

Progress and Problems of Central Co-operative Banks in India: An Analytical Review

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Abstract

Accordingly, in Bihar Central Co-operative Banks in the form of central financing agencies came into existence after the passing of the Co-operative Credit Societies Act, 1904. The Cooperative Movement advanced rapidly till 1931 in Bihar. A committee under the chairmanship of Mr. Iyall was set up in 1923. The committee took an optimistic view of the cooperative movement. The general economic prosperity of Bihar between 1917 and 1928 helped in the expansion of the movement. The Central Co-operative Banks began to receive large sums of deposits from the urban people as the bank paid 8 to 9 percent interest. The experts have admitted that soundness in the organisation of the primary agricultural cooperative societies was found to be lacking. The organisation of these societies was hasty from the very start of the movement in Bihar.

Keywords: Central, co-operative, banks, organisation, primary and agriculture

Introduction

The history of Indian cooperative banking started with the passing of Cooperative Societies Act in 1904. The objective of this Act was to establish cooperative credit societies "to encourage thrift, self-help and cooperation among agriculturists, artisans and persons of limited means." Many cooperative credit societies were set up under this Act. The Cooperative Societies Act, 1912 recognised the need for establishing new organisations for supervision, auditing and supply of cooperative credit. These organisations were- (a) A union, consisting of primary societies; (b) the central banks; and (c) provincial banks.

Although beginning has been made in the direction of establishing cooperative societies and extending cooperative credit, but the progress remained unsatisfactory in the pre- independence period. Even after being in operation for half a century, the cooperative credit formed only 3.1 per cent of the total rural credit in 1951-52.

Central cooperative banks

The original scheme of co-operative in India did not contemplate the organisation of federal societies to function at financing agencies for the primary societies which in most cases were starving for want of adequate funds. They could not attract adequate share capital and deposits whereas the need of the members was over increasing. It was thought in the beginning that the Urban Banks would be able to raise sufficient capital to meet

both their own needs and those of the rural societies. But this did not prove to be a healthy and conductive

arrangement for the societies which had no say in the affairs of those banks except their relationship with a right to participate in the share and management of their financing agency.

The co-operative Societies Act, 1912 permitted the organisation of higher federal societies. The primary co-operative societies in compact areas federated themselves into Banking Unions and formed central banks to collect funds from the urban areas and divert them to the village societies. Thus every district in the state got one or more Banking Unions of Central Banks. In the recent past there has been a more to recognize them at the district level to make the economic units. The banks so organized are known as District Central Co-operative Banks. The banks failing in class A, consist entirely of individuals or in which societies are admitted as share-holders on exactly the same footing as individual, without any special provision for their adequate representation on the Board of Management or for the

reservation of a definite proportion of the share capital for the more or less, such banks stand in the same position as commercial banks, granting loans to individuals and undertaking outside banking business not connected with co-operative finance. The Mac lagan Committee (1975) was of the opinion that Act on the ground that it would cause friction with the societies on the one hand and with the joint stock banks on the other hand, therefore, would not conform to the pattern contemplated in the Cooperative Societies Act. Banks having such constitutions were either recognized into cooperative urban banks or converted into pure central banks of societies. Hence, one may rarely come across such type of central banks today.

The Central Bank should cover as large as area as is compatible with conventions and efficiency. Although it may commence on a small scale, it cannot expect ultimately to work at a profit unless it has a considerable capital should ordinarily expect to deal, either at once or within a reasonable time, with at least 200 to 250 societies subject to the above consideration it is always well to adhere as far as possible to administrative division and to avoid the creation of banks intended permanently to deal with any area exceeding a district.

The All India Rural Credit Survey Committee has endorsed the above view. The Standing Advisory Committee on Agricultural Credit of the Reserve Bank of India has expressed the opinion "there should be only one central bank for each district. If, however, in a particular area, financial and other conditions justify the formation of a bank for region smaller than a district, there is no objection to this." Accordingly, in Bihar Central Co-operative Banks in the form of central financing agencies came into existence after the passing of the Co-operative Credit Societies Act. 1904. The Cooperative Movement advanced rapidly till 1931 in Bihar. A committee under the chairmanship of Mr. Iyall was set up in 1923. The committee took an optimistic view of the cooperative movement. The general economic prosperity of Bihar between 1917 and 1928 helped in the expansion of the movement. The Central Co-operative Banks began to receive large sums of deposits from the urban people as the bank paid 8 to 9 percent interest. The experts have admitted that soundness in the organisation of the primary agricultural cooperative societies was found to be lacking. The organisation of these societies was hasty from the very start of the movement in Bihar.

