Introduction

Definition are only a matter of convenience in understanding a thing but they are rarely complete or comprehensive. Likewise it is not easy to define co-operative banking in its technical sense of a special mode of doing business. Almost every writer has tried to define co-operative banking in his own way. As such, no two definitions are identical, and no definition has so far succeeded in including all the ingredients of co-operative ideology. The main reason of this is that every author has defined co-operative banking in the light of his own experience, as we know that the system of co-operative organisation has developed in different countries in different forms and under varying conditions. Difficulty also arises because in some countries they are aided and controlled by the state, in some they are used as instruments of state planning, in some they are partners with the state, in some they are state organs and in some they are voluntary organisations.

In the words of Henry Wolff, "Co-operative banking is an agency which is in a position to deal with the small man on his own terms accepting the security he has and without drawing on the protection of the rich. That agency must not be a channel
for pouring charity or subsidising the small man out of the public funds, instead, the material help must be backed by moral improvement and strengthening of the fibre."¹

Devine defines co-operative bank as, "a mutual society formed, composed and governed by working people themselves for encouraging regular saving and granting small loans on easy terms of interest and repayment."²

From the above definitions, it is evident that a bank must have co-operative character and must deal in credit which satisfies all the requirements of an ideal credit. Only then it can be called a Co-operative Bank.

V.L. Mehta observes that, "Co-operative credit is only one aspect of a vast movement which promotes the voluntary association of individuals having common economic needs who combine towards the achievement of the common economic end they have in view and who bring into this combination a moral effort and a progressively developing realization of moral obligations."³

1. Wolf, Henry: Co-operative Banking, No. 2, 1919, p. 3.
Statutory Definition, the passing of the Banking Laws (Application to Co-operative Societies) Act, 1965 was an epoch making event in the annals of Co-operative Banking System in India. This has enabled to extend some of the important provisions of the former Banking companies Act 1949 (now Banking Regulations Act) and the Reserve Bank of India Act, 1934 to the Co-operative Banks as well.

For the first time in the history of banking in India, a statutory definition of Co-operative Bank was included in the Clauses of Section 2 of the Reserve Bank of India Act 1934. According to it, Co-operative banking has been defined in the form of a three tier structure consisting of -

(bi) Central Co-operative Bank means the principal co-operative society in a district in a state, the primary object of which is the financing of other co-operative societies in that district.

Provided that in addition to such principal society in a district, or where there is no such principal society in a district, the State Government may declare any one or more co-operative societies carrying on the business of financing other Co-operative Bank or banks with in the meaning of this definition.

(bii) Co-operative bank means a State Co-operative Bank, a Central Co-operative Bank and a Primary Co-operative Bank.

(ciii) Primary Co-operative Bank means a co-operative society, other than a primary agricultural credit society.

(1) the primary object or principal business of which is the transaction of banking business,

(2) the paid up share capital and reserves of which are not less than one lac of rupees, and

(3) the bye-laws of which do not permit admission of any other co-operative society as a member,

(f) State Co-operative Bank means the principal co-operative society in a State, the primary object of which is the financing of other co-operative societies in the State.

Provided that in addition to such principal society in a State or where there is no such principal society in a State, the State Government may declare any one or more co-operative societies carrying business in that State to be a State Co-operative Bank or banks within the meaning of this definition.

To conclude it can be said that co-operative banking is a form of organization where people associate voluntarily on the basis of equality for the promotion of their collective economic interests and which deals in credit and satisfies all the requirements of an ideal credit.

HISTORY OF CO-OPERATIVE BANKING IN INDIA

Pre-Independence Period

Co-operative banking in India, which completed about eighty years of its life in 1985, has passed through many struggles in its endeavour to attain its objectives. It has passed through various stages of development and has seen many ups and downs.
The life of co-operative banking during pre-independence period may be divided into the following stages -

<table>
<thead>
<tr>
<th>First Stage before 1904</th>
<th>Second Stage 1904 - 12</th>
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</thead>
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<tr>
<td>Third Stage 1912 - 19</td>
<td>Fourth Stage 1919 - 29</td>
</tr>
<tr>
<td>Fifth Stage 1929 - 38</td>
<td>Sixth Stage 1938 - 47</td>
</tr>
</tbody>
</table>

First Stage Before 1904: The co-operative movement in India was introduced by the State and has been developing under its guidance and patronage. Several attempts were made in this direction before 1904. Justice M.G. Ranade prepared a plan for the establishment of Agricultural Banks for providing credit facilities to farmers. Although the scheme was not accepted by the Government, its chief features were adopted in the Land Improvement and Agriculturists Loans Act of 1883-84. Taqavi Loans could be advanced to agriculturists under the Land Improvement Loans Act of 1883. Such steps were taken by the Government for removing financial distress at the time of need.

In 1892, the Government of Madras appointed Sir Fredrick Nicholson to report on the possibilities of starting Land Banks for the sake of giving relief to the peasants under debt. He summarised his conclusions in two words viz. "Find Raiffeisen." In the year 1900, Mr. Dupernex submitted his scheme of People's Bank for Northern India and in 1901 the Famine Commission laid emphasis on the setting up of credit associations. All these recommendations made the Government agreeable to get a suitable legislation drafted for this purpose.
Second Stage 1904-12: This stage was essentially an experimental one. The Indian organisers of the movement had little experience and scarce knowledge of the imported idea of Co-operation. Their task was made even more difficult by the fact that they were required to spread a new idea among the illiterate rural people. However, the first Act on Co-operation was passed by the Government of India in 1904.

The act provided only for the formation of co-operative credit societies in rural and urban areas. Immediately after the passing of this act, the Government of India appointed Registrars in various provinces and thereafter, the co-operative banking grew at a rapid pace, for example, the number and membership of societies increased from 843 and 90,844 in 1906-07 to 8,177 and 4,03,318 in 1911-12. During the same period, the amount of working capital increased from Rs.23.72 lacs to Rs.335.74 lacs.

The main object of the Act was to encourage thrift, self help and co-operation amongst agriculturists, artisans and persons of limited means. They were classified as rural and urban. Rural

societies were required to accept the principle of unlimited liability, while urban societies were given a choice of limited or unlimited liability. In brief, the movement outgrew the expectations of its promoters and consequently the Act was found inadequate. To remedy those and other minor defects, the Government of India re-examined the whole situation and got the co-operative societies Act of 1912 passed.¹

Third Stage 1912-19: The defects of the Act of 1904 were removed by enacting the Act of 1912. The growth in the number of societies and the difficulties experienced in raising capital locally, gave rise to the question of establishing some form of a central organisation for providing capital to local societies and to supervise their working. The distinction between rural and urban societies was abolished and in its place, the classification of unlimited and limited liability societies was made.

During this period, the credit institutions evolved into a three tier pyramidal structure viz.- (a) primary societies - those meant for individuals, (b) central banks - federal institutions doing banking business and (c) provincial banks

consisting of individuals. There was a rapid growth in the number, membership and capital of co-operative banks. By 1917-18, the number of primary co-operative banks shot up to 23,741, the membership to 8.5 lacs and working capital to Rs.760 lacs. The number of central banks and provincial banks stood at 189 and 5 respectively. Before fostering and supporting further growth, the Government wanted to be sure that the movement was developing on sound lines and hence it appointed Maclagan Committee in October 1914, to review the movement. The committee warned against hasty registration of societies and laid down certain standards regarding their constitution, financial management, maintenance of liquidity, inspection, audit, etc.

