

An Appraisal Of Financial Problem Of Co-Operative Credit Institution In Bihar

Rachna Priyadarshini & B. P. Yadav*

Research Scholar, University Department of Commerce, B. N. Mandal University, Laloo Nagar,
Madhepura, Bihar, India.

* Associate Professor and University Head (Retd.), University Department of Commerce, B. N. Mandal University, Laloo Nagar, Madhepura, Bihar, India. kbsaku@gmail.com

Abstract: The co-operative bank has three structures in Bihar consisting of State Co-operative Bank at Apex Level. The present paper is an appraisal of financial problem of co-operative credit institution in Bihar with Central Co-operative Banks at the district level and primary Agricultural Credit Societies at the village level.

Keywords: Co-operative Bank, NABARD, Rural Development, RBI, BISCOMAUN, Urban Development.

I. INTRODUCTION

A State Co-operative Bank is an apex organisation of the Central Co-operative Banks in the state. It is the main pivot around which all economic activities on co-operative basis rotate and which controls and regulates the co-operative credit institutions as a parent body and acts as friend, philosopher and guide for the whole movement in the state. Thus, the state co-operative bank is the vertex of the pyramidal, three-tier structure for provision of short and medium-term credit to farmers on co-operative basis. The Bihar State Co-operative Bank has been in existence since 1914 and has been concentrating on the expansion of the agricultural credit business since 1958, after the transfer of its trading activities to Bihar State Cooperative Marketing Union (BISCOMAUN). This is the apex body of the of the co-operative credit organisations in the state and performs the same functions for the Co-operative Banks also. Being in charge of the entire co-operative structure at the state level, this institution mobilises and deploys its resources among the various sectors. It finances and controls the working of the Central Co-operative Banks and serve as a link between the Reserve Bank of India and the Central Co-operative Banks and village level co-operative credit societies. The working capital of the Bank consist of share capital, reserve fund, deposits from members, direct state contribution and borrowings. Borrowings constitute the most important source. The main source of borrowing has been the Reserve Bank of India, State Bank of India and the State Government. Loans from the Reserve Bank of India has been available to these Banks at a concessional rate much below the bank rate. Thus, the State Co-operative Bank is the pivot of the cooperative credit structure and it is through which the finance provided by Reserve Bank of India flows to the agriculturists[1].

II. OBJECTIVES

The main objectives of the Bank are the following:

- (i) To act as banker's bank to the Central Co-operative Banks.
- (ii) To form connecting link between the co-operative and the Reserve Bank of India and the National Bank for Agriculture and Rural Development (NABARD).
- (iii) To forecast and manage the financial requirements of the state as a whole and act as a financial centre of all cooperative banks and societies in the state.
- (iv) To spread co-operative education.
- (v) To provide the stimulus awakening and sustaining local interest and local leadership.
- (vi) To supervise and guide the Central Co-operative Banks and other affiliated societies and to promote uniformity in banking practice among them and generally assist them in building up a co-operative credit structure.
- (vii) To maintain a reserve of fluid resources so that the Central Co-operative Banks may be assured of its support in times of difficulty.
- (viii) To co-ordinate the working of the Central Co-operative Banks and to spread co-operative banking.

In short, the State Co-operative Bank is the pivot of cooperative credit structure. Although financial accommodation from the Reserve Bank of India should have been treated as supplement to the resources mobilized by the banks themselves it so appears that allured by the concessional rate the banks borrow from

Reserve Bank of their maximum capacity. As a result, the mobilization of surplus by banks from outside the co-operative field has been very encouraging.

The Bihar State Co-operative Bank has provided loans both to the agricultural and non-agricultural purposes during the recent years as per the recommendations of the NABARD. The total loans outstanding at the end of the year 1985-86 has been of the order of 105.68 crores of which Rs. 46.82 crores was out of borrowing from the NABARD. State Government and other sources and remaining Rs. 58.86 crores from the Bank's internal resources which formed 65 percent of the total loan and advances.

