CHAPTER - I

INTRODUCTION

Towards the end of the 19th Century, the condition of the rural masses in India was quite deplorable. The countryside was studded with problems of poverty, ignorance, improvidence and ancestral debt and occasional out breaks of natural calamities. The outcome of all these factors was rural indebtedness. With a view to save the peasants from the clutches of money lenders, provincial government enacted several measures of relief, such as, Deccan Agricultural Relief Act (1879), Land Improvement Loan Act (1883), and Agriculturists' Loans Act 1884. These measures did not prove much of a success due to stringent and cumbersome official procedures. Later on, after a series of measures on the recommendations of a Committee, the first Co-operative Societies Act (No.X) 1904, came into existence.¹

The passage of this Act was the first milestone in the co-operative movement in India. It aimed at encouraging thrift habits among poor peasants and artisans by setting up co-operative societies. The co-operative societies were classified as 'rural' and 'urban'. The former had unlimited liability, while the latter had both limited and unlimited liability. With the enactment of this Act, many credit societies started coming up and by the end of 1909-10, there
were 0.02 lakh societies with about 1.60 lakhs members and a working capital of Rs.6.80 million. There was, however, no provision for the establishment of non-credit societies or central agencies, such as Central Co-operative Banks/Federations. Moreover, registration as well as cancellation of the societies under the Act involved a lengthy procedure. In order to rectify these shortcomings the government passed a comprehensive Co-operative Societies Act, 1912. It provided for registration of all types of societies credit, non-credit and apex federations. In order to assess the quantitative and qualitative progress of the movement, the Government of India appointed a committee on co-operation on October 8, 1914, under the Chairmanship of Sir Edward Maclagan. It further recommended the establishment of central banks at the district level and provincial banks and federation of societies as apex banks/unions at the provincial level for the purpose of supervision. As a result of these suggested measures a three-tier co-operative banking structure emerged at the provincial level.

In the post-independence era, co-operation has been assigned a notable role in bringing socio-economic changes through the process of democratic planning with accent on assisting the weaker sections of the community. According to a government publication, co-operative in the country's economy will not only avoid excessive centralisation and
bureaucratic control likely to result from planning itself, but also curb the acquisition instincts of the individual producer or trader working for himself. For these reasons, various Five Year Plans envisaged a great deal of scope for the organisation of co-operative activity. In the year 1986–87, there were 3.42 lakh co-operative societies out of which 3.39 lakh were primary co-operative societies with 1465.39 lakhs membership and a working capital of Rs. 47551.60 lakhs. The Seventh Five Year Plan aims at developing the primary agriculture credit societies as multipurpose viable units, promoting professional management and strengthening of effective training for improving operational efficiency.

1.1 Co-operative Banking in India:

Co-operative Banking has a crucial role to play in the Indian Financial System. The co-operative principles of managing finance in India serve as a via media between the sophisticated institutions like Commercial Banks on the one hand and the unscrupulous money lenders on the other. Despite the fact that nationalised banks are spreading their operations into the rural areas, co-operative banking remains the best answer for catering to the needs of small borrowers. A scheme of government or joint stock bank finance might reduce the rates of interest, but only co-operation can teach the peasant to borrow at the right time, the right amounts for the right ends.
The co-operative banking system was ushered in by the co-operative societies act of 1904. Till the twenties, the progress in this direction was slow. Agricultural credit co-operatives had been built up as a pyramidal structure, with primaries responsible for providing credit to the farmers, the central banks in the districts playing the role of balancing centres for the compact areas and the provincial banks as the apex institutions for linking co-operative credit with the money market. On the recommendations of the Bombay Committee in 1931 and the Agricultural Co-operative Committee in 1944 a system of agricultural co-operative credit was brought into being. Under this scheme, the short term and medium term credits have been organised on federal lines with the agricultural primary societies as the base, the district central co-operative banks as the federal organisation at the intermediate level, and the state co-operative banks as the apex institutions.

But the system was found to be wanting in several respects. The All India Rural Credit Survey points out; "Today the Agricultural Credit that is supplied falls short of the right quantity, is not of the right type, does not serve the right purpose, and by the criterion of need often fails to go to the right people." Private credit agencies, excluding commercial banks, provided about 90 per cent of the total funds borrowed by agriculturists while the combined contribution of the Government and the co-operatives was only
\begin{table}
\centering
\caption{Progress of Co-operative Banking in India (Rs. in Lakhs)}
\begin{tabular}{lrrrrrrr}
\hline
\hline
A. Primary Agricultural Credit Societies & & & & & & & \\
No. of Societies (in '000) & 105 & 212 & 161 & 94 & 92 & 92 & 89 \\
Loan Advanced & 23 & 202 & 578 & 2100 & 2693 & 3140 & 3149 \\
Deposits & - & - & - & - & 524 & 572 & 709 \\
B. Central Co-operative Banks & & & & & & & \\
No. of Banks & 505 & 390 & 341 & 340 & 350 & 352 & 353 \\
Loans Advanced & 83 & 350 & 890 & 850 & 6476 & 7333 & 6343 \\
Deposits & 38 & 112 & - & - & 4322 & 4932 & 5928 \\
C. State Co-operative Banks & & & & & & & \\
No. of Banks & 15 & 21 & 25 & 28 & 28 & 29 & 29 \\
Loans Advanced & 42 & 260 & 750 & 1550 & 4417 & 5516 & 7278 \\
Deposits & 22 & 72 & - & - & 2966 & 3385 & 3818 \\
\hline
\end{tabular}
\end{table}

Data not available.

about 6 per cent.

The progress achieved in respect of loans and advances, deposits and number of primary agricultural co-operative societies, central co-operative banks and State Co-operative Banks can be seen in Table 1.1.

As is evident from Table 1.1, loans advanced increased at all levels. The loans of primary agricultural credit societies increased from Rs.23 crores in 1950-51 to Rs.3149 crores in 1986-87. The loans of central co-operative banks increased from Rs.83 crores in 1950-51 to Rs.6343 crores in 1986-87. The loans of State Co-operative Banks also increased from Rs.42 crores in 1950-51 to Rs.7278 crores in 1986-87. Moreover, the number of co-operative bank offices have increased since the year 1950-51.

From the above given table, it can be conclude that the progress by the Co-operative Sector in the last decade was much more than the progress achieved in the first 60 years of its existence.

1.2 Co-operative Banking in Himachal Pradesh:

Himachal Pradesh came into being by the merger of thirty erstwhile princely states on April 15, 1948. At present, Himachal Pradesh has twelve districts spread over a geographical area of 55,673 Sq.Kms., with a population of 42.8 lakhs (Census 1981).
Agriculture is the largest single occupation in the State and the importance of its role in the State's economy can hardly be over-emphasized. It provides direct employment to about 70.8 per cent of the working population and contributes about 45 per cent of the net state domestic product. Out of the total geographical area of 55.7 lakhs hectares, an area of 6.21 lakhs hectares is under cultivation. It is cultivated mostly by small and marginal farmers.

The agriculture of Himachal Pradesh is basically dependent on Monsoon. Due to hilly and difficult terrain, the method of land utilisation and cropping pattern is somewhat different from those of the other States of India. Majority of the farmers use outdated and traditional techniques in agricultural operations. However, in the recent years they have started using certain modern techniques and applying high class inputs. Therefore, the need for credit has increased. Before the emergence of institutional credit, indigenous bankers used to cater to their credit needs. With the explosion of technology and increasing demand for agricultural products, not only the demand for credit increased but also the individual lenders were found incapable of extending required credit. The new form of institutional framework, popularly known as co-operatives, became popular particularly for the purpose of overcoming the difficulties and shortcomings of traditional source of credit.
At the time of formation of Himachal Pradesh in the year 1948, there was an acute scarcity of the banking facilities. There were only three central co-operative banks, one stock bank and 663 co-operative societies which were registered under the Co-operative Societies Act of 1912. These three central co-operative banks were the Mandi Central Co-operative Bank Ltd., the Chamba Central Co-operative Bank Ltd., and Mahasu Central Co-operative Bank Ltd. The Mandi Central Co-operative Bank Ltd., had its operations in the district of Mandi and its surrounding royal states. The Bank was mainly controlled by individuals. The management was dancing to the tunes of Managing Committee which was considered the sole regulating authority. The Chamba Central Co-operative Bank Ltd., had its area of operation in district Chamba and some other areas of the State. The management was under the control of the Managing Committee which comprised a few influential persons. The Mahasu Central Co-operative Bank Ltd., had its area of operation in the old Mahasu District. The Bank used to fulfil the needs of the people of Solan, Sirmaur and some parts of the Shimla districts. That was the largest Central Co-operative Bank of the time. The only stock bank in the State was Bank of Sirmaur with its area of operation in old Sirmaur District.

The Reserve Bank of India, in its Agricultural Credit Department, examined the possibility of establishing a State Co-operative Bank in Himachal Pradesh keeping in view
the difficult geographical conditions in the State and the need for the upliftment of the poor agriculturists. After high level discussions between the State Government and the Reserve Bank of India, in November, 1951, it was decided to have a unitary banking system in the State by establishing the State Co-operative Bank with its headquarters at Shimla and branches at different viable places in the State. In March 1954, the already existing three Central Co-operative Banks and one Stock Bank were amalgamated and the H.P. State Co-operative Bank was established which started functioning in March, 1954.

