



A Study on Origin and Progress of District Cooperative Central Banks in India

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Abstract : *Consequent upon accepting co-operatives as principal agencies in the field of agricultural credit, a three-tier system of federal structure has come into existence in the field of short-term (ST) and medium-term (MT) advances.*

In every State, the co-operative structure consists of the State Co-operative Bank at the apex or top level, Primary Credit Societies at the village level with Central Co-operative Banks (CCBs) coming in between at the district level. Many Co-operative Societies were established in the country under the Co-operative Societies Act, 1904 and consequent upon provincialisisation of co-operation, all of them have come into the fold of State Co-operative Acts. As on 31st March 2015 there were 31 State Co-operative Banks, 371 Central Co-operative Banks and 92,789 Primary Agricultural Credit Societies, whereas the long-term credit structure consisted of 20 State Land Development Banks and 732 Primary Land Development Banks¹⁰. According to the NAFSCOB compilation, there are 1,12,309 PACS, which works out to roughly one PAC for every six villages in the country. The total membership of the PACS is reported to be around 12 crore. Scheduled Castes and Scheduled Tribes and small farmers each, are reported to account for about 36 per cent to 37 percent of the PAC membership. The societies have, therefore, a wider spread and reach in rural India than the commercial banks (CBs) and Regional Rural Banks (RRBs). The CCS, moreover, has more than twice the rural outlets and 50 per cent more clients than commercial banks and RRBs put together.

INTRODUCTION

Agriculture plays a pivotal role in the economy of India as it provides employment to 57 per cent of the population, contributes about 25 per cent of our national wealth and accounts for about 26 per cent of the total export earnings. It is quite obvious that the prosperity and well-being of the entire people of India hinges on the progress and prosperity of agriculture¹. Despite that, it is pathetic to note that half of the rural population live below poverty line and most of them remain in chronic indebtedness. All this has been taking place, more or less, on account of inadequate returns from occupation of

cultivation. However, modernisation schemes in respect of agriculture tend to increase investment on seeds, fertilizers, pesticides, irrigational facilities, land development, cost of labour and labour saving equipment. In addition, increase in cost of living and sale of agricultural produce at low prices during harvesting seasons further reduce the margins of agriculturists. Therefore, provision of adequate amount of credit for different purposes of agriculture on time is an imperative through well-planned institutional agencies to improve the economic condition of the agriculturists. It also helps them to come out of the clutches of money lenders.



Among the various institutional agencies, co-operatives have been recognised as the best institutions for supplying sound and dynamic credit to the farmers. It is observed: "The theory underlying co-operation is that weak individuals are enabled to improve their individual productive capacity and consequently, their material and moral position, by combining among themselves and bringing into this combination a moral effort and a progressively developing realisation of moral obligation".² The chief characteristics associated with the co-operative credit are developing the habit of savings and thrift, mutual aid, reduced cost of credit administration, minimisation of the risk of losses by borrowers, proximity and thorough knowledge about borrower's security.

1. Mathur, B.S., co-operation in India, Sahitya Bhavan, Agra, Revised Edition, 2013, p.47.
2. Report of the Committee on Co-operation in India, Government of India, Calcutta, 1930, P. x.

Keeping the characteristics of co-operative credit in view, the Planning Commission in its Fourth Five-Year-Plan document states that they have the potentiality to meet the credit and non-credit needs of the rural areas³. Further, it has emphasised that the co-operatives are eminently suited to achieve the desired social, economic changes in the context of existing conditions in villages⁴. Various committees as well as the Reserve Bank of India (RBI) have stressed the importance of co-operative credit to meet the needs of agriculture. Hence, the national policy clearly envisages the continuation of co-

operatives as principal agencies in the field of agricultural credit⁵.

The Sixth Five-Year-Plan suggested to remove the constraints in the existing movement by making primary village societies efficient and effective multi-purpose societies and meet the requirements of their members. It laid the stress on motivating and orienting the federal co-operative organisations to help in ameliorating the economic conditions of rural poor and support the agricultural sector by supplying timely credit inputs and marketing services. It reiterated the need for developing professional manpower and professional cadres to man the managerial positions. The Seventh Five-Year-Plan looked forward to strengthening institutional structure so that farmers, workers, artisans could have access to modern inputs for increasing production. Agro-processing, storage and utilisation of resources found special mention in the plan, besides fostering democratic and professional management of co-operative organisations.

