ABSTRACT

Financial institutions occupy a very important place in the national economy of any country today. Though themselves a product of industrial development and trade growth, they provide a solid base for the development of industry, commerce and agriculture in modem times. They also provide an outlet for the short-term funds of commercial banks and facilitate the control of the central bank on the national economy. Due to their increased responsibilities, the dependence of the State on these financial institutions has very much increased. In fact, financial institutions have become an essential ingredient of the modern economic system and are as much useful to the state as to private business. Keeping this fact in view, Government of India has taken active and keen interest in developing institutional infrastructure for providing finance to various sectors of the economic activity.

There are various types of financial institutions in India which cater to the needs of different sectors of the economy. Of these, Co-operative and Commercial Banks are the two important segments engaged actively in providing financial assistance to general, commercial and rural activities of the country. In this context, it was considered appropriate to undertake a research project on "A Comparative Study of the Working of Co-operative and Nationalised Financing Institutions of Aligarh District."
The study has been divided into six chapters. The First Chapter introduces the subject matter of the study by examining the theoretical relationship between different financial institutions. The chapter includes a brief discussion of the history of growth and the structure of financial institutions. Until the end of the nineteenth century, money-lenders and indigenous bankers were the only financial institutions in the country. But, in the early years of the present century, co-operative credit institutions and commercial banks came into existence. To control their activities, the Government of India established Reserve Bank of India in 1935. Since the beginning of planned development of the country in 1951, the absence of an organised money and capital market was keenly felt. Therefore, a number of specialised financial institutions were set up to fill up the gaps of our financial structure.

Broadly speaking, financial institutions may be categorised into two marked groups viz.- money market and capital market. A money market provides a mechanism by which short-term funds are lent out and borrowed. Such a market is composed of commercial and other types of banks and agencies, catering to the short-term capital requirements in different sectors of the country's economy and Reserve Bank of India as the apex institution of money market. Capital markets are markets in which lenders and investors provide long-term funds. These institutions may be classified into investing institutions
and development banks on the basis of the nature of their activities.

The financial institutions in India may be divided mainly into three parts - organised sector, rural co-operative sector and unorganised sector. The organised sector may again be divided into four parts namely, Reserve Bank of India, Nationalised Banking Sector, Private Banking Sector and Development Banks & other financial institutions. The nationalised banking sector may again be divided into two parts viz.- State Bank group and twenty nationalised commercial banks. Private banking sector may be divided into two parts viz.- scheduled banks and non-scheduled banks. The scheduled banks are comprised of two organs namely Indian banks and foreign banks. Development banks and other financial institutions can also be divided into three parts namely those financing industry, those financing agriculture, and those financing other sectors. Those which finance industry consist of Industrial Finance Corporation of India, State Financial Corporations, National Industrial Development Corporation, Industrial Credit and Investment Corporation of India, National Small Industries Corporation, State Industrial Development Corporations, Industrial Development Bank of India, Industrial Reconstruction Corporation of India and Unit Trust of India. Financial institutions which finance agriculture are comprised of Agriculture Finance Corporation and National Bank for Agriculture and Rural Development. The institutions which
finance other sectors consist of Export Import Bank of India and Housing Development Finance Corporation Limited. Rural Co-operative sector can be divided into three parts namely Co-operative Banks, Land Development Banks and Regional Rural Banks. Co-operative Banks have a pyramidal shape in India, on State level, State Co-operative Banks; on district level, District Co-operative Banks; and on village level, Primary Agricultural Co-operative Credit Societies. The unorganised sector can be divided in four parts viz.- money-lenders, Indigenous Bankers, Nidhis and Chit Funds.

The Second Chapter is devoted to a discussion of co-operative banking in India. Co-operative banking is a form of organisation where people associate voluntarily on the basis of equality for the promotion of their collective economic interests and which satisfies all the requirements of an ideal credit. The co-operative movement in India was introduced by the State and has been developing under its guidance and patronage. The first Act on co-operation was passed by the Government of India in 1904. The main object of the Act was to encourage Thrift, self help and co-operation amongst agriculturists, artisans and persons of limited means. But, it could not satisfy the needs of its promoters. Therefore, the defects of the Act of 1904 were removed by enacting the Act of 1912. Under the Reforms Act of 1919, co-operation became a provincial subject. The Report of the Royal Commission set up in 1928 made noteworthy recommendations for the
improvement of co-operative banking and warned that 'if co-operation fails, there will fail the best hope of rural India."

