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The function of Cooperative Banks in India

Chandan Kumar
Research Scholar (Commerce)
B.R.A.Bihar University, Muzaffarpur

Abstract

The cooperative movement had its start following the Industrial Revolution, which took place in England throughout the 18th and 19th centuries. Additionally, at this time, it was the first time that it was used in a technical way that is prevalent today. During the height of the Great Depression, Hermann Schulze and Friedrich Wilhelm Raiffeisen came up with the concept of cooperative banks as a way to make it easier for people with fewer financial resources and organisations of a smaller scale to get financing. Cooperative banks may be found all over the globe in the modern day.

Keywords*:Cooperative Banks, Industrial Revolution, England, Post-independence*

Introduction

The vast bulk of the funds that are made available via India's rural co-operative credit system are put toward the provision of loans for agricultural purposes. In this article, both the short-term and long-term cooperative credit systems are broken down and examined in detail. PACSs (Primary Agricultural Credit Societies), CCBs (Central Cooperative Banks), and SCBs (State Cooperative Banks) are the three components that make up the three-tiered structure that helps ensure a steady supply of short-term cooperative loans. Together, these three entities are referred to as PACSs (Primary Agricultural Credit Soci (StCBs). PACSs are in charge of operations on the neighbourhood level, CCBs are in charge of operations on the regional level, and StCBs are in charge of operations on the state level. The Banking Regulation Act of 1949 does not apply to PACS; thus, the Reserve Bank of India does not regulate how these institutions conduct their business. This is one of the reasons why PACS are exempt from regulation. The Reserve Bank is in charge of giving licences to State and District Cooperative Banks, in addition to overseeing these financial institutions. The State Cooperative Societies Act mandates that this be carried out in conformity with its provisions.Examinations of State and Central Cooperative Banks are under NABARD's purview per Section 35(6) of the Banking Regulation Act (as applicable to Cooperative Societies). It's a provision of the Banking Regulation Act. Primary Cooperative Banks (PCBs), or UCBs for short, are financial organisations that meet the banking needs of people in urban and semi-urban areas. When a UCB's service area extends over state lines, the UCB must register as a cooperative society under either the Multi State Multi-State Societies Act, 2002 or the applicable state's Cooperative Societies Act. There is a wide variety in both the types of industries represented and the locations where banks are concentrated. Local unit banks are the norm rather than the exception, and although some are fairly large and have a presence in more than one state, the vast majority are much smaller and limited in scope.

Pre-independence period (prior to 1947)

Inspired by the work of Sir Frederick Nicholson (1899) and Sir Edward Law (1904), British India accepted this idea, and the Co-operative Credit Societies Act was enacted that year (1901). Rural debt and the hardships it causes for America's farmers was an issue that was attempted to be addressed. The intention was to bring about some kind of improvement by doing this. Incentives granted by the Act paved the way for the first urban co-operative credit organisation to be created in October 1904 in Kanjeepuram, which is now located in the Indian state of Tamil Nadu. This event was the first step toward the establishment of cooperative banks in India. However, the Act's many flaws severely limited the cooperatives' ability to provide the promised advantages. However, only credit societies were allowed to register under the Act; federal societies and other non-credit organisations were left unprotected. These problems were recognised by the government, and in 1912, a more comprehensive piece of law was drafted and given the name the Cooperative Societies Act in an effort to address them. President Taft put this bill into law. It permitted for the development of both central co-operative federations and non-credit societies as legitimate structures. Upon the conclusion of World War One and in accordance with the terms of the Treaty of Versailles, which was signed that same year, the Montague Chelmsford Reforms were implemented in India. As a result of these shifts, cooperation became a decentralised issue, falling within the jurisdiction of individual governments. For effective implementation and to broaden the cooperative banks' area of activities, the states determined that separate acts were necessary. The Bombay Provincial Government enacted the Cooperative Societies Act in 1925, making it the first statute of its type. State legislatures in places like Madras, Bengal, Bihar, and Punjab all passed their own versions of similar laws in the years after the Bombay Act was enacted. The Multi-Unit Cooperative Organizations Act was passed by the British government in 1942. This law applied to cooperative organisations whose activities spanned the borders of more than one state. The Legislation specified that the criteria of the cooperative societies act of the state in which the society has its principal place of business would apply to the society's operations. The state's cooperative societies statute was set to control the organization's operations, as required by the Act.

