



ROLE OF CO-OPERATIVE BANKS IN RURAL INDIA

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Introduction :

Co-operative credit is the basis of co-operative banking. The co-operative banking system also performs the basic functions of banking. These banks are set up under Co-operative Act. The credit provided through co-operative banks is called co-operative credit. The evolution of co-operative banks has been due to expansion of credit system. Co-operative banks are voluntary organizations set up by collective ownership and unlimited membership which are run on democratic lines which collect the savings of their members and advance loans to them. The birth place of co-operative banks is Germany. Co-operative banks were set up for the first time in Germany. The co-operative movement has emerged on account of co-operative credit system or co-operative banking in India. There was a provision of co-operative credit societies under the Co-operative Act of 1904 which were co-operative banks at the time. With the progress of co-operative movement the structure of co-operative banks also went under change in the country.

Objectives of the Study :

1. To study historical background of co-operative banks in India.
2. To study the co-operative banking structure in India.
3. To study the role of co-operative banks in rural India.

Research Methodology :

The descriptive methodology has been used to collect data. Secondary data has been collected from various published sources, reference books, journals, periodicals, newspaper, internet websites.

History of Co-operative Banking in India :

The Historical roots of the co-operative Movement in the world days back to days of misery and distress in Europe faced by common people to fund their basic needs in uncertain times. The idea spread when the continent was faced with economic turmoil which led large population to live at subsistence level without any economic security. Indian cooperative Banks was also born out of distress prevalent in Indian society. The cooperative credit societies Act, 1904 led to the formation of co-operative credit societies in both rural and Urban areas. The act was based on recommendations of sir Frederick Nicholson (1899) & Sir Edward Law (1901) their ideas in turn were based on the pattern of Raiffeisen & Schulze respectively. The Cooperative societies Act of 1912 further gave recognition to the formation of non-credit societies and the central co-operative organizations. In independent India, with the

onset of planning, the co-operative organizations gained more Leverage & role with the continued governmental support. Michigan committee in 1915, highlighted the deficiencies of on cooperative societies which seeped – in due to lack of proper education to the masses. He also laid down the importance of central assistance by Government to support the movement. The Royal commission on Agriculture 1928, Saraiya committee in 1945, central committee for cooperative training in 1953, Constituted by RBI for establishing regional training centers. The cooperative movement and backing structures soon spread and resonated with the unexpressed need of the rural Indian and small scale businesses.

Definition of Co-operative Banks :

The following are some of the definitions of co-operative banks as given under:

1. “Co-operative banks is a mutual society formed, composed and governed by working people themselves by encouraging regular saving and granting small loans on easy terms of interest and repayment.”-Derine
2. “It is a voluntary association of individuals with unrestricted membership and collective owned resources formed by small producers or wage earners, conducted on a democratic basis by accumulating the savings of the members and granting them credit on easy terms of interest and repayment, surplus being placed to reserve or distributed among depositors, borrowers and shareholders.”-N. Baron

The above definitions clarify that the co-operative banks have been established on the principles of co-operation (one for all and all for one) and the main object of these banks is to provide credit facilities. These banks are run on co-operative principles.

Co-operative Banking Structure in India :

There are two categories of co-operative based on the duration of credit as given below:

Short-term and Medium-term Co-operatives

In case of short-term and medium-term Co-operative credit there is three-tier system. At the village level there is Primary Co-operative Credit Society. At the district level there is Central Co-operative Bank and at the state level there is Apex Co-operative Bank known as State Co-operative Bank. The volume of credit depends upon the strength of these three-tier system.

Long-term Credit Co-operatives

Long-term credit in the co-operative structure is provided by Land Development Banks (LDBs). They were known as Land Mortgage Banks because they used to make loans and advances to the farmers on the basis of mortgaging papers of ownership. They provide credit for the long-term for purchasing land, tractors, threshers and permanent improvement on Land.

Need of Co-operative Banks

1. To inculcate the habit of saving and thrift among the rural society.
2. To meet the needs of credit and finance of artisans and small businessman, fixed income earners of rural areas.
3. To finance rickshaw, tempo, jeep and tour travel business and small businessman from rural areas for self-employment.
4. To provide modern banking services to common people from rural society.
5. Overall development of working class people through cooperation.
5. To curb money lending business in rural areas.

Role of Co-operative Banks in Rural India :

Co-operative banking system has been playing an important role in rural development before independence in our country. One for all and all for one is the concept of co-operative on the basis of which the co-operatives have developed rapidly. The very basic of co-operative development is the credit system. There is a wide network of co-operative credit system and the expansion of credit facilities in rural areas have converted the co-operative credit system into banking system. The very basic unit of co-operatives is co-operative credit societies which expand credit in rural areas on the basis of self-financing. Co-operative credit system is a part and parcel of socio-economic system in rural

areas. They are bearing with rural culture. Co-operative philosophy comprises of self-help through mutual help. Rural people themselves associate with co-operative banking and serve the interest of one another. All together provide economic assistance in a family environment. At the state level the apex bank (State Co-operative Bank) coordinates the credit expansion through central co-operative banks. Similarly at the district level small rural societies are advised and financed through Central Co-operative Bank. National Bank for Agriculture and Rural Development helps in attaining the objectives of agriculture and rural development at the national level. Thus we can say that the three-tier system of the whole of the co-operative credit institution is the soul of rural India. This can not be separated from any aspect of rural development. Rural people themselves credit collective credit system with the formation of co-operative society which is motivated economically by an apex institution. Consequently the mini bank is engaged in development work through the credit expansion. Not only short and medium-term credit but the long-term credit is also given by these development banks. Co-operative credit system has played an important role in rural development. All India Rural Credit Survey Committee, 1951 has also appreciated the role of co-operative societies in rural areas. The committee has pointed out "co-operative has failed but co-operative must succeed." Thus the co-operative credit institutions are scattered in rural areas and they are expanding credit but the structure has not succeeded because of over Governmentisation, inefficient management, unplanned and influence of local politics. But co-operative philosophy is similar to Indian rural philosophy and it is a part and parcel of rural civilization and culture. Thus the role of co-operative in rural areas is continuous.

Conclusion :

They are playing an important role in the planned growth and economic development of the rural economy in India. Co-operative Banking is a key sector in the Indian Banking scene, which in the recent years has gone through a lot of turmoil. Though some co-operative banks have shown credible performance in the recent years. Some co-operative banks have not been able to service the growing credit requirement of client or the newer demands for loans in the field of personal finance. In the interest of healthy competition co-operative banks should be encouraged to grow. Co-operative Bank play pivotal role in the rural banking system yet failure / bankruptcy of those

banks raise many doubts about their viability and sustenance. The result reveal that banks performed better on one parameter but weaken on other which led to dwindling situation.

Thus, the cooperative banks are viewed as a dependable means of rural development. They have given rise to good political leadership too. It means the cooperative banks have been playing an important role in the rural economy development.

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