CHAPTER - III

CO-OPERATIVE BANKING IN INDIA

3.1 Introduction:

India is an agricultural country whose more than 50% of total population comes from this sector. Mahatma Gandhi used to say India resides in rural areas. In such a large country with huge population mostly illiterate and unemployed, there is a need of such a system or mechanism which can look after the financial needs of the local people like the co-operatives. Co-operative Sector includes many models and channels of functioning. Banking is one important channel.

A co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of these banks. Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks generally provide their members with a wide range of banking and financial services like loans, deposits, banking accounts etc. The co-operative banks differ from stockholder banks by their organization, their goals, their values and their governance. In most countries, they are supervised and controlled by banking authorities and have to respect prudential banking regulations, which put them at a level playing field with stockholder banks. The control and supervision can be implemented directly by state entities or delegated to a co-operative federation or central body.

The nature of activity in a co-operative spirit and in a commercial spirit has a lot of difference. In co-operative activities the basic aim is not to earn profit but it is a collective activity of the member for common purpose in which serving the mankind is given much importance. In co-operative activity no one is owner but all are the members of such activity. The Co-operative principle can be defined as a society ‘of the member, for the member and by the member’. It has a slogan that ‘one for all and all for one’.

The term co-operative has different shades in terms of meaning and nature. Some of them are given below:

a) “The term ‘Co-operative’ means the act of working together for a common purpose.” 1
b) A ‘Co-operative Society’ is formed and directed by an association of persons mostly users and applying the rules of democracy with the intention to serve both its own members and community as a whole.  

c) ‘Co-operative movement’ is a socio-economic movement and Co-operative Society is managed with democratic principles.

d) Co-operation is something more than a series of activities. Basically, its purpose is to evolve a system of Co-operative community organization which touches upon all aspects of life.

e) A Co-operative system is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and automatically-controlled enterprise.

f) Co-operatives are based on the value of self-help, self-responsibility, democracy, equality and solidarity. In the tradition of their founders, Co-operative members believe in the values of honesty, openness, social responsibility and caring for others.

g) One Mr. Vaikunth Mehta defined the term Co-operation as, “Co-operation is a vast movement which promotes voluntary association of individuals having common needs who combine towards the achievement of common economic ends.”

Co-operatives are autonomous associations of persons formed voluntarily to meet their common, economic, social and cultural needs. It aims through a jointly owned and democratically controlled enterprise. A ‘Co-operative’ is a system of social organization based on the principles of equality, unity, economy, democracy and liberty. A co-operative bank is such a bank which is formed to help members by offering banking business.

The remarkable development is observed in co-operative banking sector since the implementation of Banking Law Act 1965. This law was enforced from First March 1966. The social & economic objectives of the government are achieved to a greater extent with the development of UCBs. Co-operative sector is chosen by the government for economic development as one of the tools. Co-operation built relationship that helps in attaining development. Therefore the co-operative credit institutions have extended their area of operation & magnitude of deposits. The UCBs are playing pivotal role in
bringing about a fruitful & perspective change in the living standard of the people through disbursement of credit.

UCBs and other non-agricultural co-operative credit societies are the financial & economic organizations, their structure & function differs, they keep their door open for every one to avail the benefits from them. The principles of Co-operative lead to growth, development and social justice. This plays an important and decisive role by organizing people voluntarily to meet the demand of requisite supplies & credit requirements. The UCBs organizes and mobilizes the financial resources from rural to rural, urban & semi urban strata of the society. The UCBs cater to the financial requirements of the people carrying small business, artisans, workers and salaried employees and other self employed class in lower and middle income groups.

3.2 Basic Principles:
The Cooperative movement is rooted in peoples organisation based on 7(seven) basic principles:
1. It is a voluntary and has open membership
2. It is controlled by members on democratic principles.
3. Its members can participate in economic activities.
4. It is has autonomy and independence
5. It facilitates education, training and information
6. It provides cooperation among cooperatives and
7. It has much concern for the community.

The co-operative movement helped the lower middle and middle class population of the country and had been traced out its origin in the State of United Kingdom.

