CHAPTER: III
ORIGIN AND DEVELOPMENT OF COOPERATIVE CREDIT IN INDIA & GUJARAT

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3.1 Rural Cooperative Credit—Principles and Policy

3.1.1. Aims and Objects of Rural Cooperative Credit

While the commercial banks cater to the requirements of the highly organized industries and commercial undertakings and organizations, the cooperative banks in India, as elsewhere, provide banking facilities to the highly disorganized sector of the country's economy. The task assumed by the cooperative banks is, thus, the most difficult one. Notwithstanding the similarity between the functions, the two differ fundamentally from each other. Commercial credit is motivated by tangible security offered by the borrower and the degree of ease and promptitude with which it can be realized, on the other, cooperative credit is guided by the principles of mutual help & thrift and is accentuated by service rather than profit. According to Prof. Horace Belshaw, the aims of cooperative credit are:

(i) To promote thrift so as to increase the supply of funds;

(ii) To draw on sources outside the society;

(iii) To promote the effective use of loans and to reduce the risk in granting loans by careful and continuous supervision;

(iv) In consequence to reduce risk to lenders, and to credit cooperatives by adequate security;

(v) By this means and by low cost of management to keep the cost of credit as low as possible; and

(vi) To endeavor to make societies credit-worthy so that they can obtain sufficient funds to finance other cooperative undertakings.
3.1.2. Terms of Cooperative Credit

It, therefore, follows from the above objectives that the terms of the cooperative credit must be adapted to the needs of the borrowers and should not be dictated by the convenience of the creditors. It implies that the credit should be provided for a sufficiently long period, commensurate with the length of the operation for which the facility is to be provided. This is why cooperative banks provide credit for productive purposes and the period of repayment is synchronized with the period required by the activity to bear fruits. Again, cooperative credit lays emphasis on the character and the repaying capacity of the members who borrow. The agriculturists individually can offer the following security: (a) personal property, movable or immovable; (b) personal credit, i.e. his honesty and character; and (c) guarantee of his neighbors.

3.1.3. Cooperative Bank: Concept & Definitions

A cooperative bank has been defined as "an agency which is in a position to deal with the small man on his own terms, accepting the security he has without drawing on the protection of the rich. That agency must not be a channel for pouring charity or subsidizing the small man out of the public funds; instead the material help must be backed by moral improvement and strengthening the fiber". Devine defines a cooperative bank as "a mutual society formed, composed and governed by working people themselves for encouraging regular savings and granting small loans on easy terms of interest and repayment." A cooperative bank, must be essentially cooperative in character and must deal in credit which satisfies the requirements of an ideal credit.

A cooperative bank promotes economic activity and provides banking facilities and services to the people. Thrift and savings is the fulcrum of the working of cooperative banks. Cooperative lending is the means to promote thrift and savings and service, and profit is not the chief motto. Personalization of credit is the special feature of the cooperative banking. The significant role of the cooperative banks in the agricultural
economy, imparts a lesson to commercial banks and dispels from their minds the age-old inertia and the gloom of conservatism by shifting emphasis from credit-worthiness of the persons to the credit-worthiness of the purpose and from tangible security to the character of the borrower. Character is the keynote of their success. The cooperative banks teach the agriculturists to borrow at the right time and in right amounts and for right purpose and to repay on the right dates; and they alone can teach him to save so that he may not have to borrow at all. Their organization has also led Mahajans and Sahukars to reduce their lending rates. The cooperative banks do not hesitate in accepting non-members as their customers and thus, they spread the message of the cooperative principles and extend their benefits to wider sections of the population. Since the organization of these banks is democratic in character, they provide a training ground for many a layman to learn and practice democracy in all walks of life. In short, the cooperative banks are for the agriculturists, a friend, a philosopher, and a guide.

3.2 Cooperative Banking vs. Commercial Banking

We are now in a position to distinguish cooperative banking from commercial banking. The joint stock companies aim at earning maximum possible profits. 'Service' rather than 'profit' is the motto of the cooperative banks. The cooperative banks are associations of persons and not of capital. The members enjoy the security of rights and status irrespective of the value of shares held by them. The two types of banks also differ from each other in matters of organization and constitution. The cooperative banking structure is generally a three-tier structure and is, thus, federal in character. There is no such federation in the commercial banking structure. Again, one of the chief features of cooperative banking structure is the participation of the State in financial partnership. No such participation is to be found in commercial banks. The affairs of the cooperative banks are managed democratically, based on the principle of 'one man one vote'. In commercial banks the day-to-day work is carried on by well-paid trained professional staff whereas in the cooperative banks the management is mostly in the hands of honorary persons. Again, thrift is the self-generating force and is looked upon as a
measure of success of a cooperative bank and a barometer of its members' well-being, which is not the concern of commercial banks.

A major difference between the two types of banks is that while the cooperative banks finance only the agricultural operations, the commercial banks finance trade and commerce. In lending operations, the former lay emphasis on the character and the repaying capacity of the borrower whereas the latter keep in mind the tangible security and the promptitude with which the loans can be realized. In the case of cooperative banks the relations between the depositors and the borrowers are personal and human. These banks specialize in personal credit. On the other, the commercial banks are not concerned with the purpose for which the loans taken are used. Again, as the cooperative land mortgage banks do, the commercial banks do not give long-term credit.

The procedure for sanctioning loans is also different in the two types of banks. In commercial banks loans below a certain amount are sanctioned by one man, the manager, who is a paid professional employee; but in cooperative banks the managing committee is the supreme authority for sanctioning the loans. Mutuality is a special feature of a cooperative bank, whereas, in commercial banks the collections are affected automatically.

Liquidity is the guiding force for the commercial banks and they have the freedom to choose and arrange their investment in order of liquidity. But there is no such choice for the cooperative banks. In the case of default the commercial banks may take resort to legal proceedings but the cooperative banks may only seek help from the cooperative department.

Systems of audit and inspection of cooperative banks also differ from those of commercial banks. The responsibility for the audit of the accounts is that of the bank in the latter case, whereas in the former, the responsibility is that of the Registrar. The commercial banks try to declare very high dividends, whereas the cooperative banks
believe in declaring only limited dividends in accordance with the provisions of the bye-laws, rules and Acts.

3.2.1. Classification of Cooperative Banks

Cooperative banks in India can be divided into two distinct categories, viz., primary societies and financing institutions. The primary societies deal with the individuals and do not strictly conform to the standards of a bank. But since they perform the functions of a bank, i.e., lending money and accepting deposits, they can be regarded as banks in miniature for the villages. The financing institutions are banks in the true sense of the term. The following is the detailed classification of the various types of cooperative banking institutions:
The primary cooperative credit societies, working in the villages deal with the ultimate borrowers. The central cooperative banks deal with the primary societies since they are their federations. They play the role of balancing centers of cooperative finance, thereby placing the money at the disposal of the cooperative institutions, in the cooperative movement itself. The evolutionary history of the cooperative banks in India shows that
three types of banks have been organized so far: (i) banks, whose membership is exclusively of individuals; (ii) banks whose membership is confined to societies only; and (iii) banks of a mixed type, whose membership comprises individuals as well as societies. Now, there is no central bank which falls under the first category. With the growth of a number of central banks the problems of finance, supervision, guidance and development along right lines become more complicated. The necessity for an apex bank for coordinating and controlling the working of central banks, for forecasting and arranging for their requirements and for acting as the nerve-center of the cooperative finance and a link with the money market, was felt. Consequently, an apex cooperative bank, also known as state cooperative bank was established in each State. This bank is the federation of the central cooperative banks.

So far as the structure of the short and medium term cooperative credit is concerned, it is essentially a three-tier structure. In the field of long-term credit, the structural organization of the cooperative banks is a two-tier one. At the base are the primary cooperative agricultural and rural development banks consisting of individual farmers at the Taluka, Sub-division or district level and at the top are the central cooperative agricultural and rural development bank consisting of primary cooperative agricultural and rural development banks and the individuals.

3.2.2. Growth of Cooperative Banking in India

Cooperative banking was started in India to remove the proverbial poverty of the millions of small agriculturists. It was adopted as the most useful weapon for ending stagnation of the poor masses. The cooperative credit societies were organized under the Cooperative Credit Societies Act, 1904. Societies were classified as 'rural' and 'urban' and while the latter were left with a free choice, the former were bound to accept the unlimited liability. The Act did not deal with the organization of Central and Apex Banks. The whole question was re-examined and the Government of India passed the Cooperative Societies Act, 1912. The registration of Unions, the Central Banking Unions and Central Banks,
were for the first time, expressly legalized. Since then Cooperative banking has made rapid progress in the country.

3.3 Trends of Progress of Cooperative Banking in India

3.3.1 Formation Stage (1904-15)

During this period the credit institutions evolved into a three-tier pyramidal structure. The principle of "limited liability" was introduced in the movement and the old distinction between the rural and urban societies was done away with. A number of minor improvements with regard to registration, audit and administration were also introduced. At the end of 1915 there were 17,729 societies with 717000 members. Their share capital and funds amounted to Rs. 137 lakh. Their deposits stood at Rs. 34 lakh, and their working capital amounted to Rs. 516 lakh.

3.3.2 Second Stage (1915-1930)

It was towards the beginning of the World War I that the cooperative movement in India took some shape. War provided stimulus to the organization of certain kinds of societies. The expansion was quite rapid. The movement faced a number of problems, arising out of hasty expansion and many of the credit societies being exposed to weaknesses from within had to face a serious crisis which deepened subsequently through the world-wide depression of the 30's. The progress during this period was uneven. A great deal of this progress was concentrated in a few provinces like Punjab, Madras, Bombay and U.P. At the end of 1929-30 the number of societies was 91,786 with 31,18,000 members, Rs. 1007 lakh share capital, Rs. 181 lakh as deposits and Rs. 3,493 lakh as working capital.
3.3.3 Third Stage—World-wide Depression and Cooperative Banking Crisis (1930-40)

The cooperative banks suffered a setback in a number of ways like economic instability, heavy indebtedness of members, competition from the moneylenders and the peculiar nature of agricultural industry. These factors were obviously beyond the control of the average credit societies. The weakness in their working was also a dominant factor, which was not closely related to any ideological shortcomings, but was attributable to the failure of those associated with the societies to stick to the well-accepted cooperative practices. In many cases the societies were imposed upon the people whether they wanted them or not, whether they could abide by the sort of discipline required for their success or not. People misconceived them as charitable institutions. Most of the societies were in the hands of the influential persons of the village, which led to indiscriminate advancement without looking into the purpose, the repaying capacity and the character of the borrowers. Most of the loans were concentrated in a few hands, mostly related to each other. Supervision over the working of societies and education of the members was badly neglected. Cases of defalcation and embezzlement were not lacking. Thus, a top heavy superstructure of cooperative banking was built upon the very flimsy foundation, which was already crumbling under the heavy weight of overdues. Depression came as a shock and perpetuated the crash all over the country.

The Reserve Bank's lead in this respect was commendable, it emphasized the need for the following measures: (i) separating the overdues and long-term loans and bring them down to a level at which they were expected to be repaid out of future agricultural surplus within a reasonable period of time; (ii) building up strong reserve out of adequate margin between borrowing and lending rate; and (iii) issuing of loans strictly for productive purposes, keeping in view the repaying capacity so that the members were not encouraged to living beyond means.
3.3.4 The Fourth Stage—Rehabilitation (1940-46)

All the provincial governments chalked out schemes on the above lines. World War II broke out and the prices of agricultural produce and land started soaring high. That almost doubled the repaying capacity of the farmers. This plus the financial assistance of the state helped to rehabilitate the cooperative movement in almost all the provinces. The period was marked with increased repaying capacity, introduction of controlled credit scheme in Madras and expansion of non-credit activity. At the end of 1945-46 there were 1,24,000 credit and 23 lakh non-credit societies with a total membership of 56 lakh, Rs. 1646 lakh of owned capital and Rs. 3301 lakh of working capital. In 1945, the Agricultural Finance Sub-committee of the Reserve Bank of India observed; "Cooperative banking organizations in all the provinces are not equally strong. In some part e.g., Bihar, the cooperative structure had to be completely rebuilt, in others the organizations are still weak or are in the process of rehabilitation... The development of cooperative superstructure is very different from Province to Province and its strength varies from district to district. In some Provinces... the role of the cooperative movement in the supply of agricultural finance was very small as compared to the needs of the country and that part of it which could be considered as efficient was smaller still... A large number of societies are faced with the problem of frozen societies and have stopped functioning wholly or in part." Consequently out of 1,65,102 societies, 10,401 societies were under liquidation at the end of 1945-46.

3.3.5 The Fifth Stage—Phenomenal Rise (1946-50)

In 1946 the Cooperative Planning Committee took stock of the progress of the cooperative movement and suggested certain plans for its development. During the period ending 1950-51, there has been phenomenal rise in the number of societies from 105,000 in 1939 to 148,000 in 1950-51. Membership rose from 3.6 million to 15.5 million. The paid-up share capital rose from Rs.12.7 crore to Rs. 18.5 crore and deposits from Rs. 3 crore to Rs. 6.4 crore during the period. But in spite of all this, the working capital...
showed very little increase from Rs. 31.6 crore in 1938-39 to Rs. 35 crore in 1951, The Rural Banking Enquiry Committee observed that "the structure elsewhere is in a process of reorganization, consolidation or rehabilitation and it is yet too early to say what the outcome of the efforts being made will be."

3.3.6 The Sixth Stage—Planned Development (1951-1985)

The period of planned development witnessed one after another epoch-making events in the field of cooperation. First came the All India Rural Credit Survey Committee (1954). This Committee revealed that the place occupied by cooperative credit in the rural finance of the country was even more insignificant than that ordinarily supposed. According to the Committee the weakest link of all in the chain which is weak at almost all points was the primary cooperative credit society. The Committee recommended an integrated programme of rural credit based on three fundamental principles: State partnership at different levels, federal coordination between credit and other economic activities, especially marketing and processing; and administration through adequately trained and efficient personnel, responsive to the needs of the rural population. The Committee recommended the introduction of larger units for the replacement of honorary services by competent paid staff. Limited liability and freer admissions were also recommended. That led to the organization of large-sized societies all over the country. Consequently, at the end of 1959-60 there were 8,023 large-sized societies with a membership of 30.25 lakh, working capital of Rs. 73.85 crore. As against this, there were 2,03,172 agricultural credit societies with a membership of 144.23 lakh. Their working capital stood at Rs. 223.70 crore.

The National Development Council in November, 1958 considered the role of cooperatives in intensifying agricultural production, in mobilizing local man-power and other resources and generally re-building the rural economy. In pursuance of the recommendations of the Council, the organization of large-sized societies was stopped and service cooperatives started to be organized. The V.L. Mehta Committee (1960),
while accepting the above basis of organization of cooperatives in India emphasized on economic viability of village societies which could cover a population of about 3,000. The old societies were converted into service cooperatives by changing their bye-laws. By the end of the Third Plan there were 2.5 lakh service cooperatives covering the entire country. Thus, cooperation had a great role to play in the future development of the country. In pursuance of the recommendations of the National Development Council the Government of India suggested to all State Governments to route all taccavi loans through the village cooperatives. In order to examine the various organizational, procedural and administrative snags which came in the way of successful implementation of this policy, the Government of India appointed a Committee in July 1961 under the Chairmanship of Mr. B.P. Patel-Adviser to Programme Administration of Planning Commission. The report of this Committee was sent to all State Governments, the Reserve Bank of India, apex cooperative banks and central land mortgage banks in October, 1962 for their comments. The comments of all these bodies were examined at the conference of Registrars and Ministers for Cooperation at Lucknow in February 1963. The following are some of the important recommendations made by the Patel Committee:

i. Cooperatives should be accepted as the normal institutional agency to provide credit to agriculturists for normal production and land improvement purposes subject to certain exceptions and government should discontinue to issue all such loans to them directly.

ii. For certain purposes or areas or classes of people for which, because of technical nature of the operations or the financial risks involved or delayed returns on investment, it will not be possible for the cooperatives to finance agriculturists and government should continue to provide finance directly to the agriculturists.

iii. Distress taccavi should be given direct by the government.

iv. The responsibility of providing the entire finance required by the agriculturists for normal production and land improvement excluding those purposes for which it will not be possible for them to finance for special persons, should be transferred to the cooperatives according to a phased programme. The Committee made
definite recommendations in regard to the phasing of the programme in various States.

v. When cooperatives become the sole agency to provide credit to agriculturists for normal production and land improvement purposes the funds available with government for making advances to agriculturists should be utilized to supplement the resources of the cooperatives.

vi. Government should continue to make increasing provision in the budgets for financing agriculturists and utilize such provisions for strengthening the structure and resources of cooperatives.

vii. The land mortgage bank structure should ultimately be a federal one with a central land mortgage bank at the State level and primary land mortgage banks at lower levels.

viii. Government should charge concessional rates of interest on funds made available by it to cooperatives.

ix. The rate of interest on long-term loans should be reasonable and should not exceed 6.25 per cent; and on short-term loans the rate should not exceed 8 percent.

The Government of India accepted the recommendations of the Conference and decided to route taccavi loans through cooperatives under a phased programme. However, in cases where it was not possible for the cooperatives to provide finance because of the risks involved, the government continued advancing taccavi loans directly.

- Change in Policy—Introduction of Multi-Agency Approach in Rural Credit:

As a result of reported findings of the All India Rural Credit Review Committee (1969), (a) that the progress of implementation of integrated scheme of rural credit was bright only in certain parts of the country; (b) that there were regional disparities and imbalances in the development of cooperatives; (c) that weaker sections of the community did not get the benefit of the cooperative finance to the desired extent; (d)
that there were large and widening credit gaps and that cooperatives were unable to meet the credit gaps; radical changes were introduced in the policy approaches to the problems of agricultural credit particularly by nationalizing 14 major commercial banks and requiring them to supply credit to agricultural and allied activities and also to weaker sections of the society on priority basis along with credit cooperatives. Thus multiagency approach was introduced in agricultural credit. With preferential treatment to small/marginal farmers and other weaker sections of the society, and for identification of their financial needs, agencies such as SFDA and MFAL were set up, whose functions were later taken over by the District Rural Development Agency for implementing all special programmes.

The entry of commercial banks in the sphere of rural credit was followed by regional rural banks which came into existence in the year 1975 as per the recommendation of the Narsimhan Committee on Rural Banks. The Banks were jointly sponsored by the Government of India, State Governments and Commercial banks and were established in areas reported to have an inadequate institutional structure and good potential for agricultural development. The rationale behind the establishment of Regional Rural Banks was lack of required credit flow to the weaker sections on account of inadequate attention paid by credit cooperatives to them and absence of local feel on the part of the commercial banks to understand the credit needs of the farming community. Thus, the regional rural banks were to combine both local feel of cooperatives and professional efficiency of commercial banks in discharging their functions in the rural areas. Thus, three agencies, namely: (i) Credit Cooperatives, (ii) Commercial Banks, and (iii) Regional Rural Banks emerged on the scene of rural credit with the following objectives:

i. Complete institutionalization of credit.
ii. Reduction in regional imbalance.
iii. Larger flow of credit to weaker sections.
iv. Harmonious coordination including financial partnership between cooperatives and commercial banks.
However, the basic assumptions behind the introduction of multiagency approach was to supplement the efforts of the cooperatives in bridging the credit gap and not to supplant them and identify the credit needs of potentially viable weaker sections of the community and to finance them. The cooperatives and Regional Rural Banks were to get refinancial aid from the Government of India and the State Governments in some form or the other.

- **Assessment of Multi-Agency Approach:**

Cooperatives, commercial banks and regional rural banks had gone a long way in fulfilling the needs of the farming community for agricultural and allied activities since the total credit provided by these agencies together stood at Rs. 3042 crore on 30.6.1980. However, the basic assumptions underlying the introduction of multi-agency approach in agricultural financing had not been fulfilled in the sense that in practice the new agencies entering the field of agricultural financing instead of supplementing the efforts of cooperatives in the provision of agricultural finance had generally tended to supplant the cooperatives by adopting the primary agricultural credit societies and forming Farmers' Service Societies and by charging differential rate of interest in the case of direct financing to small farmers.

In almost all cases the impact of commercial banks on the functioning of agricultural credit cooperatives had not been positive and conducive to them. The commercial banks, instead of supplementing efforts of credit cooperatives started competing with them which resulted into far-reaching repercussions on the functioning of the latter.

As far as adoption of cooperative societies for agricultural financing by the commercial banks was concerned, it is observed that viable primary agricultural credit societies were taken into the fold of these banks, without taking over their overdues. In this context it may be mentioned that the Study Group appointed by the Reserve Bank of India under the Chairmanship of Shri C.V. Nair, the Joint Chief Officer in Agricultural Credit
Department, Reserve Bank of India for reviewing the performance of Commercial banks in financing PACSs and to make suitable recommendations had observed that the scheme had not been able to fulfill its main objectives namely provision of smooth flow of credit to the PACSs and ultimately to the borrower. The Study Group had, therefore, recommended that it will be inadvisable to continue with the compulsory linkage of PACSs with commercial banks and hence should be discontinued. The Sivaraman Committee (1981) appointed by the RBI at the instance of the Government of India to review arrangements for financing agricultural and rural development had also stated that the scheme of ceding of PACSs to the commercial banks had shown only limited success since the problem of taking over of their overdues had remained unsolved. The report of the Study Group under the Chairmanship of Shri Nair was considered by the Agricultural Credit Board at its meeting held on 23rd November, 1981 and the Board had decided that it should be left to the PACSs to decide whether to continue to have their link with the commercial banks or opt for retransfer to central cooperative banks.

