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Higher Education for All

CO-OPERATIVE BANKING SYSTEMS

COURSE CODE: B21CM13DE
Bachelor of Commerce
Discipline Specific Elective Course
Self Learning Material



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SREENARAYANAGURU OPEN UNIVERSITY

SREENARAYANAGURU OPEN UNIVERSITY

The State University for Education, Training and Research in Blended Format, Kerala

SREENARAYANAGURU OPEN UNIVERSITY

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Vision

To increase access of potential learners of all categories to higher education, research and training, and ensure equity through delivery of high quality processes and outcomes fostering inclusive educational empowerment for social advancement.

Mission

To be benchmarked as a model for conservation and dissemination of knowledge and skill on blended and virtual mode in education, training and research for normal, continuing, and adult learners.

Pathway

Access and Quality define Equity.

Co-operative Banking Systems

Course Code: B21CM13DE

Semester - VI

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(With Model Question Paper Sets)

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CO-OPERATIVE BANKING SYSTEMS

Course Code: B21CM13DE
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MESSAGE FROM VICE CHANCELLOR

Dear learner,

I extend my heartfelt greetings and profound enthusiasm as I warmly welcome you to Sreenarayanaguru Open University. Established in September 2020 as a state-led endeavour to promote higher education through open and distance learning modes, our institution was shaped by the guiding principle that access and quality are the cornerstones of equity. We have firmly resolved to uphold the highest standards of education, setting the benchmark and charting the course.

The courses offered by the Sreenarayanaguru Open University aim to strike a quality balance, ensuring students are equipped for both personal growth and professional excellence. The University embraces the widely acclaimed "blended format," a practical framework that harmoniously integrates Self-Learning Materials, Classroom Counseling, and Virtual modes, fostering a dynamic and enriching experience for both learners and instructors.

The University aims to offer you an engaging and thought-provoking educational journey. The Bachelor of Commerce is one of the highly popular programmes due to the current need for skilled professionals in the field. This demand guided our approach as we developed the programme's curriculum. The programme offers a comprehensive grasp of theoretical concepts alongside clear explanations of practical applications. We are careful to maintain a balance in the management components to preserve the integrity of the discipline. The Self Learning Material has been thoughtfully crafted to include illustrative examples. The Self-Learning Material has been meticulously crafted, incorporating relevant examples to facilitate better comprehension.

Rest assured, the university's student support services will be at your disposal throughout your academic journey, readily available to address any concerns or grievances you may encounter. We encourage you to reach out to us freely regarding any matter about your academic programme. It is our sincere wish that you achieve the utmost success.



Warm regards.
Dr. Jagathy Raj V. P.

01-07-2026

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BLOCK 1

Introduction to Co-operative Banks

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Unit 1

Co-operative Banks

Learning Outcomes

After completing this unit, learners will be able to:

- ◊ understand and explain the evolution and structure of the Co-operative Credit Movement
- ◊ explain Rural and Urban Co-operatives
- ◊ analyse the different forms of agricultural and non-agricultural Co-operatives' perspectives
- ◊ understand the role of Credit Organisation

Prerequisites

Co-operative banks constitute an important segment of the Indian banking system. These banks are an integral part of the Indian financial system. They are member-owned financial institutions which comprise urban co-operative banks and rural co-operative credit institutions, where the customers are simultaneously the owners and shareholders. Co-operative banks in India are more than 100 years old. They are small-sized financial entities where their members are owners and customers of the bank. Such banks operate on the democratic principle of "One Person, One Vote". They are often regulated under both banking and co-operative legislation. Rather than maximising profits, they focus on mutual assistance and community welfare. As the name suggests, the main objective of Co-operative Banks is mutual help. These banks have been opened with the motto of 'no-profit-no-loss' and thus, do not seek out only profitable ventures and customers. Co-operative Banking has proved to be an asset in terms of acting as a financial intermediary to agricultural and allied activities, small-scale industries, and self-employed workers. The Co-operative banks have acted as a boon to various sectors of Indian society and have also played an important role in the development of the economy.

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Keywords

Co-operative Credit, Co-operative Credit Movement, PACS, UCB, RCB, RBI, NABARD, RRBs

Discussion

The Co-operative banks in India form an integral part of our money market today, playing a key role in promoting rural credit and community development. They are member-owned financial institutions registered under the Co-operative Societies Act and governed by banking regulations of the Reserve Bank of India (RBI). The Anyonya Co-operative Bank Limited in India is considered to be the first co-operative bank in Asia. The banking structure in India includes commercial and co-operative banking institutions, and also specialised financial institutions. They serve rural and urban areas in the form of short-term and long-term credit structures. The ultimate aim of co-operatives is mutual help and not making a profit. They provide services both to members and non-members.

1.1.1 Co-operative Credit

Co-operative credit is a system where members of a co-operative society pool their resources to provide financial services, primarily loans and savings, to each other. Co-operative Credit refers to financial services provided by co-operative societies that aim to promote thrift and provide credit to their members, fostering economic development and financial inclusion. Co-operative Societies are member-owned financial institutions where individuals with shared economic interests pool their savings to meet mutual credit needs. Unlike commercial banks, which aim to maximise profits, these societies exist primarily to serve their members – farmers, artisans, and other rural workers – by providing affordable loans and encouraging savings.

1.1.2 Meaning and Definition of Co-operative Credit

Co-operative credit can be defined as a "system of providing financial assistance through co-operative societies where members pool their resources and obtain credit for productive and personal purposes on mutually agreed terms." It is a system in which members of a co-operative society pool their resources and provide loans to one another for productive and personal purposes at affordable rates. Co-operative credits are the financial assistance provided by co-operative institutions that are owned and managed by their members. Thus, the main objective is to promote thrift, self-help and mutual assistance among members and to meet their agricultural, business and personal financial needs.

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1.1.3 Evolution of Co-operative Credit Movement in India

In India, the co-operative credit movement started at the beginning of the 20th century with the introduction of the Co-operative Credit Societies Act, 1904, under British rule and administration. Its primary aim was to provide affordable credit through co-operative institutions and protect farmers and small borrowers from exploitation and the burden of high-interest loans charged by moneylenders. In the initial stage, primary agricultural credit societies (PACS) were established at the village level. Then central and state co-operative banks were formed. Gradually, the movement widened and expanded its scope beyond credit facilities to areas such as rural development, agricultural marketing, processing, and consumer services. Thus, with the passage of time, the Co-operative credit system became one of the most important sources of agricultural finance in India. Now the co-operative societies play a significant role in the development of the rural economy and contribute around 20% of the total agricultural credit in the country.

In India, the Co-operative Credit Movement evolved through four distinct historical stages. These stages include:

1. Pre-independence Era [1904 – 1946]

This phase began with the enactment of the Co-operative Credit Societies Act of 1904. The Co-operative Credit Societies Act of 1904 marked the formal beginning of the co-operative movement in India. This Act was initiated on the recommendation of the Famine Commission. This Act provided a legal framework for forming community-based credit institutions and aimed to protect farmers and artisans from exploitation by private money lenders by providing affordable loans, but was limited in scope as the Co-operative Credit Societies Act was restricted to credit co-operatives and focused only on credit initiatives. Subsequently, the Co-operative Societies Act 1912 was introduced to overcome the limitations of the Co-operative Societies Act 1904. The Co-operative Societies Act of 1912 expanded the legal framework beyond credit to include non-credit, marketing, and artisan co-operatives.

2. Post-independence Era [1947 – 1969]

After independence, the cooperative movement in India became stronger and was given an important place in the country's planned economy. During this phase, the government began to actively support the cooperative movement in India, which marked an important transition of the cooperative credit movement from a system of distress relief into an integral pillar of India's planned socio-economic development. Thus, in this phase, the Government of India became an active partner and financial supporter of cooperatives. The Reserve Bank of India also played an important role in strengthening the sector by refinancing cooperatives for seasonal agricultural operations. Subsequently, the State Bank of India was constituted in 1955 on the recommendation of the All-India Rural Credit Survey Committee to extend banking into rural areas. Also, the cooperatives became an integral part of India's First Five-Year Plan [1951–1956] by strengthening the movement in India for economic and political development. Cooperatives were adopted as integral components of the Five-Year Plans to alleviate rural poverty and drive grassroots development.

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3. Institutional Strengthening [1970–1990]

During this phase, the National Bank for Agriculture and Rural Development Act was passed in 1981, and NABARD was set up in 1982. The establishment of NABARD marked a significant milestone to provide refinance support to Cooperative banks and to supplement the resources of Commercial Banks and Regional Rural Banks to enhance credit flow to the agriculture and rural sector. It now acts as an apex institution for regulating and refinancing rural cooperative credit. During this period, committees such as the Hate Working Group (1981) were formed.

4. Liberalisation and Modernisation [1991–Present]

This stage began with the recommendations of the Madhava Rao Committee (1999), which focused on consolidating the urban cooperative banking sector, reducing "sickness" (financial distress), and enforcing better governance and capital adequacy norms. The 97th Constitutional Amendment (2011, effective 15 February 2012) grants cooperative societies constitutional status, protecting their democratic functioning and ensuring greater autonomy. In 2021, the Government of India established a dedicated Ministry of Cooperation, launching major modernisation initiatives like the ongoing computerisation of Primary Agricultural Credit Societies (PACS) to drive transparency and efficiency.

Cooperative organisations were originally established to promote and assist the fair-trade movement and also to help workers improve their standard of living through mutual support and collective help. India has seen a large increase in cooperative societies, which primarily serve the agricultural sector, since independence in 1947. The growth of society's weaker groups has been greatly aided by the cooperative movement. Cooperatives have expanded dramatically in India since their founding at the turn of the 20th century. More than 8 lakh cooperatives are registered in India. In the top 300 cooperatives list based on the ratio of turnover to GDP per capita and in the agriculture and food industries segment, IFFCO and AMUL are ranked well globally. Additionally, other cooperatives have expanded tremendously.

1.1.4 Structure of Cooperative Credit Movement in India

The cooperative movement in India is organized through a multi-tier structure with primary societies at the grassroots, central cooperative institutions at the intermediate level, and apex bodies at the state or national level, governed by both state and central regulations. The cooperative movement in India formally began with the Cooperative Credit Societies Act of 1904. The Cooperative Societies Act of 1912 introduced a three-tier structure for agricultural credit: primary societies at the village level, central cooperative banks at the district level, and state cooperative banks at the apex, providing short-term and medium-term finance. The organizational structure includes:

1. **Primary Cooperative Societies:** These are formed by individuals to meet common economic and social needs. Examples include Primary Agricultural Credit Societies (PACS), consumer cooperatives, and housing cooperatives.

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2. **Central Cooperative Institutions:** Central cooperative banks or unions coordinate the activities of primary societies at the district or regional levels. They act as intermediaries between primary societies and state-level apex institutions.
3. **Apex Cooperative Bodies:** Apex bodies provide policy guidance, large-scale financing, marketing support, and training for cooperative members. These include State Cooperative Banks, Multi-State Cooperative Societies (MSCS), and national federations like IFFCO and AMUL.

The Cooperative Movement in India is structured around three elements, which work in sequence from policy to decision-making to implementation. These components include:

1. General Assembly
2. Managing Committee
3. Professional Management Staff

The general assembly is the highest authority, consisting of members who have a right to vote and participate in decision-making. The board of directors forms the Managing Committee, which is responsible for running the cooperative. The professional management staff provides support and guidance to the cooperative.

Thus, the cooperative movement in India is a multi-tier, member-driven system designed to empower communities, provide financial and social support, and promote inclusive growth. Its structure ensures that primary societies address local needs, central institutions provide coordination and finance, and apex bodies offer policy, training, and large-scale operational support, all within a framework of state and central regulation.

1.1.4.1 Functions of Co-operative Credit Societies

Cooperative credit societies perform several interconnected functions that go beyond simple lending. The functions include:

1. **Provide Agricultural Credit:** The fundamental function of Cooperative Credit Societies is to provide loans and working capital to farmers to purchase seeds, fertilizers, pesticides, and meet other production costs. They provide short-term and medium-term loans for activities such as purchasing farm equipment or investing in dairy and fisheries.
2. **Mobilizing Rural Savings:** Cooperative credit societies encourage their members to save regularly. These small deposits from the members create a local fund that can be lent to members in need, which reduces dependence on external borrowings.
3. **Distributing Agricultural Inputs:** Many Co-operative credit societies serve as distribution centres for seeds, fertilizers, and pesticides. Some operate as fair price shops which sell essential commodities to meet the needs of farming communities.

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4. **Support Rural Development:** Cooperative Credit Societies participate in various government-sponsored rural development programmes. They support infrastructure building, promote sustainable farming practices and help to implement schemes like the Kisan Credit Card (KCC). Co-operative Credit Societies provide affordable credit with minimal paperwork and quick processing.

Thus, by providing affordable and accessible financial services, these societies reduce farmers' dependence on informal money lenders who charge high interest on loans.