“Cooperative movement owes its origin to England, where a great philosopher Robert Owen (1771-1858) gave the idea of self help through mutual help to mitigate the sufferings of the exploited class of the society. The first ever effort towards the formation of cooperative organization has made by 28 flannel weavers, at Rochdale near Manchester in England in 1844 Urban cooperative movement of global horizon lasted the sweets of success following success of Urban Credit Institutions between 1855 and 1885,
organized by Herman Schuleze and Luigi Luzzatti of Germany and Italy respectively. Similarly, the origin of urban credit movement in India dates back to 5th February, 1889 when Shri Vithal Laxman Kavthekar, a mutual Aid Society was formed by some middle class Maharashtrian families in Baroda State.

3.3 Significance of Co-operatives:

The co-operatives play an important role in Indian financial system, particularly in the rural and remote areas. The co-operatives were only substitutes to provide finance to the last man in the last village as against the traditional money lenders and sahukars. A credit co-operative is a voluntary association of members for self help, catering to the financial needs on mutual basis. Since India is the country of villages and the co-operative sector has a significant presence in villages.

“Co-operative Banks in India play an important role in both rural and urban areas even today. In rural areas, co-operative banks mainly finance agriculture based activities including farming, cattle, milk hatchery, personal finance etc. along with small scale industries and self-employment driven activities. In urban areas these mainly finance various categories of people for self-employment, industries small scale units, home finance, consumer finance, personal finance etc.”

The Cooperative Values are based on Self – help, Self – responsibility, Democracy, Equity, Solidarity, Honesty, Openness, Social responsibility and Care for others.

There were great concern and revolt by farmers in some parts of India during British Rule in India against misuse and abuse of agency system for rural credit by landlords, money lenders, zamindars. This led to search for some reform models. The first Co-operative Society Act of 1904 was enacted to enable formation of "agricultural credit co-operatives". The 1904 Cooperative Societies Act was later repeal by 1912 Co-operative Societies Act which provided for formation of Cooperative societies other than credit. “Since 1912 the co-operative credit institutions have been playing a pivotal role in the financial system of the economy. The co-operative banking system fills in the gaps of banking needs of small and medium income groups not adequately met by the public and private sector banks and supplements the efforts of the commercial banks in mobilizing savings and meeting the credit needs of the local population. Urban Co-operative Banks
(UCBs) are mostly engaged in retail banking. The UCBs expanded by leaps and bounds in the 1970s and 1991s.\textsuperscript{10}

In 1919 there was Administrative Reforms and Cooperatives were made a provincial subject making each province responsible for Cooperative movement and development. “Development is an activity or process of both qualitative and quantitative change in the existing system aiming at immediate improvement of living conditions of the people or increases the potential betterment of living conditions in the future. The concept of rural development was born in the context of agriculture and it remained for a long time with agricultural development in India. The Royal Commission on agriculture (1928) provided this kind of interpretation to rural development.”\textsuperscript{11}

3.4 Co-operative Societies Act 1961:

Cooperative Societies Act 1961 is a Central Act. However, “Cooperative Societies is a State Subject (Entry 32 of List II of Seventh Schedule to Constitution, i.e. State List). Though the Act is still in force, it has been specifically repealed in almost all the States and those States have their own Co-operative Societies Act. Thus, practically, the Central Act is mainly of academic interest. As per preamble to the Act, the Act is to facilitate formation of co-operative societies for the promotion of thrift and self-help among agriculturists, artisans and persons of limited means. “An important development in Co-operative Banking Sector can be seen with the enactment of Banking Laws Act, 1965 which came into force on 1\textsuperscript{st} March, 1966. Since then the UCBs have developed markedly in India as far as the economic and social objectives of the government is concerned. The governments have undertaken co-operatives as one of the best tools of economic development. Co-operation in general but co-operative credit institutions in particular have increased their operation and magnitude of deposits. Since their inception UCBs are playing a catalytic role in bringing about a prospective change in the quality life of the people through dispensation of credit.”\textsuperscript{12}

3.5.1 Objectives of Co-operatives:

The objectives of formation of co-operatives are stated as follows:
(a) Cooperative Society can be established for purpose of credit, production or distribution.
(b) Agricultural credit societies must be with unlimited liability.
(c) Unlimited society is not best form of cooperation for agricultural commodities. However, the provision is continued as in several provinces (now States) such societies do exist and are working. It is not intended to give them undue encouragement, but to legalise their existence.
(d) Unlimited society can distribute profits with permission of State Government.