Another area where the commercial banks had created problems for the cooperative credit sector was the differential rate of interest system adopted by them in respect of their advances either directly or through PACSs. The credit cooperatives suffered a lot particularly on account of differential rate of interest (DIR.) scheme of the commercial banks as the commercial banks were required to advance at least 0.5 per cent of their lending to weaker sections at 4 per cent rate of interest under DIR scheme whereas the rate of interest charged by the commercial banks on the loans to farmers advanced through adopted societies was more than the rate of interest charged on the direct loans. The Working Group on Multi-Agency Approach observed that "the glaring irregularities in the interest rate charged have not only created confusion but has also given rise to a feeling of discrimination among borrowers in the same area catered to by different agencies". This was the reason why the Study Group had recommended a uniform pattern of interest rate by commercial banks as well as cooperatives.
The Regional Rural Banks which were set up specially for the purpose of channelizing credit flow to the weaker sections of the society, did not come up to the expectation as far as their performance was concerned. Even after 18 years of establishment many of the Regional Rural Banks were not able to take off. The Ministry of Finance and Government of India in its assessment had clearly stated that the business of many of the Regional Rural Banks started with great fanfare during the emergency was yet to pick up. Despite this observation, the Reserve Bank of India went on emphasizing on expansion of Regional Rural Banks and their branches, without taking into consideration the impact of such a move on cooperative credit structure. However, the Reserve Bank of India considered the plea of the state cooperative banks that either a state cooperative bank alone or in consortium with the other state cooperative banks should be allowed to sponsor regional rural banks. Some of the state cooperative banks such as Uttar Pradesh had already sponsored regional rural banks in their respective jurisdiction and some more state cooperative banks like Maharashtra were thinking of sponsoring a few more. It was felt that if the state cooperative banks sponsored more regional rural banks, the complimentarily objective will be better fulfilled.

- Credit Cooperatives and Multi-Agency Approach:

Number of committees constituted from time to time by the Central Government, State Governments and Reserve Bank of India had come out without reservations about the suitability of cooperatives to serve the credit needs of the farming community as also weaker sections among them. Even Narsimhan Committee which recommended the establishment of RRBs felt that the cooperatives possessed necessary qualifications required to finance weaker sections. Similarly the Committee on Financing Small and Marginal Farmers through cooperative credit structure appointed by the Government of Maharashtra (1976) had clearly stated that there was little evidence to suggest that the very small and marginal farmers did not receive their due share in total short-term credit disbursed through the cooperative credit structure. A Committee on Regional Rural Banks under the Chairmanship of Shri M.L. Dantwala had opined that there were no
shortcuts to strengthening the cooperative credit structure at the base level. If such was the opinion about the capacity and potentiality of cooperatives of the various committees and study groups, there was reason to believe that if the amount of money contributed by the Government of India and State Governments in the form of share capital to Regional Rural Banks had been diverted for strengthening and modernization of cooperatives the face of cooperatives would have been different today. This is, however, not to say that cooperative credit structure was averse to the concept of multi-agency approach. What was disturbing for the cooperative credit structure was the way in which these new agencies functioned and created many problems for cooperatives. Moreover, it is also a known fact that the operational cost of commercial banks is very heavy and cooperatives are the agency which have system of decentralized supervision and provide many advantages like member participation in management etc. with low cost/profit that cannot be available to the farming community under any other system. Cooperatives are therefore the only agency suitable for agricultural financing. However, to make the concept of multi-agency approach workable some suitable arrangement will have to be made to ensure the achievement of the objectives of multi-agency approach. The best approach would be to allow the PACSs to function exclusively at the base level while at the district level a consortium approach, under which the other agencies may supplement the finances of district central cooperative banks may be adopted. This approach would be fully in consonance with the assumptions stipulated under the multi-agency approach since it will avoid unhealthy competition at the base level and also solve the problem of coordination at the district level.

The cooperative credit sector (short and medium term) had made good progress at all levels since its operations had shown a steadily increasing trend. The sector had also been able to diversify its loaning portfolio since the medium term loans had also gone up. The state cooperative banks had also undertaken long-term lending for purposes like minor irrigation and fisheries in the States like Orissa and Andhra Pradesh. In States like Kerala and Punjab the primaries have been able to mobilize deposits of quite a sizeable order and primaries in many more States were trying to emulate the examples set by Kerala and
Punjab. As stated earlier the problem of mounting overdues had been posing serious threat to the rural credit system. As a short cut to the problem some of the State governments like Maharashtra and Tamil Nadu announced wholesale write off of cooperative dues from small and marginal farmers during the year 1980-81 and some more. States were to follow the move. Considering the adverse effects of the move on the cooperative credit system particularly on the recovery of overdues, the Federation of State Cooperative Banks took up the issue with the Central Government with a view to impress upon the concerned State governments the need for opposing the proposed steps. Accordingly memoranda were, submitted to the Prime Minister and the Ministers for Agriculture and Finance and the Chief Ministers and Cooperation Ministers of the States. On receipt of plea from the Federation the Minister for Agriculture, Government of India wrote to the Chief Ministers of the States indicating his displeasure at the move and it was heartening to note that since then no State government announced any such concessions.

Another development which had taken place during this period in the spheres of short and medium term cooperative credit was the lack of avenues for gainful investment of surplus resources with some of the state cooperative banks and district central cooperative banks. The banks were making representation to the National Federation of State Cooperative Banks and the Federation in turn to the Reserve Bank of India. Ultimately the Federation's efforts bore fruits and the Reserve Bank of India appointed a Study Group on the subject under the Chairmanship of Dr. M.V. Hate, the then Executive Director, RBI, ACD. The Study Group submitted its report with recommendations which were accepted by the RBI with slight modifications. These recommendations provided to state cooperative banks and central cooperative banks faced with surplus funds, other avenues for lending such as larger participation in financing State Marketing Federations for fertilizer distribution activities and national level cooperative marketing/consumer federations for general business under consortium arrangements with commercial banks, procurement finance, interim accommodation to state land development banks, provision of working capital accommodation to cooperatives in tribal areas, bridge finance and
term loans to cooperative processing societies. Besides these avenues in the cooperative fold the state and central cooperative banks also had avenues in areas outside the cooperative fold for lending such as state corporations in public sector dealing in fertilizer and distribution of essential consumer articles, dairy development corporations, state electricity boards, handloom/handicraft boards/corporations, housing development corporations etc. engaged in providing facilities to weaker sections in backward areas subject to guidelines issued by the Reserve Bank of India.

- **Larger Flow of Credit to Weaker Sections:**

The short and medium-term cooperative credit sector had not only achieved laudable results in its overall performance but had done appreciable work in satisfying the credit needs of weaker sections both for production and marginally for consumption purposes. As against the RBI stipulation that the credit cooperatives should provide at least 20 per cent of their total lendings to small and marginal farmers and other weaker sections of the society, the total share of cooperatives to this section of the society stood around 40%. In order to help the small and marginal farmers and other weaker sections of the society in a special and specific manner, certain agencies like SFDA, MFAL, DPAP, created during the seventies, had been merged with District Rural Development Agency which assists the small and marginal farmers and other weaker sections of the society in getting credit facilities including allied services in a package way.

- **Consumption Credit to Weaker Sections:**

In keeping with the legislative measures introduced by the State Governments for scaling down debt/debts moratorium, the private sources of consumption credit from money-lenders and traders dried up. It was also necessary to meet the consumption credit needs of the rural masses particularly the small and marginal farmers and other weaker sections of the society if the production credit was to be efficiently used for the purpose for which it had been given. This necessitated the augmentation of resources with the institutions
dispensing credit in the rural areas for meeting the consumption credit requirements of
the weaker sections who used to borrow from private money-lenders. In order to ensure
that the institutions engaged in dispensing credit in rural areas take up the work
immediately, the Government of India appointed an expert committee under the
Chairmanship of Shri B. Sivaraman, which assessed the consumption credit needs of the
weaker sections at Rs. 170 crore and suggested that the reorganized PACS/FSS having
paid secretary would be the most suitable agencies to disburse the same. However, the
overall progress made in this direction was not very encouraging since there were number
of limitations and obstacles in the way of working of this scheme. The total amount
disbursed on this account stood at Rs.24.5 crore on 30.6.1979. The main difficulty in the
progress of the scheme was the non-availability of refinance facility from the RBI for this
purpose.

- **Rate of Interest:**

One of the main factors which had created many problems in the sphere of rural credit
was the differential rate of interest charged on agricultural loans by different agencies
distributing agricultural credit. The rate of interest charged by these agencies varied from
4% to 15%. The rate of interest permitted by the Reserve Bank of India for short-term
and medium term loans provided by the cooperative credit structure ranged from 10.5%
per cent to 14 per cent whereas the rate of interest charged by commercial banks on the
loans to weaker sections continued to be at 4 percent under the differential interest rate
system. Thus, the disparity continued to persist.

- **Organizational Development:**

(a) **Reorganization of Primary Agricultural Credit Societies.** The programme of
reorganization of primary agricultural credit societies had been under implementation
since 1955. By and large the programme had been completed in all States except Gujarat,
Jammu and Kashmir and Maharashtra and the number of PACSs as on 30-6-1980 stood at 95,187 as against 1,16,125 in 1977-78.

(b) Rehabilitation of Weak District Central Cooperative Banks. As many as 182 district central cooperative banks were weak in the year 1976 which number came down to 84 in 1979. However, in 1980 the number of weak district central cooperative banks including some of the small state cooperative banks rose to 120. With a view to removing the weakness of the intermediary tier and transform the central cooperative banks into viable institutions, a central sector scheme of rehabilitation was introduced during the middle of the Fourth Plan.

- Reduction in Regional Imbalances:

Existence of regional imbalances was another important feature of the operations of agricultural credit cooperatives in our country. Since historically the cooperative credit movement originated in a few States and because of the untiring efforts made by the dedicated cooperators as also good support received from the then existing provincial governments, it is understandable that the movement should develop more, in pioneering states than the states where it was introduced later. But even after independence and introduction of Five Year Plans, glaring disparities existed among the States in respect of overall development of credit cooperatives as also in term of per hectare advances. In order to enable the credit institutions to increase their flow of advances particularly in cooperatively less-developed States, measures such as provision of additional funds by Central Government for strengthening cooperative management, more investment in the share capital of the cooperative credit institutions by State governments and modifications of terms and conditions by RBI were envisaged. Respective State governments and apex Cooperative banks were also making efforts to increase the credit flow to the ultimate borrowers and thus improve average per hectare advances to reduce imbalances. However, in spite of these efforts the imbalances continued to exist since less
developed States were finding it difficult to catch up with the already advanced States as they were marching ahead in the race.

- **Integration of Cooperative Credit Sectors:**

An important issue pertaining to cooperative credit movement in the country which was in the limelight for quite some time was the integration of short-term and long-term cooperative credit sectors as recommended by the Hazari Committee. Since the complete integration of the two sectors did not find favor with cooperatives, in the long-term sector, the RBI had to inform the State governments that the consideration of recommendations of Hazari Committee, had been deferred for the time being. However, it was heartening to note that the issue of coordination, if not integration, between the two sectors was under active consideration of both the sectors. During later years, an increased emphasis was placed on schematic/project approach to agricultural finance as a consequence of area development approach adopted by the Agricultural Refinance and Development Corporation. Since cooperatives were the main agencies through which agricultural finance was to be routed, a need was felt for organizational coordination between the two sectors at all levels and functional coordination at base level so that primary agricultural credit societies will route investment credit as well as production credit so as to meet both short-term and long-term credit needs of the borrowers at a single contact point. The subject was discussed in the joint conference organized by National Federation of State Cooperative Banks and National Cooperative Land Development Banks Federation, on 12, 13 and 14 February 1982 at Bangalore. The Conference arrived at a consensus that there should be coordination in the spheres of operations and management at various levels and functional coordination at base levels between the two sectors.
Case for National Cooperative Development Bank and Emergence of NABARD:

While the efforts for strengthening cooperative credit structure were being made, there remained certain gaps in the system which were prone to intermittent erratic shocks in the dynamic economic setting and hence there was a need for a shock absorbing agency at the national level which will provide built-in stability to cooperative credit system. Such an agency had been envisaged in the form of National Cooperative Development Bank by the cooperative leadership in the country. The apex level cooperative organizations pursued the matter with the Government of India on the ground that the developmental financing functions could be best performed by a financing institution which is wholly developmental oriented. The need for a separate agency for the development of cooperative banking was more pronounced in view of the diversified functions the cooperative banking sector was expected to perform for the development of agriculture and allied sectors like dairying, poultry, pisciculture and also village and cottage industry. The establishment of such a bank was also justified on the grounds of reducing regional imbalances in the development of cooperatives, solving the problems of urban cooperative banks and strengthening the mutual arrangement schemes.

The RBI at the instance of the Government of India constituted a committee under the Chairmanship of Shri B. Sivaraman to review arrangements for institutional credit for agricultural and rural development in 1979. The Committee in its final report which was submitted in January, 1981, recommended the establishment of National Bank for Agricultural and Rural Development to look after the credit needs of agriculture and rural development in the multi-agency set up. The proposed NABARD started functioning from July, 1982.

During this period the credit cooperatives had done good work by meeting the credit needs of the farming community for agricultural purposes and allied activities. The short and medium-term cooperative credit sector’s performance had also been appreciable since
the credit disbursed by this sector had shown increasing trend. In 1977-78 when the short-term and medium-term loans amounted to Rs. 1270.46 crore which in 1980-81 increased to Rs.1991 crore. The National Commission on Agriculture in its final report had estimated that the requirements for short-term loans from all categories of farmers by 1985 would be Rs.7884 crore. Besides short-term loans, medium-term credit requirements for purposes like dairy, piggery, poultry, fishery and also village and cottage industry had also been estimated. This meant that the total short and medium-term credit need by the end of 1985 were to be of the order of Rs. 9000 crore of which the share of the cooperative sector was estimated at almost more than 50%. Considering the existing level of short-term and medium-term loan disbursement at Rs. 1991 crore, the sector had to make tremendous efforts for fulfilling the task.

3.3.7 The Seventh Stage—Restructuring (1985-1990)

Keeping, in view the objectives of the Seventh Five Year Plan a number of events took place with regard to the restructuring and strengthening of the cooperative movement in various sectors.

The institutional credit continued to play an important role in increasing agricultural production and in increasing the standard of living by helping the rural community to acquire assets for income generation. This was reflected in the relationship between GDP and loan outstanding. As a proportion of the GDP originating in agriculture, outstanding of such credit rose from about 22 per cent in 1980-81 to 32 percent in 1986-87. The performance of credit cooperatives during the Seventh Five Year Plan was not upto the expected level due to successive droughts during the first three years of the Plan.

- Agricultural Debt Relief Act (1989-90):

The Central Government passed the Agricultural Debt Relief Act 1989-90 which had far reaching impact on the working of total agricultural credit system in the country. This
Act provided for waiving of loans of all borrowers up to Rs. 10,000 and covered all overdues on 2nd October, 1989 including short term, medium term and long-term. The State governments had been assured by the Government of India of financial support to the extent of 50% of the amount covered in respect of borrowers from cooperative institutions. For enabling the State governments to tide over the resource crunch the scheme provided that the NABARD would provide loans with refinance from RBI to the cooperative banks to the extent of State government's share. These loans would be guaranteed by the State governments and carry an interest rate of 10% per annum and would be repayable in 3 equal annual installments. The share of the Government of India in respect of the amount written off by the cooperatives was to be routed through NABARD.

Reorganization of PACSs into Multipurpose Cooperatives:

As the operations of PACSs continued to be generally non-viable and weak, it was decided to reorganize them as multi-purpose cooperatives on the recommendation of CRAFTICARD. Initially, it had been planned to reorganize 5994 PACSs in 20 States and 2 Union Territories as multi-purpose societies. The programme had made steady progress in Kerala, Tamil Nadu and Uttar Pradesh.

The NABARD had also introduced a 15-point programme for the development of PACSs and LAMPS which was being implemented in 16 pilot project districts which had shown improvement in deposit mobilization and loan disbursement.

Some State Governments had also started schemes/programmes to strengthen the working of cooperative credit institutions at the base level. These schemes provided for State aid to PACSs for furniture, banking counters, training of secretaries, training of management committee members through mobile consultancy service, intensive monitoring through officials of cooperative departments/CCBs (Andhra Pradesh), group insurance scheme, scholarship to meritorious wards of farmers (Madhya Pradesh) staff
subsidy, rent subsidy (West Bengal) cash credit system with cheque book facility for members adopted in 1987-88 and implemented in 4901 PACSs (U.P.). In U.P. 623 mini banks had been established by converting PACSs and providing them each with Rs. 5000 as grant for infrastructural development. The Governments of Kerala and Rajasthan had provided for managerial subsidy. Guarantee cover for deposits mobilized, subsidization of the contribution made to the deposit guarantee fund, and subsidy to individual farmers who market their produce through the processing and marketing societies and other schemes were introduced in Kerala. In Maharashtra a few PACSs had been selected to be developed as model PACSs with the intention to reorganize all PACSs on the lines of the model PACSs.

A study sponsored by NABARD in 1986 noted that in spite of the reorganization of PACSs, most of PACSs continued to be non-viable due to low volume of business, increased establishment costs and high incidence of overdues. Based on these findings, NABARD had advised all State governments that a minimum loan business of Rs. 10 lakhs should be considered for treating a PACS viable and the same may be kept in view while organizing/reorganizing the PACSs in their respective States.

3.3.8 1991 and After

Until 1951 non-institutional agencies were providing 92.7% of the rural credit while the share of the commercial banks was less than 1% among the institutional agencies; the share of the co-operatives was the highest i.e. 3.3%. Among the non-institutional agencies private money lenders occupied the top position and their share was 69.7%. The picture was totally changed during the next 40 years. The share of institutional agencies increased to 66.3% by 1991 and that of the non-institutional agencies decreased to 30.6% from a level of 81.3% in 1951. The share of the co-operatives jumped from 3.3% to 23.6% and that of the commercial banks rose from 0.9% to 35.2%. During one decade i.e. during 1981-91 the share of the commercial banks increased from 23.8% to 35.2%, whereas the share of the co-operative banks in total rural credit during this decade
declined from 29.8% to 23.6%. The position of the private money lenders reached its bottom in 1991 when their share declined from 69.7% in 1951 to 17.5%.

Owing to the non-availability of any consolidated data, it is not possible to present an all India picture after 1991; but according to the survey conducted by the World Bank and the NCAER only 19.4% and 24% rural households accessed credit from formal sources in UP and AP respectively as against 44.1 and 32.6% of such households depending on non-institutional sources. Table 19.1 provides a picture of the main trends in the financial operations of cooperatives during the period 1992-93 to 2001-02.

From this table the following trends can be noted:

i. The PACSs continued to depend heavily on higher tier for resources and their progress and mobilisation of deposits were not satisfactory.

ii. Nearly half of the PACSs were running into losses.

iii. The percentage of recovery to demand in the case of PACSs was within the range of 65% and 68%, which means that nearly 1/3rd of the demand had remained in arrears in most of the years.

iv. Although the progress of district central cooperative banks in respect of mobilisation of deposits and issuance of loans was quite satisfactory, as many as 109 banks out of 367 in 2001-02 were running in loss and 144 banks were not complying with the minimum share capital requirement. The percentage of recovery to demand was within the range of 61% and 70%, which was quite low.

v. In the entire cooperative credit structure the position of SCBs was the strongest. Their recovery was in the range of 81% - 90% of the demand between 1992-93 and 2001-02. However, 8 SCBs were not complying with the minimum share capital requirement under the Banking Regulation Act 1949.

On an aggregate basis the credit cooperatives provided 40% of agricultural credit in 2003-04. While, the outreach and the quantum of funds provided by the credit cooperatives have been excellent; their health was undoubtedly weak. As on 31st March
2003, 144 DCCBs had eroded their owned funds as well as a part of their deposits. The deposits in respect of one SCB and 15 DCCBs had fully eroded. 130 DCCBs and about 50% of the PACSs were in loss. Accumulated loss of the short term cooperative credit structure was around Rs.9300 crore. Borrowing from the higher tier and lending to the lower tier has been the main function. Deposit mobilization from the members at all tiers has been unsatisfactory. Since the members' own money was not involved in the business of PACSs, they hardly took interest in their working.

The government continued to strive to improve the health of the cooperative credit structure. The Khusro Committee's recommendations had been received earlier but were considered by the government in 1992 and efforts were made to impress upon the State Governments to take necessary steps in this direction. In 1994 the National Federation of State Cooperative Banks organized a national conference on short term cooperative credit structure and its recommendations were made available to all. A Working Group on Agricultural Credit and Co-operation was constituted by the Planning Commission in 1996 under the chairmanship of Sh. P. Kotaiah, the then chairman NABARD. In 1996 the Ministry of Agriculture, Government of India constituted a Study Group on Strengthening of Rural Credit Structure under the chairmanship of J.N.I. Srivastava. In the following year the Government of India constituted an Expert Group. In 1998 a National Conference on Cooperative Rural Credit was organized jointly by NABARD, National Federation of State Cooperative Banks and National Cooperative Agricultural and Rural Development Banks Federation. In 2000 the Government of India constituted a Task Force to study the Cooperative Credit System under the chairmanship of Jagdish Capoor, Deputy Governor, RBI. In the same year NABARD constituted an Expert Committee on Rural Credit under the chairmanship of Dr. V.S. Vyas. In the following year the Planning Commission constituted a Working Group on Agricultural Credit Cooperation and Crop Insurance under the chairmanship of Dr. S.S. Sisodia, Chairman, NCUI and a Task Force on Agricultural Credit was appointed by this Working Group, in connection with the formulation of the Tenth Five Year Plan. In the same year a Joint Committee on Revitalization support to Cooperative Credit Structure under the
Chairmanship of Vikhe Patil was appointed by the Government of India. In the following year a committee was constituted under the chairmanship of Anand Geete, the then Union Minister of State for Finance, to examine the issues pertaining to agriculture/rural credit and implementation of Kissan Credit Card Scheme. In 2004 an Advisory Committee on Flow of Agricultural Credit was appointed by the Government of India under the chairmanship of Dr. V.S. Vyas.

Another important development of this period has been the enactment of the Multi-State Co-operative Societies Act, 2002, after repealing and replacing the MSCS Act of 1984 to facilitate the voluntary formation of and democratic functioning of cooperatives as Peoples' Institutions based on self-help and mutual aid and to enable them to promote their economic and social betterment and to provide functional autonomy and for matters connected therewith or incidental thereto.