1.1.5 Rural and Urban Credit Cooperatives in India

Cooperative Banks operate on a democratic principle with each member having equal voting rights. They accept deposits, provide loans and refinance support to PACS. The profits are distributed among members or reinvested for the growth of the institution. These Cooperatives are essential for financial inclusion, especially in rural and semi-urban areas, by providing affordable credit to farmers, small businesses and low-income households. They also support agriculture, rural development and self-employment initiatives.

1.1.5.1 Rural Credit Cooperatives

Rural Credit Cooperatives are primarily focused on providing short-term and medium-term credit to farmers, artisans and other rural workers. They also distribute inputs like seeds and fertilisers, provide marketing facilities and offer loans for non-agricultural purposes. Rural Co-operative Banks (RCBs) play an important role in the daily lives of the rural population. They are primarily responsible for ensuring credit flow to the agriculture sector. It is made up of both short-term and long-term cooperative credit structures. The short-term cooperative credit structure is divided into three levels: village-level Primary Agricultural Credit Societies (PACS), district-level Central Cooperative Banks (DCCBs), and state-level State Cooperative Banks (StCBs). There are approximately 96,000 rural co-operatives, which account for approximately 65 per cent of total co-operative assets.

1.1.5.2 Significance of Rural Cooperative Banks

1. Rural Co-operative Banks have a great impact on the economic lives of rural populations. RCBs play a silent but critical role in the day-to-day lives of the rural population.
2. RCBs provide financial intermediation by pooling savings and channelling them through agricultural and farm-related credit, thereby keeping the rural economy's growth engine running.
3. Adequate and timely credit is a necessary and viable instrument for creating employment opportunities, ensuring productivity, and increasing income, which, in turn, strengthens the rural economy and accelerates the country's overall economic progress.

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4. The prudent flow of credit needs is entirely dependent on a well-defined rural credit policy supported by a sound banking structure.

1.1.5.3 Urban Credit Co-operatives

The term Urban Co-operative Banks (UCBs) refers to primary co-operative banks located in urban and semi-urban areas. These are small-sized, co-operatively organised units. The unit of deposit and advances of this bank is small compared to that of commercial banks. Until 1996, these banks were allowed to lend money for non-agricultural purposes. This distinction is no longer valid today. Traditionally, these banks were centred on communities, localities, and workplace groups. They primarily lend to small borrowers and businesses. Their scope of operations has expanded significantly since then. Now, Urban Co-operatives serve the financial needs of customers in urban and semi-urban areas. They provide credit to small traders, industries, and salaried individuals.

The origin of the Urban Co-operative banking movement in India can be traced to the close of the 19th century. Inspired by the success of experiments related to the co-operative movement in Britain and Germany, such societies were set up in India. Such banks mainly depend on deposits from members and non-members. The various deposits include: 1) Fixed deposit 2) Savings Bank deposit 3) Current deposits 4) Recurring deposit, etc.

Besides the acceptance of various kinds of deposits, the banks also give certain agency services to their customers, which include the collection and payment of cheques. In addition, modern utility services (like safe custody of valuables and securities) are also rendered by the bank to its customers.

1.1.5.3.1 Objectives of UCBs

1. Borrow funds from members and others for the purpose of giving loans to members.
2. Undertake agency services for its customers.
3. Undertake collections of bills drawn, accepted, or endorsed by members.
4. Discount cheques and bills of approved members.
5. Encourage thrift, self-help, and co-operation among members.
6. Act as a custodian of valuables and documents of members.

1.1.5.3.2 Significance of Urban Co-operative Banks

◊ Urban Co-operative Banks are primarily localised financial service providers that have been in operation for more than a century. Their speciality is catering to the lower middle class and people with limited resources, as well as self-employed and micro-enterprises.

1. Urban Co-operative Banks play an important role in mobilising deposits and financing the small-borrower sector, which includes small-scale industries, professionals, retailers, and so on.

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2. Co-operative banks have been instrumental in providing financial assistance to the rural sector.

1.1.6 Agricultural and Agri-business Co-operatives

The primary function of an agricultural co-operative organisation is to provide its members with access to various products and services that will help them grow their businesses. A group of individuals who want to form a co-operative must decide what type of co-operative they would like to establish. They can choose to be either an agricultural co-operative or a non-agricultural co-operative. An agricultural co-operative is composed of a group of people who share similar interests and goals which relate to farming. These types of co-operatives may include farmers who grow crops, raise livestock, or manage plantations.

1.1.6.1 Forms of Agricultural Co-operatives

- **Farming Co-operatives:** Members pool land, labour, and implements for joint cultivation, making small and fragmented holdings economically viable.
- **Input Supply Co-operatives:** Supply seeds, fertilisers, pesticides, and implements to members at reasonable rates.
- **Marketing Co-operatives:** Collect members' produce and sell it in bulk, saving the farmer from distress sales to private traders.
- **Processing Co-operatives:** Convert raw produce into finished goods — sugar, rice, and oil mills, rubber and coir units — so that value addition remains with the grower.
- **Dairy and Livestock Co-operatives:** Procure, chill, process, and market milk through village societies, district unions, and a State federation.
- **Storage and Warehousing Co-operatives:** Provide godowns and cold storage, and pledge loans against stored stock, so that produce can be held until prices improve.
- **Farmer Producer Organisations (FPOs):** The modern form promoted by NABARD and the Government of India, combining input supply, aggregation, and marketing in one producer-owned enterprise.

1.1.6.2 Functions

- Supplying quality inputs at fair prices on credit terms suited to the crop season.
- Grading, packing, storing, and transporting members' produce and marketing it collectively.
- Undertaking processing and value addition, thereby raising the farmer's share in the consumer rupee.
- Providing technical guidance, extension services, and market information to members.

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◊ Linking members to institutional credit, crop insurance, and government procurement schemes.

Table 1.1.1 Leading Examples

Co-operative	Sector / State	Significance
AMUL (GCMMF)	Dairy — Anand, Gujarat	Model three-tier dairy structure; basis of Operation Flood and the White Revolution.
IFFCO	Fertiliser — Multi-State	World's largest fertiliser co-operative, owned by co-operative societies across India.
MILMA	Dairy — Kerala	Kerala Co-operative Milk Marketing Federation; its Malabar Regional Union serves the northern districts.
Marketfed	Marketing — Kerala	State federation for procurement and marketing of paddy, copra and other produce.

1.1.6.3 Distinction from Non-agricultural Co-operatives

An important distinction between agricultural and non-agricultural co-operatives relates to how each functions. Agricultural co-operatives tend to focus primarily on providing their members with resources necessary to conduct business. This includes producing and purchasing goods such as seeds, fertilisers, and equipment. In addition, these co-operatives often provide their members with opportunities to market their products. Non-agricultural co-operatives tend to focus primarily on providing their members with financial services and other operational assistance.

1.1.7 Non-agricultural Co-operatives

Non-agricultural co-operatives are member-owned businesses operating outside farming. They bridge the gap between the informal money lender and the formal commercial bank, offering loans at structured interest rates with manageable repayment terms. Non-agricultural co-operative credit institutions in India operate under a dual regulatory framework. UCBs are governed by the **Banking Regulation Act, 1949** for their banking operations, and by the relevant State Co-operative Societies Act or the Multi-State Co-operative Societies Act, 2002 for their co-operative governance. **The Banking Regulation (Amendment) Act, 2020** significantly strengthened the RBI's supervisory role over UCBs, giving it the power to intervene in management decisions, order special audits, and even supersede boards of directors in cases of financial mismanagement.

Beyond lending, non-agricultural co-operative credit institutions actively promote a savings culture among their members. Members are required to make periodic

contributions to a compulsory deposit fund, and they earn dividends on their share capital. Non-agricultural co-operatives consist of the following:

1. Consumer Cooperatives → Consumerfed / Triveni stores
2. Housing Cooperatives → Kerala State Co-operative Housing Federation
3. Industrial Cooperatives → Kerala Dinesh Beedi — the classic worker-cooperative case study
4. Weavers Cooperatives → Hantex / Hanveev
5. Fisheries Cooperatives → Matsyafed
6. Labour Contract Cooperatives → ULCCS, Vadakara (Kozhikode district) — India's oldest and largest labour contract cooperative
7. Hospital Cooperatives → the co-operative hospital sector in Malabar

1.1.8 Co-operative Credit Organisations

These are member-owned financial institutions formed on a principle of co-operation where members voluntarily join together to meet their financial needs. Such organisations also aim to promote savings and provide affordable loans to their communities at a reasonable rate of interest. They also protect members from the exploitation of private money lenders. These organisations are based on the principles of mutual help, democratic management, and service rather than profit. Co-operative credit institutions are mainly classified into two types: 1) Short-term co-operative credit institutions and 2) Long-term co-operative credit institutions.

1. **Short-term co-operative credit institutions:** These institutions provide short-term credit to meet seasonal agricultural requirements such as seeds, fertilisers, pesticides, etc. The short-term co-operative structure includes: 1) Primary Agricultural Credit Societies (PACS), 2) District Central Co-operative Banks (DCCBs), and 3) State Co-operative Banks (SCBs).
2. **Long-term co-operative credit institutions:** These institutions provide loans mainly for capital investments in agriculture and rural development for a long period, generally exceeding five years. These include Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) and State Co-operative Agriculture and Rural Development Banks (SCARDBs).
3. **Non-Agricultural Credit Societies:** These are co-operative financial institutions created to encourage thrift and provide affordable credit to individuals outside the agricultural sector, such as salaried employees, artisans, and small business owners. They primarily operate in urban and semi-urban areas to protect members from exploitative money lenders. Urban Co-operative Banks are the most prominent type of non-agricultural co-operative credit institution in India. Historically, UCBs were allowed to lend money only for non-agricultural purposes until 1996, when this restriction was removed. Today, they offer a wide range of financial services – savings accounts, fixed deposits, personal loans, housing finance, MSME credit, and more. According to RBI and NABARD data cited by Vajiramandravi, India had 1,457 Urban Co-operative Banks as of

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2025, of which more than 90% operate under Core Banking Solutions. Their highest lending category is micro and small enterprises, followed by housing loans.

1.1.8.1 Role of Co-operative Credit Organisations:

1. **Providing credit to the agricultural sector:** Co-operative Credit Organisations assist farmers, labourers, and artisans and also protect them from the exploitation of private money lenders.
2. **Assistance to small-scale industry:** There are artisans and small entrepreneurs at a rural level. These small entrepreneurs can be financially supported by co-operatives. It helps to create employment opportunities and, in turn, improve the standard of living of rural people.
3. **Development of processing industry:** Factories based on agricultural products can be started, such as sugar factories, paper mills, rice mills, dairy businesses, etc. Businesses could be started because the required raw material is made easily available.
4. **Employment opportunities:** In India, we are facing a significant problem of unemployment. Co-operatives formed in different regions help to eradicate unemployment by creating employment opportunities.
5. **Saving habits:** The weaker section of society, having less finance, tends to spend fully without making provision for the future. It is the co-operative credit society that inculcates saving habits among the masses.
6. **More participation in export:** The economy of any country becomes healthy when it has more exports and fewer imports. The co-operative sector has definitely helped to produce more and export it to foreign countries, especially in the fields of agriculture, dairy, etc.
7. **Source of rural development:** Even after many years of independence, the majority of Indians from rural areas are still backward. Rural development is the need of the hour.

Mahatma Gandhi used to say, 'Turn to villages,' because the development of our country lies in the development of rural India. Co-operative credit societies have become one of the important sources of rural development.

8. **Protection from financial inequality:** After independence, the gap between rich and poor has increased. The rich are becoming richer and the poor are becoming poorer. There is also regional imbalance, which leads to financial inequality.
9. **Protection of weaker sections:** The weaker section of society is greatly exploited by moneylenders and traders. Although the Government has taken strong steps to protect weaker sections from exploitation, they have, until today, become prey to moneylenders and Zamindars. Co-operative credit societies surely protect the weaker section from the hands of moneylenders by providing them financial existence.

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1.1.9 National Bank for Agriculture and Rural Development (NABARD)

NABARD is a development bank focusing primarily on the rural sector of the country. It is a statutory body established in 1982 under the Parliamentary Act – National Bank for Agriculture and Rural Development Act, 1981.It is an apex banking institution for making policy, planning, and operations in the field of credit for agriculture and other economic activities in rural areas. NABARD provides finance for agriculture and rural development. Its headquarters is located in Mumbai, the country's financial capital.

NABARD was set up on 12th July 1982 on the recommendations of the B. Sivaraman Committee by transferring the agricultural credit functions of the RBI and the refinance functions of the then Agricultural Refinance and Development Corporation (ARDC). It operates as India's apex development financial institution for agriculture and rural development. It was dedicated to the service of the nation by the late Prime Minister Smt. Indira Gandhi on 05 November 1982. Set up with an initial capital of Rs.100 crore, its paid-up capital stood at Rs.17,080 crore as on 31 March 2024. Consequent to the revision in the composition of share capital between the Government of India and the RBI, NABARD today is fully owned by the Ministry of Finance, Government of India.

