

CHAPTER - II

**REVIEW OF
LITERATURE**

CHAPTER - II
REVIEW OF LITERATURE

- 2.1 Introduction
- 2.2 Committees, Study Groups and Commissions
- 2.3 Laws relating to Banks and Co-operative Credit Societies.

CHAPTER - II

REVIEW OF LITERATURE

2.1 INTRODUCTION -

After answer the clear formulation of the problem researcher as to conduct an expensive survey of the available literature related to the problem under investigation for this purpose he has to throw books, journals, conference, proceeding, clearicles, news paper, government reports, reports of international bodies (I.M.I.) published and unpublished bibliographies. He can even secure large number of refrences is in and outside. India through internet, extracting of the traveling information to all this sources will unable the researcher preparing the gist of the past word.

2.2 COMMITTEES, STUDY GROUPS AND COMMISSIONS -

2.2.1 Introduction -

When any problem arises related authority appoints one or more persons to study all the related aspects of that problem. The appointed persons may be in form of committee, working group or a commission. In the co-operative banking sector also so many committee study groups and commissions have been appointed to study the matter related to the co-operative banking business. They are appointed whether by central government or state government or by Reserve Bank of India.

After studying the related problem the committee gives its observations as well as the recommendations and suggestions on the issue. In section the committees related to the co-operative credit sector have been considered.

2.2.2 Committees, Study Groups and Commissions Before Independence -

It is important to note the recommendations of some important committees, study groups and commissions.

1) Sir Fredrick Nicholson's Report 1884

In 1882, the government of madras appointed Sir Fredrick Nicholson's to probe into the possibility of introducing land and agricultural bank in that province.

In 1887 Sir Fredrick Nicholson was also sent to the Germany and other western countries to study the co-operative movement in those countries. They returned in 1893 and presented his report in 1894 recommending that the cooperative movement should be sponsored by the government. In his report, he stated that India must find its own Raiffeisen who could organize and effectively nurture a co-operative movement in the country, if the conditions were to be improved.

2) Maclegan Committee 1915

In the beginning of twentieth century, there was no remarkable growth in the number of urban co-operative credit societies. On 8th October 1914, a review committee was established under the chairmanship of Sir Edward D. Maclegan. This committee gives important recommendations about the three tyre structure of co-operative sector and than the situation changed. That after urban co-operative credit societies were started to establish speedily in the urban area. Maclegan committee in it report had expressed the view that these societies can perform their dual part of collecting saving from local people through deposits and

fulfils their financial need to escape them from the money lender trap. This committee clearly stated the necessity of establishing district central co-operative banks to help the primary co-operative credit societies. This committee also suggests need of establishing state co-operative bank on state level.

3) Central Banking Enquiry Committee 1931

In 1930 there arose a great word of depression. However, it did not affect on the growth of urban co-operative credit movement. At that time a committee was appointed to study the banking business in our country. This committee also studied the urban co-operative credit societies.

The main recommendations of this committee were as follows.

- 1) Central bank for whole country should be immediately established.
- 2) Urban banks should be provide financial assistance to the small trader, vendor, small businessmen and middleman, needy people just like as commercial banks provide finance to the big businessman and industrialists.
- 3) There should be separate land mortgage bank on provincial level for each province.
- 4) When the reserve bank is established, the indigenous bankers should be bought into the direct relations with the reserve bank and thereby provide with rediscount facility from that institution.

4) Mehta Bhansali committee 1937

This committee was appointed by the Bombay province. As per the recommendations of this committee, the rules and regulations of the primary agricultural co-operative credit societies were changed and they were modified.

5) Nanavati Committee 1939

Form the year 1904, the primary credit societies were started to establish only for giving loans to the farmers. The Mehta Bhansali committee and Nanavati committee suggest that the primary societies should not only give loans to the farmers, but also give all the necessary facility to them to develop their farming business. As per the recommendations of these committees from the year 1939, the primary societies were converted into the various executors co-operative societies. Nanavati committee gave the encouragement for the establishment of various executors' co-operative societies. Besides the financial assistance, these types of societies started to collect and send the goods of farmers for the purchasing and selling co-operative stores.