Fourth Stage 1919-29: Under the Reforms Act of 1919, co-operation became a provincial transferred subject and was placed under the charge of a minister. Some provinces appointed committees for making inquiry regarding the progress of the movement. The Report of the Royal Commission on Agriculture which was set up in 1928 made noteworthy contributions to the progress of co-operative

banking. The commission pointed out the strong as well as the weak points of the movement. It found that, whereas there were outstanding examples of benefits accruing from the application of co-operative principles to local problems, serious drawbacks were also visible in the movement. The commission sounded a note of warning in its famous words, "If co-operation fails, there will fail the best hope of rural India".\footnote{Report of the Royal Commission on Agriculture 1928, p.450.} Upto 1929, when the depression set in, there was rapid growth in co-operative banking. The number of credit societies increased to 87,991, the number of membership to 30,04 lacs and the working capital to Rs.32.38 crores.\footnote{Hajela, T.N. : Principles, Problems and Practice of Co-operation, Shiv Lal Agarwala & Company, Agra, p.222.} This period is characterised as a period of indiscriminate and unplanned expansion.

Fifth Stage 1929-39 : The most significant feature of this period was the great depression. This depression affected co-operative banking movements adversely and in some provinces it nearly collapsed. Several central banks were closed and many primary societies were wound up. A number of committees were appointed, in provinces to suggest ways and means for the reconstruction of co-operative banking, and further expansion was stopped. From 1935 to 1939, there were three main developments. In 1935 the Reserve Bank of India was established and its Agricultural
Credit Department was entrusted with the responsibility of studying various problems relating to agricultural credit. In 1936, an All India Conference of Registrars of Co-operative Societies emphatically stressed the need for development of long-term credit through Co-operative Land Mortgage Banks. The first Central Land Mortgage Bank was established in Madras in 1929. Thirdly, the concept of primary societies being organised as multipurpose co-operatives came to be increasingly accepted.

During the period 1929-39, the number of societies came down to 1.22 lacs with 53.7 lacs members and Rs.106.47 crores as working capital. There was a marked decrease in the overdues of the societies.¹

**Sixth Stage 1939-47:** During this period, co-operative banking made rapid progress as a result of the second world war. The war came as a boon to agricultural classes as it led to a boom in prices. They paid off their debts. The deposits of the societies increased and the demand for fresh loans was rather low. Consequently many banks were faced with the problem of surplus funds.

This, however, did not last very long. Soon, there was a tendency for fresh borrowings with the result that banks and societies were again short of funds. The wages and cost of

¹ Mathur, B.S.: *Co-operation in India*, Sahitya Bhawan, Agra, p.74.
living also rose considerably. It was at this juncture that Government of India appointed in 1944 a committee known as the Agricultural Finance Sub-committee. The Committee, with Prof. D.R. Gadgil as Chairman, reported that co-operative development was not uniform in different provinces and, hence, they suggested the establishment of an agricultural credit corporation for all the provinces except those where co-operation was thriving. In 1945, again the Government of India appointed a committee known as the Co-operative Planning Committee under the chairmanship of Sri R.G. Saraiya. The committee submitted its comprehensive recommendations on all aspects of co-operation in 1946. The fifteenth conference of Registrars of co-operative societies which met in 1947, approved many of the recommendations of this committee.

The year 1947 brought the fulfilment of a long cherished hope of freedom. With it came the partition of the country. This led to fresh problems. With the dawn of freedom, however, the movement had entered a new phase. Great value was attached to co-operative banking. The position of the co-operative banking during 1946-48 as compared with the figures of undivided India has been summarised in Table No. 2.1.
<table>
<thead>
<tr>
<th>Table No. 2.1</th>
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<tbody>
<tr>
<td>Operations of Primary Agricultural Credit Societies, Central Banks and Provincial Cooperative Banks</td>
</tr>
<tr>
<td>(Rs. in Lacs)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Primary Agricultural Credit Societies</th>
<th>Central Co-operative Banks</th>
<th>State Co-operative Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Societies/Banks</td>
<td>112951</td>
<td>33771</td>
<td>85260</td>
</tr>
<tr>
<td>No. of Membership(Total)</td>
<td>3575470</td>
<td>3175389</td>
<td>3482852</td>
</tr>
<tr>
<td>Individuals</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Banks &amp; Societies</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Owned Capital</td>
<td>1329.08</td>
<td>1042.91</td>
<td>1134.95</td>
</tr>
<tr>
<td>Deposits</td>
<td>391.38</td>
<td>310.64</td>
<td>304.29</td>
</tr>
<tr>
<td>Borrowings</td>
<td>868.65</td>
<td>806.25</td>
<td>947.45</td>
</tr>
<tr>
<td>Working Capital</td>
<td>2598.11</td>
<td>2158.47</td>
<td>2356.69</td>
</tr>
<tr>
<td>Fresh Advances</td>
<td>823.10</td>
<td>902.91</td>
<td>1045.14</td>
</tr>
<tr>
<td>Individuals</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Banks &amp; Societies</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Recoveries</td>
<td>759.19</td>
<td>679.67</td>
<td>815.39</td>
</tr>
<tr>
<td>Individuals</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Banks &amp; Societies</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Outstandings</td>
<td>1583.17</td>
<td>1400.99</td>
<td>1601.55</td>
</tr>
<tr>
<td>Individuals</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Banks &amp; Societies</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Overdues</td>
<td>583.20</td>
<td>378.83</td>
<td>393.23</td>
</tr>
<tr>
<td>% of Overdues to Loans Outstanding</td>
<td>36.8</td>
<td>27.0</td>
<td>24.6</td>
</tr>
</tbody>
</table>

N.A. = Not available.

Source: Reserve Bank of India, Review of the Co-operative Movement in India 1946-48, Bombay, Appendix I,II & III.
It is evident from the table no. 2.1 that there were 85,260 primary agricultural credit societies with a membership, owned capital and working capital of 34.82 lacs Rs.1,135 lacs and Rs.2,387 lacs respectively in 1947-48, as against 1,12,951 societies with a membership, owned capital and working capital of 35.75 lacs, Rs.1,329 lacs and Rs.2,589 lacs respectively in 1945-46. The owned capital formed 47.6 per cent of the working capital in 1947-48 as against the figure of 51.3 per cent in 1945-46.

As usual, deposits formed a comparatively small part of the total working capital. They amounted to Rs.304 lacs in 1947-48 out of a total working capital of Rs.2,387 lacs, the corresponding figures for 1945-46 being Rs.391 lacs, and 2,589 lacs respectively. Borrowings stood at Rs.947 lacs in 1947-48 as against Rs.806 lacs in 1946-47 and were far higher than even the figure of Rs.869 lacs for undivided India.