The Eighth Five-Year-Plan and The Ninth Five-Year-Plan envisage to give more autonomy and infuse more democratic spirit to co-operatives. Not only that the co-operatives should create employment opportunities for rural people living below poverty-line, small farmers, artisans, women and weaker sections. Co-operative credit organisations are to be made viable and competitive, while the consumer co-operatives have to ensure implementation of Public Distribution System for the protection of consumers.

3. Planning Commission, Government of India, Fourth Five-Year-Plan, New Delhi, 1972, P. 151.



4. Planning Commission, Government of India, Fifth Five-Year-Plan, Vol.II, New Delhi, 1977, P.78.

5. Ibid, P.79.

Professional management to co-operatives is the main thrust besides freeing them from bureaucratic control. The co-operative sector will be required to support the programs of national priority and poverty alleviation. To achieve the objectives, a sum of Rs.1,550 crores have been approved for the Eighth Plan⁶.

Consequent upon accepting co-operatives as principal agencies in the field of agricultural credit, a three-tier system of federal structure has come into existence in the field of short-term (ST) and medium-term (MT) advances.

In every State, the co-operative structure consists of the State Co-operative Bank at the apex or top level, Primary Credit Societies at the village level with Central Co-operative Banks (CCBs) coming in between at the district level. Many Co-operative Societies were established in the country under the Co-operative Societies Act, 1904 and consequent upon provincialisation of co-operation, all of them have come into the fold of State Co-operative Acts.

The Agricultural credit Review Committee headed by Prof. A.M.Khusro, in its report observed: "No credit system has been subjected to as much experimentation at the dictates of those outside the system as the co-operative credit system. The history of co-operative credit system has been the history of alternating periods of growth, stagnation, re-organisation and the achievement of the co-operative system has by no means been insignificant. These pertain not only to the credit

sector in the system, but also to others as well⁷.

Task Force on Revival of Cooperative Credit Institutions,(30 December 2004), headed by Prof.A.Vaidyanathan, in its report observed " Cooperatives, of the mutual thrift and credit type, are the only form of organization by which economically disadvantaged individuals and groups could, through voluntary collective action, overcome their disadvantageous position in an unequal market and promote their well being.

6. Planning Commission, Government of India, "Eighth Five-Year-Plan", 1992-97, "Ninth Five-Year-Plan",1997-02, Vol-II, Planning Commission, New Delhi, 1992, PP.18, 19 and 25.

7. Agricultural Credit Review Committee, RBI, 1993, PP. 196, 197.

Organisations, in which members know each other first hand, are closely linked through kinship and other social relations, and have a strong mutual stake in proper use of the common credit pool, credit would be put to good use Costs of administration and risks of default in repayment could be reduced. No less relevant is the moral appeal of cooperatives as a counter and an alternative to individual or corporate enterprise, for mobilizing and using economic resources for owners' profit."⁸

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State Land Development Banks and 732 Primary Land Development Banks⁹.

According to the NAFSCOB compilation, there are 1,12,309 PACS, which works out to roughly one PAC for every six villages in the country. The total membership of the PACS is reported to be around 12 crore. Scheduled Castes and Scheduled Tribes and small farmers each, are reported to account for about 36 per cent to 37 percent of the PAC membership. The societies have, therefore, a wider spread and reach in rural India than the commercial banks (CBs) and Regional Rural Banks (RRBs). The CCS, moreover, has more than twice the rural outlets and 50 per cent more clients than commercial banks and RRBs put together.¹⁰

In the three-tier structure, CCBs play an important role as their managements are vested with various functions. They include mobilisation of resources from local areas in the form of deposits and borrowings (from Apex institutions) and channelizing adequate credit to the agricultural needs through PACS. In addition, they have been vested with the responsibility of supervision over functioning of affiliated societies as they are not well-developed to manage their societies.