6) Preview by Reserve Bank of India 1939-40

During the period of 2nd word war our country experience a great shortage of essentials and other commodities. However, at that time only the economic field of the country got the days of prosperity. At that time a big need for credit supply has been aroused for various purposes. This credit needs can be satisfied by urban cooperative credit societies and urban co-operative

banks. And as a result of this a great encouragement received for the establishment of the urban co-operative credit societies and the urban co-operative banks. Not only the urban co-operative credit societies and the urban co-operative banks gradually increased day by day. Their progress can be assessed from the following observations of Reserve Bank of India made in preview of the co-operative movement in India in 1939-40.

"Urban credit societies and urban co-operative banks are the most important feature of the urban co-operative movement in India, and make up to some extent for the absence of joint stock banking facilities in the smallest towns."

7) Agricultural Finance Sub - Committee (Gadgil committee) 1944

Gadgil committee of 1944 at first time deeply discussed about the agricultural finance. Committee stated that if the rural finance structure were to be the effective and useful the financial needs of the farmers should be given proper weightage.

Gadgil committee suggested the following two important suggestions.

- 1) It is essential to establish institutional structure to fulfill the needs of production, consumption and other social activities.
- 2) There should be co-ordination between the short term, medium term and long term loans to the farmers and there should be only one financial institution to provide all these three types loans.

2.2.3 Committees, Study Groups and Commissions After Independence -

1) Rural Banking Enquiry Committee (P. Das Committee) 1950

The rural banking enquiry committee appointed under the chairmanship of Mr. P. Das in 1950 also stated absolute importance of urban co-operative banking in the Indian banking system. This committee expressed its view that urban co-operative banks can fulfill the credit requirements of not only the urban people but of the rural people also. As these type of banks and societies have lower administrative expenses they can perform well in the small sections at taluka level also.

This committee suggested to make the banking facilities available in rural area and to develop the banking business.

2) All India Rural Credit Review Committee (Gorwala Committee) 1954

In India the financial planning started from the year 1951. The banks got the utmost importance in the financial and industrial development of our country. After the beginning of planning there was tremendous growth in the bank deposits. The Reserve Bank of India appointed a commission to review the rural credit under the chairmanship of Mr. A. D. Gorwala. This committee submits it's important in the year 1954.

This committee recommended that there should be a bank just like commercial bank on all India level to finance the farmers in the rural area for this purpose, the committee suggested that state bank of India should be established by nationalizing the

Imperial Bank. As per this recommendation government passed the state bank of India act and founded state bank of India on 1st July 1955.

3) Reserve Bank of India Survey of Urban Co-operative Banks (1958-59)

In the year 1958-59 Reserve Bank of India appointed a study group to review the working of urban co-operative banks. This survey studied about the collection of deposits, investment of fund, success or failure of the banks and overall working of the banks. In the survey report of the Reserve Bank of India it is clearly stated that urban co-operative banks should give stress on giving loans and advances which will be helpful for the production function, from the point of view of fulfilling credit requirement of the low income group in the society to provide finance to the small entrepreneurs should be the future direction of development of these banks. The survey report was given its opinion that though there is possibility of increase in loan demanded for household reasons of the families these banks should give maximum importance to give loans, which will be helpful to increase the economic capacity and welfare of their members.

4) Study Group on Credit Co-operative in the Non Agricultural Sector (V. P. Varde Committee) 1963

In urban co-operative banks, urban and rural non- agricultural co-operative credit societies and employment servant co-operative credit societies are fulfilling the credit requirements of middlemen taking into account this fact the central

government appointed 'study group on credit co-operatives in the non agricultural sector' in 1963, under the chairmanship of V. P. Varde. This study group studied the working of urban co-operative banks, employer co-operative credit societies and non agricultural co-operative credit societies. It was expected from the committee to study these institutions and to give suggestions, how they can develop fast.