The area of operation of the H.P. State Co-operative Bank covered the then union territory. After reorganisation of the States, some areas of Punjab, Haryana were transferred to Himachal Pradesh in November, 1966. In these areas two Central Co-operative Banks viz. the Kangra Central Co-operative Bank Ltd. and the Jogindra Central Co-operative Bank were operating but these were not covered by the unitary system already existing in the State. These banks have been allowed to function as Central Financing Agencies in their respective areas. In September, 1976, some branches were exchanged between the State Co-operative Bank Ltd. and the Jogindra Central Co-operative Bank Ltd. with a view to extend their respective areas of operation to the whole of Shimla and Solan Districts respectively.
Thus, in Himachal Pradesh, the Co-operative credit is provided under three-tier system. At the State level there is an Apex Bank known as the Himachal Pradesh State Co-operative Bank Ltd. (HPSCB). It functions in Bilaspur, Chamba, Kinnaur, Mandi, Shimla and Sirmaur districts (with head office at Shimla) out of the 12 districts of the State. At the district level there are two central co-operative banks. The Kangra Central Co-operative Bank Ltd. (KCCB) functioning in 5 districts namely, Hamirpur, Kangra, Kullu, Lahaul and Spiti and Una Districts and Jogindra Central Co-operative Bank Ltd., operating in Solan district only. At the base level the primary Agricultural Credit Co-operative Societies are serving the agriculturists by providing short term and medium term loans after obtaining loans from the above mentioned Co-operative Banks. The position and progress of these institutions can be observed with the help of Table 1.2.

During the period 1976 to 1988 the co-operative institutions in Himachal Pradesh worked with increased resources as reflected in the figures of working capital and deposits.

During the Five Year Plans, the main function of the co-operative banks was to supply credit to the member co-operative societies, through their branches and these societies provided credit facilities further to their individual members. The banks also provide loan and advances
Table 1.2

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<td>7.94</td>
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Source: Annual Reports of the HPSCB, the JCCB, the KCCB, Administrative Reports of Department of Co-operation Himachal Pradesh and Economic Review of H.P. (1988)
to the members societies for business purposes viz., for the purpose of purchasing fertilizers, seeds, consumer goods and controlled items.

The growth of co-operative banking is shown plan-wise in Table 1.3.

**Table 1.3**

**Progress of Co-operative Banks during Five Year Plans**

<table>
<thead>
<tr>
<th>Plan</th>
<th>Co-operative Banks</th>
<th>Primary Credit Societies</th>
<th>Total</th>
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<tr>
<td>Second Five Year</td>
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<td>-</td>
<td>784</td>
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<td>Plan</td>
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<tr>
<td>Third Five Year</td>
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<td>2</td>
<td>938</td>
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<tr>
<td>Fourth Five Year</td>
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<td>Plan</td>
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<tr>
<td>Seventh Five Year</td>
<td>1</td>
<td>2</td>
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*Source: Department of Co-operation, Himachal Pradesh*
The co-operative banks provide short term loans ranging from 6 months to 3 years and medium term loans for a period of 3 to 5 years for raising crops. Long term credit for Agricultural purposes is provided by two banks in the State. At the apex level there is H.P. State Co-operative Land Development Bank operating in 9 districts out of the total 12 districts with its 18 branches, In the other 3 districts, Kangra Primary Land Development Bank is operating through its 5 branches. The duration of long term loans ranges from 5 to 15 years. During the year 1987-88, these two banks advanced long term loans to the tune of Rs.369.09 lakhs as against Rs.188.76 lakhs in the year 1986-87.

The primary agricultural credit societies are the most important institutions supporting the programme of agricultural credit. The reorganisation programme of these societies has almost been completed in the State. Their number was 2104 in 1988. Their membership was 7.50 lakhs and 5.89 lakhs members were of the category of weaker sections belonging to the category of small and marginal farmers, rural artisans and agricultural labourers. This number represented 78.5 per cent of the total membership. Out of the total membership, 2.13 lakhs belonged to Scheduled Caste and Scheduled Tribe categories, thereby, representing about 28.4 per cent of the total membership.
The co-operatives have also been playing a vital role in providing credit facilities to weaker sections. Out of short term and medium term loans amounting to Rs.19.51 crores advanced during the year 1987-88, Rs.12.28 crores were provided to the members of weaker sections. In order to assist the persons belonging to Scheduled Caste and Scheduled Tribes, subsidy for the purchase of shares and interest subsidy are also provided.

1.3 Review of Literature, Need, Objective, Scope, Methodology and Limitations of Study:

In this section, the researcher has reviewed the findings and suggestions of various researches, committees/sub-committees set up by the Government and also of other institutions which are closely connected with the Co-operative Banking and Co-operative Sector so as to find the study gap and need for the present study. Afterwards, objectives, methodology, scope and limitations of the study have been presented.

1.3.1 Review of Literature:

Maclagan Committee (1915) strongly recommended that the co-operative societies should be co-operative based, business like and be closely supervised. The Committee further suggested that the members of the various societies should be given proper exposure. The findings of the Committee clearly permitted the co-operative societies to function commercially with the square help of its members so that the
co-operative societies may gain independent financial status in the long run.

The Royal Commission (1928)\(^8\) stressed that there was really a need for the development of co-operative sector in the country because of increasing indebtedness of Indian rural populace and exploitation by traditional money lenders. It was further suggested that the Government should give spoon feeding to this sector in its stage of childhood. The basic idea was to impart independent financial status in the long run.

The Central Banking and Enquiry Committee (1931)\(^9\) opined that the encouragement of subscription to share capital by members as a method of collection of savings should be preferred to a system of compulsory deposits. The societies were expected to raise locally (on the Joint liability of the members) capital to be lent out to the members and whenever necessary, the local capital so raised may be supplemented by small loans from the state, deposits made by the friends and sympathizers of the movement who are non-members and loans obtained from Central and Provincial Banks. The Committee further recommended that under existing circumstances the Primary societies should not make any special effort to attract deposits from non-members by offering high rates of interest, because it would frustrate the aims of the movement to bring down the level of interest rate and to provide the rural co-operatives with cheap and controlled credit.
During the year (1939-40)\textsuperscript{10} a Committee on Co-operation strongly suggested that the societies working with a small capital and ill-equipped with management techniques should be grouped or amalgamated. The grouping may provide sufficient capital and other managerial tools for the efficient functioning. It is notable that the Committee did not prescribe any hard and fast rules for amalgamation keeping in view the different types of geographical, climatic and other conditions prevailing in the country. To tackle these problems the scope of amalgamation was kept open and at the choice of local level management so that the sector may avoid early set back.

Planning Commission of the Government of India (1945)\textsuperscript{11} recommended that in order to promote the co-operative Movement in India, the primary co-operative societies should not only work as a distribution agency to its members, but they should also act as a procurement agency for the agricultural produce, produced by its members. The ideas was that the societies should maintain a close and constant contact with the members so that there may prevail a sense of family atmosphere among them. Further more this type of atmosphere greatly attracts the non-members towards the Co-operative fold.

It is rightly pointed out by the Rural Banking Enquiry Committee (1950)\textsuperscript{12} that rural societies were financially tight. This financial limitation made them unable
to hire efficient staff and consequently the societies fail to serve their members in a proper way. They also fail to have wider geographical coverage on contiguous villages pattern because of finances, underdeveloped communication, transportation and illiteracy among the Indian rural population. This weakness ultimately leads the societies to failure. To overcome this limitation, the enquiry committee strongly suggested the establishment of multi-purpose societies with a strong base so that the co-operative might not die after a history of forty six years.

The Co-operative Movement in India started in 1904 with a strong base, to some extent. It is worth noting that up to the year 1951-54, the co-operative societies could provide only 3.1 per cent of the credit needs of the rural population. Axiomatically, it can be said that the Government neglected the movement, and it got a stepmotherly treatment. This nature of behaviour led the All India Rural Credit Survey Credit Committee (1954) to suggest that the following actions should be taken immediately for the survival and healthiness of the co-operative movement: (i) immediate nationalisation of the Imperial Bank of India, (ii) the State must participate in the organisation of public warehousing, (iii) State participation at all levels, (iv) organisation of large sized, limited liability type of primary credit societies, and (vi) integrated scheme of credit and marketing operations. From recommendations it
appears that so far there had been neither any expansion of Banking in rural areas, nor proper arrangement for procurement and marketing of the rural produce. The State also hesitated to participate in the movement at all levels and the societies were allowed to function with unlimited liability. In the light of these circumstances, one fails to understand from where the co-operative movement got its bread and butter for its survival during these years.

The movement got again a major set back when the Government made an attempt to make a law on a uniform pattern for the whole country during the year 1955. Therefore, to promote industrial culture in the rural areas and to raise the economic status of rural population, the villages and small scale industries Committee (1956) rightly recommended the establishment of industries on co-operative basis in the rural areas and the early expansion and modernisation of the existing rural industries. The key idea of the committee was to increase the per capita income of the rural population, to provide employment at the door, to use the local produce near the farm gates while keeping in view the underdeveloped transportation, communication facilities and lack of sufficient long term financing at the national level.

