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- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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GROWTH AND DEVELOPMENT AND THE FINANCIAL HEALTH OF CO-OPERATIVE CREDIT SYSTEM IN INDIA

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ABSTRACT

The cooperative banks in India started functioning almost 100 years ago. Co-operative credit institutions constitute the major source of institutional credit for agricultural and non- agricultural purposes as well. Co-operative banks have been working at the village, district and State levels. Co-operative banks in India are registered under the Co-operative Societies Act. (1904).The major development in the growth of cooperative institutions came during 1930- 1950, when Reserve Bank of India played the pioneering role in guiding and supporting the cooperatives. However, during this phase, signs of sickness in the Indian rural cooperative movement were evident. From 1990 onwards there was an increasing realization of the disruptive effects of intrusive state patronage and politicization of the co-operatives, especially financial cooperatives, which resulted in poor governance and management and the consequent impairment of their financial health. Though many studies have been done at the National level and at various State levels, not much has been done for Jharkhand which is relatively a new State. In order to analyze the growth of co-operatives in Jharkhand it is important to study its growth at the National level. The present study is an attempt to analyze the growth of co-operative credit in India for a period of 2001-2002 to 2010-1011.For the study purpose secondary data has been collected from relevant sources. The study reveals that there has been an improvement in certain areas such as number of offices, number of District Co-operative Banks, etc. However, there are certain persistent problems such as overdue problem, increase in management cost and fall in membership that shows there is an urgent need to revisit the working of co-operatives.

KEYWORDS
co-operatives, governance, management, pioneering.

INTRODUCTION

The history of the Co-operative Credit movement in India can be divided in four phases. In the First Phase (1900-30), the Co-operative Societies Act was passed (1904) and "cooperation" became a provincial subject by 1919. The major development during the (Second Phase 1930-50) was the pioneering role played by RBI in guiding and supporting the cooperatives. However, even during this phase, signs of sickness in the Indian rural cooperative movement were becoming evident. The 1945 Co-operative Planning Committee had discerned these signs in the movement, finding that a large number of cooperatives were saddled with the problem of frozen assets "Because of heavy overdue in repayment." Even so, also in the Third Phase (1950-90), the way forward was seen to lie in Co-operative Credit Societies. The All India Rural Credit Survey was set up which not only recommended state partnership in terms of equity but also partnership in terms of governance and management. NABARD(National Bank for Agriculture and Rural Development) was also created during this phase.

The Fourth Phase from 1990s onwards saw an increasing realization of the disruptive effects of intrusive state patronage and politicization of the cooperatives, especially financial cooperatives, which resulted in poor governance and management and the consequent impairment of their financial health. A number of Committees were therefore set up to suggest reforms in the sector. There was evident increase in almost all parameters such as number of district co-operatives, membership, employees, etc.

REVIEW OF LITERATURE

1. GOVERNMENT OF INDIA (2005)- FINAL REPORT OF THE TASK FORCE ON REVIVAL OF CO-OPERATIVE CREDIT INSTITUTIONS

The Task Force was set up by Government of India in August 2004 to suggest an action plan for reviving rural co-operative credit institutions including legal measures necessary for facilitating this process. The co-operative movement was started in our country over 100 years back on the initiative of the government. The growth of the co-operative is studied in four phases. The major development in the co-operative movement was done during the second phase (1930-1950) due to the pioneering role played by the Reserve Bank of India. The co-operative credit structure has a wide network and at present, on an average there is one primary agricultural credit societies (PACs) for every six villages. However at present the financial position of the system is getting weak and is deteriorating. The Task Force feels financial restructuring alone cannot address the problems of the co-operative sector. It is important to address the root causes of the weaknesses of the co-operatives.

2. KHURANA.M.L.

He opined that co-operative was consciously sought after by India at the beginning of the 20th century. It was Nicholson, who brought the concept of 'co-operative' from Germany and was known as Raiffeisen type of village credit society. This acted as a catalyst and this set in motion the birth of co-operative credit institutions. These institutions tried to substitute the money lenders. The present Indian Co-operative Law provides a model for countries with agrarian economies. Initially, the co-operative institutions were governed by the Companies Act. The Company Law provided for excessive control over by the government agencies. This led to the passage of Company Societies Act in 1942. From time to time several committees have been formed to suggest ways and means for improving the working of the co-operatives.

