

**DEVELOPMENT OF COOPERATIVE BANKS  
IN INDIA: A REVIEW****Dr. G.K.Sharma**Research Supervisor  
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Department of Commerce  
SSV (P.G.) College, Hapur  
CCS University, Meerut**ABSTRACT**

Co-operative banks are small units organized in the Co-operative sector that work in urban and rural area. These banks traditionally focus on communities, locations and work place groups and, in essence, provide loans to small borrowers and businesses. Co-operative banks generally offer their members a wide range of banking and financial services (loans, deposits, bank accounts, etc.). Co-operative banks differ from other banks for their organization, their goals, their values, and their Government. The passing of Co-operative Credit Societies Act, 1904, even so, gave the real momentum to the Co-operative movement. The cooperation segment includes the retail banking, mutual savings and credit associations, construction companies and co-operatives, as well as commercial banking services provided by manual organizations. This paper attempts to study the Development of Co-operative Banking in India. The paper mainly focuses on the evolution, structure, performance indicators, characteristics, and weaknesses of these banks in India.

Key Words-Cooperative Banks, Credit, Development, Commercial Banking.

**1.1 INTRODUCTION**

The Indian banking system includes RBI, the country's central bank under which different types of banks such as commercial banks, including public and private sector banks, foreign banks, and regional rural banks as well as Co-operatives are functional. Among the banking institutions in the organized sector, Co-operative banks are very popular. Co-operative banks, which are the blood of life in the Indian economy, play a fundamental role in the rural sector dominated by agriculture and the strengthening of the common individual and by financing their commercial and personal needs. Even the activity of Co-operative banks in urban areas has increased phenomenally in recent years due to the sharp rise in the number of popular Cooperative banks. Co-operative banks in India are registered under the Co-operative societies Act. The Co-operative bank is also regulated by the RBI. The powers were delegated to the National Bank for Agricultural and Rural Development (NABARD) pursuant to Article 35A of the Banking Regulatory Act to carry out inspections at state and central Cooperative banks.

**1.2 OBJECTIVES OF THE STUDY**

1. To study about the development of cooperative banks in India.
2. To review the studies related to Cooperative Banks of India.
3. To study the characteristics and weaknesses of the Cooperative Banks.
4. To suggest the appropriate measures to improve the efficiency of the Cooperative banks.

