

Credit Co-operatives and Financial Inclusion - Evidence from India

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In India, in the past, credit co-operatives were promoted by the Government to provide basic financial services to the marginalized sections of the society. Over the years, the co-operative credit movement has weakened and in the liberalized environment, there are apprehensions about their survival. However, the financial system, in particular banking system has shown commendable progress during the last decade. **At the same time, one of the unfortunate dimensions of the growth in banking has been the exclusion of a majority of the population in particular poorer sections of the society.** Financial exclusion signifies the lack of access by certain segments of the society to appropriate, low-cost, fair and safe financial products and services from mainstream providers. In rural areas, the number of loan accounts were only 9.5 per cent of adult population and 51.4 per cent of farm households have no access to formal or informal sources of credit while 73 per cent have no access to formal sources such as banks. **What is disturbing is the increasing share of moneylenders in the debt of rural households between 1991 and 2002 (AIDIS, 2002).** In other words, the formal credit system including credit co-operatives has not been able to adequately penetrate the informal financial markets. The consequences of financial exclusion are negative and far-reaching for the people deprived of basic banking services. Availability of basic banking services is a pre-requisite for poverty reduction and inclusive growth.

The available literature on financial inclusion from the developed world clearly suggests that the co-operative model is best suited within the financial services industry to make an impact within the financially excluded communities. Contrarily, in India, it seems the co-operatives with vast geographical presence have not been able to contribute significantly towards financial inclusion. Against this backdrop, this paper attempts to find answers to the following research questions.

- a) How far credit co-operatives are successful in providing basic banking services including credit to rural population?
- b) How can co-operatives be made more responsive to the needs of financially excluded sections of the society?

As the paper is exploratory in nature, the output of this research will enrich the literature relating to co-operatives as also financial inclusion. In addition, this topic/area is getting increasing attention of the policy makers in India and thus useful from that angle as well.