3. PRABAL.K.SEN

According to Professor Prabal Sen co-operative credit sector helps in developing banking habits among the poorer sections of the society and also helps in mobilizing savings. As the approach of co-operative bank is largely informal, it provides greater and easy accessibility to the customers particularly from the middle and lower income groups of the society. Though co-operative sector has made significant contribution to the socio-economic development of the country, yet even after years of financial sector reforms, these institutions continue to be plagued by lack of 'stability' and 'efficiency'. State Laws govern the formation, registration, operation and winding up of co-operative banks. Such pervasive dominance by the State needs to be moderated and banking institutions ought to be given a requisite degree of autonomy.

4. CATANACH.I.J.

Indian Co-operative Societies Act became a Law due to the deliberate efforts of the British Officials. The Act wanted to put a check on the activities of the money lenders and also wanted to provide an alternative to the farmers. It was Nicholson who brought the concept of co-operatives from Germany and this was the initiation of the process of co-operatives in our country. With time and support from the Government there was a rapid spread of co-operative banks across the country.

IMPORTANCE OF THE STUDY

The present work is expected to have considerable significance in the economy of Jharkhand. The future of rural economy in Jharkhand and for that matter in any Indian State depends upon the performance of the Co-operative Credit Institutions. If the rural economy is to be made strong, then the Co-operative Credit Institutions have to play a positive role. And for that it is important to study the growth of co-operatives in India so that we may analyze the pace of development of co-operatives in Jharkhand. So for that we need to know the pace of development at the national level.

STATEMENT OF THE PROBLEM

The proposed research work will examine the growth and development and the financial health of Co-operative Credit System in India. It would also try to study the effects brought about in the working of the Co-operative Credit Institutions after the implementation of the Task Force. (Government of India. 2004: Task Force on Revival of Rural Cooperative Credit Institutions. Chairman, A Vaidyanathan. Government of India: India).

OBJECTIVE

The main objective of this research work is to study the growth of co-operative banking in India since its inception.

HYPOTHESIS

The following are the main hypothesis which is to be tested in this study.
Policies pertaining to banking system in general and Co-operative Credit Structure in particular as enunciated by Government of India and/or RBI have an impact on the functioning of Co-operative Credit System in India.

RESEARCH METHODOLOGY

The study will cover the period 2002 – 2011 which is long enough to examine the trends of macro economic variables. The present study will be based on the secondary data. Taking the data available from Reserve Bank of India and National Bank for Agriculture and Rural Development . Reference will be made to reports of various Committees/Task Forces etc which had studied the functioning of the Co-operative Credit Systems in the country .It will try to study the overall condition of the Credit Institutions in India.

GROWTH AND DEVELOPMENT OF CO-OPERATIVE CREDIT INSTITUTIONS IN INDIA

Much of the real stuff of Indian history is Peasant history; this is because for centuries most Indians have lived in rural areas. This belief led Lord Curzon to proclaim in 1904 that "I do not think that the salvation of India is to be sought in the field of politics at her present stage of development". It was during Lord Curzon's viceroyalty in 1904 that the first Indian Co-operative Societies Act became Law. However to a considerable extent the Act was the result of deliberations amongst permanent officials extending over a large period of time and as far back as the so –called Deccan Riots of 1875. These disturbances were protests by the peasant cultivators against the money –lenders-cum-traders. The Co-operative Societies Act of 1904 was one of a series of measures which wanted to put a check on the activities of the money-lenders. The agricultural and individual revolutions that took place in the second half of the 19^{th} and early 20^{th} centuries in the western countries along with the general economic development that took place created the basic conditions that were necessary for the voluntary co-operative action. On the other hand in the developing countries like India which were subjected to colonial rule; the Indian Co-operative Movement was initiated by the Government. It spread and also diversified with the encouragement and support of the Government.
The growth of the co-operative banks in India can be divided into the four phases.

THE FIRST PHASE (1900-1930)