Fresh advances made by the societies went up by nearly 21 per cent over the prepartition figure, that is from Rs.823 lacs, in 1945-46 to Rs.1,045 lacs in 1947-48, while the outstandings increased from Rs.1,583 lacs in 1945-46 to Rs.1,602 lacs in 1947-48. The position of recoveries continued to be satisfactory. In relation to outstandings overdues showed a decline. They formed 24.6 per cent of the loans outstanding while the corresponding percentage for 1946-47 and 1945-46 was 27.0 and 36.8 percent respectively.
The adverse effects of partition are clearly seen in the case of central banks, data about which are given in the Table No. 2.1, their number, membership, owned capital, deposits and working capital in 1947-48 were much less than what they were in 1945-46. From the point of view of business turnover, however, central financing agencies showed a distinct improvement over even the pre-partition figures. Thus, while 601 Central Co-operative banks had made advances to the tune of Rs.4,307 lacs and had outstandings of Rs.2,036 lacs in 1945-46 for a considerably lesser number of banks viz., 448 in 1947-48 the figures stood at Rs.6,187 lacs and Rs.2,103 lacs respectively. It is also a welcome feature that the increase in transactions is accounted for by societies alone, fresh advances and outstandings in respect of individuals having actually declined during the period 1946-48. Recoveries also showed good improvement. The position regarding overdues was, however, unsatisfactory. The percentage of overdues to the total loans outstanding in 1947-48 was 10.4 per cent as against 8.8 per cent in 1946-47.

The table no. 2.1 indicates the position of the provincial co-operative banks. The number of banks, which stood at 13 in 1945-46, declined to 11 in 1947-48, owing to the absence of the Punjab and Sind Provincial Banks as a result of partition. For the same reason, membership also declined from 27,785 in 1945-46 to 15,013 in 1947-48. The owned capital, deposits and working capital fell from 303 lacs, Rs.2,163 lacs and Rs.2,490 lacs in 1945-46 to Rs.260 lacs, Rs.2,006 lacs and Rs.2,405 lacs respectively by the end of 1947-48.
Fresh loans advanced amounted to Rs.1,688 lacs during 1945-46 and Rs.2,468 lacs during 1946-47, declining slightly to Rs.2,273 lacs in 1947-48. A noteworthy feature was that with regard to fresh advances, societies figured more prominently than individuals. For instance, fresh advances to individuals actually fell from Rs.844 lacs in 1945-46 to Rs.685 lacs in 1947-48, while on the other hand advances to banks and societies registered an increase from Rs.844 lacs in 1945-46 to Rs.1,588 lacs in 1947-48. In general, the provincial co-operative banks recorded satisfactory progress during the period.

Post-Independence Period

Indian freedom in 1947 was the fulfilment of a long cherished dream. But the partition of the country brought in its wake countless problems. Commercial riots led to mass migration of population and a large number of refugees on both the sides. Co-operative banking also passed through a difficult period. The nation accepted the concept of planned economy and set up the goal of establishing a socialistic pattern of society in the country. The progress of Co-operative banking during various five year plans may be reviewed as under -

First Five Year Plan (1951-56) : The First Five Year Plan described co-operative forms of organisation as an indispensable
instrument of planned action in a democracy.¹ The need for expanding the supply of credit through co-operative agencies was felt in the first plan, because traditional sources of credit were contributing less to the large agricultural production programmes which had to be undertaken. The First Plan said, "As it is the purpose of the plan to change the economy of the country from an individualistic to a socially regulated and co-operative basis, its success should be judged among other things, by the extent to which it is implemented through co-operative organisation."² The co-operative agency was recognised as better suited than the state for proper utilisation of credit for productive purposes. The main features of the First Plan were as follows:–

(1) Co-operative agencies in the villages should have the closest possible relationship with the panchayat.

(2) An attempt should be made to have in each village a co-operative organisation which will cater to the multiple needs of its members.

(3) The plan mainly emphasized the need for bringing 50 per cent of India's villages and 30 per cent of the rural population under the co-operative fold.

(4) The Plan set targets for the provision of co-operative credit, thus, short-term loans Rs.100 crores, medium-term loans Rs.25 crores and long-term loans Rs.5 crores.

² Draft First Five Year Plan, Planning Commission, Government of India, p.162.
(5) The actual outlay during the plan period was Rs.5.15 crores as against a provision of Rs.6.16 crores.

During the Plan period, the number of primary agricultural credit societies increased from 1.15 lacs to 1.59 lacs, membership increased from 51.54 lacs to 77.91 lacs and loans issued increased from Rs.22.9 crores to Rs.50.16 crores. But the percentage of overdues to loan outstanding increased from 21.9 to 25. The percentage of rural population served increased from 10.3 to 15.6. The amount of loan issued more than doubled, while the number and membership of societies showed an increase of 39 per cent and 51 per cent respectively, and the percentage of overdues increased to 25 per cent. ¹

Generally owned funds and deposits held by primary societies are generally small, they draw large sums from central co-operative banks by way of loans. During the plan period the number of central co-operative banks came down from 505 to 478, while the membership increased from 2.07 lacs to 3.00 lacs. Share capital increased more than double i.e. from Rs.4.04 crores to Rs.8.5 crores, deposits from Rs.37.39 crores to Rs.55.71 crores and working capital from Rs.56.37 crores to Rs.92.67 crores. ²

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¹ Review of the First Five Year Plan, Planning Commission, Government of India, p.119.
² Samiuddin & Mehfoozur Rehman: Co-operative Sector in India, p.100.
The Reserve Bank of India provided short-term accommodation to state co-operative banks. During the Plan, the number of State Co-operative Banks increased from 16 to 24. The total number of individual members increased from 9,172 to 11,743 as against from 14,100 to 24,651 members comprising co-operative banks and societies and the working capital from Rs.36.72 crores to Rs.63 crores.¹

Long-term finance for agriculture was provided mainly by primary land mortgage banks. There were 302 Land Mortgage Banks in 1955-56 as compared to 291 in the beginning of the plan. The total loans advanced by these banks and by the Central Land Mortgage Banks which dealt with agriculturists directly increased during the plan period from Rs.1.37 crores to Rs.2.86 crores.²

The most important survey in the field of co-operation at this time was the All India Rural Credit Survey conducted by the Committee of Directors of the Reserve Bank of India. Their epoch-making report was issued in 1954 and the Second Five Year Plan was drawn up broadly on the lines recommended by this Report.

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1. Reserve Bank of India: Statistical Statement relating to the Co-operative Movement in India 1956-57, p.II.
2. Review of the First Five Year Plan, Planning Commission, Government of India, p.120.
Second Five Year Plan (1956-61): An integrated programme of co-operative credit was drawn up for the Second Five Year Plan, incorporating the important recommendations of the All India Rural Credit Survey Committee. According to the report, economic development on Co-operative lines offers a vast field for the application of co-operation in its infinitely varying forms. The report further added, "The fields when marked themselves out as being specially appropriate for the co-operative method of organisation are agricultural credit".¹ Thus 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. A sum of Rs.57 crores was earmarked in the plan for the implementation of the schemes. Besides the Reserve Bank of India was also to provide Rs.25 crores to strengthen the capital structure of co-operatives. The targets laid down for the disbursement of rural credit by the end of the plan period were, short-term Rs.150 crores, medium-term Rs.50 crores and long-term Rs.25 crores.

In the Plan, special emphasis was laid on the following schemes²:-

(1) the organisation of large-sized credit societies,
(2) the rationalisation of co-operative banking structure with a view to establishing a strong central bank in each district,

(3) the organisation of central land mortgage banks in states where they did not exist,

(4) the strengthening of departmental and institutional staff for improving the arrangements for supervision, inspection, audit and other statutory functions.

