

CHAPTER I

CONCEPT OF CO-OPERATION

Meaning of the Concept

The concept of co-operation, like religion and faith contains a distinctive philosophy. The literal meaning of this concept is 'working together' or 'joint operation'. But in every organisation and business there is some form of 'working together' and, of course, no civilisation can exist without it. It is, therefore, not very proper to define co-operation as 'working together'. What distinguishes co-operation from other organisations is the application of this principle of 'working together'. The principle of 'working together', which is the basis of co-operative organisation, and the practice of thrift, and self-help which sustain it, generate a strong feeling of self-reliance which is of basic importance in a democratic way of life.

The concept of co-operation has been defined from time to time. But a severe controversy rages round it. C. R. Fay has defined co-operation as "an association for the purposes of joint trading, originating among the weak and conducted always in an unselfish spirit, on such terms that all who are prepared to assume the duties of membership share in its rewards in proportion to the degree in which they make use of their association".¹ This definition indicates that co-operation refers to the association of the weak, the powerless and the poor to achieve the joint purposes. But it is absolutely wrong to accept that co-operation is meant for the weak and the poor who lack resources. Margaret Digby says : "Trading is too narrow a term to cover, in fact, all the multifarious activities which are carried on by co-operatives, and the 'weak' is again to be accepted comparatively. Co-operation in modern times is as much needed by the poor as perhaps by the rich".² Thus it is evident that to limit the co-operative organisation for the weak and the poor is to degenerate the basic philosophy of co-operation which stands for something higher and nobler in life.

As a matter of fact, the beginnings of co-operation were made by those who were very poor and lacked resources. The case of the weavers

1. Fay, C. R., *Co-operation At Home And Abroad*, London, 1948, Vol. I, p. 5.

2. Digby, Margaret., *The World Co-operative Movement*, London 1960, p. 8.

of Rochdale bears ample testimony to this fact. Then, again, the co-operative activity entered into the sphere of credit to relieve the farmers of Germany and Italy who were in deep debts and poverty. It is on account of this historical fact that the pioneers of co-operative thought considered co-operation as an instrument for lifting the people from poverty to prosperity and progress.³ The Committee on Co-operation pointed out: "The theory of co-operation is very briefly that an isolated and powerless individual can by association with others and by moral development and mutual support obtain in his own degree the material advantages available to wealthy or powerful persons, and thereby develop himself to the fullest extent of his natural abilities. By the union of forces material advancement is secured, and by united action self-reliance is fostered, and it is from the interaction of these forces that it is hoped to attain the effective realisation of the higher and more prosperous standard of life which has been characterised as 'better business, better farming and better living'.⁴ The Committee on Co-operation has also confined the scope of co-operation to weak and isolated persons. But the fact is that even more prosperous and wealthy persons can also, by their joint and concerted efforts, attain a very prosperous standard of life.

Dr. G. Mladenatz, seeking the common element in all co-operative enterprises, has rightly expressed the view that "they are associations of persons, small producers or consumers, who have come together voluntarily to achieve some common purpose by a reciprocal exchange of services through a collective economic enterprise at their common risk and with resources to which all contribute".⁵ This definition contains a number of ideas—the ideas of freedom, of democracy, of mutual responsibility in economic life, and the idea of an ethical approach to that life.

Co-operation : An Economic Enterprise

In economic sense, co-operation stands for certain methods and techniques for the conduct of ordinary business of life and for achieving the common economic objectives of the participants who are keen to observe these principles. As an aspect of business life, it is concerned with free men in self-regulated action.⁶ It (co-operation) is thus a form of an economic enterprise, the structure and objectives of which are somewhere between those of a private business and of a public undertaking. Bakken has expressed the view that "co-operation is a resultant system of economy. It is a synthesis combining the desirable qualities of the laissez-faire economy and the planned economy. The undesirable features inherent in the two older systems

3. Saxena, K. K., *Evolution of Co-operative Thought*, Somaiya Publications Pvt. Ltd. Bombay, 1974, p. 36.

4. *Committee on Co-operation (MacLagan Committee) in India*, 1915, Reprinted in Bombay, 1957, p. 2.

5. Quoted by Digby, Margaret., Op. Cit., p. 8.

6. Fay, C. R., *Co-operation at Home and Abroad*, London, 1948, Vol. I, p. 1.

are not transmitted to the new system of co-operation. It is a direct challenge to the private profit system on the one hand, and to totalitarian rule on the other".⁷ A laissez-faire economy is characterised by lack of organisation, and the invisible forces of demand and supply control the entire economic system. In a planned economy, the authority is centred in some individual or a group of individuals to draft, direct and control the activities of the masses towards definite goals so as to attain the greatest social good. Co-operation is a third system which seeks to eradicate the evils of capitalism by amalgamating the interests of the exploiter and the exploited and works in sharp contrast to the theory of communism where the principle of "Each for all and all for all" is adopted. Its motto is usually expressed in these words: "Each for all and all for each". A similar note of definition has also been given by H. Calvert. According to him, co-operation seeks to make the best of the existing economic system by removing the more glaring evils of capitalism. As Prof. Gide points out, unlike socialism it takes its stand on, and works within the existing economic framework; it is already carrying into practice some of the most important desiderata of socialism; and it is bringing about an immediate and very real amelioration in the conditions of those who practise it. Co-operative associations aim not at doing away with capital, but at depriving it of its preponderant role of management in production, as also of the attribute it levies in the form of profit.⁸

Holyoke defines co-operation as "a voluntary concert, with equitable participation and control among all concerned in any enterprise". It is based on a clear exposition of the evils of capitalism. Herrick defines co-operation as the act of persons voluntarily united, of utilising reciprocally their own forces, resources or both, under their mutual management to their common profit or loss".⁹ F. Hall defines a co-operative society as "an association of share-holders, usually described as members, who have contributed a fund of capital to be employed under their collective direction for trading purposes in providing for their needs as producers or as consumers".¹⁰ This definition includes all types of co-operatives. According to the recent publication of the I.L.O., a co-operative is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the under-

7. Bakken, Henry H., *Basic Concepts, Principles and Practices of Co-operation*, Wisconsin, 1963, pp. 1-2.

8. Calvert, H., *The Law and Practice of Co-operation*, Calcutta, 1959, p. 3.

9. Kulkarni, K. R., *Theory and Practice of Co-operation in India and Abroad*, Bombay, Vol. I, 1955, p. 11.

10. Hall, F., *Hand book for Members of Co-operative Movement*, Manchester, 1923, p. 1.

taking.¹¹ Thus it is apparent that co-operation is a form of business organisation suitable not only for poor people but for all those who are prepared to practise it in accordance with co-operative principles, and a co-operative society, in the words of Calvert, may be described as a form of organisation wherein persons voluntarily associate together as human beings on a basis of equality for the promotion of economic interests of members.¹²

The aforesaid definitions emphasize the different aspects of co-operation—some on voluntary aspect of co-operation and mutual help and others on its economic advantage to the poor people of the society. But all lay stress on the democratic nature of a co-operative organisation. Service is the philosophy of co-operation. Capital occupies a secondary place in its organisation and the profit motive is not its concern. The Third Five Year Plan, recognising the significance of co-operation, has clearly stated. In a planned economy pledged to the values of socialism and democracy, co-operation should become progressively the principal basis of organisation in many branches of economic life, notably in agriculture and minor irrigation, small industry and processing, marketing, distribution, supplies, rural electrification, housing and construction, the and provision of essential amenities for local communities. Even in medium and large industries and in transport, an increasing range of activities can be undertaken on co-operative lines. The Third Five Year Plan stresses that the socialist pattern of society implies the creation of large numbers of decentralised units in agriculture, industry, and the services. Co-operation has the merit of combining freedom and opportunity for the small man with benefits of large-scale management and organisation as well as good will and support from the community. Thus, a rapidly growing co-operative sector, with special emphasis on the needs of the peasant, the worker and the consumer becomes a vital factor for social stability, for expansion of employment opportunities and for rapid economic development. Along with a growing public sector and a private sector which functions with responsibility to the community as a whole, the influence of co-operation extends far beyond the particular activities organised on co-operative lines, and gives to the social structure and the national economy, balance, direction and a sense of values.¹³

However, the real meaning of co-operation does not lie so much in its theory as in its practice. In fact, co-operation is a harmonious combination of theory and practice. The education of the mass of members in co-operation and the general education of co-operators result in the correct

11. *Developments And Trends in the World Co-operative Movement*, Revised Working Paper, Meeting of Panel of Experts on Co-operation, I. L. O. Geneva, 1962, p. 1.

12. Kulkarni, K. R., *Theory & Practice of Co-operation in India and Abroad*, Bombay, Vol. I, 1955, p. 13.

13. Government of India, Planning Commission, *Third Five Year Plan*, 1961, p. 200.

practice of co-operation. As observed by R.G. Saraiya, "Co-operation is both a system and a spirit; it is both a method of working and a moral force; it is a form of organization with legislative sanction and a method of economic working which enables small units to pool their resources together for their common good. At the same time, it has an inspiring motto, 'Each for all and all for each'. This association and working together of human beings for the common end gives it a moral value above and beyond purely economic considerations of individual gain. It is for this reason that it has found acceptance in all countries and has been approved by all parties. In fact, in India every political party has invoked the co-operative method and co-operative organization for the betterment of the standard of living of the masses. This very universality of its appeal makes it necessary to ensure that co-operation does not align itself with any single political party, whether it is the party in power or not. Co-operative organisation deserves assistance and encouragement from the State, but its aim should be to become self-reliant. It should not in any case be absorbed by the State. It should cover a wide section of the field of economic activity and, in its turn, help the State to carry out some of its economic policies, but it should maintain its own power of initiative, its individuality and its independence.^{13(a)}

Banking

Just as the literature is the mirror of the society's culture and civilisation, the banking system of the country offers an index to its economic advancement. The economy of the country is welded by the system of its banking. Its development not only establishes trade, industry and commerce but aids economic prosperity of the nation also.

The term bank or banking institution, of which the main functions are borrowing and lending, is defined under the purview of their operations. The bank is an intermediary between borrower and lender, who borrows from one party and lends to another. The very essence and nature of a bank and banker is to create and issue credit payable on demand and the credit is intended to circulate and perform all the functions of money. A bank, therefore, is not only an office for borrowing and lending but it is manufactory of credit. Banking is defined in the Indian Banking Companies Act, 1949, as accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise.

In brief, a bank is an institution which creates and issues credit. In other words it is a lender and borrower of money. There are various

13(a) Saratya, R. G., 'Co-operation and the State,' A paper submitted to the Commonwealth Conference on Agricultural Co-operation, Oxford, 1951, pp. 9-10.

types of institutions performing the functions of a bank under different types of managements and serving different classes of people. Hence for its classification the functions of a bank are to be taken into consideration because "just as a tree is known by its fruits so is a bank by the functions it discharges."¹⁴

There are the following main types of the banking institutions :—

1. Commercial or Joint Stock Banks.
2. Industrial Banks.
3. Exchange Banks.
4. Land Mortgage Banks.
5. Saving Banks.
6. Co-operative Banks.

1. Commercial or Joint Stock Banks

These institutions are those banks which are organised by the individual share-holders on the basis of the limited liability under the ordinary Banking Company Acts. Their main objective, with which they are beset, is to facilitate internal trade and commerce by extending short-term loans against the security of material assets of the borrowers. The pattern of their working is almost the same as that of co-operative bank, with the exceptions that 'co-operative banks are organised for rendering service to the people' while 'commercial banks aim at earning profit for their share-holders.' Mr. R. C. Rao remarked that "co-operative bank is near and familiar, while commercial bank is distant and unfamiliar".¹⁵

2. Industrial Banks

This type of banking institution is established for the purpose of meeting long-term financial requirements of industries. Commercial banks or joint stock banks, though, finance certain aspects of industry to a limited extent but they are not in a position to lock up their funds for such a long time. Owing to their meagre resources, they always invest their funds for short periods and keep their assets as liquid as far as possible. The industries also require long-term finance to cater to the needs of floating or working capital and as well as stock capital or fixed capital. To meet these types of capital needs, special banking institutions are evolved which are known as industrial banks. These banks build up their finance by raising share-capital and debentures and by mobilising the fixed deposits.

14. Basu, A. K., *Fundamentals of Banking Theory and Practice*, Calcutta, Fourth Edition. 1962, p. 1.

15. Rao, R.C., *Present day Banking in India*, Calcutta, University of Calcutta. 1930, p. 190.

3. Exchange Banks

As the commercial banks facilitate internal trade of the country, exchange banks are organised for facilitating international trade, whose main function is to help in repayment of the foreign debts. These banks help the client in making payments to foreign creditors and exporters. They not only accept the foreign bills on behalf of the client but also purchase and sell bills of exchange. The overall functions of the exchange banks are the same as those of commercial banks.

4. Land Development Banks

Land development banks are those institutions which advance long-term loans to agriculturists for the repayment of the old debts and for introducing permanent developments in the productive potentialities of agricultural land. The loans are advanced against the mortgage of unencumbered land of the borrower for the periods ranging between five to twenty years. Such institutions are of three types :—

1. Joint Stock or Commercial Land Development Bank.
2. Quasi-Co-operative Land Development Bank.
3. Co-operative Land Development Bank.

The Joint stock land mortgage banks are organised on the pattern of commercial banks, not only for rendering the service but for making profit out of the business transaction. Quasi-land mortgage co-operative institutions are those which have mixed type of membership of both borrowers and non-borrowers with share capital. The co-operative land mortgage banks are organised on the edifice of co-operative principle.

5. Saving Banks

The saving banks are designed under the variety of managements. Commercial banks, co-operative banks and postal departments—all maintain a saving bank section—in their organisations in order to mobilise and secure small savings of the people on the one hand and direct those savings in the suitable channels of investment on the other. The primary objective with which they are beset is to inculcate among lower and middle class people the habit of thrift and prudence. The methods of their operations differ from country to country. These banks provide to the depositor the facility of depositing any meagre sum, amounting to the multiple of one rupee at any number of times in a week, but he can withdraw money only once a week. In postal savings bank we find that they do not indulge in lending money.

6. Co-operative Banks

The philosophy of co-operation and the principles of banking have already been discussed. When co-operative methods and techniques are applied in the province of the banking institutions, it makes it co-operative, i.e., called co-operative bank. The co-operative devices have not only been applied to any one branch of economic activity but they have been tried successfully in such a wide range as production, consumption, marketing, housing, and insurance etc. It has been observed that there are many more provinces of human activity to which co-operation might, with advantage, be introduced in the same way as renting of land, erection of houses, use of machinery etc.

No country has, however, attempted co-operation as a panacea for economic maladies but has shaped co-operative business to suit its particular needs. In England, distributive co-operation was evolved to secure the fair distribution of the commodities. Germany and Italy devised credit co-operation. In India also credit co-operation was started to remedy the rural indebtedness. The seeds of credit co-operation, i.e., co-operative banking lay in exorbitant rates of interest, charged on loans and other mal-practices of village money-lenders. The people, specially poor and ignorant, were groaning under the iron grip of the money-lenders. They found their way of escape in organising banking institutions on the principles of co-operation.

Definition of Co-operative Banking

Co-operative bank refers to a special type of credit institution in which loans are given to its members on the basis of co-operative principles. Many a definition on this subject has been given but the task of defining the term co-operative bank is not a simple one. It is not easy to bring all the co-operative credit institutions working at different levels—primary, district and state—under the caption of a single definition because the nature of the operations of these institutions differs in many respects. However, it is for the purpose of the study that various definitions on co-operative banking have been provided.

Co-operative banking is an agency which, in the words of Henry Wolff, "is in a position to deal with the small man on his own terms, accepting the security he has and without drawing on the protection of the rich. That agency must not be a channel for pouring charity or subsidising the small man out of the public funds; instead, the material help must be backed by moral improvement and a strengthening of the fibre". Devine defines co-operative bank as "a mutual society formed, composed and governed by working people themselves for encouraging regular savings and granting small loans on easy terms of interest and repayment".¹⁶

16. Quoted by Laud, G.M., *Co-operative Banking in India*, the Co-operators' Book Depot, Bombay, First Edition, 1956, p. 6.

Another author on co-operation observed that the co-operative bank consists of a number of individuals who join to pool their surplus savings with the purpose of eliminating the profit of the banker or money-lender.

According to N. Barou, a co-operative bank is a bank formed for the purpose of augmenting their collective funds and the savings of their individual members, managing their financial interests, granting credits to co-operative enterprises and helping to satisfy the needs for personal credit of their individual members as well as for distributing the surpluses between the share-holders, depositors and borrowers or placing them to reserves.¹⁷

Thus, it has been pointed out that co-operative banking implies a voluntary association of persons which deals with the smallest unit of saving and equally small questions of credit for the benefit of its members.

R. C. Rao understands by the term co-operative bank that it is a poor man's bank or people's bank. Its main duty is to democratise credit and place it in the hands of the poor who, though they may be entitled, scarcely get a recognition in the hands of commercial banks¹⁸.

G. R. Fay refers that the "joint stock company is a union of capitals, the co-operative society is a union of persons—it is a channel of one kind only; it conveys to the producer the money which he requires as productive capital".¹⁹

All these aforesaid definitions do not take in their purview all grades of co-operative credit organisations. From the above discussion it seems that the attention of every author is focussed on defining only primary credit co-operative societies. Besides, all the principles of the co-operative banking have not been boxed into any one of them. However, N. Barou gives the real picture of co-operative banking; but Mr. Rao lays too much stress on the democratic spirit of the organisations. In nut-shell it can be said that all these definitions indicate the following basic principles on which a suitable definition can be given :—

1. Voluntary Organisation

The first essential trait of the co-operative banking institutions like other forms of co-operatives, is its voluntary character. In co-operative organisation full freedom to members to join or leave the society is allowed. The desire to join the association should be the spontaneous out-burst from

17. Ibid., p. 7

18. Rau, R.C., *Present day Banking in India*, Calcutta, 1930, p. 187.

19. Fay, G.R., *Co-operation at Home and Abroad*, London, 1948, Vol. I, pp. 4-6.

the hearts of the individuals. Any type of compulsion or coercion and self-fish allurements to join the co-operative credit association defeat the very purpose of voluntarism. Hence, such an organisation cannot be accepted as co-operative.

Experience has shown that in undeveloped and underdeveloped countries with illiterate and ignorant masses, voluntary principle cannot come into effective force. And in such circumstances a certain measure of compulsion or state-interference becomes inevitable, as was done in Bulgaria, Burma and also in India. It was advocated that Government assistance to foster co-operative spirit among the people in initial stages is essential with a view to create a favourable climate for the growth of voluntary co-operation. Under such circumstances the Government should, therefore, help co-operatives so that they may grow by public appreciation, public opinion and public co-operation.

2. Self-Help Through Mutual Help

Horrace Plunkett opined that co-operation is 'self help made effective by organisation'. The voluntary association of persons cannot make the organisation co-operative unless the motto of self-help with which credit associations are beset is not observed. Charles Gide has pointed out that co-operative associations adopt the double-motto of self-help and each for all.²⁰ The term self-help connotes that the member should feel a sense of self-respect in providing his own needs by his own means, i.e., by being his own banker and money-lender. At the same time the principle of each for all, i.e., the sense of mutual help cultivates among the members a desire to seek freedom and salvation not for themselves but for and through others.

It was, therefore, acknowledged that in co-operative credit organisation also 'mutual help, mutual trust and mutual dependence are the recognised principles'. The members in such an organisation continue to promote their economic interests by finding out their means of improving their own economic stature and means of satisfying their own financial needs for productive activities by strict adherence to this principle.

It is often suspected that the interests of both, i.e., the lender and the borrower may collide but the case is otherwise. With observance of the principle of 'Each for all and all for each' the former provides assistance to the latter on the ground that he is to receive the same response from the latter.

20. Reiterated by V. T. Krishnamachari in his article 'The Role of Co-operatives in Community Development' published in Indian Co-operative Review, October, 1963, p. 1.

3. Democratic Character

It has been observed that co-operative credit societies democratise credit, relieve distress by creating wealth and by turning the same to good industrial and agricultural account. The affairs of co-operative banks like other forms of co-operative credit are managed democratically. The principle of 'ONE MEMBER ONE VOTE' is strictly observed in credit co-operatives. The members joining the co-operative credit societies meet on equal footing. Every shareholder of the credit societies has been vested with the power of casting only one vote, irrespective of shares he possesses. Thus the democratisation of power in this way averts the danger of the dominance of the individual interest over the collective one.

The feelings of caste, creed and colour, which are incompatible with democracy, find no place in credit co-operatives. The rights, duties and privileges of every member are identical. On the same basis membership is open to all. They meet in the organisation as human beings and enjoy the advantages of the organisation equally. Planning Commission in this respect has remarked that co-operative banks are mere democratic and amenable to local control than even a small-sized joint stock bank.²¹ G. M. Laud has observed that the key-note to the successful working of co-operative banks is their democratic character and thoroughly representative management. The general body is the supreme authority and its members have an equal voice. Co-operation thus provides a testing ground to decide whether or not people have the maturity to handle their own business. From this point, as well as in the context of the desirability for maintaining the solidarity, every issue is discussed threadbare and an effort is made to reach an unanimous decision.²²

4. Element of Character

The character of the members of the co-operative organisation exercises a greater influence in its working. The character of high values implies unselfish spirit, self-reliance and self-respect. The realisation of common spirit and willingness to seek by joint action is nothing more than a skeleton frame work by which needs may be satisfied. What is more essential is the integrity of the members of the organisation. Therefore, personal element, i.e., the character of the member plays a very important role and can secure a smooth running of the business of the organisation.

The objective of a credit co-operative is to make available the cheap finance on easy terms. Hence unselfish attitude of mind, unselfish interest

21. Government of India, Planning Commission, *First Five Year Plan*, New Delhi, 1952, p. 170.

22. Laud, G. M., *Op. Cit.*, pp. 16-18.

and broader outlook are attained and they lead not only to the material advantages but also strengthen and stabilise them. The practice of honesty and unselfishness makes the credit organisations not only a business-undertaking but an article of faith and religion also. Rao Bahadur S.S. Talmaki has lucidly explained the implications in his note on personal credit to the Bombay Provincial Co-operative Conference, 1914: "An estimate of such character is made by a process of reasoning depending upon certain considerations as, for instance, whether the borrower has a general reputation for fair dealing, whether he is free from such vices as might divert all or a large portion of his earnings, whether he shows diligence and earnestness in his work, and so on; in other words, whether the person is endowed with those qualities which make for honesty, thrift and providence".²³

Under the purview of the aforesaid essentials of a co-operative bank, a co-operative credit organisations is, it has been observed, a mutual society formed, composed and governed by working people on the principle of equality. The principle of mutual service is rendered by accumulating the savings of members on easy terms of interest and payment. The surplus of the business is either placed to reserves or distributed amongst the depositors, borrowers, shareholders or spent on cultural or co-operative endeavours for the benefit of the working people.

In brief, a co-operative bank is a voluntary association of financially weak people who, realising their common financial needs, organise themselves on the basis of equality, by pooling their surplus savings on the one hand and by granting credit to colleague members on easy terms of interest and repayment on the other.

NEED OF CO-OPERATIVE BANKING IN BIHAR

Physical background of the State

Physically Bihar is a land-locked territory lying between 21°58'10" and 27°31'15" N. Latitude and 83°19'50" and 88°17'40" E. Longitude and has an area of 1,73,876 square kilometres²⁴ out of which 16.84 percent is covered by forest. It is bounded by Nepal on the North, West Bengal on the East and North-East, U.P. and M.P. on the West and Orissa on the South. It also consists of three distinct physical divisions, viz. (1) The Himalayan foot hills, (2) The Ganga plain and (3) The high-lands of Chotanagpur. There is a small hilly area in the North-Western corner of Bihar which is a part of the well known extensive Siwalik Range of the Himalayan foot hills. The North Bihar Ganga plain is composed of the alluvial soil which has a gentle slope towards the south and is traversed

23. Quoted by Laud, G. M., Op. Cit., p. 12.

24. *Bihar Through Figures* 1975, pp. 1-2.

by a large number of rivers starting from the Himalayas and flowing down into the Ganga or some of its tributaries. The highlands of Chotanagpur are interspersed by the numerous hill streams which flow rapidly through narrow gorges and beds during the rains but completely dry up in summer. Average annual rainfall in the State which is the basic source for replenishing all water resources, surface as well as underground, is of the order of 1016.0 m.m. About 80% of this rainfall is received during June-September²⁵. The alluviality of the plain and the character of the rainfall is very conducive to the agricultural industry and so it has become the main occupation of the people of the State. The percentage of the workers dependent upon agriculture has been considerably higher for the State than that for the country as a whole, and while for the country the percentage has increased only marginally from 69.57 percent to 69.67 percent during 1961-'71 decade, in Bihar it has increased from 76.84 percent to 82.27 percent during this decade.²⁶

Economy of the State

Bihar is one of the backward and under-developed pockets in India. In spite of the rapid growth of industries, trade, transport and communications, the rise in per capita income in the last two decades has been only 17.6% or about 0.8% a year. At constant prices (1960-'61) the per capita income of the State was about 35% below all India average in 1968-'69 and still lower in the following year (1969-'70). The per capita income of Bihar at constant 1960-61 prices was only Rs. 216/- in 1968-'69 which fell to Rs. 206/- only in 1969-70.²⁷ Taking person having monthly income of less than Rs. 20/- at 1960-'61 prices as below the poverty line, it would appear that the vast majority of the population of the State are living below the poverty line. At 1960-'61 prices the per capita income increased to Rs. 229.90 during the year 1972-'73 and at the current prices, it went up to Rs. 489.00 during the same year.²⁸

Agriculture—The Main Occupation

The reason for such a poor state of affairs lies in the unbalanced economic growth of the State. The unbalanced character of economy is evident from the fact that more than eighty percent of population of the State depends for its livelihood on agriculture out of the total population of 56.35 millions. Out of 100 workers in Bihar, the number of employees in manufacturing industries was only 2.6 in 1971 which is much below the national²⁹ average.

25. Govt. of Bihar, *Report on Agricultural census, 1970-71*, p. 19.

26. *Ibid.*, p. 34.

27. Bihar State Planning Board, *Bihar's Economic Problems (A bird's eye view)*, 1974, p. 4.

28. Govt. of Bihar, Bihar State Planning Board, *Selected Plan Statistics Bihar*, 1976, p. 105.

29. Government of Bihar, *Report on Agricultural Census, 1970-71*, p. 85.

The majority of the population of the State derives their income from cultivation of the lands while the rest of them make out their living from handicrafts, manufacturing, processing and other allied activities. Agriculture to the bulk of population has become not only occupation but traditional mode of living. More than half of the State's income is derived from agriculture, animal husbandry and other allied industries. The State is, it has been observed, virtually of cultivators, village craftsmen and agricultural labourers.

State of Agricultural Industry

Agriculture being the important source of the State income, the sole occupation of the people of the State and to some extent the determining element of the destiny of the State's economy is a deficit agricultural industry subject to precarious rainfall and other natural uncertainties. It has not only made the life of the people very hard but has made the economy of the State stagnant. The stagnation of this industry in Bihar like the whole of India, is due to the common problems of low productivity, excessive pressure on land due to the increase in the population and existing laws of inheritance etc.

Apart from agricultural industry, the other small scale and cottage industry of the State received a death-blow at the hands of the industrial revolution. The hand-made products could not compete with the cheap machine made articles of large scale industries. This not only reduced the income of the people but drove thousands of people out of employment. These unemployed traders and craftsmen had also to take recourse to agriculture resulting in acquisition of even marginal lands, which also led to the further sub-division and fragmentation of holdings.

Indebtedness

The stagnation of the agriculture and the down-fall of cottage industries resulted in lowering the level of income in both the sectors. Consequently agriculturists and artisans were thrown to utter suffering. It not only became difficult for them to carry on their business operations but even to satisfy the bare necessities of life because their scanty income left almost no margin for savings. Consequently they needed finance for productive as well as for consumption purposes. Their pressing needs led them to excessive borrowings and indebtedness increased which reduced them to sheer poverty.

The Central Banking Inquiry Committee estimated the agricultural indebtedness of the people in 1929. According to the calculation, the agricultural indebtedness of landlords, peasants and tenants proprietors amounted to Rs. 900 crores. The latest survey made concerning rural indebtedness is the All-India Debt and Investment Survey, 1971-'72, sponsored by the

Reserve Bank of India. The table—1 gives the Statewise information regarding the volume of indebtedness. It is found that the State of Uttar Pradesh tops the list, the total amount of debt being Rs. 476 crores in 1971-72 and Manipur ranks lowest with Rs. 2 crores for the same year. Table—2 shows the extent of indebtedness of the classified groups of cultivators, agricultural labourers and village artisans and also all rural households. More specifically, the table—2 gives proportion of households and average value per household liabilities as on June 30, 1971, for each of the States and Union Territories and All-India. This table reveals that the average amount of debt per household of cultivator, agricultural labour, village artisans and for all rural households stood at Rs. 612, Rs. 162, Rs. 261 and Rs. 503 respectively in 1971-72.

TABLE—1

Liability of Rural Households, 1971-72.³⁰

| <i>State</i> | <i>Amount of Liabilities (In crores)</i> | |
|------------------|--|--------------|
| Andhra Pradesh | .. | 445 |
| Assam | .. | 36 |
| Bihar | .. | 262 |
| Gujarat | .. | 350 |
| Haryana | .. | 98 |
| Himachal Pradesh | .. | 26 |
| Jammu & Kashmir | .. | 20 |
| Karnatak | .. | 401 |
| Kerala | .. | 96 |
| Madhya Pradesh | .. | 243 |
| Maharashtra | .. | 359 |
| Manipur | .. | 2 |
| Maghalaya | .. | 3 |
| Orissa | .. | 74 |
| Punjab | .. | 169 |
| Rajasthan | .. | 281 |
| Tamil Nadu | .. | 448 |
| Tripura | .. | 4 |
| Uttar Pradesh | .. | 476 |
| West Bengal | .. | 123 |
| Delhi | .. | 4 |
| All-India | .. | 3,920 |

30. Reserve Bank of India: All India Debt and Investment Survey, 1971-72

TABLE—2

Proportion of Households Reporting and Average Value Per Household
of Liabilities as on 30th June, 1971^{30(a)}

States and All-India

| <i>State</i> | | <i>All House- holds</i> | <i>Cultiva- tors</i> | <i>Agricul- tural La- bourers</i> | <i>Artisans</i> | <i>Other Non- cultiva- tors</i> |
|------------------|----|-----------------------------|--------------------------|---|-----------------|---|
| 1 | | 2 | 3 | 4 | 5 | 6 |
| Andhra Pradesh | P. | 47.97 | 54.09 | 37.26 | 41.70 | 38.90 |
| | A. | 663.09 | 925.62 | 159.36 | 240.51 | 401.28 |
| Assam | P. | 27.18 | 28.52 | 17.88 | 17.39 | 23.44 |
| | A. | 187.53 | 205.97 | 33.73 | 51.52 | 149.33 |
| Bihar | P. | 42.13 | 42.38 | 45.31 | 38.06 | 30.96 |
| | A. | 302.49 | 342.69 | 124.14 | 189.53 | 160.44 |
| Gujarat | P. | 47.41 | 53.37 | 39.58 | 35.32 | 33.66 |
| | A. | 928.04 | 1238.72 | 240.03 | 396.42 | 548.44 |
| Haryana | P. | 35.10 | 34.74 | 39.84 | 36.00 | 32.55 |
| | A. | 924.73 | 1190.28 | 506.04 | 603.83 | 523.57 |
| Himachal Pradesh | P. | 36.98 | 38.67 | 21.44 | 15.15 | 15.93 |
| | A. | 562.43 | 577.57 | 741.76 | 117.40 | 376.13 |
| Jammu & Kashmir | P. | 47.86 | 49.35 | 27.39 | 33.59 | 23.57 |
| | A. | 357.89 | 371.15 | 72.74 | 191.09 | 163.02 |
| Karnatak | P. | 50.08 | 57.15 | 34.87 | 38.98 | 34.69 |
| | A. | 788.37 | 1044.38 | 228.73 | 173.82 | 311.52 |
| Kerala | P. | 34.16 | 35.71 | 19.42 | 33.03 | 20.26 |
| | A. | 369.42 | 400.82 | 30.25 | 104.28 | 137.24 |
| Madhya Pradesh | P. | 42.48 | 44.82 | 34.79 | 39.96 | 25.22 |
| | A. | 409.67 | 461.72 | 165.51 | 211.06 | 175.43 |
| Maharashtra | P. | 46.09 | 55.95 | 22.69 | 37.34 | 24.54 |
| | A. | 597.78 | 812.99 | 68.34 | 151.99 | 252.89 |

30(a) Ibid.

Table 2—(Contd.)

| <i>State</i> | | <i>All House- holds</i> | <i>Cultiva- tors</i> | <i>Agricul- tural La- bourers</i> | <i>Artisans</i> | <i>Other Non- cultiva- tors</i> |
|------------------|----|-----------------------------|--------------------------|---|-----------------|---|
| 1 | | 2 | 3 | 4 | 5 | 6 |
| Manipur | P. | 16.42 | 16.58 | 28.21 | 33.08 | 13.46 |
| | A. | 102.60 | 106.61 | 294.50 | 12.33 | 45.77 |
| Meghalaya | P. | 7.01 | 7.45 | 3.20 | — | 2.87 |
| | A. | 14.78 | 15.58 | 7.62 | — | 7.46 |
| Orissa | P. | 37.11 | 41.42 | 20.50 | 28.48 | 24.25 |
| | A. | 201.88 | 234.98 | 45.70 | 51.96 | 156.53 |
| Punjab | P. | 54.28 | 58.50 | 62.17 | 46.32 | 41.13 |
| | A. | 1083.95 | 1913.40 | 561.38 | 456.08 | 361.40 |
| Rajasthan | P. | 56.65 | 58.26 | 49.97 | 54.98 | 42.91 |
| | A. | 895.16 | 949.88 | 507.25 | 681.08 | 520.70 |
| Tamil Nadu | P. | 48.77 | 59.09 | 35.47 | 38.50 | 33.89 |
| | A. | 695.00 | 1106.36 | 128.30 | 225.31 | 279.07 |
| Tripura | P. | 39.82 | 42.11 | 20.33 | 37.15 | 20.49 |
| | A. | 241.09 | 258.00 | 215.18 | 85.67 | 61.01 |
| Uttar Pradesh | P. | 37.87 | 38.76 | 37.28 | 40.18 | 31.54 |
| | A. | 346.77 | 371.64 | 205.05 | 305.27 | 287.49 |
| West Bengal | P. | 37.35 | 42.08 | 29.30 | 31.27 | 26.84 |
| | A. | 201.03 | 262.03 | 45.05 | 109.56 | 125.70 |
| Delhi | P. | 29.22 | 28.03 | 23.80 | 41.03 | 27.61 |
| | A. | 629.64 | 824.65 | 280.55 | 836.88 | 417.80 |
| All-India | P. | 42.87 | 46.22 | 35.33 | 38.57 | 31.48 |
| | A. | 503.07 | 611.96 | 161.96 | 260.80 | 288.44 |

Note : P=Proportion of households reporting.

A=Average value per household in rupees.

From the two tables, it is evident that both in total amount of rural credit and average value of liabilities per household, the State of Bihar stands in the middle position in relation to other States. In other words, the respective figures for the State were Rs. 262 crores and Rs. 302/- according to the All-India Debt and Investment Survey, 1971-72.

Therefore, the problem of agricultural finance and indebtedness has always been the crux of the whole economic problems of the masses. This is not only a special feature of Bihar or India but of every country having predominantly agricultural economy.

Causes of Indebtedness

Indebtedness is one of the most disquieting aspects of the economy. There are many and varied causes to which indebtedness can be attributed. Some argue that the chief cause of increasing indebtedness has been the increasing poverty, but this increase has not been solely or invariably due to increasing poverty because it has been noticed that poverty and indebtedness are chasing each other. Hence the following causes may be attributed to the accumulation of indebtedness which has increased the occasions for borrowing:

1. Uneconomic & Fragmented Holdings

The chief cause of low agricultural productivity is the smallness and excessive fragmentation of cultivable lands. The high density of population and the downfall of the small scale industries have increased the pressure on land which led to the further sub-division and fragmentation. The population of the State increased from 46.45 million in 1960-61 to 56.35 million³¹ in 1971. Owing to the absence of other avenues of employment, the increasing population would naturally seek its livelihood in agriculture. The position in the districts of North Bihar is even worse. As a result of the increase in population, about 80 percent of the holding in the State are less than 5 acres in size. The vast majority of farmers in Bihar are, therefore, small and marginal farmers subsisting on very low earnings and with little or no resource of their own for either land development or provision of the high-cost inputs needed for raising productivity or yield per acre.

A large proportion of land owned by large landholders is actually cultivated by share-croppers who have neither the necessary motivation nor the resources needed for land development and modernisation of agriculture. Owing to the scarcity of the food-grains, arising out of low productivity, a cultivator has to borrow even for consumption purposes.

31. *Bihar through figures* 1975, p. 1.

2. Illiteracy & Litigation

The level of literacy standing at 19.9 percent³² has also been a major reason for this present problem. Indian cultivators and wage-earners are illiterate and ignorant which had made them impertinent. Even a dispute of trivial importance assumes a serious turn. Mutual understanding fails to resolve them. Owing to lack of spirit of social integration, education, and also on account of the pressure of some instigating party in villages, the villagers quarrel among themselves and it develops litigation of costly nature. Consequently the parties concerned have to borrow money. Legal expenses are, therefore, important items of expenditure which generally involve the cultivator into debt.

3. High Cattle Mortality

There is an acute shortage of fodder specially during the period of droughts and floods. This problem is very common in whole of the State, specially in North Bihar on account of which cattle are generally mere skeletons. They succumb to diseases very soon, resulting in great loss of cattle to cultivators. The cultivators have to purchase them more often than their means allow. As they do not maintain any depreciation fund to replace them, they have to resort to borrowings whenever such occasions arise.

4. Uncertainty of Agriculture

The agriculture is a deficit industry and a subject to various uncertain natural calamities. The prosperity of agricultural industry is tied up with the vagaries of nature which itself is uncertain. The agricultural prosperity is, therefore, also uncertain due to sudden occurrence of floods and droughts. In North Bihar particularly in Madhubani, Darbhanga, Samastipur, Saharsa, Sitamarhi, Champaran etc. floods occur, and droughts are the recurring features in South Bihar leading to the failure of crops. Hence the occasions for borrowing increase.

5. Fixity and rigidity in Collection of Revenues

This is another cause of rural indebtedness. The cultivators are not only unable to evade the payment of land rent, but on the other hand there are no adequate provisions for remissions in amount of rent in case of failure of harvest. Moreover, the full benefits of the remissions are not reaped by the cultivators. A good deal of these remissions go in the pockets of the people other than agriculturists. Thus cultivators fall into debt for payment of land rent and irrigation charges, the collection of which is rigid.

32. Ibid., p. 1.

6. Increase in the Value of Lands.

The increased value of land due to stability of the Government and the improved methods of transport and communications have raised the credit need of cultivators. Consequently they are encouraged to borrow money from private money-lenders. They grant them loans on very easy terms and conditions. Thus it has, so to say, a premium on borrowings.

7. Social & Religious Customs.

The social and religious expenses are also responsible for this high magnitude of indebtedness. Influenced by the powerful social customs, traditions and their sense of conservatism, they spent money to extravagant limit on social occasions, like birth, death, marriage and on such other pleasant and sorrowful events.

P.J. Thomas has remarked that 'many a Brahmin will encumber their whole property and exhaust their personal credit for celebrating marriages and for dowries'. Their scanty incomes do not permit to afford such a heavy expenditure on these ceremonies. Falling short of their own funds to meet expenditures, they borrow money.

8. Ancestral Debt.

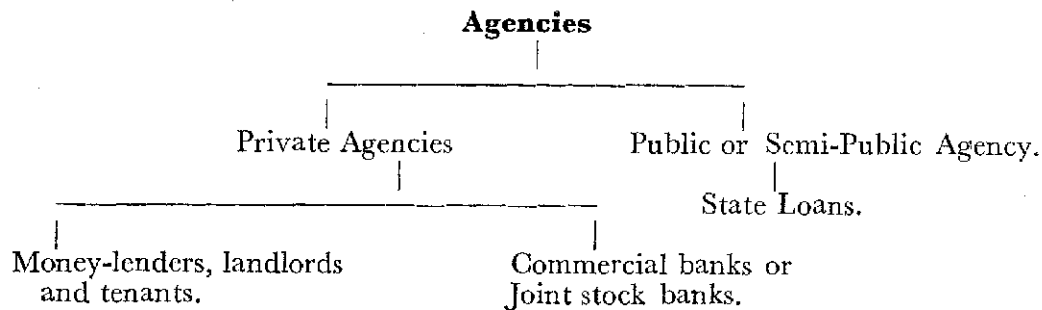
The bulk of the cultivator's indebtedness, it has been observed, is his old debt. It is some of his own makings, but is often the legacy he has inherited from his predecessors. The ancestral debt is an important cause of the existing agricultural indebtedness in Bihar. Its repayment is regarded to be a moral and religious obligation, although old it might have become, irrespective of the amount which he or his ancestors might have paid for interest. Generally new debt is incurred to pay the old one which he passes on to his successors.

To sum up, the above description reveals the helplessness of cultivators who form the bulk of the population. The sad economic plight compels them to borrow. Their demand for money is quite elastic. It is always present and is very keen. Money is demanded not only for productive purposes but for many other purposes. Failing to meet their needs with their scanty incomes they have to depend on the alternative sources of supply of money, i.e., borrowings.

Agencies for Supply of Credit

Coming to the agencies supplying financial needs of the poor section of the community, it can be said without any fear or any contradiction that they are very defective and aggravate the problem of indebtedness. In general credit supply system should solve the problem of indebtedness by providing credit facilities at a cheap rate of interest and by making repayment convenient.

The existing agencies which cater to the needs of agriculturists and artisans can be classified into two heads :—



Money-lenders

The money-lenders, landlords and big tenants occupy an important place in banking business. The report of the Rural Credit Survey Committee indicated their relative importance in financing the credit needs of the borrowers. "More than 90 percent of the total borrowings of cultivators is met from non-institutional private agencies of which the most important are money-lenders who account for nearly 70 percent; this consists of about 45 percent from the professional money-lender and about 25 percent from the agriculturist money-lender"³³. These figures indicate that they are solely and invariably dependent on money-lenders whose interests have never been to reduce the load of indebtedness, but on the other hand they have worsened the problem. Being the sole suppliers of the credit needs of the peasantry, they take undue advantage of the helplessness of the cultivators and try to get as much for their services as possible. They are interested to load them with heavy magnitude of debt because, unless they are under the heavy burden of indebtedness, they cannot remain a source of their undue income. There has been a tendency of these unscrupulous money-lenders to allure these people—agriculturists and artisans—to purchase goods on credit which offered them opportunity to charge a high rate of interest from them. According to the findings of Rural Credit Survey Committee, "the proportion to the total borrowings of cultivators from private credit agencies (other than commercial banks) of such of those borrowings as bear a rate of interest of 25 percent or more is as high as 70 percent in Orissa, 49 percent in Tripura, 40 percent in West Bengal and in Himachal Pradesh, 29 percent in Uttar Pradesh and 27 percent in Bihar."³⁴

In some urban areas kisti system is prevalent under which the loan is payable in 12 monthly instalments. Hence the finance provided by these

33. R. B. I., *All India Rural Credit Survey, the General Report*, Vol. II, 1954, Bombay, p. 326

34. *Ibid.*, p. 173.

money-lenders is in no way conducive for the betterment of the community and the State. Though the recent Debt Relief and Licensing of money-lenders legislation has put restriction on the use and transfer of lands as security, it has not resulted in a considerable decline as was expected. The abolition of all the privileged tenures and reforms in Zamindari system have discouraged the landlords and big cultivators for this type of investment, i.e., lending to agriculturists.

Commercial Banks or Joint Stock Banks

The commercial banks are also reluctant to supply credit to agriculturists and artisans because of the following reasons :—

(1) The commercial banks are situated at the considerable distance from villages which renders communications difficult and negotiations are unnecessarily expensive and dilatory. On the other hand they can also not open branches in small towns and the villages where they can not find sufficient business. Recently, their branches are being opened in blocks.

(2) Commercial banks cannot advance loans to these people against the kind of the security they offer. Personal security on which money-lenders usually supply finance to these people is out of question in case of these joint stock banks, as the creditor is not in the close contact of the bank.

(3) Lack of educative influence and 'lack of exact business account,' it has been observed, make joint stock banks chary of dealing with farmers and make it difficult for farmers to satisfy the formalities required in dealing with bank.

(4) Joint stock bank does not advance loans for long periods whereas the agriculturists and artisans need long-term finance. Under the aforesaid grounds these joint stock banks make a very little contribution with regard to rural finance.

State loans

As the finance provided by the aforesaid credit agencies is neither adequate nor compatible, the State Government has been rendering assistance in the form of Taccavi loans during the last many years. The State which formerly extended loans for relieving distress or meeting the needs of a few indigent cultivators has now assumed the responsibility for development of the economy as a result of 'GROW MORE FOOD' but active disbursement of these loans involves considerable delay.

The Way Out

The stagnation of the poor section of the population, particularly of agriculturists in greater part of the country has for many years attracted the attention of the Government, and various remedies have been tried for improving the economic condition of the people. Corresponding to the programmes of the Indian Government, the Government of Bihar also made effective efforts to control the problems of rural indebtedness. A series of the civil laws including the Bihar Money-lenders' Bill of 1938 were enacted by the Government of Bihar to check, control and conciliate the debt and the rates of interest in the State. These measures could not bring forth the desired result. Evasions were common. The creditor was at every opportunity to discover new methods and ways to evade the law. Thus the efforts of the Government could not be successful in providing cheap and better means of credit facilities.

A complete solution of the problem of indebtedness and credit needs of the people is not possible only by making provisions of cheap credit so long as it does not avoid indebtedness. The kind of cheap credit which may prove beneficial, it has been observed, is a blessing to rural population only where the average cultivator is in possession of strength and character on the one hand to limit his borrowings within the range of his capacity to pay and on the other hand to apply greater part of the borrowed money to sound productive purposes.

Co-operative Banking—The Only Solution

The most suitable type of the cheap credit as suggested by the Royal Commission on Agriculture is possible only by organising voluntary credit associations of producers, agriculturists and non-agriculturists. Such an organisation will teach the people to borrow at the right time and in the right amounts and for right ends and to repay on the right dates.³⁵

Being attracted by the co-operative methods of dealing with the problem of credit, the Government of India turned its attention to the methods and techniques of co-operative banking. The echoes of the success of co-operative credit organisation in European countries particularly Germany and Italy sounded all over the world. The Government of India looked for guidance when it turned its attention to transplant the system of the co-operative banking in our country, because it was realised that 'the expansion of co-operative movement would provide the best and lasting solution of problem of agricultural credit.'³⁶ Madras Government was

35. 'Punjab Committee Report' reiterated by Thakur, B. T., in his book entitled *Organisation of Indian Banking*, Lalchand and Sons Calcutta, 1927, p. 38.

36. *Report of the Co-operative Planning Committee*, 1946, Printed in 1951, Delhi, p. 70

first to grasp the possibility of the co-operative banking in India. In 1892 Sir Frederick Nicholson was sent to study the theory and practice of agricultural and other co-operative banks in Europe. After studying the system of Raiffeisen and *SCHULZE DELITZCH IN GERMANY*—and Luggi Luzzatti in Italy, he appealed to the Government of India to “find Raiffeisen”.

The policies laid down by these pioneers more than a century ago have undergone a change and India has been obliged to adopt and develop its own technique to suit its own needs and conditions; but the basic principles have almost remained unchanged.

Structure of Co-operative Credit Organisation in Bihar

The organisation of the credit co-operative at all levels has been designed to cater to all types of needs of the people. It is, therefore, essential to discuss the types of need for which the finance is required.

Credit needs of the people

The credit needs of the agriculturists and non-agriculturists fall into the following three heads :

- (a) Short-term Needs,
- (b) Medium-term Needs,
- (c) Long-term Needs,

(a) *Short-term needs* :—The most important and pressing needs of the cultivator are for short-term finance both for production and consumption purposes. Money for purchase of seeds and manures for productive purposes on the one hand and for food-grains and other articles for consumptive purpose on the other hand is required. The money so borrowed is to be repaid at the time of harvest. Co-operative credit societies have to finance this short-term need for a period about twelve to fifteen months.

(b) *Medium-term needs* :—While short-term loans fulfil pressing needs of the cultivator, medium-term loans enable him to raise the standard of tillage and bring about improvements in the productive potentialities of the lands. Greater emphasis is, therefore, laid on the disbursement of the medium-term loans. They provide the farmer with the working capital for the purchase of cattle, implements, sinking of wells and pump-sets. The period of repayment of such loans ranges between 2 to 5 years.

(c) *Long-term needs* :—Long-term loans are required for the purchase of land, agricultural machinery and to effect permanent improvement in land or provide drainage or irrigation facilities. As this sort of investment gives very slow return, its repayment is also varying from 10 to 30 years.

Credit Structure

The organisation of the co-operatives and their classifications is based on type of needs for which they provide finance. These are two types of credit institutions:

1. Credit co-operatives for supplying short-term and medium-term loans.
2. Credit co-operatives for supplying long-term loans.

The area of operation of a co-operative credit society may also be taken into consideration as the basis of their classification, but for facilitating the study of the different types of credit co-operatives a more scientific classification may be made by the adoption of both the types of needs and the area of operation as the basis of classification. Thus there are the following types of credit co-operative organisations :—

Primary Credit Co-operatives

There are the following types of credit co-operatives in agricultural and non-agricultural sector. The agricultural sector includes small-sized credit societies, service co-operatives and large-sized societies while non-agricultural sector includes salary earners' credit societies, and societies for artisans and traders. All the aforesaid societies extend short-term and medium-term loans to their members.

Central Co-operative Bank

All the primary credit co-operative societies of a district are affiliated to an organisation, known as the central co-operative bank. However, in Bihar central co-operative banks are working in the State on the pattern and principles of the district co-operative banks.

State Co-operative Bank

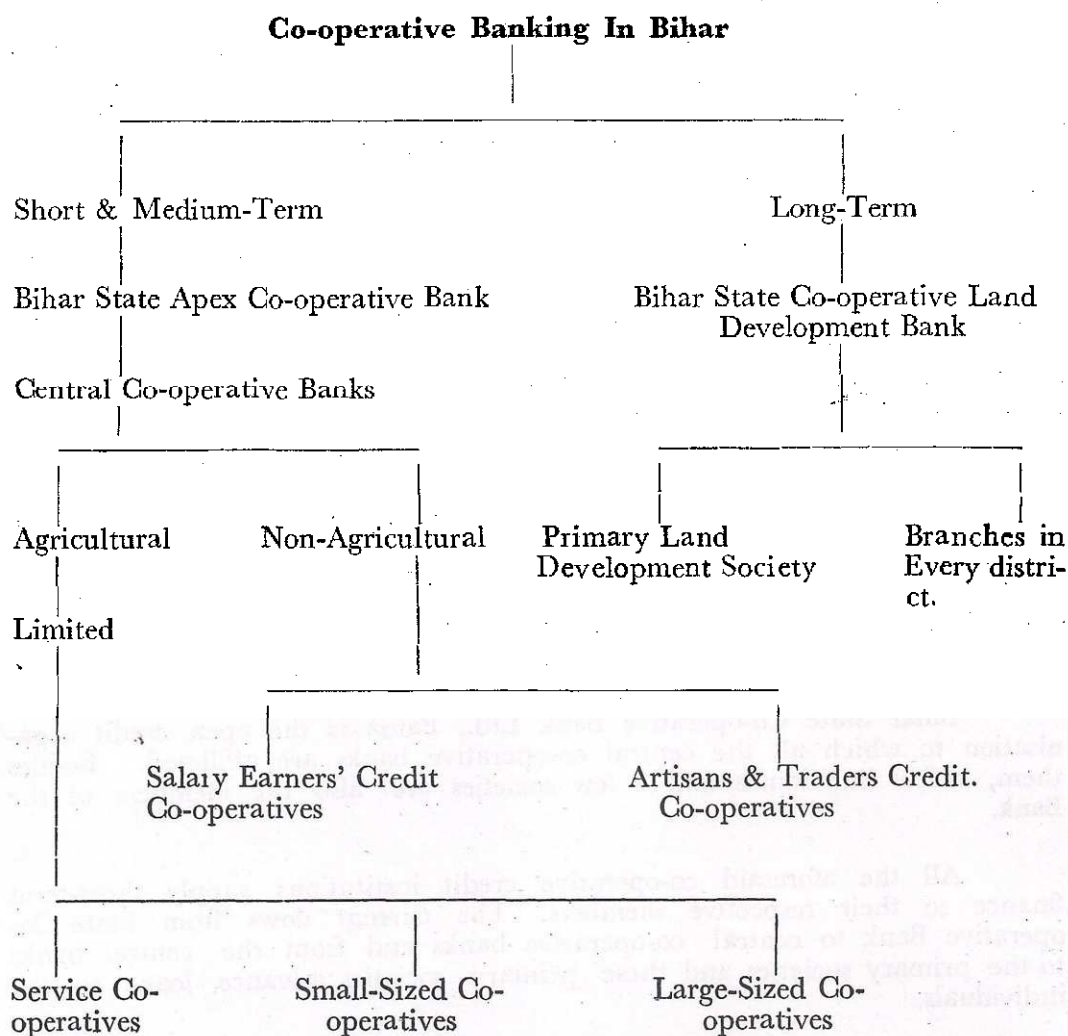
Bihar State Co-operative Bank Ltd., Patna is the apex credit organisation to which all the central co-operative banks are affiliated. Besides them, a few individuals and a few societies are also the members of the Bank.

All the aforesaid co-operative credit institutions supply short-term finance to their respective members. The current flows from State Co-operative Bank to central co-operative banks and from the central banks to the primary societies and these primary societies advance loans to the individuals.

Credit Co-operatives for long-term Finance

The pattern of long-term co-operative financial organisation is the same as that of the previous one. But at present there is a Bihar State Co-operative Land Development Bank Ltd., Patna which supplies long-term finance to cultivators through its branches situated in almost all the districts of the state. The loans are advanced against the mortgage or unencumbered land for a period of 10 to 12 years.

The following chart gives an idea of the structure of the credit co-operative in Bihar.



Importance of Co-operative Banking in Bihar

Co-operative banks play a very important role in establishing industry, trade and commerce by providing cheap and controlled credit facilities on the one hand and by mobilising and securing idle money of the working population on the other, which in the absence of such a machinery are out of reach. It is argued that the agriculturists and artisans do not possess any surplus because of the scanty means of income, but this conception ignores the very important fact that apart from poor agriculturists of small holdings, there are big and thrifty cultivators who have means to save. Rural Banking Enquiry Committee pointed out that 'except in the periods of abnormality, big landlords, cultivators of economic holdings and tenants possess a margin for saving'.³⁷ Thus this surplus money lying with these cultivators, if it is secured by co-operative institutions, can be utilised in other gainful avenues of investment, i.e., extension of irrigation facilities etc.

Apart from the material benefits flowing from co-operative banks, their working has a moral effect on their members. de foe says: "Drunkards are made to take care of wife and children; spend-thrifts lay up for a wet day; lazy fellows become diligent and thoughtless scottish-men careful and provident".³⁸ It teaches its members the lesson of thrift and economy and protects the humanity from the disastrous apathy of commercial and indigenous banks. The thrifty and thoughtful persons unite together with less careful and heedful persons and by the influence of association induce them to the ideas and habit of thrift and heedfulness. Money is carefully saved and still more carefully spent.

It is no exaggeration to say that the co-operative banks are most suitable agency for catering to the needs of the cultivators and small industrialists. They would not only make the small folk wage-earners and middle-class people free from the cruel grip of the money-lenders but also assist trade, industry and commerce. As H. W. Wolff pointed out: 'Usury flees away at the approach of co-operative bank as mist does before the rising sun' because it resembles 'a piece of active machinery in which every wire is alive and knows and conscientiously performs its duty, being endowed with the duty of rendering indiscriminately services according to the merits of each case, watching and checking each other'.³⁹

At present when the emancipation of the country from the foreign rule has left us to strive and plan for the building of the national economy, every programme of national and state development contains schemes

37. *Rural Banking Enquiry Committee Report*, 1929—30, p. 29.

38. Quoted by Laud, G. M., *Op. Cit.*, p. 10.

39. Bau, R. C., *Present Day Banking in India*, Calcutta, 1930, p. 199.

for village-uplift. For raising up the agricultural economy like ours, agricultural production has to be stepped up. The First, Second, Third, Fourth and Fifth Five Year plans have emphasised on the increase of agricultural production to meet the demand of the growing population of the country. As such the dynamic programme for organising agricultural credit will be needed to collaborate with the schemes of agricultural development.

In non-agricultural sector too, co-operatives have to play a vital role. With a view to step up industrial production and to reorganise cottage and small scale industries, the co-operative societies will, therefore, not only provide loans to artisans and traders but will imbue the industrial population with the habit of thrift and self-reliance. "The urban sector of the co-operative movement has also to develop on the systematic lines if, in due course it has to make its contribution to the planned development".⁴⁰ Urban banking conducted on co-operative lines has a very important role to play.

Summing up

Hence under the present set-up of the economy, co-operative banks are to be encouraged because, wherever the credit unions have been properly established and encouraged, they have regenerated and accelerated agriculture, commerce, industry and other departments of human activity to which these principles have been applied. They have stamped out usury and raised millions of people out of the depth of despair to the lives of hopefulness. There are millions of agriculturists and artisans who have industry, honesty, determination, skill and capacity to work, but they lack means, education and organisation for applying these qualities to their best advantage. They have no credit because they are poor and remain poor because they have no credit. It is the agency of co-operative banking which steps in as a saviour by diffusing personal credit, educating the members in its use and making it widely understood and thus making it more secure. Credit through co-operative banks is now widely accepted as the only panacea for ending the poverty of a nation and raising the living standards of its masses.

40. Government of India, Planning Commission, *First Five Year Plan*, New Delhi, 1952, p. 169.

CHAPTER II

CO-OPERATIVE BANKING IN BIHAR : A HISTORICAL PERSPECTIVE

The origin of co-operative banking system is to be traced to the plight of the masses in Germany and Italy in the middle of the 19th century. Herr Schulze and Herr L. W. Raiffeisen of Germany started social work in their native places. Schulze found that the greatest need of the poor people was the provision of credit. But at the same time he came to the conclusion that no one could help them unless they tried to stand on their own legs and by self-help organise themselves to obtain it. So in 1860 he founded his first loan society in his own native town. Raiffeisen founded at Anhausen a co-operative credit society for the benefit of farmers in 1862. M. Luzzati, moved by the exodus of the poverty-stricken Italians to Argentina, started the people's banks. Each country has tried to follow the policies laid down by these pioneers and has adopted and developed its own technique to suit its own needs and conditions. Barring a few small and underdeveloped countries, co-operative banking system has been found to be an ideal agency all over the world for canalising agricultural finance.

In India, the Madras Government was the first to grasp the possibilities of a co-operative credit system, and in 1892 the Government of Lord Wenlock placed Mr. Nicholson on special duty to study the theory and practice of agricultural and other land banks in Europe and to suggest means by which a similar movement might be popularised in India. In his report, he observed: "It is not merely cheap and facile credit that is required; it is a credit which must indeed be cheap and facile in that it shall ever be at hand but it must be credit which shall only be so obtainable that the act and effort of obtaining it shall educate, discipline and guide borrowers.....not joint stock banks merely, still less State banks or banks financed by the State for the mere issue of capital but mutual credit unions are the only desideratum". His plea to "Find Raiffeisen" was endorsed in 1901 by the Finance Commission which expressed the view that "in the establishment of mutual credit associations lies a large hope for the future of agriculture in India", and "the probability of lasting success will be greatly strengthened if mutual credit associations take root and flourish in the country".¹

1. Quoted by Land, G. M., *Co-operative Banking in India*, First Edition, 1956, pp. 36-37.

Armed with these ideas, the Government of India introduced the co-operative credit agency through the Co-operative Credit Societies Act, 1904. However, credit co-operation in the different parts of the country like "Punjuwars Society" in Punjab, "Nidhis" in Madras, 'the Bunda' system in Vidarbha, the 'Phad' system in Kolhapur and 'Gonchi' system in Andhra, devoid of legal recognition, were already functioning. In order to extend legal status to them, Co-operative Societies Act in 1904 was passed.

Thus in other countries co-operation has been a spontaneous movement arising directly from the people but in India it was nourished by Government participation. In Bihar the co-operative movement has been an official movement from its very inception and the evolution of the co-operative banking in this State has been behind a history of peasants' financial distress, agrarian discontentment and turmoil, the pathetic picture of the agriculturists groaning under the surmounting magnitude of indebtedness and usurious rates of interest charged by unscrupulous and cruel village-money-lenders, 'Banias' and 'Sowcars'.

The First Stage of Development (1904-'12)

Prior to the Act of 1904, the first co-operative society in Bihar was organised by Mr. Lyon in Purnea in 1902. The Maharaja of Darbhanga and Hathwa supported the movement and encouraged it in their estates.² However, it gained momentum after the passing of the First Co-operative Act in 1904. The object of this Act as expressed by Sir Frederick Nicholson, was to substitute for a number of individual credits, which are weak because they are isolated, a combined credit which is strong because it is united.³ The MacLagan Committee also pointed out, "The cardinal object of the Act was, by the simplicity and elasticity of its provisions, to permit a genuine Indian movement to spring up based on those general principles which necessarily underlie any organisation claiming to be called co-operative. Experiments were freely allowed and more particularly for the furtherance of agricultural rather than industrial credit."⁴ This measure was hailed by Henry Wolff as "a turning point in economic and social history", and by Daniel Hamilton as the way from poverty to plenty."⁵

Sir Adamson cherished the hope for the future of the societies under the Act of 1904 in these words: "Our co-operative credit society is but a frail barque launched upon a treacherous ocean but if it can escape

2. Prasad, K. N., *The Economics of a Backward Region in a Backward Economy*, Scientific Book Agency, Calcutta, Vol. I, p. 298.

3. Charlie, Macdonald, *Co-operative Credit in Bihar*, 1911, p. 2

4. Report of the Committee On Co-operation (MacLagan Committee) in India, 1915, Reprinted in 1957, Bombay, p. 4.

5. Mamoria, C. B., *Agricultural problems of India*, Kitab Mahal, Allahabad, 1973, p. 645.

from being wrecked by the opposition of the money-lender, if it can avoid being stranded on the shoals of mutual distrust among its members; it can carry safe to the port a portion of its cargo of self-help and co-operation. It will some day rank as the most important bill ever passed by the Government for the betterment of the Indian agriculturists.⁶ The chief provisions of the Act of 1904 were :—

(1) Any ten persons living in the same village or town or belonging to the same class or tribe might be registered as a co-operative credit society for the encouragement of thrift and self-help among the members.

(2) The main objects of the society were to raise funds by deposits from members and loans from non-members. Government and other co-operative societies, and to distribute the money thus obtained in loans to members, or with the special permission of the Registrar, to other co-operative societies.

(3) The organisation and control of co-operative credit societies in each province was put under the charge of the special Government officer called the Registrar of co-operative credit societies.

(4) The accounts of every society were to be audited by the Registrar or by a member of his staff free of charge.

(5) Rural societies were to have four-fifths of their members agriculturists; urban four-fifths of non-agriculturists.

(6) The liability of the members of a rural society was to be unlimited except with special sanction by the local Government; liability of the urban society members might be either limited or unlimited.

(7) No dividends were to be paid from the profits of a rural society but the profits were to be carried at the end of the year to the reserve fund, although when this fund had grown beyond certain limits fixed under the bye-laws, a bonus might be distributed to the members.

(8) In urban societies no dividend was payable until one quarter of the profits in a given year were carried to the reserve fund.

(9) Loans could be given only to members, and usually only on personal or real but not ordinarily on chattel security, although ornaments, the common form of savings of many peasants, might legally be accepted as security.

6. Ibid., pp. 646-47.

(10) The interest of any one member in the society's share capital was strictly restricted.

(11) Societies formed under the Act were exempted from fees payable under the stamp, registration and income-tax.⁷

Thus the object was to encourage thrift, self-help and co-operation among agriculturists, artisans and persons of limited means.

The movement did not take long to outgrow the dreams of its founders and made significant progress during the initial years. There were 508 primary agricultural co-operative credit societies with unlimited liability, 22 urban credit societies with limited liability and 8 central co-operative banking unions in Bihar up to 1912. As on 31st March, 1912, the total number of members belonging to all types of societies was 26,739 with Rs. 8,74,201.00 as working capital in this State. The Co-operative Department consisted of one Registrar of Co-operative Societies, three Auditors and one Personal Assistant. The above staff was not at all adequate and, therefore, honorary co-operative workers were encouraged to support and develop the movement.⁸

However, the experience of 7 or 8 years' working showed that much progress could not be made in the supply of credit under the Act of 1904 to the rural areas, for it made no provision for purposes other than credit; the total prohibition of distribution of profits was found to cause some hardship to rural members and the classification of societies into rural and urban was found to be extremely unscientific and inconvenient.

The Second Stage of Development (1912-'28)

The Government, therefore, passed another Co-operative Societies Act in 1912, which helped to make the movement more comprehensive and broad-based. Its immediate effect was to give a great stimulus to the growth of the movement in Bihar and other provinces in India. The Bihar Province Co-operative Bank was registered in 1914 and central co-operative banks began to be organised as financing banks.⁹

In the meantime the Government of India appointed a Committee on Co-operation under Sir Edward Maclagan to "examine whether the movement especially in its higher stages and financial aspects was progressing on sound lines and to suggest measures for improvement which seemed

7. Ibid., pp. 645-46

8. Prasad K. N., Op. Cit., p. 298.

9. Ibid., P. 298.

to be required", and the Report appeared in 1915. It is considered as a document in the annals of co-operative history.¹⁰

The Maclagan Committee brought to light a number of glaring defects that hampered the movement in its further development. It pointed out that the very notion that co-operation is a Government-born activity or the societies are "Sarkar's Banks" militated against the success of the movement. "When we think of co-operation in India we do not call to memory the humanitarian and philanthropic Raiffeisen but the mercenary Registrar of the co-operative societies". The Committee warned against the starting of new societies by remarking that the pace of movement should not be unduly quickened from outside. It stressed that the area of a primary society should be restricted to a village and it should build its own capital by compelling members to purchase shares and by persuading them to offer deposits. It further emphasised the need for thorough audit and supervision in order to prevent bad management and embezzlement and to inspire confidence in the investing public. The structural picture as recommended by the Committee was to consist of three precisely defined classes of societies—primary, meant for individuals; unions, that is federation of societies for purposes of supervision; central banks at the district level doing banking business, and provincial banks at the province level to serve as apex banks. It recommended for setting up of Provincial Co-operative Banks in large provinces with a view to co-ordinating provincial co-operative finance.¹¹

The period between 1904 and the publication of the Maclagan Committee Report in 1915 may be considered as the period of initial effort and planning. On the passing of the Government of India Act of 1919, co-operation became a provincial subject and was administered by provincial Governments. The Act gave the option of retaining or modifying the existing Act of 1912 to the provincial governments. Consequently the Bihar and Orissa Co-operative Societies Act of 1935 was passed.

The co-operative movement advanced rapidly till 1931 in Bihar. A Committee under the Chairmanship of Mr. Lyall was set up in 1923. The Committee took an optimistic view of the co-operative movement. In 1920-21 the number of co-operative societies was 2,603 and that of members was 89,339 and working capital amounted to Rs. 2,20,89 lakhs. The general economic prosperity of Bihar between 1917 and 1928 helped in the expansion of the movement. The central co-operative banks began to receive large sums of deposits from the urban people as the banks paid 8 to 9 per cent interest on them. All the experts have admitted it that soundness

10. Mamoria, C. B., Op. Cit., p. 649.

11. *Committee on Cooperation in India* (Maclagan), 1915, p. XXVIII) and Mamoria, C. B., *Agricultural Problems of India*, 1973, pp.—647-48.

in the organisation of the primary agricultural co-operative credit societies was found to be lacking. The organisation of these societies was hasty from the very start of the movement in Bihar.¹²

The position of co-operative financing agencies from 1919-'20 to 1929-'30 is summed up below :^{13(a)}

TABLE—1

Co-operative Financing Agencies in Bihar (Rs. in lakhs)

| | <i>Provincial Bank</i> | | <i>Central Banks</i> | |
|-------------------------|------------------------|---------|----------------------|---------|
| | 1919-20 | 1929-30 | 1919-20 | 1929-30 |
| No. of Member Societies | 28 | 79 | 2,687 | 9,077 |
| Owned Funds | 1.56 | 9.33 | 6.57 | 36.30 |
| Loans and Deposits | 7.40 | 64.18 | 29.87 | 192.47 |
| Working Capital | 8.95 | 73.51 | 36.44 | 228.98 |
| Loans Made | 27.70 | 19.41 | 20.30 | 49.40 |
| To Individuals | — | 1.30 | 0.05 | 0.02 |
| To Societies | 27.70 | 18.11 | 20.25 | 49.38 |
| Loans Due | 6.46 | 43.33 | 30.10 | 204.88 |
| By Individuals | — | 0.68 | 0.02 | 0.09 |
| By Societies | 6.46 | 42.65 | 30.08 | 204.79 |
| Profit | 0.22 | 0.68 | 0.95 | 5.90 |

The Third Stage of Development (1929-'38)

The great depression of 1929 gave a serious set-back to co-operative activity in Bihar. It created grave difficulties for the existing institutions. Agricultural prices slumped as did the incomes of the peasantry classes and this catastrophic fall in prices threatened the very existence of some societies and violently disturbed the economic stability of others. Recovery of loans became extremely difficult and there were heavy accumulations of over-dues and freezing of society's assets.

12. Prasad, K. N., *The Economics of a Backward Region in a Backward Economy*, 1967, Vol. I, pp. 298-99.

13(a) Laud, G. M., *Co-operative Banking in India*, First Edition, 1956, p. 271.

The Bihar and Orissa Committee on Co-operation gave its report in 1932 and this Committee did not worry over the increase in the amount of overdues of the co-operative credit societies and could not envisage that the fall in the prices of agricultural goods would bring down the whole of the co-operative movement in Bihar into despair and disappointment. However, this Committee had recommended the set-up of land mortgage banks and the idea of the Committee was that land mortgage banks should take over the long-term commitments of the existing central co-operative banks. But this being unacceptable to the Government, one of the chief remedies suggested by the Bihar and Orissa Committee on Co-operation could not be of any use to the co-operative movement.^{13(b)}

The Government desired to strengthen the co-operative movement in Bihar by legislation and the aforesaid Bihar and Orissa Act VI of 1935 was enacted. The Registrar was empowered to direct amendment of the bye-laws of a registered co-operative society. He was also empowered to surcharge any person, who had participated in the organisation or management of a co-operative society, or any past or present officer of the society. Section 40 of the Bihar and Orissa Co-operative Societies Act of 1935 laid down that the Registrar of co-operative societies could make an order requiring such person or officer to contribute to the assets of the society for having made any payment, which was contrary to law or to the rules or bye-laws of the society due to his culpable negligence or misconduct, or for having failed to bring into account and having misappropriated or fraudulently retained any property of the society.¹⁴

However, experts hold the view that the co-operative movement in Bihar could not make any progress or improvement with the enactment of the Bihar and Orissa Co-operative Societies Act of 1935, for the fundamental cause of progressive deterioration could not be properly tackled and that fundamental cause lay in the progressive decline in the repaying capacities of the members of the agricultural credit societies. The Government of Bihar also neglected the educational aim of training in the principles and practices of co-operation. The loyalty of the members of the co-operative societies to co-operative ideology could not be encouraged owing to lack of adequate arrangements for co-operative training. There was also acute shortage of trained personnel. By the end of the year 1937, the credit structure of the co-operative movement had completely collapsed.¹⁵

The disastrous earth quake of 1934 and the great depression had weakened the credit structure of the movement. The Provincial Co-operative

13(b) Prasad, K. N., op. cit., pp. 299-300.

14. Ibid., p. 300.

15. Ibid., 302-304.

Bank lost the confidence of the public and they began to withdraw their deposits from it. However, the Government of Bihar helped it in different ways and declared that they were ready to protect the Bank. The following declaration at the 20th session of the Bihar Co-operative Federation held on the 6th of April, 1938 was made by the then Minister of Education and Development :—

“On behalf of Government, I would reiterate our confidence in the future potentialities of the movement and would declare that Government have decided to rehabilitate the co-operative movement as early as possible and to take adequate steps to ensure its future expansion on sound lines so that it may, in time, develop into a true national organisation capable of making rural life richer and fuller in every way”. He also assured that intensive enquiries into the assets, liabilities and repaying capacities of the members of the agricultural co-operative credit societies would be undertaken. He held the view that after the completion of the enquiries undesirable members of the agricultural co-operative credit societies and the central co-operative banks would be eliminated and the co-operative movement in Bihar would be rehabilitated and strengthened by the organisation of new societies on sound lines.¹⁶

The Fourth Stage of Development (1939-46)

During the period of Second World War the Provincial Government of Bihar laid down the following general policy for the rehabilitation of the co-operative movement :—

(1) As against the rate of annual interest on the outstanding loans of the members of the agricultural co-operative credit societies ranging from 9 to 15 per cent there should be only a 7 per cent rate.

(2) The recoverable assets of a central co-operative would be broadly classified under two heads, viz., (a) interest-bearing, and (b) non-interest bearing.

(3) The central co-operative banks would be classified into three classes according to the incidence of loss:—A-class banks would be comparatively good banks in which the percentage of net deficit to gross liabilities was below 25 per cent. B-class banks would be those in which the percentage of deficit to gross liabilities was between 25 and 50 per cent. C-class or bad banks would be those in which the percentage or net deficit to gross liabilities was over 50 per cent.

16. Ibid., pp. 304-5.

(4) An annual subsidy equivalent to the difference between the costs of management according to a prescribed scale and the available annual recurring income would be given to the reconstructed central co-operative banks for a period of five years.

(5) The Government would meet the cost of audit of the reconstructed primary credit societies and the central co-operative banks for a period of five years.

(6) There would be a separate staff for the collection of dues from liquidated societies. The cost of the staff would in the first instance be advanced by the Government but would be recouped from collection.

But the Co-operative Rehabilitation Enquiries in Bihar held the view that the credit side of the co-operative movement could not be encouraged at the cost of the non-credit side of the movement.¹⁷

Again, the rehabilitation scheme based on the Burma Plan contemplated its uniform application to central banks all over the province; but the difficulties in connection with the sale of lands in Chotanagpur and Santhal Parganas for co-operative debts restricted its application to Bihar proper. By 1945, 27 central banks in Bihar were reconstructed. Under the modified scheme sanctioned for Chotanagpur, the reconstruction work of all the nine banks was completed by March, 1945. Another scheme was introduced in Santhal Parganas in that year. For expanding the business of the Provincial Bank and of the reconstructed central banks, a scheme on the lines of the Credit Agricole D'Egypte was introduced in 1944 and the Provincial Bank was appointed sole distributor of fertilisers for the Province. The process of rehabilitation was so intensive that the number of central banks dropped from 53 in 1937-38 to 42 in 1945-46 and of affiliated societies from 6,640 in 1938-39 to 5,172 in 1944-45. Owned funds were reduced from Rs. 30.32 lakhs in 1939-40 to Rs. 8.70 lakhs in 1945-46; and the working capital was cut to a third by 1944-45 and amounted to Rs. 30.09 lakhs in 1945-46 compared to Rs. 166.84 lakhs in 1937-38. Loans made represented only a fraction of repayments; but this policy resulted in reducing the outstandings from Rs. 121.35 lakhs in 1937-38 to Rs. 14.15 lakhs in 1945-46. The Provincial Bank had to reduce its owned funds from Rs. 14.22 lakhs in 1940-41 to Rs. 10.89 lakhs in the following year at which level they were maintained thereafter. Its working capital also declined from Rs. 106.92 lakhs in 1936-37 to Rs. 84.85 lakhs in 1942-43 but improved thereafter to Rs. 113.99 lakhs by 1945-46. Roughly a third of the rise was attributed to the increase in the funds provided by the Government for enabling the Bank to repay its deposits. The emphasis in regard to the loan operations was on recovery. Consequently loans

17. Ibid., pp. 305-6

made were progressively reduced inspite of improved recoveries and outstandings were reduced from Rs. 64.06 lakhs in 1937-'38 to Rs. 18.48 lakhs in 1945-46.^{17(a)}

Thus during the pre-independence era, we find the following features of the co-operative development in Bihar :—

(1) The development of co-operative credit was initiated by the Government resolution for solving the problem of rural indebtedness and Government-sponsored movement could not evoke the ready response and services of the public who looked with suspicion upon every movement so started. The distinction between co-operation imposed by the Government and necessarily supervised, regulated, restricted and controlled on the one hand and co-operation promoted by voluntary initiative and sustained by the co-operative spirit, which ensures the loyalty of the members, on the other hand, cannot be over-emphasised.¹⁸

Secondly, the Government did not make efforts to promote the co-operative spirit through efficient training and only expressed pious hopes and meaningless words of encouragement.

