

## C H A P T E R - I

### 1.1 ROLE OF CO-OPERATIVE BANKING IN RURAL DEVELOPMENT :

#### INTRODUCTION :

Agriculture is the major occupation of the rural house holds. Nearly 70% of the working population in the country is engaged in agricultural sector.

In India, agriculture is carried on largely in the traditional way. The land-holdings are small and scattered. Agriculture depends mainly on rainfall. Majority of rural house-holds have hardly any savings or assets excepting land which can be offered as security against loans.

It has been found that agriculturists, who are in need of loans find it difficult to establish financial contacts with modern commerical banks.

Indian rural economy is characterised by illiteracy, general poverty, uneconomic landholdings, heavy indebtedness, low level of income, low savings etc. Thus the majority of rural households are in perpetual need of loans.

Another class in rural areas which is important is the class of artisans. They are also poor with low level of income and hardly any savings and assets. They also need loans for purchasing raw materials and equipment. In such a situation credit can rightly be regarded as the king-pin of rural

development. Co-operative Bankings<sup>1</sup> has a very important role to play in the rural financial system for agriculture and small and cottage industries. Co-operative credit based on the principles of mutual help and thrift and is motivated by service objective rather than by the objective of profit maximisation. It is managed on democratic lines. The aims of co-operative credit were listed By Prof. Horace Belshaw<sup>1</sup> before the international conference on Agricultural and co-operative credit in 1952 as under.

- 1) To promote thrift so as to increase the supply on funds.
- 2) To promote the effective use of loans and to reduce risk in the granting of loans by careful and continuous supervision.
- 4) To reduce risk to founders by adequate security.
- 5) By these means and by low costs of management, to keep the cost of credit as low as possible.

1.2 What is Co-operative Bank :

A co-operative Bank is one which performance<sup>6</sup> the following functions on a co-operative basis :

- a) Borrowing (b) Lending (c) Agency services
- d) General utility services.

Various definitions of co-operative Bank :

Henry Wolf :

"co-operative Bank is an agency which 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."<sup>2</sup>

Devine :

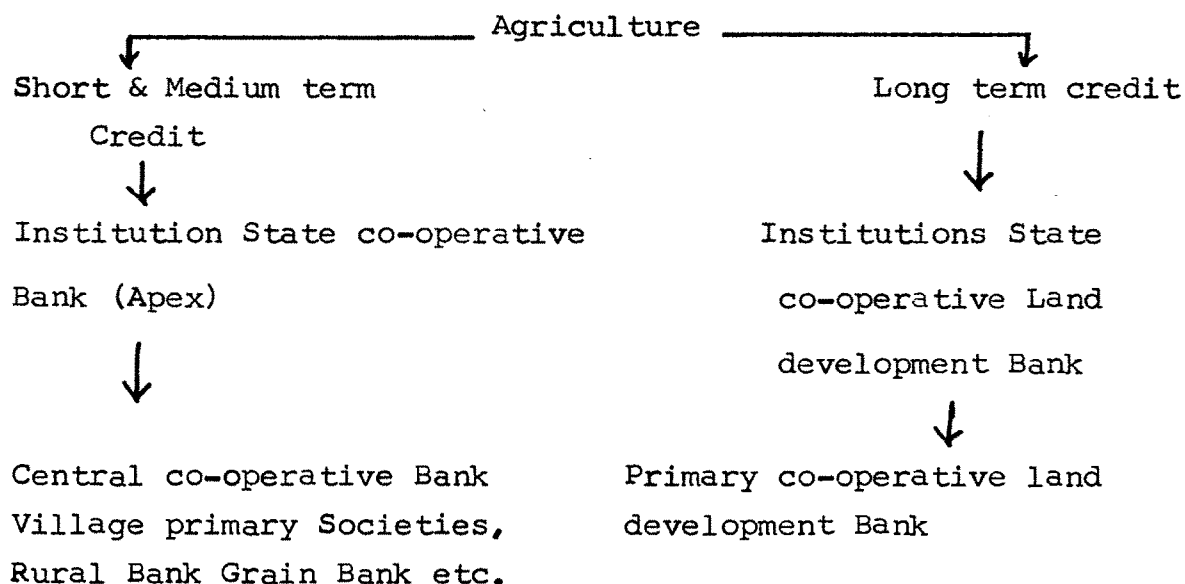
"Co- operative bank is a mutual society formed, composed and governed by working people themselves for encouraging ~~re~~ regular savings and granting small loans on easy terms of interest and repayment."<sup>3</sup>