The co-operative banks sector of credit institutions in India also have a tradition of almost 100 years over these years they have developed a structure of their own. It is presented in the following diagram:

```
State
Co-operative
Bank Apex (SCBs)
(31)

Central Co-operative
Bank (District Level) (CCBs) (367)

Primary Agricultural Credit Societies
(Villages, Towns, Cities) PCSs, 1,08,779
```

The figures shown in above diagram are as on March 2006

The structure of commercial banking is of branch-banking type; while the co-operative banking structure is a three tier federal one.
- A State Co-operative Bank works at the apex level (i.e. works at state level).
- The Central Co-operative Bank works at the Intermediate Level. (i.e. District Co-operative Banks Ltd. works at district level)
- Primary co-operative credit societies at base level (At village level).

Even if co-operative banks organizational rules may differ according to their respective national legislations, co-operative banks share common features as follows:
3.5.2 Customer-owned entities:
In a co-operative bank, the needs of the customers meet the needs of the owners, as co-operative bank members are both. As a consequence, the first aim of a co-operative bank is not to maximize profit but to provide the best possible products and services to its members. Some co-operative banks only operate with their members but most of them also admit non-member clients to benefit from their banking and financial services.

3.5.3 Democratic member control:
Co-operative banks are owned and controlled by their members, who democratically elect the board of directors. Members usually have equal voting rights, according to the co-operative principle of “one person, one vote”.

3.5.4 Profit allocation:
In a co-operative bank, a significant part of the yearly profit, benefits or surplus is usually allocated to constitute reserves. A part of this profit can also be distributed to the co-operative members, with legal or statutory limitations in most cases. Profit is usually allocated to members either through a patronage dividend, which is related to the use of the co-operative’s products and services by each member, or through an interest or a dividend, which is related to the number of shares subscribed by each member.
Co-operative banks are deeply rooted inside local areas and communities. They are involved in local development and contribute to the sustainable development of their communities, as their members and management board usually belong to the communities in which they exercise their activities. By increasing banking access in areas or markets where other banks are less present, farmers in rural areas, middle or low income households in urban areas - co-operative banks reduce banking exclusion and foster the economic ability of millions of people. They play an influential role on the economic growth in the countries in which they work in and increase the efficiency of the international financial system. Their specific form of enterprise, relying on the above mentioned principles of organization, has proven successful both in developed and developing countries.
3.6 Organisational Structure of the Co-operative Credit Institutions

![Diagram of Organisational Structure of Co-operative Credit Institutions]


3.7 Functions of Co-operative banks

Co-operative banks also perform the basic banking functions of banking but they differ from commercial banks in the following respects:

- Commercial banks are joint-stock companies under the companies’ act of 1956, or public sector bank under a separate act of a parliament whereas co-operative banks were established under the co-operative society’s acts of different states.
• Commercial bank structure is branch banking structure whereas co-operative banks have a three tier setup, with state co-operative bank at apex level, central / district co-operative bank at district level, and primary co-operative societies at rural level.
• Only some of the sections of banking regulation act of 1949 are applicable to co-operative banks, resulting only in partial control by RBI of co-operative banks and
• Co-operative banks function on the principle of cooperation and not entirely on commercial parameters.

3.8 Expansion of Co-operative Banks in India

In India, co-operative banks are organized groups of people and jointly managed and democratically controlled enterprises. They exist to serve their members and depositors and produce better benefits and services for them. Professionalism in co-operative banks reflects the co-existence of high level of skills and standards in performing, duties entrusted to an individual. Co-operative bank needs current and future development in information technology. It is indeed necessary for cooperative banks to devote adequate attention for maximizing their returns on every unit of resources through effective services. Co-operative banks have completed 100 years of existence in India. They play a very important role in the financial system. The co-operative banks in India form an integral part of our money market today. Therefore, a brief resume of their development should be taken into account. The history of cooperative banks goes back to the year 1904. In 1904, the co-operative credit society act was enacted to encourage co-operative movement in India. But the development of cooperative banks from 1904 to 1951 was the most disappointing one. The first phase of co-operative bank development was the formation and regulation of co-operative society. The constitutional reforms which led to the passing of the Government of India Act in 1919 transferred the subject of “Co-operation” from Government of India to the Provincial Governments. The Government of Bombay passed the first State Co-operative Societies Act in 1925 “which not only gave the movement, its size and shape but was a pace setter of co-operative activities and stressed the basic concept of thrift, self help and mutual aid.” This marked the beginning of the second phase in the history of Co-operative Credit Institutions.
There was the general realization that urban banks have an important role to play in economic construction. This was asserted by a host of committees. The Indian Central Banking Enquiry Committee (1931) felt that urban banks have a duty to help the small business and middle class people. The Mehta-Bhansali Committee (1939) recommended that those societies which had fulfilled the criteria of banking should be allowed to work as banks and recommended an Association for these banks. The Co-operative Planning Committee (1946) went on record to say that urban banks have been the best agencies for small people in whom Joint stock banks are not generally interested. The Rural Banking Enquiry Committee (1950), impressed by the low cost of establishment and operations recommended the establishment of such banks even in places smaller than taluka towns. The real development of co-operative banks took place only after the recommendations of All India Rural Credit Survey Committee (AIRCSC), which were made with the view to fasten the growth of co-operative banks.