The Bihar and Orissa Committee on Cooperation gave its report in 1932 and this committee did not worry over the increase in the amount of over dues of the cooperative credit societies and could not envisage that the fall in the prices of agricultural goods would bring down the whole of cooperative movement in Bihar into despair and disappointment. Now ever, this committee recommended the setup of Land Mortgage Banks and the committee was of the view that Land Mortgage Banks should take over the long-term commitments of the existing Central Cooperative Banks. But this being unacceptable to the Government, one of the chief remedies suggested by the Bihar and Orissa Committee on Cooperation could not be of any use to the cooperative movement.

The Government desired to strengthen the cooperative movement in Bihar by legislation and the aforesaid Bihar and Orissa Ct VI of 1935 was enacted. The Registrar was empowered to make amendment of the bye-laws of a registered cooperative society. He was also empowered to

surcharge any person, who had participated in the organisation or management of cooperative society or any past or present officer of the society. Section 40 of the Bihar and Orissa Cooperative Societies Act could make an order requiring such person or officer to contribute to the assets of the society for having made any payments which was contrary to law or to the rules or bye-laws of the society due to his culpable negligence or misconduct or for having failed to bring into account and having misappropriated or fraudulently retained any property of the society.

However, experts held the view that the Bihar and Orissa Cooperative societies Act of 1935 could not tackle the fundamental cause of progressive deterioration of cooperative movement. The fundamental cause lay in the progressive decline in the repaying capacities of the members of the agricultural credit societies. The Government of Bihar also neglected the educational aim of training in the principles and practices of cooperation. The loyalty of the members of the cooperative societies to cooperative ideology could not be encouraged owing to lack of adequate arrangements for cooperative training. There was also acute shortage of trained personnel. By the end of the year 1937, the credit structure of the cooperative movement had completely collapsed.

Structure of Cooperative Banking

There are different types of cooperative credit institutions working in India. These institutions can be classified into two broad categories- agricultural and non-agricultural. Agricultural credit institutions dominate the entire cooperative credit structure. Agricultural credit institutions are further divided into short-term agricultural credit institutions and long-term agricultural credit institutions. The short-term agricultural credit institutions which cater to the short-term financial needs of agriculturists have three-tier federal structure- (a) at the apex, there is the state cooperative bank in each state; (b) at the district level, there are central cooperative banks; (c) at the village level, there are primary agricultural credit societies.

Central Cooperative Banks (CCBs)

Functions and Organisation

Central cooperative banks are in the middle of the three-tier cooperative credit structure

Central cooperative banks are of two types

(a) There can be cooperative banking unions whose membership is open only to cooperative societies. Such cooperative banking unions exist in Haryana, Punjab, Rajasthan, Orissa and Kerala. (b) There can be mixed central cooperative banks whose membership is open to both individuals and cooperative societies. The central cooperative banks in the remaining states are of this type. The main function of the central cooperative banks is to provide loans to the primary cooperative societies. However, some loans are also given to individuals and others.

Capital

The central cooperative banks raise their working capital from own funds, deposits, borrowings and other sources. In the own funds, the major portion consists of share capital contributed by cooperative societies and the state government, and the rest is made up of reserves. Deposits largely come from individuals and cooperative societies. Some deposits are received from local bodies and others.

Deposit mobilisation by the central cooperative banks varies from state to state. For example, it is much higher in Gujarat, Punjab, Maharashtra, and Himachal Pradesh, but very low in Assam, Bihar, West Bengal and Orissa. Borrowings are mostly from the Reserve Bank and apex banks.

Loans and Advances

The number of central cooperative banks in 2012-13 was 2081 and the total amount of loans advanced by them in 1991-92 stood at Rs. 888642 crore. About 98 per cent loans are received by the cooperative societies and about 75 per cent loans are short-term. Mostly the loans are given for agricultural purpose. About 80 per cent loans given to the cooperative societies are unsecured and the remaining loans are given against the securities such as merchandise, agricultural produce, immovable property, government and other securities etc.

