Chapter I

Introduction

The first chapter deals with a brief introduction, background of the study, research methodology and its limitation. It also gives the sources of data, objectives of the study, hypothesis tested methods used for primary survey, the tools and techniques and different questionnaire have been clearly mentioned. This chapter also gives the overall presentation of the study.

The Prologue

The cooperative movement in India is the agricultural credit cooperative Movement. India is basically an agricultural country. Near about 70 percent of Indian population depends upon agriculture directly or indirectly. Agriculturists want credit for cultivation, because they are economically poor. They have to run to the village moneylenders for the purpose, as other credit agencies were not developed. As such, they came to the clutches of moneylenders and suffered a lot. To get away from sufferings and remain away from the clutches of the moneylenders, they formed cooperative societies at the village level, agricultural credit cooperative in India are the oldest and most important forms of cooperative organisation\(^1\).

Firstly, the cooperative movement originated in England. The first cooperative society named "Roehdale friendly cooperative society" was formed there in 1830. As far as cooperative credit institutions are concerned, they first started in Germany in the middle of the 19th century, so far as the Indian cooperative movement is concerned the
introduction of cooperative societies Act, 1904 was considered as the real beginning of the cooperative movement in India².

The Cooperative Credit Societies Act, 1904 provided for organising cooperative credit societies in rural and urban areas. So it was realised that central organisation should be formed for assisting and guiding the primary societies. Accordingly, the central Government enacted cooperative societies Act in 1912, which gave legal recognition for the formation of central organisation since then central Banks were formed at district level to which primary societies were affiliated. The Recommendations of the All India Rural Credit Survey Committee (1954). The structure of central Cooperative Banks was rationalised and smaller banking unions, central cooperative Banks were reorganised and strengthened into viable institutions.³

The first central cooperative bank was registered in Uttar Pradesh in 1906 as a primary society followed by Bombay in 1910. Soon after the amendment of the cooperative societies Act in 1912 a large number of central banks were established⁴. At present the Indian short-term cooperative credit structure consist of 29 state cooperative banks at a state level, 367 district central cooperative banks at district level and 93816 primary agricultural cooperative societies of village level⁵.

In India there are two sources of rural credit for the agricultural credit.

1. Institutional agricultural credit;
2. Non institutional agricultural Credit.

Institutional agricultural credit consists of Government, commercial banks, cooperative banks, the Regional Rural Banks and non-bank financial intermediaries, non institution agricultural credit included money lenders, commission agents, traders, landlords, relatives, friends and other financiers etc.
Moneylenders, indigenous bankers and other non-institutional lenders had a predominant role in rural credit, until the nationalization of 14 commercial banks in 1969. The all India rural credit survey committee (1951-52) found that 92.7 percent of the rural credit was provided by the private agencies. It means that the share of non-institutional agencies in the rural credit was 92.7 percent.

The importance of private agencies in rural credit has been decreasing because of expansion of institutional credit agencies. The indigenous bankers and moneylenders have been following money malpractices to exploit the borrowers moreover, their accounts are not opened to inspection due to high rate of interest of moneylender. People have started doubting their integrity; It was also said that, the credit provided by the private agencies is unproductive as its main objective is not to increase agriculture, production but to bring the farmers in the grip of perpetual indebtedness and as Henry W. Wolff graphically put it." It is the bond of debt that shackles agriculture". Because of all these reasons the non-institutional agencies are bound to reduce their importance.

The development of institutional credit is a basic condition for agricultural progress. The history of agricultural development in all the countries shows that an integrated system of institutional credit laid the foundations of agricultural prosperity. The objectives of the institutional credit is to make a breakthrough in the vicious circle of poverty rack-renting, usury and debt and to stimulate the farmer to boost agricultural productivity⁶.

The Reserve Bank of India published the statistical tables relating to banks in India since 1941 reveal that organized banking structure of the country is composed of the Indian commercial bank (scheduled and non-scheduled), foreign banks (Scheduled and non-scheduled) and
cooperative banks. Through organised banks constituted and governed by separate acts and rules; they are all engaged in surveying and providing credit to the different segments of our economy. Ultimately linked with the Reserve Bank of India at the top as the central banking.

The cooperative bank provided the short and medium term agricultural credit. The central cooperative banks play a vital role. They are the linking factor between the primary credit societies at village level and the state level, state (Apex) cooperative banks.

The central cooperative banks figure at the intermediary stage in the cooperative structures and so far as the passing of the loan is concerned, they act like a conducting pipe. Central cooperative banks collect the deposit in rural and urban areas and diverted to the agricultural development in rural areas. They mobilize deposit and borrowing from the state cooperative banks for financing the primary societies for agricultural and non-agricultural purpose. The official functioning assumes significance by virtue of their crucial role in the cooperative credit system. While these have been a consistent growth and diversification in the size and operation of central banks, since, the fifties, their operational efficiency has been at low ebb. Several bodies like all India Rural Credit Survey Committee, All India Rural Credit Review Committee, Banking commission, study team and overdues in cooperative credit Institutions, which have evaluated their performance from time to time, were critical of their delayed and inadequate loans, neglect of small farmers, heavy overdues ineffective supervision and control over members societies, inadequate deposit mobilization and deficiencies in day to day administration.

The District central cooperative banks play district and important role in the development of agricultural credit cooperative and other types of societies. The district central cooperative banks serve as
connecting link between the state cooperative bank and primary cooperative credit societies. They act as balancing centers by transferring the funds of these societies which have a surplus to others with a shortage of funds thus the district central cooperative banks occupy a position of cardinal importance in the cooperative credit movement largely depends on their financial strength. In view of this the development and success of these banks is of great importance.

The district central cooperative banks are to meet the credit requirements of member societies. They finance agricultural credit societies for the production purpose, marketing societies for marketing and supply operations and industries and other societies for working expenses.

Besides providing loans, the district central cooperative banks also provides certain normal banking facilities to the members such as acceptance of deposits, remittances of funds collection of cheques etc, in some states they are responsible for supervision and inspection of primary societies. Very often the question arises "why do not away with the intermediary agency which acts like a toll-gate to add a bit to the ultimate rate at which, funds reach the borrower? However, a rational approach to the problem would suggest the necessity of the link for a healthy cooperative movement a close contact with the people is necessary. The cooperative credit movement depends on the financial strength and technical guidance of the primary credit societies. Central banks collect the deposit in the rural and urban areas and divert to them in rural areas. But many difficulties are faced in the supervision and administrative advice to the technical guidance, so central bank is the intermediary between primary credit cooperative bank in rural area and state cooperative bank at state level.
The district central cooperative bank is a financing bank of the primary cooperative societies. It is the middle tier in the cooperative credit structure of the state; it is also a federation of the primary credit societies and other types of primary societies within its area of operation. Besides financing the affiliated societies, most of the central banks do other banking functions, such as accepting deposits of various types from the public as well as members, collecting bills and cheques, issuing drafts and safe custody of valuables they provide finance to small scale industrialists, petty traders, unemployed educated persons for getting self employment opportunities\textsuperscript{11}.

**Meaning and Definitions of District Central Cooperative Bank:**

National Bank for Agriculture and Rural Development lays down following definitions of district central cooperative banks.

"Central cooperative bank means the principal cooperative society in a district in a state, the primary object of which is to finance of other cooperative societies in the district. Provided that in addition to such principal society in a district, the state government may declare any one or more cooperative societies in that district to be a central cooperative bank of banks within the meaning of this definition\textsuperscript{12}."

According to Henry Wolf, "Cooperative banking is an agency which is in a position to deal with the small mean of its own terms accepting the security it has and without drawing on the protection of the rich.

Devine defines cooperative banks as, "A mutual society formed, composed and governed by working people for themselves for encouraging regular saving, and granting small loans on easy terms of interest and repayment\textsuperscript{13}."
Aims of District Central Cooperative Bank:

According to Prof. Belshaw the aim of cooperative credit before the International conference on agricultural and cooperative credit in 1952 as under\(^4\).

1. To promote thrift so as to increase the supply of funds;
2. To draw on sources outside the society;
3. To promote the effective use of loans and to reduce the risks in granting loans by careful and continuous supervisions;
4. In consequence, to reduce risk to lenders and to credit cooperative by adequate security;
5. By this means and by low cost of management to keep the cost of credit as low as possible; and
6. To endeavour for making societies so credit worthy enough that, they can obtain sufficient funds to finance other cooperative undertakings.

Objects of District Central Cooperative Bank:

The object of district central cooperative banks is to meet the credit requirement of member societies for agricultural production purpose, marketing and supply operations and industrial and other societies for working expenses. They work as an intermediary to the primary societies with the money market. The district 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. Loud" The reason for the establishment of district central cooperative banks is that there should be an intermediary agency between the primary credit society with rural bias run by the agriculturist having touch with the money market of the provisional
cooperative banks run mainly by city man with Urban bias of having no close association with the country sides\textsuperscript{15}.

The district central cooperative banks also provide certain normal banking facilities to members such as acceptance of deposits, remittances of funds, collection of cheques etc.

The following are the objects of the district central cooperative banks.

1. To act as a balancing centre of finance for the primary societies in the district by providing them with funds when they have a shortage and by serving as a Clearing house for their funds which are surplus;
2. To encourage thrift and collect savings from members and others,
3. To provide a safe place for investing the reserves of primary societies;
4. To provide other banking facilities to the members;
5. To develop and extend banking facilities in rural areas;
6. To develop the cooperative movement in the district on the sound lines and to act as friend, philosopher, and guide;
7. To supervise, guide and control the working of member societies.

\textbf{Types of District Central Cooperative Banks In India:}

The district central cooperative banks can be classified as under three heads according to their constitution\textsuperscript{16}.

1. Banks whose membership is open to individuals
2. Banks whose membership is confined to societies;
3. Mixed- types banks, which include both individuals and societies.
Banks whose membership is open to individuals:

The banks falling in the first category consist entirely of individuals or in which societies are admitted as shareholders on exactly the same footings as individuals, without any special provision for adequate representation on the board of management or for the reserve fund as a definite proportion of the share capital for them such bank stand in the same position as commercial banks. Banks having such constitution were either reorganised into cooperative urban banks or converted into pure central banks of primary societies.