Consequently, the State Co-operative Bank should play a much more positive role with regard to the co-operative credit system. It should function as real pivot of the Co-operative Movement. It should establish close contacts with its member banks as also with the agricultural credit societies as the base. The Bank should be made the custodian of the surplus resources of the co-operative financing agencies should be statutorily required to invest their surplus funds in the apex bank. It has been able to coordinate and control the working of Central Co-operative Banks and has served as the financial co-operative centre of the state[2].

III. CENTRAL CO-OPERATIVE BANKS

The original scheme of co-operative in India did not contemplate the organisation of federal societies to function at financing agencies for the primary societies which in most cases were starving for want of adequate funds. They could not attract adequate share capital and deposits whereas the need of the members was over increasing. It was thought in the beginning that the Urban Banks would be able to raise sufficient capital to meet both their own needs and those of the rural societies. But this did not prove to be a healthy and conductive arrangement for the societies which had no say in the affairs of those banks except their relationship with a right to participate in the share and management of their financing agency.

The co-operative Societies Act, 1912 permitted the organisation of higher federal societies. The primary co-operative societies in compact areas federated themselves into Banking Unions and formed central banks to collect funds from the urban areas and divert them to the village societies. Thus every district in the state got one or more Banking Unions of Central Banks. In the recent past there has been a more to recognize them at the district level to make the economic units. The banks so organized are known as District Central Co-operative Banks[3].

The following are the objects of the Central Co-operative Banks:

- (1) to provide a safe place for investing the reserves of primary societies
- (2) to act as a balancing centre of finance for the primary societies in the district by providing them funds when they have a shortage and by serving as a clearing house for their funds which are surplus.
- (3) to develop and extend banking facilities in rural areas and make the people banking-minded.
- (4) to attract local deposits.
- (5) to develop the movement in the district and act as a friend, philosopher and guide, and
- (6) to supervise, guide and control the working of member societies.

IV. CONSTITUTION

The Central Co-operative Banks can be classified under three heads according to their constitution[4]:

1. Banks which include both individuals and societies among their members.
2. Banks whose membership is confined to societies.
3. Banks whose membership is confined to individuals.

A. Banks confined to individual and societies

Those are the banks with mixed constitution. These banks consist of societies and individuals both in which societies are not only assigned a certain proportion of the shares but also are given separate representation of the Board of Directors. But if majority is secured to the societies on the Board of the Directors and the dividend are limited to a reasonable rate and the individual share-holders are prevented from enjoying an undue advantage, this type of bank would be well suited in the prevailing conditions. But at the same time provision should be made to enable the bank for making provisions by degrees to become more co-operative by diminishing the number of its individual share-holders either by lapse or by redeeming their shares or by confining all fresh share issued to societies only. A great majority of Central Banks today conform to this pattern. At the instance of the Committee of Directors of the All India Rural Credit Survey the progress of gradual elimination of the individual share-holder has been introduced in most of the banks in a bid to make them fully cooperative in character[5].

B. Banks confined to societies

This is the purely federal type of central bank consisting of primary societies only. These banks are thus the associations of primary societies registered as "Banking Union" under the 1912 Act. Here the share-holders, lenders and the borrowers are the same. Therefore, the

antagonism of interest between the shareholders of the central banks and the borrowing societies is eliminated by the combination of the separate identities of the lender and borrowers, the management expenses are bound to be less. The Mac lagan Committee gives the following comments on such type of banks: "It is difficult under present conditions to find among the members of societies, representatives with sufficient capacity to manage institution and this type of bank generally fails to excite the interest or leave for the assistance of the middle class, who by its constitution are excluded from active participation in the movement; nor has it the necessary prestige to command local deposits to the extent to which they would have been forthcoming, if the middle classes were identified with the bank. In view of these practical difficulties banks started on these lines have not hitherto proved an unqualified success and though they represent the model at which cooperation should ultimately aim, they should not be unduly forced[6]. "

