Introduction
CHAPTER 1

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CHAPTER 1

INTRODUCTION

1.1 Introduction

India is the “Land of Co-operatives”. The largest numbers of Co-operatives are in India. The National Co-operative Development Corporation reported that there are five lakh co-operatives, with a membership of 207 million people with 43.7 percent share of agricultural credit, 60.5 percent of sugar production capacity, 20 percent of spinning mills capacity and 30 percent of the fertiliser market in our country. These co-operatives possess Rs 1, 16,555 million as share capital. Their value of assets and working capital is Rs. 13, 21,246.63 million and Rs. 16, 53,128 million respectively.

The co-operatives emerged into the scene mainly as the offshoot to solve the problems at the grass roots level, be it in England, Germany, India or any other part of the world. Co-operation is not in any way, new to India. It has been known and practiced in India since time immemorial.

The co-operative movement in India is not an indigenous one, though some of its seeds existed in the country but on a very modest scale. The co-operative structure is borrowed from the Western countries like Germany. The delegations sent abroad studied the working of co-operative in other countries, which was useful to learn some lessons for the future.

1.2 Concept of Co-operation

“Co-operative” is derived from the Latin word “Co-operan” ‘Co’ means ‘with’ and ‘operan’ means ‘to work’. In other words, co-operation means working together for a common purpose.
“Co-operation is an association of a number of persons for a common benefit especially in carrying on some branch of trade or industry, the profit being shared as dividend among the members.” It means co-operation is a joint or collective action of people directed towards some specified goal in which there is common interest of hope of getting some reward. Such Co-operation may be voluntary or involuntary, direct or indirect, formal or informal, but always there is a combination of efforts towards a specific end in which all the participants have a stake, real or imagined.

The history of modern civilization is, in fact, the history of co-operation, for without it, social and economic progress would not have been possible. Man is now considered essentially co-operative rather than aggressive.

1.3 Definition of Co-operation

Prof. Lambert, well-known authority of Co-operation, defines a Co-operative Society as “an enterprise formed and directed by an association of users, applying within it the rules of democracy end directly intended to serve both its own members and community as as whole.”

The greatest merit of this definition is that for, the first time it has been made clear that a co-operative society is to serve not only the interests of its members, but must also serve the interests of the whole community.

The International Labour Organistion (ILO) has defined co-operation as “an association of persons usually of limited means, who have voluntarily joined together to achieve a common end, through the formation of a democratically controlled business organization making equitable contribution to the capital required and accepting a fair share of the risks and the benefits of the undertaking.

V. L. Mehta has defined co-operatives as “only one aspect of the vast movement which promotes voluntary association of individuals having common needs who combine towards the achievement of common economic ends.”

1.4 Principles of Co-operation

The co-operative principles imply a set of rules, which govern the activity of the co-operative organisations. These co-operative principles were the Rochdale Pioneers. A committee set up by the International Co-Operative Alliance in 1937 stated the following as the Rochdale Principles of Co-operation.
i. Voluntary and Open membership

Co-operatives are voluntary organisations open to all persons capable of using their services and willing to accept the responsibilities of membership, without discrimination of basis of gender, social status, racial, political ideologies or religious consideration.

ii. Democratic control:

Co-operatives are democratic organisations controlled by their members who actively participate in setting their policies and decision making. Elected representatives of these co-operatives are responsible and accountable to their members.

iii. Distribution of the surplus to the members in proportion to their transactions

Members contribute equitable and control the capital of their co-operatives democratically. At least a part of the surplus arising our of the economic activity would be the common properly of the co-operatives. The remaining surplus could be utilised benefitting the members in proportion to their shares in the co-operative.

iv. Limited interest on capital:

Capital is subordinate in co-operative enterprises. The pioneers of the co-operative movement considered that it would be ideal if no interest were paid on shares. The co-operators do not pay interest on capital out of any sense of fairness or in order to encourage savings, but solely out of necessity. The
purpose of limited interest of course, to safeguard the non-profit character of the co-operative.

v. Political and Religious Neutrality:

Unity is vital force in the co-operative machinery. It is fundamental importance that the co-operative movement should remain above party politics as well as religious movement.

vi. Cash Trading:

As many co-operatives had inadequate capital and as these co-operatives want to maintain financial stability, cash trading principle is introduced by Rochdale Pioneers. In India, mostly the practice of cash trading is being followed by the consumer stores while selling their goods.

vii. Promotion of Co-operative Education:

In 1853, the Rochdale Pioneers introduced a provision into the rules that 2½ percent of surplus should be devoted to education. Madison said, “to put the conduct of affairs into the hands of the people without first educating the people will prove to be prelude either to a farce or to a tragedy. The Mirdha committee has regarded promotion of education as a basic principle of co-operative movement and has recommended that every society must contribute to promotion of education not only financially but also. By undertaking an active programme such as dissemination of ideas of co-operation as well as general literacy in the countryside.”

viii. Co-operation among co-operators:

The ICA Commission of 1966 has incorporated this principle. It is also called “principle of growth” mutual co-operation among co-operatives. It means that all the co-operative organisations should actively co-operate in every practical way with other co-operatives at local, national and international level in order to best serve the interest of their members and their communities. “The call for co-operative integration” writes Miss M. Digby, May, therefore, be taken as no more than a recognition of the conditions of
economic management in the modern world. If co-operation is to increase or even retain its share in that economy, it will have to examine every possibility of integration in its own structure and practice that co-operation between co-operatives which the ICA has added in so timely a fashion to the list of principles by which co-operation is guided.

1.5 The Essence of Co-operation

The modern day co-operative movement is built on voluntary co-operation wherein individuals make a deliberate choice to co-operate in some aspects of their lives. The essence of co-operation may be stated as follows:

“Co-operation is free and voluntary association of people to create an organisation which they democratically control, providing themselves with goods, services and/or a livelihood rather than profiting from others, with an equitable contribution of capital and accepting a fair share of the risks and benefits generated by the joint activity. To sustain their Endeavour, they must develop the individual society and build a solidarity relationship with other co-operators and like minded people.”

1.6 History of Co-operative Banking

Co-operative Bank is the biggest unit of the co-operative movement in our country. It is equally the oldest among all the co-operatives, where co-operative banking institutions were started as early as 1904. Co-operative credit is not a foreign plant to India as it is indigenous which can be traced into Arthshashtra of Kautilya and the Laws of Manu as well as from the directives laid down by the Emperor Ashok for the guidance of his subjects. Craft guilds were in operation. Recently they are Nidhis and Chit funds. They have banking as special feature.

However, the Co-operative Credit Society had its origin in Europe. Sir Willcam Wedderburr and Mr. Justice M. G. Ranade. Proposed in 1882 to the Government for starting co-operative credit societies in rural areas. Mysore Government took initiative in 1894 in starting agricultural banks of landholders on strictly co-operative principles, not for earning profit but for the purpose of obtaining money by their own united credit and lending it to its members. Raiffersen in Germany first established co-operative society. Sir Frederick Nicholson also studied the problem of rural credit.
In 1901, the Government of India appointed a committee under the leadership of Sir Edward Law, to study the prevailing economic conditions in the country. The committee recommended the introduction of Co-operative Credit Societies on the Raiffeisen model. The Government introduced the first co-operative credit Societies Act 1904. It is the first milestone in the co-operative movement in India.

1.6.1 The Co-operative Credit Societies Act 1904:

This new law was modelled largely on the English Friendly Societies Act. It followed Nicholson’s recommendation for the initiation of village banks. This act permitted the registration of Co-operative Credit Societies for the encouragement of thrift and self help among its members. The Government felt the need to develop the co-operative banks and with the help of RBI conducted some survey reports for agricultural development programmes. Some of them are as given below.

a. All India Rural Credit Survey Committee Report 1954.

These committees recommended that Co-operative should play an integral part in the agricultural as well as non-agricultural sectors.

1.6.2 Co-operative Society Act 1912:

This Act was passed to rectify the shortcomings in first Act 1904. The movement made rapid strides and extended into many fields.

The committee under leadership of Sir Edward Maclagan was appointed in 1914 to evaluate the qualitative and the quantitative progress of the co-operative movement. This committee recommended stoppage of societies in to the following classes- primary societies comprising individual members, central banks at the district level and provincial banks and federations of societies as apex banks/unions at the provincial level for the purpose of supervision. Though not all the recommendations of the committee could be implemented, the report of this committee remained as the “Bible of Co-operation in India” for sufficiently long time. The District central co-operative Bank originates in the recommendations of this committee.
1.6.3 Government of India Act 1919:

This Act is known as the Montagu Chemsford Act 1919. As per this Act, the co-operation became a provincial subject. The provincial Government could enact separate Act to suit the provincial requirements. The Bombay Province was the first to enact a separate co-operative Societies Act 1925, this was followed by Madras Act of 1932, Bihar and Orissa Act of 1935, Coorg Act of 1936 and Bengal Act of 1940, while the rest of provinces adopted the existing Act of 1912. The act 1919 gave great stimulus to the movement.