From 1935 to 1939, there were three main developments. Firstly, in 1935 the Reserve Bank of India was established. Secondly, in 1936, an All India Conference of Registrars of Co-operative Societies emphatically stressed the need for development of long-term credit institutions and thirdly, the concept of primary societies being organised as multi purpose co-operatives came to be increasingly accepted.

The achievement of freedom in 1947 was the fulfilment of a long cherished dream. The nation accepted the concept of planned economy. The First Five Year Plan described co-operative form of organisation as an indispensable instrument of planned action in a democracy. The Second Five Year Plan provided ample opportunities to co-operatives to prove their worth and the building up of co-operative sector became one of the important aims of our national policy. The co-operative movement was further assigned an effective role during the Third Five Year Plan. The main object of the Fourth Five Year Plan was growth with stability. The plan stated that, it is important for planned development to bring about growth of co-operatives in all parts of the country to ensure the co-ordinated operation of various types of co-operative organisations. The building up of a strong and viable co-operative sector was the major objective of the national policy during
the Fifth Five Year Plan. During the period of the Sixth Five Year Plan, it was decided to strengthen primary village societies, to re-examine the existing co-operative policies, to re-orientate and consolidate the role of the co-operative federal organisations and development of professional manpower and appropriate professional cadres to man managerial positions.

The working of the co-operative banks is guided by certain fundamental principles, namely voluntary nature of the association, self help through mutual help, common welfare, democracy and human approach. Thus, co-operative banking is playing a role of a special form of business organisation aiming both at the economic uplift of the members and laying a greater emphasis on the moral principles and human values.

The role played by the Reserve Bank of India, State Bank of India and twenty nationalised commercial banks in our country's progress forms the theme of the Third Chapter. At the time of independence, the banking business in the country was completely in private sector. Therefore, the demand for nationalisation of financial institution arose from several quarters. Nationalisation of the Reserve Bank of India in 1949 was the first step which was taken by the Government towards satisfying the above mentioned demand. The contribution of Reserve Bank of India has, indeed, been significant in the spheres of commercial banking and co-operative credit structure.
The second step in this direction was the nationalisation of Imperial Bank of India in 1955, which was renamed as State Bank of India. The State Bank has been playing a multidimensional role and has always provided lead to others. Be it a farmer, small scale unit or village artisan or even physically handicapped, the State Bank is there everywhere. The Bank also assists large industries, which are basic for the country's progress and increasingly finances India's foreign trade.

July 19, 1969 was the day when fourteen major Indian scheduled commercial banks of the country were nationalised. Another significant development was the nationalisation of six other commercial banks on April 15, 1980. Today, rural credit in India is being provided by three agencies viz.- co-operative banks, commercial banks and regional rural banks, but they are covering a very small portion of the total rural area of the country. There is an urgent need for ensuring a better spread of banking facilities in rural and semi-urban areas.

A micro-assessment of the role of Aligarh Zila Sahakari Bank Limited, Aligarh is presented in the Fourth Chapter. This bank was established at Aligarh on May 2, 1916 with registration number 21. The area of operation of the bank is confined to the whole Aligarh district comprising six tehsils. The main aim of the bank is to act as a balancing centre of finance for the co-operative institutions of the district, receive money in different accounts and to provide advances.
There are a number of problems faced by the bank in lending operations. Due to these problems, the bank has not been able to finance its member societies to the desired extent. Some of the problems are non-availability of any credit limit from the apex bank due to heavy overdue position, low quantum of deposits due to lack of faith of the public in the bank, non-transfer of any funds by way of bad debts reserve, ineffective control over supervisory staff, absence of moral attribute due to which there are false loan applications, false distribution and false reloaning recoveries, lack of co-operation and co-ordination between the bank and co-operative societies, non-provision of accepting of deposits from Gram Panchayats, Municipality, Schools, etc. Uncertainty and lack of flow of funds at appropriate time, and absence of trained secretaries.

The next chapter examines the activities of Canara Bank and other nationalised and non-nationalised banks of Aligarh District. After nationalisation, the Canara Bank emerged as one of the fastest growing banks in the country. The bank has under it eighteen lead districts including Aligarh District. Launching of the district credit plan in all the lead districts and their follow-up has been accorded top priority by this bank.

