Co-Operative Banks- A Helping Hand for Small and Medium Enterprises.

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Abstract: The paper examined the contributions of cooperatives to small and medium scale enterprises (SME) development, identified the challenges and to suggested ways of strengthening this role. The paper argued that SMEs are the key to India’s prosperity, but that past efforts by the government to promote SMEs has not yielded the desired objectives. Cooperative societies from their antecedents have not only contributed to the development of small scale business but are in themselves small scale businesses. Cooperatives have always promoted small business development through entrepreneurial development, funding, provision of entrepreneurship, promotion of establishment of small scale industries, promotion of small holder agriculture, etc. But in spite of these efforts, cooperative sector is still faced with several challenges, including lack of adequate funds, illiteracy among its members, lack of training /educational opportunities which make it difficult for cooperatives to contribute maximally in business promotion activities, etc. The paper is of the opinion that more could be achieved if efforts are intensified to address these challenges. Reform of the cooperative policy framework, including legal and regulatory procedures is desirable. Other areas needing attention are capacity building to address the problems associated with management and leadership skills in the societies and the need to strengthen the cooperative governance system.

I. Introduction

The concept of cooperation is as old as mankind and it forms the basis for domestic and social life. The cooperation is nothing but group instinct in human which enable one to live with others, work with others and help each other in times of stress and strain. Without cooperation, the social and economic progress would not be possible. It is impossible for any civilization to flourish unless the cooperation supplements the competition in human society, if any. This is because human beings have developed out of group life and therefore naturally respond to group and social stimuli. So, the co-operative spirit is innate and intrinsic in human beings.

In the modern technical sense, the birth of co-operative movement and its applications in the economic field was traced after the Industrial Revolution in England during the second half of the 18th and first half of 19th century. The cooperation, understood as an economic system today, was born as a peaceful reaction against the mercantile economy and industrial revolution. Now the cooperation occupies a position of primary importance as a form of business organization in almost all the countries in the world.

The cooperation, which means living, thinking and working together to achieve a common goal through co-operative principles, envisages a group of persons with one or more common economic needs, voluntarily agreeing to pool their resources both human and material and use them for mutual benefit, through an enterprise / organization managed by the group itself in democratic lines. Subsequently, any organization formed by a group of persons to work together to accomplish the objectives for which it is formed through the co-operative principles is called a co-operative society.

II. Co-operative Movement in the World

Over the course of the industrial revolution in the mid of 19th century, many farmers and small craft businesses found themselves in financially desperate straits in Germany. This development was closely linked to the negative effects of the introduction of free trade during that time. During the reform, new structures came about which were supposed to make the division of property more favourable to the ‘small’ people. The reality, however, was that the situation of farmers got noticeably worse. They were burdened by having to pay off their former lords and were inexperienced in the independent management of a business. They got into deeper and deeper debt and often lost their livelihood. In this scenario, in 1847, Friedrich Wilhelm Raiffeisen created the first aid association in Weyerbusch (Westerwald) to support the poverty-stricken rural population. Finally, in 1864 he founded the “Heddesdorf Loan Society”, which is now seen as the first co-operative of the Raiffeisen tradition. In the decades that followed, the co-operative idea spread throughout Germany and Europe. Numerous households and businesses joined forces according to the principles of Raiffeisen. In order to provide greater support for their members, the local primary co-operatives founded regional and national centres. These gave rise to today’s regional centres, national centres and special institutes. As early as the 1870s the co-
operatives organised themselves into federations in order to offer the individual local co-operative more professional advice and assistance.

The Co-operative Group formed gradually over 140 years from the merger of many independent retail societies, and their wholesale societies and federations. In 1863, the North of England Co-operative Society was launched by 300 individual co-ops across Yorkshire and Lancashire. By 1872, it had become known as the Co-operative Wholesale Society (CWS). Through the 20th century, smaller societies merged with CWS, such as the Scottish Co-operative Wholesale Society (1973) and the South Suburban Co-operative Society (1984).

Co-operative communities are now widespread with one of the largest and most successful examples being the Mondragon Co-operative Corporation in the Basque country of Spain. Co-operatives were also successful in Yugoslavia under Tito where Workers’ Councils gained a significant role in management. In many European countries, co-operative institutions have a predominant market share in the retail banking and insurance businesses.

III. Co-operative Movement in India

The co-operative movement in India is century old. The movement was started in India with a view to encourage and promote thrift and mutual help for the development of persons of small means such as agriculturists, artisans and other segments of the society. It was also aimed at concentrating the efforts in releasing the exploited classes out of the clutches of the money lenders. During British rule, based on the recommendations of Sir Frederick Nicholson (1899) and Sir Edward Law (1901), the Co-operative Credit Societies Act was passed in 1904, paving the way for the establishment of co-operative credit societies in rural and urban areas. Under this Act, only primary credit societies were permitted to register and non-credit and federal organisations of primary co-operative credit societies were left out.

The Co-operative Societies Act of 1912 recognized the formation of non-credit societies and the central co-operative organizations / federations. This Act paved the way for the organisation of central co-operative banks throughout the country. But the provisions of 1912 Act were inadequate to meet the requirements of those states where co-operative movement had made considerable progress. Bombay, the pioneers in this regard passed a new Act, viz., the Bombay Co-operative Societies Act, 1925 for serving the many sided development of the state. Later on, Madras, Bihar and Bengal passed their own Acts in 1932, 1935 and 1940 respectively. The state patronage to the co-operative movement continued even after 1947, the year in which India attained freedom. The independent India accepted the concept of planned economy and co-operative organizations were assigned an important role. The policy of the Government towards the co-operative movement was guided by the recommendations of the Saraiya Committee (1948), which stated that the co-operative society has an important role to play as the most suitable medium for the democratization of economic planning.