The co-operative banks are expected to perform some duties, namely, extend all types of credit facilities to customers in cash and kind, advance consumption loans, extend banking facilities in rural areas, mobilize deposits, supervise the use of loans etc. The needs of co-operative bank are different. They have faced a lot of problems, which has affected the development of co-operative banks. Therefore it was necessary to study this matter.

The first study of Urban Co-operative Banks was taken up by RBI in the year 1958-59. The Report published in 1961 acknowledged the widespread and financially sound framework of urban co-operative banks; emphasized the need to establish primary urban co-operative banks in new centers and suggested that State Governments lend active support to their development. In 1963, Varde Committee recommended that such banks should be organised at all Urban Centers with a population of 1 lac or more and not by any single community or caste. The committee introduced the concept of minimum capital requirement and the criteria of population for defining the urban centre where UCBs were incorporated. “Co-operative banks have made a commendable progress in extending its geographical spread and functional reach, but very less work has been done by the Government to improve the actual state of affairs in these banks., which has been dismal with huge decline in productivity and efficiency, erosion of profitability,
unrealized debts and many unviable branches. Today, the cooperative credit institutions are facing tough challenge to deliver on the high expectations in a fiercely competitive credit environment.\textsuperscript{13}

\subsection{3.9.1 Types of Co-operative Banks}

The co-operative banks are small-sized units which operate both in urban and non-urban centers. They finance small borrowers in industrial and trade sectors besides professional and salary classes. Regulated by the Reserve Bank of India, they are governed by the Banking Regulations Act 1949 and banking laws (co-operative societies) act, 1965. The co-operative banking structure in India is divided into following 5 components:

\subsection{3.9.2 Primary Co-operative Credit Society}

The primary co-operative credit society is an association of borrowers and non-borrowers residing in a particular locality. The funds of the society are derived from the share capital and deposits of members and loans from central co-operative banks. The borrowing powers of the members as well as of the society are fixed. The loans are given to members for the purchase of cattle, fodder, fertilizers, pesticides, etc. Primary Credit Co-operative Societies are the bottom Co-op institution in the three-tire Co-op strikeover for a single visage there in generally a single Co-op-credit society. Sometimes two or more villages together form one co-operative credit society and it should be considered from the point of view its economic viability. Economically viable society means a society that can afford its expenses through its income. Any ten farmers can come together & form the primary credit co-operative society in their village. These farmers should not be insolvent. They collect their share capital and from the society. It is expected that credit co-operative society should issue more and more share and raise capital. The piece of cash share may be between the range of Rs.10/- to Rs.250/-. Co-op banks are the service oriented institutions and they are providing all types of loan to needy people and contributing their share in well being of the local people. Thus serving the nation and contributing their share in nation building. \textquotedblleft In the emerging competitive business environment, only those co-operative banks that adhere to strict
financial discipline, well survive. The future of these sectors primarily depends on the strong belief on its core competence, its local operation with global vision, the integration of weak players with strong ones and proper risk management policies. These sector should not be unduly concerned about its growing size, instead, try to capitalized on its inherent strength”. 14

3.9.3 District Central Co-operative Bank:-
This is the second level under Co-operative structure of banking by integrating credit societies’ working at the village level. This is called the District Central Co-operative credit societies are Co-operative Bank. These are the federations of primary credit societies in a district and are of two types those having a membership of primary societies only and those having a membership of societies as well as individuals. The funds of the bank consist of share capital, deposits, loans and overdrafts from state co-operative banks and joint stocks. These banks provide finance to member societies within the limits of the borrowing capacity of societies. They also conduct all the business of a joint stock bank. These types of bank were set up in 1906 in as the primary credit co-operative society. Then in 1910, this type bank was set at district level in Aimer. Today in every district there is a District Central Co-operative Bank. The head quarter of the bank is at District place. There are branches of these banks where there are no primary co-operative credit societies.