Progress of Cooperative Credit

As a result of effective steps taken by the government and the Reserve Bank of India, the cooperative banking system in India made tremendous progress after independence. The cooperative credit which was only 3.1 per cent of the total rural credit in 1951-52, rose to 15.5% in 1961-62 and to 22.7 per cent in 1970-71. The total amount of short-term credit granted by the cooperatives increased from Rs. 23 crore in 1951-52 to Rs. 203 crore in 1961-62 and further to Rs. 1425 crore in 1979-80. Thus, during the period of about two decades (i.e., 1960-61 to 1979-80), the short-term and medium-term loans increased by more than seven times.

Cooperative credit increased significantly from Rs. 3874 crore in 1985-86 to Rs. 10479 crore in 1995-96, and further to Rs. 24296 crore in 2002-03. Short-term cooperative credit increased from Rs. 2787 crore in 1985-86 to Rs. 8331 crore in 1995-96 and to Rs. 20247 crore in 2002-03. Medium-term and long-term cooperative loans increased from Rs. 1087 crore in 1985-86 to Rs. 2148 crore in 1995-96 and to Rs. 4049 crore in 2002-03. During 10th Five Year Plan (2002-03 to 2006-07), agricultural credit from cooperative banks increased from Rs. 23716 crore (34%) to Rs. 33174 crore (22%). In 2009-10, it was Rs. 32925 crore (20%).

Review of literature

Sachin R. Agrawal *et al.* (2012) [1] said that the self-reliance is the main theme of progress of cooperatives deposit mobilization cooperative banks should work as a total system and develop self-reliance. The higher authorities of the banking should help the lower authorities in the way of mother institutions. They should provide authority, leadership, guidance, supervision and control. There should be mutual support, help, accountability and responsibility in the system so that there should be a good and effective relationship between there tiers.

Banishree Das *et al.* (2006) said that in comparison to the step motherly treatment of the past, cooperatives should be considered an important plank of development. The cooperatives have inherent advantages in tackling the problems of poverty alleviation, food security and employment generation. Cooperatives have immense potential to deliver goods and services in areas where both the state and the private sector have failed.

A. Vaidyanathan (2012) [3] discussed about what are the factors and forces that account for this unhealthy state of affairs? What is the experience of efforts to improve the

performance of Cooperatives? And what are the reasons that they have not been effective? That these efforts have been ineffective does not mean that cooperatives are foredoomed to failure. on the contrary, it is important to recognize that efficient and vibrant cooperatives, organized & managed as democratic, self-reliant and self- managed institutions offer the best means for the vast Resource-poor and resource-less segments of the country's population to improve their living conditions.

S. Siva Shankar *et al.* (2014) [4] said that in a developing state like Chhattisgarh with huge deficits in terms of quality & quantity, the state has to shoulder the primary responsibility of providing cooperative credit. Considering the low living standards of common man, incomplete and imperfect markets, and other socio political considerations it is the primary duty of the government to ensure that its citizens have easy access to cooperative credit, particularly at gross root level.

Various advantages of cooperative credit institutions are given below

I. Alternative Credit Source

The main objective of cooperative credit movement is to provide an effective alternative to the traditional defective credit system of the village money lender. The cooperative banks tend to protect the rural population from the clutches of money lenders. The money lenders have so far dominated the rural areas and have been exploiting the poor people by charging very high rates of interest and manipulating accounts.

II. Cheap Rural Credit

Cooperative credit system has cheapened the rural credit both directly as well as indirectly:

- Directly, because the cooperative societies charge comparatively low interest rates, and
- Indirectly, because the presence of cooperative societies as an alternative agency has broken money lender's monopoly, thereby enforcing him to reduce the rate of interest.

III. Productive Borrowing

An important benefit of cooperative credit system is to bring a change in the nature of loans. Previously the cultivators used to borrow for consumption and other unproductive purposes. But, now, they mostly borrow for productive purposes. Cooperative societies discourage unproductive borrowing.

IV. Encouragement to Saving and Investment:

Cooperative credit movement has encouraged saving and investment by developing the habits of thrift among the agriculturists. Instead of hoarding money the rural people tend to deposit their savings in the cooperative or other banking institutions.