For the rapid growth of the movement Darling (1957) rightly suggested that there should be three tier system of co-operative societies. Credit should be closely linked with
marketing and the co-operative personnel should persuade rural masses intensively as well as extensively in favour of the movement. It further suggested that it should be one of the objectives of the mission to educate people to cut their unnecessary expenditure particularly on social ceremonies. The idea was to create a sense of saving among rural masses so that the co-operative institutions may increase their membership as well as capital. Alongwith this the societies should attempt to develop a practice to market the produce of their members through the societies and in return, the co-operative societies should advance credits to the members as and when required.

During the year 1958, the NDC in its resolution contradicted well framed policies of the year 1939-40 and 1955. That year NDC changed the policy of large societies and continued to accept the concept of multi-purpose large societies. It might have been a right step but the movement could have got a setback. It can be said that the Government till that time, worked on hit and trial basis. It is interesting to note that during the same year a Working Group on Co-operative Policy recommended the implementation of NDC's resolution but further imposed a condition that atleast 1,000 persons should be there in village in order to form a primary agricultural society. In the opinion of the researcher this recommendation seems to have been a major hurdle because of the geographical and climatic conditions prevailing in our country.
It is worth noting that Working Group on Industrial Co-operatives (1958)\textsuperscript{19} recommended two changes in favour of the co-operative movement. These are (i) Industrial Co-operative Societies should be allowed to avail loans from the Central Co-operative Banks for their financial requirements, and (ii) the state should too participate in the Industrial Co-operatives. The implementation of these recommendations would have provided an impetus to the members to come forward in the co-operative movement. It is surprising to note that the government still remained in a state of dilemma, as during 1960 it again appointed a committee on co-operative credit (1960).\textsuperscript{20} The committee formulated a new idea suggesting that viable societies consisting of two or three villages, covering a population of 3,000 persons within an area of 3-4 miles, be organised. These recommendations clearly neglected the financially uneconomical societies.

A committee on consumer co-operatives\textsuperscript{21} suggested that the government should directly participate in the share capital and should also give managerial subsidy to these institutions. The committee further suggested that preferential treatment should be given to the consumer stores in the field of import of consumer goods. It was a right step in the direction of boosting the co-operative sector.

The recommendations of the working group on Panchayats and Co-operatives (1961)\textsuperscript{22} are appreciable. It suggested for the involvement of Panchayats in the co-operative movement particularly in those areas in which
Co-operative societies are incurring losses. The suggestion of assigning the responsibility of co-operatives to Panchayats really provides an opportunity of interaction between the co-operatives and the masses. The interaction provides an opportunity to increase the membership and consequently the share capital. The involvement of these two institutions also ensures better management and efficient running of the sector. For the upliftment of scheduled castes, scheduled tribes and other weaker sections of the society, the government constituted a study group of Backward Classes during 1962. It was for the first time in the history of co-operatives that an attempt was made to bring these weaker sections into co-operative folds.

During 1963, the committee on co-operative administration suggested major changes in the administrative set up of the state co-operative department. It recommended that the Registrar of Co-operative Societies should be elevated to the position of an independent head as in other government departments. This provided an autonomy to the department and also resulted in the efficient functioning and development of co-operative sector. The suggestion of the audit of the societies by the Registrar, Co-operative Societies provided an opportunity for close co-ordination, higher degree of interaction and positive motivation to the members of the Societies and the staff of the Registrar, Co-operative Societies. The findings clearly define authorit and responsibility which is really needed for a healthy and
The year 1964 was a remarkable period in the history of co-operative movement. In that year various committees, constituted by the Government suggested various schemes under co-operatives such as forming procurement and distribution societies, fisheries co-operatives, Insurance of crops and cattle, and short term and long term financing to the agriculturists. These schemes clearly indicate that the government sincerely tried to penetrate the rural masses where in lies the foundation of the movement. These schemes were intended to increase per capita income, tapping the local resources and to give a boost to the morale of the farmers in the field of agriculture and animal husbandry.

During the following year a committee on the Elimination and Prevention of vested interests and growth of Non-Genuine Co-operatives or Committee on Co-operative suggested some changes for the development of co-operative sector. It suggested that the co-operative societies should avoid enrolling members with vested interests and also stressed that timely elections of the societies should be held in order to maintain the democratic norms. This committee also affirmed the previous (1963) notion of Independent Head (Registrar) and the audit of the societies by a Government Agency. Obviously the Government had failed to implement the suggestion made by the previous committees. During the following year a committee on Co-operative Marketing (1966) recommended two tier structure of marketing co-operatives.
It laid down that there should be an apex society at the State level and primary marketing societies at the village Mandi Level (market level). The apex society should function hand and glove with the Mandi Level societies particularly for the procurement of local input and also to meet the basic needs of its members.

During the year 1968, the ARC's Working Group on Co-operation\(^2\) stressed the need of improving the capital structure of the societies by building up loyalty in the members which may increase the operational efficiency of the societies. In the succeeding year the All India Rural Credit Review Committee (1969)\(^3\) reviewed the implementation of the crop loan system in different states. It found that several features of the system were not in practice. The committee further recommended a number of reforms including scales of finance to be fixed by a group of experts conversant with the agricultural operations instead of field workers' conference. The Committee also suggested that loans should be given according to the requirements of an individual and not on a uniform pattern. Among other things, the committee emphasized the need for flexibility in the disbursement of the 'B' component representing inputs.

The Banking Commission (1972)\(^4\) recommended that wherever weak central co-operative banks exist, the co-operative structure should be reorganised on the following lines; (i) In those states where all the district central
co-operative banks are weak, it will be better to have branches of the apex bank only, (ii) In states having a small number of strong central banks the apex bank should open its branches in places where the weak central banks exist. (iii) In the states where the majority of the district central co-operative banks are strong, it is not advisable to disturb the existing structure. In such cases the weak banks may be converted into branches of apex bank till the time they become strong viable banks, (iv) However, in states where both the apex and district central co-operative banks are strong, the present structure may be allowed to continue. The Commission further stressed the need for the appointment of qualified and trained staff and for the extension of the deposit insurance scheme. The policy of owned funds of co-operative banks is based on the principle of maximum borrowing power (being a definite multiple of the owned funds) and the principle of increasing such funds for the purpose of absorbing overdues. The Commission also felt that the requirement of owned funds should be linked with the factors such as (i) the fixed capital requirement of the credit agency, (ii) bad and doubtful debts, and (iii) requirement of loans. The Commission refused to set up either a National Co-operative Bank or an Agricultural Development Bank in India on the lines of the Industrial Development Bank of India. It viewed that a National Co-operative Bank is not likely to mobilise any more resources for the credit. The addition of one more tier may add to the cost of
distribution of credit. It further suggested that all short-term credits should be under the control of a single authority and that authority can only be the Reserve Bank.\footnote{33}

The Reserve Bank of India set up a study group to review the working of the scheme of financing Primary Agricultural Co-operative Societies.\footnote{34} It submitted its final report in the year 1981. The committee highlighted certain features regarding the role of central co-operative banks in the field of Agricultural development. It found that the role of the CCBs was below expectations which was mainly because of the delivery system of the institutions and not due to any operational procedures. It further suggested that the CCBs should gear up their functioning by keeping on co-ordinating with the weak and defaulter primary agricultural societies.

The RBI constituted a committee to review the arrangements for Institutional Credit for Agriculture and Rural Development (1981).\footnote{35} This committee reviewed specific issues such as structure and operation of ARDC, the feasibility of short term and medium term loans, performance of two and three tier systems and the consultancy services provided by the AFC. The recommendations of the committee were (i) Three tier and two tier systems should continue in big and small states respectively; (ii) Primary Agriculture Credit Societies, Primary Land Development Banks and Land Development Banks should be allowed to handle the short-term as well as long-term and medium term financing; (iii) the PASs should act as multi-purpose service institutions; (iv) The wilful defaulters
should be treated as criminal offenders and a provision in
law be made to this effect; (v) The State Governments should
check the functioning of these financial institutions
particularly to render help to the weaker sections of the
society. It shows that the Government tried to delegate more
powers to the PACs so that they could increase their
membership as well as capital. The RBI constituted a committee
to find out proper investment opportunities for central
coop-erative banks during the year 1981. The Committee
enlisted the following reasons for surplus funds:

i) The loans and advances did not keep pace with
their lendable deposit resources;

ii) The compulsion of co-operative societies to keep
their surplus funds with the banks;

iii) Privilege of the co-operative banks to offer
higher rate of interest in comparison to other
commercial banks; and

iv) Lessening of rate of interest of co-operative
banks in financing of agriculture sector.

The committee pointed out that this problem of surplus funds
may lead to stagnation in terms of institutional growth in
the long run. Keeping this factor in view, the study group
allowed the co-operative banks to extend their area of
operation. It recommended that the banks should finance
sectors like Electricity Boards, Marketing Federations engaged
in the distribution of fertilizers, Diary Farming and
other milk products. The extended areas of financing fell nearer the definition of co-operative sector. Thus it can be said that previously, the co-operative banks were not functioning in favour of the co-operative movement. This shows that neither the Government nor the co-operative institutions were interested in motivating the rural masses into the folds of the co-operative movement. The financing of the State Electricity Boards is really a matter of national interest. With electric power being available industries can be established in the rural areas on co-operative basis.