C. Banks confined to individuals

The banks failing in class A, consist entirely of individuals or in which societies are admitted as share-holders on exactly the same footing as individual, without any special provision for their adequate representation on the Board of Management or for the reservation of a definite proportion of the share capital for the more or less, such banks stand in the same position as commercial banks, granting loans to individuals and undertaking outside banking business not connected with co-operative finance. The Mac lagan Committee (1975) was of the opinion that Act on the ground that it would cause friction with the societies on the one hand and with the joint stock banks on the other hand, therefore, would not conform to the pattern contemplated in the Cooperative Societies Act. Banks having such constitutions were either recognized into cooperative urban banks or converted into pure central banks of societies. Hence, one may rarely come across such type of central banks today. The Central Bank should cover as large as area as is compatible with conventions and efficiency. Although it may commence on a small scale, it cannot expect ultimately to work at a profit unless it has a considerable capital should ordinarily expect to deal, either at once or within a reasonable time, with at least 200 to 250 societies subject to the above consideration it is always well to adhere as far as possible to administrative division and to avoid the creation of banks intended permanently to deal with any area exceeding a district. The All India Rural Credit Survey Committee has endorsed the above view. The Standing Advisory Committee on Agricultural Credit of the Reserve Bank of India has expressed the opinion "there should be only one central bank for each district. If, however, in a particular area, financial and other conditions justify the formation of a bank for region smaller than a district, there is no objection to this." Accordingly, in Bihar Central Co-

operative Banks in the form of central financing agencies came into existence after the passing of the Co-operative Credit Societies Act. 1904. The Cooperative Movement advanced rapidly till 1931 in Bihar. A committee under the chairmanship of Mr. Iyall was set up in 1923. The committee took an optimistic view of the cooperative movement. 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 bank paid 8 to 9 percent interest. The experts have admitted that soundness in the organisation of the primary agricultural cooperative societies was found to be lacking. The organisation of these societies was hasty from the very start of the movement in Bihar. The great depression of 1929 gave a serious setback to the cooperative activities in Bihar. It created grave difficulties for the existing institutions. Agriculture prices slumped as did the income of the peasantry classes and this catastrophic fall in prices threatened the very existence of some societies and disturbed the economic stability of others. Recovery of loans became extremely difficult and there were heavy accumulations of over-dues and freezing of societies assets. The Bihar and Orissa Committee on Cooperation gave its report in 1932 and this committee did not worry over the increase in the amount of over dues of the cooperative credit societies and could not envisage that the fall in the prices of agricultural goods would bring down the whole of cooperative movement in Bihar into despair and disappointment. Now ever, this committee recommended the setup of Land Mortgage Banks and the committee was of the view that Land Mortgage Banks should take over the long-term commitments of the existing Central Cooperative Banks. But this being unacceptable to the Government, one of the chief remedies suggested by the Bihar and Orissa Committee on Cooperation could not be of any use to the cooperative movement. The Government desired to strengthen the cooperative movement in Bihar by legislation and the aforesaid Bihar and Orissa Ct VI of 1935 was enacted. The Registrar was empowered to make amendment of the by-laws of a registered cooperative society. He was also empowered to surcharge any person, who had participated in the organisation or management of cooperative society or any past or present officer of the society. Section 40 of the Bihar and Orissa Cooperative Societies Act could make an order requiring such person or officer to contribute to the assets of the society for having made any payments which was contrary to law or to the rules or by-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. However, experts held the view that the Bihar and Orissa Cooperative societies Act of 1935 could not tackle the fundamental cause of progressive deterioration of cooperative movement. The

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 cooperation. The loyalty of the members of the cooperative societies to cooperative ideology could not be encouraged owing to lack of adequate arrangements for cooperative training. There was also acute shortage of trained personnel. By the end of the year 1937, the credit structure of the cooperative movement had completely collapsed.

The disastrous earthquake of 1934 and the great depression had weakened the credit structure of the movement. The Provincial (State) Cooperative Bank lost the confidence of 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 Government reiterated its confidence in the future potentialities of the movement and decided to rehabilitate the cooperative movement as early as possible and ensured 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. It was also decided to undertake intensive enquiries into the assets, liabilities and repaying capacities of the members of the agricultural co-operative credit societies. After the completion of the enquiries undesirable members of Agricultural Cooperative Credit societies and the Central Co-operative Banks would be eliminated and the cooperative movement in Bihar would be rehabilitated and strengthened by the organisation of new societies on sound lines.

