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CHAPTER-4
GROWTH AND REGULATORY FRAMEWORK GOVERNING CO-OPERATIVE BANKS IN INDIA

4.1 Introduction

Industrial Revolution was brought about by mechanization of industry, agriculture and transport. In the era of cottage industries, there was equitable distribution of wealth, but with the starting of huge factories and mills, wealth began to concentrate in few hands and the economic power went into the hands of capitalists and industrial magnates. Firm establishment of capitalistic forms of business organization led to evils of profiteering and very high rates of interest. Capital became the king in the economic world and throughout the 19th century there was regular exploitation of poor class of society practically in every country. With the expansion of market from the local to national and international boundaries, there appeared a very long chain of middlemen and intermediaries in the machinery of distribution, trying to link the primary producer and the ultimate consumer. This created extraordinary differences in the two prices, producer’s price and consumer’s price. In order to fight against the evils of middlemen’s profiteering; consumers united together and started their co-operative stores (Sherlekar & Sherlekar, 1990). It aimed at the abolition of profits of intermediaries. Thus, the exploitation by capitalists compelled the exploited ones to join together for mutual help and establish co-operative societies as an alternative business organization.

4.2 Co-operative Movement in India- A Brief History

The term ‘co-operative’ has been derived from the Latin work ‘co-operate’ and it simply means ‘working together’. In deep, it means working together for a common purpose. International Labour Organisation (ILO) has defined a co-operative organization as “an association of persons, usually a limited means, who have voluntarily joined together to achieve a common economic and through the formulation of democratically central business organization, making equitable contribution to the capital required and accepting a fair share of the risk and benefits of the undertaking”. Hence, co-operation is the basis of inter-personal relations, peace and happiness. It releases the sense of honesty, equality and democracy.
The genesis of co-operatives can be traced to the co-operative principles. Co-operative movements have fairly long history in India. In order to understand the present day co-operative institutions, it would be useful to know the history of the co-operative movement in the country. The history of the co-operative credit movement in India can be divided in four phases like as:

- **First Phase** (1900-30)
- **Second Phase** (1930-50)
- **Third Phase** (1950-90)
- **Fourth Phase** (1990s and onwards)

### 4.2.1 The First Phase: 1900-1930

The McClagan Committee (1915) felt the needs of a Co-operative Federation at the state level, to bring the unity amongst the activities of various co-operative banks. Govt. after careful consideration of the findings of McClagan Committee, started co-operative federation in various states. With this, the activities of co-operative banks extended even to non-agricultural sector. Besides this McGlan Committee advocated that there should be one co-operative for every village and every village should be covered by a co-operative.

### 4.2.2 The Second Phase: 1930-1950

Specific provisions were made in RBI Act, 1934 both for the establishment of an Agricultural Credit Department (ACD) in the bank and for extending refinance facilities to the co-operative credit system.

### 4.2.3 The Third Phase: 1950-1990

All India Rural Credit Survey Committee (1954) pointed out in its report that 'co-operation has failed but co-operation must succeed'. It recommended state partnership in terms of equity, governance and management. It also recommended the linking credit and marketing co-operatives and enlarging their areas of operative.

The working group on co-operation (1958), the National Development Council Resolution (1959) and Committee on Co-operative Credit (1960) emphasized the setting up of large sized and multistage co-operative societies, simplified administrative process and more membership of co-operative societies for raising their own funds. All India Rural Credit Review Committee (1969) recommended that apex co-operative banks should directly finance co-operative societies and all primary societies should be provided trained and competent staff and ensure timely credit in the favour of small farmers.
4.2.4 The Fourth Phase: 1990s and Onwards

This phase is considered very significant for the Indian co-operative movement. It is characterized for a salient parallel co-operative movement throughout the nation based on the principles of 'mutual aid' with 'thrift' as a basis. Several informal groups are reported to have come up with just a bank account and some book keeping and very few are formally registered. This 'mutual saving' and 'self-help style' of co-operation is being considered as an interesting development along with similar changes in mainstream co-operative sector.