Some of the important provisions made in the Act are given below:-

i. Simplification of procedure for registration and provision for deemed registration.
ii. Deemed amendment of bye-laws.
iii. Promotion of subsidiary organizations.
iv. Separate chapter for federal cooperatives with provision for registration, their duties and functions.
v. Enlistment of subjects on which the general body meeting could deliberate.
vi. The responsibility to conduct timely election given to the society. If the society failed, the Registrar, has been conferred with the power to conduct the election at the cost of the society.
vii. Prohibition to hold office of chairman or president etc by members after becoming Minister, MP, or MLA.
viii. The nomination of Central or State Government on the board of cooperative society restricted to one where the share capital of the government was less than 26% and to a maximum of three where it was 51% or more.
ix. Codification of the powers and functions of board and chief executive.

x. Prescription of express grounds for disqualification of members.

xi. Permission for investment of funds by a cooperative in other cooperatives.

xii. Redemption of shares on their face value.

xiii. Prohibition of contribution to any political party.

xiv. Societies vested with the power to appoint qualified chartered accountants/departmental auditors for timely conduct of audit.

xv. Conferment of power upon Central Government to direct special audit in specific cases of societies where government share capital contribution was 51% or more.

xvi. Power of the Registrar to conduct audit and carry out inspection has been removed. However, the Registrar was vested with power to conduct inquiry and carry out inspection on specific request from members, creditors etc. with prescribed majority...

xvii. Government was vested with the power to supersede the management committee of only those cooperatives which have 50% or more share capital contribution by government for reasons specified in the Act.

xviii. Other developments of this period, related to the financial sector reforms concerning with the cooperative credit and banking institutions, were:

(a) The Prudential Norms for Income Recognition, Assets Classification and Provisioning were introduced for Cooperative Credit and Banking Institutions.

(b) The SAO Policy of NABARD towards Cooperative Credit Institutions was transformed from rigid norms to flexible and on merits.

(c) Government initiated measures to encourage NGOs / SHGs as a part of micro-finance.

(d) NABARD Act was amended to allow direct refinancing support to DCCBs.

(e) Cooperatives were advised to issue Kissan Credit Cards, and they have issued almost 65% of the total cards.
• Report of Vaidyanathan Task Force:

The Government of India, in the Ministry of Finance appointed an 8 Member Task Force under the chairmanship of Prof. A. Vaidyanathan on August 5, 2004, (i) to recommend and implement an action plan for reviving the rural cooperative banking institutions; (ii) to suggest an appropriate regulatory framework; (Hi) to make an assessment of the financial assistance, the cooperative banking institutions will require for their revival and; (iv) to suggest other measures required for improving the efficiency and viability of rural cooperative credit institutions.

On the recommendation of the Task Force the government declared the Revival Package of Rs. 15000 crore, subject to conditions of several legal and institutional reforms. The government's intention was to provide financial assistance to these cooperatives to enable them to function as autonomous member-regulated and member-governed business organizations. These reforms aimed at enabling these cooperative credit institutions to have wider access to financial resources and investment opportunities, to eliminate geographical boundaries in operations as well as mandated affiliations to federal structure and to provide administrative autonomy to cooperatives at all levels.

Besides providing resources for covering the accumulated losses in the PACS/FSS/LAMPS the package also provided assistance to increase the capital base and owned funds of these institutions taking them to a minimum level of Capital to Risk Asset Ratio (CRAR) of 7%. The government also decided to provide computer to all cooperative credit institutions.

The process of implementing the Package has already started in a number of States with the signing of the MOU between the GOI, the State Government and NABARD. Gujarat, AP, MP, Orissa, Rajasthan, Uttarakhand and UP are the states which have fallen in line. Before providing financial-assistance to the cooperative credit societies, a special audit is to be carried out to identify the real amount of accumulated losses and the origin
of these losses. Since different accounting practices are being used by cooperative institutions, the Task Force, to ensure transparency and prudent accounting methods, has suggested adoption of common accounting practices in all the institutions. Since human resource is the foremost input in any service providing business organization, the Task Force has given special emphasis, to the training of the employees as well as the directors. The NABARD has started the exercise of designing various training modules in consultation with the training institutes. Since the chief objective of training is to change the mindset of management and work force, systematic and well managed efforts are being made for the adoption of latest management techniques and information technology. As recommended by the Task Force, the NABARD has assigned the major responsibility of training to the NICM. The Institute has already conducted more than 10 trainers training programmes on special audit of the cooperative societies and more than 25 training programmes on capacity building for secretaries of PACSs. The Institute has also conducted five programmes for the special auditors, panel auditors and the master trainers on special audit of the cooperative societies.

The government has made it clear that the current financial package was the last support for the cooperative credit institutions and no government support will be given to them in future. Another important development of this period has been the introduction of the constitution amendment bill in the Parliament in May, 2006, which is still pending for enactment.

The most significant event of this period has been the announcement of a debt wavier and debt relief scheme in the Union Budget for 2008-09. The scheme is estimated to cover 30 million small and marginal farmers and 10 million other farmers at an estimated amount of Rs.60,000 crore. The scheme covers; (a) all agricultural loans disbursed by Schedule Commercial Banks, Regional Rural Banks and Cooperative Banks upto 31st March, 2007 and overdues as on 31st December 2007; (b) all loans of small and marginal farmers that were overdue on 31st December, 2007 and which remained unpaid until 29th February,
2008; and (c) one time settlement scheme for other farmers during the same period, with a rebate of 25% against payment of the remainder of balance amount of 75%.

Although the scheme has been announced no budgetary provision has been made. Moreover the exercise to know the exact number of farmers and the issues of how to provide equivalent liquidity to the lending financial institutions are yet to be solved. However, there is also the question of payment of interest on the loans/debt remission; whether the Centre or the States will compensate the cooperative banks with regard to interest payment? Then there is the question of the compensation to those farmers who have defaulted in repayment of cooperative loans because of the difficulties created by drought which is a common happening in the dry regions owing to failure of rains. Further, it has been observed that many borrowers of the cooperative banks have stopped payment of their loans after the announcement of the loan waiver scheme, which has created a serious problem for the management of these banks. The linkage between self help groups and banks is a very good development since the target groups under the programme comprise of small and marginal farmers and landless laborers and small artisans. But, it is sad to know that these groups have no linkage with the cooperative credit system. It would be helpful if these groups are developed as a subsystem of the cooperative credit system.

3.4 Primary Agricultural Credit Societies

3.4.1. Origin of Primary Agricultural Cooperative Credit Societies

A large majority of the village banks were first organized in India on the Raiffeisen model. Their chief features were: (i) limited area; (ii) shares of small value; (iii) permanent indivisible reserve fund; (iv) unlimited liability; (v) loans for productive purposes; (vi) loan only to members; (vii) credit for relatively long periods with facilities for repayment by instalments; (viii) determination of the limit of the maximum credit that may be held by an individual member at any time, as well as of the maximum total savings, deposits receivable and of loans that may be taken up by the society; (ix) absence
of profit making; dividends being limited to the rate of interest paid by borrowers for
loans; (x) office-holders, except the secretary, were not paid; (xi) promotion of moral as
well as material advancement of the members.

The banks had the following objects:

i. To borrow funds from members as well as others to be utilized for giving loans to
   the members for productive purposes;

ii. To act as the agent for the joint supply of agricultural, domestic and other
    requirements of the members, and for the joint sale of the produce;

iii. To purchase and own implements, machinery or cattle for hire to the members;

iv. To disseminate knowledge of the latest improvements in agriculture, handicrafts,
    etc.; and

v. To encourage thrift, self-help and cooperation among the members.

New rural credit societies are generally organized by non-official agencies such as local
cooperative unions with the help and assistance of the departmental officials. These
societies are organized either on unlimited or limited liability basis. The following are
some of the important details about the organization and structure of these banks:

i. Area of operation and size: There has been a general unanimity among the leaders
   of the cooperative movement and other thinkers that the field of operation of the
   society/bank should be sufficiently restricted to allow members to be mutually
   acquainted and to be in a position to exercise an effective mutual control.
   According to the Maclagan Committee, "it is a good general rule that there should
   be one society to one village and one village to one society." The Cooperative
   Planning Committee (1946), however, did not favor the idea of the small size of
   the bank and emphasized that this was one of the various factors responsible for
   the limited progress of the cooperative movement in the country. The All India
   Rural Credit Survey Committee (1954) also recommended the organization of
   large-sized societies. They said," It is the considered view that the formula of 'one
society to one village and one village to one society’ has failed in India as the basis for the organization of cooperative rural credit." In short, there have been two schools of thought emphasizing two different aspects of cooperation.

ii. One school emphasized the moral and ethical aspects while the other, the business aspect or the 'viability' aspect of the cooperative organizations. The position, however, remains that both are complementary to each other and one aspect cannot be separated from the other. As regards the viability of a cooperative society, the following broad criteria can be kept in view:

(a) Ability to employ paid secretary;
(b) Ability to have owned or hired office;
(c) Ability to contribute adequately to statutory and other reserves;
(d) Ability to declare dividends.

3.4.2. Sources of Funds

The working capital of a rural primary credit society is composed of (a) paid up share capital; (b) deposits; (c) loans; and (d) surplus assets or reserve funds.

(a) Share Capital:

The share capital of a society is divided into units, called shares, contributed by the members, the ownership of which determines the rights and obligations of the holder to the society and its creditors. Broadly speaking, the value of the share represents the interest on a principal measured by a sum of money and also the various rights which the member concerned enjoys. The primary societies issue only ordinary shares to their members. In the case of unlimited liability societies, the value of shares used to be very small, but now emphasis is being laid on raising sufficient share capital to provide a strong financial base. There are various reasons for this. The primary credit society
requires huge finances for meeting the requirements of the members. Simultaneously, the members have also certain responsibility towards the society which is based essentially on the principle of mutual help and self-help and, therefore, every member has to fulfil that obligation. The share capital held by a member is the measure of his stake in the financial stability and soundness of the society. It is also a measure of the attachment that the member has with the society. Again, the larger the share capital, contributed by the member, the more is the interest he takes in the affairs of the society. In short, it goes a long way in creating the sense of responsibility and fostering spirit of loyalty among the members. So far as the society is concerned, it is able to contribute adequate funds to the share capital of the higher federal institutions. A strong share capital base also inspires greater confidence among the creditors and reduces reliance on outside funds. Lastly, it marks the beginning of 'thrift' which is the self-generating force of finance in the field of cooperative banking.

A strong share capital base acts as a shock absorbing cushion so that the shock of overdues is absorbed and the liquidity and the financial stability of the institution are not affected. But certain cultivators may not be able to contribute their share all at once. The primaries, therefore, will have to find sufficient funds to meet the necessary requirements of the members, and hence they will have to depend on outside help. The All India Rural Credit Survey Committee and the V.L. Mehta Committee recommended that the government should contribute to the share capital of the credit societies, indirectly at the primary level and directly at the secondary level. The contribution of the State towards the share capital of the primary societies will depend on the following considerations: (a) the extent of partnership; (b) duration of partnership; (c) the financial obligations of partnership on the society; (d) the State control over the society's management; and (e) whether it should be direct or indirect. The All India Rural Credit Survey Committee suggested 51 per cent State contribution to the share capital on a matching basis. According to the V. L. Mehta Committee the range of this contribution should be between Rs. 1,000 and Rs. 10,000. The duration will depend upon the circumstances of the institution and the area. The government will have the same rights, privileges and
obligations as are available to other shareholders. State's nominees to the Board of Management shall not exceed 1/3rd of the total strength.

(b) Deposits:

Deposits of members' savings is the most important source of finance of primary credit societies. It is the primary duty of these societies to mobilize rural savings and for this purpose they must be able to inspire confidence and invoke local interest. It is, therefore, necessary that they be strengthened and their activities be diversified. It can be possible only when they are made viable units and are managed efficiently and honestly. But in view of the fact that the rural people with some savings are tempted to lend privately to earn higher interest rather than deposits they make with the cooperative societies, the interest rates of society's deposits have to be higher and attractive.

(c) Borrowings:

The primary credit societies depend largely on borrowings. It is the most important element of their working capital. The borrowings of the societies are based on some criteria which differ from— State to State according to their liability.

The maximum borrowing power of unlimited liability societies is fixed in the general meeting. It is generally fixed at 1/6th or 1/8th of the value of the total net assets of the solvent members which is certified by the Panchayatdars of the society. For this purpose the society maintains a 'Haisiat Register', which is subject to revision every year. Credit limit is fixed by the Registrar or the Central Cooperative Banks on the basis of a number of factors such as total assets of the members, their income, their repaying capacity, owned funds of the society, its audit classification, re-payment performance, etc. In certain areas the limit for a society is the sum total of the limits fixed for individual members in the general meeting. In U .P. the borrowing limit of a society is fixed at its
general meeting with reference to the needs of a society and the assets of the members. Sometimes absolute limit in terms of exact amount is fixed.

The maximum borrowing power of limited liability societies is generally fixed in the rules and bye-laws at certain multiples of the owned funds. Thus, what the net assets of members are to an unlimited liability society, the owned funds are to a limited liability society. In Maharashtra, it is 8 times of the paid up share capital and accumulated reserves and building funds minus accumulated losses. In U.P. it should not exceed 10 times the owned capital without the sanction of the Registrar. In West Bengal, the maximum borrowing power is fixed at 10 times the paid up share capital plus separately invested reserve fund. In Bihar, it is 10 times the share capital actually subscribed plus reserve funds. In Punjab, it is fixed at 10 times the owned funds excluding the borrowings from members. In Tamil Nadu and Andhra Pradesh, it ranges from 8 to 10 times of the owned funds. Though the borrowing limits are fixed under rules and bye-laws or by the Registrar, the central or financing banks have a say in the determination of such limits.

To achieve the required success, it is essential that the credit and production schemes may be properly inter-linked. The programme of credit expansion has, therefore, been re-oriented to suit the needs of agricultural production programmes. Credit has been linked with production/requirements on the one hand, and with marketing on the other. Rules, bye-laws and procedures have been liberalized so that the credit facilities are adequately provided to all farmers by the village societies on the basis of their production requirements, but with due reference to their repaying capacities, and such qualities as interest, integrity and industry. Proper utilization and recovery of loans are also important. This entails the task of the examination of standards that may justifiably be adopted in fixing credit limits in cooperative credit institutions. Factors which help in making the institutions more credit-worthy will have to be taken into account in this context. Owned funds are important since they inspire confidence in the creditors and serve as a margin of security and shock-absorbing cushion for overdues. The second factor, important from the creditor's point of view, is the proper utilization of loans. Other
factors, like arrangements of supervision and recovery of dues from individual members from the sale of crops raised by them will also strengthen the confidence of the creditors. These standards may vary from place to place and from time to time, but on the whole, the credit needs may be more under certain circumstances, particularly, where cultivating tenants have to be admitted. In view of all these factors, the V.L.; Mehta Committee recommended that the Registrars of Cooperative Societies may be authorized to fix the maximum credit limit of a limited liability society between 10 times to 12 times of its owned funds and of an unlimited liability society up to 1/6 of the value of the net assets of the members after taking into account the various factors indicated above. This will have to undergo a periodical review to assess the performance of the societies.

In certain States the financing banks require cent per cent repayment by constituent societies before advancing fresh loans. In case of default no fresh loans are given. Such a condition is too rigid and amounts to punishment to the honest members of a society in default, who have repaid their entire dues to the society. It is quite reasonable that the members who have not defaulted should get adequate production credit. Certain standards should, therefore, be prescribed by the central cooperative banks, after taking into consideration the local circumstances.

- **Financing by Commercial Banks:**

The scheme of financing the operations of primary credit societies by commercial banks was introduced in 1970 in the States of Andhra Pradesh, Haryana, Madhya Pradesh, Karnataka and Uttar Pradesh where the central cooperative banks were rather weak. There were two major objectives of this scheme: firstly, to fill up the production and investment credit gaps with respect to the requirements of small farmers and secondly, to improve the working of weak central cooperative banks. The scheme was also meant to revitalize the societies by increasing their membership and business. It was purely temporary in nature in the sense that the societies ceded to the commercial banks would revert to respective central cooperative banks as soon as they are strengthened through
the rehabilitation programme. By the end of 30th June 1978, 21 commercial banks had adopted 3241 primary credit societies but actually only 2863 societies were financed. The number of villages covered by these societies was 31,078. Their membership stood at 25.19 lakhs of which 6.20 lakh members borrowed from them in 1977-78. The total amount advanced by these societies during 1977-78 was Rs. 33.14 crore.

The Banking Commission conducted a survey which highlighted some of the problems faced in the actual implementation of the scheme.

(i) The commercial banks had to undertake heavy responsibilities when they financed primary credit societies like the preparation of credit limit statements, execution of documents, ensuring proper use of funds and their recovery, taking legal action against defaulters, maintenance of books of accounts, etc.;

(ii) The efforts undertaken by the banks for increasing the membership did not bring about commensurate results since they received very little support from the managing committees;

(iii) Though larger volume of funds flowed through the societies than in the past, there was no significant increase in the finance reaching the small farmers;

(iv) Since the membership remained low, the benefit of commercial banks' finance reached a relatively small proportion of local producers; (v) the high ratio at which share capital was collected from borrowers discouraged farmers from becoming members;

(v) Though, the credit limits were fixed according to the scales of finance prescribed under the crop loan system, loaning was essentially security-oriented and those who owned larger holdings were able to get large sums of money without any obligation to use them for the purpose for which the loan was obtained;

(vi) The banks discovered that the recovery was not easy because they had to depend on local office-bearers, the cooperation of whom was not always available; and
The commercial banks had not succeeded in mobilizing savings through the societies supported by them.

3.4.3. Functions of Primary Agricultural Cooperative Credit Societies

Prior to 1959, the primary credit societies have been mainly the agencies to provide short-term credit to their members for productive purposes. In May 1959, the Government of India appointed a Working Group on Cooperative Policy which indicated the broad functions of these societies as under:

"The primary functions of the village cooperatives will be the provision of short and medium term credit, supply of agricultural and other production requirements and the marketing of agricultural produce. In addition to these functions, the cooperatives will help firmly and implement a plan of agricultural production for the village and undertake such educative, advisory and welfare work as the members might be willing to take up."

Broadly speaking, the main function of a primary credit society is to accept deposits and give loans. A cooperative credit society lends only to solvent, credit-worthy and eligible members. In the beginning, these cooperatives only lent to the peasant proprietors or to the land-holders on the security of their lands. Consequently, the cooperative credit percolated very little to the small and needy cultivators. But this practice was stopped, soon after the realization that "the requirements of small and medium cultivators who constitute the bulk of the agricultural community should be constantly studied and form part of the credit policy for agricultural development." Now, the emphasis is gradually shifting from the tangible assets to productive requirements, and from the credit-worthiness of the person to the creditworthiness of purpose.

Loans are generally sanctioned to the farmers for short-term, medium-term and long-term. Short term loans are given for seasonal agricultural operations, such as purchase of seeds, fertilizers, insecticides, pesticides, transplantation, small repairs, etc. Medium-term
loans are given for purchase of cattle, pump-sets, agricultural implements, cattle sheds, etc. Long-term loans are given to the farmers either for the redemption of old debts or for effecting permanent improvement and development of lands, for the purchase of land, for machinery, reclamation of land, sinking of tube-wells, construction of permanent irrigation channels, etc. Short-term loans are given for periods ranging between six months and one year, medium-term loans for periods ranging between 3 and 5 years and long-term loans for periods ranging between 15 years and 24 years. In certain countries, long-term loans are granted even for 30 years and 75 years.

The primary society does not advance loans to members limitlessly. It fixes the credit limit of each and every member on the basis of certain criteria, like (i) the purpose of the loan; (ii) the standing and character of the applicant; (iii) his repaying capacity; (iv) the security he can give; and (v) the number of shares he holds. These criteria differ from State to State and sometimes even within the same State.

In view of the large coverage and paucity of funds of the primary societies absolute limits in terms of definite amount have been fixed in the rules and bye-laws in almost all the States in the country. Thus, limits may vary from security to security. Loans borrowed against the pledge of produce and fixed deposits are excluded for the purpose of calculating the maximum borrowing power of the members. The credit limit based on shareholding alone may encourage non-cultivating land-holders to borrow more and more money which may be used for their private lending on higher rates of interest than for productive purposes. So, the credit limits must also take into account the production requirements. An ideal credit limit must be related to the shares held by the members, on the one hand, and with member's land area which he wants to cultivate and the type of crops which he wants to raise on that, on the other. The method and scale of farming may also be kept in view, while fixing the credit limit.

Generally, there is no separate credit limit for the medium-term loans and the same credit limit covers both short and medium-term loans. However, in certain States, on the
suggestion of the Reserve Bank of India certain ratios have been fixed between short and
medium-term credit. Since the emphasis is laid on increasing agricultural production the
limit for medium-term loans is kept as low as possible.

Short-term loans are given against the guarantee of one or two or more members for a
certain amount and above that against the mortgage of land. For quite some decades, even
the surety loans were given only to land-holders, but later changes were introduced in the
State Acts.

As already stated, in cooperative loans it is the credit-worthiness of purpose and not of
the borrower, which matters. Under the conditions prevailing in practice, even the best
tenant cultivator requiring loans for a credit-worthy purpose, however industrious and
honest he might be, cannot get a loan since he is not a land-owner nor can he furnish a
surety of land-owners. Obviously, this practice adversely affected agricultural production
and led to the failure of cooperative credit movement. The Agricultural Finance Sub-
Committee recommended that the credit-worthiness of a member should be assessed on
the basis of his repaying capacity. The All India Rural Credit Survey Committee
recommended the adoption of crop loan system in which: (i) production was the main
purpose of the arrangements of finance; (ii) short-term loans were to be given on the
basis that a crop was anticipated, not primarily that a title existed; (iii) the loans were
related in amount to the estimated outlay in raising the crop; and (iv) the recoveries were
to be made, as and when the crop was sold, from the proceeds of the sale.