The important development during this period in India was the appointment of the Co-operative Planning Committee under the Chairmanship of R. G. Saraiya which gave its report in 1946 and suggested that as the supply of credit touched only one aspect of the life of a cultivator, the activities of the primary societies should be so extended as to cover the whole of his life because the main causes of the limited progress of the movement was the fact that it did not, especially in its initial stages, take the life of the individual as a whole. The primary credit societies should be so reformed and reorganised as to serve as centres for the general economic development of their members. An attempt should be made to bring 50 per cent of the villages and 30 per cent of the rural population within the ambit of the reorganised primary societies within a period of 10 years, and 25 percent of the total marketable surplus of agricultural produce of the country should come under co-operation.¹⁹

Post-independence Period

After independence, the Co-operative Committee of the Rural Development Board of 1948 reviewed the work of the movement in Bihar and laid down a Five Year Plan of the co-operative development in Bihar by

17 (a). Laud, G.M., Op. Cit., pp. 395—6.

18. Horace Plunket Foundation, Year Book of Agricultural Co-operation, 1930, p. 20.

19. Co-operative Planning Committee (Saraiya Committee), 1946, Printed in 1951, Delhi, pp. 18-19 and 62.

the organisation of the multi-purpose co-operative societies in 100 thanas. The major change in policy included—(i) the transformation of the credit societies with unlimited liability into the multi-purpose co-operative societies with limited liability, and (ii) organisation of the new multi-purpose co-operative societies. The objective of these multi-purpose co-operative societies was the satisfaction of the diverse needs of rural life. In 1948 there were in Bihar 869 Multipurpose co-operative societies whose number shot up to 4,717 in 1951. In 1948 the number of central societies, credit societies with limited liability, primary credit societies with unlimited liability, co-operative stores, Harijan co-operative societies, cane development and cane marketing unions and cane growers co-operative societies was 52,94, 5782, 188, 8, 59 and 4,913 respectively and their number rose to 68,106, 3468, 284, 33, 61, and 5,486 respectively in 1951.²⁰

Development of co-operative banking during the four Five-Year Plan periods (1951-52 to 1973-74)

The co-operative credit system in Bihar mainly comprises : (a) the short-term agricultural credit institutions; (b) the long-term agricultural credit institutions, and (c) the non-agricultural credit co-operatives. The short-term agricultural credit institutions consist of three categories :—

(i) primary credit societies—agricultural and non-agricultural at the village level, (ii) central co-operative banks at the district level, and (iii) State Co-operative Bank at the State level. The apex of the co-operative organisation in the State is the State Co-operative Bank to which central banks are affiliated. The primary societies are affiliated to the central banks.

The long-term agricultural credit organisation is constituted by :

- (a) branches of State Co-operative Land Development Bank and
- (b) State Co-operative Land Development Bank at the apex.

Primary Agricultural Credit Societies

The primary agricultural credit society is the foundation stone on which the entire edifice of co-operative credit is built up. It is the primary credit society which comes into direct contact with the agriculturist.

Trend of progress of primary agricultural societies from 1951-52 to 1973-74 is evident from the following table²¹ :

20. Prasad, K. N., Op. Cit., p. 307.

21. **Sources** : *Hand book of Co-operation Statistics*, Bihar, 1968, pp.—89-90; Department of Co-operation, Government of Bihar, co-operative Development in Bihar, 1970 p. 38; "Co-operative Movement gains Momentum" by Azad, Md. Hussain, in *Wheel in motion*, Patna, 1976. p. 33; *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1969-70, pp.—92-95 and 1973-74, pp. 112-19; Government of Bihar, Bihar State Planning Board, *Selected Plan Statistics Bihar*, Patna, 1976, pp.—157-58, and *Selected Statistics relating to Co-operative Credit in India*, Fourth Edition, 1974, p. 13.

TABLE—2
Trend of progress of Primary Agricultural Credit Societies (First Plan, Second Plan, Third Plan, and Fourth Plan.)

| Year | No. of societies | Percentage of villages covered | No. of members in thousands | Percentage of rural families served | Paid-up share capital (Rs. in lakhs) | Deposits held at the end of the year (Rs. in lakhs) | Loans advanced during the year (Rs. in lakhs) |
|------------------------------|------------------|--------------------------------|-----------------------------|-------------------------------------|--------------------------------------|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| First Plan End (1955-56) | 12,381 | 20 | 4,18 | 5 | 31.15 | 1.92 | 54.99 |
| Second Plan End (1960-61) | 17,086 | 57 | 9,61 | 14 | 101.15 | 55.57 | 181.86 |
| Third Plan End (1965-66) | 17,151 | 84 | 16,50 | 21 | 247.50 | 161.50 | 1040.00 |
| 1966-67 | 16,500 | 87 | 16,81 | 21 | 281.50 | 201.81 | 1241.00 |
| 1967-68 | 16,500 | 90 | 21,50 | 28 | 422.10 | 258.00 | 1500.00 |
| 1968-69 | 16,500 | 92 | 25,00 | 30 | 488.00 | 301.00 | 1250.00 |
| 1969-70 | 16,500 | 94 | 27,00 | N. A. | 498.00 | 293.00 | 1165.00 |
| 1972-73 | 16,500 | 97 | 28,20 | 36 | 636.62 | 158.13 | 1357.86 |
| Fourth Plan End (1973-74) | 16,500 | 97 | 28,31 | 37 | 637.00 | 160.00 | 1479.00 |

TABLE 2—(Contd.)

| Loans out- standing during the year (Rs. in lakhs) | Loans recovered during the year (Rs. in lakhs) | Loans overdue (Rs. in lakhs) | Overdues as % of loans out- standing | Average member- ship per society | Average share capital per member | Average deposits per member | Average loans advanced per borrowing member |
|--|--|------------------------------------|---|---|---|-----------------------------------|---|
| 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 92.21 | 28.31 | 45.82 | 49 | 32 | 7.5 | 1.7 | 38 |
| 234.00 | 125.00 | 107.00 | 45 | 55 | 10.5 | 5.8 | 73 |
| 695.00 | 875.50 | 225.99 | 32 | 96 | 15.0 | 9.8 | 237 |
| 1241.00 | N. A. | 446.76 | 36 | 102 | 16.0 | 12.0 | 250 |
| 1248.00 | 1130.25 | 512.28 | 37 | 130 | 16.5 | 12.0 | 255 |
| 1219.69 | 1250.00 | 561.60 | 46 | 152 | 19.5 | 12.0 | 178 |
| 1931.70 | 925.35 | 965.04 | 50 | 163 | 18.4 | 10.8 | 129 |
| 2518.84 | 1106.18 | 1402.24 | 56 | 171 | 22.5 | 5.6 | 134 |
| 2826.34 | 1295.20 | 1739.74 | 61 | 171 | 22.5 | 5.6 | 147 |

It can be seen from table no. 2 that there have been increasing trends in average membership per society, average share capital per member, average deposits per member and average loans advanced per borrowing member during the four Five-Year Plan periods in Bihar. However, these averages are still lower in comparison to All-India averages after the completion of four Five-Year Plan periods. It is evident from the following table²² :—

TABLE—3

**Primary Agricultural Credit Societies (Bihar & India)
1973-74**

| | <i>Bihar</i> | <i>India</i> |
|--|--------------|--------------|
| Average membership per society | 171 | 227 |
| Average share capital per member (in Rs.) | 22.5 | 77.5 |
| Average deposits per member (in Rs.) | 5.6 | 25.5 |
| Average loans advanced per borrowing member (in Rs.) | 134 | 581 |

Table no. 3 indicates that average share capital, average deposits per member and average loans advanced per borrowing member during 1973-74 are much lower in comparison to All-India averages in the corresponding year. There is urgent need to augment these averages at par with All-India averages. Bihar is an agricultural State and admittedly, these co-operatives are meeting at present only a fraction of the farmers' needs for short-term and medium-term loans. They should be developed in such a way as would be able to cater to the bulk of the credit needs of the farmers in this State.

The primary agricultural credit societies in this State suffer from inability to attract deposits. Percentage of overdues has gone up considerably from 49 in 1955-56 to 61 in 1973-74. There is not much progress in recovery of loans also. The MacLagan Committee observed :

“Unless loans are repaid punctually, co-operation is both financially and educationally an illusion”.²³

22. Calculations based on the data in *Statistical Statements relating to the Co-operative Movement in India*, Part I credit societies, 1973-74, pp. 112-19.

23. Report of the Committee on co-operation (MacLagan) in India, 1915, Reprinted in 1957, Bombay, p. 45.

According to the Reserve Bank's Review, "the accumulation of heavy overdues and freezing of the assets of the societies naturally result in clogging their business and paralyse the working of the co-operative movement over large parts of the country. Coercive action against the defaulters should be taken provided no effective remedy for this state of affairs is found since it only saddles the societies with lands which are difficult to dispose of and the management of which gives rise to complicated problems".²⁴

Central Co-operative Banks

Central co-operative banks serve as connecting links between the State Co-operative Bank and the primary credit societies. They finance the primary credit societies and balance the excess and deficiency in their resources. Trend of progress of central co-operative banks during the four Five-Year Plan periods in this State can be seen from the following table²⁵ :—

24. Quoted by Mamorial C. B., op. cit., p. 693

25. Sources : *Handbook of Co-operation Statistics*, Bihar, 1968, pp. 86-88; Department of Co-operation, Government of Bihar, *Co-operative Development in Bihar*, 1970, p. 34; Government of Bihar, Bihar State Planning Board, *Selected Plan Statistics*, 1976, p. 160; Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1969-70, pp. 19-22; and 1973-74, pp. 21-24; and Selected Statistics relating to Co-operative Credit in India, 1974, p. 13.

TABLE—4
Progress of Central Co-operative Banks during the four Five-Year Plan periods
 (Rs. in lakhs).

| Year | No. of Banks | No. of Members. | | Paid-up share capital. | | | Re-serve | Deposits held at the end of the year | Borrow- ing at the end of the year |
|------------------------------------|--------------|-----------------|---------------|------------------------|--------|-------------------------------|----------|--------------------------------------|------------------------------------|
| | | Societies | Indivi- duals | Total | Total | of which Govt. contribu- tion | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 1st Plan End (1955-56) | 51 | 13,049 | 3,471 | 16,520 | 11.01 | N.A. | 8.81 | 38.34 | 76.41 |
| 2nd Plan End (1960-61) | 35 | 24,708 | 3,359 | 28,067 | 72.94 | 44.00 | 26.74 | 1,65.03 | 1,66.11 |
| 3rd Plan End (1965-66) | 28 | 33,041 | 3,029 | 36,067 | 141.80 | 46.80 | 50.07 | 2,99.95 | 5,36.63 |
| Three Annual Plan periods 1966-67 | 28 | 34,056 | 2,973 | 37,029 | 173.41 | 46.80 | 48.76 | 3,55.24 | 11,19.92 |
| 1967-68 | 28 | 32,407 | 2,996 | 35,403 | 300.95 | 127.58 | 63.51 | 4,06.69 | 12,29.86 |
| 1968-69 | 28 | 29,954 | 2,983 | 32,987 | 383.34 | 158.91 | 66.83 | 4,82.18 | 11,35.48 |
| Beginning of Fourth Plan (1969-70) | 28 | 27,567 | 2,955 | 30,522 | 410.27 | 165.41 | 92.71 | 5,08.51 | 11,47.71 |
| Fourth Plan End (1973-74) | 28 | 29,898 | 2,798 | 32,696 | 539.46 | 230.28 | 410.10 | 10,31.58 | 18,54.41 |

TABLE 4—(Contd.)

| Working Capital | Loans advanced during the year | Loans recovered during the year | Loans outstanding at the end of the year | Loans overdue during the year | Percentage of overdue loans standing | Percentage of deposits to Working Capital. | Average per bank | | | |
|-----------------|--------------------------------|---------------------------------|--|-------------------------------|--------------------------------------|--|------------------|----------|----------------|--|
| | | | | | | | Share Capital | Deposits | Loans advanced | |
| 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | |
| 1,38.14 | 77.98 | 61.99 | 1.02 | N. A. | — | 27.75 | 0.21 | 0.75 | 1.52 | |
| 4,30.84 | 2,27.72 | 1,84.27 | 2,72.80 | 99.00 | 36 | 38.30 | 2.08 | 4.71 | 6.50 | |
| 10,27.99 | 9,67.86 | 6,03.73 | 7,97.74 | 3,03.00 | 38 | 29.18 | 5.06 | 10.71 | 34.56 | |
| 16,97.34 | 13,48.59 | 8,98.39 | 14,08.13 | N. A. | — | 20.93 | 6.19 | 12.68 | 48.16 | |
| 20,01.00 | 15,17.24 | 12,75.59 | 17,10.60 | 8,47.75 | 49 | 20.32 | 10.74 | 14.52 | 54.18 | |
| 27,93.02 | 12,04.00 | 12,76.37 | 18,05.70 | 10,70.00 | 59 | 17.26 | 13.69 | 17.22 | 43.00 | |
| 21,69.19 | 11,12.35 | 10,79.59 | 18,40.04 | 11,43.00 | 62 | 23.44 | 14.65 | 18.16 | 39.72 | |
| 40,36.23 | 13,91.40 | 12,44.39 | 28,74.61 | 18,92.42 | 66 | 25.56 | 19.26 | 36.84 | 49.69 | |

The table no. 4 indicates that the percentage of overdues to outstanding loans has shot up from 36 in 1955-56 to 66 in 1973-74. The overdues situation constitutes a large proportion of the outstandings. The main causes of overdues are the lack of proper security of the objects of loans and the repaying capacity of the borrowers, ineffective supervision over the utilisation of loan and leniency in demanding punctual payment of the loan cancelling them by fictitious repayment and automatic renewals.

The outstanding loans have also gone up from Rs. 1.02 lakhs in 1955-56 to Rs. 2874.61 lakhs in 1973-74. From the rising trend in the outstanding loans, it becomes obvious to introduce seasonality in the matter of grant and recovery of loans for various crops. The loans should be given during the sowing season and the date of recovery should be fixed near the period when the marketable crop of a bulk of cultivators in the area is likely to be marketed. For reducing overdues, it is necessary to adopt the conversion of short-term loans into medium-term loans in areas affected by natural calamities by having recourse to agricultural credit stabilization funds and there should be the organised drives for collection of past overdues.

The percentage of deposits to working capital has been uneven during the four Five-Year Plan periods. However, there has been downward trend. The percentage of deposits to working capital has come down from 27.75 in 1955-56 to 25.56 in 1973-74. Deposits of the central banks may be enhanced by promoting thrift among members.

From table no. 4 it can also be seen that average share capital, average deposits and average loans advanced per central bank have gone up. The average share capital per central bank has increased from Rs. 0.21 lakhs in 1955-56 to Rs. 19.26 lakhs in 1973-74; average deposits per bank has gone up from Rs. 0.75 lakhs in 1955-56 to Rs. 36.84 lakhs in 1973-74 and average loans advanced per bank has shot up from Rs. 1.52 lakhs in 1955-56 to Rs. 49.69 lakhs in 1973-74. However, these averages are still below the All-India averages at the end of the Fourth Five Year Plan. It is evident from the following table²⁶ :—

TABLE—5
Central Co-operative Banks (Bihar and India) (Rs. in lakhs) 1973-74

| <i>Per Central Bank.</i> | <i>Bihar</i> | <i>India.</i> |
|--------------------------|--------------|---------------|
| Average share capital | 19.26 | 56.50 |
| Average deposits. | 36.84 | 2,10.73 |
| Average loan advanced. | 49.69 | 2,46.12 |

26. Calculations based on the data in *Statistical Statements relating to the Co-operative Movement in India*, Part I, Credit Societies, 1973-74, pp. 21-25 and *Selected Plan Statistics*, Bihar, 1976, p. 160.

Therefore, the encouragement of subscription to share capital, mobilisation of deposits, the reduction of overdues, effective linking of credit with marketing, better supervision of the use of loans at all levels are urgently required to make the central co-operative banks as effective banking agencies for catering to the cause of agricultural production.

Bihar State Co-operative Bank Limited

The Bihar State Co-operative Bank Ltd. is the apex co-operative credit institution of the State and has been meeting the demands of all the central co-operative banks for financing agricultural needs. This apex bank constitutes an indispensable link in the chain of co-operative credit. All advances from the Reserve Bank of India are channelled through the State Co-operative Bank. This structure operates in respect of short-term and medium-term credit. Trend of progress of the Bihar State Co-operative Bank during the four Five-Year Plan periods may be seen from the following table²⁷ :—

27. Sources: *Hand Book of Co-operation Statistics*, Bihar, 1968, pp. 63-66; Government of Bihar, Department of Co-operation, *Co-operative Development in Bihar*, 1970, p. 32; Statistical Statements relating to the Co-operative Movement in India, Part I, Credit Societies, 1968-69, pp. 5-10; 1969-70, pp. 5-11, and 1973-74, pp. 5-13.

TABLE 6—(Contd.)

| Other borrowings at the end of the year. | Working Capital | Loans advanced during the year | Loans recovered during the year | Loans outstanding at the end of the year | Loans overdue | Percent- age of overdues to out- standing loans | Percent- age of deposits to work- ing capi- tal | Cost of manage- ment. | Profit (+) or Loss (—) |
|--|-----------------|--------------------------------|---------------------------------|--|---------------|---|---|-----------------------|------------------------|
| 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 |
| 1,06.67 | 2,96.14 | 98.94 | 2,11.95 | 78.07 | 28.85 | 36.95 | 43.35 | 6.26 | (+) 3.43 |
| 41.23 | 5,14.65 | 2,25.68 | 2,06.80 | 4,02.16 | 34.99 | 8.70 | 60.49 | 9.17 | (+) 4.77 |
| 2,96.61 | 9,43.39 | 8,35.96 | 4,77.77 | 4,92.24 | 36.70 | 7.46 | 54.38 | 6.34 | (+) 10.97 |
| 8,64.55 | 16,10.27 | 10,91.52 | 5,85.95 | 11,43.01 | 2,13.24 | 18.66 | 37.04 | 7.98 | (+) 10.93 |
| 7,78.18 | 17,91.09 | 11,88.79 | 13,70.03 | 11,91.29 | 3,30.20 | 27.72 | 43.08 | 10.59 | (+) 12.90 |
| 8,25.03 | 16,88.52 | 12,66.98 | 9,91.35 | 10,57.95 | 4,64.84 | 43.94 | 35.74 | 10.99 | (+) 8.21 |
| 7,14.20 | 16,70.60 | 10,95.84 | 10,79.32 | 11,09.37 | 4,34.52 | 39.17 | 40.11 | 8.86 | (+) 20.07 |
| 11,10.88 | 30,11.75 | 24,60.14 | 23,16.12 | 16,53.81 | 6,92.00 | 41.84 | 45.95 | 32.48 | (+) 14.01 |

From the table no. 6, it is evident that the percentage of overdues to outstanding loans has increased from 36.95 in 1955-56 to 41.84 in 1973-74, whereas the percentage of overdues to outstanding loans of the State Co-operative banks of India is 12.64 during the year 1973-74. Again the percentage of deposits to working capital of the State Co-operative Bank in Bihar is 40.11 in 1973-74 whereas deposits constitute 51.88 per cent of the total working capital of the State Co-operative Banks of India in the corresponding year.²⁸ The percentage of deposits to working capital of the Bihar State Co-operative Bank has been uneven during four Five-Year Plan periods. However, it has slightly increased from 43.35 per cent in 1955-56 to 45.95 per cent in 1973-74. Profit of the State Co-operative Bank has gone up from Rs. 3.43 lakhs in 1955-56 to Rs. 14.01 lakhs in 1973-74. However, this increase also cannot be regarded as a happy sign because profit of the Bank during the year 1973-74 constitutes 2.21 per cent of the total profits of all the State Co-operative Banks of India.

The proportions of 'deposits', 'working capital', 'loans advanced' and 'loans recovered' also constitute very small proportions of the total 'deposits', working capital, 'loans advanced' and 'loans recovered' of the State Co-operative Banks of India during the year 1973-74. It becomes obvious from, the following table²⁹.

TABLE—7

State Co-operative Banks (Bihar and India) 1973-74 (Rs. in lakhs)

| | <i>Deposits</i> | <i>Working Capital</i> | <i>Loans</i> | | |
|-------|--------------------|------------------------|--------------------|--------------------|--------------------|
| | | | <i>Advanced</i> | <i>Recovered</i> | <i>Outstanding</i> |
| Bihar | 13,83.95 (2.83) | 30,11.75 (3.20) | 24,60.14 (2.90) | 23,16.12 (2.87) | 16,53.81 (3.30) |
| India | 488,67.48 (100) | 941,99.79 (100) | 848,89.74 (100) | 806,49.81 (100) | 501,24.01 (100) |

28 & 29—Calculations based on the data in *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, Bombay, 1973-74, pp. 5-13.

However, for improving the efficiency and working of the State Co-operative Bank of Bihar, the Reserve Bank's control over the affairs of this Bank becomes essential as it has been rendering financial assistance to the State Co-operative Bank on an increasing scale since the publication of the report of the Rural credit Survey in 1954. Reserve Bank's role is only advisory and the inspection of the State and central co-operative banks by the Reserve Bank is voluntary. As the Reserve Bank lends huge funds to the State Co-operative Bank, it should have statutory control over the affairs of these banks.

Bihar State Co-operative Land Development Bank Ltd.

The State Co-operative Land Mortgage Bank now called State Co-operative Land Development Bank was organised in this State during the Second Five-Year Plan in pursuance of the recommendation of Rural Credit Survey Committee. Although registered on the 18th December, 1957, the Bank started functioning only in 1959-60. The long-term credit is provided by the Bihar State Co-operative Land Development Bank for long-term improvement of land and for acquisition of capital assets, such as pumping sets, tractors, power-tillers, tractors and other improved farm machinery.

The trend of progress of the Bihar State Co-operative Land Development Bank from 1960-61 to 1973-74 may be seen from the following table³⁰ :—

30. Sources : Reserve Bank of India-*Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1960-61, pp. 162-64; 1965-66, pp. 89-93 1969-70, pp. 140-52, and 1973-74, pp. 170-87; Department of Co-operation Government of Bihar, *Co-operative Development in Bihar*, 1970, p. 39; *Annual Report*, Bihar Co-operative Land Development Bank, 1973-74. Appendix(A)

TABLE—8
Trend of Progress of the Bihar State Co-operative Land Development Bank
(1960-61 to 1973-74) (Rs. in lakhs)

| Year | No. of branches including Head office | No. of membership | Paid-up share capital | | Re- serves | Deposits | Total | Deben- tures |
|--------------------------------------|---|----------------------|-----------------------|--|---------------|----------|----------|-----------------|
| | | | Total | of which Govt. con- tribu- tion | | | | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Second Plan End (1960-61) | — | 4,834 | 11.40 | 10.00 | — | — | — | — |
| Third Plan End (1965-66) | 28 | 12,282 | 24.09 | 20.00 | 0.10 | 2.05 | 52.00 | 50.00 |
| Fourth Plan Begin- ning (1969-70) | 58 | 1,18,846 | 103.87 | 45.00 | 0.39 | 49.39 | 756.38 | 7,34.19 |
| Fourth Plan End (1973-74) | 102 | 6,06,370 | 421.52 | 138.50 | 20.18 | 172.91 | 48,00.47 | 44,68.91 |

* Regular + Nominal

TABLE 8—(Contd.)

| OTHER BORROWINGS | | | | | | | | | | | | | |
|------------------|---------------------|-----------------------|---------------------|--------|--------------------|------------------|-----------------------------|-------------------------|--------------------------------|---------------|--|---|--|
| | Government banks | Co-operative banks | Commercial banks | Others | Working Capital | Invest- ments | Loans ad- van- ced | Loans reco- vered | Loans out- stand- ing | Over- dues | % of over- dues to out- stand- ing loans | % of depo- sit to man- age- ment work- ing capital | Cost of Profit (+) or Loss (—) |
| 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 |
| — | — | — | — | — | 11.62 | 39.77 | 2.69 | 0.12 | 4.78 | 0.01 | 0.21 | — | 0.25 (+) .33 |
| — | 2.00 | — | — | — | 78.27 | 0.56 | 28.00 | 1.79 | 63.67 | 0.32 | 0.50 | 2.62 | 1.30 (+) .69 |
| — | 0.68 | 21.51 | — | — | 9,10.04 | 0.58 | 3,16.82 | N.A. | 8,07.90 | 17.14 | 2.12 | 5.43 | 20.30 (+) 5.82 |
| — | 2,23.52 | 1,08.04 | — | — | 54,15.12 | 2.51 | 11,33.81 | 2,89.72 | 42,06.84 | 206.40 | 4.91 | 3.08 | 76.77 (+) 12.40 |

The table no. 8 indicates that the percentage of deposits to working capital has increased slightly from 2.62 in 1965-66 to 3.08 in 1973-74. The percentage of overdues to outstanding loans has also gone up from 0.50 in 1965-66 to 4.91 in 1973-74.

Again, after examining the operation of Central Land Development banks of India and Bihar, one may find the disappointing proportions of paid-up capital, working capital and investments of the Bihar Land Development Bank to the total paid-up capital, working capital and investment of all the Central Development banks of India. It is evident from the following table³¹ :—

TABLE—9
Central Land Development Banks (Bihar & India)
30th June, 1974. (Rs. in lakhs)

| | <i>Paid-up share capital</i> | <i>Working capital</i> | <i>Investments</i> |
|-------|------------------------------|------------------------|---------------------|
| Bihar | 421.52 (4.5) | 54,15.93 (4.0) | 2.51 (0.09) |
| India | 93,58.78 (100.0) | 13,68,10.88 (100.0) | 27,96.55 (100.0) |

Though the Annual Report of the Bihar State Co-operative Land Development Bank, 1973-74, shows the satisfactory trend of progress, it may not be said to be satisfactory in comparison to the average trend of progress of Central Land development banks on all India level. There are some vested interests which are hampering the progress of Land Development Bank in Bihar and do not allow it to expand its activities. So long as they remain in the administration of the Bank, it will not have satisfactory progress and not bring itself at par with the average progress of the Central Land Development banks of India. As reported by some people, the benefit of long-term loans granted on security of land is being monopolised solely by the big farmers and owing to this tendency, there is a distinct falling off in the amount of credit taken per borrowing member along with the reduction in the size of holding.

However, it is gratifying to note that the Central Land Development Bank of Bihar has been conducting a World Bank's Scheme named 'Bihar Agricultural Credit Project' of Rs. 24.19 crores since December, 1973. Again, during the period of Fifth Five Year Plan, it aims at distributing Rs. 105 crores as loans for general schemes and Rs. 20 crores for special schemes.³²

31. Calculation based on the data in *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1973-74, pp. 170-87 and the Annual Report, Bihar State co-operative Land Development Bank 1973-74, Appendix (A)

32. *Annual Report*, Bihar State Co-operative Land Development Bank Ltd., Patna, 1973-74, p. 1

Non-agricultural Credit Societies

We have seen that agricultural credit societies, central co-operative banks, State Co-operative Bank and Co-operative Land Development Bank are engaged in pooling their resources from various agencies and providing short, medium and long-term credit to the agriculturists. In their efforts these agricultural banks are also immensely helped by the Government, Bank of India and the State Bank of India. But there are a large number of urban people of small means and limited resources who are left out without any institutional agency to provide them cheaper and facile credit. But they require credit for various purposes. Non-agricultural credit societies are the agencies which provide them credit. These societies comprise urban co-operative banks, salary earners' societies and other credit societies.

The number of non-agricultural credit co-operative societies in Bihar mainly comprise of employees co-operative societies. These societies provide credit facilities to their members who are employees of Government offices and commercial firms etc. to meet their domestic and social expenses. The trend of progress of these non-agricultural credit societies (employees' credit societies) during the four Five-Year Plan periods is indicated in the table given below³³ :

33. *Handbook of Co-operation Statistics*, Bihar 1968, pp. 92-93 and *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1969-70, pp. 125-27 and 1973-74, pp. 145-54.

TABLE—10
Trend of progress of Non-agricultural Credit Societies (Employees' Credit Societies)
during four Five-Year Plan periods

| Year | (Rs. in Lakhs) | | | | | | |
|---------------------------|------------------|---------------------------------|-----------------------|-----------|--------------------------------|---|--|
| | No. of societies | No. of members (In thousand) | Paid-up share capital | Deposits. | Loans advanced during the year | Overdues as percentage of loans outstanding | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| 1st Plan End (1955—56) | 114 | 52 | 56.18 | 2.51 | 250.32 | 6.5 | |
| 2nd Plan End (1960—61) | 202 | 91 | 82.08 | 398.37 | 398.27 | 3.4 | |
| 3rd Plan End (1965—66) | 221 | 97 | 112.01 | 566.57 | 581.65 | 1.0 | |
| 1966—67 | 251 | 103 | 126.30 | 588.95 | 641.03 | 1.6 | |
| 1967—68 | 258 | 110 | 147.22 | 603.22 | 695.00 | 1.5 | |
| 1969—70 | 231 | 96 | 152.07 | 634.15 | 690.00 | 0.88 | |
| 4th Plan End (1973—74) | 264 | 185 | 223.63 | 894.38 | 856.52 | 2.50 | |

TABLE 10—(Contd.)

| Average members per society. | Average per member. | | Societies in Profit. | | Societies in Loss | | No. of societies with Profit or Loss |
|------------------------------|------------------------|-------------------|----------------------|--------|-------------------|----------|--------------------------------------|
| | Share capital (In Rs.) | Deposits (In Rs.) | Number | Amount | Number | Amount | |
| 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| 456 | 108 | 4.83 | — | 3.88 | — | (—) 0.01 | — |
| 451 | 90 | 437.77 | 119 | 5.54 | 37 | (—) 0.23 | 46 |
| 439 | 116 | 584.09 | 168 | 11.30 | 13 | (—) 1.20 | 40 |
| 410 | 123 | 571.80 | 207 | 11.50 | 12 | (—) 0.95 | 32 |
| 426 | 134 | 548.38 | 147 | 4.88 | 45 | (—) 0.03 | 66 |
| 416 | 158 | 660.57 | 134 | 5.12 | 74 | (—) 0.08 | 23 |
| 701 | 121 | 483.45 | 127 | 18.50 | 95 | (—) 0.74 | 42 |

From the table no. 10, it may be seen that the number of societies has shot up from 114 at the end of First Five Year Plan to 264 at the end of Fourth Five Year Plan and the average membership per society has gone up from 456 to 701 during the same periods. Average deposits and average share capital per member have also gone up from Rs. 4.83 and Rs. 108 respectively in 1955-56 to Rs. 483.45 and Rs. 121 in 1973-74. At the end of Fourth Five Year Plan, the number of societies in profit is greater than the number of societies in loss. Thus the performance of the non-agricultural credit societies may be said to be satisfactory.

After the study of the progress of agricultural and non-agricultural credit societies, we fully agree with the views expressed in the Fifth Five Year Plan of the State, that for making co-operatives viable entities responsive to the needs of the farmers, the workers and the consumers, it is essential to consolidate and activate the co-operative societies of the State. The objective of the plan is to make these basic institutions alive to meet the specific needs of the weaker sections of the society. Special stress is also being given to rejuvenation of co-operative societies of economically backward areas and tribal areas.³⁴

Summing up

After going through the development of co-operative credit societies of Bihar, we find that in order to ensure soundness of the operation of supervised credit programme, the co-operative credit societies should be well-organised to give loans and technical advice to sub-marginal, marginal and medium farmers in areas where opportunities and desire to augment agricultural production exist. They should involve the elements of local leadership, grass-root support, and democratic control for making themselves effective. A co-ordination between the short-term and medium-term credit structure, and long-term credit structure is urgently needed. For having a close and intimate co-ordination between these two agencies, inter-representation between the committees of management is suggested. The loaning policies and procedures of Land Development Bank and its branches should be rationalised so as to assign top priority to agricultural production requirements and the determination of the eligibility of loans should be re-aligned to assessment of incremental income rather than the security offered for loans. At the same time non-agricultural credit societies should be encouraged to assist the urban and semi-urban people.

34. Govt. of Bihar, Planning Deptt. *Draft Fifth Five Year Plan*, 1974-79, p. 107.

CHAPTER III

CO-OPERATIVE BANKING INSTITUTIONS IN INDIAN STATES : A COMPARATIVE STUDY

In independent India, co-operative banking system has been considered as a suitable instrument for ensuring a dynamic development of co-operative effort. Personalization of credit is the special feature of the co-operative banks. The ever-increasing role of the co-operative banks in the rural economy imparts a lesson to the commercial banks and dispels from their mind the age-old inertia and the gloom of conservatism by shifting emphasis from credit-worthiness of the persons to the credit-worthiness of the purpose and from tangible security to the character of the borrower and then paves the way for further development of banking in the hitherto neglected rural areas¹.

Co-operative Banking Institutions in States

The entire co-operative banking system in different States of India consists of two parts—one engaged in short-term and medium-term credit and the other in long-term credit. The former in each State is a three-tier federal one with a State Co-operative Bank at the apex level, the central co-operative banks at the district level and the primary credit societies at the base—agricultural credit societies in the villages and urban banks and other non-agricultural credit societies mainly in towns and cities. In addition to these, there are active grain banks functioning as primary societies.

The long-term credit needs of the agricultural sector are met by Land Development banks. Originally they were established to relieve the agriculturist of the burden of indebtedness. They now give priority to development needs, e.g., provision of equipment like pump-sets, tractors and machinery and land improvement in the form of levelling, bunding, reclamation of land, fencing, digging up new wells and repairs to old wells. The structure is a two-tier one, with Central Land Development Bank at the State level and primary banks at taluka levels (as in Tamil Nadu and Andhra Pradesh) or district levels (as in Maharashtra and Karnatak). In Bihar, Gujarat, Jammu and Kashmir and Uttar Pradesh, the structure is unitary, the apex Land Development Bank operating directly through its branches. The central land development banks raise

1. Choubey, B. N., *Principles and Practice of Co-operative Banking in India*, Asia Publishing House, 1968, p. 9.

their resources by floating debentures guaranteed by Government. These debentures are declared as trustee securities. With the interim finance (short-term accommodation) from the State Government or the State Bank of India and other commercial banks or the State co-operative bank, they grant loans to cultivators against the security of mortgage of immovable property. After sufficient mortgages are accumulated they float debentures which are secured by mortgages².

Urban co-operative banks are more akin to commercial banks in their operations. The term 'urban co-operative bank' has been not uniformly defined. In most States, no clear definition of an urban co-operative bank has been made. In Maharashtra, however, only those urban credit societies are allowed to use the word 'bank' in their names which do banking-business, as defined in Section 277F of the Indian Companies Act, 1913, or Section 5(b) of the Banking Regulation Act, 1949, and have a paid-up share capital of not less than Rs. 20,000/-. An urban co-operative bank is normally restricted under its bye-laws to confine its operations to the municipal area or a town. More than one urban co-operative bank may function in the same town or area, because no clear demarcation of the area of operation is made within the town. Normally persons living in urban areas, drawn from certain classes like traders, merchants, professional and salaried class are members of urban co-operative banks. Some urban co-operative banks also admit firms and local authorities as members to a limited extent. In some banks, there is a provision for admitting, only individuals as members; in practice, these banks generally meet the needs of particular types or groups of members depending on their particular trade, profession, locality and community. These banks generally accept current savings and fixed deposits although fixed deposits form the major portion of their total deposits. In a few States there exist industrial co-operative banks operating at the State or district levels which cater to the credit needs of industrial co-operatives. Their resources are very meagre and with the exception of a few banks they have generally not been able to make a significant impact³.

Practically there is no organisational and administrative difference in the system of co-operative banking in the States. But owing to disparity in the requisite essentials of co-operative banking, like standard of literacy, and social and economic environment, the development of co-operative banking has not been uniform in all the States. In States like Tamil Nadu and Maharashtra, it has made very remarkable progress; while in other States, particularly in Rajasthan, it is still in the stagnant stage.

2. Government of India : *Report of Banking Commission*, Delhi. 1972, p. 53

3. *Ibid.*, pp. 53—55.

Taking into consideration the first part of the credit institutions, agricultural and non-agricultural credit societies forming the base, have varied forms, such as service co-operatives, large-sized and small-sized co-operative credit societies and rural banks of Punjab and grain banks of Madhya Pradesh, Tamil Nadu, Maharashtra and Rajasthan. Salary earners, credit societies, urban banks, thrift societies and credit co-operatives of artisans and traders constitute non-agricultural credit co-operatives in all the States.

In order to assess the actual progress of co-operative banking institutions in Indian States, their comparative study becomes imperative.

Number of Primary Agricultural Credit Societies and their membership

The programmes for the re-organization of primary agricultural credit societies, which was originally scheduled to be completed in 1966-67, is still far from complete, although there was further decline in the number of agricultural credit societies during the period under review. Of the 1,53,808 primary agricultural credit societies as at the end of June, 1974, as many as 18,101 societies were dormant. The proportion of dormant societies to total societies was highest in Assam (75.17), followed by Rajasthan (28.89) and West Bengal (20.34). The percentage of dormant societies was lowest in Punjab (1.72).

The State-wise position in this regard is indicated in the table⁴ given below:—

TABLE—1
Dormant Societies (The State-wise position) on 30.6.1974.

| <i>State/Union Territory</i> | <i>Number of societies as on 30.6.74</i> | <i>Of which dormant</i> | <i>Percentage of dormant societies to total</i> | <i>Number of active societies</i> |
|------------------------------|--|-------------------------|---|-----------------------------------|
| 1 | 2 | 3 | 4 | 5 |
| Andhra Pradesh | 14,877 | 3,111 | 20.91 | 11,766 |
| Assam | 3,069 | 2,307 | 75.17 | 762 |
| Bihar | 16,500 | 930 | 5.64 | 15,570 |

4, *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies 1973-74*, Bombay, p. 112.

TABLE 1—(Contd.)

| <i>State/Union Territory</i> | <i>Number of societies as on 30-6-1974</i> | <i>Of which dormant</i> | <i>Percentage of dormant societies to total</i> | <i>Number of active societies</i> |
|------------------------------|--|-------------------------|---|-----------------------------------|
| 1 | 2 | 3 | 4 | 5 |
| Gujarat | 8,419 | 621 | 7.38 | 7,798 |
| Haryana | 6,266 | 260 | 4.15 | 6,006 |
| Himachal Pradesh | 2,490 | 143 | 5.74 | 2,347 |
| Jammu & Kashmir | 1,084 | 69 | 6.37 | 1,015 |
| Karnatak | 8,309 | 896 | 10.78 | 7,413 |
| Kerala | 2,049 | 247 | 12.05 | 1,802 |
| Madhya Pradesh | 9,812 | 164 | 1.67 | 9,648 |
| Maharashtra | 19,975 | 269 | 1.35 | 19,706 |
| Manipur | 607 | 158 | 26.03 | 449 |
| Nagaland | 16 | 1 | 6.25 | 15 |
| Orissa | 3,342 | 289 | 8.65 | 3,053 |
| Punjab | 10,192 | 175 | 1.72 | 10,017 |
| Rajasthan | 7,740 | 2,236 | 28.89 | 5,504 |
| Tamil Nadu | 5,301 | 744 | 14.04 | 4,557 |
| Tripura | 430 | 138 | 32.09 | 292 |
| Uttar Pradesh | 23,002 | 3,297 | 14.33 | 19,705 |
| West Bengal | 9,611 | 1,955 | 20.34 | 7,656 |
| Union Territories | 717 | 91 | 12.69 | 626 |
| All-India | 1,53,808 | 18,101 | 11.77 | 1,35,707 |

The all India coverage of villages by active societies as at the end of June, 1972, was nearly 89.8 per cent of the total villages covered. The coverage was more than 90 per cent in Bihar, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Maharashtra, Nagaland, Orissa, Punjab and Uttar Pradesh, while it was lowest in Rajasthan (68.4%), followed by Assam (64.7%).

The State-wise coverage of villages and rural population by active societies is indicated in the table⁵ below :—

TABLE—2

Coverage of Villages and Rural Population on 30.6.1972

| <i>State/Union Territory</i> | <i>Number of active societies as on 30.6.1974</i> | <i>Percentage of villages served by active societies to total villages covered as on 30.6.1972</i> | <i>Coverage of rural population by active societies as on 30.6.1972 (Per cent)</i> |
|------------------------------|---|--|--|
| 1 | 1 | 3 | 4 |
| Andhra Pradesh | 11,766 | 80.8 | 22.6 |
| Assam | 762 | 64.7 | 5.1 |
| Bihar | 15,570 | 94.1 | 27.3 |
| Gujarat | 7,798 | 93.2 | 33.9 |
| Haryana | 6,006 | 97.1 | 41.7 |
| Himachal Pradesh | 2,347 | 97.5 | 69.9 |
| Jammu & Kashmir | 1,015 | 92.1 | 35.6 |
| Karnatak (Mysore) | 7,413 | 83.3 | 33.2 |
| Kerala | 1,802 | 86.4 | 48.4 |
| Madhya Pradesh | 9,648 | 98.7 | 30.7 |
| Maharashtra | 19,706 | 98.4 | 45.7 |
| Nagaland | 15 | 96.6 | — |
| Orissa | 3,053 | 93.1 | 31.9 |
| Punjab | 10,017 | 99.4 | 71.3 |
| Rajasthan | 5,504 | 64.4 | 20.4 |
| Tamil Nadu | 4,557 | 83.4 | 46.9 |
| Uttar Pradesh | 19,705 | 93.1 | 41.7 |
| West Bengal | 7,656 | 76.5 | 14.9 |
| Union Territories | 7,656 | 88.8 | 5.9 |
| All-India | 1,35,707 | 89.8 | 34.8 |

5. *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74, Bombay, p. 112 and Review of the Co-operative Movement in India, 1970-72, Bombay, pp. 75-76.*

Membership

The total membership of primary agricultural credit societies increased from 29.7 as at the end of June, 1970 to 35 million as at the end of June, 1974, the increase being only about 17 per cent over the four years. The average membership per society increased from 183 as on 30 June, 1970 to 227 as on 30 June, 1974. The maximum increase in membership has been in Uttar Pradesh (9,33 thousands) followed by Kerala (1,99 thousands) and Orissa (2,14 thousands) during the period under review.⁶

However, the effective coverage can be judged by the number of borrowing members. The position in this regard was still far from satisfactory. The proportion of borrowing members to total membership is indicated in the table⁷ given below :—

TABLE—3

Membership at the end of June, 1974

| <i>State/Union Territory.</i> | <i>Total membership (In thousands)</i> | <i>Borrowing mem- bers (In thousands)</i> | <i>Percentage of borrowing mem- bers to total membership</i> |
|-------------------------------|--|---|--|
| 1 | 2 | 3 | 4 |
| Andhra Pradesh | 24,54 | 10,27 | 41.85 |
| Assam | 3,89 | 24 | 6.17 |
| Bihar | 28,20 | 10,09 | 35.78 |
| Gujarat | 16,59 | 7,30 | 44.00 |
| Haryana | 7,41 | 3,71 | 50.07 |
| Himachal Pradesh | 4,91 | 1,41 | 28.72 |
| Jammu & Kashmir | 2,84 | 1,15 | 40.49 |
| Karnatak | 21,68 | 6,99 | 32.24 |
| Madhya Pradesh | 22,73 | 7,61 | 33.48 |

6. Review of the Co-operative Movement in India, Bombay, 1970-72, p. 76 and Statistical statements relating to the Co-operative movement in India, Part I credit Societies, 1973-74, Bombay, p. 113.

7. Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74, Bombay, pp. 112-13.

TABLE 3—(Contd.)

| <i>State/Union Territory</i> | <i>Total membership (in thousands)</i> | <i>Borrowing members (in thousands)</i> | <i>Percentage of borrowing members to total membership</i> |
|------------------------------|--|---|--|
| Kerala | 18,94 | 9,10 | 48.05 |
| Maharashtra | 36,65 | 15,86 | 43.27 |
| Manipur | 78 | 15 | 19.23 |
| Nagaland | — | — | — |
| Orissa | 16,24 | 3,65 | 22.48 |
| Punjab | 15,07 | 9,41 | 62.44 |
| Rajasthan | 15,00 | 7,22 | 48.13 |
| Tamil Nadu | 36,03 | 8,08 | 22.43 |
| Tripura | 89 | 11 | 12.36 |
| Uttar Pradesh | 64,60 | 22,49 | 34.81 |
| West Bengal | 11,25 | 5,18 | 46.04 |
| Union Territories | 1,32 | 36 | 27.27 |
| All-India | 3,49,56 | 1,30,38 | 37.30 |

From the table-3, it can be seen that the effective coverage was 50 per cent or more in Haryana (50.07) and Punjab (62.44). It was extremely low in Assam (6.17 per cent) and Tripura (12.36 per cent).

Liability

At the initial stage of the expansion of credit co-operative at the primary level, the societies adopted the principle of unlimited liability; but at the close of pre-independence era, a shift from unlimited to limited liability was noticed and limited liability became a rule and 'unlimited' an exception. Even then Andhra Pradesh, Haryana, Himachal Pradesh, Punjab, Tamil Nadu, and West Bengal continued to favour the principle of unlimited liability. And in Bihar all societies are now based on limited liability. The adherence to the principle of limited and unlimited liability is evident from the following data⁸ which show that members of Tamil Nadu, Maharashtra and Punjab are much watchful and vigilant to maintain the spirit of unlimited liability.

8. Ibid., pp. 112-13.

TABLE—4

At the end of June, 1974

Limited and Unlimited Primary Agricultural Credit Societies

| <i>States</i> | <i>No. of agricultural credit societies</i> | <i>Limited</i> | <i>Unlimited</i> | <i>Total membership (In thousands)</i> |
|------------------|---|----------------|------------------|--|
| Andhra Pradesh | 14,877 | 1,095 | 13,782 | 24,54 |
| Haryana | 6,266 | 2,632 | 3,634 | 7,41 |
| Himachal Pradesh | 2,490 | 1,239 | 1,251 | 4,91 |
| Punjab | 10,192 | 2,482 | 7,710 | 15,07 |
| Tamil Nadu | 5,301 | 1,487 | 3,814 | 36,03 |
| Uttar Pradesh | 23,002 | 22,858 | 144 | 64,60 |
| West Bengal | 9,611 | 7,803 | 1,808 | 11,25 |
| Bihar | 16,500 | 16,500 | — | 28,20 |

Resources of Primary Agricultural Credit Societies.**Working Capital**

Strictly speaking, it is not the number of societies or membership or even the population covered by them on which actual assessment of the financial soundness of any banking institution is made, but it is on the stable financial resources, building up a fair amount of working capital and volume of credit facilities provided by them to the members which speak of the net development of a particular banking institution.

From this point of view, the resources of raising working capital also constitute the important base on which primary agricultural credit societies rely. There has been a sharp rise in the volume of the working capital in primary agricultural credit societies in all the States. Statistics at the end of June, 1974 indicated that Maharashtra shared the largest amount of working capital among all the States under review. When the assessment is made from the average amount of working capital per society, the fallacy of the largeness is exposed in case of Bihar as the average amount of working capital per society in Bihar was only Rs. 24,667.21 in 1973-74 as against the averages of Rs. 1,41,122.65 in Maharashtra, Rs. 2,26,523.67 in Tamil Nadu, Rs. 1,53,316.65 in Madhya Pradesh and Rs. 91,664.34 in Punjab, and Rs. Rs. 1,02,743.46 as 'All-India, average.⁹ The voluminous increase in working

9. Calculations based on the data shown in Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74, Bombay, pp. 112-14.

capital of agricultural credit societies in Tamil Nadu, Madhya Pradesh and Maharashtra has not been only because of the fact that borrowings have increased but equally because of the substantial increase in the volume of owned funds. The State-wise progress of societies in building up working capital is indicated in the table¹⁰ given below:—

TABLE—5

Working Capital

(Amount in rupees)

(1969-70 and 1973-74)

| <i>State.</i> | <i>Average Working</i> | <i>Capital per society</i> |
|------------------------------|------------------------|----------------------------|
| | 1969—70 | 1973—74 |
| Andhra Pradesh | 31,115.31 | 52,499.56 |
| Assam | 22,081.05 | 32,217.66 |
| Bihar | 14,870.30 | 24,667.21 |
| Gujarat | 1,34,567.81 | 2,61,182.80 |
| Haryana | 33,964.55 | 58,716.88 |
| Himachal Pradesh | 31,732.11 | 62,605.22 |
| Jammu & Kashmir | 68,194.75 | 96,257.38 |
| Kerala | 1,93,308.80 | 4,26,782.33 |
| Madhya Pradesh | 90,837.77 | 1,53,316.65 |
| Maharashtra | 92,094.32 | 1,41,122.65 |
| Mysore (Karnatak) | 68,431.44 | 1,25,985.92 |
| Nagaland | 6,857.14 | 10,250.00 |
| Orissa | 58,120.01 | 1,69,016.46 |
| Punjab | 64,893.71 | 91,664.34 |
| Rajasthan | 36,334.25 | 69,577.26 |
| Tamil Nadu | 1,09,585.57 | 2,26,523.67 |
| Uttar Pradesh | 37,078.01 | 78,424.62 |
| West Bengal | 17,590.87 | 33,398.40 |
| All-India | 56,646.77 | 1,02,743.46 |
| (States + Union Territories) | | |

10. Calculations based on the data shown in *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1969-70, pp. 92-93 and 1973-74, pp. 112-114.

Owned Funds

In general the increase in volume of owned funds in agricultural credit societies may be attributed to the corresponding increase in the amount of their paid-up capital and resources. In this respect credit co-operatives in Maharashtra have made substantial growth where the average owned capital per member stood at Rs. 201.28 as against Rs. 25.91 in Bihar, Rs. 80.91 in Tamil Nadu, Rs. 138.32 in Madhya Pradesh, Rs. 114.46 in Punjab and Rs. 101.01 as 'All-India average' at the end of June, 1974.¹¹ The reason for large subscription of share capital in Maharashtra is not only the increase in the volume of membership or increased contribution from the State Government in their share capital but also due to the enhanced amount of contributions from the existing members of these co-operatives by way of share capital. The measure of confidence, which these co-operatives enjoy in Maharashtra, is non-existent in Bihar.

Share money is not refundable so long as one continues to be a member. Therefore, this is the most certain amount at the disposal of the society and, as it is also interest free, it enables advances to be made to members on a lower rate of interest than it would otherwise be possible. When share capital is called in instalments, it encourages thrift. When a substantial amount is accumulated, the financial stability of the society is increased. It, then, attracts greater deposits and inspires greater confidence among investors. Funds flow in, and at cheaper rates too. Moreover, a large owned capital helps to weather financial difficulties especially during depression when deposits are withdrawn greatly and outside help is negligible.

Deposits

The position of deposits in primary agricultural credit societies of India as a whole has been very unsatisfactory. In the year 1973-74, the 'All-India' average deposits with regard to per society and per member stood at Rs. 5,804.57 and Rs. 25.54 respectively and the aggregate amount of deposits constituted only 32.94 per cent of the working capital in the corresponding year.

The same trends have been observed in all States with the exception of credit co-operatives of Tamil Nadu and Punjab where the average deposits per society figured at Rs. 12,800.42 and Rs. 20,360.09 respectively at the end of June, 1974. The position of agricultural credit co-operatives of Bihar is quite discouraging. The average deposits per society in Bihar stood at Rs. 958.36 only. Plainly speaking these societies have not been able to inculcate the habit of self-help and thrift in any appreciable measure among their members. The State-wise position with regard to deposits is given in the table¹² below :—

11. *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies 1973-74*, pp. 112-114.
12. Reserve Bank of India : *Review of the Co-operative Movement in India, 1970-72*, Bombay, pp. 79-80 and *Statistical Statements relating to Co-operative Movement in India, Part I Credit Societies, 1973-74*, Bombay, pp. 112-14.

TABLE—6

Deposits

(Amount in rupees) (1969-70 and 1973-74)

| State | Average deposits per society | | Average deposits per member | |
|------------------------------|---------------------------------|---------|--------------------------------|---------|
| | 1969—70 | 1973—74 | 1969—70 | 1973—74 |
| Andhra Pradesh | 2,260 | 3,093 | 18.0 | 18.7 |
| Assam | 1,663 | 2,075 | 14.3 | 16.3 |
| Bihar | 1,776 | 958 | 10.9 | 5.6 |
| Gujarat | 5,494 | 8,677 | 35.8 | 44.0 |
| Haryana | 1,240 | 1,437 | 12.9 | 12.1 |
| Himachal Pradesh | 14,316 | 26,409 | 86.1 | 133.9 |
| Jammu & Kashmir | 729 | 1,522 | 2.9 | 5.8 |
| Kerala | 40,681 | 62,037 | 57.2 | 145.3 |
| Madhya Pradesh | 3,733 | 5,981 | 18.4 | 25.8 |
| Maharashtra | 2,016 | 3,018 | 13.1 | 16.4 |
| Mysore (Karnatak) | 3,638 | 5,453 | 17.9 | 20.9 |
| Orissa | 3,840 | 5,712 | 11.3 | 11.7 |
| Punjab | 13,962 | 20,360 | 104.4 | 137.7 |
| Rajasthan | 1,511 | 2,593 | 9.8 | 13.3 |
| Tamil Nadu | 5,954 | 12,800 | 12.0 | 18.8 |
| Uttar Pradesh | 1,788 | 2,525 | 8.9 | 8.9 |
| West Bengal | 611 | 757 | 7.1 | 6.4 |
| All-India | 3,852 | 5,805 | 21.1 | 25.5 |
| (States + Union Territories) | | | | |

Reserves

Reserves in primary agricultural credit co-operatives comprise 'statutory reserve', 'special bad debt reserve' and 'other reserves'. The aggregate amount of reserves in primary agricultural co-operative societies in Bihar is impressive and stood at Rs. 94,07 (in thousands) by the end of June, 1974. But from the point of view of average reserves per society, its hollowness comes to light. The low volume of reserves per society in Bihar reflects upon the high cost of management leaving a very narrow margin in the profits to be carried over to reserve funds. A strong reserve fund is very important from the point of view of the members' society. The State-wise position with regard to total reserves and their percentage to working capital are indicated in the table given below ¹³ :—

13. Calculations based on the data in *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1973-74, Bombay, pp. 112-114.

TABLE—7

RESERVES

At the end of June, 1974 (Rs. in thousands)

| <i>State</i> | <i>Reserves</i> | <i>Average reserves per society</i> | <i>Working capital</i> | <i>Percentage of reserves to working capital</i> |
|---|-----------------|---|----------------------------|--|
| | 1 | 2 | 3 | 4 |
| Andhra Pradesh | 4,80,73 | 3,231.36 | 78,10,36 | 6.16 |
| Assam | 14,27 | 464.97 | 7,88,76 | 1.81 |
| Bihar | 94,07 | 570.12 | 40,70,09 | 2.31 |
| Gujarat | 14,33,58 | 17,027.91 | 219,88,98 | 6.52 |
| Haryana | 37.57 | 599.59 | 36,78,20 | 1.02 |
| Himachal Pradesh | 62,86 | 2,524.50 | 15,58,87 | 4.03 |
| Jammu & Kashmir | 12,00 | 1,107.01 | 10,43,43 | 1.15 |
| Karnatak | 7,25,03 | 8,725.84 | 104,68,17 | 6.93 |
| Kerala | 4,59,80 | 22,440.21 | 87,44,77 | 5.26 |
| Madhya Pradesh | 8,44,21 | 8,603.85 | 150,43,43 | 5.61 |
| Maharashtra | 13,66,98 | 6,843.45 | 281,89,25 | 4.85 |
| Manipur | 99 | 163.10 | 93.44 | 1.06 |
| Nagaland | 1 | 62.50 | 1.64 | 0.61 |
| Orissa | 3,74,05 | 11,192.40 | 56,48,53 | 6.62 |
| Punjab | 2,95,81 | 2,902.37 | 93,42,43 | 3.17 |
| Rajasthan | 52,86 | 682.95 | 53,85,28 | 0.98 |
| Tamil Nadu | 10,76,42 | 20,305.98 | 1,20,08,02 | 8.96 |
| Tripura | 15,07 | 3,504.65 | 2,24,54 | 6.71 |
| Uttar Pradesh | 6,87,01 | 2,986.74 | 1,80,39,23 | 3.81 |
| West Bengal | 1,28,14 | 1,333.26 | 32,09,92 | 3.99 |
| All-India (States + Union Territories) | 82,02,07 | 5,332.67 | 15,80,27,66 | 5.19 |

From the table no. 7, it can be seen that the average reserves per society in Kerala was the highest at Rs. 22,440.21, followed by Tamil Nadu (Rs. 20,305.98) and Gujarat (Rs. 17,027.91). Reserves constituted 8.96 per cent of the working capital in Tamil Nadu, followed by Karnatak at 6.13 per cent, Tripura at 6.71 per cent and Orissa at 6.62 per cent. But in Bihar the proportion of reserves to working capital was 2.31 per cent, followed by Assam (1.81%), Haryana (1.02%), Jammu and Kashmir (1.15%), Manipur (1.06%), Rajasthan (0.98%) and Nagaland (0.61%).

Borrowings

In co-operative credit societies, the amount of borrowings depends upon the financial stability of the borrowing society and the increased volume of production needs. The State-wise position in case of borrowing is given in the table below¹⁴ .—

TABLE—8

Borrowings at the end of June, 1974 (Rs. in thousands)

| <i>State</i> | <i>Borrowings</i> | <i>Percentage of borrowings to working capital</i> |
|---------------------------------------|-------------------|--|
| Andhra Pradesh | 38,79,91 | 49.68 |
| Assam | 7,71,28 | 78.00 |
| Bihar | 24,35,39 | 59.84 |
| Gujarat | 1,38,30,50 | 62.90 |
| Haryana | 25,07,53 | 68.17 |
| Himachal Pradesh | 3,13,77 | 20.13 |
| Jammu & Kashmir | 7,21,37 | 69.13 |
| Karnatak | 62,69,49 | 59.89 |
| Kerala | 37,03,03 | 42.35 |
| Madhya Pradesh | 95,18,23 | 63.27 |
| Maharashtra | 1,82,92,87 | 64.89 |
| Manipur | 69,39 | 74.26 |
| Nagaland | 27 | 16.46 |
| Orissa | 21,15,63 | 37.45 |
| Punjab | 44,27,03 | 47.39 |
| Rajasthan | 33,29,56 | 61.83 |
| Tamil Nadu | 65,93,67 | 54.91 |
| Tripura | 1,45,75 | 64.91 |
| Uttar Pradesh | 1,06,19,46 | 58.87 |
| West Bengal | 20,45,60 | 63.73 |
| All India (States+ Union Territories) | 9,18,19,94 | 58.10 |

From the table no. 8, it is evident that borrowings constituted 74.26% of the working capital in Manipur, followed by Jammu & Kashmir (69.13%), Haryana (68.17%) Tripura (64.91%) and Maharashtra (64.89%). But in Himachal Pradesh, the proportion of borrowings to working capital was 20.13%, followed by Nagaland at 16.46%. Among the various sources of borrowings such as Government, central co-operative banks and others, the weight upon central co-operative banks has been larger in all the States.

14. Ibid., pp. 112-15.

Loans and Advances

Loans and advances issued by the primary agricultural credit societies increased from Rs. 540.1 crores in 1969-70 to Rs. 704.6 crores in 1973-74. Of the total loans issued by the primary agricultural credit societies aggregating Rs. 762.0 crores during 1973-74, loans for short-term agricultural purposes amounted to Rs. 690.5 crores. Short-term loans issued showed an increase of Rs. 202.7 crores over the 1969-70 level. The medium-term loans issued during 1973-74 at Rs. 71.5 crores showed an increase of Rs. 19.2 crores over the 1969-70 level. The increase in the issue of medium-term loans was mainly due to large-scale conversion of short-term loans into medium-term loans due to drought obtaining in several parts of the country. Loans for seasonal agricultural operations continued to form the bulk of the loans issued by the primary agricultural credit societies. The purpose-wise distribution of loans issued during 1969-70 and 1973-74 is indicated in the table given below:¹⁵

TABLE—9
Loans Issued by Purpose
(Rs. in crores) (1969-70 & 1973-74)

| Purpose | Loans issued during | |
|--|---------------------|--------------|
| | 1969-70 | 1973-74 |
| Short-Term | | |
| Seasonal agricultural operations | 442.4 | 643.5 |
| Purchase of agricultural implements | 3.9 | 2.5 |
| Marketing crops | 15.5 | 15.1 |
| Processing of Agricultural produce | 1.3 | 1.9 |
| Industrial | 1.6 | 0.4 |
| Consumption | 8.9 | 5.7 |
| Other purposes | 14.2 | 21.4 |
| TOTAL | 487.8 | 690.5 |
| Medium-Term | | |
| Sinking of/repairs of wells | 7.5 | 6.9 |
| Purchase of agricultural machinery (Pump-sets, oil engines, etc.) | 9.5 | 10.4 |
| Purchase of cattle | 13.1 | 10.0 |
| Land improvement | 5.0 | 6.0 |
| Conversion loans | — | 11.7 |
| Other agricultural purposes | 10.2 | 10.8 |
| Other purposes | 7.0 | 15.7 |
| TOTAL | 52.3 | 71.5 |
| Grand Total | 540.1 | 762.0 |

15. *Review of the Co-operative Movement in India, 1970-72*, Bombay, pp. 80-81 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies 1973-74*, Bombay pp. 126-27.

The State-wise data relating to issue of loans during 1969-70 and 1973-74 are given in the following table:¹⁶

TABLE—10
Loans Issued

| <i>State/Union Territory</i> | <i>1969-70 (Rs. in crores)</i> | <i>1973-74 (Rs. in crores)</i> | <i>Average loans issued per society (1973-74) (In Rs.)</i> | <i>Average loans per borrowing member (1973-74) (In Rs.)</i> |
|------------------------------|------------------------------------|------------------------------------|--|--|
| Andhra Pradesh | 26.5 | 31.4 | 21,106.00 | 306.00 |
| Assam | 1.8 | 1.2 | 3,910.00 | 500.00 |
| Bihar | 11.6 | 13.6 | 8,242.00 | 135.00 |
| Gujarat | 78.4 | 127.2 | 1,51,087.00 | 1,742.00 |
| Haryana | 15.0 | 29.8 | 47,558.00 | 803.00 |
| Himachal Pradesh | 4.0 | 5.2 | 20,884.00 | 369.00 |
| Jammu & Kashmir | 1.8 | 0.9 | 8,303.00 | 78.00 |
| Karnatak (Mysore) | 31.0 | 50.1 | 60,296.00 | 717.00 |
| Kerala | 25.8 | 40.9 | 1,99,610.00 | 449.00 |
| Madhya Pradesh | 46.5 | 55.6 | 56,665.00 | 731.00 |
| Maharashtra | 103.7 | 136.5 | 68,335.00 | 861.00 |
| Manipur | — | 0.3 | 4,942.00 | 200.00 |
| Nagaland | — | — | — | — |
| Orissa | 9.5 | 13.4 | 40,096.00 | 367.00 |
| Punjab | 52.8 | 59.0 | 57,889.00 | 627.00 |
| Rajasthan | 13.9 | 26.0 | 33,592.00 | 360.00 |
| Tamil Nadu | 44.8 | 78.0 | 1,47,142.00 | 965.00 |
| Tripura | — | 0.3 | 6,977.00 | 273.00 |
| Uttar Pradesh | 62.0 | 72.7 | 31,606.00 | 323.00 |
| West Bengal | 9.4 | 4.5 | 15,087.00 | 280.00 |
| Union Territories | 1.6 | 1.9 | 26,499.00 | 528.00 |
| *All-India | 540.1 | 758.5 | 49,315.00 | 582.00 |

*Totalling may not tally due to rounding of figures

16. *Review of the Co-operative Movement in India, 1970-72*, Bombay, p. 81 our Statistical statements relating to the Co-operative Movement in India, Part I societies, 1973-74, Bombay, p. 128.

Some of the important features observed in the loan operations of primary agricultural credit societies during the period under review are noted below : (a) loans issued continued to rise in most of the States during the period under review. However, during 1973-74, primary agricultural credit societies showed a decline in the issue of loans. The maximum increase in the loans issued was in Gujarat (Rs. 48.8 crores), followed by Tamil Nadu (Rs. 33.2 crores), Karnatak (Rs. 19.1 crores), Kerala (Rs. 15.1 crores) and Haryana (Rs. 14.8 crores). Bihar showed an increase of Rs. 2 crores in loans and advances during 1973-74.

(b) The average loan issued per society was highest in Gujarat (Rs. 1,51,087), followed by Tamil Nadu (Rs. 1,47,142), Maharashtra (Rs. 68,335), Karnatak (Rs. 60,296), Punjab (Rs. 57,889), Madhya Pradesh (Rs. 56,665), and Haryana (Rs. 47,558). Loans issued per society was less than Rs. 10,000/- in Assam (Rs. 3,910), Bihar (Rs. 8,242) and Jammu and Kashmir (Rs. 6,977).

(c) The average loan per member was highest in Gujarat (Rs. 1,742), followed by Tamil Nadu (Rs. 965), Maharashtra (Rs. 861), Haryana (Rs. 803), Madhya Pradesh (Rs. 731), Karnatak (Rs. 717), and Punjab (Rs. 627) and was less than Rs. 500 in Andhra Pradesh (Rs. 306), Jammu & Kashmir (Rs. 78), Manipur (Rs. 200), Rajasthan (Rs. 360), Tripura (Rs. 273), Uttar Pradesh (Rs. 323) and West Bengal (Rs. 280).

The purpose-wise analysis of loans in primary agricultural credit societies reveals that the bulk of loans (short-term) in all the States is for seasonal agricultural operations. Loans advanced for the purchase of cattle constitute more than the proportionate amount of the aggregate medium-term loans.

The data regarding loans issued according to the size of the amount during 1973-74 is indicated in the table given below :¹⁷

TABLE—11
Term Loans Issued According to Amount
(Rs. in crores)

| Loans issued | 1969-70 | | 1973-74 | |
|-----------------------------|---------|------------|---------|------------|
| | Amount | Percentage | Amount | Percentage |
| Rs. 100 and less | 35.5 | 6.6 | 19.9 | 2.7 |
| Between Rs. 101 and Rs. 300 | 86.1 | 15.9 | 89.8 | 11.8 |
| Between Rs. 301 & Rs. 500 | 109.0 | 20.2 | 126.6 | 16.7 |
| Between Rs. 501 & Rs. 1000 | 129.6 | 24.0 | 183.7 | 24.30 |
| Between Rs. 1001 & Rs. 5000 | 140.6 | 26.0 | 251.4 | 33.1 |
| Above Rs. 5000 | 39.3 | 7.3 | 86.5 | 11.4 |
| | 540.1 | 100.0 | 757.9 | 100.0 |

17. *Review of the Co-operative Movement in India, 1970-72*, Bombay, pp. 80-81 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74*, Bombay pp. 128-29.

It will be seen from the above table that the loans for amounts above Rs. 1,000/- formed 44.5 per cent of the total loans issued during 1973-74 as against 33.3 in 1969-70, indicating that the number of loans for larger amounts were steadily increasing.

Financing of weaker sections

The State-wise data regarding the loans issued according to the size of the land holdings during 1973-74 is indicated in the following table:¹⁸

TABLE—12
Classification of Loans Issued According to the size of Holdings
During 1973-74

| State/Union Territory | Total loans issued | (Rs. in crores) | | | |
|-----------------------|--------------------------|--|-------------------------|---------------------|--|
| | | Of which loans issued to farmers holding land | | | Loans issued to tenant cultivators, agricultural labourers and others |
| | | up to 2 hectares | Between 2-4 hectares | Above 4 hectares | |
| Andhra Pradesh | 31.50 | 10.04 | 8.83 | 11.20 | 1.41 |
| Assam | 1.20 | 1.02 | 0.16 | 0.01 | — |
| Bihar | 15.29 | 7.44 | 2.16 | 2.40 | 3.28 |
| Gujarat | 127.24 | — | — | — | — |
| Haryana | 29.83 | 8.58 | 8.39 | 7.66 | 5.19 |
| Himachal Pradesh | 5.16 | 2.81 | 0.86 | 0.80 | 0.67 |
| Jammu & Kashmir | 2.15 | — | — | — | — |
| Karnatak | 50.76 | 18.57 | 13.39 | 16.94 | 1.84 |
| Kerala | 40.90 | 23.30 | 6.58 | 6.09 | 4.88 |
| Madhya Pradesh | 55.62 | 6.49 | 12.00 | 36.96 | 0.14 |
| Maharashtra | 136.53 | 30.66 | 31.20 | 72.84 | 1.82 |
| Manipur | 0.27 | 0.16 | — | — | 0.10 |
| Nagaland | — | — | — | — | — |
| Orissa | 13.40 | 5.95 | 4.35 | 3.08 | 0.02 |
| Punjab | 58.96 | 12.35 | 15.43 | 23.16 | 8.00 |
| Rajasthan | 25.49 | 7.65 | 7.72 | 10.06 | 0.05 |
| Tamil Nadu | 78.00 | 19.34 | 30.27 | 25.00 | 3.37 |
| Tripura | 0.31 | 0.21 | 0.06 | 0.03 | — |
| Uttar Pradesh | 72.68 | 27.65 | 28.82 | 16.21 | — |
| West Bengal | 14.46 | 3.63 | 5.60 | 5.21 | — |
| Union Territories | 1.82 | 0.32 | 0.17 | 0.12 | 0.38 |
| *TOTAL | 761.57 | 186.18 | 175.99 | 237.85 | 31.15 |

*Totalling may not tally due to rounding of figures.

18. *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74, Bombay, p. 130.*

An analysis of the loans disbursed by primary agricultural credit societies during 1973-74 indicated that out of the total loans issued at Rs. 761.57 crores, the loans to land-holders upto 2 hectares each, accounted for about Rs. 186.18 crores or 24.45 per cent of the total loans issued. In Madhya Pradesh and Maharashtra, more than 50 per cent of the loans issued during 1973-74, have gone to those having landholdings above 4 hectares, while in Kerala, loans to farmers holding land upto 2 hectares accounted for 56.97 per cent of the total loans issued. Loans issued to tenant cultivators and agricultural labourers and others aggregated Rs. 31.15 crores during 1973-74.

Overdues

The overdues of primary agricultural credit societies continued to rise during the period under review. The level of overdues increased from Rs. 268.25 crores in 1969-70 to Rs. 443.24 crores in 1973-74, showing an increase of Rs. 174.99 crores over the period. The percentage of overdues to outstanding loans increased from 38 in 1969-70 to 42 in 1973-74. The State-wise position of overdues during 1969-70 and 1973-74 is given below:¹⁹

TABLE—13

Overdues

(Rs. in crores)

| State/Union Territory | 30.6.1970 | | 30.6.1974 | |
|-----------------------|----------------|------------------------|----------------|------------------------|
| | Total overdues | % to loans outstanding | Total overdues | % to loans outstanding |
| Andhra Pradesh | 15.06 | 43 | 19.78 | 39 |
| Assam | 4.52 | 82 | 5.52 | 81 |
| Bihar | 9.65 | 50 | 14.02 | 56 |
| Gujarat | 18.42 | 21 | 37.05 | 24 |
| Haryana | 5.75 | 33 | 11.75 | 44 |
| Himachal Pradesh | 1.23 | 19 | 3.41 | 34 |
| Jammu & Kashmir | 1.86 | 60 | 1.11 | 55 |
| Karnatak (Mysore) | 20.54 | 47 | 30.82 | 44 |
| Kerala | 7.14 | 24 | 16.44 | 36 |
| Madhya Pradesh | 28.96 | 40 | 54.66 | 53 |
| Maharashtra | 56.39 | 40 | 79.90 | 39 |
| Manipur | — | — | 0.54 | 82 |

19. *Review of the Co-operative Movement in India, 1970-72*, p. 84 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74*, Bombay, p. 117.

TABLE 13—(Contd.)

| State/Union Territory | 30-6-1970 | | 30-6-1974 | |
|-----------------------|--------------------|---------------------------|-------------------|---------------------------|
| | Total over dues | % to loans outstanding | Total overdues | % to loans outstanding |
| Nagaland | — | — | — | — |
| Orissa | 12.38 | 63 | 21.16 | 68 |
| Punjab | 19.73 | 39 | 35.73 | 58 |
| Rajasthan | 7.65 | 36 | 12.61 | 38 |
| Tamil Nadu | 20.82 | 37 | 22.87 | 28 |
| Tripura | — | — | 0.83 | 67 |
| Uttar Pradesh | 27.71 | 34 | 64.57 | 55 |
| West Bengal | 9.50 | 56 | 9.54 | 42 |
| Union Territories | 0.92 | 34 | 0.93 | 34 |
| All-India | 268.25 | 38 | 443.24 | 42 |

It can be seen from the table that overdues showed a continuous increase year after year in almost all the States, they being the highest in Manipur (82%), and Assam (81%). The rise in overdues during 1973-74 may be assigned to some extent to condition of drought prevailing in several parts of the country, although the basic causes are relatable to factors such as slackness on the part of managements of the societies, absence of full-time secretaries in several societies, ineffective supervision, fixing of unrealistic scales of finance and Government attitude in matters such as financing of defaulters. The percentage of overdues to outstandings in Bihar, Jammu & Kashmir, Madhya Pradesh, Orissa, Tripura and Uttar Pradesh was above 50. The percentage of overdues to outstandings in Andhra Pradesh, Gujarat, Haryana, Karnataka, Kerala, Maharashtra, Rajasthan, Tamil Nadu and West Bengal was below 50.

Most of the primary agricultural credit societies of Bihar have come to grief because of heavy overdues in the recent years. This has bogged down the entire co-operative machinery of this State and yet no concern of requisite degree is shown in tackling this problem. Overdues have accumulated as a result of various forces. The State is frequently visited by floods, droughts, hailstorms and other natural calamities in some parts or the other. Farmers find it difficult to repay loans. Under such circumstances either the State must help or institutional arrangement must be made for deferring payment of loan. Perhaps some overdues with members happen, for they are too poor to share resources for the repayment of loan. This is a case of public assistance and public welfare. However, the real cause for overdues in many places has been found to be wilful neglect by the well-off sections of members. This must be curbed and eliminated by resorting to strong legal action.

Security

The ideal security is the honesty and good character of the borrower. In most of the States of India, emphasis has been laid on linking credit with production programmes of members. The object is to provide loan exclusively for financing production so that non-availability of loan should not be a factor in the decline of production.