Banks whose membership is confined to societies:

The banks falling in the second category, which are included in the pure type, are the purely federal type of district central cooperative banks consisting of the primary societies only. They are registered as "Banking Unions" under the 1912 Act. The share holders, 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.

Mixed-types Banks include both individuals and societies:

The district central cooperative banks, failing in the third category, are of the mixed type and have been organised on the guidelines suggested by the Maclagan committee. These banks consist of both societies and individuals. A large Majority of district central cooperative banks today confirm to this pattern. At the instance of the all India Rural Credit Survey Committee the process of gradual elimination of the individual members has been introduced in most of the banks in a bid to make them fully cooperative.
Functions of District Central Cooperative Banks: -

The main task of the district central cooperative banks is to lend to village primary societies, central cooperative banks occupy very important position in the cooperative credit. The district central cooperative banks have been playing a pivotal role in the development of cooperative credit; following are the main functions of a district central cooperative bank.  

1. To finance the primary agricultural credit societies and other affiliated societies functioning within the area of operation.
2. To act as a balancing center for the resources of the primary agricultural credit societies in the district by providing them funds when there is a shortage and by serving as a clearing house for their surplus funds.
3. To attract local deposits and provide other banking facilities like remittance of funds, collection of cheques and safe custody of valuables.
4. To develop and extend banking facilities in the rural areas and develop banking habit amongst the rural people.
5. To supervise, guide and control the working of the affiliated societies.
6. To borrow funds from the state cooperative bank whenever necessary for the purpose of financing the member societies.
7. To act as agent for any government or local authority or any other person or to carry on agency business.
8. To acquire, contract, maintain or alter any building or works necessary or convenient for the purposes of the bank.
9. To take necessary steps for the development of the cooperative movement in the district.
10. To maintain sufficient liquid resources in the shape of cash balances, unutilized cash credit with the state cooperative bank and
government securities to pay the claims of the depositors whenever they arise.

11. To do all such other things as they are incidental or conductive to the promotion or advancement of the bank.

**Size and Area Operation of District Central Cooperative Bank:**

As size and area of operation have an important bearing upon its success, it is imperative for a central cooperative bank to have an area of operation large enough to provide it with sufficient business turnover to be able to employ the required staff, meet the overheads and build up strong reserves. At the same time, the area of operation should not be so vast as to render the bank unable to supervise and coordinate the work of its affiliated societies. The Maclagan committee (1915) observed: "A central bank should cover as large an area as it is compatible with convenience and efficiency. Although it may commence on a small scale, it cannot expect ultimately to work at a profit unless it has a considerable capital either at once or within a reasonable time, with at least 200 to 250 societies."  

The All India Rural Survey Committee endorsed the views expected by the Reserve Bank's standing advisory committee on agricultural credit that there should be only one central bank for each district but if however other conditions justified the formation of a bank for a region smaller than a district, there should be no objection to that. In view of existence of more than one central bank in a district, which did not confirm to the standard, the committee recommended that schemes of amalgamation must be introduced in all state almost on a compulsory basis. The following minimum standards in regards to owned capital and working capital of the central banks were also agreed by them. Paid up share capital and reserve should be above 3 lakhs and
working capital Rs.20 to 25 lakhs. Recently the standing advisory sub committee on rural and cooperative credit of the Reserve Bank of India while reviewing the concept of viability laid down the following criteria:\textsuperscript{19}

1. Ability to earn sufficient profit;
2. Reasonable contribution to reserve; and
3. Declaration of reasonable dividends.

To satisfy the minimum criteria of viability a central cooperative bank should have a loan business of at least Rs. 1 crore, corresponding to a working capital of about Rs. 1.20 crores.

**Membership of District Central Cooperative Bank:**

The membership of central cooperative banks has undergone certain changes. In the early years of their establishment, there were a number of central cooperative banks whose membership was confined to individuals only. The Maclagan committee (1951) raised strong objections to the registration of such banks under Cooperative Societies Act, on the grounds that "a bank of this class stands much the same position as a joint stock bank". Further more, it would cause friction with the societies on the one hand and the commercial banks on the other. Subsequently, these banks were either organised into cooperative urban banks or converted into pure central cooperative banks.

The central cooperative banks whose membership was slowly confined to primary cooperative societies. These banks were the perfect federations whose shareholders, lenders and borrowers were the same. The Maclagan committee (1915) expressed its views about these banks in the following words:

It is difficult to wards present conditions to find among the member of the societies, representatives with sufficient capacity to
manage such an institution and this types of bank generally fails to excite the interest or leave room for the assistance of the middle classes, who by its constitution are excluded from active participation in the movement; nor has it the necessary prestige to command local deposits to the extent to which they would have been forthcoming, if the middle classes were identified with the bank. In view of these practical difficulties, banks started on these lines have not hitherto proved an unqualified success and through they represent the model at which cooperation should ultimately aim, they should not be unduly forced.

The recommendation of the Maclagan committee (1915), the membership of the central cooperative banks consisted of both societies and individuals, in which societies were assigned a certain proportion of shares and were given separate representation on the board of directors. The all India Rural Credit Survey Committee (1954) favored pure federal central cooperative banks and recommended that their membership should be confined to cooperative societies only. The committee further suggested that wherever individual membership existed in the central cooperative banks, such individual should be gradually eliminated and their share capital to be transferred in favour of the primary societies. At present most of the central cooperative banks in India have both individual as well as primary societies as their members and the process of eliminating individuals from their membership still continues. It is worthwhile to mention that to ensure rural based central cooperative banks safeguarding the interest of the rural masses through cooperative principles it is sine quanon to expedite the process of elimination of individuals as shareholders. Members from Urban areas are usually Urban based individuals and by virtue of their membership they can influence the central cooperative to the disadvantage of the rural masses. Moreover, the principles of
cooperation demand that only those who can make use of the services of a cooperative society should be taken as members. Since, individual members from urban areas do not come under the purview of the objectives and services of the central cooperative banks, their membership is opposed to the very basic principles of cooperation\(^{21}\).

All the registered cooperative societies in the district and the state cooperative banks are eligible for membership according to bye-laws No.v(8) thus, every cooperative society registered within the area of operation of the bank and the state cooperative bank could be eligible for membership. After becoming a members of a bank every society shall be termed as " affiliated societies: byelaws No.v(10). The individuals and other members included individual members as per bye-laws No.v(9) / V.9(A) according to which any person who is resident of the district can be admitted as individual member of the bank provided he is of the age of over 18 years and of sound mind. Further in terms of byelaw No.V9 (3) other members include all institutions such as firms partnership and quasi-government institutions such as Panchayats, Zilla Parishads, Municipal Corporation within the area of operation of a bank and also the state government, which might have been admitted to the membership of the bank. Pursuant to the contribution to its share capital directly or indirectly that is through the higher level of financing bank\(^{22}\).
Table No:-1.1  
**Growth of DCCB’s in India**

<table>
<thead>
<tr>
<th>Year</th>
<th>No of DCCBs</th>
<th>No. of offices</th>
<th>Total Membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>371</td>
<td>13068</td>
<td>1837433</td>
</tr>
<tr>
<td>2002-03</td>
<td>366 (-1.35)</td>
<td>12956 (0.86)</td>
<td>2183731 (18.85)</td>
</tr>
<tr>
<td>2003-04</td>
<td>368 (-0.81)</td>
<td>12933 (-1.03)</td>
<td>2149071 (16.96)</td>
</tr>
<tr>
<td>2004-05</td>
<td>368 (-0.81)</td>
<td>12858 (-1.61)</td>
<td>2145876 (16.78)</td>
</tr>
<tr>
<td>2005-06</td>
<td>370 (-0.27)</td>
<td>12991 (-0.59)</td>
<td>2267850 (23.42)</td>
</tr>
<tr>
<td>2006-07</td>
<td>371 (0.00)</td>
<td>12928 (-1.07)</td>
<td>3264849 (77.68)</td>
</tr>
<tr>
<td>2007-08</td>
<td>372 (0.27)</td>
<td>13151 (0.63)</td>
<td>3396881 (84.87)</td>
</tr>
<tr>
<td>2008-09</td>
<td>373 (0.54)</td>
<td>13233 (1.26)</td>
<td>3528802 (92.05)</td>
</tr>
<tr>
<td>2009-10</td>
<td>372 (0.27)</td>
<td>13181 (0.86)</td>
<td>3975660 (116.37)</td>
</tr>
<tr>
<td>2010-11</td>
<td>371 (0.00)</td>
<td>13327 (1.98)</td>
<td>3146070 (71.22)</td>
</tr>
<tr>
<td>Mean</td>
<td>370.2</td>
<td>13062.6</td>
<td>1837433</td>
</tr>
<tr>
<td>S.D</td>
<td>2.20</td>
<td>154.22</td>
<td>748736.78</td>
</tr>
<tr>
<td>CV</td>
<td>0.59</td>
<td>1.18</td>
<td>26.84</td>
</tr>
</tbody>
</table>

Source: NAFSCOB Reports, Base Year; 2011-12

The above table reveals that, the growth of DCCBs in terms of number of banks, Offices and Membership. In terms of number of banks they have negative growth from 2002 to 06 and there is a fluctuating from 2007 to 2011. Similarly number of offices also have decreased growth up to 2006-07, from 2008-09 there is a positive fluctuating growth. In case of membership in DCCBs have been increased to 116.37% with the membership of 3146070 (thousands) in 2009-10 when compare to 2001-02 with the membership of 1837433 (thousands). There is a decrease in membership in 2010-11 with 3146070 (thousands) with a percentage of 71.22.
Table No:- 1.2
Trends of Capital, Reserves and Borrowings of DCCB’s in India
(RS. IN LAKHS)