Broadly speaking, targets fixed in the Second Plan in the sphere of co-operative banking were achieved and in certain fields were even exceeded. At the end of 1960-61, the number of primary agricultural credit societies increased from 1.59 lacs to 2.12 lacs and the coverage of these societies was 24 per cent with a membership of 170.41 lacs. The working capital of these societies stood at Rs.273.92 crores. During this period, the societies advanced loans amounting to Rs.202.75 crores. Loans outstanding amounted to Rs.218 crores and the overdues stood at Rs.44.3 crores.\(^1\)

The number of central banks again came down from 478 to 400 as a result of the process of amalgamation and reorganisation of central banks with the aim of having one strong central bank for a district. But their paid up share capital and deposits increased from Rs.8.5 crores and Rs.55.71 crores to Rs.31.5 and 95.4 crores respectively and the percentage of overdues fell from 14.5 to 13.7.\(^2\)

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\(^2\) Samiuddin & Mahfoozur Rahman : *Co-operative Sector in India*, p.100.
The number of State Co-operative Banks was 21. The deposits held by them had increased from Rs.36.7 crores to Rs.72.33 crores and they advanced loans of Rs.258.2 crores during second plan as against only Rs.67.9 crores during the first plan and the overdues were reduced from 10.6 to 5 per cent.¹

The number of primary land mortgage banks rose from 302 to 408, their membership rose from 3.14 lacs to 5.5 lacs and their paid up share capital increased from Rs.86 lacs to Rs.1.55 crores. Loans advanced by them aggregated to Rs.5.1 crores in 1960-61 as against Rs.1.7 crore in 1955-56. The capital also increased from Rs.11.4 crores to Rs.20.4 crores.²

During the plan, a number of committees and working groups were appointed to study the working of the various aspects of the co-operative movement viz.- the Committee on Co-operation Credit under the Chairmanship of Sri V.L. Mehta, the Working Group on Panchayats and Co-operatives, the Study Team on Co-operative Training and the Committee on Consumers Cooperatives.

Third Five Year Plan (1961-66): The co-operative movement was further assigned an effective role during the Third Plan. "In a planned economy pledged to the values of socialism and

democracy, co-operation should become, progressively, the principal basis of organisation in many branches of economic life.¹ "Economic development and social change are equally vital elements in the reconstruction of India's social and economic structure. Co-operation is one of the principal means for bringing about changes of a fundamental nature within the economy."²

During the plan period, policies for the development of co-operative banking were carefully reviewed in relation specially to the programmes for the plan. Emphasis was laid on the expansion of the primary societies and their membership. The main provisions in the plan regarding the co-operative banking were as follows:

1. that the agricultural credit movement should cover all the villages and 60 per cent of the agricultural population by 1965-66,

2. primary agricultural credit societies should be revitalised to make them viable units,

3. co-operative credit to the tune of Rs. 530 crores for short-term and medium-term and Rs. 150 crores for long-term agricultural needs should be provided for.³

At the beginning of the plan, the Government of India appointed a Working Group on Panchayats and Co-operative under the chairmanship of Sri S.D. Misra to study the ways for co-ordinating, in the best possible manner, the activities of both the co-operatives and the panchayats. The group made several

². Ibid, p. 200.
³. Ibid, p. 204.
recommendations of far reaching importance. The Government of India also appointed in July 1962, a committee on Taccavi Loans and Co-operative Credit under the chairmanship of Sri B.P. Patel. The Government accepted the recommendations of the committee and decided to route taccavi loans through the co-operatives. In 1963 Government of India appointed a committee on Co-operative Administration under the chairmanship of Sri V.L. Mehta to examine the existing departmental set up in various states and to suggest measures for their strengthening and for improvement in their working. Again, in 1964, another committee on co-operation was set up under the chairmanship of Sri A.R. Mandla to lay down standards and criteria by which the genuineness of co-operative societies may be judged and to review the existing co-operative, laws, rules and practices with a view to locating the loopholes. Both these committees made important recommendations on the basis of which the co-operative policies for the fourth plan were formulated.

Credit co-operatives, as usual, predominated the scene. The number of primary credit societies declined to 1,91,904 by the end of the plan, as against 2,12 lacs at the end of second plan. The decline was the result of amalgamation of weaker units into viable co-operatives. The membership of the agricultural credit societies, however rose to 26 million as compared with 17 million in 1960-61. The working capital and share capital stood at Rs.546 crores and Rs.115 crores respectively while the total deposits of these societies rose to Rs.35.3 crores. The
societies advanced loans to the tune of Rs. 427 crores.¹

On June 30, 1966 the number of central co-operative banks stood at 346 with a membership of 3.62 lacs. The share capital and deposits increased to Rs. 76.32 crores and Rs. 236.59 crores respectively at the end of the plan. The working capital which was just Rs. 299.73 crores at the end of 1960-61 rose to Rs. 583.52 crores at the end of the plan.²

There were only 22 State Co-operative Banks at the end of the plan with a membership of 21,010. The working capital and deposits of these banks stood at Rs. 390 crores and Rs. 147 crores respectively. These banks advanced Rs. 407.9 crores out of which Rs. 9.3 crores was overdue.³

At the end of the plan, there were 673 primary land mortgage banks with a membership of 18.54 lacs and working capital of Rs. 136.93 crores. The banks advanced loans amounting to Rs. 41.23 crores. Their overdues amounted to Rs. 4.42 crores.⁴

Annual Plans (1966-69): This period is known as the period of annual plans. During these years, about Rs. 64 crores were allocated for co-operative development.⁵ As a consequence of

2. Samiuddin & Mahfoozur Rahman: Cooperative Sector in India, p.100.
organisation.\textsuperscript{1} Agricultural Co-operatives were accorded a central position in the strategy of co-operative development. The plan aimed to ensure that the services which farmers require are institutionalised to the greatest possible extent. In the plan, it was decided\textsuperscript{2}:

1. to reorganise the primary credit societies by making them viable units,

2. to rehabilitate and reorganise weak district central co-operative banks,

3. to finance primary societies directly by the concerned apex co-operative banks,

4. to reduce overdues,

5. to strengthen the agricultural credit stabilization funds,

6. to open more branches in rural areas for encouraging deposits.

In pursuance of these objectives, the plan envisaged a development of co-operative credit structure so as to meet a substantial portion of agricultural credit needs. No increase in the number of societies was envisaged, but an increase in membership was aimed at so as to cover about 60 per cent of agricultural families. It was expected that it would be possible for the co-operatives to distribute short-term and medium-term credit to the order of Rs.750 crores during the plan. The apex

\textsuperscript{1} Draft Fourth Five Year Plan, Planning Commission, Government of India, p.158.

