Chapter - III

CENTRAL CO-OPERATIVE BANKS IN INDIA AND TAMILNADU
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3.1 INTRODUCTION:

The central Co-operative banks are the federations of primary agricultural co-operative Banks and co-operatives of other types in their respective areas. They finance the primary agricultural co-operative Banks from their own resources consisting of the share capital, reserves and deposits and from the credit limits sanctioned by the NABRAD through the Tamil Nadu State Apex Co-operative Bank. They also provide finance to weavers co-operative societies and all other types of co-operatives functioning in their areas.

3.2. ORGANISATION OF CENTRAL CO-OPERATIVE BANKS:

The Madras Central Urban Bank was the first Bank, registered on 19th October 1905 and the Bombay Central Co-operative Bank was registered in the year 1906 and these Banks had no legal status. After the passing of co-operative societies Act II of 1912, the central Banks got the legal status. In this act, provisions were made for registering central financing agencies and supervising unions, and all other types of co-operative societies. As per the provisions of the Act, the primary agricultural credit societies should be
registered with unlimited liability and the central societies with limited liability.

The central co-operative Banks were organised here and there without following any pattern, as there was no set norms or principles for formation of such Banks. There were more than one central co-operative Bank in a district and in respect of some districts, they had no Banks at all. In certain areas, some central Banks had jurisdiction of more than one district. Though, the number of central co-operative Banks increased during the period from 1920 to 1930, they were weak both administratively and financially. They provided loans out of their share capital only, and they suffered from heavy over dues.

After the establishment of the Reserve Bank of India in the year 1935, steps were taken for re-organisation and revitalisation of the central co-operative banks. The acts relating to the general banking were amended so as to bring the co-operative banks under their purview. The Rural Banking Enquiry Committee (1949) also emphasised the head for the organisation of central co-operative banks. After the All India Rural Credit Survey Committee report the Banks entered into a new era of development in respect of their overall functioning.
3.3. CONSTITUTION OF CENTRAL CO-OPERATIVE BANKS:

The Maclagan Committee classified the central co-operative Banks according to their constitution. They were:

6.2.1. Membership of purely individuals

6.2.2. Membership of purely primary credit societies.

6.2.3. Membership of individuals and societies.

This type is called as mixed type and majority of the central co-operative banks come under this category.

The Santhanam Committee appointed by the Government of Madras in the year 1968, recommended that the individuals should be eliminated. The All India Rural Credit Survey Committee recommended that the individuals should be eliminated gradually. Accordingly no individual is admitted as member of the Central Bank at present.

3.4. AREA OF OPERATION:

The area of operation of a central co-operative Bank is an important factor for its effective functioning. In the year 1915, the Meclagan Committee observed that the size of a Central Bank should be determined according to the convenience and efficiency. This standing advisory committee on Agricultural credit of the Reserve Bank of India recommended
one Central Co-operative Bank for each district and if other considerations were favourable a bank may be started covering even lesser than a district.

The recommendation was endorsed by the rural credit survey committee. This committee prescribed minimum requirements for viability of a Central Bank. A minimum of Rs.3 lakhs of share capital and reserves and working capital of Rs.20 to 25 lakhs were prescribed the following requirements for viability.

i) Ability to earn sufficient profits.

ii) Ability to contribute to the minimum reserves prescribed.

iii) Ability to declare reasonable dividend.

In the process of development, it was accepted that each district should have one Central Co-operative Bank.

3.5. DISTRICT CENTRAL CO-OPERATIVE BANKS IN TAMIL NADU:

Tamil Nadu is one of the State where the co-operative banks are playing a leading and vital role in the rural credit dispensation and mobilisation of rural deposits.

In Tamil Nadu one DCCB in each district head quarters. They have extended their coverage through opening branches particularly in the rural areas in the concerned districts. The chief object of the central co-operative
banks is to meet the credit requirements of the member societies. They finance agricultural credit societies for production purposes, marketing societies for marketing and supply operations, and industrial and other societies for working expenses. They work as an intermediary to link the primary societies with the money market. They provide certain normal banking facilities to members such as acceptance of deposits, remittance of funds, collection of cheques, hundies, dividend warrants, safe custody to valuables, advancing loans to individual members, against fixed deposits receipts, government paper and agricultural produce. They act as balancing centres for the primary societies by making available and surplus funds of some societies to those which need credit and thus equalise the flow of capital. They also undertake non-credit activities like supply of seeds, manures, foodstuffs and consumer goods. They develop, assist and coordinate the work of the affiliated supervising unions and secure for them financial help where necessary and arrange for the supervision of societies not affiliated to any supervising unions and for the inspection of all societies and unions. They organise special types of societies in cases where this is not undertaken by the union and serve as the recognised exponent of non-official co-operative union in the area. They control the expenditure relating to the surplus funds of liquidated societies and convene co-operative conferences in
the area served by them. They start branches in their co-operative jurisdiction wherever necessary and appoint necessary staff and incur expenditure for the conduct of the business.