V. Improvement in Farming Methods:

Cooperative societies have also greatly helped in the introduction of better agricultural methods. Cooperative credit is available for purchasing improved seeds, chemical fertilizers, modern implements, etc. The marketing and processing societies have helped the members to purchase their inputs cheaply and sell their produce at good prices.

VI. Role of Cooperative Banks before 1969

Till the nationalisation of major commercial banks in 1969, cooperative societies were practically the only institutional sources of rural credit. Commercial banks and other financial institutions hardly provided any credit for agricultural and other rural activities. Cooperative credit to the agriculturists as a percentage of total agricultural credit increased from 3.1 per cent in 1951-52 to 15.5 per cent in 1961-62 and further to 22.7 per cent in 1970-71.

On the other hand, the agricultural credit provided by the commercial banks as a percentage of total agricultural credit remained almost negligible and fell from 0.9 percent in 1951-52 to 0.6 percent in 1961-62 and then rose to 4 per cent in 1970-71.

VII. Role of Cooperative Banks after 1969

After the nationalisation of commercial banks in 1969, the government has adopted a multi-agency approach. Under this approach, both cooperative banks and commercial banks (including regional rural banks) are being developed to finance the rural sector.

But, this new approach also recognised the prime role to be played by the cooperative credit institutions in financing rural areas because of the following reasons:

- Co-operative credit societies are best suited to the socio-economic conditions of the Indian villages.
- A vast network of the cooperative credit societies has been built over the years throughout the length and breadth of the country. This network can neither be duplicated nor be surpassed easily.
- The cooperative institutions have developed intimate knowledge of the local conditions and problems of rural areas.

Weaknesses of Cooperative Banking

Various committees, commissions and individual studies that have reviewed the working of the cooperative banking system in India have pointed out a number of weaknesses of the system and have made suggestions to improve the system.

Major weaknesses are given below

General Weaknesses of Primary Credit Societies

Organisational and financial limitations of the primary credit societies considerably reduce their ability to provide adequate credit to the rural population.

The All India Rural Credit Review Committee pointed out the following weaknesses of the primary credit societies:

- Cooperative credit still constitutes a small proportion of the total borrowings of the farmers,
- Needs of tenants and small farmers are not fully met.
- More primary credit societies are financially weak and are unable to meet the production-oriented credit needs,
- Overdues are increasing alarmingly at all levels,
- Primary credit societies have not been able to provide adequate and timely credit to the borrowing farmers.

I. Inadequate Coverage

Despite the fact that the cooperatives have now covered almost all the rural areas of the country, its rural household membership is only about 45 per cent. Thus, 55 per cent of rural households are still not covered under the cooperative credit system.

In fact, the borrowing membership of the primary credit societies is significantly low and is restricted to a few states like Maharashtra, Gujrat, Punjab, Haryana, Tamil Nadu and to relatively rich land owners.

Criteria of determining borrowing membership include

- Borrowing members as a proportion of rural households,
- The average amount of loan issued per borrowing member, and
- The proportion of loans going to weaker sections.
- The banking Commission 1972 has brought out the following reasons for the low borrowing membership cooperative societies:
 - Inability of the people to provide the prescribed security;
 - Lack of up-to-date land records;
 - Ineligibility of certain purposes for loans;
 - Inadequacy of prescribed credit limits;
 - Onerous conditions prescribed for loans such as share capital contribution at 10 or 20 per cent of loans outstanding and compulsory saving deposits; and
 - Default of members to repay loans.

II. Inefficient Societies

In spite of the fact that the primary agricultural credit societies in most of the states have been reorganised into viable units, their loaning business has not improved. As the Seventh Plan has observed that out of 94089 primary agricultural credit societies in the country in 1982-83, only 66000 societies had full time paid secretaries. About 34000 societies were running at loss.

III. Problem of Overdues

A serious problem of the cooperative credit is the overdue loans of the cooperative institutions which have been continuously increasing over the years. In 1991-92, percentage of overdues to demand at the level of land development banks was 57, at the level of central cooperative banks was 41 and at the level of primary agricultural credit societies was 39.

The overdues in the short-term credit structure are most alarming in North-Eastern States. In the long-term loaning sector, the problem of overdues has almost crippled the land development banks in 9 states, viz., Maharashtra, Gujarat, Madhya Pradesh, Bihar, Karnataka, Assam, West Bengal, Orissa and Tamil Nadu. Large amounts of overdues restrict the recycling of the funds and adversely affect the lending and borrowing capacity of the cooperative societies.

