CHAPTER-1

THE CONCEPTUAL FRAMEWORK

1.1 Introduction

This chapter contains an account of structure of co-operative banking in India and role of co-operative banks in India. Banking involves acceptance of deposits and lending or investment of money. It facilitates business activity by providing money and certain services that helps in exchange of goods and services. They play an important role in mobilizing the savings of economically surplus units, which are widely scattered and lend these resources to those who have additional opportunities of investment due to entrepreneurial abilities. Thus in this way they guide the flow of resources in the most productive channels.

1.2 Co-operation: Conceptual Framework

“Two are better than one, because they have good reward for their labour. For if they fall the one will lift up his fellow; but woe to him that is alone when he falleth and hath not another to lift up.” This quotation speaks about the strength of co-operation (Mamoria and Saksena, 1960). Thus co-operation means working together for a common purpose and for mutual benefit and it pervades in every sphere of human life (Kulkarni and Mehta, 1958). The principle of co-operation is not new to India. The Indian joint family system is one instance of co-operation. The feeling of brotherhood and mutual help forms the basis of joint family. Panchayat in a village is another instance of co-operation. The Panchayat was mainly founded on the principle of community self-help. In Mutual Aid, Propotkin stresses, “Sociability is to be as important law of nature as mutual struggle.” He asserts that human society could not be maintained without mutual aid. According to E.R. Dowell, “Co-operation is a universal instrument of creation.” Co-operation instills a new spirit in economic and social life; it seeks to replace competition by harmony of co-operation, for the welfare of all.

Co-operation has been defined in different ways because co-operative movement developed in different countries in different forms under different social environments. Dr. C.R. Fay defines co-operation as, “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 share its rewards in proportion to the degree in which they make use of their association.” (Fay, 1948). H. Calvert defines, “Co-operation is a form of organization, wherein persons voluntarily associate together as human beings, on the basis of equality, for promotion of the economic interest of themselves.” In India, co-operatives were started by the weaker sections of society for protecting themselves from the clutches of profit hungry businessmen.

1.3 Principles of Co-operation

Co-operative Principles, in fact, are fundamental characteristic features which determine the character of co-operation as a form of association. They are the guidelines and ground rules for co-operative enterprise. Without these principles no lasting co-operative system is possible. It is largely on their application that the success of the co-operative organization will depend.

1.4 Evolution of Co-operative Principles

These rules and ideas were considered as Rochdale Principles and these were:

1. Voluntary and open membership,
2. Democratic control by “one member, one vote”,
3. Division of surplus in proportion to patronage,
4. Limited interest on capital,
5. Political and religious neutrality,
6. Cash trading,
7. Promotion of education,

Between 1844 and 1937, the co-operative movement passed through various experiences and spread out geographically in the world. The business rules prepared by Rochdale Pioneers for conducting the operations of consumer organizations were obviously found wanting for fulfilling the needs of co-operative societies in other sections of the movement. New practices and technologies had come to be employed by co-operatives during the period. These developments demanded a second look at the co-operative principles and practices (Kamat, 1978). The Central Committee of
International Co-operative Alliance (ICA) appointed a commission in 1964 to study co-operative principles.

Due to changing times, a need was felt for re-affirming the values of co-operation for a deeper investigation into the relevance of the co-operative principles of 1966 to the changing environment. The ICA started the exercise in 1990 in two phases. Unlike the first two reviews of co-operative principles in 1937 and 1966 by the Special Committee and the Commission on Co-operative Principles respectively, this time it was conducted in two phases spread over as long five years. According to the ICA statement on co-operative identity, the co-operative principles are guidelines by which co-operatives put their values into practice. These principles ought to be applied everywhere in order to set an example of honest, efficient and progressive co-operative activity. Thus, the utility of these principles lies in the fact that they attempt to avoid waste in efforts and opportunity, eliminate uneconomic competition, make proper utilization of resources and also help in exchange of ideas and experience.

1.5 Co-operative Credit

Co-operative credit institutions have played a catalytic role in mobilizing rural savings and stimulating agricultural investment. Mainly, there are two sources of credit to farmers: institutional and non-institutional. Non-institutional sources include money-lenders, traders, commission agents and landlords. There are many defects in non-institutional sources of finance like use of credit for unproductive consumption purposes, high rates of interest, etc. To exploit the farmers and to grab their land had been the main motives of this source. Sometimes, farmers are forced to sell their crops at low prices. Here, the need of institutional credit arises because of the weakness of non-institutional sources of credit. Institutional credit is not exploitative. The basic motive of Institutional credit is to help the farmers to raise productivity and maximize their income. The rate of interest is also low and it is different for different purposes. State Governments also provide loans to farmers besides extending financial support to the State Co-operative Banks and Land Development Banks.