1. Co-operative was initiated by Government of India at the beginning of 20^{th} century. Based on the recommendations of Sir Frederick Nicholson (1899) and Sir Edward Law (1901); The Cooperative Credit Societies Act was passed in 1904.It followed in the footsteps of the English Friendly Societies Act 1793 and the Industrial and Provident Societies Act 1893. The Act paved the way for the establishment of Co-operative Credit Societies in rural and urban areas on the patterns of "Raiffeisen" and "Schulze Delitch" respectively. It set in motion the birth of Co-operative Credit institutions in substitution of the money lender. Officials of the colonial government realized that the Indian farmers' dependence on usurious money lenders was one of the major factors of their indebtedness and poverty. By that time the cooperative movement had become well established in Europe and was remarkably successful there. Thus the European officials were convinced that the co-operative movement would offer the best means of liberating Indian farmers from the clutches of the moneylenders.
2. To enable the village co-operative to supply rural credit it was necessary to take them out of the complicated provisions of the Company Law. The Co-operative Credit Act was based on the triple principles of self help, thrift and mutual aid. Moreover, it was meant for simple people of small means.
3. The unique feature of 1904 Act was its simplicity and elasticity. Its main aim was to lay down the general outlines and to leave the details to be filled in gradually by the respective societies according to the needs of that particular part of the country. With the growth and development of the societies it was found that the Act of 1904 was inadequate to meet the needs of expanding movement.
4. The enactment of a more comprehensive Co-operative Societies Act in 1912 marked the beginning of a government policy of active encouragement and also the promotion of co-operative. The Act enabled the formation of federation which was the prime need of the hour. It enacted various provisions such as dealing with non-members, fixed percentage of net profit into reserve fund, settlement of disputes, etc,.
5. The classic study by Frederick Nicholson, followed by Edward Law Committee on Co-operative Legislation, confirmed the fact that there was a need for the State to take an active part in the promotion of co-operative. The Maclagan Committee (1915) advocated that "There should be one cooperative for every village and every village should be covered by a co-operative". The Committee recommended a structural picture that was to consist of 3 defined classes of societies. 'Primaries' – meant for individuals, 'Unions'- that is federation of societies with the purpose of supervision and then the 'Apex Societies'-to serve as guiding bodies. The above pattern recommended by the Committee is still followed even after 100 years of formation of the Co-operatives. The second most valuable contribution of the recommendations has been the growth of banking habits among the middle classes.
6. With the Montague-Chelmsford Reforms being introduced under the Government of India (GOI) Act of 1919, co-operative became a provincial subject. Diarchy made it a transferred subject.
7. In 1925 Bombay passed the Bombay Act and introduced the element of compulsion in the formation of farming societies, provided for compulsory amalgamation and appointment of an administrator.
8. The Royal Commission on Agriculture in India submitted its report in 1928 and suggested that the co-operative movement should focus on spreading rural credit and the State should not only patronize co-operative but also protect it. The Royal Commission observed that "If the co-operative fails, there will fail the best hope of rural India". By this time the number of societies reached impressive proportions and they also diversified their activities beyond agricultural credit.

THE SECOND PHASE (1930-1950)

1. The major development during this phase was the role played by the Reserve Bank of India (RBI). Specific provisions were made in the Reserve Bank of India Act, 1934 both for the establishment of an Agricultural Credit Department (ACD) in the bank and also for extending refinance facilities to the co-operative credit system. Emphasis was laid upon setting up of provincial co-operative banks, central co-operative banks, marketing societies and primary agricultural credit societies in each province. The RBI also started extending credit facilities to the provincial co-operative banks for seasonal agricultural operations and for marketing of crops.
2. The Multi Unit Co-operative Societies Act of 1942 was born with six provisions namely- Title, Co-operative Societies to which this Act applies before commencement of this Act, Co-operative Societies to which this Act is applicable after the commencement of this Act , appointment and powers of the Central Registrar, penalties and power of the Government to make rules.
3. The Rural Credit Survey Committee Report of 1954 recommended the State to promote the co-operatives. The GOI appointed a Committee on Co-operative Law to suggest modifications in co-operative legislation and also to quicken the legislative process. The Committee recommended that the State may appoint one person to be the Registrar of the Co-operative Societies.

4. However, this phase witnessed a policy lull until 1945, when the Agricultural Finance Sub Committee and the Co-operative Planning Committee were set up the GOI. By then signs of sickness in the Indian Rural Co-operative movement were evident. There were problems of frozen assets, heavy over dues in repayment, etc.
5. The Sub Committee's recommendation regarding the liquidation of the frozen assets of the members of co-operative marked the beginning of State interference in the management of co-operative. The result that followed was the erosion in credit discipline of the members. The Co-operative Planning Committee identified the small size of the primary co-operative as the principal cause of failure of the co-operative and suggested State protection to the co-operative sector from competition.