8. Task Force on Revival of Co-Operative Credit Institutions, 30 December 2004, Para, 3.53, Page, 41.

9. Important items of data, Credit and Non-Credit Co-operative Societies, 2014-15, NABARD.

10. Task Force on Revival of Co-Operative Credit Institutions, 30 December 2004, Para, 3.09 & 3.10, Page, 33

Improper attention on timely provision of credit, lack of proper supervision, over-utilisation of credit, improper persuasion for recovery of loans may result in mounting overdues, which may effect the entire co-operative movement.

The Government of India Constituted a Task Force headed by Prof. A.Vaidyanathan (Vide Government of India notification dated 05 August 2004) to formulate a practical and implementable plan of action to rejuvenate the rural Cooperative credit structure. The Task Force, in its report observed, "Obviously, unless the causes of the serious and growing impairment in several dimensions are tackled, cooperatives cannot be expected to arrest their declining role in providing agricultural credit, let alone play a significant role in achieving the targeted rapid expansion of credit to the farm sector."¹¹

11. Task Force on Revival of Co-operative Credit Institutions, 30 December 2004, Chapter-1 & 3, Para 1.02 & 3.51, Pages 5 & 41

PROGRESS OF CCBs IN INDIA DURING THE PLAN PERIODS

In order to present the progress of CCBs in India during the Plan periods, information pertaining to a number of CCBs and their branch offices, membership, owned funds, deposits, borrowings, advances, overdues and bank involvement is shown in Table-1 for the period 1951-52 to 2010-11. It also shows the average performance in terms of per bank membership, owned funds, deposits, working capital and advances.

The Table 1 reveals the following:



i) The number of DCCBs have come down from 509 in 1951-52 to 371 in 2010-11, showing a decrease of about 27 per cent. This has happened on account of re-organisation of DCCBs into viable units on the basis of one Bank for one district as per the suggestion made by AIRCSC and the Committee on Co-operation (1965);

ii) There has been a substantial increase in the number of branch offices from 1,655 in 1961-62 to 13,327 in 2010-11, indicating thereby an increase of about 8.05 times, which is a healthy sign as it indicates wide coverage of areas under the co-operative fold.

TABLE-1

PROGRESS OF DISTRICT CO-OPERATIVE CENTRAL BANKS IN INDIA

ITEMS	1951-52	1961-62	1971-72	1979-80	1980-81	1990-91	2000-01	2010-11
1. Number of DCCBs	509 (100.0)	387 (76.0)	341 (67.0)	337 (66.2)	337 (66.2)	353 (69.4)	367 (72.1)	371 (72.89)
2. Number of Offices	-	1655	4317	7275	7622	10897	12580	13327
3. Membership of Societies (In lakhs)	1.12 (100)	2.48 (221.4)	2.38 (212.5)	2.00 (178.6)	2.01 (179.5)	2.32 (207.1)	1.12 (100.0)	3.15 (281.25)
4. Owned funds (Rs. In crores)	9.81 (100.0)	61.80 (630.0)	225.70 (2300.0)	546.79 (5573.7)	605.32 (6170.4)	1163.11 (11856.4)	11123.00 (113384.3)	72576.80 (26267.07)
5. Deposits (Rs. In crores)	38.23 (100.0)	124.46 (325.6)	509.71 (1333.3)	1978.32 (5174.8)	2423.13 (6338.3)	11202.50 (29302.9)	61745.00 (161509.3)	161308.80 (421942.98)
6. Borrowings (Rs. In crores)	12.07 (100.0)	136.36 (1129.7)	458.20 (3796.2)	1044.51 (8653.8)	1187.35 (9837.2)	5556.14 (46032.6)	16950.00 (140430.8)	39101.16 (323953.27)
7. Loans advanced to Societies (Rs. In crores)	98.68 (100.0)	384.40 (389.5)	1019.70 (1033.3)	2695.11 (2731.2)	3210.77 (3253.7)	11120.71 (11269.5)	45016.00 (45618.2)	137754.22 (139596.90)
8. Banks Involvement in Loans and Advances (Rs. In crores)	23.80 (100.0)	92.56 (388.9)	488.00 (2050.4)	1565.95 (6579.6)	1799.26 (7560.0)	3108.62 (13061.4)	7462.00 (31352.9)	10385.00 (43634.45)
9. Percentage of overdue to outstandings	13.30 (100.0)	15.70 (118.1)	35.90 (269.9)	42.80 (321.8)	31.46 (236.5)	32.85 (247.0)	30.65 (230.5)	26.73 (200.98)
10. Averages per bank (Rs. In lakhs)								
i) Membership	220 (100.0)	641 (291.4)	689 (317.3)	593 (269.6)	596 (270.9)	657 (298.6)	305 (138.7)	315 (143.1)
ii) Owned funds (Rs.)	1.93 (100.0)	15.97 (827.5)	66.19 (3429.5)	162.95 (8443.0)	179.62 (9306.7)	329.49 (17072.0)	3030.79 (157035.8)	19562.48 (1013600)
iii) Deposits (Rs.)	7.51 (100.0)	32.16 (428.2)	149.48 (1990.4)	587.03 (7816.6)	719.03 (9574.3)	3173.51 (42257.1)	16824.25 (224024.6)	43479.25 (578951.4)
iv) Working capital (Rs.)	11.81 (100.0)	91.12 (771.6)	347.69 (2944.0)	1059.23 (8968.9)	1356.56 (11486.5)	5076.98 (42988.8)	24473.57 (207227.5)	63458.40 (537327.7)
v) Advances (Rs.)	19.38 (100.0)	99.33 (512.5)	299.03 (1543.0)	799.74 (4126.6)	952.75 (4916.2)	3150.34 (16255.6)	12265.94 (63291.7)	37130.52 (191592.0)