1.1.9.1 Functions and Objectives of NABARD

NABARD's operations and functions are broadly classified into three:

1. Credit and Financial Functions
2. Developmental and Promotional Functions
3. Regulatory and Supervisory Functions

1. **Credit & Financial Functions:** Credit and Financial functions include refinancing, rural infrastructure, and credit planning. As part of refinancing, NABARD provides short-term, medium-term, and long-term credit to eligible financial institutions (like State Cooperative Banks, RRBs, and commercial banks) to fund agriculture, small-scale industries, and rural crafts. It also manages the Rural Infrastructure Development Fund (RIDF), providing low-cost financial support to state governments for building rural roads, bridges, irrigation, and power projects. It prepares district-level Potential-Linked Credit Plans to guide and motivate the banking industry on rural lending targets.
2. **Developmental & Promotional Functions:** NABARD assists RRBs and Cooperative Banks in formulating development action plans and adopting modern banking technologies (like Core Banking Solutions). It also provides microcredit to the rural poor, and offers consultancy services, training, and research facilities for banks and organisations working in rural development.
3. **Regulatory & Supervisory Functions:** NABARD is responsible for the inspection and supervision of Regional Rural Banks and State/District Central Cooperative Banks. It also provides recommendations to the RBI regarding the

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issuance of banking licences or the opening of new branches by Cooperative Banks and RRBs.

1.1.9.2 NABARD and Rural Credit

1. **Short-Term Credit:** NABARD provides short-term credit to State Cooperative banks, Regional Rural Banks, and other Financial Institutions approved by the Reserve Bank. Farmers get this credit for 12 months, which can be stretched to 18 months if needed. It can be used for seasonal farm operations, marketing their crops, or dealing in fertilisers, seeds, and pesticides.
2. **Medium-Term Credit:** It provides medium-term credit to State Cooperative Banks, State Land Development Banks, Regional Rural Banks, Commercial Banks, and Other Financial Institutions approved by RBI. This loan is extended for a period of up to 7 years for the purpose of investment in agriculture and allied activities, and investment activities of village and cottage industries, etc.
3. **Long-Term Credit:** It provides long-term credit to State Land Development Banks, RRBs, Commercial Banks, State Cooperative Banks, and other Financial Institutions approved by RBI. The loan is extended for a period of up to 25 years for the purpose of refinance for investment in agriculture and allied activities like irrigation, soil conservation, etc. Also, it provides loans to State Governments for share capital contribution to Cooperative Institutions.
4. **Refinancing:** NABARD provides refinance to eligible institutions, normally to SCBs and RRBs, for conversions and rescheduling of loans under conditions of drought, famine, or other national calamities, and so on.
5. **Cooperative Development Fund:** For the development and support of Cooperative Credit Institutions, NABARD constituted the Cooperative Development Fund, like the National Agricultural Credit Stabilisation Fund and the National Long-Term Operations Fund, during 1992-93.

Thus, NABARD stands as a cornerstone in India's rural and agricultural framework. By facilitating robust credit support, driving infrastructure development, and promoting financial inclusion, it has fundamentally transformed the rural economy. Moving forward, NABARD's continued focus on climate-smart agriculture, digital transformation, and capacity building will remain vital for realising the vision of an equitable and prosperous rural India. NABARD effectively bridges the gap between formal financial institutions and the marginalised rural sectors. Through its refinancing, supervision, and livelihood initiatives, it has significantly boosted agricultural productivity and rural enterprise. As India progresses towards sustained economic growth, NABARD's role as the apex development bank remains indispensable in achieving inclusive growth and doubling rural incomes. Ultimately, NABARD is the backbone of rural development in India. From microfinance to massive infrastructure creation, its interventions touch every aspect of rural life. As the nation continues to grow, NABARD's commitment to empowering farmers and fostering sustainable village economies ensures its legacy as a catalyst for national progress.

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1.1.10 Regional Rural Banks (RRBs)

The Government of India enacted the Regional Rural Banks Act in 1976. The first RRB was set up on 2 October 1975 under an Ordinance announced on 26 September 1975, and the RRB Act, 1976 replaced that Ordinance in February 1976. The first RRB was Prathama Gramin Bank, which was sponsored by Syndicate Bank and had its headquarters in Moradabad, Uttar Pradesh. Its area of operation is limited to the area notified by the Government of India, covering one or more districts in the State. RRBs perform various functions, such as providing banking facilities to rural and semi-urban areas and carrying out government operations. There are currently 28 Regional Rural Banks across India; the 'One State-One RRB' strategy, which aims to rationalise costs and streamline operations by consolidating 43 RRBs into 28 banks, was put into action by the finance ministry from 1 May 2025.

Regional Rural Banks (RRBs) in India are government-owned scheduled commercial banks established to provide basic banking and financial services to rural and semi-urban areas. They operate at the regional level in different states of India. They were created to serve rural areas with basic banking and financial services. However, RRBs also have urban branches. These banks are jointly owned by the Central Government (50%), Sponsor Banks (35%), and State Governments (15%). They primarily focus on farmers, agricultural labourers, and small entrepreneurs.

1.1.10.1 Primary importance and functions of RRBs

Regional Rural Banks (RRBs) are crucial in driving financial inclusion and economic development in rural India. They bring formal banking to the doorsteps of marginalised communities, protect small farmers from exploitative moneylenders, and channel local savings into productive agricultural and entrepreneurial activities. The primary importance and functions of RRBs include:

1. Financial Inclusion: RRBs establish branches in unbanked and underserved rural and semi-urban areas, ensuring even the most remote populations have access to basic financial services.
2. Affordable Credit: They provide subsidised, institutional credit to target groups like small and marginal farmers, agricultural labourers, artisans, and rural micro-entrepreneurs.
3. Priority Sector Lending: RRBs are mandated to allocate at least 75% of their total credit to priority sectors, directly supporting agriculture, MSMEs, and weaker sections of society.
4. Mobilising Rural Savings: They encourage rural households to save money, fostering financial discipline and providing a safe place for deposits.
5. Implementation of Government Schemes: RRBs serve as vital dispersal channels for government welfare programmes, such as distributing MGNREGA wages, PM-KISAN funds, and pension schemes.
6. Digitisation: Modern RRBs bring digital banking—such as Core Banking Solutions, UPI, RuPay debit cards, and mobile banking—to rural markets.

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Regional Rural Banks (RRBs) remain the backbone of India's rural economy. By bringing tailored credit, government schemes, and digital banking to the unbanked, they drive financial inclusion and empower marginalised communities. Despite ongoing operational restructuring, their localised grassroots approach is essential for sustainable economic growth. Regional Rural Banks have proven instrumental in bridging the gap between urban wealth and rural necessity. While the sector has faced historical challenges regarding profitability and outdated infrastructure, ongoing consolidation and digitisation are bolstering their viability. As they adapt to modern financial ecosystems, RRBs will remain indispensable to the socio-economic development of rural populations. Thus, RRBs serve as a vital catalyst for rural entrepreneurship and grassroots economic development. By combining the local familiarity of cooperative networks with the regulatory professionalism of commercial banks, RRBs have successfully mobilised savings and injected liquidity into underserved sectors. Moving forward, embracing modern fintech and improving operational efficiency will be crucial for their long-term sustainability and competitiveness.

1.1.11 Reserve Bank of India (RBI)

The Reserve Bank of India (RBI) is India's central banking institution and regulatory body. Headquartered in Mumbai, it was established on April 1, 1935. The RBI is fully owned by the Government of India and is responsible for regulating the financial system, maintaining monetary stability, and managing the Indian Rupee. The RBI, along with the Indian Bank's Association, established the National Payments Corporation of India to promote and regulate the payment and settlement systems in India. Bharatiya Reserve Bank Note Mudran (BRBNN) is a specialised division of RBI through which it prints and mints Indian currency notes (INR) in two of its currency printing presses located in Mysore (Karnataka; Southern India) and Salboni (West Bengal, Eastern India). Deposit Insurance and Credit Guarantee Corporation was established by RBI as one of its specialised divisions for the purpose of providing insurance of deposits and guaranteeing of credit facilities to all Indian banks. The overall direction of the RBI lies with the 21-member central board of directors, composed of: the governor; four deputy governors; two finance ministry representatives (usually the Economic Affairs Secretary and the Financial Services Secretary); ten government-nominated directors; and four directors who represent local boards for Mumbai, Kolkata, Chennai, and Delhi. Each of these local boards consists of five members who represent regional interests and the interests of co-operative and indigenous banks.

1.1.11.1 The Core Functions of RBI

1. Monetary Policy: RBI Formulates and implements policies to manage inflation, ensure price stability, and promote economic growth.
2. Currency Issuer: The RBI is the sole authority responsible for the issue, supply, and regulation of Indian Rupee banknotes.
3. Banking Regulator: The RBI acts as the supervisor for commercial banks, non-banking financial companies (NBFCs), and payment systems in India.

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4. Foreign Exchange Manager: The RBI manages India's foreign exchange reserves and oversees the country's main payment networks.

The Reserve Bank of India (RBI) serves as the anchor of the nation's financial stability, deftly balancing economic growth with price control. By overseeing monetary policy, regulating commercial banks, and managing the Rupee, it ensures a robust economic foundation. In conclusion, the Reserve Bank of India operates as the apex pillar of the nation's financial architecture. From regulating monetary policy and issuing currency to supervising commercial banks, its multifaceted functions ensure systemic integrity. By continuously adapting its strategies, the RBI remains instrumental in steering the Indian economy towards sustained and resilient growth. In short, the Reserve Bank of India's stringent regulatory frameworks and robust supervisory mechanisms are foundational to the safety and soundness of the Indian banking sector. By enforcing strict compliance, ensuring corporate governance, and acting as the lender of last resort, the RBI effectively mitigates systemic risks, fostering public confidence and long-term financial stability.

Cooperative banking in India originated in the late 19th century and has become an important part of the financial system by providing credit mainly to farmers, small-scale industries, and self-employed people. Cooperative credit refers to the financial assistance given by cooperative societies and banks to their members on the basis of mutual help, protecting them from exploitation by private moneylenders. Agri-business cooperatives are organisations formed by farmers for agricultural activities like production, processing, storage, and marketing to improve income and ensure better prices. Non-agricultural cooperatives, on the other hand, support members engaged in trade, industry, and services outside farming. Rural cooperatives mainly serve farmers, agricultural labourers, and artisans by providing loans for crop production and agricultural inputs, while urban cooperatives focus on traders, salaried employees, and self-employed persons in urban and semi-urban areas. The National Bank for Agriculture and Rural Development (NABARD) acts as the apex institution for rural credit and provides financial and developmental support to agriculture and rural industries. Regional Rural Banks (RRBs) are specialised banks created to provide affordable banking and credit facilities in rural areas, helping reduce dependence on moneylenders.

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Recap

- ◊ Co-operative Credit Refers to credit provided through co-operative institutions to meet the financial needs of members, particularly farmers, rural people and small borrowers.
- ◊ Evolution of Co-operative Credit Movement in India Explains the development of the co-operative credit system in India from the establishment of the Co-operative Credit Societies Act, 1904, to the present co-operative credit structure.

- ◊ Structure of Co-operative Credit Consists of different levels of institutions designed to provide credit to different sections of society through rural and urban co-operative institutions.
- ◊ Rural Co-operative Credit Provides credit mainly to farmers and rural communities through institutions such as PACS, DCCBs and State Co-operative Banks.
- ◊ Urban Co-operative Credit Provides banking and credit facilities to urban members, small businesses, self employed persons and other urban borrowers through Urban Co-operative Banks.
- ◊ Agricultural Credit Provides finance for crop cultivation, purchase of agricultural inputs, farm equipment and other agricultural activities.
- ◊ Non Agricultural Credit Provides finance for activities such as small businesses, trade, cottage industries, self employment and other income generating activities.
- ◊ Credit Organisation Refers to the organised network of institutions that mobilise funds and provide credit to different sectors of the economy.
- ◊ Role of RBI Regulates and supervises the banking system, formulates monetary policy and provides guidelines for the functioning of eligible co-operative banks.
- ◊ Role of NABARD Promotes and supports rural credit and agricultural development through refinance, supervision, policy support and institutional development assistance.
- ◊ Role of RRBs Provide banking and credit facilities mainly to small and marginal farmers, agricultural labourers, artisans and other weaker sections in rural and semi urban areas.

Objective Questions

1. Which institution is considered the first cooperative bank in Asia?
2. What is the term used for financial assistance provided by cooperative societies to their members?
3. Which type of cooperative is formed by farmers for production, processing, and marketing of agricultural products?
4. Which type of cooperative provides support to members engaged in non-farming activities?
5. Which cooperative institution mainly supports farmers, agricultural labourers, and rural artisans?