For medium term loans, the security was, usually, the mortgage of land, in U.P, West
Bengal, Assam, Mysore, Andhra Pradesh and Kerala. In Maharashtra, Andhra Pradesh
and Rajasthan the borrowers created a charge on their lands in favour of the society.
Almost in all States, the cooperative land development banks took first mortgage of
unencumbered lands from the borrowers.
3.4.4. Utilization of Loans

It was observed that a large proportion of loans was not actually utilized for the purpose for which it was obtained. The Programme Evaluation Organization of the Planning Commission conducted a survey which revealed that about 28% of credit was diverted to purposes for which it was not intended. It was also revealed that as much as 23% was used for non-agricultural and nonproductive purposes. It was also found that even the loan given to the farmers for the acquisition of land or other assets or for the improvement of agriculture was used for non-productive purposes. This percentage was as high as 35 in the case of medium-term loans. This situation was largely prevalent in Rajasthan, Orissa, Kerala and West Bengal in so far as a short-term credit was concerned. In Andhra Pradesh, Tamil Nadu, Punjab, Rajasthan, Uttar Pradesh, Assam, Orissa and Kerala the percentage of diversion in the case of medium-term loans was higher among non-cultivators than among the cultivators. Such diversion of loans occurred due to lack of strict supervision over the utilization of loans by the members. Neither the members of the managing committee were watchful nor the inspectorial staff of the societies. So far as the staff was concerned, they were actually heavily burdened with multi-purpose responsibilities. Again, the loans were advanced throughout the year and were not linked with the crop. Thus, it was not strange if the meagre resources of the cooperatives were channelized to unproductive purposes.

3.4.5. Crop Loan System

When it was decided to reorganize credit societies in the country it was decided that they should re-orient their operational policies so that credit was production-oriented, its use was supervised and its recovery was regular, and would coincide with the harvest time. The credit societies were expected to advance loans on the basis of what is called "the Crop Loan System". According to the Rural Credit Survey Committee the following were the special features of the system: (i) these loans were chiefly for productive purposes; (ii) short-term loans were given on the basis of anticipated crop and not on land or any
tangible security; (iii) loans were related in amount to the estimated outlay on raising the crop; (iv) recoveries were made as and when the crop was sold.

This system was intended to ensure that the farmers were given loans with reference to their production requirements in cash and kind; no cultivator would be denied any loan because he did not use fertilizers. The size of the loan would be determined by the rational assessment of the needs related to the productive activity undertaken by the farmers. The credit requirements of each farmer would be assessed on the basis of the acreage and the cost of cultivation of the crops grown, subject to the repaying capacity. Thus, production and marketing were to be linked together. Since the disposable security of an Indian farmer is generally small, the produce raised by him with the help of credit provided to him can best serve the purpose of security from the point of view of the financing institutions and hence the emphasis was to be given to productive needs and productive uses. Thus, it would be seen that the size of the loan was not to be determined by the fact of ownership of land or by the value of tangible security but by the fact that (i) he is a bonafide cultivator; (ii) he requires credit for undertaking production; and (iii) that he is able to repay the loan out of his production. Since the recovery of loan was expected to be made from the sale of the crops, it followed that the advances should be confined to the period shortly before sowing and ending shortly after the harvest. During the season, a cultivator might also be helped to meet the cost of seeds, fertilizers, weeding, harvesting, etc. Seasonality was also necessary in the recovery of loans and, therefore, the due date had to be so fixed that it was neither distant from the harvesting season nor the period was so short that the cultivator could not dispose of his produce at a reasonable price.

It was, however, observed that there was a considerable diversion between the accepted principles and the actual practice in so far as the implementation of the crop loan system was concerned. The All India Rural Credit Review Committee found that in many cases the scales of finance did not conform to the prescribed formula, the disbursement of loan in kind was negligible, seasonality in lending and recovery was hardly observed, that the
A common defect in the implementation of the programme was that the scales of finance had been generally fixed at a very high level. This was particularly true in respect of the cash component fixed for taking care of the outlay on cultivation according to traditional methods. Consequently, it led to over-financing and the use of loans for unproductive purposes. Under the programme the loan was to be given in kind, but in practice, the authorities had been facing a number of difficulties; firstly, members were not willing to accept the loan in kind; secondly, adequate quantities of agricultural requisites were either not available or did not reach in time; thirdly, there was lack of coordination between the society and the persons in charge of the distribution of fertilizers, etc., and lastly, there was an overall shortage of fertilizers. Though the principle of seasonality was generally accepted, it was not implemented in practice. As a matter of fact, this principle had not been applied because of the resistance of the farmers. The farmers generally complained that they were not allowed adequate time between harvest and sale. Moreover, the adherence to this principle did not allow book adjustment which can be possible only when lending follows repayment, after a short interval. It was well known that the success of the implementation of the programme largely depended on the fact that loans were to be provided on personal security and statutory charge on the crop, but in most of the States this had not been given effect to. Since credit was not linked with marketing, the crop loan system did not succeed to the desired extent. Although in a number of States agreement had been entered into by the members for selling their produce through the marketing societies, in practice, such agreements were not taken seriously. The success of the system depended upon the fact that least possible time was
taken at different stages: but in practice, it was observed that at every stage long time was taken to process the application, to scrutinize and verify the particulars and to sanction and disburse the loans. In majority of cases the loan applications were found to be incomplete, the supervisory staff was also not adequate and in some other cases delays arose owing to the insistence of the Board of Directors for sanctioning the loan themselves. In short, the crop loan system had not been implemented properly and successfully owing to the difficulties enumerated above. It was, therefore, imperative for all concerned to cooperate wholeheartedly in eliminating these defects so that the flow of credit and expansion of agricultural activities were facilitated

3.4.6. Recovery of Loans

Recovery of loans is the responsibility of members of the Managing Committee and office-bearers with the help of bank supervisors and government staff. The Cooperative Societies Acts of the various States contain provisions for summary disposal of cases of default, etc. by the Registrar, Cooperative Societies. Generally, these powers are delegated to the District Cooperative Officers or Assistant Registrars, but nothing will happen unless arrangements are made for expeditious execution of awards and decrees. Certain State Acts have provided for the execution of awards passed by the Registrar through the Revenue Department or Civil Courts. But the experience has not been satisfactory. The cases are not wanting when the executions have been delayed for years together. The Committee on Cooperative Credit (1959) recommended that steps should be taken to amend the Cooperative Societies Act wherever necessary so as to vest in the Registrar also the powers to execute the decrees passed for the recovery of cooperative dues.

Timely repayment of loans advanced by the credit societies to their members is extremely crucial for the success of the movement. It has, however, been observed that punctuality in the repayment of loans has hardly been observed by the members with the result that there has been a steep rise in the amount of overdues all over the country. It has been a
matter of serious concern to all concerned. The Planning Commission in the draft document of the Fifth Plan had also drawn attention to this problem. According to the All India Rural Credit Review Committee, "it is the failure in this respect that mainly accounts for the stagnation or recession which has been witnessed in recent years in several States." It will not be out of place to mention that the problem of Overdues has been in existence almost since the inception of the movement, although it had considerably eased during the Second World War period. In the post-war period it again assumed serious proportions and the position can be known from the fact that from an amount of Rs.6 crore in 1950-51, they had mounted up to Rs.2,874.48 crore in 1989-90.

It has been pointed out that these figures of overdues did not depict a true picture since in most of the cases figures had been distorted or manipulated mainly under pressure from official members. It is needless to emphasize that these overdues had accumulated chiefly because of: (i) ineffective supervision; (ii) apathetic attitude of the central cooperative banks; (iii) finances being made available from different sources; for example, the seeds and fertilizers are distributed by the Department of Agriculture, tacaavi loans are given by the Revenue Department, Marketing Societies provide production and pledge loans, etc.; (iv) the advancement of loans in contravention to rules; (v) the undue pressure exercised by political leaders and unsatisfactory management by the managing committees; (vi) the liberal attitude of the State Governments; (vii) failure of crops; (viii) low rate of interest; (ix) non-linking of credit with marketing; (x) defective loan policies, etc.

To improve the situation it is necessary that these defects are removed immediately and not only supervision is made effective but strong action is taken against defaulters. The All India Rural Credit Review Committee had made exhaustive recommendations in this regard which *inter alia* included:

(i) The borrowers, the extension staff, the administrators, the political leaders must be educated and brought to discipline so that the credit is used for the
purpose for which it is advanced and loans are repaid out of the incomes resulting from the production activities financed through such loans;

(ii) The central banks having heavy overdues must be rehabilitated. A programme may be introduced under which a serious drive for the recovery of dues may be launched which may be accompanied by coercive measures. In extreme cases, the temporary method of direct financing of the societies by the State cooperative banks and of individual cooperative banks may also be tried;

(iii) Measures should be taken to streamline and reform the policies and procedures followed for advancing loans;

(iv) The apex and central cooperative banks should launch a drive in their area of operation for the recovery of dues;

(v) A careful watch may be kept over the due dates, by the Central Cooperative Banks;

(vi) The State Cooperative Societies Act may be amended so as to provide for the execution of decrees by the Cooperative Department without the help of the Department of Revenue;

(vii) The staff of the Cooperative Department and the Central Cooperative Banks should be watchful in pursuing action on overdues, obtaining decrees and executing them. The position should be reviewed and additional recovery staff may be appointed wherever necessary;

(viii) The Cooperative Societies Acts may be amended so as to empower them to initiate action on their own against defaulting members;

(ix) Although the Registrar of Cooperative Societies is empowered to supersede an inefficient management, in practice it has been found that it is not always possible to dislodge them from the seat of power because of their being entrenched in the local set-up. In such a situation the financing agencies, wherever practicable, should be given a significant representation on the managing committee after its supersession and pending the restoration of a duly elected board of directors;
The cooperative department and the banks should exercise the utmost vigilance to see that the book adjustments are genuine;

The cooperative acts and rules must be amended so as to include a provision for disqualifying defaulters and representatives of defaulting societies from continuing on the board of directors, if such a provision does not already exist; and

The defaulters should be debarred and should not be financed; even the government should not advance any financial assistance either in the form of fertilizers or in any other form.

The Study Team on Overdues of Cooperative Credit Institutions appointed by the Reserve Bank India (1974) had also given a number of suggestions in this regard. It had emphasized the creation of viable units at the primary level. The Study Team also stressed that, State Governments should not unduly interfere in the recovery of dues. On the contrary, they should deal with such cases with a strong hand and adopt coercive measures with the full backing of the revenue authorities to create the appropriate climate for recovery, otherwise the remedial measures proposed by us for adoption in the sphere of legislative amendments, administrative and managerial changes, and structural reforms will have little significance and impact on recoveries."

3.4.7. Supervision and Audit

Supervision implies control over the affairs of the cooperative societies to ensure that they are following the Acts, Rules and Bye-laws in their operations and in the best interest of the members. It involves administrative assistance in routine work, financial, managerial and technical guidance and also corrective measures. It includes such functions as would ensure the regular maintenance of books and accounts of the society, preparation of loan applications, examination of account books, and other registers, rectification of defects, holding of meetings, revision of property statements, assisting in
The arrangements for supervision differ from State to State. Broadly speaking, two distinct systems are in vogue. The supervisory staff is either under departmental or institutional control. The actual person who remains in close touch with the societies for supervision and guidance is the supervisor or bank inspector. In certain States, these supervisors are the staff of the Central Cooperative Bank and in some States they are government staff attached with the banks. Experience has shown that the institutional supervisory staff has proved better. The reason is that they have got stake in the business of the financing banks. Their failure or inefficiency can be immediately punished. The government supervisors, though attached with the bank and placed under the control of the Secretary of the bank, have no permanent stake in the business of the banks since they are transferable. Audit is the statutory responsibility of the Registrar of Cooperative Societies.

- **Reorganization of PACSs into Large-sized Societies:**

The organization of cooperative credit like any other business has a wider bearing on the achievement of its objects. Hence, it has always attracted the attention of experts and has been subject of critical scrutiny from time to time. The old orthodox school has been emphasizing the formula of limited area of operation and size of the society. The All India Rural Credit Survey Committee, in 1954, laid greater emphasis on the viability of the units at the village level. During the Second Five Year Plan, 10,500 large-sized societies were to be organized all over the country. All the States went ahead with the scheme of reorganization, until the National Development Council resolution following the report of the Working Group on Cooperative Policy, regarding the size and the area of operation of the village society decided to stop it. Thus, a shift in the policy took place before the end of the Second Five Year Plan. Further organization of the large-sized societies was stopped. Then the Mehta Committee evolved a compromise formula giving
emphasis on the ideological as well as the business aspect of the societies at the village level. The existing large-sized cooperative societies, in addition to financing seasonal agricultural operations, are issuing produce pledge loans, jewel loans and loans against fixed deposit receipts; they may cater to the members' requirements for essential consumer goods, agricultural requisites and implements, etc., and may be managed by whole-time paid staff.

It may not be irrelevant to analyze the causes responsible for the existence of such a large number of dormant societies within the jurisdiction of the Indian Cooperative Movement. The most important factor leading to this situation has been the inefficient management of the societies. Most of the societies do not have any full-time trained secretaries and more often than not, the honorary secretaries have not acted in the best interest of the societies. Secondly, inadequate supervision has also been responsible for this situation. The phenomenal increase in overdues and lack of promptness in taking any action against persistent defaulters have also made a number of societies dormant. Thirdly, while organizing the societies it was never taken into consideration whether it would be possible for the society to become a viable unit. Consequently, most of the societies ceased to function after working for a year or so. Fourthly, the most bitter fact about the whole matter is that a large number of societies were set up during the Second and Third Plan periods merely with the object of fulfilling the targets, without any spade work or without looking into the fact whether they were required by the people or not. The net result of all this activity is that most of the societies just remained on the registration books of the Cooperative Department and never started transacting business. Finally, the ineffective supervision of the Central Banks, engagement of the Central Banks in trading activities, defective loan policy and procedure, inadequate arrangements regarding audit, inspection and supervision have also led to a great extent, to the dormancy of these societies.
Table No. 3.1

Working of Primary Agriculture Cooperative Societies in India

<table>
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<tr>
<th>Particular</th>
<th>2003-04</th>
<th>2005-06</th>
<th>2007-08</th>
<th>2009-10</th>
<th>2011-12</th>
<th>2013-14</th>
<th>Growth in % from 03-04 to 13-14</th>
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<tr>
<td>No. of Soci</td>
<td>105735</td>
<td>106384</td>
<td>79750</td>
<td>94647</td>
<td>92432</td>
<td>93042</td>
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<td>Total Members</td>
<td>135411</td>
<td>125197</td>
<td>131530</td>
<td>126419</td>
<td>113596</td>
<td>130119.64</td>
<td>-3.91</td>
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<tr>
<td>Members taking borrowing</td>
<td>51265</td>
<td>46076</td>
<td>51074</td>
<td>59800</td>
<td>44886</td>
<td>NA</td>
<td></td>
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<tr>
<td>% Members taking borrowing from PACS</td>
<td>37.86%</td>
<td>36.80%</td>
<td>38.83%</td>
<td>47.30%</td>
<td>39.51%</td>
<td>NA</td>
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<tr>
<td>Share Capital</td>
<td>516642</td>
<td>564425</td>
<td>659665</td>
<td>714842</td>
<td>828010</td>
<td>978880.47</td>
<td>89.47</td>
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<tr>
<td>Govt. Share in Capital</td>
<td>62963</td>
<td>62192</td>
<td>62858</td>
<td>65622</td>
<td>65578</td>
<td>4370.18</td>
<td>-93.06</td>
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<tr>
<td>Reserves</td>
<td>323094</td>
<td>364776</td>
<td>438718</td>
<td>533021</td>
<td>771577</td>
<td>913549.58</td>
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<td>Deposit</td>
<td>1814253</td>
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<td>351.40</td>
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<td>Borrowings</td>
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<td>5176390</td>
<td>8883557</td>
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<td>Advances</td>
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<td>4291959</td>
<td>5764248</td>
<td>7493754</td>
<td>10730023</td>
<td>17141956</td>
<td>388.11</td>
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</table>

(Source: NAFSCOB Report 2003-04 to 2013-14)
The above table no. 3.1 is showing the working of PACS in India. The Primary Agriculture Cooperative Credit Societies (PACS) are working at village level and it is directly dealing with farmers. Farmers become members of PACS. They are financed by PACS to fulfil their credit need related to agriculture. In the year 2003-04 there were 105735 PACS were working in overall India. On other hand we can say that one PACS was covering average 6 villages of India. After the recommendation of Task force many PACS were merged to make the structure more viable. In the year 2013-14 there were 93042 PACS were working over all India. The membership of PACS is slightly reduced by 03.91%. PACS are covering huge number of farmers over all country but the number of members taking borrowing is reduced. Less than 40% members are taking borrowing from PACS. This is not a good sign. Almost 60% farmers are taking borrowing from other banks.

The numbers of members are not increased but the paid up share capital was increased by 89.47%. The share of Government in PACS is reducing that is good sign. During the period of study the growth in reserves of PACS is reported 182.75%. The number of PACS accepting deposit is very less but the amount of deposit is increasing and the growth reported is 351.40%. PACS are accepting borrowings from DCCBs. The growth in borrowings of PACS is 179.75% and advances are 388.11%. It can be interpreted that PACS of India are financing from their own funds.

The table No. 3.2 is showing the performance of PACS in India. Total advances of PACS were increased 388.11%. Out of which more than 80% advances are made for short term. The short term advances is increased 384.36%. During the same time period medium term finance was increased 407.06%. The recovery of PACS in India was remained 55 to 75%. In the year 2003-04 there were 75680 PACS making profit. In the year 2013-14, 43327 PACS were in profit. During the same period 73781 PACS were in loss and in the year 2013-14 there were 37662 PACS were in loss. During the same period the number of employees also decreased by 49.01%
Table No. 3.2

Performance of Primary Agriculture Cooperative Societies in India

(Rs. In Lakhs)

<table>
<thead>
<tr>
<th>Particular</th>
<th>2003-04</th>
<th>2005-06</th>
<th>2007-08</th>
<th>2009-10</th>
<th>2011-12</th>
<th>2013-14</th>
<th>Growth in % from 03-04 to 13-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Society</td>
<td>105735</td>
<td>106384</td>
<td>79750</td>
<td>94647</td>
<td>92432</td>
<td>93042</td>
<td>-12.00</td>
</tr>
<tr>
<td>Out of which viable PACS</td>
<td>65057</td>
<td>66525</td>
<td>58479</td>
<td>65540</td>
<td>66813</td>
<td>66577</td>
<td>2.34</td>
</tr>
<tr>
<td>Total Advances</td>
<td>3511924</td>
<td>4291959</td>
<td>5764248</td>
<td>7493754</td>
<td>10730023</td>
<td>17141955.8</td>
<td>-100.00</td>
</tr>
<tr>
<td>ST</td>
<td>2932589</td>
<td>3562354</td>
<td>4738975</td>
<td>6195076</td>
<td>8022775</td>
<td>14204370.2</td>
<td>384.36</td>
</tr>
<tr>
<td>% of ST against total Adv.</td>
<td>83.50%</td>
<td>83.00%</td>
<td>82.21%</td>
<td>82.67%</td>
<td>74.76%</td>
<td>82.86%</td>
<td>-0.77</td>
</tr>
<tr>
<td>MT</td>
<td>579335</td>
<td>729605</td>
<td>1025273</td>
<td>1298678</td>
<td>2707248</td>
<td>2937585.61</td>
<td>407.06</td>
</tr>
<tr>
<td>% of MT against total Adv.</td>
<td>16.49%</td>
<td>16.99%</td>
<td>17.78%</td>
<td>17.33%</td>
<td>25.23%</td>
<td>17.13%</td>
<td>3.88</td>
</tr>
<tr>
<td>Demand</td>
<td>4423677</td>
<td>5097948</td>
<td>6729295</td>
<td>9549660</td>
<td>9074798</td>
<td>12504000.6</td>
<td>182.66</td>
</tr>
<tr>
<td>Recovery</td>
<td>2794160</td>
<td>3550325</td>
<td>4328947</td>
<td>5597260</td>
<td>6644439</td>
<td>12622125.7</td>
<td>351.73</td>
</tr>
<tr>
<td>%</td>
<td>63.16%</td>
<td>69.64%</td>
<td>64.33%</td>
<td>58.61%</td>
<td>73.22%</td>
<td>100%</td>
<td>58.33</td>
</tr>
<tr>
<td>No. of PACS in Profit</td>
<td>75680</td>
<td>44321</td>
<td>38307</td>
<td>40936</td>
<td>45433</td>
<td>43327</td>
<td>-42.75</td>
</tr>
<tr>
<td>No. of PACS in Loss</td>
<td>73781</td>
<td>53026</td>
<td>48520</td>
<td>41679</td>
<td>36375</td>
<td>37662</td>
<td>-48.95</td>
</tr>
<tr>
<td>Employee</td>
<td>347176</td>
<td>241609</td>
<td>278842</td>
<td>215529</td>
<td>208697</td>
<td>177036</td>
<td>-49.01</td>
</tr>
</tbody>
</table>

(Source: NAFSCOB Report 2003-04 to 2013-14)
Table No. 3.3

Working of Primary Agriculture Cooperative Societies in Gujarat (Rs. In Laks)

<table>
<thead>
<tr>
<th>Particular</th>
<th>2003-04</th>
<th>2005-06</th>
<th>2007-08</th>
<th>2009-10</th>
<th>2011-12</th>
<th>2013-14</th>
<th>Growth in % from 03-04 to 13-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Societies</td>
<td>8482</td>
<td>8487</td>
<td>8092</td>
<td>7763</td>
<td>8154</td>
<td>8313</td>
<td>-1.99</td>
</tr>
<tr>
<td>Total Members</td>
<td>10773</td>
<td>26132</td>
<td>24946</td>
<td>28613</td>
<td>27771</td>
<td>2982.24</td>
<td>-72.32</td>
</tr>
<tr>
<td>Paid up Share Capital</td>
<td>37610</td>
<td>44477</td>
<td>50986</td>
<td>48167</td>
<td>58838</td>
<td>82820.89</td>
<td>120.21</td>
</tr>
<tr>
<td>Out of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Govt. Contribution</td>
<td>1000</td>
<td>829</td>
<td>937</td>
<td>644</td>
<td>795</td>
<td>643.88</td>
<td>-35.61</td>
</tr>
<tr>
<td>Reserves</td>
<td>30602</td>
<td>41881</td>
<td>63147</td>
<td>45690</td>
<td>56450</td>
<td>77750.3</td>
<td>154.07</td>
</tr>
<tr>
<td>Deposit</td>
<td>12389</td>
<td>17838</td>
<td>24836</td>
<td>24121</td>
<td>117167</td>
<td>156029.45</td>
<td>1159.42</td>
</tr>
<tr>
<td>Borrowing</td>
<td>241538</td>
<td>368668</td>
<td>373504</td>
<td>387043</td>
<td>504133</td>
<td>716075.61</td>
<td>196.46</td>
</tr>
<tr>
<td>Advances</td>
<td>228876</td>
<td>357048</td>
<td>365485</td>
<td>391727</td>
<td>580250</td>
<td>904728.1</td>
<td>295.29</td>
</tr>
<tr>
<td>Working Capital</td>
<td>365848</td>
<td>529421</td>
<td>548173</td>
<td>574105</td>
<td>949079</td>
<td>1202586.97</td>
<td>228.71</td>
</tr>
<tr>
<td>Employee</td>
<td>14135</td>
<td>21845</td>
<td>15073</td>
<td>14433</td>
<td>14751</td>
<td>14219</td>
<td>0.59</td>
</tr>
</tbody>
</table>

(Source: NAFSCOB Report 2003-04 to 2013-14)
The above table number 3.3 is showing the working of PACS in Gujarat. In the year 2003-04 8482 PACS were working in Gujarat. In the year 2013-14, 8313 PACS were functioning in Gujarat. Total members of PACS in the year 2003-04 were 10773, which was reduced 72.32% and was 2982 in the year 2013-14. The growth in share capital was 120.21%. Reserves were increased 154.07%, borrowing 196.46%, advances 295.29%, working capital 228.71%.