Rate of Interest—The most usual rates of interest charged by primary agricultural credit societies in different States vary in accordance with the variation in purpose and security offered. The usual rates of interest for short-term and medium-term loans are indicated in the table given below:²⁰

TABLE—14

Interest Rates on Advances During 1973-74

(Per cent per annum)

| States | Small-sized Agricultural Credit Societies Usual | | Large-sized Agricultural Credit Societies Usual | |
|------------------|--|-------------|--|-------------|
| | Short-Term | Medium-term | Short-term | Medium-Term |
| Andhra Pradesh | 10½ | 10½ | 10½ | 10½ |
| Assam | 10½ | 10½ | 10½ | 10½ |
| Bihar | 9½ | 9½ | 9½ | 9½ |
| Gujarat | 10½ | 10 | 10½ | 10 |
| Haryana | 9½ | 9½ | 9½ | 9½ |
| Himachal Pradesh | 9½ | 9½ | 9½ | 9½ |
| Jammu & Kashmir | — | — | — | — |
| Karnatak | 7½ | 11 | 7½ | 11 |
| Kerala | 11½ | 14 | 11½ | 15 |
| Madhya Pradesh | 11½ | 12 | 11½ | 12 |
| Maharashtra | 10 | 10½ | 10 | 10½ |
| Manipur | — | — | — | — |
| Orissa | 13 | 13 | 13 | 13 |
| Punjab | 9-37/100 | 9-37/100 | 9-37/100 | 9-37/100 |
| Rajasthan | 9 | 9 | 9 | 9 |
| Tamil Nadu | 9- 7/ 10 | 10-6/10 | 9-7/ 10 | 10-6/ 10 |
| Tripura | — | — | — | — |
| Uttar Pradesh | — | — | — | — |
| West Bengal | 11½ | 8½ | 11½ | 8½ |

20 *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74, Bombay p. 194.*

It will be seen from the table that the rate of interest on short-term and medium-term loans in Gujarat, Assam, Maharashtra, Madhya Pradesh, Kerala and Punjab was 10 per cent or above ten per cent per annum. But the rate of interest in Bihar, Haryana, Himachal Pradesh and Punjab was below 10 per cent per annum.

The policy of charging reasonable rates of interest on loans is of very great importance. A very high rate defeats the very purpose of co-operatives. A very low interest rate is equally dangerous. It may lead to re-lending of borrowed money for making profits and it may be uneconomic. A sound policy of co-operative finance is to charge neither too high nor too low a rate of interest.

Non-agricultural Credit Societies

With the inception of co-operative credit movement in India, non-agricultural credit societies have been organised in various forms like salary earners' credit societies, thrift societies, urban banks, and artisans and traders credit societies etc., with membership of a particular community, or persons following a particular vocation. Pre-occupied with the objective of rebuilding agricultural economy, these credit institutions remained devoid of Government assistance. Even then they have made a praise-worthy progress in respect of number of societies, volume of membership and in providing credit facilities to their members.

These non-agricultural credit societies comprising urban co-operative banks, salary earners' societies and other credit societies numbered 17,536 as on 30 June, 1974, as against 14,816 on 30 June, 1970. The increase was largely due to the rise in the number of salary earners' societies from 10,264 as on 30 June, 1970 to 12,522 as on 30 June, 1974. Of the 17,536 non-agricultural credit societies as on 30 June, 1974, 1,286 were urban co-operative banks, 12,522 salary earners' societies and 3,728 other non-agricultural credit societies. These societies operated in urban and semi-urban areas and generally worked with deposits collected from individuals. The total membership of non-agricultural credit societies increased from 79 lakhs as on 30 June, 1970 to 95 lakhs as on 30 June, 1974. These societies had deposits aggregating Rs. 477.24 crores as on 30 June, 1974, as against Rs. 255.9 crores as on 30 June, 1970. The bulk of these deposits was collected by urban banks (Rs. 321.30 crores) and salary earners' societies (Rs. 147.97 crores). As against the total deposits of Rs. 477.24 crores as on 30 June, 1974 held by non-agricultural credit societies, their loan outstandings amounted to Rs. 516.8 crores. The outside borrowings of these societies amounted to Rs. 55.8 crores as on 30 June, 1974, forming about 7.1 per cent of their working capital. Out of the total loan outstandings of Rs. 516.8 crores, a sum of Rs. 30.7 crores or 5.9 per cent was overdue. The number, membership, and assets of primary non-agricultural societies are indicated in the following table:²¹

21. Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74, pp. 141-44.

TABLE 15

Primary Non-agricultural Credit Societies at the end of June, 1973-74

(Rs. in crores)

| <i>State/Union Territory</i> | <i>No. of societies</i> | <i>Member-ship (in thousands)</i> | <i>Working capital</i> | <i>Paid-up capital</i> | <i>Reserves (Statutory + others)</i> |
|------------------------------|-------------------------|---------------------------------------|------------------------|------------------------|--|
| 1 | 2 | 3 | 4 | 5 | 6 |
| Andhra Pradesh | 1,427 | 4,82 | 24.41 | 3.50 | 1.63 |
| Assam | 394 | 30 | 7.00 | 0.39 | 0.29 |
| Bihar | 264 | 1,85 | 14.54 | 2.24 | 0.81 |
| Gujarat | 1,750 | 9,78 | 164.57 | 21.03 | 7.97 |
| Haryana | 288 | 1,51 | 1.41 | 0.27 | 0.06 |
| Himachal Pradesh | 150 | 14 | 1.19 | 0.22 | 0.06 |
| Jammu & Kashmir | 37 | 3 | 0.26 | 0.03 | — |
| Karnatak | 1,524 | 15,52 | 52.83 | 7.88 | 4.83 |
| Kerala | 447 | 4,04 | 20.00 | 2.47 | 0.95 |
| Madhya Pradesh | 692 | 2,15 | 12.41 | 2.60 | 0.78 |
| Maharashtra | 3,416 | 28,68 | 257.89 | 53.64 | 15.51 |
| Manipur | 60 | 3 | 0.05 | 0.01 | — |
| Nagaland | 40 | 1 | 0.16 | 0.04 | — |
| Orissa | 179 | 71 | 4.18 | 0.51 | 0.33 |
| Punjab | 1,097 | 73 | 2.47 | 0.56 | 0.15 |
| Rajasthan | 1,013 | 1,14 | 7.75 | 1.33 | 0.30 |
| Tamil Nadu | 1,243 | 15,58 | 82.87 | 12.78 | 5.25 |
| Tripura | 11 | 16.48 | 0.03 | — | — |
| Uttar Pradesh | 1,327 | 4,12 | 13.34 | 3.22 | 0.96 |
| West Bengal | 1,265 | 12,85 | 98.57 | 19.18 | 11.78 |
| Union Territories | 912 | 2,85 | 21.24 | 3.39 | 0.81 |
| *TOTAL | 17,536 | 1,23,32 | 7,87.17 | 135.29 | 52.47 |
| 1973-74 | | | | | |

* Totalling may not tally due to rounding of figures.

TABLE 15—(Contd.)

| <i>Deposits</i> | <i>Borrowings</i> | <i>Loans</i> | | <i>% of overdues to loans outstanding</i> | <i>% of deposits to working capital</i> | <i>Percentage of borrowings to working capital</i> |
|-----------------|-------------------|--------------------|----------------|---|---|--|
| | | <i>Outstanding</i> | <i>Overdue</i> | | | |
| 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| 10.41 | 5.14 | 16.57 | 2.02 | 12.19 | 42.65 | 21.06 |
| 3.05 | 2.43 | 4.34 | 1.21 | 27.88 | 43.57 | 34.71 |
| 8.95 | 0.90 | 9.57 | 0.24 | 2.51 | 61.60 | 6.19 |
| 109.52 | 15.21 | 100.31 | 3.60 | 3.59 | 66.55 | 9.24 |
| 0.62 | 0.34 | 1.02 | 0.34 | 33.33 | 43.97 | 24.11 |
| 0.50 | 0.24 | 0.73 | 0.11 | 15.07 | 42.02 | 20.17 |
| — | 0.19 | 0.21 | 0.12 | 57.14 | — | 73.08 |
| 28.75 | 4.83 | 34.10 | 5.09 | 14.93 | 54.42 | 9.14 |
| 8.63 | 2.51 | 10.83 | 1.65 | 15.24 | 43.15 | 12.55 |
| 7.27 | 0.58 | 8.41 | 0.87 | 10.34 | 58.58 | 4.67 |
| 161.80 | 9.22 | 158.39 | 7.34 | 4.63 | 62.74 | 3.58 |
| 0.01 | 0.03 | 0.04 | — | — | 20.00 | 60.00 |
| 0.01 | 0.04 | 0.03 | 0.01 | 33.33 | 6.25 | 25.00 |
| 2.61 | 0.21 | 2.62 | 0.65 | 24.81 | 62.44 | 5.02 |
| 0.67 | 0.67 | 1.77 | 0.83 | 46.89 | 27.13 | 21.13 |
| 3.87 | 1.13 | 5.19 | 0.83 | 15.99 | 49.94 | 14.58 |
| 52.28 | 8.21 | 65.07 | 2.93 | 4.50 | 63.09 | 9.91 |
| 0.01 | 0.01 | 0.01 | — | — | 33.33 | 33.33 |
| 6.54 | 1.14 | 11.50 | 0.40 | 3.48 | 49.03 | 8.55 |
| 57.35 | 1.41 | 68.58 | 2.25 | 3.28 | 58.18 | 1.43 |
| 14.39 | 1.41 | 17.53 | 0.24 | 1.37 | 67.75 | 6.64 |
| 477.24 | 55.85 | 516.82 | 30.73 | 5.95 | 60.63 | 7.10 |

The urban co-operative banks have not made much progress outside Maharashtra (314), Gujarat (229), Karnatak (199), Tamil Nadu (135), Andhra Pradesh (125) and West Bengal (116). The urban banks in Maharashtra had deposits totalling Rs. 137.86 crores and loan outstandings of Rs. 105.77 crores. Besides Maharashtra, urban co-operative banks in two States, namely; Gujarat and Karnatak had deposits as well as loan outstandings of Rs. 174.19 crores and Rs. 52.94 cores respectively. The total loan outstandings of all the urban co-operative banks rose from Rs. 114.9 crores

at the end of June, 1970 to Rs. 257.8 crores at the end of June, 1974. The overdues increased from Rs. 11.5 crores to Rs. 19.5 crores during the same period, forming about 8 per cent of the total loans outstanding as on 30 June, 1974.²²

Except in a large city, one urban bank to a town is preferable, not only from the point of view of financial strength and stability, large transaction and adequate staff, but, as also pointed out by the Madras Committee in 1940, because it avoids the problems of overlapping jurisdictions and undesirable competition for securing deposits or business. That Committee also stressed the desirability of members, not joining and borrowing from more than one credit society, even of limited type, except a land mortgage bank or a house-building society.²³ The Co-operative Planning Committee recommended that urban banks should be organised in all towns. It should, however, be ensured that they function on proper co-operative lines.²⁴

When urban banks receive deposits on current account they should (a) have a paid-up share capital of at least Rs. 20,000/-, (b) maintain fluid resources on the scale prescribed by the Registrar of Co-operative Societies, (c) carry to the reserve fund at least 1/3rd of their net profits till it equals the paid-up share capital, and thereafter at least 1/4th of the net profits, and (d) invest the Reserve Fund in gilt-edged securities or deposit it in banks approved by the Registrar instead of using it in the business of the bank.²⁵

The number of salary earners, societies increased from 10,264 as on 30 June, 1970 to 12,522 as on 30 June, 1974. Their number was largest in Maharashtra (2,558), followed by Gujrat (1,244), Andhra Pradesh (1,238), West Bengal (1,149), Uttar Pradesh (1,088), Tamil Nadu (996) and Karnatak (896). The societies in the above States formed 63.13 per cent of the total number of societies, and hold 82.89 per cent of the deposits and 84.89 per cent of the total working capital. The paid-up share capital and reserves of the societies stood at Rs. 91.35 crores and 26.23 crores respectively. The working capital of these societies went up from Rs. 225.6 crores as on 30 June, 1970 to Rs. 324.8 crores as on 30 June, 1974. The deposits of these societies amounted to Rs. 147.98 crores at the end of June, 1974. The total loans outstanding amounted to Rs. 450.53 crores as on 30 June, 1974 as against Rs. 167.1 crores as on 30 June, 1970. The overdues rose from Rs. 4.7 crores as on 30 June, 1970 to Rs. 27.7 crores as on 30 June, 1974,

22. *Review of the Co-operative Movement in India, 1970-72*, Bombay, p. 90 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74*, Bombay, pp. 143-44.

23. Hough, E. M. *The Co-operative Movement in India*, Oxford University Press, Fifth Edition, 1966, p. 123.

24. *Report of the Co-operative Planning Committee, 1946*, Printed in 1951, Delhi, p. 224.

25. *Ibid.*, p. 224.

showing an increase of Rs. 23 crores. Although the largest number of employees' credit societies were in Maharashtra (2,558), the societies in West Bengal had the largest deposits (Rs. 30.70 crores) and also the maximum working capital (Rs. 89.41 crores).²⁶

Besides the urban co-operative banks and employees' credit societies, there were other non-agricultural societies which exist generally in urban and semi-urban areas for the promotion of thrift and saving among the members of a particular community or profession, and include womens' co-operatives, co-operative credit societies formed for fishermen, gold-smiths, taxi-drivers, rickshaw-pullers, etc. They were 3,728 in number at the end of June, 1974 as against 3,423 as on 30 June, 1970. The total membership of those societies totalled 20.36 lakhs, giving an average membership of 546 only. The largest number of societies were in Punjab (927), followed by Maharashtra (544), Karnatak (449) and Delhi (298). Though the number of societies was largest in Punjab, their working capital was only Rs. 1.5 crores, whereas the working capital of these societies in Gujarat was Rs. 5.06 crores, in Maharashtra Rs. 4.98 crores, in Assam Rs. 3.23 crores, in Karnatak Rs. 3.10 crores, in Tamil Nadu Rs. 2.31 crores, in Delhi Rs. 2.13 crores and in Kerala Rs. 2.16 crores. The societies in Assam mainly depended upon outside borrowing for their working capital. At the end of June, 1974, their outside borrowings constituted 73.37 per cent of their working capital in Assam, whereas in other States, their outside borrowings were comparatively less.²⁷

The deposits of these societies increased from Rs. 5.4 crores at the end of June, 1970 to Rs. 7.9 crores as on 30 June, 1974, whereas their other borrowings increased from Rs. 5.1 crores to Rs. 6.5 crores. Loans (short-term and medium-term) by these societies showed a rise from Rs. 9.7 crores in 1969-70 to Rs. 15.8 crores in 1973-74. The overdues aggregated Rs. 3.9 crores at the end of June, 1974.²⁸

The MacLagan Committee observed, "The difficulties which beset co-operative societies for employees are firstly the transfer of members from place to place in a big business or department, and secondly the fact that even on the committee the members are unable to meet on an equality. It is impossible for them, since they all belong to one service, to forget in conducting the business of the society their relative official positions outside it, and in this way influential or highly placed members are able to secure excessive loans for themselves or their friends, and by recusancy in

26. *Review of the Co-operative Movement in India, 1970-72*, Bombay, pp. 93-94 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74*, Bombay, pp. 144-46.

27. *Ibid.*, p. 94 and pp. 145-58.

28. *Ibid.*, p. 94 and pp. 145-58.

the matter of repayment may seriously embarrass a committee composed largely of their subordinates²⁹. The Committee, therefore, recommended that "employees" societies should not be started unless really satisfactory arrangements can be made for their regular management and control³⁰.

However, the 'Co-operative Planning Committee' has recommended that "all offices employing fifty persons and more should organise employees' co-operative societies.....where separate societies for menials or low paid employees are organized, the employers should assist such societies by providing the staff required for their management, and by the grant of interest-free loans³¹".

Central Co-operative Banks

There has been the process of rationalisation of the credit structure at the intermediate level with an objective to have one central financing agency for each district. While pursuing the above policy, it has been agreed that more than one bank in the same district may be allowed to function provided such banks have either attained or nearly attained viability.

The central banks have continued their efforts in extending more and more banking facilities to rural and semi-urban areas. It is evident from the increase in the number of their offices. The total number of their branches and offices increased from 3,438 in June, 1970 to 4,832 in June, 1974. Maharashtra continued to lead with 1,062 branches/offices at an average of over 42 offices per bank. It was followed by Madhya Pradesh (628), Uttar Pradesh (631), Gujarat (536), Karnatak (374) and Tamil Nadu (351). In the remaining States, except perhaps in Punjab and Haryana, the progress of branch expansion was rather slow inspite of managerial subsidies provided by the State Governments for opening new branches³².

Membership

The total membership of all the central banks at the end of June, 1974 as compared to that on 30 June, 1970, was as under:

| | 30-6-1970 | 30-6-1974 |
|---|-----------------|-----------------|
| Co-operative Societies | 2,34,902 | 2,38,051 |
| Individuals and others (including State Governments) | 76,603 | 68,280 |
| Total | 3,11,505 | 3,06,331 |

29. *Report of the Committee on Co-operation (MacLagan Committee) in India*, 1915 Reprinted in 1957; Bombay, pp. 13-14.

30. *Ibid.*, p. 14.

31. *Report of the Co-operative Planning Committee*, 1946, Printed in 1951, Delhi, p. 224.

32. *Review of the Co-operative Movement in India, 1970-72*, Bombay, p. 54 and *Statistical Statements relating to the Co-operative Movement in India, Part I. Credit Societies, 1973-74*, Bombay, p. 21.

It will be seen from the above table that the membership of societies increased by 3,149 during the period under review. But the individual membership declined by 8,323, thus indicating a trend in conformity with the federal character of these banks³³.

Owned funds—The total owned funds of the central banks, comprising paid-up share capital and reserves has registered a sizeable increase during the period under review.

The total paid-up capital of the central banks has recorded a substantial increase during the period under review as indicated below³⁴ :—

TABLE—16

Ownership of Share Capital (Central banks)
(Rs. in crores)

| | 30-6-1970 | 30-6-1974 |
|--|--------------|-----------------|
| Government (increase over 30-6-1970) | 33.2 | 54.1 (20.9) |
| Co-operative Societies (increase over 30-6-70) | 93.7 | 137.6 (43.9) |
| Individuals and others (decrease over 30-6-1970) | 1.0 | 0.9 (0.1) |
| Total * | 127.9 | 192.6 |

* Total may not tally owing to rounding of figures.

Of the net increase of Rs. 64.7 crores during the two years, an increase of Rs. 20.9 crores was accounted for by Government contribution and of Rs. 43.9 crores by co-operative societies as against which there was a decline of Rs. 0.1 crore in the share capital held by individuals and others. At the end of June, 1974, the share capital contributed by Government and societies constituted 28.09 per cent and 71.44 per cent respectively, while the share capital of individuals was negligible.

The average share capital per central bank was highest in Gujarat at Rs. 128.76 lakhs, followed by Maharashtra (Rs. 117.30 lakhs), Tamil Nadu (Rs. 102.98 lakhs) and Punjab (Rs. 90.12 lakhs). The other States

33. Ibid., p. 54 and p. 21.

34. Ibid., p. 54 and p. 21.

in which the central banks have built up strong or fairly strong share capital base were Kerala (Rs. 76.04 lakhs), Karnatak (Rs. 75.35 lakhs), Haryana (Rs. 50.87 lakhs), Uttar Pradesh (Rs. 45.76 lakhs) and Madhya Pradesh (Rs. 40.49 lakhs).³⁵

An important factor, apart from the Government share capital contribution that has contributed to the growth of share capital of central banks was the linking of borrowings by societies to their share holdings in central bank. The Action Programme suggested by the Government of India in March, 1964, had recommended the ratio of share-holdings to borrowings to be 1:10 which had been accepted by most of the States. In Maharashtra and Gujarat, this ratio has been raised to 1:5 which contributed to the rapid growth of share capital held by co-operative societies in central banks in these two States³⁶. In Gujarat and Maharashtra, the share capital held by co-operative societies in the central banks constituted 87.67 per cent and 73.33 per cent respectively, of the total share capital at the end of June, 1974.³⁷

The statutory reserve fund and other reserves of central banks recorded an increase of Rs. 41.7 crores, from Rs. 46.2 crores in June, 1970 to Rs. 87.9 crores in June, 1974. Of the total reserves, 27.2 crores were accounted for by the statutory reserve fund at the end of June, 1974, which is to be provided for under the co-operative societies Acts of all States. As regards Agricultural Credit Stabilization Funds, the amounts to the credit of these funds registered an increase of Rs. 6.01 crores from June, 1970 to June, 1974 and amounted to Rs. 11.55 crores as on 30 June, 1974. Similarly, the bad debt reserves, including the special bad debt reserves, registered an increase of Rs. 10.09 crores during the period under review and amounted to Rs. 22.45 crores at the end of June, 1974. The accrual to other reserves of the central banks was Rs. 26.69 crores on the 30th June, 1974.

Deposits

Like the growth in owned funds, the growth in deposits was also encouraging. The total deposits of the central banks registered an increase of Rs. 336.89 crores, from Rs. 381.71 crores on the 30th June, 1970 to Rs. 718.60 crores at the end of June, 1974. The progress made by the central banks in the mobilisation of deposits in each State is indicated in the table below:³⁸

35. Calculations based on the data in *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1973-74, Bombay, p. 21.
36. *Review of the Co-operative Movement in India*, 1970-72, p. 55.
37. Calculations based on the data in *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1973-74, Bombay, p. 21.
38. *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1973-74, p. 21.

TABLE—17

Deposits as on 30th June, 1974 (Central banks)

(Rs. in lakhs)

| <i>State and No. of Banks (in Brackets)</i> | <i>No. of Offices</i> | <i>Total Deposits</i> | <i>Co-operative Societies</i> | <i>Individuals and others</i> |
|---|---------------------------|---------------------------|-----------------------------------|-----------------------------------|
| Andhra Pradesh (25) | 147 | 28,22.40 | 17,60.33 | 10,62.07 |
| Assam (7) | 38 | 1,77.78 | 1,26.70 | 51.08 |
| Bihar (28) | 173 | 10,31.58 | 4,76.92 | 5,54.66 |
| Gujarat (18) | 536 | 127,89.95 | 47,56.80 | 80,33.15 |
| Haryana (12) | 132 | 17,80.78 | 3,43.22 | 14,37.56 |
| Himachal Pradesh (2) | 37 | 10,89.72 | 1,78.11 | 9,11.61 |
| Jammu & Kashmir (3) | 32 | 2,84.78 | 81.15 | 2,03.63 |
| Karnatak (19) | 374 | 44,91.90 | 23,02.31 | 21,89.59 |
| Kerala (11) | 115 | 28,62.89 | 13,48.14 | 15,14.75 |
| Madhya Pradesh (43) | 628 | 37,39.26 | 14,88.11 | 22,51.15 |
| Maharashtra (25) | 1,063 | 177,19.23 | 56,24.42 | 120,94.81 |
| Orissa (17) | 98 | 11,47.40 | 6,63.70 | 4,83.70 |
| Punjab (17) | 220 | 57,79.36 | 14,18.01 | 43,61.35 |
| Rajasthan (25) | 173 | 15,59.54 | 5,28.23 | 10,31.31 |
| Tamil Nadu (16) | 351 | 62,72.22 | 35,64.28 | 27,07.94 |
| Uttar Pradesh (56) | 631 | 69,82.41 | 20,87.97 | 48,94.44 |
| West Bengal (17) | 84 | 13,28.76 | 2,23.22 | 11,05.54 |
| Total 1973-74 (341) | 4,832 | 718,59.96 | 269,71.62 | 448,88.34 |

The central co-operative banks in Gujarat and Maharashtra continued to show appreciable progress in their efforts in deposit mobilisation, followed by Uttar Pradesh, Tamil Nadu and Punjab. While the average deposits per bank in the country as on 30th June, 1974 worked out to Rs. 210.73 lakhs, the average was as high as Rs. 710.55 lakhs in Gujarat and Rs. 708.77 lakhs in Maharashtra. The average deposits per bank in Tamil Nadu, Punjab and Uttar Pradesh at the end of June, 1974, were Rs. 392.01 lakhs, Rs. 339.96 lakhs and Rs. 124.69 lakhs as against Rs. 176.60 lakhs, Rs. 156.75 lakhs and Rs. 56.23 lakhs respectively on the 30th June, 1970. The disparities in performance could be attributed to the varying degrees of deposit potential from area to area and the extent to which the central banks themselves made efforts or were organisationally equipped to attract deposits.³⁹

Keeping in view the tight money market conditions and keen competition with commercial banks and central Government in the matter of tapping the surplus money of the people by way of deposits and cash certificates and bonds, the growth registered by central co-operative banks in this respect is very encouraging. However, in Bihar the average deposits per bank amounting to Rs. 36.84 lakhs on 30th June, 1974 was discouraging. The rates of interest in Bihar on fixed deposits are comparatively low. This is one of the reasons for low volume of fixed deposits in the banks.

Borrowings

The agencies for raising borrowings at the disposal of central co-operative banks of all the States are almost common. The difference is of the degree and extent in the utilisation of these resources.

The borrowings of the central banks from sources such as the State co-operative banks, State Governments, commercial banks including the State Bank of India and its subsidiaries increased from Rs. 372 crores on 30th June, 1970 to Rs. 509 crores on 30th June, 1974. Of the total borrowings of Rs. 509 crores, borrowings to the extent of Rs. 448 crores or 88 per cent were from the State co-operative banks. The comparative position of owned funds, deposits and borrowings and their percentages to working capital as on 30th June, 1971 and 30th June, 1974 may be seen from the table⁴⁰ below :—

39. *Review of the Co-operative Movement in India, 1970-72*, pp. 56-57 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1969-70*, p. 19 and 1973-74, p. 21.

40. *Review of the Co-operative Movement in India, 1970-72*, Bombay, p. 59 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies 1969-70*, p. 20 and 1973-74, pp. 22-23.

TABLE—18

Composition of Working Capital

(Rs. in crores)

| | 1969-70 | 1973-74 |
|-----------------|---------|---------|
| Working capital | 927.8 | 1,594.8 |
| Owned funds | 174.1 | 280.6 |
| (Percentage) | (18.8) | (17.6) |
| Deposits | 381.7 | 718.6 |
| (Percentage) | (41.1) | (45.0) |
| Borrowings | 372.0 | 509.0 |
| (Percentage) | (40.1) | (31.9) |

From the table it may be seen that the period under review saw a welcome reversal of the trend in as much as the percentage of borrowings to working capital declined from 40.1 in June, 1970 to 31.9 in June, 1974. This was, however, an overall position and did not reflect the inter-state disparities which were fairly wide in a number of States. While in States like Gujarat, Punjab and Maharashtra, the deposits constituted a major component of the banks' working capital, banks in States like Assam, Bihar, Jammu & Kashmir, Madhya Pradesh and Rajasthan continued to rely heavily on borrowings in the matter of resources required for providing finance to their constituents. It may be seen from the following table that the proportion of borrowings to working capital was more than 40 per cent in Assam, Bihar, Jammu & Kashmir, Madhya Pradesh and Rajasthan.

Investments

The investments of all the central co-operative banks, excluding those in fixed deposits with other banks, increased from Rs. 81.6 crores on the 30th of June, 1970 to Rs. 91.6 crores on 30th June, 1974, constituting 5.7 per cent of the total working capital and 12.7 per cent of the total deposits. Of the total investments of Rs. 91.6 crores as much as Rs. 26.1 crores or 28.5 per cent represented investments in Government securities, while Rs. 32.6 crores or 35.6 per cent represented investments in the debentures of land development banks and other trustee securities.

The proportion of various investments to total is shown in the table given below :⁴²

TABLE—20

Investments (Central banks) (Rs. in crores)

| <i>Type of investment</i> | <i>Amount</i> | <i>Percentage to total investments</i> |
|---|---------------|--|
| Government Securities | 26.1 | 28.5 |
| Debentures of land Development banks and other trustee securities | 32.6 | 35.6 |
| Other investments | 32.9 | 35.9 |
| | 91.6 | 100.0 |

Loans and Advances

The central co-operative banks advance loans for short and medium periods to credit societies and also to individuals. The volume of total loans issued by the central banks increased from Rs. 8,72.5 crores at the end of June, 1970 to Rs. 12,15.3 crores at the end of June, 1974. Short-term loans outstanding as on 30th June, 1974 at Rs. 900.76 crores were higher by Rs. 286.62 crores over the level obtaining on 30th June, 1970. Medium-term loans outstanding which amounted to Rs. 262.04 crores on 30th June, 1974 were higher by Rs. 136.40 crores over the level obtaining on 30th June, 1970.

The large increase in short-term loans can be mainly assigned to the increasing coverage of high yielding varieties programmes and the use of hybrid seeds and fertilisers which involved larger outlays on cultivation.

42. *Review of the Co-operative Movement in India, 1970-72* Bombay, p. 60 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74* pp. 22-23.

In Maharashtra, where the expansion was very significant, the total loans issued by central banks increased from Rs. 232.6 crores in 1969-70 to Rs. 360.4 crores in 1973-74, followed by Gujarat from Rs. 134.1 crores to Rs. 227.6 crores and Tamil Nadu from Rs. 96.3 crores to Rs. 147.2 crores. In Bihar, the total loans issued as on 30th June, 1974 at Rs. 16.1 crores were higher by Rs. 4.1 crores over the level obtaining on 30th June, 1970. However, the expansion of credit was not uniform in all the States. Apart from the difference in the rate of expansion of credit in various States; the only State in which the volume of credit made available registered a fall was Assam. It is evident from the following table:⁴³

TABLE—21

Loans Issued & Outstanding (Central banks)
(Rs. in crores)

| State | Loans issued during the year ended June | | Loans outstanding as on 30th June | |
|--------------------|---|---------------|-----------------------------------|---------------|
| | 1970 | 1974 | 1970 | 1974 |
| Andhra Pradesh | 34.3 | 48.0 | 39.4 | 54.8 |
| Assam | 2.8 | 1.5 | 7.5 | 9.7 |
| Bihar | 12.0 | 16.1 | 18.9 | 30.2 |
| Gujarat | 134.1 | 227.6 | 93.2 | 201.9 |
| Haryana | 17.3 | 37.9 | 17.9 | 30.8 |
| Himachal Pradesh | 1.1 | 1.7 | 1.0 | 1.2 |
| Jammu & Kashmir | 3.9 | 8.8 | 2.6 | 7.9 |
| Karnatak | 71.7 | 88.2 | 64.1 | 83.5 |
| Kerala | 28.3 | 44.0 | 27.9 | 47.9 |
| Madhya Pradesh | 58.0 | 71.8 | 71.1 | 98.3 |
| Maharashtra | 232.6 | 360.4 | 155.2 | 238.6 |
| Orissa | 9.6 | 15.7 | 15.9 | 22.6 |
| Punjab | 72.7 | 76.3 | 48.9 | 55.1 |
| Rajasthan | 17.5 | 33.1 | 22.5 | 36.7 |
| Tamil Nadu | 96.3 | 147.2 | 64.5 | 106.4 |
| Uttar Pradesh | 69.0 | 92.6 | 71.2 | 115.5 |
| West Bengal | 11.3 | 17.4 | 18.1 | 21.5 |
| All-India * | 872.5 | 1288.3 | 739.8 | 1162.5 |

*Total may not tally due to rounding of figures.

43. *Review of the Co-operative Movement in India, 1970-72*, Bombay, p. 62 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74*, p. 23.

The relative disparities in the performance of the central banks can be seen with reference to the average loans issued per capita of rural population in different States. It is evident from the following table :⁴⁴

TABLE—22

Average Loans per Bank and per Capita of Rural Population on 30-6-1974

| <i>State</i> | <i>Average loans Issued per bank</i> | <i>Average loans outstanding per bank</i> | <i>Average loans issued per capital of rural population</i> |
|------------------|--|---|---|
| Andhra Pradesh | 191.89 | 219.08 | 13.71 |
| Assam | 21.73 | 138.29 | 1.14 |
| Bihar | 57.59 | 107.65 | 3.18 |
| Gujarat | 1264.55 | 1121.89 | 110.49 |
| Haryana | 316.03 | 256.51 | 39.89 |
| Himachal Pradesh | 84.25 | 97.88 | 5.30 |
| Jammu & Kashmir | 291.48 | 263.61 | 22.81 |
| Karnatak | 464.06 | 439.11 | 36.59 |
| Kerala | 399.17 | 435.68 | 23.65 |
| Madhya Pradesh | 167.03 | 228.52 | 19.76 |
| Maharashtra | 1441.55 | 954.07 | 103.86 |
| Orissa | 92.45 | 132.76 | 7.10 |
| Punjab | 448.96 | 324.11 | 73.85 |
| Rajasthan | 132.54 | 146.66 | 15.63 |
| Tamil Nadu | 919.83 | 664.99 | 49.86 |
| Uttar Pradesh | 165.40 | 206.13 | 13.75 |
| West Bengal | 102.16 | 125.53 | 5.21 |
| All-India | 377.80 | 341.00 | 29.70 |

It will be seen from the above table that the central banks in Gujarat, Maharashtra, Tamil Nadu and Punjab and to some extent in Haryana, Kerala, Madhya Pradesh and Karnatak have been successful in stepping up their loans and advances. In the remaining States, the position may not be said to be satisfactory. The average loans issued per capita of rural population was the highest in Gujarat (Rs. 110.49), followed by Maharashtra (Rs. 103.86), Punjab (Rs. 73.85) and Tamil Nadu (Rs. 49.86), whereas the average loans issued per capita of rural population was the lowest in Assam (Rs. 1.14), followed by Bihar (Rs. 3.18), Orissa (Rs. 7.10) and Uttar Pradesh (Rs. 13.75) at the end of June, 1974.

44. Calculations based on the data in *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1973-74, Bombay, pp. 23-27 and 113.

The purpose-wise classification of short-term and medium-term loans issued during 1969-70 and 1973-74 is indicated in the following table :⁴⁵

TABLE—23

Purpose-wise Classification of Loans issued (Central banks)

(Rs. in crores)

| <i>Purpose</i> | 1969-70 | 1973-74 |
|--|---------|---------|
| Short-term (Total) | 813.2 | 1206.5 |
| Seasonal agricultural operations | 457.7 | 657.3 |
| Purchase of agricultural implements | 5.2 | 205.7 |
| Marketing of crops | 76.2 | 103.1 |
| Processing of agricultural produce | 35.4 | 63.7 |
| Industrial purposes | 20.4 | 34.3 |
| Consumption loans | 14.2 | 42.9 |
| Other purposes | 190.5 | 274.2 |
| Medium-term (Total) | 59.3 | 81.8 |
| Sinking of or repair to wells | 7.3 | 3.4 |
| Purchase of Machinery (Oil engines, pump-sets for irrigation etc.) | 8.8 | 6.9 |
| Purchase of cattle | 10.7 | 8.2 |
| Minor improvements to land | 2.4 | 0.8 |
| Other agricultural purposes | 15.2 | 5.8 |
| Other purposes (including industrial) | 14.8 | 27.3 |

45. *Review of the Co-operative Movement in India, 1970-72*, p. 65 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74*, Bombay, p. 26.

It will be seen from the above table that the major portion of the loans and advances made by the central banks was for seasonal agricultural operations and marketing of crops as these two purposes accounted for Rs. 533.9 crores or 65.65 per cent of the total short-term loans in 1969-70 and Rs. 760.4 crores or 63.03 per cent of the total short-term loans in 1973-74. The loans for marketing of crops and processing of agricultural produce were large only in the States of Gujarat, Maharashtra, Karnatak and Punjab. Loans and advances for industrial purposes were the largest in Tamil Nadu (Rs. 11.6 crores), followed by Maharashtra (Rs. 6.6 crores), Andhra Pradesh (Rs. 4.2 crores), Gujarat (Rs. 3.8 crores) and Karnatak (Rs. 2.9 crores), whereas the lowest amount for industrial purposes was in Himachal Pradesh, followed by Jammu & Kashmir, Assam, Rajasthan, West Bengal and Bihar.

Efforts were also being made to bring about rationalisation of medium-term loan policies of central banks based on the guidelines issued by the Reserve Bank in August, 1968 for a switch over from security-oriented to production-oriented system of investment lending. All the States had accepted the approach in principle but the desired change in their policies continued to be slow during the period under review. Apart from splitting up the medium-term credit limits into 3 year and 5 year portions, and specifying the use of 5 year portion for specific purposes, the Reserve Bank further advised that for a central bank to be eligible for a medium-term credit limit from the Reserve Bank, it should have disbursed 40 per cent of its medium-term loans for one or more of the specified productive purposes. These induced purposes such as minor irrigation (wells, pump-sets, etc.) and purchase of agricultural machinery and implements.⁴⁶ There was considerable increase in the loans for the agricultural purposes from Rs. 15.2 crores in 1969-70 to Rs. 39.4 crores in 1971-72, which included loans for purchase of milch cattle, poultry, agricultural implements, construction of cattle sheds, farm houses, etc.⁴⁷ However, the amount for other agricultural purposes came down to Rs. 5.8 crores in 1973-74. The loans for other purposes including industrial purposes and for purchase of shares in co-operatives amounted to Rs. 27.3 crores or 33.37 per cent of the total medium-term loans issued.

Overdues

The recovery performance of the central co-operative banks may not be said to be satisfactory. The total overdues of the central banks increased from Rs. 215.2 crores or 29.1 per cent as on 30th June, 1970 to Rs. 360.8 crores or 31.0 per cent of the total outstandings at the end of June, 1974.

46. *Review of the Co-operative Movement in India, 1970-72*, Bombay, pp. 65-66.

47. *Ibid.*, p. 66.

The increasing overdues appears to be a general phenomenon and not confined to only weak States or States susceptible to natural calamities. It may be indicated in the table given below :⁴⁸

TABLE—24
Overdues (Central banks)
(Rs. in crores)

| State | 30-6-1970 | | 30-6-1970 | |
|------------------|--------------|----------------------------|--------------|----------------------------|
| | Overdues | Percentage to outstandings | Overdues | Percentage to outstandings |
| Andhra Pradesh | 13.5 | 34.2 | 15.7 | 28.5 |
| Assam | 5.7 | 75.8 | 8.6 | 88.7 |
| Bihar | 11.4 | 60.4 | 18.8 | 62.5 |
| Gujarat | 13.2 | 14.1 | 35.4 | 17.5 |
| Haryana | 5.6 | 31.5 | 12.0 | 39.0 |
| Himachal Pradesh | 0.2 | 22.1 | 0.6 | 30.0 |
| Jammu & Kashmir | 1.0 | 38.1 | 1.5 | 19.0 |
| Karnatak | 17.4 | 27.1 | 21.4 | 25.7 |
| Kerala | 4.4 | 15.9 | 11.9 | 24.8 |
| Madhya Pradesh | 22.0 | 30.9 | 42.0 | 42.7 |
| Maharashtra | 46.8 | 30.2 | 54.0 | 22.6 |
| Orissa | 7.3 | 46.0 | 10.9 | 48.2 |
| Punjab | 17.9 | 36.6 | 40.4 | 73.4 |
| Rajasthan | 8.7 | 38.4 | 12.8 | 34.9 |
| Tamil Nadu | 9.9 | 15.4 | 6.0 | 5.6 |
| Uttar Pradesh | 21.8 | 30.7 | 62.6 | 54.2 |
| West Bengal | 8.4 | 46.3 | 6.2 | 29.1 |
| All-India | 215.2 | 29.1 | 360.8 | 31.0 |

It will be seen from the table that the States where the percentage of overdues to loans outstanding had declined during the period under review were Andhra Pradesh, Jammu & Kashmir, Karnatak, Maharashtra, Rajasthan, West Bengal and Tamil Nadu. In Tamil Nadu, the overdues have progressively declined and were 5.6 per cent of the total loans outstanding at the end of June, 1974. Except Gujarat and Jammu & Kashmir, in all other States the overdues were above 20 per cent. The largest percentage of overdues to outstandings was 88.7 in Assam, followed by Punjab (73.4), Bihar (62.5), Uttar Pradesh (54.2), Orissa (48.2) and Madhya Pradesh (42.7).

48. *Review of the Co-operative Movement in India, 1970-72*, Bombay, p. 66 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74*, Bombay, p. 23.

Besides natural calamities such as floods, droughts, etc., affecting the repaying capacity of the borrowers, the poor recovery performance can be attributed mainly to the tolerance often shown by the Government in regard to the recovery of loans and taking coercive steps, inadequate and inefficient supervision provided by the banks and reluctance on the part of the management of the societies to take effective and prompt action for recovery dues from the wilful defaulters. The absence of linking of credit with marketing in most of the States have added to the difficulties of banks in the recovery of dues.⁴⁹

Consequent on the increasing trend in overdues of the central co-operative banks in the country, the Reserve Bank of India appointed a 'Study Team on Overdues of Co-operative Credit Institutions' on 9th December, 1972, under the Chairmanship of Dr. C.D. Datey, Executive Director of the Reserve Bank of India, to analyse the causes of such overdues and to recommend remedies for not only containing them within the reasonable limits but also for ensuring that the problem does not aggravate. The Team was also asked to examine the adequacy of stabilization arrangements, including the need for streamlining the policies and procedures for grant of conversion/rephasing facilities and for augmentation of various funds of the purpose.⁵⁰

After a comparative study of the working of the central co-operative banks in Indian States, we find that the central banks in some States have not made satisfactory progress in several respects such as raising adequate share capital, mobilization of deposits, implementation of production-oriented system of lending for agriculture and recovery of their dues. So there is the need of rehabilitation of weak central co-operative banks.

In this connection, the seminar of the Chief Executive Officers of the apex co-operative banks held at Poona in September, 1970, had fixed norms for identification of weak central banks and recommended that such of the central banks whose bad and doubtful debts, accumulated losses and other overdues over 3 years exceeded 50 per cent of their owned funds, should be considered as weak and taken up for rehabilitation. According to this criteria, these were 69 weak central banks in 12 States requiring rehabilitation, as on 30th June, 1971.⁵¹

The Government of India in consultation with the Planning Commission and the Reserve Bank of India, formulated a scheme in January, 1972, called the "New Central Sector Plan Scheme for Rehabilitation of Selected Weak Central Co-operative Banks". For the purpose of selecting

49. *Review of the Co-operative Movement in India, 1970-72*, Bombay, p. 67.

50. *Ibid.*, p. 67.

51. *Ibid.*, p. 68.

the weak banks for assistance under the scheme, the criteria recommended at the seminar of the Chief Executives of the apex banks referred to above was accepted by the Government of India with further stipulation that the uneroded owned funds of the bank should be less than Rs. 25 lakhs and the bank should have scope for becoming, after rehabilitation, a viable unit within a reasonable period by raising its loan business to about Rs. 1 crore. The objective of the Central Scheme was to write off the accumulated bad debts, losses and irrecoverable overdues over 3 years as ascertained after due investigation at the societies' level. The total write off, however, should not exceed 50 per cent of the amount of bad/doubtful debts, losses and other overdues over 3 years as on 30th, June, 1971 at the central bank level. Further, the loans due from only small farmers, artisans etc. were to be considered for write off under the scheme and those due from medium and large farmers were not to be written off. The total amount of irrecoverable dues eligible for write off was to be shared by the primary credit societies, the central banks and the apex co-operative bank at the rate of 20 per cent of the amount to be written off at each level and the balance was to be shared equally by the State and the Central Governments. The share of write off from the primary societies and the central banks could be lower in suitable cases where reserves were inadequate, but it would not in any case be less than 5 per cent of the amount of loans written off at each level. In cases where there were no reserves even to meet this 5 per cent, the higher financing agency was expected to bear the deficit⁵².

The Reserve Bank had agreed to treat the overdues of the central banks with overdues over 60 per cent of demand at the end of June, 1972 selected for assistance under the New Central Sector Plan Scheme, as notionally reduced to the extent of assistance actually received by them under the scheme and appearing to the credit of the 'Rehabilitation Fund', for the purpose of sanction of short-term credit limits from the Reserve Bank, if after such notional reduction, the overdues worked out to less than 60 per cent of the demand⁵³.

At the end of June, 1972, there were, in all, 125 central banks under the programme of rehabilitation comprising (a) banks covered by the central scheme (74); (b) the banks in whose areas the scheme of financing of primary agricultural credit societies by commercial banks was in operation; (c) the banks identified as 'weak' on the basis of criteria laid down in the seminar of Chief Executive Officers of apex banks held at Poona in September, 1970 and (d) the banks taken under the programme of rehabilitation on ad hoc basis on account of operational inefficiencies in their working⁵⁴.

52. Ibid., pp. 68-69

53. Ibid., p. 69.

54. Ibid., p. 69.

State Co-operative Banks

The State co-operative banks are the federations of central or district co-operative banks and banking unions, at the state levels. At the end of June, 1974, 21 States and 5 Union territories were served by a state co-operative bank each, raising the total number of State co-operative banks to 26 from 25 in 1969-70.

The State co-operative banks in States having the three tier system continued the policy of opening branches in metropolis centres where they were registered and only in exceptional cases at other centres in the districts. The banks have opened new offices, taking the total number of offices, including head offices, to 251 at the end of June, 1974. The membership of the banks consisted of 13,036 co-operative societies, 7,212 individuals and others including the State Governments and 10,791 nominal members. Maharashtra had the largest number of members including nominal, at 12,848 followed by Goa, Daman and Diu (3,738) and Assam (2,956). The State co-operative banks of Maharashtra and Himachal Pradesh had the maximum number of branches including head office at 33 each, followed by Assam (27), Tamil Nadu (21), West Bengal (17), Tripura and Uttar Pradesh (14 each), Delhi (13), Goa, Daman and Diu (11), Bihar (9) and Madhya Pradesh (8).⁵⁵

Every care has been taken to maintain the democratic spirit in the management and administration of State co-operative banks by providing opportunity for the representation of the central co-operative banks on the board and their management. In this context, the management of Maharashtra State co-operative bank is completely based on the principle of democracy as the entire board of management is constituted with the delegates of the affiliated district co-operative banks and the State Government nominees. On the contrary there are only a few representatives from Central co-operative banks on the board of management of Bihar Co-operative Bank Limited.

Owned funds

The following table⁵⁶ indicates the position of owned funds of State co-operative banks during the two years under review :—

55. *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies 1973-74*, Bombay, p. 5.
56. *Review of the Co-operative Movement in India, 1970-72*, Bombay, pp. 37-38 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74*, Bombay, pp. 5-6.

TABLE—25

Progress in Owned Funds (State Co-operative Banks)

(Rs. in crores)

| <i>Owned Funds</i> | 1969-70 | 1973-74 | <i>Increase over 1969-70</i> | |
|---|---------|---------|------------------------------|-----------------|
| | | | <i>Amount</i> | <i>Per cent</i> |
| Share capital | 39.6 | 54.5 | 14.9 | 38 |
| Of which from Government | (11.8) | (19.7) | (7.9) | (67) |
| Statutory Reserve | 9.4 | 13.6 | 4.2 | 45 |
| Agricultural Credit Stabilization Fund | 22.3 | 38.7 | 16.4 | 74 |
| Other Reserves (Bad debt reserve + special bad debt/reserve + other reserves) | 11.5 | 21.7 | 10.2 | 89 |
| Total * | 82.8 | 128.5 | 45.7 | |

* Totalling may not tally due to rounding of figures.

It will be seen from the above table that the total owned funds of the banks increased by Rs. 45.7 crores to Rs. 128.5 crores at the end of June, 1974. About one-third of this increase was accounted for by the increase in the statutory and other reserves. The amount to the credit of the agricultural credit stabilization fund increased by as much as Rs. 16.4 crores mainly on account of the loans and grants made available by the Government of India. The paid-up share capital of all the State co-operative banks increased from Rs. 39.6 crores at the end of June, 1970 to Rs. 54.5 crores as on 30th June, 1974. Of the total paid-up capital, a sum of Rs. 34.6 crores or 63.5 per cent was from the affiliated co-operative societies including central co-operative banks. The State Governments' contribution amounted to Rs. 19.7 crores. The State co-operative banks also continued their efforts to strengthen their capital base by linking shareholding of affiliated institutions with their borrowings. The State co-operative banks had been also attempting to bring about linking to the extent of 5 per cent of the borrowings by central banks, while in the case of borrowings by institutions other than central banks, they have been adopting different standards of share linking. The proportion of Government share capital contribution to the total share capital of all the State co-operative banks increased from 29.8 per cent to 36.2 per cent during the two years under review.

The Madhya Pradesh and Bihar State co-operative banks received share capital contribution from the respective state Governments to the extent of Rs. 1,85.60 lakhs and Rs. 66.00 lakhs respectively, during the year 1973-74.^{56A}

Deposits

The efforts of the State co-operative banks towards deposit mobilization have shown good progress during the period under review. The deposits increased from Rs. 234.3 crores at the end of June, 1970 to Rs. 488.7 crores as on 30th June, 1974, showing an overall increase of Rs. 254.4 crores during the period under review. The comparative position of deposits in the various State co-operative banks according to their ownership as on 30 June, 1970 and 1974 is given in the table⁵⁷ below:

56A. Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74, p. 5.

57. *Review of the Co-operative Movement in India, 1970-72*, Bombay, p. 40 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74*, Bombay, p. 5.

TABLE—26

Ownership of Deposits (State Co-operative Banks)
(Rs. in lakhs)

| <i>State Co-operative Bank</i> | 1969-70 | | |
|--------------------------------|-------------------------------|-------------------------------|-------------------|
| | <i>Co-operative Societies</i> | <i>Individuals and others</i> | <i>Total</i> |
| Andhra Pradesh .. | 9,27.91 | 1,55.73 | 10,83.64 |
| Assam .. | 1,95.76 | 10,28.47 | 12,24.23 |
| Bihar .. | 3,64.42 | 3,05.68 | 6,70.10 |
| Gujarat .. | 24,06.02 | 1,32.33 | 25,38.35 |
| Haryana .. | 1,50.02 | 2,42.08 | 3,92.10 |
| Himachal Pradesh .. | 60.86 | 2,12.56 | 2,73.42 |
| Jammu & Kashmir .. | 75.92 | 10.94 | 86.86 |
| Karnatak .. | 9,37.31 | 83.63 | 10,20.94 |
| Kerala .. | 3,30.24 | 72.14 | 4,02.38 |
| Madhya Pradesh .. | 606.59 | 4,46.03 | 10,52.62 |
| Maharashtra .. | 6,100.65 | 20,14.83 | 81,15.48 |
| Manipur .. | 14.70 | 17.45 | 32.15 |
| Meghalaya .. | — | — | — |
| Nagaland .. | 0.97 | 7.45 | 8.42 |
| Orissa .. | 2,66.22 | 56.70 | 3,22.92 |
| Punjab .. | 8,84.43 | 2,63.78 | 11,48.21 |
| Rajasthan .. | 1,95.00 | 67.66 | 2,62.66 |
| Tamil Nadu .. | 6,93.03 | 6,04.72 | 12,97.75 |
| Tripura .. | 16.60 | 21.54 | 38.14 |
| Uttar Pradesh .. | 13,40.71 | 8,37.59 | 21,78.30 |
| West Bengal .. | 6,88.86 | 1,18.41 | 8,07.27 |
| Andaman & Nicobar .. | 0.90 | 2.14 | 3.04 |
| Chandigarh .. | 7.95 | 7.25 | 15.20 |
| Delhi .. | 1,84.47 | 1,38.81 | 3,23.28 |
| Goa, Daman & Diu .. | 51.84 | 42.29 | 94.13 |
| Pondicherry .. | 31.44 | 7.44 | 38.88 |
| Total | 1,65,32.82 | 68,97.65 | 2,34,30.47 |

TABLE—26 (Contd.)

| 1973-74 | | | Co-operative Societies (4-1) | Individuals & others (5-2) | Total (6-3) |
|---------------------------|-------------------------|------------|------------------------------------|----------------------------------|----------------|
| Co-operative Societies | Individuals & others | Total | | | |
| 21,45.17 | 1,83.44 | 23,28.61 | +12,19.26 | + 27.71 | + 12,44.97 |
| 3,35.34 | 12,50.86 | 15,86.20 | + 1,39.58 | + 222.39 | + 3,61.97 |
| 7,34.35 | 6,49.60 | 13,83.95 | + 3,69.93 | + 343.92 | + 7,13.85 |
| 53,99.85 | 1,04.39 | 55,04.24 | +29,93.83 | — 27.94 | + 29,65.89 |
| 7,15.08 | 6,15.47 | 13,30.55 | + 565.06 | + 373.39 | + 9,38.45 |
| 3,04.71 | 3,57.92 | 6,62.63 | + 2,43.85 | + 1,45.36 | + 3,89.21 |
| 1,06.94 | 12.57 | 1,19.51 | + 31.02 | + 1.63 | + 32.65 |
| 21,20.94 | 1,36.70 | 22,57.64 | +11,83.63 | + 53.07 | + 12,36.70 |
| 7,83.17 | 85.87 | 8,69.04 | + 4,52.93 | + 13.73 | + 4,66.66 |
| 10,90.08 | 4,24.64 | 15,14.72 | + 4,83.49 | — 21.39 | + 4,62.10 |
| 1,27,21.71 | 24,24.16 | 1,51,45.87 | +66,21.06 | + 9.33 | +70,30.39 |
| 40.67 | 50.23 | 90.90 | + 25.97 | + 32.78 | + 58.75 |
| 29.59 | 1,85.19 | 2,14.78 | + 29.59 | + 185.19 | + 2,14.78 |
| 6.65 | 1,09.69 | 1,16.34 | + 5.68 | + 1,02.24 | + 1,07.92 |
| 6,26.58 | 55.13 | 6,81.71 | + 3,60.36 | — 0.57 | + 3,58.79 |
| 27,02.82 | 6,53.53 | 33,56.35 | +18,18.39 | + 3,89.75 | +22,08.14 |
| 4,82.23 | 1,03.21 | 5,85.44 | + 2,87.23 | + 35.55 | + 3,22.88 |
| 17,66.70 | 19,61.14 | 37,27.84 | +10,73.67 | +13,56.42 | +24,30.09 |
| 37.72 | 62.92 | 1,00.64 | + 21.12 | + 41.38 | + 62.50 |
| 34,53.69 | 14,51.10 | 49,04.79 | +21,12.98 | + 6,13.51 | + 27,26.49 |
| 13,59.07 | 2,12.83 | 15,71.90 | + 6,70.11 | + 94.42 | + 7,64.63 |
| 3.61 | 7.99 | 11.60 | + 2.71 | + 5.85 | + 8.56 |
| 3.41 | 42.66 | 46.07 | — 3.84 | + 35.41 | + 30.87 |
| 2,66.94 | 1,70.88 | 4,37.82 | + 82.47 | + 32.07 | + 7,14.54 |
| 1,32.46 | 1,10.25 | 2,42.71 | + 80.62 | + 67.96 | + 1,48.58 |
| 45.95 | 29.68 | 75.63 | + 14.51 | + 22.24 | + 36.85 |
| 3,74,15.43 | 1,14,52.05 | 488,67.48 | 2,08,82.61 | +45,54.40 | +2,54,37.01 |

It will be seen from the above table that there has been very little variation in the composition of deposits. The proportion of deposits of co-operative societies to total deposits as on 30th June, 1974 was 76.57 per cent as compared with 70.56 per cent at the end of June, 1974. While this was the position of all the State co-operative banks taken together, the proportion of deposits from co-operative societies to total deposits was relatively higher in 17 banks as at the end of 1973-74. In 8 other banks the deposits from individuals and others were comparatively more than the deposits from co-operative societies.

The efforts of the individual banks in mobilizing deposits yielded good results as the total deposits were more than doubled during the period under review. The increase in deposits was all-round, i.e., both from within and outside the movement in the case of 25 banks. The highest amount of deposits was recorded by Maharashtra (Rs. 151,45.87 lakhs), followed by Gujarat (Rs. 55,04.24 lakhs), Uttar Pradesh (Rs. 4,904.79 lakhs), Tamil Nadu (Rs. 37,27.84 lakhs) and Punjab (Rs. 33,56.35 lakhs). In comparison to these State banks, the State co-operative bank's deposits, in Bihar were disappointing as it recorded Rs. 13,83.95 lakhs and constituted 2.83 per cent of the total deposits at the end of June, 1974.

Other Borrowings

State co-operative banks borrow from the Reserve Bank of India, the State Bank of India and its subsidiaries, the State Governments, the Industrial Development Bank of India and the Agricultural Refinance Corporation. The Reserve Bank of India has been pursuing action to ensure the adoption of production-oriented loaning policies, purposive measures designed to channel a larger flow of credit to small farmers, programme of re-organization of the primary societies with the objective of retaining only viable unit, steps to promote greater degree of self-reliance among co-operative credit institutions and action to identify the credit inadequacies in the co-operatively weak States etc. Therefore, it continues to be the main source of funds for the State co-operative banks and accounts for the largest percentage of their total borrowings.

Borrowings from the State Bank of India and its subsidiaries are mainly for financing procurement, marketing activities, distribution of fertilizers, consumers' business and for general banking purposes. The borrowings from the State Governments are mainly for agricultural purposes (i.e., taccavi loans, which are routed through the co-operatives), for financing industrial societies, consumers' stores, etc.

Borrowings of the State co-operative banks declined from Rs. 302.3 crores at the end of June, 1969-70 to Rs., 290.4 crores as on 30th June, 1974, showing a fall of Rs. 11.9 crores. The comparative position of owned funds,

deposits and borrowings and their percentages to working capital as on 30th June, 1970 and 30th June, 1974 may be seen from the following table⁵⁸ :—

TABLE—27

Composition of Working Capital (State Co-operative Banks)

(Rs. in crores)

| | | 1969-70 | 1973-74 |
|-----------------|----|---------|---------|
| Working capital | .. | 619.4 | 942.0 |
| Owened funds | .. | 82.8 | 128.6 |
| (Percentage) | .. | (13.4) | (13.6) |
| Deposits | .. | 234.3 | 488.7 |
| (Percentage) | .. | (37.8) | (51.9) |
| Borrowings | .. | 302.3 | 290.3 |
| (Percentage) | .. | (48.8) | (30.8) |

It will be seen from the table that the proportion of owned funds to working capital slightly went up from 13.4 per cent at the end of June, 1970 to 13.6 per cent on 30th June, 1974. The proportion of deposits to working capital showed a rising trend and constituted 51.9 per cent of the working capital at the end of June, 1974. However, the proportion of borrowing to working capital showed a downward trend and declined from 48.8 per cent at the end of June, 1970 to 30.8 per cent on 30th June, 1974. The Statewise position of owned funds, deposits and borrowings and their percentages to working capital as on 30th June, 1974 is evident from the following table :⁵⁹

58. *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1969-70, pp. 6-7 and 1973-74, pp. 6-7.

59. *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1973-74, Bombay, pp. 6-7.

TABLE—28
Composition of Working Capital in States on 30th June, 1974. (State Co-operative Banks)
(Rs. in Lakhs)

| State | Working Capital | Owned Funds | | Deposits | | Borrowings | |
|-------------------|------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| | | Amount | % to Working Capital | Amount | % to Working Capital | Amount | % to Working Capital |
| Andhra Pradesh | 38,35.63 | 6,61.03 | 17.23 | 23,28.61 | 60.71 | 7,37.10 | 19.22 |
| Assam | 25,02.12 | 2,59.02 | 10.35 | 15,86.20 | 63.39 | 4,75.12 | 18.99 |
| Bihar | 30,11.75 | 3,78.67 | 12.57 | 13,83.95 | 45.95 | 11,10.88 | 36.88 |
| Gujarat | 1,22,01.68 | 9,81.09 | 8.04 | 55,04.24 | 45.11 | 54,80.16 | 44.91 |
| Haryana | 25,33.16 | 3,50.58 | 13.84 | 13,30.55 | 52.53 | 7,37.30 | 29.11 |
| Himachal Pradesh | 7,73.72 | 72.74 | 9.40 | 6,62.63 | 85.64 | 26.41 | 3.41 |
| Jammu & Kashmir | 5,14.71 | 69.10 | 13.43 | 1,19.51 | 23.22 | 2,33.64 | 45.39 |
| Karnatak | 57,36.30 | 8,19.64 | 14.29 | 22,57.64 | 39.36 | 25,70.00 | 44.80 |
| Kerala | 29,50.04 | 4,03.64 | 13.68 | 8,69.04 | 29.46 | 16,10.90 | 54.61 |
| Madhya Pradesh | 69,47.47 | 11,76.63 | 16.94 | 15,14.72 | 21.80 | 40,34.35 | 58.07 |
| Maharashtra | 232,94.46 | 30,56.87 | 13.12 | 151,45.87 | 65.02 | 40,82.15 | 17.52 |
| Manipur | 1,39.88 | 36.39 | 26.02 | 96.90 | 64.98 | 11.76 | 8.41 |
| Meghalaya | 2,56.55 | 36.89 | 14.38 | 2,14.78 | 83.72 | — | — |
| Nagaland | 1,50.08 | 22.44 | 14.95 | 1,16.34 | 77.62 | 5.58 | 3.72 |
| Orissa | 13,59.30 | 2,84.81 | 20.95 | 6,81.71 | 50.15 | 3,58.83 | 26.40 |
| Punjab | 52,43.54 | 7,02.46 | 13.40 | 33,56.35 | 64.01 | 8,36.49 | 15.95 |
| Rajasthan | 26,11.65 | 5,10.38 | 19.54 | 5,85.44 | 22.42 | 14,27.25 | 54.65 |
| Tamil Nadu | 65,87.95 | 9,16.77 | 13.92 | 37,27.84 | 56.59 | 17,79.05 | 27.00 |
| Tripura | 2,38.80 | 41.68 | 17.45 | 1,00.64 | 42.14 | 90.54 | 37.91 |
| Uttar Pradesh | 91,54.11 | 11,99.73 | 13.11 | 49,04.79 | 53.58 | 27,51.14 | 30.05 |
| West Bengal | 29,77.71 | 7,12.42 | 23.93 | 15,71.90 | 52.79 | 5,26.02 | 17.67 |
| Andaman & Nicobar | 15.71 | 3.81 | 24.25 | 11.60 | 73.84 | — | — |
| Chandigarh | 69.20 | 6.80 | 9.83 | 46.07 | 66.58 | 11.75 | 16.98 |
| Delhi | 6,21.30 | 84.75 | 13.64 | 4,37.82 | 70.47 | 82.51 | 13.28 |
| Goa, Daman & Diu | 3,29.17 | 29.98 | 9.11 | 2,42.71 | 73.73 | 42.50 | 12.91 |
| Pondicherry | 1,43.80 | 42.15 | 29.31 | 75.63 | 52.59 | 21.12 | 14.69 |
| All-India | 941,99.79 | 128,60.47 | 13.65 | 488,67.48 | 51.88 | 290,42.55 | 30.83 |

An analysis of the owned funds, deposits and borrowings in relation to working capital bank-wise revealed that 5 State co-operative banks in Manipur, Orissa, West Bengal, Andaman and Nicobar and Pondicherry had owned funds exceeding 20 per cent of their working capital during 1973-74. In 18 State co-operative banks, deposits constituted more than 50 per cent of their working capital, while 8 State co-operative banks had deposits below 50 per cent of their working capital.

The proportion of borrowings to total working capital was also 50 per cent or more in the case of three State co-operative banks during the year 1973-74. The highest was in the case of Madhya Pradesh State Co-operative Bank, which stood at 58.07 per cent. The lowest percentage of borrowings in relation to the working capital (3.41%) was in the case of the Himachal Pradesh State Co-operative bank in 1973-74.

Investments

The total investments of all the State co-operative banks excluding their investment in fixed deposits with other banks which have been treated as balance with banks, stood at Rs. 146.3 crores as on 30th June, 1974 as compared with Rs. 78.5 crores at the end of 1969-70. The following table⁶⁰ gives the comparative position of their investments as at the end of 1969-70 and 1973-74 :—

TABLE—29

Investments (State Co-operative Banks)
(1969-70 and 1973-74)
(Rs. in crores)

| <i>Investments</i> | 1969-70 | 1973-74 |
|---|-------------|--------------|
| Government securities .. | 45.8 | 81.1 |
| Other trustee securities (including debentures of land development banks) | 32.0 | 62.9 |
| Fixed deposits .. | — | — |
| Others .. | 0.7 | 2.3 |
| Total | 78.5 | 146.3 |

60. *Review of the Co-operative Movement in India, 1970-72*, Bombay, p. 44 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74*, Bombay, p. 8.

The increase in investment was of the order of Rs. 67.8 crores over the level obtaining in 1969-70. The investment was the highest in Maharashtra (Rs. 23.6 crores), followed by Tamil Nadu (Rs. 10.8 crores), Gujarat (Rs. 9.6 crores), Uttar Pradesh (Rs. 9.5 crores), Madhya Pradesh (Rs. 8.2 crores) and Punjab (Rs. 6.1 crores). The investment made by the Bihar State Co-operative Bank was disappointing as it stood at Rs. 1.2 crores in 1973-74.

Loans and Advances

The State co-operative banks in all the States assume the key position in the co-operative credit structure. They not only mobilise but also deploy the required financial resources appropriately among the various sectors. Thus, their significance lies in the fact that only through the medium of State co-operative banks can Reserve Bank finance reach the hands of the cultivators.

The purpose-wise analysis of the short-term loans issued by the State co-operative banks during the years 1969-70 and 1973-74 may be indicated in the table⁶¹ below:—

TABLE—30

Short-Term Advances (State Co-operative Banks)

(Rs. in lakhs)

| | 1969-70 | 1973-74 |
|---|------------------|-------------------|
| Seasonal agricultural operations including seeds and fertilizers .. | 358,20.77 | 554,04.94 |
| Purchase of agricultural implements .. | 0.42 | 1,04.50 |
| Marketing of crops including procurement | 77,65.40 | 85,34.00 |
| Processing of agricultural produce .. | 55,11.94 | 127,83.54 |
| Other agricultural purposes including distribution of inputs .. | 17,30.16 | 20,23.04 |
| Industrial purposes .. | 14,40.61 | 49,36.93 |
| Consumption loans .. | 1,10.06 | 5,50.39 |
| Other purposes including supply of consumer goods .. | 110,72.89 | 182,34.15 |
| Total .. | 673,09.59 | 1114,79.00 |

61. *Statistical statements relating to the Co-operative movement in India*, Part I Credit Societies, 1969-70, p. 12 and 1973-74, Bombay, p. 14.

It may be seen from the above table that advances for seasonal agricultural operations increased from Rs. 358,20.77 lakhs as on 30th June, 1970 to Rs. 554,04.94 lakhs at the end of June, 1974, showing an increase of Rs. 195,84.17 lakhs during the period under review. The advances for processing agricultural produce also increased from Rs. 55,11.94 lakhs as on 30th June, 1970 to Rs. 127,83.54 lakhs at the end of June, 1974. Other purposes of a short-term nature roughly covered disbursement of loans for consumption purposes, distribution and supply of consumers' goods in some of the States. Bank-wise analysis showed that the highest amount of short-term loans and advances was made by the Maharashtra State Co-operative Bank at Rs. 161,61.54 lakhs, followed by Gujarat (Rs. 78,35.60 lakhs), Uttar Pradesh (Rs. 69,03.78 lakhs), Punjab (Rs. 68,40.05 lakhs) and Madhya Pradesh (Rs. 54,90.33 lakhs). Loans and advances made by the Bihar State Co-operative Bank amounted to Rs. 12,29.39 lakhs which constituted 1.83 per cent of the total short-term loans and advances at the end of June, 1974.

The purpose-wise analysis of the medium-term advances by the State co-operative banks is indicated in the table⁶² given below:—

TABLE—31

Medium-Term Advances (State Co-operative Banks)

(Rs. in lakhs)

| | 1969-70 | 1973-74 |
|-----------------------------------|-----------------|-----------------|
| Sinking of or repairs to wells .. | 4,47.48 | 2,74.34 |
| Purchase of machinery .. | 3,03.44 | 3,70.62 |
| Purchase of cattle .. | 62.32 | 60.48 |
| Minor improvements to lands .. | 61.65 | 12.94 |
| Conversion loans .. | — | 49,83.64 |
| Other agricultural purposes .. | 7,27.81 | 7,23.62 |
| Industrial purposes .. | 22.40 | 1,89.60 |
| Others .. | 6,26.41 | 18,46.52 |
| Total .. | 33,98.36 | 88,88.61 |

62. *Statistical statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1969-70, p. 13 and 1973-74, Bombay, p. 15.

A number of State co-operative banks have not given the purpose-wise break-up of medium-term advances in the years 1969-70 and 1973-74 and as such the figures in the table may be taken to represent only the broad pattern of medium-term advances made by the State co-operative banks. Loans for productive purposes, particularly for minor irrigation and purchase of machinery, have increased during the two year period under review. While loans for sinking of or repair to wells declined from Rs. 4,47.48 lakhs as on 30th June, 1970 to Rs. 2,74.34 lakhs at the end of June, 1974, those for purchase of machinery showed an increase of Rs. 67.18 lakhs over the level obtaining in 1969-70. Loans for minor improvements to land which may not be easily identifiable had declined in 1973-74 to almost a fifth of the level in 1969-70. The medium-term loans made by the Bihar State Co-operative Bank was Rs. 1,82.29 lakhs which constituted 2.05 per cent of the total medium-term loans issued at the end of June, 1974.

Overdues

The overdues of the State co-operative banks rose from Rs. 38.3 crores in 1971-72 to Rs. 40.9 crores in 1973-74, but the percentage of overdues to loans outstanding declined from 6.93 in 1971-72 to 5.79 at the end of June, 1974. The State co-operative banks of Assam, Bihar, Maharashtra, Rajasthan, Uttar Pradesh and West Bengal accounted for 79.44 per cent of the total overdues of the state co-operative banks as on 30th June, 1974. The proportion of overdues to loans outstanding continued to be high in the State co-operative banks of Meghalaya (75.40%), Manipur (66.98%), Tripura (52.31%), Assam (42.66%), Bihar (35.29%), Andaman and Nicobar (30.80%), Himachal Pradesh (29.31%), and Chandigarh (24.24%). There was, however, a decline in the proportion of overdues to loans outstanding in the case of State co-operative banks of Haryana (0.04%), Karnatak (0.45 %), Kerala (0.05%), Tamil Nadu (0.26%), Rajasthan (1.45%), Uttar Pradesh (3.18%), Madhya Pradesh (3.31%), and Orissa (4.74%). The State-wise position of overdues to loans outstanding at the end of June, 1974 is evident from the following table⁶³:-

63. *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies 1973-74*, Bombay, p. 9.

TABLE—32

Overdues at the end of June, 1974 (State Co-operative Banks)

(Rs. in lakhs)

| <i>State</i> | <i>Loans outstanding</i> | <i>Overdues</i> | <i>Percentage of overdues to outstanding loans</i> |
|-------------------|--------------------------|-----------------|--|
| Andhra Pradesh | 29,65.03 | 60.29 | 2.03 |
| Assam | 17,36.71 | 7,40.83 | 42.66 |
| Bihar | 19,27.75 | 6,80.21 | 35.29 |
| Gujarat | 1,00,86.52 | — | — |
| Haryana | 17,49.15 | 0.70 | 0.04 |
| Himachal Pradesh | 3,53.62 | 1,03.64 | 29.31 |
| Jammu & Kashmir | 3,11.35 | 51.80 | 16.64 |
| Karnatak | 45,94.87 | 20.57 | 0.45 |
| Kerala | 24,56.39 | 1.24 | 0.05 |
| Madhya Pradesh | 57,02.88 | 1,88.67 | 3.31 |
| Maharashtra | 1,69,19.78 | 12,67.29 | 7.49 |
| Manipur | 88.50 | 59.28 | 66.98 |
| Maghalaya | 1,10.18 | 83.08 | 75.40 |
| Nagaland | 58.48 | 9.33 | 15.95 |
| Orissa | 8,88.33 | 42.07 | 4.74 |
| Punjab | 35,60.30 | 1.37 | 0.04 |
| Rajasthan | 23,00.77 | 33.26 | 1.45 |
| Tamil Nadu | 48,77.11 | 12.46 | 0.26 |
| Tripura | 1,72.52 | 90.24 | 52.31 |
| Uttar Pradesh | 73,24.38 | 2,32.90 | 3.18 |
| West Bengal | 16,41.22 | 2,93.99 | 17.91 |
| Andaman & Nicobar | 5.68 | 1.92 | 33.80 |
| Chandigarh | 26.20 | 6.35 | 24.24 |
| Delhi | 4,30.47 | 76.24 | 17.71 |
| Goa, Daman & Diu | 2,21.92 | 16.41 | 7.39 |
| Pondicherry | 1,12.55 | 15.45 | 13.73 |
| All-India | 7,06,22.66 | 40,90.59 | 5.79 |

During the period under review, drought and scarcity conditions in several parts of the country were witnessed and many banks had to provide facilities for conversion in respect of the loans given for seasonal agricultural operations.

Thus the funds of the State banks consists of share capital, reserve fund, various kinds of deposits similar to those of the central banks, short-term loans, cash credits and overdrafts from the State Bank of India and some of the joint-stock banks, and the deposit of the surplus funds of the central banks affiliated to them.

The State co-operative banks have also formed the Indian State Co-operative Bank's Association to co-ordinate their work, to promote common interests, and to supply information regarding each other's financial needs. As the Reserve Bank has stated that it can help them only to tide over a temporary shortage of funds and cannot supply them with normal finance, they will have to consider the question of starting a separate apex bank, when their present surplus of funds disappears. In addition to this association, there is the All-India Co-operative Institutes' Association, which promotes co-operation through member institutes, that have been established in different parts of the country, by supplying them with advice and assistance on all co-operative problems.⁶⁴

Central Land Development Banks

Central land mortgage banks, now called central land development banks grant long-term credit generally for a period of 5 to 20 years, against the conveyance of land as security. The first land mortgage bank was established in Jhind in Punjab in 1920. But the real beginning was made by the opening of the central land mortgage bank in Tamil Nadu in 1929, which was followed by similar moves by many other States.

Land Development banks have no uniform pattern. They have the following structures :

- (a) a central land development bank at the top and primary land development banks at the base;
- (b) a central land development bank making direct deals with the peasants;
- (c) a central land development bank also operating through branches and
- (d) a central land development bank serving as a department of the State co-operative bank.

64. Panandikar, S. G., *Banking in India*, 12th Edition, 1975, Orient Longman, Bombay, pp. 115-16.

The number of central co-operative land development banks in the country functioning through their branches and primary land development banks stood at 19 at the end of June, 1974. All the States except Manipur Maghalaya and Nagaland, had central land development banks. One union territory namely Pondicherry also had a central land development bank. In the union territories of Delhi and Goa, Daman and Diu, the state co-operative banks catered to the long-term credit needs of cultivators through their land development banking sections. While in the states of Bihar, Gujarat, Himachal Pradesh, Jammu & Kashmir, Tripura, Uttar Pradesh and also in the union territory of Pondicherry, the central land development banks operated through their branches, in the remaining states, the two tier structure continued; i.e., the central land development banks functioning through primary land development banks.*

The progress made by the 19 central land development banks during the years 1969-70 and 1973-74 may be indicated in the following⁶⁵ table :

TABLE—33

Progress in Operations of the Central Land Development Banks

(1969-70 and 1973-74)

(Rs. in crores)

| | 1969-70 | 1973-74 |
|--|----------|-----------|
| 1. Membership | | |
| (a) Primary land development banks | 799 | 847 |
| (b) Other co-operative banks & societies | 193 | 1,859 |
| (c) Individuals (regular) | 7,94,888 | 20,11,327 |
| Individuals (nominal) | 4,35,453 | 9,22,596 |

*Note :—Till the end of June, 1972, the number of primary land development banks of Maharashtra stands at 27. (Statistical Statements relating to the Co-operative Movement in India, Part I Credit societies, 1971-72, Bombay, p. 141). But in the statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74, 27 primary land development banks have been shown as branches including Head office of the Central land development bank of Maharashtra on p. 170.

65. *Review of the Co-operative Movement in India, 1970-72*, pp. 96-97 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies*, Bombay, 1973-74, pp. 170-84.