THE THIRD PHASE (1950-1990)

1. After Independence rapid and equitable economic development was the prime objective of State policy. The All India Rural Credit Survey (AIRCS) put forward certain recommendations such as State partnership in terms of equity, partnership in terms of governance and management, linking credit and marketing co-operatives and enlarging their area of operation. This paved the way for the direct intrusion of the Government in the governance and management of co-operatives.
2. The thinking was prevalent that the Government should ensure adequate supply of cheap institutional credit to rural areas through co-operatives. The Hazari Committee recommended integration of short term and long term structures. The Bawa Committee (1971) recommended setting up Large Multi-purpose Co-operatives in tribal areas. The National Commission on Agriculture (1976) recommended setting up Farmers Service Societies with the help of the nationalized banks.
3. National Bank For Agricultural and Rural Development (NABARD) were created on the recommendation of the Sivaraman Committee. The Governments focus was on expanding and reorganizing the State supported Structures. However it did not address the tasks of restoring and strengthening autonomy, mutual help and self governance that are the cornerstones of co-operatives.
4. The State injected large and increasing amounts of funds directly into the co-operatives so that they could deliver institutional credit to the rural areas. Soon the problem of growing overdues surfaced. After the nationalization of the major commercial banks in 1969, there was an unprecedented penetration of commercial banks in rural areas.
5. With the increase in financial involvement of the Government in co-operatives, the Governments involvement in all aspects of the functioning of co-operatives increased. This began to affect the quality of the portfolio of the co-operatives.
6. The State took the onus upon itself to infuse more capital and "professional" workforce in order to strengthen the institutions. However the State chose to overlook the root cause of their weaknesses. Both the State and the workforce began to behave like "patrons". Unlike other professional organization which usually finds its own solution, the co-operatives were always provided a solution by the State.
7. The Government of India announced a scheme for writing off loans of farmers in 1989. This aggravated the already weak discipline in the co-operative system and led to the erosion of its financial health. It also set in a series of schemes by the State Governments, announcing waivers of various magnitudes, ranging from interest write off to partial loan write-offs. The competitive populism adopted by the political class also severely impaired the credibility and health of the Co-operative credit structure.
8. The co-operatives have been used by the State to channel its development schemes and the subsidy based programmes of the Government, since these institutions have a wide reach in the rural areas. However this also made the co-operatives a conduit for distributing political patronage. The magnitude of resources and benefits channeled through these societies were very impressive, hence the parties in control tried to take control of decision-making and management of the co-operatives. The parties tried to accommodate their members on the management board of co-operatives and influence decisions through directives.
9. There was a growing concern about these trends and a need to overcome them. The Agricultural Credit Review Committee (Khusro Committee, 1989) for the first time specified the importance of encouraging members' thrift and savings for the co-operatives. It pointed out the need for better business planning at the local level and wanted to develop action plans that would make the co-operatives self-sustaining. The 1990s witnessed some concrete efforts both by the Government and by non-official organizations and cooperators, to explore ways to revitalize the co-operatives.

THE FOURTH PHASE: 1990S AND ONWARDS

1. During the last fifteen years, there has been a quest for reviving and revitalizing the co-operative movement. The State has realized that the intrusive State patronage and politicization has destructive effects.
2. Several Committees (Jagdish Capoor, Vikhe Patil ,V. S. Vyas) were set up suggest co-operative sector reforms. The Brahm Perkash Committee emphasized the need to make co-operatives self reliant, autonomous and fully democratic and also proposed a Model Law. All the subsequent Committees that were formed thereafter supported replacing existing laws with the Model Law. All the Committees have recommended revamping and streamlining the regulation and supervision mechanism. They have stressed upon the need of bringing co-operative banks fully under the ambit the Banking Regulation Act, 1949.
3. However there has been slow progress in the implementation of these programmes because of the States' unwillingness to share in costs and their reluctance to dilute their powers and to cede regulatory powers to the Reserve Bank of India (RBI). The passage of the Mutually Aided Co-operative Societies Act by Andhra Pradesh Government (1995) marked a remarkable step towards reform. Eight other States (viz., Bihar, Chhattisgarh, Jammu and Kashmir, Jharkhand, Karnataka, Madhya Pradesh, Orissa and Uttaranchal) followed in its footsteps and have passed similar legislation to govern and regulate mutually aided co-operatives.
4. These new laws provided for co-operatives registered under the old law to migrate to the new act. The laws provided for co-operatives to be democratic, self-reliant, and member-centric and without any State involvement or financial support. However most existing co-operatives continued to adhere to the old law because the old Acts were not repealed.
5. The new law led to the emergence of a "new generation autonomous financial co-operatives", albeit slowly. The reason for slow pace at which the credit co-operatives and the primary agricultural credit societies (PACS) are adopting the new law is basically because they are not eligible for refinance under the under the existing legal and structural arrangements.
6. However these developments have not made much of an impact on the way co-operatives function and the movement has continued to deteriorate.