**1.3 REVIEW OF LITERATURE**

- **Basak (2008)** suggested that co-operative banks should improve their performance in terms of recovery, adopt a new computerized loan control system, apply appropriate prudential rules, and organize regular workshops to support a competitive banking environment.
- **NABARD (2005)** conducted a study “Development in Co-operative Banking”, to assess the financial performance of 1872 urban cooperative banks and 1, 06,919 provincial cooperative credit organizations. The discoveries of the investigation uncovered that in every single monetary organization in the rural segment (SCBs, DCCBs, SCARDBS, and PCARDBS), level of NPAs in the substandard class declined, while it had expanded in 37 doubtful classifications. NABARD was stressed over disintegration in resource nature of these banks. In any case, every one of the foundations could meet the important provisioning prerequisites. It additionally featured that NPAs proportion in DCCBs changed fundamentally over the states from 5% to 68% toward the end March 2004. Just in four states (Haryana, Himachal Pradesh, Punjab and Uttranchal), the NPA proportion was under 10%. NABARD recommended that co-operative banks should execute One Time Settlement framework (OTS) and elude little esteem advances to LokAdalats and high esteem advances to Debt Recovery Tribunals (DRTS). Further, State Governments were asked for to help cooperative banks in decreasing NPAs by taking extraordinary recovery derive.
- **Prasad (2005)** in his research paper entitled "Cooperative Banking in a Competitive Business Environment", said that technology had a huge effect on the entire banking sector, which had posed new challenges, since co-operative banks constantly exposed to competition and risk management. Therefore, they needed a combination of new technologies and better credit and risk assessment processes treasury management, product diversification, internal control and external regulation as well as infusion of professionalism. In today's work environment, cooperative banks should be supported by democratization and decentralization to make them competitive. He felt an urgent need for a transformation into mentality, identity, commercial operations, governance, and systems and procedures, which will undoubtedly increase the moral of cooperative banks to address environmental challenges.
- **Seema Sant & P.T. Chaudhari (2012)** in their article “A study of the profitability of Urban co- operative banks (In greater Mumbai and Jalgaon for 5 years)” published in International journal of multidisciplinary research, Volume 2, Issue No. 5, (Page No. 124-134) concluded that the analysis of different financial ratio of UCB’s operating in greater Mumbai and Jalgaon suggest that the technological changes have significantly improved the productivity and profitability margin of these banks. Further, the statistics indicate that the performance of UCB’s the greater Mumbai is significantly better than the performance of UCB’s in Jalgaon.
- **Soni, A. K., & Saluja, H. P. S. (2012)** Cooperative banks belong to the oldest forms of the collective action in India playing essential role in the realization of the agricultural and in local development. They serve both rural and urban population, and are main banks in India supporting development of agriculture and rural areas. Their key role is to give credits financing various rural based entrepreneurs. Agricultural credits play a number of significant functions of which the primary include the intensification and growth of the agricultural production. In a developing State like Chhattisgarh with huge deficits in terms of quality and quantity, the State has to shoulder the primary responsibility of providing cooperative credit. Considering the low living standards of common man, incomplete and imperfect markets, and other socio political considerations it is the primary duty of the government to ensure that its citizens have easy access to cooperative credit.
- **Reddy.et.al (2011)** compared the performance of Regional Rural banks in Andhra Pradesh to check the viability of the banks. The concluded that Andhra Pragathi Gramin Bank is performing better than the other co-operative banks, attempted in his study entitled “Growth and Progress of the Urban Cooperatives Banks in India” to analyse the growth and development of Urban Cooperatives Banks in India.
- **Ramesh Chander (2010)** in their article “Financial viability and performance evaluation of cooperative credit institutions in Haryana (India)” published in International journal of computing and business research, Volume 1, Issue No. 1, concluded that However District Central Co-operative Banks (DCCBs) play pivotal

role in the rural banking system yet failure/bankruptcy of these banks raise many doubts about their viability and sustenance. In the present study financial efficiency and performance of four DCCBs operating in Gurgaon division have been identified and analyzed on five parameters viz. profitability, liquidity, solvency, efficiency and risk. The results reveal that banks performed better on one parameter but weaken on other which led to dwindling situation.

#### **1.4 CO-OPERATIVE BANKS**

Co-operative banks are small units organized in the Co-operative sector that work in urban and rural area. These banks traditionally focus on communities, locations and work place groups and, in essence, provide loans to small borrowers and businesses. Co-operative banks in rural areas finance mainly agricultural activities for example, farming, animals, drain, rearing, individual back, and so on, alongside some little scale ventures and exercises driven independent from anyone else business. Co-operative banks in urban area for the most part back a few classes of individuals for independent work, enterprises, small scale units and residential fund.

Co-operative Bank is financial units belonging to its members, which are at the same time the customers and owners of their bank. Co-operative banks are frequently created by persons belonging to the same local or professional community or who have a common interest. Co-operative banks generally offer their members a wide range of banking and financial services (loans, deposits, bank accounts, etc.).Co-operative banks differ from other banks for their organization, their goals, their values, and their Government.

In most countries, they are controlled by the banking authorities and must comply with prudential bank regulations, placing them at a level in the field of concert with the banks. Contingent upon the nation, this control and supervision can be actualized straightforwardly by state elements or representatives to a league or a co-operative central element. Co-operative banking institutions take deposits and lend wealth to most of the world. The cooperation segment includes the retail banking, mutual savings and credit associations, construction companies and co-operatives, as well as commercial banking services provided by manual organizations.