In India, the co-operative sector has found to be the most suitable instrument for socio-economic development of the rural economy. Co-operatives have made significant progress in various important sectors of Indian economy. Co-operative institutions,
especially co-operative banks form an important segment of the Indian Financial System.

Co-operative banking in India has an extensive network as compared to other commercial banks. They are playing significant role in disbursement of credit and mobilizing the savings through various types of banks at different levels. It may be said that co-operative banking system covers almost all strata of Indian population. Co-operative banks finance rural areas under farming, cattle, milk, hatchery and personal finance and in urban areas, they finance under self employment, industries, small scale units, home finance, consumer finance and also personal finance.

1.6 Co-operative Banks: Conceptual Framework

The co-operative banking system forms an integral part of the Indian financial system. Co-operative Banks in India are more than 100 years old.

The different features of co-operative banks are as follows:

1. Co-operative banks are government sponsored, government-supported and government-subsidized financial agency in India.
2. Co-operative banks perform all the main banking functions of deposit mobilization, supply of credit and provision of remittance facilities.
3. They function on “no profit, no loss” basis. By nature, co-operative banks do not pursue the goal of profit maximization.
5. Co-operative banks belong to the money market as well as to the capital market.
6. Co-operative banks accept savings, current and fixed deposits from individuals and institutions including banks. Some Urban Co-operative banks accept the NRI accounts only in Indian currency(Bhole, 2006).

1.7 Definition of Co-operative Bank

Barou N. has defined the co-operative credit (Bank) association as follows:

"A voluntary association of individuals with unrestricted membership and collectively owned resources formed by small producers or wage-earners, conducted on a democratic basis under joint management  and for mutual service by accumulating the savings of the members and granting them credit on easy terms of interest and repayment, surpluses being placed to reserves or distributed between depositors, borrowers, and
shareholders, the association also using the joint responsibility of its members as a security for loans obtained for its members from outside source."

From the above definition it is quite clear that a bank must have co-operative character and must deal in credit which satisfies all the requirements of an ideal credit, discussed above, only then it can be called a co-operative bank.

1.8 Importance of Co-operative Banks

Indian economy is basically an agrarian economy. These days among all forms of economic enterprises, the co-operatives are the only one that has a strong social content. Due to their specific nature co-operative banks and their business models are inherently socially responsible (Brar, 2008) They are fully committed to and part of the society in which they operate. Co-operatives have undertaken numerous initiatives for economic and social development of the society. Consequent to economic liberalization, the entire organized sector, more particularly the private sector and MNCs are targeting the richer and the upper middle class of India. Co-operatives have a specific role to play for lower middle class, and small and marginal income group of India, which constitutes a major portion of Indian population. Nobody can deny the fact that co-operatives are the organizations upon which millions of Indian poor can depend, to improve their economic and social status. Social responsibility is a concept whereby co-operatives integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

Undoubtedly, all countries in Asia are going through cataclysmic changes which are forcing institutions, no less than governments, to redefine their basic postulates, vision and values, postures and positions, strategies and structures, but above all their missions and mandates (Singh, 2005).

Many advantages of co-operative banking system are:

1. Co-operative banks promote thrift and savings among their members and mobilize their small savings for productive or useful purposes.
2. Co-operative banks are suitable to help people of small means.
3. Co-operative banks make their members financially more secure.
4. Co-operative banks may provide loans to their members at lower rates of interest.
5. Co-operative banks instill among their members a strong feeling of responsibility for prompt payment of interest and repayment of loans.

6. Co-operatives may have lower administrative costs on account of voluntary services rendered by their members.

7. Co-operatives, like money-lenders, can possess intimate knowledge of the character and financial position of their members, and local production possibilities and chances of growth.

8. The procedure of deposit and withdrawal of a co-operative credit society is far less complicated, since personal identification and such other problems do not exist.

1.9 Agricultural Banks

Agriculture plays an important role in the development of Indian economy. More than half of the population is dependent on agriculture. For a long time to meet their financial requirements, the farmers had to depend on money-lenders. Money-lenders constitute the most important source of rural finance. But this source of finance was extremely defective because it was inadequate, expensive and exploitative in nature.