TABLE—33 (Contd.)

| | | | |
|-----|----------------------------------|--------|---------|
| 2. | Paid-up capital | 38.9 | 93.6 |
| | Of which Government contribution | (8.0) | (21.9) |
| 3. | Reserves | 6.7 | 24.2 |
| 4. | Deposits | 9.5 | 19.0 |
| 5. | Debentures outstanding | 5,70.8 | 11,43.3 |
| 6. | Other borrowings | 12.5 | 13.7 |
| 7. | Working capital | 6,68.7 | 13,68.1 |
| 8. | Investments | | |
| | (a) Sinking fund | 118.0 | 3,24.9 |
| | (b) Other investments | 7.8 | 28.0 |
| 9. | Loans | | |
| | (a) Issued | 153.3 | 146.7 |
| | (b) Outstanding | 509.7 | 914.0 |
| | (c) Overdue | 5.4 | 41.7 |
| 10. | Profit | 4.0 | 9.5 |

It will be seen from the table that there has been considerable progress in the working of central land development banks during the period under review. The paid-up share capital of the banks increased from Rs. 38.9 crores in 1969-70 to Rs. 93.6 crores in 1973-74. The State Governments' contribution to their share capital stood at Rs. 21.9 crores as on 30th June, 1974 as against Rs. 8.0 crores as on 30th June, 1970. The amount borrowed through floating of debentures increased from Rs. 570.8 crores as on 30th June, 1970 to Rs. 11,43.3 crores at the end of June, 1974. The working capital of all the central land development banks stood at Rs. 13,68.1 crores as on 30th June, 1974 as against Rs. 668.7 crores as on 30th June, 1970.

However, there was a decline in the quantum of loans issued by the central land development banks from Rs. 153.3 crores in 1969-70 to Rs. 146.7 crores in 1973-74. The total loans outstanding rose from Rs. 509.7 crores as on 30th June, 1970 to Rs. 914.0 crores at the end of June, 1974. The profits of the banks increased from Rs. 4.0 crores for the year 1969-70 to Rs. 9.5 crores for the year 1973-74. The purpose-wise loans issued by central land development banks may be seen from the following table⁶⁶ :—

66. *Review of the Co-operative Movement in India, 1970-72* pp. 97-98 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74*, Bombay, p. 185.

TABLE—34

Purpose-wise Loans Issued by Central Land Development Banks

(Rs. in crores)

| <i>Purpose</i> | 1969-70 | 1973-74 |
|--|---------|---------|
| 1. Land improvement (classification of loans issued : colms. 9 + 10 + 11 + 12 + 13) | 13.4 | 15.8 |
| 2. Sinking of and repairs to wells (Classification of loans issued: colms. 2 + 3) | 59.1 | 51.3 |
| 3. Purchase of machinery (Classification of loans issued: colms. 4 + 5 + 6 + 7 + 8) | 57.3 | 72.9 |
| 4. Redemption of debts | 1.2 | 1.5 |
| 5. Others | 22.1 | 4.5 |
| | 153.3 | 146.7 |
| Percentage of (1), (2) & (3) to Total | 84.6 | 95.4 |

From the above table it is evident that during the year 1973-74, loans for sinking of and repairs to wells (Rs. 51.3 crores), purchase of machinery etc. (Rs. 72.9 crores) and land improvement (Rs. 15.8 crores) taken together, accounted for 95.43 per cent of the total loans issued as compared with 84.67 per cent in 1969-70. A substantial decline was recorded under loans for other purposes from Rs. 22.1 crores in 1969-70 to Rs. 4.5 crores in 1973-74.

The State-wise loans issued, outstanding and overdue at the close of the year 1973-74 may be indicated in the following table⁶⁷ :—

67. *Statistical statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74, Bombay, pp. 183-84.*

TABLE—35

State-wise Loans Issued, Outstanding and Overdue at the end of June, 1973-74. (Central Land Development Banks)

(Rs. in lakhs)

| <i>State/Union Territory</i> | <i>Loans issued</i> | <i>Loans out- standing</i> | <i>Loans overdue</i> | <i>Percentage of overdues to outstanding</i> |
|----------------------------------|---------------------|--------------------------------|--------------------------|--|
| Andhra Pradesh | 11,75.15 | 96,22.22 | 1,53.28 | 1.59 |
| Assam | 9.02 | 67.69 | 5.65 | 8.35 |
| Bihar | 11,33.81 | 42,06.84 | 2,06.40 | 4.91 |
| Gujarat | 9,97.34 | 109,30.73 | 9,87.77 | 9.04 |
| Haryana | 7,87.61 | 35,89.51 | — | — |
| Himachal Pradesh | 8.87 | 1,67.68 | 22.97 | 13.70 |
| Jammu & Kashmir | 22.92 | 2,94.10 | 8.68 | 2.55 |
| Karnatak | 14,15.72 | 70,57.71 | 1,53.04 | 2.17 |
| Kerala | 3,30.61 | 14,39.84 | 36.38 | 2.53 |
| Madhya Pradesh | 11,77.07 | 43,72.81 | 1,81.00 | 4.14 |
| Maharashtra | 14,95.72 | 149,72.24 | 16,97.65 | 11.34 |
| Orissa | 3,03.35 | 17,60.61 | 1,47.36 | 8.37 |
| Punjab | 10,69.02 | 61,10.20 | 71.82 | 1.18 |
| Rajasthan | 4,62.11 | 18,70.80 | 1,73.37 | 9.27 |
| Tamil Nadu | 16,14.96 | 106,52.36 | 42.62 | 0.40 |
| Tripura | 1.52 | 5.14 | 0.62 | 12.06 |
| Uttar Pradesh | 25,50.92 | 136,45.72 | 2,56.89 | 1.88 |
| West Bengal | 1,04.93 | 5,72.65 | 22.11 | 3.86 |
| Pondicherry | 7.73 | 67.71 | 3.26 | 4.81 |
| All-India | 146,68.38 | 914,06.56 | 41,70.87 | 4.56 |

It will be seen from the table that the highest amount of loans was advanced by the Uttar Pradesh Land development bank (Rs. 25,50.92 lakhs), followed by Tamil Nadu (Rs. 16,14.96 lakhs), Maharashtra (Rs. 14,95.72 lakhs), Karnatak (Rs. 14,15.72 lakhs), Andhra Pradesh (Rs. 11,75.15 lakhs) and Bihar (Rs. 11,33.81 lakhs). The low amount of loans issued was recorded by the land development banks of Tripura (Rs. 1.52 lakhs), Pondicherry (Rs. 7.73 lakhs), Himachal Pradesh (Rs. 8.87 lakhs), and Assam (Rs. 9.02 lakhs).

The highest percentage of overdues to loans outstanding was recorded by the land development banks of Himachal Pradesh (13.70), followed by Tripura (Rs. 12.06), Maharashtra (11.34), Gujarat (9.04) and Assam (8.35). The percentage of overdues to loans outstanding was found to be very low in case of the banks of Tamil Nadu (0.40) and Punjab (1.18). There was no overdues in the Haryana land development bank. The Bihar land development bank constituted 4.9 per cent of the total loans outstanding at the end of 1973-74.

The co-operative land development banks raise resources mainly by floatation of ordinary debentures. The programme for each year is determined at a meeting of the representatives of the land development banks and the major investors convened by the Reserve Bank of India before the commencement of the financial year. The allocation of support to be provided to the ordinary debentures by different investors is decided upon at this meeting.

Primary land mortgage/development banks, on the other hand, constitute the base of long-term agricultural credit. They derive their working capital from share capital and reserves, deposits, borrowings and debentures.

After the perusal of the performance of the 19 central land development banks, we find that in the field of long-term credit Tamil Nadu and Maharashtra have established a glorious record. In comparison to these States, the performance of the Bihar land development bank may not be said to be satisfactory.

However, of the over all working of land mortgage banks, the Rural Credit Survey Committee observed: "at its best, it raises inadequate funds in a manner ill-related to demand and usually lends them in a manner unco-ordinated with development, acts as if prior debts and not production had a prior claim on its attention, reaches mainly the large cultivator and reaches him late".⁶⁸ This observation held good till the proclamation of emergency and the declaration of 20-Point Economic Programme in the country. Since July 1, 1975 the situation has been favourable for all kinds of agriculturists—submarginal, marginal, middle and well-off.

68. *Report of the All India Rural Credit Survey, Vol. II, the General Report, 1954, Bombay, p. 228.*

Summing up

After a comparative study of co-operative banking institutions in Indian States, we find that Maharashtra, Tamil Nadu, Punjab and Gujarat have made significant progress in the field of co-operative credit. The performance of co-operative banking in the remaining states may not be said to be satisfactory. The study also reveals that the primary agricultural credit societies have never been economically viable units in most of the States. They are weak and lack the co-operative spirit. Efforts have to be made to provide adequate, timely and cheap credit so that they may meet the total needs of the cultivators. The apex co-operative banks in most of the States have poor deposits and poor working capital. The co-operative banking agencies thus require reorganisation and restructuring. The co-operative movement in Bihar has been languishing despite its long history.

The State of Bihar has not been able to get adequate finance from the Reserve Bank of India owing to the weak capital base of the co-operative credit structure. Therefore, there is the need for Government participation in share capital on a massive scale to strengthen the capital base of the primary co-operative society, central co-operative banks and apex banks. Since the declaration of the 20-Point Economic Programme, the Government of Bihar has been very much anxious for revitalising and restructuring the co-operative banking agencies in this State.

CHAPTER IV

AGRICULTURAL CO-OPERATIVE CREDIT SOCIETIES: A STRUCTURAL ANALYSIS

Primary Agricultural Credit Societies

The peasantry compelled by the economic stringency, has fallen an easy prey to the clutches of relentless money-lenders, village 'baniyas' and 'mahajans'. To relieve them from the crushing burden of their indebtedness and their attendant evils, primary co-operative credit institutions are the most suitable agencies for enhancing agricultural production, for providing them with cheaper credit and for facilitating the mobilisation of small savings. In general these societies attempt to compete with indigenous bankers in their banking business. The organisation, revitalisation, and rehabilitation of the societies also discourage the concentration of wealth in the hands of a few townsmen and the ceaseless financial current begins to flow smoothly from town to country and from country to town and city with development of these credit societies.

With this end in view the expansion of these credit co-operatives has been included in the development policy of the State and a fairly good amount is allocated for this purpose annually in the budget of the Government of Bihar.

The primary agricultural co-operative credit societies may be defined as an association of agriculturists, organised with the purpose of dealing with small questions of credit and accumulating their small savings, on the basis of equality and mutual service.

This includes both the types of primary credit institutions, i. e., (1) societies dealing with short and medium-term credit operations, and (2) primary land mortgage societies or banks engaged in long-term loan operations. Both these primaries financing the needs of the agriculturists, form the base of the co-operative credit structure in rural sphere and occupy a place of vital importance in banking business.

The first type of primary credit institutions advances loans to their members for:—

(1) Short-term

- (a) Seasonal agricultural operations (seeds and fertilizers etc.)
- (b) Purchase of agricultural implements and marketing of crops.
- (c) Consumption needs.
- (d) Miscellaneous.

(2) Medium-term

- (a) Sinking and repairs of wells and purchase of machinery.
- (b) Purchase of cattle and minor improvement in land.
- (c) Other purposes.

The second type of credit institutions, i. e., primary land mortgage societies advance loans with a view to enable their members to make permanent development in cultivable land, purchase of cattle and for redemption of old debts. The main objective is to increase the productive potentialities of the cultivators and their land and on the other, to relieve them from cruel clutches of the money-lenders.

TYPES OF PRIMARY CREDIT SOCIETIES AND THEIR OBJECTIVES AND FUNCTIONS

The Co-operative Societies Act 1904 permitted the organisation of credit co-operatives undertaking only for credit business. But the pattern and forms of credit co-operatives remained changing from time to time. At present the following types of primary credit societies are functioning in the State :

1. Agricultural Credit Societies (Limited)
2. Multipurpose Societies,
3. Large-sized Societies,
4. Service Co-operatives,
5. Credit Unions.

(1) Agricultural Credit Societies

The basic objectives of these credit co-operatives as mentioned in the Manual of Co-operative Societies, Bihar may be explained as under¹ :

- (i) Relieving the members from the debt of money-lenders and arranging for them the loans at low rate of interest.

1. Govt. of Bihar, *The Bihar Co-operative Societies Manual Vol. III*, 1967, p. 252.

- (ii) Advancing money to members for short and medium period preferably for productive purposes.
- (iii) Fostering the habit of thrift and economy among the members and train them to deposit their surplus money with societies.
- (iv) Becoming the saving banks of the poor, by lending to the poor so that members may ultimately become their own lenders.
- (v) Building up its own capital for satisfying the needs of the members.
- (vi) Creating unity and a sense of mutual help among the members.
- (vii) Fostering among the members the habit of doing their work honestly, punctually and methodically.
- (viii) Teaching the principle of self-help through mutual help to the members.
- (ix) Enabling the cultivators to discharge their legal liabilities viz.; payment of rent and revenue more easily.
- (x) Improving generally the economic condition of the members.

2. Multipurpose Societies in the State

In pursuance of the recommendations of the Reserve Bank of India to adopt a new pattern of co-operative organisation, multipurpose societies came into existence in the country. In these institutions credit and non-credit activities have been merged together with a view to form viable unit. Bihar has been a pioneer State in formation of multipurpose societies, known as village banks. The new development plan in the State gave much impetus to the organisation of these institutions. Consequently old credit societies were converted into new ones.

These multipurpose societies have a variety of functions. Apart from the functions of a 'credit society' it undertakes the following more functions:

- (i) To arrange for education of members and their children.
- (ii) To improve the health and sanitary housing condition and communications in the village and thus to combat diseases and epidemics etc.
- (iii) To induce members to adopt improved method of cultivation by supplying good seeds, improved agricultural implements, and useful manures, adequate irrigational facilities and labour saving devices.

- (iv) To try to improve the conditions of the cattle of the members.
- (v) To improve the cottage industries of the area of its operation.
- (vi) To purchase and store the produce of the members and arrange for its joint or collective sale.

3. Large-sized Co-operative Societies

In response to the recommendations of the Rural Credit Survey Committee, 1954 for the formation of large-sized societies covering, "according to local conditions, groups of villages with a reasonably large membership and reasonably adequate share capital²", with a view to co-ordinate marketing and credit activities of a number of societies either by organisation or by conversion came into being in the State during the first three years of the Second Plan. These societies were organised round about the 'Mandies' and are affiliated to the marketing co-operative societies at the Mandi headquarters to ensure effective link between marketing and credit.

4. Service Co-operatives

With the organisation of the large-sized credit societies, the question of the size of the primary unit at the village level attracted the attention of the entire country and it was on the recommendations of the National Development Council that further organisation of large-sized credit societies was stayed before the end of the Second Plan. In accordance with the resolution adopted by the aforesaid council together with the recommendations of Mysore Conference, the service co-operatives came into being, which, in addition to supply of credit, would undertake the function of supply and service for promoting agricultural production.

The basic objectives of the service co-operatives are almost similar to those of multipurpose societies. The model bye-laws of the service co-operatives in Bihar lay down the following objectives³ :

- (i) To inculcate among the members the habit of thrift and sense of mutual help and to frame the requisite plan and to implement them.
- (ii) To advance short and medium-term loans in cash and kind.
- (iii) To acquire for and distribute among the members things needed for agricultural and cottage industries, such as seeds, manures and implements etc.

2. Reserve Bank of India : *All India Rural Credit Survey Committee Report, Vol. II, The General Report*, 1954, Bombay, p. 555.

3. The Government of Bihar, *The Bihar Co-operative Societies Manual, Vol. III*, 1967, p. 423.

- (iv) To prepare and execute the plans for raising agricultural produce and development of the cottage industries.
- (v) To store and sell the produce of agriculture and cottage industries.
- (vi) To improve the breed of the cattle.
- (vii) To function as the sub-agent of any co-operative institution with view to distribute seeds, manures and implements.
- (viii) In special circumstances to make provision for better means of irrigation facilities.
- (ix) To raise funds from members, non-members and other institutions.

5. Credit Unions

Besides these institutions, credit unions are also organised for a group of villages in such areas where co-operative societies for various reasons have been chronically stagnant and fail to render even the minimum possible service.

Organisation of Primary Agricultural Credit Societies

In the words of the Bihar Co-operative Societies Manual,—

“1. The Society, which is registered under B & D Co-operative Societies Act VI of 1935, shall be called primary agricultural co-operative credit society limited.

2. The membership of the Society shall be open to the individuals above the age of 18 years residing in a village who have subscribed to the application for registration according to the rules⁴”.

The procedure adopted for the registration of the societies is that when the members of the village community decide to form a society, a meeting of the members is convened in the presence of the co-operative Inspector of the area to pass the bye-laws for the working of the society. The registration forms duly filled and completed by the members, alongwith two copies of the bye-laws and the proceedings of the meeting together with the report of the co-operative Inspector are sent to the Registrar, Co-operative societies for necessary action.

4. Ibid., p. 252.

In accordance with the rules the minimum number of members for the registration of the society is ten. The Government with a view to capture more and more membership, is endeavouring to bring atleast 60% house-holds of the village community within its fold to ensure the organisational viability and economy of the unit.

Area of Operation of the Credit Society

The area of operation of the primary agricultural Co-operative credit society has been confined to 'one village' having the population of at least 100. "One village one Society" has been the accepted rule. In case where the village unit is small, two or three villages are to be covered by the society.

Area of Operation and Size of the Credit Society

Co-operative opinion is not quite unanimous on the area of operation and size of the primary credit society.

The MacLagan Committee was of the view that "it is a good general rule that there should be one society to one village and one village to one society. We would lay stress on the importance of small beginnings. The members of a society should be few to start with, and increases should be gradual and the ultimate total moderate. The main advantage claimed for large societies is economy of management, but this consideration scarcely affects rural societies. On the other hand, small societies are more easily supervised and trained in co-operative principles, just as small classes are more easily taught in schools. If a society is small, it affords a better opening for local talent. It brings more men to the front, trains them to undertake responsibilities, and by carrying on a business not exceeding the capacity of the committee, prevents the domination of one man. Societies should, in our opinion, be small at the commencement, not only when the members are poor and backward, but in all cases. When a sound beginning has once been made, gradual increases should be allowed, care being taken that the men of best character are admitted first and that subsequent admission is treated as a favour to be earned by the candidate rather than as a benefit conferred by him on the society. We have some hesitation in suggesting a definite numerical maximum, but as a rule we think that a society is apt to become unmanageable if its members exceed a total that might vary from 50 to 100".

The Co-operative Planning Committee recommended in 1946 that "the membership of the society should be open to all persons in its area

5. *Report of the Committee (MacLagan Committee) On Co-operation in India, 1915* Reprinted on behalf of the Govt. of India, Bombay, 1957, pp. 18-19.

of operation. The society should be so organised as to have at least 50 members, and its area of operation should be such as would permit adequate business and, at the same time efficient supervision and effective control.”⁶

The contrary view has been illustrated by the following observations which Capt. Dalip Man Singh from Uttar Pradesh made at the Fifteenth Conference of Registrars of Co-operative societies (1947) :

“I think one of the reasons why the co-operative movement has not made any great progress in this country up to this time is that the primary credit societies generally confine their activities to one village only. One of the chief difficulties in India is to find out suitable local men to run co-operative societies. There are a large number of villages where we cannot find any suitable men to run a society properly. Unless we have some local people really interested in co-operation, our societies can never work efficiently without outside stimulus. So, if we have rural banks of the type suggested for two or three villages put together within a limited area, we can have a much greater possibility of finding out suitable men to guide and run the societies properly. Besides that, generally small credit societies are not able to attract local deposits. If we have rural banks, a number of cultivators who have surplus money will, instead of burying their money underground, deposit it in these banks. And then the cost of management will also be greatly reduced.”⁷ But the late Sri T.A. Ramalingam Chettiar, however, feared that “the advantage we have got in having the village societies where there is mutual knowledge, mutual contact and mutual supervision”,⁸ would be lost. The conference, therefore, adopted a compromise formula whereby it recommended; (a) that the area of operations of a primary multi-purpose society should ordinarily be the village, (b) that in tracts where villages are very small there may be one primary society for more than one village, and (c) that the area of operations of a mandi-trading society should cover all the villages from which produce is brought to the mandi.⁹

The All India Rural Credit Survey Committee in its report submitted in 1954 observed the following and recommended the organisation of large-sized societies :

It is our considered view that the formula ‘one society to one village and one village to one society’ has failed in India as the basis for the organisation of co-operative rural credit. It has failed because its underlying

6. *Report of the Co-operative Planning Committee*, 1946, Printed by the Managers, Govt. of India Press, Delhi, 1951, p. 19.

7. *Proceedings of the Fifteenth Conference of Registrars of Co-operative Societies*, 1947, p. 148.

8. *Ibid.*, p. 148-49

9. *Ibid.*, p. 150.

assumptions have proved incorrect. Those assumptions were that mutual knowledge would help to determine, and honorary service help to operate, credit; that the first would be most effectively present, and the second most effectively developed, within the confines of one village. In actual fact, the compactness of size has not been accompanied by any of these other features. Their presence would have invested it with real significance; but, divorced from them, it has only served to come in the way of alternative courses of reorganisation such as the replacement at the primary base of 'honorary services' by competent paid staff and of small uneconomic turnover by larger units of business. For these reasons we recommend that the future line of development of co-operative credit at the level of the village should be unhesitatingly in the direction of bigger societies covering larger areas. In other words, primary agricultural credit societies should hereafter be established (and wherever necessary, and as and when suitable, existing ones reorganised) so as to cover, according to local conditions, groups of villages with a reasonably large membership and a reasonably adequate share capital".¹⁰ It further recommended: "As a rule, the area of operation of the society should be such as to provide it with adequate business. Among exceptions to the rule would be villages in sparsely populated tracts where an adequate area from the point of view of business would imply too large a jurisdiction for the paid secretary or others in-charge of the executive duties of the society. In such cases a compromise would have to be struck between the two considerations".¹¹

Thus the two schools of thought emphasize the two different aspects, of co-operation—one lays emphasis on moral and ethical aspect, the other on the business aspect, the 'viability'. But any one of them is meaningless without the other. So what is required is a synthesis, a via-media. In fact the best size will be one which works best.¹²

In Bihar, according to the recent utterances of the Chief Minister of Bihar more than 50 per cent of Bihar's 16,500 primary agricultural credit societies has become defunct and the rest are functioning merely on papers: and have turned into a 'house of bungling', and are fit to be dissolved. According to him, it is really a pity that a big State like Bihar having a population of six crores advances only Rs. 20 crores annually through co-operative societies. He has, therefore, said that the Government is soon going to reorganise and change the structure of the co-operative societies after dissolving the old ones and there would be one co-operative society each for a population of 10 to 12 thousands. Free membership would be allowed to the Harijans and the Adivasis and other weaker sections of the

10. Reserve Bank of India : *All India Rural Credit Survey Committee Report*, Vol. II, Bombay, 1954, p. 450.

11. *Ibid.*, p. 450.

12. Choubey, B. N., *Principle and Practice of Co-operative Banking in India*, Asia Publishing House, 1968, p. 41.

the society and Government would contribute their membership from its fund. The Chief Minister said that the reorganisation would be completed before June, 1977 and each co-operative society would have an official (Government servant) as administrator¹³.

Liability : A Controversy

The question of liability, limited or unlimited, has been a subject of controversy. Even amidst the current of controversy, the co-operative banking in Bihar has also been marching ahead with the development of co-operative credit in India as a whole. The question of liability has several times been discussed at national and international conferences of the eminent co-operators and economists as to which types of liability, limited or unlimited, can be a success in operating banking business on co-operative lines.

Unlimited Liability

By the term unlimited liability, we mean that every rich and poor is jointly and collectively responsible for the debts of the societies to the full extent of the property the member holds. MacLagan Committee has defined it as "contributory liability" that is to say that where there is a deficit in the engagements of a society to its creditors, this deficit should, after the full payment of shares (if any) be recoverable by a series of per capita levies upon the members upto the full extent of their property"¹⁴

The co-operators who favour such type of liability, have pointed out the advantages as under :—

1. Sense of collective responsibility and mutual watchfulness

The basic requisite of the co-operation is to inculcate among the members the sense of collective responsibility and mutual watchfulness. The Co-operative Planning Committee has observed that the credit societies should, as a rule continue to be organised on unlimited liability, as unlimited liability "creates among co-operators a sense of collective responsibility and mutual watchfulness"¹⁵. This type of liability also cultivates the sense of each for all and all for each.

2. Increase in the borrowing capacity of the members

In agricultural sector of our State, credit societies are organised by the persons of small means. They possess no substantial security except their honesty and potential earning capacity, which cannot command much credit. When they offer joint and collective unlimited liability for credit, borrowing power increases.

13. *The Sunday Indian Nation*, Patna, 6th June, 1976, p. 1.

14. *Report of the Committee (MacLagan Committee) on Co-operation in India*, 1915, Re-printed in 1957, Bombay, p. 27.

15. *Report of the Co-operative Planning Committee*, 1946, Printed in 1951, Delhi, p. 22.

3. Efficient Management

This type of liability implies strict watchfulness on the activities of the members, resulting in improvement in the efficiency of the management. The Co-operative Planning Committee points out, "in most cases good management has been the result of the existence of unlimited liability".¹⁶ This liability constantly reminds the members of careful borrowings and thoughtful lendings, leading to the proper utilisation of loans.

4. Moral Development

Unlimited liability encourages caution and mutual watchfulness, because only such persons are elected to the Board of Management who are honest, able, diligent and loyal. And men of good character are given admission in the society. Hence unlimited liability exercises moral influence. It has been found that persons of bad character have been reformed.

5. Confidence

Unlimited liability has been accepted by all the committees and co-operators as a rule. This creates among the members a sense of confidence because the investors very well recognise the advantages of such liability.

6. Strong Reserve Fund

It is also advocated by the supporters of unlimited liability that adoption of such type of liability builds up strong funds. Under this principle a major portion of the profits is credited to reserve funds and the dividend hunting tendencies are discouraged.

Limited Liability

In spite of the staunch support extended by the co-operators to unlimited liability, there are co-operators who have emphatically advanced limited liability as the key to the success of co-operative banking. As defined, the term limited liability means that the liability of the members is limited to the value of share or some multiple thereof. The following advantages have been pointed out by the supporters of limited liability :

Practical Difficulties of the Unlimited Liability

The so-called merits of the unlimited liability stand far away from hard realities of the world. The laws or bye-laws of the co-operative department have failed to soften its rigours. Schulze Delitzsch who for long stood out steadily for it also gave way to the limitation of liability before his death. The co-operators of Italy also, in transplantations of co-operative credit from Germany did not accept this uneconomic tradition or unlimited liability. The points in favour of limited liability are :

16. Ibid., p. 23.

Encouragement to well-to-do persons to join co-operative societies

Unlimited liability keeps away the rich people as well as the big cultivators and traders, landlords and artisans from the co-operative fold whose help has been indispensable. They sorely resent that for fault of others they, with their substantial property, would be made liable and be ruined. The societies in which the liability of the members is limited, attract more and more membership.

Strong share capital

More and more working capital is needed for the successful working of co-operative credit societies. The adoption of limited liability facilitates larger accumulation of share capital by attracting more and more members or share-holders.

Mutual Jealousy and Unpunctual Repayments under Unlimited Liability

This type of liability instead of awakening among the members the sense of collective responsibility and co-operative spirit, has resulted in mutual jealousy and unpunctual repayments. Hence limited liability is advocated for adoption as the base of the society.

Encouragement to the growth of Co-operative banks

The main factor responsible for the unpopularity of the co-operative banking and its slow and chequered growth is the rigid adherence to the principle of unlimited liability. This type of liability instead of breeding a sense of mutual trust and confidence inculcates a sense of mutual jealousy and distrust which hinders the entrance of well-to-do persons in the co-operative fold. So limited liability should be adopted.

Encouragement to thoughtful lending

The adoption of unlimited liability encourages unthoughtful over lending by the central and district co-operative banks to the credit societies which, in turn, grant loans to their individual members recklessly. Limited liability may prove a check in this respect and may encourage thoughtful lendings.

Rigours of Unlimited liability during Depression

During depression period when the value of currency goes up, the creditors take undue advantage of the members by getting property attached to their loans, because of unlimited liability as the base of society.

The above discussion gives rise to the question as to which type of liability would suit the soil of our State. The early co-operative committees have been organising co-operative credit societies with unlimited liability as a rule and limited liability as an exception. Later on Gadgil Committee and Co-operative Planning Committee etc. have given their own observations regarding the case of limited and unlimited liability.

The Co-operative Planning Committee observes :

"In most provinces the trend of thought is in favour of limited liability. We recommend, therefore, that, except where unlimited liability has produced good results, the liability of the reformed and reorganised primary society should be limited. This liability should, however, be limited either to the value of shares held by a member or to a multiple thereof provided that a substantial part of the funds required by the society can be raised through share capital. There may, however, be cases in which unlimited liability is more appropriate. For instance, the adoption of limited liability may prevent the benefit of co-operative credit being derived by persons of small means who have no tangible security (which the limited liability society will usually demand) to offer for loans. Similarly for societies which cover only one village and do not contain multiple functions, unlimited liability may be more suitable. We suggest that such cases should be treated by the Registrars on their own merits and with regard to local opinion and circumstances¹⁷".

Agricultural Credit Organisation Committee observes :

"A free hand should be allowed to the agriculturists to form their societies either on limited or unlimited liability basis. If the large land-holders want to have a limited liability society, they should be free to do so, but in such cases the requirements of the poorer classes should not be ignored"¹⁸. The All India Rural Credit Survey Committee has recommended that "the larger-sized primary agricultural credit society should be established on the basis of limited liability which may be confined to the value of shares held by them or preferably, to a certain multiple thereof"¹⁹.

According to B. & O. Co-operative Societies Act (Act VI of 1935) limited liability has been adopted. In large and small-sized societies and service co-operatives in the State, limited liability has become a rule with an exception of a few credit societies based on unlimited liability.

17. *Report of the Co-operative Planning Committee*, 1946, Printed in 1951, Delhi, p. 23.

18. *Report of the Agricultural Credit Organisation Committee*, 1947, pp. 16-17.

19. *Report of All India Rural Credit Survey Committee, Vol. II*, 1954, Bombay, p. 556.

20. The Government of Bihar : *The Bihar Co-operative Societies Manual, Vol. III*, 1967, p. 437.

According to the bye-laws the liability of a member for the debts of the multipurpose societies and large-sized societies is limited to twice the nominal value of the share held by him.²⁰

Membership

The membership in every type of primary co-operative credit institutions whether multipurpose, large-sized or service co-operatives is open to any person above the age of 18 years or who possesses sound mind and unimpeachable moral character and who either owns or cultivates land in the area of operation of the society. Hence no person who has become insolvent or been convicted for criminal offence, including moral turpitude can become the member of the society. Minor heirs of the deceased member may also be granted membership but loans to them may only be allowed through guardians. No member who has been expelled from the society or by any other society shall be eligible for re-admission as a member of the society for a period of two years from the date of such expulsion provided that the Registrar may in special circumstances, sanction the re-admission of any such member within the said period.²¹

Present position of Primary Agricultural Credit Societies

At present the primary co-operative credit structure in agricultural sector is constituted by small-sized societies (limited), large-sized co-operative credit societies and service co-operatives. These credit co-operatives have registered comparatively a larger growth both in their number and the volume of membership during plan period. In the programme of national development it was realised that these primary credit societies might prove to be the best means to step up agricultural production. With this view the Bihar Government envisaged that the whole State should be saturated with these co-operatives; the result being that their expansion gathered momentum and by the end of 1973-74, 97 per cent of the villages of the State and 36 per cent of its rural population have been brought under the fold of co-operative credit at the end of June, 1974 (already referred in Chapter—II and Chapter—III).

The number of these societies and their membership is at constant increase except during the last seven years when the number of these societies has remained constant due to either amalgamation or liquidation of weaker units.

The increase in the volume of membership from 4.18 lakhs in 1955-56 to 28.20 lakhs in 1973-74 reflects that these societies have earned sufficient popularity among the rural masses. The average membership per society has also increased considerably. The target of 50 members per society recommended by the Co-operative Planning Committee has been achieved in all divisions of the State.

21. Ibid., p. 435.

But from the point of view of the percentage of rural families served in the State the percentage is very low as it constitutes 36 per cent of the rural families on the 30th June, 1974. The targets recommended by Rural Credit Survey Committee could not be attained. The slow rate of increase in the volume of membership may be attributed to the illiteracy and poverty of rural people. But the bureaucracy and the partiality of the officials and office bearers have also been a major cause for its low volume.

The distribution of co-operative credit societies and their membership in different divisions of the State is quite uneven. Although the old Darbhanga and Saran districts of Bihar have the largest number of primary credit co-operatives, but so far as the average volume of membership is concerned it is comparatively low to other districts of Bihar. This disparity in the volume of membership is due to disparity in economic conditions of the inhabitants. Besides the low percentage of literacy and distrust of the people in efficacy of co-operative credit, other factors may also be attributed to this phenomenon. The following table presents a clear assessment of the situation in regard to number of societies and membership:

TABLE—I

Primary Agricultural Co-operative Credit Societies²²
(District-wise, Bihar) as on 30-6-1968

| <i>Districts</i> | <i>No. of Societies</i> | <i>Volume of membership (In lakhs)</i> | <i>Percentage of rural population covered</i> |
|------------------|-------------------------|--|---|
| Patna | 1027 | 0.96 | 26 |
| Gaya | 1336 | 1.53 | 27 |
| Shahabad | 1174 | 2.22 | 47 |
| Muzaffarpur | 1343 | 1.81 | 25 |
| Champaran | 984 | 1.28 | 24 |
| Darbhanga | 1460 | 2.22 | 27 |
| Saran | 1409 | 1.65 | 28 |
| Bhagalpur | 545 | 0.88 | 31 |
| Monghyr | 965 | 1.41 | 25 |
| Santhal Pargana | 1175 | 1.78 | 36 |
| Purnea | 756 | 0.99 | 18 |
| Saharsa | 565 | 0.55 | 18 |
| Ranchi | 1145 | 1.17 | 32 |
| Hazaribagh | 991 | 0.98 | 24 |
| Dhanbad | 241 | 0.32 | 19 |
| Singhbhum | 720 | 0.60 | 18 |
| Palamau | 664 | 1.13 | 52 |
| | 16,500 | 21.50 | 28 |

22. *Hand Book of Co-operation Statistics*, Bihar, Year ending 30th June, 1968, issued by Registrar, Co-operative Societies Bihar, Patna, pp. 143-44.

The Fifth Five-Year Plan of the State of Bihar points out the position of primary agricultural societies at the end of fourth plan and lays down the targets in the table given below :^{22A}

TABLE—2

Physical Targets and Achievements (Primary agricultural credit societies, Bihar)

| <i>Sl. No.</i> | <i>Item</i> | <i>Unit</i> | <i>Fourth Plan (Anticipated achievements) (1973-74)</i> | <i>Fifth Plan Target (1978-79)</i> |
|----------------|---|-------------|---|--|
| 1 | 2 | 3 | 4 | 5 |
| 1. | Number of Primary Agricultural Credit Societies at the end of the year | Number | 16,500 | 16,500 |
| 2. | Number of viable Primary Agricultural Credit Societies at the end of the year | Number | 372 | 16,500 |
| 3. | Membership of Primary Agricultural Credit Societies at the end of the year | Thousand | 3,200 | 6,000 |
| 4. | Coverage of agricultural families at the end of the year | Per cent | 37 | 73 |
| 5. | Percentage of borrowing members | Per cent | 40 | 75 |

Administration and Management

The administration and management of all the agricultural credit societies is carried democratically through the following components :

General Meeting

The supreme authority of the society shall be vested in the General Meeting. Every member shall have one vote only, irrespective of the number of shares held by him. On all questions the opinion of the majority shall prevail and the Chairman shall have a casting vote. One fifth of the registered members shall constitute a quorum. No proxies shall be allowed.²³

22A. Government of Bihar, Planning Department, Draft Fifth Five Year Plan, 1974-79, p. 115.

23. Government of Bihar, *The Bihar Co-operative Societies Manual Vol. III*, 1967, p. 255.

The General Meeting shall be of three kinds—Ordinary, Extraordinary and Special :

An Ordinary General Meeting shall be convened by the Secretary annually within six months from the close of the society's working year. The Committee of Management may, whenever it thinks fit and shall, upon the requisition in writing, signed by ten or more members and presented to the Secretary by any one of the signatories, convene an Extraordinary General Meeting within a month from the date of such requisition. Special General Meeting shall be called at the requisition of the Registrar, co-operative societies, or other officers authorised by him at such time and place at the headquarters of the society as specified in such requisition.²⁴

Functions of the General Meeting

As laid down in the Manual of Co-operative Societies, Bihar, the following shall be the functions²⁵ of the General Meeting of the agricultural societies and service Co-operatives :

1. to receive and consider the report and statement of accounts of the Managing Committee and to review the work of the society during the past year;
2. to determine the disposal of profits in accordance with Act, Rules and these bye-laws;
3. to elect for the ensuing year a Committee of Management including Chairman, Secretary and Treasurer who shall hold office till the next election;
4. to elect not less than three auditors who shall not be members of the Committee of Management;
5. to hear and consider any appeal from the decision of the Committee of Management;
6. to take notice of any subjects which affect the financial position of the society and to pass resolution with regard to them;
7. to decide the maximum amount which any member may borrow at one time and to fix the maximum period for which loans shall be granted;
8. to fix the rate of interest on loans to be advanced to member;

24. Ibid., pp. 256-57.

25. Ibid., pp. 256-57.

9. to decide the maximum amount of liability to be incurred during the year;
10. to fix the rate of interest on deposits and to give general direction to the Committee of Management regarding rules for deposits;
11. to empower the Committee of Management, if it considers it necessary, to levy penal interest for default and fines payable by such members as fail without good cause to attend General Meeting; to fix the rate of a penal interest; and fines to remit, if considered desirable, penal interest and fines levied by the Committee of Management;
12. to consider amendment of bye-laws;
13. to constitute sub-committees for different activities;
14. to transact any other business with permission of Chairman of the meeting.

Managing Committee

The Managing Committee, which is known sometimes as the Board of Directors, looks after the day to day affairs and conducts routine-administration of the society. It is elected by the General Meeting. The policies and decisions taken by the General Meeting are implemented by this Committee of Management. According to the Manual

1. The Managing Committee shall consist of not more than eleven members including the Chairman, Secretary and Treasurer.
2. The members of the Committee of Management shall be elected annually at the general meeting.
3. The Committee shall meet as often as may be required for the transaction of business at a time and place to be fixed.
4. All matters in the Managing Committee shall be decided by majority of votes.²⁶

The Functions of the Committee of Management

The functions²⁷ laid down by the Manual of Co-operative Societies in Bihar are as under :

26. Ibid., p. 258.

27. Ibid., pp. 259-60.

1. to elect new members, consider applications for membership and allot shares;
2. to consider the expulsion of undesirable or defaulting members;
3. to consider the resignation of members;
4. to allow refund of share money of ex-members consistent with Act, Rules and these bye-laws;
5. to raise funds subject to the provisions of bye-law 16;
6. to fix the normal credit limit of the members;
7. to deal with applications for loans and to determine the security to be taken;
8. to receive and disburse moneys as may be required;
9. to prepare statement of accounts which shall include an abstract of receipts and expenditure classified under different heads, a balance-sheet, setting forth the assets and liabilities and profit and loss statement and an annual report for the Ordinary General Meeting;
10. to check the security of each loan outstanding and deal with cases of arrears and failure to observe obligations undertaken;
11. to appoint, suspend, punish or dismiss salaried staff and to fix their remuneration, as may be necessary in accordance with instructions issued by Registrar, Co-operative Societies, from time to time;
12. to institute, conduct, compromise or abandon legal proceedings or claims by or against the society or the officers of the society concerning the business of the society;
13. to determine the maximum amount of cash balance that may be kept by the Treasurers;
14. to consider the inspection and audit notes of the officers of Co-operative Department and Financing Bank;
15. to frame rules of business according to instructions issued by the Registrar, Co-operative Societies and in accordance with bye-law 49;
16. to transact all other business not expressly assigned to the General Meeting, incidental to the management of the Society.

Treasurer

The treasurer keeps all the money of the society in his hand and spends it with the sanction of the Committee of Management. All the cash transactions of the society are conducted through him.

Land Mortgage Banks in Bihar

The Land mortgage banks, the base of the long-term co-operative credit structure, serve long-term credit needs of the cultivators, who not only require money for current capital expenditure on agriculture but also need money for permanent land improvement and redemption of old debts etc. These long-term credit needs of the cultivators have to be met mainly by these institutions. These institutions function on the pattern of National Farm Loans Associations of the U.S.A.

The need for land mortgage banks has long been felt in Bihar. Before the existence of these institutions in the country, the State Government introduced various schemes to facilitate long-term credit for poor cultivators. The land Improvement Act, 1883, was enacted with a view to enable the lending of long-term loans for agricultural needs, but these schemes could not prove of much help to the cultivators. Hence the need of land development banks was persistently felt. These land development banks can play a vital role in the plan of the re-orientation of the State's economy because :

1. The planning in the country envisages, along with other aspects, the development of agricultural industry. Hence productive capacity of land has to be enhanced. The only way to increase the agricultural production is to raise the productive capacity of land and man, which calls for capital expenditure on land improvement schemes including reclamation of land, bunding and terracing and sinking or repairing of wells, construction of farm houses, barns, and cattle sheds etc. So the land mortgage banks are the only way out to attain the aforesaid objectives.

2. The shoulders of the cultivators are over-burdened with heavy magnitude of debt which, of course, they inherit from their fore-fathers, together with the debt they used to borrow for agricultural as well as domestic needs. This load of debt shifts from father to son and thus assumes the shape of chronic indebtedness. So for the redemption of this debt, no other institution than the land mortgage banks can help in attaining the objective.

3. The co-operative credit societies and commercial banks cannot possibly grant loans for long period to the cultivators because these institutions themselves draw their funds for short and medium-term in the shape of deposits. On the other hand, land mortgage banks raise their funds by way of the issue of debentures or mortgage bonds, which are secured by mortgage obtained by the Government or the central bank.

4. To save the cultivators from the cruel grip of the village money-lenders who are the basic cause of their poverty and indebtedness, land mortgage banks are needed.

The Registrar's Conference, 1926, considered the problem of long-term credit of the country and recommended the organisation of such institutions. The Central Banking Enquiry Committee and the Royal Commission on Agriculture—all endorsed the recommendations of the Conference.

In pursuance of the recommendations of the Rural Credit Survey Committee, the Land Mortgage Bank in Bihar was organised during the Second Five-Year Plan. Although registered on the 19th December, 1957, the Bank started functioning only in 1959-60. In that year, its loan operations were of the order of Rs. 1.48 lakhs only. The annual loan operations could be stepped up to Rs. 6.38 lakhs in 1961-62.²⁸ Since November, 1967, the State Government stopped giving Government loans for irrigational purposes and recognised the Bihar State Co-operative Land Mortgage Bank as the sole agency for giving long-term credit to farmers for installation of tube-wells.

Summing up

The structural analysis and the present position of agricultural credit co-operatives in respect of their expansion in the State and their volume of membership, leads us to conclude that these co-operatives have attained fair progress during the plan period. There has been an alround increase both in their number and volume of membership. But keeping in view the proportion of aggregate membership to the total rural population, the percentage is very low. The reasons on account of which potential members could not be attracted to join the societies of their area are illiteracy, lack of co-operative education and banking habit and in general the absence of confidence in their management and working of these societies. Hence vast scope has still remained for these co-operatives to motivate prospective members to join these institutions.

The management and administration of these co-operatives is carried out through the democratic components and the democratic spirit is held high. However, some undesirable features, like party faction, partiality of office-bearers and in general the dirty politics have crept in, which have made these organisations a close preserve of particular group which is in power. This impairs the democratic spirit of management of co-operative societies.

28. *Hand Book of Co-operation Statistics, Bihar, 1968*, p. 11.

CHAPTER V

NON-AGRICULTURAL CO-OPERATIVE CREDIT SOCIETIES : A STRUCTURAL ANALYSIS

Agricultural credit societies pool their resources from various agencies and provide credit to the agriculturists. But there are, in urban areas, numerous persons of small means, like traders and merchants, or artisans, factory workers, street hawkers, motor and gharry drivers who resort to money-lenders and similar agencies for small loans and obtain them at high rates of interest. Ex-service men like technicians, and skilled workmen like carpenters, black-smiths, mechanics, etc. will also require credit for setting up their own business in small workshops. Non-agricultural credit societies serve as the most suitable agencies for catering to their credit needs. The Committee which drafted the bill in 1901 emphasised that the efforts of the Government should not be limited to the establishment of purely agricultural credit societies. The endeavours should be made to encourage the formation of Urban Societies on co-operative lines. True to the spirit underlying the findings of MacLagan Committee Report 1915, which pointed out that "the urban credit societies might serve a useful purpose in training the upper and middle non-agricultural classes to understand ordinary banking principles,"¹ the provision was made to accelerate the process of extending co-operative credit facilities to the non-agricultural classes.

The credit societies organised for people other than agriculturists to cater to their financial requirements have been described as non-agricultural credit societies. These societies are mostly located in towns and cities and supply the credit needs of urban clientele. These are composed of urban banks, salary-earners' societies and various special types of societies, some times confined to the particular community or to those following particular vocation.

The persons belonging to the non-agricultural classes of people are mostly employees and wage-earners of Government, Semi-Government, public and private institutions, firms and factories, small traders and artisans. According to Mr. F. W. Wace this class of people consists largely of menials

1. *Report of the committee on co-operation in India* (MacLagan Committee), 1915. Reprinted in 1957, Bombay, p. 13.

of very small assets and of low and uncertain income.² These people of small and scanty means living in towns and villages require short, medium and long-term financial accommodation for productive and consumptive purposes because of their uncertain and low level of income. The high prices of productive-consumable articles and their low income leave almost no margin for saving on their part. Consequently they become victims to 'sarrafs', 'Pathans' and town money-lenders who charge high rates of interest.

The credit needs of these people are classified into two heads :

1. Productive needs.
2. Consumption needs.

For production purposes, only artisans and traders require money, as pointed out by Rural credit Survey Report. For non-farm business expenditure on current account, i.e., for short period these loans are required for the purchase of raw materials, machinery and implements and other contingent expenditure to be incurred on production purposes. They also require loans for long period, i.e., for non-farm business expenditure on capital account.

The consumptive needs of the salary earners, artisans and traders involve loans for :

1. Purchase of house utensils, furniture etc.
2. Medical expenses and educational expenses.
3. Purchase of clothes, shoes, beddings etc.
4. Other occasional family expenditure.

They also need loans for long periods for :

1. Construction and repairs of residential houses and buildings.
2. Death ceremonies, marriages and other ceremonies.
3. Litigation expenditure and repayment of loans and other expenses.

To finance the aforesaid credit needs, a financing agency is required which may extend loans on the basis of personal security of the borrowers.

2. Hough, E. M., *The Co-operative Movement in India*, Oxford University Press, Ely House, London W. I., Fifth edition, 1966, p. 120.

ORGANISATION OF NON-AGRICULTURAL CREDIT CO-OPERATIVES

The way out

The importance of non-agricultural credit societies in meeting the credit requirements of a certain section of population—urban and rural—has generally been recognised and emphasised by various co-operative committees.

The need for finance of the humbler classes of society living in towns and urban areas is not, however, considered to be any way less important.

The genuineness of needs and the suitability of the non-agricultural co-operative credit societies for relieving financially distressed classes of people were recognised in Bihar since the very inception of the co-operative movement in the State. The incapability of the joint stock banks to extend loans to these people was natural, as they could not undertake the transaction of loans to the people who had nothing tangible to offer as security except their integrity and character. The Co-operative Planning Committee 1946 has pointed out, "Joint stock banks are not interested in developing the business of small loans because the cost of advancing and recovering them is high. Further as joint stock banks are not likely to have under ordinary circumstances full and intimate knowledge of the standing and resources of persons of moderate means, they will not advance loans on personal security. Co-operative urban banks qualify themselves by establishing personal and intimate relationship with the people of this class as the most suitable agencies for serving their needs."

As has been discussed earlier, the importance and necessity of these credit organisations have been acknowledged at the very introduction of co-operative movement in our State. The legal protection was assigned to them by the first Co-operative Societies Act, 1904. Since then, various societies such as societies of silk weavers, shoe-makers and moderate artisans, petty traders and employees were organised accordingly. The organisation of these societies was based on local and occupational grounds in which membership was granted only to the persons of the same trade or occupation.

Definition of Non-agricultural Credit Societies

It is difficult, rather impossible to caption all non-agricultural credit institutions with varied form into a single definition. Various definitions have been put forth by the economic thinkers but controversy revolves around them. "In Bombay all urban credit societies having a paid-up share capital

3. *Report of the Co-operative Planning Committee*, 1946, printed in 1951, Delhi, p. 112.

of Rs. 20,000/- and over, and accepting any type of deposits and current account,"⁴ were defined as banks. In Tamil Nadu "all urban credit societies accepting deposits on current account and maintaining fluid resources, according to the standard prescribed by the Registrar, co-operative societies" were defined as urban banks.⁵

Besides, salary earners' societies and mill-hand societies, etc. were classified as urban banks.⁶ The definition adopted by the Reserve Bank of India for the purpose of the survey includes "all urban societies which undertake different kinds of banking business including acceptance of current deposits, issue of drafts, discounting and collection of bills, etc."⁷

Out of all the aforesaid definitions, the definition given by the Reserve Bank of India, to some extent, is suitable and consistent because it includes all standard banking principles, but it lacks the principles of co-operation which form the back-bone of any co-operative enterprise. In the light of the above discussion, non-agricultural co-operative credit societies may be defined as societies organised by non-agricultural classes of people whether rural or urban, for mutual economic benefit on the basis of equality, undertaking a function of advancing loans, accepting deposits and discounting bills.

Hence any type of non-agricultural co-operative organisation which strictly adheres to the aforesaid definition, comes under the caption of non-agricultural credit societies.

Classification of Non-Agricultural Credit Co-operatives

Non-agricultural credit societies have taken different forms in the country chiefly in search of common bond for the formation of the society.

The Provincial Banking Enquiry Committee of Bombay, where this class of banking is highly developed, has classified these societies into five different groups. The same classification has been incorporated by Mr. E. M. Hough.⁸ According to him these are the following types of non-agricultural credit co-operatives :

1. Salary earners' co-operative societies.

4. *Report on the Survey of Urban Co-operative Banks* 1957-58, p. 11.

5. *Ibid.*, p. 5.

6. *Ibid.*, p. 6.

7. *Ibid.*, p. 7.

8. Hough, E. M., *OP. Cit.*, p. 121.

2. Credit societies' for artisans, traders and entrepreneurs.
3. People's Bank.
4. Communal societies.
5. Factory employees' societies.'

No scientific basis has been adopted regarding the classification of non-agricultural credit societies in Bihar, nor has there been any serious attempt to classify credit societies, into agricultural and non-agricultural ones on the basis of a universally accepted definition of the two. The definition of a subject is vital for its classification. The Act of 1935, which governs the co-operative movement of the State simply provides that in a co-operative credit organisation where 4/5th of the membership consists of agriculturists shall be an agricultural credit society and if the membership consists of 4/5th of non-agriculturists, shall be called non-agricultural society. This ambiguous state of affairs does not lead to any definite conclusion. In the same manner there has never been any attempt to classify non-agricultural credit societies into different groups. Mr. K. C. Sarkar, the pioneer in this direction has classified non-agricultural credit societies into three different forms :

1. Salary earners' co-operative credit societies.
2. Societies for artisans and traders (Unlimited)
3. Labour co-operatives.

At present there are the following types of non-agricultural credit societies in this State' :

1. Employees' co-operative societies.
2. Credit societies organised for artisans and traders.

Salary Earners' Co-operative Credit Societies

Almost all the non-agricultural credit societies in this State, are salary earners' credit co-operative societies. Salary earners are an important class of urban population. Their societies mostly are located in important towns and cities of the State. A salary earner is usually in a difficult financial position. So the organisation of such societies for the common economic benefit is a boon and efforts in this direction may lead to a good result. As has been discussed earlier, these societies have been organised among the employees of Government and semi-Government concerns, schools

and colleges, municipal and district boards and also industrial and commercial concerns. This class of people is intelligent, literate and well-disciplined and forms a group of persons of similar occupation and status in life. These people require financial assistance for consumption purposes. Though E. M. Hough has remarked that "credit for consumption is a risky business at best and controlled credit is specially necessary in salary earners' and mill-hands' societies where loans are sought as a rule for purposes which, however necessary, cannot be called productive". From the above remark we may conclude that the credit needs of this class of people are usual and genuine and their fulfilment is necessary.

As these people have no security to offer except their honesty and their ability to save and repay the loan, no other agency except professional money-lender responds to their needs. But to protect them from their mal-practices and the high rate of interest charged by them, the salary earners' co-operative credit societies have been organised. The pattern adopted in the state regarding these societies is Schulze Delitch societies, based on limited liability. However, in the early years a few societies were organised on unlimited liability basis but later on they were also converted into limited ones.

These societies are also organised under the Co-operative Societies Act. At present the salary earners' co-operative societies of Jamshedpur, whose number was 48¹⁰, deserve special mention. Besides these, the Telco Credit Co-operative Society Ltd., the Tin plate Friends Credit Co-operative Society Ltd., the Tisco General Credit Co-operative Society Ltd., The Tisco Mill Credit Co-operative Society Ltd., and other Tisco Credit Societies made notable progress.

Objective

Besides granting short and medium-term loans to its members, the other objectives and functions of salary earners' credit co-operative as laid down in its model bye-laws are as under :

1. To create unity and develop the spirit of mutual self-help among its members.
2. To provide suitable avenues for investment of funds to its members.
3. To raise funds for granting loans to its members for domestic, religious and social needs on reasonable rates of interest.

9. Hough, E. M., p. 128.

10. *Hand book of Co-operative Statistics, Bihar*, 30th June, 1968, issued by Registrar Co-operative Societies, Bihar, Patna pp. 10-11.

4. To foster among the members the habit of doing their work honestly, punctually and methodically.
5. To encourage thrift among members by inducing them to keep a fixed sum regularly for old age, illness, premature retirement, sudden death or other unforeseen requirements.
6. To endeavour to improve social, moral and economic conditions of its members and generally to do all such other things as are incidental or conducive to the attainment of any order of the said objects.

The aforesaid objectives should be adopted by every such institution but the Act empowers every organisation to introduce additions and modifications in these objectives.

Occupational Societies, i.e., Societies for Artisans and Traders

This type of societies in Bihar has been organised among handloom-weavers, shoe-makers etc. who have been a chronic victim in the hands of cruel money-lenders, merchants, and big traders etc. dealing in the goods produced by these people. The common practice is that these big merchants or traders supply them necessary funds for the purchase of raw materials and other implements themselves and in turn purchase their finished goods on the prices quoted by the former, the result being that their products are purchased at very low prices. Sometimes they fail to get back even the cost of production. Consequently almost no margin for profits and savings is left and their indebtedness continues to mount up.

With a view to save them from the cruel grip of blood suckers, credit co-operatives for catering to their needs were organised under co-operative societies acts. The recommendations of Maclagan Committee gave further momentum to their organisation. These societies were purely non-agricultural societies organised on the same pattern of Schulze Delitzsch system and were based on limited liability. These societies advanced loans for the purchase of raw materials and other requisite implements.

Since the implementation of new co-operative development plans, a radical change in the policy of Government towards the co-operative development was effected with a view to reorient and reorganise such societies in order to enhance the production of cottage industries. It has been recognised that cottage industries have been playing a vital role in the development of national economy in which majority of those artisans and traders are engaged. It was, therefore, planned to increase the production of these cottage industries. Hence the work of developing the cottage industries was

entrusted to the Director of Industries so that co-ordinated development of large and small scale industries would go together. The number and membership of weavers' societies in Bihar is evident from the following table :¹¹

TABLE—1
**Trend of Progress of the Primary
Weaver's Co-operative Societies (Bihar)**

| <i>Year</i> | <i>No. of Societies</i> | <i>No. of Members (in thousands)</i> |
|--|-------------------------|--------------------------------------|
| 1 | 2 | 3 |
| First Plan End (1955-56) | 499 | 62 |
| Second Plan End (1960-61) | 1,003 | 132 |
| Third Plan End (1965-66) | 1,161 | 146 |
| 1968-69 | 1,167 | 147 |
| At the end of Fourth plan (1973-74) | 1,181 | 143 |
| 1974-75 | 1,200 | 148 |

Organisation of the Societies

Like other States of India, Bihar Government has no co-operative Act, enacted by its own legislature to administer and control co-operative development. The organisation of any type of co-operative credit societies is carried through the same Co-operative Societies Acts 1935, amended from time to time. The rules and procedure of organisation of non-agricultural credit societies are the same as those of agricultural. Any ten persons belonging to the same trade, occupation or locality with sound mind and good character and above the age of 18 can form and get a society registered. A meeting of desirous members is summoned before the co-operative Inspector of the area to pass the bye-laws. The registration is thus duly completed and two copies of bye-laws with the report of the Inspector are sent for the registration of the society.

11. Department of Co-operation, Government of Bihar, *Co-operative Development in Bihar*, February, 1970, p. 44 and 'Reserved Bank of India: Review of the Co-operative movement in India, 1970-72, Bombay, p. 155 and 'Co-operative Movement gains momentum' by Azad, Md. Hussain, in *Wheel in Motion*, 1976, Patna, p. 39.

Liability

In early stages the non-agricultural credit societies in Bihar were based on the unlimited liability but after the exposure of weakness of unlimited liability these societies were converted into limited ones. At present almost all societies are based on limited liability. The salary earners' societies, the number of which in our State is largest, are organised on limited liability. The model bye-laws of these societies provide that the liability of a member for debt of the society shall be limited to the nominal value of the shares held by him. The organisation of new societies has also been based on limited liability because the limitation of liability is likely to attract valuable elements, and "a substantial part of funds required by the society can be raised through share capital."¹² That is why the number of limited societies has mounted up.

Membership

The membership in non-agricultural credit co-operatives comes from employees and persons of profession.

Like agricultural co-operative credit societies, membership of non-agricultural credit co-operatives is also open to every person, carrying on the same occupation, trade or business or employee of the same department or office whether employed temporarily or permanently. The general rule, that they should be above the age of 18 and should possess 'good character and sound mind' is also applicable in their enrolment as the members of the society.

The membership is of two types :—

1. Original
2. Subsequent

Those, who sign the application form for the registration of the society, are called original members and subsequent members are those who are enrolled to the society subsequently after payment of 50 paise and with the consent of the majority of the existing members.

A declaration form has to be executed by every member of the society to the effect that they will be bound by the bye-laws and any addition and modification thereof. Every member has a right to nominate his heir who shall enjoy all the privileges after the member's death. In salary earners' society every member will authorise his employer to recover the dues of the society by deduction from his pay.

12. *Report of the Co-operative Planning Committee*, 1946, printed in 1951, Delhi, p. 23.

Present position of Non-Agricultural Credit Societies

The beginning of the organisation of non-agricultural credit societies in India was made on the same pattern as followed by Herrman Schuldze in Germany and Luggi Luzzati in Italy in the early years of this century. Bihar followed suit and organised various salary earners' co-operative credit societies at Jamshedpur. They all adopted limited liability.

Although the first Co-operative Societies Act provided legal status to these co-operatives, in Bihar the organisation and expansion of these institutions gathered momentum only after the MacLagan Committee emphasised their importance in non-agricultural sector.

Before 1948, weavers and artisans societies formed the bulk in total number of non-agricultural credit societies. But at present salary earners' co-operative credit societies have the largest number. Most of the artisans societies have been converted into industrial co-operatives. The present position with regard to their number and volume of membership of employees' societies (already referred in chapter II) may be assessed from the data below¹³ :

Salary earners' credit societies (Bihar)

TABLE—1

| <i>Year</i> | <i>No. of Societies</i> | <i>Membership (in thousands)</i> | <i>Average member- ship per society</i> |
|-------------|-------------------------|--------------------------------------|---|
| 1955-56 | 114 | 52 | 456 |
| 1960-61 | 202 | 91 | 451 |
| 1965-66 | 221 | 97 | 439 |
| 1966-67 | 251 | 103 | 410 |
| 1967-68 | 258 | 110 | 426 |
| 1973-74 | 264 | 185 | 700 |

13. *Hand book of Co-operative statistics, Bihar, 30th June, 1968, pp. 92-93 and Reserve Bank of India: Statistical Statements relating to the Co-operative Movement in India, Bombay, 1972-73 p. 141.*

The number of societies, and the aggregate and average volume of membership have increased considerably since independence. But keeping in view the long span of period of about 24 years, the progress cannot be called satisfactory. By now the societies could attract only 12.93% of non-agricultural population. The main reason for retarded growth both in number of societies and membership is the indifference of the State Government to the expansion of these societies. Entire resources and energy of the Government have remained confined to building of agricultural economy. No assistance could be extended to them by the State Government. What so-ever growth could be registered is due to the efforts and services of the enthusiastic non-official workers of the State.

Administration and Management

In administration and management of non-agricultural societies in their all forms, the democratic spirit reigns supreme. The pattern of administration is the same of that of agricultural co-operative credit societies.

The main administrative components are as under :

1. General meeting
2. Managing committee :
 - (i) President
 - (ii) Secretary
 - (iii) Treasurer

1. General Meeting

The supreme authority in all types of non-agricultural credit co-operatives is vested in general meeting. It is held once a year. One fifth of the members forms the quorum of limited society.

The general meeting may also be summoned at the instance of the Registrar or any person authorised by him or on the written request of 1/12 or 20 members, whichever is less. The members of salary earners' credit co-operatives who live outside the headquarter of the society have the privilege of attending the meeting by proxy for which they have to produce sufficient cause.

Functions of General Meeting

The functions of general meeting are varied and numerous. The annual general meeting shall have the following powers and duties ;

1. To elect the president, secretary, treasurer and other members of the managing committee for the ensuing year.
2. To consider the balance sheet of the preceding year and audit notes.
3. To dispose of profits in accordance with the Act, rules and bye-laws.
4. To fix the maximum and minimum liability to be incurred on behalf of the society.
5. Any other business brought by the Committee.

Managing Committee

The Managing Committee is an important component of the whole administrative structure. The Committee shall consist of :

1. The President or the Chairman and the Vice-President or the Vice-Chairman.
2. The members elected from among the shareholders.
3. The members nominated by the ex-officio Chairman or President from among the shareholders.

The meetings of the executive committee are convened thrice a year but its meeting once a month is desirable.

The Managing Committee has the following functions to perform :

1. To enrol new members and confirm the resignations of the shareholders.
2. To sanction the transfer and withdrawal of shares.
3. To arrange for annual meeting to be held, to get prepared and submit the balance sheet of the preceding year and prepare and pass the budget for ensuing year.
4. To sanction the contingent expenditure to be incurred by the president and secretary.
5. To appoint, dismiss or punish the salaried and honorary staff and to refer to arbitration or to Managing Committee or to any member or official.
6. To consider loan applications over Rs. 100/- and if the outstanding loan exceeds Rs. 500/- further loaning will be sanctioned on the advice of the president.

7. To confirm loans sanctioned by the Secretary.
8. To regulate and repeal rules and terms of business, subject to the approval of general meeting.
9. To invest funds of the society and to fix the maximum amount to be retained in the custody of the treasurer.
10. To delegate its powers to sub-committee, if any.

President or the Chairman

The President or the Chairman is the highest authority next to the General Meeting. He is elected from among the shareholders at the annual general meeting. The Presidents of the salary earners' credit societies are generally the heads of departments, offices or institutions. They are the ex-officio Presidents or the Chairman of the societies. This practice hampers the functioning of salary earners' credit societies. On democratic principles the Maclagan Committee remarked, "It is impossible for them, since they belong to one service, to forget in conducting the business of the society their relative official positions outside it, and in this way influential or highly placed persons are able to receive excessive loans for themselves or their friends."¹⁴ The President who is the head of department, may often exercise undue influence over the other sub-ordinate employees.

The President or the Chairman performs the following main functions

1. To sign all cheques, bills or other instruments on behalf of the society and to confirm the sanction of the loan above Rs. 500/- on the recommendations of the managing committee.
2. To incur contingent expenditure of Rs. 50/- to 100/- with the approval of the Managing Committee.
3. To direct any member of the committee to carry on the duties of the Secretary in his long absence.
4. To delegate his powers to Vice President or Vice-Chairman or Sub-Committee.
5. To dispose of any other emergent business.

Secretary

The Secretary occupies a vital position in every co-operative institution. The duties and powers of the Secretary in non-agricultural credit

14. *Report of the Committee on co-operation* (Maclagan Committee) in India, 1915, Reprinted in 1957, Bombay, p. 14.

societies are the same as those of agricultural credit societies. In salary earners' societies the secretary works without any remuneration because in these institutions there is no paucity of literate men as in other agricultural and non-agricultural credit co-operatives, a. that of weavers' society. Accordingly in these societies paid secretaries from outside shareholders are not appointed. The secretary of these societies works on the same lines as that of the agricultural credit co-operatives, with the addition that :

1. he may impose a fine or suspend the employee of the society
2. he may also sanction loans subject to the approval of the Managing Committee.
3. he signs cheques and bills on behalf of the society.

Treasurer

The duties of the treasurer are confined to receipt and disbursement of money in accordance with the directions of the Managing Committee, President or the Secretary. He maintains cash balance and retains a certain amount of cash in his custody, the limit of which is determined by the Managing Committee.

In spite of the fact that the non-agricultural credit societies, comprising mostly of salary earners' credit co-operatives remained starved of the Governmental assistance, they have also registered substantial growth in respect of both their number and their volume of membership. However, as mentioned earlier the aggregate volume of membership, in these co-operatives constitutes a very insignificant proportion to the total non-agricultural population of the State. A large scope in non-agricultural sector particularly in mills, factories, and in various Governmental and semi-Governmental offices is left for the expansion of these co-operatives.

The management of non-agricultural societies is satisfactory and the functioning of management committees is efficient. In these societies also the democratic spirit is held high. Their Board of Directors is elected from amongst the shareholders in annual general meeting of the society. The election of other office bearers is also conducted on democratic lines.

Summing up

It is, however, alleged that the principle of democratic management is neglected in salary earners' co-operative credit societies because the head of the institution or department acts as an ex-officio President or Chairman of the society with the result that no ordinary shareholder may have opportunity to hold the office of the President or Chairman. Besides, it is also apprehended that the ex-officio President by virtue of being the head of the institution may exercise undue influence over other members. Both these factors are against the democratic spirit—the hallmark of co-operatives.

CHAPTER VI

APEX & INTERMEDIARY CO-OPERATIVE INSTITUTIONS : THEIR STRUCTURAL ANALYSIS

The original scheme of co-operative banking in India and in her States extended no legal recognition to federations of primary co-operative societies into central or district co-operative banks and banking unions and consequently the federation of these banks into provincial banking institution could also not come into existence. In later periods, the inadequacy of funds with the primary units and the lack of their proper supervision on the one hand, and the need of linking co-operative credit institutions with the money market on the other, necessitated the organisation of higher co-operative credit institutions at the district and state levels so that extension of credit to agricultural and non-agricultural sectors for enabling the cultivators and other people of small income group to carry on their short and long-term financial operations might be conducted on sound lines. Consequently the recommendations of various co-operative committees in this regard were given practical shape in this State, too, and thus the following types of co-operative credit institutions also came into being gradually :

1. Central Co-operative Banks.
2. Bihar State Co-operative Bank Ltd., Patna.
3. Bihar State Co-operative Land Development Bank Ltd., Patna.

Central Co-operative Banks

"A central co-operative bank is a federation of primary societies in a specified area or a taluka or a tahsil or district and is located at the head quarters of one or another important town in the district."¹

The central co-operative bank forms the necessary link between co-operative distributors and collectors of funds on the one hand and provides a link with the money market on the other. In other words, it works as an intermediate financing agency between Bihar State Co-operative Bank and the primary societies of the State.

1. Panandikar, S. G., *Banking in India*, Orient Longman, Pombay; 12th Edition 1975 (First Edition in 1934) p. 111.

Historical Back-ground of the Origin of Co-operative Banks

In the beginning of the co-operative credit movement in India, it was contemplated that primary credit societies would be in a position to build up their own financial resources. It was expected that large urban banks would also be able to raise sufficient capital to meet both their own and the needs of rural societies. But very soon the fallacy of the scheme was exposed. Neither urban banks nor primary societies could raise requisite capital due to absence of literacy and banking habits on the one hand, and distrust of people in co-operative credit institutions on the other. Reluctance of commercial banks to extend loans and advances to co-operative credit societies has already been stated. A persistent demand for an agency to supply credit societies was, therefore, felt. The lack of co-ordination among proper control further accentuated the need for central co-operative agency, though a few central banks, devoid of legal recognition, were existing in the State.

The question of the establishment of central banks was often discussed at Registrars' conferences and with the enactment of the Co-operative Societies Act VI of 1935, the organisation of central co-operative banks was legalised and began to command sympathy and recognition from the Government.

Following the enactment of the new Co-operative Act, central co-operative banks in Bihar were also established.

Forms of Central Co-operative Banks

Consistent with the findings of MacLagan Committee 1915, there were the following types of central co-operative banks.

1. central co-operative banks consisting of the membership of both individuals and societies.
- 2., central banks consisting of the membership of individuals only.
3. central banks consisting of the membership of the societies only.

In Bihar only first and third types of banks are functioning. The second type of banks with individual membership cannot be called co-operative, for it is apprehended that if it be run on individual membership basis, it shall not differ fundamentally from the joint stock banks wherein self-interest reigns supreme.

1. Central Co-operative Banks

These banks have been registered under the Bihar & Orissa Co-operative Societies Act, (Act VI of 1935). There is no constitutional difference between the district and central co-operative banks. The area of operation of district banks is confined only to a district while the central bank might be established at important business centres. Such banks were registered in Bihar at the early stage of the co-operative credit movement.

Aims & Functions of the Bank

The following are the objects of the central co-operative banks of the State :

- (i) to finance co-operative societies registered under the Act;
- (ii) to collect funds for the purpose of financing co-operative societies;
- (iii) to open branches in suitable centres;
- (iv) to organise, develop, assist and co-ordinate the work of affiliated societies;
- (v) to arrange for the supervision or inspection of societies;
- (vi) to act as agent for the Bihar State Co-operative Bank Ltd., and
- (vii) to act as balancing centre for the societies of the area of its operation.²

Difference Between Central Co-operative Banks & Banking Unions

A banking union differs from central co-operative bank on the ground that the former does not enrol individuals as members. Only registered societies have the privilege of its membership whereas central co-operative banks are open for both individuals and societies. It is supposed to be the most suited agency for financing societies. The antagonism of interest between shareholders and borrowing societies is eliminated by identification of both the parties in this type of institution. K. C. Sarkar has pointed out that "From the point of view of co-operation a federal type of bank wherein only societies are shareholders, is most desirable³".

Membership

The central co-operative banks in Bihar have adopted mixed type of constitution. Consequently both individuals and societies have the privilege of seeking membership in these institutions. Although mixed type of membership, i.e., of individuals and societies does not spread the true co-operative

2. Government of Bihar, *The Bihar Co-operative Societies Manual Vol. III*, 1967, p. 215.

3. Sarkar, K. C., *Co-operative Movement in U. P.*, Allahabad, 1947, p. 243.

spirit because of the fact that individual shareholders might hold a dominant voice in the institutions, but with a view to raising and mobilising more working capital, individuals are also given opportunity to become members. The following shall be eligible for the membership of the central co-operative bank :

- “(i) Registered co-operative societies operating within the area of operation of the Central Bank (such societies are hereafter referred to as affiliated societies).
- (ii) Any person above the age of 18 years and of sound mind residing or holding property within the area of operation of the Bank (such members are hereafter referred to as individual members. Provided that the total number of such individual members shall not exceed the limit that may be fixed by the Registrar, co-operative societies, from time to time after taking into account the views of the Board; and
- (iii) The State Government of Bihar”.⁴

Present Position of Central Co-operative Banks in Bihar

These banks came into existence in the form of central financing agencies in the State just after the enactment of Co-operative Societies Act, 1904. Before 1959-60 there were 47 central co-operative banks in the State. The number was reduced to 28 at the end of 1967-68. The reduction was the result of a process of amalgamation and reorganisation of central banks with the aim of having 28 Central Banks for the State⁵. The growth of central banks in the State was haphazard and uneconomic. The policy of the numerical increase of the banks failed to cultivate amongst the members the sense of banking-mindedness. The uneconomic and shabby growth of these co-operative banks focussed the attention of the Government to suggest ways for the sound development of co-operative banking in the State. To this effect the Rural Credit Survey Committee made an enquiry into the subject and recommended that “there should be only one strong central co-operative bank for each district⁶”. The recommendation of the Committee was endorsed and accordingly weaker units of Bihar were amalgamated with the stronger ones. The idea behind this scheme of amalgamation was to make the amalgamated banks viable units so as to give them the status of getting adequate financial accommodation from the Reserve Bank of India at a cheap rate of interest in order that these banks might

4. Government of Bihar : *The Bihar Co-operative Societies Manual Vol. III*, 1967, p. 216.

5. *Hand book of Co-operation Statistics*, Bihar 1968, p. 8.

6. Reserve Bank of India : *All India Rural Credit Survey Report, Vol. II*, The General Report, 1954, p. 445.

fulfil the role of proper dispensation of credit facilities to the agriculturists in the rural areas as a step towards increasing production of food⁷.

Membership

A remarkable growth in the volume of the membership in central co-operative banks has been registered after independence. In spite of this praiseworthy rise in the volume of membership, these banks have not been successful in taking under their wings all the existing societies because out of 34,056 total agricultural and non-agricultural societies in 1966-67 only 32,407 societies were affiliated to their respective central banks in 1967-68.⁸

The individual membership in these banks is also rampant though the enormity of individual membership is not conducive to the development of true co-operative banking because it might degenerate into dividend hunting which is a common feature of joint stock banks. But keeping in view the inadequacy of share capital of these institutions the continuance of individual membership was proper for the formative period. Their entrance, on the one hand would increase the amount of share capital of these banks and, on the other, would improve their administrative efficiency. As soon as these banks begin to get efficient representatives from societies to control and supervise the work, individual membership shall be totally eliminated.

The general view of membership and number of central banks (already referred in chapter II) can be had from the following data⁹ :

TABLE—I
Central Co-operative Banks (Bihar)

| Year | No. of Central Banks | Membership | |
|---------|----------------------|------------|------------------------|
| | | Societies | Individuals and others |
| 1955-56 | 51 | 13,049 | 3,471 |
| 1960-61 | 35 | 24,708 | 3,359 |
| 1965-66 | 28 | 33,041 | 3,029 |
| 1966-67 | 28 | 34,056 | 2,973 |
| 1967-68 | 28 | 32,407 | 2,996 |
| 1973-74 | 28 | 29,898 | 2,798 |

7. *Hand book of Co-operation Statistics*, Bihar, 1968, p. 8.

8. *Ibid.*, p. 86.

9. *Hand book of Co-operation Statistics*, Bihar, 1968, p. 86. and Reserve Bank of India: Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74 p. 20.

Branches of Central Co-operative Banks in Bihar

In view of the fact that the office bearers of primary agricultural and non-agricultural credit societies had to visit the district headquarters (where the banks are located) to obtain loans and withdraw deposits, which caused great inconvenience and heavy expenses to the societies in the form of travelling and haltage allowances etc. and also because the efficiency of these institutions was hampered due to the absence of branches in the neighbouring localities and the need for opening branches at different trade or business centres or at Tahsil headquarters of the district was persistently felt. The recommendations of All India Committee on Direction on Rural Credit Survey that "for the effective linking of the higher levels of the structure with the societies at the primary level, it was necessary that the co-operative financing agency at the headquarters should have branches at some intermediate level between the village and the district headquarters,"¹⁰ also attracted the attention of the Bihar Government. Consequently a scheme in the first instance for the establishment of several branches of different central banks in various important parts, i.e., in the interior of the district was drawn up. The Government of Bihar also decided to provide subsidies to central co-operative banks which aspired to establish their branches.

At present 173 such branches are running in the State. Purnea central co-operative bank is maintaining near about 11 branches, and Dina-pur-Masaurhi central co-operative bank is running 9 branches in different parts of the district. Out of all the 28 central banks, 26 Banks are running more than 3 branches each.¹¹ This policy of running branches has very much facilitated the working of the affiliated societies.

Administration and Management of Central Co-operative Banks of Bihar

Democratic pattern is the backbone of administration and management of co-operative institutions of Bihar. It is tried to the best to curb the dominance of individuals over the societies. Following are the main administrative and executive bodies of these banks :—

1. General Body.
2. Board of Directors.
3. Working Committee.
4. The Chairman or the Deputy Chairman.

10. Reserve Bank of India: *All India Rural Credit Survey Committee Report, Vol. II, The General Report*, Bombay, 1954, p. 448.