3.9.4 Structure of District Central Co-operative Bank:
In the earlier periods there were three types of District Central Co-operative banks:

1) District Central Co-operative Banks only of members.

2) District Central Co-operative Banks only of the members who are primary co-operative credit societies.

3) District Central Co-operative Banks consisting of both type of members’ i.e. primary co-operative credit society and ordinary members.
Objective of District Central Co-operative Bank

A) To serve as a link between primary credit co-operative societies & the State Co-operative Bank.
B) To finance primary co-operative agriculture credit societies and to see that they work efficiently.
C) To collect maximum deposits and introduce various schemes of saving.
D) To keep deposits of primary co-operative credit societies safely.
E) To make availability of primary co-operative credit societies.

3.9.5 Organization and Management of District Central Co-operative Bank:

The Board of management consists of the representative of primary credit co-operative societies as well as of ordinary members. This is essential because the expert and eminent person coming as representative of ordinary member create public confidence in the working of the District Central Co-operative Banks. However considering the principle of co-operation, representation should also be given to primary co-operative societies.

The management of the District Central Co-operative Bank is done by the elected members of the primary co-operative credit societies and ordinary shareholders. This Board consists of 12 to 15 members. This Board remains in power for five years. It can work up till it gets confidence of members. The general policy of a bank is decided by the Board. The day-to-day working is seen by the paid employees. A Manager, Executive officer, Chief accountant and a Special officer to keep watch on day-to-day working of the bank.

3.9.6 State Co-operative Banks:- State co-operative Banks have the great importance under the three-tier pattern of co-operative finance. Those banks at the State Level are the link between the NABARD (former RBI) and the District Central Co-operative Banks. The area of functions of every State Co-operative Bank is limited to the respective state. These banks do the important function of providing finance to the District Central Co-operative Banks and also control the working of these banks.
The state co-operative bank is a federation of central co-operative bank and acts as a watchdog of the co-operative banking structure in the state. Its funds are obtained from share capital, deposits, loans and overdrafts from the Reserve Bank of India. The state cooperative banks lend money to central co-operative banks and primary societies and not directly to the farmers.

3.9.7 Objectives of State Co-operative Banks:-

1) To work as the Apex Bank at the state level.
2) To guide and supervise the functioning of District Central Co-operative Banks and primary co-operative agricultural societies and to develop the mutual relationship among them.
3) To play the role of media of communication between other Co-operative societies and the District Central Co-operative Banks.
4) The whole responsibility of banking business in co-operative Sector lies on the State Co-operative Banks.
5) It also shoulders responsibility of the clearing house and financial institution.
6) To make maximum extension of credit to the rural section.

3.9.8 Functions of the State Co-operative Bank:-

The State Co-operative Bank is the Apex Bank under the Co-operative Structure of Banking. The functions of the banks are as follows.

1) To provide short-term medium term and long term to all Co-operative Institutions in the State.
2) According to the recommendation of the Rural Survey Credit Committee for coordinating purchase and sales co-operative societies with co-operative credit, the financial help was provided by this bank. The co-operative finance should be related to purchase and sales of agriculture base products and hence with this purpose, this bank made a link of its branches in rural areas with the shops providing useful things to former who are member of co-operative societies. Due
to success of this scheme, the same scheme was introduced at the various other places.

3) This bank provides financial help to productive co-operative societies for purchasing machinery and also for circulating capital.

4) In addition to financial assistance to agro-based industries and rural cottage industries provided by this bank, the bank also provides technical advice and guidance through Co-operative Industrial Board since 1961 to these industries.

5) The “Crop Loan Scheme” was introduced with the co-operative of this bank in the State of Maharashtra.

6) The bank implemented various schemes for economically weaker section of society, small farmers, merchants etc.

7) The bank also provides financial help to various co-operative institutions by purchasing their shares.