Post-independence period (after 1947)

The cooperative society movement was able to keep going strong after the country attained its independence, which contributed to the economic growth of the nation. Despite the fact that it was up against a number of challenges at the time, the cooperative society movement managed to keep going strong after the country attained its independence. The relevance of cooperatives as a method for carrying out development programmes was acknowledged in the First Five Year Plan, which placed a significant emphasis on providing assistance to disadvantaged members of society and farmers in particular. This strategy was developed in response to the need for help that was expressed. The All India Rural Credit Survey Committee was founded by the government of India in 1954 with the intention of evaluating the state of rural credit as well as other financial difficulties that were affecting the people who lived in rural parts of the country at the time. It was recommended that a distinct institutional structure be established for cooperative organisations, especially with the intention of delivering services to rural regions in India. In the end, some of the suggestions that were made during the first phase of the committee's presentation were included into the second phase of the five-year plan. The Second Five Year Plan advocated for expanding collaborative efforts to span additional industries, with a particular emphasis on the warehousing industry. These actions were supposed to be completed simultaneously with one another. The purpose of the Third Five Year Plan was to increase the size and breadth of the cooperative movement as well as the level of preparedness of employees for the cooperative economy. The Fourth Five-Year Plan fostered the establishment of organisations that collaborated more closely with one another and worked together more closely in order to guarantee that everything went smoothly. During the course of the 5th Five Year Plan, it was proposed that a brand-new programme called the Farmers Service Societies be started up as a separate effort. The Sixth Five-Year Plan included a specific point strategy for cooperative societies as a way to both foster economic development and raise knowledge of the concept of cooperative societies. This strategy was included as a tool to enhance awareness of cooperative societies. The Seventh Five-Year Plan aimed to achieve its aims of decreasing poverty rates and improving employment levels by implementing programmes such as the development of new cooperatives and the expansion of existing cooperatives.

What are cooperative banks?

A financial institution that is known as a co-operative bank is an organisation that is owned by its individual members, who also act as the bank's customers and stockholders at the same time. This kind of bank was first established in the United States in the early 1900s. It is usual for people who are members of the same community or professional group and have interests that are comparable to one another to be the ones to initiate it.

It was established to advance the economic well-being of economically disadvantaged segments of the population and shield such segments from the predations of moneylenders, who prey on the poor by offering loans with exorbitantly high rates of interest. In addition, it was established to advance the economic well-being of economically disadvantaged segments of the population. It was founded to protect economically vulnerable sectors of the public from the predatory practises of moneylenders while also enhancing the economic well-being of economically disadvantaged parts of the society. The cooperative is an organisation that is built on the principles of working together, extending support to one another, democratically making decisions, and welcoming new members. These principles constitute the basis of the cooperative. The organisation is committed to the tenets that "no profit, no loss" and "one shareholder, one vote" are its guiding principles. These are the two fundamental tenets to follow. The Cooperative Societies Act of 1912, which was enacted in 1912, is the piece of law that was approved in 1912 and is responsible for overseeing the registration of cooperative banks. In accordance with the Banking Regulation Act of 1949 as well as the Banking Laws (Application to Cooperative Societies) Act of 1965, the Reserve Bank of India as well as the National Bank for Rural Development and Agriculture (NABARD) have been given the responsibility of monitoring these organisations. Both of these pieces of legislation were passed in India in 1949 and 1965, respectively.. Both of these pieces of legislation were passed in India. These two pieces of legislation were both approved by the Indian government. It is essential to keep in mind that the terms "organisation," "governance," "interest rates," "scope of functioning," and "objectives and values" are not equivalent when talking about "cooperative banks" and "commercial banks."

Characteristics of Cooperative Bank

The following is a list of some of the most important aspects or features of cooperative banks:

Customer-owned entities

Customers and proprietors of a cooperative bank are one and the same under this arrangement. The number of people using cooperative banks is growing. As a result, the objective of the cooperative bank is not to maximise profits; rather, it is to provide the people who are members of the bank with the greatest possible quality of service. Certain cooperative banks provide banking services to customers who are not members of the cooperative. These cooperative banks also accept customers who are not members of the cooperative.

