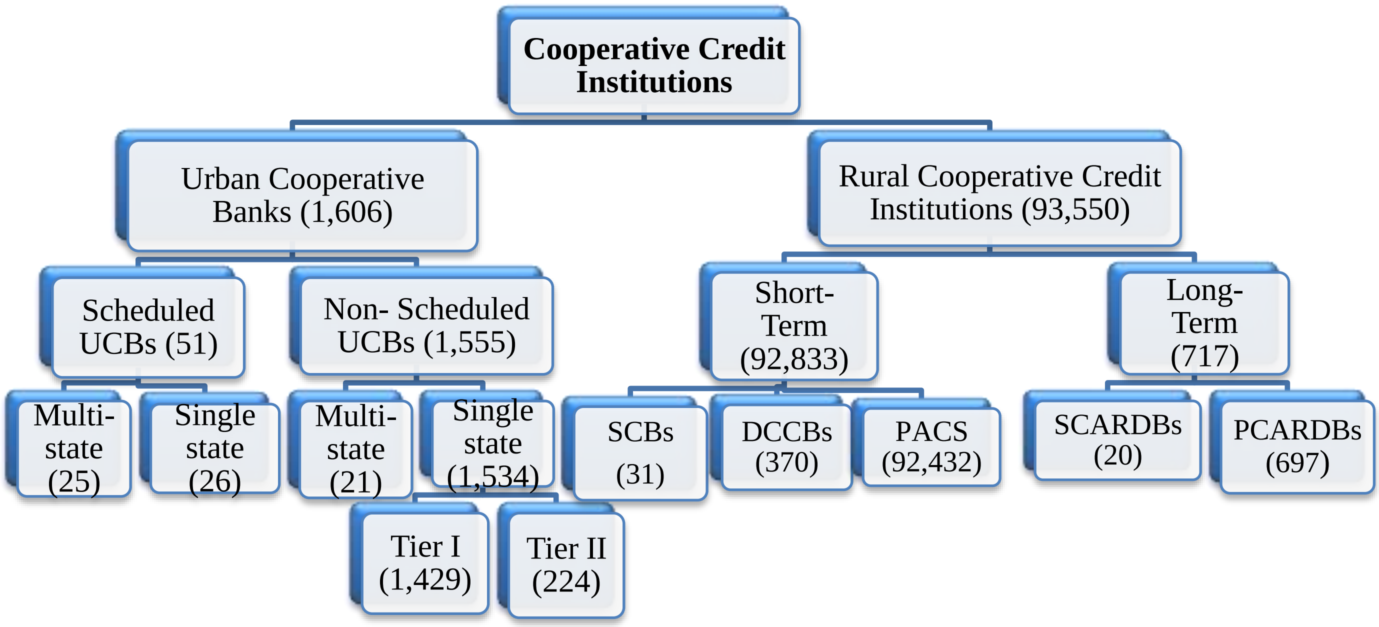
4. ANALYSIS:

Co-operatives banks were developed by pooling the small savings of the people and providing them with access to different financial services. The Cooperative Movement was started with democratic features and functioning as an effective instrument in increasing output, employment opportunities and ensuring food security, social and economic justice to the poor and vulnerable. The establishment and growth of Co-operatives was regarded as one of the important instruments for economic, social and cultural development in developing countries. Co-operative Credit banks have emerged as a *ray of hope* and *vehicles of rural finance* for economic development.

4.1. Structure of Cooperative Credit Institutions in India:

The distinctive feature of the Cooperative Credit Structure in India is its heterogeneity. The structure differs across rural and urban areas as well as across States and tenures of loans. The urban areas are served by Urban Cooperative Banks (UCBs), which are further sub-divided into Scheduled and Nonscheduled UCBs. Scheduled UCBs form a small proportion of the total number of UCBs. The operations of both scheduled and nonscheduled UCBs are limited to either Single-State or Multi- State. Most of the non-scheduled UCBs are primarily single State UCBs having a single tier. Rural Cooperatives Structure is bifurcated into short-term and long-term structure. The Short-Term Cooperative Structure is a three tier structure having State Cooperative Banks (SCBs) at the apex level, District Central Cooperative Banks (DCCBs) at the district level and Primary Agricultural Credit Societies (PACS) at the village level. This structure is referred to as *Federal Structure* of *Short-Term Credit Cooperatives*. The Long-Term Cooperative Structure has the State Cooperative Agriculture and Rural Development Banks (SCARDBs) at the apex level and Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) at the district or block level. This is referred to as the *Federal Structure of Long-Term Credit Cooperatives*. There is also a unitary structure under which the SCARDBs channel credit through their own branches. In some States, there is also a mixed structure under which both unitary and federal structures co-exist. In the States that do not have the long term structure, separate sections of the SCBs look after the long-term credit requirements of rural areas.