They take up insurance on the life of the permanent employees of the banks and contribute towards premium payable on such policies in accordance with the regulations framed for the purpose.

The sources of the central co-operative Banks in the ultimate analysis is to be judged by the manner in which they have promoted the healthy functioning and developments of the primary societies in rural areas. The criterion of a well organised central bank should be the efficiency of the working of village societies under it and the growth of a real co-operative spirit among the members of village societies resulting in their economic improvement.

3.6. LOAN OPERATIONS OF CENTRAL CO-OPERATIVE BANKS:

The lending policies of central co-operative banks have undergone many changes due to the implementation of various agricultural development schemes. First such scheme was the Intensive Agricultural Development Programme, which was introduced in 1960. The scheme envisaged “package of practices” and meeting of credit needs, marketing facilities and supply of
inputs by co-operatives. The central co-operative banks took the lead being the leader of co-operative financial agencies. After the success of IADP schemes, Intensive Agricultural Area Programme was introduced in 1965. The scheme envisaged the preparation of farm plan, provision of credit and other inputs according to the package of practices. Another important agricultural scheme introduced in 1966 was the High Yielding Varieties Programme. This scheme popularised the use of improved seeds among the farmers. The scales of finance per acre for the cultivation of such crops are fixed higher than those for traditional cultivation.

For a long time a question used to appear, namely to have separate financing banks for various societies. In some states separate financing banks exist for industrial societies, housing, societies etc.,

Separate financing banks for various types of societies were not accepted by the Second Madras Committee.

3.6.1 Production Oriented System of Lending for Agriculture:

In the light of the experience gained in implementing the crop loan system and with a view to modify the procedures to suit the needs of the institutions, thus making them more practical and easy for implementation, the RBI revised the crop loan manual in 1971-72 and brought in August 72 a
manual on production oriented system of lending for agriculture”. The following is the summary of the manual.

3.6.2. Scale of finance:

Under the revised system, which aimed certain rationality, in fixing the norms, the method fixed is crop wise” per acre scales of finance. Originally it was suggested to have four components namely A (cash) B (kind) C (additional cash) D (for linking of credit with marketing). In order to have simplicity it was suggested to have only A and B components. In central banks where the resources are meagre, they can have only one component of cash”.

3.6.3. Constitution of a Technical Group:

The old system had the Field workers conference to fix the scales of finance. As the Review committee pointed out its demerits, it was recommended to constitute a Technical Group in each central bank consisting of experts from various fields. They can suggest suitable scales for irrigated and unirrigated areas.

3.6.4. Cash Component:

Cash component under the modified scheme must be elastic in nature and a slight increase to cover fertilizers, insecticides, etc., In order to stop the
monopoly of loans by big farmers, ceiling was suggested. As the farmers may grow various crops, to avoid complications in fixing the scales, it was suggested to divide the crops into two or three broad groups as i) wheat and paddy, ii) Millets and pulses. For the cash crops like cotton, oilseeds, sugarcane, banana, potato, etc the scale will have to be fixed individually.

3.6.5. Kind Components:

Scale of finance for kind portions must be fixed with reference to the quantum of fertilizers and inputs which an average cultivation in the area uses, but not exceeding that recommended for each crop by the Agricultural Department. The supplies must be made either by the primary credit society or through the society or by other approval agents. On no circumstance component B must be issued in the form of cash. The farmers must be preceded to use improved practices. If the kind portion is allowed to be drawn in cash, it will result in over financing.

3.6.6. Determining the size of components.

The component A is to be fixed with reference to the gross value of produce, without the use of pesticides, fertilizers etc., under the traditional way of cultivations. Because they are decided under component 'B'. In deciding the size of component 'A' detailed estimate of the proposed
expenditure on various items may not be attempted, because expenses may vary from cultivation to cultivator. So it's may be fixed at not exceeding 35% of the gross value of produce on the traditional plane of cultivation i.e., on the basis of cultivation undertaken without the use of fertilizers, pesticides etc.,

Size of component 'B' can be fixed in consultation with Agricultural Department. A central bank should therefore go by what the majority of cultivators in the area would do and fix component 'B' on the basis of the general usage of fertilizers and the ruling prices in the market.

3.6.7. Preparation of credit limit statements:

On the basis of the scales of finance fixed by the central bank the primary societies must prepare the statements in triplicate. In view of the importance gained by small farmers and other weaker farmers, the credit limits statements must be prepared in two parts. Part A for small farmer and part B for other farmers.