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Amount</th>
<th>Capital Trend</th>
<th>Reserves Amount</th>
<th>Reserves Trend</th>
<th>Borrowings Amount</th>
<th>Borrowings Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>338800</td>
<td>100</td>
<td>792982</td>
<td>100</td>
<td>1827605</td>
<td>100</td>
</tr>
<tr>
<td>2002-03</td>
<td>357680</td>
<td>105.57</td>
<td>967591</td>
<td>122.02</td>
<td>1923847</td>
<td>105.27</td>
</tr>
<tr>
<td>2003-04</td>
<td>381003</td>
<td>112.46</td>
<td>1120824</td>
<td>141.34</td>
<td>2112810</td>
<td>115.6</td>
</tr>
<tr>
<td>2004-05</td>
<td>411547</td>
<td>121.47</td>
<td>1267286</td>
<td>159.81</td>
<td>2155710</td>
<td>117.95</td>
</tr>
<tr>
<td>2005-06</td>
<td>451147</td>
<td>133.16</td>
<td>1408294</td>
<td>177.59</td>
<td>2320213</td>
<td>128.36</td>
</tr>
<tr>
<td>2006-07</td>
<td>509813</td>
<td>150.47</td>
<td>1550512</td>
<td>195.52</td>
<td>2794060</td>
<td>152.88</td>
</tr>
<tr>
<td>2007-08</td>
<td>582923</td>
<td>172.05</td>
<td>1643573</td>
<td>207.26</td>
<td>3053334</td>
<td>167.07</td>
</tr>
<tr>
<td>2008-09</td>
<td>607141</td>
<td>179.2</td>
<td>1780801</td>
<td>224.57</td>
<td>2847764</td>
<td>155.82</td>
</tr>
<tr>
<td>2009-10</td>
<td>777653</td>
<td>229.53</td>
<td>2013296</td>
<td>253.88</td>
<td>3035483</td>
<td>166.09</td>
</tr>
<tr>
<td>2010-11</td>
<td>725768</td>
<td>214.22</td>
<td>2069202</td>
<td>260.94</td>
<td>3910116</td>
<td>213.95</td>
</tr>
<tr>
<td>Mean</td>
<td>514347.5</td>
<td>151.81</td>
<td>1461436.1</td>
<td>184.293</td>
<td>2598094.2</td>
<td>142.29</td>
</tr>
<tr>
<td>S.D</td>
<td>154584.3</td>
<td>45.63</td>
<td>430023.24</td>
<td>54.23</td>
<td>647849.13</td>
<td>35.38</td>
</tr>
<tr>
<td>CV</td>
<td>30.05</td>
<td>30.05</td>
<td>29.42</td>
<td>29.42</td>
<td>24.95</td>
<td>24.95</td>
</tr>
</tbody>
</table>

Source: NAFSCOB Reports, Base Year; 2011-12
The above table analysed the funds of DCCBs and their trend in terms of Capital, Reserves and Borrowings. The amount of capital is 338800 Lakhs in 2001-02, it has been gradually increased and reached 725768 Lakhs in 2010-11 with a percentage of 114.22 (214.22-100). In case of reserves, they are 792982 lakhs in 2001-02 whereas in 2010-11 it was recorded 2069202 lakhs with 160.94% (260.94-100) growth trend. The borrowings are collected by the banks to meet the short term and long term credit needs. The borrowings of DCCBs in India during the year 2001-02 are 1827605 lakhs, the growth of borrowings have fluctuating growth according to the credit needs of the bank, finally the borrowings are recorded 3910116 lakhs in the year 2010-11 with 113.95% (213.95-100) growth. The average growth of Capital, Reserves and Borrowings of DCCBs in India is 151.81%, 184.29% and 142.29% respectively. The S.D of capital is 45.63%, Reserves are 54.23%, and borrowings 35.38%.
When compare to the Standard deviation of capital, reserves and borrowings, borrowings have more consistent than capital and reserves.

**Role of Institutional Credit to Agriculture in India:**
Agriculture sector is the backbone of Indian Economy and it has to be competitive in the backdrop of globalization and consequent reforms. The government has emphasized an added priority for agriculture in the coming years. The overall growth rate of about 9 percent proposed in the 11th five year plan (2007-2012) can be achieved only if agriculture growth is maintained around four per cent while the current rate is only 2.7 per cent. In this context, it is high time to revamp the institutional credit for agriculture particularly the investment credit so as to meet the global and domestic challenges.

Clearly, credit requirement has increased manifold in rural India since independence owing to endurance of the ‘agricultural and rural development’ to be one of the main objectives of economic planning. To make this increasing requirement fulfilled, multi-agency approach to rural credit has been adopted. As a result of this approach various formal agencies have entered the field of rural credit till the date. Credit has been considered not only one of the critical inputs in agriculture, but also an effective means of economic transformation. A large number of agencies, including Co-operatives, Regional Rural Banks, Commercial Banks, Non-Banking Financial Institutions, Self-Help Groups (SHGs) and well spread informal credit outlets together represent Indian rural credit delivery system. These networks, apart from working as financial intermediaries, also play a key developmental role in the economy.
Table No:-1.3
Credit Flow to Agriculture from Different Sources in India
(in Percent)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Non-Institutional</td>
<td>92.7</td>
<td>81.3</td>
<td>68.3</td>
<td>36.8</td>
<td>33.7</td>
<td>38.9</td>
</tr>
<tr>
<td>Money Lenders</td>
<td>69.7</td>
<td>49.2</td>
<td>36.1</td>
<td>16.1</td>
<td>17.5</td>
<td>26.8</td>
</tr>
<tr>
<td>Traders</td>
<td>5.5</td>
<td>8.8</td>
<td>8.4</td>
<td>3.2</td>
<td>2.2</td>
<td>--</td>
</tr>
<tr>
<td>Relatives/Friends</td>
<td>14.2</td>
<td>8.8</td>
<td>13.1</td>
<td>8.7</td>
<td>4.6</td>
<td>--</td>
</tr>
<tr>
<td>Landlords and Others</td>
<td>3.3</td>
<td>14.5</td>
<td>10.7</td>
<td>8.8</td>
<td>6.3</td>
<td>--</td>
</tr>
<tr>
<td>Unspecified</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>3.1</td>
<td>--</td>
</tr>
<tr>
<td>B. Institutional</td>
<td>7.3</td>
<td>18.7</td>
<td>31.7</td>
<td>63.2</td>
<td>66.3</td>
<td>61.1</td>
</tr>
<tr>
<td>Government, etc.,</td>
<td>3.1</td>
<td>15.5</td>
<td>7.1</td>
<td>3.9</td>
<td>5.7</td>
<td>--</td>
</tr>
<tr>
<td>Co-operative Society/Bank</td>
<td>3.3</td>
<td>2.6</td>
<td>22.0</td>
<td>29.8</td>
<td>23.6</td>
<td>30.2</td>
</tr>
<tr>
<td><strong>Commercial Banks, etc.</strong></td>
<td>0.9</td>
<td>0.6</td>
<td>2.4</td>
<td>28.8</td>
<td>35.2</td>
<td>26.3</td>
</tr>
<tr>
<td>Others</td>
<td>--</td>
<td>--</td>
<td>0.2</td>
<td>0.7</td>
<td>1.8</td>
<td>--</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: All India Debt and Investment surveys (AIDIS, 2012).

Institutional credit to agriculture witnessed a remarkable growth after nationalization, but still a large number of rural populations especially the marginal farmers are out of reach of institutional credit and depend upon informal sources for their credit requirements. All-India Debt and Investment Survey (AIDIS) 2002, which provide the magnitude of the dependence of rural farmers on different sources for their credit requirements, reveal that the share of non-institutional sources in credit supply to agriculture has declined from about 92.7% in 1951 to about 38.9% in 2002 (table 1.1). This shows that still informal sources have an important place in agriculture credit market and institutional sources are unable to provide adequate credit to the farmers and in this situation the
farmers are left with no alternatives but to move to the unorganized market. The important informal sources are professional moneylenders, landlords, input suppliers, commission agents and also the large farmers. These sources especially the moneylenders have a great hold on farmers. They particularly small and marginal farmers do feel it inconvenient to borrow from these informal sources as they can obtain money from them at any time and even without any security. According to Situation Assessment Survey of Farmers (ASFs) conducted by NSSO (National Sample Survey Organization) (2003), moneylenders are the second important source of credit to farmers, contributing about 26% of the total outstanding loans followed by the banks. These informal sources charge exorbitant rate of interest, exploit them and also sometimes grab the land of the debt-stricken farmers.

Table No: -1.4

Farm Credit Disbursements by Co-operatives, Commercial Banks & Regional Rural Banks in India

( in Million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Co-op. Banks</th>
<th>Corn. Banks</th>
<th>RRBs</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>235,240 (37.91)</td>
<td>335,870 (54.13)</td>
<td>48,540 (7.82)</td>
<td>800 (0.14)</td>
<td>620,450 (100)</td>
</tr>
<tr>
<td>2002-03</td>
<td>236,360 (34.00)</td>
<td>397,740 (57.18)</td>
<td>60,700 (8.72)</td>
<td>800 (0.10)</td>
<td>695,600 (100)</td>
</tr>
<tr>
<td>2003-04</td>
<td>268,750 (30.91)</td>
<td>524,410 (60.29)</td>
<td>75,810 (8.71)</td>
<td>840 (0.09)</td>
<td>869,810 (100)</td>
</tr>
<tr>
<td>2004-05</td>
<td>312,310 (24.92)</td>
<td>814,810 (65.02)</td>
<td>124,040 (9.91)</td>
<td>1,930 (0.15)</td>
<td>1,253,090 (100)</td>
</tr>
<tr>
<td>2012-13</td>
<td>372,520 (23.65)</td>
<td>1,061,520 (67.41)</td>
<td>140,760 (8.94)</td>
<td>NA</td>
<td>1,574,800 (100)</td>
</tr>
</tbody>
</table>
The share of co-operatives in the total disbursements of short-term and long-term credit progressively declined from 37.91% in 2001-02 to 23.65% in 2005-06, whereas that of commercial banks recorded a progressive increase from 54.13% to 67.41% during the corresponding years. RRBs accounted for 7.82% in 2001-02, which progressively rose to 9.91% in 2004-05, but it declined by one percentage in the following year. Since the RBI (Reserve Bank of India) policy (1998) of priority sector lending is related to the level of net bank advances and in turn to...
the level of bank deposits of banks, the policy of RBI played the primary role in determining the flow of institutional finance to agriculture.