Source : Statistical Statements related to Co-operative movement in India, NABARD, 1951-52 to 2010-11



_iii) The membership of the societies has increased from 1.12 lakhs in 1951-52 to 2.48 in 1961-62 and subsequently decreased to 3.15 lakhs in 2010-11. The decrease was higher between 1971-72 and 1979-80 on account of the re-organisation of primary societies into viable units. The average membership of each bank has increased from 220 in 1951-52 to 698 in 1971-72 and subsequently has come down to 593 in 1979-80 and further it has decreased to 315 in 2010-11.

iv) The owned funds of the DCCBs have increased substantially from Rs.9.81 crores in 1951-52 to Rs.72,576.80 crores in 2010-11, an increase of about 7398 times. The increase was higher during the period between 1971-72 and 1980-81 on account of the implementation of State partnership in the share-capital of DCCBs. The average owned funds per bank has increased from about 2 lakhs in 1951-52 to 19562.48 lakhs in 2010-11.

v) The deposits have increased from Rs.38.23 crores in 1951-52 to Rs1,61,308.80 crores in 2010-11, indicating thereby an increase of about 4219 times. The average deposits per bank has increased from Rs.7.51 lakhs in 1951-52 to Rs.43479.25 lakhs in 2010-11, recording thus a substantial growth. The growth was higher during the period between 1971-72 and 1980-81 on account of the increased number of branches on one side as well as disbursement of loans through cheque system of payment by crediting loan amounts to savings accounts of loanees.

vi) The borrowings have increased from Rs.12.7 crores in 1951-52 to Rs.39101.16 crores in 2010-11, indicating thereby an increase of about times. The deposits have increased at a higher rate

(4219 times) compared to borrowings (3079 times).

vii) The average working capital has increased from Rs.11.81 lakhs in 1951-52 to Rs.91.12 lakhs in 1961-62, Rs.347.69 lakhs in 1971-72, Rs.1,356.56 lakhs in 1980-81 and Rs.5076.98 lakhs in 1990-91 and 24473.57 lakhs in 2000-01 and Rs. 63458.40 lakhs in 2010-1011. Thus, the average working capital has increased over one crore as suggested by the AIRCSC.