Democratic member control

Cooperative bank customers both own the bank and participate in its governance. In a democratic procedure, the members also choose who will serve on the board of directors. The essential principle of "one man, one vote" is adhered to in the cooperative, and this principle is maintained regardless of the number of shares that a person may possess in the cooperative. Because of this, it is ensured that no one member of the cooperative has any form of control, whether it be arbitrary or otherwise, over the other members.

Profit allocation

A reasonable rate of interest is then paid on the capital that has been contributed by the members after a specific amount of the earnings has been transferred to the Statutory Reserve in addition to any additional reserves. This occurs after any extra reserves have been depleted. After a certain amount of time has elapsed, this occurrence will take place. Nevertheless, in the vast majority of cases, the distribution of this profit is subject to the limitations set by governmental legal and regulatory agencies. One such alternative is that the members of the cooperative might get some of this profit as their share of the cooperative's earnings.

Inclusion of rural masses

It plays a vital part in the process of bringing formerly unbanked rural masses into the financial system.Functions of Cooperative Banks

• It provides assistance to persons who have low incomes and protects them against unscrupulous moneylenders who try to take advantage of them by charging very high interest rates on loans and other services.

• People are shielded from the predatory practises of moneylenders, who often charge higher interest rates for loans and other services.

• It protects people against falling prey to moneylenders, who provide loans and other services at very high interest rates.

• It maintains monitoring and management of the connected societies.

• Rural finance: It provides financing to rural businesses, such as cattle farming, crop farming, hatching, and so on, at loan rates that are much lower than regular market rates. Other examples of rural industries include poultry farming, dairy farming, and so on.

• Financing for urban areas, such as personal finances, mortgages, and small enterprises, in addition to various forms of urban area financing such as financing for urban regions.

• It achieves this goal by soliciting financial contributions from its constituents and by making periodic distributions of interest earned on funds that have been invested.

Objectives of Cooperative Banks

• To lessen the influence of those individuals who are accountable for extending financial loans and of those individuals who play the role of middlemen in financial transactions

• To provide monetary assistance to communities that are classified as being located in areas that are regarded as being rural via means such as microfinancing.

• To guarantee that members of economically disadvantaged elements of society, such as farmers and members of other sectors of society, have access to financial services at interest rates that are much lower than those offered by conventional lenders;

• To give financial aid to small-scale businesses, which may include personal financial services and support, as well as assistance with housing costs and other sorts of assistance as required. This assistance may be provided in order to: The principal goal of this organisation is to ensure that all of its members have access to the most fundamental types of financial services that are now made accessible to the general public.

• To encourage growth and development in all aspects of each and every one of the communities that make up rural America in its entirety

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Structure of Cooperative Banks in India

There are two types of cooperative banking structures in India: those that operate over the short and long terms..

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Short term structure has three levels

- The State Co-operative Bank is the oldest and most venerable of all financial institutions (i.e. works at the state level).
- It is deemed to function at the Intermediate Level, and that institution is the Central Co-operative Bank (i.e. works at district level).
- Primary Co-operative Credit Societies, which operate on the most fundamental level of the cooperative credit system (i.e. works at village level).

Long term structure has two levels

• In the banking hierarchy, SCARDBs (State Co-operative Rural Development and Agriculture Banks) represent the pinnacle

. • Primary Cooperative Agricultural and Rural Development Banks (PCARDBs) on the subdistrict or subblock level

Types of Cooperative Banks in India

In India, the cooperative banking system is broken down into the following 5 subsets:

1. Primary Co-operative Credit Society

• The Primary Co-operative Credit Society is an organisation that brings together individuals from the same general location who have and have not taken out loans in the past in order to provide one another with financial support. Because of the contributions made by its members in the form of share capital, deposits, and loans from central co-operative banks, the society is in a position where it is able to fulfil its financial commitments.

• The money that they have obtained via various forms of debt is the most significant portion of their working capital.

• The members' borrowing capabilities, as well as the aggregate borrowing capacity of the society, are preset; nevertheless, these capacities might differ from one state to another.

• The loans are made accessible to the members so that they may purchase cattle, fodder, fertilisers, and pesticides. Additionally, the loans may be used to pay for other agricultural necessities.

2. Central Co-operative Banks

• These organisations represent the regional aggregations of primary credit societies. In general, these groups may be divided into two categories:

1. Only those who are members in main societies are eligible to apply.
2. Individuals who are also member of other organisations are included in this category.
3. Share capital, deposits, loans, as well as overdrafts from state founding banks and joint stocks make up the bank's funding sources.