It is appreciable that a study team of Reserve Bank of India (1981) especially reviewed the working of co-operative credit institutions in Himachal Pradesh. The team found that the co-operative banks had restricted their loans to agriculture purposes and there was a notable deterioration in the recovery of loans. It was also felt that the banks adopted a negative attitude towards defaulters and did not care about the growth of its member co-operative societies. The findings highlighted the fact that the banks preferred individual deposits and thereby gulled their basic objectives. This deviation from the objectives reflect the inefficiency of the management and also the negligence on the part of Registrar, Co-operative Societies. All this has put the banks in a state of financial surplus...The team also suggested that the banks should find out new avenues for investments. It further pointed out that the co-operative
societies should have their own warehousing godowns for storing local inputs and to maintain regular supply to meet the basic needs of their members. To introduce changes in the management the team suggested that the banks should have the representatives of Federations, weavers and weaker sections of the society on its Board of Directors. The suggestions is quite healthy but it is notable that the banks failed to introduce this change.

The RBI constituted a committee to review the functioning of co-operative structures of the Orissa State (1981). The study team stressed that the co-operative banks of the state should not follow a policy of oscillation while implementing the agricultural development programme. It also suggested that the Central Co-operative Banks should deal gingerly with economically unviable societies.

In review of Co-operative Movement in India (1978-79) it has been observed that there was a slight increase in the membership of all the 27 Apex Banks between 1978-82 and that out of these, 25 banks showed profits. The deposits of Apex Banks increased from Rs.1004 crores in 1978 to Rs.1880 crores in 1982. Deposits from co-operatives amounted to 80 per cent of the total deposits in the year 1982. In 8 Apex Banks (Assam, Himachal Pradesh, Manipur, Meghalaya, Nagaland, Tripura, Andaman and Nicobar, Chandigarh and Pondichery) deposits of individuals and others were more than those of the co-operatives. One thing is worth noting that many State Governments had, in the past, directed the local bodies and
quasi-government institutions to keep their surplus funds with the SCBs. The SCBs of some States received substantial deposits from such institutions as Meghalaya (Rs. 3.65 crores), Haryana (Rs. 5.70 crores), Punjab (Rs. 6.42 crores) and Uttar Pradesh (Rs. 10.63 crores). However, in the case of Himachal Pradesh, Karnataka, Orissa and Tripura the SCBs did not receive such patronage from the respective State Governments. RBI remained the major source of borrowings for the SCBs. The increase in their working capital was due to the increase in the deposits and the borrowings. Loans and overdues of the Banks also recorded an increase during this period.

In the year 1982 there were 337 CCBs and the membership of these banks decreased from 2,85,680 in 1978 to 2,75,363 members in 1982. The reasons for decrease in membership was reorganisation of PACs. The report further revealed that share capital, deposits, borrowings, loans and overdues of the CCBs recorded an increase of 14.5 per cent, 101.2 per cent, 65.5 per cent, 71.3 per cent and 47.3 per cent respectively during the same period. In 1982 out of 344 CCBs only 314 CCBs including 7 industrial co-operative banks, were found viable. The criterion of viability was that a Bank must have a minimum of Rs. 2 crores of loans outstanding on an average. Thus it appears that co-operative banks have been quite healthy on an average but the growing nature of overdues has been a matter of concern.

It has been observed in the RBI Bulletin*(1988)*40 that the deposits of the 29 State Co-operative Banks rose
from Rs.3,385 crores in 1985-86 to Rs.3,818 crores in 1986-87, registering an increase of 12.8 per cent. Total amount of loans issued by the SCBs during 1986-87 was Rs.7,278 crores and thus showed an appreciable increase of 31.9 per cent over the previous year. The percentage of overdues to loans outstanding was slightly higher at 9.0 per cent in 1986-87 as compared with 7.6 per cent in 1985-86.

The number of CCBs increased from 352 in 1985-86 to 353 in 1986-87. Growth rate of deposits with CCBs increased to 20.2 per cent in 1986-87 from 14.1 per cent during 1985-86. The total amount of loans issued by the CCBs at Rs.6,343 crores showed a decline of 13.5 per cent as compared with a rise of 13.2 per cent in the proceeding year. The percentage of overdues to loan outstanding decreased marginally from 31.2 per cent to 30.3 per cent.

It has been further observed that the number of PACs decreased from 92,430 in 1985-86 to 89,010 in 1986-87, due to their reorganisation into viable units. The membership also decreased marginally from 721 lakhs to 719 lakhs during the same period. The deposits of the PACs increased from Rs.572 crores in 1985-86 to Rs.709 crores in 1986-87 showing a rise of 24.0 per cent as compared to 9.2 per cent during the previous year. During 1986-87, loans aggregating Rs.3,149 crores were disbursed by PACs. It was almost the same amount as in 1985-86 i.e. Rs.3140 crores. The overdues showed a rising trend and increased from Rs.1807 crores in 1985-86 to
1895 crores in 1986-87 and this amounted to 40.9 per cent of the total loans outstanding in 1986-87 as against 41.8 per cent in 1985-86.

Chauhan (1971) states in his study that a district co-operative bank in Maharashtra largely (55.7 per cent) advanced loans to the small farmers. He also conclude that the percentage of loanee defaulters (small farmers) stood at 16.3 per cent of the total defaulters. The review of the study highlights that the small farmers default less than the other categories of farmers. These findings are in contrast with the findings made by Arora and Tewari, and Rao and Murthy. Their findings reveal that the small farmers are largely neglected by the co-operatives. Rao (1972) in "Re-structuring of co-operatives District and State Level" investigated that the performance of SCBs and CCBs in the matter of deposit mobilisation was satisfactory during the period 1961-62 to 1968-69. In the case of CCBs the growth of deposits per year during 1956-57 to 1960-61 was 15 per cent which increased to 15.5 per cent per year during 1961-62 to 1968-69. The study also stated that proportion of deposits to working capital increased from 31.8 per cent to 41.4 per cent whereas the proportion of borrowings to working capital decreased from 46.5 per cent in 1960-61 to 39.3 per cent in 1967-68. In 1969, 67 per cent of the deposits of all the Apex Banks were from the co-operative institutions. However, in the case of CCBs the deposits of co-operative institutions accounted for 42.6 per cent of their total deposits. It is also revealed
that the credit deposit ratio of all the CCBs recorded an inconsistent trend. CCBs showed an increase in their share capital, deposits, borrowings and profits. Out of 341 CCBs only 194 banks could fulfil the criterion of viability in 1965. As regards the deposits of all Apex Banks, it is highlighted that only five states (Maharashtra, Punjab, Uttar Pradesh, Gujrat and Tamilnadu) had deposits to the tune of 68 per cent of total deposits. Thus it can be conclude that co-operative banks had made a remarkable progress in some states only.

Krishnaswami (1972) reviewed the progress of co-operative movement in Rural India since independence. The study reveals that as a result of the efforts made (since 1956) by the Government to rationalise the co-operative structure and to make the banks viable, the total number of CCBs came down from 509 CCBs in 1951-52 to 340 in 1970-71. It is further stated that more than 80 per cent of the CCBs had attained a loan business of Rs. 1 crore which was the viability criterion for a Central Co-operative Bank. During this period stress was laid on the opening of new branches in order to mobilise deposits and to render efficient services to the member societies. This policy resulted in an increase in the number of offices of CCBs from 779 in 1951-52 to 28251 in 1967-68. Deposits increased from Rs.37.79 crores in 1950-51 to Rs.419.31 crores in 1970-71 and loans, too, increased from Rs.82.83 crores in 1950-51 to 963.73 crores in
1971-72. The number of SCBs increased from 16 in 1951-52 to 25 SCs in 1970-71. These findings reveal that the policy of the government of fixing a standard of viability and to go for branch expansion proved substantially helpful to the co-operative movement.

Parshad and Arora (1972) reviewed the working of Meerut District Co-operative Bank for the years 1967-68 and 1968-69. During this period the bank experienced a decrease of 195 societies in the membership. It is argued that the decrease was the result of reorganisation of weak societies into larger units. It is highlighted that the individual membership increased by 20 per cent and the majority of the share capital (85.89 per cent) was contributed by the agricultural credit societies. The working capital of the Bank also increased four times, (Rs.153.03 lakhs to 625.46 lakhs). It is notable that the Bank financed the co-operative societies to the tune of 77 per cent of its working capital (1969-70) whereas during the year 1960-61 its advances were about 66 per cent of its working capital. Out of the total financing, 90 per cent of the finance was made in the form of short term loans. Out of this 85 per cent and 10 per cent was given for agricultural operations and processing of agriculture produce respectively. The recovery of loans ranged between 80 per cent to 90 per cent in 1966-67 to 1968-69. The profits rose to the tune of 1.1 per cent, 0.5 per cent and 1.1 per cent of the working capital respectively in the
years 1967 to 1969. Major contribution of the societies to share capital shows that the Government either neglected the co-operative sector or did not participate as there was sufficient capital with the Bank. The loaning pattern shows that the Bank mainly advanced short term loans for seasonal purposes. This was a defective policy as the medium term loans are generally made available for long term benefits.