The Banking Commission 1972 pointed out the following reasons for the overdue loans:

- Indifferent management or mismanagement of primary societies;
- Unsound lending policies resulting in over-lending or lending unrelated to actual needs, diversions of loans for other purposes;
- Vested interests and group politics in societies and willful defaulters;
- Inadequate supervision over the use of loans and poor recovery efforts;
- Lack of adequate control of central cooperative banks over primary societies;
- Lack of proper links between credit and marketing institutions;

- Failure to take quick action against willful defaulters; and
- Uncertain agricultural prices.

Prospects of cooperative sector banks

Reorganization of Societies in order to become economically viable & efficient the minimum number of members in cooperative society should be 5000 & the share capital as rs.50lakhs. To ensure these small societies should be merged to build larger societies. With large amount of resources at its disposal big societies can avail certain facilities, which small societies cannot secure. The weak and inefficient societies should be winded and merged with strong and efficient societies it will no doubt reduce the number of societies, but this is itself not a bad thing. Otherwise the weak societies would undermine people's confidence in the movement and cause a set back to it from a long term point of view.

● Awareness Campaign

It is necessary to spread the movement's people's movement. People should not think it as a part of the government or a department of the govt. people should own it & manage it. People should be educated and about the advantages of this movement. Educational institutions at various levels, radio, TV, newspapers, poster, and other mass media can be used for this purpose.

● Value Based Education

It is increasingly realized by the experts that unless the stakeholders of any organization work & Ensure ethical behavior & spirit of cooperation, that organization will not grow. External means of controlling are never sufficient to regulate the behavior of the persons. Hence, it is very essential that the value based education should become the part of our education system. Value based education & spirit of cooperation should become the part of primary & higher Education.

● Accountability

The accountability for various activities of the society involving financial implications should be clearly defined. these definitions along with the provision for appropriate punishment/measures may be made a part of the 'articles of association' and /or statute. An affidavit /declaration may be made mandatory for all the office bearers including approving authorities about strict compliance with the norms while dealing with the financial issue. System of maintaining appropriate checks and balances may also be designed & incorporated in the system.

● Legislative Reforms

The Narasimham committee in its report had rightly observed that a legal framework that clearly defines the rights and liabilities of the parties to contracts and provides for speedy resolution of disputes is essential bedrock of the process of financial intermediation and cooperative bank serene exceptions any person dealing with any issue involving financial matter of the society in the manner inconsistent with the acceptable norms should be severally punished & the amount misappropriated along with the additional penalty should be recovered from the personal assets of that person. Appropriate legal provision should be made by the government for this purpose. Special fast track courts may be constituted for this. Complete Transparency in

working transparency in the system is the root cause of maintaining democracy & corporate governance in any organization for efficient working of the society & for avoiding corrupt practices transparency may been sure in the system by following measures

The cooperative societies should also be brought under the purview of the right to information act. The eligibility criteria for becoming the director of the society should include the mandatory provision of declaration of assets every year. iii. All the documents along with the remarks/notes etc. of the persons dealing with any financial matter should be uploaded on the website of the society.

Conclusion

In fact, the Central Co-operative Bank in Bihar is not in a position to draw adequate funds from the NABARD due to their weak financial position. However, the problem has been solved by the financial assistance from State Government which had made the Central Co-operative Banks eligible to draw from the NABARD. The officers of the NABARD have extended their cooperation keeping in view the damage of kharif crops caused by unprecedented flood and drought during the year. Various policy stipulations of the government had prevented the cooperative banks to act fully according to its financial compulsions. Unlike other commercial banks, the cooperative bank has to mobilize considerable deposits, allocate a good percentage of its funds to priority areas like agriculture and allied activities and take part compulsorily in lending to the poor who cannot afford any security. The following concluding remarks may be made from the analysis carried out in the paper. The Cooperative Bank under study was found to have been functioning under financial stress for reasons arising out of increasing cost of operations, dwindling profits and prevalence of high overdues mainly because of poor performance of cooperative societies. In order to cope up with the situation of declining vitality the cooperative banks, the government and NABARD has to rethink about this sector and take some measures to revive the cooperative sector through more capacity building efforts on rural livelihoods in grassroots levels for better bank-borrower relationship, financial inclusion and social security in rural India.

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