STRUCTURE OF CO-OPERATIVE CREDIT SOCIETY

(I) Rural Co-operative credit structure

(a) Short term

- State Co-operative Bank
- District Co-operative Bank
- Primary Agricultural Co-operative Society

b) Long term

- State Co-operative Agricultural and Rural Development Bank
- Primary Co-operative Agricultural and Rural Development Bank

(II) Urban Co-operative Bank

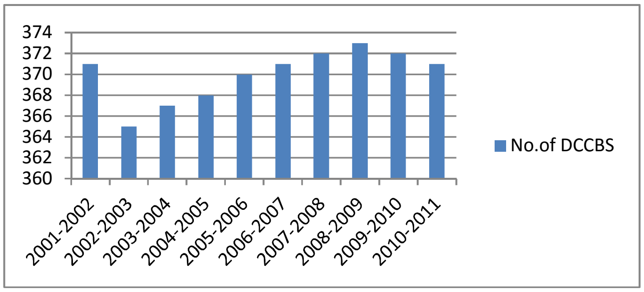
- Primary Co-operative Bank

TABLE 1

CO-OP YEARS	NO OF. DCCBs
2001-2002	371
2002-2003	365
2003-2004	367
2004-2005	368
2005-2006	370
2006-2007	371
2007-2008	372
2008-2009	373
2009-2010	372
2010-2011	371

Source: NAFSCOB

FIG. 1



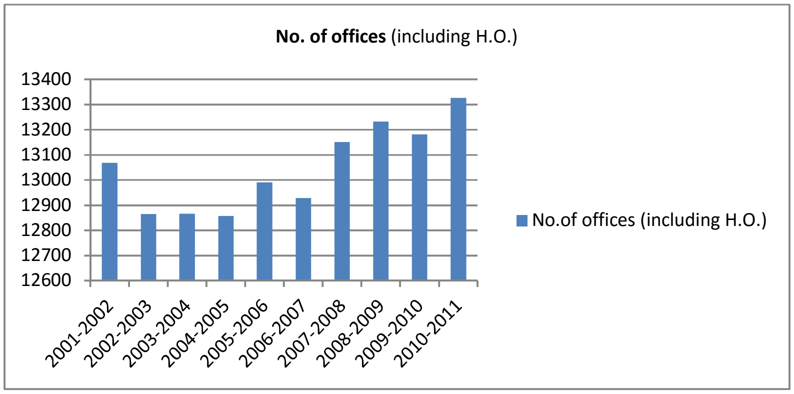
Source: Table No. 1

TABLE 2

Co-operative Years	No. of offices
2001-2002	13068
2002-2003	12865
2003-2004	12866
2004-2005	12858
2005-2006	12991
2006-2007	12928
2007-2008	13151
2008-2009	13233
2009-2010	13181
2010-2011	13327

Source: NAFSCOB

FIG. 2



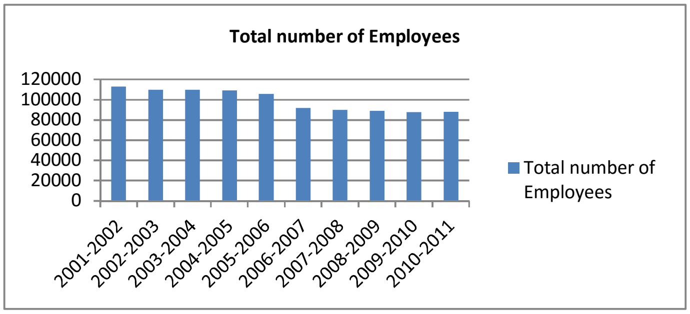
Source: Table No. 2

TABLE 3

CO-OP YEARS	TOTAL NO.OF EMPLOYEES (in numbers)
2001-2002	113088
2002-2003	110078
2003-2004	110058
2004-2005	109124
2005-2006	105885
2006-2007	91768
2007-2008	90035
2008-2009	89259
2009-2010	87554
2010-2011	87928