#### **1.5 HISTORY OF CO-OPERATIVE BANKS**

The evolution of the urban Co-operative banking sector in India can be traced to the close of 19th century when, inspired by the success of the experiments related to the co-operative movement in Britain and the Cooperative Credit Movement in Germany. Such societies were set up in India. Cooperative societies are mainly based on some principles like mutual help, cooperation, democratic decision making and free membership. Co-operatives represented a new and alternative approach to organization as against other type of organizations such as, proprietary, partnership firms and joint stock companies which represent the dominant form of commercial organization.

The passing of Co-operative Credit Societies Act, 1904, even so, gave the real momentum to the Co-operative movement. The first Urban Cooperative Credit Society was registered in Kanjivaram in the then Madras province in October, 1904. Amongst the well-known credit societies were the Pioneer Urban in Bombay, 1905, the eminent Military Accounts Mutual Help Co-operative Credit Society in Poona, 1906. Cosmos in Poona, 1906, Gokak Urban, 1906 and Belgaum Pioneer 1906 in the Belgaum district, the Kanakavli-Math Co-operative Credit Society and the Varavade Weavers Urban Credit Society, 1906 in the South Ratnagiri district. The most important between the early credit societies was the Bombay Urban Co-operative Credit Society, sponsored by Vithaldas Thackersey and Lallubhai Samaldas established in the year 1906.

#### **1.6 DEVELOPMENT OF CO-OPERATIVE BANKS DURING POST-INDEPENDENCE**

The co-operative movement has developed in real sense after independence. The first prime minister of India late Jawaharlal Nehru thought that without Cooperative a village cannot progress and hence the Reserve Bank of India appointed the All India Rural Credit Survey Committee (1951) to review the rural credit structure and

the co-operative movement. The valuable recommendations of this committee were implemented in the successive five year plans. Some of the recommendation of this committee was as follows:-

- Credit should be given as per the need of the member.
- Credit may be sufficient and it should be made available on time.
- Liking of credit with marketing and processing.
- Warehousing network may be made available at the national level.

During the period the concept of co-operative common wealth was brought forward by Dr. D.R. Gadgil, and it was thought that the welfare of the common man should be the final goal of co-operative movement. This concept was taken in to consideration by the All India Rural Credit Review Committee (1966) which was appointed again by the Reserve Bank of India. The rural credit and subsidy was given through the co-operative structure. Of course there were many lacunas in the working of c-operatives in supplying the credit. But the big achievement was made by cooperatives by supplying the credit to farmers which helped the farmers in green revolution. Without the financial support of co-operation no Green Revolution in India would have been succeeded.

### Performance Indicators of State Co-operative Banks

Particulars	31.3.2022(Amt. in cr. Rs.)
No. of SCBs	34
Branch Network (no.)	2089
Share Capital	9263
Reserves	17971
Deposits	240953
Borrowings	123785
Investments	140966
Total Loans Outstanding	238920
No. of Banks reported in Profit	31
Amount of profit reported by Banks	2338
No. of Banks reported in Loss	3
Amount of Loss reported by Banks	50
Net Profit/Loss	2288
Accumulated Losses	1353

No. of Banks with Accumulated Losses	7
GNPA (%)	6
Investment Deposit (ID) ratio	58.5
Credit Deposit (CD) Ratio	99.2
Per Branch Productivity	230
Net Worth	29238
CRAR (%)	13
No. of Banks with CRAR<9%	3

Source- NABARD, (Institutional development department), Mumbai

### 1.7 STRUCTURE OF COOPEATIVE BANKS

**Urban Co-operative Banks** -Credit unions based in urban areas are known as Urban Co-operative Banks. Urban Cooperative Bank also called the Primary Bank Co-operative Bank (PCB) by the Reserve Bank of India. The Reserve Bank of India defines the PCB as small, Co-operative, organized banking units operating in metropolitan, urban and semi-urban areas to primarily meet the needs of small borrowers, that is to say, owners of small industrial units, retail traders and the salaried classes. Urban Co-operative Banks mobilize medium and low income savings groups and provide credit to small borrowers, among the weaker sectors of society.