The NABARD (National Bank for Agriculture and Rural Development) deals with policy, planning and operational aspects of inflow of credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts and allied economic activities in rural areas. As an apex Institution in rural credit structure, NABARD provides refinance facilities to various financial institutions which provide loans to agriculture and rural areas. NABARD has been giving lot of emphasis to the viability of various rural financial institutions for bringing development in the rural areas. Among various alternatives, Development Action Plans (DAPs) have been considered one of the suitable mechanism through which viability of rural institutions could be analyzed and planned. Keeping the viability in mind, almost all the rural banking institutions have signed the Memorandum of Understanding (MOU) and have been preparing the DAPs since 1993-94. Through the DAP, banks have been able to prepare specific plans of their institutions by considering their strengths and weaknesses etc.

**Origin and Growth of Co-operative Credit Institutions in India:**

It is an open secret that, co-operative movement is gearing towards twenty first century and nearing a century old in India since it gained momentum through the passing of the Co-operative Societies Act in 1904, with a view of providing funds to “Agriculturists for agricultural operations and allied sectors at the lowest lending rate of interest”. Moreover, it is aimed at protecting rural farming communities from the clutches of moneylenders. Furthermore, co-operative finance is
the cheapest, accessible, manageable and best source of rural credit supply with incomparable low rate of interest.

Co-operative banks in India are registered under the Co-operative Societies Act. The co-operative bank is also regulated by the RBI. They are governed by the Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1965.

The co-operative banking system aims at mobilization of savings from the middle-income groups and provides credit requirement to the middle and economically weaker sections of the society. Thus, it occupies an important position in the financial system of the economy.

The Vaidyanathan Committee (2004) divided the rural co-operative credit movement into four phases:

- 1900-30, the Co-operative Society Act 1904 was passed and cooperation became a provincial subject by 1919.
- 1930-50, signs of sickness in Indian rural co-operative movement were becoming evident. RBI was set up in 1935 and played a pioneering role in supporting the co-operatives.
- 1950-90, The All India Rural Credit Survey (1954) recommended state partnership and GOI’s (Government of India) 1989 loan waiver scheme set an unhealthy precedent.
- Co-operatives were used by states to channel its development schemes. Commercial Banks (1969) & RRBs (1975) entered rural areas. NABARD was set up in 1982.
- The fourth phase from 1990’s onward was a period of reforms/liberalization and saw an increasing realization of the disruptive of state interference and politicization of co-operatives. A number of committees were set up to suggest reforms in this sector.
In a developing country like India with huge deficits in terms of quality and quantity, the state has to shoulder the primary responsibility of providing credit through co-operatives. Considering the low living standards of common man, incomplete and imperfect markets and other socio-political considerations, it is the primary duty of the government to ensure that its citizens have easy access to co-operative credit. Capital deficiency is one of the causes for underdevelopment and backwardness in developing countries. Capital formation has three important stages: saving, financing, and investment. Financial institutions in general and the banking sector in particular play a strategic role in the financing stage of capital formation. In the banking sector, co-operative banks undertake the responsibility of mobilizing the scarce savings of the community and channelizing these savings for purpose of productive investment in the economy.

Co-operatives form the major component of the institutional rural credit system in our country, the other components being commercial banks and Regional Rural Banks. Co-operatives offer short-term and long-term credit through two separate channels whereas the other two agencies offer all types of credit without separate channels. The evolution of long-term and short-term co-operative structures has distinct historic antecedents.

The Co-operative Banks in India started functioning almost a hundred years ago. The co-operative bank is an important constituent of the Indian financial system. Some Co-operative Banks in India are more forward than many of the State and Private Sector Banks. According to the National Federation of Urban Co-operative Banks and Credit Societies Ltd., (NAFCUB) the total deposits and lendings of Co-operative Banks
in India are much more than the old Private Sector Banks and also the New Private Sector Banks.

**Table No:-1.5**

**Performance of Rural Co-operative Banks in India**

(as on March 2012)

(Amount in 000 Million)

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Particulars</th>
<th>Short-Term Credit Structure</th>
<th>Long-Term Credit Structure</th>
<th>Credit</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>SCBs</td>
<td>DCCBs</td>
<td>PACSs</td>
<td>SCARDBs</td>
</tr>
<tr>
<td>1.</td>
<td>No. of Co-operative Banks</td>
<td>31</td>
<td>366</td>
<td>1,06,384</td>
<td>20</td>
</tr>
<tr>
<td>2.</td>
<td>Balance Sheet Indicators</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>i) owned Fund</td>
<td>105.45</td>
<td>234.50</td>
<td>92.92</td>
<td>33.52</td>
</tr>
<tr>
<td></td>
<td>ii) Deposits</td>
<td>454.05</td>
<td>875.32</td>
<td>195.61</td>
<td>6.36</td>
</tr>
<tr>
<td></td>
<td>iii) Borrowings</td>
<td>169.89</td>
<td>242.17</td>
<td>410.18</td>
<td>170.75</td>
</tr>
<tr>
<td></td>
<td>iv) Loans and Advances Issued</td>
<td>482.60</td>
<td>735.83</td>
<td>429.20</td>
<td>29.07</td>
</tr>
<tr>
<td></td>
<td>v) Loans and Advances Outstanding</td>
<td>396.84</td>
<td>792.02</td>
<td>517.79</td>
<td>177.13</td>
</tr>
<tr>
<td></td>
<td>vi) Total Liabilities/Assets</td>
<td>764.81</td>
<td>1,430.90</td>
<td>733.87</td>
<td>246.04</td>
</tr>
<tr>
<td>3.</td>
<td>Financial Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>i) Institutions in Profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) No.</td>
<td>27</td>
<td>278</td>
<td>44,321</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>b) Amount of Profit</td>
<td>4.08</td>
<td>11.16</td>
<td>10.64</td>
<td>3.35</td>
</tr>
<tr>
<td></td>
<td>ii) Institutions in Loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) No.</td>
<td>4</td>
<td>88</td>
<td>53,050</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>b) Amount of Loss</td>
<td>0.30</td>
<td>9.13</td>
<td>19.20</td>
<td>2.47</td>
</tr>
<tr>
<td></td>
<td>iii) Overall Profit! Loss(-)</td>
<td>3.78</td>
<td>2.03</td>
<td>-8.56</td>
<td>0.88</td>
</tr>
<tr>
<td></td>
<td>iv) Accumulated Loss</td>
<td>2.74</td>
<td>52.75</td>
<td>N.A</td>
<td>9.18</td>
</tr>
<tr>
<td>4.</td>
<td>Non-Performing Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>i) Amount</td>
<td>63.60</td>
<td>157.12</td>
<td>154.76</td>
<td>57.86</td>
</tr>
<tr>
<td></td>
<td>ii) As Percentage of Loans Outstanding</td>
<td>16.0</td>
<td>19.8</td>
<td>30.4</td>
<td>32.7</td>
</tr>
</tbody>
</table>
A whole profile of performance of Rural Co-operative System in India is presented in table 1.3. It is clearly indicated in the table that their financial performance is getting worse as the number of loss making units are significantly more than the number of profit making units. During 2012-13, the Rural Co-operative Bank institutions were making an overall loss of 2,710 million. While the upper-tier of the both short-term and long-term structures made profit, the lower-tier, i.e., Primary Agricultural Credit Societies (PACSs) and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) made losses. Both the tiers of the long term co-operative structure have the higher Non Performing Assets (NPAs) as percentage of loan outstanding and also the lower percentage of recovery of loans. In the short term co-operative structure lower tier has the highest NPAs with lowest recovery performance.

**Organization of Co-operative Credit Structure in India:**

The co-operative banking structure in India comprises two main components, viz., Urban Co-operative Banks and Rural Co-operative Credit Institutions. While Urban Co-operative Banks have a single tier structure, Rural Co-operatives have a complex structure. Rural Co-operative Credit Institutions have two distinct structures, viz., the Short-Term Co-operative Credit Structure (STCCS) and Long-Term Co-operative Credit Structure (LTCCS). Within the STCCS, Primary Agricultural Credit Societies (PACS) at the village level, while District Central Co-operative Banks (DCCBs) are placed at the intermediate level and the State Co-operative Banks (SCBs) at the apex.
level. The STCCS mostly provide crop and other working capital loans primarily for a short period to farmers and rural artisans. The long-term structure of Rural Co-operatives comprises State Co-operative Agriculture and Rural Development Banks (SCARDBs) at the State Level, and Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) at the decentralized district or block level. These institutions focus on providing typically medium to long-term loans for making investments in agriculture, rural industries and housing.

The structure of rural credit shows a great deal of variation over the country. At present, in 15 states there are three-tiered and in 12 States/Union Territories (UTs) there are two tiered short credit structures. As far as Long-Term (LT) credit structures are concerned in eleven states there are the two tiered structures and in 8 states there exists a single tiered structure. In some states Long Term (LT) and Short-Term (ST) credit structures are integrated. The generic name for PCARDBs and SCARDBs are the Land Development Banks (LDBs) and are constituents of LT credit structure. These institutions differ from state to state and are broadly of four types.

1. Unitary structures where SCARDBs operate at the state level through their branches and have individuals as members. Such type of societies is found in Bihar, Uttar Pradesh, Maharashtra, Gujarat, Tripura, Jammu and Kashmir, and in the Union Territory (UT) of Pondicherry.

2. Federal structure with SCARDB at the state level and federated societies (PCARDBs) at the primary level exist in states like Tamil Nadu, Karnataka, Kerala, Orissa, Punjab, Haryana, Rajasthan and Madhya Pradesh.
3. Mixed structure of type 1 and 2 above is seen in Himachal Pradesh, Assam and West Bengal.