The credit limit statements should provide details of all lands proposed to be cultivated during the year by all members. Each society should maintain a register of lands of all members to avoid fictitious acreages. The central bank should ensure through its supervisors that the register of lands are maintained properly and up-to date by the societies. The State
Governments should also frame the rules where under the village revenue officials are required to make available to the staff of the central co-operative banks and other institutions providing agricultural credit, detailed and up to date information on the holding of cultivators in the area.

In order to avoid the showing of same land under different crops during the same season, one credit limit statements should be prepared for the whole year covering all the crops grown by the member during the year and not separate statements for different crops or seasons. In two crops areas entire land holding of a cultivator may be treated as available for cultivation both for 'Kharif' and 'Rabi' crops. The credit eligibility of a member in respect of component 'A' may be arrived at by multiplying the acreage under different crops by the appropriate scales of finance fixed by the central bank.

3.6.8. Maximum borrowing power:

Individual maximum borrowing power is fixed to rationalise the use of meagre, to help weaker section and to avoid monopoly use of credit by few big farmers. As a rule the ceiling may be fixed at Rs.5000 and with regard to use of kind portion, this limit can be waived. In due course, the total limit can be fixed at a higher level, which can be up to Rs.10000/- on the unirrigated areas and Rs.20000/- in the irrigated areas.
3.6.9. Sanction of normal credit limits:

The credit limit statement as prepared by the society should be forwarded to the central bank in triplicate. The central bank's inspectors should scrutinize it with reference to the societies books and the village records to ensure that the details are correct. He should also give a report on the societies working, bringing out irregularities if any, the position of over dues and to action initiated by the society against the defaulters. The credit limits statement along with the remarks of the inspector and the recommendations of the Chief Executive officer of the bank should then be placed for consideration of the Board of Directors/the Executive Committee or the loan sub-committee of the bank. The separate limit for component 'A' and 'B' may be sanctioned for each society. Then it is communicated to the primary credit society to which it is affiliated. Then the society can draw on the limits specified.

3.6.10. Supplementary limits:

In case of components 'B' if some members use more inputs that their needs can be specified in the same statements and can be forwarded to the central bank along with the original statement. If there is any delay for sanctioning the supplementary limits, the central bank can sanction a small
cash credit limit to the society. The operations of the cash credit limit should cease as soon as the society is sanctioned in a supplementary limits.

3.6.11. Preparation of the Statements every year:

In some quarters it was suggested to follow the statement for three years. But it was not advisable due to changes in costs, crop etc., Hence societies must prepare the statement every year.

3.6.12. Eligibility for loans:

The drawls should be subject to an individual member establishing his eligibility with the society and the society with the central banks. The individual may be allowed to borrowed upto the limit sanctioned to him provided (i) he is not a defaulter, (ii) holds shares in the society in the proportion prescribed, (iii) has furnished adequate security to the society, (iv) has executed the necessary documents. The society may be allowed to operate on the sanctioned limits provided it (i) has repaid to the central bank to the extent of atleast the minimum proportion of the demand fixed by the Registrar in that behalf (ii) holds shares of the central bank in the prescribed proportion to its borrowings there from and (iii) executes the necessary documents.
3.6.13. Security:

Though crop loan is provided on the basis of the crop, due to ineffective linking of credit with marketing and due to the possibility of a loan being unrealisable, it was suggested to create a 'change' over land. Change is different from mortgage and it should not affect the farmers in getting medium term or long term loans. If 'change' on land is not possible in certain cases additional securities like jewel can be accepted. But the problem arises with regard to an oral lessee or a share-cropper. They can be helped as follows:

i) He should be asked to produce solvent surety of one or two members who are owners of land or are registered tenants.

ii) He may be asked to provide collateral tangible security in the form of gold and silver ornaments sufficient to cover the loan with the prescribed margin.

iii) If the above securities are not available a calculated risk can be taken in such cases and loans can be in the form of kind portion, provided the value does not exceed Rs.500 per individual.
3.7. JUSTIFICATION FOR STRENGTHENING OF CENTRAL CO-OPERATIVE BANKS:

Considering the advantages and disadvantages of the existence of central co-operative banks the study Team concluded to strengthen the central co-operative banks. The Team pointed out the following three main considerations in favour of the central banks:-

i) Firstly, non-official directors by virtue of their local standing and influence could help the central bank in deposit mobilisation.

ii) Secondly, the non-officials would also be in a position, by virtue of their local knowledge and interest to appreciate and access according to priority, the demand for production credit in their areas and also take the steps necessary to meet the demand effectively.

iii) Thirdly, for the same reasons, they would be in a better position not only to ensure the end use of credit but also exert pressure and see to the recovery of loans on the due dates.
3.8. CONCLUSION:

The second Madras committee on co-operation which dealt with this issue concluded that, "it will be singularly indivisible to think of radically altering the present structure of rural credit which has stood the tests of time and proved its worth especially as the central banks are in charge of supervision of agricultural credit societies in their areas".