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6. Which type of cooperative mainly serves traders, salaried employees, and self-employed persons in urban areas?
7. Which apex institution is responsible for promoting and supervising rural credit in India?
8. Which specialised banks provide banking and credit facilities in rural areas?

Answers

1. Anyonya Cooperative Bank Limited
2. Cooperative Credit
3. Agribusiness Cooperatives
4. Non-Agricultural Cooperatives
5. Rural Cooperatives
6. Urban Cooperatives
7. NABARD
8. Regional Rural Banks (RRBs)

Self-Assessment Questions

1. What is cooperative banking?
2. Explain the meaning of cooperative credit.
3. What are agribusiness cooperatives?
4. Distinguish between agricultural and non-agricultural cooperatives.
5. What is the role of rural cooperatives in agriculture?
6. Explain the functions of urban cooperative banks.
7. What are the objectives of the National Bank for Agriculture and Rural Development?
8. What is the role of Regional Rural Banks in rural development?

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Assignments

1. Discuss the evolution and importance of cooperative banking in India.
2. Explain the structure and functions of cooperative credit organisations.
3. Analyse the role of agribusiness cooperatives in improving farmers' income.
4. Compare rural and urban cooperatives with examples.
5. Examine the contribution of NABARD and RRBs to rural credit development.

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Unit 2
Primary Agricultural Co-operative Credit Societies

Learning Outcomes

After completing this unit, learners will be able to:

- ◊ comprehend and explain Primary Agricultural Co-operative Credit Societies
- ◊ explain the Crop Loan System
- ◊ discuss the role of PACS
- ◊ explain Scale of Finance

Prerequisites

India's co-operative banking structure consists of two main segments, namely agricultural and non-agricultural credit. There are two separate structures in the case of agricultural credit – one for short- and medium-term credit and the other for long-term credit. The co-operative credit structure for short and medium terms is a three-tier one with primary agricultural credit societies at the base level, the central co-operative bank at the district level and the state co-operative bank at the apex level. Over and above these institutions, grain banks are actively functioning as primary societies in certain states. Though the organisation of central and state co-operative banks was mainly for the benefit of the agricultural credit sector, they serve non-agricultural societies too. The long-term structure includes Primary and Central Land Development Banks at the state level under a two-tier Credit structure. The long-term loans are provided for the purchase of land, permanent improvement on land, irrigation facilities and so on.

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Keywords

PACS, Crop Loan System, Scale of Finance

Discussion

Imagine a small village in Kerala where most families depend on farming. Ravi, a small farmer, needs ₹80,000 to buy seeds, fertilisers and other inputs for the coming farming season. He does not have enough savings and does not want to borrow from a private moneylender at a high interest rate. Ravi approaches the Primary Agricultural Co-operative Credit Society (PACS) in his village. Since he is a member of the society, he can apply for an agricultural loan. The PACS provides the required credit at reasonable terms and helps him meet his farming expenses. Several other farmers in the village also depend on the same PACS for loans, savings and other services. Thus, the PACS acts as a local financial institution connecting rural people with organised credit facilities.

1.2.1 Primary Agricultural Co-operative Credit Societies

Primary Agricultural Credit Societies (PACS) are the foundation of the co-operative credit structure and form the largest number of co-operative institutions in India. Most of these societies have been organised mainly to provide credit facilities and to impress the habits of thrift and economy among their members. The share capital of a society, contributed by the members, is divided into units, called shares. Members' deposits constitute the major source of finance for PACS. PACS can also borrow funds from outside according to the terms and conditions of the Societies, which may differ from state to state. These borrowed funds may be used for the purpose of working capital of the societies.

In India, PACS were organised as per the provisions of the Co-operative Societies Act, 1904. During 1904, only rural, small-sized and single-purpose societies were organised. Later, the Amendment Act of 1912 opened new opportunities to the sector, which led to the organisation of Multipurpose Co-operatives from 1945 onwards.

1.2.2 Objectives

1. To borrow funds from members as well as others for the purpose of giving loans to the members for productive purposes.
2. To act as the agent for the joint supply of agricultural, domestic and other requirements of the members.
3. To purchase and own implements, machinery or cattle for the members.
4. To encourage thrift, self-help, and cooperation among the members.

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1.2.3 Constitution and Management of PACS

1. General Body of PACS: Exercises control over the board as well as management.
2. Management Committee: Elected by the general body to perform the work as prescribed by the society's rules, acts, and by-laws.
3. Chairman, Vice-Chairman, and Secretary: Work for the benefit of the members by performing their assigned roles and duties.
4. Office Staff: Responsible for performing day-to-day work.

1.2.3.1 Size of Primary Agricultural Co-operative Credit Societies (PACS)

The size of a Primary Agricultural Co-operative Credit Society (PACS) refers to the extent or scale of its operations in terms of membership, geographical area, share capital, deposits, borrowings, loans and business volume. PACS are the grass-root level institutions of the short-term co-operative credit structure and mainly serve the credit and other financial needs of rural people.

1. Membership

PACS generally have a limited and localised membership. Farmers, agricultural labourers, small entrepreneurs and other persons residing within the society's area of operation can become members. The number of members varies according to the size and population of the area served.

2. Area of Operation

The area of operation of a PACS is generally small and geographically limited. It may cover a single village or a group of nearby villages. This limited area enables the society to maintain close contact with its members and understand their credit requirements.

3. Share Capital

The share capital of PACS is comparatively small when compared with higher-level co-operative institutions such as District Central Co-operative Banks and State Co-operative Banks. It is mainly contributed by members through the purchase of shares. The amount of share capital depends on the number of members and the financial capacity of the society.

4. Deposits

PACS mobilise deposits from members and local residents. Savings deposits, fixed deposits and other deposit schemes provide funds that can be used for lending activities. Larger PACS generally have a greater capacity to mobilise deposits.

5. Borrowings

PACS obtain funds through borrowings and refinance from higher-level co-operative institutions, particularly District Central Co-operative Banks (DCCBs). The borrowing capacity of a PACS depends on its financial position, creditworthiness, business volume and repayment performance.

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6. Credit Operations

The major activity of PACS is providing short-term and medium-term credit to members, particularly for agricultural purposes. The size of a society can therefore be assessed by the volume of loans issued, outstanding loans and recovery of loans.

7. Business Volume

The overall size of a PACS is also reflected in its total business volume, including deposits mobilised, loans advanced, loans outstanding, recovery and other financial transactions. Some PACS remain small, while others with a large membership and diversified activities may have substantially higher business volumes.

8. Nature of Size

PACS are generally small-scale institutions compared with DCCBs and State Co-operative Banks, but their importance is significant because they operate directly at the grassroots level. Their small size allows them to maintain personal relationships with members and provide credit based on local requirements.

9. Factors Determining the Size of PACS

The size of a PACS depends on several factors:

- ◊ Population of the area served
- ◊ Number of members
- ◊ Agricultural and economic activities in the locality
- ◊ Share capital contributed by members
- ◊ Volume of deposits mobilised
- ◊ Borrowing capacity
- ◊ Amount of agricultural and non-agricultural loans advanced
- ◊ Recovery performance
- ◊ Financial strength and management efficiency
- ◊ Diversification of business activities

10. Variation in Size

There is no uniform size for all PACS. A PACS operating in a small village with limited agricultural activity may have fewer members and a low volume of business. In contrast, a PACS operating in a large agricultural area with a high population and diversified activities may have a large membership, higher deposits, greater borrowing capacity and a larger loan portfolio.

PACS are generally small, locally based co-operative credit institutions, but their actual size varies according to membership, area of operation, capital, deposits, borrowings and volume of credit operations. Their importance is not determined merely by their financial size, but by their direct contact with rural borrowers and their role in providing credit at the grassroots level.

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1.2.4 Functions of PACS

The main function of a Primary Agricultural Credit Society is to accept deposits and provide loans to its members. Loans are generally sanctioned to farmers for short-term, medium-term, and long-term purposes. Short-term loans are provided for periods ranging between six months and one year for agricultural operations such as the purchase of seeds, fertilisers, insecticides, pesticides, etc. Medium-term loans are given for periods ranging between 3 and 5 years for the purchase of cattle, agricultural implements, cattle sheds, etc. Long-term loans are given for periods ranging between 15 and 24 years to farmers for the redemption of old debts, permanent improvement and development of land, machinery, etc. Thus, the functions include:

1. Accept deposits.
2. Provide short- and medium-term credit.
3. Supply agricultural and other production requirements.
4. Market agricultural produce.
5. Plan agricultural production for the village.
6. Undertake to educate, advise, and work for the welfare of the members.

1.2.5 Sources of Funds

1. Paid-up share capital.
2. Deposits.
3. Borrowings.
4. Surplus assets or Reserve Funds.

The Primary societies issue only ordinary shares to their members. The larger the share capital contributed by the members, the more interest they take in the affairs of the society. Deposits from members constitute the most important source of finance for primary credit societies. It is the primary duty of these societies to mobilise rural savings, and for this purpose, they must be able to inspire confidence and invoke local interest. Even so, PACS mainly depend on borrowings. It is the most important element of their working capital.

1.2.6 Crop Loan System

Even though the All India Rural Credit Survey Committee (AIRCSC) under the Chairmanship of Shri Gorwala in 1954 and the V. L. Mehta Committee on Cooperative Credit in 1960 recommended the adoption of a crop loan system in all states, it was not implemented due to several reasons. After a gap of five years, i.e., in 1965, it was introduced throughout the country and in Andhra Pradesh from Kharif, 1966.

The Crop Loan System is a financial mechanism designed to support farmers by providing them with short-term loans to cover the costs of agricultural production. These loans are typically repaid after the harvest and are used for various purposes

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such as purchasing seeds, fertilisers, and machinery. The system aims to treat crops as collateral instead of land, and the financing scale is based on actual cultivation costs.

1.2.7 Objectives of the Crop Loan System

1. Treating the crop as security instead of immovable property like land.
2. Fixing the scale of finance depends upon the actual farm expenditure.

1.2.8 Salient features of the crop loan system

1. The credit requirements of farmers are to be estimated based on the cost of cultivation of the crops cultivated by them.
2. A farmer's eligibility to receive a loan is not measured by land ownership but by the fact that they are a real farmer who needs credit for cultivation.
3. Crop loans should be advanced on the hypothecation of the crop.
4. The disbursement and recovery of the loans are to be made in accordance with the crop production schedule.
5. The loans should include both cash and kind components.
6. The quantum of a loan should be fixed according to the variety (i.e., local improved variety or HYV), the season in which it is grown, and the type of crop (i.e., whether it is an irrigated or rainfed crop).

1.2.9 Scale of Finance (SoF)

It is an indicative cost taken as a base cost, depending on which the amount to be financed to a farmer is fixed. It is usually taken as 80 per cent of the cost of cultivation of a particular crop during a particular season. Normally, the scale of finance is given as a range, as the cost of cultivation for a farmer practising traditional methods of farming and that of a progressive farmer practising modern methods of cultivation will differ. The lower value of the range corresponds to the requirement of the former, while the upper value corresponds to the latter.

The scale of finance is fixed for annual, perennial crops and livestock also. Livestock will have fixed costs of finance and these are termed as unit costs. The unit varies with the type of livestock. Ex: for milch cattle, the unit refers to two animals; for sheep & goats, a minimum of 10 animals; and for poultry, a minimum of 500 birds.

1.2.9.1 Crop Loan System – Procedure

A crop loan is a short-term agricultural loan provided to farmers to meet the expenses involved in cultivating crops, such as seeds, fertilisers, pesticides, labour and irrigation.

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The general procedure for obtaining a crop loan explained as follows:

1. **Membership :** The farmer becomes a member of the PACS and fulfils the membership requirements of the society.
2. **Loan Application** : The farmer submits a loan application to the PACS, mentioning the crop to be cultivated, area of cultivation and amount of credit required.
3. **Submission of Documents** : The farmer provides the required documents, such as identity proof, land records or cultivation details, bank account details and other documents prescribed by the society.
4. **Verification of Land and Cultivation** : The PACS verifies the farmer's landholding, cultivation status, crop proposed to be cultivated and the estimated cost of cultivation.
5. **Assessment of Credit Requirement** : The society determines the eligible loan amount based on factors such as area under cultivation, type of crop and approved scale of finance.
6. **Approval of Loan** : After verification and assessment, the competent authority of the PACS approves the crop loan according to the applicable rules and the farmer's eligibility.
7. **Documentation and Security** : The farmer completes the necessary loan documents and provides the required security or charge over the crop/land, as applicable.
8. **Disbursement of Loan** : The sanctioned amount is disbursed to the farmer, generally through the farmer's bank account or in the prescribed manner. The amount is used for agricultural operations.
9. **Utilisation of Loan** : The farmer uses the loan for genuine crop-production expenses such as seeds, fertilisers, pesticides, labour and irrigation.
10. **Repayment** : The farmer repays the loan, along with applicable interest, according to the repayment schedule. In the case of crop loans, repayment is generally linked to the **harvesting and marketing period of the crop**.