The important recommendations of the committee are as follows,

- 1) The urban co-operative banks can teach the general banking principles to the middlemen and workers in the urban and semi urban areas through encouraging their habits of savings.
- 2) The amount of saving collected by the urban co-operative banks can be used for the industrial purposes and hence the economic development of the country can be achieved.
- 3) On the background of price raising the urban co-operative banks can do the important job of releasing the middleman from the trap of moneylenders through giving such loans with lower rate of interest.
- 4) These banks can be helpful in the industrial development of our nation by giving financial assistance to the artisan and entrepreneurs.

This committee has given detailed suggestions in respect of definitions, minimum number of members, area of operation,

minimum share capital, elections of the directors, and training to the directors for the urban co-operative banks and urban co-operative credit societies.

5) Working Group on Industrial Financing through Co-operative Banks (Damari Committee) 1968

The Reserve Bank of India appointed a working group on industrial financing through co-operative banks under the chairmanship of ex-deputy governor of Reserve Bank of India Mr. P. N. Damari in the year 1967. This group presented its report in 1968 and gave the recommendations as follows,

- 1) The urban co-operative banks should be given preference for their establishment in areas where the number of small scale and cottage industries is more.
- 2) Reserve Bank of India should sanction the long -term loans to the state government through the National Agricultural credit (long term) fund, so that they can have the partnership in the share capital of urban co-operative banks.
- 3) To get the benefit of credit guarantee scheme to the urban co-operative banks the Reserve Bank of India should decide proper norms to include the urban co-operative banks in the 'Approved' institution list.

The Damari working group has made detailed suggestions in respect of membership, area of operation, share capital, rate of interest, branch expansion of urban co-operative banks, etc.

6) **All India Rural Credit Review (Survey) Valuation Committee 1969.**

There is a great importance to rural credit in the financial planning of our country, Reserve Bank of India appointed 'rural credit review valuation committee' in July 1966 under the chairmanship of Mr. B. vyankatapaiyya to review how the financial needs of the farmers can be maximum fulfilled. Committee submitted its report on 30th July 1969.

The important recommendations of this committee are as follows,

- 1) To restructure the rural credit department and to establish the 'Agricultural Credit Board'.
- 2) To provide the capital finance for agricultural on a large scale and to provide sufficient credit on time to the farmers through the co-operative banks. From this point of view the refinance corporations should be reconstructed.
- 3) To change their policy and system of commercial banks in view of supplying agricultural finance.
- 4) To fulfill the above objectives banks should decentralize their rights and there should be co-ordination in the credit functions of commercial and co-operative banks.

This committee has also given the guideline in respect of the working of state co-operative banks, district central co-operative banks and urban co-operative credit societies.

7) **Banking Law Commission, 1972**

Government of India constructed the banking law commission under the chairmanship of Shri R. G. Saraiya in 1972. This commission made various recommendations regarding the banking business. Due to these suggestions the banking business in India got a healthy and constructive turn. The commission insisted on setting up of rural banking which extend the banking facilities to rural area and thus developing the rural finance.

According to the commission the banking entity in rural area should be essentially co-operative in character and provide a wider range of services than those which were provided by primary agricultural credit societies.

8) **Committee on Problem of Urban Co-operative Banks in Maharashtra 1976**

The number of urban co-operative banks in Maharashtra is comparatively more than other state. The co-operative movement in Maharashtra is also more advanced than any other state. Hence, the problems of this movement are many more as well. The government of Maharashtra appointed committee on problems on urban co-operative banks in Maharashtra under the chairmanship of Mr. V. M. Joglekar in December 1974. Committee has praised the urban co-operative banks in following words -

"In Maharashtra the working of urban co-operative banks is very much satisfactory. The number of these banks is increasing

day by day in the past some year and its credit go to the selfless and hard working social worker. The increase in the number of member is more than increase in the number of banks. It shows the participation of people in this movement. The same thing is about the deposit. The deposit is collected from non-member are more than the deposits collected from members. It is an evidence of the fact that of the urban co-operative banks has been qualified to the trust of the depositor in urban and semi urban area."