Gulgalikar and Bhole (1972)\textsuperscript{45} states that in the case of Parbhani Central Co-operative Bank (Maharashtra) the deposits of individuals were more than the deposits of the co-operative societies during the period 1960-61 to 1970-71. It is further pointed out that 96.33 per cent of the total loans were given for agricultural purposes. The number of branches also increased from 1 to 30 over a period of 20 years (1951 to 1970). The foregoing discussion shows that the Bank mainly stressed on individual deposits and adopted a lukewarm attitude towards branch expansion.

Mohanan (1972)\textsuperscript{46} observed that the position of the overdues was deteriorating rapidly in case of co-operatives (in Sangli District of Maharashtra) as overdues of PCSs increased from 21.8 per cent of 37.7 per cent during 1961-70. It is also pointed out that borrowers having 2 hectares or more of land received 66.7 per cent of the loans disbursed by PACs, whereas 33.2 per cent of the total advances were given to the weaker sections. The year 1969-70 recorded a negligible increase in the advances in comparison to the
previous year. These observations show that the co-operative sector is mainly suffering from the poor recovery. Thus it can be said that either the financing institutions do not examine the loanees properly or the loanees wilfully avoid repayment of loans in convenience with some one.

Sharma observed (1972) that the co-operative sector largely suffered from weak deposit base because the deposits were 38.8 per cent and 42.2 per cent of the working capital of the SCBs and CCBs during 1968-69. The outstanding loans stood at 47 per cent and 54.7 per cent of the working capital of the SCBs and CCBs respectively. The discussion reveals that the banks were squarely responsible for the poor deposits and poor recovery.

Chaudhary (1973) pointed out in his study that to make the recovery system more efficient and effective, the production should be linked with the marketing of crops. Thus the efficient operation of these systems will not only gear-up the sector but will definitely provide an opportunity to exercise control over the problem of overdues.

Dharia (1973) highlighted in his study that out of the total short term and medium term advances made available to the co-operative sector in 1970-71, 57.8 percent were allocated only to five states. These states were Punjab, Maharashtra, Gujrat, Tamilnadu and Kerala. It is surprising that the rest of the states were allocated only 42.2 per cent. Hence, it can be said that the Department of Co-operation
should frame the financial plans keeping in view the national scenario.

Thakur, D.S. (1973) stated that the amount of loans per acre advanced to small farmers (Rs. 347) was higher than that given to medium farmers (Rs. 177.00) and big farmers (Rs. 236.00). The study also reveals that the small farmers were irregular in repayment of loans. The negative attitude towards medium and big farmers, may hardly hit the co-operative movement in the long run.

Patel S.M. and Thakur D.S. (1973) have made an indepth study of the loan sanctioning system of a co-operative bank in Gujrat. It was observed that inadequacy of loans, delay in payment, higher rate of interest, land litigations, mismanagement and other factors are responsible to the tune of 37.68 per cent, 26.08 per cent, 7.24 per cent, 4.35 per cent, 17.39 per cent and 7.20 per cent for the slow growth of crop loans respectively. The reason for the inadequacy of funds and delay in payment can be well understood keeping in view the national economy and official machinery involved but the factor of mismanagement, ranking third, cannot be ignored. It invites the attention of the Government to streamlining the functioning of co-operative sector.

Bhuyan, B. (1974) studied the problem of overdues in the State of Orissa. In his findings it has been observed that overdues recorded an increase of 270 per cent during the period 1960-61 to 1965-66. During the period 1965-66 to 1971-72 the overdues of co-operatives further increased by
459 per cent. He assigned natural calamities, lack of supervision and lack of coordination between the credit and the marketing institutions as the reasons responsible for the increasing trend in overdues. The first cause cannot be reduced; but the others may lead the co-operatives to bankruptcy.

John. W (1974) also discussed the mounting problem of overdues in the co-operative sector while he reviewed the working of co-operatives in Kanya Kumari District (Tamilnadu) during the year 1969. In this study he mentions that, as was also reported by 78.4 per cent of farmers, the loans disbursed by PCS were inadequate to the needs of the farmers. 91.3 per cent of these farmers belonged to the category of small farmers. Most of the researches made in late sixties and early seventies have also concluded that there was inadequacy of funds, poor recovery and mismanagement in the co-operative sector.

Das, P. and Singh, (1974) have made a study of an IADP district of Ludhiana (Punjab) covering a period of 12 years from 1960-61 to 1972-73. It is highlighted in this study that the membership, share capital, deposits and loans of the Ludhiana Central Co-operative Bank recorded an increase of 21 per cent, 1146 per cent, 1163 per cent and 4252 per cent respectively over the above mentioned period. The overdues increased by 7740 per cent and the overdues to demand also increased by 16.22 per cent. The study shows a progressive
trend but it is notable that the co-operative sector badly suffers from poor recovery.

Sapkal, N.S. (1975)\textsuperscript{55} has observed in his study of co-operative credit system of Maharashtra that the working of Maharashtra State Co-operative Bank was satisfactory during the year 1973-74 as regards share capital, Reserves, Deposits and Branch expansion. The Capital and Reserves of the Bank increased from 19 crores in 1970-71 to 29 crores in 1973-74 and deposits went up from Rs.93 crores to Rs.151 crores. It is pointed out that the recovery position was not satisfactory throughout the state. It was 61 per cent of the demand taken together for all the DCCBs whereas it was 75 per cent in Western Maharashtra, 50 per cent in Vidarbhas and 31 per cent in Marathwara. It implies that recovery of loans is affected by various local factors.

Nair (1976)\textsuperscript{56} made a study of 26 SCBs and 341 CCBs. It is highlighted that the deposits of all the SCBs recorded an increase of 15.2 per cent in the working capital. However, the share of individuals' deposits decreased by 15.3 per cent during the years 1969 to 1974. Central Co-operative Banks showed an increase of 5.1 per cent in their deposits in relation to working capital. During this period the share of co-operative deposits decreased by 4.50 per cent (42 per cent to 37.5 per cent). The share of individuals' deposits also recorded a decrease of 11 per cent (58 per cent to 49 per cent) during the years 1969 to 1974. It was argued that the overall
Increase in deposits was due to the policy of branch expansion in the country.

Winfred, A. (1977) stated in his study on the deposit mobilisation pattern of the CCBs and SCBs that the CCBs recorded a growth in deposits during the years 1960-61 to 1974-75 (110.59 crores to 850 crores). It is further stated that out of 341 CCBs in the country, 196 CCBs had deposits of over Rs. 1 crores and 77 CCBs had deposits of less than Rs.50.00 lacs. The deposits of CCBs exceeded 50 per cent of the working capital and showed a growth of 12 per cent in 1974-75. The SCBs recorded an increasing trend in their deposits between the years 1970-71 to 1974-75 whereas the proportion of the deposits to the working capital declined from 51.8 per cent to 46.1 per cent. 72 per cent of the total deposits of the SCBs were from the co-operative institutions whereas 6 Apex Banks mobilised more than 50 per cent of their total deposits from individuals. The discussion proves that the cooperative banks showed healthiness during this period particularly in deposits contributed by co-operative institutions.

Rao in his study of 17 CCBs of Orissa (1978) investigated that between the years 1971 to 1976 the membership of the banks recorded a negligible decrease of 17 members (5089 to 5072) whereas the share capital recorded an increase of 99.0 per cent (Rs.297 lakhs to Rs.651 lakhs). It is further notable that the Government participation in
the share capital stood at 38 per cent during the year 1975-76 as against 28 per cent of all CCBs in India. Thus, the share of individuals and co-operatives was 62 per cent whereas the share of co-operatives was 72 per cent at all India level in the year 1976. The deposits of the banks recorded an increase of 75 per cent during this period (Rs.8.10 crores in 1971 to 14.15 crores in 1976). It can be concluded that the banks had shown better results and better performance during the period. It is also appreciable that the Government substantially contributed towards the capital of the banks. The performance of the banks in deposits per bank was outstanding as the deposits per bank stood at Rs.83 lakhs as against Rs.78 lakhs at all India level. As regards investments, the bank preferred other securities and was reluctant to invest in Government (3.0 per cent) and trustee securities (0.4 per cent). Recovery position of the banks improved as overdues to outstanding loans decreased from 47 per cent in 1971 to 36 per cent in 1976.

Pancras (1978) states in his study that the banks in the states of Tamilnadu and Bihar maintained cash reserves of 9 per cent and 48 per cent respectively as against the statutory limit of 3 per cent. These are the two states in the country which maintained lowest and highest cash reserves. As far as the rest of the banks are concerned, they also maintained this ratio much above the statutory requirement. The state of Tamilnadu regarding liquidity reserves ranked
lowest with 27 per cent reserves. Rajasthan state ranked highest in cash and liquidity reserves as against the requirement of 28 per cent. The discussion reveals that the co-operative banks did not prefer to invest the funds timely and properly. The management seemed reluctant to mobilise its activities in the interest of the co-operative sector and the nation as a whole.