The commercial banks are unable to cater the needs of agriculture. The commercial banks only concentrate on the financial needs of the business community. Therefore, there is a need to concentrate towards agriculture sector. Agricultural banks have been set up to assist the agriculturists. The cultivation of land is full of risk. The investment in agriculture does not always yield better returns. Hence there should be certain specialized institutions which may endeavour to meet the financial requirements of agriculture. In agriculture, there is a need of short-term and long-term loans. The agricultural machinery equipments like tractors, pump sets are long-term investments. These assets can be purchased through long-term loans only.

The land development and buying more land requires long-term investments. The short-term credit is required to meet general requirements like buying of seeds and payment of labour expenses. The co-operative banks and land mortgage banks are established. These banks are assisting agriculture sector to a considerable extent. The agriculture banks cater the financial requirements of the entire agriculture sector in India. The agriculture sector needs are fulfilled by the following banks:
A. Co-operative Banks

B. Land Mortgage Banks/ Land Development Banks

(A) **Co-operative Banks:** Co-operative Banks are established to fulfill the needs of agriculture sector. The short-term needs are catered by the co-operative banks. In India, there are three forms of co-operative banks exists, they are presented below:

(i) State Co-operative Banks/Apex Banks

(ii) Central Co-operative Banks

(iii) Primary Co-operative Credit Societies/ Primary Agricultural Co-operative Credit Societies/ Primary Credit Societies

The above banks are functioning at state, district and village level respectively. In past, the financing of agriculture sector were made by money lenders and indigenous bankers. But there were a number of defects in such financing. No other institution came for assistance to provide short-term finance to the farmers. The agriculture finance involves inherent risk. Therefore, the co-operative banks came to the rescue of the farmers from the clutches of the moneylenders and indigenous bankers. The co-operative societies are the association of the borrowers. They pool their resources and can borrow from the mobilized funds on the personal securities. The co-operative societies get the power to raise the fund from the open market. Basically the primary societies borrow from the central co-operative banks. Therefore the central co-operative banks borrow the money from the state co-operative bank. The primary co-operative societies get sufficient funds to cater the needs of their members. But the societies are not in a position to continue forever and they should have an independent powers and authorities. The central co-operative banks are in such a position to help the members and non-members according to the situation. These banks are useful in other ways. They mobilize the deposits from rural areas. They encourage to savings and train them for self development. The role of central co-operative banks have been expanded and diversified. They can borrow the funds from commercial banks, state co-operative banks and central banks at a lower rate of interest. Therefore, they accumulate adequate funds for advancing to the agriculture sectors. At present, the co-operative banks are sanctioning the loans to small
scale industries and export institutions. The co-operative banks are emerging as a financial nervous of the digital economy.

Co-operative Bank means a State Co-operative Bank, a Central Co-operative Bank and a Primary Co-operative Credit Society.

(i) **State Co-operative Banks /Apex Banks:** State Co-operative Banks are functioning at state level. The State Co-operative Bank is the apex bank of co-operative sector in the state. The SCBs are formed by federating all District Central Co-operative Banks in a particular state. Practically, the SCB is the balance provider to the co-operative movement in the sense that they collect surplus funds of DCCBs and other co-operative institutions and pass them on to those, which require such resources. The SCBs raise its funds by way of share capital, deposits from the public, surplus funds of the affiliated DCCBs, reserve funds, loans from the State Bank of India, other commercial banks and inter-bank borrowings. The SCBs furnish loans to the DCCBs in order to enable them to help in promoting the lending activities of the primary credit societies.

(ii) **Central Co-operative Banks:** Central Co-operative Banks are functioning at district level. These banks are established according to the Co-operative Societies Act 1912. These are established to provide financial assistance to the primary co-operative societies. A District Central Co-operative Bank generally functions within a three-tier structure in almost all the provinces excepting a few provinces where it functions in a two-tier structure. Under a three-tier structure form, it acts as the link between the Apex Bank at the top and societies and individuals at the base as its constituent members. The Apex Bank is known as the State Co-operative Bank formed separately for each province affiliating all the District Central Co-operative Banks one for every district within the province. The DCCBs manage their funds from sources like share capital, deposits, borrowings from State Co-operative Banks and other commercial banks. By extending credit to the primary societies, DCCBs serve as an important link between these societies at the base level and the money market of the country.

Principal features of these banks are as follows:

(a) **Membership and Area:** Credit societies, other co-operative societies and eminent persons belonging to the public can become members of these banks.
These banks look after the primary societies of a district as a part of them by providing them financial assistance. These banks have limited liability.

(b) **Functions:** To give loans to the member societies is the principal function of these societies.