This committee studied various obstacles in the way of the progress of the urban co-operative banks and urban co-operative credit societies. The recommendations about the main problem are as follows,

- 1) The restrictions on the urban co-operative banks to collect deposits from trustee, municipalities and other boards should be removed.
- 2) Reserve Bank of India should give the remittance facilities free to charge at least for hundred times under the "free remittance facilities" scheme.
- 3) The audit fees of the urban co-operative banks should be depends on the working capital and on the working load of the bank.
- 4) There is a dual control of Reserve Bank of India and co-operative registrar on the working of urban co-operative banks. It should be divided. Reserve Bank of India should have to watch the following of the co-operative rules and regulations by these banks.

- 9) **"Financing supply to very small land holder through co-operative credit societies" survey committee (Dandekar Committee) 1976.**

Governments of Maharashtra appointed a committee in August 1975 under the chairmanship of Dr. V. M. Dandekar, a well known economist and scholar in the field of co-operative credit. The committee was entrusted to analysis the policy and actual work of co-operative banks regarding the agricultural finance to small and very small land owner farmers.

The important recommendations of this committee are as follows,

- 1) The definition the small land holder should be made on the basis of loan qualifications depended on the area of croup wise rate of loans.
 - 2) The small land holder should get their proper share in co-operative loans (minimum up to 20 %).
 - 3) The small land holders should get consideration in the rate of interest.
 - 4) To protect crops from natural calamities such as flood, famine, insects, etc. there should be insurance for crop loans also.
- 10) **Working Group on the problem of various types of financial institutions working in the rural area (Kamat Committee) 1978**

Before the social control of 1968 on the banks the co-operative department had the monopoly to provide finance to

the agricultural sector. However, after nationalization of 14 commercial banks in 1969, the policies were designed to participate the commercial banks in rural financing with the co-operative credit societies. The Regional Rural Banks were established for the progress of special regions and sections in rural area.

In the Indian villages more than one type of finance institution can provide the credit and financial assistance. All these institutions must act and work with mutual understanding and co-ordination.

To study the problem arising due to the working of the various types of financial institutions in rural area the Reserve Bank of India appointed a working group on 4th August 1976 under the chairmanship of Mr. C. M. Kamat.

The main recommendations of this committee are as follows,

- 1) The geographical area of operations of co-operative commercial and regional rural banks should be fixed instead of dividing their working as per the functions.
- 2) In financing for the agricultural and related purpose the co-operative banks should be given preference because the structure of co-operative societies is proper to reach towards the farmers and their expansion is also on large scale.
- 3) The commercial and regional rural banks should not compete with the co-operative banks in rural areas. Instead of that they should support the cooperative credit societies.

- 4) The commercial and regional rural banks should help to those rural development programs for which co-operative banks are not able to give the financial assistance.

11) Committee on Urban Co-operative Banks 1979

After 1960 the urban co-operative banks were rapidly increasing. However, many obstacles regarding their working and policies were aroused. Therefore, to survey the urban co-operative banks and to suggest remedies to improve their efficiency Reserve Bank of India appointed this committee in September 1977 under the chairmanship of Mr. Madhav Das. The committee presented its report in April 1979.

The main recommendations of this committee are as follows,

- 1) To encourage the establishment of urban co-operative banks at small towns like taluka places.
- 2) The efficient urban co-operative credit societies should be converted into urban co-operative banks.
- 3) The salaried servants' co-operative credit societies and the urban co-operative credit societies should not accept deposits from non members.
- 4) These banks should give training to their employees.
- 5) The loans should be given for production function and to small entrepreneurs only.

**12) Agricultural credit review committee (Khustro Committee)
1989**

The Reserve Bank of India appointed agricultural credit review committee of experts under the chairmanship of well known economist Dr. A. M. Khustro on 1st August 1986. This committee was expected to study deeply on subject "Revival and revitalization of primary agricultural credit societies."

The main recommendations of this committee are as follows,

- 1) The weak district central co-operative banks, regional rural banks and state central co-operative banks should be made strong so that they can provide finance to those societies which provide financial assistance to agricultural sector.
- 2) National co-operative banks should be established on national level to make the mutual co-operation in the business and working of national, state and district level financial and other resources supplying co-operative institutions.
- 3) More than 75% of regional rural banks were in loss. Therefore this committee recommended that all regional rural banks should be amalgamated in the respective parent nationalized banks.
- 4) Co-operative banks should increase their own funds and they should minimize to take grants from the government.