\textsuperscript{2} Ibid, pp.159-160.
and central co-operative banks were expected to raise their deposits from Rs.410 crores in 1968-69 to Rs.870 crores at the end of the plan. Similarly, primary societies were to raise their deposits from Rs.46 crores to Rs.70 crores.¹

During the plan period, the targets in respect of Co-operative Credit were achieved substantially. The number of primary agricultural credit societies came down to 1.54 lacs, but they covered 95 per cent villages of the country. The membership, however, increased to 349.6 lacs. The share capital and deposits increased to Rs.271.06 crores and Rs.89.28 crores respectively as compared to Rs.167.31 crores and Rs.56.84 crores respectively in 1968-69. The target of Rs.750 crores regarding the loans advanced was exceeded, the amount advanced being Rs.760.46 crores. The percentage of loans overdue increased from 35 to 42.²

There were 341 central co-operative banks on 30 June, 1974, and their membership reached to 6.41 lacs. The share capital and deposits increased to Rs.192 crores and Rs.718 crores respectively from Rs.115.24 crores and Rs.350.34 crores in 1968-69. The working capital also increased to Rs.1594 crores.³

1. Ibid, p.167.
At the end of the plan, the number of state co-operative banks stood at 26 with a membership of 20,248 individuals and societies. The share capital and working capital increased to Rs.54.55 crores and Rs.942 crores respectively, while the deposits increased to Rs.488.67 crores. The bank advanced Rs.848.89 crores out of which Rs.63.4 crores were overdue.¹

The progress of primary land development banks in the beginning was slow. However, since 1960-61, they made a good progress. Their number increased from 289 in 1950-51 to 463 in 1960-61 and to 857 in 1973-74. The total membership of these banks in 1973-74 stood at 41.16 lacs. Their working capital increased substantially from Rs.136.93 crores in 1965-66 to Rs.558.73 crores in 1973-74. Loans advanced amounted to Rs.95.81 crores and the amount of overdues stood at Rs.19.73 crores.² As these banks were unable to raise deposits from the public, they were dependent on Central Land Mortgage Banks for their working capital.

Fifth Five Year Plan (1974-79): The building up of a strong and viable co-operative sector was the major objective of the national policy during the Fifth Plan. The draft stated, "Co-operation is eminently suited to bring about desired socio-economic challenges in the context of the existing conditions in

² Ibid, p.382.
the country. There is no other instrument as potentially powerful and full of social purposes as the co-operative movement.\textsuperscript{1}

According to the document the following objectives were set for the development of co-operative banking\textsuperscript{2}:

1. To strengthen the network of agricultural co-operative credit, so as to serve as the principal institutional underpinning for a process of sustained agricultural development.

2. To make efforts towards the correction of regional imbalances in the level of co-operative development particularly in the sphere of agricultural credit.

3. To make special efforts for restructuring and reorienting the co-operatives.

In the strategy of co-operative development, structural reorganisation was envisaged on a district wise basis at the level of a large number of non-viable primary agricultural credit societies and weak district central co-operative banks so that these weaknesses do not inhibit the credit structure reaching the former in these areas. A growing collaboration was envisaged between public sector commercial banks and primary credit societies. For giving a boost to co-operative development in co-operatively under developed states, special central sector schemes in the sphere of credit, were to be adopted in the plan.

\textsuperscript{1} Draft Fifth Five Year Plan, Planning Commission, Government of India, p.78.

\textsuperscript{2} Ibid, pp.79-80.
Co-operative credit continued to hold the top priority in the co-operative movement. Short-term credit was proposed to be expanded so as to advance about Rs.1,200 crores during the period of the plan. In order to remove disparities, the states were divided into three categories. In advanced states, an increase of 10 per cent per annum was considered sufficient, in states of middle category 15 per cent increase was envisaged and for weaker states, the growth was fixed at 20 per cent per annum. The targets in medium term loans were tentatively fixed at Rs.350 crores for the five year period.

To achieve the above targets, efforts were to be made to make primary societies viable. In difficult areas, new type of institutions like larger sized agricultural banks or rural banks on the lines recommended by the Banking Commission or special societies for small farmers were to be organised.

A programme of advancing Rs.1,200 crores as long-term loans through land development banks was considered practicable. The land development banks were to tap rural savings in a larger measure. Greater attention was paid to the weaker states, so that the rate of growth in advanced states and the middle category states would be 30 per cent and 50 per cent respectively while in weaker states it would be 100 per cent.

The Primary Agricultural Credit Societies have done well during the period 1974-79. At the end of the plan there were 1.02 lacs primary societies with 516 lacs members. These societies covered over 96 per cent of the villages and 80 per cent of the rural population. These societies advanced Rs.1,455.87 crores by way of medium and short-term loans and this was more than the target fixed. The paid up capital and owned funds of the societies went up to Rs.466.47 crores and Rs.617.96 crores respectively. Deposits moved from Rs.89.28 crores in 1974-75 to Rs.216.38 crores in 1978-79. Borrowings, working capital and loans outstanding went up to Rs.1,831.09 crores, Rs.3,092.66 crores and Rs.204.4 crores respectively. Overdues increased, more or less, at the same rate as in the previous plans and reached Rs.927.04 crores. Rising overdues being the main problem, the state government were advised to take necessary steps to improve recoveries.

It is evident from the data given above that district central co-operative banks made good progress in respect of their operations. At the end of the plan, there were 338 District Central Co-operative Banks. Paid up capital and owned funds increased to Rs.317.58 crores and Rs.545.77 crores respectively. Deposits and working capital increased more than 100 per cent i.e. from Rs.718 crores and Rs.1,594 crores at the

2. Ibid, p.299.
end of the fourth plan to Rs.1,668.65 crores and Rs.3,376.34 crores at the end of Fifth Plan. Borrowings and loans advanced increased to Rs.955.27 crores and Rs.1,596.2 crores respectively. The amount of overdues rose to Rs.835.23 crores in 1978-79 which posed a serious problem for district Central Co-operative Banks.

The number of state co-operative banks remained constant at 26 during the period 1974-79. But, the deposits and loans issued increased from Rs.488.67 crores and Rs.848.89 crores at the end of fourth plan to Rs.1,226.41 crores and Rs.1,596.8 crores respectively at the end of the fifth plan. Paid up capital, owned funds, borrowings and working capital increased to Rs.80.45 crores Rs.249.09 crores, Rs.480.63 crores and Rs.2,037.13 crores respectively in 1978-79. The overdues position still remained a disquieting feature of the co-operative credit movement. It increased from Rs.63.4 crores at the end of the fourth plan to Rs.126.78 crores at the end of fifth plan. In terms of percentage since it went up by about 100 per cent within a period of five years.

**Sixth Five Year Plan (1980-85):** Having begun primarily in the field of credit as a defensive mechanism against the usurious money lenders, Co-operatives have through the last three decades of planning come to embrace a large gamut of activities to serve the interests of the creditors. Credit, however, still continue to be the predominant activity.

While all round progress has been made in the field of credit by co-operatives as shown by the figures given in fifth five year plan, a few disconcerting features deserve special notice. Firstly, the rate of growth of agricultural credit advanced by the co-operatives has lately slowed down. Notwithstanding the needs of a rapidly developing agriculture, the short-term credit advanced by the co-operatives has stayed around Rs.1,200 to Rs.1,300 crores during the last three years. The position of medium and long-term credit representing investment loans is distinctively worse, with a loaning of about Rs.339 crores in 1977-78, Rs.448 crores in 1978-79 and only Rs.400 crores in 1979-80.¹ The most important reason for this stagnation in credit flow is the mounting overdues which are clogging the process of credit recycling. Secondly, while it is satisfying to note that the share of the weaker sections of the rural community has been steadily increasing over the years and is, at present, placed over 40 per cent of the total, this share falls short of their essential production needs. Though the small and marginal farmers are apparently getting credit in a larger proportion (35 per cent), than the land area held by them (21 per cent) considering that these farmers have to depend mainly on credit for the purchase of their inputs, unlike the larger farmers who can use their own surpluses, the flow of co-operative credit to the small and marginal farmers is still inadequate. Thirdly, though the co-operatives have now come to cover almost the entire countryside,

¹. Ibid, p.177.
the membership is small around 45 per cent of the total rural families. The weakest sections of the rural community are still not adequately represented in the membership roll.