Kher, A. (1978)\(^6\) highlights the working of Orissa's co-operative banks in the field of crop loans. The study covers a period of 14 years i.e. 1960-61 to 1973-74. During this period, the crop loans recorded a tremendous increase from Rs.150.73 lakhs to 698.74 lakhs. It shows that the banks launched a special drive for the development of agricultural sector in the state of Orissa.

Mahalingam, S. (1978)\(^6\) states that the performance of CCBs in Himachal Pradesh was commendable in the field of deposits during the year 1974-75. It is appreciable particularly because of the hilly topography of the state and peculiar climatic conditions. In this state the main occupation of the people is agriculture and only a small section is involved in horticulture which gives better returns. It is worth noting that all the CCBs of hilly states of the country showed profits. However, the State of Assam failed to perform well in field of recovery. The State Co-operative Bank of Himachal Pradesh ranks first in the field of deposits followed by Jammu and Kashmir and Meghalaya. In case
of Assam it can be said that the management of the Bank made little efforts for increasing deposits and liberally granted loans which ultimately resulted in overdues.

Bhorali (1978)\(^6\) states that 70 to 80 per cent of the share capital of the Nagaland State Co-operative Bank was contributed by the Government. The share of the co-operative societies and individuals was quite low. The working capital of the Bank recorded an increase from Rs.14.36 lakhs in 1972 to Rs.34.64 lakhs in 1976. During the period the deposits showed a dwindling trend which happened because of the branch expansion by commercial banks in the state. The share of the co-operative societies in deposits stood at 9 per cent during the year 1976. The total investments stood at Rs.13.80 lakhs, out of which Rs.10.80 lakhs were invested in Government Securities in 1976. The outstanding loans increased from 33.36 lakhs to Rs.129.22 lakhs during this period. Similarly, short term loans of the Bank increased from Rs.30.9 lakhs to Rs.106.68 lakhs. The overdues increased by 10 per cent (16 per cent to 26 per cent). The findings show that the state Government liberally contributed to the capital of the Bank with a view to promote co-operative culture in the state. The fluctuations in deposits show inefficiency of the management to some extent. This happened because the bank did not encourage the incorporation of new societies. The Bank while making investments, did not follow a diversified approach as it invested 78.26 per cent of the
amount exclusively in one sector. It shows that the financial investments were made without proper planning. The Bank failed also in the field of recoveries.

The observations made by Singh and Pandey (1979) regarding the Kanpur District Co-operative Bank revealed that the Bank advanced mainly short term loans for high yielding programmes during the years 1967-68 to 1977-78. It is worth noting that the recovery position of the Bank recorded an increase of 17.09 per cent (65.14 per cent to 82.23 per cent) during the period. It was observed that the speedy recovery was the result of greater vigilance on the part of the societies at the time of disbursement and utilisation of the loans. Of course the Bank performed well within as well as outside the organisation but at the same time it adopted only high yielding programmes at the cost of certain other sectors.

Goyal (1979) states that during the years 1971 to 1977, the deposits of co-operative banks in India increased manifold. It is appreciable that this period experienced an increase in the individuals' deposits (2.3 times) and the share of co-operative societies' deposits also increased (3.3 times). The deposits were 300 per cent and 454 per cent more than the owned funds in 1971 and 1977. During these years the total deposits increased by 199.2 per cent. In comparison to the working capital, the deposits stood at 41 per cent, 56 per cent, 55 per cent during the years 1971, 1976 and 1977 respectively. Thus it can be said that the
Banks faired well in the field of individual deposits. The paramountancy of co-operatives' deposits over the individuals' deposits is a good sign. Out of the total deposits of Rs.279 crores during the year 1971, fixed deposits stood at Rs.177 crores (63 per cent) whereas these figures were Rs.835 crores and 575 crores (68.9 per cent) in 1977 respectively. This shows that the banks concentrated on fixed deposits which might have strengthened the co-operative sector in the country as a whole.

Srivastava (1980) in his study of Co-operative Banks in Uttar Pradesh Stated that the number of district co-operative banks recorded negligible increase of 1 bank during the period 1960-61 to 1975-76. It is notable that the co-operative sector recorded a tremendous growth by increasing the number of branches of the banks from 41 in 1960-61 to 690 branches in 1975-76. It is further notable that the banks increased their share capital nearly two times and this impetus allowed the banks to increase their working capital by 5.94 times (from Rs.3,210.05 lakhs to Rs.19,080 lakhs). During this period the number of members also decreased from 53,979 to 23,438. As far as loaning pattern is concerned the major portion of loans was disbursed for seasonal purposes as it increased by 4.30 times. It is also notable that the banks showed a negative attitude in advancing medium term loans (54.42 lakhs to 569.30 lakhs. It can be said that this Apex Bank performed well in various fields except in the
field of membership.

Arora and Tewari (1980) have highlighted that 12.45 per cent, 18.45 per cent and 60.10 per cent loans were advanced to marginal, small and large farmers respectively during the year 1978-79. It has been further stated that in the State of Bihar, Kerala, Manipur, Tripura, West Bengal and in the Union Territory of Lakashadeep the share of loans to marginal farmers ranged between 30.49 per cent to 100.00 per cent whereas the share of small farmers ranged between 29.97 per cent to 49.96 per cent. This percentage was much above the All India average. In the states of Gujarat, Haryana, Madhya Pradesh, Maharashtra, Punjab and in the Union Territory of Chandigarh, the large farmers shared 70.15 per cent to 83.91 per cent of the total loans advanced by the co-operative banks. The findings show that the co-operative sector largely neglected the marginal and small farmers. It means that in some states the co-operative banks have not been promoting the co-operative sector but have been creating feudalism. The study suggests that there should be a uniform pattern at the All India Level for the advancement of loans to various categories of farmers.

While reviewing the working of co-operative sector, Rao and Murthy (1980) stated that this sector was mainly suffering due to the problem of poor loan recovery. It has been observed that overdues stood at 42.7 per cent of the outstanding loans during the year 1977. It has been further
pointed out that the co-operative sector was largely neglecting the weaker sections of the society mainly because of their meagre economic base. It substantiates the findings of Arora and Tewari as discussed above. They pointed out that the co-operative sector was encouraging feudalism which is contrary to its objectives.

Desai (1981) states in his study that small farmers default less than the other categories of farmers. It means that the farmers other than the small ones either misutilised the funds or knowingly avoided the repayment of their loans. Thus the financing institutions seem to have adopted a favourable attitude towards the influential groups of the society. Ray, Atteri and Guglani (1981) noted that during the years 1950-51 to 1976-77, the number of central co-operative banks in Bengal decreased from 40 to 17 whereas during this period the membership of banks (individuals and societies) increased. During the period the banks witnessed a substantial growth in the share capital from Rs.241 lakhs in 1968-69 to 760 lakhs in 1976-77. It happened because of an intensive as well as extensive drive undertaken by banks in the state. Moreover, the Government also encouraged the co-operative movement by increasing its contribution in the share capital by 53.69 times (from Rs.6.00 lakhs to Rs.322.17 lakhs). This increase permitted the banks to advance more loans to the farmers. It is interesting to note that the
percentage of overdues to outstanding loans decreased from 55 per cent in 1950-51 to 29.10 per cent in 1973-74. Green revolution seems to have been the cause of satisfactory recovery position because it increased the per capita income of the farmers.

Shankaraiah and Srinivas (1981) stated in a study of Bhongi Central Co-operative Bank that during the years 1965-66 to 1979-80, the deposits, owned funds, borrowings, working capital and lendings increased by 776 per cent, 757 per cent, 677 per cent, 706 per cent and 712 per cent respectively. It means that the bank fared well in these fields. However, the recovery position recorded a decrease during this period resulting in the increase of overdues of the banks.

Bedbak's (1982) study of Orissa State Co-operative Bank and Central Co-operative Banks covers a period of 30 years i.e. from 1950-51 to 1979-80. In the study it is stated that in case of Orissa State Co-operative Bank, the membership, share capital, deposits, loans and profits recorded an increase of 96,000 (1,37,000 to 2,33,000), Rs.366 lakhs (Rs.5 lakhs to Rs.371 lakhs), Rs.3007 lakhs (Rs.15 lakhs to Rs.3022 lakhs), Rs.9836 lakhs (Rs.138 lakhs to Rs.9974 lakhs) and Rs.44 lakhs (Rs.1 lakhs to 45 lakhs) respectively. It is surprising that the Bank maintained this healthy growth in spite of the fact that Government of Orissa had restricted the Bank from accepting the surplus of local
bodies, quasi Government bodies and the Government Institutions. It means that the Bank was working in competition with commercial banks. The central co-operative banks in Orissa recorded a decrease in their membership from 5898 to 5200 members during the period. It was further revealed that this happened due to the fact of discontinuance of dormant and inactive members and also the liquidation of primary societies because of their uneconomic position. This decrease did not affect the share capital and the deposits which recorded an increase of 8353.3 per cent (from Rs.15 lakhs to 1268 lakhs) and 6275 per cent (Rs.59 lakhs to 3761 lakhs) respectively. This increased the working capital by 6533 per cent (i.e. from Rs.132 lakhs to Rs.8755 lakhs). He assigned one more reason for the increase in the working capital and that was the increase of 9400 per cent in the borrowings. This permitted the banks to advance loans liberally. This in turn affected the overdues as these recorded an increase i.e. from (Rs.14 lakhs to Rs.1383 lakhs). It was further pointed out that the banks mainly opened their branches in the districts with larger urban population. It means that the banks ignored the rural population.