Jagdish Capoor, Vikke Patil and V.S. Vyas were also setup to suggest co-operative sector reforms during this period. In August 2000, NABARD had appointed an Expert Committee headed by Prof. V.S. Vyas to review the emerging scenario in rural credit and to prepare a workable comprehensive plan of action for a more effective rural credit by an expert body.

The following are some main committees which were constituted to study the co-operative credit system and to suggest measures for its strengthening.

Chaudhary Brahm Prakash Committee emphasized the need to make the co-operatives self-reliant, autonomous and fully democratic institution and proposed a model law subsequent committees endorsed this recommendation.

Shri Jagdish Capoor’s Task Force (1999) in its reports found Human Resource Development an important component for the success of any organization. The Government of India initiated the implementation of a revival package of the rural short-term co-operative credit structure in 2006. The revival package, with an estimated cost of Rs. 13,596 crore, is based on the recommendations of Vaidyanathan Task Force. This committee submitted its report in Feb. 2006. It had recommended several measures for the revival of the entire structure. The major recommendations were financial revival, upgradation of skill, capacity building, technical assistance and institutional, legal and regulatory reforms. NABARD had been delegated the task of implementing the revival package under a National Implementing and Monitoring Committee (NIMC) chaired by the Governor of the RBI.

4.3 Present Status of Data Base in Co-operative Credit System

The major agencies maintaining data on Indian co-operative credit system and other sectors in India are as follows:

1) NAFSCOB (National Federation of State Co-operative Banks Ltd.)
2) NABARD(National Bank for Agriculture and Rural Development)
3) RBI (Reserve Bank of India)
4) NCUI (National Co-operative Union of India)
5) National Level Sectoral Federations viz NAFCARD (National Co-operative Agriculture and Rural Development Banks Federation Ltd) and NAFCUB (National Federation of Urban Co-operative Banks and Credit Societies Ltd)
6) IFFCO (Indian Farmers Fertiliser Co-operative Ltd)
7) KRBHCO (Krishak Bharati Co-operative Ltd)
8) NCDC (National Co-operative Development Corporation)
9) CMIE (Centre for Monitoring Indian Economy Pvt Ltd) etc.

But, specifically, NAFSCOB, RBI, NABARD and NCUI are the major agencies which maintain data on Indian co-operative system. No doubt, data base of NAFSCOB is one of the major sources of data for short term rural co-operative credit institutions in India. RBI and NABARD depend on NAFSCOB data for their annual publications.

4.4 NAFSCOB and Indian Co-operative Credit System

It collects, compiles and disseminates data by publication of performance of short term co-operative credit and banking in India. It collects information of STCBs, DCCBs, and PACSs through well designed format of parameters directly from them and from the offices of Registrar of Co-operative Societies. It has adopted both paper and electronic media channels for dissemination of data related to short term credit co-operatives. The data dissemination in paper channel was started long back, but the method of data dissemination in channel of electronic data started during 2002-03.

4.5 Structure of Co-operative Banking in India

"Germany is known to be the birth place of credit co-operatives. Credit co-operatives were organized there in middle of the 19th century to solve the problem of agriculture finance. Now-a-days Co-operative Banking System is an important segment of the Indian Banking set up. At the advent of last century, these banks were established as a tool of state policy to provide adequate, timely and cheap credit to peasants, to save them from the clutches of money-lenders. These banks have played a very crucial role in Indian financial system and credit co-operative system. India is one of the largest in world. Though in new developing socio-economic environment, commercial banks are spreading their wings in rural areas yet they have not succeeded to achieve the desired level due to their security conscious banking habits and urban orientations of
manpower. Even now, co-operatives are the most effective institution source to serve rural sector of economy. The co-operatives are the best instruments for improving the socio-economic lot of poor people in general and uplifting them to the standards of the mainstream of national life. They account for the largest proportion of total institutional credit to agriculture and allied activities in rural sector."