1.2.10 Factors influencing/affecting the scale of finance

1. Type of the crop: It varies from crop to crop. Ex: Scale of Finance fixed by the District Level Technical Committee for Malappuram/Kozhikode for paddy, coconut, banana, pepper and rubber.
2. Nature of the crop: Within the same crop, between the local improved varieties and high-yielding varieties (HYVs), the scale of finance will differ. Ex: In tobacco crop, for FCV tobacco and Natu tobacco, the scale of finance was Rs.21,000-22,000/- and Rs.11,500-12,000 respectively.
3. Season: The scale of finance will differ with the season for the same crop. Ex: for Paddy in kharif, the scale of finance was Rs. 8,000-9,000/- while in rabi, the same was Rs. 7,000-8,000/-

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4. Type of land: Based on the type of land, i.e., irrigated or dry, the scale of finance will differ with the same crop. Ex: For chillies, the scale of finance in irrigated land is Rs. 17,000-19,000/- and in dry land, Rs. 10,000-12,000/-
5. District/Area: For the same crop, the scale of finance varies from district to district. For example, for chillies, the scale of finance in West Godavari district is Rs. 10,000/-, and in Guntur, it is Rs. 25,000/-.

1.2.10.1 Common Problems

1. Complex Paperwork: High levels of documentation make the process difficult for small or tenant farmers.
2. Late Funding: Disbursal delays mean farmers miss vital planting windows.
3. Inadequate Amounts: Loan limits often fail to match the real rising costs of farming inputs.
4. Repayment Risk: Weather shocks or crop failures lead to default and heavy debt burdens.

1.2.11 Overdue in Primary Agricultural Credit Societies

The term "overdue" means the sum of a loan instalment, along with interest thereon, remaining unrecovered on or after the date when such instalment became payable. As regards recordation of overdue amounts, the demand, collection and balance (DCB) statement is used; the demand being the total amount that should have been recovered within a particular period of time; the collection being the actual amount recovered; and the balance being the overdue amount. Recovery performance is primarily considered the barometer of health for an agricultural credit cooperative. Thus, the recovery rate is calculated as a percentage of the demand. If repayment is delayed beyond two cropping seasons for short-duration crops and beyond one cropping season for long-duration crops, then a crop loan will become classified as a non-performing asset.

1.2.11.1 Effect of Overdue Amounts

1. Tying up of capital: Capital provided by a cooperative is continuously recycled. Therefore, when a co-op makes a loan to a farmer and repayment fails, those funds cannot be reused for financing farming activities during the subsequent season.
2. A denial of new credit to members: Members who fail to repay a loan become ineligible for additional lending. In addition, even members who wish to obtain a new loan are affected since the society does not possess sufficient funds to provide it.
3. Restriction of access to refinancing: Refinancing from District Central Cooperative Banks (DCCBs) and National Bank for Agriculture & Rural Development (NABARD) depends upon successful recovery performance. Poor recovery performance therefore restricts societies' ability to secure refinancing from higher-tiered institutions.

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4. Decline in profitability and owned fund values: Repayment stops accruing interest while provisions continue to be required. Consequently, profits disappear and dividends cannot be paid; ultimately net equity is diminished. Ultimately, losses are borne by all farmers, including those who have always honoured their obligations.
5. Weakened overall structure: Although each tier is independent, they are linked through refinancing. Defaults at the primary level pass through the district central bank and state-level bank to other institutions in the chain.
6. Reduced emphasis on credit discipline: Willful default is contagious; where repayment carries no consequences, it quickly spreads throughout the community and erodes the existing repayment culture of the village.
7. Increased reliance on external funding. Rather than using their own funds, societies come to rely on waivers, recapitalisation, etc., as well as special rehabilitation programmes; therefore, staff time that could be spent developing the society's services is consumed trying to collect delinquent accounts.

1.2.11.2 Causes of Overdue Accounts

a. Causes Outside Control

i. Crop failures caused by drought, floods, cyclones, insect attacks, plant diseases, etc., destroying farm income from which the loan would be repaid.
ii. A fall in the market price of produce immediately following harvest, causing farm income from sales of produce to decline below expectations.
iii. Continuous natural disasters impacting large areas of land rather than individual farmers.

b. Borrower-Related Causes

i. Diverting the loan for personal use (e.g., marriages, building homes, medical treatments, lawsuits), rather than its originally intended use.
ii. Willfully refusing to make timely payments by farmers who can afford to do so but choose not to; many expect loan forgiveness.
iii. Farmers owning uneconomically small farms generating insufficient surpluses to service debt obligations.

c. Institutional Causes

i. Poor appraisals. Loans are extended without consideration of whether the borrower can repay; thus, "benami loans" are granted to individuals not engaged in agriculture.
ii. Timely and adequate credit provision. Providing credit after planting or providing less credit than needed results in borrowing from private lenders and paying them back before repaying their obligation to the cooperative.
iii. Unrealistically early repayment terms which do not correspond with either the harvest or sale season of the crop financed.

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iv. Insufficient supervision/inspection. Failing to inspect accounts after a loan is disbursed permits misuse of funds to occur until it is too late.

v. Inadequate staffing/training and lack of maintenance of a complete DCB register and follow-up system.

d. Policy and External Causes

i. Frequent loan waivers rewarding defaulters while punishing good payers and damaging repayment discipline forever.

ii. Interference with loan approvals and recoveries by politicians.

iii. Delay in reimbursing government agencies for subsidies and insurance claims relating to interest earned by farmers.

iv. Lengthy judicial process resulting in arbitration, awards, and executions taking years, rendering them ineffective as a deterrent.

1.2.11.3 Remedies - financial and policy measures

1. Realistic scale of finance - all societies must annually revise their financing requirements based upon realistic estimates of costs of farming practices to avoid both inadequacy and excess of credit.
2. Timely and adequate credit. Financing sanctions and disbursals must occur prior to planting, using the Kisan Credit Cards as the primary mechanism for obtaining timely and adequate financing.
3. Repayment schedules must be linked to crop cycles. Due dates must fall immediately after harvesting and marketing, rather than on some arbitrary date in the calendar.
4. Incentives for prompt repayment. Under the Modified Interest Subvention Scheme, crop loans of Rs. 300,000 carry an interest rate of 7%, which is reduced to 4% if repaid on time.
5. Compulsory crop insurance. By linking all crop loans to the Pradhan Mantri Fasal Bima Yojana, losses due to failed crops may be offset against the amount borrowed.
6. Limited consumption credit. Loans cannot be used to meet living expenses; therefore, production loans will remain for farm-related uses only.
7. Rescheduling and conversion. If a disaster results in crop loss exceeding the predetermined percentage, short-term loans may be rescheduled to medium-term loans under the relief provisions, thereby preventing them from becoming delinquent. In addition, a portion of the profit earned by a bank must be set aside as a bad debt reserve.
8. One-Time settlements rather than blanket waivers. A one-time settlement of outstanding balances provides partial collection while maintaining credit discipline; blanket waivers destroy it. Likewise, refinancing should be tied to the performance of collections.

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1.2.11.4 Operational Recovery Steps

1. Proper appraisal prior to loan approval – verification of land records, cropping patterns, membership status, and existing liabilities.
2. Post-disbursal supervision – field visits to confirm that the funds were used for the purposes approved in the loan.
3. An up-to-date register at the DCB office so that arrear accounts can be identified as soon as they occur.
4. Advance demand notices sent before the due dates with follow-up reminders instead of sending only after default.
5. Marketing with credit – when the society markets the produce, the loan may be recovered at the point of sale, which is the single most effective method of collection.
6. Recovery camps and adalats held in the village where outstanding balances are settled on the spot with participation from the board of directors.
7. Personal contact by the secretary and elected directors who carry local influence and can distinguish between wilful defaults and genuine distress. Periodic progress reviews should be conducted by a recovery committee established with specific targets.
8. Legal action as a last resort. Any disputes are referred to arbitration pursuant to Section 69 of the Kerala Co-operative Societies Act, 1969, and the award executed through attachment and sale or revenue recovery proceedings.

1.2.12 Development Action Plan (DAP)

The Development Action Plan is the main institutional tool developed by NABARD for improving the operational efficiency of co-operative credit institutions. It was introduced in 1994–95 and requires each institution to develop its own time-bound plan for achieving better performance and then sign a Memorandum of Understanding (MoU) with NABARD and the State Government where each party agrees to specific obligations. This approach was first applied to state co-operative banks and district central co-operative banks and subsequently extended to primary agricultural credit societies (PACS).

Main features

1. Institution-specific plans : each society develops its own plan based upon diagnostic studies identifying its weaknesses. Therefore, this is not a uniform prescription imposed from above but rather an institution-specific plan developed by the society.
2. Time-bound objectives : usually over three to five years – for recovery, reduction of overdue accounts, increase in deposits, increase in loan business, cost reduction, and profitability increases.
3. Tripartite MoU : the society agrees to achieve these objectives while NABARD provides refinance and technical assistance, and the State Government agrees to

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release their share of assistance provided to the society and avoid interference during the collection process.

4. Regular monitoring : continued refinance is conditional upon compliance with the terms of the MoU. Furthermore, non-financial areas such as staff rationalisation, training, computerisation and diversification are also covered.

Table 1.2.1 Typical content of a DAP for a PACS

Area	Illustrative target
Recovery and overdues	Raise recovery from 62% to 85%; reduce overdues below 15% of demand
Deposits and membership	Increase deposits yearly; enrol all eligible cultivators
Profitability	Wipe out accumulated losses and earn a working profit
Diversification	Take up input supply, storage, marketing and allied services
Systems and staff	Complete computerisation; keep DCB current; train staff

The Development Action Plan thus converts the general aim of strengthening co-operatives into measurable commitments for which a named institution is answerable. Its logic was carried further by the Vaidyanathan Committee (2004) on the Revival of Rural Co-operative Credit Institutions, whose revival package made financial assistance conditional on legal and institutional reform, and by the current programme of computerisation of PACS and the model bye-laws of 2023, which seek to convert PACS into multi-service centres. A society depending on crop loans alone will always be vulnerable to overdues; one earning from input supply, storage, marketing and allied services can absorb a bad season without collapsing.

Recap

- ◊ PACS are village-level cooperative institutions that provide affordable credit and financial services to farmers.
- ◊ The Crop Loan System provides short-term credit to farmers to meet cultivation and seasonal agricultural expenses.
- ◊ PACS support rural development by providing credit, agricultural inputs, storage, and other services to their members.
- ◊ Scale of Finance is the estimated cost of cultivating a crop per unit area, used to determine the eligible crop loan amount.

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Objective Questions

1. Which village-level cooperative institution provides affordable credit to farmers?
2. Which loan system provides short-term credit for cultivation and seasonal agricultural expenses?
3. Which institution supports rural development by providing credit, agricultural inputs, and storage facilities?
4. What is the estimated cost of cultivating a crop per unit area called?
5. Which institution is the primary source of cooperative credit at the village level?
6. Which system is used to determine the eligible crop loan amount?
7. Which type of loan helps farmers meet seasonal agricultural expenses?
8. Which cooperative institution provides agricultural inputs and other services to its members?

Answers

1. PACS
2. Crop Loan System
3. PACS
4. Scale of Finance
5. PACS
6. Scale of Finance
7. Crop Loan
8. PACS

Self-Assessment Questions

1. Explain the structure and objectives of Primary Agricultural Cooperative Credit Societies (PACS).
2. Describe the Crop Loan System and its importance to farmers.
3. Discuss the role of PACS in rural and agricultural development.

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4. Explain the concept of Scale of Finance and its significance in crop lending.
5. Describe the services provided by PACS to its members.
6. Explain the procedure for obtaining a crop loan through PACS.

Assignments

1. Explain the organisation, objectives, functions, and importance of Primary Agricultural Cooperative Credit Societies (PACS).
2. Discuss the Crop Loan System in detail, including its objectives, features, eligibility, and benefits.
3. Examine the role of PACS in promoting agricultural credit and rural development.
4. Explain the concept of Scale of Finance and discuss its role in determining crop loan eligibility.
5. Evaluate the contribution of PACS to the cooperative credit system and suggest measures for improving their performance.