Source: NAFSCOB

FIG. 3



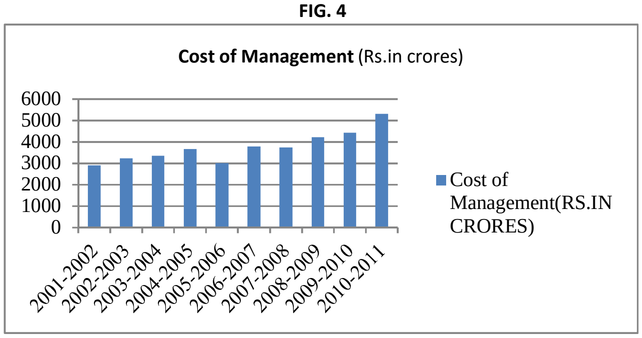
Source: Table No. 3

TABLE 4

Co-operative Years	Cost of Management (Rs.in crores)
2001-2002	2898
2002-2003	3237
2003-2004	3346
2004-2005	3680
2005-2006	3013
2006-2007	3780
2007-2008	3749
2008-2009	4227
2009-2010	4437
2010-2011	5307

Source: NAFSCOB

FIG. 4



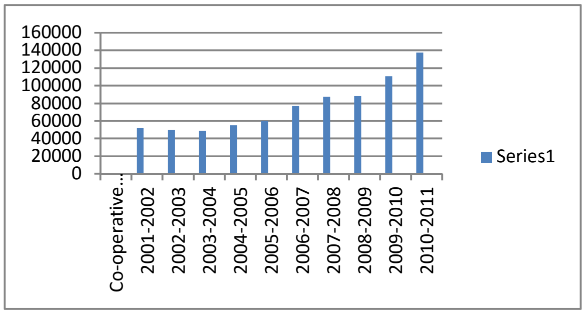
Source: Table No. 4

TABLE 5

Co-operative Years	Total Loans issued (Rs. in crores)
2001-2002	51733
2002-2003	49776
2003-2004	48900
2004-2005	55212
2005-2006	60418
2006-2007	76704
2007-2008	87229
2008-2009	88029
2009-2010	110529
2010-2011	137757

Source: NAFSCOB

Fig. 5



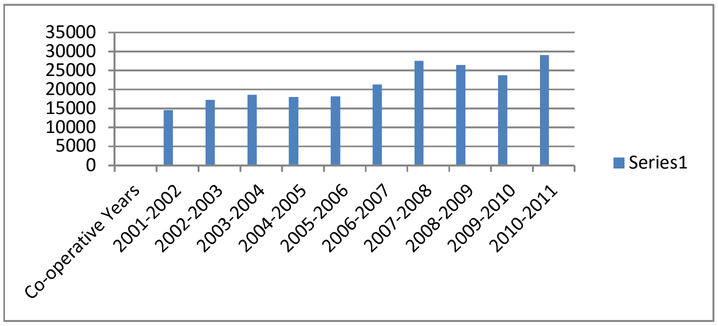
Source: Table No. 5

TABLE 6

Co-operative Years	Total overdues (Rs. in crores)
2001-2002	14623
2002-2003	17272
2003-2004	18547
2004-2005	18032
2005-2006	18136
2006-2007	21386
2007-2008	27539
2008-2009	26444
2009-2010	23763
2010-2011	29049

Source: NAFSCOB

FIG. 6



Source: Table No. 6

FINDINGS

- There has an increase in the number of District Co-operative Banks over the years especially during 2002 to 2009. This is because as new States are formed, new districts are also formed where new co-operatives are established.
- The number of offices including head offices has also increased.
- The number of employees has not shown great variation. The computerization has been a reason behind this. After 2006 there has been a fall in the number of employees.
- There has been an increase in overhead cost which is a reason for increase in cost of management per head. There has been an increase of 83.12% over the decade.
- The increase in loans issued shows a positive trend which shows more and more people are getting loans. There has been 166%increase in loans disbursed.
- The grave problem of overdues affects not only the interest of the defaulters but also the rest of the members, creditors and the very co-operative movement itself. It is observed that the overdues were Rs.14623 crores which increased to Rs. 29049. The volume of overdues had been increasing year by year.

LIMITATIONS

1) Availability of data related to co-operative credit institutions will be a constraint as the apex level institutions in the co-operative credit sector (namely the State Co-operative Bank) has not yet been established. That is so because the State Co-operative Bank is usually the repository of all relevant data and information pertaining to Co-operative Credit outfits in the relevant State.
2) This study is based on secondary data with only 10 years data from 2002-2011. Limited statistical tools are applied in this study.

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