Table No.3.4

Performance of Primary Agriculture Cooperative Societies in Gujarat

<table>
<thead>
<tr>
<th>Particular</th>
<th>2003-04</th>
<th>2005-06</th>
<th>2007-08</th>
<th>2009-10</th>
<th>2011-12</th>
<th>2013-14</th>
<th>Growth in % from 03-04 to 13-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Viable PACS</td>
<td>4837</td>
<td>5584</td>
<td>3988</td>
<td>5027</td>
<td>4960</td>
<td>5000</td>
<td>3.37</td>
</tr>
<tr>
<td>No. of Members taking Borrowing from PACS</td>
<td>1264</td>
<td>1244</td>
<td>1298</td>
<td>1382</td>
<td>1181</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>Total Advances</td>
<td>228876</td>
<td>357048</td>
<td>365485</td>
<td>391727</td>
<td>580258</td>
<td>904728.1</td>
<td>295.29</td>
</tr>
<tr>
<td>1. ST</td>
<td>207780</td>
<td>322813</td>
<td>331101</td>
<td>361065</td>
<td>529608</td>
<td>822581.79</td>
<td>295.89</td>
</tr>
<tr>
<td>%</td>
<td>90.78%</td>
<td>90.41%</td>
<td>95.90%</td>
<td>92.17%</td>
<td>91.27%</td>
<td>90.92%</td>
<td>0.15</td>
</tr>
<tr>
<td>2. MT</td>
<td>21096</td>
<td>34235</td>
<td>34383</td>
<td>30662</td>
<td>50642</td>
<td>82146.31</td>
<td>289.39</td>
</tr>
<tr>
<td>%</td>
<td>9.22%</td>
<td>9.59%</td>
<td>4.1%</td>
<td>7.83%</td>
<td>8.73%</td>
<td>9.07%</td>
<td>-1.63</td>
</tr>
<tr>
<td>Demand</td>
<td>367622</td>
<td>411107</td>
<td>435338</td>
<td>435360</td>
<td>591248</td>
<td>775310.82</td>
<td>110.90</td>
</tr>
<tr>
<td>Recovery</td>
<td>181018</td>
<td>255531</td>
<td>257738</td>
<td>292590</td>
<td>425485</td>
<td>578862.81</td>
<td>219.78</td>
</tr>
<tr>
<td>% of Recovery</td>
<td>49.24%</td>
<td>62.16%</td>
<td>59.20%</td>
<td>67.21%</td>
<td>71.96%</td>
<td>74.66%</td>
<td>51.62</td>
</tr>
<tr>
<td>No. of PACS in Profit</td>
<td>4663</td>
<td>5027</td>
<td>4948</td>
<td>4786</td>
<td>4784</td>
<td>5969</td>
<td>28.01</td>
</tr>
<tr>
<td>Amount of Profit</td>
<td>624705</td>
<td>376251</td>
<td>775502</td>
<td>861577</td>
<td>920828</td>
<td>959357.4</td>
<td>53.57</td>
</tr>
<tr>
<td>No. of PACS in Loss</td>
<td>3193</td>
<td>2880</td>
<td>2764</td>
<td>2310</td>
<td>2180</td>
<td>1909</td>
<td>-40.21</td>
</tr>
<tr>
<td>Amount of Loss</td>
<td>635146</td>
<td>348735</td>
<td>2754407</td>
<td>2016257</td>
<td>952327</td>
<td>548100.13</td>
<td>-13.70</td>
</tr>
</tbody>
</table>

(Source: NAFSCOB Report 2003-04 to 2013-14)
The above Table no. 3.4 is showing the performance of PACs in Gujarat. During the year 2003-04 the growth in viable PACs is 03.37%. Total advances were increased 295.29%. More than 90% advances are made for short term. The growth in short term deposit is reported 295.89%. The share of medium term in total finance was remained less than 10% and growth in it was 289.63% the position of recovery of PACS in Gujarat shows that in the year 2003-04 there was less than 50% recovery but in the following years the recovery mechanism was improved and in the year 2013-14 74.66% recover of PACS is reported. The number of PACs making profit is increased in Gujarat during last decade. In the year 2003-04 4663 PACS were earning profit, where as in the year 2013-14 5969 PACS were in profit. It shows the growth of 28.01%. On the other hand number of PACS accruing loses is reduced. In the year 2003-04 3193 PACS were in loss in Gujarat state, where as in the year 2013-14 it was 1909. The amount of loss in also reduced by 13.70%

3.5. District Central Cooperative Banks

3.5.1. Origin of District Central Cooperative Banks (DCCBs)

The Act of 1912 permitted the organization of higher federal societies. The primary cooperative credit societies in compact areas federated themselves into Banking Unions and organized Central Banks to collect funds from the urban areas and divert to the village societies. Thus, every district in a State got one or more banking union or Central Bank. The following are the objects of a Central Cooperative Bank:

(i) To act as a balancing centre of finance for the primary societies in the district by providing them funds when they face shortage and by serving as a clearing house for their surplus funds;

(ii) To attract local deposits;
To provide a safe place for the investment of the resources of primary societies;
To develop and extend banking facilities in rural areas;
To develop the cooperative movement in the district; and to supervise, guide and control the working of the member societies. "The raison centre for the establishment of district central cooperative banks" says G.M. Laud, "is that there should be an intermediary agency between the primary credit society with rural bias run by agriculturists having no touch with the money market and the provincial cooperative bank run mainly by city men with urban bias and having no close association with the countryside."1

3.5.2. Constitution of DCCBs

The central cooperative banks in India can be classified under three heads according to their constitution: (i) banks whose membership is open to individuals; (ii) banks whose membership is confined to societies; (iii) mixed type banks whose membership includes both individuals and societies.

The banks falling in the first category consist entirely of individuals or in which societies are admitted as shareholders on exactly the same footing as individuals, without any special provision for their adequate representation on the board of management or for the reserve fund as a definite proportion of the share capital for them. Such banks stood in the same position as commercial banks. Banks having such constitution have either been re-organized into cooperative urban banks or converted into pure central banks of primary societies. Such banks are now rarely found.

The banks falling in the second category are purely federal type of central bank consisting of the primary societies only. They are registered as "Banking Unions" under the 1912 Act. The shareholders, lenders and the borrowers being the same, the clash of
interest between the shareholders and the borrowing societies is therefore, eliminated by the combination of the separate identities of the lenders and the borrowers.

The central banks, falling in the third category, are of the mixed type and have been organized on the lines suggested by the Maclagan Committee. These banks consist of societies and individuals both, in which societies are not only assigned certain proportion of the shares but are also given separate representation on the board of directors. A large majority of central banks today conform to this pattern. At the instance of the All India Rural Credit Survey Committee the process of gradual elimination of the individual shareholders has been introduced in most of the banks in a bid to make them fully cooperative in character.

A certain school of thought feels that central banks or banking unions are superfluous intermediaries in between the apex bank, the actual lender of funds, and the ultimate borrower, which may help in making credit costlier by adding their own margin. Therefore, they advocate that the central banks should be substituted by the branches of the apex banks, in order to make credit still cheaper and efficient to the farmer. The Bombay Provincial Banking Enquiry Committee (1931) did not favor the proposal. The Rayalaseema Cooperative Committee (1946), however, supported the view regarding the elimination of central banks and the establishment of the branches of apex banks. The question was again taken up at the 15th Conference of Registrars in 1947. The Conference did not agree with Rayalaseema Committee. The Standing Advisory Committee of the Reserve Bank of India on Agricultural Credit in 1952 was of the view: "Other things — in regard to finance, local support, administrative efficiency, etc., being equal, the establishment of a central bank should be preferred to that of a branch of the State Cooperative Bank. In many areas which are relatively under-developed in the economic and cooperative aspects, the proper course is likely in many cases to be, to establish branches of the apex banks with such financial assistance from the State Government as may be necessary. In such instances, the policy should be that of..."
eventually replacing the branch by a full-fledged central bank." The All India Rural Credit Survey Committee also endorsed this view.

3.5.3. Size and Area of Operation

The size and area of operation is very important for the successful working of a central bank. In 1915, the Maclagan Committee had expressed the view that "a central bank should cover as large an area as compatible with convenience and efficiency." The Standing Advisory Committee on Agricultural Credit of the Reserve Bank of India was of the view that there should be only one central bank for each district, but if, however, other conditions justify the formation of a bank in a region smaller than a district there should be no objection to that. This view was endorsed by the All India Rural Credit Survey Committee. Since there were more than one central bank in a district, the Committee strongly recommended that schemes of amalgamation must be introduced in all States on a compulsory basis. The following 'minimum' standards in regard to owned capital and working capital of the central banks were laid down: paid-up share capital and reserves—about Rs. 3 lakh and working capital—Rs. 20 to 25 lakh. The Standing Advisory Committee on Agricultural Credit of the Reserve Bank of India laid down the following criteria for judging the viability of a central bank: (i) ability to earn sufficient profits; (ii) reasonable contribution to reserves; and (iii) declaration of reasonable dividends.

3.5.4 Funds of DCCBs

The central banks derive their working capital from five sources, viz., (i) shares; (ii) deposits; (iii) loans; (iv) reserve funds; and (v) government grants. They also receive small amounts by way of entrance fees, transfer fees and other miscellaneous items.
3.5.5 Share Capital

The central banks issue shares to individuals and society members. The major portion of the shares is issued to the society shareholders. The value of shares generally ranges from Rs. 50 to Rs. 100. Certain restrictions and limits are generally imposed on the issue of shares to individual members. Since the liability of the members is limited to the share capital subscribed by them, it is essential for the central banks to have substantial paid-up share capital to attract and serve as a guarantee for the depositors and other creditors. Following the recommendations of the All India Rural Credit Survey Committee, State partnership including financial partnership has become an accepted fact. Nowadays, the States' contribution to the share capital of the central banks is quite substantial. The second characteristic of the capital structure of the central banks is that ordinarily the share capital to be subscribed by the society members is linked with their borrowings from the central banks. Sometimes the amount of share subscription is related to the share capital of the society itself. Since the introduction of economic planning the paid-up share capital of the central cooperative banks has showed an upward trend.

3.5.6 Owned Funds

There is no hard and fast rule but generally speaking, it has been the practice to relate the borrowing capacity of central and state cooperative banks to their owned funds. There can be no two opinions as to the need for co-relating the owned funds and the borrowings. Satisfactory definition of 'owned funds' is not available except in a few States like U.P., West Bengal, Assam and Punjab. In these States the term has been defined as the total of paid-up share capital and reserves and other funds created out of profits. In other States the term has been interpreted differently. In Tamil Nadu and Andhra Pradesh, it means the total paid-up share-capital and statutory reserve fund. In Maharashtra, it means the total paid-up share capital and all reserves minus accumulated losses in the case of state cooperative bank and the total paid-up share capital, statutory reserve fund and building fund minus the accumulated losses, in the case of central
The reserves maintained by the banks may be of two kinds, some of them may represent provisions for meeting specific or anticipated losses or contingencies; and others of permanent nature created out of profits, such as building fund, stabilization fund, sinking fund, etc. The former reserves again serve as a margin of security to outside creditors and as such must be excluded while calculating the owned funds.

3.5.7 Borrowing Power of DCCBs

The borrowing power of the central cooperative banks is fixed: (i) under the rules of cooperative societies; (ii) under the bye-laws; and (iii) by the Registrar Cooperative Societies. Under all these systems it is customary to relate the borrowing power to their own owned funds, e.g., to fix it at 12 times or 15 times of their paid-up share capital and reserve funds.

So far as deposits of the central cooperative banks are concerned, the position has not been very satisfactory. The central cooperative banks which are the backbone of cooperative finance need to become self-sufficient and self-reliant. The All India Rural Credit Survey Committee and the Mahajan Committee had emphasized that the central cooperative banks, with a view to enhancing their savings, must tap deposits from the urban areas so that adequate funds were available for agricultural development in rural areas. The Mahajan Committee had made "the following observations in this connection:

i. Since the strong capital base is essential for the financial stability and strength of the cooperative banks, and since the contributions made by the State Governments have strengthened the position of the central cooperative banks, these may continue for some time to come.

ii. Since the interest offered on public deposits by the banks and by the government and the central land mortgage banks is quite attractive, the state cooperative banks and central cooperative banks must offer competitive rates of interest. They must
review their present rates and bring them in line with the rates prevailing in the money market.

iii. The local bodies, educational institutions, trusts, etc., should be permitted to make deposits of their funds with well managed and sound cooperative banks and they may be persuaded to do so.

iv. The Committee did not accept the suggestion regarding the guarantee for the payment of interest and repayment of principal of the deposits raised by the central cooperative banks by the government since they felt that this would involve greater control of the government over the cooperative banks. The Committee, however, recommended that wide publicity of the state participation in these banks would be sufficient to create confidence in the minds of the depositors.

v. The central cooperative banks should also provide banking facilities, to their constituents, such as opening of current accounts, collecting cheques, and bills, issuing demand drafts, etc. For providing these facilities it is not necessary that they should undertake commercial activities.

vi. Suitable branch expansion schemes may be launched by the central banks in every State, in important 'mandi centres' and small towns.

vii. Important and distinctive personalities of the locality, well known for their business acumen and integrity should be brought in the management of the cooperative banks.

viii. Since the various small savings schemes launched by the government have been adversely affecting the position of the deposits of central cooperative banks, these may be immediately stopped.

3.5.8. Deposits

The central cooperative banks may receive deposits in the current account, in the savings account and fixed deposit account. In view of the nature of their operations it has been generally agreed that the central cooperative banks should not increase their deposits in
the current account and instead concentrate on their deposits under savings and fixed deposit accounts. Clientele of the central cooperative banks belongs to the lower middle class and upper middle class. The holders of small savings account would not like to touch their savings unless compelled by circumstances and thus large sums may be available to central cooperative banks for comparatively longer periods. Moreover, the withdrawals from savings bank account should not be frequent and of big sizes and, therefore, moderate amount of fluid reserves can meet the situation. The central banks can, thus, inculcate the habit of thrift in the general public and expand rural banking facilities. Fixed deposits are the safest form of deposits for the cooperative bank. Since these deposits can be withdrawn only after the expiry of a fixed period, the problem of maintaining fluid resources becomes insignificant, and the amounts so received can be safely invested in their normal loan operations for financing seasonal agricultural operations.

All cooperative societies are required to create a statutory Reserve Fund out of their profits. The manner in which this fund is to be invested differs from State to State. In some States it is invested by way of deposits with the central cooperative bank or higher federal organizations. In some States it is invested in the loan transactions of the society, while in other States it is invested partly in their business and partly in outside investments. The funds of the central cooperative banks, thus, are augmented by the reserve fund deposits of the constituent societies. This may not be advantageous for the societies because they will get a higher rate of interest if they invest it in loans. Moreover, they also have to borrow from the central cooperative banks to fulfill the needs of the members. Whatever may be the position, the investment of the reserve fund of the societies will neither be advisable nor will it be justified. Firstly, because the reserve fund is a source of strength for the societies and enables them to withstand the shocks of business exigencies; it is necessary that they are separately invested; and secondly, it will inspire confidence in the creditors. In certain States, bad debt reserves of the constituent societies are also required to be deposited with the central cooperative banks to which they are affiliated.
The central cooperative banks may also accept recurring deposits, day deposits and provident fund deposits. A recurring deposit is one which is made by a person who undertakes to pay to the society a fixed amount of money for a certain period. Day deposits are meant for encouraging savings among the daily wage-earners in the towns and cities. A person has to pay every day to the bank an agreed fraction of his daily wage for one year, after the expiry of which the entire amount along with interest is payable to the depositor. This, too, is not popular with the central cooperative banks. A Provident Fund Deposit is one which is intended to offer facilities to the people for making provision for themselves against physical incapacity and old age, and for their family in the event of their death and also to provide for any public or charitable object. The central cooperative banks, however, get very small amounts under these kinds of deposits. In many States this is not known at all. Generally, the central cooperative banks employ their own full-time paid staff. They allow provident fund benefits to the permanent employees. This provident fund is contributory in nature. These sums are deposited with the central cooperative banks themselves and are known as provident fund deposits. This kind of deposit is found in all the central cooperative banks. Then, there is a different kind of deposit which is known as security deposit. Persons on responsible positions, especially those handling cash and valuables are required to deposit a security with the central cooperative banks. The fund so collected is deposited in the bank and is payable to the person concerned when he leaves the service of the bank or when he retires from the service.

Deposits form an important constituent of the working capital of the central cooperative banks. In view of the keen competition from the commercial banks and owing to the restrictions in some States on the investment of surplus funds by local bodies, educational institutions in cooperative banks, the central cooperative banks have not succeeded in mobilizing savings. Steps have also been taken to remove many of these handicaps. The Deposit Insurance Scheme has been extended to cooperative banks. In a number of States
The governments have passed orders authorizing panchayati raj bodies, municipalities, educational institutions, etc., to deposit their savings in cooperative banks.

The central cooperative banks have not been able to open branches in certain areas simply because they are not in a position to meet the expenditure on the appointment of competent staff required for canvassing deposits. This point has also been emphasized by the All India Rural Credit Review committee. It has been observed that quite a good number of banks have opened branches only to cater to the needs of the borrowing societies and not for mobilizing deposits.

As stated earlier, the central cooperative banks must play a more effective role in mobilizing rural savings. Whenever the question of their competing with the commercial banks arises, they fail miserably because they cannot pay as high a rate of interest as is paid by a commercial bank, their deposits do not enjoy the facility of insurance, and finally the State Governments have placed restrictions on the investment of surplus funds by local bodies, educational institutions, etc. in cooperative banks. The State Governments have been trying to remove these restrictions and in some States they already stand removed.

Even at the cost of repetition, it must be sated that the central cooperative banks must make special efforts for mobilizing rural savings as well as urban deposits so that additional funds are available for the development of rural areas. In this connection, they should (i) open the offices in urban areas in the business centers; (ii) provide better services to their clients and deal with them with patience and perseverance; (iii) impress upon the local bodies, educational institutions, etc. to open accounts with them; (iv) offer the same rates of interest as are given by commercial banks; and (v) should make frantic efforts for tapping deposits in each community development block.
3.5.9. Reserve and Other Funds

The central cooperative banks maintain three kinds of reserves (i) Statutory reserves, (ii) bad debt reserves, and (iii) other reserves. In view of the liberalized policy of the central cooperative banks of providing lavish credit facilities to the affiliated societies, the importance of these reserves has increased over the years. These reserves were, however, not adequate for covering actual bad debts.

In addition to the above reserves a central cooperative bank may also create special funds out of their profits like dividend equalization fund, investment depreciation fund, building fund, bad debt fund, sinking fund, etc.

As stated already, the working capital of the central cooperative banks also includes borrowings from outside especially from: (i) state cooperative bank; (ii) government; (iii) Reserve Bank of India; (iv) State Bank of India; (v) other central cooperative banks; (vi) joint stock banks.

The apex bank is the most important source of funds for the central cooperative banks. The central cooperative banks borrow from the state cooperative banks various short and medium term loans for varying periods carrying various rates of interest against various types of securities. They also borrow by way of cash credit accommodation. The borrowing limit of the central cooperative banks is fixed according to the prevailing rules and bye-laws, the order of the government and the discretion of the Registrar, on the basis of their financial position. It is generally linked with their owned funds. This limit has been raised from time to time. The central cooperative banks borrow for lending to primary cooperative societies, marketing societies, consumers' societies, distribution of chemical fertilizers and manures, payment of Cess, Fund Loans and for providing working capital loans to weavers' societies. They have to apply to the apex bank for loans, etc., and the procedure of channeling loan applications differs from State to State. In certain States the applications are sent direct to the apex bank and are sanctioned by
the Management Committee. In some States the loan applications are sent through the Assistant Registrars of Cooperative Societies. But this is a dilatory process and takes much time in the sanction of the loan. In order to overcome this difficulty and to enable the banks to get funds quickly and in time, the apex banks have introduced a system of Revolving Cash Credit. Under this system every bank is given a credit limit which is renewed from year to year.

Government loans form a very negligible proportion of the working capital of the central cooperative banks. Generally, these loans are of a special type. Some state cooperative banks, give loans to central cooperative banks to be passed on to the industrial societies under State Aid to Industries Act.

In those States where the State cooperative banks were new and their owned funds were meagre or the State cooperative banks were not in a position to meet the entire requirements of the central cooperative banks in view of their limited resources, in accordance with the recommendations of the All India Rural Credit Survey Committee, the Reserve Bank of India Act was amended to enable the Reserve Bank to provide financial accommodation to the central cooperative banks through the State cooperative banks. The central banks were classified into A, B, C and D categories on the basis of certain accepted standards. A, B, and C classes of banks' were eligible for loans direct from the Reserve Bank. For C class banks a special recommendation of the Registrar was required. The Reserve Bank charged interest at the rate of 2% below the bank rate for short-term loans and 1.50% below the bank rate on medium-term loans.