The Royal Commission on Agriculture was appointed in 1928 to examine problems of agriculture in general. It also dealt with co-operation as an important part of its comprehensive enquiry. The Commission stressed upon the importance of co-operation. It remarked, “if co-operation fails, there will fail the best hope of rural India.

1.6.4 Co-operative movement after first world war:

The post war boom (after 1918) and rising prices, the condition of co-operative societies improved. It spread in the field of credit, supply distribution better farming, and mortgage banking. During the period from 1919 to 1929 the number of Agricultural Credit Co-operative Societies increased from 28977 in 1918-19 to 87991 in 1928-29. The membership increased from 9.67 lakh in 1918-19 to 30.04 lakh in 1928-29. The working capital moved from ` Rs 8.09 crores in 1918-19 to Rs 32.38 crores in 1928-29. The co-operative department paid little attention to qualitative aspect. Loans were doled out recklessly. The co-operative movement in spite of imperfection and of unavoidable setbacks’ deserve every possible assistance from every quarter, because there is no better instrument for raising the level of agriculturists of this country than the co-operative efforts.

1.6.5 Co-operative movement before independence:

During Great Depression (1929-30) there were economic crisis. Agricultural commodity prices fell. Farmers could not repay loan. They want still more loan. The proportion of over dues to loans increased from 20% in 1927-28 to 40% in 1931-32
In 1944 the Government appointed sub-committee under the Chairmanship of professor D. R. Gadgil to suggest ways in which indebtedness could be reduced. The committee have stated that the spread of co-operation would provide the best and most lasting solution for the problem of agricultural credit in particular and those of rural economy in general.

1.6.6 Chief Characteristics of Co-Operative Movement Before Independence:
Following are the chief characteristic features of co-operative movement.

1) Government Sponsored Movement:
It is in existence as the outcome of Government policy. It is not the urge of the people. It is created by ‘resolutions’ of the central Government.

2) Largely confined to credit:
It was credit movement. It is evident from the fact that in 1947-48 more than 78% of the co-operative societies were credit societies.

3) Development without much state aid:
Though this movement is sponsored by the government, it developed without much financial aid. The loans given by the state to co-operative institutions formed only 1.87 percent of total working capital in 1947-48. Thus movement developed rapidly in Bombay state, Madras and Punjab.

4) Uneven growth:
This movement developed rapidly in Bombay State Madras and Punjab provinces.

1.7 Co-operative Movement in Five Year Plans
The Co-operative Planning Committee has stated, “the Co-operative Society has an important role to play as the most suitable medium for the democratization of economic planning.

The pattern of development envisaged in the Five Year Plans, Co-operation is expected to become progressively the principal basis of organisation in several branches of economy, notably in agriculture, small industries marketing, distribution, construction and provision of essential amenities for local communities.
(A) **First Five Year Plan (1951-56)**

The Co-operation is recognised as indispensable instrument of planned economic action in democracy, combining initiative, mutual benefit and social purpose. This plan had objective to change the economy of the country from an individualistic to a socially regulated and Co-operative basis, its success should be judged, among other things, by the extent to which it is implemented through Co-operative organisation. However Co-operation did not make much contribution towards the fulfillment of the broad objectives of the first plan.

(B) **Second Five Year Plan (1956-61)**

Co-operation was assigned an important role in this plan as an effective instrument of fulfilling the objectives, viz. sizeable increase in national income, rapid industrialisation and expansion of employment opportunities etc. The plan stated “the building up of a Co-operative sector as a part of the scheme of planned development is one of the central aims of national policy.” The aim of this plan is to supply of agricultural credit worth ` 225 crores through Co-operatives and to raise the membership of agricultural societies to 50 million persons Actual results were considerably short of the target. Membership increased to 17 millions and covered only 75% of the villages. During this plan, Sir Maicome was invited by the planning commission for the evaluation of the Co-operative movement in the country. The committee (1957) recommended for an effective structure at the higher levels. During this plan another committee on Co-operative credit was set up under the chairmanship of V.L. Mehta, which submitted its report in 1960.

(C) **Third Five Year Plan (1961-66)**

This movement was considered as one of the instruments for social stability and economic growth of the country in this plan. The Primary Credit Societies were recognised and their number was reduced. This movement spread to go per cent of the villages. In 1962 the Government of India constituted National Co-operative Development Corporation.
(D) **Fourth Five Year Plan (1969-74):**

This plan has laid emphasis on agricultural co-operatives and consumer co-operatives with a view to institutionalize the various services needed by the farmers. Introduction of crop loan system linking of credit with marketing is main feature of plan. During the plan, All India Rural Review Committee report (1969) was submitted. It covered in its 322 recommendations almost all the aspects of rural development, Co-operative Credit Structure and the role of commercial banks. It suggested ways to cover small and marginal farmers under the ambit of institutional financing. The main theme of the recommendations was to adopt the multi-agency approach for providing institutional credit in order to have an integrated rural development.