4. In the states like Delhi, Andhra Pradesh, Goa, North Eastern (NE) states and in Union Territory (UT) of Daman and Diu, there are no separate LDBs. The SCBs undertake long term credit activities. According to the task force on Revitalization of Co-operative Credit (2004), two trends are seen with regard to rural credit by the commercial banking sector. Firstly, the branch rationalization programme has resulted in decline in the number of rural branches. Secondly, through most of the banks meet the priority sector target set by the RBI; they have moved towards larger customers. For instance, the average size of direct loan to agriculture by commercial banks was 13,500 in 1997. This has increased to 30,585 in 2002-03, whereas, the average size of loan of the PACSs is merely 6,640 per borrower. Today, India’s Co-operative Credit Structure (CCS), with over 13 crore members (including six crore borrowers), constitutes one of the largest rural financial systems in the world. Over one lakh Primary Agriculture Credit Societies (PACS) can, in many ways, be regarded as the veritable bedrock of India’s rural economy. Directly or indirectly, it covers nearly half of India’s total population.

The Co-operative Credit System of India has the largest networking the world and co-operatives have advanced more credit in the Indian agricultural sector than that of commercial banks. Thus, the small quantum of loan demanded by the rural borrowers, the high administrative costs of these loans apart from a high risk of default make these loans economically non-viable. Hence, this sector has to be increasingly served by the co-operative and other rural credit institutions. Considering that the upper tier co-operatives largely depend on the primaries for their business, it can be said that...
The structure stands on very weak foundations. Current profits or losses could be misleading, especially since some of the institutions that are making current profits could have heavy accumulated losses and that all of them may not have made the required provisions against their NPAs.

**Problems of Co-operative Credit Institutions in India:**

Co-operative banks are under considerable pressure causing decline in productivity and efficiency, low profitability, un-remunerative direct investment, deterioration in the quality of portfolio, inadequacy of capital, inadequacy of loan provision, largescale loan waiver, duplication of infrastructure, over staffing, management weaknesses etc. These constraints may considerably influence institutional finance for priority sector in the long run.

Non-Performing Assets have various implications on profitability, liquidity and solvency of the banks. In spite of the various measures taken by banks, Non Performing Assets have been at a high level in co-operative banks.

Due to financial impairment, the Co-operative Credit Structure is steadily losing its ability to meet the rapidly growing credit needs of agriculture. The regional distribution of co-operative credit is highly uneven. In general, the agriculturally advanced states account for a disproportionately large share of co-operative credit. During 2002-03, seventy eight per cent of the total short term credit of co-operatives was accounted for by the northern, western and southern regions of India and seven states (Andhra Pradesh, Gujarat, Haryana, Maharashtra, Kerala, Punjab and Tamil Nadu) received as much as seventy per cent of the loans advanced by the PACSs.
A desire to provide multi-term credit and multi-functional services motivated the government of Andhra Pradesh to integrate both the structures. Accordingly, the process of integration at primary level was implemented in 1987 and at the apex level in 1994. To begin with the results in terms of membership, share capital, credit off-take, etc. seem impressive but failed to maintain momentum. With addition of long-term credit, workload at delivery point, i.e., Primary Agricultural Co-operative Societies (PACSs) has gone up leading to decline in advances, lapses in supervision, and poor recovery.

Corporate governance especially in the co-operative sector has come into sharp focus because more and more co-operative banks in India, both in urban and rural areas, have experienced grave problems in recent times, which has in a way threatened the profile and identify of the entire co-operative system. The Vyas Committee (2004) on flow of credit to agriculture had recognized the inefficiencies posed by the three-tire structure in the rural co-operative credit institutions. It pointed out that “in the three-tire co-operative credit structure, each tier adds its costs and margins to the interest rates and ultimately, the borrower gets credit at a relatively higher rate of interest”.

Several committees have gone into the question of reorganizing the co-operative credit structure in the country. Recently, the Task Force on Restructuring of Co-operative Credit Institutions (2004) underlined the need to eliminate state governments’ interference in the functioning of co-operatives. It recommended a revival package of about 15,000 crore for retiring the share capital contributed to co-operative societies by state governments and for cleaning up their balance sheets.
Impact of Reforms on Co-operative Banks in India:

As the country was facing a serious economic crisis due to a critical balance of payments situation, the government of India decided to initiate measures to stabilize the economy and simultaneously introduce structural reforms in the banking system. The main motive of these structural reforms was to enhancing the productivity and the operational efficiency of the banks as well as the economy as a whole and increasing global competitiveness in the years to come. Integrates itself more closely with the international economy. Indian financial and banking system would increasingly be drawn into the dynamics of international finance. The Banking Sector Reforms introduced during the 1990’s as part of the overall economic reforms essentially aimed at making the financial institutions efficient and vibrant while meeting the credit needs of its clients (Rangarajan:1998). Based on the recommendations of the Narasimham Committee Report (1991), the banking sector in India has witnessed significant changes by way of downsizing bank branches and staff, rationalizing prudential norms - reduced Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR), rising Credit-Deposit Ratio (CDR), increase in the number of Private and Foreign Banks and (partial) deregulation of interest rates. The report of the Committee on Banking Sector Reforms (CBSR, 1998) provides a framework for the second phase of reforms in the banking system.

The broad features of the on-going banking reforms is that; gradual removal of preemptions (reduction in CRR and SLR) deregulation of interest rates, tightening of prudential standards, competition and transparency, improving the quality of supervision, partial removal of selective credit controls, assistance to banks in debt recovery and reforms in money and forex markets. Credit flows through the co-operatives in
rural India and theirsustainability, viability and operational efficiency have become themajor focus of attention of various policy-makers in the era of financial sector reforms. Although reforms in the banking sector wereinitiated in commercial banks much earlier (beginning 1991-92) thereform process in the co-operatives have taken a longer time to getstarted. It was because of the need for generating a consensus amongvarious state governments, which govern and control the Co-operativeCredit Institutions and to balance the interests of many diversifedgroups. However, a few major reforms, as indicated bySubramanyam (1999), have been introduced in the Co-operativeCredit System. Despite these reforms, the co-operatives are still tooweak to face the market forces. The weakness of co-operative bankinglies at the primary level.

According to Subrahmanyam (1999), the major reforms/stepsinitiated during the period from 1991-92 to 1997-98 are:

a. Relaxation in branch expansion policy.
b. Liberalization and relaxation in Credit Authorization Scheme.
c. Permission to SCBs to introduce STOCKINVEST and CurrencyChest Branches.
d. Some additional scheme to SCBs under National LevelConsortium arrangement for financing.
e. A policy decision to permit SCBs on case by case to subscribe to the Public Sector Bonds.
f. Assistance to SCBs from Co-operative Development Fund byNABARD to ensure proper Management Information System andto conduct research studies.
g. Deregulated interest rates on advances and deposits bySCBs/DCCBs.
h. Preparation of Development Action Plans and entering intoMOUs at the instance of NABARD.
i. Applicability of prudential norms to SCBs/DCCBs.

j. Relaxation in extending finance to individuals with a view to provide avenues for broader deployment of the resources.

Keeping in view the RBI’s goal to have consistency and harmony with international standards it has been decided that at a minimum, all banks in India will adopt Standardized Approach for Credit Risk and Basic Indicator Approach for Operational Risk with effect from March 31, 2007. After adequate skills are developed some banks maybe allowed to migrate to Internal Rating Based (IRB) approach after obtaining the specific approval of the RBI. RBI has indicated that the risk weights applicable for various rating categories of Credit Rating Information Services of India Limited (CRISIL) and Internet Content Rating Agency (ICRA). These risk weights were derived based on the mapping of CRISIL/ICRA ratings to Standard and Poor’s (S&P). A risk weight of 150% would be applicable for Better Business Bureau ratings (BBB Rating) of CRISIL/ICRA. However, the regulatory definition of default (Probability of Default (PD)/Non-Performing Asset) was more liberal than the 90 days overduerule in the past.

The RBI has adopted a consultative approach to implement Basel-II Norms for Indian banking industry. A Steering Committee comprising of senior officials from 14 banks has been constituted where Indian Bank’s Association is also represented. On the basis of the inputs received from the Steering Committee “Draft’ guidelines for implementation of Basel-II in India have been prepared by Reserve Bank and has requested banks to study these guidelines and furnish their feedback.

The RBI has directed the State Co-operative Banks to adopt prudential norms in terms of income recognition, asset classification and provisioning for bad and doubtful debts. Prudential Norms also includes, capital adequacy norms and these norms have been fixed at 8% of the
capital risk weighted assets. The Co-operative Banking Sector has been asked by RBI to adopt Prudential Norms by March 31st, 2000. Adoption of Prudential Norms by Co-operative Banking Sector would imply considerable improvement in their financial health, reduction of loan overdues and greater mobilization of deposits in the coming years. In order to strengthen the capital base of banks and in keeping with the recommendations made by the Basle Committee on Banking Regulations and supervisory practices (BCBR), the RBI has introduced Capital to Risk Weighted Assets Ratio (CRAR) system for commercial banks (including foreign banks) in India as a capital adequacy measure way back in 1993. The fundamental objectives that underlay behind this principle are, firstly, that the framework should serve to strengthen the soundness and stability of the banking system and secondly that the framework should be fair and have a high degree of consistency in its application to banks operating at different levels.

Restructuring of Co-operatives - Vaidyanathan Committee Recommendations (2004):

The Government of India has felt that the need to revamp the three tier co-operative banking network and constituted the committee to “Restructure and Revitalize the Co-operative Banks”, under the Chairmanship of Professor Vaidya Nathan. This Committee is also popularly known as the Vaidya Nathan Committee (2004). The Vaidya Nathan Committee has, therefore, recommended the implementation of a revival package covering three broad areas:

Financial Assistance:
The Co-operative Banks and PACS shall be provided financial assistance under a revival package so as to make them strong to serve the credit
needs of the rural people, particularly the small and marginal farmers. Such revival package shall include assistance to wipe out accumulated losses also. The financial package shall also increase the capital base of the banks/societies and reduce the government share of equity to 25% of the total subscribed share capital of the society. Cost of training and capacity building to improve the financial management skills of the staff and board of directors is also envisaged. Financial support shall be made available for installation of uniform accounting and monitoring systems and computerization of PACS.