Inter-central banks loans were very common in the initial stages of the establishment of central cooperative banks in the country. These loans were given with the permission of the Registrar. But now, since apex cooperative banks have been established in all the States, such loans have stopped.
The central cooperative banks can also obtain advances, overdrafts and cash credit accommodation from the commercial banks on easy terms and conditions on securities acceptable to the commercial banks. Such borrowings may be for urgent purposes. These form a very negligible part of their working capital. The security offered may be Government Promissory Notes or central agriculture and rural development bank debentures.

3.5.10. Loan Operations of DCCBs

Although the operations of the central cooperative banks do not apparently differ from those of the commercial banks, it should not be forgotten that the commercial banks deal with other individuals for their business and are at liberty to invest their funds at their choice. But the central cooperative banks mainly have to finance their own members and have no choice in the investment of their funds. The central cooperative banks have to invest major portion of their resources in agricultural loans. So, the principle of liquidity is of not much help to save the situation, especially because Indian agriculture is full of risks and the farmer has no other security to offer than his land which is not easily saleable without any loss. It may not, however, be denied that the central cooperative banks have to be run on modern banking lines in which deposits have to play a crucial role. But deposits will not flow since the people are not sure of the financial stability of these banks and for this, it is necessary that they maintain some fluid resources according to certain standards, in addition to their investment in agricultural loans. After the amendment of the Reserve Bank Act and the extension of the statutory control of the Reserve Bank, cooperative banks have to maintain cash reserves with themselves, or in current account with the Reserve Bank of India or the State Bank of India or the apex bank of the State concerned, in the case of central cooperative banks or in the case of primary Cooperative societies with the central cooperative bank of the district concerned, a sum equivalent to at least 3% of their time and demand liabilities in India. Besides, every cooperative bank is required to maintain in India, in cash, gold or unencumbered securities valued at a price not exceeding the current market price an amount which shall
not be at the close of business on any day less than 20% of the total of its time and
demand liabilities in India. This may be inclusive of the cash reserves mentioned above.
It may be mentioned that the chief object of the central cooperative banks is to act as a
balancing centre of finance for the primary cooperative societies affiliated to them and to
provide them with finance for financing agriculturists. They are, thus, quasi-philanthropic
institutions. They get funds by way of deposits and borrowings from outside and hence
the principle of safety followed by commercial banks is equally important for the
cooperative banks. These banks must invest their funds in such a way as will not
endanger their safety, otherwise they will not be able to meet all their demands in the
long run. While advancing loans these banks must avoid concentration of too many loans
in a few societies. Too many loans should not be given on the basis of same kind of
securities. There should be as far as possible, proper diffusion of loans. They should
confine to short-term finance only. Restricted medium-term loans from medium-term
resources, such as, deposits, etc., may be given against proper security or mortgage. But
at least 75% of their funds should be invested in short-term loans. In case of loans against
produce or other securities sufficient margin must be maintained. The renewals of loans,
extension of installments and book adjustments must be avoided.

The credit-worthiness of a cooperative credit society is the most important thing to be
examined before sanctioning the loan. This is generally judged from the repayment
performance and repaying capacity of the society and also by the repayment of loans by
members of the society. In almost all the States certain standards have been fixed by the
Registrars in terms of permissible percentages of overdues by the societies to the central
cooperative bank and by the members of the societies and also the extent up to which
finance would be made available. The terms and conditions on which a central
cooperaive bank may grant loans to affiliated societies differ from State to State
depending on local conditions. Similarly, the procedure for channeling the loan
applications varies according to the number of supervising units and the central
cooperaive bank. The central cooperative banks advance loans for (i) cultivation
expenses, purchase of seeds, manure and other requirements for seasonal agricultural
operations for a short term; (ii) land reclamation, building of cattle sheds, digging and repairing of wells, purchase of cattle and carts for medium-term; (iii) for purchase and installation of pumps and oil engines for medium term for a period not exceeding 5 years; (iv) for the refund of deposits, for period not exceeding one year.

Loans may be sanctioned by the central cooperative banks on proper security, landed assets, house mortgage, cattle, agricultural produce, gold or jewels, fixed deposit receipts, source of supplies, life insurance policies, Government Promissory Notes, in accordance with the Acts and Rules and Bye-laws. Village Karamchari certificate is absolutely necessary in addition to the relative records and documents. In the case of women members, the necessary records relating to her separate 'Stri Dhan' and her right to mortgage is thoroughly examined. The husbands and heirs have also to join in the execution of the bonds. For all loans above a certain amount, against mortgages, non-encumbrance certificate is taken. The members applying for controlled credit loan or crop loan have to execute a bond to comply with the terms and conditions of such loans.

Under the crop loan system the bank advances loans to the farmers. This loan is based on the need for credit in relation to the activity undertaken by the agricultural producer, on the one hand, and the repaying capacity of the borrower and safeguard against abuse of credit, on the other. Advance planning is the essence of this system.

Credit is extended not because a property exists, but because creditworthiness of the purpose exists and a crop is anticipated. While considering the loan application the bank must thoroughly examine the questions of eligibility for loans of the members with their societies and of the societies with the affiliated financing agency. Besides these safeguards, the Reserve Bank of India has also emphasized the need to provide against the possibility of a loan proving unrealizable and a restraint on the borrower to keep him always conscious of his obligation to repay. Another important condition is the effective linking of credit with marketing. This would imply that the credit societies will advance
loans for raising crops, the marketing societies will market the produce and recover the loan out of the sale proceeds.

Under the crop loan system the farm credit consists of three components: (a) cash component; (b) kind component; (c) additional cash component. The first component is in the nature of initial cash accommodation to the cultivator, to the extent of about 1/3 of the average value of production per acre designed to meet miscellaneous cash outlays including the part of consumption expenses during the agricultural operations. The second component consists of agricultural requisites, such as fertilizers, insecticides, pesticides etc. The third component has been provided as an incentive to avail of the kind loan. Normally, this could be up to 50% of the value of the kind component. The cooperative credit institutions, especially at higher levels must make all out efforts to correlate their resources by strengthening their share capital and deposits. The eligibility requirements for fresh loans under the crop loan system have been laid down as under: (i) no default; (ii) holding of required number of shares; (iii) furnishing of security; and (iv) execution of necessary documents. The concept of security has no doubt been liberalized but it does not mean that there is no need of security. Security would be there but it would be adopted to the convenience of the borrower. The crop loan system has been accepted in principle by all the States but much success has not been achieved. The reasons are not far to seek. The agreement regarding the sale of produce through the marketing societies has not been honored and enforced. Even when the produce is sold through the marketing societies, the recoveries are affected by adopting deceptive device. The credit societies and banks have also not been serious and seem to be inclined to allow the borrower to retain the loan for full term and repay in cash on maturity. The paucity of efficient and well-trained staff also led to certain difficulties. Moreover, the needs of the farmers are not being met fully. The marketing cooperatives have not been able to render full marketing services at reasonable cost. Again, the hereditary relations between the farmers and the moneylender and the habit of 'at the door' service without any formalities have also stood in the way of the success of the system.
The expansion of credit by central cooperative banks among different States has not been uniform. According to the Reserve Bank of India, this has been due to (i) weaknesses of the cooperative credit structure at the primary level, (ii) rising overdues, (iii) weaknesses in the loaning policies and procedures and non-implementation of the crop loan system.

These banks are not competent to handle such business as the purchase and sale of bills, notes, cheques or 'hundies' or their discounts since it is risky. That is why the cooperative banks have not been permitted to engage into such business. It may also be mentioned here that many of these banks are allowed to undertake the collection of bills of the approved parties and earn quite a handsome commission on this account.

The continuing rise in the amount of overdues has been the most disquieting feature of the working of these banks. The borrowing societies should normally recover their loans from the members and repay it back to the central cooperative bank. In case of delays the central cooperative bank is expected to exert legitimate pressure for the recovery of the dues. If it does not succeed in its efforts it may proceed to take such action as prescribed in the Acts and Rules of the State concerned. In chronic cases it may apply to the Registrar for proper enquiry and enforcement of the principle of unlimited liability, in the case of limited liability credit societies. In addition to the supervision exercised by the departmental staff, these banks also exercise supervision over their constituent societies. They maintain well-trained full-time staff for the purpose. They meet the expenditure by collecting supervision fees from the societies. In accordance with the recommendations of the All India Rural Credit Survey Committee, the Reserve Bank of India has undertaken a scheme of voluntary inspection of cooperative banks, especially of those which borrow from it. All central cooperative banks are inspected annually by the staff of the Reserve Bank. Since the passing of the new Banking Regulation Act, the Reserve Bank has acquired power of statutory inspection.
Table No. 3.5

Working of DCCBs in India

<table>
<thead>
<tr>
<th>Particular</th>
<th>2003-04</th>
<th>2005-06</th>
<th>2007-08</th>
<th>2009-10</th>
<th>2011-12</th>
<th>2013-14</th>
<th>Growth in % from 03-04 to 13-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of DCCBs</td>
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<td>370</td>
<td>372</td>
<td>372</td>
<td>371</td>
<td>372</td>
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<td>Total Members</td>
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<td>2267850</td>
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</tr>
<tr>
<td>2. Individual</td>
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<td>1793092</td>
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<td>Paid up capital</td>
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<td>451147</td>
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<td>818892</td>
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<td>157.70</td>
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<tr>
<td>Out of which</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
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<td>1. Coop. Soci</td>
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<td>2. Govt.</td>
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<td>241902</td>
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<td>3. Other</td>
<td>8018</td>
<td>5904</td>
<td>21851</td>
<td>31484</td>
<td>27742</td>
<td>39658</td>
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<td>Reserves</td>
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<td>1408294</td>
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<td>2013296</td>
<td>2292032</td>
<td>2569039</td>
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<tr>
<td>Deposit</td>
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<td>8665222</td>
<td>10599372</td>
<td>14630314</td>
<td>17682238</td>
<td>21566170</td>
<td>180.82</td>
</tr>
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<td>Borrowing</td>
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<td>2320213</td>
<td>3053334</td>
<td>3035483</td>
<td>5048131</td>
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<td>219.39</td>
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<tr>
<td>Advances</td>
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<td>6931761</td>
<td>8722909</td>
<td>11052929</td>
<td>16255432</td>
<td>21794084</td>
<td>278.84</td>
</tr>
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<td>Working Capital</td>
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<td>16813752</td>
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<td>Investments</td>
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<td>206.01</td>
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</table>

(Source: NAFSCOB Report 2003-04 to 2013-14)
The Table No. 3.5 is showing the working of DCCBs in India. The District Central Cooperative Banks (DCCBs) are working at the middle level of three tier structure of cooperative credit structure in India. In the year 2003-04 there were 367 DCCBs working at all over India. In the year 2013-14 there were 372 DCCBs. The growth in total membership of DCCBs was 66.03% out of which 25.84% growth is reposted in the membership of Coop. Societies and 76.84% growth in the membership of Individuals. The paid up share capital was increased 157.70%. The share of coop. societies was increased 150.90%, the share of Govt. was increased 162.60% and share of others was increased 394.61%.

The amount of statutory reserves of DCCBs of India was increased 130.11%. The growth in reserves is a matter of appreciation. The growth in deposits is reported 180.82%. DCCBs borrow from SCBs to meet their need of short finance. During the period of study 219.38% growth is reported in the borrowing made by DCCBs. And the figures of advances are showing the growth of 278.84%. it can be interpreted that DCCBs are not totally depended on borrowing. DCCBs are financing from their own funds also. The growth in working capital was 168.58% and Investment it was 206.01%.
<table>
<thead>
<tr>
<th>Particular</th>
<th>2003-04</th>
<th>2005-06</th>
<th>2007-08</th>
<th>2009-10</th>
<th>2011-12</th>
<th>2013-14</th>
<th>Growth in % from 03-04 to 13-14</th>
</tr>
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<td>Total Deposit</td>
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<td>8665222</td>
<td>10599372</td>
<td>14630314</td>
<td>17682238</td>
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</tr>
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<td>Out of which</td>
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<td>1. Coop. Soci.</td>
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<td>3. Other</td>
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<td>680567</td>
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<td>Out of total Deposits - Current Deposit</td>
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<td>1693347</td>
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<td>% against total deposit</td>
<td>7.54%</td>
<td>8.70%</td>
<td>8.50%</td>
<td>8.43%</td>
<td>8.49%</td>
<td>7.85%</td>
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<td>% against total deposit</td>
<td>26.16%</td>
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<td>33.35%</td>
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<td>Out of total Deposits - Fixed Deposit</td>
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<tr>
<td>% against total deposit</td>
<td>60.18%</td>
<td>53.56%</td>
<td>51.09%</td>
<td>53.88%</td>
<td>52.19%</td>
<td>56.47%</td>
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<td>Total Advances</td>
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<td>1. Short Term</td>
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<td>%</td>
<td>27.92%</td>
<td>75.41%</td>
<td>78.29%</td>
<td>76.85%</td>
<td>76.87%</td>
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<td>1912175</td>
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<tr>
<td>%</td>
<td>12.07%</td>
<td>11.60%</td>
<td>10.58%</td>
<td>10.27%</td>
<td>10.09%</td>
<td>8.77%</td>
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<td>Demand</td>
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<td>Per employee business</td>
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<td>214.61</td>
<td>293.34</td>
<td>394.64</td>
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</tbody>
</table>

(Source: NAFSCOB Report 2003-04 to 2013-14)
Table No.3.6 is showing the performance of DCCBs of India during the period 2003-04 to 2013-14. The total growth in deposits is reported 180.82%. Out of which the growth in deposits of cooperative societies is 137.71%, Individuals 201.04% and others was 111.65%. While studying the type wise deposits of DCCBs, it is revealed that the share of low cost deposit in total deposit was less than 30%. More than 0% deposits are of fixed nature of kind. The share of fixed deposits in total deposits during the period of study was reduced by 06.16%.

The figures of advances are also showing progress. The growth reposted in advances is 278.84%. Out of total advances more than 70% advances are made for short term and the share of medium term advances in total advances is remained less than 12%. The growth in short term advances is reported 183.09% and 27.34% reduction in medium term advances. Overall recovery of DCCBs of India was remained around 60 to 70%. The figures reported of numbers of employees are showing that the numbers of employees in DCCBs are reducing. This may help the banks to reduce their management cost but on the other hand DCCBs are facing the problem of staff shortage. This may affect the working of the banks negatively. The numbers of employees are reducing because of that per employees business is showing progress.
Table No. 3.7

Working of DCCBs in Gujarat

(Rs. In Lakhs)

<table>
<thead>
<tr>
<th>Particular</th>
<th>2003-04</th>
<th>2005-06</th>
<th>2007-08</th>
<th>2009-10</th>
<th>2011-12</th>
<th>2013-14</th>
<th>Growth in % from 03-04 to 13-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total DCCBs</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>18</td>
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<td>Out of which</td>
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<td></td>
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<tr>
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<td>28617</td>
<td>29084</td>
<td>29581</td>
<td>29957</td>
<td>31777</td>
<td>32193</td>
<td>12.50</td>
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<tr>
<td>2. Individuals &amp; Others</td>
<td>7093</td>
<td>6076</td>
<td>6063</td>
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<td>5136</td>
<td>4949</td>
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<td>Paid up capital</td>
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<td>32917</td>
<td>34776</td>
<td>33996</td>
<td>41159</td>
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<td>32.20</td>
</tr>
<tr>
<td>Out of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Coop. Soci.</td>
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<td>31584</td>
<td>38642</td>
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<td>16.64</td>
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<tr>
<td>2. Individuals &amp; Others</td>
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<td>2430</td>
<td>2412</td>
<td>2517</td>
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<tr>
<td>Reserves</td>
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<td>122514</td>
<td>143839</td>
<td>148147</td>
<td>180216</td>
<td>217881</td>
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<tr>
<td>Deposit</td>
<td>675842</td>
<td>667007</td>
<td>827927</td>
<td>1169262</td>
<td>1401876</td>
<td>1829500</td>
<td>170.70</td>
</tr>
<tr>
<td>Borrowing</td>
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<td>137065</td>
<td>175270</td>
<td>120658</td>
<td>451171</td>
<td>433305</td>
<td>223.86</td>
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<tr>
<td>Advances</td>
<td>470091</td>
<td>482914</td>
<td>569899</td>
<td>550761</td>
<td>922187</td>
<td>1419615</td>
<td>201.99</td>
</tr>
<tr>
<td>Working Capital</td>
<td>1021967</td>
<td>1032785</td>
<td>1241866</td>
<td>1529212</td>
<td>2029576</td>
<td>2466526</td>
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</tr>
<tr>
<td>Investment</td>
<td>479230</td>
<td>346274</td>
<td>496398</td>
<td>754747</td>
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<tr>
<td>Profit</td>
<td>836</td>
<td>-12597</td>
<td>-14045</td>
<td>-8431</td>
<td>342</td>
<td>2136</td>
<td>155.50</td>
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</tbody>
</table>

(Source: NAFSCOB Report 2003-04 to 2013-14)
The above Table No. 3.7 is showing the working of DCCBs in Gujarat. Gujarat is having three tier cooperative credit structure and 18 DCCBs are functioning in Gujarat. Cooperative societies and Individuals are members of DCCBs. The growth in total membership reported during the period of study is 04.01%. The growth in the membership of cooperative societies was 12.50% whereas the membership of individuals was reduced by 30.23%. The growth in paid up share capital is reported 32.20%.

The analysis of the figures of reserves is showing that there is 98.34% growth is made during the decade. The borrowing is increased by 223.86%, advances 201.99%, working capital 141.35%, Investments by 136.05% and profit 155.50%. Based on the data reported in above table it can be interpreted that the working of DCCBs in Gujarat is satisfactory.
## Table No. 3.8

### Performance of DCCBs in Gujarat

<table>
<thead>
<tr>
<th>Particular</th>
<th>2003-04</th>
<th>2005-06</th>
<th>2007-08</th>
<th>2009-10</th>
<th>2011-12</th>
<th>2013-14</th>
<th>Growth in % from 03-04 to 13-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Deposit</td>
<td>675842</td>
<td>667007</td>
<td>827927</td>
<td>1169262</td>
<td>1401876</td>
<td>1829500</td>
<td>170.70</td>
</tr>
<tr>
<td>Out of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1. Coop Soci.</td>
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<td>303587</td>
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<td>500871</td>
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<td>2. Individuals</td>
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<td>345764</td>
<td>487008</td>
<td>682895</td>
<td>853734</td>
<td>1236231</td>
<td>288.73</td>
</tr>
<tr>
<td>3. Other</td>
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<td>17656</td>
<td>27525</td>
<td>118516</td>
<td>47271</td>
<td>41428</td>
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</tr>
<tr>
<td>1. Current Deposit</td>
<td>46321</td>
<td>58618</td>
<td>80657</td>
<td>89096</td>
<td>109073</td>
<td>139006</td>
<td>200.74</td>
</tr>
<tr>
<td>%</td>
<td>6.85%</td>
<td>8.79%</td>
<td>9.74%</td>
<td>7.62%</td>
<td>7.78%</td>
<td>7.61%</td>
<td>11.09</td>
</tr>
<tr>
<td>2. Savings Deposit</td>
<td>158711</td>
<td>214101</td>
<td>277169</td>
<td>381659</td>
<td>540191</td>
<td>650233</td>
<td>309.70</td>
</tr>
<tr>
<td>%</td>
<td>23.48%</td>
<td>32.10%</td>
<td>33.47%</td>
<td>32.64%</td>
<td>38.53%</td>
<td>35.54%</td>
<td>51.36</td>
</tr>
<tr>
<td>3. Fixed Deposit</td>
<td>460484</td>
<td>388835</td>
<td>465274</td>
<td>690181</td>
<td>748092</td>
<td>1031639</td>
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</tr>
<tr>
<td>%</td>
<td>68.13%</td>
<td>58.30%</td>
<td>56.20%</td>
<td>59.03%</td>
<td>53.36%</td>
<td>56.40%</td>
<td>-17.22</td>
</tr>
<tr>
<td>Total Advances</td>
<td>470091</td>
<td>482914</td>
<td>569899</td>
<td>550761</td>
<td>922187</td>
<td>1419615</td>
<td>201.99</td>
</tr>
<tr>
<td>%</td>
<td>78.45%</td>
<td>83.76%</td>
<td>81.73%</td>
<td>79.93%</td>
<td>82.87%</td>
<td>86.04%</td>
<td>9.67</td>
</tr>
<tr>
<td>1 ST</td>
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<td>404486</td>
<td>466140</td>
<td>440258</td>
<td>764257</td>
<td>1221411</td>
<td>231.18</td>
</tr>
<tr>
<td>%</td>
<td>78.45%</td>
<td>83.76%</td>
<td>81.73%</td>
<td>79.93%</td>
<td>82.87%</td>
<td>86.04%</td>
<td>9.67</td>
</tr>
<tr>
<td>2 MT</td>
<td>34225</td>
<td>32001</td>
<td>62294</td>
<td>68966</td>
<td>116155</td>
<td>148652</td>
<td>334.34</td>
</tr>
<tr>
<td>%</td>
<td>7.28%</td>
<td>6.63%</td>
<td>10.93%</td>
<td>12.52%</td>
<td>12.60%</td>
<td>10.47%</td>
<td>43.82</td>
</tr>
<tr>
<td>Demand</td>
<td>372314</td>
<td>362471</td>
<td>421935</td>
<td>435903</td>
<td>605586</td>
<td>874071</td>
<td>134.77</td>
</tr>
<tr>
<td>Recovery</td>
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<td>255123</td>
<td>267566</td>
<td>311621</td>
<td>559761</td>
<td>698790</td>
<td>189.56</td>
</tr>
<tr>
<td>%</td>
<td>64.82%</td>
<td>70.38%</td>
<td>63.41%</td>
<td>71.49%</td>
<td>92.43%</td>
<td>79.94%</td>
<td>23.33</td>
</tr>
<tr>
<td>No. of Employee</td>
<td>7030</td>
<td>6962</td>
<td>7006</td>
<td>6443</td>
<td>6941</td>
<td>7576</td>
<td>7.77</td>
</tr>
</tbody>
</table>

(Source: NAFSCOB Report 2003-04 to 2013-14)
The above table No.3.8 is showing the performance of DCCBs in Gujarat. During the period of study the growth in deposits is reported 170.70%. Out of which the share of cooperative societies was increased 61.65%, individuals 288.73% and others 151.83%. That means the major portions of deposits in DCCBs are of Individuals. While studying type wise deposit DCCBs were having 6 to 8% current deposits, 20 to 35% savings and more than 55% deposits are fixed deposits. The growth in current deposits is 200.74%, savings 309.70% and fixed 124.03%.