Figure 2: Structure of Cooperative Credit Institutions in India



UCBs: Urban Cooperative Banks
SCARDBs: State Cooperative Agriculture and Rural Development Banks.
PCARDBs: Primary Cooperative Agriculture and Rural Development Banks.
SCBs: State Cooperative Banks
DCCBs: District Central Cooperative Banks
PACS: Primary Agricultural Cooperative Societies
Note: 1. Figures in parentheses indicate the number of institutions at end-March 2013for UCBs and at end-March 2012 for rural cooperative credit institutions.
2. For rural cooperatives, the number of banks refers to reporting banks.

Source: NAFSCOB

4.1.1. Urban Co-operative Banks:

Since inception, the UCBs have been playing an important role in the socio-economic development of the country by providing cheaper credit to urban and semi-urban areas. Today they consists of priority sector segments viz. Small Business Establishments, Small Scale Industries, retail traders, self-employed etc. with an easy accessibility. They provided credit to these sectors are at 46 per cent as against the targeted 40 per cent. Nearly 90 per cent of the loan accounts are less than Rs. 0.5 million in values. To this extent, UCBs are already contributing to financial inclusion. Hence UCBs have to increase their area of operations in order to participate in the national mission of financial inclusion.

Table 2: Performance of UCBs during 2005-13

Year	No. of UCBs	Deposits (Crores)	Advances (Crores)	C-D Ratio	Gross Non Performing Assets (Crores)	Gross NPA as % of total Advances
2005	1872	105021	66874	63.67	15486	23.2
2006	1853	114060	71641	62.80	13506	18.9
2007	1813	121391	79733	65.68	14541	18.3
2008	1770	138496	88981	64.24	14583	16.4
2009	1721	158733	97918	61.68	12862	13
2010	1674	182862	110303	60.32	11399	10.1
2011	1645	209949	135104	64.35	11529	8.5
2012	1618	238626	157832	66.14	11053	7.0
2013	1606	276934	181067	65.38	10946	6.0

Notes: Data for end-March 2013 are provisional.
Source: Report on Trend and Progress of Banking in India 2012-13

Table 2 reveals the performance of UCBs for the period 2005-13. It shows the growth of UCBs through the parameters such as deposits, advances and Gross Non Performing Assets. The no. of UCBs are decreased due to the merging of banks based on the viability. The amount of deposits and advances show an increasing trend. The C-D ratio shows very little fluctuations and seems to be uniform throughout the period.

4.1.2. Rural Cooperative Banks:

Rural Cooperative Banks were the first formal institutions established to provide farm credit to agricultural sector. They have been a key instrument of Financial Inclusion reaching out to the grass root level. Rural Cooperative Credit Structure comprises long-term and short-term cooperatives. The Rural Cooperative Structure in India is regulated by NABARD. It gives directions and guidance in respect of policies and matters relating to supervision and inspection of State Cooperative Banks and DCCBs. The role of Rural Co-operatives in providing agricultural credit has decreased from 64 per cent in 1992-93 to around 17 per cent in 2011-12.

In order to improve its credit performance, the Govt. has to take necessary corrective steps in revamping the Rural Co-Operative Credit Institutions.

Table 3 gives the financial performance of Rural Cooperatives as on March 2012. The profit/loss position of SCBs and DCCBs is positive where as PACs, SCARDBs AND PCARDBs is negative.

Table 3: A Profile of Rural Co-operatives as at end - March 2012 (Amount in Rs. Billion)

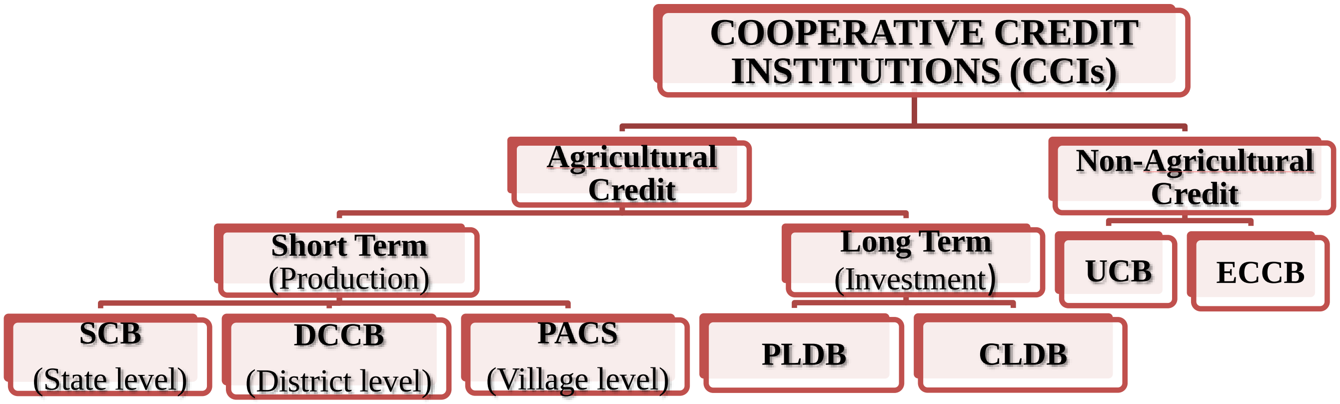
Item	Short-term			Long-term	
	SCBs	**DCCBs**	**PACs**	**SCARDBs**	**PCARDBs**
No. of Cooperatives	31	370	92432	20	697
Deposits	867	1768	503	11	5
Advances	756	1448	912	194	120
C-D ratio	87.2	81.9	181.3	1763.6	2400
Non Performing Assets (in amount) As Percentage of loan outstanding	52 6.8	154 9.7	243 26.8	64 33.1	47 38.6
Profit/Loss	5	14	-20	-2	-2