• These financial institutions help member organisations get loans up to the limitations of their ability to borrow.
• These banks also perform all of the business of a joint-stock bank.

3. State Co-operative Banks

• The State Co-operative Bank is the governing body and federation of the Central Co-operative Bank for the state's co-operative banking system.
• Share capital, deposits, loans, as well as overdrafts from the Reserve Bank of India are the primary sources of funding.
• Instead of lending money directly to farmers, state co-operative banks do it via their central co-operative banks as well as primary societies.

4. Land Development Banks

- Because they do not accept deposits from customers in the general public, these banks get their funding from the debentures that are issued.
- Land development banks are subject to the oversight of the National Bank for Agriculture and Rural Development (NABARD).
- The purpose of these is to satisfy the farmers' needs for long-term loans in order to further agricultural growth.
- The structure of these is in the form of a three-tiered hierarchy.
- The state level is the lowest level.
- The central level is the middle level..

5. Urban Co-operative Banks

- This phrase is used to describe the primary cooperative banks that may be found in metropolitan and semi-urban areas.
- They make finances and services accessible to small borrowers and companies that are about the same size as themselves.
- In the past, the reach of these banks was restricted; however, it has substantially increased since then.

Cooperative banks in India fund rural areas under:

- Agriculture
- Livestock
- Milk
- Nursery
- Personal finance

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Cooperative banks in India finance urban areas by virtue of:

- Employment Types
- Independent Business
- Manufacturing
- Manufacturing at a Small Scale The Home Loan Process Budgeting & Personal Finance Finances, Individual

Importance of Cooperative Banks

- Due to the enormous branch network of the organisation, which spans the whole of the country, credit is made easily available even in more out of the way locations around the country.
- It satisfies the requirements of democratic planning and economic growth. • It is a crucial source of finance for agriculturalists.
- It accounts for 67% of the overall credit that is made available to rural communities.
- It provides small and marginal farmers with financial assistance for the purchase of inputs, as well as support for storage and sale of their products.

Advantages of Cooperative Banks

Easy to form

As opposed to traditional banks, online financial institutions have a far easier time being registered and in compliance with the law. You need 10 responsible adults as a bare minimum to launch a cooperative bank. Compare that to the 100 crores that smaller financial institutions need, and you can see why this bank is the better option.

Alternative credit source

To protect rural residents from the predatory lending practises of metropolitan institutions, the cooperative system aims to expand access to banking services. Cooperative systems aim to protect the natural world as one of their primary focuses. These payday lending companies prey on the low-income by offering them loans with exorbitant interest rates and otherwise manipulating their accounts. It's a streamlined replacement for the conventional lending process.

Cheap credit

It paves the way for those living in rural areas to get loans with more favourable interest rates. The return that members get on their deposits is quite high, while the return they receive on their loans is very low. As a direct consequence of the monopoly being broken up, people living in rural areas are no longer forced to pay the excessive interest rates that are demanded by money lenders.

Encouragement of savings and investments

It has inspired a much more frugal lifestyle among the general public. The majority of people nowadays invest and save their money instead of hoarding it or spending it on things which aren't necessary.

Advancement in farming

Farmers who are members of cooperative organisations have access to credit at interest rates that are far lower than standard market rates. This credit may be used to buy inputs, warehousing facilities, marketing help, and other amenities. These financial institutions frequently offer assistance for the acquisition of low-cost goods and services, in addition to assistance in the form of the introduction of modern technology and enhanced agricultural practises, both of which are designed to increase the farmers' overall levels of productivity.

Conclusion

The participation of cooperative banks, which are also essential to India's effective and well-functioning banking system, is vitally important to the successful execution of development plans and relies heavily on their presence. This is because cooperative banks are fundamental to India's efficient and well-functioning banking system. Without the involvement of cooperative banks, both of these areas would suffer from a significant dearth of resources. It is vital to take the required actions to treat the lucane and to enhance the public's confidence and faith in the financial system in light of the numerous scams that have been perpetrated in light of the many scams that have been perpetrated. It has been said that India is a nation that lacks the proper financial infrastructure to support its demands. At this precise juncture in time, it is of the utmost importance that these critical obligations be completed as swiftly as humanly feasible.

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