The advances of DCCBs in Gujarat are also increased. The growth in percentage is showing 201.99% growth in advances. The major portion of advances is made in short term. While analysing the reported data it is shown in the above table that DCCBs of Gujarat has made more than 80% advances for short term and the medium term advances were less than 12%. The growth in short term advances is 231.18% and medium term 334.34%. During the same time period DCCBs were having sound recovery that is more than 70%.

3.6 State Cooperative Banks

3.6.1. Introduction

A state cooperative bank is the federation of central cooperative banks in a State. It is the pivot around which all economic activities of the cooperative movement in the State rotate. It is the vertex of the pyramidal structure in a State for the provision of short and medium term credit to agriculturists on cooperative basis. It is the "keystone of the cooperative movement in the State; it links the movement not only with the commercial money market, but also with the Reserve Bank of India as a potential source of credit for seasonal and emergent needs" It derives physical support from the primary credit societies.
3.6.2. Constitution of State Cooperative Banks (SCBs)

It has been unanimously agreed that a state cooperative bank should deal only with central cooperative banks and not with primary societies and individuals. But in actual practice, these banks have been dealing with individuals as well as with the primary societies, although the number of societies and individual members has been on the decrease. The board of management of the various state cooperative banks in the country, today consists of the representatives of the central banks, a few representatives of individuals, elected by the general body, a few representatives of affiliated societies and cooperative urban banks, a representative each from the State Cooperative Agriculture and Rural Development Bank and Central Industrial Banks and a few (not exceeding 1/3 of the total strength of the board) representatives of the State Government.

Like central cooperative banks, state cooperative banks are also of two types, one in which the membership is open to societies only and the other in which the membership is open to individuals as well.

3.6.3. Functions of SCBs

Borrowing and lending constitute the main functions of a state cooperative bank. It borrows from the small and medium savers of money and the Reserve Bank of India/NABARD and lends mainly to the central cooperative banks affiliated to it and to some extent, to other types of cooperative institutions. The borrowings are in the form of deposits from the public in the shape of current, savings and fixed deposits and direct borrowings in the form of loans and advances against agricultural bills or government guarantee from the Reserve Bank of India/NABARD and sometimes also from the State Bank of India. At times it borrows from the State Government also. The state cooperative bank gives short and long-term loans to the central cooperative banks to finance the farmers through their primary credit societies. This lending takes the form of loans and
advances, cash credit, and overdraft accommodation. A state cooperative bank also acts as a balancing centre and clearing house for the central cooperative banks. It borrows surplus funds from the central cooperative banks and lends to deficit central banks and does away with inter-bank lendings. Thus, a state cooperative bank is the bankers' bank and custodian of the surplus resources of cooperative banks. It serves as a link between the money market and the cooperative banking structure. It functions as a parent institution to the entire cooperative banking structure in the State. It helps the state government in drawing up cooperative development and other development plans and in their implementation. It coordinates its own policies with those of the cooperative movement and the government. It also supervises and controls the central cooperative banks and societies through regular inspections by its inspection staff and rectifies the defects in their working. Lately, the state cooperative banks have also started performing certain general utility functions. They are issuing drafts, cheques, and letters of credit on various centers and thus help remittance of funds. They also collect and discount bills with the permission of the Registrar. In certain places they also provide safe deposit lockers and facilities for safe custody of valuables, etc. Some of the state cooperative banks have also been issuing cash certificates for the benefit of medium investors. In short, the State cooperative banks have been promoting the corporatization of the rural economy in the country and have been balancing the finances of the cooperative movement in their area of operation.

3.6.4. How Do the SCBs Raise Their Working Capital

Shares: The state cooperative banks, like the village primary societies and the DCCBs raise their capital by issuing shares. Initially, these shares were issued to central banks, primary societies and, if permitted, to individuals. The practice of issuing shares to individuals is now gradually waning. In accordance with the recommendations of the All India Rural Credit Survey Committee, the shares are issued to the state government to the extent of 51% of the total capital.
• Reserves & Owned Funds

The state cooperative banks maintain various types of reserves. The share capital and statutory reserves thus, constitute owned funds. The importance of owned funds for cooperative organizations can hardly be exaggerated. They provide security for the creditors, a cushion against overdues and increase their borrowing capacity. Besides, they ensure a free and continuous flow of credit.

• Deposits:

Deposits are an important constituent of the working capital of the state cooperative banks. The state cooperative banks accept current, savings, fixed and call deposits. Deposits are received from members and non-members, individuals and societies. Special deposits are received from local boards, municipalities, and educational institutions. The deposits from DCCBs and societies are given first preference. Deposits also include reserve fund deposits of affiliated DCCBs and societies, provident fund deposits of employees and security deposits, etc. Major portion of deposits are from the individuals, firms and companies. The confidence of the investing public in the soundness and safety of state cooperative banks is reflected in the low rates of interest at which they are able to attract large amounts of deposits.

One of the reasons of increase has been mainly due to the opening of branches, rationalization of the rate of interest, acceptance of deposits from public trusts, etc. Despite significant rise in the deposits, the position is not encouraging because they have to depend, even now on borrowings from the Reserve Bank of India/NABARD. The Mehta Committee had recommended that the SCBs will have to make more strenuous efforts for attracting deposits, if the expansion of the cooperative credit, on the scale envisaged in the Five Year Plans has to become possible.
The situation was, thus, not at all happy. Since the credit needs of the cooperative institutions are increasing fast, large deposits cannot be expected from them. Moreover, most of the deposits from cooperatives are short term and can be withdrawn any time. The state cooperative banks cannot, therefore, rely on such deposits. Hence the only substantial source to be tapped is individuals. There is an urgent need for the formulation of attractive schemes by the state cooperative banks for attracting deposits from the individuals, especially for meeting the requirements of the intensive agricultural development programmes in the coming years.

- **Borrowings:**

Borrowings form the major source of the working capital of the SCBs. These banks borrow from the government, NABARD/Reserve Bank of India and other sources. The borrowing powers are defined under the rules framed by the State Governments under the Cooperative Societies Act. These rules vary from State to State. The ceiling on borrowings varies from 12 times the owned funds to 20 times. They also obtain loans or overdraft facilities against government securities from the State Bank of India.

3.6.5. Employment of Funds

The main business of a SCB is to coordinate and control the finances of DCCBs, utilising their surpluses and supplementing their deficiencies. This was the view of the Maclagan Committee. The Bombay Provincial Banking Enquiry Committee (1931) was of the opinion that it would not be economical to confine the activities of these banks merely to financing agricultural societies. They should also extend their activities to financing and encouraging the organization of various other types of cooperative societies. Regarding the financial policy of these banks, the All India Rural Credit Survey Committee held that the demands for agricultural credit should be given top priority. The Committee advised the gradual restriction of loans to individuals. In principle, a state cooperative bank is a cooperative of the central cooperative banks and as such it will not
be advisable for it to undertake direct financing of primary societies which is the domain of the central financing agencies. Besides performing its primary function of acting as a balancing centre of the entire cooperative movement in the State, the Registrar, in exceptional cases, might allow it to lend its surplus funds for short periods to outside institutions without any prejudice to the interests of the central cooperative banks in the area.

So far as the principles of lending and investing are concerned, the same as applicable to central cooperative banks are also applicable to the state cooperative banks. Till recently, these banks were not required to keep any part of their liabilities with the Reserve Bank of India but now they have to maintain such balances if they wish to borrow from the Reserve Bank, which also entitles them to get free remittance facilities from the Reserve Bank of India.

3.6.6. Loan Operations

Generally speaking, a state cooperative bank undertakes to finance the central cooperative banks and other apex societies in its area of operation. The bank may also finance other societies affiliated to it with the prior approval of the Registrar. Loans may also be given to depositors on the pledge of their fixed deposit receipts. Loans to individual members may be granted in exceptional cases against such securities and on such terms and conditions as may be determined by the bank from time to time. Financing may be done primarily for agricultural purposes in the form of: (i) loans; (ii) cash credit; (iii) and/or overdrafts: A borrowing central bank or society should ordinarily hold shares in the state bank to the extent of 1/20 of its borrowing. A maximum credit limit is fixed for a particular cooperative year for every borrower in accordance with the rules and bye-laws. Applications for loans are made in the prescribed form accompanied by the requirements as prescribed by the Reserve Bank of India or the Registrar of Cooperative Societies. These applications are submitted to the banks through the Registrar or any other officer authorized by him. Immediately after the loan is sanctioned,
a Loan Sanction Order is sent to the loanee indicating the amount and terms and conditions. On receipt of this order the concerned central bank or society executes and submits the required documents on receipt of which the loan amount is finally paid. The state cooperative banks have now decided to give preference to short-term loans, and hence the central banks have been advised to apply more for such loans.

The maximum period of short-term loans is 12 months. Such loans are given for:

(i) Meeting cultivation expenses;
(ii) Meeting domestic expenses,
(iii) Payment of rent;
(iv) Holding of produce for a better market;
(v) Purchase of fodder for the cattle; and
(vi) Production and sale of animal husbandry and forest produce.

Medium-term loans are generally for three years and are given for these purposes:

(i) Purchase of bullocks and other live stocks;
(ii) Purchase of implements, machinery, cans, etc., for agricultural purposes;
(iii) Reclamation of land;
(iv) Sinking and renovation of irrigational wells, tanks and channels;
(v) Bundling, enclosures and fencing and construction of farm sheds, godowns, etc. ;
(vi) Laying down of gardens and orchards and plantations;
(vii) Purchase of machinery and equipment for animal husbandry and dairy farming;
(viii) Repairs, replacements and renewals of machinery and equipment. Diversion of loans for purposes other than for which they are sanctioned may result in the immediate recall of the loans or refusal of further loans or penal interest on the loans.
Cash credit may be sanctioned on the following securities: (i) pledge of agricultural produce to be announced from time to time; (ii) pledge of finished goods, semi-finished goods and stores and supplies, as approved by the bank. These goods will be under the effective control of the bank and fully insured; (iii) Government Promissory Notes, Central Land Mortgage Bank Debentures, Treasury Certificates, National Savings Certificate, National Defense Bonds etc. to the extent of 90% of the market value; and (iv) Society bonds and cash credit agreements endorsed by a Central Bank. State cooperative bank may also grant clean cash credit up to a certain amount without requiring the pledge of any security, only to meet emergencies. These banks have the right to inspect the utilization of loans granted to central banks. Loans may also be given for six months against fixed deposit receipts to any holder at the rate of 90% and at a rate of interest 1 1/2 % higher than the rates allowed on such deposits. The rates of interest on various loans are fixed in consultation with the Registrar and the Reserve Bank of India.

3.6.7. Distribution of Surpluses

Interest accruing on loans granted to central cooperative banks and societies is the most important source of income of the state cooperative banks. They also earn interest on government and other trustee securities in which they invest their surplus funds. The following are the miscellaneous sources of income of these banks:

a. Dividend on shares held in other cooperative institutions and Financial Corporations and interest on the debentures of Central Agriculture and Rural Development Bank;

b. Commission from bill collections;

c. Exchange commission earned through remittances;

d. Rent of buildings, if any; and

e. Interest on deposits with other banks.
The state cooperative banks distribute their income in this manner:

(i) interest on loans borrowed from the Reserve Bank of India, State Bank of India and other institutions;

(ii) interest to deposit holders;

(iii) establishment charges;

(iv) audit fees;

(v) Publicity and propaganda expenses; depreciation on fixed assets and donations, etc. After meeting all these expenses and making provision for different reserves the net profit is appropriated in the manner as prescribed by the rules and bye-laws of the bank.

3.6.8. Audit of SCBs

Audit of all the cooperative societies at various levels is the statutory responsibility of the Registrar of Cooperative Societies. The accounts of the state cooperative banks are audited by the audit officers of the cooperative department on behalf of the Registrar. These banks may also get their accounts audited by the professional auditors with the permission of the Registrar.
Table No. 3.9

**Working of State Cooperative Banks in India**

(Rs. In Lakhs)

<table>
<thead>
<tr>
<th>Particular</th>
<th>2003-04</th>
<th>2005-06</th>
<th>2007-08</th>
<th>2009-08</th>
<th>2011-12</th>
<th>2013-14</th>
<th>Growth in % from 03-04 to 13-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Banks</td>
<td>30</td>
<td>30</td>
<td>31</td>
<td>31</td>
<td>31</td>
<td>31</td>
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</tr>
<tr>
<td>No. of Branches</td>
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<td>986</td>
<td>1015</td>
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<td>1096</td>
<td>17.98</td>
</tr>
<tr>
<td>Total Members</td>
<td>150975</td>
<td>153697</td>
<td>150917</td>
<td>330808</td>
<td>254358</td>
<td>338455</td>
<td>124.18</td>
</tr>
<tr>
<td>out of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Coop. Soci</td>
<td>17288</td>
<td>20103</td>
<td>20380</td>
<td>19732</td>
<td>20087</td>
<td>20372</td>
<td>17.84</td>
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<td>2. Individual Members</td>
<td>133687</td>
<td>133594</td>
<td>130537</td>
<td>311076</td>
<td>234271</td>
<td>318083</td>
<td>137.93</td>
</tr>
<tr>
<td>Paid Up Share Capital</td>
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<td>131617</td>
<td>162958</td>
<td>261707</td>
<td>362927</td>
<td>292.54</td>
</tr>
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<td>876281</td>
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<td>1084970</td>
<td>94.72</td>
</tr>
<tr>
<td>Deposit</td>
<td>4286301</td>
<td>4767221</td>
<td>5628692</td>
<td>8483773</td>
<td>8665296</td>
<td>10197026</td>
<td>137.90</td>
</tr>
<tr>
<td>Borrowing</td>
<td>1352100</td>
<td>1687166</td>
<td>2160638</td>
<td>2363252</td>
<td>4271362</td>
<td>6049371</td>
<td>347.41</td>
</tr>
<tr>
<td>Working Capital</td>
<td>6521629</td>
<td>7454366</td>
<td>8985076</td>
<td>12205733</td>
<td>14798850</td>
<td>18349882</td>
<td>181.37</td>
</tr>
<tr>
<td>Advances</td>
<td>3486449</td>
<td>4880354</td>
<td>5331376</td>
<td>5978395</td>
<td>8152345</td>
<td>11020761</td>
<td>216.10</td>
</tr>
<tr>
<td>Employees</td>
<td>15554</td>
<td>14742</td>
<td>14857</td>
<td>13781</td>
<td>13288</td>
<td>13233</td>
<td>-14.92</td>
</tr>
</tbody>
</table>

(Source: NAFSCOB Report 2003-04 to 2013-14)
The above table No. 3.9 is showing the working of State Cooperative Banks (SCBs) in India from the year 2003-04 to 2013-14. In the year 2003-04 there were 30 SCBs working. In the year 2007-08 there were 31 SCBs functioning all over India, with 1096 branches in the year 2013-14. The column of above table is showing the growth made during last 10 years in the working of SCBs. 17.98% growth in No. of branches is registered all over India during that period. The total numbers of members of SCBs were increased from the year 03-04 to 05-06 but during the year 07-08 it was decreased. It was increased 119.19% from the year 07-08 to year 09-10 but during the following two years it was decreased around 23.11%. During the period of 10 years there is 124.18% of growth in the number of membership. Out of total members 17288 Cooperative Societies were holding membership of SCBs, which was reached up to 20372 in the year 13-14. It is showing the growth of 17.84%. Individual membership was 133687 in the year 03-04, which were 318083 in the year 13-14. The growth is reported 137.93%. With the increasing number in membership, the paid up capital of SCBs is also increased. The figures are showing that from the year 03-04 to 05-06 there is 18.35% share capital was increased. The same was increased 20.28% in the year 07-08 and 23.81% in the year 09-10. In the year 11-12 the growth is reported 60.60%. During the decade of 03-04 to 13-14 the growth was 292.54%.

SCBs have to keep statutory reserves as per the Cooperative Societies Act. Total reserves of SCBs in India were increased 31.77% from the year 03-04 to 05-06. In the following years 07-08 it was increased 17.56% and 1.52% in the year 09-10. The total growth in statutory reserves of SCBs is 94.72%.

The amount of Deposits of SCBs in India is showing constant growth which is a good thing. The growth in deposit from the year 03-04 to 05-06 was 11.22%, which was increased almost 7% and became 18.07% in the year 07=-8 comparison to the year 05-06. In the year 09-10 it was increase by 50.72% but in the year 10-11 there was negligible growth of 2.14%. But during the year 03-04 to 13-14 the total growth in deposits of SCBs is reported 137.90%, which is highly appreciable.
NABARD is supporting to fulfil the financing need of STCCS. The figure reported are showing that the percentage wise growth in the borrowing received from NABARD by the SCBs of India from the year 03-04 to 05-06 was 24.78%. In the year 07-08 it was increased 28.06% and during 09-10 it was increased by 09.37% which was very marginal. During the decade the growth reported in the borrowings of SCBs is 347.41%

The figure in the working capital is showing the growth of 14.30% from the year 03-04 to 05-06, 20.53% in the year 07-08, 35.84% in 09-10 and 21.24% in 11-12. The total growth in the working capital of SCBs is 181.37% from the year 03-04 to 13-14.

The borrowing of SCBs is increased. At the same time the advances is also increased. The amount in the above table is displaying that the advances made by SCBs during 03-04 to 05-06 is increased 39.98%, 9.24% in the year 07-08, 12.13% in 09-10, 46.40% in the year 11-12. Total growth during the decade of 03-04 to 13-14 is reported 216.10%

Employees are assets of any organization. While studying the position of employees in SCBs of India, the figures are showing that in the year 03-04 there were total 15554 employees working in SCBs, which was reduced 5.22% in the year 05-06. In the year 07-08 it was reduced very marginal 0.78%. While analyzing the figures of following years the fact reveals that the numbers of employees in SCBs are constantly reducing. And in the terms of percentage the numbers of employees reduced are 14.92%
Table No. 3.10
Performance of State Cooperative Banks in India (Rs. In Lakhs)

<table>
<thead>
<tr>
<th>Particular</th>
<th>2003-04</th>
<th>2005-06</th>
<th>2007-08</th>
<th>2009-10</th>
<th>2011-12</th>
<th>2013-14</th>
<th>Growth in % from 03-04 to 13-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Deposit</td>
<td>4286301</td>
<td>4767221</td>
<td>5628692</td>
<td>8483773</td>
<td>8665296</td>
<td>10197026</td>
<td>137.90</td>
</tr>
<tr>
<td>Out of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Coop. Soci</td>
<td>3221970</td>
<td>3313213</td>
<td>4020338</td>
<td>6429949</td>
<td>6024230</td>
<td>7020197</td>
<td>117.89</td>
</tr>
<tr>
<td>2. Individuals</td>
<td>785171</td>
<td>866607</td>
<td>1112724</td>
<td>1753252</td>
<td>2058845</td>
<td>2270564</td>
<td>189.18</td>
</tr>
<tr>
<td>3. Local Bodies and others</td>
<td>279160</td>
<td>587401</td>
<td>495630</td>
<td>300572</td>
<td>582221</td>
<td>3176829</td>
<td>1038.00</td>
</tr>
<tr>
<td>Out of total Deposits</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Current</td>
<td>225068</td>
<td>240335</td>
<td>424611</td>
<td>399430</td>
<td>440858</td>
<td>457207</td>
<td>103.14</td>
</tr>
<tr>
<td>2. Savings</td>
<td>339871</td>
<td>434930</td>
<td>555480</td>
<td>751630</td>
<td>961128</td>
<td>1084041</td>
<td>218.96</td>
</tr>
<tr>
<td>3. Fixed</td>
<td>3567338</td>
<td>3707344</td>
<td>4278283</td>
<td>6981793</td>
<td>6845805</td>
<td>8367780</td>
<td>134.57</td>
</tr>
<tr>
<td>Total Advances</td>
<td>3486449</td>
<td>4880354</td>
<td>5331376</td>
<td>5978395</td>
<td>8152345</td>
<td>11020761</td>
<td>216.10</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td></td>
<td>I. ST</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3067845</td>
<td>3553233</td>
<td>3932476</td>
<td>4646000</td>
<td>7462765</td>
<td>10207105</td>
<td></td>
</tr>
<tr>
<td>% ST Loan against</td>
<td>87.99%</td>
<td>72.80%</td>
<td>73.76%</td>
<td>77.71%</td>
<td>91.54%</td>
<td>92.61%</td>
<td></td>
</tr>
<tr>
<td>total Adv.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. MT and Other</td>
<td>418604</td>
<td>1327121</td>
<td>1398900</td>
<td>1332395</td>
<td>689580</td>
<td>611435</td>
<td></td>
</tr>
<tr>
<td>% MT Loan against</td>
<td>12%</td>
<td>27.19%</td>
<td>26.24%</td>
<td>22.28%</td>
<td>8.46%</td>
<td>5.54%</td>
<td></td>
</tr>
<tr>
<td>total Adv.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td>24</td>
<td>24</td>
<td>23</td>
<td>23</td>
<td>25</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>No. of Banks in Profit</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Amount Rs.</td>
<td>25151</td>
<td>45042</td>
<td>51475</td>
<td>39163</td>
<td>60313</td>
<td>106247</td>
<td></td>
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<tr>
<td>Loss</td>
<td>6</td>
<td>6</td>
<td>8</td>
<td>8</td>
<td>6</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>No. of Banks in Loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount Rs.</td>
<td>15700</td>
<td>27367</td>
<td>36015</td>
<td>55730</td>
<td>66593</td>
<td>44830</td>
<td></td>
</tr>
</tbody>
</table>

(Source: NAFSCOB Report 2003-04 to 2013-14)
The above table no. 3.10 is showing the performance of State Cooperative Banks of India during the year 2003-04 to 2013-14. In this table the detailed analysis of Deposits, Advances and Profits and loss of SCBs is done.