Source: NABARD& NAFSCOB

4.2.**Credit disbursal by Cooperative Credit Institutions in India:**

Cooperative banks have played a pivotal role in the development of short-term and long-term credit structure in India over the years. They provide credit to both agricultural and non-agricultural sectors through its federal structure. The agricultural credit is to be provided for two purposes viz., production and investment. Short-term credit deals with production which can be provided through the three-tier structure which consists of State Cooperative Banks (SCBs), District Cooperative Credit Bank (DCCBs) and Primary Agricultural Cooperative Societies (PACs) whereas investment credit is to be provided through Primary Land Development Bank (PLDB) and Central Land Development Bank (CLDB). The non-agricultural credit is to be provided through the two-tier structure which consists of Urban Cooperative Bank (UCBs) and Employees Cooperative Credit Bank (ECCBs). The following figure depicts the flow of both farm and non-farm credit.

Figure 3: Representation of credit disbursal by Cooperative Credit Institutions in India



Source: NAFSCOB

Table 4: Gross Non-Performing Assets of Co-operative Banks (Percentage of gross advances)

Year	UCBs	Rural Cooperative Banks				
		SCBs	DCCBs	PACs	SCARDBs	PCARDBs
2002-03	19.0	18.22	13.2	38.2	20.9	33.8
2003-04	22.7	18.7	24.0	36.8	26.7	35.8
2004-05	23.2	16.3	19.9	33.6	31.3	31.9
2005-06	18.9	16.8	19.7	30.4	32.7	35.6
2006-07	18.3	14.2	18.5	29.1	30.3	35.4
2007-08	15.5	12.8	20.5	35.7	34.5	53.7
2008-09	13.0	12.0	18.0	44.8	30.1	39.0
2009-10	10.1	8.8	13.0	41.4	45.1	51.9
2010-11	8.4	8.5	11.2	25.2	32.3	40.6
2011-12	7.0	6.8	9.7	26.8	33.1	38.6

Note: 1.Data for 2011-12 is provisional.
2. Data on short-term structure NPAs of PACS represents percentage of over dues to demand.
3. Prudential norms were made applicable to the UCBs since 1992-93, the SCBs and DCCBs since 1996-97 and SCARDBs and PCARDBs since 1997-98.

Source: Reserve Bank, NABARD and NAFSCOB

Figure 3 gives the credit disbursal by CCIs both production and investment in the form of short-term and long-term. Table 4 gives the details of gross NPAs of various Cooperative Banks for the period 2002-2012. The NPAs of long-term cooperatives are high when compared to short-term structure.

4.3.Challenges of Cooperative Banks:

Though Indian Cooperative banks occupied dominant place in the financial landscape, these encumbered with a number of troubles and confronts which are as follows:

1. Low resource base and high dependence on refinancing agencies
2. High transaction costs and huge accumulated loss.
3. Remarkable existence of NPAs and low recovery of loan.
4. Lack of Recognition of Co-operatives as Economic Institution
5. Lack of professionally trained and qualified manpower
6. Lacks functional autonomy and Inability in formulation of policies
7. Lack of diversification and Increasing trends of irregularity in financial, managerial accountability.
8. Dual control and undue political and government interference
9. Dependence on government capital
10. Mandatory policies of RBI in opening branches
11. Ineffective rehabilitation and financial assistance from the Government
12. Red tapism in business operations
13. Infrastructural weaknesses and structural flaws and so on.