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Suggested Reading

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BLOCK 2

Co-operative Banks in Kerala

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Unit 1
District Central Co-operative Banks

Learning Outcomes

After completing this unit, learners will be able to:

- ◊ explain the DCCBs
- ◊ explain the resource mobilisation
- ◊ discuss the role of branch banking
- ◊ explain lending functions

Prerequisites

Cooperative banks have been an essential part of India's Financial system for over a century. They include both Urban Cooperative Banks (UCBs) and rural cooperative credit institutions (RCCIs). Though much smaller as compared to scheduled commercial banks, cooperative banks constitute an important segment of the Indian banking system. They have an extensive branch network and reach out to people in remote areas. They have traditionally played an important role in creating banking habits among the lower- and middle-income groups and in strengthening the rural credit delivery system. Credit cooperatives are the oldest and most numerous of all types of cooperatives in India. The cooperative credit institutions in the country may be broadly classified into urban credit cooperatives and rural credit cooperatives. As at the end of March 2025, there were 1,457 Urban Co-operative Banks in the country. Small as they may look individually, together they handle close to 3% of the total banking business, which is why they are counted as an important part of the banking system. The Urban credit cooperatives are also known as Urban Cooperative Banks. Rural credit cooperatives may be further divided into short-term credit cooperatives and long-term credit cooperatives. With regard to short-term credit cooperatives at the grass-roots level, there are around 92000 Primary Agricultural Credit Societies dealing directly with individual borrowers.

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Keywords

DCCB, Branch Banking, Lending Functions

Discussion

District Central Co-operative Banks (DCCBs) are an important part of the rural co-operative banking system in India. They function at the district level as the middle tier of the three tier co-operative credit structure, linking the State Co-operative Banks at the state level with Primary Agricultural Credit Societies (PACS) at the village level. DCCBs mobilise deposits from the public, provide loans and other banking services, and facilitate the flow of institutional credit to farmers, rural households, small businesses and co-operative societies. They also provide financial and operational support to PACS and help implement various agricultural and rural development credit programmes. Through their branches and linkages with grassroots co-operative institutions, DCCBs play an important role in extending formal banking facilities and strengthening the co-operative credit system in rural areas.

2.1.1 District Central Co-operative Banks

Under the Banking Regulation Act 1949, only State Cooperative Apex Banks, District Central Cooperative Banks and select Urban Credit Cooperatives are qualified to be called as banks in the cooperative sector. In other words, only these banks are licensed to conduct full fledged banking business. The cooperative banks function in India at the state level. Most of the rural cooperative banks function on two tiers. At the national level, there is NABARD to organize the Agricultural Cooperatives. Also, there is the National Cooperative Union of India as an apex institution at the national level. The Reserve Bank of India controls the cooperative banks that fall under the Banking Regulation Act of 1949. Urban Cooperative Banks, also referred to as primary cooperative banks, play an important role in meeting the growing credit needs of urban and semi-urban areas of the country. UCBs mobilise savings from the middle and lower income groups and provide credit to small borrowers, including weaker sections of society.

The position in Kerala

It is worth noting that until 2019 the co-operative banking system in Kerala was structured on a three-tiered basis similar to the one outlined above; i.e., primary agricultural credit societies were situated at the local or village level, District Co-operative Banks at the district level and the Kerala State Co-operative Bank at the state (or apex) level. The decision to create an apex bank for all of Kerala was made after Section 14(A) of the Kerala Co-operative Societies Act of 1969 was amended. On November 29th 2019, the merger of the twelve District Co-operative Banks into one entity (the Kerala Bank) commenced. One District Co-operative Bank did not agree to this arrangement (Malappuram DCB). In January 2023, the Registrar of Co-operative Societies ordered that District Co-operative Bank to be merged into Kerala Bank.

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The co-operative banking sector in Kerala does not have a District Central Co-operative Bank. Presently, the banking structure in Kerala operates on a two-tiered basis, where Kerala Bank provides direct service to Primary Agricultural Credit Societies.

Therefore, this Unit should be interpreted in the context of the typical model for India's District Central Co-operative Banks (DCBs) found within states such as Maharashtra, Tamil Nadu, and Karnataka, as well as providing information about what existed in Kerala before 2019-2023.

2.1.2 Origin and Constitution DCCB

District Central Cooperative Banks occupy the middle-level position in the three-tier cooperative credit structure of the country. In the beginning of the formation of PACSs, they could not function effectively without gaining financial support from an outside agency. Over and above this, they needed technical guidance and administrative support. At the same time, there were some societies which had gained strength and possessed surplus funds as well as talents. As a precondition to get mutual help, it became necessary that all primary societies form a federation to ensure rational use of their funds and provide a common place to meet for exchange of ideas and cooperative experience. The formation of DCBs was thus a felt need for mutual help.

The Cooperative Societies Act of 1912 permitted the registration of DCBs. Even before the enactment of this Act, some DCBs were established to cater to the needs of primary societies. In 1906, the first DCB was established as a primary society in Uttar Pradesh. At Ajmer in Rajasthan, the first DCB was established in 1910. But the first full-fledged DCB, as per the provisions of the Act of 1912, was started in Jabalpur District of the Central Province.

2.1.3 Membership

1. Open to all individual farmers.
2. Primary Credit Society
3. Marketing Cooperative Society
4. Consumer Stores
5. Farming societies

Thus, as recommended by the Maclagan Committee (1915), DCBs in India were classified into: a) Banks whose membership is open to individuals only. b) Banking Unions wherein only primary societies are allowed to become members under this category. As the shareholders, lenders and borrowers are the same, the clash of interest between the shareholders and borrowing societies can be eliminated. C) Mixed type banks - whose membership includes both individuals and societies. Certain portions of shares are assigned to societies, and they also have separate representation in the board of directors. This category is considered to be better as it provides a combination of both rural and urban population. The majority of the DCBs in India are of this type.

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2.1.4 Board of the DCCB

1. The Board of the DCCB comprises the elected chairman of PACS, a representative of the State Government and the State Cooperative Bank
2. The Board meets periodically to review the performance of the bank and provide policy.
3. The government is an important stakeholder as the DCCB functions under the administrative control of the Registrar of Cooperative Societies.

2.1.5 Structure of DCCB

A District Central Co-operative Bank (DCCB) is the middle tier of the three tier rural co-operative credit structure. It acts as a link between the State Co-operative Bank (SCB) at the apex level and Primary Agricultural Credit Societies (PACS) at the village level. The State Co-operative Bank provides overall financial support and policy guidance, while the DCCB channels funds and credit facilities from the state level to local rural institutions. PACS operate at the grassroots level and directly provide credit and other services to farmers and rural members. The internal management of a DCCB generally consists of the General Body, which is the supreme authority representing the members, the Board of Directors, which takes major policy and management decisions, the Chairperson or President, who leads the Board, and the Chief Executive Officer (CEO) or General Manager, who is responsible for day-to-day administration and implementation of the decisions of the Board. The DCCB operates through its Head Office and branches located in towns and rural areas, managing finance, staff administration, credit control and supervision. It also maintains close financial and credit linkages with PACS, thereby facilitating the flow of institutional credit to farmers and other rural members.

Structure and functioning of a District Central Co-operative Bank (DCCB) within the three-tier rural co-operative credit system.

1. Three-Tier Rural Co-operative Credit Structure

Tier I – State Level: State Co-operative Bank (SCB)

The State Co-operative Bank is the apex institution at the state level. It provides financial support, policy guidance and supervision to the lower levels of the co-operative credit structure.

Tier II – District Level: District Central Co-operative Bank (DCCB)

The DCCB is the middle-level institution. It acts as a link between the State Co-operative Bank and Primary Agricultural Credit Societies. It channels funds to local co-operative institutions and provides operational support and supervision.

Tier III – Village Level: Primary Agricultural Credit Societies (PACS)

PACS are the grassroots-level institutions. They have direct contact with farmers and rural members and provide credit and other financial services to them.

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Thus, the flow can be understood as:

State Co-operative Bank → DCCB → PACS → Farmers and Rural Members

2. Governance Structure of DCCB

The image also shows how a DCCB is managed internally:

General Body → Board of Directors → Chairperson/President → CEO/General Manager

- ◊ General Body: The supreme authority representing the members.
- ◊ Board of Directors: Takes major policy and management decisions.
- ◊ Chairperson/President: Provides leadership to the Board.
- ◊ CEO/General Manager: Manages day-to-day administration and implements the decisions of the Board.

3. Operational Network of DCCB

The DCCB operates through:

- ◊ Head Office: Manages finance, staff administration, credit control, supervision and planning.
- ◊ Branches: Provide banking and credit services in towns and rural areas.
- ◊ PACS Linkage: Maintains credit and financial linkages with PACS and supports their supervision and auditing.

In simple terms, the DCCB serves as the connecting link between the State Co-operative Bank and village-level PACS, ensuring that institutional credit and banking support reach farmers and rural communities.

2.1.5.1 Functions of DCCB

1. To meet the credit requirements of member societies.
2. To perform banking business
3. To act as a balancing centre for the PACS by diverting the surplus funds of some societies to those which face shortages of funds.
4. To undertake non-credit activities.
5. To maintain close and continuous contact with PACS and provide leadership and guidance to them.
6. To supervise and inspect the PACS and
7. To provide a safe place for the investment of the resources of PACS.

Example: How District Central Cooperative Bank (DCCB) acts as a balancing centre

Two societies are affiliated to the same DCCB. Society A is located in an area where paddy is grown, and its members have received payments for this season and have

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surplus funds of ₹80 lakhs and little demand for new loans at that time. Society B is in an area that grows vegetables and urgently needs ₹1.2 crores for the planting season, but deposits total only ₹40 lakhs. Society A deposits its surplus of ₹80 lakhs with DCCB at, say, 6 per cent. DCCB adds its own funds and lends ₹1.2 crores to Society B at, say, 9 per cent. Three results follow: idle funds of Society A earn returns rather than lying idle. Society B gets credit without terms that are harder than from commercial banks. DCCB earns a spread of around 3 per cent and uses this against running costs. Movement of funds from societies that have a surplus to those that have a deficit within the district is what makes District Central Cooperative Bank (DCCB) a balancing center.

2.1.6 Objectives of DCCBS

The DCCBs are formed mainly to meet the credit requirements of member societies. As an institution for helping the societies in times of need, they finance agricultural credit societies for production purposes, marketing societies for marketing operations, industrial societies for supply operations and other societies for working expenses. The major objectives of the DCBs are:

1. To provide loans to the eligible societies.
2. To act as a balancing centre of finance for primary societies when they face a shortage and serve as a clearing house for their surplus funds
3. To arrange for the supervision and control of the affiliated societies
4. To raise deposits from members and non-members
5. To provide a safe place for the investment of the resources of primary societies
6. To convene conferences of the member societies
7. To prescribe uniform procedure for the working of primary societies
8. To develop and extend banking facilities in rural areas
9. To maintain and utilize state partnership.

2.1.7 Resource Mobilization

The central banks derive their working capital from five sources, viz,

a. Shares
b. Deposits
c. Loans
d. Reserve funds
e. Government grants

They also receive small amounts by way of entrance fees, transfer fees and other miscellaneous items.

Share Capital

The central banks issue shares to individuals and society members. The major portions of the shares are issued to the society shareholders. Nowadays, the States'

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contribution to the share capital of the central banks is quite substantial. Ordinarily, the share capital to be subscribed by the society members is linked with their borrowings from the central banks.

Example: Why share capital ties to borrowing

A Primary Agricultural Credit Society wishes to borrow 50 lakhs from its DCCB. The bank's bylaws require that borrowing societies hold shares worth 5 per cent of their borrowings. So, the society must therefore hold shares worth 2.5 lakhs in the bank. If it already holds 1.5 lakhs, it must subscribe another 1 lakh before the loan is released. This rule ensures that the borrower has a stake in the capital of the lender and allows owned funds of DCCB to grow as lending increases.

Deposits

The central cooperative banks may receive deposits in the current account, in the savings account and fixed deposit account. In view of the nature of their operations, it has been generally agreed that the central cooperative banks should not increase their deposits in the current account and instead concentrate on their deposits under savings and fixed deposit accounts. Fixed Deposits are the safest form of deposits for the co-operative banks and very popular with the public. Since these deposits can be withdrawn only after the expiry of a fixed period, the problem of maintaining fluid resources (cash) becomes insignificant, and the amounts so received can be safely invested in their normal loan operations for financing seasonal agricultural operations.

The central co-operative banks may also accept recurring deposits, day deposits and provident fund deposits. A recurring deposit is made by a person who undertakes to pay the society a fixed amount of money for a certain period. Day deposits are meant for encouraging saving habits among daily wage earners in towns and cities. A person has to pay every day to the bank an agreed fraction of his daily wage for one year, after the expiry of which the entire amount along with the interest is payable to the depositor.

All cooperative societies are required to create a statutory Reserve Fund out of their profits. The manner in which this fund is to be invested differs from state to state. In some states it is invested by way of deposits with the central co-operative bank or higher federal organizations. In some states it is invested in the loan transactions of the society, while in other states it is invested partly in their business and partly in outside investments. The funds of the central co-operative banks are augmented (increased) by the reserve fund deposits of the co-operative societies.