11. Reserve Bank of India: *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1972-73* p. 31.

5. Manager.

The General Body of the central bank consists of the following members :—

- (1) Affiliated societies ;
- (2) Individual members; and
- (3) Representatives of the State Government.

Each affiliated society shall appoint a delegate as provided in its bye-laws, and vacancies among such delegates shall be filled up in the same manner. A delegate ceasing to be a member of his society or whose delegation is withdrawn by the society or who is a defaulter in accordance with the bye-laws of the society in respect of any dues outstanding against him in the society shall cease to be its delegate. Every delegate shall hold office until his successor shall have been appointed provided that it shall be competent for any society at any time to remove its delegate and appoint another. Each member of the General Body shall have only one vote. Voting of proxy shall not be allowed. A list of the voters shall be prepared as on the closing date of every co-operative year and only those whose names are on the list shall be entitled to vote. The ultimate authority in all matters relating to the General Administration of the General Bank shall vest in the General Body. The General Body shall not, however, interfere with the actions of the Board of Directors done in exercise of the powers conferred on them by the bye-laws.¹²

2. Board of Directors

The Board of Directors in central co-operative banks of Bihar is the main executive body with a variety of functions. The policy and programme regarding the rates of interest on borrowing and lending, mobilisation and raising of funds through shares, debentures and loans and the investment of these funds in gainful avenues, are laid down by the Board of Directors. It gives general directions to the Working Committee or Local Advisory Committee for the grant of loans and advances to members. It scrutinises and approves the annual budget; submits to the Annual General Meeting the annual report, the Statement of Accounts, and the Audit Report; and makes arrangements for efficient supervision of the societies affiliated to the central bank. Its other functions are to appoint, suspend, remove or dismiss or otherwise deal with employees of the central co-operative banks other than those deputed to work under the central co-operative bank by the Registrar, co-operative societies, in accordance with such subsidiary rules as may be framed in this behalf subject to such directions as may be issued by the

12. Government of Bihar, *The Bihar Co-operative Societies Manual*, Vol. III, 1967, pp. 219-20.

Registrar, co-operative societies from time to time; and to transact all other business incidental to the administration of the central co-operative bank.¹³

The Board of Directors consists of 11 members besides an ex-officio Chairman who are elected in the following manner :

1. Two Directors nominated by the Registrar, Co-operative Societies.
2. Two shall be the representatives of individual members.
3. Seven shall be the representatives of the societies affiliated to the Central Co-operative Bank. The Registrar, Co-operative Societies may however, vary the proportion of individual representatives and representatives of the societies from time to time in consultation with the Board of Directors. The Directors shall be elected at the Annual General Meeting; the Directors representing societies shall be elected from amongst the representatives of societies by such representatives and the Directors representing individual shareholders shall be elected by the individual members from among themselves.¹⁴

An individual member of the Central Co-operative Bank shall not be eligible for election or continuance as a member or the Board of Directors :

- (i) if he comes under the operation of Rules, if any, framed under the Act concerning disqualification of Directors;
- (ii) if he does not hold at least two fully paid-up shares; and
- (iii) if an order of surcharge has been passed against him, provided that he may stand for election after two years of passing of the order of surcharge, if he has paid up the full amount of surcharge.¹⁵

The members of the Board of Directors shall hold office till the next general election to be held in accordance with bye-laws 22. All the members of the Board shall vacate their offices on the day following the date on which the general election is held.¹⁶

The Working Committee and Local Advisory Committee

According to bye-laws;

- (a) There shall be a Working Committee consisting of five members including the Chairman or Deputy Chairman, the Secretary, and three Directors elected by the Board from amongst themselves.

13. Ibid., p. 225.

14. Ibid., p. 222.

15. Ibid., p. 222.

16. Ibid., p. 224.

- (b) There shall be a Local Advisory Committee for the branch of the Central Bank established as a result of amalgamation of one or more banks or otherwise. It shall consist of not more than five members preferably of the area of the branch including the sub-divisional officer, if any, as its ex-officio Chairman.¹⁷

Chairman

The Chairman of the bank is elected from amongst the Directors of the bank in the annual general meeting of the bank. Besides controlling and supervising the affairs of the Bank, the Chairman formulates and carries out the policy regarding the conduct of the bank. He has the right to suspend and fine the salaried staff. He presides over all meetings of the General Body. The Vice-Chairman enjoys all the privileges and powers of the Chairman in his absence.

The Secretary

It is the key post in whole administrative set-up of the institution. The main function of the Secretary is to supervise the work of the bank, to inspect the accounts of the seeds and other agricultural requisites maintained by the affiliated societies. The Secretary has been authorised to incur contingent expenditure. He has also to prepare and submit annual, half yearly, and monthly financial statements of the bank. He has to exercise the powers delegated to him by the Board and may subject to the approval of the Board except in an emergency, delegate any of his powers and duties to the Joint Secretary or in his absence to any Director for a specified period and may withdraw any powers so delegated.¹⁸

Manager

A Manager is also appointed by the Registrar, Co-operative Societies, on such terms and conditions as he may think fit. He is a paid member of the staff and is under the direct control of the Board of Directors of the bank. The Manager of a bank has to have custody of all the properties of the Central Co-operative Bank. He has to work in close harmony with the policies and programme chalked out by the bank and do all that is necessary for carrying on generally the day-to-day administration of the Central Co-operative Bank.

Treasurer

A Treasurer in every Central Co-operative Bank is appointed by the Board of Directors of the bank to receive and pay all the money by way

17. Ibid., p. 226.

18. Ibid., p. 228.

of transaction of the bank. He keeps under his custody all the valuable securities deposited with it.

The democratic spirit in a Central Co-operative Bank is held high. S. G. Panandikar has remarked regarding the administrative set up of these Banks that "the representatives of the societies are given a preponderating voice in their management".¹⁹

Bihar State Co-operative Bank Limited, Patna

Bihar State Co-operative Bank Ltd., Patna is a federation of central co-operative banks of the State and the latter are the federations of the primary credit societies. E. M. Hough has said that "the State Co-operative Bank is the final link in the chain between the small, scattered primary Societies and the money market, as also with the Reserve Bank of India, the central banking authority of the country, which can be called on for short-term and medium-term accommodation under certain conditions."²⁰ This Bank is also the main controlling, supervising, guiding and financing agency for the whole of the co-operative credit movement. In brief, it may be said that in Bihar it works like friend, philosopher and guide to all the co-operative credit institutions running at all levels.

Functions and Objectives of Bihar State Co-operative Bank

Various Co-operative and Banking Enquiry Committees, while emphasising the need of establishing apex co-operative bank in Bihar have laid down its aims and objectives. The main objectives and functions of the Bank have vividly been laid down in the model bye-laws of the Bihar State Co-operative Bank Ltd. The objectives are as follows :

- (a) to serve as the apex bank in the State of Bihar for societies;
- (b) to guide and promote co-operative activities in the State;
- (c) to organise the provision of credit for societies;
- (d) to serve as a balancing centre;
- (e) to function as a financing bank in terms of the Act and the Rules and to carry on general business of banking not repugnant to the provisions of the Act and the Rules;

19. Panandikar, S. G., *Banking in India*, Orient Longman Ltd., Bombay (First Edition, 1934) Twelfth Edition 1975, p. 111.

20. Hough, E. M., *The Co-operative Movement in India*, Oxford University Press, Ely House, London, W.F., Fifth Edition, 1966, p. 281.

- (f) to maintain general supervision over the central co-operative banks and societies affiliated to them and such societies as are directly financed by the bank and to inspect them and further to take up the management of such of them as may so desire on terms and conditions to be settled in each case; and
- (g) to promote the economic interests of its members in accordance with the Act and the Rules and co-operative principles.

Its functions are as follows :—

- (a) to lend money :
 - (i) to central co-operative banks affiliated to the Bank;
 - (ii) to any other society recommended by the Registrar, and affiliated to the Bank;
 - (iii) to depositors on the security of their own fixed deposits in the State Co-operative Bank, Government and Trustee Securities and other securities approved by the Registrar;
 - (iv) to members of the Bank against deposit of securities specified in clause (a), (b), (c) and (d) of Section 20 of the Indian Trust Act (Act II of 1882) or upon the pledge of gold or silver bullion or gold ornaments; or
 - (v) to societies, apex or otherwise carrying on warehousing and marketing activities upon hypothecation or pledge of commodities, goods, merchandise, stock in trade, or otherwise, subject to such maximum limits or other conditions as may be fixed from time to time by the Registrar;
- (b) to participate, subject to considerations of safety, in schemes of financing of societies sponsored by Government or the Reserve Bank of India;
- (c)
 - (i) to invest surplus funds when not required for the business of the Bank in one or more of the ways specified in the Act;
 - (ii) to undertake inland exchange business by collecting bills of exchange and hundies or to issue demand drafts; and
 - (iii) to receive for safe custody securities, ornaments and valuables;

- (d) to raise funds by issuing shares and debentures receiving direct or through other registered societies acting as its agents, moneys on deposit accounts, with or without interest, taking loans by creation of mortgage or other charges or in any other way and upon such terms and conditions as may from time to time be thought fit, provided always that the total borrowings of the Bank shall not at any time exceed the maximum fixed in that behalf at the general meeting of the Bank from time to time;
- (e) to contribute to the share-capital of central co-operative banks and societies, subject to the previous approval of the Registrar;
- (f) to undertake such other activities as may be conducive to the attaining of the objects of the Bank; and
- (g) to maintain for the above mentioned purposes fluid resources in accordance with the scale laid down by the Reserve Bank of India.²¹

Present Position of the Bihar State Co-operative Bank Ltd.

The Bihar State Co-operative Bank Ltd., with its headquarter at Patna, is the apex to co-operative institution with which rests not only the responsibility of financing the needs of agricultural and non-agricultural credit societies but the responsibility of placing the entire co-operative structure on stable financial footing too, for which it has to exercise strict control regarding the supervision of affiliated banks, with a view to compete with other banking institutions in the money market.

The Bank has spread a net work of its branches in certain districts or area where, either the district banks are not in a position to cater to the financial needs of the societies or where these district banks do not exist. The Jamshedpur Branch continued to meet the credit requirements of the co-operatives in Jamshedpur area. The working of the Branch resulted in surplus. The second branch of this Bank was opened at Patna City in December, 1965 with the same object of tapping deposits. At the end of June, 1974, the State Co-operative Bank of Bihar had 9 offices including the head office and had the membership consisting of 109 co-operative societies and 28 individuals and others.²²

Membership

"Member" of the Bank means a share-holder of the Bank. Share in the Bank can be held only by a society and not by individuals. The existing individual members may, however, continue till their shares are

21. Government of Bihar, *The Bihar Co-operative Societies Manual Vol. III*, 1967, pp. 92-94.

22. *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1973-74, p. 5.

disposed of in the manner laid down in these bye-laws. The State Government may hold shares in the Bank with the consent of the Board. Each share shall be fully paid, the full amount of Rs. 50/- per share being payable with the application. The liability of share-holders shall be limited to the face-value of their shares. The Board shall have the power and right to admit or refuse applications for shares in whole or in part. Every application shall be accompanied with an admission fee of Rs. 51/- which will not be refundable unless the application is rejected, provided that in the case of the State Government no such admission fee will be payable.²³

Present Position of Membership in the Bank

The volume of membership in the Bank in different years (already referred in Chapter II) is indicated in the table²⁴ given below :—

TABLE—2

Membership (The Bihar State Co-operative Bank)

| Year | Central Societies | Membership | | |
|---------|-------------------|-------------------|------------------------|----|
| | | Primary Societies | Individuals and others | |
| 1955-56 | .. | 120 | — | 53 |
| 1960-61 | .. | 51 | 72 | 51 |
| 1965-66 | .. | 20 | 75 | 35 |
| 1966-67 | .. | 29 | 75 | 32 |
| 1967-68 | .. | 29 | 79 | 32 |
| 1973-74 | .. | 28 | 81 | 28 |

The primary societies outnumber the individual members of the Bank. The fact is evident from the above table that in 1960-61 the number of the primary societies was 72 which has increased to 81 in 1973-74.

The reason for this high volume of societies as members in the Bank is that some branches of Bihar State Co-operative Bank are functioning in the capacity of central co-operative banks to which most of the societies are directly affiliated. Such a high representation of primary societies is

23. Government of Bihar; *The Bihar Co-operative Societies Manual*, Vol. III, 1967, pp. 92-94.

24. *Hand book of Co-operation Statistics*, Bihar, 1968, pp. 63-64 and Reserve Bank of India: *Statistical Statements relating to the Co-operative Movement in India*, Bombay, Part I Credit Societies, 1973-74 p. 5.

subject to severe objection because in a federal type of Bank only central co-operative banks should have been given entrance in the capacity of members. But on the contrary the Committees on Co-operation has supported the membership of primary societies in Apex Co-operative Bank on the ground that surplus funds lying idle with these primaries may properly be channelised in the direction of gainful avenues of investment, and the share capital would also increase subsequently. Even then the Bank has decided to withdraw itself from financing these primaries directly with a view to discourage their membership in it.

Administration and Management of the Bank

The administration of the Bihar State Co-operative Bank is conducted through the following main executive components :

1. General Meeting.
2. Board of Directors.
3. Managing Director.
4. Secretary.

General Meeting

The General Meeting of the General Body of the Bihar State Co-operative Bank consists of the following members :

1. Chairman.
2. Directors nominated by Bihar Government.
3. Managing Director.
4. Representing central co-operative banks.
5. Representing share-holders other than central co-operative banks.

Usually General Meetings are held annually to fix maximum liability to be incurred by the Bank and to consider annual returns and budget. The election of the Vice-Chairman and the Directors of the Board of Management is also held at the time of General Meeting. General Meetings shall be of three kinds :

Annual or Ordinary General Meetings to be convened annually, Extra Ordinary General Meetings convened for some special purpose either by the Board or as a result of requisition from share-holders under bye-law

No. 36 and Special General Meeting to be called by the Registrar according to the rules.²⁵ The democratic spirit reigns supreme which is reflected in the fact that every member has only one vote irrespective of the number of shares he has.

Board of Directors

The chief executive and governing body of this Bank is the Board of Directors. According to the annual report of the Bank 1972-73 there are only 19 Directors in the present Board.²⁶

Excepting the ex-officio Managing Director and the nominees of the State Government, all the rest of the Directors and the Chairman shall be elected and all members present in the General Meeting shall be entitled to vote in the elections. There shall be at least two representatives of central co-operative banks from each Division, but all members present in the General Meeting shall be entitled to vote in their elections.²⁷

Specific Powers and Functions of the Board

This Board has varied and many functions. It may :

- (i) allot, transfer or refuse shares without assigning reasons;
- (ii) issue share certificates;
- (iii) organise the provision of co-operative credit in the State;
- (iv) fix rates and all other conditions of lending and borrowing subject to directives of the General Meeting, if any;
- (v) raise capital on behalf of the Bank and pledge the Bank's credit to such loans;
- (vi) draw, accept, endorse, negotiate and sell bills of exchange and other negotiable instruments with or without security;
- (vii) meet all expenses necessary for the running of the Bank, and
- (viii) take stock from time to time of the Bank's properties.

25. Government of Bihar, *The Bihar Co-operative Societies Manual Vol. III*, 1967, p. 98.

26. Bihar State Co-operative Bank Ltd., Patna, *49th Annual Report*, 1972-73.

27. Government of Bihar, *The Bihar Co-operative Societies Manual Vol. III*, 1967, p. 100.

The Board may institute, conduct, defend, compromise, refer to arbitration, or abandon legal proceedings or claims by or against the Bank or Board of officers paid by the Bank concerning the affairs of the Bank, start the branch of the Bank, elect Bank's representatives, from amongst the sitting Directors, to corporate bodies, whenever called upon to do so, submit to the General Meeting annual reports, statements of account's profit and loss accounts and balance-sheet; and summon General Meetings in accordance with these bye-laws. It may appoint, remove and exercise disciplinary control over all officers and staff except the Managing Director when appointed by the Government.²⁸

Thus the Board exercises such powers, enters into such agreements, makes such arrangements and takes such proceedings and does all such acts and things as are necessary and conducive for the smooth running and functioning of the Bank.

Managing Director

There shall be a Managing Director who may be appointed either by the Government on such terms and conditions as Government may decide or by the Board with the consent of the State Government. Subject to the control of the Chairman and of the Board, he shall be responsible for the management of the Bank. He supervises all activities of the Bank and the work of the paid staff and takes proper steps for collection of the Bank's dues and keeps the Board informed.

Bihar State Co-operative Land Mortgage Bank Ltd. (Now Called Bihar State Co-operative Land Development Bank)

Land Mortgage Banking in Bihar has no previous history except a few insignificant primary land mortgage societies functioning in different corners of the State. Oakden Committee and other Co-operative and Banking Committees had already focussed attention on the establishment of such banks on unitary pattern. But it could only be possible with the recommendations of the Rural Credit Survey Committee 1954, that each State should have a central land mortgage bank. State Governments at the same time are to review their tenure and tenancy laws, to take steps to eliminate such features in these laws as, without being essential to policy, are hindrances to the development of single and effective system of land mortgage banking.²⁹

The Bihar State Land Mortgage Bank came into existence in pursuance of the above recommendations and started functioning as a unitary body only in 1959-60 at Patna, to extend long-term loans to agriculturists for land development on the mortgage of unencumbered land.

28. Ibid., pp. 102-3.

29. Reserve Bank of India: *All India Rural Credit Survey Committee Report, Vol. II, The General Report*, Bombay, 1954, p. 436.

The Bank has adopted unitary pattern for an interim period. It carries out its business through its branches which have been established in almost every district. The central co-operative banks have been requested to provide temporary accommodation to the branches of Bihar State Co-operative Land Mortgage Bank for the proper disbursement of loans to individual agriculturists. Now the Bank has requested the State Government to provide services of land valuation officers for its proper functioning. At present a branch of the Bank is running in every district.

Functions and Objects of the Bank

The main functions and objectives with which this Bank has been established is to supply long-term financial needs for effecting permanent improvement in the cultivable land and for redemption of old debts of the agriculturists. The model bye-laws of the Bank lay down the following objects and the main functions of the Bank are :

- (i) to give loans to primary land mortgage banks and to individual agriculturist members;
- (ii) to float debentures on the security of its assets and of land mortgaged and other assets transferred to it by primary land mortgage banks and agriculturist borrowers for such periods and on such terms and conditions as have been approved by the Trustee;
- (iii) to raise deposits and loans;
- (iv) to acquire such immovable properties and construct such buildings as it may consider necessary for the proper conduct of its business;
- (v) to develop, assist and co-ordinate the work of affiliated primary land mortgage banks;
- (vi) to inspect the primary land mortgage banks and the lands mortgaged to them and to appoint the necessary staff for the purpose; and
- (vii) to do such other things as are incidental to or conducive to the attainment of the above objects.³⁰

Membership of the Bank

Being an organisation at the State level the membership of the Bank mostly consists of agriculturists owning and cultivating lands in Bihar. Every member should be above 18 years of age. According to model bye-laws, the membership of the Bank shall comprise of the following :

30. Government of Bihar, *The Bihar Co-operative Societies Manual Vol. III*, 1967, p. 98.

1. **Government of Bihar** :—Originally the Bank was established with the contribution of the Bihar Government as was essential in pursuance of the recommendations of the Rural Credit Survey Committee. The Bihar Government is allotted 'B' class of shares in this organisation.

2. **Primary Land Mortgage Banks** :—Primary land mortgage society registered under the Co-operative Act is eligible to become the member of the Bank. 'D' Class of shares is allotted to it.

3. **Individual Members** :—Such membership belongs to both borrowing and non-borrowing agriculturists of the State who are above the age of 18 years with good character and sound mind and are residing in the area of operation of the Bank but outside the area of primary land mortgage bank. The borrowing and non-borrowing members shall be allotted 'E' class of shares.

4. Any person over 18 years of age who is competent to contract and is residing in the area of operation of the Bank shall be eligible for admission as an individual member and shall be allotted 'C' class shares provided that the number of such individual members does not exceed 25. No individual member shall hold shares, the face value of which exceeds Rs. 4,000.³¹

(a) **Holding of Shares**

Every member shall purchase atleast one share. Every primary land mortgage bank and every agriculturist borrower shall hold shares at a proportion of 5% of the loans taken by them from the Bank.

(b) All shares shall be payable in full on allotment.

(c) A share certificate bearing a distinctive number and bearing the signatures of the Managing Director and two other directors of the Bank or such other officers as have been authorised by the Board shall be issued to each share-holder.

(d) It shall be competent for the Board to issue a fresh certificate in lieu of a worn out one upon production of the same or in lieu of a lost or destroyed certificate on the share holder giving such indemnity as may be determined by the Board. For every fresh certificate issued under this by-law such fee not exceeding rupee one shall be paid to the Bank.³²

31. Ibid., pp. 159-60.

32. Ibid., p. 162.

Administration and Management

The administration and management of the Bank is carried through the following components :

1. General Body or General Meeting.
2. Board of Directors.
3. Executive Committee.
4. Chairman.
5. Managing Director.

1. Out of three kinds of General Meeting namely, Ordinary, Extraordinary and Special, an ordinary general meeting of the Bank shall be convened annually by the Managing Director within six months of the close of the Co-operative Year. The Chairman, when present, shall preside over the meeting of the General Body. In the absence of the Chairman, the General Body may choose a Chairman from their number to preside over the meeting.³³ Every member present shall have one and only one vote.

2. Board of Directors

The Management of the Bank shall vest in a Board consisting of 15 persons of whom :

- (i) one shall be the Managing Director appointed by the State Government,
- (ii) there shall be officials nominated by the State Government,
- (iii) two shall be non-officials nominated by the State Government,
- (iv) one shall be elected from amongst individual agriculturists holding 'A' class shares.
- (v) one shall be elected from amongst non-borrowing members holding 'C' class shares.
- (vi) seven shall be elected from the primary land mortgage banks holding 'D' class shares.³⁴

33. Ibid., pp. 165-66.

34. Ibid., pp. 167-68.

The Board shall remain in office for a period of three years. It shall meet once in three months, or oftener if necessary, to conduct the affairs of the Bank. The Chairman or the Executive Committee may convene a meeting of the Board and the Managing Director shall convene such a meeting on a written requisition from five members of the Board within a fortnight from the date of receipt of such requisition. At least seven days' notice shall be given of the meeting of the Board. The quorum for a meeting of the Board shall be seven.

The main function of the Board is to make efforts in raising and building sufficient funds by debentures, share-capital and deposits on the one hand and granting adequate loans to agriculturists on the other. Surplus funds of the Bank are invested in profitable assets with the consent of the Board. In brief, the Board controls and supervises the business transactions of the Bank. The appointment of the staff and the constitution of the Executive Committee are the other concerns of the Board.

3. Executive Committee

The Board of Directors, by resolution, forms an Executive Committee consisting of five representatives from amongst themselves. Certain rights and duties of the Board are delegated to it. The Chairman of the Bank acts as an Ex-officio Chairman of this Committee. The term of the Committee usually corresponds with the term of the Board. It shall be the duty of the Executive Committee to deal with all applications for loans received from primary land mortgage banks or from individual agriculturists, to obtain from the Registrar full information regarding such banks or agriculturists and to see that loans are granted to them with due care and caution.³⁵

4. Managing Director

The Managing Director of the Bank appointed by the State Government performs all such functions as are essential for smooth running of the Bank. Usually preliminary scrutiny of loan applications is made by him and he presents it to the Executive Committee with his remarks. He shall be the officer to sue or be sued on behalf of the Bank and all bonds in favour of Bank shall be in the name of the Managing Director. He shall have the custody of all the properties of the Bank including cash. The Board of Directors shall frame subsidiary regulations, with the approval of the Registrar, for ensuring the safety of the properties left in the custody of the Managing Director.³⁶

35. Ibid., p. 172.

36. Ibid., p. 171.

Summing up

In brief, the administration and management of the Bank is constitutionally democratic. Even then Government's interference and control in all the components of administration is too much, though it is undoubted that as soon as the Bank comes out of its infancy, it will imbibe the co-operative spirit and will be successful in achieving the targets of long-term co-operative credit.

CHAPTER VII

MOBILISATION OF FINANCIAL RESOURCES

Mobilisation of Resources for Raising Funds

Capital, the essence of the modern business, is essential for every step of banking operations. The co-operative credit institutions bestowed with the objective of providing necessary finance to the peasants, small industrialists, traders and employees, have to build up sufficient amount of working capital for the discharge of their financial obligations.

The pool from which co-operative banks raise funds for them is almost common with the commercial banks. The difference between both the classes of institutions lies in the ways and methods of the utilisation of these resources. The policy of co-operative banks and societies in the mobilisation of these resources for the collection of funds is so framed as may not deprive the access of that class of people to these co-operatives whom these institutions intend to serve. In general, the resources for building up working capital in these may be classified into the following two heads :

1. Owned funds.
2. Borrowed funds.

Owned Funds

These funds are societies' own funds and own resources of the institution. They neither suffer from the danger of being called back at any time nor any kind of interest is paid on them. These funds form the base of the security for external liability on which lenders and investors are induced to lend and invest their money in these institutions. Hence they are treated as most preferential and economic. The main components of owned funds of co-operative banks are :

1. Share Capital.
2. Reserve Funds.
3. Entrance fee.

1. **Share Capital :** Share capital forms the integral part of the owned capital of co-operative banks which enables owned funds to be built up quickly and regularly. In early stages of co-operative banking in the State, Compulsory Deposit Scheme was introduced to raise necessary finance but in the succeeding years, it was replaced by a share system. At present the share system is prevalent in all types of co-operative credit institutions of the State.

It has been made obligatory on the part of every member, whether an individual, a society or a bank, to purchase atleast one share of the institution for enjoying the privileges of membership.

Value of Shares in Different Banks and Societies

The value of shares in primary co-operative credit societies is kept so low as may easily be afforded by poor people who are the prospective members.

In agricultural and non-agricultural credit co-operatives the face value of shares is Rs. 10/- each whereas in the central co-operative banks and Bihar State Co-operative Bank Ltd., the value of a share is Rs. 25.00 and Rs. 50.00 each respectively.

The Bihar State Co-operative Land Mortgage Bank Ltd., has the authorised capital of Rs. 30 lakhs made up as follows¹ :

- (i) 20,000 'A' class shares of Rs. 25/- each
- (ii) 1,500 'B' class shares of Rs. 1,000/- each
- (iii) 750 'C' class shares of Rs. 100/- each
- (iv) 9,000 'D' class shares of Rs. 100/- each
- (v) 25,000 'E' class shares of Rs. 1/- each

As regards the maximum number of shares to be held by a member, a ceiling has been imposed by every credit institution with a view to curb the dominance of individual members. As in service co-operatives and Large-sized societies no member is allowed to hold shares, the value of which exceeds 1/5th of total amount of issued capital.

1. Government of Bihar, *The Bihar Co-operative Societies Manual Vol. III*, 1967, p. 157.

Participation of the State in Share Capital of co-operative credit institutions

In addition to its recommendation for the State's partnership including financial partnership in co-operative credit societies at all levels of the State for the strengthening and expansion of credit for the positive purposes of production and for the benefit of rural producers, the Rural Credit Survey Committee also recommended that "the State Government should make the needed finance available to the State Co-operative Bank in the shape of additional share capital to enable it to provide funds to the Central Co-operative Bank".²

The Government of Bihar, in pursuance of the above recommendations participates directly in the share capital of primary agricultural credit co-operative through central co-operative banks and Bihar State Co-operative Bank. Adequate amount of additional funds is provided to the Bihar State Co-operative Bank to enable it to contribute in the share capital of central co-operative banks, large-sized societies and service co-operatives of the State.

The Rural Credit Survey Committee also pointed out the extent to which a State should subscribe. In the opinion of the Committee the State Government should initially contribute through district co-operative banks to a society an amount necessary for the maintenance of a minimum level of share capital. In case of central co-operative banks, State's contribution through State Co-operative Bank should not be below 5 per cent of the total share capital.

In keeping with these recommendations the co-operative banks and societies have inserted in their bye-laws, the requisite provisions concerning the minimum number of shares to be purchased by the Bihar Government.

Thus the share capital in co-operative banks consists of contribution of their members and of the Government of Bihar.

Present Position of Share-Capital in Agricultural And Non-agricultural Credit Societies in Bihar.

The amount of paid-up share capital in both the classes of societies has made tremendous leap since their inception. In all types of societies the amount of working capital was Rs. 8,74,201 in 1912, which increased to Rs. 2,20,89 lakhs³ in 1920-21. By the end of 1955-56, the paid-up share capital of primary agricultural credit societies was Rs. 31.15 lakhs, which shot up to Rs. 101.15 lakhs in 1960-61 and to Rs. 247.50 lakhs in 1965-66.

2. Reserve Bank of India : *All India Rural Credit Survey Committee Report, Vol. II The General Report*, Bombay, 1954, p. 451.

3. Prasad, Dr. K. N., *The Economics of a Backward Region in a Backward Economy, Vol. I* 1967, p. 298.

The average share capital was Rs. 7.5 per member in primary agricultural co-operative societies in 1955-56 which rose up to Rs. 10.5 per member in 1960-61 and by the end of 1965-66 to Rs. 15.0 per member.

The amount of paid-up share capital in non-agricultural credit societies has also increased from Rs. 56.18 lakhs in 1955-56 to Rs. 82.08 lakhs in 1960-61 and Rs. 112.01 lakhs in 1965-66 registering an increase at the rate of Rs. 5.18 lakhs per year between 1955-56 and 1960-61 and Rs. 3.98 lakhs per year between 1960-61 and 1965-66. The average amount of paid-up capital in respect of per member non-agricultural societies nearing Rs. 112 in 1965-66 is larger than that of agricultural credit societies in 1965-66.⁴

The analysis of the district-wise distribution of share capital in agricultural credit societies reflects that in addition to the general increase in the volume of share capital in agricultural credit co-operatives of all the divisions of the State, the average amount in respect of per society and per member has also made a satisfactory increase.

TABLE—1

Share capital⁵ and Working capital of primary agricultural credit societies in Bihar on 30.6.1968.

(Rs. in lakhs)

| <i>Districts..</i> | <i>Total amount of share capital.</i> | <i>Working capital.</i> |
|--------------------|---------------------------------------|-------------------------|
| Patna | 22.28 | 119.20 |
| Gaya | 28.31 | 183.68 |
| Shahabad | 48.12 | 297.21 |
| Muzaffarpur | 38.49 | 198.23 |
| Champaran | 28.40 | 109.44 |
| Darbhanga | 36.18 | 230.56 |
| Saran | 36.31 | 202.61 |
| Bhagalpur | 16.87 | 102.61 |
| Monghyr | 25.27 | 139.63 |
| Santhal Parganas | 29.37 | 125.86 |
| Purnea | 19.83 | 97.30 |
| Saharsa | 11.80 | 46.18 |
| Ranchi | 22.49 | 65.17 |
| Hazaribagh | 31.37 | 106.85 |
| Dhanbad | 8.80 | 55.57 |
| Singhbhum | 10.70 | 49.03 |
| Palamau | 16.35 | 79.75 |

4. *Handbook of Co-operation Statistics, Bihar, 1968, pp. 89-93.*

5. *Handbook of Co-operation Statistics, Bihar, 1968, pp. 143-44.*

TABLE—2

Non-Agricultural Credit Societies⁶ in Bihar

| <i>Year</i> | <i>Paid-up share capital (in lakhs of Rs.)</i> | <i>Average membership per society</i> | <i>Average share capital per member (in Rs.)</i> |
|-------------|--|---|--|
| 1955-56 | 56.18 | 456 | 108 |
| 1960-61 | 82.08 | 451 | 90 |
| 1965-66 | 112.01 | 439 | 116 |
| 1966-67 | 126.30 | 410 | 123 |
| 1967-68 | 147.22 | 426 | 134 |

The volume of paid-up share capital in non-agricultural credit societies (employees' societies) of the State is sufficiently large.

In general, the following reasons may be assigned to the increase in the amount of paid-up share capital of agricultural and non-agricultural credit societies !

In the first place, the change over from unlimited to limited liability inspired the confidence in both the agriculturists and professionals. The adoption of limited liability ensured them that the investment of small savings in shares of co-operative credit institutions did not remain a risky business. Hence shares of these credit co-operatives were purchased not only by the people of small income but also by wealthy persons, who upto then were indifferent rather reluctant to join the societies. The increase in membership resulted in the building up of paid-up share capital.

Secondly, the increased loan demands of the members on the one hand, and the linkage of these loans to paid-up share capital, on the other made its obligatory on the part of the members to purchase the additional number of shares in proportion to their demands. This also resulted in expansion in the amount of share capital.

Position of Share Capital in Higher Co-operative Credit Institutions

The volume of share capital in all the higher co-operative credit institutions such as in the central co-operative banks, Bihar State Co-operative

6. Ibid., pp. 92-93.

Bank and Bihar State Co-operative Land Development Bank have registered a substantial growth during the plan period. The increase in the number of affiliated organs and also in the number of individual membership on the one hand and the purchase of additional number of the shares by the borrowing members (societies-primary and central, and also individuals as the case may be), in the proportion to increase in the volume of their borrowings, have resulted in building up of adequate amount of share capital in these institutions on the other hand.

Besides, the liberal policy of the State Government in contributing additional finance in the shape of share capital has effected an increase in the amount of share capital of these institutions.

1. Central Co-operative Banks

The above mentioned factors were responsible for the expansion of the volume of paid-up share capital in these banks from Rs. 11.01 lakhs in 1955-56 to Rs. 539.46 lakhs in 1973-74. The average of volume of share capital per central co-operative bank has also increased. The contribution of the Government which figures at Rs. 44.00 lakhs in 1960-61, increased to Rs. 230.28 lakhs in 1973-74.⁷

Owing to the keen competition in the money market in the State the increase in the amount of paid-up share capital in all the central co-operative banks has not been uniform. There are 28 central co-operative banks of which the amount of paid-up share capital of some banks exceeds the average amount of Rs. 19.27 lakhs in 1973-74.

In this regard the central co-operative banks of Singhbhum, Giridih and Deoghar-Jamtara are much below the average.⁸

Present Position of Share Capital in Bihar State Co-operative Bank

Bihar State Co-operative Bank Ltd. had a paid-up share capital of Rs. 44.23 lakhs in 1956-55, but with the increase in the volume of the membership of primary societies, central banks and individuals, the amount of paid-up share capital increased to Rs. 44.76 lakhs in 1960-61, to Rs. 66.13 lakhs in 1965-66 and Rs. 144.62 lakhs in 1972-73.⁹

7. *Handbook of Co-operation Statistics*, Bihar, 1968, p. 86 and Reserve Bank of India : *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit societies, 1973-74, Bombay, pp. 21-22.

8. Reserve Bank of India : *Statistical Statements relating to the Co-operative movement in India*, Part I Credit Societies, Bombay, 1973-74, pp. 31-32.

9. *Handbook of Co-operation Statistics*, Bihar, 1968, pp. 63-64 and Reserve Bank of India : *Statistical Statements relating to the Co-operative Movement in India*, Bombay, 1973-74, p. 5.

In the total volume of paid-up share capital, the Government contributed Rs. 66.00 lakhs in 1972-73.¹⁰ The share of central co-operative banks and primary societies figures at more than 50% of the aggregate. The appreciable volume of contribution in the share capital of the banks is due to the invigorating nourishment from their affiliated organs. The following data¹¹ gives an account of the respective share-holders of the bank:

TABLE—3

Share-holders of Bihar State Co-operative Bank

| <i>Class of Shares</i> | <i>Amount of Shares (in thousands of Rs.) 1972-73</i> |
|----------------------------------|---|
| Government shares | 66,00 |
| Societies both central & primary | 78,33 |
| Individuals & others | 29 |

The above table makes it clear that the membership of the societies of both central and primary banks dominates the organisation which is very essential to maintain the democratic spirit.

Share Capital in Bihar State Land Development Bank Ltd.

The bank started its operations from 1960 with a total contribution of the State amounting to Rs. 10 lakhs. The State Government made an additional contribution of Rs. 15 lakhs raising the total amount of paid-up capital from Rs. 10 lakhs to Rs. 25 lakhs in 1967-68 and Rs. 138.50 lakhs in 1973-74.¹²

The following data gives an account of the number-wise contribution of share capital:¹³

10. *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1973-74, Bombay, p. 5.
11. *Ibid.*, p. 5.
12. *Handbook of Co-operative Statistics, Bihar*, 1968, p. 67 and *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1973-74, p. 170.
13. *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1973-74, p. 170.

TABLE—4

Contribution of Share Capital in Bihar State Land Development Bank

| <i>Class of Members</i> | <i>Amounts in thousands of Rs. 1973-74</i> |
|--------------------------|--|
| 1. State Government | 138.50 |
| 2. Individual and others | 283.02 |

Reserve Fund

The reserve fund, the indistributable or partly distributable surplus, accruing from charging a little more interest on their loans than they pay on their borrowings is an important part of the bank's working capital. It accumulates rapidly at compound interest and gradually a sound reserve fund is built up. It has been a leading feature of German credit co-operative organisation. While transplanting co-operative credit system in India the provisions for its maintenance have been made in bye-laws of the respective co-operative credit institutions.

The main objective of maintaining such a reserve in societies is to prevent conflicts between borrowing and non-borrowing members. Though poor members who are habitual borrowers would like the society to utilise its profit in reducing the rate of interest on loans, the non-borrowing members who have joined the banks only to lend would like to devote themselves in raising rates of dividends. The distinguished thinkers on co-operation have found the solution of the conflicting problem in creation of this fund. This fund is neither used in the interest of the borrowing members nor in the interest of the non-borrowing members but is maintained as the common property of the credit institution.

The creation of this fund not only provides solution for the above problem but also serves as tangible security for inducing outside lenders. E. M. Hough agreeing to the similar remark of Shri V. L. Mehta has pointed out that "more important, from the view-point of members security is an adequate reserve fund."¹⁴

The Co-operative Act, 1935, which governs the societies and central co-operative banks of the State, laid down that "no part of the funds of a registered society shall be divided by way of bonus, dividend or otherwise among its members".¹⁵

14. Hough, E. M., *The Co-operative Movement in India*, The Oxford University Press, Ely House, London W.I, p. 72.

15. Government of Bihar, *The Bihar Co-operative Societies Manual*, Vol. III, 1967, p. 7.

While framing bye-laws of different co-operative credit institutions, this provision has been incorporated with certain additions and modifications. According to bye-laws of the co-operative credit societies with limited liabilities, the Reserve fund shall consist of :

- (a) 35 per cent of the profits annually placed to the Fund in accordance with bye-law 44;
- (b) any sums allocated to it out of profits or otherwise;
- (c) entrance fees after deduction of the preliminary expenses incurred in constituting the society; and
- (d) the value of all shares forfeited to the society. The Reserve Fund shall belong to the society and be indivisible amongst the members.

It shall ordinarily be invested in Government securities, Post Office Savings Bank, the Bihar State Co-operative Bank, or in any co-operative institution approved by the Registrar.¹⁶

The Reserve Fund of the central co-operative bank shall consist of :

- (a) 35 per cent of the profit placed to the fund in accordance with bye-law 61 (i);
- (b) any other sums allotted to it out of the profit or otherwise;
- (c) the value of all shares forfeited to the central bank and lapsed dividend; and
- (d) admission fees.

The Reserve Fund shall belong to the central bank and shall be indivisible amongst the members. 50 per cent of the Reserve Fund shall be separately invested in the manner directed by the Registrar, Co-operative Societies.¹⁷

The Reserve Fund of the Bihar State Co-operative Bank Ltd. shall consist of :

- (a) the portion of the profit annually placed to the fund in accordance with the provisions of the Act; (up to 35 per cent subject

16. Ibid. p. 262.

17. Ibid. p. 232.

to the minimum percentage fixed by the Act shall be credited to Reserve Bank).

- (b) admission and registration fees;
- (c) lapsed dividend.

The Reserve Fund shall belong to the Bank and shall not be divided amongst the members. It shall be available for covering any losses arising from any unforeseen circumstances subject to the previous approval of the Registrar and shall serve as security for any loans which the Bank has to contract.¹⁸

The Reserve Fund of the Bihar State Co-operative Land Development Bank Ltd. shall consist of :

- (a) 50 per cent of the profits placed to the fund in accordance with bye-law 42 (i);
- (b) Any other sums allotted to it out of the profits or otherwise;
- (c) the value of all shares forfeited to the Bank and lapsed dividends.

The Reserve Fund shall belong to the Bank and shall be indivisible amongst members. The Reserve Fund at the end of the first four years' working and thereafter half of each year's contribution to the Reserve Fund shall be separately invested in the manner directed by the Registrar, Co-operative Societies.¹⁹

Apart from the maintenance of statutory reserve fund other funds are also created in these institutions.

They may be classified as under :—

1. Bad and Doubtful Debts

This type of fund is maintained by almost every co-operative credit institution with a view to redeem the bad and doubtful debts, the recovery of which is an impossibility. A certain part as agreed upon by the Board of Management is credited to this fund.

18. Ibid. pp. 105-6.

19. Ibid., pp. 175-76.

2. Sinking Fund

The creation of this fund is a special feature of Bihar State Co-operative Land Development Bank. It is created by way of collections of the principal and the interest in respect of mortgages financed by each series of debentures. The Bank pays interest on these debentures from this fund and the balance is utilised for redemption and repayment of the series of debentures.

3. Miscellaneous

Apart from the above funds, the building fund, agricultural stabilising fund, charity fund, dividend equalisation fund and development fund etc. are also created and maintained by the co-operative credit institutions of Bihar. The object of their creation is to attain a particular purpose. Hence a part of the net profit is carried to them.

It is worth mentioning in this context that an amount accruing from the imposition of an entry fee is also credited to the reserve fund of the respective co-operative credit institutions. In accordance with the bye-laws of service co-operatives and large-sized societies, Re 1.00 is charged from everyone who attempts to seek their membership.²⁰ In central co-operative banks, every member shall on admission pay an admission²¹ fee of Rs. 2.00. The amount thus collected is credited to their respective reserve funds.

Position of Reserve Fund in Agricultural & Non-agricultural Credit Societies

During the process of rapid expansion of primary co-operative credit societies, the accumulation of reserves and other funds in both the types of credit societies also gathered momentum. Total reserves and other funds in agricultural and non-agricultural credit societies figure at Rs. 8.60 lakhs in 1973-74.²² The rate of increase in non-agricultural credit societies has comparatively been more rapid than in agricultural societies because the average volume of reserves in regard to per society in the former exceeds the average of latter.

Out of the total reserves, the statutory reserves are about 64 per cent in agricultural credit societies and about 83 per cent in non-agricultural credit societies during the year²³ 1972-73. This accounts for the fact that

20. Ibid., p. 437.

21. Ibid., p. 234.

22. Reserve Bank of India : *Statistical Statements relating to the Co-operative Movement in India, 1973-74, Part I Credit Societies*, p. 2.

23. Reserve Bank of India : *Statistical Statements relating to the Co-operative Movement in India, 1973-74, Part I Credit Societies*, pp. 114 and 141-42.

owing to the large transactions in business operations, and comparative decline in the cost of management of societies, the net profits of these societies increased and provided a larger margin for reserves to be built up.

Position of Reserves in Higher Co-operative Financing Agencies

The reserve fund including the funds for bad and doubtful purposes forms an integral part of all the co-operative banks functioning at intermediate and apex levels of the State. Owing to the increase in volume of business transactions of these banks giving rise to larger net profits and adequate margin for the building up of reserves, the accumulation of these funds is natural. All the central co-operative banks including Bihar State Co-operative Bank Ltd. maintain these reserves in strict adherence to the prescribed standard.

Central Co-operative Banks

The accumulation of aggregate reserves in these banks increased from Rs. 8.81 lakhs in 1955-56 to Rs. 63.51 lakhs in 1967-68.²⁴ The average amount per bank has also increased from Rs. 17,274 in 1955-56 to Rs. 2.27 lakhs in 1967-68. Thirteen central banks maintained more than the average amount per bank on 30.6.1968. In this respect central co-operative banks of Arrah-Buxar and Laheriasarai-Samastipur-Daultapur have recorded a lead.²⁵ By the end of June, 1973 total reserves (Statutory reserve+Credit Stabilization fund+Bad debt reserve+Special bad debt reserve+other reserves) of all central co-operative banks in Bihar aggregated Rs. 3,57,47,000/- and the average amount per central co-operative bank was Rs. 12,76,000/-.²⁶

Position of Owned Funds to Working Capital in Co-operative Credit Institutions

The amount of paid-up share capital and reserves constitutes the owned capital of the co-operative credit institutions. Owing to general increase in the constituents of owned fund, the co-operative credit institutions at all levels have witnessed a substantial increase in the amount of share capital.

It has been observed that inspite of the voluminous growth in owned funds, its percentage to working capital has declined considerably. The reason for this decline is attributed to the increasing proportion of

24. *Handbook of Co-operation statistics*, Bihar, 1968, p. 86.

25. *Ibid.*, pp. 121-23.

26. Reserve Bank of India : *Statistical Statements relating to the Co-operative Movement in India*, Bombay, 1972-73, p. 40.

borrowings in every co-operative credit institution. Owing to the large business operations on the one hand, and failure to meet their financial obligations on the other, these institutions had to resort to excessive borrowings resulting in decline in the percentage of owned funds.

Like agricultural credit societies, non-agricultural societies with capital and reserves of Rs. 1 lakh and above, have built up owned capital which constituted 20 per cent of the working capital on 30-6-1968. They were forty in number.²⁷

By the end of June, 1973, there were 264 primary non-agricultural credit societies whose working capital and paid-up capital (owned fund) were Rs. 1453.63 lakhs and Rs. 223.63 lakhs respectively. The proportion of paid-up capital (owned funds) to working capital constituted 15.38 per cent.²⁸

Central Co-operative Bank : Owned Fund & Working Capital

The Committee on Co-operation recommended that "paid-up share capital and reserve should in ordinary circumstances be maintained at a figure not less than 12 per cent of the total liabilities".²⁹ In the case of central co-operative banks in Bihar we find that the percentage of owned funds to working capital was 18 per cent by the end of June, 1968, which declined to 15.5 per cent by the end of June, 1970. On the 30th June, 1972, the percentage of owned funds to working capital again rose up to 20.8 per cent.³⁰ This proportion has never been constant; but remained fluctuating in accordance with the changes in the volume of borrowings.

Bihar State Co-operative Bank Ltd. Patna

The position of owned funds to the total liabilities of the Bank may be assessed from the following data :³¹

27. *Handbook of Co-operation Statistics*, Bihar, 1968, pp. 145-50.
28. Reserve Bank of India : *Statistical Statements relating to the Co-operative Movement in India*, 1972-73, Part 1 Credit Societies, p. 115.
29. *Committee on Co-operation in India* (MacLagan Committee), 1915, Reprinted in 1957, Bombay, p. 85.
30. Reserve Bank of India : *Review of the Co-operative Movement in India*, 1966-68, p. 58; 1968-70, p. 56 and 1970-72, p. 60.
31. *Handbook of Co-operation Statistics*, Bihar, 1968, pp. 63-65 and Reserve Bank of India : *Statistical Statements relating to the Co-operative Movement in India*, Part 1 Credit Societies, 1972-73, Bombay, p. 7.

TABLE—5

Bihar State Co-operative Bank

(In lakhs of rupees)

| <i>Year</i> | <i>Working Capital</i> | <i>Owncd Capital</i> | <i>Percentage of owncd capital to working capital</i> |
|-------------|------------------------|----------------------|---|
| 1955-56 | 2,96,14 | 61.08 | 20.63 |
| 1960-61 | 5,14,65 | 62.16 | 12.08 |
| 1965-66 | 9,43,39 | 133.76 | 14.18 |
| 1966-67 | 16,10,27 | 149.30 | 9.27 |
| 1967-68 | 17,91,09 | 241.35 | 13.48 |
| 1972-73 | 30,11,75 | 378.67 | 12.5 |

The owncd funds in Bihar State Co-operative Bank have been increasing per year since 1955-56. But its percentage to working capital has declined due to increase in the amounts of its borrowings.

Bihar State Co-operative Land Development Bank Ltd., Patna: Owncd Capital

Bihar State Co-operative Land Development Bank within fifteen years of its origin has registered a slow increase in owncd capital which amounted to Rs. 441.70 lakhs in 1973-74 and constituted 7.87 per cent to the aggregate volume of working capital.³² However, a major portion of its owncd capital has been contributed by the Bihar Government by way of share capital which in no case reflects the public co-operation extended to this Bank. Keeping in view the infancy of the Bank, growth of owncd fund is satisfactory and is evident from the data below :³³

32. *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies 1973-74, Bombay, p. 170.

33. *Handbook of Co-operation Statistics*, Bihar, 1968., p. 67 and *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1973-74, Bombay, p. 170.

TABLE—6

Owned Capital in Bihar State Land Development Bank
(Rs. in lakhs)

| <i>Year</i> | <i>Owned Capital</i> | <i>Working Capital</i> | <i>Percentage of owned capital to working capital</i> |
|-------------|----------------------|------------------------|---|
| 1960-61 | 11.40 | 11.40 | 100 |
| 1965-66 | 24.09 | 78.24 | 32.92 |
| 1967-68 | 40.70 | 333.14 | 12.28 |
| 1973-74 | 441.70 | 5614.93 | 7.87 |

Kinds of Deposits

The co-operative credit institutions at every level accept the following types of deposits :

1. Current Account

Current deposits are accepted by all the co-operative credit institutions except service co-operatives and large-sized co-operatives because as pointed out by the Committee on Co-operation, "The trouble of keeping the accounts and the risk attending this practice make it advisable in our opinion to drop current account altogether and to prohibit the receipt of deposits at call in all primary societies."³⁴ The same has also been recommended by the Rural Credit Survey Committee, viz. "as a rule only fixed deposits be accepted by primary agricultural co-operative credit societies and current deposits confined to the apex and central banks and their branches."³⁵

Current accounts are deposits in which the depositor is free to deposit or withdraw any amount and at any time in the working hours of the bank. Like commercial bank, these banks also provide cheque facilities to the depositors and the rate of interest usually amounts to 1/4 per cent per annum.

34. *Report of the Committee on Co-operation (MacLagan Committee) in India, 1915, Reprinted in Bombay, 1957, p. 30.*

35. Reserve Bank of India : *All India Rural Credit Survey Committee Report Vol. II, The General Report, Bombay, 1954, p. 452.*

2. Savings Deposits Account

Saving Bank account facilities are provided by Bihar State Co-operative Bank, central co-operative banks, large-sized societies and salary earners' credit societies of the State. The object of the maintenance of this facility is to encourage private individuals to deposit their small savings with the bank and societies of their respective area.

Any person approved by the bank or societies may open savings bank account in his name or in the name of his ward with Rs. 10.00 in case of Bihar State Co-operative Bank and central banks, and Rs. 5/- in case of large-sized and salary earners' societies. Thereafter no deposits less than Rs. 5/- in case of Bihar State Co-operative Bank and Re. 1/- in case of societies may be accepted. Pass books and cheque facilities are provided by the banks.

The depositors may withdraw an amount not less than Rs. 5/- or any sum multiple of Re. 1/- in case of banks-both apex and central banks. The banks usually pay a rate of interest at 2 per cent per³⁶ annum calculated at the end of each calendar month on the lowest balance.

3. Fixed Deposit

Such deposits are accepted by every co-operative credit institution whether engaged in short-term or long-term banking operation. In such accounts any amount of money is deposited for a certain period before which clientele cannot withdraw. Before their withdrawal, a week's notice or a fortnight's or even of a month is served to the banks concerned.

The minimum period in Bihar State Co-operative Bank and in developed central co-operative banks is 3 months and in the rest a year, and maximum period of maintenance of deposits is five years in all types of banks. However, in a few central banks, this period is limited to 3 years only. The rate of interest varies from bank to bank and also in accordance with the variation in periods of such deposits. Usually these rates in Bihar State Co-operative Bank Ltd., range between 2—5½ per cent to 7—7½ per cent and in central banks between 2—5½ per cent to 7—7½ per cent.³⁷

The policy of higher rates in these banks is pursued with a view to attract more and more deposits. All central banks of the State have adopted the policy of Bihar State Co-operative Bank in all respects, i.e. rate of interest and period.

36. *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies* Bombay, 1972-73, p. 156.

37. Reserve Bank of India : *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies*, 1972-73, Bombay, pp. 156-57.

As pointed out by E. M. Hough, public confidence is reflected in the volume of deposits.³⁸ In other words, it is the confidence of the people in the banks that helps them in securing a good deal of deposits. The confidence of the people depends upon the financial stability of the institution because the banking institution should have adequate amount of owned funds to attract more and more deposits. With this end in view the Rural Credit Survey Committee recommended that agricultural credit societies should be encouraged to deposit their funds with central co-operative banks.³⁹ It would not only strengthen financial position of the bank, but also inspire public confidence for these institutions. This recommendation of the Committee is being pursued in all the credit institutions of the State.

Deposits in Primary Credit Co-operatives

As already referred in Chapter II, the trend of progress of deposits in primary agricultural credit societies has never been satisfactory. The position of deposits in primary agricultural co-operative societies in Bihar is evident from the following table :⁴⁰

TABLE—7

Deposits in Primary Agricultural Credit Societies (Bihar)

| <i>Year</i> | <i>Average Deposits per society</i> | <i>Average Deposits per member</i> |
|-------------|-------------------------------------|------------------------------------|
| 1963-64 | 657 | 6.5 |
| 1965-66 | 942 | 7.3 |
| 1967-68 | 270 | 8.9 |
| 1969-70 | 1,776 | 10.9 |
| 1971-72 | 910 | 5.3 |
| 1973-74 | 958 | 5.6 |

38. Hough E. M., *The Co-operative Movement in India*, Oxford University Press, London, Fifth Edition 1966, p. 76.

39. *All India Rural Credit Survey Committee Report, Vol. II*, 1954, Bombay, p. 452.

40. *Review of the Co-operative Movement in India*, 1964-66, p. 47; 1966-68, p. 81; 1970-72, p. 79 and *Statistical Statements relating to Co-operative Movement in India, Part I Credit Societies*, 1973-74, Bombay, pp. 113-14.

Employees' credit societies are mainly the primary non-agricultural credit societies in Bihar. They are essentially organisations of salaried employees and/or wage-earners of an institution, or persons employed under a common employer or an institution. Their objects are to promote thrift and saving among their members and to meet their credit needs. As already referred in Chapter II, the position of deposits in salary earners' societies can be seen from the following table:⁴¹

TABLE—8

Deposits in Non-agricultural Credit Societies (Bihar)

| <i>Year</i> | <i>Number</i> | <i>Membership (in thousands)</i> | <i>Deposits (in lakhs)</i> | <i>Average de- posits per so- ciety (Rs. in lakhs)</i> | <i>Average de- posits per member (in Rs.)</i> |
|-------------|---------------|--------------------------------------|--------------------------------|--|---|
| 30-6-1968 | 226 | 60 | 6.03 | 2.67 | 1005.00 |
| 30-6-1970 | 231 | 96 | 6.34 | 2.74 | 660.42 |
| 30-6-1972 | 259 | 1.63 | 8.47 | 3.27 | 519.63 |
| 30-6-1974 | 264 | 1.85 | 8.94 | 3.36 | 483.45 |

Though average deposits per member has registered a downward trend in case of both the primary agricultural credit societies and non-agricultural credit societies, still the position of deposits in agricultural co-operative credit societies is not satisfactory in comparison to salary earners' societies. The aggregate deposits in non-agricultural credit societies has been Rs. 894.38 lakhs by the end of June, 1974⁴² and forms 61.53 per cent of the total working capital, whereas in the corresponding period the aggregate amount of deposits in primary agricultural credit societies has been Rs. 158.13 lakhs⁴³ and forms 3.89 per cent of the total working capital.

Deposits in Central Co-operative Banks

The deposits in these banks collected from individuals and co-operative societies have maintained a satisfactory increase during plan period (as already referred in Chapter II). The volume of deposits in all these

41. *Review of the Co-operative Movement in India*, 1966-68, p. 95; 1968-70, p. 85, and 1970-72, p. 92 and *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1973-74, Bombay pp. 145-46.

42. *Statistical Statements relating to the Co-operative Movement in India* Part I Credit, Societies, 1973-74, Bombay p. 146.

43. *Ibid.*, p. 114.

banks standing at Rs. 38.34 lakhs in 1955-56 increased to Rs. 1031.58 lakhs in 1973-74. These banks received active co-operation from individuals and other local institutions in building up an adequate amount of deposits. The following table indicates the deposits in these banks and the percentage of deposits to working capital.⁴⁴

TABLE—9
Deposits in Central Co-operative Banks (Bihar)
(Rs. in lakhs)

| <i>Year</i> | <i>No. of Banks</i> | <i>Deposits held at the end of the year</i> | <i>Working capital</i> | <i>Percentage of deposits to working capital</i> | <i>Average deposits per bank (in Rs.)</i> |
|-------------------------------|---------------------|---|------------------------|--|---|
| 1955-56 | 51 | 38.34 | 138.14 | 27.75 | 75,175.47 |
| 1980-61 | 35 | 1,65.03 | 4,30.84 | 38.30 | 4,71.5,14.29 |
| 1965-66 | 28 | 2,99.95 | 10,27.99 | 29.18 | 10,71,250.00 |
| 1966-67 | 28 | 3,55.24 | 16,97.34 | 20.93 | 12,68,714.29 |
| 1967-68 | 28 | 4,06.69 | 20,01.00 | 20.32 | 14,52,464.29 |
| 1972-73 (On June 30, 1973) | 28 | 9,14.92 | 38,93.21 | 23.50 | 32,67,43.29 |
| 1973-74 | 28 | 10,31.58 | 41,36.23 | 24.94 | 36,84,214.29 |

It will be seen from the above table that the average deposits per bank has gone up from Rs. 75,176.47 in 1955-56 to Rs. 36,84,214.29 in 1973-74; but the percentage of deposits to working capital has gone down. With regard to different central co-operative banks of the State, the volume of deposits of ten central banks exceeds the average amount at the end of June, 1974. In the race of procuring deposits, Dhanbad central co-operative bank has established a record. The volume of deposits in this central bank amounts to Rs. 135.49 lakhs on 30-6-74. This lead has been closely followed by Siwan-Chapra central co-operative bank.

Bihar State Co-operative Bank Ltd., Patna

This bank receives deposits from individual members in addition to the deposits received from central co-operative banks, and other primary societies.

44. *Handbook of Co-operation Statistics*, Bihar, 1968, pp. 86-87 and *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1972-73, p. 21, and 1973-74, p. 31.

As already referred in Chapter II, the deposits of the Bank have marked a substantial growth in the post-independence periods. The amount of deposits which was Rs. 1,28.39 lakhs in 1955-56 has gone up to Rs. 13,83.95 lakhs at the end of June, 1973.

The following table shows the deposits of the State Co-operative Bank and the percentage of deposits to working capital :⁴⁵

TABLE—10
Deposits in Bihar State Co-operative Bank
(Rs. in lakhs)

| <i>Year</i> | <i>Deposits held at the end of the year</i> | <i>Working capital</i> | <i>Percentage of deposits to working capital</i> |
|-------------|---|------------------------|--|
| 1955-56 | 1,28.39 | 2,96.14 | 43.35 |
| 1960-61 | 3,11.26 | 5,14.65 | 60.48 |
| 1965-66 | 5,13.02 | 9,43.39 | 54.38 |
| 1966-67 | 5,96.42 | 16,10.27 | 37.04 |
| 1967-68 | 7,71.56 | 17,91.09 | 43.08 |
| 1972-73 | 13,83.95 | 30,11.75 | 45.95 |

From the above table, it is evident that the total volume of deposits constitutes 45.95 per cent of the working capital of the Bihar State Co-operative Bank by the end of June, 1973. The proportion of deposits raised from societies is larger than that of the individuals, as the former constitutes 53.06 per cent of the total volume of deposits of the Bank at the end of June, 1973. Among the various types of deposits, the deposits in current and fixed accounts figure more than the other forms of deposits.

It has been found that Bihar State Co-operative Bank like the State co-operative banks of Orissa and West Bengal failed to get recognition by the public bodies and semi-government institutions, except "the education department" which had allowed State aided institutions to invest their funds in Bihar State Co-operative Bank.

45. *Handbook of Co-operation Statistics, Bihar, 1968*, p. 65 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1972-73*, Bombay pp. 6-7.

Deposits in Bihar State Co-operative Land Development Bank Ltd.

The Bihar State Land Mortgage Bank, now called Bihar State Co-operative Land Development Bank, focussed its entire attention attracting deposits for long periods. It, therefore, failed to obtain substantial amount of deposits. The volume of deposits in the Bank which was 2.05 lakhs during the period 1965-66 shot up to Rs. 75.83 lakhs at the end of June, 1973 and Rs. 1,72.91 lakhs in 1973-74. The percentage of deposits to the working capital of the Bank is evident from the following table : ⁴⁶

TABLE—11

Deposits in Bihar State Land Development Bank

(Rs. in lakhs)

| <i>Year</i> | <i>Deposits held at the end of the year</i> | <i>Working capital</i> | <i>Percentage of deposits to working capital</i> |
|-------------|---|------------------------|--|
| 1965-66 | 2.05 | 78.24 | 2.62 |
| 1966-67 | 6.37 | 1,43.49 | 4.44 |
| 1967-68 | 12.00 | 3,33.14 | 3.60 |
| 1972-73 | 75.83 | 42,26.56 | 1.79 |
| 1973-74 | 1,72.91 | 56,14.93 | 3.08 |

It can be seen from the above table that the percentage of deposits to working capital of the Bihar State Co-operative Land Development Bank has gone up to 3.08 per cent by the end of June, 1974.

Borrowings in Co-operative Banks

The other constituent which forms the integral part of the working capital in a co-operative credit organisation is the borrowings. The main problem of these institutions is that their owned funds together with deposits fall short of the financial needs of their members. This deficiency is covered up from outside financial assistance in the form of loans and advances.

This deficiency starts from the root, i.e., from primary credit societies. The primary credit societies are the ultimate lenders to the individual members. Their owned funds and deposits on which they rely for loan opera-

46. *Handbook of Co-operation Statistics, Bihar, 1968*, pp. 67-68 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1972-73*, p. 141 and 1973-74, p. 170.

tions absolutely fail to meet the growing demand of their members. Consequently they have to find out some avenues for obtaining loans. Talmaki has said, "Capital at the disposal of primary credit societies specially in those of rural areas is often found insufficient to cover up the deficiency, societies combined to form central bank are able to command more capital than a village society can both by attracting a better calls of industrialists and by tapping the central money market".⁴⁷

As primary credit societies are not in a position to finance the needs of their clients, central banks on which these societies depend have to face the problem of insufficiency of funds. Consequently they look to apex co-operative banks which look towards Reserve Bank of India. Thus inadequacy of owned funds and deposits at all levels of co-operative banks lead them to resort to borrowings.

1. Borrowings in Agricultural & Non-agricultural Primary Credit Societies

The agricultural and non-agricultural credit societies raise borrowings from central co-operative banks, State Government and individuals. A large proportion of the borrowings in agricultural and non-agricultural credit societies is raised from the central co-operative banks.

The total borrowings received by these societies are given below :⁴⁸

TABLE—12

Borrowings by Primary Credit Societies (Bihar)

(Rs. in lakhs)

| Year ending in month of June | Primary Agricultural Credit Societies | | | Primary Non-agricultural Credit Societies | | |
|------------------------------------|--|--------------------|--|--|--------------------|--|
| | Total borrowings | Working capital | Percentage of borrowings to working capital | Total borrowings | Working capital | Percentage of borrowings to working capital |
| 1967-68 | 1688.44 | 2207.83 | 76.48 | 24.89 | 828.63 | 3.00 |
| 1972-73 | 2434.39 | 4070.09 | 59.84 | 89.75 | 1453.63 | 6.17 |

47. Talmaki, S. S., *Co-operation in India and abroad*, Mangalore, 1931, p. 362.

48. Reserve Bank of India : *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, 1967-68, pp. 12 and 21; 1972-73, pp. 95-96, 115 and 117.

The above data reveal that there has been a constant growth in the volume of borrowings by agricultural credit societies. More than 50 per cent of the aggregate volume of the borrowings has been raised from the central co-operative banks. The Bihar Government has subsidised large-sized societies for the construction and maintenance of godowns. In non-agricultural credit societies the percentage of borrowings to working capital is also increasing.

Larger amount of borrowings is never dangerous if all the loans are for productive purposes and their repayment is prompt and regular. Hence the existence of high magnitude of borrowings in agricultural credit societies cannot create any problem, if they are properly utilised.

2. Central Co-operative Banks (Borrowings)

The central co-operative banks of the State have to rely for covering up the deficiency of funds on the Bihar State Co-operative Bank in the same manner as primary co-operative banks obtain loans from central co-operative banks. The main sources of the central co-operative banks for their borrowings are State Government and the Reserve Bank of India through Bihar State Co-operative Bank Ltd., the State Bank of India and other commercial banks. Like the Bihar State Co-operative Bank, these banks also fix up their limit of maximum liability to be incurred in the ensuing years in their general meeting. The borrowings are obtained from Reserve Bank of India against the guarantee of the Bihar State Co-operative Bank. The total borrowings of these banks are given as under :⁴⁹

TABLE—13
Borrowings of Central Co-operative Banks (Bihar)
(Rs. in lakhs)

| <i>Year</i> | <i>No. of Banks</i> | <i>Borrowings at the end of the year</i> | <i>Working capital</i> | <i>Borrowings per bank</i> | <i>Percentage of borrowings to working capital</i> |
|-------------|---------------------|--|------------------------|----------------------------|--|
| 1955-56 | 51 | 76.41 | 138.14 | 1.49 | 55.31 |
| 1960-61 | 35 | 166.11 | 430.84 | 4.74 | 38.55 |
| 1965-66 | 28 | 536.63 | 1027.99 | 19.16 | 52.20 |
| 1966-67 | 28 | 1119.92 | 1697.34 | 39.99 | 65.98 |
| 1967-68 | 28 | 1229.86 | 2001.00 | 43.92 | 61.46 |
| 1972-73 | 28 | 1799.46 | 3893.21 | 64.26 | 46.22 |
| 1973-74 | 28 | 1854.41 | 4136.23 | 66.22 | 44.83 |

49. *Handbook of Co-operation Statistics*, Bihar, 1968, p. 87 and *Statistical Statements relating to the Co-operative Movement in India*, 1972-73, pp. 40-41 and 1973-74, p. 42.

This colossal burden of debt in the form of borrowings is in no way conducive to the healthy development of banking. However, it may be remarked that the owned capital of the banks against the security of which loans are advanced has also registered a sufficient increase with the result that these banks are in a position to secure required amount of capital.

The chief financiers from which a central co-operative bank obtains loans is the Reserve Bank of India, though the Reserve Bank of India does not deal directly with central banks.

4. Borrowings in Bihar State Co-operative Bank

The main agencies at the disposal of Bihar State Co-operative Bank for raising borrowings are the Reserve Bank of India and Bihar Government.

The Bank fixes maximum liability to be incurred in its annual general meeting. The main securities against which the borrowings are obtained are deposits, receipts, promissory notes, mortgage of land, building or other property or by such other means as the Board may deem expedient.

The general assessment of its borrowings has been recorded as under :⁵⁰

TABLE—14

Borrowings in Bihar State Co-operative Bank (Rs. in lakhs)

| <i>Year</i> | <i>Amount of borrowings</i> | <i>Working capital</i> | <i>Percentage of borrowings to working capital</i> |
|-------------|-----------------------------|------------------------|--|
| 1955-56 | 1,06.67 | 2,96.14 | 36.02 |
| 1960-61 | 41.23 | 5,14.65 | 8.01 |
| 1965-66 | 2,96.61 | 9,43.39 | 31.44 |
| 1966-67 | 8,64.55 | 16,10.27 | 53.69 |
| 1967-68 | 7,78.18 | 17,91.09 | 43.45 |
| 1972-73 | 11,10.88 | 30,11.75 | 36.88 |

50. *Handbook of Co-operation Statistics, Bihar*, p. 65 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1973-74*, Bombay, pp. 6-7.

The volume of borrowings since 1955-56 has increased in correspondence with the increase in loan demands of central co-operative banks and societies. But its percentage to working capital has remained uneven from 1955-56 to 1972-73. The percentage of borrowings to working capital has reduced from 53.69 per cent in 1966-67 to 36.88 per cent in 1972-73 and this is a healthy development.

5. Bihar State Co-operative Land Development Bank Ltd.

The sources through which the Bank raises finances are Debentures.

Among the various means of raising capital, debentures of the Bank have been recognised as one of the most reliable source of securing funds for its long-term operations. In the words of Rural Credit Survey Committee Report "The Co-operative debentures hold out prospects of attracting rural savings in an appreciable measure".⁵¹

With the establishment of Bihar State Co-operative Land Development Bank in the State, the need for floating debentures was persistently felt; but they did not issue any series of its debentures upto 1962-63. It was only after this period that the Bank released its first series of debentures. By now three types of debentures such as Rural, Ordinary and Special have been floated by the Bank. The aggregate volume of these debentures offered for sale amounted to Rs. 10,66.14 lakhs by the end of June, 1973. The first two series carry a rate of interest at 6.25 and 5.25 per cent and 5.75 and 6.00 per cent respectively as the currency of these periods is 7 to 15 and 10 to 12. The third type, period for the maturity of which is not mentioned, carries the rate of interest amounting to 6.00/6.50 per cent respectively.⁵²

Most of these debentures have been subscribed too by Bihar State Co-operative Bank and commercial banks. Response from the public has been nil.

Summing up

The general review of the resources of working capital in co-operative banks of the State indicates that the sources have adequately been utilised. Even then, credit co-operatives have depended largely on borrowed funds, particularly on borrowings—directly and indirectly from Reserve Bank of India. To discourage the excessive dependence on this source only, efforts should be directed to mobilise and secure adequate amount of deposits.

51. Reserve Bank of India : *All India Rural Credit Survey Committee Report, Vol. II, The General Report*, Bombay, 1954, p. 489.
52. Reserve Bank of India : *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies*, Bombay, 1972-73, p. 143.

CHAPTER VIII

LOAN OPERATIONS AND INVESTMENT PATTERN

As co-operation seeks to root out the evils of capitalism, the co-operative banks on the one hand attempt to eradicate the indigenous bankers from the money market and on the other make up the 'deficiency'* of the commercial banks by providing adequate finances to that section of the population which, being deprived of the credit facilities by commercial banks, had to fall a victim to the hands of money-lenders. With this end in view the co-operative credit institutions have been entrusted with the responsibility for facilitating the availability of the necessary finances for the satisfaction of the entire credit needs of their members. As such this investment policy of these institutions should aim not primarily at earning profits but should assign foremost priority to the supply of funds according to the needs of their members.

In fact, there is no fundamental difference in the ways and methods of the investment of capital. The only difference between the two institutions lies in the role of capital. The capital in co-operative banks does not play such an important and specific role as it does in commercial banks. In commercial banks the capital is used to earn more profits for the capitalist share-holders whereas in co-operative banks, it helps the institutions in rendering the best and cheapest possible services to their members rather than earning profits for them. It means that "Co-operative Credit institutions aim at not doing away with the capital but depriving it of its preponderant role of management as also the trouble in the form of profits".

In brief, the guiding principle in commercial banking is the profit earning tendency while in investment policy of the co-operative banks service motive is held high. They invest their funds in the general interest of both the borrower and the lender.

* Reluctance of commercial banks in providing credit facilities to people who do not possess material security.

1. Calvert, H., *The law and Practice of Co-operation*, Calcutta, 1959, p. 18.

Avenues Of Investments

The avenues in which the funds of the co-operative banks are invested may be grouped into the following two broad heads :

1. Profitable investment.
2. Non-profitable investment.

1. Profitable Investment

In general the term profitable investment implies the investment of funds of a banking institution in such avenues where maximum amount of profits accrue to the institution. A larger proportion of working capital of both the types of banks-commercial and co-operative is also invested to earn profits. The motive behind earning profits is to provide maximum amount of benefit to their share-holders, i.e., to the owners of the institutions. The only difference between the two is that these profits in commercial banks are shared only by a few wealthy share-holders whereas in co-operative banks these profits are shared mostly by the borrowers, because the majority of share-holders in co-operative banks consists of borrowing members. The borrowing clientele, the interest of which is neglected in commercial banks, is also equally benefited as the non-borrowing clientele.

Hence, the term profitable investment has different meaning in co-operative banks. In case of these banks such investment connotes the employment of working capital for the good of the large majority of small income-group people like peasants, small artisans, traders and employees etc., whose interests in the absence of co-operative banks would have been neglected.

The main avenues of investment which bring profit to co-operative credit institutions are :—

1. Loans and advances.
2. Other avenues :
 - (i) Investment in shares of co-operative banks and other societies.
 - (ii) Keeping deposits with other banks.

1. Loans and Advances

The main function of the co-operative banks is to grant loans and advances to their members. As both the agriculturists and non-agriculturists

stand in need of funds for carrying on their business operations, co-operative credit institutions invest a large portion of their working capital in catering to short, medium and long-term loan demands of their members.

Credit Policy

The main objective of credit co-operatives is that they should provide cheaper and facile credit facilities to their members. The policy should be such as the credit given should assist and not ruin those it proposes to help. As advocated by Gadgil Committee the primary agricultural credit societies should try to finance all short-term needs and subject to certain conditions their intermediate credit needs as well.

Since the credit has been linked with production, the primary agricultural credit societies advance loans for productive purposes including loans for seeds, fertilizers, implements, cattle and fodder etc. The central and Bihar State Co-operative Banks also attribute fore-most priority to these objectives while granting loans to the societies.

Apart from these productive loans, due regard is also paid to the social necessities like marriage, funeral and other ceremonials which compel cultivators to borrow. Under crop loan system their consumption requirements are also financed by these co-operatives of Bihar. In salary earners' credit societies most of the lendings are for consumption purposes.

The Bihar State Co-operative Land Development Bank also helps in attaining the objective of co-operative credit by providing long-term loans to the cultivators for introducing permanent improvements in the productive potentiality of agricultural industry of the State.

Assessment of Credit Limit

In early stages the credit worthiness of the borrower on which the quantum of loan is determined was assessed on the basis of the 'Haisiyat' statement of the tangible assests of the member. But the lacuna of this system was that there was no explicit linking of the loan or its size to the purpose of its utilisation and the result also most universally was that in no case could the credit be extended by co-operative societies to individuals to serve their needs fully. Hence the basis for the assessment of credit limit needed a change in order to enable the agriculturists to avail larger amount of funds required to meet their entire needs.² Under the new co-operative policy formulated by the Government of India on the recommendations of the National Development Council the basis has shifted from the material assets to the production plan so as to link credit with production.

2. Gadgil, D. R., "Co-operative Finance, Some Problems" published in Co-operative Review, April 1964, p. 323.

In pursuance of the above policy the Government of Bihar has also adopted production plan as the basis for the assessment of credit worthiness of the borrowing members at all levels of co-operative credit structure, excepting the salary earners' credit co-operatives where it is still assessed on the basis of the material assets and the repaying capacity of the members. Other factors are also taken into consideration while determining the credit limit. In general the following are the guiding principles regarding the assessment of the credit limit, i.e., the quantum of loan in respect of every borrowing member :—

Production Plan

On the basis of the production plan of the member the total requirements of the member are calculated. The production plan includes all sorts of needs which rise out of the current agricultural business operations for the production of particular crop. The agricultural societies annually draw maximum cash credit limit in respect of every member. On the basis of the total production plan of each member, societies draw up their own plan showing their own credit requirements, and submit them to the central co-operative banks to which they are affiliated. The central co-operative banks on the basis of these production plans assess their own requirements and submit them to the Bihar State Co-operative Bank. In brief, production plan drawn up in case of each affiliated society constitutes the production requirements of the central co-operative banks of the State. Bihar State Co-operative Bank prepares its own financial requirements on the basis of the planned requirements of all central banks.