(i) These banks give interest free loan to the primary agricultural credit societies, but from others, interest is charged.

(ii) These banks also perform general banking functions such as to accept deposits from the people, transfer of money, etc.

(iii) These banks help the primary societies in solving their problems.

(iv) In some states, these banks also inspect the functioning of primary societies.

(v) These banks maintain a balance amongst various primary societies. Deposits are accepted from the societies with surplus funds and these are given in the form of loans to those societies which are in short of funds.

(c) **Loans:** These banks give loans to the individuals and societies. Loans are given to the societies on the basis of their promissory notes. Individual loans are advanced on the basis of securities.

(iii) **Primary Co-operative Credit Societies/ Primary Agricultural Co-operative Credit Societies/ Primary Credit Societies:** Primary Credit Societies are functioning at village level.

(B) **The Land Development Bank:** The Land Development Bank is also known as development bank. The bank grant primarily loans on the mortgage of land for the purchase of land and development of land. The bank acquires funds from the Government and public by issuing shares and debentures. The debentures issued by the bank backed by the securities. The bank sanctions the loans for productive purpose only. The financial experts of the bank evaluate the project thoroughly and reasonably. The bank will charge a reasonable rate of interest from the farmers. The other banks and financial institutions do not take the liabilities of granting loans at the mortgage of land, real estate, houses etc. These assets involve a complicated formalities and legal hurdles in the evaluation and transfer of these assets. These
hurdles are taken up by the development banks. These banks are very useful in agriculture societies.

Structure of Agriculture Co-operative Banks in India

Agricultural Co-operative Banks

<table>
<thead>
<tr>
<th>Short Period Credit Societies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. State Co-operative Banks/ Apex Banks</td>
</tr>
<tr>
<td>2. Central Co-operative Banks</td>
</tr>
<tr>
<td>3. Primary Co-operative Credit Societies/ Primary Agricultural Co-operative Credit Societies/ Primary Credit Societies</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Long Period Credit Societies/ Land Development Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Primary Co-operative Agriculture and Rural Development Banks (PCARDB)</td>
</tr>
<tr>
<td>2. State Co-operative Agriculture and Rural Development Banks (SCARDB)</td>
</tr>
</tbody>
</table>
1.10 Structure of Co-operative Banking in India

“The institutional co-operative credit system more particularly credit delivery system has been envisaged as an effective channel for creating an environment for socio-economic development in the society. The co-operative credit institutions in India may be broadly classified into urban credit co-operatives and rural credit co-operatives. The urban credit co-operatives include only Urban co-operative Banks (UCBs). But, rural credit co-operatives have a complex structure. Rural co-operative credit institutions have two distinct structures viz. the Short Term Co-operative Credit Structure (STCCS) and Long Term Co-operative Credit Structure (LTCCS). Within the STCCS, Primary Agricultural Credit Societies (PACSs) at the village level form the base level, while District Central Co-operative Banks (DCCBs) are placed at the intermediate level and the State Co-operative Banks (StCBs) at the apex level. The STCCS mostly provide crop and other working capital loans primarily for a short term to farmers and rural artisans. The LTCCS comprises State Co-operative Agriculture and Rural Development Banks (SCARDBs) at the state level and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) at the decentralized district or block level. These institutions focus on providing typically medium to long term loans for making investment in agriculture, rural industries and lately housing. The structure of rural cooperative banks is not uniform across the states of the country and varies significantly from one state to another. Some states have unitary structure with state level banks operating through their own branches, while others have a mixed structure incorporating both unitary and federal systems (RBI Bulletins)

In the regime of liberalization, privatization and globalization, a sound banking system is very essential for the future growth and development of Indian Economy. A long series of measures and reforms have been undertaken for the banking sector by Govt. of India from time to time but, commercial banks have always been kept in focus. Though several committees from All India Rural Credit Survey Committee (1954) to the latest Vaidyanathan Committee (2004-05) have stressed the indispensible importance of co-operative credit institutions but, these institutions have not got the recognition which they need in the competitive business environment. But, it has been well recognized that
co-operative banking system is indispensable mechanism for the overall development of Indian economy.

1.11 Conclusion

Finance is the blood of a nation. A nation can’t grow without it. Nothing is possible if we have no money. Co-operative Banks plays an imperative role in the development of a society. These banks finance to all sectors: individuals, farmers, industrialists and professionals etc. Banks can work efficiently if they have good human power and financial resources. The present study is intended to appraise the performance of the DCCBs in India and vis-à-vis the DCCB of Haryana, with reference to operational performance, profitability and productivity.