IV. Co-operative Banks

A co-operative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by persons belonging to the same local or professional community of sharing a common interest. Co-operative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts, etc.). Co-operative banks differ from stockholders bank by their organization, their goals, their values and their governance. In most countries, they are supervised and controlled by banking authorities and have to respect prudential banking regulations, which put them at a level playing field with stockholders banks. Depending on countries, this control and supervision can be implemented directly by state entities or delegated to a co-operative federation or central body. All the co-operative banks share common features as described below.

V. Co-operative Banking in India

The co-operative banks in India have a history of almost 100 years. The co-operative banks are an important constituent of the Indian Financial System, judging by their role assigned to them, the expectations they are supposed to fulfil, their number, and the number of offices they operate. The co-operative movement was originated in the west, but the important that such bank have assumed in India is rarely paralleled anywhere else in the world. Their role in rural financing continues to be important event today, and their business in urban areas also has increased phenomenally in recent years mainly due to the sharp increase in the number of primary co-operative banks. Co-operative banks in India are registered under the Co-operative Societies Act. The co-operative banks are also regulated by the Reserve Bank of India (RBI) and governed by Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1955.

VI. Establishment of Co-operative Banks in India

The co-operative banks in India are well established financial service organization. The first legislation on cooperation was passed in 1904. In 1914, the Maclagen Committee envisaged a three tier structure of co-operative banking, viz., Primary Agricultural Credit Services (PACS) at the grass root level, Central Co-operative Banks at the district level and State Co-operative Banks at State level or Apex level. The first urban co-operative bank in India was formed nearly 100 years back in Baroda.

The co-operative banks arrived in India in the beginning of 20th Century as an official effort to create a new type of institution based on the principles of co-operative
organization and management, suitable for problems peculiar to Indian conditions. These banks were conceived as substitutes for money lenders, to provide timely and adequate short-term and long-term institutional credit at reasonable rates of interest.

Co-operative banks in India finance rural areas under:
- Farming
- Cattle
- Milk
- Hatchery
- Personal finance

Co-operative banks in India finance urban areas under:
- Self-employment
- Industries
- Small scale units
- Home finance
- Consumer finance
- Personal finance

Types & Function of Co-operative Banks, India

The co-operative banks are small-sized units which operate both in urban and non-urban centers. They finance small borrowers in industrial and trade sectors besides professional and salary classes. Regulated by the Reserve Bank of India, they are governed by the Banking Regulations Act 1949 and banking laws (co-operative societies) act, 1965. The co-operative banking structure in India is divided into following 5 categories:

Primary Co-operative Credit Society

The primary co-operative credit society is an association of borrowers and non-borrowers residing in a particular locality. The funds of the society are derived from the share capital and deposits of members and loans from central co-operative banks. The borrowing powers of the members as well as of the society are fixed. The loans are given to members for the purchase of cattle, fodder, fertilizers and pesticides.

Central Co-operative Banks

These are the federations of primary credit societies in a district and are of two types-those having a membership of primary societies only and those having a membership of societies as well as individuals. The funds of the bank consist of share capital, deposits, loans and overdrafts from state co-operative banks and joint stocks. These banks provide finance to member societies within the limits of the borrowing capacity of societies. They also conduct all the business of a joint stock bank.

State Co-operative Banks in India

The State Co-operative Banks (SCBs) or the Apex Banks occupy a crucial position in the three tier co-operative credit structure in India. These Apex Banks or State Co-operative Banks are formed by federating DCCBs in each state.

Conclusion

The concept of cooperation and co-operative movement is discussed in this chapter. The co-operative movements in the world and in India have grown well. It is clear that, though the first documented consumer co-operative was founded in 1769 in a barely furnished cottage in Fenwick, East Ayrshire, the co-operative movement in India is century old. Despite the Co-operative Credit Societies Act was passed in 1904 based on the recommendations of Sir Frederick Nicholson (1899) and Sir Edward Law (1901), paving the way for the establishment of co-operative credit societies in rural and urban areas, during British rule, the co-operatives in India have made remarkable progress in the various segments of Indian economy only after 1950s. In order to facilitate rural financing, the co-operative banks were started in India during 1950s. These banks are until now regulated by Reserve Bank of India (RBI) and governed by Banking Regulations Act 1949 and Banking Laws (Co-operative Societies) Act, 1955.

In Pondicherry, the co-operative movements have taken deep roots in Union Territory of Pondicherry since 1953. The Pondicherry State Co-operative Bank Ltd. was registered as a Co-op. Society on 10th October 1958 and started functioning on 30th October 1958. For helping the agriculturalist to provide credit through these Primary Agricultural Credit Societies were started. These societies operate at the village level and maintain direct contact with farmers. They are now called as Primary Agricultural Co-operative banks. They mostly give short term credit to farmers over the years. There are 27 PACBs in Pondicherry state. 24 PACBs are in Pondicherry region and 3 PACBs in Karaikal region. There was a positive growth in co-operative societies in Union Territory of Pondicherry during the period 10 years from 2001-02 to 2010-11. A positive growth in membership and working capital of State Co-operative Banks, Central Land Development Banks, PACBs / PACSs, Co-operative urban banks and Employee credit societies were visible during these years.

References