(E) **Fifth Five Year Plan (1974-1978):**

In this plan, Co-operatives were recognised as important institutional framework to ameliorate the conditions of weaker sections, particularly in providing inputs and working as an important limb of the National Public Distribution System. The plan states, “There is no other instrument as potentially powerful and full of social purpose as the Co-operative movement. Hazari Committee was appointed by the Reserve Bank of India. It submitted its report in 1975. The committee recommended a single apex credit institution to plan and to execute lending programmes in a co-ordinate and better manner.

CRAFICARD (Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development) was instituted on March, 30, 1979 at the instance of Government of India under the Chairmanship of B. Sivraman to review the arrangements for institutional credit for agriculture and rural development. Establishment of National Bank for Agriculture and Rural Development (NABARD) in July 1982 is according to the recommendations of Sivraman Committee. The committee appreciated mayor role played by the Co-operative credit structure in the field of agricultural development.

(F) **Sixth Five Year Plan (1980-1985):**

This plan made through review of Co-operative movement since 1951. It suggested four point programmes:
1) Strengthening of primary village societies.
2) Direct Co-operatives to ameliorate the economic conditions of the rural poor.
3) Re-orientation and consolidation of the role of Co-operative federal organisation and
4) Development of professional manpower cadres to main managerial positions.

This plan has recognised the non-exploitative character of Co-operatives, the voluntary nature of their membership the principle of one man one vote, decentralised decision making and self imposed curbs on profits eminently qualifying them as an instrument of development combining the advantages of private ownership with public good.

(G) Seventh Five Year Plan (1985-1990):

The aim of this plan was to develop the primary Agricultural Credit Society as multi purpose viable units, promoting professional management and strengthening of effective training for improving operational efficiency.

The Reserve Bank of India appointed in August 1986, Agricultural Credit Review Committee (ACRC) under the chairmanship of Khusro. This committee recommended about role and effectiveness of lending institutions, role and functions of the apex level institutions in agricultural credit, lending costs and margins and organisational and management aspects and organisation and management of NABARD.

Another committee under leadership of S. R. Sankaran was appointed to look into the co-operative credit system. This committee recommended that the co-operatives should promote economic interest of the rural poor through collective action. Secondly, the co-operatives should evolve a simple system of providing credit to the poorer section of the society based on their repaying capacity instead of asking for land and other security.

(H) Eighth Five Year Plan (1992-1997):

Government has adopted liberalisation Globalisation and free economy. That provided entry to Multi National Corporations. This plan gave emphasis on the following:
1) Strengthening the role of co-operatives as a major thrust area in the new millennium.

2) Providing more support to the co-operatives through appex level institutions. Strengthening the appex level institutions and providing them more autonomous powers.

3) Providing a major thrust on exports the government included some special subsidies for exporters in co-operatives and small scale enterprises.

(I) **Ninth Five Year Plan (1998-2002):**

   The considerable progress was achieved in this plan. Some co-operatives with stood the competition from MNCS. Whereas some co-operatives perished the onslaught of MNCS. The plan emphasised on

   1) Identifying new opprotunities for the co-operative sector to develop in sun rise industries like insurance food processing, animal husbandry etc.

   2) Make them more competent by providing them marketing support.

   3) Developing the rural co-operatives into agents of change to meet the global co on petition.

(J) **Tenth Five Year Plan (2007-2008):**

   The Tenth Plan (2002-2008) projected a substantial jump in institutional credit flow to the agricultural sector to the tune of ` 7, 36, 00 crores almost three times, as compared to Nineth Plan. There was substantial increase in institutional credit flow and by the year 2007-08 it matched ` 2, 54,658 crores.

   But there is steady decrease in contribution of co-operative banks in rural credit from 55% in 1984 to 21% in 2006-07. The share of R. R. B’s continue to remain low (around 10%)

   While RBI was helping the co-operative sector directly. It was felt that the multi-agency approach to rural finance required a special banking institution to co-ordinate and help all the institutions specialising in rural finance. It was for this reason that NABARD was set up as the appex bank too rural finance in 1982.
1.8 Co-operative Banking Structure

A study Group of the National Credit Council presided over by Dr. D. R. Gadgil, has stated, “The co-operative banking structure is an integrated one and because of its three tier structure, has been enabled to extend credit to agriculturists, artisans and small men in general. The three tier system also allows a rationalised flow of resources from the metropolitan centers to the villages and combines this with fairly low costs of operation.