1.3 The present co-operative structure for Rural development :

At present we have in India a well developed co-operative structure covering both Urban and Rural sectors of the economy. Not-with-standing the structural and sectoral imbalance in the growth of co-operative movement, we can certainly say that co- operative movement has achived a comprehensiveness of scope so far as rural sector of the economy <sup>is concerned.</sup> The structure of co-operative movement comprises co-operative credit, co-operative marketing, co-operative processing, co-operative service, co- operative farming, labour co-operative, storage and warehousing etc. As we are more interested in co-operative banking, we give below the structure of co- operative credit in the form of the following chart.

Structure of Co-operative

Rural Credit



Apart from this structure we have at the national level the NABARD (1982) that is " NATIONAL BANK for Agricultural and Rural Development" which is the national apex agency for refinancing agricultural and rural credit requirement. Similarly there are regional rural Bank sponsored by nationalised commercial Banks and assisted by Govt. which started functioning from Oct, 1975. It should however, be noted that the development of a rural co-operative Bank with local initiative is a more important aspect of rural credit for rural development, "Shri Warana co-operative Bank Ltd." is one such Bank which has been selected by us for the present case study. Before we go to the genesis and the history of the growth

Shri Warana Sahakari Bank; we feel it necessary to establish the rationale for the formation of such a rural Bank in the co-operative sector.

1.4 Rationale for the Rural Co-operative Bank :

By the end of 1976-1977 there were in total 89171 primary agricultural co-operative credit societies covering almost 43% of the rural population.<sup>where</sup> In other words more than 50% of the rural population is out of the orbit of the co-operative credit movement. These co-operative credit societies provided short term loans for one year period for the purchase of seeds, fertilizers, pesticides, manure, impliments, payment of wages, and payment of land revenue. Similarly, medium term loan for a period of 3 to 5 years are given by these societies for the purchase of cattle, construction of more irrigation facilities, construction of bunds and improvement of land.

The long term loans are given to the farmers through the branches of land development Bank for long term investment programmes in agriculture. It is however to be noted that the existing co-operative credit structure mainly finances the agricultural credit requirement. It is however, to be noted that there are a number of nonagricultural activities in the rural area which also are very much in need of institutional credit locally. For example, there are small traders, different types of craftsman and minor processing activities which add

to the process of increasing agricultural production and overall rural development. Moreover credit requirements of the rural people for education, medical help and generation of self employment in the form household and small scale industrial units can not be met by the existing co-operative structure. These aspects of rural economy cannot be disregarded as something secondary or unimportant. It is here that a rural co-operative Bank created by local support and initiative becomes a significant additional aspect of the rural co-operative credit structure.

#### 1.4.1 Ability Justification :

Although it is true that there exists a serious gap in the structure of rural co-operative credit as pointed out above, it is quite evident that this gap can not be filled up in every part of rural economy. If we want, apart from existing co-operative credit structure, an addition in the form of a rural co-operative Bank, it is necessary that the co-operative workers in rural area must have the capacity to organise and support such a rural Bank on the basis of their own economic resources and organisational experience. These two conditions are fulfilled in only a few certain parts of the rural area where a major complex of co-operative enterprise mainly of the manufacturing type; ~~al~~ ready exists and has contributed to a significant improvement of the local economic conditions;

mainly in the form of a general increase in agricultural productivity. This has generally happened mainly in areas, where a major production activity in co-operative sector e.g. A co-operative sugar factory has existed successfully for a sufficiently long period, that is for a period of more than 10 years.