While studying the position of deposits it can be analysed that SCBs are accepting deposits from Cooperative Societies, Individuals and local bodies. Most of the share of deposit is covered by Cooperative societies. While analysing the figures, it is revealed that more than 70% of deposits are from Cooperative societies, 18 to 24% from Individuals and 3 to 12% deposits are received from local bodies. While studying type wise deposits, SCBs are accepting Current, Savings and Fixed Deposits. The growth in Current deposits of SCBs during last decade is 103.14%, Savings deposits 218.96% and fixed deposits it is 134.57%. While analysing the share of current, saving and fixed deposits in total deposits it is showing that more than 75% deposits are fixed deposits, around 25% are savings and current deposits. That means SCBs are having huge burden of interest on their deposit portfolio.

SCBs are offering two types of advances, for short term and medium term. Short term advances are given for the period of 12 months and medium term for 3 to 5 years. The growth in short term advances made by SCBs is showing 232.71% growth during last decade, whereas the growth in medium term advances is reduced 53.83%. The share of short term advances in total advances is remained 70 to 90%. The share of medium term advances was remained 10 to 30%. In the year 13-14 the share of short term advances in total advances was 92.61% and medium term was 5.54%.

To earn profit is not the main objective of cooperative institutions but still it is one of the important elements of any business. During the decade of study, around 23 to 28 SCBs were earning profit. The growth in the amount of profit shows 16.67% increase. During the same period around 3 to 8 SCBs were in loss. During the year 2013-14 only 3 SCBs
were in loss but the amount of loss is increased. This is not showing the healthy position of working of SCBs in India.

**Gujarat State Cooperative Bank:**

Gujarat State Cooperative Bank was established in year 1960 and registered under the Gujarat State Cooperative Societies Act 1961. It is the first State Co-operative Bank to be included in the second schedule of the Reserve Bank of India Act, licenced to carry on the organized business in banking. Nearly 28 Lacs farmers of 8100 PACS affiliated with GSCB through 18 DCCBs and a cooperative banking union are enjoying credit facilities. This wide network has enabled the District Co-operative Banks to reach the weaker sections and the common man in the rural areas in Gujarat. Progress of GSCB for the period 2003-04 to 2013-14 is given in the following tables.
Table No.3.11

Working of Gujarat State Cooperative Bank

(Rs. In Lakhs)

<table>
<thead>
<tr>
<th>Particular</th>
<th>2003-04</th>
<th>2005-06</th>
<th>2007-08</th>
<th>2009-10</th>
<th>2011-12</th>
<th>2013-14</th>
<th>Growth in % from 03-04 to 13-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Capital</td>
<td>1525</td>
<td>1625</td>
<td>1702</td>
<td>1907</td>
<td>2062</td>
<td>2374</td>
<td>55.67</td>
</tr>
<tr>
<td>Out of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Coop. Soci</td>
<td>1521</td>
<td>1625</td>
<td>1702</td>
<td>1907</td>
<td>2062</td>
<td>2374</td>
<td>56.08</td>
</tr>
<tr>
<td>2. Govt. Share</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3. Individual</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Members</td>
<td>437</td>
<td>395</td>
<td>381</td>
<td>354</td>
<td>426</td>
<td>338</td>
<td>-14.43</td>
</tr>
<tr>
<td>Out of which</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Govt.</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>3. Individual</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Reserves</td>
<td>26024</td>
<td>36320</td>
<td>37973</td>
<td>37258</td>
<td>37149</td>
<td>108497</td>
<td>198.725</td>
</tr>
<tr>
<td>Deposit</td>
<td>276061</td>
<td>216271</td>
<td>320996</td>
<td>44731</td>
<td>48617</td>
<td>1019702</td>
<td>371.493</td>
</tr>
<tr>
<td>Borrowing</td>
<td>60065</td>
<td>100342</td>
<td>94976</td>
<td>11994</td>
<td>24239</td>
<td>589408</td>
<td>487.399</td>
</tr>
<tr>
<td>Advances</td>
<td>137966</td>
<td>169476</td>
<td>154901</td>
<td>20461</td>
<td>32432</td>
<td>526044</td>
<td>281.29</td>
</tr>
<tr>
<td>Working Capital</td>
<td>383244</td>
<td>378203</td>
<td>441342</td>
<td>61373</td>
<td>82010</td>
<td>1150381</td>
<td>200.17</td>
</tr>
<tr>
<td>Investment</td>
<td>103025</td>
<td>153413</td>
<td>192863</td>
<td>38169</td>
<td>36322</td>
<td>587455</td>
<td>470.21</td>
</tr>
<tr>
<td>Employee</td>
<td>241</td>
<td>228</td>
<td>216</td>
<td>208</td>
<td>197</td>
<td>243</td>
<td>0.83</td>
</tr>
</tbody>
</table>

(Source: NAFSCOB Report 2003-04 to 2013-14)
The Gujarat State Cooperative Bank (GSCB) is working as an Apex bank in Gujarat since 01st May 1960. Out of 31 SCBs, the GSCB was the only bank which was functioning as a monitoring & controlling authority of STCCS and was not engaged in retail banking business. From the year 2013-14 GSCB has started retail banking business. GSCB has played very important role to strengthen the short term cooperative credit structure of Gujarat.

The above table No. 3.11 is showing the working of GSC bank during the year 2003-04 to 2013-14. During this period the share capital is increased 55.67%. The Vaidyanathan committee has recommended to reduce the share of Government in STCCS and it is clearly seen that Government of Gujarat has implemented it fully and there is share of Government in GSCB.

While studying the number of members, the figures reported are showing that during the decade the number of members is increasing and reducing also but overall that is not affecting the share capital of bank negatively.

The amount of statutory reserves is also indicating growth. During the period of study the reserves are increased by 198.725%, which is showing highly appreciable growth. GSC Bank is continuously earning profit and creating reserves out of it. The figures of deposit are showing that in the year 2003-04 the bank was having deposits of 276061 lakhs. The deposits were increased continuously and it was Rs. 1019702 lakhs in the year 2013-14 which is showing the growth of 371.49%. The GSC Bank is accepting borrowings from NABARD. The banks has borrowed Rs.60065 lakhs in the year 2003-04 to lend to DCCBs. In the year 2013-14 the borrowing reached upto 589408 lakhs. The growth reported is 487.39%. During the same time period the growth in advances is reported 281.29% and in the growth working capital 200.17%. Investment in the year 2003-04 Rs. 103025 lakhs. Which was Rs. 587455. The growth is 470.21%
Table No. 3.12
Performance of Gujarat State Cooperative Bank
(Rs. In Lakhs)

<table>
<thead>
<tr>
<th>Particular</th>
<th>2003-04</th>
<th>2005-06</th>
<th>2007-08</th>
<th>2009-10</th>
<th>2011-12</th>
<th>2013-14</th>
<th>Growth in % from 03-04 to 13-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Deposite</td>
<td>276061</td>
<td>216371</td>
<td>320996</td>
<td>447381</td>
<td>486157</td>
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<td>Out of Which</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Coop. Soci.</td>
<td>276061</td>
<td>102987</td>
<td>259899</td>
<td>444299</td>
<td>373731</td>
<td>526924</td>
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<tr>
<td>2. Individual</td>
<td>0</td>
<td>698</td>
<td>1833</td>
<td>3082</td>
<td>3776</td>
<td>29654</td>
<td></td>
</tr>
<tr>
<td>1. Current</td>
<td>13665</td>
<td>12054</td>
<td>13014</td>
<td>18506</td>
<td>22337</td>
<td>22821</td>
<td>67.00</td>
</tr>
<tr>
<td>%</td>
<td>4.95%</td>
<td>5.57%</td>
<td>4.06%</td>
<td>4.14%</td>
<td>4.59%</td>
<td>3.28%</td>
<td>-33.74</td>
</tr>
<tr>
<td>2. Savings</td>
<td>281</td>
<td>324</td>
<td>419</td>
<td>357</td>
<td>512</td>
<td>782</td>
<td>178.29</td>
</tr>
<tr>
<td>%</td>
<td>0.10%</td>
<td>0.15%</td>
<td>0.13%</td>
<td>0.80%</td>
<td>0.10%</td>
<td>0.11%</td>
<td>10.00</td>
</tr>
<tr>
<td>3. Fixed</td>
<td>262115</td>
<td>203993</td>
<td>248299</td>
<td>428518</td>
<td>463308</td>
<td>670962</td>
<td>155.98</td>
</tr>
<tr>
<td>%</td>
<td>94.94%</td>
<td>94.28%</td>
<td>77.35%</td>
<td>95.78%</td>
<td>95.30%</td>
<td>96.60%</td>
<td>1.75</td>
</tr>
<tr>
<td>Total Advances</td>
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<td>169476</td>
<td>154901</td>
<td>204671</td>
<td>324392</td>
<td>526044</td>
<td>281.29</td>
</tr>
<tr>
<td>Out of which</td>
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<td></td>
</tr>
<tr>
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<td>459395</td>
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</tr>
<tr>
<td>%</td>
<td>58.26%</td>
<td>73.63%</td>
<td>81.66%</td>
<td>81.69%</td>
<td>79.13%</td>
<td>87.33%</td>
<td>49.90</td>
</tr>
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<td>2. MT</td>
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<td>4464</td>
<td>11115</td>
<td>27541</td>
<td>66649</td>
<td>1906.90</td>
</tr>
<tr>
<td>%</td>
<td>2.40%</td>
<td>11.94%</td>
<td>2.88%</td>
<td>5.43%</td>
<td>8.49%</td>
<td>12.67%</td>
<td>427.92</td>
</tr>
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<td>113554</td>
<td>148336</td>
<td>120977</td>
<td>132649</td>
<td>115180</td>
<td>274293</td>
<td>141.55</td>
</tr>
<tr>
<td>Recovery</td>
<td>97072</td>
<td>146095</td>
<td>113895</td>
<td>116798</td>
<td>113538</td>
<td>270244</td>
<td>178.40</td>
</tr>
<tr>
<td>%</td>
<td>85.48%</td>
<td>98.49%</td>
<td>94.15%</td>
<td>88.05%</td>
<td>98.57%</td>
<td>98.52%</td>
<td>15.26</td>
</tr>
<tr>
<td>Profit</td>
<td>481.77</td>
<td>528.66</td>
<td>630.49</td>
<td>759.96</td>
<td>1885</td>
<td>NA</td>
<td>291.26</td>
</tr>
</tbody>
</table>

(Source: NAFSCOB Report 2003-04 to 2013-14)
The above table No. 3.12 is showing the performance of GSCB. While studying the position of deposit, it is showing that GSCB has made the growth of 151.60% in the collection of deposit which is highly appreciable. Type wise deposit is showing that GSCB is accepting savings, current and fixed deposits. The share of savings deposits in total deposits of GSCB is remained less than 1% which is very negligible. While current deposits were remained 3 to 5%. The major portion of deposits of GSCB is covered by fixed deposits. Due to that bank has to face the burden of high interest liability.

During the period of study the figures of Advances is showing the growth of 281.29%. Out of total advances 60 to 80% advances were made for short term, whereas the portion of medium term advances was remained below 12%. Total growth during the decade on short term advances was 471.52% and in medium term advances it was 1906.90%. While studying the position of recovery it is revealed that the recovery of GSCB was more than 80% during the period of study. The sound recovery has created positive impact on the profitability of the bank. The amount of profit of the bank is continuously increasing.

3.7 State Cooperative Agriculture & Rural Development Bank

3.7.1. Introduction

Primary Agriculture Cooperative Societies though equipped to provide credit for seasonal agricultural production requirements, were not considered suitable for providing long-term credit to the farmers for purposes of making long term investments in their land. Investment credit envisaging repayment in easy instalments extending over the period of 10-15 yearshas to be advances against mortgage of land. Procedure involved in the advancement of such being complicated needed expert handling by technically qualified persons who were considered beyond the capacity of the primary credit societies to engage. Moreover, rural credit societies were not advised to employ their short notice liabilities in advancing long term loans. In India, therefore, two separate structures have developed – one handling with the advancements of short and medium term loans; and
the other, dealing with investment credit of long duration. The earliest efforts for
organising separate long term credit institutions were made in the Punjab where the first
cooperative land mortgage bank was established in the year 1920 at Jhang.

3.7.2. Constitution of SCARDB

Like any other co-operative organization the ultimate control over the Primary
Agricultural Development Bank vests in the general body of members. The members
elect Board of Directors in accordance with the Act, Rules and Bye-laws of the bank. The
number of members, tenure of office etc. are regulated as per the Rules and Bye-laws of
the bank. For day-to-day management the bank employs full time secretary/manager,
accountant and other supporting staff. The general superintendence of the affairs and
business of the State Agricultural Development Bank shall be entrusted with a Board of
Directors which may exercise all powers and do all such acts and things as may be
exercised by the bank. The Board shall consist of the following directors: i) Director of
Agriculture (Ex-officio) ii) Director, Special Agricultural Development Unit (Ex-officio)
iii) The Registrar of Co-operative Societies (Ex-officio) iv) One member for each
revenue district elected by and from among the delegates of shareholding primary banks
48 v) The Managing Director (Ex-Officio) vi) The Additional Secretary (Co-operation)

3.7.3. Employment of Funds

The Primary Agricultural Development Banks raise their financial resources from the
following sources: a) Share capital b) Loans from State Agricultural Development Bank
c) Admission and other fees d) Grants and subsidies from Government e) Borrowing
from other agencies The primary bank raises their share capital by issuing shares to their
members in certain proportion to their borrowings from the bank. The initial contribution
towards share capital is just to enable the beneficiary to become a member of the bank
and borrow a long-term loan. The second method of raising share capital is to deduct
certain percentage of the amount borrowed by the members at the time of disbursement
of a loan. This enables the bank to increase its own funds, thereby increasing its
borrowing powers. Loans from the State Agricultural Development Bank constituted the single major source of raising funds by the primary bank. The borrowings of the primary banks from the apex bank are also linked with their shareholdings in the apex institution with which they are affiliated. The funds of the State Agricultural Development Bank are raised by shares, debentures, bonds, deposits, loans from State Government and other financial agencies. The debentures and bonds are the main source and they are issued for a period not exceeding 20 years.

3.7.4. Loan Operations

Prior to the All India Rural Credit Survey Committee Report, the Agricultural Development Banks were mostly giving loans for discharge of prior debts and for redemption of past mortgages. There was a shift in the lending policy of the primary banks following the recommendations of the Committee of Direction of the All India Rural Credit Survey (1954). In accordance with 50 the committee’s recommendations, the Agricultural Development Banks required to reorient their operations to production and the banks were required to give first priority to applications in respect of loans for improvements, reclamation and development of land, purchase of agricultural machinery and equipments and other productive purposes.

3.7.5. Gujarat State Cooperative Agriculture & Rural Development Bank

This Bank was established by Late Shri Udaybhansinhji (Yuvraj of Porbandar state) in the year of 1951 in the erstwhile state of Saurashtra as an apex body for providing long term agricultural loans to agriculturists and was named as Saurashtra State Central Cooperative Land Mortgage Bank Ltd. Its jurisdiction was confined to the then state of Saurashtra consisting of 5 districts. Saurashtra was merged with Bombay state in 1957 but this bank continued to work as separate institution even in the bigger bilingual Bombay State but its area of operation was limited to the region of Saurashtra only. Consequent upon the bifurcation of Bombay state and on formation of separate State of Gujarat in 1960, this bank extended its jurisdiction to the whole of Gujarat State in 1961. Name of the Bank was also changed to Gujarat State Co-operative Land Mortgage Bank
Peculiar circumstances responsible for the establishment of this bank were the necessity to have banking agency to give loans to tenant cultivators to enable them to purchase occupancy rights over the land tilled by under the Saurashtra Land Reforms Act of 1949, and thereby to ensure speedy implementation of this enactment. Accordingly, this Bank was formed in a co-operative fold on the lines of mortgage banking as elsewhere in the country. In its initiate stage of lending, this bank gave loans to nearly 56,000 tenants' cultivators amounting to Rs. 2.64 crores and thereby it enabled them to become owners of the land tilled by them for years. Thus for the first time in the country, the land reforms measures of the state government were successfully and speedily implemented through the media of Land Mortgage Bank. Thereafter this bank undertook mortgage banking activities by giving loan to farmers for various agricultural and allied activities.

The details of working of GSCARDB are given in the table below.
Table No. 3.13
Working of Gujarat State Agriculture and Rural Development Bank

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Capital</td>
<td>5274.24</td>
<td>5205.08</td>
<td>4908.07</td>
<td>4676.05</td>
<td>4456.43</td>
<td>4388.52</td>
<td>4448.47</td>
<td>-15.66</td>
</tr>
<tr>
<td>Reserve Funds</td>
<td>3708.59</td>
<td>4306.35</td>
<td>4788.92</td>
<td>5433.79</td>
<td>6321.96</td>
<td>7250.18</td>
<td>8414.06</td>
<td>126.88</td>
</tr>
<tr>
<td>Deposits</td>
<td>7678.9</td>
<td>6443.53</td>
<td>10434.79</td>
<td>13869.79</td>
<td>13288.04</td>
<td>15213.61</td>
<td>20558.79</td>
<td>167.73</td>
</tr>
<tr>
<td>Savings Deposits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>121.52</td>
<td>235.43</td>
<td></td>
<td>93.74</td>
</tr>
<tr>
<td>Fixed Deposits</td>
<td>7557.38</td>
<td>6443.53</td>
<td>10434.79</td>
<td>13869.79</td>
<td>13288.04</td>
<td>15092.09</td>
<td>20323.36</td>
<td>168.92</td>
</tr>
<tr>
<td>Borrowings</td>
<td>47404.61</td>
<td>40546.67</td>
<td>27057.14</td>
<td>19413.78</td>
<td>14042.04</td>
<td>10061.44</td>
<td>6932.35</td>
<td>-85.38</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>14879.94</td>
<td>17218.51</td>
<td>27125.53</td>
<td>26371.66</td>
<td>28257.7</td>
<td>23488.26</td>
<td>24181.4</td>
<td>62.51</td>
</tr>
<tr>
<td>Net Profit</td>
<td>2296.07</td>
<td>1930.57</td>
<td>2578.51</td>
<td>3551.86</td>
<td>3711.49</td>
<td>3725.42</td>
<td>3751.6</td>
<td>63.39</td>
</tr>
<tr>
<td>Deposits in Other Banks</td>
<td>8743.75</td>
<td>1498.29</td>
<td>948.18</td>
<td>720.48</td>
<td>1092.69</td>
<td>1591.39</td>
<td>4207.32</td>
<td>-51.88</td>
</tr>
<tr>
<td>Investment in G-Sec</td>
<td>11039.96</td>
<td>10002.42</td>
<td>10366.51</td>
<td>9550.24</td>
<td>11092.03</td>
<td>13319.21</td>
<td>15391.78</td>
<td>39.42</td>
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<tr>
<td>Loans and Advances</td>
<td>61849.85</td>
<td>66459.25</td>
<td>61357.11</td>
<td>59667.8</td>
<td>55894.69</td>
<td>56511.13</td>
<td>57989.36</td>
<td>-6.24</td>
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<tr>
<td>Agriculture Loans</td>
<td>56378.05</td>
<td>62196.7</td>
<td>57685.86</td>
<td>56293.13</td>
<td>52703.15</td>
<td>53219.18</td>
<td>55119.9</td>
<td>-2.23</td>
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<tr>
<td>Non Agriculture Loans</td>
<td>5471.8</td>
<td>4262.55</td>
<td>3671.31</td>
<td>3374.67</td>
<td>3191.54</td>
<td>3291.95</td>
<td>2869.46</td>
<td>-47.56</td>
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<tr>
<td>Fixed Assets</td>
<td>883.82</td>
<td>899.75</td>
<td>893.66</td>
<td>906.67</td>
<td>923.61</td>
<td>26265.7</td>
<td>26246.96</td>
<td>2869.72</td>
</tr>
<tr>
<td>Other Assets</td>
<td>2033.48</td>
<td>1984.42</td>
<td>8303.68</td>
<td>9074.51</td>
<td>9117.2</td>
<td>1119.79</td>
<td>1618.76</td>
<td>-20.39</td>
</tr>
</tbody>
</table>

(Source: Balance sheet of GSCARD Bank 2005-06 to 2012-13)
The above table No.3.13 is showing the working of Gujarat State Cooperative Agriculture & Rural Development Bank (GSCARDB) from the year 2006-07 to 2012-13.

The share capital of GSCARDB was Rs.5274.24 lakhs in the year 2006-07, which was decreased during the period of study. In the year 2012-13 the share capital of the bank was Rs. 4448.47. The decline in percentage is -15.55% and growth rate reported is -2.61%. GSCARDB was having Rs. 3708.59 lakhs Reserve Fund in the year 2006-07. Year by year the reserve fund is increased and it was Rs. 8414.06 lakhs in the year 2012-13. The growth reported is 126.88 % and growth rate was 21.15%.

The GSCARDB is mainly accepting deposits in the form of long term deposits. The total deposits of GSCARDB were Rs. 7557.38 Lakhs in the year 2006-07, which was continuously increased during the period of study and it was Rs. 20323.36 Lakhs in the year 2012-13. The growth was 167.73% and growth rate was 27.96%. The saving deposits were Rs.121.52 lakhs in the year 2011-12. The next year, 2012-13 it was reported 235.43 lakhs, which is showing the growth of 93.74% and growth rate 15.62%.

The GSCARDB accepts borrowing from NABARD for the purpose of landing to farmers. In the year 2006-07 the borrowing was Rs.47404.61 lakhs. It was decreased year by year and in the year 2012-13 the borrowing of GSCARDB was Rs. 6932.35 lakhs. The growth was -85.38% and the growth rate was -14.23%.

The GSCARDB is continuously earning profit. The bank has earned Rs. 2296.07 lakhs profit in the year 2006-07. In the year 2012-13 the profit was Rs. 3751.60 lakhs. The growth rate of profit recorded is 63.39%. The total growth rate is 10.57%.

The loan & advances of bank was Rs. 61849.85 lakhs in the year 2006-07. In the year 2012-13 it was decreased and reached up to Rs.57989.36 lakhs. The growth was -6.24% and growth rate was -1.04%.
The fixed assets of GSCARDB were of Rs.883.82 lakhs in the year 2006-07, it reached up to Rs. 26246.96 lakhs in the year 2012-13. The growth was 2869.72% and growth rate was 478.29%