2.3 LAWS RELATING TO BANKS AND CO-OPERATIVE CREDIT SOCIETIES

There are various types of laws related to the banking business in India which affect, regulate and control the day to day working of the banks and urban cooperative credit societies. Following are the various laws passed by the central government and state government applicable to co-operative banks & co-operative societies in Maharashtra.

1) **Banking Regulation Act, 1949**

From so long time, there was need of separate act for the regulation of banking business in India. The banking regulation act was passed in 1949, with the objective of overall progress in banking sector. Firstly the name of this act was 'Banking companies act' but from 1st march 1966, it has been named as 'banking regulation act'.

This act is applicable to all types of banks & co-operative societies in the country. To apply this act to co-operative credit societies it requires some modifications. Chapter V of banking regulation act is deals with the application of the rules to co-operative banks and co-operative credit societies. This law applicable to co-operative banks and co-operative credit societies in its original form, but it required necessary modifications which are briefly explained in chapter V of the banking regulation act.

Important provisions of the Banking Regulation Act 1949

Part I (sections 1 to 5a) of this act deals with Short title, extent and commencement of laws, Application of other laws not barred, Act to apply to co-operative societies in certain cases, Power to suspend operation of Act, Act to override memorandum, articles, etc

Part II (sections 6 to 36a) of this act deals with business of cooperative banks and credit co-operative societies.

Part IIA (sections 36aa to 36ac) of this act deals with control over management which describes powers of Reserve Bank of India to be exercised on banks.

Part IIB (sections 36ad) of this act deals with prohibitions of certain activities in relation to co-operative banks & credit co-operative societies & punishment for certain activities in relations to co-operative banks & credit cooperative societies.

Part IIC (sections 36ae & 36aj) of this act deals with acquisition of the undertakings of co-operative bank in certain cases. Under section 35ae and 36af power of central government regarding acquisitions of co-operative banks has been explained.

Part III (sections 36b & 45) of this act deals with suspension of business and winding up of co-operative banks.

Part IIIA (sections 45a & 45x) of this act deals with special provisions for speedy disposal of winding up proceedings.

Part IIIB (sections 45y & 45za) of this act deals with provisions relating to curtains operations of co-operative banks.

Part IV (sections 46 & 55a) of this act deals with miscellaneous matters such penalties, restrictions, change of name by banks, etc.

2) Income-tax Act, 1961

The income earned by a co-operative society is subject to income tax under the Income-tax Act, 1961 and its Rules. It may be noted the income of a cooperative society is eligible for deduction u/s 80P of the Income-tax Act and not an exemption u/s 10. Hence, it is mandatory for all co-operative societies to file income tax return.

3) Bombay stamp Act

The execution of loan and other documents are subject to rules applicable to the place where such documents are executed. Thus, for documents executed in Maharashtra, the Bombay Stamp Act (as applicable to Maharashtra) is applicable. For certain provisions not contained in this Act, the Indian Stamp Act becomes applicable.

4) Bye-laws

Every society has to frame bye-laws for internal management of the society and get the same approved by the Registrar at the time of registration of the society. Further amendments to bye laws need to be approved by the Registrar. The byelaws of a society constitute a contract between members and the society and the members inter se in respect of affairs of the society and they provide for the management of the society. The bye-laws are framed within the provisions of the applicable Act and the Rules. Bye-laws include objects of the society and define and restrict the society's activities and also provide for rights and obligations between the society and the members and between the members inter se.

Co-operative banks are also governed by the Reserve Bank of India under Banking Regulation Act, 1949 as amended by the Banking Laws (Application to Co-operative Societies) Act, 1965 and the Banking Regulation (Co-operative Societies) Rules, 1966. As per section 5A, the provisions of this Act override the ones in the MCS Act or the Rules or Bye-laws. Certain clauses of Reserve Bank of India Act, 1934 are also applicable to co-operative banks.

Co-operative societies are also governed by the circulars, notifications and directives issued from time to time by the various departments of co-operation. Co-operative banks are further governed by circulars issued by Reserve Bank of India.