**Legal and Institutional Reforms:**

- Full membership rights to all users, including depositors.
- Wider access to all institutions for borrowing and investment.
- Ensuring elections before end of tenure of Boards.
- Exit of State equity and consequent withdrawal from Boards.
- Empowering RBI to directly exercise full regulatory authority in financial matters.

**Measures to Improve Quality of Management:**

- Co-option of professionals on Boards.
- Reduction of State intervention in administrative and financial affairs.
- Limited powers of State to supersede Boards.
- Introduction of Prudential norms and audit by Chartered Accountants (CAs).

The Government of India has accepted the Vaidya Nathan Committee recommendations and rolled out the programme for Revival of the Co-operative Credit Structure. NABARD is the nodal implementing agency.
for the programme. By April 2008, 19 states had accepted the package and commenced implementation.

**District Central Co-operative Banks (DCCBs) : A Special Mention**

When the first Co-operative Credit Societies Act was passed in 1904, there was no provision for the formation of DCCBs. But the Act of 1912 permitted the organization of higher level federal societies. Before passing this Act of 1912, some Central Co-operative Banks had been established to cater to the financial needs of the primary societies. They were registered as PACS but were working as Central Co-operative Banks. However, with the passing of the Co-operative Societies Act in 1912, District Central Co-operative Banks came to be established on a large scale in the country. The period from 1906 to 1918 may be called as the period of origin of the District Central Co-operative Banks in the country.

The National Bank for Agriculture and Rural Development Act, 1981, provided the following definition of a Central Co-operative Bank:

“Central Co-operative Bank means the principal co-operative society in a district of 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 societies in that district to be Central Co-operative Bank”.

Central Co-operative Banks are the middle wing of the three-tier co-operative credit structure. These are of three types:
1) Banks with membership confined to individuals.
2) Banks with membership exclusively confined to primary credit
societies; this is the best type from the co-operative angle.
3) A mixed type with individuals and societies as members.

Co-operative Credit Structure in India:

The cooperative credit structure in India, so far as rural finance is concerned, consists of two wings one dealing in short-term and medium-term credit and the other in long term credit. The short-term and medium-term structure is three tiered. The primary agricultural credit societies at the village forms the base. It is on this, that the whole edifice cooperative credit is based. They federate into district central cooperative bank usually at the district level. At the state level these are federated into an apex bank serving the entire state, the state cooperative bank in its turn was closely linked with the Reserve Bank of India and with the National Bank for Agricultural and Rural Development which provides among others, considerable financial assistance to agriculture through the state cooperative banks, district central cooperative banks and primary societies. The long-term credit structure consists of two tiers. There are primary land development banks at taluka or block level and central land development banks at state level. The long-term credit is provided by the central land development banks for each state at the apex level. The apex bank operates through primary land development banks and where land development banks do not exist, it operates through its own branches or district central cooperative banks. The structure of the cooperative credit in India is as under.

The cooperative central banks occupy a crucial position in the pyramidal structure of agriculture cooperative credit system in a state. They form the backbone of the structure, and provide the vital link
between the local primary societies and the state cooperative bank organised at the state level.

Structure of Cooperative credit

- Short-term and medium term credit (Three-tier system)
  - 1) State Cooperative Banks (Apex Institution at the state level).
  - 2) District Central Cooperative Banks (organisation at the district level).
  - 3) Primary Agricultural Credit Societies (Institutions at the village or root level).
- Long term credit (Two-tier system)
  - 1) State Development Banks or State Cooperative Agriculture and Rural Development Bank (Apex Institutions at the state level)
  - 2) Primary Land development Bank or Rural development Bank (organization at the district and Taluka level)

They act as balancing centers and provide funds to the primary societies in the district when they face shortage by diverting the surplus funds of the urban areas. They mobilize resources by accepting deposits and by borrowing from the state co-operative banks. They provide facility for the investment of the resources of primary societies. They develop and extend banking facilities in semi-urban and rural areas. They finance primary societies affiliated to them, impart strength to them and supervise and guide the working of the member societies in the district.24

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It was recognised that agricultural societies could not be expected in all cases to raise their own funds. The societies could not always get proper persons in the village itself to manage them on sound lines. The problem was to find out an agency based on the same principle as that of the societies, which could meet all the above requirements. In India some official and non-official cooperatives gave their mind to this problem and plans were put forth by them. Mr. Dupernex promulgated a plan that the urban banks would be able to raise sufficient capital to meet both their own needs and those of the rural societies. Under these arrangements certain of the larger urban banks in various provinces gradually assumed the position of central financing agencies, and these were followed especially after the passing of the Act of 1912 by other central banks in many of which the agricultural societies were themselves in same way represented.25

The number of central banks in the country grew, the problems of finance supervision, proper guidance and development along right lines became more complicated. While some banks had abundant funds and were managed efficiently, others were unable to raise enough, to meet the societies demand and had to borrow from other by circulating each other or through the registrar, cooperative societies in the absence of a common balancing center.26

**Management of District Central Co-operative Bank:**

Management of a district central cooperative bank is in charge of a board of directors elected annually, or in some case, triennially, on the basis of one member, one vote, at the general meeting, which is the ultimate authority in this and in other types of cooperative societies. The requirements for a director of such a bank were described by the Maclagan committee, which held that the work called less for technical
skills than for ordinary probity and knowledge and should be well within the capacity of any professional man. He needs only to have a general knowledge of money rates and to fix his own to produce a required margin of profit; he should be careful to forecast the probable receipts and demands from societies, to maintain careful accounts, and to see that his working capital is regularly employed and that sufficient fluid resource is always kept available\textsuperscript{27}.

All members, individual and societies form the general body of the bank. General body is the highest body, which takes ultimate decisions about the affairs of the bank. General body meets once a year to transact the following business\textsuperscript{28}.

1. To confirm the minutes of previous year annual general meeting of the bank;
2. To receive and consider the annual report, statement of the accounts;
3. To declare divided (as recommended by the board of directors);
4. To consider the audit memo of the government auditor;
5. To approve the budget for the next year as recommended by the board of directors;
6. Admit new members and consider expulsions if any.

The information regarding constitution of general bodies of the district central cooperative banks is given below discussed. The board of directors consisted of members elected by the general body to carry on day-to-day administration of the bank and it works under the direction of the general body. The management of district central cooperative bank is vested in hands of the board of directors consisting of 20 - 27 members. In order to shape the policies of the central bank for the benefit of the affiliated primary societies, the representative of the societies dominate the board by restricting the number of individual member 2 to 3 only. As per provisions contained in the bye- laws the
board of directors has appointed different committees in order to expedite the working of the bank.

The managing directors are senior officers of the cooperative department. In view of great responsibilities assigned to them they should play the role of true lenders for promoting the cooperative functioning of these institutions. They should function with a missionary zeal and complete dedication to bring about integrated rural development through the media of the cooperative institution. They should implement the cooperative laws, the rules and the bye-laws with all the sincerity while discharging their functions as such managing directors. They should efficiently manage the affairs of the bank and provide the requisite guidance and supervision over the functioning of the officials working under them in the head office as well as in the field. They should periodically review the working of the head office as well as of the field by conducting periodical meetings and field visits. They have to be very vigilant all the time in their functioning to ensure smooth and efficient working.

The manager is responsible for general administration of the bank subject to the control of the president. He has powers to accept deposits of all amounts and carries on general banking transaction within the framework of the bye-laws. He is responsible for holding meeting of the board and general body and is the custodian of all the properties of the bank. He is also the officer to be used on behalf of the bank.

**The Concept of Funds Management:**

Finance is the life blood of any firm or organisation, finance function occupies a key position in the firms general management and plays the major role in planning and measuring the firms need for funds,
raising the necessary funds, and then putting the funds acquired to effective use. The "funds management" is concerned with managerial decisions that result in acquisition of funds and utilization of these funds in long-term and short-term ventures in a most productive and profitable manner. In a country like India, where resources are scarce and the demand for funds are many, the need for good financial managers or bank manager is enormous. If proper financial management techniques are used the enterprise can reduce the capital raising cost and improve their return on investment.

Funds management plays very significant role for the development of an organisation. The cooperative banks are generally interested in service and growth. For the purpose of survival, the cooperative banks must have adequate funds with them to meet various requirements. For this purpose, bank must not reject any request for withdrawal. The maintenance of adequate liquid assets serves this purpose. This will not only increase the public faith and confidence but also brings the solvency of the bank. Besides, the banks have to earn profit for carrying out their day-to-day activities and appropriating funds for developing various funds such as reserve fund, building fund, etc. which strengthen the financial structure of the bank.

Thus the principle of liquidity, solvency and profitability is to be observed while undertaking the business operations. A good management of funds aims at mobilizing resources in the most convenient as well as at a low cost and optimum utilization of scarce resources, for the best return in monetary and social manner. The mobilizing of resources deals with various sources of funds.
Sources of Funds of District Central Co-operative Banks:

The district central cooperative banks operations refer to raising procurement and utilization of funds by the banks. Procurement and utilization of funds are in fact the two vital functions of district central cooperative banks. Therefore; an attempt has been made for operations of district central cooperative banks.

The operation of district central cooperative banks can be grouped under two heads.

a) Procurement of funds through various sources,

b) Utilization of funds.