Deobhankar (1984) has stated in his study that in Gujrat (District Co-operative Banks) the percentage of overdues to outstanding loans stood at 47.74 per cent in the year 1981-82. To overcome this, the state co-operative bank
and other District Co-operative Banks introduced a scheme of awarding prizes to those DCBs, Societies and Secretaries of the Societies who faired well in the field of recoveries. In addition to this the DCCBs were required to take legal steps against the defaulter. It can be concluded that in the State of Gujrat the Co-operative Banks planned well to solve the problem of overdue.

Baluswami and Murlidharan (1985) studied the role of Special Officer, in place of Board of Directors, in Madurai District Co-operative Bank. The Special Officer was appointed with a view to erode the political interference and to bring the efficiency in the working of the Bank. The appointment increased the coverage of farmers from 64 per cent to 92 per cent but the disbursement of medium term loans was affected negatively as these decreased from 77 per cent in 1973-74 to 74 per cent in 1978-79 of the total loans. The recovery position did not improve during the tenure of special officer. It worsened as average recovery decreased from 84.57 per cent in 1973-74 to 67.08 per cent in 1978-79. It was further stated that deposits of the Bank increased by 431.62 per cent over a period of 6 years. The main reason for the growth of deposits was the increase of individual deposits. Thus the appointment of special officer did not show positive results in some fields.

Krishnamurthy and Parameshwar (1985) stated that in Andhra Pradesh the number of DCCBs increased from 25 in
1971 to 27 in 1982. Out of the 25 DCCBs in 1970-71 the Reserve Bank of India classified 12 Banks as weak banks. The deposits of all DCCBs recorded an increase of 6.5 times during this period and the growth rate of deposits varied between 10 per cent to 29 per cent. It was also pointed out that the major source of deposits was co-operative societies during the period, 1970-71 to 1976-77 years. Thereafter, individual and other institutions emerged as the major source of deposits (50 per cent to 61 per cent). This increase was due to the change in the method of disbursement of loans as many DCCBs were disbursing loans by debiting the loan accounts of societies and crediting the saving accounts of the individual borrowers.

In the executive summaries of 'Prajnan', it is concluded that the rate of default was higher in case of small farmers (holding less than 2 acres of land) whereas this rate was slightly low in case of land owners having 2 to 10 acres of land but it rose in case of large farmers. It can be concluded that the large farmers ranked high in default. The study revealed that 70 per cent of the farmers holding land above 10 acres of land were defaulters.

Reddy (1985) stated in the study of Anantpur Distt. Co-operative Central Bank that the share capital and lendings of the Bank increased steadily during the period 1971-72 to 1980-81 but the recoveries were quite poor. It was so because either the Bank was unable to meet the entire credit needs or
the farmers were not interested in the loan repayment. To overcome this problem, the author suggested that the Bank should increase internal funds through deposits from members. Moreover, the farmers should also be persuaded to shift to the cultivation of commercial crops.

Yeshwanth (1985) states that the States of Assam, Manipur, Meghalaya, Nagaland, Tripura and Union Territories of Arunachal Pradesh and Mizoram have their separate apex banks. The co-operative sector in these regions is of two tier system i.e. state co-operative bank at the state level and PACs at the village level. In Assam there exists three tier system of co-operative sector. The co-operative system is quite strong in the State of Assam in the fields of membership, branch network, owned funds, deposits and loans and advances. In case of Manipur, Nagaland, Arunachal Pradesh and Mizoram the opening of branches posed a problem in obtaining suitable premises for housing the branches and the staff. The banks faced these problems because of Law and Order problem. It is also stated that State Governments are liberally participating in the share capital of all apex banks in order to strengthen their capital base. In case of Mizoram the State participation in capital stood at 94 per cent during the year 1982-83. As regards poor recovery, the reasons assigned by the author are crop failure, over-financing, inadequate credit, untimely financing, fixing unrealistic due dates, lack of effective supervision, giving last priority
to repayment due to low rate of interest, benami transactions, low productivity and political protection. From the above observations it can be concluded that the Apex Banks got good support from the state governments for their growth and the banks should work hard in order to win the favour of rural masses for mutual benefits. John A (1985) stated the following reasons for the growth of overdues: (i) over financing, (ii) lack of proper scrutiny of the objectives of the loans and repaying capacity of the borrowers, (iii) lack of supervision on the utilisation of loans and (iv) undue leniency in demanding the repayment of loans. It is further pointed that the banks themselves are reluctant to initiate legal action against the defaulters.

Winfred, A. (1986) has pointed in his study of 16 district central co-operative banks of Tamilnadu that all the DCCBs opened some branches because the Reserve Bank of India permitted them to open a new branch without getting licence. As a result of this the number of branches of all DCCBs increased from 219 in 1970-71 to 368 in 1979-80. In the year 1980 about 42 per cent of the branches were in the rural areas. Thus during this period the banks opened their branches mainly in urban and semi-urban areas with a motive of profit. This ignored the objective of rural development through the media of co-operative societies. This factor increased the deposits from Rs. 40,21,00 lakhs in 1975-76 to Rs. 12,612,00 lakhs by the end of the year 1979-80.
Dina Bandhu (1987)\(^\text{80}\) has stated that at the end of the June 1982 there were 27 Apex Banks operating with 428 offices in India. About 49 per cent of the members of Apex Banks were co-operative societies and remaining 51 per cent were individuals and others. The share of the government in the share capital of all Apex Banks stood at 22.6 per cent. The total deposits of individuals were just 17.31 per cent and the Banks borrowed about 79.97 per cent of their total borrowings from the RBI. During this period the short term loans stood at 89.69 per cent out of the total loans advanced by the banks. It means that the Apex Banks were not getting much capital from the governments. Furthermore, the individuals were not attracted by the services of co-operative banks.

Balister and Gupta (1987)\(^\text{81}\) pointed out that the share of the Commercial Banks was high regarding advancing loans to I.R.D.P. families in comparison to co-operative institutions (21 per cent). Out of the total sanctioned loans by the Co-operative Banks the share of lower castes came to 28 per cent only. The commercial banks advanced loans to the tune of Rs.86.13 lakhs and the sectorwise financing of the total loans stood at 99 per cent for agricultural purposes and 1 per cent for non-agricultural activities. Thus the findings reveals that the co-operative sector largely neglected the lower castes. Furthermore, the co-operative sector failed to attract the rural masses for advancing loans.
as compared to the commercial banks. (Out of 3365 beneficiary families only 719 families were financed by co-operative banks).

Narayanswamy and Ramchandaran (1987)\(^{82}\) stated that the profitability ratio of South Arcot district central co-operative bank declined from 1.51 to 1.01 paisa per one hundred of business in the year 1980 as compared to 1979. It is pointed out that it mainly happened because the spread ratio experienced greater fall in comparison to the fall in the burden ratio. The spread ratio declined because the reduction in the interest earned ratio was greater than the reduction in the interest paid ratio.

Saxena (1988)\(^{83}\) has highlighted that diversion and misuse of loans are common practice among the borrowers. Approximately 18 per cent of the co-operative credit is diverted by the beneficiaries to some other purposes. It is further stated that the lending policy of CCBs and PASs is cumbersome and it generates overdues. It is further observed that the societies with full time secretaries default less in overdues (50 per cent) in comparison to the societies with part-time secretaries (75 per cent). Thus it can be said that the societies must have full time secretaries to reduce the overdues.

Kulwant Singh (1988)\(^{84}\) stated that in Himachal Pradesh the loanees utilised about 38 per cent of their credit for earmarked purpose, whereas about 43 per cent of the loanees
misutilised the credit. It was again pointed out that full utilisation was more among the large farmers (40 per cent) in comparison to other categories of farmers. Credit utilisation was also affected by factors like education, caste, family size, the amount of loan borrowed and farm-technology adopted by the borrower.

The following conclusions can be drawn from the studies discussed above:

i) Rao (1978), Bhorali (1978), Yashwant (1985) and Bandhu (1985) stated that about one fourth of the shares capital of the co-operative banks was contributed by the State Governments. In case of some banks the respective Governments contributed between 38 per cent to 94 per cent of their share capital.

ii) Prashad and Arora (1972), Rao (1978), Srivastava (1980) and Bedbak (1982) have stated that the membership of some SCBs and CCBs decreased due to the reasons of reorganisation of societies, discontinuance of dormant and inactive members, liquidation of PACs and restriction on individuals in some States to become members. However, this decrease did not affect the growth of share capital.