8) The bank also works as per representative of co-operative banks in the state.

3.9.9 Organization and Management:

The management of the State Co-operative Banks is done by the Board of Directors. It is the elected body of representatives of Central Co-operative Banks and other individual shareholders. The meeting of the Board is invited once in a year which is General Meeting. All shareholders are present in this meeting. In this meeting the Annual Report of working the Balance Sheet of profits and losses is presented. The discussion is also held for investment of surplus money of a bank. The Management Board for the year also elected in this Annual Meeting. The day-to-day working is looked after by the Management Board.

On this Executive Body there are members appointed by the State Government, representatives of the District Central banks, representatives of other this Executive Body there are members appointed by the State Government, representative of the District Central Banks, representatives of other shareholders representatives of affected Co-operative Societies, representatives of Urban Co-operative banks representatives of Land Development Banks and one representative of the Central Industrial Co-operative bank. The structure of State Co-operative Banks may differ from state to state.
The manager in charge looks after the day-to-day administration of this bank. The future of the bank depends on how the manager works efficiently. So it is recommended by the Banking Inquiry Committee in 1931 and All India Rural Credit Survey Committee 1969 that State Co-operative Banks should take proper care for appointing the General Manager of administration. The General Manager is an experience and expert in banking business. He should have organizational skill and must be honest. He should guide properly to the Board of Directors. He should have firm faith in the philosophy of co-operation. He should dedicate to the development of Co-operative banking fully.

3.9.10 Land Development Banks:
The Land development banks are organized in 3 tiers namely; state, central, and primary level and they meet the long term credit requirements of the farmers for developmental purposes. The state land development banks oversee, the primary land development banks situated in the districts and tehsil areas in the state. They are governed both by the state government and Reserve Bank of India. Recently, the supervision of land development banks has been assumed by National Bank for Agriculture and Rural development (NABARD). The sources of funds for these banks are the debentures subscribed by both central and state government. These banks do not accept deposits from the general public.

3.10.11 Urban Co-operative Banks:
The term Urban Co-operative Banks (UCBs), though not formally defined, refers to primary co-operative banks located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. These banks were traditionally centered on communities, localities, work place groups. They essentially lend to small borrowers and businesses. Today, their scope of operations has widened considerably.
The origins of the urban co-operative banking movement in India can be traced to the close of nineteenth century. Inspired by the success of the experiments related to the cooperative movement in Britain and the co-operative credit movement in Germany, such societies were set up in India. Co-operative societies are based on the principles of co-
operation, mutual help, democratic decision making, and open membership. Co-operatives represented a new and alternative approach to organization as against proprietary firms, partnership firms, and joint stock companies which represent the dominant form of commercial organization. They mainly rely upon deposits from members and non-members and in case of need, they get finance from either the district central co-operative bank to which they are affiliated or from the apex co-operative bank if they work in big cities where the apex bank has its Head Office. They provide credit to small scale industrialists, salaried employees, and other urban and semi-urban residents.

“Urban Co-operative Banks are one the vital segments of banking industry of the country. They essentially cater to the credit needs of persons of small means. There were 1872 urban co-operative banks in the country at the end of March 2005. The figures were 1106 in 1966, the year in which they were brought under the purview of Banking Regulation Act, 1949. Deposits and advances of UCBs increase sharply from Rs. 153 crore and Rs 87 crore respectively in 1966 to Rs 105017 crore and Rs. 66905 crore. The Gross NPA of Urban Co-operative Banks at the end of March 2005 stood at Rs. 15409 crore which is 23% of total loans and advances. Statistical distribution of UCBs shows that around 80% of UCBs are concentrated in 5 states viz. Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Tamil Nadu.”\(^{15}\)

### 3.9.12 National Bank For Agriculture And Rural Development (NABARD):

It is an apex rural credit institution established on July 12, 1982 with a capital of Rs. 100 crores which is in equal proportion held by Government of India and RBI. “The NABARD is managed by a Board of Directors, consisting of Chairman, Managing Director, 2 Directors from amongst experts in rural economics, rural development etc., 3 Directors with experience in the working of co-operative banks, 3 Directors from out of the directors of the RBI, 3 Directors from amongst the officials of Government of India and 2 Directors from amongst the officials of State Government. They are appointed by the Central Government.”\(^{16}\)