For the purpose of analysis of the first function; an inquiry into the procurement of funds from various sources has been made. Such sources are:

i. Share capital;

ii. Reserve and other funds;

iii. Deposits;

iv. Outside borrowings.

i) Share capital:

The share capital of the district central cooperative banks raise their share capital by issuing shares to affiliated societies as well as the individual members. The major portion of shares is issued to member societies. The face value of the shares varies from Rs.50 to Rs.100. In order to safeguard against any domination of the individual member, in the management of these banks, certain restrictions are generally imposed on the limits of the shares issued to individuals. The Mehta Committee (1960) stressed on the strengthening of the share capital of central banks and suggested that primary societies should be required to contribute to the share capital of these banks to the extent of 1/20th of
their borrowings. Recently the Reserve Bank has suggested that the central bank should collect from the primaries share capital up to 10 percent of their borrowings. In order to strengthen the financial structure of these banks and to enforce confidence of the public the state government has been participating in the share capital of the central cooperative banks.

ii) Reserve Funds:

The second sources of funds of district central cooperative banks is the reserve fund, which is an important part of their owned funds. Central cooperative banks generally maintain three types of reserve funds (a) statutory reserve funds, (b) bad and doubtful debts, risk reserve funds and (c) other funds, beside maintaining the statutory reserve fund, these banks also to write off their bad debts as and when necessary. The Rural Credit Survey Committee (1954) stated "As important as the need for adequate share capital is that for adequate reserve. We trust, this will engage, from time to time, the most careful attention of cooperative departments and of the directors of central banks".

iii) Deposits:

Deposits are the most important source of the working capital of district central cooperative banks. The importance of these sources hardly needs any emphasis. All the committees and commissions, hitherto set up to take stock of the cooperative movement, have, without any exception, stressed on the mobilisation of savings from urban and semi-urban areas by central cooperative banks in order to provide the large sums of credit required by primaries for the agricultural development.
iv) **Borrowings:**

When the internal sources of a central cooperative bank are not sufficient to meet its credit requirement, it becomes a normal practice of the bank to borrow from external sources. The volume of borrowings depends upon the magnitude of the bank's own funds. The limits of borrowings are decided as a percentage of owned funds or other enhanced limit as may be permitted by the registrar of cooperative societies from time to time.

The borrowings constitute the fourth component of the working capital of central cooperative banks. These banks receive borrowings from State Cooperative Banks, State Government, State Bank of India, State bank of Hyderabad and its subsidiaries, etc. The main bulk of the borrowings of central cooperative banks however comes from the state cooperative banks.

**Utilization of Funds of District Central Co-operative Banks:**

The more common uses of funds by banks, as indicated by the main category on the asset side of a bank balance sheet are:

1. Cash;
2. Balance with other banks;
3. Money at call and short notice;
4. Investment, and
5. Advances.

The utilization of funds is broadly determined by the nature of the economy the economic policies and a host of other factors. Since banks are not supposed to function in a manner harmful to the interest of the depositors the shareholders and borrowers in particular and the community in general-banks have to subject themselves to controls.
exercised by the central bank of the country. These controls also influence the choice of banks in marking use of their funds.

1) **Cash:**

   For the liquidity point of view, banks provide themselves with enough cash; banks have the obligation to pay the demand deposits without notice and on demand, for which cash is needed. How much bank funds are to be kept in this portfolio depends upon several factors, which partly legal and partly practical and the section 24 requires that every cooperative bank in India shall maintain 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 percent of the total of its time and demand liabilities in India. This may be inclusive of the cash reserve maintained under section 18. The Reserve Bank may raise that standard to 25 percent after two years.

2) **Money at calls and short notice:**

   Since it is not profitable for banks to hold cash in large quantities, they use some portion of their funds in such assets as are near-cash and at the same time earn some income. Money at call and short notice includes the inter bank call deposits and the short notice money which banks place with other banks.

3) **Investment:**

   Central banks also invest their surplus funds in deposits with the Apex Cooperative Banks to which they are affiliated. For this no permission of the registrar is required. But for the investments of funds
in current accounts with other central banks, they have to obtain the permission of the registrar.

For the investment of funds in current account in joint stock banks within the state, including branches of joint stock banks whose head offices are outside the state, permission of the registrar must be taken under the Act.

The central banks which may find an outlet in investment in government and trustee securities, deposits with the commercial banks and deposit with the state cooperative banks etc.

4) **Loans and advance:**

Loans and Advances are the main uses of banks funds. A basic function of any bank is to lend the surplus funds deposited with it. Advances of a bank includes working capital and term finance to different types of borrowings on unsecured basis or against different types of securities in various forms of bank lending by way of loans and advances, overdrafts, cash credit, letters of credit and bill finance. Loans and advances represent that part of customer's deposits which the bank considers may be safely lent, while the remainder is in the form of cash and other assets. The loan amount and maturity can be tailored to the borrower's need. It is the loans and advances that constitute the core of a banks earning assets. It is this group of assets that is usually the most profitable. The district central cooperative banks provide short-term, medium-term and long-term loans and advances to consumer.

**District Central Co-operative Banks in Maharashtra**

The co-operative credit societies and DCC Banks in Maharashtra are playing keyrole in the growth of agriculture expansion of rural development and social andcultural activities. Maharashtra State is the
pioneer and rank first in the growth of co-operative movement in India. The Maharashtra co-operative societies Act was passed in 1960. In co-operative sector in Maharashtra there is primary agricultural credit co-operatives, non-agricultural credit co-operatives, marketing cooperatives, productive co-operatives, sugar co-operatives, land development bank, state co-operative bank and DCC Banks are leading more. The various federal cooperatives at the state level are famous and at the national level also. It has been developed quantitatively and qualitatively more, comparatively with the other state. Maharashtra is leading in all the states in various co-operative sectors like productive, process, marketing, banking and housing co-operatives also. The cooperative credit movement in Maharashtra (old) Bombay presidency made a slow as compared to the spectacular growth in other part of country. The first rural credit society in Bombay presidency, the “Kanginhal Rural Co-operative Credit Society” was registered on 8th May, 1905 in Dharawar district. Headed by the village Patil known for his organizational capacity, it created a deep impression in every first year by recovering its dues fully, even though its area of operations suffered from severe society. A landmark in the early history was the registration on 23rd January, 1906 of the Bombay Urban Credit Co-operative Society sponsored by Vitthaldas Thakersey Lallubhai Samaldas. It was registered as primary urban credit society but was meant to function as central society, with the sole subject of financing rural societies. The first phase of the co-operative movement in Bombay presidency was over on 31st March, 1911. It was observed from the growth of the co-operative societies in Bombay presidency that, no DCC Bank was established up to 31st March, 1911. As in the absence of financing agencies, an urban credit society was allowed to lend surplus funds to rural primary societies. This facility helped the society to
crossregional and language barriers and bring co-operative workers in the presidency closer. In spite of the erratic fluctuations in the economic trends, the co-operativemovement in the presidency received tremendous boost during 1911-1924, on account of the establishment of central co-operative banks. The Bombay Central Co-operative Bank was also registered on 11th October, 1911. The DCC Bank are also plays prominent role in the development of rural and drought areas in the state of Maharashtra. According to 2007-08, there nearly about 31 DCC Banks and its 3683 branches with the head-office were working in the state of Maharashtra. The chief object of DCC Banks is to meet the credit requirements of member societies and other co-operative societies in its area of operation. The efficiency in the performance of DCC Banks always depends on the mobilization of the required amount of funds.

Table No:-1.6
Sources of Funds of DCC Banks in Maharashtra
(Rs. In Crores)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Year</th>
<th>Owned Funds</th>
<th>Borrowed Funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Share Capital</td>
<td>Reserves</td>
<td>Deposits</td>
</tr>
<tr>
<td>1</td>
<td>2001-02</td>
<td>903.30</td>
<td>4132.01</td>
<td>18620.92</td>
</tr>
<tr>
<td>2</td>
<td>2003-04</td>
<td>939.92</td>
<td>4715.25</td>
<td>23887.31</td>
</tr>
<tr>
<td>3</td>
<td>2004-05</td>
<td>1001.53</td>
<td>5082.77</td>
<td>24822.54</td>
</tr>
<tr>
<td>4</td>
<td>2005-06</td>
<td>1081.81</td>
<td>5809.70</td>
<td>26402.30</td>
</tr>
<tr>
<td>5</td>
<td>2006-07</td>
<td>1184.41</td>
<td>6322.21</td>
<td>27657.25</td>
</tr>
<tr>
<td>6</td>
<td>2007-08</td>
<td>1292.72</td>
<td>6966.00</td>
<td>31949.16</td>
</tr>
<tr>
<td>7</td>
<td>2008-09</td>
<td>1360.30</td>
<td>5667.08</td>
<td>37225.17</td>
</tr>
<tr>
<td>ii</td>
<td>Mean (x)</td>
<td>1109.14</td>
<td>5527.86</td>
<td>27223.52</td>
</tr>
</tbody>
</table>
The above table 1.6 shows that there is an increasing trend in share capital, reserves, deposits as well as in borrowings of District Central Co-operative Banks in Maharashtra during the study period i.e. 2001-02 to 2008-09. The share capital of DCC Banks was moved from Rs. 903.30 crores in 2001-02 to Rs. 1360.30 crores in 2008-09 which has increased by Rs. 457 crores during the same period. The reserves of DCC Banks was moved from Rs. 4132.01 crores in 2001-02 to Rs. 5667.08 crores in 2008-09, it is also increased by Rs. 1535.07 crores during the study period. The deposits collected by DCC Banks in Maharashtra also turned from Rs. 18620.92 crores in 2001-02 to Rs. 37225.17 crores in 2008-09, which is raised by Rs. 18604.25 crores. The borrowings of DCC Banks in Maharashtra during the above period are increasing trends. It was moved from Rs. 2237.48 crores in 2001-02 to Rs. 2941.08 crores in 2008-09, it is also increased by Rs. 70.36 crores during the same period. Thus the average percentage of share capital, reserves, deposits and loans to the total sources of funds are 3.01%, 14.99%, 73.81% and 8.19% respectively. The share capital as well as reserves registered a growth of 50.59% and 37.15% respectively, while the growth in deposits it was 99.91%. The positive average growth rate for share capital (7.08%) for reserves (6.09%) and for deposits 12.56% indicates that, management had attempted more for strengthening the ‘Deposit Base’ of the DCC Banks. The co-efficient of variation (C. V.) values indicates more variations in the reserves as well as deposits of the DCC Banks in Maharashtra. The source of borrowed funds used by the
DCC Banks management as short-term, medium-term and long-term loans. The board of directors used these sources for mobilizing funds during the study period. It shows that the board of directors was not succeeded in mobilizing the required funds without borrowed loans during the study period. This was not prudent policies of DCC Banks in Maharashtra which resulted in increasing the cost and for the decreasing the profitability of the bank. The following table shows the trend of owned funds, deposits and total assets of the DCC Banks in Maharashtra during the period 2001-02 to 2008-09.