viii) There has been an increase of about 1396 times in advances showing an increase from Rs.98.68 crores in 1951-52 to Rs.11,120.71 crores in 1990-91 and further to Rs.45016 crores in 2000-01 and further to Rs.1,37,754.22 crores in 2010-2011. The average advances per bank has gone up from Rs.19.38 lakhs in 1951-52 to Rs.37130.52 lakhs in 2010-11. Though the advances recorded a substantial growth, they were not commensurate with the increase in either deposits, borrowing or working capital on account of increased overdues and non-maintenance of financial disciplines of the RBI / NABARD.

ix) The DCCBs' involvement, which is known as the difference between outstanding loans and borrowings, has increased from Rs.23.8 crores in 1951-52 to Rs.10385.00 crores in 2010-11, indicating thereby a growth of about 436 times.

x) The percentage of overdues to outstandings has increased from 13.30 in 1951-52 to 42.8 in 1979-80, indicating there by an increase of about 3 times, which is really a bad sign of improvement. In the subsequent year 1980-81, it has come down to 31.46 and later it was 32.85 in 1990-91 and further



it was 30.65 in 2000-01 and further to 26.73 in 2010-2011.

FINDINGS & SUGGESTIONS

The study on progress and growth of the Central Co-operative Banks at the National level is presented.

1. The progress of Central Co-operative Banks in India is characterised by spectacular growth between the two World War periods and a sharp setback has descended during the depression period. Limited number of affiliated societies, ill-balanced areas of operations and meager capital base are the main characteristics of the marginal performance of the CCBs during the pre-independence period.

2. Important Policy measures like the State Government's contribution to the capital to a large extent, linkages of the credit with marketing and share-capital, crop loan system, diversification of credit from the conventional agricultural sector to the non-agricultural sector also, lending on the basis of production base and the extension of the application of Banking Regulation Act to CCBs have substantially contributed to the phenomenal growth of CCBs during the post-independence period. Thus, the CCBs witnessed remarkable growth in terms of share-capital, owned funds, advances, deposits etc. during the plan periods.

SUGGESTIONS

1. The number of dormant and non-viable societies is likely to be large, they are to be liquidated through merger with nearby healthy societies and takeover of ground level lending in the service area of liquidated PACS by neighboring PACS. The PACS should be given operational

freedom to maintain their own offices with banking functions.

2. Most of the DCCBs look at the State Co-operative Bank for obtaining financial assistance to fund their operations. This dependency culture must be shed. While the Branches of Commercial Banks and Regional Rural Banks could effectively be able to tap the rural savings, why not PACS and Branches of DCCBs flourish in deposit mobilization at least which is absolutely vital for the future growth of DCCBs.

3. The DCCBs have to invest serious thought for enlarging the scope and package of profitable non-credit operations to generate non-interest income. Fee-based operations like issue of drafts, mail transfers, discounting and collection of bills, hiring of safe deposit lockers etc. not only generate considerable income but also serve to increase the popularity of the Bank. Advanced customer services like digitalization of their operations and portfolio management of client's investment etc. may also be taken up progressively.

4 In spite of the focused directive by the Government of Andhra Pradesh requiring all the Heads of Local Bodies and institutions to keep their surplus funds in the DCCBs, this is not strictly followed, let alone taking cognizance of it, thus depriving the DCCBs access to large sums of funds.

5. Heavy dependence on outside funds has two evil dimensions: (1) It entails greater outside interference and control, (2) and it makes Members less vigilant, developing a tendency of not treating these funds as their own.

6. In order to sustain the confidence of Members, the DCCBs have to declare



minimum percentage of dividend and dispense with the manipulative practices in the matter of collection of share-capital.

7. The resources crunch should not be a determinant factor in fixing the scales of finance, which instead should be fixed strictly according to the provisions of the crop loan manual.

8. Marginal recovery of loans by co-operatives is the focal point of the controversy that shrouded the co-operative credit movement. The co-operative societies should be able to come out of the allegations of corruption and nepotism in the matter of recovery of loans.

9. Promises to write off the dues if elected to power, determination of interest rates on considerations other than financial returns speak volumes of the manipulations in the administration of co-operative credit institutions. These opportunistic promises adversely affect the prospects of recovery. The State Control over co-operatives has to gradually ease out and autonomous character of the co-operatives be restored.

References