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Mains Practice Questions

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Q. How are cooperative banks different from commercial banks? Highlight their role in revolutionizing the prospects of rural credit. (150 words)

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Approach

- Start your answer by defining the significance of banking and the role of Commercial and Cooperative banks.
- Differentiating between Commercial and Cooperative banks, will constitute the major part of the body of the answer.
- Address the other part of the question by highlighting their role in mobilising rural credit.
- Conclude suitably.

Introduction

- The banking industry plays an important role in the economic development of the country and is the most dominant segment of the financial sector.
- Banks provide the rural small businessmen with loans from deposited money which plays a crucial role in rural development.
- Commercial bank is a kind of financial institution which carries all the operations related to deposit and withdrawal of money for the general public. These banks are profit-making institutions. Whereas, a cooperative bank is a financial entity which belongs to its members, who are at the same time the owners and customers of the bank.

Body

The differences between commercial and cooperative banks are as follows:

Cooperative Banks	Commercial Banks
Cooperative banks work on the principle of cooperation	Commercial bank work on the principle of profit-making
Cooperative banks are owned and operated by members, who are its customers	Commercial banks are owned by the and private individuals
Cooperative banks are constituted by different states under different acts	Commercial banks are constituted by a uniform act passed by the parliament
Cooperative banks have 3 tier system- apex level, district level and primary cooperatives	Commercial banks have no such hierarchy
Cooperative banks can not open their branch in foreign countries	Commercial banks can open their branch in foreign countries

Role in Revolutionizing the Prospect of Rural Credit

- **Financial Inclusion:** They have played a significant role in the financial inclusion of unbanked rural masses. They provide cheap credit to masses in rural areas.
- Cooperative banks mainly **target rural masses** so they play an important role in rural financial inclusion by providing easy credit to people/farmers.
- The cooperative bank ecosystem is **farmer-friendly**. Farmers can easily avail credit for seeds, tools or any other agriculture activity.
- With **stricter laws and regulation of the cooperatives by the RBI**, these banks have gained the confidence of the people.
- As the **credit and deposit facility is easily available** to the people, it encourages them to save more and deposit more in banks instead of hoarding money.
- **Low-interest rate-** These banks provide easy and **cheap credit** discouraging the traditional credit methods.i.e Moneylenders and zamindars.
- It makes efforts in improving the lending policies and operational efficiency of cooperative credit institutions.

Conclusion

- Cooperative banks have achieved many landmarks since their creation and have helped a normal rural Indian to feel empowered and secure.
- Therefore, despite several shortcomings, Cooperative Banks are important constituents of Indian Financial System. Their contribution in the Indian economy can not be ignored since they play a major role in Rural Financing.