2. Haisiyat Statement

The second guiding factor for the determination of the volume of loan or cash credit to be sanctioned is the 'Haisiyat' statement containing the information in respect of the real or material assets owned by a member. The valuation of real assets offers a guarantee for the recovery of loan from the sale proceeds of the property in case of failure to repay the loans. The collective real assets of individual members form the 'Haisiyat' or real estate of the society including the property owned by it. In the same way the assets of every society including the property—moveable and immoveable—constitute the real estate of the central co-operative bank. The earlier policy for the assessment of the credit worthiness of the members was based on this factor only. Now it is considered a sort of security against the loan advanced to any member.

3. Paid-up Share Capital

The amount of paid-up share capital subscribed by the members serves as a guiding principle in determining the credit limit of the borrowing

members. The above principle was followed by every co-operative credit institution of the State from top to bottom. But with the linkage of production with credit, this principle has become a factor in deciding the ceiling of loans to be advanced to the members. Usually credit limit or the amount of loan does not exceed eight times the paid-up value of shares in all the credit societies except in salary earners' credit co-operatives where it is ten times of the value of shares held by an individual borrower.

4. Repaying Capacity

Prompt recovery of loans is another essential feature of the co-operative credit which depends upon the repaying potentialities of the borrower. Repaying capacity of the borrower is also taken into account while determining the amount of loan. The idea behind this principle is that the amount of loan should not be such as is beyond the repaying capacity of the borrower. It is assessed on the net annual income of the borrowing member. The more the income of the member is, the more his repaying capacity would be on the basis of the above factor. The credit limit or credit worthiness in case of every member is determined annually in the General Meeting of every credit institution. The maximum limit of cash credit is fixed on the production requirements but it does not exceed the prescribed multiple of the paid-up value of the share capital.

Security of the Loan

Like village money-lenders and unlike commercial banks the security against which the loans in primary credit co-operatives in both agricultural and non-agricultural are granted is purely personal. The personal security implies the honesty and integrity of the borrowing member. It is the character of the person which establishes his credit and reliance in the society. If the borrower is reliable the loan is as safe as the borrower's sense of honesty and honour. A sub-committee of the Agricultural Policy Committee under the Chairmanship of D.R. Gadgil has advocated that "the security for advances should ordinarily be personal, the credit worthiness of the members being assessed on their repaying capacity³." However, with the inception of the controlled credit scheme in the State the agricultural credit societies have statutory charge on the crops as an additional security for all their seasonal loans.

In case of societies and central co-operative banks, the character and the collective honesty of the individual members constitute the security of the society and the bank. But this personal element in these societies takes the form of pronotes. The borrowing societies and the central co-operative banks have to execute a pronote to their lending agencies. The

3. *Report of the Co-operative Planning Committee*, 1946, Printed in 1951, Delhi, p. 70.

central and Bihar State Co-operative banks advance loans to individuals against the mortgage of the material assets like gold and silver ornaments bonds, debentures and trustee security etc.

Period of the Loan

Like commercial banks, co-operative banks and societies do not lock up their capital for long periods. Hence the banks and societies advance short-term and medium-term loans to their members.

The short-term loans in every co-operative bank whether crop loan or ordinary loan, as the case may be, are advanced for a period of one year. The period in case of medium-term loan ranges between 3 to 5 years in all the co-operative credit institutions. The ordinary and special loan advanced by salary earners' credit co-operatives falling under the category of medium-term loans are for 3 and 4 years respectively. The short-term and medium-term loans advanced by central co-operative banks are for the same period as in primary credit co-operatives.

Methods of Lending.

The methods of extending financial accommodation to the members of co-operative banks is of the following types :—

- (a) Cash credit.
- (b) Over-draft.
- (c) Loan and advances.

(a) **Cash Credit:** Under cash credit system of loan operations, the limit of cash credit in respect of borrowing members is sanctioned in accordance with the provisions of the bye-laws of the banks and societies each year. Up to that limit, the loan may be drawn at any time and in any number of instalments as convenient to the borrower. The main characteristic of this method is that it is not obligatory on the part of the borrower to draw loan in lump-sum and hence the interest on the loan is calculated on the actual amount drawn in a particular period. Cash credit is granted only to those societies which are thoroughly well-managed and co-operative in character.

Thus in practice the system of cash credit is in operation at every stage of co-operative bank of the State except in primary credit societies. Though Committee on Co-operation recommends that "When societies (primary) are firmly established on correct principles there is no better way of meeting the needs of members than cash credit⁴".

4. *Report of the Committee on Co-operation (MacLagan Committee) in India, 1915, Reprinted in 1957, Bombay, p. 45.*

(b) **Over-draft:** Apart from cash credit, the members of co-operative banks particularly in central co-operative banks and primary societies finance over and above the cash credit limit for meeting the contingent demands. Under such circumstances, Bihar State Co-operative Bank to central co-operative bank and they in turn to societies grant over-draft facilities to their members for interim period. In fact there is no fundamental difference between overdraft and cash credit because in both the cases, the interest is calculated on the actual amount drawn by their clientele. The only difference is that overdraft lending is a temporary phenomenon while cash credit is a permanent phase.

(c) **Loans and advances:** The term loans and advances implies that loans are drawn by members in lumpsum and for every fresh loan the borrowing member has to undergo a fresh agreement with the lending agencies. This system of loan operation is prevalent in primary credit societies of all forms. The characteristic feature of agricultural societies different from commercial bank is that alongwith the amount of loan, a part of it is given in the shape of kinds, i.e., seeds, fertilizers and the implements etc. to ensure that loans are utilised for productive purposes only.

Loan Operations in Primary Agricultural Societies, Bihar

In accordance with the statutory provisions of the bye-laws in the primary agricultural credit societies the loans are sanctioned to individuals to facilitate their business operations. As already referred in Chapter II, the following table reflects the average amount per society and per member along with the aggregate loans advanced from year to year:⁵

TABLE—1

LOANS ADVANCED

(Primary agricultural credit societies, Bihar)

| Year | Loans advanced (Rs. in lakhs) | No. of Members (In thousand) | Amount of loan per member (In Rs.) |
|---------|----------------------------------|---------------------------------|---------------------------------------|
| 1955—56 | 54.99 | 4.18 | 38 |
| 1960—61 | 1,81.86 | 9.61 | 38 |
| 1965—66 | 10,40.00 | 16.50 | 237 |
| 1966—67 | 12,41.00 | 16.81 | 250 |
| 1967—68 | 15,00.00 | 21.50 | 255 |
| 1972—73 | 13,57.86 | 28.20 | 48 |

5. *Handbook of Co-operation Statistics*, Bihar, 1968, p. 90 and *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, Bombay, 1972-73, p. 97.

Since the organisation of service co-operatives and change over from the policy of real assets to production plan, there has been a considerable increase in the volume of loans advanced by these co-operatives to their members. The above figures reveal that the volume of loan in respect of per member has decreased by about 5 times since 1967—68 and is also not in tune with the increase or decrease in agricultural production. The expansion in the volume of loans and advances has failed to bring about a corresponding increase in agricultural production.

Loan Operations in Non-agricultural Credit Societies.

Non-agricultural credit societies mostly of the salary earners have registered a steady growth in the volume of loans and advances but not in proportion to the increase of agricultural credit societies. As already referred in Chapter II, the position of loans advanced by these societies is given below⁶—

TABLE—2

Loans Advanced by Non-agricultural Credit Societies (Bihar)

| <i>Year.</i> | <i>Amount of loan advanced (Rs. in lakhs)</i> | <i>No. of member (In thousand)</i> | <i>Amount per member.</i> |
|----------------------|---|--|---------------------------|
| 1955—56 | 2,50.32 | 52 | 481.2 |
| 1960—61 | 3,89.27 | 91 | 427.7 |
| 1965—66 | 5,81.65 | 97 | 599.4 |
| 1966—67 | 6,41.03 | 103 | 622.3 |
| 1967—68 | 6,95.00 | 110 | 631.9 |
| 1972—73 ^a | 8,56.52 | 185 | 462.9 |

The above data reveal that the average amount of loan per member has comparatively declined since 1967—68 due to increase in the membership of these societies. Almost all short-term loans in these societies have been advanced for consumption and other purposes.

6. *Handbook of Co-operation Statistics, Bihar, 1968*, p. 92. Reserve Bank of India : *Statistical Statements relating to the Co-operative Movement in India*, Bombay 1972-73, pp. 119 and 123.

Loan Operations in Central Co-operative Banks

In accordance with the expansion in the loan operations of primaries, the loan operations in these banks, too, proportionately have increased. As already referred in Chapter II, the fact may be assessed from the table given below⁷ :—

TABLE—3

Loans advanced by Central Co-operative Banks. (Bihar)

| Year | No. of Banks | Amount of loan advanced during the year. | Loans recovered during the year | Average amount of loan advanced per banks |
|---------|--------------|--|---------------------------------|---|
| | | (Rs. in lakhs) | (Rs. in lakhs). | (In Rs.) |
| 1955-56 | 51 | 77.98 | 61.99 | 1,52,901.96 |
| 1960-61 | 35 | 2,27.72 | 184.27 | 6,50,628.57 |
| 1965-66 | 28 | 9,67.86 | 6,03.73 | 34,56,642.86 |
| 1966-67 | 28 | 13,48.59 | 8,98.39 | 48,16,392.86 |
| 1967-68 | 28 | 15,17.24 | 12,75.59 | 54,18,714.29 |
| 1972-73 | 28 | 15,99.73 | 13,54.76 | 57,13,321.43 |
| 1973-74 | 28 | 13,91.40 | 12,44.39 | 49.69.285.71 |

The expansion in the volume of loans and advances of these banks reflects that they are also contributing to national plan of stepping up agricultural production by providing adequate finance to their affiliated societies.

By the end of June, 1974 the aggregate amount of loans advanced by these banks constituted 33.64 per cent of the total working capital. As regards the average amount of loan in respect of each bank, it has also made a substantial increase. The lending potentialities of about 12 banks of the State are reflected by the following data⁸ :—

7. *Handbook of Co-operation Statistics*, Bihar, 1968, p. 87 and *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, Bombay, 1972-73, p. 23 and 1973-74, p. 25.
8. Reserve Bank of India : *Statistical Statements relating to the Co-operative Movement in India*, Bombay, 1972-73, pp. 37 and 42 and 1973-74, pp. 40 and 44.

TABLE—4

Loans Outstanding (Central Co-operative Banks, Bihar)

(Rs. in thousands)

| <i>Name of the Bank.</i> | <i>Loans outstanding.</i> | | | |
|---|---------------------------|---------|---------------------|---------|
| | <i>Short-term</i> | | <i>Medium-Term.</i> | |
| | 1972—73 | 1973—74 | 1972—73 | 1973—74 |
| 1. Bhagalpur Central Co-operative Bank | 58,82 | 47,78 | 43,69 | 41,57 |
| 2. Bihar-Barh, Futwah Central Co-operative Bank | 63,90 | 78,57 | 63,08 | 57,80 |
| 3. Gopalganj Central Co-operative Bank | 88,10 | 74,82 | 42,39 | 44,64 |
| 4. Hazaribagh Central Co-operative Bank | 92,13 | 92,13 | 38,07 | 38,07 |
| 5. Laheriasarai-Samastipur Daulatpur Central Co-Operative Bank. | 1,03,30 | 1,15,83 | 40,35 | 38,28 |
| 6. Magadh Central Co-Operative Bank | 89,75 | 92,43 | 45,92 | 60,49 |
| 7. Muzaffarpur-Hazipur Central Co-operative Bank | 1,42,17 | 1,42,17 | 60,07 | 60,07 |
| 8. Purnea Central Co-operative Bank | 1,54,96 | 1,54,96 | 62,68 | 62,68 |
| 9. Rahika Central Co-operative Bank | 70,85 | 70,85 | 54,83 | 54,83 |
| 10. Sasaram-Bhabhua Central Co-operative Bank | 62,07 | 69,71 | 59,37 | 72,37 |
| 11. Sitamarhi Central Co-operative Bank | 1,05,08 | 1,21,04 | 48,33 | 49,96 |
| 12. Siwan-Chapra Central Co-operative Bank | 81,31 | 92,44 | 62,96 | 52,92 |

A wide disparity in loans outstanding of all central co-operative banks is witnessed. Purnea Central Co-operative Bank virtually ranks supreme. These banks have adopted the system of sanctioning cash credit to their member societies. Of all the central banks, banks of North Bihar

could not make a corresponding increase in their lending funds. The attention of these banks has been concentrated in advancing loans to agricultural societies. Advances to individuals have been much restricted.

The purpose-wise analysis of loans of primary agricultural credit societies and central co-operative banks reveals that most of the loans advanced by the end of June, 1973 are for productive purposes and that too for seasonal agricultural operations. The proportion of loans advanced for this very objective amounts to 85.36 per cent in agricultural societies and 70.91 per cent in central co-operative banks of the State.⁹

In addition to the loan for seasonal agricultural operation, loans and advances for marketing and for the purchase of agricultural implements also share a large percentage in both the types of institution.

As regards medium-term loans, most of the loans are for the purchase of cattle in both the institutions. Among other purposes development of irrigation facilities and for minor improvement in land occupy an important place and the detailed view of the classification of loans in respect of primaries and central banks may be had from the following table:¹⁰

TABLE—5
Classification of Loans by Purpose
Primary Credit Societies and Central Co-operative Banks, Bihar
(Amounts in thousands of Rs.)

| Purpose of Loans | Agricultural Credit Societies | Non-Agri- cultural Co- operative Societies. | Central Co- operative Banks |
|--|-------------------------------------|--|-----------------------------------|
| | 1972—73 | 1972—73 | 1972—73 |
| Short-Term | | | |
| 1. Seasonal agricultural operations including seeds and fertilizers. | 11,59,08 | — | 11,34,43 |
| 2. Purchase of agricultural implements. | 7,08 | — | — |
| 3. Marketing of crops... | 87 | — | 72,39 |
| 4. Processing of agricultural produce. | 3,32 | — | 2,41 |
| 5. Other agricultural purposes including distribution of inputs. | — | — | 13,06 |
| 6. Industrial purposes. | 3,28 | — | 17,16 |
| 7. Consumption loans. | 3,03 | 6,96 | 15,61 |
| 8. Miscellaneous. | 80,52 | 65,69 | 1,65,80 |
| Total | 12,57,18 | 72,65 | 14,77,26 |

9. Calculation based on the data in *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, Bombay, 1972-73, pp. 25, 65, 97 and 102.

10. Reserve Bank of India : *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, Bombay, 1972-73, pp. 25, 102 and 129.

FROM TABLE 5-(Contd.)

| <i>Purpose of Loans.</i> | <i>Agricul- tural Credit Societies</i> | <i>Non-agri- cultural Co- operative Societies</i> | <i>Central Co- operative Banks</i> |
|--|--|---|--|
| | 1972—73 | 1972—73 | 1972—73 |
| Medium-Term | | | |
| 1. Sinking of or repairs to wells. | 68,08 | — | 9,00 |
| 2. Purchase of Machinery (Pumping sets etc.) | 1,01,25 | — | 83,45 |
| 3. Purchase of cattle. | 67,18 | — | 39,43 |
| 4. Minor improvements to lands. | 2,18 | — | 89 |
| 5. Other agricultural purposes. | 19,15 | — | 1,51,58 |
| 6. Industrial purposes. | — | — | 13 |
| 7. Others. | 14,26 | 7,84,14 | 40,46 |
| Total | 2,72,10 | 7,84,14 | 3,24,94 |

Loan Operation in Bihar State Co-operative Bank Ltd.

There has been a steady increase of expansion in the lending operations of the Bank since its very inception. In order to keep pace with the national policy of increasing agricultural production and attaining self-sufficiency, the Bank has introduced necessary modifications in its lending policy.

In this Bank, too, most of the loans are for seasonal agricultural operations. As already referred in Chapter II, the loans advanced by this Bank have shot up from Rs. 98.94 lakhs in 1955-56 to Rs. 24,60.14 lakhs in 1973-74. Among the total loans advanced by the Bank, the share of service co-operatives and large-sized credit societies is larger.

The Bank also started granting medium-term loans for the same purposes. The Bank does not advance loans directly to the societies except to those societies which are affiliated to its various branches. The Bank's lending operations have not remained confined to the agricultural sector only. With the collaboration of the State Government the Bank also advances loans to lower and middle income group for housing scheme.

Trends of Repayment in Agricultural And Non-agricultural Credit Co-operatives

As already referred in Chapter II, the trends of recovery in both the agricultural and non-agricultural credit societies have not been satisfactory as it is evident from the mounting up of over-dues in both of them. Inspite of the extensions of periods granted to borrowers for the repayment of loans due to crop failure and other disabilities of the borrower to repay the due loans, the over-dues as given in the table below have risen up considerably. However, it is advocated that in the period of expanding loan operation, accumulation of outstanding amount of loans is not an uncommon feature. But in comparison to other States like Tamil Nadu and Maharashtra, it is very discouraging.

TABLE—6

11

Agricultural Credit Societies (Bihar)

(In thousands of Rs.)

| <i>Year.</i> | <i>Loans advanced.</i> | <i>Overdues as percentage Of loans outstanding.</i> |
|--------------|------------------------|---|
| 1955—56 | 54,99 | 49 |
| 1960—61 | 1,81,86 | 45 |
| 1965—66 | 10,40,00 | 32 |
| 1966—67 | 12,41,00 | 36 |
| 1967—68 | 15,00,00 | 37 |
| 1972—73 | 13,57,86 | 56 |

11. *Handbook of Co-operation Statistics, Bihar, 1968, p. 90 and Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, Bombay, 1972-73 pp. 195-96.*

TABLE—7

Non-agricultural¹² Credit Societies (Bihar)

(In thousands of Rs.)

| <i>Year.</i> | <i>Loans advanced during the year (Rs. in lakhs)</i> | <i>Overdues as percentage of loans outstanding</i> |
|--------------|--|--|
| 1955—56 | 2,50,32 | 6.5 |
| 1960—61 | 3,89,27 | 3.4 |
| 1965—66 | 5,81,65 | 1.0 |
| 1966—67 | 6,41,03 | 1.6 |
| 1967—68 | 6,95,00 | 1.5 |
| 1972—73 | 8,56,52 | 2.5 |

The present statistical enquiry reveals that there has been a slight decrease in the percentage of overdues in both the classes of societies. But since 1971-72 a rising trend in respect of overdues in both the sectors is again witnessed. The amount of overdues per society and per member has also increased. The amounts of overdues per society and per member are Rs. 84,98.42 and Rs. 49.72 respectively in case of primary agricultural Credit societies and, in case of non-agricultural credit societies, the amounts of overdues per society and per member are Rs. 9053.03 and Rs. 12.92 respectively by the end of June¹³, 1973. The measures adopted for the recovery of loans could not be so effective as they should have been with the expansion of lending operations.

Recovery of Loans in Central Co-operative Banks

Slow and irregular recovery in agricultural and non-agricultural societies has also affected the recovery of due loans of the central co-operative banks. In these central co-operative banks of the State the percentage of recovery to outstanding loans ranged between 63.45 per cent to 49.19 per cent in between 1960-61 and 1972-73¹⁴.

12. *Handbook of Co-operation Statistics, Bihar, 1968*, p. 92 and *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, Bombay, 1972-73*, p. 122.

13. *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1972-73, Bombay*, pp. 93, 96, 119 and 122.

14. *Statistical Statements relating to the Co-operative Movement in India, Part I Credit Societies, 1960-61*, p. 15; and *1972-73*, pp. 23-24.

The reason for the slow recovery of loans is that before the plan period co-operative banks adopted effective measures to recover the outstanding loans reducing the percentage of overdues. But the expansion in their lending operation followed by slow rate of recovery resulted in accumulation of arrears in due loans. The analysis of the repayment activities of central co-operative banks individually throws some light upon the fact that the average percentage of recovery by the end of June, 1972-73, is being maintained by almost all the banks. Though the problem of overdues is not very serious in these banks except in a few banks where the overdues are more than 20% of the outstanding loans; it is due to lack of prompt and effective recovery from their affiliated societies.

Recover in Bihar State Co-operative Bank

The position of the repayment of the due loans or instalments thereof in Bihar State Co-operative Bank Ltd., is quite encouraging. The response from its affiliated central co-operative bank has been very appreciable except in a few years. As already referred in Chapter II, the problem of overdues in this bank has never been so acute as it is in central co-operative banks and in primary credit societies. Overdue as percentage of loans outstanding has diminished from 36.95 per cent in 1955-56 to 18.66 per cent in 1966-67, but again has increased to 41.84 per cent by the end of June, 1973.

Other Profitable Investments

In addition to the utilisation of the available resources for extending various types of loans to the members and in maintenance of cash balance, every co-operative credit organisation in Bihar invests a portion of its working capital in various profitable investments as decided by the Board of Directors or Committee of Management, in trustee securities of the Government and other semi-government concerns, and lodging a part of their funds in the deposit accounts of other banks.

There has been a controversy regarding the employment of these funds in such avenues. Various co-operators and Committees on co-operation have examined the question of the investment of surplus funds of these co-operative banks. Some thinkers hold that co-operative banks are not business organisations; and their main objective is only to finance the credit requirements of their members. Hence, their operations are confined to lending operations. Such investments divert the organisations from their basic objectives. In agreement with this argument Shri M.R. Bhide and Shri Siddiqui Hasan, the then Registrars of Punjab and Uttar Pradesh respectively in their joint minutes of descent have recommended "that the existing restriction in regard to investment of surplus funds of urban Banks should, therefore, remain and relaxation should not be made¹⁵".

15. Cited by the *Report of Co-operative Planning Committee*, 1946, Printed in 1951, Delhi, p. 201.

On the contrary, there are pioneers who emphasise on the importance and the need of such investments in one way or the other. They hold that co-operative banks whether primary, central or apex should invest their funds in profitable avenues because it is against the business principles to keep the surplus money idle. If they are invested profitably, profits so earned will go to the credit of their members. Thus surplus money which would have remained idle is utilised not only in the interest of the bank or the societies but also in the interest of their members. The Joint Reorganisation Reports on Co-operative Movement in Bombay recommended that all societies which obtained any portion of their working capital by deposits should invest their entire reserve funds or an amount equal to the deposits liabilities their entire reserve funds or an amount equal to the deposits liabilities which ever be less investment permitted under Section 20 of Indian Trust Act and except that no investment should be in immovable property without the prior approval of the Registrar¹⁶.

Similarly Co-operative Planning Committee recommended that Urban Banks with a paid-up share capital and reserve of Rs. 50,000/-and over and with ten years' standing should be allowed to invest up to 40 per cent of their surplus funds in such manner as her boards may unanimously determine¹⁷.

Keeping in view all these recommendations, provisions for such investments by co-operative banks of Bihar have been made in their respective bye-laws. However, validity of such investment is examined under the Co-operative Societies Act, 1912. The peculiar feature of this investment is that greater emphasis has been laid on lodging the surplus funds by way of fixed and other deposits in higher organisation as recommended by Rural Credit Committee that "surplus funds of urban banks should ordinarily be invested in provincial and central co-operative banks to enable them to finance co-operative credit societies. Where such investment is not necessary, urban banks may be empowered to invest 15 per cent of their surplus funds after providing for fluid resources in such manner as their boards may unanimously decide and in accordance with such terms as the Provincial Government may lay down."¹⁸

Thus the co-operative banks of Bihar at all levels invest their surplus funds in trustee securities, co-operative papers such as bonds, debentures of Bihar State Land Development Co-operative Bank, in purchase of shares of other co-operative organisations etc. after providing for sufficient fluid resources.

16. *B. Mehta Committee Report*, 1937, pp. 1-2.

17. *Report of the Co-operative Planning Committee*, 1946, Printed in 1951, Delhi, p. 236 (Conclusions and recommendation No. 21).

18. Reserve Bank of India : *All India Rural Credit Survey Committee Vol. II*, 1954, p. 449.

Non-profitable Investment of Co-operative Bank

Non-profitable investment includes two types of investment of co-operative bank in every State. The investments are the following :—

1. Cash reserves.
2. Dead stocks.

Both these types of investments do not bring any remuneration directly to the bank and hence no advantage or profit accrues to the members. Even then its maintenance is very essential for making the institutions stable and sound.

1. **Cash Reserves:** Cash reserves is that part of working capital which is kept by the bank to meet the contraction of credit entailing the withdrawal of deposits at due date and a failure to obtain new deposits in as much as contraction may ensure agricultural calamities or trade difficulties involving low prices. They may be accompanied by failure of societies to repay loans and a further call may be made on a bank at such a time for financing the urgent requirement of its members of the societies, central co-operative banks or of the State Co-operative Bank. To meet these contingencies the bank must keep some fluid resources which should consist of cash or of investment in such a sound and readily saleable or pledgeable securities as are approved by the Deputy Registrar, Co-operative Societies or of undrawn portion of reserves cash credit with State Co-operative Bank and other commercial banks.

Fixation of amount of cash resources :— There is a great confusion regarding the standard of cash reserves to be maintained in co-operative banks. The Committee on Co-operation remarked :— “it will be best for a Central Bank in all cases to keep in the form of fluid resource a sum sufficient to meet the largest possible demands which may be made on it in the course of a certain period of time corresponding to the average period of a crisis, that is to say, that it should be able to carry on its business and to meet the urgent needs of its affiliated societies during that period even if all the deposits falling due within that period were withdrawn and no fresh deposits or repayments of loans were received. The Committee further added, “The period which the majority of us would suggest for adoption in Central Banks is that of half a year; that is to say, we should recommend that the banks should, apart from the needs of current and saving accounts, maintain as fluid resources a sum sufficient to meet half the fixed deposits falling due during the ensuing year even if no fresh deposits were received and no repayments of loans made¹⁹”.

19. *Report of the Committee on Co-operation (MacLagan Committee) in India, 1915, Reprinted in 1957, Bombay p. 94.*

Regarding the maintenance of fluid resources by the provincial bank the Committee recommended, "that the same principles should be kept in view as have been laid down in the case of Central Banks except that it will suffice to ensure that the fluid resource should be sufficient in amount to cover one-third only of the possible liabilities of the Bank falling due in the course of the ensuing year^{20A}". The standard adopted is comparatively lower on scale than that of the central co-operative banks of the State because the risks of this bank are spread over reducing the chance of sudden resort to fluid resources.

The Standing Advisory Committee on Agricultural Credit of the Reserve Bank suggested the following standards .—

1. Forty per cent of current deposits (including deposits at call and fixed deposits matured but not drawn).
2. 25 per cent fixed deposits maturing within 3 months and 12 per cent fixed deposits maturing within next three months.
3. 26 per cent of the saving deposits.
4. 40 per cent of the undrawn portion of cash credit and overdraft granted to members.

Co-operative banks of Bihar have adopted the standard of maintaining cash reserves as recommended by the above Committee. In the absence of any statutory provision for its standard, the formula to arrive at the requisite standard for cash reserve is determined every year at the time when maximum borrowing limit of every co-operative credit institution is fixed. Usually the amount of cash reserve maintained at every level of co-operative banks in Bihar is sufficient to meet 25 per cent of the fixed deposits maturing within the ensuing year. Due care is also taken to meet the emergent demands arising out of the financial scarcity leading to the failure of repayments and non-availability of fresh loans.

Fluid Resources in Primary Credit Co-operatives

In fact the maintenance of cash reserves by agricultural and non-agricultural credit societies is not so important factor as in central co-operative banks. In these societies no banking principle has been observed. The volume of cash reserve exceeds the volume of deposits.

20.(A) Ibid., p. 105.

Non-profitable Investment of Co-operative Bank

Non-profitable investment includes two types of investment of co-operative bank in every State. The investments are the following :—

1. Cash reserves.
2. Dead stocks.

Both these types of investments do not bring any remuneration directly to the bank and hence no advantage or profit accrues to the members. Even then its maintenance is very essential for making the institutions stable and sound.

1. **Cash Reserves:** Cash reserves is that part of working capital which is kept by the bank to meet the contraction of credit entailing the withdrawal of deposits at due date and a failure to obtain new deposits in as much as contraction may ensure agricultural calamities or trade difficulties involving low prices. They may be accompanied by failure of societies to repay loans and a further call may be made on a bank at such a time for financing the urgent requirement of its members of the societies, central co-operative banks or of the State Co-operative Bank. To meet these contingencies the bank must keep some fluid resources which should consist of cash or of investment in such a sound and readily saleable or pledgeable securities as are approved by the Deputy Registrar, Co-operative Societies or of undrawn portion of reserves cash credit with State Co-operative Bank and other commercial banks.

Fixation of amount of cash resources :— There is a great confusion regarding the standard of cash reserves to be maintained in co-operative banks. The Committee on Co-operation remarked :— “it will be best for a Central Bank in all cases to keep in the form of fluid resource a sum sufficient to meet the largest possible demands which may be made on it in the course of a certain period of time corresponding to the average period of a crisis, that is to say, that it should be able to carry on its business and to meet the urgent needs of its affiliated societies during that period even if all the deposits falling due within that period were withdrawn and no fresh deposits or repayments of loans were received. The Committee further added, “The period which the majority of us would suggest for adoption in Central Banks is that of half a year; that is to say, we should recommend that the banks should, apart from the needs of current and saving accounts, maintain as fluid resources a sum sufficient to meet half the fixed deposits falling due during the ensuing year even if no fresh deposits were received and no repayments of loans made¹⁹”.

19. *Report of the Committee on Co-operation (MacLagan Committee) in India, 1915, Reprinted in 1957, Bombay p. 94.*

Regarding the maintenance of fluid resources by the provincial bank the Committee recommended, "that the same principles should be kept in view as have been laid down in the case of Central Banks except that it will suffice to ensure that the fluid resource should be sufficient in amount to cover one-third only of the possible liabilities of the Bank falling due in the course of the ensuing year^{20A}". The standard adopted is comparatively lower on scale than that of the central co-operative banks of the State because the risks of this bank are spread over reducing the chance of sudden resort to fluid resources.

The Standing Advisory Committee on Agricultural Credit of the Reserve Bank suggested the following standards .—

1. Forty per cent of current deposits (including deposits at call and fixed deposits matured but not drawn).
2. 25 per cent fixed deposits maturing within 3 months and 12 per cent fixed deposits maturing within next three months.
3. 26 per cent of the saving deposits.
4. 40 per cent of the undrawn portion of cash credit and overdraft granted to members.

Co-operative banks of Bihar have adopted the standard of maintaining cash reserves as recommended by the above Committee. In the absence of any statutory provision for its standard, the formula to arrive at the requisite standard for cash reserve is determined every year at the time when maximum borrowing limit of every co-operative credit institution is fixed. Usually the amount of cash reserve maintained at every level of co-operative banks in Bihar is sufficient to meet 25 per cent of the fixed deposits maturing within the ensuing year. Due care is also taken to meet the emergent demands arising out of the financial scarcity leading to the failure of repayments and non-availability of fresh loans.

Fluid Resources in Primary Credit Co-operatives

In fact the maintenance of cash reserves by agricultural and non-agricultural credit societies is not so important factor as in central co-operative banks. In these societies no banking principle has been observed. The volume of cash reserve exceeds the volume of deposits.

20.(A) Ibid., p. 105.

Fluid Resources and Central Co-operative Banks and Bihar State Co-operative Bank

The maintenance of cash reserves is a function of every co-operative bank. Being the intermediary and apex banks of the whole co-operative structure of the State, the maintenance of cash reserves has become a major concern for them.

There has been a general increase in cash reserves of both central banks and Bihar State Co-operative Bank Ltd. The percentage of cash reserves to deposits exceeds the prescribed standard. This indicates that central co-operative banks are in a position to wipe off the storm of financial crisis.

As regards the position of cash reserves in case of individual banks, the volume in 13 central co-operative banks namely; Arrah-Buxar, Bettiah, Bhagalpur Bank, Dhanbad, Dumka-Gooda-Rajmahal, Gaya-Jehanabad-Aurangabad, Laheriasarai-Samastipur-Daulatpur, Mazaffarpur-Hajipur, Purnea Araria-Kishanganj, Rohika, Sasaram-Bhabhua, Sitamarhi and Siwan-Chapra, exceeded the average volume per bank by the end of June, 1968^{20B}.

It is, therefore, apparent that effective Safeguards have been adopted to meet the scarcity if it at all happens.

In Bihar State Co-operative Bank a slightly lower scale of cash reserves is maintained because the risk in this Bank is spread over a wider area and over a large number of institutions, thereby reducing the chance of sudden resort to cash reserves from all the quarters at once.

The volume of cash reserves has been constantly decreasing. Its percentage to deposits has also gone down. The decrease is not only due to contraction of cash balance but also due to the increase in the volume of deposits.

Dead Stock

Like cash reserves or fluid resources, the investment of banks in dead stock is also captioned under the head of non-profitable investment because such investments do not fetch any profit to the bank. These investments include investments in land, building and furniture etc.

All the co-operative banks spend a part of their funds in construction of building for the offices of the banks and furnishing them adequately.

20.(B) *Handbook of Co-operation Statistics, Bihar, 1968*, pp. 121-23.

It is not necessary that a bank should have its own building for the maintenance of the office. The general principle is that the Board of Management of the bank should consider whether the construction of building is economic or a rented building will do. It has been observed that it is always preferable for a bank to have a solid cash in its hand rather than to invest it in bricks and mortar. But on the other hand, if the management is in a position to spare that much amount required for a building it may have the building of its own. The construction of a well-furnished building attracts more and more membership. However, adequacy of means to have a building depends upon the purse of the bank.

Apart from the building, the bank has also to provide for easy and comfortable furniture so that the staff may work efficiently. The furniture should also be durable so that casual repair may not be needed. Most of the central banks have their own buildings. Agricultural societies, mostly service co-operatives and large-sized societies, have also been provided with their buildings not only with a view to establish only godowns but also to have their offices.

Loan Operations In Bihar State Co-operative Land Development Bank

As the Bihar State Co-operative Bank finances the short and medium-term financial needs of their members, the State Co-operative Land Development Bank employs bulk of its funds in advancing long-term loans to their agriculturist members for productive purposes against the mortgage or security of land and other immovable property.

Usually the period for such loans is 10 years. However, in case of the borrowers of backward regions the limit may be relaxed. Due consideration is paid to the repaying capacity of the borrower and the purpose for which the loan is advanced.

Determination of Credit Limit

The credit limit or the amount of loan is determined by the repaying capacity of the borrower and the volume of unencumbered land to be mortgaged. The value of land is calculated on the basis of actual land revenue and revenue in circle rate. At present the formula for determining the quantum of loan to be sanctioned to a cultivator is hundred times the actual land revenue and fifty times the revenue calculated whichever is less, plus 20 times the difference of both, provided the fixed assets on the land to be hypothecated shall be valued in accordance with the instructions laid down by the Government from time to time for determining the compensation value under the Land Acquisition Act.

Present Position of Loan Operation

The Bank advances loans to land holders for enabling them to develop productive potentiality of the land. There has been a constant expansion in volume of loan operations of this Bank. Since 1961-62, its advance which stood at Rs. 6.37 lakhs in 1961-62 increased to Rs. 12,19.28 lakhs by the end of June, 1973²¹. In a few previous years, there has been a wide gulf between the amount of loans sanctioned and actually disbursed. It was due to the undue delay caused in obtaining mortgage deeds registered and inadequacy of the guaranteed fund received by the Government of Bihar.

The Bank gives priority to the loan demands for productive purposes. Loans for the liquidation of debt have not been completely discouraged.

The following figures register its progress:

TABLE—8

Classification²² of Loans by Purpose (Bihar State Land Development Bank)

(Rs. in lakhs)

| Purpose | Amount Sanctioned. | |
|---|--------------------|---------|
| | 1972—73 | 1973—74 |
| 1. Sinking of new wells and construction of tanks. | 377.36 | 32.85 |
| 2. Levelling, Bunding, Reclamation and Fencing of Land. | 23.61 | 50.78 |
| 3. Purchase of machinery and implements. | 197.01 | 126.13 |
| 4. Electric Pump-sets. | 610.76 | — |
| 5. Redemption of old debt. | 4.24 | 15.65 |

Recovery

Like other co-operative banks the Board of Management of this Bank settles the instalments of repayment at the time of advancing loans. Due regard is paid to the repaying capacity of the borrowers and the recovery of instalments starts from the very first year.

21. Reserve Bank of India: *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, Bombay, 1961-62, p. 174 and 1972-73, p. 151.
22. *Statistical Statements relating to the Co-operative Movement in India*, Part I Credit Societies, Bombay, 1972-73, p. 152 and 1973-74, p. 185.

Other Investments

The investments of Bank in other avenues are almost nil. The Bank keeps a net amount of cash balance in hand and in banks in accordance with the rules and bye-laws.

Though the investment of funds in co-operative banks in their all forms and at all the levels of the State has been in a business-like manner, the productive requirements of the members are given priority in granting loans to these members. During plan period there has been a considerable expansion in the lending operations of all the credit co-operatives of the State.

Summing up

In spite of this voluminous progress of lending operations of these banks, they have failed to achieve the basic objectives of co-operative credit. The undue delay and untimely supply of money has made the co-operative finance dilatory, inefficient and inelastic. The neglect of consumption needs, the apathy of officials and the partiality of the office-bearers in granting loans have thrown the poor peasantry in the lap of 'Mahajans'. The village money-lenders still dominate the rural money market. Owing to the misappropriation of loans, lack of effective recovery measures, prevalence of fictitious repayment and book-adjustment and wilful defaults, the co-operative finance does not turn out to be profitable investment, but has become almost a dead investment.

CHAPTER IX

GOVERNMENT AND CO-OPERATIVES

Role of State Government and other Agencies in Development of Co-operative Banking in Bihar.

Unlike Germany and Italy where the natural impulse towards the origin of co-operative banking came from the people, the Indian co-operative credit movement originated with the initiative of the Government. The Government being attracted towards the progress of co-operation in European countries for ameliorating the economic evils of the suffering proletariat class of people, formulated the policies and enacted legislations to remedy the sad economic plight of suffering people caused due to high magnitude of indebtedness. In response to the recommendations of Sir Frederick Nicholson to find "Raiffeisen", the then Viceroy Lord Curzon appointed Registrars in province to work as 'Indian Raiffesisen' for the progress of co-operative movement.

Thus in theory and practice of co-operative banking, the relation of state to credit co-operatives and its role constitute an integral part of the subject. Though in orthodox theory of co-operation, state has no place but in practice as the history records, the state has always stood as the surety to the success, not only of the co-operative banking but of the whole of the co-operative movement in every undeveloped and under developed country.

The State aid, control and supervision of co-operative banking has been a subject of severe controversy. On the one hand, it has been argued that in the present state of wide spread illiteracy and ignorance of banking principles, it is virtually impossible for co-operative banks to grow and develop without active government assistance and supervision. In order to help the proletariat and agriculturists; class of people, co-operative banks are also to be strengthened because whenever people are so helped, they become reluctant to support any other institution which has the effect of endangering their State and undermining the stability of Government.

On the other hand, it is advocated that there is always the danger that if the peasants acquire the habit of regarding their credit co-operatives as State institution they will simply collapse when the State support is

withdrawn. Moreover, any sort of Government assistance and interference in co-operative credit organisations defeat the very principle of 'Mutual help through self-help and voluntarism'. That is why in England and Germany the co-operator has always repudiated the State's interference.¹

These controversial points can neither be resolved by policy of 'Laissez faire' nor by one of confining the role of State to the only sphere of imparting education in co-operative expansion and banking principles. The Government of India, realising both the points found a suitable balance between voluntarism and direction and have attempted to cut the gordian knot by organising co-operative institution on the edifice of the basic principles of co-operation with active State aid, State control and State supervision.

Need of State Aid in Co-operative Banks in Bihar

In a pre-dominantly agricultural and underdeveloped State like Bihar, co-operative banking is to be developed in order to reduce the burden of indebtedness on the one hand and to provide necessary financial assistance to agriculturist on the other. For proper expansion and strengthening of co-operative banks of the State, liberal governmental assistance and proper legislation are needed for some time, so that financial stability of these institutions and confidence among the people towards co-operative banks may be promoted. The Co-operative Planning Committee was of this view that the assistance by the government to co-operative banking in the initial stage is necessary because "co-operators would assume increasing responsibility in organisation and working of the movement and would ultimately be independent of official control".²

Keeping in view the present position of co-operative credit institutions in the State, Government assistance to the co-operative banks is essential on the following grounds :—

1. In the State like Bihar having backward economy, the backward areas or groups would have to be brought to the level of economically and socially developed areas or groups and for this purpose State aid will have to be made effective through co-operation and particularly through the co-operative credit societies. The co-operative banks in fact are the chief corner-stones of the whole movement and are "more a vehicle of adult education than an economic instrument"³ because the plan of credit co-operative is a simple one and is easily understandable.

1. Talmaki, S. S., *Co-operation in India and abroad*, Mangalore, 1931, p. 458.

2. Ibid., p. 458.

3. Kulkarni, K. R., *Theory and Practice of Co-operation in India and Abroad*, Vol. I. Co-operators' Book Depot, 1955, Bombay, p. 190.

2. Owing to the inadequacy of funds in co-operative credit institutions of the State to meet the financial needs of agriculturists, the assistance of the State to make up the financial deficit is needed.

3. Owing to lack of education, social cohesion and adequate consciousness towards co-operation which are essential elements for inculcating confidence among the public towards co-operation the Government assistance is called for. The confidence of the public depends on the kind of security that a beginning institution offers.

Usually the public retains enough confidence in Government and in its aided institution. It is, therefore, necessary that Government backing is needed to develop co-operative banks in the State. Moreover, for the proper investment of funds and its punctual repayment of loans from borrowing members and proper scrutiny and supervision, Government assistance through its efficient staff of co-operative department is urgently needed.

4. In the last, under the planned economy of the State like Bihar, co-operative banking institutions have got to be organically linked up with the plan of national development. They as economic organisation of the people have the necessity to subject themselves to discipline imposed upon conditions of planned economy under democratic planning. While upholding the principle of self-help and mutual help, they are to be fitted within the general pattern of over all National Plan and State aid. Thus State aid has to be so given as to supplement the voluntary efforts and not to lead to control or domination of Government over co-operative banks.

Taking all these factors into consideration the Government recognised the importance of State aid to credit co-operatives. One of the principal recommendations of Rural Credit Survey Committee is that State should take active interest in promoting and increasing credit co-operatives. The report says, "The problem is not so much one of reorganisation of co-operative credit as of the creation of new conditions in which it can operate effectively and for the benefit of the weaker. The prevailing conditions cannot be transformed by the very persons who are oppressed and rendered weak by their existence. The forces of transformation have to be at least as powerful as those which are sought to be counteracted. Such forces can be generated not by co-operation alone but by co-operation in conjunction with the State⁴."

Thus the role of Government in relation to co-operative should be of active helpfulness intended to stimulate co-operative banks, guide them and keep them on sound lines. The nature and volume of help should be such as

4. *All India Rural Credit Survey Committee Report, Vol. II, The general report, 1954, Bombay, n. 279, p. 273.*

Sir Horrace Plunkett, the well known co-operator has pointed out that State assistance should be so given as to evoke and supplement but not to provide a substitute for voluntary efforts.

Forms of State Aid

The question of state help in development of co-operative banking cannot be boxed in one and the same chamber. Particularly in case of India and its States the government nourished it in early periods and guided it through authorised agents (Registrar). Under the Montague Chelmsford Reforms Act of 1919, co-operation had become a transferred subject and had been placed in the charge of Minister of the State responsible for legislation and supervision. Since then Bihar Government and its incharge Minister has been taking keen interest in promotion and progress of co-operation in general and co-operative banking in particular. With the coming of the congress to the power after political independence, problem of rural credit has increasingly been raised. Since then the Government has been extending excessive assistance and has been formulating the policies and plans for the development of co-operative credit in the States. From the early stage upto now the Government have been nursing and guiding co-operative banking by two ways :—

1. State aid.
2. State control.

The forms of State aid can be summarised under these heads :—

1. Legislative assistance,
2. Administrative assistance,
3. Training and education,
4. Financial assistance.

Legislative assistance

The assistance of the government in the form of legislation to extend protection to every form of co-operative credit institution from primary to apex level is of great importance. Co-operative banking in the form of growing economic organism would not have been possible and even conceivable if it does not enjoy the protection of law on equal terms with other types of banking in the state. It has been observed that if co-operative societies play their part in real life, they need to have legal status. They must be given necessary legal powers to engage in economic activity and their legal relations with debtors and creditors must be clearly defined as also the relations between co-operatives and other members.

In the absence of the main co-operative Act before 1904, the organisation of co-operative credit institutions was conducted under Indian companies Act 1882. But it failed to provide recognition to credit co-operatives regarding the right of individuals to associate with co-operative societies and societies to unite in central or district co-operative banks.

The then ruling Government being interested only in agricultural prosperity, focussed its attention on the agricultural problems and sought their solution in evolving co-operative credit system in the country.

In order to extend legal status to such an organisation in the country, the first Imperial Act on co-operation was passed in 1904 with the efforts of Lord Curzon which provided legal protection to primary credit societies. Very soon the deficiencies of the Act were exposed. To cover up the deficiencies of the previous Act, another Co-operative Act was enacted and passed in 1912. The Act of 1904 was repealed. The Co-operative Act (II) 1912 not only provided legal status to primary co-operative credit societies but also to higher co-operative organisation—central or district co-operative banks. By this time the development of co-operative credit was a concern of the Central Government. The Montague Chelmsford Reforms Act came in force and the development of co-operative banking was placed in the list of State's function. Extensive amendments were carried out by various States. A few States replaced the original Act by their own local acts.

The Bihar Government has also ammended the Act VI of 1935 extensively. Recently the Bihar Government has enacted new co-operative societies Act which has provided comprehensive powers regarding the registration of societies, rights and liabilities of members, duties and privileges, property and funds of societies, inspection affairs, their liquidation and other miscellaneous powers. Thus the enactment of the Act has paved the way for the future development of co-operative banking in the State.

Besides, societies and co-operative banks have been exempted from fees payable in connection with registration, stamp duty in case of bills of exchanges, cheques and other credit instruments, and also from income tax on the profits of the society or bank. However, most of the profits of the societies which accrue from the investment of society's fund in Government securities are liable to be assessed under Income Tax Act because such investments do not form the part of the business of the co-operative societies.

Apart from the statutory provisions laid down under the Act, various acts relating to agrarian reforms have also been enacted to strengthen co-operative banking in the State and also provide legal protection to co-operative financing institutions at various levels on the one hand and imposing restriction of money lending system on the other. Thus the Government of Bihar has enacted such acts and rules as to restrict the dominance of money-lenders.

Administrative Assistance

The administration and management of co-operative credit institutions is carried out on democratic lines. The individual members of co-operative credit societies and delegates or representatives of these societies, central and Bihar State Co-operative Bank etc. are given due representation in the Board of Management. In other words every effort is made to lessen the dominance of the State Government in the administrative affairs of the society or bank. The fact that the societies in Bihar are also organised by illiterate members and the problems which confront in handling the money involves certain complications and temptations. Hence these conditions call for the services of experienced and trained persons to look after the affairs of the banking institution to function as philosopher and guide to the bank. The State control, therefore, is needed.

Co-operative Training and Education

The importance of adequate training of co-operative personnel as the key to the success and expansion of co-operative credit has ever been realised by the Government of this State. Training classes of co-operative staff have accordingly been organised, when necessary, and no employee either inspector or supervisor has been approved for final appointment unless he has undergone the prescribed course of training and passed the final examination.

The entire programme in the State is run on the basis of integrated scheme of training formulated by the Central Committee for co-operative training set up jointly by the Reserve Bank of India and Ministry of Food and Agriculture of the Government of India. The whole staff of the department and that of co-operative credit institution has been classified into three categories namely :

1. Higher personnel,
2. Intermediate personnel and
3. Sub-ordinate personnel.

Training of higher personnel

The category of senior officers includes officers incharge of direction and control of the State at the divisional and district levels. This class of officers has to possess sufficient knowledge of the theory and practice of co-operation. Their training takes place at Co-operative Training College, Poona. The course is of six months—4 months' practical training.

Apart from other forms of co-operation, they have to study the principle of co-operative banking and co-operative law. Co-operative banking is one of the special subjects for the study of the personnel. Discussions, seminars and lectures on practical aspect of banking are organised as regular feature. Practical training includes the study of the working of the State and central co-operative banks, State co-operative land development banks, and the working of the Agricultural Credit Department of Reserve Bank of India. Trainees are also afforded opportunities for the study of the working of commercial banks and co-operative banks.

Training of intermediate personnel

The intermediate category of personnel includes co-operative inspectors, accountants and managers of the central co-operative banks. The training of these officials is imparted at the Regional Co-operative Centre. The period of the training of these officials is of eleven months (6 months' theoretical at the training centre and 4 months' practical training)

Training of Inspectors

The training of inspectors who are to work as Assistant Development Officers (Co-operation) in the National Extension Service Blocks is arranged at the block level in the Co-operative Officers Training Centre. The period of training of these officers is also of eleven months interspersed between theoretical study in the classes and practical training in the field in the form of observations, visits and job development training.

Special courses in land development bank

A special course of 4 months' duration in land development banking has been started at Regional Training Centre, Tamil Nadu since June, 1956. By now over thousand officers have obtained their training in Bihar.

Training of the supervisors and other personnel

The training of supervisors and others is the direct responsibility of the State Government. The period of their training is 9 months (6 months theoretical and 3 months practical). These trainees are required to pass in the periodical tests and final examination at the close of the session.

TRAINING OF NON-OFFICIALS

The scheme for training non-officials sponsored by All India Co-operative Union and approved by the Government of India, is in force in all the districts of this State. According to this scheme there is an Education Instructor in each of these districts for imparting training to the secretaries and members of the credit co-operatives under the supervision of co-operative officers at the headquarters of the union,

This training programme is conducted and all expenditure is shared partly by the Government of India and partly by the State Government.

Financial Assistance

Apart from legislative and administrative assistance, the Government also provides timely and necessary financial help. It is likely that funds necessary for organising and strengthening the co-operative banks at all levels may not be forthcoming in adequate measures from the local people or co-operative societies. State Government which has the interest in creating these institutions and fostering their growth should subsidize a part of share capital and also extend such grants and subsidies and other financial concessions as are possible.

The policy pursued by the Government of India in regard to financial assistance to co-operative credit societies and banks has been referred in paragraph 27 of the resolution dated the 17th June, 1914, in the following words :—

“Just as there are some critics who deprecate Government assistance, so too there are others, both official and non-official who plead for a far greater degree of Government intervention than has hitherto been permitted. The result is that Government has to steer a middle course and this has been the policy adopted both as regards supervision and financial aid”.⁵

In the beginning the Government of India adhered to the policy of financial aloofness except a few concessions given by Government under Co-operative Societies Act. The active assistance has only been extended since the recommendations of Rural Credit Survey Committee have been pursued. The various forms of financial aid given by the Government of India and by the Bihar Government may be classified below :—

1. Financial commitments are made by Government in maintenance of independent co-operative department and its banking branch. The expenditure involved is met out of special allotment in State's Budget under the head “Co-operation”. Special assistance is given to land development banks for undeveloped areas with reference to their administrative cost in order to enable them to function economically.

2. Supply of personnel entirely or partly free of charge to co-operative credit societies and banks which could not have otherwise afford to employ them.

5. Quoted by Kulkarni, K. R. *Theory and Practice of Co-operation in India and Abroad* Vol. I 1955, Co-operators' Book Depot, Bombay, p. 203.

3. Government expenditure in the cause of co-operative education is necessary for the development of co-operative banking.

4. Expenditure involved in the appointment of expert committees holding conferences and seminars for making the study of the conditions of co-operative credit and for bringing about modifications or effecting changes in the existing practices if called for.

5. Financial assistance given in the shape of loans, grants-in-aid, subsidies and overdraft facilities provided to Bihar State Co-operative Bank for interim periods; guarantees of principals or interests on debentures issued by co-operative banks. In brief, the financial assistance provided by Government of Bihar can be classified as under :

Expenditures Incurred on Co-operative Department in Bihar

The Co-operative Department of Bihar with Registrar, Deputy and Assistant Registrars with its staff has to perform various functions. It is the duty of the Registrar to receive and enquire into applications for registration, register the bye-laws of the societies and banks, make valuation of the assets and liabilities of the societies and prepare a list of overdue loans to see that the Act, Rules and Bye-laws are observed, to make special inspection if called upon to do so, dissolve or cancel societies and carry out their liquidation. All these functions performed by the Department involve a very huge amount of expenditure which in Bihar, is met out by the State Government. However, the Central Government also shares a part of it.

Besides, the expenditure incurred in performance of these functions also involves expenditure on stationery, furniture, and other requisites necessary for the maintenance of the Department. Bihar Government has to allot some money in its budget under the head "Co-operation". Co-operative credit, being the main aspect of co-operative movement, shares more than the proportionate amount of the total budgetary provision.

In Bihar, Co-operative Department is located at Patna. But at the district and block level, the officials with their offices are there. For the maintenance of all these officials, State Government has to provide sufficient finance to meet out the expenditure because it is the sole responsibility of Bihar Government. Since independence huge amounts have been spent in investment and loans and advances by this Department of Bihar which forms sizeable amount of the working capital of co-operative societies.

Personnel Supplied to the Co-operative Credit Institutions

Under the head 'administrative assistance' it has been stated that Government of Bihar maintains a Co-operative Department with Registrar

(IAS) as the head. Various Deputy Registrars (PCS) and Assistant Registrars (Class II) and district co-operative officers and Assistant Development Officers (Co-operation) are appointed to assist the functioning of co-operative banks at the primary levels. These officials are employees of the State Government and their salaries are paid by the Bihar Government. The State Government have also to spend a lot of amount on them to meet out not only their salaries but also their travelling and other allowances. This expenditure is also met out by the budgetary provision of the State Government under the same head of 'Co-operation'.

Expenditure On Co-operative Education

Co-operative banking in India and also in Bihar is ushered in with the initiative of the Government. Hence it is the responsibility of the Government to create a favourable climate for the sound development of co-operative banking in the State by educating and training the officials and non-officials in fundamental principles of co-operation and co-operative banking. This education involves expenditure on the maintenance of the training centres and the staff. Their maintenance with qualified instructors and teachers furnished with library furniture and other requisites involve heavy expenditure which is met by the centre and the Government of Bihar. The State Government also meets the expenditure involved in payment of stipend to the trainees. Besides the training of officials the education of non-officials also is an item of heavy expenditure. The scheme of training of non-officials is financed by Central Government. However, expenditure on stipends and the maintenance of ministerial and minial staff is met by Bihar Government.

Expenditure On Expert Committee, Conferences and Seminars

The other important form of Government's financial assistance is to subsidize the expenditure involved in the appointment of expert committees, conferences and seminars to study the working conditions of co-operative credit and for bringing about necessary modifications in the existing practices. All this involves expenditure on the part of Central and State Government.

Various Banking Enquiry Committees and Co-operative Committees have hitherto been appointed by Government and Reserve Bank of India (the reference of which has already been made) to study the existing co-operative laws and the policies and programmes of co-operative credit. On their recommendations, necessary changes have been brought about. All these conferences and seminars on co-operation are a periodical feature which also involves certain expenditures on the part of the government.

Direct Financial Assistance to Co-operative Credit Establishment

The financial assistance provided to the credit co-operative by both Central and Bihar Government falls into the following categories :—

State Contribution in Share capital

In pursuance of the recommendations of All India Rural Credit Survey Committee for 'Integrated Scheme of Rural Credit', Bihar Government started taking part in the share capital of credit institutions directly in apex co-operative banks and indirectly in central and primary credit organisations. (A brief reference of which has already been made in previous chapters).

It was realised by the Committee that credit hitherto supplied by credit co-operatives was neither adequate nor served the right purpose. Among the various reasons of the failure of the co-operative credit, the main causes are internal and external weaknesses of rural finances and meagre resources of co-operative credit institutions. The internal weakness pertains to the lack of thriftiness, primitive method of cultivation and living whereas external aspect is related to the mal-adjustment between rural structure and the forces of urban economy, i.e., concentration of wealth in urban areas leading to the exploitation of rural folk.

By now efforts were confined only to rectify internal weaknesses of the village economy by co-operative credit institutions. Actually no steps have been taken to correct the mal-adjustment between weak and strong economies. As such agricultural economy remained financially ill-fed by co-operatives. Consequently money-lenders got ample opportunity to dominate the money market. In order to ameliorate the external weaknesses, bigger efforts were needed. No amount of administrative and functional or other changes could enable co-operative credit institutions to help themselves. The circumstances called for bigger efforts. As co-operative credit institutions are the combinations of weaker section of people at the bottom and the State is or ought to be a combination for the weak at the top, an effective programme of their strengthenment may only be possible if the State Government joins the institution as a partner or share-holder like individual members. The Committee, therefore, recommended that "An effective programme is possible only if the State at one end joins hands with co-operatives at the other in an effort to bring about the rural-mindedness that is needed".

With the endorsement of the recommendations of the above Committee, the financial partnership of the Government in Bihar State Co-operative and other apex banking institution is direct, i.e., the Government directly contributes in the share-capital of the institutions concerned. At the district level the State partnership is through Bihar State Co-operative Bank. For instance the State Government provides funds to Bihar State Co-operative Bank Ltd. to enable it to contribute to the share capital of the institutions

6. Reserve Bank of India : *All India Rural Survey Committee Report, the General Report, Vol. II, 1954 p. 376-77.*

at the district level which in turn contribute to the share capital of the institutions working at the primary level.

In the mean time, amendments to extend legal recognition to this recommendation were introduced and practical shape to the recommendation was given. The principal State Partnership and subsidiary State partnership funds were devised in Bihar State Co-operative Bank and central co-operative banks. Under the provisions of the model bill prepared by the Committee the apex co-operative bank receives money from the State Government and credits it to the principal State partnership fund for purchasing shares in its own name in affiliated central co-operative banks of the State. It also draws money from this fund and would provide money to affiliated central co-operative banks to enable them to take shares in primary credit societies affiliated to them. In the same way central co-operative banks will credit this amount in Subsidiary State partnership Fund and utilise it for the purchase of shares in affiliated primary credit societies. According to the provisions of the bill, Bihar Government has started participation in the share capital of the co-operative credit institutions at all levels by creating the above funds for giving them financial and organisational strength.

The number of shares to be held by State Government is determined by an agreement drawn up between the Government and the Board of Directors. In Bihar State Co-operative Land Development Bank most of the paid-up share capital has been obtained directly from the Government of Bihar.

Grants and Subsidies

Bihar Government extended huge grants and subsidies to co-operative credit institutions in the very beginning. The grants have now exhausted except in Bihar State Co-operative Land Development Bank. Since the credit has been linked with production and also with its marketing, large-sized credit societies and service co-operatives have been vested with the functions for collecting and storing the surplus of their members and on the other with the supply of fertilizers and seeds etc. For the storage of the produce and fertilizers the Rural Credit Committee suggested the construction and maintenance of godowns. With this view National Co-operative Development and Warehousing Board was set up with the National Warehousing Fund to subsidize and grant loans up to 66 % and subsidies up to 12½% of the total cost. Bihar Government like other States also provides at least 12½% subsidy and 12½% of the total as loan.

Besides this type of subsidies and loans no other subsidy or grant is available except a part of the managerial cost of the co-operative credit organisation. With the organisation of large-sized credit societies and service co-operatives and strengthenment and revitalisation of existing credit societies

in the initial stage, a subsidy was provided to enable them to meet their working expenses. The volume of actual assistance depends upon various factors and is determined by the Bihar Government. The State Government and National Co-operative Development and Warehousing Board share the cost equally. The Board maintains co-operative development fund to meet the expenditure. The similar assistance is available to the credit union also.

State Agricultural Credit (Relief and Guarantee) Fund

As recommended by All India Rural Credit Survey Committee, this fund has been created by the Bihar Government. It is maintained for writing off irrecoverable debts arising out of causes beyond control such as crop failure, famine and flood etc.

When the bad debt reserve of this institution has depleted a further provision of lump-sum amount is made during the plan period. It was felt that during the plan period the large amount of credit would be advanced to the farmers according to the production needs. It was, therefore, decided that primary societies and central co-operative banks should be provided with the necessary incentive by making outright grants for constituting the funds to meet the probable losses in such advances as per recommendations of Mehta Committee.

In accordance with the recommendation of the All India Rural Credit Survey Committee for guaranteeing debentures of Central Land Development Bank as regards both principal and the interest, Bihar Government made necessary amendments and started extending guarantee for the same on the debentures issued by the Bihar State Co-operative Land Development Bank since 1962. The statistical references of these above facts have already been made in preceding chapters.

State Control

The term State control implies three different processes (a) supervision, (b) inspection and (c) audit. It is all pervading and includes in a sense both inspection and audit, yet it differs from them in a sense that it implies the duty not merely of finding faults with the society or bank or giving warning or punishing the offenders, but of educating the members and office bearers in true principles of co-operative banking. It aims at helping the societies work more efficiently in accordance with co-operative principles.

Audit, Inspection and Supervision

The terms audit, inspection and supervision are not one and the same. The main difference between audit and inspection is that the former

is a periodical event and may be sometimes concurrent, whereas the latter is rather an occasional event and is somewhat of special character and which is undertaken only at the request of the creditor or in case of certain contingencies. In the words of K.R. Kulkarni, "An Auditor is the watch dog of the Registrar and an Inspector that of the co-operative financing Agency, while the supervisor is the helpmate of the society".⁷ The Rural Credit Survey Committee has pointed out that "Supervision has the important aim of promoting, and not merely testing the efficiency of the society; it seeks to ensure that the defects noted at the audit have been rectified and that the operations of the society, and particularly of the disbursement of loans, are undertaken on business-like and genuinely co-operative lines".⁸ Supervision is, therefore, different from office inspection.

Inspection of Co-operative Societies and Banks

Under sub-section (I) the Registrar, Bihar Co-operative Societies has been empowered either of his own motion or at the request of the a majority of the executive committee or on the request of 1/3 members of registered society to hold an enquiry or direct some person authorised by him to hold an enquiry in the constitution, working or financial condition of society. The Registrar or any person authorised may inspect the account books. In practice we find that it is the duty of the officials to inspect the societies and banks periodically. Usually the central co-operative banks are inspected either by the Deputy Registrar or Managing Director or Vice-chairman. In the same way credit societies are inspected by co-operative inspectors and supervisors. The Reserve Bank of India also inspects all the co-operative banks of the State to which it has provided financial accommodation by one way or the other.

Inspection and Supervisor Staff

Supervision and inspection of co-operative credit institution of the State is the sole responsibility of the Registrar, Co-operative Societies, Bihar. As he has to perform multifarious duties, he is provided with Joint Registrars and Deputy Registrars at the head quarters in accordance with the number of Zones. To enable them to carry on supervision and inspection of the societies efficiently, one Assistant Registrar in each district of the State together with a District Co-operative Officer has been appointed. In the same way co-operative inspectors at each N.E.S. Block are also appointed to scrutinise, assist and supervise the working, loan and its repayment operations of the society and bank.

7. Kulkarni, K. R., *Theory and Practice of Co-operation in India and Abroad*, Vol. I Co-operators' Book Depot, Bombay, 1955, pp. 201-2.

8. Reserve Bank of India : *All India Rural Credit Survey Committee Report*, Vol. II, The general report, Bombay, 1954, p. 461.

In Bihar, supervisors to work under co-operative inspectors are also appointed by Co-operative Department of Bihar. Usually one supervisor looks after a number of societies. They not only help in propagating and teaching co-operative principles but also have the function of organising new societies in their respective areas.

Since Bihar State Co-operative Land Development Bank has come into existence, land valuation officers at each branch of the Bank have also been posted. Their services are utilised in evaluating the value of land against which long-term loans are granted. Besides these officials, clerical staff is also appointed to assist them.

Audit

Audit is an important part of the banking organisation and neglect of this vital aspect is bound to have severe repercussion on the unit. It is a matter of common knowledge and experience that the lack of consideration and appreciation of such an organisational force has been a stumbling block in the progress of co-operative banking. It has been quite successful as a deterrent force to mal-practices and mal-administration. It is no doubt a truism that so long as human nature is what it is, it is not possible to prevent fraud and mismanagement inspite of audit. Even then it is absolutely necessary at least to prevent and minimise to the greatest possible extent the occurrence of cases of fraud and mismanagement.

Hence 'Audit' may be defined as the authentication of accounts by independent persons not concerned with its preparation. It concerns with verification of the accuracy and correctness of the books of accounts. Section (17(2) of the Act II of 1912 States that 'Audit' shall include an examination of overdue date, if any, and valuation of assets and liabilities of the society. The Bombay Act VII of 1925 adds the words 'the verification of cash balances and securities.'

Audit Organisation

The sub-section (1) provides that it is the statutory duty of the Registrar, Co-operative Societies, Bihar that his Department should audit all credit co-operatives and central banks.

In practice audit of co-operative credit societies and banks is the sole responsibility of the Finance Department. At present the co-operative organisation functions under the direct administrative control of the Chief Audit officer. He is assisted by Deputy Chief Audit officer in the performance of his official duties. As a whole the State has been divided into various ranges. Each range is under the charge of Regional Audit Officer who is assisted by a Range Senior Auditor. At the district level, there is a District Senior Auditor. The District Auditor is assisted by a number of Junior Auditors.

The central co-operative banks of the State are audited by District Senior Auditors of the district; while primary credit societies are audited by Junior Auditors of the area.

Appointment of Officials

The Registrar, Co-operative Societies, Bihar, is an IAS appointed by Union Public Service Commission. Joint Registrars and Deputy Registrars and Inspectors are appointed by Bihar Public Service Commission. Registrar, Joint Registrars and Deputy Registrars are the officers of gazetted cadre. The appointment of supervisors is the function of the Co-operative Department.

Loans and Advances: Role of the Reserve Bank of India

The State or Central Government do not extend any loans directly or indirectly to any type of co-operative institution. At the national level the responsibility of the development and financing of co-operative credit falls on the shoulders of the Reserve Bank of India. Hence co-operative credit institutions have also been afforded opportunities to take the benefits of the liberal attitude of the Bank towards financing the agricultural economy. The Bank since its very inception has been according preferential treatment to the agricultural sector and has made special efforts to revitalise and strengthen the co-operative machinery so as to facilitate the regular flow of credit and the expansion of the co-operative credit in this sector. Reserve Bank of India Act underwent various amendments particularly in 1953 and 1954. The broad functions of the Bank set out in section 54 of the Act are :

1. To maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Central Government, State Government and State Co-operative banks, and other banking organizations.

2. To co-ordinate the operations of the Bank in connection with agricultural credit and its relations with State Co-operative banks and any other bank or organizations engaged in the business of agricultural credit⁹. The facilities provided by the Bank embody many of the recommendations in the informal conference held in February 1951, and All India Rural Credit Survey Committee 1954. The Bank under this Act is not empowered to finance agriculturists directly. Financial accommodation to co-operative credit institutions of the State is channelised through Bihar State Co-operative Bank Ltd. Like other apex co-operative banks, Bihar State Co-operative Bank has to maintain average daily balance of the demand liabilities and time liabilities with Reserve bank of India. Besides, this Bank has also to

9. Reserve Bank of India : *All India Rural Credit Survey Committee Report*, Vol. II, the general report, 1954, p. 288.

submit periodical statements prescribed for the purpose to Reserve Bank. The Bihar State Co-operative Bank has also to be ready for the inspection of their books and accounts to be made by the bank.

Reserve Bank of India provides short-term and medium-term loans to Bihar State Co-operative Bank like apex co-operative banks of other States.

Under Section 17(2)(b) and (4) a, the Bank has been authorised to rediscount or make advances to State Co-operative Bank against bills of exchange or promissory notes, making within 9 months and drawn for the purpose of financing seasonal agricultural operation of marketing of crops. With amendment of the section in 1951, the period had been increased from 9 months to 15 months. The Reserve Bank has extended to co-operative banks the facilities of rediscounting of bills arising out of bonafide commercial transactions which were formerly restricted to the scheduled banks alone¹⁰.

Under Section 17(4)(a) against the mortgage of Government or trustee securities and debentures of land mortgage banks, loans are also advanced by the Bank.

The Reserve Bank has also started granting medium-term loans for a period of three years under additional section 17(4-A) of the Act. Since 1963 an amendment in the Reserve Bank of India Act 1953 has made possible to grant loans maturing between 15 months to 5 years for special crops. To give effect to this amendment the Bank has started granting fixed loans for a period of three years under Section 17(4-A) of the Act, though applications for a large period, i.e., up to five years may also be considered in case of necessity. The rate of interest on such loans is fixed at 2% below the bank rate. The guarantee of the State Government and Promissory notes executed by the borrowing central co-operative banks or societies serve as the security for these advances. The purposes for which the Bank grants medium-term loans are reclamation of land, building and other land improvement, purchase of livestock, implements and machinery required for the construction of farm houses and cattle sheds.

Procedure of Obtaining Financial Accommodation

Reserve Bank of India channelises its credit facilities to agriculturists through State Co-operative Bank. In this State, Bihar State Co-operative Bank serves the purpose. As a rule the Reserve Bank's lending operations are confined only to A and B class of Banks and above C class of institutions recommended by the Registrars. But in the past, Bihar State Co-opera-

10. Ibid., pp. 288-89.

tive Bank's financial position was so sound that it did not require any sort of outside guarantees for obtaining credit facilities. The Act requires one good signature apart from the State Co-operative Bank. Besides, the Reserve Bank also finances long-term loans to State Government for enabling them to subscribe to the share capital of the institutions.

The procedure laid down for obtaining financial accommodation for central co-operative banks is that each central co-operative bank has to apply through Bihar State Co-operative Bank Ltd. and Registrar of the Co-operative Societies, Bihar, to Reserve Bank of India. The credit limit is for one year, commencing from 1st July and ending on 30th June. The Registrar forwards the application to the Bank atleast one month before the commencement of the year with necessary details. The bank has also to mention the latest financial position of the bank together with the audit report of the preceding three years along with the application. The financially weak central co-operative banks are also granted accommodation by Reserve Bank of India against the guarantee of the State Government. The financial accommodation provided by Reserve Bank and the State Co-operative Bank to central co-operative banks continued to show a rising tendency and the loans outstanding increased from Rs. 1,21.51 lakhs during 1960-61 to Rs. 16,90.76 lakhs in 1972-73¹¹. The Reserve Bank also provides short-term advances to State Co-operative Bank for financing handloom-weavers under section 17(2)(a) for the purchase of yarn and other appliances.

As regards the long-term finance, the Reserve Bank of India has pursued the policy of contributing considerable percentage of the total debentures floated by the Bihar State Land Development Bank, provided the State Government undertakes the guarantee of the repayment of the principal and interest. The share of the contribution of the Reserve Bank of India to such debentures may be raised. Besides, the Reserve Bank of India by its Act has been empowered to make loans and advances upto the maximum of 20 years to State Governments for enabling them to contribute to the share capital of co-operative credit institutions.

In spite of these provisions the Bihar State Land Development Bank could not avail the opportunity of finding financial accommodation. The debenture issued by the Bank has been guaranteed by Government of Bihar.

Long-Term Operation Funds

It is worth mentioning that National Agricultural Credit (long-term operation) Fund and National Agricultural (Stabilisation) Fund had been instituted in June, 1955 by the Bank in accordance with the recommendations

11. Reserve Bank of India : *Statistical Statements relating to the Co-operative Movement in India* Bombay, 1960-61, p. 62 and 1972-73, p. 64.

of Rural Credit Survey Committee. The provision for the same had been incorporated in the Reserve Bank of India (Amendment) Act 1966. The recommendations of the Committee aimed at facilitating availability of medium-term and long-term agricultural credit to co-operative banks and the State Government.

Long-term Operation Funds have been established for :—

1. Long-term loans and advances to State Government.
2. Medium-term loans for 15 months to 5 years for agricultural purposes.
3. Long-term advances to Co-operative Land Development Bank.

Finances of the Funds

In the initial stage the Reserve Bank of India credited Rs. 10 crores to the National Agricultural Credit (long-term operations) Fund in 1956 and is contributing Rs. 5 crores in every subsequent year.

On the other hand "the Stabilisation Fund" is to be used exclusively for extending loans and advances to State Co-operative banks to enable them to convert the short-term loans into medium-term whenever the necessity arises due to drought, floods and famine. The fund has to be credited with the sum as the Bank deems suitable.

Recent changes in Policy

By now the medium-term loans granted by the Reserve Bank of India to State Co-operative banks were to be utilised entirely for making fresh loans and not even a part of it for reimbursement of loans already advanced by co-operative banks owing to which the co-operative banks were not able to avail the full amount of medium-term loans sanctioned to them by the Bank.

In pursuance of the recommendations of Standing Advisory Committee, the Bank decided to refinance short-term loans. Owing to certain limitations, the reimbursement facilities were allowed to Bihar State Co-operative Bank like other State Co-operative banks to the extent of 75% of the fresh medium-term loans made by them over and above the level of their advances obtaining as on 30th June. The apex Bank in turn reimbursed 75% of the loans advanced by the central co-operative banks. Keeping in view the role of Reserve Bank of India it has been observed that the Reserve Bank of India has been giving new life and potent leadership to the credit co-operatives in recent years. Probably no other Central Bank in the world is doing as much as the Reserve Bank to help, develop and finance rural co-operative credit institutions.

Role of the State Bank of India

Since the very establishment of State Bank of India it has been entrusted with the task of developing co-operative movement in the country. Rural Credit Survey Committee, in pursuance of the recommendations of which the Bank has come into operation, also recommended that "State Bank of India should endeavour to be responsive to the needs of co-operative institutions connected with credit. The branch extension of the State Bank of India should be co-ordinated and, wherever possible, positively associated with the development of co-operative credit, from the point of view especially, of the provision of cheap remittance facilities".¹²

In accordance with the above recommendations, branches of the Bank, at least 1 branch at every big trade centre, Tahsil headquarter or at the district level have also been established in Bihar to provide remittance facilities to the central co-operative banks and also to their branches at very concessional rate of charges. The branch extension of this Bank gave further fillip to the expansion of branches of central co-operative banks at the same place where the branch of State Bank of India exists. The main form of assistance extended by the State Bank of India in Bihar is remittance facilities. Apart from providing remittances facilities, it acts as the banker to central co-operative banks of the State. These co-operatives open their current accounts in the branches of State Bank of India. All payments from and receipts into the account are effected by State Bank of India in the same way as it handles this type of work for its other customers. Bank may also sanction loans and overdraft facilities to co-operative banks. The Bank has provided interim financial accommodation to Bihar State Land Development Bank and a few other central co-operative banks against the guarantee of State Government. Besides, the Bank honours cheques authorisation drawn or made by the branch of the central co-operative banks and also accepts deposits, cheques, dividend and warrants etc., on behalf of the co-operative banks.

Summing up

In nutshell, it may be mentioned that the State extends assistance to the co-operative banks of the State because on which rests not only the task of expansion of co-operatives, but also their assistance. As regards financial assistance, Reserve Bank of India shares a vital part. It is no exaggeration that the co-operative banks are entirely dependent on Reserve Bank of India for financial assistance.

12. Reserve Bank of India : *All India Rural Credit Survey Committee Report Vol. II*, The general report, Bombay 1954, p. 413.

CHAPTER X

WEAKNESSES IN CO-OPERATIVE BANKING

It would not be out of context to attempt an estimate of the achievements of co-operative banks in Bihar and refer briefly to its weaknesses and finally to focuss attention on the factors that limit the expansion and revitalisation of these co-operatives in the State.

More than seven years have passed when the co-operative credit movement was officially launched and since then there has been a steady increase in the number of primary credit co-operatives and in their membership as well as in working capital. The structure of these institutions has also progressively undergone changes towards perfection together with the establishment of central and State co-operative banks. The point is what has actually been achieved in this field? Have these institutions galvanised the financial regeneration of peasantry and craftsmen, like that of Germany and Italy? The answers to these pertinent questions are very disappointing. The late remark of Royal Commission on Agriculture still holds "that the progress has not been uniform and the increase in number has not been accompanied by quality¹". Co-operative credit institutions in this State do not have a living and dynamic force, contributing to the financial regeneration of people by bringing in a new life and hope to the farmers. The message of co-operative credit, the self-help and mutual association for common financial stability has not been grasped by an average agriculturist.