**Rural Co-operative Banks** -Rural Credit Co-operatives are the oldest and most extensive form of rural institutional financing in India. The main thrust of these Co-operatives in the agricultural sector is the prevention of the exploitation of peasants by the moneylenders. Rural Co-operative structures are divided into short and long term. Co-operative Bank is operating on three levels in different states. These are –

- Short term Co-operative bank structures:
- State Co-operative Banks- They function at the apex level in states.
- District Central Co-operative Banks-They function at the district level.
- Primary Agricultural Credit Societies-They function at the village or grass-root level.

Likewise, the long-term structures are further divided into –

- State Co-operative Agriculture and Rural Growth Banks (SCARDS) - These function at state-level.
- Primary Co-operative Agriculture and Rural Growth Banks (PCARDBS)-They function at district level.

**State Co-operative Banks**-The State Co-operative Banks is a federation of the Central Co-operative Banks and acts as custodian of the Co-operative banking structure in the state. It monitors the functioning of central banks and finances them, and through them helps primary Cooperative societies. It also acts as a link between the Reserve Bank of India, which lends central banks and primary societies.

**District Central Co-operative banks**-District Central Co-operative banks form the middle tier of Co-operative credit institutions. These are the independent units in as much as the State Co-operative banks have control or supervise their affairs. The bank's funds are made up of share capital, deposits, and loans and uncovered by

State Co-operative Bank and joint ventures. These banks give wealth to societies within the limits of the ability to hire social loans. They also carry out all the activities of a bank of shares.

### 1.8 CHARACTERISTICS OF CO-OPERATIVE BANKS

There are three levels of Co-operative banking in India. The State Cooperative Bank is the top level bank at the state level to supply credit. The District central co-operative Banks supply and enlarge credit at district level. The Primary Agricultural Credit Societies lends & enlarge credit to farmers at the rural level. All these banks are depends on each other.

- The State Co-operative Bank performs the function of credit expansion via the District Central Co-operative Banks in the state.
- The State Co-operative Bank works as middlemen between the RBI & District
- The State Co-operative Bank supervises all Co-operative banks in the particular state. The District Central Co-operative Banks are the members of State cooperative Banks. They supply all types of credit to District Co-operative Banks.
- The District Central Co-operative Banks supply credit lay hold of them from SCBs to Primary Agricultural Credit Co-operative Societies.
- The District Central Co-operative Banks is connected the State Cooperative Banks and Primary Credit Co-operative Banks.
- The District Central Co-operative Bank besides supplies credit to cooperative spinning mills, co-operative sugar factories, co-operative fertilizer factories, co-operative marketing societies etc.
- There are deposit & credit accounts of The District Central Co-operative Banks. Sugar factories, engineering industries go on co-operative basis although, the District Central Co-operative Banks debit & credit accounts of rural credit societies besides other co-operative societies.
- The District Central Co-operative Banks also supplies credit to the Urban Women Credit Societies.

### 1.9 WEAKNESSES OF COOPERATIVE BANKING

Various committees, commissions and individual studies that have reviewed the working of the cooperative banking system in India have pointed out a number of weaknesses of the system and have made suggestions to improve the system.

#### Major weaknesses are given below:

Organisational and financial limitations of the primary credit societies considerably reduce their ability to provide adequate credit to the rural population. The All India Rural Credit Review Committee pointed out the following weaknesses of the primary credit societies:

- Cooperative credit still constitutes a small proportion of the total borrowings of the farmers,
- Needs of tenants and small farmers are not fully meet.
- More primary credit societies are financially weak and are unable to meet the production-oriented credit needs,
- Over dues are increasing alarmingly at all levels,
- Primary credit societies have not been able to provide adequate and timely credit to the borrowing farmers.

**1.10 CONCLUSION-**The Urban Co-operative Banks are an essential component of the economic growth for any developing country like India. It provides financial assistance to the members and non-members in urban and semi-urban regions. But in the present technological era, they are facing many challenges like reposition the cooperative institutions' structure, operation, and management. A detailed action programme should be

developed to provide professionalism, successful interaction of inter cooperative relationships, resource mobilisation, and technological advancement.

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