1.5 Genesis of Shri. Warana Sahakari Bank Ltd. :

Shri Warana Sahakari Bank Ltd. Warananagar, started functioning in the year 1966 ( 28-2-1966) with registration No. K.P.R.BNK/123. The genesis of the Bank is explained below :

It was in the year 1959 that Shri Warana co-operative sugar factory was established in the basin of the Warana river near Kodoli(Tal: Panhala) situated at a distance of about 40 Kms from the district head-quarters that is Kolhapur. With the growth of this factory the local economy started gradually, changing for better in its economic aspects. The sugar industry being basically agriculture oriented, it led to very quick changes in the economic attitude of the local farmers. The farmers gave up their traditional approach to farming. They become progressive and commercial farmers. Increasing mechanisation of farming became a necessity for them. Agriculture was no more a subsistence activity of the farmers. They started looking at agriculture, particularly sugarcane

cultivation, as a profit making business. The sugar cane cultivator had to invest larger and larger amounts of capital in agriculture for different types of irrigation facilities, electrical connections, mechanical impl<sup>l</sup>iments, soil development etc. They had to go to Kolhapur frequently for the purchase of spare parts, repairs of machinery etc, where they were more or less exploited by the city traders and middle-man taking advantage of their ignorance.

In view of these difficulties, some of the local co-operators under the leadership of Sahakar-Maharshi Tatyasaheb Kore, the founder of the Warana co-operative sugar factory and pioneer in many others<sup>d</sup> feats of the co-operative movement, came together in a meeting at Warananagar and discussed alternative ways for solving the economic problems of the farmers with a view to minimising their costs. It was at this ( 15-2-1966) meeting that the proposal for a rural Bank in the nature of an agro-industrial co-operative Bank was floated. The local co-operators went to Pune and met the Registrar, co-operative societies and explained to him the need for such a co-operative Bank in rural area. Fortun<sup>a</sup>itely the Registrar realized the significance of such a proposal and as an experiment, immediately ag<sup>g</sup>reed to give registration to such a rural co-operative Bank at Warananagar. With such positive encoura<sup>a</sup>gement, the local co-operators within a span of three to four



days collected an amount of Rs. 1,28,800 as share capital and the registration proposal was sent to the co-operative department which was finally approved as pointed above on 28-2-1966.

In the first annual report of the Warana co-operative Bank Ltd. the Chairman Shri. Tatyasaheb Kore made the following statement<sup>4</sup>.

" With the establishment of this Bank now we <sup>have</sup> had created a facility from which small scale industrial units can get financial assistance, as a result of which, in a short period, various types of industrial factories will start functioning in this area!"

Apart from this, in accordance with our basic objective of reducing the various difficulties of the farmers regarding their use of modern technology and thus avoiding the farmer's exploitation by urban agencies and the middle -man also can be certainly fulfilled. Thus I am sure that in the near future our Bank can become indeed an " Agro-Industrial co-operative Bank" and reach the basic target.

If we go through the subsequent annual reports of the Bank one is really impressed by the various ambitious but locally very relevant schemes of financing which Shri. Warana Sahakari Bank has undertaken successfully e.g. over the last

19 years the Bank has gradually undertaken ( apart from various schemes of deposit mobilisation) various ambitious schemes of financing local economic activities like, transport operators, animal husbandary and dairy education, agricultural development, trading activity, housing activity, self employment activity, poultry etc.

In chapter No. Two we examine critically the actual working of the Bank during the period of 1966 to 1984.

1.6 Objects of the Bank as given in the bye-laws of the Bank:

At present Shri Warana Sahakari Bank Ltd. is governed by the revised bye-laws suggested by the commissioner (Registrar of the co-operative societies of Maharashtra State, Pune). Which were subsequently recommended by the board of directors and accepted by a general body in the meeting held on 30-12-1983. In the initial bye-laws, the number of objects were limited only to nine which are also incorporated in the latest bye-laws which we give bellow in the original form.<sup>5</sup>

- 1) To encourage thrift, self help and co-operation among members.
- 2) To accept deposits of money from the public repayable on demand or other wise and withdrawable by cheque, draft, order or otherwise for the purpose of loding or investment.