Deposits thus form an important constituent of the working capital of the central co- operative banks. So far as deposits of the central co-operative banks are concerned, the position has not been very satisfactory. The central co-operative banks, which are the backbone of co-operative finance, need to become self-reliant. The All India Rural Credit Survey Committee and the Mahajan Committee had emphasized that the central cooperative banks, with a view to enhancing their savings, must tap deposits from urban areas so that adequate funds are available for agricultural development in rural areas.

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Loans

The borrowing power of the central co-operative banks is fixed: (i) under the rules of cooperative societies (ii) under the bye-laws; and (iii) by the Registrar Co-operative Societies. Under all these systems it is customary to relate the borrowing power to their own owned funds. The working capital of co-operative banks thus includes borrowings from: State Co-operative Banks 2. Government 3. Reserve Bank of India 4. State Bank of India 5. Other Central Co-operative banks 6. Joint Stock Banks.

The apex bank is the most important source of funds for the central cooperative banks. The central co-operative banks borrow from the state co-operative banks various short- and medium-term loans at varied rates of interest for various periods. The Reserve Bank charges interest at the rate of 2% below the bank rate for short-term loans and 12% below the bank rate on medium-term loans at varied rates of interest for various periods. The central cooperative banks can also obtain advances, overdrafts and cash credit accommodation from the commercial banks on easy terms and conditions on securities acceptable to the commercial banks. Such borrowings may be for urgent purposes. These form a very negligible part of their working capital. The security offered may be Government Promissory Notes or Central Agricultural and Rural Development Bank Debentures.

2.1.8 Loan Operations of DCCBs

Although the operations of the central cooperative banks do not apparently differ from those of the commercial banks, it should not be forgotten that the commercial banks deal with other individuals for their business and are at liberty to invest their funds at their choice. But the central cooperative banks mainly have to finance their own members and have no choice in the investment of their funds. The central cooperative banks have to invest a major portion of their resources in agricultural loans. So there is a lot of risk for the banks in this situation, as Indian agriculture is full of risk and the farmer has no other security to offer than his land, which is not easily saleable without any loss. At the same time, the central cooperative banks have to be run on modern banking lines in which deposits have to play a crucial role. But deposits will not flow since the people are not sure of the financial stability of these banks.

Kisan Credit Card

Kisan Credit Card is an innovation brought about in the banking system to make short-term credit to farmers easy, convenient and flexible.

Features of Kisan Credit Card

1. One-time documentation
2. Single limit for whole year's requirements.
3. Requirements for consumption credit are also taken into account
4. Any number of drawls and repayments are permitted.
5. Automatic renewal if the account is regular.

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6. Additional features like personal accident insurance are provided as a small fee in collaboration with insurance companies.

Recent changes to Kisan Credit Card

Introduced in 1998 based on recommendations of the R.V. Gupta Committee and expanded in 2018-19 to include working capital needs for animal husbandry, dairying and fishing. Normally valid for five years and linked to crop insurance under PM Fasal Bima Yojana. From January 1, 2025, the collateral-free limit went up from ₹160,000 to ₹200,000 per borrower and the Union Budget 2025-26 raised the Modified Interest Subsidy Scheme limit to ₹500,000.

Example A Kisan Credit Card in operation

Sri Raghavan cultivates 1.2 acres of paddy. District Technical Committee scale for paddy is ₹55,000 per acre, so his loan limit for crops is ₹55,000 times 1.2, which is ₹66,000. Sri Raghavan gets a Kisan Credit Card through Primary Agricultural Credit Society. He borrows amounts incrementally as farming progresses: for seeds, fertilizers, wages at transplanting and at harvest. Interest is charged at a concessional rate of 7% per year, which amounts to ₹46,200 for the year: 7% of ₹66,000. If he repays on time, he gets an incentive of 3%, which is ₹1,980. So his effective interest burden is ₹46,200 minus ₹1,980, which is ₹26,400, or 4% per year. Borrowing at that same rate from a moneylender would cost him ₹237,600, nine times as much. Comparing these shows why institutional credit through a cooperative structure matters to small farmers.

2.1.9 Branch banking

Branch banking is a banking system in which a bank operates through a network of branches spread across different geographical areas, all under a single ownership and central management. Each branch provides a wide range of banking services, including accepting deposits, granting loans, remittances, and other financial services, while following the policies and regulations of the head office. The main objectives of branch banking are to expand banking services to a larger population, mobilise savings, promote balanced regional development, facilitate efficient credit distribution, and ensure financial inclusion. Its key features include centralised control with decentralised operations, a uniform banking policy across all branches, economies of scale, efficient utilisation of funds, better risk diversification, and the ability to provide consistent and reliable customer service across different locations.

2.1.10 Features of Branch Banking

1. Centralised Control : All branches are managed by a single head office.
2. Wide Branch Network : Branches are established across different geographical locations.
3. Uniform Policies : All branches follow the same rules and banking procedures.
4. Risk Diversification : Losses in one branch can be balanced by profits from others.

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5. Efficient Fund Management : Funds are transferred between branches as needed.
6. Economies of Scale : Large-scale operations reduce costs and improve efficiency.
7. Comprehensive Services : Each branch offers a full range of banking services.

Example: Branch banking in the Kerala co-operative sector

Kerala Bank exemplifies central control with decentralized operations. Headquartered in Thiruvananthapuram, the central office formulates policy on interest rates, loan products, credit limits and service conditions for staff. Seven regional offices supervise ground operations and more than eight hundred branches throughout the state deliver services to members. Depositors at Valanchery branch and Kasaragod branch receive identical products on the same terms because branches follow a uniform policy set centrally. Losses in one branch can be offset by profits elsewhere in the network: this is diversification of risk. Surplus deposits in one region can finance credit demand in another: this is efficient management of funds. Each of the features listed can be seen in this single network.

Regulation and Supervision of DCCBs

District Central Cooperative Banks are subject to dual supervision. Registration and membership, management elections and audits are regulated by Registrar of Cooperative Societies at the state level. Reserve Bank of India and NABARD oversee banking functions. NABARD conducts statutory inspections under Section 35(6) of the Banking Regulation Act of 1949 and provides refinance to these banks. Recently, the Banking Regulation Amendment Act 2020 extended important provisions of that Act to cooperative banks. Amendments took effect for urban cooperative banks on June 26, 2020 and for state and district central cooperative banks on April 1, 2021. Amendments strengthen Reserve Bank powers over management, capital, audits, mergers and reconstruction and require prior approval of the Reserve Bank for CEO appointments and removals. Deposits with licensed cooperative banks are insured by the Deposit Insurance and Credit Guarantee Corporation up to ₹5 lakhs per depositor per bank. Created in July 2021, the Ministry of Cooperation has taken on digitising Primary Agricultural Cooperative Societies, drafting model bye-laws, and building a National Cooperative Database. Problems for District Central Cooperative Banks.

Problems of DCCBs

Principal difficulties faced by DCCBs are high levels of bad loans due to poor recovery of agricultural loans; dual control which delays corrective action; undue political influence in composition and functioning of boards; insufficient capital and very low Capital to Risk Weighted Assets Ratio in weaker banks; heavy reliance on refinancing rather than deposits; narrow product range; slow adoption of core banking and digital services; and shortage of trained staff. De-layering has been one response to many of these difficulties.

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2.1.11 Lending Functions

The primary lending function of a District Central Cooperative Bank (DCCB) is to provide financial assistance to affiliated Primary Agricultural Credit Societies (PACS), which in turn extend credit to farmers. DCCBs offer short-term and medium-term loans for agricultural activities such as crop cultivation, the purchase of seeds, fertilisers, farm equipment, and irrigation facilities. They also provide credit to cooperative societies, rural artisans, small-scale industries, and allied agricultural activities such as dairy farming, poultry, fisheries, and horticulture. In addition, DCCBs extend emergency loans during natural calamities and other unforeseen situations, thereby supporting rural development and strengthening the cooperative credit system.

Lending functions of the society include the following:

1. Short-Term Agricultural Loans : DCCBs provide short-term loans to PACS for financing seasonal agricultural operations such as the purchase of seeds, fertilizers, pesticides, labour wages, and irrigation expenses. These loans are generally repayable after the harvest.
2. Medium-Term Agricultural Loans : They extend medium-term loans to farmers for purchasing tractors, power tillers, pump sets, farm machinery, constructing wells, land development, and other agricultural improvements. These loans usually have a repayment period of one to five years.
3. Credit to Primary Agricultural Credit Societies (PACS): DCCBs act as the main financing agency for PACS by providing them with the funds required to lend to their farmer members. This ensures a continuous flow of credit at the grassroots level.
4. Loans to Cooperative Societies: DCCBs provide financial assistance to various cooperative societies such as dairy cooperatives, marketing cooperatives, consumer cooperatives, housing cooperatives, and industrial cooperatives for their business operations and expansion.
5. Crop Loans: DCCBs provide crop loans to farmers through PACS to meet the working capital requirements for cultivating different crops. These loans help farmers finance cultivation until they receive income from the sale of their produce.
6. Rural Development Loans: The banks finance small-scale industries, village industries, rural artisans, and self-employment activities to promote rural entrepreneurship and generate employment opportunities.
7. Emergency and Relief Loans: During natural calamities such as floods, droughts, cyclones, or crop failures, DCCBs provide emergency loans and rehabilitation finance to help farmers recover their losses and resume agricultural activities.

Example: Relief lending after a natural calamity

Relief lending following a natural disaster: When a district authority declares crop damage due to floods, landslides, or droughts, as has happened in Kerala districts recently, cooperative credit structures respond through prescribed relief mechanisms. Existing

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short-term loans for crops are converted into medium-term loans repayable over three to five years instead of at season end so that farmers are not treated as defaulters. Because old loans are regularized through conversion, farmers become eligible for fresh loans for crops for the next season and farming can restart. Consumption and rehabilitation loans may also be sanctioned to restore homes, sheds for livestock or irrigation structures. Emergency lending is therefore a structured supervisory requirement rather than just an act of kindness.

SUMMARY

Thus DCCBs are the middle-tier institutions in the three-tier cooperative credit structure in India, functioning between the State Cooperative Banks (StCBs) and Primary Agricultural Credit Societies (PACS). Their primary objective is to provide financial assistance to cooperative societies, particularly PACS, and to promote agricultural and rural development by ensuring the timely availability of credit. DCCBs mobilise deposits from the public, extend short-term and medium-term loans to farmers and cooperative institutions, facilitate the implementation of government-sponsored schemes, and provide banking services in rural and semi-urban areas. By acting as a vital link between state-level financing agencies and grassroots cooperative societies, DCCBs play a significant role in strengthening the cooperative banking system, enhancing financial inclusion, and supporting the socio-economic development of rural communities.

Recap

1. The DCCBs are an institution for helping the societies in times of need, they finance agricultural credit societies for production purposes, marketing societies for marketing operations, industrial societies for supply operations and other societies for working expenses.
2. DCCBs offer short-term and medium-term loans for agricultural activities such as crop cultivation, the purchase of seeds, fertilisers, farm equipment, and irrigation facilities.
3. Branch banking is a banking system in which a bank operates through a network of branches spread across different geographical areas.
4. The Board of the DCCB comprises the elected chairman of PACS, a representative of the State Government and the State Cooperative Bank

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Objective Questions

1. Which cooperative bank provides financial assistance to Primary Agricultural Credit Societies?
2. Which cooperative bank offers short-term and medium-term agricultural loans?
3. Which banking system operates through a network of branches across different geographical areas?
4. Which institution elects the chairman who serves on the Board of the DCCB?
5. Which type of cooperative society receives finance from DCCBs for production purposes?
6. Which cooperative bank finances marketing societies for their marketing operations?
7. Which level of cooperative bank provides loans for the purchase of seeds, fertilisers, and farm equipment?
8. Which institution represents the apex cooperative banking system on the Board of the DCCB?

Answers

1. DCCB
2. DCCB
3. Branch Banking
4. PACS
5. Agricultural Credit Society
6. DCCB
7. DCCB
8. State Cooperative Bank

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Self-Assessment Questions

1. Define DCCB.
2. What is a Kisan Credit Card?
3. Define branch banking.
4. Define the Resource Mobilisation Scheme of DCCBs.
5. What are the main objectives of DCCBs?
6. Explain the features of the branch banking system.
7. Who constitutes the membership of DCCBs?
8. Explain the loan operations of DCCBs.
9. What constitutes the Board of a DCCB?