The present system of co-operative banking in Bihar does not confirm itself to the ideals and objectives it was beset with. Judging from the contributions of the credit co-operatives in the money market, we may have an idea of the insignificant role of credit co-operatives in Bihar. The fact is that the proportion of loans advanced by credit co-operatives to total borrowings is not upto the mark. This reflects that the money market of Bihar is largely being dominated by money-lenders. According to the findings of Central Banking Enquiry Committee the credit facilities provided by co-operative movement to agriculturists cover but a very small proportion of their needs.

1. *Report of the Royal Commission on Agriculture in India*, Bombay 1928, p. 51.

The co-operative banks in Bihar have not only failed in eradicating the debt of the cultivators but have also failed in reducing the debt of the cultivators. Though there has been a slight decrease in the amount of debt, but keeping in view the time that has passed since the inception of the co-operative credit, the achievements in this direction are said to be insignificant. The 1971-72 All India Debt and Investment Survey assessed the total rural households' liabilities at Rs. 3,921 crores. This is based on a study of data collected from more than 1 lakh rural households from 12,000 sample villages. Of this, the aggregate indebtedness of the rural poor, including agricultural labourers, rural artisans, marginal and small farmers owning land less than 5 crores was Rs. 1,910 crores. The Sivaraman Committee estimated the consumption requirements of rural poor possessing lands upto 5 acres at Rs. 590 crores. However, the Committee estimated that only Rs. 70 crores could be met through co-operatives.²

On the basis of the above assessment it may be remarked that all that has been done amounts only to scratching of the surface.

Several Co-operative and Banking Enquiry Committees from time to time have tried their hand in pointing out the causes both internal and external that hindered the progress of co-operative banks in the Indian States. The views of Co-operative Planning Committee, that the main causes are the "laissez-faire policy of the State, the illiteracy of the people, the small size of the primary unit and undue reliance on honorary services with resultant inefficiency in management"³ hold good in Bihar even today.

Thus several causes have been responsible for the haphazard development of co-operative banking in the State. The most important among them are given below :—

1. Lack of Spontaneity and State control

The lack of spontaneous origin of co-operative banking has been one of the greatest weaknesses. The co-operative banking system in Bihar like other Indian states, but unlike Germany and Italy, owes its origin not to the spontaneous reaction of the people against money-lending trade system, but to the government policy to solve the problem of indebtedness. At present the registration of the credit societies, the supervision of their working and their subsequent winding up (at the time of liquidation) are statutory functions of the Registrar of the Bihar Co-operative Societies, acting as "creator, sustainer and destroyer" of the co-operative banks.

2. "Co-operative banking at crossroads" by Chari, T. S. K., published in *The Financial Express, New Delhi*, 25th May, 1976, p. 4.

3. Report of the Co-operative Planning Committee, 1946, Reprinted in 1951, Delhi, p. 203.

The control and interference of the State Government in these institutions functioning at different levels is all-pervading. The audit inspections are carried out by the co-operative department through co-operative auditors and inspectors. These officials, instead of cultivating the sense of responsibility, self-reliance and assertiveness create among them a tendency to call on always official assistance without realising the value of personal efforts. The members take these societies as government-financing agencies. The inspectors and supervisors lack sympathy and enthusiasm needed to evolve a true co-operative spirit.

The following remarks of a great authority on Co-operation, Sir Horace Plunkett, are noteworthy : "...the widely spread and numerous supported Indian Co-operative Movement would more accurately be called a Co-operative Policy. It was created by 'resolutions' (to all intents and purposes, laws) of the Central Government and has been administered almost wholly by the ablest civil service in the world. A huge posse now nearly all Indian, of registrars, assistant registrars, auditors and accountants, inspects, supervises, and largely controls the co-operative societies scattered over the continent. These societies are so predominantly for the purpose of credit that comparatively little attention has been given to the other co-operative objects and functions needed to bring the Movement into the co-operative category...All the talk about 'Indianization' and 'deofficialization' but leads to the general conclusion that Indian organisers will have to be trained gradually to build up an indigenous and spontaneous movement upon the foundations laid. Sir Plunkett attaches to what he considers a fundamental principle of Co-operation, namely, "the immeasurably more effective value of organized voluntary action than of the State assistance, however essential that might be." It is true that in the initial stages of these institutions in underdeveloped State like Bihar, State control was essential to foster an environment for the evolution of co-operative banking in real sense. But the State control has become long lasting. It is, however, gratifying to point out that the Government of Bihar has recently taken a wise step in de-officialising the whole co-operative movement. Henceforth credit co-operatives imbued with true voluntarism may come into existence.

2. Illiteracy and Ignorance

General education of the masses which is an essential element and forms the base for vocational training is almost lacking in the rank and file of the members of co-operative credit in Bihar. The understanding of co-operative principles has not penetrated into the minds of the members

4. Quoted by Hough, E. M., *The Co-operative Movement in India*, Third Edition, 1953, pp. XXII-XXIII and *All India Rural Credit Survey Committee Report*, Vol. II, The General Report, Bombay, 1954, p. 251,

due to illiteracy and ignorance. This has made the people so sceptic that they do not believe in the efficacy of the co-operative banking. S.G. Panandikar has pointed out: "The understanding of the principles of co-operation and the knowledge of the essentials of rural credit are lacking among a large proportion of the members. The essence of the movement is that its members must learn to manage their own affairs. The task of teaching illiterate peasants to do so is a slow and elaborate process. But the supreme importance of educating and supervising them has not been adequately realised, and the desire to produce quick and extensive results has hampered the real progress of the movement".⁵

There has, of course, been excessive expansion of co-operative credit societies but so far as the understanding and observance of co-operative and banking principles are concerned, there exists a wide gulf between members and the principles. Plainly speaking the members and the law governing activities are poles apart.

All that a credit society means to these members is that it is a bank from which money at the cheaper rate may be borrowed and there is no particular hurry in repayment of their loans.

The lack of imparting training in banking and co-operative principles has failed to cultivate among the members the sense of thrift and economy resulting in extravagancy and no savings.

Illiteracy and ignorance has also put some operational difficulties before banks. Owing to dearth of literate people, efficient secretaries and accountants are not available to carry out the working of societies. Our personal enquiry reveals that most of the societies are being run by secretaries devoid of the knowledge of co-operative and banking principle.

Besides this, their illiteracy has also contributed to the exploitation of poor members, irregularity of repayment of loan in addition to malpractices of officials and office bearers.

Cases regarding the exploitation of the members have also been reported during our personal survey. An accountant and a cashier of a particular society in some village recovered the total outstanding loans from the members, but they did not deposit the collected amount in the central co-operative bank. Both the cashier and the accountant misused the whole money. The members did not care to obtain the payment receipt from these office bearers. As there was no documentary proof regarding the 'payment', they had to repay the same loans.

The occurrence of such immoral practices originates from the narrow outlook which itself is a creation of the lack of education. The Royal

5. Panandikar, S. G., *Banking in India*, Orient Longman Ltd., Bombay, (First edition 1934 and twelfth edition 1975), p. 119.

Commission on Agriculture has remarked that "for these disquieting conditions there are several causes, of which lack of training and of understanding of co-operative principles is the most important⁶. Hence it is obvious that the neglect of education of co-operative and banking principles among the officials and non-official workers and members has aggravated the condition.

The lack of training in principle of commercial banking has also been another handicap for the slow progress of co-operative banking in the State. According to the Preliminary Report, Reserve Bank of India, (1936), "The disabilities under which the co-operative movement is at present labouring are possibly attributable to this deficiency (the lack of practical bankers)" more than to any other case.⁷

3. Absence of democratic spirit in the management

In spite of the statutory provisions laid down in the bye-laws and the Act itself for the democratic management of these co-operatives, fictitious display of democratic spirit has become a common feature. Various unhealthy factors outside and inside the co-operative credit institutions have ushered in which impair the free development of democratic administration of credit co-operatives. Excessive interference of the Government and unhealthy Dalbandi are the other main factors responsible for undemocratic management of these organisations. The main factors for the absence of democratic spirit are as follows :

I. Undue Pressure of the Government

It is alleged that the management of credit co-operatives as a whole has passed into the hands of Government officials. The State Government nominates a certain proportion of directors in the managing committee in all the State partnered credit co-operatives. Owing to the official control through government representatives the voice of the members is not heard and recognised.

II: Casteism

The prevalence of caste and communal prejudices in co-operative credit institutions in Bihar is another impediment in the way of the evolution of democratic spirit. The directors belonging to a particular caste do not allow members of other castes and communities to come on the staff. Sometimes membership is also refused on this ground. Several cases have been reported during our personal survey. This is against the democratic principle.

6. *Royal Commission on Agriculture in India*, Bombay, 1928, pp. 449-50.

7. Quoted by *All India Rural Credit Survey Committee Report* Vol. II, The General Report Bombay, 1954, p. 250.

III. Party Factions

An undesirable feature in the village community is the existence of two rival groups—led by different leaders. Each tries to dominate the other group. These factions naturally affect the co-operative credit institutions adversely. At the time of selections, the members belonging to the party in power are given free entrance while others are rejected without any sound reason. The same influence is also found at work in central and State Co-operative banks. These credit societies have become a weapon in the hands of these leaders to fulfil their selfish political motive rather than service-rendering institution. The party factions in most of the cases arise due to the thirst for office. To have a dominating say in the management, these members do not hesitate in adopting immoral tactics. All India Rural Credit Survey Committee has pointed out that "This tendency (groupism) as well as a not uncommon inclination of members to treat the society as a close preserve of one class of persons in the village may be traced to the character of the village leadership, to the bias towards ownership of land and to the influence of caste."⁸

4. Lack of Proper Leadership

The lack of proper leadership has also been a major factor in the slow growth of credit co-operation in Bihar. The remark of All India Rural Credit Survey Committee holds good in case of the credit co-operative societies that "the co-operative organisation to-day contains middle class leadership of varying and conflicting interests. It is only in India one finds mill-owners, rentier landlords and traders being the leaders of co-operative organisations⁹."

In fact leadership should have emerged from among the class of members who organise or believe in the efficacy of society. Only such leaders can appreciate the problems and needs of their mates. In most of the cases leadership of agricultural credit societies is in the hand of lawyers, doctors and traders and money-lenders. Sometimes the persons with selfish political motives also try to hold the banner. The basic principle of political neutrality is thus neglected. Every affair of the society is handled on political lines. These heterogeneous people are "not particularly attuned by training or temperament to the needs of rural areas, still less inspired by a common determination to meet those needs to the maximum possible extent."¹⁰

The leadership of these societies is particularly in the hands of village traders and Mahajans who have natural apathy evoked by commercial

8. *All India Rural Survey Committee Report*, The general report Vol. II, 1954 Bombay, p. 263

9. *Ibid.*, p. 265.

10. *Ibid.*, p. 268.

interests and still succeed in exploiting the poor members of the institutions in the one way or the other.

The access of these disguised co-operators has not only remained confined to the primary level but has also captured the central and State Co-operative banks. Plainly speaking, there is great paucity of members on the Board of Management in these institutions who are actually cultivators and crafts-men.

5. Honorary workers

The honorary service of the workers is another defect of the credit co-operatives of Bihar. However, in a few societies (service co-operatives and the large-sized) of the State, paid secretaries and accountants have been employed, but their remuneration is quite meagre. Honorary or ill-paid workers cannot be expected to exercise that much of supervision which is essential for healthy working of credit co-operatives.

They are usually professional men with their frequent calls on times and on their duties to which they have to devote much of their time. They are, therefore, not in a position to devote their whole time and energy to these institutions. Also they cannot spare their time for obtaining training in principles of co-operation and banking. They are not legally bound by the departmental policies even in such important matters of financial strictness.

Sometimes an honorary service breeds suspicion in the minds of their co-workers because coined motives begin to be imputed. These selfless workers fall a prey to the adverse propaganda. Sometimes under such circumstances they begin to feel as quoted by W.H. Wolff that "I am for my sacrifice suspected as dishonest worker. Let me now break the vow¹¹". The efficient and capable workers do not come forward and thus the fate of the society is left at stake.

6. Inadequacy of Financial Resources

In fact the resources of co-operative institutions for raising finances to meet out their financial operations are meagre and scanty. There has been almost no substantial increase in the amount of paid-up share capital, reserves and deposits. The failure of these banks to meet financial strain from their own resources at every strata has led them to resort to outside borrowings. The causes for this inadequacy have been captioned as under :

11. Wolff, H. W. *People's Banks : A Report of Social and Economic Success Fourth Edition*, London, 1910, p. 411.

1. Share Capital

The methods of raising share capital in the State does not confirm with provisions of the Act and bye-laws. The bye-laws of agricultural and non-agricultural credit societies provide that the value of shares is to be realised in instalments. But in practice it is paid in lump-sum; with the result the poor members who cannot afford to pay this amount, either resort to borrowings from money-lenders to purchase a share or remain outside the field of co-operative credit institutions.

It has also been pointed out that office bearers vested with selfish motives or under the impact of the party affiliation, discourage or almost refuse the admission of new members. Sometimes dividend-hunting tendencies also discourage the members to join the society because every increase in the volume of the membership reduces the amount of distributable dividend. A maximum limit has, however, been fixed for the distributable amount of the dividend. These tactics result in low volume of membership and thereby paid-up share capital is affected.

2. Reserves and other Funds

The reserve fund which is an important component of owned capital is very meagre in co-operative credit institutions of Bihar. The volume of reserve fund entirely depends upon the volume of net profits. Owing to the high cost of management of these institutions a very insignificant portion of net profit is left to be credited to this fund. This is the reason that volume of reserves and of other funds not only in primary co-operative credit institutions of the state but also in central and State Co-operative banks is very meagre. Maintenance of reserves for bad and doubtful debts is also not adequate. Owing to the heavy toll of bad and doubtful debt, maintenance of adequate amount of reserves for the bad and doubtful purposes is recommended.

3. Deposits

The law of co-operation had made thrift an integral part of co-operative societies but credit co-operatives have not been successful in tapping the small savings of both the rural and urban population. The poor percentage of deposits to the working capital is obvious from the fact that the percentage of deposits to working capital was 3.89 in primary agricultural society, 25.56 in central co-operative banks and 45.95 in Bihar Co-operative Bank, and 3.08 in Bihar State Land Development Bank by the end of June, 1973-74 (as referred in chap. II) It is obvious that flow of deposits from individuals, both the members and non-members, is not satisfactory partly due to the lack of confidence of members in these banks, and partly due to their poverty. Besides, keeping of surplus funds of credit

co-operatives in commercial banks much in excess of the prescribed limit is also one of the reasons for the low volume of deposits. Had they been deposited in the manner i.e., directly or indirectly in Bihar State Co-operative Bank (directly by the central co-operative bank to Bihar State Co-operative Bank and indirectly by societies through central banks), the Bihar State Co-operative Bank would not have to look for outside borrowings to meet its financial obligations.

Hence this practice of primary societies and central co-operative banks hinders the proper development of co-operative banks in the State.

4. Dependence on outside borrowings (Reserve Bank of India)

The inadequacy of owned resources and deposits to meet the credit requirements of members leads these institutions to resort to borrowings. Bihar credit co-operative societies entirely depend upon Reserve Bank of India for financial assistance which provides finance to these institutions for all sort of needs through Bihar State Co-operative Bank.

It is alleged that dependence of Bihar State Co-operative Bank on Reserve Bank of India has been a major weakness of the whole co-operative credit movement. The percentage of borrowings drawn from Reserve Bank of India was 81.48 per cent to the total borrowings by the end of June, 1973¹². It would not be out of way to point out that the whole show of co-operative credit institutions in Bihar is of Reserve Bank of India.

Inadequate Financing by Co-operative Credit institutions in Bihar

The inadequacy of the finances extended by these co-operatives has been referred as one of the weaknesses of the co-operative banks in Bihar. Frequently loans are not granted as and when required by the members. Elapse of four or six week between loan applications and receipts of money by the members is very common but very often loans are disbursed to the members on a day or twice during the year and well not in time. This untimely disbursement of loans makes the co-operative finance ineffective and creates opportunities for members to approach the money-lender for their financial requirements. When loans are advanced by co-operative credit societies the money is utilised in repayment of loans to money-lenders. This leads to the division of members' loyalty and defeats the purpose of removing the money-lenders from the screen. Inadequacy of financing arises due to the following factors :—

1. Lending Policy : In order to enable the members to satisfy their short-term and medium-term needs, it is necessary to grant adequate

12. *Statistical statements relating to the Co-operative Movement in India, Part I, Credit Societies, Bombay, 1972-73, pp. 8-10.*

amount of loans. But on the contrary, it has been observed that the amount of loans granted to the members is not adequate to their demand. Consequently these agriculturist members, again fall a victim to the money-lenders for the fulfilment of remaining loan-demands. It is no denying the fact that the facile credit is dangerous but under-financing is also bad, because it drags into the net of the unscrupulous mahajans for meeting their total financial requirements.

(1) Defective crop-loan system

The crop-loan system with the objective of financing total productive needs of the members has also resulted in wide variations in fixation of credit limit on principle. The amount of loan is related to the number of acres of land and its crop acreage. Let us suppose, a cultivator is granted certain amount of loan for a particular crop, say wheat but he grows pulses the same amount becomes inadequate. Hence the credit limit ascertained on the basis of crop outlay does not hold good in case of all the crops. Consequently an individual cultivator fails to satisfy even his normal credit needs for the maintenance of cultivation of a particular crop. As such there is more probability of falling a prey to money-lenders.

(b) Neglect of consumption needs

This system has also neglected the consumption needs which are more pressing. As pointed by All India Rural Survey Committee "the proportion of borrowing for family expenditure to the total borrowings from all agencies" amounts to 59.8 per cent for the small cultivator, 49.5 per cent for medium cultivator and 41.2 per cent for large cultivator.¹³

Apart from these defects, there are certain incidental anomalies attributable to irregularity and unpromptness of managing committees of the credit co-operatives at the primary level. A large number of cases have been reported where the papers required for the fixation of credit limit are not sent to the central co-operative banks in time, with the result that the central banks continue to advance loans against the credit limit fixed for the previous years. Consequently cultivators fail to avail themselves of better financial facilities. Besides it, the occasional partiality of the office bearers or Board of Directors of banks and societies due to communal or party affiliations resulted in various anomalies in matters of granting loans to the members. It was also reported that loans by central co-operative banks were also granted to a society even before its formal admission to the bank as a member. Such things cause a greater difficulty in the event of disputes. The granting of loans in kind, i.e., fertilizers and seeds etc. with a

13. Reserve Bank of India; *All India Rural Survey Committee Report Vol. II, The general report*, Bombay 1954, p. 234.

cash credit to ensure the proper application of loans has raised very serious problems in some undeveloped tracks of the State. The use of chemical fertilisers in some parts of the State has resulted in burning of seeds causing low productivity for want of proper irrigation facilities. The proper irrigation facilities are the attendant needs of the use of fertilizers.

2. Lending Rates

The lending rates of primary credit societies charged from cultivators are still too high to make the use of co-operative finance profitable. On the contrary, the co-operative finance has become costlier. The Report of the Agricultural credit Organization Committee, 1947, has pointed out that the co-operative "banks occasionally spend on their management more than they should and have to maintain wide margins between the borrowing and the lending rates."¹⁴ Some hold that it is inevitable because three intermediaries—primary credit societies, central co-operative banks and State Co-operative Bank need some money to meet the cost of management. To a larger extent this is met out with earnings obtained from the difference between the rates of interest on which State Co-operative Bank obtains loans and deposits, and that at which loans to the ultimate borrower are advanced. Even then there remains a wide discrepancy between the rates of interest charged by State Co-operative Bank and the rates charged from individual borrowers by the societies. The rate of interest on the advances made for seasonal agricultural operations by Reserve Bank of India to the Bihar State Co-operative Bank is 2% below¹⁵ the bank rate whereas the agriculturist member usually pays interest at the rate of about 8½% per annum to the society. The wide disparity has made co-operative finance very inelastic and reflects upon the high cost of management due to the inefficiency of the staff.

Besides, there is also a wide variation in the rate of interest from society to society and from bank to bank. There are societies which advance loans at the rate of 7% per annum whereas some societies charge 9% interest per annum. This wide discrepancy brings among the members a disregard for the society charging a higher rate of interest.

3. Repayment of Loans

The most prominent defect in the working of the co-operative banks and societies of Bihar is laxity, irregularity and unpunctuality on the part of the members in repayment of due loans in time. The percentage of

14. Quoted by *All India Rural Credit Survey Committee Report, Vol. II*, The general report, 1954, p. 249.

15. *Statistical Statement relating to the Co-operative Movement in India, Part I Credit Societies*, 1972-73, Bombay, p. 156.

recovery of loans to overdues of the agricultural and non-agricultural credit societies reaches a higher degree. The overdues, particularly in agricultural societies have accumulated to a greater extent.

The failure of individual borrowers in repayment of due loans in time upsets the whole working of co-operative banks. The failure of individuals in timely repayment disables the society to repay its loan to central co-operative banks with the result that the central co-operative banks also find themselves unable to repay their due instalments to Bihar State Co-operative Bank before the due date. When loans are not repaid by Bihar State Co-operative Bank to Reserve Bank of India in time, corresponding promotes of central co-operative banks become time-barred. Obviously the Reserve Bank of India would not like to accept time-barred promotes as security for fresh loans. Bihar State Co-operative Bank would not get the needed finance and the whole structure would suffer. Besides, the inability of the Bank to honour its commitments on due date is a sign of financial weakness and affects its goodwill. The following are the main causes found in prevalence in Bihar co-operative credit institutions.

1. Laxity in Realisation of Outstanding Loans

The laxity and leniency on the part of the Board of Directors and officials of co-operative societies have resulted in slow and irregular repayment of loans. This laxity is partly due to lack of interest among the office bearers of the boards and partly due to their selfish motives, partiality and their lust for the office. The office bearers and the non-officials do not like to incur unpopularity intaking stringent and coercive actions against the defaulters for realising the due loans. Besides it, the fear of losing the vote also brings in them hesitation to take legal actions against these defaulters.

Government Officers vested with the power of granting extention in period for the repayment of loans are also responsible for poor recovery. It is alleged that they do not hesitate in accepting illegal gratification from defaulters by granting unreasonable and unjustifiable extension of period for the repayment of due loans or instalment thereof. 'The Committee on Co-operation' has pointed out : "there is no defect more prominent or more dangerous in the management of co-operative societies in India than the exceeding laxity and unpunctuality in repayment of loans as tolerated by societies in some provinces."¹⁶

2. Fictitious Repayments and Book Adjustment

Another anomaly in the financial operations is the prevalence of fictitious repayments and book adjustments. It refers to the practice of

16. *Report of the Committee on Co-operation in India* (MacLagan Committee), 1915, Reprinted in 1957, Bombay, p. 45.

making false entries to show repayments and grant fresh loans without any actual cash transfer. As a measure to put a restraint on this malpractice, statutory provision in Act was inserted that fresh loans would be granted to a member society only after the expiry of seven days from the date on which the repayment of previous due loan is made. But in practice this provision is absolutely neglected. Such irregularities create opportunities for wilful defaults. Plainly speaking, the officials and office bearers of the bank help in getting these fictitious repayments done, for they receive a net percentage of illegal commissions. This practice is very common in central co-operative banks. It has been observed that at the time of repayment of due loans, funds are locally arranged from money-lenders by the office bearers of the society on behalf of the members. As soon as the fresh loans are granted by central co-operative bank to the society, the money is paid back to the money-lenders. For this very period, howsoever small it may be, these money-lenders also receive some amount by way of interest.

3. Misapplication of Loans

The loans by co-operative credit society are advanced for productive purposes. But the illiterate and ignorant borrowers cannot refrain themselves from utilising the amount of money for their more pressing needs arising out of domestic requirements. It has been observed that the bulk of the loans are utilised by these borrowers for consumption purposes, with the result that at the time of repayment nothing is left with them to pay off the debt. Strict vigilance was expected from the office bearers and officials with regard to the application of the loans on the ground that credit societies would keep the borrowing members in close touch with themselves from time to time. But owing to undue delicacy and lack of moral courage no attention was paid to the proper application of loans, with the result that either the loans remained unpaid or they had to borrow from local money-lenders for repaying the debt of the society.

Overdues

The absence of prompt and regular repayment has raised the problem of overdues and outstanding loans. In spite of an increase in the percentage of recovery, the existing volume of overdue loans is still very discouraging.

Inadequate and Inefficient Linking of Credit with Marketing

Controlled credit by co-operative banks in Bihar is a myth because almost all the members join credit society merely to get money from it. The fallacy of linking credit with marketing in Bihar is always exposed. Another major defect underlying this policy is due to the scattered and uneconomic land holdings in the State. The agricultural produce in such

cases usually falls short of the consumption requirements of the member for food grains. With a view to honour his commitment of disposing of his produce through local marketing society he has to purchase the same corn from the general market at a higher price and has to sell it to marketing society on a low price, and the difference borne by him is met occasionally out of borrowings from money-lenders. Thus the co-operative finance becomes costly for him and its very purpose of saving the agriculturist from the grip of money-lender is defeated.

Competition with Private Agencies

One of the basic defects attributable to the unhealthy feature of the co-operative bank in Bihar is the competition. Virtually the opposition withstood by co-operative banks is from private agencies like money-lenders and commercial banks. This competition has adversely affected the deposit of the co-operative banks. Owing to their widespread net work and their sound financial position, these co-operative banks are placed at a great disadvantageous position. As pointed out by All India Rural Credit Committee "the ubiquity of this agency (private agencies), its wide spread net work from village to town and city, and in particular, the financial strength which it derives from its connections with some of the most powerful elements of the urban economy, are all of the important factors, which place the co-operative society and organisation at great disadvantage in comparison with it and competition between them wholly unequal and one-sided¹⁷".

Lack of Adequate Remittance Facilities

At present the co-operative banks in Bihar are handicapped and thereby unable to provide sufficient remittance facilities to their constituents and customers. They have to depend upon commercial banks. It is not befitting to the co-operative banking structure that even at the place where central co-operative banks or their branches are functioning bills are collected from commercial banks and State Bank of India. Thus central co-operative banks do not keep their surplus funds under "deposit pool scheme" of Bihar State Co-operative Bank. Consequently the latter finds itself unable to act as clearing house for the former.

Account books, Registers and other Documents

It has been observed that the account books and registers are not properly maintained by co-operative banks at any level. In spite of the repeated instructions from the Co-operative Department, the demand, collection and balance registers are not maintained and posted upto date. In addition

17. Reserve Bank of India : *All India Rural Credit Survey Committee Report, Vol. II, The General Report*, Bombay, 1954, p. 258.

to the above, the statements of the assets of the societies are not revised from time to time. It has been reported that the assets which remained in the possession of the members are sometimes frittered away by them, or used by them with outside creditors.

It has been also observed that a few central banks have also not swithed over to the double entry system, causing an inordinate delay in preparation of accounts and also delaying the auditing of accounts.

Defective Audit

As against the statutory provision for regular audit atleast once a year, most of the credit societies at the primary levels and central banks of the State remain unaudited. The statistical statement relating to co-operative movement reveals that most of the credit societies of the State could not be audited partly due to inadequacy of auditors and partly due to the failure of societies in preparation of necessary papers. The auditing in the co-operative credit societies and bank is irregular. The principles governing the audit are also defective. For the purpose of assigning a particular class to society, a certain prescribed standard should be followed. The present system laid down for the purpose of audit classification is vague and does not include any definite yard stick such as volume of service rendered, percentage of recovery and overdues, percentage of increase in business and quality of service, etc. At present the classification based on audit reports is subjective rather than that of objective one.

Difficulties in Co-operative Land Development Banking in Bihar

The development of Central Land Development Banking in Bihar is of recent origin and still lags behind other State Co-operative Land Development banks due to its scanty financial resources. The small number of members and the transactions and above all restrictive Tenancy Act regarding the alienation of land in favour of Bihar State Co-operative Land Development Bank are the causes of its retarded growth. Hence, the Bank with its scanty and limited resources is passing through the trials and tests of the competitive and tight money market conditions. The following are the main handicaps which have retarded the growth of this institution :

Legal Defects

The working of Land Development Banking in Bihar was handicapped with the enactment of Zamindari Abolition and Land Reforms Act, which imposed restrictions on the alienation of land in favour of the Bank. However, the amendment of the Act has empowered the landowner for the transfer of land in favour of the Bank. The ceiling of the Land Holding Act has also been responsible for the stagnant position of the Bank.

Operational difficulties

Bihar State Co-operative Land Development Bank had to establish its branches in almost all the districts of the State with a view to extend credit facilities to each village. The opening of branches necessitated an increase in the strength of the staff for the supervisions, inspections and for recovery purposes. As the State Government does not subscribe the managerial costs of these branches in full, the resources of the Bank are unnecessarily taxed in meeting the administrative expenses for the maintenance of these branches.

Meagre Resources of Raising Capital

The fundamental weakness of Bihar State Co-operative Land Development Bank has been the lack of adequate financial resources to build up sufficient working capital. The bulk of the working capital in the Bank has been contributed by the State Government by way of share capital. Owing to low volume of membership the share capital could not be raised from the individual agriculturists. The deposits are also very insignificant. Apart from these sources, the main source of raising finance is debenture. Bihar State Co-operative Land Development Bank could not raise much finance from this sources as its first series of debentures was floated late. The most disquieting feature is that the response of the public regarding investment in debentures is very discouraging. The bulk of the debentures have been purchased by the co-operative credit institutions and the State Bank of India. In brief, the financial position of the Bank is not very sound.

Lending Policy

It is complained that loans granted by Bihar State Co-operative Land Development Bank are also inadequate and dilatory.

It has been pointed out that the valuation of land by the Land Valuation Officer is also defective. The formula adopted for the valuation of land is not in congruence with formula adopted in calculating the compensation for the acquisition of land. In fact the average value of the cultivable land in the market is higher than the calculated value. Thus it leaves a wide gulf between the actual value and the calculated value of the land. As the loans to the individual agriculturists are advanced on the basis of the calculated value, the agriculturists fail to avail themselves of the full advantage of the facilities provided by the parties. Consequently the small investments in the land do not turn out to be good assets.

The observance of this uniform formula for calculating the value of land has created some incidental problems in the State. Owing to the variety of soil, this formula does not hold good in the hilly regions of the State because of certain dissimilarities to those of plains.

Besides inadequacy and delay in grant of loans and defective land valuation, borrowers have also not been able to utilise the total sanctioned amount. As referred in the Annual Report of the Bank that the loans for minor irrigation schemes and land improvement purposes are generally disbursed in two instalments, but they are not properly utilised by a good number of members. Owing to these reasons there remains a wide gap between the amount of loans disbursed in two instalments. Apart from circumstantial anomalies, the lack of active co-operation of revenue department and the honest dealings of the land valuation officers has also adversely affected the borrowing capacities of the members.

Misutilisation of Loans

Misutilisation of loans is a common complaint against the members of the credit co-operatives. In Bihar State Co-operative Development Bank a major portion of the loans taken for minor irrigation projects and land development scheme has been utilised for the construction of houses and for the celebration of marriage ceremony and others.

Miscellaneous

It is also pointed out that Bihar Government has not transferred the disbursement of Takavi loans to this bank as recommended by the Committee. The motive of transferring Takavi finance and its disbursement through this Bank was based on the fact that this Bank would gain more popularity, and membership would increase. But the Government of Bihar has turned its deaf ear to the proposal.

Summing up

To summarise the causes of slow growth of co-operative banks in the State the views of Madras Committee may be cited in respect of the societies of Bihar that banks in the state have neither been sound nor efficient; that they have not sprung up out of the felt needs and the realisation of their utility by the people. Though in comparison to the past few years these banks showed a sign of deterioration as evident by the steady accumulation of overdues, and bad and doubtful debts, and an increasing number of liquidated societies; still they have not touched the rural and urban classes, and have failed to reduce the indebtedness of the members, and the principle of co-operations and banking has not been propagated among the members. In a nutshell, the quantitative rather than qualitative aspect of the development of co-operative banking has been aimed at, and the above mentioned causes have retarded the sound development of co-operative banking in the State.

CHAPTER XI

CONCLUSIONS AND SUGGESTIONS

Taking into consideration the importance of rural and urban credit (from the point of view of agriculturists and non-agriculturists who need it) and the agencies supplying it, there is no alternative, more suitable than the co-operative form of credit organisations, not only at the base but also at the higher levels of the State. It is no denying the fact that the present structure of co-operative banking system suffers from various anomalies. But they are not of so serious nature as cannot be remedied. If put to certain safeguards and remedies, the present system will become more powerful and service-rendering for fighting out usury and eradicating usurers from the money market. What is needed is to strengthen their structure, increase financial resources and expand membership of primary credit co-operatives.

The process of re-orientation and invigoration should also be extended to higher co-operative credit agencies in order to protect primaries from the keen competition and positive opposition of private agencies to which they are victims at present. Given to such a sound system at district and State level, the primary credit societies would evolve themselves into a strong credit structure with true co-operative spirit.

In drawing up a plan for the development and remedy of co-operative banking in Bihar, certain assumptions are to be made, without which it can hardly succeed in its high mission. Firstly, it presupposes such economic conditions as are absent in the State, such as existence of savings, thrifty character of the people and the absence of indebtedness. Secondly, it presupposes the existence of a certain standard of education because the progress of co-operative banking is governed by the base of educational progress. But unfortunately the cultivators and other sections of small income group are illiterate and ignorant. Thirdly, it also presupposes for its success, the spontaneity of demand and initiative on the part of the people and some readiness to adopt the principles of co-operation and banking. These qualities are also absent in Bihar. Raiffeisen and Schulze of Germany, and Luggi-luzzati of Italy—the ardent youngmen are absent in the State and we have to depend upon the machinery of Registrar. Consequently the notion that co-operative banks are 'Sarkar's Bank' militates against the success of co-operative banking in the State.

If the co-operative banking in the State is to become a living and dynamic force, a fresh co-operative spirit has to be infused among the people. In Bihar, predominantly being an agricultural State, where the peasants have to depend on money-lenders for the supply of necessary finance to carry on their agricultural operations and to effect necessary improvement in land, a pilot scheme for the reorganisation, revitalisation, and consolidation of the whole co-operative credit structure on the following lines is needed :—

1. Reorganisation

A comprehensive plan for the reorganisation of whole co-operative credit structure should be framed. As recommended by V. L. Mehta Committee all the existing agricultural credit societies should be converted into 'viable unit' in the shortest possible time. It requires a quick study of the existing societies. The societies which are not likely to be viable should be reorganised through amalgamation by transgressing the limit laid down by Mehta Committee. It should be envisaged that by the end of Fifth Five Year Plan every primary agricultural credit society should work like a viable unit with a membership of at least 3,000 each.

A viable unit implies that it should strengthen its position as much as may be required to have its own office and to employ a full time manager, and secretary trained in co-operative and banking principles with view to operate its lending policies and its deposit schemes. All the potential societies having full time managers and secretaries should be assisted with a subsidy from the State Government.

As regards non-agricultural credit societies, particularly employees' co-operative credit societies, their reorganisation should be worked out on the line recommended by the study group on co-operatives in Non-Agricultural Sector headed by Sri V.P. Pande that by the end of 5th Plan every organisation with more than 50 employees and every mill and factory should have employees' co-operative credit societies and membership should be thrown open to all permanent and quasi-permanent employee,¹ without any distinction of class, grade or category.

The Bihar State Co-operative Land Development Bank also needs a change in their existing structure similar to Tamil Nadu. Its branches through which it is carrying on its business, should be converted into full fledged land development banks to function at each block headquarter.

1. 'National Co-operative Union's Report of the Study Group on Co-operatives in Non-Agriculture Sector,' Indian Co-operative Review, April 1964, p. 45).

This reorganisational pattern would give fresh impetus to the development of both the short and long-term co-operative credit institutions of the State.

2. Membership Drive

There is a great scope for enhancing the volume of membership in rural and urban societies, because people have felt the financial needs for short and medium periods. What is needed is the understanding of the advantages of co-operative finance to motivate the potential members. Hence a campaign should be launched to induce more and more individual membership at primary levels. Efforts should be directed to discourage individual membership in central and Bihar State Co-operative banks.

The following lines would be more advisable for the motivation of potential individual to join the societies :—

1. A study of existing primary credit societies in the back ground of local needs, the volume of resources rendered by them and ascertainment of the scope for expanding membership.
2. Discussion with office bearers about the causes for the low volume of membership and to take steps for making the societies more serviceable, attractive and comprehensive.
3. Approaching the prospective members, conveying to them and convincing about the benefits and services rendered by the society and getting them interested in its working.
4. Motivating a few influential and reliable persons of the locality to help authorities in membership drive.
5. Utilisation of services of the senior students of under and post graduate classes, with sufficient knowledge of co-operative principles and their advantages in the task of motivating prospective members.

Administration and Management of Co-operatives

In order to develop the efficiency in the management of these credit institutions at all levels, some trained and qualified persons equipped with knowledge of co-operation and banking principles and its working and capable of handling banking operations are needed to be appointed. In order to achieve this end the entire State should be sub-divided into different zones for the purpose which should be put in charge of senior officers for the supervision of collection work in their respective zones.

Apart from the benefits given to the managers and other employees of the societies, Directors should also be given some remuneration to sustain their necessary interest in the welfare of societies and their members.

The central co-operative banks should also have well qualified and oriented staff trained in co-operative banking, particularly Manager, Executive Officer, Chief Accountant, and a Field officer. Besides, Bihar State Co-operative Bank should appoint a special officer on duty to attend to the needs of bringing up the standard of efficiency in the working of the banks.

The Reserve Bank can be requested to undertake technical responsibility in improving the knowledge of the personnel of co-operative banks.

4. Raising Adequate Funds for Co-operative Banks and Societies

The financial resources on which the whole credit policy of the co-operative banks depends, have been very scanty and inadequate resulting in large amount of borrowings from other resources. Sincere efforts are, therefore, needed to build up adequate owned funds and secure deposits.

(a) Share capital

In addition to the contribution of Bihar Government in the volume of share capital of co-operative credit institutions other steps, if taken, may effect an increase in the amount of paid-up share capital :—

(i) The central banks should be insisted upon for subscribing an additional amount of share capital over and above the prescribed proportion of their own share capital.

(ii) A change in the percentage of share holdings, i.e., enhancing the proportion of share holdings relating to borrowings, may also effect an increase. It has been suggested that a member should start with by taking up shares of the order of 10% of his borrowings and in subsequent two years share of an additional 5% each year raising the total upto 20%. It will not only effect a substantial increase in the volume of share capital but also mobilise and secure small savings of the individuals.

(iii) Statutory Reserves :—The co-operative credit institutions are advised to build up adequate reserve funds for tiding over the unfavourable seasonability disabling the borrower to repay the loan in time. For the maintenance of sufficient reserves, Reserve Bank of India recommended a wide margin between borrowing and lending rates of interest. But in Bihar, the prevalent rates on lending are comparatively higher, maintaining wide margin between the two. Even then statutory reserves are not upto the standard. It is, therefore, suggested that on the one hand more attention

is to be focussed on reducing the cost of management of credit institutions and on the other hand, a minimum statutory standard of reserves should be prescribed for their maintenance. So long as this standard is not attained the proportion of distributable dividend should be reduced. Both measures will result in saving some amount which may be credited to reserve fund.

Thus an increase in the reserves and shares will strengthen the position of owned funds in the institutions.

2. Bad and doubtful debt

Keeping in view the low rate of repayment leading to the mounting up of overdues in central co-operative banks, the bad and doubtful debts which are occasionally found in central banks should also be strengthened. Though the Committee On Co-operation, as late as 1915, was in favour for crediting 25% of the net profits to this Fund²; even then the standard represented by central co-operative banks of the State is minimum. It has, therefore, been suggested that apart from carrying a proportion of their net profits, Bihar Government in consultation with Reserve Bank of India should provide outright grants for strengthening this reserve to the required level.

3. Agricultural Stabilisation Fund

Complementary to the recommendation of the All India Rural Credit Survey Committee for the establishment of National Agricultural (stabilisation) Fund in Reserve Bank of India, the Committee also recommended for the establishment of such funds in all co-operative banks and, if feasible, in large-sized societies and service co-operatives. The objective in maintenance of such funds was its utilisation in granting of medium-term loans and making the repayment of the overdue short-term loans in the event of the failure of crops or other natural calamities without any dislocation of co-operative credit structure.

With a view to strengthening finances of the Fund, it is advisable that State Government should grant long-term interest-free loans to strengthen the Stabilisation Fund with co-operative banks. The range of contribution should be 5% to 10% of the outstanding agricultural loans depending upon the reasons susceptible to natural calamities and the development of co-operative credit institutions.

Besides the financial assistance in the form of loans, compulsory deduction from the dividend payable to the share-holders should be continued.

2. *Report of the Committee On Co-operative (MacLagan Committee) in India, 1915, Reprinted in 1957, Bombay, p. 97.*

4. Sinking Fund in Land Development Bank

The State Government should provide adequate grants for building up sinking funds. The income accruing from the Bank's investment in Government securities should be exempted from the tax and the amount so saved should be credited to sinking fund.

2. (a) Deposits

It has been pointed out that percentage of deposits in co-operative credit institutions, particularly in agricultural credit societies is very low. In order to reduce the dependence on outside borrowings, effective measures are to be taken to mobilise and secure the part of rural and urban surplus money which is lying idle with them. This surplus money may not only strengthen the financial aspect of these institutions but also create stability in them. Regarding the importance and need of deposits, S.G. Panandikar has pointed out that "the co-operative societies and Banks should endeavour to collect savings deposits and encourage savings in the years of plenty for use in periods of scarcity".

The following measures have been suggested by different Banking and Co-operative Committees that :

1. Like Maharashtra, Zila Parishad, Municipal Committees, and other semi-government institutions should be permitted to deposit their surplus funds with co-operative banks.

2. Primary credit societies—both agricultural and non-agricultural—should not be allowed to invest their funds in Government and semi-government securities but should as a rule deposit their surplus in their respective central co-operative banks and they in turn should deposit their surplus in Bihar State Co-operative Bank.

3. The Central co-operative banks by making the terms and service more attractive, should aim at collecting additional deposits atleast 5% of their total borrowings per year. A special deposit scheme attuned to the preferences of rural and urban depositors, i.e., cumulative, time and fixed deposits and cash certificates under the guidance of Bihar State Co-operative Bank, should be implemented.

4. Central co-operative banks should also establish new branches to secure fresh deposits and non-official co-operators of central banks should make active efforts to get fresh deposits from general public.

3. Panandikar, S. G., *Banking in India*, Orient Longman Ltd., Bombay, (First edition 1934 and Twelfth edition 1975), p. 124.

5. In salary earners' co-operative credit societies, a compulsory deposit fund should be created by compulsory deductions from the salaries of the members.

6. Deposits from ex-members, temporary employees & relatives of the members should also be accepted.

7. Bihar State Co-operative Bank should also draw out some plan on the Deposit Insurance Scheme on the pattern of the commercial banks, with a view to inspire confidence in the general public. Bihar Government should extend guarantees to such deposits.

Besides the above measures, Chit Fund Scheme and proposal for retirement of government contribution in share capital, by increasing the proportion of share capital to proportion of borrowings be given more emphasis so that the surplus money lying in small denominations may be secured.

(b) Debentures

The debentures constitute an important source of mobilising and securing surplus money of the people. Therefore, Bihar State Co-operative Land Development Bank should float debentures of small denominations with a view to attract small investors. Like Tamil Nadu Central Land Development Bank, in Bihar also rural debentures should be floated for specific projects of development in which villagers are interested in different degrees and should be issued at the time of harvest and sale of crops. The value of these debentures should be so designed as to suit the requirements of the rural investors.

To inspire the confidence in the general public, the State Government should guarantee the repayment of both principal and interest. This will not only secure surplus money of the people but also strengthen the finances of Bihar Co-operative Land Development Bank.

(c) Role of Reserve Bank of India

Reserve Bank of India has to play a vital role in development of co-operative banking in Bihar. The co-operative credit institutions in the State complain about the difficulties in connection with a rigid interpretation of rules regarding the financial assistance provided by Reserve Bank of India in the forms of short, medium and long-term loans.

It would be more advisable if a more liberal interpretation of the rules is made by the authorities of Reserve Bank of India in special circumstances when the State requires. At the moment when the limit of the financial accommodation, grants or subsidy is to be ascertained, local conditions and nature of institution etc. should also be taken into consideration.

(C) (ii) Refinance Corporation :—

The Agricultural Refinance Corporation set up on July 1, 1963 under the Agricultural Refinance Corporation Act 1963, should be approached by the Bihar State Co-operative Land Development Bank for facilitating the long-term loan operations to agriculturists. They should also request the Corporation for :—

(a) Deputation of officers for guidance and preparation of schemes of agricultural development.

(b) Subscribing to the debentures issued for special agricultural development project on the condition of annual retirement of a portion of these debentures.

This assistance to Bihar Co-operative Land Development Bank will strengthen its finances and administrative efficiency.

(C) (iii) Role of State Bank of India and other Commercial Banks

The State Bank of India, commercial banks and their branches functioning in the different parts of Bihar can also be of great help in the sound development of co-operative banking in the State, if they provide cheaper remittance facilities (even at the remittance cost). Hence for this period, arrangements for positive associations and healthy relation of the personnel with Boards of co-operative banks should also be made.

3. Routing of Taccavi Finance Through Co-operatives :

Bihar Government should discontinue to disburse Taccavi loans directly to individual cultivators. Such loans should be distributed through credit co-operatives of the State by way of medium and long-term loans to the members. To this effect it has been suggested that Bihar Government should make necessary provision in the budget every year for the grant of Taccavi loans. The utilisation of this finance by co-operative banks may be made on the directions suggested in the conference of Ministers of Co-operation in June, 1964 as given below :—

(i) Provision of medium-term resources for State Co-operative Bank in the shape of loans,

(ii) For providing subsidies to all cultivators who take loans from co-operatives for certain specified projects such as sinking of tube wells etc.

(iii) For the purchase of debentures of State Co-operative Land Development Bank to enable it to finance all sorts of long-term projects for enhancing agricultural production.

(iv) For reducing the rates of interest on medium and long-term loans and bringing them at par with rates of interest of Taccavi loans.⁴

It is also suggested that apart from transferring taccavi finance to co-operatives, the Government of Bihar should also subsidise the managerial cost accruing from the extra administrative burden involved in the implementation of taccavi arrangements.

5. Credit policy

As complained that the co-operative finance is inadequate, inelastic and dilatory, credit policy of co-operative banks needs certain modifications. The experience of crop-loan system which has been vague in Bihar should be provided with guidance and modification on the following lines, so that cultivators and other members may be adequately and effectively provided for and the finance may be production-oriented :

1. The short-term needs of each cultivator, determined chiefly in reference to the prevalent crops, should be classified under the following heads :—

(a) Cash requirements for the production of a particular crop in respect of rainfed area should be about $\frac{1}{4}$ of the average value of produce per acre and in respect of irrigated area, it may go up to $\frac{1}{3}$.

(b) Amount for fertilizers, pesticides and seeds etc. required per acre upto quantities recommended by development authorities for each crop, should also be disbursed in kind.

(c) Cash requirements to meet the extra labour charges arising out of the use of inputs as discussed above, should be $\frac{1}{2}$ of the amount availed under item (b)

(d) A lump-sum in cash not more than Rs. 50/ per family should be given to meet a part of maintenance needs of the family;

(e) An additional cash amount equal to the 5% of the produce sold by the member through co-operatives during the previous year should also be granted in order to give an encouragement to co-operative marketing.⁵

4. *Indian Co-operative Review*, 'Summary recommendations of Co-operation Ministers' Conference, June, 1964.

5. *Ibid.*

The credit limit sanctioned to the cultivator should be the total of 'a'. Where the needs cannot be met in full, the cut may be made in the items falling under category 'd' and 'e'. The credit limit on the whole is to be fixed in terms of cash under a, c, d and e. and in terms of kind under b. Thus the credit limit should be fixed partly in cash and partly in kind.

Besides ascertaining the needs of the cultivator properly, attention should also be paid to the seasonability at the time of disbursement and recovery of the loan. The cash and maintenance components of loans should be disbursed in instalments with reference to agricultural operations.

2. Medium-term Loans

As in case of short-term loans, medium-term credit limit has also to be ascertained with reference to the repaying capacity of the borrowers. The medium-term credit statement of society should commence with the balance left in repaying capacity. The eligibility for medium-term loans should be 3 to 5 times of such balances.

The financing agencies should be clear about the purpose for which such loan is demanded. Hence the sanctioning authority should verify before hand, whether the purpose for which loan has been sought for, can possibly be realised with the demanded amount of loan. As is prevalent in the State, it is futile to grant such loans for sinking of tube-wells, installation of pumpsets which, really speaking, need long-term loans.

To ensure that long-term loans are not attempted with medium-term loans, a maximum financial limit varying in accordance with the variations in purposes, be set for medium-term loans. This would avoid the monopoly of a few individuals.

Apart from productive loans, loans for consumption purposes like marriages, funerals and other social ceremonies should also be included in medium-term loans, because the repayment of such loans is not possible in lump-sum. Hence suitable instalments of its repayment are also to be fixed. It would be more advisable if a ceiling on every type of loan with reference to the purposes be fixed.

In this connection the decisions taken by the Conference of Chief Ministers of the credit needs of rural population on the 16th of June, 1976 may be noted. The Conference decided to make primary co-operatives the most widely used instrument of rural credit. It also accepted the recommendations of the Sivaraman Committee on the quantum of consumption credit to be given to the poorest among farmers owing less than half an acre. The quantum fixed for the loans is : upto Rs. 250 for medical expenses,

upto Rs. 100 for education purposes, not more than Rs. 250 for marriages and not more than Rs. 75 for funerals and other religious ceremonies. Besides, a bare sustenance loan of Rs. 75 per head would also be given to this class of people. All these loans would be given without any security, at normal interest rates charged by the co-operatives. While fixing the quantum of loans, the co-operatives would take into consideration the minimum need of the applicant and also his capacity to repay the loan. The consensus in the Conference according to an official spokesman, was that as much as Rs. 115 crores out of Rs. 170 crores consumption credit needs of this class of rural people (estimated the Sivaraman Committee) could be made available by the primary co-operatives.⁶

3. Long-term Loans

The lending policy of the Bihar State Co-operative Land Mortgage Bank, now called Bihar State Co-operative Land Development Bank also needs a revision so that the investment of finances obtained from the Bank may turn out to be profitable assets. Revision should include following points for special attention :—

(a) Steps should be taken to simplify the procedure in sanctioning loans.

(b) Apart from calculated value, market value of land security should also be taken into consideration.

(c) The period of loan which at present is 10 years or slightly more should be extended so that repayment of the loan in most feasible instalments be made by the members.

(d) Like medium-term loans, in case of long-term loans it should be ascertained whether it shall be possible to realise the purpose with the sanctioned amount.

(e) A separate formula for the valuation of land security for South Bihar should be adopted so that adequate finance from the Bank may also be availed by the hilly cultivators.

2. Measures for the Prompt Recovery of Loans

Prompt and regular repayment of loans and their instalments are important elements of co-operative finance. Following measures are suggested in this respect :

6. Indian Express, the 18th June of 1976, p. 1 Col. 1-2.

(a) Due dates for the recovery of short-term loans as well as for the instalments of medium and long-term loans should be fixed as near as possible to the periods of harvest and marketing of crops. Having fixed the due dates the entire machinery of co-operatives as well as of the Co-operative Department should be put in motion in good time to ensure the recovery well before the time.

(b) The central co-operative banks should also be very particular in this respect. They should finance only those affiliated societies which have repaid atleast the minimum proportion ranging between 25 to 50% with reference to the local conditions of their dues.

Extensions are inevitable in genuine cases such as crop failure etc. In such cases central co-operative banks may finance a society which has paid 33 per cent or 1/3 of its dues and the society may finance an individual who has paid 80% of its dues.

(c) Recovery mindedness has to be developed among the members. No opportunity should be missed to impress upon the Committee of Management to be vigilant in ensuring timely recoveries.

(d) The procedure laid-down for dealing with defaulters should be set in motion without fear or favour. No defaulter should be permitted to remain on the Board of Management.

The following suggestions for effective linking of credit co-operatives with marketing may also ensure prompt and regular repayment of dues :

(i) Efficient interlinking between marketing society and credit society in the area of operation of the marketing society.

(ii) Effective voice of credit societies on the Board of marketing societies.

(iii) Clear cut allocation of functions and powers, between credit and marketing societies regarding the assembling of produce, advancing of loans and timing of sale of produce.

If the credit co-operatives are interlinked on the lines suggested above and if the marketing societies of the State serve as the timely representatives of the federal structure of credit co-operatives, the mission involved in controlled credit shall be achieved and shall ensure prompt and regular repayment of dues.

(f) Apart from prompt and regular repayments, fictitious repayments and book adjustments are to be checked. To remedy this evil, it would be advisable if the time lag between recovery of previous outstanding

loans and granting of fresh loans should be extended atleast upto one month from seven days.

This evil is, however, more serious and undermines one of the chief principles of co-operation. Hence special care should be taken at the time of inspection to bring to light any case in which a suspicion of such paper adjustment arises. In this respect moral pressure should be exercised on the office bearers of the co-operatives and the officials of the central co-operative banks.

6. Concessions to Land Development Bank

Apart from various concessions enjoyed by co-operative credit institutions, the Bihar State Co-operative Land Development Bank should also be exempted from stamp duty, encumbrance certificates and registration fee. This concession would make the finance provided by the Bank cheaper and inspire the cultivators to join the Bank.

7. Relation with Higher Co-operative Banks

The central co-operative banks to which primaries are affiliated should serve as friend, philosopher and guide to primary co-operative credit societies in both the sectors. It does not mean that these primaries should be left free like autonomous institutions, but they should function in close supervision of the central co-operative bank and the officials of the Co-operative Department. The loan policies of primary societies should carefully be reviewed, assessed and modified in accordance with the local needs by the central co-operative banks.

The same relation should also be maintained between the Bihar State Co-operative Bank and central co-operative banks. The healthy relations with them will strengthen the whole co-operative credit structure. The inter-relationship should not remain confined to those institutions which deal in short-term financial operation, but should also be extended to land development banking section. Activities of Bihar State Co-operative Bank should also be co-ordinated to the other credit institutions dealing in short-term and medium-term operations, with a view to ensure the integrated development of co-operative credit.

8. A Phased Programme for the Development of other Non-credit Institutions

In no country banking institutions can make much headway independently. Their onward trends are related to the development of economic activities, particularly industry and trade. Healthy development of co-operative banking is, therefore, closely interlinked with the progress of co-operative

movement as a whole, may it be marketing, processing, industrial, mining or transport. One of the reasons of retarded growth of the co-operative banking is the limited progress of these non-credit co-operatives. Hence efforts should be directed not only for the expansion of these societies in number, but also for the expansion in the volume of their business. The increase in the volume of business of these non-credit societies will result in more and more monetary transactions. These increased transactions would provide business to co-operatives and thus their healthy development may be registered. Hence programme for the strengthenment, consolidation and revitalisation of these co-operatives should be drawn out.

9. Audit and Inspection

Audit and inspection of co-operative societies and banks of the State, one of the important functions of Registrar, Co-operative Societies Bihar, also requires some improvements on the following lines :—

(i) In accordance with the provisions of the Co-operative Societies Act, all the credit co-operatives must be audited atleast once a year. Service co-operatives and large-size credit co-operatives should get their accounts checked atleast half-yearly from the internal auditors.

(ii) Bihar State Co-operative Bank, central co-operative banks and their branches of large turnover should arrange for the audit of their accounts by some special private auditors apart from departmental ones.

(iii) It has been complained that many societies of the State have not been audited for the last two or three years. To ensure periodical auditing sufficient increase in audit-staff is the urgent necessity.

The strength of the audit staff should be increased. Regular audit will not only enhance the administrative efficiency but also win the confidence of the people and will evoke their support for credit co-operatives of the State.

(iv) The guiding principles of the present audit system which are more subjective in character than objective ones should undergo a critical and analytical revision. In the process of revision, following points should also be taken into consideration, i.e., quality and quantity of services rendered, volume of business transactions and percentage of recovery and overdues etc. The audit classification of societies should be based on the above points.

10. Co-operative Banking Act

The co-operative credit institutions since their very initial stage of registration to the last stage of their liquidation are administered by

Co-operative Societies Act (VI 1935), though new co-operative societies Act has been enacted in accordance with the local needs.

The co-operative credit institutions at all levels have taken long strides keeping in view the expansion and the increase in the volume of their business. But the provisions of the Act are not adequate. Hence the need for a separate co-operative banking Act has become more pressing. It would, therefore, be more advisable if a comprehensive co-operative banking Act is enacted on the lines of the Banking Companies Act.

11. Education and Training in Co-operation and Banking

The need and importance of co-operative and banking education and training from time to time has been emphasised by various co-operative banking committees because it is the key for the development of co-operative movement in general and co-operative banking in particular. Various anomalies, like inefficiency of management, lack of prompt and regular repayment, absence of true and genuine leadership and negligence of the guarding principles have been due to the lack of the understanding of principles and spirit of co-operation and banking.

In countries like Germany and Italy where at present co-operative banking is in more advanced stage, there was general illiteracy among the masses, when co-operative credit institutions emerged. Some facilities were provided by clergies and other agencies for the education of the people. But these provisions were inadequate to obtain the mission. It was only when the State came forward and introduced free education for the masses, the credit co-operation began to take rapid strides.

In Bihar also the percentage of literacy and educational standard has to be raised up with the assistance of the Government. Apart from uplifting general educational standard, the emphasis on the teaching of their ideology and philosophy of co-operative banking should be laid with a view to teach the people to co-operate and foster in them a sense of loyalty towards their own co-operative society and to make them realise that their loyal patronage would be for their own good and for that the co-operatives by prevailing upon them to attain the ultimate objective of more wide spread membership and the achievement of fuller life.

Besides co-operative education, the teaching and understanding of banking principles among the officials and non-officials is essential with a view to develop in them the technical know-how of the co-operative banking and to turn them into practical bankers equipped with the knowledge how to utilise the borrowed funds, ensure prompt and regular repayments, and above all, how to discharge duties and responsibilities as the members and office bearers.

As such a phased programme for the education and training in co-operative principle and their application in the field of banking should be formulated so that favourable climate for the development of co-operative banking in Bihar may be fostered.

Contents of Education

The contents of educational programme would consist of two parts :

- (1) Education
- (2) Training

The contents of education are to be decided in relation to the class of persons for whom such education is required. In other words these components would differ from one class of persons to other class, i. e., the people in general, non-officials and officials.

Education of Non-officials

Co-operative banking institutions are democratic organisations. So they cannot depend entirely for their success on the good sense of a few elite only. The existing members, directors and secretaries should be imparted the knowledge of co-operative ideology and banking principles so that they may at least acquire so much understanding that they may look into their own affairs and the affairs of the society and perform their rights and obligations sincerely. With the help of this knowledge, they shall be able to administer the affairs of the society effectively and be able to put restraint to the unhealthy activities and trends of officials.

Training

Besides general education of non-officials, training of officials and particularly of the key employees is another major educational task. The training of officials, higher, intermediate and sub-ordinate officers need special attention. Full advantage should be taken of the facilities provided by All India Co-operative Training Centre, Poona, and the Co-operative Training College Tekari Road, Patna.

Courses

Though at the training centres training is imparted both in co-operative banking and land development banking along with other forms of co-operative education; it would be more advisable if the special course in co-operative banking for the personnel engaged in the development of credit co-operation is started. At present the state is in need of such personnel

who are well-trained in land development banking. Hence this branch of banking needs special attention at the training centres.

In courses of co-operative banking, elementary principles of commercial banking should also be included, so that the prospective trainees may acquaint themselves with the theory and practice of commercial banking.

The training programme for co-operative banking should not remain confined to the higher and intermediate levels but also be extended to subordinate level.

The co-operative credit institutions of the State should get a certain number of vacancies reserved for the training of their employees so that they may spare them for the proposed training.

Besides the training of officials, non-official co-operators, particularly the members of the Board of Directors and Committee of Management should also be trained with a view to run the viable units efficiently. It should be made statutory for them to undergo practical training atleast for a month.

The societies and banks should meet the part of the expenditure involved in the training of these officials and the rest be met out by the State and the Central Government.

Extension of the Training period

The period for the training of senior officers in All India Co-operative Training Centre, Poona, which is for 6 months should be extended up to 12 months, 6 months training at the centre, 3 months at the rural centres and 3 months purely for practical training.

Emphasis On Practical Training

More emphasis should be laid on the practical education of both the officials and non-officials. Apart from the study tours for officials, arrangement for such tours for non-officials should also be made. They should also earn something from the observation of the working of the selected credit societies, central and apex co-operative banks and also of the Central Land Development Banks particularly of Tamil Nadu and Maharashtra.

12. Propaganda Work

Besides the comprehensive programme for education and training, a phased programme for the propaganda of co-operative credit should also be undertaken in order to inspire confidence of people in co-operative ins-

titutions. The success of propaganda will attract the potential members to join the cooperative fold. In this respect Films, Forums, Exhibitions, Dramatic performances etc. may be of great help. The young students of University level may also be approached and their services may also be utilised in creating co-operative mindedness in rural areas.

13. Evolution of True Leadership

As pointed out earlier, the retarded growth of co-operative credit in Bihar has been due to the lack of true leaders in the spheres of co-operation. In most of the cases leadership is in the hands of such persons who are ignorant of the needs of the people. Being inspired by selfish political motives they make a false show of their sympathy for the villagers. To get rid of such leaders it was suggested in the Conference of Registrars and Ministers of Co-operation that such leadership needs to be eliminated, if necessary, by passing a law that no politician shall hold any office in co-operatives⁷.

However, this suggestion seems to be quite impractical as pointed out by Sir Dey that "it is difficult to divorce politics from public activity⁸." Hence efforts should be made to keep bad politicians away from co-operatives.

To create an atmosphere for healthy politics and also for providing opportunity for good leadership, proper education of the masses in co-operative principles is essential. With expansion of such education, good leadership will come forward from among the masses, and co-operation and co-operative banking in the State will make a rapid headway.

In spite of the above suggestions, a large leeway still remains to be made up in general efficiency of co-operative credit institutions in the State. Improvement is required in many directions the way books and records are written and maintained—basic banking cannons are observed, the use of resources are planned, the manner in which the branches of Bihar State and central co-operative banks and Bihar State Co-operative Land Development Bank are controlled; services to the depositors and other members are rendered and loans are made, supervised and recovered. The responsibility for bringing about healthy improvement in all these spheres should be placed on Bihar State Co-operative Bank and Bihar State Co-operative Land Development Bank.

Procedures have been streamlined at all levels by the Department so as to avoid delays in submission of loan application, their scrutiny,

7. *All India Co-operative Review*, March 1963, the Lucknow Conference on Co-operation, February 1963, p. 715.

8. *Ibid.*, p. 715.

sanction of loans and disbursement. The two apex co-operative banks are to undertake the pioneering work in all these respects.

To sum up, there is the need of reorganisation and restructuring of co-operative credit institutions from primaries to apex. The immediate attention is to be paid to economic viability of the primary rural co-operatives on which the development of co-operative credit depends to a large extent. It is a matter of gratification that the government of Bihar headed by Dr. Jagannath Mishra is soon going to reorganise and change the structure of the co-operative societies after dissolving the old ones. Dr. Mishra has added that one member of each family of the village would be a share-holder of society and free membership would be allowed to the Harijans and the Adivasis and other weaker sections of the society, and the Government would contribute their membership fee from its fund. He wants that the primaries should be an effective and potent instrument for the implementation of some of the points of 20-Point Economic Programme and should bridge the gap between the haves and have-nots. Apex co-operative banks can be strengthened only through the re-organisation, revitalisation and restructuring of the primaries, for the primaries are the "eyes" of the apex co-operative banks, through which they could apprise themselves of what was happening at the grass-roots.

APPENDIX A

AN EVOLUTION OF AGRICULTURAL CREDIT SOCIETIES IN BIHAR

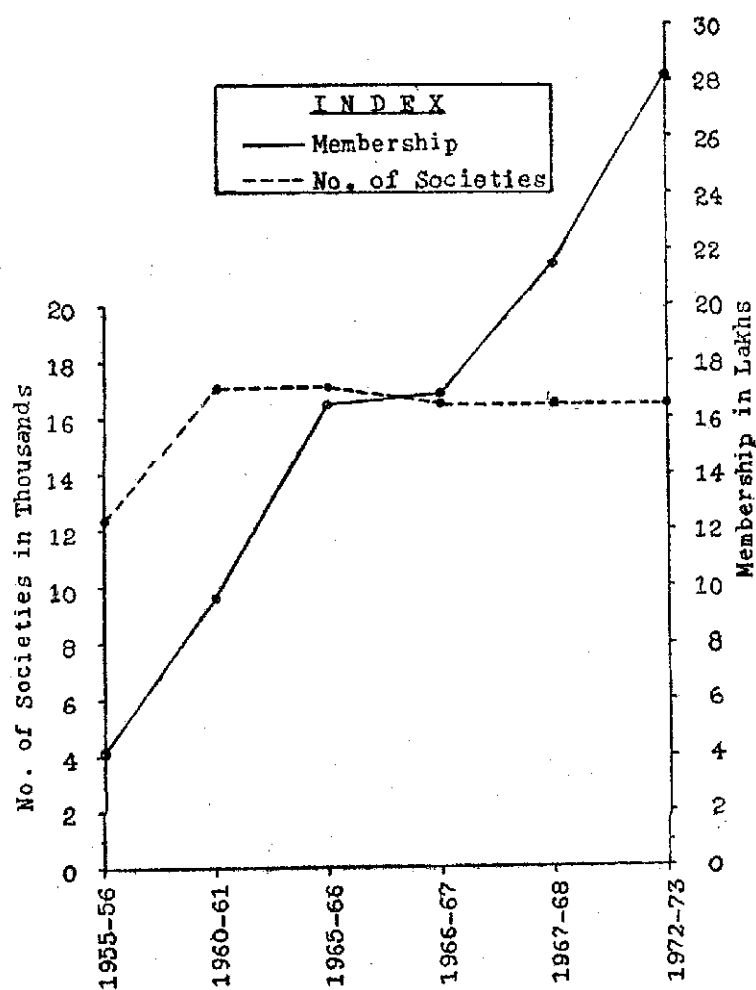


Fig.No. =

AN EVOLUTION OF NON-AGRICULTURAL CREDIT SOCIETIES IN BIHAR

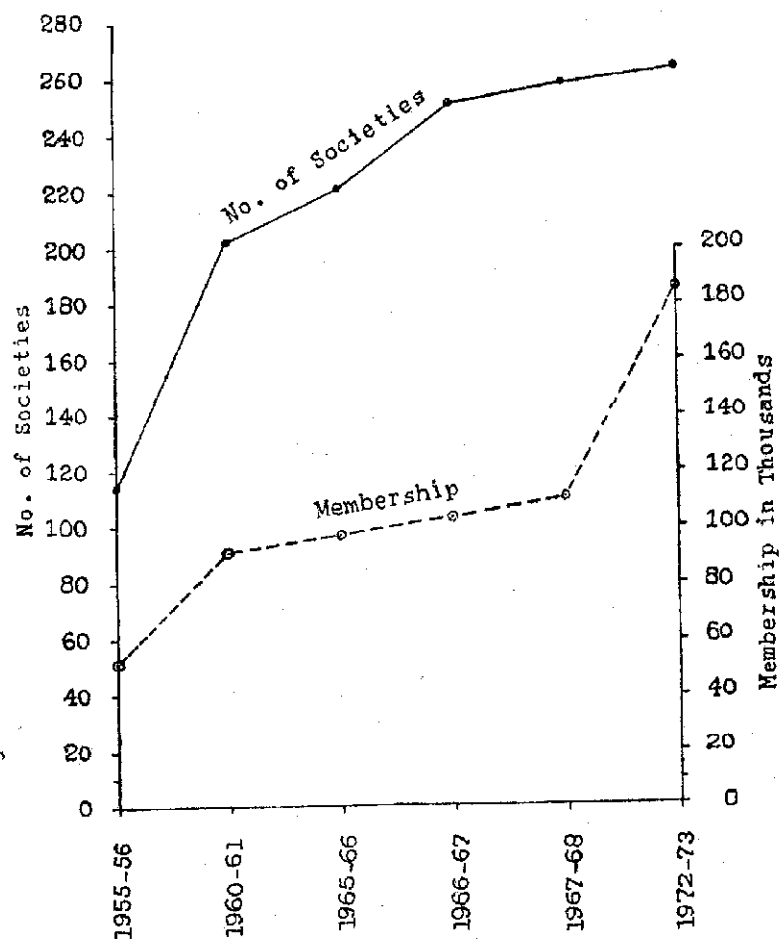


Fig. No:-

A REVIEW OF CENTRAL CO-OPERATIVE BANKS IN BIHAR

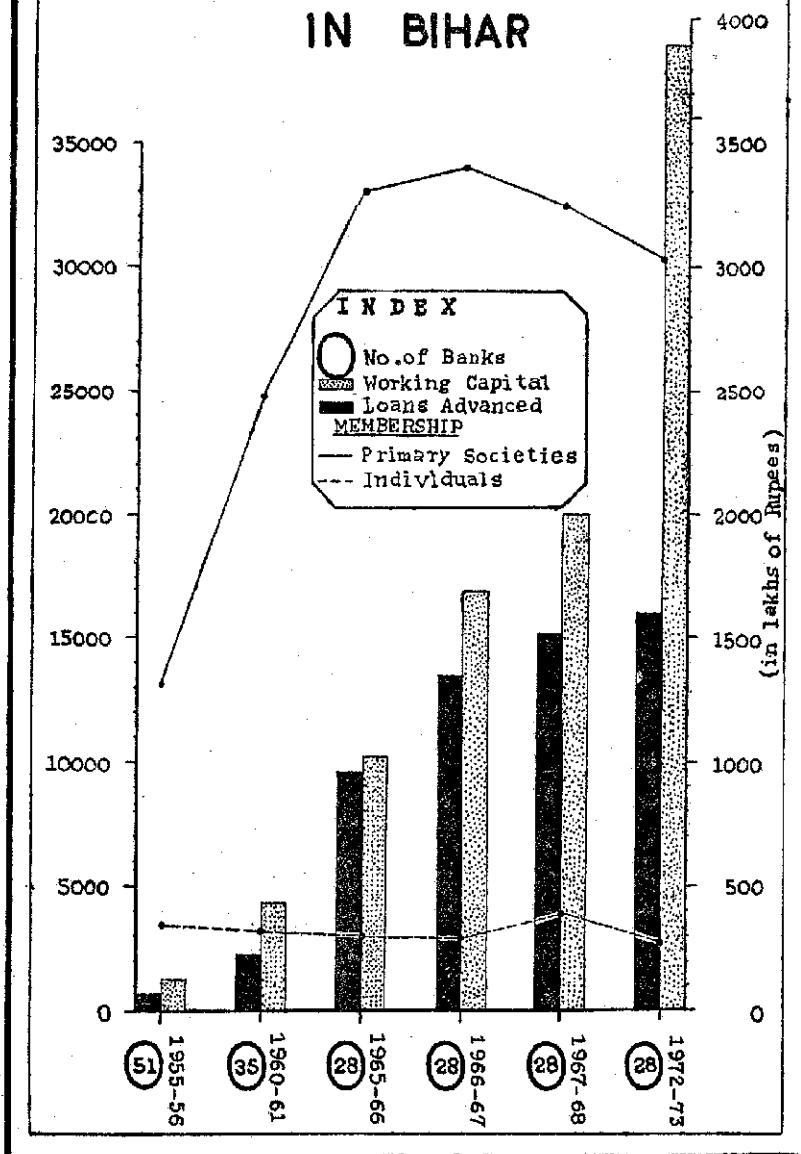


Fig. No:-

A REVIEW OF BIHAR STATE CO-OPERATIVE BANK LTD.