4.4. Reforms in Cooperative Banks:

The Khusro Committee has enunciated various reforms for the development of Cooperative Banks and suggested that there should be mutual accountability, support and responsibility within the system so that it becomes cohesive and has an organic relationship between its tiers. It recommended that self-reliance is a key to successful cooperatives, deposit-mobilization is vital to self-reliance and mobilization of small savings is the desired strategy for deposit-mobilization. It has also recommended many major structural, operational and managerial changes to reform the system and as result set up an apex institution called National Cooperative Bank of India (NCBI) in order to provide leadership at the national level backed by resources. It functions as a balancing centre ally to the NABARD. The GOI and RBI had initiated various measures to strengthen the development of cooperative banks which are as follows:

- The NABARD had formulated a scheme for the reorganization of PACs into Multi-Purpose Cooperative Societies

- The 15-point programme was implemented for the development of PACs in terms of deposit mobilization, credit disbursement and recovery of loans
- Certain states like Andhra Pradesh, Madhya Pradesh and West Bengal had initiated development programmes to strengthen the working of the CCIs at base level.
- Rehabilitation programme provided for weak banks, 12-Point Action Programme had been formulated and circulate by NABARD to all the state governments.
- Licensing of new UCBs has been liberalized
- A cooperative development fund has been set up by NABARD to help, improve managerial systems and skills in these banks
- Lending and deposit rates have been more or less completely freed or deregulated.
- PCBs have been allowed to invest their surplus funds in equity/bonds of all India Financial institutions, CDs issued by scheduled commercial banks and other financial institutions approved by the RBI.
- All scheduled PCBs have been brought under the purview of the provisions of the Banking Ombudsman Scheme, 1995.
- The prudential accounting norms have been made applicable to SCBs/CCBs from 1996-97 in two phases.

4.5. Suggestions for the improvement in the performance:

Poor management and governance are the root causes for the poor financial state of Cooperatives. Hence they have to adopt group approach for financing excluded groups in which community based organizations such as Joint Liability Groups will provide some degree of mutual guarantee to enable its members to access credit. The Government advised Co-operative Banks to make use of Financial Inclusion Fund and Financial Inclusion Technology Fund for the purpose of financial inclusion. They need current and future development in information technology. The following are some of the recommendations for their better functioning.

- Adopt modern methods of banking like internet banking, credit cards, ATM etc.
- Introduce new schemes for attracting new customers
- Plan for expansion of branches.

- Improve the customer services of the bank to a better extent.
- Licensing Policy should be transparent, precise and simple
- Corporate governance is essential for the effective functioning
- Recruitment of professional and experienced managerial personnel
- In addition to its own funds, the CCIs should generate funds from outsources
- Adopt effective regulatory frame work for strengthening recovery mechanism
- Maintain computerized reporting system for ready information
- Adopt all modern banking functions for increasing their income sources

5. CONCLUSIONS:

Co-operative Banks have completed 100 years of existence in India. They play a vital role in the Indian financial system and form an integral part by meeting the credit requirements of both the urban and rural India. At present Cooperative Banks are performing multipurpose functions of financial, administrative, supervisory and development in nature of expansion and development of Cooperative Credit System. They are acting as a friend, philosopher and guide to entire cooperative structure. The Rural Co-operative Banks areas mainly concentrates on agriculture and allied sector along with Small Scale Industries and Self-Employment driven activities whereas the Urban Co-operative Banks mainly focus on self-employment, industries, small scale units and home finance etc. Though these banks account for a small share in the total credit, but they hold a significant position in credit delivery by spreading over to even remote areas. They have wide network by deepening financial intermediation by bringing a large number of depositors/borrowers under the formal banking network. They considered to be friendly banks with easy access of financial services to low and middle-income groups in both rural and urban areas.

It is observed that the quantitative growth of Cooperative Banks has not been accompanied by a qualitative growth. Many weaknesses were identified by ALL India Rural Credit Survey Committee (AIRCSC) and concluded that *co-operatives had failed, but that they must succeed*. Despite of these challenges, these are still playing a key role in meeting growing agricultural & non- agricultural needs of India. Though the quantum of credit has increased, but the performance of these institutions has been deteriorating drastically. Hence, there is a need for revolutionary and practical reforms, which could restructure the entire Co-operative Banking so as to enable the sector to face challenges of globalization and privatization. The AIRCSC recommended various reforms to fasten the growth of Co-operative Banks and as a result the GOI has introduced various measures to revive and strengthen them.

Cooperative banks have been associated with unique features and no commerciality such as voluntary and open membership, democratic control, economic participation, autonomy, training and concern for the community etc. The role of them has been vital and significant in enhancing the inclusiveness of the Indian financial system. At the outset, there is a need to make the Cooperative Credit System more viable and vibrant in order to deepen financial inclusion as well as add to stability of the financial system as a whole. Its' role was recognized globally and Mr. Ban Ki-moon, the UN Secretary General remarks that *"Cooperatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility"*. Incidentally, the year 2012 is declared by the UN as ***"**the International Year of Cooperatives**"**.* Finally from the study, it can be concluded that though the share of Cooperative Banks in Indian Financial System is meager, its contribution in the development of the people in particular and the nation as a whole is invaluable.

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