In the light of the problems discussed above, it is proposed to specifically drew attention during the plan to the following tasks on a priority base¹:

1. A clearly conceived action programme to be drawn up for the strengthening of primary village societies so that they are able to effectively act as multipurpose units catering to diverse needs of their members.

2. Re-examination of the existing co-operative policies and procedures with a view to ensuring that the efforts of the co-operatives are more systematically directed towards improving the economic conditions of the rural poor.

3. Re-orientation and consolidation of the role of the co-operative federal organisations.

4. Development of professional manpower and appropriate professional cadres to man managerial positions.

Programmes: The co-operatives have for some time been alive to their responsibility towards the rural poor.² The percentage of short and medium-term credit to weaker sections has moved up from 29 per cent of the total co-operative credit disbursed in 1973-74 to about 40 per cent presently and in long-term credit to about 38 per cent. However, on further examination, it is observed that the bulk of this credit has gone to the small and

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¹. Ibid, p.179.
². Ibid, p.179.
marginal farmers who constituted about 44 per cent of the total membership in 1977-78, agricultural labourers and rural artisans constituted only around 10 per cent. It would be necessary for the co-operatives to mount a systematic programme for enrolling the landless workers, members of the weaker sections, as members, so that they could get the benefit of facilities offered by the co-operatives. The targets of physical performance in co-operative banking projected for the period 1980-85 have been shown in Table No. 2.2.

Table No. 2.2

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Physical Programme</th>
<th>Unit</th>
<th>Base level 1979-80</th>
<th>Level for the anticipated terminal year 1984-85</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Short-term loans</td>
<td>Rs.in crores</td>
<td>1300</td>
<td>2500</td>
</tr>
<tr>
<td>2.</td>
<td>Medium-term loans</td>
<td>do</td>
<td>125</td>
<td>240*</td>
</tr>
<tr>
<td>3.</td>
<td>Long-term loans</td>
<td>do</td>
<td>275</td>
<td>550*</td>
</tr>
</tbody>
</table>

* Total cumulative target of medium and long-term loans during the period 1980/85 is Rs.3,100 crores.

Source: Draft Sixth Five Year Plan, Planning Commission, Government of India, p.181.

Outlays: The total Central Plan outlays for various schemes of co-operation for the Sixth Plan period (1980-85) is Rs.330.15 crores. The outlay in the State and Union Territories Sector is

Rs.584.09 crores. Thus, the total public sector outlay on various scheme of co-operation is Rs.914.24 crores. This outlay is mainly for strengthening the capital base of the co-operatives and to assist them in building the necessary infrastructure and capacities to enable them to undertake higher level of business and improve their services. The level of their development and operational efficiency will, however, depend very largely on the quality of management and leadership that they can bring to bear on their operations.

The present position of Co-operative Banking in India has been summarised in the following table.

Table No. 2.3
Table showing Present Position of Co-operative Banking in India
(as on 30th June 1983)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount (Rs. in Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Co-operative Bank</strong></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td>28</td>
</tr>
<tr>
<td>Owned Capital</td>
<td>473</td>
</tr>
<tr>
<td>Paid up Capital</td>
<td>121</td>
</tr>
<tr>
<td>Reserves &amp; Funds</td>
<td>352</td>
</tr>
<tr>
<td>Working Capital</td>
<td></td>
</tr>
<tr>
<td>Loans Outstanding</td>
<td>3895</td>
</tr>
<tr>
<td><strong>Central Co-operative Bank</strong></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td>34</td>
</tr>
<tr>
<td>Owned Capital</td>
<td>825</td>
</tr>
<tr>
<td>Loans outstanding</td>
<td>4305</td>
</tr>
<tr>
<td><strong>Primary Co-operative Credit Societies</strong></td>
<td></td>
</tr>
<tr>
<td>Number (Thousand)</td>
<td>94</td>
</tr>
<tr>
<td>Membership (Lacs)</td>
<td>633</td>
</tr>
<tr>
<td>Owned Capital</td>
<td>880</td>
</tr>
<tr>
<td>Loans outstanding</td>
<td>3108</td>
</tr>
</tbody>
</table>

STRUCTURE OF CO-OPERATIVE BANKING

The following is the detailed classification of various types of Co-operative Banks:

Co-operative Banks

- Short and Medium-Term Credit Institutions
  - State Co-operative Banks (Apex Banks)
  - Central Co-operative Banks
- Long-Term Credit Institutions
  - Central Co-operative Land Development Banks
  - Primary/Branch Co-operative Land Development Banks

Short and Medium Term Credit Institutions

Agriculturists require short-term and medium-term credit. They need short-term loans for financing seasonal agricultural operations and marketing of crops and for supporting themselves and their families till the harvesting of crops. Medium-term loans are meant for purchase of bullocks, cattle, agricultural implements and for sinking of wells etc. In India short and medium-term credit needs of the agriculturists are met by primary co-operative credit societies assisted by central co-operative banks.
State Co-operative Banks

A State Co-operative bank is an apex organisation of the central co-operative banks in a state. It is the main pivot around which all economic activities on the co-operative lines rotate and which controls and regulates the co-operative credit institutions, as a parent body and acts as a friend, philosopher and guide for the whole co-operative movement in the state. Thus, a state co-operative bank is the vertex of the pyramidal three tier structure for the provision of short and medium-term credit to farmers on co-operative basis. State co-operative bank is the final link in the chain between the small and scattered primary societies and the money market. It acts as a clearing house, as a pool of the resources and channelises the surplus of one locality to meet the deficiency of another in the interest of balanced development in all spheres.

The state co-operative banks are either purely of federal type or mixed type, consisting of central co-operative banks, primary societies and individuals. The Maclagan Committee (1915) suggested that local individual men of business should be allowed to become members of the State Co-operative Banks and in the opinion of the committee the mixed type was most suitable to Indian conditions. But the latest trend affecting the constitution of state co-operative banks is the establishment of state

1. The term 'Apex Bank' appeared for the first time in the Report of the Maclagan Committee issued in 1915.
co-operative banks on purely co-operative basis and a policy of elimination of individual share holders has been adopted by almost all the State Co-operative Banks. The State Governments are being admitted as share-holders as was recommended by the All-India Rural Credit Survey Committee (1954).

Central Co-operative Banks

A Central Co-operative Bank is a federation of primary societies in a district and is generally located at the headquarters of the district. There was no provision for the formation of federal societies to function either as financing agencies for the primary societies or agencies for their supervision and control under the co-operative societies Act of 1904. But after the passing of 1912 Act, the organisation of higher federal societies came into existence. Central banks were established to serve the bulk of primary societies.

The Maclagan Committee classified the central co-operative banks in India according to their constitution under three categories:

1. Banks of which the membership is confined to individuals.
2. Banks of which the membership is confined to societies alone, and
3. Banks which include both individuals and societies as their members.
The first category of banks includes the banks in which shareholders consist entirely of individuals or in which societies are admitted as shareholders without any special provision for their representation on the Committee of Management or for reserving definite portion of share capital for them. A bank in this class is just like a joint stock bank. The Maclagan Committee (1915) was of the opinion that such banks should not be registered under the Co-operative Societies Act on the grounds that it would cause friction with the societies on the one hand and with the Joint Stock Banks on the other hand.