Bedbak (1982) have stated that the main cause of increase in the membership of some SCBs and CCBs was the increase in their individuals' membership.

iv) Parshad and Arora (1972), Rao (1978) have concluded that the major portion of share capital of some co-operative banks was contributed by the co-operative societies and individuals.

v) Gulgalikar and Bhole (1972), Bhorali (1978), Krishnamurthy and Parmeshwar (1985) and Baluswami and Murlidharan (1985) have concluded that the major portion of the deposits was contributed by individuals in some co-operative banks. Whereas Rao (1972), Krishnamurthy and Parmeshwar (1985), and Bandhu (1987) concluded that the deposits of the co-operative societies were more than the individuals' deposits. The same were more than 67 per cent of the total deposits in some banks. Goyal (1979) stated that fixed deposits constituted the major portion of total deposits.

vi) Krishnaswami (1972), Nair (1976), and Sriyastava (1980) stated that stress was laid by the banks on opening of branches with a view to mobilise
Thakur (1973) observed that the amount of loan to small farmers was higher as compared to medium and large farmers; but Mohanan (1972) observed that small farmers were getting only one third of the loans.

Mohanan (1972), Bhuyan and John, Das and Singh (1974), Sapkal (1975), Mahalingam (1978), Bhorali (1978), Shankaraiah and Srinivas (1981), Baluswami and Murlidharan (1985), Reddy (1985), Yashwant (1985), Saxena (1988) assigned the following reasons for the growth of overdues and poor recoveries: Natural calamities, crop failure; lack of supervision; lack of link between credit and marketing institutions; inadequacy of loans; over-financing; lack of proper security; leniency in recoveries; untimely financing; unrealistic due dates; low rates of interest and political protection. To overcome the problem of poor recoveries Chowdhary (1973) and Singh and Pandey (1979) suggested that production should be linked with marketing; societies should be vigilant at the time of disbursement and about the utilization of loans. Deobhankar (1984) suggested a scheme of awards to the DCBs, societies and secretaries for affecting satisfactory recovery of overdues.
deposits and rendering efficient services to the members. The opening of new branches had a positive effect on the growth of deposits. Bedbak and Winfréd (1982) have argued that new branches were mainly opened in urban and semi-urban areas, keeping in view the profit motive and ignoring the objectives of rural development through co-operative sector.

vii) Rao and Sharma (1972) and Goyal (1979) opined that the deposits of the co-operative banks increased and the proportion of the deposits to the working capital also increased from 38 per cent to 56 per cent.

viii) Rao (1972) and Bandhu (1987) concluded that the proportion of borrowings to the working capital increased and that the main source of borrowings of the co-operative banks was the Reserve Bank of India.

ix) Parshad and Arora (1972), Gulgalikar and Bhole (1972), Kher (1978), Srivastava (1980) and Bandhu (1987) have thrown light on the aspect that more than 89 per cent of the total loans were advanced by the co-operative banks for the short term for agricultural purposes.

x) Chauhan (1971) stated that the major portion of loans was advanced to small farmers and
xii) Chauhan (1971) and Desai (1976) investigated that small farmers default less in comparison to medium and big farmers; but Thakur (1973) and Kulwant (1988) investigated that small farmers are not prompt in the repayment of loans.

xiii) Dharia (1973) investigated that there was unequal distribution of loans in the country as a whole. Only five states disbursed more than 57 per cent of the total loans as short term and medium term loans in 1970-71.

xiv) Rao (1978) recorded that some banks preferred trustee securities for investment purposes, whereas Bhorali (1978) investigated that the major portion was invested in government securities.

xv) Pancrus (1978) investigated that all the SCBs and CCBs in India were maintaining cash reserves and liquidity reserves much above the statutory requirement of 3 per cent and 25 per cent. The co-operative bank in India maintained cash reserves between 9 per cent to 48 per cent and liquidity reserves between 27 per cent to 72 per cent.

xvi) Mahalingam (1978) investigated that all the co-operative banks in the hilly states of India
were making profits because of their good deposits, loaning business and recoveries.

The above observations reflect some aspects of the co-operative banks but do not answer the following questions regarding the co-operative banks in Himachal Pradesh.

1) Did the State Government participate liberally in the share capital of co-operative banks or not?

2) Did the membership of the banks decrease or increase?

3) Did the banks have strong owned funds base?

4) What kind of deposits were the major constituent of the total deposits?

5) Did the banks borrow funds from the RBI/NABARD or from some other sources?

6) Were the deposits the major constituent of the working capital?

7) Did the banks utilise their full borrowing power?

8) Did the banks manage their cash efficiently and invest the funds properly?

9) What was the loaning pattern of the banks?

10) Was the distribution of loans equal in all the areas of the State?

11) What was the position of the banks as regard
profitability?

To find answers to these questions, there is a need of a systematic study of the co-operative banks in Himachal Pradesh. Since no systematic study on the co-operative banks in Himachal Pradesh has been made so far, it becomes all the more important.

1.3.2 Need of the Study:

It has been considered essential to take up the study of co-operative banks in Himachal Pradesh because of the reasons mentioned below:

The co-operative banks are mainly state controlled and play a vital role in the economy of the State. About 92 per cent of the population of the State is living in rural areas, so the development of the rural sector can be termed as the development of the State. Moreover, rural development is basically needed for the economic development of the state. The State Government has delegated one of its major functions of rural development to the co-operative banks. These banks provide short term, medium term and long term credit to the different segments of the population for agricultural and allied activities.

Obviously the main objective of these institutions is to develop the co-operative sector in the rural areas of the State. This sector has a major role to play in the upliftment of the rural areas. Therefore, the development of the co-operative sector is vital for the economic
development of the country as a whole. The subject becomes more interesting because of the climatic, geographical, economic and local conditions of the State of Himachal Pradesh.

The need is all the more evident from the fact that our rural economy is mainly based on agriculture and horticulture and the scope of industrial sector is minimum. This state of affairs attracts the co-operative banks to develop above the mentioned sectors in the States on co-operative basis. It also invites the attention of these institutions to promote small scale industries based on infrastructure in the rural areas. They can play an important role in the development of cottage industries and small scale industries which do not need lot of space, funds and labour. As some of the areas of the State remain snow covered for a maximum period during the year, these areas can be developed for rearing sheep and goats on co-operative basis. In other areas, too, suitable industries can be promoted as the people of these areas remain idle for a long period during the year. It happens because agriculture and horticulture of these areas are seasonal in nature.

The people residing in remote and far flung areas need the development of consumer co-operative societies. This development may enable the co-operative banks to maintain direct contact with the people. The societies can serve as
a linking tool between the people and the co-operative banks.

The regional character of these banks facilitates the study of the district-wise development of the co-operative movement in the State. The district-wise comparison may lead us to draw conclusions in respect of their functioning in the fields of deposits, loans and advances and branch expansion. The efficiency/inefficiency will provide a helping tool to the management as well as to the government to take appropriate decisions.

As there is a gap in the literature and no systematic study has been made so far on the working of the co-operative banks in Himachal Pradesh, the questions relating to the co-operative banks in the State remain unanswered. Therefore, there is an apparent need that the performance appraisal of these banks be made and analysed in an appropriate manner. The evaluation of these banks may provide a yardstick to the management, shareholders and the government to take necessary steps for the efficient functioning and quick development of these institutions.

1.3.3 Objectives of the Study:

The main objective of the study is to assess the performance of the banks under study keeping in view their objectives. In order to be specific, the research design shall cover the below mentioned aspects to evaluate the functioning of these banks:
1. Capital structure of the banks in the light of government participation in their share capital;

2. The growth of owned funds of the banks with reference to the pattern of growth of their reserve funds;

3. The efficiency of the banks in the field of deposit mobilisation, pattern of deposits within their respective areas of operations;

4. The pattern of growth of the working capital of the banks and how efficiently the banks have used their borrowing power;

5. The efficiency of the banks in managing their cash and the pattern of their investments.

6. The pattern of lending of loans and advances to various sectors;

7. Profitability trend and the policies in practice for the distribution of profits.

8. The pattern of Borrowings of the bank.

1.3.4 Research Methodology:

The three co-operative banks under study are functioning in all the districts of the State through their branches. Keeping in view the geographical, climatic and economic conditions of the State and the size of these banks, the scope of study is comparatively large. The present study
will cover a period of 13 years, i.e. from 1976 to 1988. The study has been conducted by case study method. The data collected has been tabulated and analysed with the help of suitable statistical and financial tools.

Secondary sources are the main sources of data and the present study is based on the same. Most of this type of data is available in the published form i.e. Annual Reports, Balance-Sheets, Profit and Loss Accounts, Government Circulars, Notifications of the Management and decisions of the Board of Directors, Circulars and Notifications of the RBI and NABARD and the Publications of the Co-operative Department. The other sources of information such as office records, published and unpublished documents, Bye-laws, constitute a substantial source of data. Informal discussions with a large number of functionaries at all levels of the management were also held to facilitate identification of critical and relevant issues. The data so collected has been tabulated and analysed in order to evaluate the performance of co-operative banks in Himachal Pradesh.

1.3.5 Limitations:

1. The study will cover a period of thirteen years only, i.e. 1976-1988. The period has been considered sufficient to evaluate the performance of these banks.

2. The research is mainly based on secondary data published and unpublished.
3. The study has covered three major co-operative banks, The H.P. State Co-operative Bank Ltd., The Kangra Central Co-operative Bank Ltd., and The Jogindra Central Co-operative Bank Ltd. It has not covered the urban co-operative banks because they do not perform the functions of co-operative banks, i.e. rural development through co-operatives.
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