The purpose of establishing the NABARD is to play an active role in implementing several rural development programmes. Earlier the Reserve Bank of India (RBI) and
Agricultural Refinance and Development Corporation (ARDC) used to look after the rural finance. This function was taken over by NABARD from Reserve Bank of India and Agricultural Refinance and Development Corporation. NABARD plays a key and leading role in providing not only refinance for promoting agricultural activities but also to non-farm sectors particularly for programme covered under poverty improvement. It is first and foremost responsibility of NABARD to ensure adequate supply of credit for seasonal agricultural activities in order to maintain agricultural productivity and also has to accelerate the flow of credit for long term investment in agricultural sector. NABARD always tries to uplift the rural people above poverty line by providing support through formulating some innovative non-farm schemes. NABARD has two types of fund to finance agricultural operations:

i) National Rural Credit (Long Term Operation) Fund.

ii) National Rural Credit (Stabilisation) Fund.

The NABARD has introduced Kisan Credit Card Scheme, made innovations in microfinance, accelerated flow of credit to the handloom weavers, stimulated investments in minor irrigation and wasteland development, lowered the rate of interest on refinance and numerous developmental schemes and programs.

3.10. RBI Policies for Co-operative Banks:

The RBI appointed a high power committee in May 1999 under the chairmanship of Shri K. Madhava Rao, Ex-Chief Secretary, Government of Andhra Pradesh to review the performance of Urban Co-operative Banks (UCBs) and to suggest necessary measures to strengthen this sector. With reference to the terms given to the committee, the committee identified five broad objectives:

• To preserve the co-operative character of UCBs

• To protect the depositors’ interest

• To reduce financial risk

• To put in place strong regulatory norms at the entry level to sustain the operational efficiency of UCBs in a competitive environment and evolve measures to strengthen the existing UCB structure particularly in the context of ever increasing number of weak banks.
• To align urban banking sector with the other segments of banking sector in the context of application or prudential norms in to and removing the irritants of dual control regime
• RBI has extended the Off-Site Surveillance System (OSS) to all non-scheduled urban co-operative banks (UCBs) having deposit size of Rs. 100 Crores and above.

3.11 Duality of control system of co-operative banks:
However, concerns regarding the professionalism of urban co-operative banks gave rise to the view that they should be better regulated. Large co-operative banks with paid-up share capital and reserves of Rs.1 lac were brought under the purview of the Banking Regulation Act 1949 with effect from 1st March, 1966 and within the ambit of the Reserve Bank’s supervision. This marked the beginning of an era of duality of control over these banks. Banking related functions (viz. licensing, area of operations, interest rates etc.) were to be governed by RBI and registration, management, audit and liquidation, etc. governed by State Governments as per the provisions of respective State Acts. In 1968, UCB’s were extended the benefits of deposit insurance. Towards the late 1960s there was debate regarding the promotion of the small scale industries. UCB’s came to be seen as important players in this context. The working group on industrial financing through Co-operative Banks, (1968 known as Damry Group) attempted to broaden the scope of activities of urban co-operative banks by recommending these banks should finance the small and cottage industries. This was reiterating by the Banking Commission in 1969.

3.12 Recommendations of Various Committees to Solve the Problems of Co-operative Banks:
The Madhavdas Committee (1979) evaluated the role played by urban co-operative banks in greater details and drew a roadmap for their future role recommending support from RBI and Government in the establishment of such banks in backward areas and prescribing viability standards. The Hate Working Group (1981) desired better utilization of bank’s surplus funds and that the percentage of the Cash Reserve Ratio (CRR) & the Statutory Liquidity Ratio (SLR) of these banks should be brought at par with commercial banks, in a phased manner. While the Marathe Committee (1992) redefined the viability
norms and ushered in the era of liberalization, the Madhava Rao Committee (1999) focused on consolidation, control of sickness, better professional standards in urban co-operative banks and sought to align the urban banking movement with commercial banks. A feature of the urban banking movement has been its heterogeneous character and its uneven geographical spread with most banks concentrated in the states of Gujarat, Karnataka, Maharashtra, and Tamil Nadu. While most banks are unit banks without any branch network, some of the large banks have established their presence in many states when at their behest multi-state banking was allowed in 1985. Some of these banks are also Authorized Dealers in Foreign Exchange.
References
CHAPTER III