- 3) To borrow or raise money.
- 4) To lend or to advance money either upon or without security to members and others as permitted by the registrar.
- 5) To draw, make, accept, discount, buy, sell collect, and deal in bills of exchange, hundies, promissory notes, coupons, drafts, bills of lading, railway receipts, warants, certificates, scrips and other instruments and other securities whether transferable or negotiable or not.
- 6) To grant and to issue letters of credit, travellers cheques and circular notes.
- 7) To buy and to sell foreign exchange including foreign Bank notes.
- 8) To acquire, to hold, to issue on commission, to underwrite and to deal in stocks, funds, shares debentures, debenture stocks, bonds, obligations, <sup>e</sup> securities and investment of all kinds,
- 9) To purchase and to sell bonds, scripts or other form of securities on behalf of constituents.
- 10) To receive all kinds of bonds, scripts, valuables, on deposits or for safe custody~~s~~ or otherwise.
- 11) To provide safe deposit vaults and ancillary services.
- 12) To collect and transmit money and securities.
- 13) To negotiate loans and advances.

- 14) To carry on and to transact every kind of guarantee and indemnity business on behalf of constituents :
- 15) To effect to insure to guarantee, to underwrite, to participate in managing and carrying any issue, public or private, of state municipal or other loans or of shares, stocks, debentures, debentures stock, of any company, co-operative society, corporation or association and to lend money for the purpose of any such issue.
- 16) To acquire, to construct, to maintain and to alter any building or works necessary or convenient for the purposes of the Bank.
- 17) To manage, to sell and to realise any property which may come in to the possession of the bank in satisfaction or part satisfaction of any of its claims.
- 18) To open branches and pay offices with the permission of the Registering Authority and the Reserve Bank of India within the area of operation of the Bank so as to provide banking services to the public.
- 19) To acquire to manage and to undertake the whole or part of the business of any other co-operative society with the prior permission of the Registering Authority.
- 20) To establish, to support or to aid in establishment and support of associations, institutions, funds, trusts, and conveniences calculated to benefit members, employees of the Bank or the dependents or connections of such

persons and to grant pensions.

- 21) To prepare and finance schemes of amelioration of the financial condition of the members.
- 22) To provide financial and technical assistance to small scale and cottage industries and to help self-employed persons for setting up their own business.
- 23) To enter into participation, consortium arrangements with any other Bank or Banks or financial institutions with the object of making loans and advances with the permission of the Reserve Bank of India wherever necessary.
- 24) To do any other form of business as specified in clause 1) of section 6 of the Banking regulation Act 1949( As applicable to co-operative societies.)
- 25) To act as agents for collection of monies of various Government, Quasi Government and statutory Bodies.
- 26) To grant loans to co-operative Housing societies for temporary period pending reimbursement from the Maharashtra co-operative Housing finance society Ltd.; L.I.C.Govt. Semi-Govt. institutions or other financing agencies with the prior permission of the Registering authority.
- 27) To undertake any other form of business which the central Govt. may specify as a form of business in which it is lawful for a co-operative Banking institution to engage.
- 28) To do all such other things as are incidental and

conductive to the promotion or advancement of these objects and of the business of the Bank.

1.7 Area of Operation :

The area of operation of Shri. Warana co-operative Bank Ltd. as given in its bye-laws covers the whole of the Kolhapur district and 24 villages from Sangli district which lie mainly in the basin of the Warana, a river. These villages are as given in the following list.

- |                     |               |                    |
|---------------------|---------------|--------------------|
| 1) Ladegaon         | (2) Vashi     | (3) Kuralup        |
| 4) Yelur            | (5) Kundawadi | (6) Aitawade-Khurd |
| 7) Tandulawadi      | (8) Kenegaon  | (9) Malewadi       |
| 10) Bahadurwadi     | (11) Koregaon | (12) Shigaon       |
| 13) Sagaon          | (14) Kamde    | (15) Chikhali      |
| 16) Natoli          | (17) Mangale  | (18) Devwadi       |
| 19) Thanapude       | (20) Chikumde | (21) Devarde       |
| 22) Aitawade Budruk | (23) Karve    | (24) Karnjavade.   |

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