An important development in the post-nationalisation period was the coming into existence of the 'Gramin Bank' under the Regional Rural Banks Act 1976. Canara Bank is probably one of the earliest banks in India which realised social
responsibilities of banks. Canara Bank which established its first branch in Aligarh District on September 24, 1971 is at present, working as a lead bank of the district. The bank set up a Lead Bank Office, the first of its kind in the Banking Sector which carried out the different responsibilities which were entrusted to the bank. At present, the bank has fifteen branches in the district and has made a rapid progress in the sphere of deposits and advances.

Thus, Canara Bank is playing a significant role in the expansion of banking facilities in the district, mobilising deposits, granting advances according to national priorities and implementing various new schemes to fulfil its social obligations. But for fulfilling these obligations, the bank is facing certain problems, for example the growth rate and current account has fallen considerably over the last few years, the image of the bank has been tarnished due to frauds, there is stiff competition from other institutions and due to special rates offered by Post Offices and indiscipline among the staff.

The major findings and recommendations emerging from this study are summarised in the concluding chapter. The Aligarh Zila Sahakari Bank Limited, Aligarh should have made a tremendous allround progress since its inception, but it has not done this so far. The bank has not been able to provide adequate finance to the extent demanded by the cultivators of this district. If the bank makes regular efforts with the help
of the Department and works on the advice and instructions of the Reserve Bank of India, much can be achieved. Regular and consistent efforts for raising the deposits should be made at all levels, as the bank's financial position is not quite sound. The bank should open 'one man bank's'. Should ensure security of employment to its employees and should make efforts to get greater participation of the State Government. Effective steps for the recovery of overdues should be made and a 'Review Committee' should be formed for the removal of difficulties and for proper implementation of all suggestions given by the Department. The bank should open a separate 'Recovery Cell' under the direct charge and supervision of a whole time Recovery Officer, verification of assets and liabilities of the member societies should be made at the end of every year so as to know their financial position and the staff of the bank and the societies should not be allowed to indulge in village politics.

It has been observed that District Co-operative Banks function at the district level. They act as a connecting link between the primary co-operative Credit Societies and the State Co-operative Bank.

To streamline the working of Canara Bank and to enable it to render better services to its customers, the bank should remove all constraints and ensure prompt collection of cheques, should remove all the complaints and grievances of the customers as early as possible so as to keep them attracted towards the bank, should launch vigorous deposit campaigns should offer
incentives like higher commission to those who attract larger deposits, should distribute liberally gift articles among its customers, should remove the grievances of the staff expeditiously. For ensuring internal control, a register should be maintained, listing out the irregularities that are fixed on the departmental heads and the bank should so conduct its operations that they are in alignment with the national policies and objectives.

The main aim of the nationalisation of commercial banks was expansion of banking facilities in rural areas, financing of agriculture, small scale and cottage industries and development of priority sector. So that they may achieve success in the fulfilment of these objectives, the bank should take care that the small and cottage industries do not operate below their optimum capacity due to shortage of funds. Banks are not merely financing institutions, they have a role to play in the non-financial spheres also. The Banks should provide better and greater facilities to customers for attracting larger amounts of deposits. They should devote greater attention in providing financial facilities to the weaker sections of the society and to the hither to unbanked areas of the district.

If the above suggestions are sincerely followed by the banks, they will be able to render better services to the society. However, it is very necessary that there should be proper co-operation and co-ordination between the working of the co-operative Banks and the nationalised banks. The two
systems together should work out a credit plan for the district taking into account the credit needs of the different sectors of the economy. They should work hand in hand and in a complementary and supplementary manner so that the credit targets are successfully achieved.

To sum up, Co-operative and Commercial Banks are two important segments of financial institutions working in our country. Co-operative Banks have been assigned the role of providing necessary finance primarily to rural sector with a view to make farmers free from the grip of Sahukars and Mahajans, while Commercial Banks are expected to rejuvenate the economy in general with particular emphasis on the development of priority sector. If both of them work in proper perspective with mutual co-operation and co-ordination, they will make a fruitful contribution to the economic development of the country in general and rural upliftment of India in particular.