There were 47 Central Co-operative Banks before 1959-60 and it came down to 28 at the end of 1967-68 due to their amalgamation and reorganization. It was found that the growth central banks in the state was not economic and haphazard growth of these cooperative banks attracted the attention of the Government to suggest ways for sound development of Cooperative Banking in Bihar. As a result the scheme of the amalgamated banks became viable units so as to reach the status of getting adequate financial accommodation from the Reserve Bank of India at the cheap rate of interest. Further, the number of central co-operative Banks increased to 34 in 1987-88 and remained constant till now. The number of branches also increased to considerable number from 50 in 1960-61 to 343 in 1983-84. It can be seen from the above table that at the end of the First Five Year plan these banks were suffering from shortage of funds resulting negligible loan disbursement. In 1955-56 they had total deposits of Rs. 0.38 crores which increased to Rs. 147.87 crores at the end of 1987-88 borrowing from Rs. 0.76 crores to Rs. 59.16 crores in 1982-83 and further to Rs. 215.14 crores at the end of 1987-88.

Loans issued by Central Co-operative Banks were to the tune of Rs. 0.79 crores in 1985 which increased to Rs. 56.63 crores in 1981-82 and further to Rs. 27.30 crores in 1985-86. It is evident from figures that the Central Co-operative Banks in Bihar considerably declined during the Sixth Five Year Plan and in the early years of the Seventh Five Year Plan in respect of loan disbursement during the year. But it increased to Rs. 252.91 crores in 1987-88. Loans outstanding have made considerable increase from Rs. 44.65 crores in 1781-82 to Rs. 284.08 crores in 1987-88 but their recovery position is not satisfactory due to which the NABARD is declined to refinance the Co-operative Banks[7].

V. CONCLUSIONS

In fact, the Central Co-operative Bank in Bihar is not in a position to draw adequate funds from the NABARD due to their weak financial position. However, the problem has been solved by the financial assistance from State Government which had made the Central Co-operative Banks eligible to draw from the NABARD. The officers of the NABARD have extended their cooperation keeping in view the damage of kharif crops caused by unprecedented flood and drought during the year. Medium and long term credit for agriculture is and has always been scarce and its scarcity also contributes towards the poor agriculture growth in India. Since Independence need of funds for investing in fixed and working assets relating to agriculture has been the topic of discussion by experts, planners and the government, either individually in committees or various forums. It was felt that Land Mortgage Banks long term credit being supplied by the Land Development Bank was not sufficient perhaps due to their meager resources and some administrative reasons. Even the funds available with the commercial banks are scarce for usual medium and long term financing it. Agriculture sector because major chunk of their deposits are by and large, for about 5 years, whereas investment loans in agriculture sector are for 5 years and above period. As such commercial banks could not afford to block their funds for more than the period of the deposits. Therefore, it was felt necessary to procure funds by long term financing by establishing an apex long term agriculture lending institution(s).

REFERENCES

- [1] Sengupta, Somini (22 June 2008). "The Food Chain in Fertile India, Growth Outstrips Agriculture". *New York Times*. Retrieved 23 April 2010.
- [2] India: Basic Information". United States Department of Agriculture - Economic Research Service. August 2011.
- [3] Grassroots heroes lead Bihar's rural revolution". *India Today*. 10 January 2012.

- [4] Handbook of Statistics on Indian Economy". Reserve Bank of India: India's Central Bank. 2011.
- [5] Agriculture marketing india.gov Retrieved on February 2008
- [6] Nageshwara M R and S Srinivas Rao, (2009), Direction of Trade in Indian Agricultural Commodity Exports, Southern Economist, Vol47 (19) pp-23.
- [7] Kehar Singh & Inder Sain (2003), Prospects of Agricultural exports of India: A Composite Index Approach, Indian Journal of Agricultural Economics, Oct-Dec, 5&4, pp 781-799.