Chart 1.1

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[14]
Primary Agricultural Co-Operative Credit Society is known as rural credit society. The primary Non Agricultural Co-operative credit Society is known is Urban Co-operative Bank. This research is the critical study of the performance of selected Urban Co-operative Banks in Pune City.

1.9 Indian Co-operative Movement at a Glance

The development of co-operatives has been envisaged as a significant strategy to build strength in the people with limited means. The co-operative movement aims to protect the rural poor, small farmers, marginal farmers, agricultural laboures and small artisans from exploitation by money lenders. Today, India has a wide net work of primary agricultural credit societies at village level. At district and state level, co-operative federations have also been set up in almost all stares.

However, there regional imbalances in agricultural and rural development. There was too much interference by the bureaucrats and political leaders in co-operative management and the benefits did not percolate to the poorer sections of society.

Co-operatives have over the years, significantly diversified their activities to include credit, banking input distribution, agro processing, storage and warehousing. In during and oil processing activities, co-operative sub sector has emerged as an important counter valuing factor to the private traders, for the benefit of both products and consumers.

The policy of Government before independence was one of the laissez-faire towards the co-operatives. After Independence, the advent of planned economic development ushered in a new era for the co-operatives. It became preferred instrument of planned economic development and emerged as a distinct sector of the National Economy.

In spite of quantitative growth, the co-operative sector is be-set with several constraints related to legislative and policy support resource availability, infra structure development, institutional independence, lack of awareness among the members, the erosion of the democratic content in management, excessive bureau cratic and government controls and needless political interference in the operations of the society.
The ideology of co-operatives is based on the principles of self-help, self-responsibility, democracy, equality, equity and solidarity, members of co-operatives should believe and live by the values of honesty, openness, social responsibility and concern for one another.

1.10 Problems of Co-operatives

Following are some major problems which cause hindrance in the smooth functioning of the co-operatives.

1) Poor performance and loss of financial viability:

Despite huge government grants and equity participation, most co-operatives in India are not financially viable. It is estimated that nearly 35 percent of the PACS are not financially viable.

2) Lack of professionalism in management:

These co-operatives are now a day has to face competition from domestic and foreign companies particularly in the agro-business sector. India has the largest network of co-operatives in the world. But these co-operatives are so grossly under managed, mismanaged or not managed at all. These co-operatives have failed to attract and retain professional managers, and are unable to hire them at open market rates. The village co-operative credit societies are small in terms of size of their business turnover and net profits. The government officers deputed to head the co-operatives is not accountable to the members of co-operatives.

3) Excessive government control and political interference:

The co-operatives were dragged into the realm of party politics where they are caught by the politicians who began to see them as vehicles to political mobilisation and the key to vote banks.

4) Lack of good leadership:

Every co-operative needs an honest, skilled, benevolent and dedicated leader who should preferably be from cardinal stakeholders. Good leadership is needed for both members’ representatives constituting the Board of Directors, the Managing committee and for professionals including managers.
5) Loss of focus on the prime objective and growing alienation:
   Most of the members of co-operatives feel betrayed by their co-operatives. Members believe that they cannot influence decisions, that the power of decision-making is too often exercised by the manager and that the principles of co-operation are not exercised in their co-operatives.

6) Poor Board Management Relations:
   The reason of poor performance of agro-business co-operatives is poor board management relations. But since in a genuine member controlled co-operative, it is the members who elect the Board of Directors of a co-operative, who in turn have the power to appoint and dismiss their managers.

7) Lack of performance based reward systems and poor work environment:
   There are no incentives and no punishment for poor performance.

1.11 Remedial Measures

1) Poor performance:
   Co-operatives should explore non-convention avenues for raising resources. They should modernise their operations. The co-operative law should be reformed to eliminate the inherent weaknesses of the financial structure of co-operations.

2) Professionalism:
   The National level Management Institutes could help in developing appropriate curriculum for the purpose of training teacher and preparation of appropriate teaching and training materials.

3) Excess government interference:
   There is need for research aimed at examining the implications of withdrawal of state support to co-operatives and exploring alternative sources of financial support to them.

4) Audit:
   A system of timely and regular audit by an independent and reputed authority is necessary to ensure clean operations and management.
5) **Loss**:

Co-operatives should provide services and other benefits to their members at competitive (market) rates. The prominent goal of the co-operatives now should be to maximise their profit to enable to provide the requisite services/benefits to their members.

6) **Board relations**:

Board of Directors should appoint, monitor or terminate the staff. All the members should invariably afford meeting.
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