The second category includes purely federal type of central banks consisting of primary societies only. These banks are the associations of primary credit societies registered as banking unions under the Co-operative Societies Act of 1912. In this type of banks, the shareholders, lenders and borrowers are the same. Therefore, the clash of interests between the shareholders of the central banks and the borrowing societies is of course eliminated by the identification of the two parties. The only drawback of this class of banks is that it is difficult to find among members of societies persons with sufficient skill to manage such banks. This type of bank generally fails to attract the interest of middle classes who are not able to become the members of such banks. However, such banks represent the model at which co-operation should ultimately aim.
The third category includes the banks consisting of societies and individuals both as their members organised on the lines suggested by the Maclagan Committee. In such banks, societies are not only assigned certain proportion of the shares, but also are given separate representation on the board of directors. The Maclagan Committee was of the opinion that if majority was secured for the societies on the board, the dividends to be declared were limited to a reasonable rate and the individual shareholders were prevented from enjoying an undue advantage. But at the same time, the Committee recommended the making of provisions for gradual elimination of individual membership from such banks. A large majority of central banks belong to this category. On the recommendations of the Committee of Direction of the All India Rural Credit Survey, the process of gradual elimination of the individual share-holders has been introduced in most of the banks in a bid to make them fully co-operative in character.

**Primary Co-operative Credit Societies or Village or Rural Banks**

Primary Co-operative Credit Societies form the base of the co-operative movement in India. It is the lowest but the foremost rung of the ladder of Co-operative Banking. A co-operative credit societies is the voluntary association of individuals having common economic needs, who combine towards the achievement of the common economic goal and who bring into this combination
a moral effort and a progressively developing realisation of moral obligation.

C.R. Fay has defined a co-operative society as "an association for the purpose of joint trading, originating among the weak, conducted always in an unselfish spirit, on such terms that all who are prepared to assume the duties of membership may share in its rewards in proportion to the degree in which they make use of the association."¹

A co-operative society has been described as including all "those forms of voluntary associations where individuals unite for the production of wealth, which they will devote to common purposes or share among themselves upon principles of equity, reason and the common good agreed upon before-hand."²

Primary Co-operative Credit Societies can be broadly classified into two broad categories, Agricultural Credit Societies and Non-Agricultural Credit Societies. Agricultural Credit Societies are those in which the majority of the members are agriculturists, whereas Non-agricultural credit societies are those which are not agricultural in character.

Long-Term Credit Institutions

Agriculturists require long-term credit for repayment of old debts, reclaiming land and affecting permanent improvements

thereon like construction of tube-wells, water channels and pucca farm houses, purchase of costly agricultural machinery like tractors, etc. and purchase of additional plot of land to make the holding an economic one. The long-term credit for agricultural purposes is provided by a special machinery of Co-operative Land Mortgage Banks.¹

Central Co-operative Land Development Banks

A Central Co-operative Land Development Bank is a federation of primary land development banks functioning in a state. It functions as a parent institution in the state. The primary object of a central land mortgage bank is to raise long-term funds to finance the primary development banks affiliated to it. The central land development bank works as apex bank and co-ordinates the policies and programmes of long term banking with that of the other organs of co-operative banking engaged in providing short and medium-term credit for agriculture. As an apex organisation, it is the pivot for the agencies of long-term credit and acts as a friend, philosopher and guide for all the primary land development banks in a state.

The main function of a central land development bank is to raise long-term funds to finance the primary banks affiliated to it. In order to fulfil this object a central bank generally

¹ Name changed to Co-operative Land Development Banks.
undertakes the following functions:

I. Floats debentures on the security of its assets, etc.

II. Accepts long-term deposits.

III. Grants loans to primary land banks.

IV. Inspects the primary banks and the land mortgaged to them.

V. Does all other functions incidental to the above objects.

Primary/Branch Co-operative Land Development Banks

The Primary Land Development Bank is the voluntary association of farmers who want to borrow long-term loans on mortgage of lands and is registered under the Co-operative Societies Act of the State concerned. Generally, the farmers owning land and their co-partners are admitted to the membership of these banks. The area of operation of such banks extends to a sub-division or a district.

The main object of primary development bank is to advance long-term loans to its members against the security of mortgage of lands and other immovable properties owned by them. A primary land development bank, in order to finance its members, takes long-term loans from the Central Land Development Bank.

Thus, a primary land development bank borrows from the

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following purposes:

(i) For the redemption of mortgage on agricultural lands.
(ii) For the permanent improvement in agricultural land and in the methods of cultivation.
(iii) For discharging other old debts.
(iv) For buying land in special cases to make the holding economic.

In other words, the borrowing from Central Land Development Banks and lending to members against mortgage of land is the main function of a primary bank.

OBJECTS OF CO-OPERATIVE BANK

As discussed earlier co-operative banking has been divided into three categories viz.- Primary Co-operative Bank, Central Co-operative Bank & State Co-operative Bank. Each of them have there own objects which are given below:

Objects of State Co-operative Banks

The role of a state co-operative bank as a balancing centre of the central financing agencies and, where these agencies do not exist, of the co-operative movement is historic. As the top of the federal structure, it derives its strength from its affiliated institutions and gives, in return the strength earned as a result of its contacts with the monetary structure of the country. In the larger context, it is expected
to guide the central co-operative banks and other societies affiliated to it in the formulation of their policies, coordinate their activities, promote uniformity in banking practices among them and generally assist them in the building up of a sound co-operative structure. The Central Banking Enquiry Committee (1931) observed: "Provincial banks are best suited for linking up credit organisation with the general money market and commercial banks and should be managed on ordinary business principles with due regard to the special requirements of co-operation. These banks should not deal directly with primary credit societies and should consolidate and strengthen their position as financing agencies and balancing centres for the central banks."¹ The chief objects of the state co-operative bank can be summed up as follows:

1. to act as the balancing centres for the resources of the co-operatives in the state,
2. to co-ordinate the co-operative policy at the state level,
3. to play a pivotal role in the formulation and execution of credit policies for the co-operative movement as a whole,
4. to establish and maintain contact with the money market and the Reserve Bank,
5. to act as an investment agency for the affiliated central bank,
6. to supervise and guide the activities of the central banks,
7. to act as the friend, philosopher and guide of the co-operative movement.

¹ Ibid, p.367.
Objects of Central Co-operative Banks

The chief object of central co-operative bank is to meet the credit requirements of member societies. They finance agricultural credit societies for production purposes. They work as an intermediary to link the primary societies with the money market. The central banks serve as 'balancing centre' for adjusting the surplus and deficiency of the working capital of the primary credit societies. According to G.M. Laud, "The raison d'etre for the establishment of district central co-operative banks is that there should be an intermediate agency between the primary credit societies with rural bias run by agriculturists having no touch with the money market and the provincial co-operative bank run mainly by city men with urban bias and having no close association with the countryside."¹

The main objects of Central Banks are as follows:

1. to act as a balancing centre of finance for the primary societies in the district by providing them funds when they have a shortage and by serving as a clearing house for their funds which are in surplus,
2. to attract local deposits,
3. to provide a safe place for investing the reserves of primary societies,
4. to develop and extend banking facilities in rural areas and make the people banking minded,

¹ Laud, G.M. : Co-operative Banking in India, p.336.
5. to develop the movement in the district and act as friend, philosopher and guide, and
6. to supervise, guide and control the working of member societies.