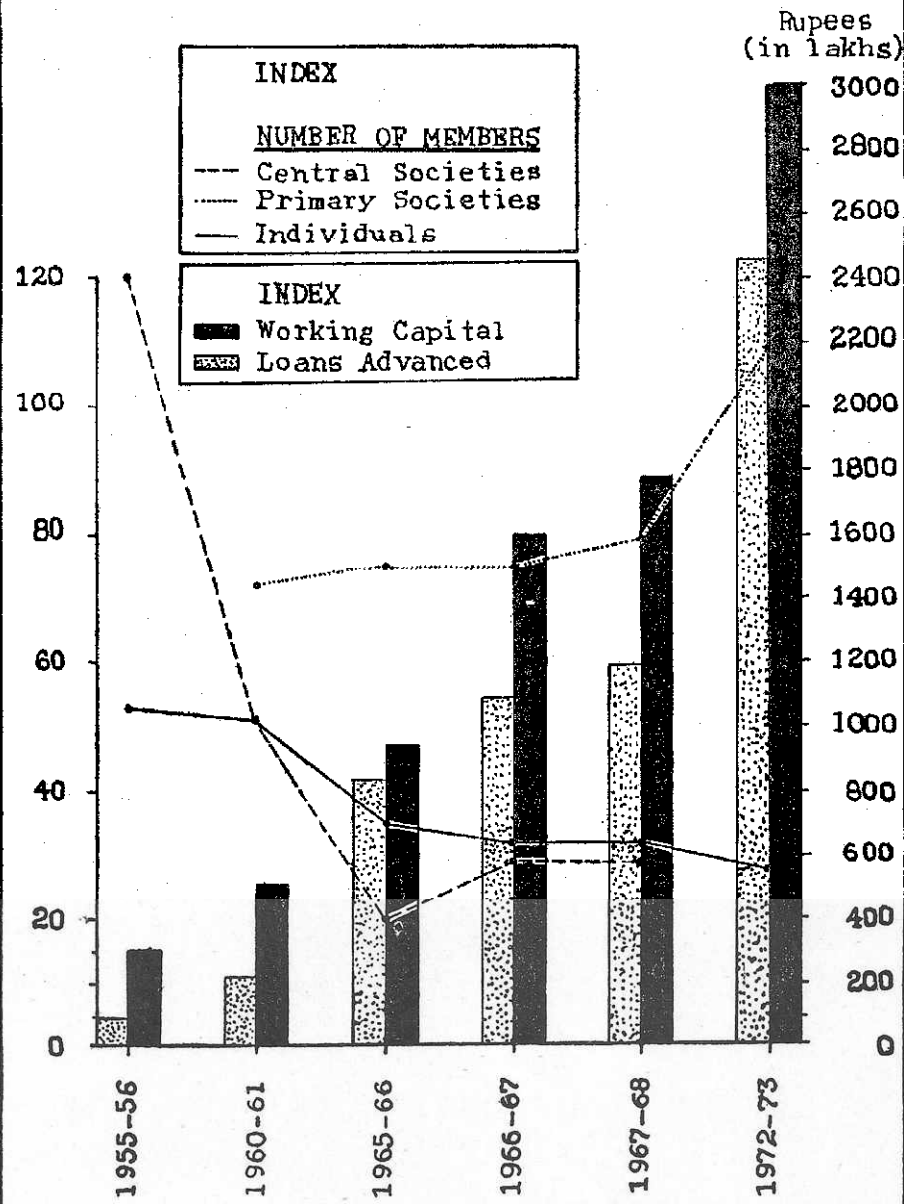


Fig. No:- 4

A REVIEW OF LENDING OPERATIONS OF CO-OPERATIVE CREDIT STRUCTURE IN BIHAR

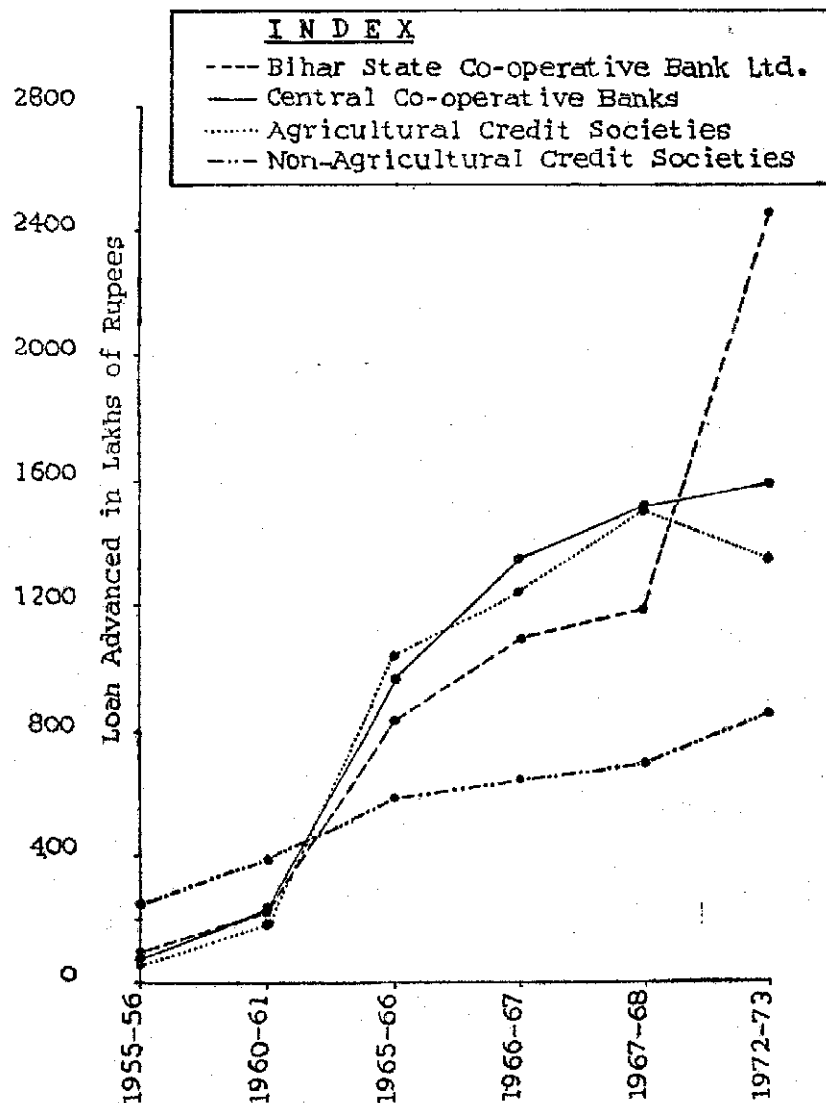


Fig. No:-6

APPENDIX B

BALANCE SHEET

AS ON

30th June, 1974

BIHAR STATE CO-OPERATIVE

Balance Sheet

| Figures as on 30.6.73 | Sl. No. | Capital and Liabilities | Amount | Total | Grant Total |
|---|---------|---|--------------|----------------|----------------|
| 1. CAPITAL | | | | | |
| 1,50,00,000.00 | (i) | Authorised capital of Rs.50/- each 3,00,000 | | 1,50,00,000.00 | 1,50,00,000.00 |
| 1,44,62,150.00 | (ii) | Subscribed capital 289406 shares of Rs.50/- each Amount called up on shares of Rs.50/- each. | | | 1,44,70,300.00 |
| 29,050.00 | (a) | Individual | | 29,050.00 | |
| 78,33,100.00 | (b) | Co-operative Institution | | 78,41,250.00 | |
| 66,00,000.00 | (c) | State Government. | | 66,00,000.00 | 1,44,70,300.00 |
| 1,44,62,150.00 | | | | | |
| 2. Reserve Fund & Other Reserves. | | | | | |
| 62,31,280.00 | (i) | Statutory Reserve | | 62,31,295.00 | |
| | (ii) | Agricultural Credit Stabilisation Fund. | | | |
| 89,29,199.81 | (a) | Reserve & Grants | 93,17,785.81 | | |
| 18,65,000.00 | (b) | Borrowings | 18,65,000.00 | 1,11,82,785.81 | |
| 16,36,467.00 | (iii) | Building Fund. | | 26,36,467.00 | |
| | (iv) | Dividend Equation Fund. | | | |
| | (v) | Special Bad Debt Reserve. | | | |
| 21,73,163.85 | (vi) | Bad & doubtful debt Reserve. | | 24,73,163.85 | |
| 12,34,012.45 | (vii) | Investment Depreciation Fund | | 12,34,012.45 | |
| 8,10,002.87 | (viii) | Reserve for contingencies. | | 6,85,002.87 | |
| 24,505.94 | (ix) | Provision for Gratuity payable to Bank's Employees. | | 24,505.94 | |
| 39,900.00 | (x) | Capital Redemption Fund. | | 39,900.00 | |
| 59,950.00 | (xi) | Staff Benefit Fund. | | 59,950.00 | |
| | (xii) | Administrative Fund Reserve. | | 3,78,060.85 | |
| 2,30,03,418.92 | (xiii) | Rehabilitation Fund for week C.C. Banks. | | 11,88,000.00 | 2,61,33,143.77 |
| 3. Principal/subsidiary State Partnership Fund Account | | | | | |
| For share capital of | | | | | |
| | (i) | Central Co-operative Banks | | | |
| | (ii) | Primary Agricultural Credit So- cieties. | | | |
| 3,74,65,631.92 | C/O | | | | 4,06,03,443.77 |

BANK LTD., PATNA**As On 30th June, 1974**

| 30.6.73 | Sl. No. | Property and Assets. | Amount | Total | Grand Total |
|----------------|-------------------------------------|--|----------------|----------------|----------------|
| | 1. CASH | | | | |
| 1,96,98,500.52 | | In hand and with Reserve Bank of India, State Bank of India, State Cooperative Banks and Central Co-operative Banks. | | 2,65,16,213.10 | 2,65,16,213.10 |
| | 2. Balance with other Banks. | | | | |
| 5,953.51 | (i) | Current Deposit. | | 5,953.51 | 5,953.51 |
| | (ii) | Savings Bank Deposit. | | | |
| | (iii) | Fixed Deposit. | | | |
| 3,40,25,000.00 | 3. | Money At Call and Short Notice. | | 50,00,000.00 | 50,00,000.00 |
| | 4. Investment | | | | |
| 2,16,52,228.50 | (i) | In Central & State Government securities. | 2,16,52,228.50 | | |
| | (a) | Book Value | 2,16,52,228.50 | | |
| | (b) | Face Value | 2,19,01,600.00 | | |
| | (c) | Market Value | 2,17,01,235.65 | | |
| 2,00,62,388.00 | (ii) | Other Trustee securities. | 2,75,48,638.00 | | |
| | (a) | Book Baluc | 2,75,48,638.00 | | |
| | (b) | Face Value | 2,77,73,600.00 | | |
| | (c) | Market Value | 2,66,53,638.00 | | |
| 1,000.00 | (iii) | Shares in Co-operative Institution Other than in item (5) below | 1,000.00 | 4,92,01,866.50 | 4,92,01,866.50 |
| | (vi) | Other investment (to be specified) | | | |
| 9,54,45,070.53 | | | | | 8,07,24,033.11 |

BIHAR STATE CO-OPERATIVE **Balance Sheet**

| 30.6.73 | Sl. No. | Capital and Liabilities | Amount | Total | Grand Total |
|--|---------|--|----------------|----------------|-----------------|
| 3,74,65,631.92 | B/F | | | | 406,03,443.77 |
| 4. Deposits & Other Accounts. | | | | | |
| | (i) | Fixed Deposits. | | | |
| 2,06,58,441.02 | (a) | Individuals. | 2,42,42,027.84 | | |
| 98,53,029.03 | (b) | Central Co-operative Banks. | 1,19,95,898.97 | | |
| 3,25,43,534.23 | (c) | Other Societies. | 6,10,49,665.61 | 9,72,87,592.42 | |
| | (ii) | Savings Bank Deposits. | | | |
| 1,65,82,604.80 | (a) | Individuals. | 1,92,32,419.72 | | |
| 502.58 | (i) | Unclaimed Balances. | 502.58 | | |
| 8,050.00 | (ii) | Dead Shareholders Account | 8,050.00 | | |
| 7,68,315.80 | (b) | Central Co-operative Banks. | 10,98,799.72 | | |
| 11,50,845.41 | (c) | Other Societies. | 12,80,207.75 | 2,15,47,979.77 | |
| | (iii) | Current Deposits. | | | |
| 2,77,19,385.76 | (a)(i) | Individuals. | 1,59,90,428.76 | | |
| 901.98 | (ii) | Unclaimed Balance. | 901.98 | | |
| 29,07,158.36 | (b) | Central Co-operative Banks. | 41,31,920.20 | | |
| 1,25,65,227.07 | (c) | Other Societies. | 1,12,85,469.28 | 3,14,08,720.22 | |
| 1,36,42,504.91 | (iv) | Money at Call and Short notice. | | 4,03,59,764.80 | 19,06,04,057.21 |
| 5. Borrowings. | | | | | |
| | (i) | From the Reserve Bank of India/State/Central Co-operative Banks. | | | |
| 6,35,71,000.00 | (a) | Short-term loans, each credit and over drafts of which secured against : | | 2,78,04,000.00 | |
| | (A) | Government & approved securities. | | | |
| | (B) | Other Tangible securities. | | | |
| 3,33,06,880.00 | (b) | Medium Term loans of which secured against | | 2,44,86,500.00 | |
| | (A) | Government & approved securities. | | | |
| | (B) | Other Tangible securities | | | |
| | (c) | Long-Term loans of which secured against. | | | |
| | (A) | Government & approved securities. | | | |
| | (B) | Other Tangible securities. | | | |
| 27,27,39,012.87 | C/O | | | 5,22,90,500.00 | 23,12,07,500.91 |

BANK LTD., PATNA
As On 30th June, 1974

| 30.6.73 | Sl. No. | Property and Assets | Amount | Total | Grand Total |
|-----------------|---------|--|--------|-----------------|----------------|
| 9,54,45,070.50 | | B/F | | | 807,24,033.11 |
| | 5. | Investment out of the principal / subsidiary State partnership Fund | | | |
| | 6. | Advances | | | |
| 12,67,50,124.16 | (i) | Short-term loans/Cash credit overdrafts and bill discounted of which secured against. | | 14,10,96,671.34 | |
| | (a) | Government & other approved securities. Nil. | | | |
| | (b) | Other tangible securities 51,15,945.01 of the advances amount due from Individuals 7,91,951.47 of the advances. Amount overdues 6,05,32,- 654.97 considered bad & doubtful recovery Rs. 47,290.08 | | | |
| 6,35,98,034.38 | (ii) | Medium term loans of which secured against : | | 6,28,49,052.72 | |
| | (A) | Government & Approved securities Nil. | | | |
| | (B) | Other tangible securities— 2,21,557.00 of the advances amount due from individuals 2,21,618.99 of the advances amount overdue 2,22,55,568.46 considered bad & doubtful of recovery Nil | | | |
| 28,57,93,229.07 | | C/O | | 20,39,45,724.06 | 8,07,24,033.11 |

BIHAR STATE CO-OPERATIVE
Balance Sheet

| 30.6.73 | Sl. No. | Capital and Liabilities | Amount | Total | Grand Total |
|-----------------|---------|--|--------|--------------|-----------------|
| 27,27,39,012.87 | | B/F | | | 23,12,07,500.98 |
| 2,03,957.47 | (ii) | From State Bank of India. | | | |
| | (a) | Short-term Loan/cash credit & overdrafts of which secured against— | | | |
| | (A) | Government & approved securities | | | |
| | (B) | Other Tangible securities— | | | |
| 1,00,00,000.00 | (iii) | From the State Government | | | |
| | (a) | Short-term loans of which secured against. | | | |
| | (A) | Government & approved securities. | | | |
| | (B) | Other tangible securities | | | |
| 12,52,973.89 | (b) | Medium-term loans of which secured against | | 10,02,973.89 | |
| | (A) | Government & approved securities | | | |
| | (B) | Other Tangible Securities. | | | |
| 27,53,103.83 | (c) | Long-term loans of which secured against. | | 27,53,103.83 | |
| | (A) | Government & other approved securities. | | | |
| | (B) | Other tangible securities. | | | |
| | (iv) | Loans from other sources. | | | 5,60,46,577.72 |
| 38,000.81 | 6. | Bill for Collection being Receivable as Per Contra | | | |
| 19,72,706.11 | 7. | Branch Adjustment. | | 31,596.37 | 31,596.37 |
| | | | | 2,02,898.89 | 2,02,898.89 |
| 4,26,591.28 | 8. | Overdue Interest Reserve | | 8,95,286.73 | 8,95,286.73 |
| 28,93,86,346.26 | | C/O | | | 28,83,83,860.69 |

BANK LTD., PATNA
As On 30th June, 1974

| 30.6.73 | Sl. No. | Property and Assets | Amount | Total | Grand Total |
|-----------------|---------|--|--------|-----------------|-----------------|
| 28,57,93,229.07 | | B/F | | 20,39,45,724.06 | 8,07,24,033.11 |
| 24,27,082.69 | (iii) | Long-term loans of which secured against. | | 34,49,824.70 | |
| | (A) | Government & Approved securities. Nil. | | | |
| | (B) | Other tangible securities 11,71,706.00 of the advance amount due from individuals. 12,68,956.00 of the advances amount over due 18,35,768.70 considered bad & doubtful of recovery Rs. 76,280.86 | | | 20,73,95,548.98 |
| 78,51,011.04 | 7. | Interest Receivable. of which overdue 8,95,286.73 considered bad & doubtful recovery. Nil. | | 97,09,309.08 | 97,09,309.98 |
| 38,000.81 | 8. | Bill Receivable being Bill for Collection as per Contra | | 31,596.37 | 31,596.37 |
| | 9. | Branch Adjustment. | | | |
| 89,059.47 | 10. | premises Value.....85,780.25 Less Depreciation 2,144.50 | | 83,635.75 | 83,635.75 |
| 2,74,704.62 | 11. | Furniture And Fixture. Value.....3,41,550.28 Less Depreciation 32,957.70 | | 3,08,592.58 | 3,08,592.58 |
| 29,64,73,087.70 | | C/O | | | 29,82,52,715.65 |

BIHAR STATE CO-OPERATIVE
Balance Sheet

| 30.6.73 | Sl. No. | Capital and Liabilities. | Amount | Total | Grand Total |
|-----------------|---------|---|--------|--------------|-----------------|
| 28,93,86,346.26 | | B/F | | | 28,93,83,860.69 |
| 40,28,813.42 | 9. | Interest Payable | | 55,88,347.28 | 55,88,347.28 |
| | 10. | Other Liabilities | | | |
| 13,500.00 | (i) | Drafts payable. | | 16,515.00 | |
| — | (ii) | Dividend payable. | | — | |
| 24,56,520.80 | (iii) | Sundry Creditors. | | 24,11,323.49 | |
| 1,28,847.51 | (iv) | Bonus payable to staff. | | 1,05,976.61 | |
| 1,18,408.90 | (v) | Income-tax payable. | | 1,44,120.20 | |
| 41,500.00 | (vi) | Audit fee payable. | | 2,25,219.99 | |
| 5,26,747.11 | (vii) | Special bad debt reserve outright grant for C.C. Bank. | | 5,26,747.11 | |
| 1,95,700.00 | (viii) | Provision against arrear payment of salary to staff. | | — | |
| | (xi) | Provision against Rebate Payable to C. C. Banks on S.T. Ag. | | 12,00,000.00 | 46,29,902.40 |
| 19,48,741.84 | 11. | Retained Liabilities of Trading Department Account | | 19,48,741.84 | 19,48,741.84 |
| | 12. | Profit and Loss. | | | |
| | (a) | Undistributed profit for | | | |
| 10,55,840.74 | (a) | 1971-72 | | 10,55,840.74 | |
| 14,01,373.01 | (b) | 1972-73 | | 14,01,373.01 | |
| | (b) | Profit for the year brought from Profit & Loss account. | | 9,91,154.23 | 34,48,367.98 |
| 30,13,02,348.59 | | GRAND TOTAL | | | 30,39,99,220.19 |

D.P. Singh
Assistant I/C Cell

S.C. Saha
Supervisor I/C

R.B. Prasad
Accounts Officer

C.V. Rai
Secretary

ANK LTD., PATNA.
s On 30th June, 1974

| 30.6.73 | Sl. No. | Property and Assets | Amount | Total | Grand Total |
|----------------|---------|--|--------|--------------|-----------------|
| 1,64,73,087.70 | 12. | Other Assets | | | 29,82,52,715.65 |
| | | (To be specified) | | | |
| 40,388.15 | (i) | Staff car. | | | |
| | | Value.... 40,388.15 | | | |
| | | Less Depreciation, 8,077.69 | | 32,310.55 | |
| 62,888.60 | (ii) | Dividend receivable on shares | | 67,348.90 | |
| 10,10,246.95 | (iii) | Sundry Debtors A/C | | 17,73,560.04 | |
| | (iv) | Amount receivable from Government on account of | | | |
| 3,68,032.09 | (a) | Rehabilitation of C.C. Bank Rs. 3,68,032.09 | | | |
| 6,50,278.10 | (b) | Subsidy receivable from Government for W C S Rs. 6,50,278.10 | | 10,18,310.19 | |
| | (v) | Unaccounted expenditure receivable | | | |
| 616.04 | (a) | Coal | | 616.04 | |
| 53,563.51 | (b) | C.C.A. | | 53,563.51 | |
| 1.35 | (vi) | Value of H.B. Boxes | | 1,35 | |
| | (vii) | Building construction Amount | | | |
| 9,37,786.42 | (a) | Jamshedpur | | 10,61,346.61 | |
| 65,864.00 | (b) | H.O. | | 1,07,227.45 | |
| 327.00 | (viii) | Income receivable from staff car. | | 112.00 | |
| 19,462.86 | (ix) | Rent Receivable. | | 12,302.08 | 41,26,698.72 |
| 16,19,805.82 | 13. | Retained Asset of Trading Department Account. | | 16,19,805.82 | 16,19,805.82 |
| 0,13,02,348.59 | | Grand Total | | | 30,30,99,220.19 |

N.K. Jha
Managing Director.

M.P. Singh
Chairman

J. Mandal M.L.C.
Director.

Rajo Singh M.L.A.
Director.

Source : Annual Report Bihar State Co-operative Bank Ltd. Patna, pp. 2-9, 1973-74

BIHAR RAJYA SAHAKARI BHUMI VIKAS BANK SIMIT, PATNA-I

BALANCE SHEET AS ON 30TH JUNE, 1974

| As on 30.6.73 | Sl. No. | Capital and Liabilities | Amount | Amount | Amount |
|--|---------|---|-----------------|-----------------|-----------------|
| 1. Authorised Capital | | | | | |
| 3,00,00,000.00 | (i) | 'A' Class shares of Rs.25/Each | 3,00,00,000.00 | | |
| 2,00,00,000.00 | (ii) | 'B' Class shares of Rs. 1000/-Each. | 2,00,00,000.00 | | |
| 2,500.00 | (iii) | 'C' Class shares of Rs. 100/-Each. | 2,500.00 | | |
| 24,97,500.00 | (iv) | 'E' Class shares of Rs.1/-Each | 24,97,500.00 | | 5,25,00,000.00 |
| 2. Calledup & Paidup Capital | | | | | |
| 2,16,40,310.65 | (i) | 'A' Class shares. | 2,78,30,334.70 | | |
| 85,00,000.00 | (ii) | 'B' Class shares. | 1,38,50,000.00 | | |
| 300.00 | (iii) | 'C' Class shares. | 800.00 | | |
| 4,71,370.50 | (iv) | 'E' Class shares. | 4,71,370.50 | | 4,21,52,505.20 |
| 3. Reserve Fund & Other Funds | | | | | |
| 6,14,630.55 | (i) | Statutory Reserve Fund. | 10,80,559.91 | | |
| 1,00,748.51 | (ii) | Bad and Doubtful Debt Reserve. | 1,87,636.38 | | |
| 3,52,619.78 | (iii) | Building Fund. | 4,39,507.65 | | |
| 50,374.26 | (iv) | Common good Fund. | 93,818.21 | | |
| 558.11 | (v) | Risk Fund. | 558.11 | | |
| | (vi) | Failed Wells Fund. | 86,887.87 | | |
| | (vii) | Agricultural Credit Stabilisation Fund. | 1,30,331.80 | | 20,19,299.93 |
| 4. Loans & Borrowing | | | | | |
| A. Debenture | | | | | |
| 29,40,67,200.00 | (i) | Ordinary debenture. | 37,64,67,200.00 | | |
| 4,01,94,000.00 | (ii) | Special Debenture. | 5,64,52,000.00 | | |
| | (iii) | Debenture I.D.A. (scheme) | 1,38,00,000.00 | 44,67,19,200.00 | |
| 50,800.00 | B. | Rural Debenture | 1,72,500.00 | 1,72,500.00 | 44,68,91,700.00 |

BALANCE SHEET—(Contd.)

| <i>As on 30-6-73</i> | <i>Sl. No.</i> | <i>Capital and Liabilities</i> | <i>Amount</i> | <i>Amount</i> | <i>Amount</i> |
|--|---|--|----------------|----------------|----------------|
| 5. Debenture Application and Deposits | | | | | |
| 71,13,000.00 | (i) | Ordinary Debenture. | 1,47,37,875.00 | | |
| 1,10,810.00 | (ii) | Rural Debenture. | 63,810.00 | | 1,48,01,685.00 |
| 6. Deposits | | | | | |
| 4,22,450.00 | | Fixed Deposits. | | | 8,23,581.19 |
| 7. Interim Accommodation | | | | | |
| A. Cash Credit Account with State Bank Of India | | | | | |
| 94,91,758.70 | (i) | Account No. 1 | 86,01,783.73 | | |
| 37,53,624.93 | (ii) | Account No. 2 | 22,02,730.97 | 1,08,04,514.70 | |
| 1,99,05,725.93 | B. Cash Credit account with State Co-operative Bank Ltd., Patna. | | | 2,23,52,415.81 | 3,31,56,930.51 |
| 8. Interest Payable | | | | | |
| 95,09,441.84 | (i) | On debenture. | 1,29,18,869.28 | | |
| 5,22,167.65 | (ii) | On Borrowing. | | | |
| 20,038.00 | (iii) | On Fixed Deposits. | 53,758.14 | | |
| 83,322.30 | (iv) | On Security Deposit. | 1,50,632..78 | | 1,31,23,260.20 |
| 9. Other Liabilities | | | | | |
| 4,203.10 | (i) | Share Deposits. | 4,203.10 | | |
| 500.00 | (ii) | 'C' Class share Deposit | | | |
| 61,825.30 | (iii) | Resigned and Deceased share holder | 64,508.00 | | |
| 6,10,528.12 | (iv) | Suspense Branch. | 1,05,282.52 | | |
| 1,36,420.09 | (v) | Suspense General | 91,875.43 | | |
| 4,24,581.73 | (vi) | Excess Receipts in loan instalment. | 8,61,989.69 | | |
| 4,07,155.00 | (vii) | Legal Fees. | 5,32,642.90 | | |
| 3,36,691.87 | (viii) | Employees Provident Fund Account. | 5,89,283.61 | | |
| 2,53,107.62 | (ix) | Pension and leave salary contribution payable. | 3,36,895.30 | | |
| 26,907.23 | (x) | Sundry Creditors (H.Q.) | 13,197.75 | | |
| 22,818.85 | (xi) | Misc. Receipt (Appointment) | 22,392.17 | | |

BALANCE SHEET—(Contd.)

| <i>As on 30-6-73</i> | <i>Sl. No.</i> | <i>Capital and Liabilities</i> | <i>Amount</i> | <i>Amount</i> | <i>Amount</i> |
|---|----------------|--|---------------|---------------|-----------------|
| 13,11,598.60 | (xii) | Security Deposit (Supplier) | 16,64,792.60 | | |
| 3,488.30 | (xiii) | Sundry creditor (Branch) | 14,450.92 | | |
| 1,00,318.49 | (xiv) | Small Farmers Dev. Agency. | 98,601.97 | | |
| | (xv) | Income tax. | 132.00 | 44,01,143.91 | 44,01,143.91 |
| 895.95 | (xvi) | Cash Security. | 895.95 | | |
| 10. Current Liabilities and Provision. | | | | | |
| (A) <i>Out standing charges payable</i> | | | | | |
| 41,798.86 | (i) | For Headquarter. | 1,35,279.38 | | |
| 2,02,263.75 | (ii) | For Branches. | 2,17,947.81 | 3,53,227.19 | |
| (B) <i>Bonus Payable to Staff</i> | | | | | |
| 60,487.70 | (i) | For headquarter. | 81,464.07 | | |
| 1,78,267.57 | (ii) | For Branches. | 3,09,763.94 | 3,91,228.01 | |
| 60,000.00 | (C) | <i>Audit fees Payable</i> | | 1,62,581.00 | |
| | (D) | <i>Subscription & Contribution Payable</i> | | 17,126.50 | 9,24,162.70 |
| 11. Current Account Adjustable Accounts. | | | | | |
| 5,482.74 | (i) | With State Co-operative Bank No. II. | | 3,390.83 | 3,390.83 |
| 12. Profit & Loss Account. | | | | | |
| 28,24,511.58 | (i) | Previous year Balance. | 19,55,632.86 | | |
| | (ii) | Current year Profit. | 12,39,950.41 | | 31,95,583.27 |
| 42,39,34,329.66 | | | | | 56,14,93,242.74 |

Sd/-M. MISHRA
Accounts Officer

Sd/-H.N. SINGH
Chief Accounts Officer

Sd/-A.K. MUKHERJEE
Managing Director

BALANCE SHEET—(Contd.)

| <i>As on 30-6-73</i> | <i>Sl. No.</i> | <i>Capital and Liabilities</i> | <i>Amount</i> | <i>Amount</i> | <i>Amount</i> |
|--|---|--|----------------|----------------|----------------|
| 5. Debenture Application and Deposits | | | | | |
| 71,13,000.00 | (i) | Ordinary Debenture. | 1,47,37,875.00 | | |
| 1,10,810.00 | (ii) | Rural Debenture. | 63,810.00 | | 1,48,01,685.00 |
| 6. Deposits | | | | | |
| 4,22,450.00 | | Fixed Deposits. | | | 8,23,581.19 |
| 7. Interim Accommodation | | | | | |
| A. Cash Credit Account with State Bank Of India | | | | | |
| 94,91,758.70 | (i) | Account No. 1 | 86,01,783.73 | | |
| 37,53,624.93 | (ii) | Account No. 2 | 22,02,730.97 | 1,08,04,514.70 | |
| 1,99,05,725.93 | B. Cash Credit account with State Co-operative Bank Ltd., Patna. | | | 2,23,52,415.81 | 3,31,56,930.51 |
| 8. Interest Payable | | | | | |
| 95,09,441.84 | (i) | On debenture. | 1,29,18,869.28 | | |
| 5,22,167.65 | (ii) | On Borrowing. | | | |
| 20,038.00 | (iii) | On Fixed Deposits. | 53,758.14 | | |
| 83,322.30 | (iv) | On Security Deposit. | 1,50,632.78 | | 1,31,23,260.20 |
| 9. Other Liabilities | | | | | |
| 4,203.10 | (i) | Share Deposits. | 4,203.10 | | |
| 500.00 | (ii) | 'C' Class share Deposit | | | |
| 61,825.30 | (iii) | Resigned and Deceased share holder | 64,508.00 | | |
| 6,10,528.12 | (iv) | Suspense Branch. | 1,05,282.52 | | |
| 1,36,420.09 | (v) | Suspense General | 91,875.43 | | |
| 4,24,581.73 | (vi) | Excess Receipts in loan instalment. | 8,61,989.69 | | |
| 4,07,155.00 | (vii) | Legal Fees. | 5,32,642.90 | | |
| 3,36,691.87 | (viii) | Employees Provident Fund Account. | 5,89,283.61 | | |
| 2,53,107.62 | (ix) | Pension and leave salary contribution payable. | 3,36,895.30 | | |
| 26,907.23 | (x) | Sundry Creditors (H.Q.) | 13,197.75 | | |
| 22,818.85 | (xi) | Misc. Receipt (Appointment) | 22,392.17 | | |

THE BIHAR RAJYA SAHAKARI BHUMI VIKAS BANK SIMIT, PATNA-1

Profit and Loss Account For the Year Ending 30.6.1974 (DEBIT)

| As on 30.6.73 | Sl.No. | Particulars | Amount | Amount |
|---------------|--------|--|--------------|--------------|
| 1 | 2 | 3 | 4 | 5 |
| | A. | Management Expenses | | |
| | 1. | Salary and Allowances to Staff | | |
| 8,89,300.16 | (i) | At headquarter | 11,74,118.11 | |
| 27,70,058.98 | (ii) | At branches. | 39,50,676.63 | 51,24,794.74 |
| | 2. | Travelling Allowances. | | |
| 1,50,981.94 | (i) | To members of the Board of Directors. | 1,27,597.72 | |
| 55,777.09 | (ii) | To employees at headquarter. | 68,098.72 | |
| 3,74,237.80 | (iii) | To employees at branches. | 5,32,495.27 | 7,28,191.71 |
| | 3. | Bonus to Employees. | | |
| 47,922.63 | (i) | At headquarter. | 83,081.61 | |
| 1,50,872.50 | (ii) | At Branches. | 3,33,323.62 | 4,16,405.23 |
| 15,618.27 | 4. | Liveries to Staff | 10,024.12 | 10,024.12 |
| | 5. | Education re-imbursement cost. | | |
| 591.03 | (i) | For Employees at H.Qr. | 1,106.16 | |
| 760.00 | (ii) | For employees at Branches. | 645.69 | 1,751.85 |
| | 6. | Medical re-imbursement Cost | | |
| 14,104.62 | (i) | For employes at H.Q. | 20,765.92 | |
| 3,125.37 | (ii) | For employees at Branches | 3,643.25 | 24,409.17 |
| 68,844.00 | 7. | Leave Salary and Pension Contribution. | | 1,24,254.43 |
| 57,787.79 | 8. | Provident Fund Contribution of Bank. | | 1,21,406.33 |
| 846.14 | 9. | Overtime Wages to Staff. | | |
| 9,015.00 | 10. | Allowances to chairman. | | 1,706.60 |

BALANCE SHEET—(Contd.)

| As on 30-6-73 | Sl. No. | Particulars | Amount | Amount | Amount |
|---------------|---------|---|-------------|--------|-------------|
| 27,447.60 | 11. | Conveyance Allowance to members of Branch Advisory Committee. | | | 35,541.97 |
| 11,522.03 | 12. | Election and A.G. Meeting. | | | 53,184.49 |
| | 13. | General Charges. | | | |
| 38,152.07 | (i) | At headquarter. | 30,038.41 | | |
| 61,818.57 | (ii) | At Branches. | 90,550.27 | | 1,20,588.68 |
| | 14. | Office Rent. | | | |
| 22,800.00 | (i) | For headquarter. | 24,000.00 | | |
| 1,18,327.07 | (ii) | For Branch Office. | 1,35,948.34 | | 1,59,948.34 |
| | 15. | Printing and Stationary. | | | |
| 87,587.46 | (i) | At Headquarter. | 2,22,015.23 | | |
| 19,615.60 | (ii) | At branches. | 29,956.51 | | 2,51,971.74 |
| | 16. | Postage and Telegram. | | | |
| 75,721.00 | (i) | At headquarter. | 64,743.21 | | |
| 15,566.79 | (ii) | At branches. | 21,544.39 | | 86,287.60 |
| | 17. | Motor Vehicle Expenditure | | | |
| 36,847.97 | (i) | At Head Quarter. | 66,548.33 | | |
| 57,894.25 | (ii) | At branches. | 1,80,202.99 | | 2,46,741.32 |
| 47,220.68 | 18. | Advertisement. | | | 45,801.97 |
| 22,844.80 | 19. | Subscription and Contribution. | | | 34,652.20 |
| 6,647.05 | 20. | Legal Fee Special. | | | 14,166.20 |
| 321.00 | 21. | Transit Insurance Premium | | | 8,796.92 |
| 11,261.61 | 22. | Salable Forms Purchase. A/c | 32,933.70 | | |
| 5,124.37 | 23. | Seminar Cost. | | | |
| 1,395.00 | 24. | Training Cost | 2,896.14 | | |
| 9,416.55 | 25. | Commitment Charges. | | | |
| | 26. | Interest on Employees P.F. Account. | 12,371.65 | | |

BALANCE SHEET—(Contd.)

| <i>As on 30-6-73</i> | <i>Sl. No.</i> | <i>Particulars</i> | <i>Amount</i> | <i>Amount</i> | <i>Amount</i> |
|----------------------|----------------|---|----------------|---------------|----------------|
| | 27. | Repairs and Renewals. | | 488.60 | |
| | 28. | Honorarium to Staff | | 1,010.00 | 76,77,405.70 |
| | B. | Financial Cost | | | |
| 17,66,157.77 | 1. | Interest on Borrowing | 22,19,806.73 | | |
| 1,60,77,453.51 | 2. | Interest on Debenture. | 2,32,91,696.23 | | |
| 57,933.00 | 3. | Income Tax. | 1,02,554.79 | | |
| 10,840.00 | 4. | Interest on Fixed Deposit. | 40,422.03 | | |
| 83,322.30 | 5. | Interest on security Deposit (Supplier) | 71,488.56 | | 2,57,25,968.34 |
| | C. | Depreciation And Others. | | | |
| 2,55,426.00 | 1. | Cost of Debenture. | 3,02,024.00 | | |
| 56,515.44 | 2. | Depreciation. | 63,405.74 | | |
| 20,000.00 | 3. | Audit Fee. | 1,02,581.00 | | |
| | 4. | Managerial Subsidy Receivable from Government. | 2,190,4.84 | 6,860,15.58 | 6,86,015.58 |
| 12,02,618.08 | D. | Profit and Loss Account Transferred to Balance sheet. | | | 12,39,950.71 |
| 2,48,17,829.84 | | | | | 3,53,28,260.03 |

Sd/-M. Mishra
(Accounts Officer)

Sd/-H.N. Singh
(Chief Accounts Officer)

S/d-A.K. Mukherjee
(Managing Director)

Source : Annual Repotr, Bihar State, Co-operative Land Development Bank Ltd., Patna-I, 1973-74.

BIBLIOGRAPHY

1. Bakken, Henry H., *Basic Concepts. Principles and Practices of Co-operation*, Wisconsin, 1963.
2. Barou, N., *Co-operative Banking*, London, 1932.
3. Basu, A.K., *Fundamentals of Banking, Theory and Practice, Fourth Edition*, Calcutta, 1962.
4. Basu, S.K., *A Survey of Contemporary Banking Trends*, The Book Exchange, Calcutta, 1967.
5. Basu, S.K., *Recent Banking Developments*, Calcutta, University of Calcutta, 1946.
6. Bedi, R.D., *Theory, History and Practice of Co-operation*, Royal Book Depot, Meerut, 1971.
7. Bedi, H.L., *Theory and Practice of Banking*, Bombay, 1970.
8. Bergengren, Roy F., *Co-operative Banking : A Credit Union Book*, New York, 1923.
9. Bhatler, S., and Nemenyl, L., *The Reserve Bank of India and Its Functions*, The Book Company, Calcutta, 1933.
10. Bogardus Erory. S., *Principles of Co-operation*, The Co-operative League of The U.S.A., Chicago, 1958.
11. Bonner, A., *Economic Planning and the Co-operative Movement*, Co-operative Union Ltd., Manchester, 1958.
12. Calvert, H., *The Law and Principles of Co-operation*, Thacker Spink and Co. Private Ltd., Calcutta, 1933.
13. Calvert, H., *The Law and Practice of Co-operation*, Calcutta, 1959.
14. Charlie, Macdonald, *Co-operative Credit in Bihar*, 1911.
15. Choubey, B.N., *Principles and Practice of Co-operative Banking in India*, Asia Publishing House, 1968.
16. Cole, G.D.H., *A Century of Co-operation*, George Allen and Unwin Ltd., London, 1944.
17. Cole, G.D.H., *The British Co-operative Movement In a Socialist Society*, George Allen and Unwin Ltd., London, 1951.
18. *Development and Trends in the World Co-operative Movement*, Revised Working Paper, Meeting of Panel of Experts on Co-operation, I.L.O., Geneva, 1962.
19. Diamond W., *Development Banks*, Johns Hopkins Press, Baltimore, 1957.
20. Digby, Margaret, *The World Co-operative Movement*, London, 1960.

21. Dubhashi, P.R., *Principles and Philosophy of Co-operation*, Vaikunth Mehta National Institute of Co-operative Management, Poona, 1970.
22. Dubhashi, P.R., *Strategy of Co-operative Development and other Essays*, National Co-operative Union of India, New Delhi, 1970.
23. Elhance, D.N. and Sharma, M.D. (Ed), *Role of Co-operative Credit in Agricultural Development*, Orient Longman Ltd., 1968.
24. Fauquet, G., *The Co-operative Sector*, Co-operative Union Ltd., Holyoake House, Manchester, 1951.
25. Fay, C.R., *Co-operation at Home and Abroad*, Vol. I, London, 1948.
26. Gadgil, D.R., *Co-operation and National Development*, International Co-operative Alliance, New Delhi, 1971.
27. Gadgil, D.R., *Towards a Co-operative Commonwealth*, Punjab University Publications Bureau, Chandigarh, 1961.
28. Hajela, T.N., *Principles, Problems and Practice of Co-operation*, Shiva Lal Agarwala and Company, Educational Publishers, Agra, 1973.
29. Hall, F., *Handbook for Members of Co-operative Committee*, Manchester, 1923.
30. Hall, F. and Watkins, W.P., *Co-operation*, Manchester, 1937.
31. Horace Plunkett Foundation, *Year Book of Agricultural Co-operation*, 1930.
32. Hough, E.M., *The Co-operative Movement in India*, Fifth Edition, Oxford University Press, 1966.
33. International Co-operative Alliance, *State and Co-operative Development*, Allied Publishers, Bombay-Delhi, 1971.
34. Iyengar, A.S.K., *A Study in Co-operative Movement in India*, Current Book House, Bombay, 1961.
35. Jain, P.C., *Agriculture and Co-operation in India*, Chaitanya Publishing House, Allahabad, 1956.
36. Kaji, Hiralal L., *Co-operation and Rural Reconstruction*, Lecture at International Co-operative School, Prague, 1948.
37. Karve, D.G., *Co-operation : Principles and Substance*, Gokhale Institute of Politics and Economics, Poona, 1968.
38. Kulkarni, K.R., *Theory and Practice of Co-operation in India and Abroad*, Vol. I, Bombay, 1955.
39. Laud, G.M., *Co-operative Banking in India*, the Co-operators' Book Depot, Bombay, 1956.
40. Mamoria, C.B., *Agricultural Problems of India*, Kitab Mahal, Allahabad, 1973.
41. Mamoria, C.B. And Saxena, R.D., *Co-operation in Foreign Lands*, Allahabad, 1957.
42. Marcos, Ferdinand E., *A Co-operative Ideology for a New Asia*, International Co-operative Alliance, New Delhi, 1971.

43. Mathur, B.S., *Co-operation in India : A Critical Analysis of the Co-operative Movement in India's Planned Economy*, Sahitya Bhawan, Agra, 1972.
44. McGrach, Mary Jean, *Guidelines for Co-operatives in Developing Economies — A Book of Readings* (Edited), The International Co-operative Training Centre, Madison (Wisconsin), 1969.
45. Muranjan, S.K., *Modern Banking in India*, New Book Co., Kumala Publishing House, 1952.
46. Mutalik, Desai, V.R., *Banking Development in India*, Manaktala and Sons, Bombay, 1967.
47. Pandey, K.L., *Development of Banking in India Since 1949-68*, Scientific Book Agency, Delhi, 1970.
48. Panandikar, S.G., and Mithani, D.M., *Banking in India*, 12th Edition, Orient Longman, Bombay, 1975.
49. Prasad, K.N., *The Economics of a Backward Region in a Backward economy*, Vol. I, Scientific Book Agency, Calcutta, 1967.
50. Qureshi, Anwar Iqbal, *The Future of the Co-operative Movement in India*, Bombay, 1947.
51. Rahman, Mahfoozur, *Co-operative Credit And Agricultural Development* (A Study with reference to Jammu & Kashmir), Sultan Chand and Sons, Delhi.
52. Rao, L. Raguhnadha, *Rural Co-operatives*, Sultan Chand & Sons, Delhi.
53. Rau, R.C., *Present Day Banking in India*, Calcutta, University of Calcutta, 1930.
54. Sarkar, K.C., *Co-operative Movement in U.P.*, Allahabad, 1947.
55. Saxena, K.K., *Evolution of Co-operative Thought*, Somaiya Publication Pvt., Ltd., Bombay, 1970.
56. Shivaswamy, K.C., *The Co-operative Movement in Bihar*, Delhi, 1956.
57. Sinha, B.K., *Indian Co-operation*, Booklive, New Delhi, 1970.
58. Srivastava, S.K. and others, *Agricultural Economics and Co-operation*, S. Chand and Co., Delhi, 1970.
59. Talmaki, S.S., *Co-operation, in India and Abroad*, Mangalore, 1931.
60. Tewari, R.N., *Agricultural Planning and Co-operatives*, Sultan Chand & Sons, Delhi, 1972.
61. Thakur, B.T., *Organisation of Indian Banking*, Lalchand and Sons, Calcutta, 1927.
62. Tyagi, R.B., *Recent Trends in the Co-operative Movement in India*, Asia Publishing House, Bombay, 1968.
63. Venkatappiah, B., *Co-operation, Social Justice and the Rural Sector*, International Co-operative Alliance, New Delhi, 1971.
64. Wolff, H.W., *People's Banks : A Record of Social and Economic Success*, Fourth Edition, London, 1910.

REPORTS AND PUBLICATIONS OF RESERVE BANK OF INDIA, CENTRAL GOVERNMENT AND STATE GOVERNMENT.

1. *Report of the Committee on Co-operation (MacLagan) in India*, 1915. Reprinted in November 1957,* Bombay.
2. *Report of the Co-operative Planning Committee*, 1946, Printed in 1951, Delhi.
3. *Report of the Royal Commission on Agriculture in India*, Bombay, 1928.
4. *Report of the Indian Central Banking Enquiry Committee, Vol. I, Pt. I, Majority Report*, Calcutta, 1931.
5. *Report of Rural Banking Enquiry Committee*, 1929-30.
6. *Report of the Rural Banking Enquiry Committee*, Delhi, 1950.
7. *Report of the Committee of Direction, All-India Rural Credit Survey* (popularly known as the All-India Rural Credit Survey Committee).
The General Report, Vol I, Bombay, 1954.
The Survey Report (Part I and II), Bombay, 1956-57.
- 7A. *Report of All-India Dept and Investment Survey*, Bombay, 1971-72.
8. *Review of the Co-operative Movement in India*, Bombay, 1958-60, 1964-66, 1966-68, 1968-70, and 1970-72.
9. *Statistical Statements Relating to the Co-operative Movement in India, Part I Credit Societies*, Bombay, from 1961-62 to 1973-74.
10. *Selected Statistics on Co-operative Credit in India*, Bombay, First published January 1969.
11. *Selected Statistics Relating to Co-operative Credit in India*, 4th Edition, Bombay, 1974.
12. *History of the Reserve Bank of India (1935-1951)*, First Published April 1970, Bombay.
13. *Reserve Bank of India Bulletin issued with a supplement*, December 1975.
14. *Rural Credit Follow-up Survey*, 1958-59, General Review Report, Bombay, 1961.
15. *Report on Currency and Finance, Vol. I and II*, Bombay, 1974-75.
16. *Report on the Survey of Urban Co-operative Banks*, 1957-58.
17. *Report of the Agricultural Finance Sub-committee (Gadgil Committee)* New Delhi, 1945.
18. *Report on the Royal Commission on Labour in India (Whitley Labour Commission)* Calcutta, 1931.
19. *Report of the Agricultural Credit Organization Committee (Bombay)*, 1947.
20. *Report of the Fifteenth Conference of Registrars of Co-operative Societies*, 12-14 May, 1947, Madras.
21. *Government of India, Report of the Banking Commission*, The Manager of Publications, Delhi, 1972.

22. Government of India, Planning Commission, *First Five Year Plan*, New Delhi, 1952.
23. Government of India, Planning Commission, *Second Five Year Plan*, New Delhi, 1956.
24. Government of India, Planning Commission, *Third Five Year Plan*, New Delhi, 1961.
25. Government of India, Planning Commission, *Fourth Five Year Plan*, New Delhi, (1969-74).
26. Government of India, Planning Commission, *Fifth Five Year Plan, Vol. I and II*, New Delhi, (1974-79).
27. Government of Bihar, *The Bihar Co-operative Societies Manual Vol. III*, Printed by the Superintendent, Secretariat Press, Bihar, Patna, 1967.
28. *Handbook of Co-operation Statistics*, Bihar, Published by Bihar Co-operative Federation, Budha Marg, Patna, 1968.
29. *Bihar Through Figures*, 1975.
30. Government of Bihar, *Co-operative Development in Bihar*, 1970.
31. Government of Bihar, *Report on Agricultural Census*, 1970-71.
32. Bihar State Planning Board, *Bihar's Economic Problems (A bird's eye view)* 1974.
33. Government of Bihar, Bihar State Planning Board, *Selected Plan Statistics Bihar*, 1976.
34. *Annual Reports*, Bihar State Co-operative Bank Ltd., Patna, 1972-73.
35. *Annual Reports*, Bihar State Land Development Bank, Ltd., Patna, 1972-73, and 1973-74.
36. Government of Bihar, Planning Department, *Draft Fifth Five Year Plan (1974-79)* July, 1973.

ARTICLES

1. Bawa, K.S., "Important Aspects of Development of Co-operative Movement and Its Future Direction", *The Co-operator*, Vol. X, No. 3, 1972.
2. Jha, D., "Green Revolution and the Co-operatives", *Co-operative Perspective*, Vol. 8, No. 3, 1973.
3. Nadkarni, R.V., "Principles and Philosophy of Co-operation and Their Evolution Since Independence", *The Bombay Co-operator*, Vol. XVI, No. 5, September 8, 1972.
4. Shinde, A.P., "Co-operation can eradicate poverty", *The Co-operator*, Vol. X, No. 5, 1972.
5. Vir, Dharm, "Development of Co-operative Leadership Among Youth", *The Co-operator*, Vol. VIII, No. 15, 1971.

6. Saraiya R.G., "Co-operation and the State", A paper submitted to the Commonwealth Conference on Agricultural Co-operation, Oxford, 1951, pp. 9-10.
7. Krishnamachari, V.T., "The Role of Co-operatives in Community Development", *Indian Co-operative Review*, October, 1963, p. 1.
8. Gadgil, D.R., "Co-operative Finance—Some Problems", *Co-operative Review*, April 1964, p. 323.
9. Chari, T.S.K., "Co-operative Banking At Cross roads", *The Financial Express*, New Delhi, 25th May, 1976, p. 4.
10. Maidiman, S.G., "Role and Functions of Primaries", *Indian Co-operative Review*, p. 378.
11. Jha, D., "Approach to Development of Co-operative Movement in Bihar—Some Broad Consideration", *Seminar on Approach to Co-operative Development in Fifth Five Year Plan*, Co-operative Training College, Patna, 1975, pp. 1-7.
12. Srivastava, R.K., "Approach to Co-operative Development in the Fifth Five Year Plan", *Seminar on Approach to Co-operative Development in the Fifth Five Year Plan*, Co-operative Training College, Patna, 1975, pp. 8-11.
13. Sinha, S.K., "Management of funds in Co-operative Banks", *Seminar on Approach to Co-operative Development in the Fifth Five Year Plan*, Co-operative Training College, Patna, 1975, pp. 12-18.
14. Guru, D.D. "Targets of Financing of Co-operatives in the Fifth Five Year Plan of Bihar and Possible Achievements", *Seminar on Approach to Co-operative Development in the Fifth Five Year Plan*, Co-operative Training College, Patna, 1975, pp. 19-21.
15. Pandey, M.P. "The shape of Co-operatives to-day (A brief review of progress during Plan period)," *Seminar on Approach to Co-operative Development in the Fifth Five Year Plan*, Co-operative Training College, Patna, 1975, pp. 28-31.
16. Azad, Mohammad Hussain, "Co-operative Movement gains momentum" Published in *Wheel in Motion*, Patna, April, 1976, pp. 33-41.
17. Derashri, S.D., "Co-operative Financing for Agricultural Development" published in *Role of Co-operative Credit in Agricultural Development*, Orient Longmans Ltd., 1968, pp. 1-7.
18. Sharma, K.K., "Reserve Bank of India and Co-operative Finance" published in *Role of Co-operative Credit in Agricultural Development*, Orient Longmans Limited, 1968, pp. 122-25.
19. Mehta, V.S., "Co-operation in Agriculture", *Indian Co-operative Review*, Vol. I, No. I, October, 1960, pp. 12-15.
20. Weeraman, P.E., "The Need of Planning for a Co-operative Set-up", *Indian Co-operative Review*, Vol. IX, No. 1, 1971.

JOURNALS AND PERIODICALS

1. *Co-operative News Digest* (Monthly), Agricultural Credit Department, Reserve Bank of India (Central Office), Bombay.
2. *Co-operative Perspective* (Quarterly), V.M. National Institute of Co-operative Management, Poona.
3. *Co-operative Review* (Monthly), Co-operative Union Limited, Holyoake House, Manchester-4
4. *Indian Co-operative Review* (Quarterly), National Co-operative Union of India, New Delhi.
5. *Indian Review of Public and Co-operative Economy* (Monthly), 3.A, Pandara Road, New Delhi.
6. *Yearbook of Agricultural Co-operation*, The Plunkett Foundation for Co-operative Studies, London.

DAILY NEWSPAPERS

1. The Economic Times (Bombay)
 2. The Indian Express (New Delhi)
 3. The Financial Express (New Delhi and Bombay)
 4. The Statesman (Delhi and Calcutta)
 5. The Patriot (New Delhi)
 6. The Indian Nation (Patna)
 7. The Searchlight (Patna)
-

CHAPTER I

CONCEPT OF CO-OPERATION

Meaning of the Concept

The concept of co-operation, like religion and faith contains a distinctive philosophy. The literal meaning of this concept is 'working together' or 'joint operation'. But in every organisation and business there is some form of 'working together' and, of course, no civilisation can exist without it. It is, therefore, not very proper to define co-operation as 'working together'. What distinguishes co-operation from other organisations is the application of this principle of 'working together'. The principle of 'working together', which is the basis of co-operative organisation, and the practice of thrift, and self-help which sustain it, generate a strong feeling of self-reliance which is of basic importance in a democratic way of life.

The concept of co-operation has been defined from time to time. But a severe controversy rages round it. C. R. Fay has defined co-operation as "an association for the purposes of joint trading, originating among the weak and conducted always in an unselfish spirit, on such terms that all who are prepared to assume the duties of membership share in its rewards in proportion to the degree in which they make use of their association".¹ This definition indicates that co-operation refers to the association of the weak, the powerless and the poor to achieve the joint purposes. But it is absolutely wrong to accept that co-operation is meant for the weak and the poor who lack resources. Margaret Digby says : "Trading is too narrow a term to cover, in fact, all the multifarious activities which are carried on by co-operatives, and the 'weak' is again to be accepted comparatively. Co-operation in modern times is as much needed by the poor as perhaps by the rich".² Thus it is evident that to limit the co-operative organisation for the weak and the poor is to degenerate the basic philosophy of co-operation which stands for something higher and nobler in life.

As a matter of fact, the beginnings of co-operation were made by those who were very poor and lacked resources. The case of the weavers

1. Fay, C. R., *Co-operation At Home And Abroad*, London, 1948, Vol. I, p. 5.

2. Digby, Margaret., *The World Co-operative Movement*, London 1960, p. 8.

of Rochdale bears ample testimony to this fact. Then, again, the co-operative activity entered into the sphere of credit to relieve the farmers of Germany and Italy who were in deep debts and poverty. It is on account of this historical fact that the pioneers of co-operative thought considered co-operation as an instrument for lifting the people from poverty to prosperity and progress.³ The Committee on Co-operation pointed out: "The theory of co-operation is very briefly that an isolated and powerless individual can by association with others and by moral development and mutual support obtain in his own degree the material advantages available to wealthy or powerful persons, and thereby develop himself to the fullest extent of his natural abilities. By the union of forces material advancement is secured, and by united action self-reliance is fostered, and it is from the interaction of these forces that it is hoped to attain the effective realisation of the higher and more prosperous standard of life which has been characterised as 'better business, better farming and better living'.⁴ The Committee on Co-operation has also confined the scope of co-operation to weak and isolated persons. But the fact is that even more prosperous and wealthy persons can also, by their joint and concerted efforts, attain a very prosperous standard of life.

Dr. G. Mladenatz, seeking the common element in all co-operative enterprises, has rightly expressed the view that "they are associations of persons, small producers or consumers, who have come together voluntarily to achieve some common purpose by a reciprocal exchange of services through a collective economic enterprise at their common risk and with resources to which all contribute".⁵ This definition contains a number of ideas—the ideas of freedom, of democracy, of mutual responsibility in economic life, and the idea of an ethical approach to that life.

Co-operation : An Economic Enterprise

In economic sense, co-operation stands for certain methods and techniques for the conduct of ordinary business of life and for achieving the common economic objectives of the participants who are keen to observe these principles. As an aspect of business life, it is concerned with free men in self-regulated action.⁶ It (co-operation) is thus a form of an economic enterprise, the structure and objectives of which are somewhere between those of a private business and of a public undertaking. Bakken has expressed the view that "co-operation is a resultant system of economy. It is a synthesis combining the desirable qualities of the laissez-faire economy and the planned economy. The undesirable features inherent in the two older systems

3. Saxena, K. K., *Evolution of Co-operative Thought*, Somaiya Publications Pvt. Ltd. Bombay, 1974, p. 36.

4. *Committee on Co-operation (MacLagan Committee) in India*, 1915, Reprinted in Bombay, 1957, p. 2.

5. Quoted by Digby, Margaret., Op. Cit., p. 8.

6. Fay, C. R., *Co-operation at Home and Abroad*, London, 1948, Vol. I, p. 1.

are not transmitted to the new system of co-operation. It is a direct challenge to the private profit system on the one hand, and to totalitarian rule on the other".⁷ A laissez-faire economy is characterised by lack of organisation, and the invisible forces of demand and supply control the entire economic system. In a planned economy, the authority is centred in some individual or a group of individuals to draft, direct and control the activities of the masses towards definite goals so as to attain the greatest social good. Co-operation is a third system which seeks to eradicate the evils of capitalism by amalgamating the interests of the exploiter and the exploited and works in sharp contrast to the theory of communism where the principle of "Each for all and all for all" is adopted. Its motto is usually expressed in these words: "Each for all and all for each". A similar note of definition has also been given by H. Calvert. According to him, co-operation seeks to make the best of the existing economic system by removing the more glaring evils of capitalism. As Prof. Gide points out, unlike socialism it takes its stand on, and works within the existing economic framework; it is already carrying into practice some of the most important desiderata of socialism; and it is bringing about an immediate and very real amelioration in the conditions of those who practise it. Co-operative associations aim not at doing away with capital, but at depriving it of its preponderant role of management in production, as also of the attribute it levies in the form of profit.⁸

Holyoke defines co-operation as "a voluntary concert, with equitable participation and control among all concerned in any enterprise". It is based on a clear exposition of the evils of capitalism. Herrick defines co-operation as the act of persons voluntarily united, of utilising reciprocally their own forces, resources or both, under their mutual management to their common profit or loss".⁹ F. Hall defines a co-operative society as "an association of share-holders, usually described as members, who have contributed a fund of capital to be employed under their collective direction for trading purposes in providing for their needs as producers or as consumers".¹⁰ This definition includes all types of co-operatives. According to the recent publication of the I.L.O., a co-operative is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the under-

7. Bakken, Henry H., *Basic Concepts, Principles and Practices of Co-operation*, Wisconsin, 1963, pp. 1-2.

8. Calvert, H., *The Law and Practice of Co-operation*, Calcutta, 1959, p. 3.

9. Kulkarni, K. R., *Theory and Practice of Co-operation in India and Abroad*, Bombay, Vol. I, 1955, p. 11.

10. Hall, F., *Hand book for Members of Co-operative Movement*, Manchester, 1923, p. 1.

taking.¹¹ Thus it is apparent that co-operation is a form of business organisation suitable not only for poor people but for all those who are prepared to practise it in accordance with co-operative principles, and a co-operative society, in the words of Calvert, may be described as a form of organisation wherein persons voluntarily associate together as human beings on a basis of equality for the promotion of economic interests of members.¹²

The aforesaid definitions emphasize the different aspects of co-operation—some on voluntary aspect of co-operation and mutual help and others on its economic advantage to the poor people of the society. But all lay stress on the democratic nature of a co-operative organisation. Service is the philosophy of co-operation. Capital occupies a secondary place in its organisation and the profit motive is not its concern. The Third Five Year Plan, recognising the significance of co-operation, has clearly stated. In a planned economy pledged to the values of socialism and democracy, co-operation should become progressively the principal basis of organisation in many branches of economic life, notably in agriculture and minor irrigation, small industry and processing, marketing, distribution, supplies, rural electrification, housing and construction, the and provision of essential amenities for local communities. Even in medium and large industries and in transport, an increasing range of activities can be undertaken on co-operative lines. The Third Five Year Plan stresses that the socialist pattern of society implies the creation of large numbers of decentralised units in agriculture, industry, and the services. Co-operation has the merit of combining freedom and opportunity for the small man with benefits of large-scale management and organisation as well as good will and support from the community. Thus, a rapidly growing co-operative sector, with special emphasis on the needs of the peasant, the worker and the consumer becomes a vital factor for social stability, for expansion of employment opportunities and for rapid economic development. Along with a growing public sector and a private sector which functions with responsibility to the community as a whole, the influence of co-operation extends far beyond the particular activities organised on co-operative lines, and gives to the social structure and the national economy, balance, direction and a sense of values.¹³

However, the real meaning of co-operation does not lie so much in its theory as in its practice. In fact, co-operation is a harmonious combination of theory and practice. The education of the mass of members in co-operation and the general education of co-operators result in the correct

11. *Developments And Trends in the World Co-operative Movement*, Revised Working Paper, Meeting of Panel of Experts on Co-operation, I. L. O. Geneva, 1962, p. 1.

12. Kulkarni, K. R., *Theory & Practice of Co-operation in India and Abroad*, Bombay, Vol. I, 1955, p. 13.

13. Government of India, Planning Commission, *Third Five Year Plan*, 1961, p. 200.

practice of co-operation. As observed by R.G. Saraiya, "Co-operation is both a system and a spirit; it is both a method of working and a moral force; it is a form of organization with legislative sanction and a method of economic working which enables small units to pool their resources together for their common good. At the same time, it has an inspiring motto, 'Each for all and all for each'. This association and working together of human beings for the common end gives it a moral value above and beyond purely economic considerations of individual gain. It is for this reason that it has found acceptance in all countries and has been approved by all parties. In fact, in India every political party has invoked the co-operative method and co-operative organization for the betterment of the standard of living of the masses. This very universality of its appeal makes it necessary to ensure that co-operation does not align itself with any single political party, whether it is the party in power or not. Co-operative organisation deserves assistance and encouragement from the State, but its aim should be to become self-reliant. It should not in any case be absorbed by the State. It should cover a wide section of the field of economic activity and, in its turn, help the State to carry out some of its economic policies, but it should maintain its own power of initiative, its individuality and its independence.^{13(a)}

Banking

Just as the literature is the mirror of the society's culture and civilisation, the banking system of the country offers an index to its economic advancement. The economy of the country is welded by the system of its banking. Its development not only establishes trade, industry and commerce but aids economic prosperity of the nation also.

The term bank or banking institution, of which the main functions are borrowing and lending, is defined under the purview of their operations. The bank is an intermediary between borrower and lender, who borrows from one party and lends to another. The very essence and nature of a bank and banker is to create and issue credit payable on demand and the credit is intended to circulate and perform all the functions of money. A bank, therefore, is not only an office for borrowing and lending but it is manufactory of credit. Banking is defined in the Indian Banking Companies Act, 1949, as accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise.

In brief, a bank is an institution which creates and issues credit. In other words it is a lender and borrower of money. There are various

13(a) Saratya, R. G., 'Co-operation and the State,' A paper submitted to the Commonwealth Conference on Agricultural Co-operation, Oxford, 1951, pp. 9-10.

types of institutions performing the functions of a bank under different types of managements and serving different classes of people. Hence for its classification the functions of a bank are to be taken into consideration because "just as a tree is known by its fruits so is a bank by the functions it discharges."¹⁴

There are the following main types of the banking institutions :—

1. Commercial or Joint Stock Banks.
2. Industrial Banks.
3. Exchange Banks.
4. Land Mortgage Banks.
5. Saving Banks.
6. Co-operative Banks.

1. Commercial or Joint Stock Banks

These institutions are those banks which are organised by the individual share-holders on the basis of the limited liability under the ordinary Banking Company Acts. Their main objective, with which they are beset, is to facilitate internal trade and commerce by extending short-term loans against the security of material assets of the borrowers. The pattern of their working is almost the same as that of co-operative bank, with the exceptions that 'co-operative banks are organised for rendering service to the people' while 'commercial banks aim at earning profit for their share-holders.' Mr. R. C. Rao remarked that "co-operative bank is near and familiar, while commercial bank is distant and unfamiliar".¹⁵

2. Industrial Banks

This type of banking institution is established for the purpose of meeting long-term financial requirements of industries. Commercial banks or joint stock banks, though, finance certain aspects of industry to a limited extent but they are not in a position to lock up their funds for such a long time. Owing to their meagre resources, they always invest their funds for short periods and keep their assets as liquid as far as possible. The industries also require long-term finance to cater to the needs of floating or working capital and as well as stock capital or fixed capital. To meet these types of capital needs, special banking institutions are evolved which are known as industrial banks. These banks build up their finance by raising share-capital and debentures and by mobilising the fixed deposits.

14. Basu, A. K., *Fundamentals of Banking Theory and Practice*, Calcutta, Fourth Edition. 1962, p. 1.

15. Rao, R.C., *Present day Banking in India*, Calcutta, University of Calcutta. 1930, p. 190.

3. Exchange Banks

As the commercial banks facilitate internal trade of the country, exchange banks are organised for facilitating international trade, whose main function is to help in repayment of the foreign debts. These banks help the client in making payments to foreign creditors and exporters. They not only accept the foreign bills on behalf of the client but also purchase and sell bills of exchange. The overall functions of the exchange banks are the same as those of commercial banks.

4. Land Development Banks

Land development banks are those institutions which advance long-term loans to agriculturists for the repayment of the old debts and for introducing permanent developments in the productive potentialities of agricultural land. The loans are advanced against the mortgage of unencumbered land of the borrower for the periods ranging between five to twenty years. Such institutions are of three types :—

1. Joint Stock or Commercial Land Development Bank.
2. Quasi-Co-operative Land Development Bank.
3. Co-operative Land Development Bank.

The Joint stock land mortgage banks are organised on the pattern of commercial banks, not only for rendering the service but for making profit out of the business transaction. Quasi-land mortgage co-operative institutions are those which have mixed type of membership of both borrowers and non-borrowers with share capital. The co-operative land mortgage banks are organised on the edifice of co-operative principle.

5. Saving Banks

The saving banks are designed under the variety of managements. Commercial banks, co-operative banks and postal departments—all maintain a saving bank section—in their organisations in order to mobilise and secure small savings of the people on the one hand and direct those savings in the suitable channels of investment on the other. The primary objective with which they are beset is to inculcate among lower and middle class people the habit of thrift and prudence. The methods of their operations differ from country to country. These banks provide to the depositor the facility of depositing any meagre sum, amounting to the multiple of one rupee at any number of times in a week, but he can withdraw money only once a week. In postal savings bank we find that they do not indulge in lending money.

6. Co-operative Banks

The philosophy of co-operation and the principles of banking have already been discussed. When co-operative methods and techniques are applied in the province of the banking institutions, it makes it co-operative, i.e., called co-operative bank. The co-operative devices have not only been applied to any one branch of economic activity but they have been tried successfully in such a wide range as production, consumption, marketing, housing, and insurance etc. It has been observed that there are many more provinces of human activity to which co-operation might, with advantage, be introduced in the same way as renting of land, erection of houses, use of machinery etc.

No country has, however, attempted co-operation as a panacea for economic maladies but has shaped co-operative business to suit its particular needs. In England, distributive co-operation was evolved to secure the fair distribution of the commodities. Germany and Italy devised credit co-operation. In India also credit co-operation was started to remedy the rural indebtedness. The seeds of credit co-operation, i.e., co-operative banking lay in exorbitant rates of interest, charged on loans and other mal-practices of village money-lenders. The people, specially poor and ignorant, were groaning under the iron grip of the money-lenders. They found their way of escape in organising banking institutions on the principles of co-operation.

Definition of Co-operative Banking

Co-operative bank refers to a special type of credit institution in which loans are given to its members on the basis of co-operative principles. Many a definition on this subject has been given but the task of defining the term co-operative bank is not a simple one. It is not easy to bring all the co-operative credit institutions working at different levels—primary, district and state—under the caption of a single definition because the nature of the operations of these institutions differs in many respects. However, it is for the purpose of the study that various definitions on co-operative banking have been provided.

Co-operative banking is an agency which, in the words of Henry Wolff, "is in a position to deal with the small man on his own terms, accepting the security he has and without drawing on the protection of the rich. That agency must not be a channel for pouring charity or subsidising the small man out of the public funds; instead, the material help must be backed by moral improvement and a strengthening of the fibre". Devine defines co-operative bank as "a mutual society formed, composed and governed by working people themselves for encouraging regular savings and granting small loans on easy terms of interest and repayment".¹⁶

16. Quoted by Laud, G.M., *Co-operative Banking in India*, the Co-operators' Book Depot, Bombay, First Edition, 1956, p. 6.

Another author on co-operation observed that the co-operative bank consists of a number of individuals who join to pool their surplus savings with the purpose of eliminating the profit of the banker or money-lender.

According to N. Barou, a co-operative bank is a bank formed for the purpose of augmenting their collective funds and the savings of their individual members, managing their financial interests, granting credits to co-operative enterprises and helping to satisfy the needs for personal credit of their individual members as well as for distributing the surpluses between the share-holders, depositors and borrowers or placing them to reserves.¹⁷

Thus, it has been pointed out that co-operative banking implies a voluntary association of persons which deals with the smallest unit of saving and equally small questions of credit for the benefit of its members.

R. C. Rao understands by the term co-operative bank that it is a poor man's bank or people's bank. Its main duty is to democratise credit and place it in the hands of the poor who, though they may be entitled, scarcely get a recognition in the hands of commercial banks¹⁸.

G. R. Fay refers that the "joint stock company is a union of capitals, the co-operative society is a union of persons—it is a channel of one kind only; it conveys to the producer the money which he requires as productive capital".¹⁹

All these aforesaid definitions do not take in their purview all grades of co-operative credit organisations. From the above discussion it seems that the attention of every author is focussed on defining only primary credit co-operative societies. Besides, all the principles of the co-operative banking have not been boxed into any one of them. However, N. Barou gives the real picture of co-operative banking; but Mr. Rao lays too much stress on the democratic spirit of the organisations. In nut-shell it can be said that all these definitions indicate the following basic principles on which a suitable definition can be given :—

1. Voluntary Organisation

The first essential trait of the co-operative banking institutions like other forms of co-operatives, is its voluntary character. In co-operative organisation full freedom to members to join or leave the society is allowed. The desire to join the association should be the spontaneous out-burst from

17. Ibid., p. 7

18. Rau, R.C., *Present day Banking in India*, Calcutta, 1930, p. 187.

19. Fay, G.R., *Co-operation at Home and Abroad*, London, 1948, Vol. I, pp. 4-6.

the hearts of the individuals. Any type of compulsion or coercion and self-fish allurements to join the co-operative credit association defeat the very purpose of voluntarism. Hence, such an organisation cannot be accepted as co-operative.

Experience has shown that in undeveloped and underdeveloped countries with illiterate and ignorant masses, voluntary principle cannot come into effective force. And in such circumstances a certain measure of compulsion or state-interference becomes inevitable, as was done in Bulgaria, Burma and also in India. It was advocated that Government assistance to foster co-operative spirit among the people in initial stages is essential with a view to create a favourable climate for the growth of voluntary co-operation. Under such circumstances the Government should, therefore, help co-operatives so that they may grow by public appreciation, public opinion and public co-operation.

2. Self-Help Through Mutual Help

Horrace Plunkett opined that co-operation is 'self help made effective by organisation'. The voluntary association of persons cannot make the organisation co-operative unless the motto of self-help with which credit associations are beset is not observed. Charles Gide has pointed out that co-operative associations adopt the double-motto of self-help and each for all.²⁰ The term self-help connotes that the member should feel a sense of self-respect in providing his own needs by his own means, i.e., by being his own banker and money-lender. At the same time the principle of each for all, i.e., the sense of mutual help cultivates among the members a desire to seek freedom and salvation not for themselves but for and through others.

It was, therefore, acknowledged that in co-operative credit organisation also 'mutual help, mutual trust and mutual dependence are the recognised principles'. The members in such an organisation continue to promote their economic interests by finding out their means of improving their own economic stature and means of satisfying their own financial needs for productive activities by strict adherence to this principle.

It is often suspected that the interests of both, i.e., the lender and the borrower may collide but the case is otherwise. With observance of the principle of 'Each for all and all for each' the former provides assistance to the latter on the ground that he is to receive the same response from the latter.

20. Reiterated by V. T. Krishnamachari in his article 'The Role of Co-operatives in Community Development' published in Indian Co-operative Review, October, 1963, p. 1.

3. Democratic Character

It has been observed that co-operative credit societies democratise credit, relieve distress by creating wealth and by turning the same to good industrial and agricultural account. The affairs of co-operative banks like other forms of co-operative credit are managed democratically. The principle of 'ONE MEMBER ONE VOTE' is strictly observed in credit co-operatives. The members joining the co-operative credit societies meet on equal footing. Every shareholder of the credit societies has been vested with the power of casting only one vote, irrespective of shares he possesses. Thus the democratisation of power in this way averts the danger of the dominance of the individual interest over the collective one.

The feelings of caste, creed and colour, which are incompatible with democracy, find no place in credit co-operatives. The rights, duties and privileges of every member are identical. On the same basis membership is open to all. They meet in the organisation as human beings and enjoy the advantages of the organisation equally. Planning Commission in this respect has remarked that co-operative banks are mere democratic and amenable to local control than even a small-sized joint stock bank.²¹ G. M. Laud has observed that the key-note to the successful working of co-operative banks is their democratic character and thoroughly representative management. The general body is the supreme authority and its members have an equal voice. Co-operation thus provides a testing ground to decide whether or not people have the maturity to handle their own business. From this point, as well as in the context of the desirability for maintaining the solidarity, every issue is discussed threadbare and an effort is made to reach an unanimous decision.²²

4. Element of Character

The character of the members of the co-operative organisation exercises a greater influence in its working. The character of high values implies unselfish spirit, self-reliance and self-respect. The realisation of common spirit and willingness to seek by joint action is nothing more than a skeleton frame work by which needs may be satisfied. What is more essential is the integrity of the members of the organisation. Therefore, personal element, i.e., the character of the member plays a very important role and can secure a smooth running of the business of the organisation.

The objective of a credit co-operative is to make available the cheap finance on easy terms. Hence unselfish attitude of mind, unselfish interest

21. Government of India, Planning Commission, *First Five Year Plan*, New Delhi, 1952, p. 170.

22. Laud, G. M., *Op. Cit.*, pp. 16-18.

and broader outlook are attained and they lead not only to the material advantages but also strengthen and stabilise them. The practice of honesty and unselfishness makes the credit organisations not only a business-undertaking but an article of faith and religion also. Rao Bahadur S.S. Talmaki has lucidly explained the implications in his note on personal credit to the Bombay Provincial Co-operative Conference, 1914: "An estimate of such character is made by a process of reasoning depending upon certain considerations as, for instance, whether the borrower has a general reputation for fair dealing, whether he is free from such vices as might divert all or a large portion of his earnings, whether he shows diligence and earnestness in his work, and so on; in other words, whether the person is endowed with those qualities which make for honesty, thrift and providence".²³

Under the purview of the aforesaid essentials of a co-operative bank, a co-operative credit organisations is, it has been observed, a mutual society formed, composed and governed by working people on the principle of equality. The principle of mutual service is rendered by accumulating the savings of members on easy terms of interest and payment. The surplus of the business is either placed to reserves or distributed amongst the depositors, borrowers, shareholders or spent on cultural or co-operative endeavours for the benefit of the working people.

In brief, a co-operative bank is a voluntary association of financially weak people who, realising their common financial needs, organise themselves on the basis of equality, by pooling their surplus savings on the one hand and by granting credit to colleague members on easy terms of interest and repayment on the other.

NEED OF CO-OPERATIVE BANKING IN BIHAR

Physical background of the State

Physically Bihar is a land-locked territory lying between 21°58'10" and 27°31'15" N. Latitude and 83°19'50" and 88°17'40" E. Longitude and has an area of 1,73,876 square kilometres²⁴ out of which 16.84 percent is covered by forest. It is bounded by Nepal on the North, West Bengal on the East and North-East, U.P. and M.P. on the West and Orissa on the South. It also consists of three distinct physical divisions, viz. (1) The Himalayan foot hills, (2) The Ganga plain and (3) The high-lands of Chotanagpur. There is a small hilly area in the North-Western corner of Bihar which is a part of the well known extensive Siwalik Range of the Himalayan foot hills. The North Bihar Ganga plain is composed of the alluvial soil which has a gentle slope towards the south and is traversed

23. Quoted by Laud, G. M., Op. Cit., p. 12.

24. *Bihar Through Figures* 1975, pp. 1-2.

by a large number of rivers starting from the Himalayas and flowing down into the Ganga or some of its tributaries. The highlands of Chotanagpur are interspersed by the numerous hill streams which flow rapidly through narrow gorges and beds during the rains but completely dry up in summer. Average annual rainfall in the State which is the basic source for replenishing all water resources, surface as well as underground, is of the order of 1016.0 m.m. About 80% of this rainfall is received during June-September²⁵. The alluviality of the plain and the character of the rainfall is very conducive to the agricultural industry and so it has become the main occupation of the people of the State. The percentage of the workers dependent upon agriculture has been considerably higher for the State than that for the country as a whole, and while for the country the percentage has increased only marginally from 69.57 percent to 69.67 percent during 1961-'71 decade, in Bihar it has increased from 76.84 percent to 82.27 percent during this decade.²⁶

Economy of the State

Bihar is one of the backward and under-developed pockets in India. In spite of the rapid growth of industries, trade, transport and communications, the rise in per capita income in the last two decades has been only 17.6% or about 0.8% a year. At constant prices (1960-'61) the per capita income of the State was about 35% below all India average in 1968-'69 and still lower in the following year (1969-'70). The per capita income of Bihar at constant 1960-61 prices was only Rs. 216/- in 1968-'69 which fell to Rs. 206/- only in 1969-70.²⁷ Taking person having monthly income of less than Rs. 20/- at 1960-'61 prices as below the poverty line, it would appear that the vast majority of the population of the State are living below the poverty line. At 1960-'61 prices the per capita income increased to Rs. 229.90 during the year 1972-'73 and at the current prices, it went up to Rs. 489.00 during the same year.²⁸

Agriculture—The Main Occupation

The reason for such a poor state of affairs lies in the unbalanced economic growth of the State. The unbalanced character of economy is evident from the fact that more than eighty percent of population of the State depends for its livelihood on agriculture out of the total population of 56.35 millions. Out of 100 workers in Bihar, the number of employees in manufacturing industries was only 2.6 in 1971 which is much below the national²⁹ average.

25. Govt. of Bihar, *Report on Agricultural census, 1970-71*, p. 19.

26. *Ibid.*, p. 34.

27. Bihar State Planning Board, *Bihar's Economic Problems (A bird's eye view)*, 1974, p. 4.

28. Govt. of Bihar, Bihar State Planning Board, *Selected Plan Statistics Bihar*, 1976, p. 105.

29. Government of Bihar, *Report on Agricultural Census, 1970-71*, p. 85.