**Table- 1.7**

**Trends of Deposits, Owned Funds and Total Assets of DCC Banks in Maharashtra** (Rs. In Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Deposits</th>
<th>Owned Funds</th>
<th>Total Assets</th>
<th>Deposit to Owned Fund Ratio</th>
<th>Deposit to Total Assets Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>18620.92</td>
<td>5035.31</td>
<td>31891.32</td>
<td>369.81</td>
<td>58.38</td>
</tr>
<tr>
<td>2003-04</td>
<td>23887.31</td>
<td>5655.17</td>
<td>32902.58</td>
<td>422.40</td>
<td>72.60</td>
</tr>
<tr>
<td>2004-05</td>
<td>24822.54</td>
<td>6084.30</td>
<td>34720.02</td>
<td>407.98</td>
<td>71.49</td>
</tr>
<tr>
<td>2005-06</td>
<td>26402.30</td>
<td>6891.51</td>
<td>36863.87</td>
<td>383.11</td>
<td>71.62</td>
</tr>
<tr>
<td>2006-07</td>
<td>27657.25</td>
<td>7506.62</td>
<td>40701.77</td>
<td>368.44</td>
<td>67.95</td>
</tr>
<tr>
<td>2007-08</td>
<td>31949.16</td>
<td>8258.72</td>
<td>45629.38</td>
<td>386.85</td>
<td>70.02</td>
</tr>
<tr>
<td>2008-09</td>
<td>37225.17</td>
<td>7027.38</td>
<td>50066.29</td>
<td>529.72</td>
<td>74.35</td>
</tr>
<tr>
<td>Mean (x)</td>
<td>27223.52</td>
<td>6637.00</td>
<td>38967.89</td>
<td>409.76</td>
<td>69.49</td>
</tr>
<tr>
<td>A.G.R.</td>
<td>12.56</td>
<td>06.30</td>
<td>07.85</td>
<td>06.12</td>
<td>04.52</td>
</tr>
</tbody>
</table>

The paid up capital and various reserves created by the DCC Banks in Maharashtra out of profits constitutes. The ratio of deposits to owned funds has been calculated by dividing owned funds to total deposits and multiplies by 100. During the period 2001-02, the deposits to owned fund ratio was 369.81%, whereas in the year 2008-09 it was 529.72% which is increased by 159.91% during the same period. The ratio witnessed proportionately more growth in the amount of deposits than the growth in the owned funds of the DCC Banks in Maharashtra. It indicates huge interest and confidence of depositors on the DCC Banks in state of Maharashtra. The source of total assets or the working capital of the DCC Banks are includes, paid-up share capital, reserve and surplus, deposits from PACCs, individuals and others. The ratio of total deposits to total assets is ascertained by dividing the total figures of total assets to the figures of total deposits and multiplies by 100.

Need for the study:-

The Central Co-Operative Bank occupy a prominent place not only in the Co-Operative movement but also in the banking structure in India, But their performance and problems have not received attention of the research studies.

Agriculture has its unique importance in Indian Economy. Majority of the Indian population depends upon this profession. So, naturally finance to this, sector is provided through organization having three steps. There is a huge competition in bank sector because of privatization and globalization. It is easy to establish new bank because of globalization. It has created competitive atmosphere in bank
profession. So district co-operative finance system is found in danger. Primary Agricultural Finance has a major role in the development of agriculture. But this sector is totally depended upon district co-operative banks. Near about 50% of members find it difficult to avail the loan from these institutions. Also, this loan is not available at proper time. It is difficult for the members to collect the amount of loan. The interfering of local leaders, the limitations of Co-Operative laws, the policy of the Government for the loan, has brought bank profession in danger.

In India, the credit to establish Co-Operative movement goes to Ahmednagar district, In Asia, firstly agriculture based industry is observed in the form of ‘Viththalrao Vikhe Patil Co-Operative Sakhar Karkhana’.

The positive use of co-operative movement has encouraged the foundation of ‘Western Maharashtra’s District Central Co-Operative Banks’. This bank has its own place in the successful Co-Operative Banks of India. So the researcher has undertaken the comparative study of ‘Western Maharashtra’s District Co-Operative Bank’ & ‘Marathwada’s District Co-Operative Bank:

It is also helpful for the progress of the bank from the Marathwada region. Globalization has increased the capacity of people to take the loan from bank. In this situation, this is one of major aspect of the study.

Marathwada’s District Central Co-Operative Bank has 940 branches and Western Maharashtras District Central Co-Operative Bank is having 580 branches for the present research study, There are 23,68,773 members of Marathwada’s District Central Co-Operative Bank in the year 2009-10. The Bank has distributed 196640.33 million
rupees through the loan. The sum amount 507880.06 million rupees is yet to be collected by the bank.

While, Western Maharashtra’s District Central Co-Operative Bank has 48,09,504 members in the year 2009-10. The bank has distributed 279202.80 million rupees through the loan. The 441770.06 million amount of loan is not collected by the bank from this situation, we can come to the conclusion that Western Maharashtra’s District Central Co-Operative Bank is progressive as compared to the ‘Marathwada’s District Central Co-Operative Bank’.

**Objectives of the study :-**

The specific objectives of the present study are as follows.

1) To examine the organizational structure of District Central Co-Operative Banks in Marathwada’s region and Western Maharashtra’s.

2) To evaluate the performance of deposit mobilization by District Central Co-Operative Banks, in Marathwada region and Western Maharashtra region.

3) To appraise the recovery performance of loan and advances disbursed by The District Central Co-Operative Banks in Marathwada and Western Maharashtra region.

4) To examine the credit utilization pattern and N.P.A. position of District Central Co-Operative Banks in Marathwada and Western Maharashtra region.

5) To examine the profitability and credit pattern of Marathwada region and Western Maharashtra’s District Central Co-Operative Banks.
Hypothesis tested :-

The following hypothesis was tested.

1) The financial position of ‘Western Maharashtra’s District Central Co-Operative Bank’ is better than ‘Marathwada’s District Central Co-Operative Banks.

2) The ‘Western Maharashtra’s District Central Co-Operative Bank’ is more efficient in working performance than ‘Marathwada’s District Central Co-Operative Bank’.

3) Proper utilization of funds and N.P.A. position of the said banks are up to the mark.

Limitations :-

1) Illiteracy of farmers was major constrains.

2) Secondary data have been collected from more than one source. Hence there may be slight discrepancies between on source and another on the same variable.

3) Duration and finance are constrains to the researcher. However, duration of period of study and financing pattern caused limitations for researcher.

Research methodology -

The present study was based on primary as well as on secondary data. Primary data was collected from 304 borrower respondents covering 152 branches (2 borrowers from each branch) out of 1520 branches by the help of convenience sampling method.

Respondents were selected from the register of the branches using random sampling method and are interviewed personally using a questionnaire for collection of data. The secondary data regarding progress of Marathwada region and Western Maharashtra’s District Central Co-Operative Banks will be collected from the annual reports of
thisbank. Same statistical data will be collected from the office records of this bank.

**Selection of Sampling:**

**Table No:-1.8**

Co-Operative Banks at a glance in Maharashtra State

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Name of the Region</th>
<th>Including District</th>
<th>No. Of Bank Branches</th>
<th>Total No. of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.</td>
<td>Vidarbha Region</td>
<td></td>
<td></td>
<td></td>
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**Source:- Field Survey (2012)**
Total no. of bank branches are 676 in marathwada region and 1643 bank branches from western Maharashtra region by the help simple random sampling method 10% of the samples from the bank branches was chosen for the study purpose. Another target group is ultimate customer of the bank’s from both the region 1000 each (2000) customers was chosen by the help of convenience sampling method for the study purpose.

Tools & Techniques to be used

The data so collected was scrutinized, tabulated, analysed and finally used for the study purpose. For the data analysis simple tools and techniques has been used. i.e. percentile, mean, mode, chi square test, and other related tools and techniques.

Further Scope for the Research.

This study is limited to the Marathwada and Western Maharashtra only. The research has cover all the district’s in the state of Maharashtra or country as a whole for the further study purpose. Some time the study can cover other period of the study also. This study will be useful to the bank officials, Govt. for Policy Framing, NGO’s and different customers with professor’s, academician’s and research scholar’s.

Period of the study:

The study was covered for last Ten years i.e. 2004 -2013

Presentation of the Study:

Chapter I – Introduction

Chapter II – Review of Literature

Chapter III – History and progress of District central co-operative Banks in India.
Chapter IV – Profitability and over dues for District Central Co-Operative Banks.

Chapter V – Loan disbursement and Credit utilization pattern of District Central Co-Operative Bank in selected regions.

Chapter VI – Data collection and analysis.

Chapter VI I–Summary – findings and suggestions.

Concluding Remark:-
The co-operative credit societies and DCC Banks in Maharashtra are playing keyrole in the growth of agriculture expansion of rural development and social andcultural activities. Maharashtra State is the pioneer and rank first in the growth ofco-operative movement in India. The Maharashtra co-operative societies Act was passed in 1960. In co-operative sector in Maharashtra there is primary agricultural credit co-operatives, non-agricultural credit co-operatives, marketing cooperatives, productive co-operatives, sugar co-operatives, land development bank, state co-operative bank and DCC Banks are leading more. The various federal cooperatives at the state level are famous and at the national level also. It has been developed quantitatively and qualitatively more, comparatively with the other state. Maharashtra is leading in all the states in various co-operative sectors like productive, process, marketing, banking and housing co-operatives also. The cooperative credit movement in Maharashtra (old) Bombay presidency made a slow as compared to the spectacular growth in other part of country. The first rural credit society in Bombay presidency, the “Kanginhal Rural Co-operative Credit Society” was registered on 8th
May, 1905 in Dharawar district. Headed by the village Patil known for his organizational capacity, it created a deep impression in every first year by recovering its dues fully, even though its area of operations suffered from severe society. A landmark in the early history was the registration on 23rd January, 1906 of the Bombay Urban Credit Co-operative Society sponsored by Vitthaldas Thakersey Lallubhai Samaldas. It was registered as primary urban credit society but was meant to function as central society, with the sole subject of financing rural societies.

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