Objects of Primary Co-operative Banks

It may be mentioned that a large majority of the village banks were first organised in India on Raiffeisen model having the following objects:

1. Limitation of area, so as to secure mutual personal knowledge on the part of members.
2. Share of small value.
3. Permanent indivisible reserve fund.
4. Unlimited liability of members.
5. Loans only for productive purposes.
6. Loans only to members.
7. Credit for relatively long periods with facilities for repayment in instalments.
8. Determination every year by members of each society of the maximum credit that may be held by individual members at any time, as well as of the maximum total of savings deposits receivable and of loans that may be taken up by the society.

This enlarging of the objects of the co-operative credit societies has, however, not been appreciated by some leading authorities on co-operation. It has been doubted whether co-operatives can undertake the above objects without neglecting their proper tasks. In the opinion of Dr. E.M. Hough, it was unrealistic to suppose that these societies would be able to carry out these
objects in the near future. "All these suggestions are desiderate, but in the not infrequent case a society with perhaps a single literate member capable of keeping its accounts they would hardly seem possible of fulfilment."¹

**MUTUAL RELATIONSHIP**

Obviously the three financial institutions - The State Co-operative Banks, The Central Co-operative Banks, The Primary Co-operative Credit Societies - have separate entities, but there is a very close mutual relationship among all the three types of co-operative credit institutions as they are all interdependent. Just as two legs are necessary for a man to walk properly, in the same way all these institutions are necessary for the proper development of the co-operative banking structure in a country.

The relationship of these institutions can be seen in the words of Dr. C.B. Memoria who observes that, "if a borrower in a village needs money, he applies to his society. If the society is short of funds, it applies to the central bank, and if the central bank is in need of funds, it applies to the State Co-operative Bank."² That is why it is said that the co-operative movement links the farmer in the remote villages with the money market in the country.

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PRINCIPLES OF CO-OPERATIVE BANKING

The working of the co-operative banks is guided by certain fundamental principles. The following principles form the backbone of co-operative banking structure:

1. Voluntary Nature of the Association

A Co-operative Banking institution is purely a 'voluntary association'. There is no compulsion and one is at liberty to join it or not to join it. "A co-operative philosophy of society" says J.J. Worley, "must rest on free, universal association democratically governed, conditioned by equity and personal liberty." As such, the membership of a co-operative organisation is always open to all. They may join it at their sweet-will for achieving the common economic goal and at the same time they may also quit it at will. It has been rightly remarked by H. Calvert that, "unless such freedom is given to the people a truly co-operative spirit can not be developed amongst the members."

2. Principle of Self-help Through Mutual Help

Voluntary association of the people alone will not, however, make it a co-operative organisation for most of other associations, like a joint stock company, are also organised on this basis. The chief motto of co-operative banking is 'self-help

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through mutual help. It is this principle, which makes a co-operative organisation different from all other organisations. A co-operative bank is not an organisation of individuals, which tries to exploit others and thereby brings advantages, which can be shared by the members of the organisation. It is an organisation of those, who require assistance, but do not depend on outside help. They try to lift themselves out of weakness into strength by following the principles of 'each for all and all for each.'

Under Co-operative Banking, there is no conflict of interests between those, who need help and those who help them. The needy and the helpers are one and the same. Selfish attitude is wholly incompatible with the idea of co-operative banking.

3. Principle of Common Welfare

The aim of the co-operative banking is the common welfare of the members and there is no place in it for individual self interest. In co-operative banking, competition does not exist. The sole purpose behind it is the common action for the common good and not the good of the individuals. Individualism, therefore, has to be completely eliminated before a co-operative association becomes possible.
4. **Principle of Democracy**

The principle of democracy is one of the cornerstones of co-operative banking. The rights, privilege, and duties of every member are identical irrespective of the fact that members belong to different religions, castes, or are well or ill situated in life. On the same basis, the doors of these banks are always open to anyone, who may elect to join them. A co-operative bank shows no favours to any of its members on the basis of his riches or poverty. Members meet as equal partners and reap the benefits of the bank in equal measure.

5. **Principle of Human Approach**

Unlike other methods of business organisation, the human aspect of the question gets greater emphasis through co-operation. Other associations pay no attention to the character of their members and are concerned only with the achievement of the object for which they were brought into existence. Co-operative Bank, on the other hand, not only tries to achieve a particular object but it also gives great importance to the development of the character of its members by insisting on thrift and encouraging self-reliance and self-respect among them. Besides, co-operation teaches the members to discard their narrow selfish attitude. It has, thus, a greater moral element in it than the economic one.

Thus, co-operative banking is 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.

It must be remembered in this connection, that the co-operative character of the activities of these banks and the mutual aid idea of credits granted must be maintained. The banks should cater for collective organisations and their members, and when individual share holders are admitted, the number of shares held by each of them should be limited or the number of votes restricted. The Bank should aim at high rates of deposits and low rates for credits granted. Dividends should be paid not only to the depositors but also to the borrowers or alternatively the surplus profit should be allocated to cultural or other welfare funds.

The above principles of Co-operative Banking are based on the principles of co-operation approved by the International Co-operative Alliance. The following are the principles of co-operation adopted by the International Co-operative Alliance on the recommendation of a commission (1963) appointed by it to formulate the fundamental principles of co-operation:

1. Membership of a co-operative society should be voluntary and available without artificial restriction or any social, political or religious discrimination, to all persons who can make use of its services and are willing to accept responsibilities of membership.

2. Co-operative societies are democratic organisations. Their affairs should be administered by persons elected or appointed in a manner agreed to by the members and acceptable to them. Members of primary societies should enjoy equal rights of voting (one
member-one vote) and participation in decisions affecting their societies. In other than primary societies, the administration should be conducted on a democratic basis in a suitable form.

3. Share capital should only receive a strictly limited rate of interest, if any.

4. Surplus or savings, if any, arising out of the operations of a society belong to the members of that society and should be distributed in such a manner as would avoid one member gaining at the expense of others. This may be done by decision of members as follows:

(A) By provision for development of the business of the co-operative.

(B) By provision of common services, or

(C) By distribution among the members in proportion, to their transactions with the society.

5. All co-operative societies should make provision for the education of their members, officers and employees and of the general public, in the principles and techniques of co-operation, both economic and democratic.

To the above five principles, the Commission thought it important to add a sixth principle of growth by mutual co-operation among co-operatives.

6. All co-operative organisations, in order to best serve the interests of their members and their communities should actively co-operative in every practical way with other co-operatives at local, national and inter-national level.

The description of the co-operative movement as given in the preceding pages of this chapter shows that the movement showed a raising trend throughout the period except a few years before and after partition. During the period of partition, the number of societies, their membership, their deposits, their
working capital all declined very sharply due to a number of societies have gone to Pakistan and due to liquidation of certain weak societies in Indian territory. After Chinese aggression in 1962, an attempt was made to boost co-operative movement, but the efforts did not meet with much success partly on account of the apathy of the people and partly on account of the lukewarm attitude of certain leaders in the ruling party itself.

Much of the progress and development of co-operative movement in India has been due to the timely co-operation extended to it by the nationalised financial institutions such as the Reserve Bank of India, the State Bank of India with its subsidiaries, the twenty nationalised commercial banks and the National Bank for Agriculture and Rural Development. The working of these institutions and their role in strengthening the co-operative movement has been discussed in the succeeding chapter.