Assignments

1. Discuss in detail the origin and structure of DCCBs.
2. Explain in detail the lending functions
3. Explain the sources of Funds of DCCBs

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Unit 2
State Co-operative Banks

Learning Outcomes

After completing this unit, learners will be able to:

- ◊ explain the SCBs
- ◊ discuss the functions of SCBs
- ◊ describe the structure of SCBs
- ◊ explain fund Management functions

Prerequisites

Before studying the origin, constitution, management, structure, resource mobilisation, fund management and functions of State Co-operative Banks, it is necessary to understand the historical development of the co-operative credit system in India. The organised co-operative credit movement began with the Co-operative Credit Societies Act, 1904, which encouraged the formation of credit societies to provide affordable credit to farmers and rural people. The Co-operative Societies Act, 1912 further expanded the movement by permitting the formation of central and other types of co-operative societies. As the number of primary societies increased, the need for higher-level institutions to provide finance, guidance and coordination became important. This led to the development of Central Co-operative Banks at the district level and State Co-operative Banks at the state level, creating a three-tier co-operative credit structure. State Co-operative Banks gradually emerged as the apex institutions responsible for mobilising funds, providing financial support to DCCBs, managing resources and coordinating the activities of the rural co-operative credit system. Understanding this historical development provides a foundation for studying their constitution, management, organisational structure, resource mobilisation, fund management and functions.

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Keywords

SCB, Fund Management, Lending operation, NPA

Discussion

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 DCBs in each state. The apex banks assume a key position in the co-operative credit structure because financial assistance from RBI and the National Bank for Agriculture and Rural Development is invariably routed through them. A State Cooperative Bank is the federation of central cooperative banks in a State. It is the pivot around which all economic activities of the cooperative movement in the State rotate. It is the vertex of the pyramidal structure in a State for the provision of short- and medium-term credit to agriculturists on cooperative basis. It is the "keystone of the cooperative movement in the State; it links the movement not only with the commercial money market, but also with the Reserve Bank of India as a potential source of credit for seasonal and emergent needs." It derives physical support from the primary credit societies.

2.2.1 State Co-operative Banks

State Cooperative Banks deal with central cooperative banks, primary societies and individuals. The board of management of the various State Cooperative Banks in the country, today consists of the representatives of individuals, elected by the general body, a few representatives of affiliated societies and cooperative urban banks, a representative each from the State Cooperative Agriculture and Rural Development Bank and Central Industrial Banks and a few representatives (not exceeding 1/3 of the total strength of the board) of the State Government. Like central cooperative banks, state cooperative banks are also of two types, one in which the membership is open to societies only and the other in which the membership is open to individuals as well.

2.2.2 State Co-operative Bank: Origin, Constitution, Management and Structure

State Co-operative Banks (SCBs) are the apex institutions of the short-term rural co-operative credit structure in India. Their origin can be traced to the development of the co-operative credit movement following the Co-operative Credit Societies Act, 1904. The early co-operative credit societies mainly served farmers and rural communities, but the need for a higher-level institution to coordinate and finance these societies led to the establishment of central and state-level co-operative banking institutions. The Maclagan Committee (1915) also emphasised the need for a properly organised co-operative credit structure with central institutions at the district and provincial levels. Subsequently, State Co-operative Banks developed as apex institutions in different

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states, providing financial support and guidance to District Central Co-operative Banks (DCCBs) and other co-operative credit institutions.

Constitution

A State Co-operative Bank is generally constituted as a co-operative society under the relevant State Co-operative Societies Act and operates as a banking institution subject to the applicable provisions of the Banking Regulation Act, 1949. It is owned primarily by its members, which may include DCCBs, other co-operative institutions and, depending on the state and bye-laws, individual or institutional members. The bank raises funds mainly through members' share capital, deposits, borrowings and other permitted sources. It provides financial assistance to DCCBs and supports the overall development of the rural co-operative credit system.

Management

The management of a State Co-operative Bank generally consists of the General Body, Board of Directors, Chairperson or President, and Chief Executive Officer (CEO) or Managing Director. The General Body represents the members and acts as the supreme authority. The Board of Directors is responsible for framing policies and taking major decisions. The Chairperson or President provides leadership to the Board, while the CEO or Managing Director is responsible for the day to day administration and implementation of Board decisions. Professional officers and employees assist the management in banking, finance, credit, audit and other operational activities.

Structure

The State Co-operative Bank occupies the top or apex position in the short term co-operative credit structure. Its structure can be represented as:

State Co-operative Bank (Apex Level)

↓

District Central Co-operative Banks (District Level)

↓

Primary Agricultural Credit Societies (Village Level)

↓

Farmers and Rural Members

The State Co-operative Bank provides funds, credit support, guidance and supervision to DCCBs. DCCBs, in turn, provide financial assistance and support to PACS, which directly serve farmers and rural members. Thus, the SCB acts as the apex link connecting the district and village-level co-operative credit institutions.

2.2.3 Functions of SCBs

The functions of SCBs are as follows;

1. Borrowing and Lending: It constitutes the main functions of State Cooperative Bank. It borrows from small and medium savers of money in the form of current,

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savings and fixed deposits. It also borrows directly in the form of loans and advances against agricultural bills or government guarantee from the Reserve Bank of India/NABARD and sometimes also from the State Bank of India. At times, it also borrows from State Governments.

2. Gives short- and long-term loans to the central cooperative banks to finance the farmers through their primary credit societies.
3. Acts as a balancing centre and clearing house for the central cooperative banks. It borrows surplus funds from the central cooperative banks, lends to deficit central banks, and does away with inter-bank lending.
4. Act as the bankers' bank and custodian of the surplus resources of cooperative banks.
5. It functions as a parent institution to the entire cooperative banking structure in the state. It helps the state government in drawing up cooperative development and other development plans and in their implementation.
6. Coordinates its own policies with those of the cooperative movement and the government. It also
7. Supervises and controls the central cooperative banks and societies through regular inspections by its inspection staff and rectifies the defects in their working.
8. The State Cooperative Banks also perform certain general utility functions like issuing drafts, cheques, and letters of credit on various centres and thus help remittance of funds.
9. They also collect and discount bills with the permission of the Registrar.
10. In certain places, they also provide safe deposit lockers and facilities for safe custody of valuables, etc.
11. Some of the State Cooperative Banks have also been issuing cash certificates for the benefit of medium investors.

2.2.4 Sources of Funds / Resource Mobilization

The sources of the working capital of SCBs are as follows;

1. **Shares:** The State Cooperative Banks raise their capital by issuing shares. These shares are issued to central banks, primary societies and the government.
2. **Reserves:** The State Cooperative Banks maintain various types of reserves.
3. **Owned Funds:** The share capital and statutory reserves constitute the owned funds. The owned funds are very important for the cooperative organizations as it provides security for the creditors, it is a cushion against over dues and increase their borrowing capacity
4. **Deposits:** Deposits are an important part of the working capital of the state cooperative banks. The state cooperative banks accept current, savings, fixed and call deposits. Deposits are received from members and non-members, individuals and societies. Special deposits are received from local boards,

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municipalities and institutions. Deposits also include reserve fund deposits of affiliated DCCBs and societies, provident fund deposits of employees and security deposits, etc. A major portion of deposits is from individuals, firms and companies.

5. **Borrowings:** Borrowings are the major source of the working capital of the SCBs. These banks borrow from the Government, NABARD/Reserve Bank of India and other sources. The borrowing powers are defined under the rules framed by the various State Governments under the respective Cooperative Societies Act, and the ceiling on borrowing varies from 12 times the owned funds to 20 times. They also obtain loans and overdraft facilities against Government Securities from the State Bank of India.

2.2.5 Fund Management of State Co-operative Banks (SCBs)

State Cooperative Banks (SCBs) play a pivotal role in managing financial resources within the cooperative banking system. They mobilise funds primarily through deposits from individuals, cooperative institutions, and government agencies, while also borrowing from the Reserve Bank of India (RBI), the National Bank for Agriculture and Rural Development (NABARD), and other financial institutions. SCBs allocate these funds to District Central Cooperative Banks (DCCBs) to meet the credit requirements of Primary Agricultural Credit Societies (PACS) and other cooperative institutions. They maintain liquidity, manage investment portfolios in accordance with RBI and NABARD guidelines, ensure adequate capital adequacy, and monitor the efficient utilisation of funds across the cooperative credit structure. Through effective fund management, SCBs maintain financial stability, support agricultural financing, and strengthen the rural cooperative banking network.

Example: The two-tier and three-tier flow of credit compared

The flow of credit in a state retaining the three-tier system (as in Karnataka) is as follows: NABARD to the State Co-operative Bank, then to the District Central Co-operative Bank, then to the Primary Agricultural Credit Society, and ultimately to the farmer. At each level there will be a margin charged plus a number of costs associated with establishing that institution. As a result of the consolidation of the District Co-operative Banks in Kerala, the flow is now from NABARD to Kerala Bank, then to the Primary Agricultural Credit Society and then to the farmer. One tier has therefore been eliminated. The reasons given for the elimination of tiers was to eliminate costs associated with credit, to pool capital of fourteen institutions into a single balance sheet, and to allow the apex bank to achieve the expected minimum capital and technological standards of a scheduled bank. The student may also consider the opposing view, that district-level institutions were better able to understand local conditions and make decisions on small loan applications more quickly.

2.2.6 Lending Operations

Generally, a State cooperative bank finances the central cooperative banks and other apex societies in its area operation and other affiliated societies. Loans may also be

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given to depositors on the pledge of their fixed deposit receipts. Loans to individual members may be granted as special cases. Financing is primarily done for agricultural purposes in the form of (i)loans (ii) cash credit and/ or (iii) overdrafts.

The state cooperative banks have now decided to give preference to short term loans; hence the central banks have been advised to apply more for such loans. The maximum period of short term loans are for 12 months. Such loans are given for (i) meeting cultivation expenses (ii) meeting domestic expenses (iii) payment of rent (iv) holding of produce for a better market (v) purchase of fodder for the cattle (vi) production and sale of animal husbandry and forest produce. Medium term loans are generally for three years and are given for the following purposes; (i) purchase of bullocks and other livestock (ii) purchase of implements, machinery, cans etc. (iii) reclamation of land (iv) sinking and renovation of irrigational wells, tanks and channels (v) building, enclosures and fencing and construction of farm sheds, godowns, etc. (vi) laying down of gardens and orchards and plantations (vii) purchase of machinery and equipment for animal husbandry and dairy farming (viii) repairs, replacements and renewals of machinery and equipment. Diversion of loans for purposes other than for which they are sanctioned may result in the immediate recall of the loans or refusal of further loans or penal interest on the loans. Cash credit may be sanctioned on the pledge of securities like agricultural produce, finished goods, semi-finished goods, stores, supplies, Government Promissory notes, Central Land Mortgage Bank Debentures, Treasury Certificates, National Saving Certificates, National Defence Bonds etc. Loans may also be given for six months against fixed deposit receipts to any holder. The rates of interest on various loans are fixed in consultation with the Registrar and the Reserve Bank of India.

2.2.7 Liability Management and Non-Performing Assets

State cooperative banks have achieved significant success so far as the provision of finance to the central cooperative banks is concerned. The working capital and owned funds of these banks have increased considerably, but there are certain weak spots in their liability management on a day-to-day basis. They are:

1. It has been observed that in some cases the book adjustments regarding payment of loans have been fictitious. The loans repaid have not been genuinely recovered by some of the SCBs from the DCCBs. Further, the SCBs have failed to check the fictitious transactions of the central cooperative banks. Thus, these banks have failed to exercise strict supervision and inspection of the central cooperative banks. There is a lack of adequate staff, and hence compliance reports are neither received nor checked thoroughly. Thus most of the SCBs have not been able to play the role of the caretaker of the DCCBs effectively.
2. Some of the SCBs have not been following a policy of caution in the matter of investment of their funds. They have invested their funds in the purchase of shares of other cooperative institutions, advancing loans to PACSs for cold storage, cinema societies, etc. It is advisable for these banks to strictly follow the principles of sound financial management.
3. Despite the objections raised by the Reserve Bank of India/NABARD, some of the SCBs have continued to make large advances to individuals.

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4. The overdues of SCBs have also shown a rising trend. Thus, the SCBs should take immediate steps to recover their outstanding loans from the DCCBs.
5. The SCBs in some of the states have not been careful in fixing the credit limits of the DCCBs. The credit limits of the DCCBs have been fixed based on the owned funds without taking into consideration the past performance of the bank concerned, the SCBs' own financial position, etc.

Non-Performing Assets

When an asset is no longer generating income for a bank, it is said to have become a non-performing asset. The criteria for determining whether a term loan is a non-performing asset are based upon the payment history of the loan. Therefore, any loan account which contains unpaid interest or instalments in excess of ninety days shall be considered to be a non-performing asset. Where loans are made to farmers for crops grown over relatively short periods of time (short-duration crops), the rules regarding non-performing assets are modified. Specifically, any loan made by the bank for a short-duration crop (i.e., crops having a growing season of one year or less) will be treated as a non-performing asset once the borrower's instalment payments remain overdue for two consecutive crop seasons after the originally agreed-upon due date. Any loan made for a crop whose growing season exceeds one year (long-duration crop), e.g., sugarcane or a plantation crop, will be treated as a non-performing asset after only one crop season.

This modification reflects the fact that farmers receive their annual income from farming activities at one time -after harvesting- rather than in regular instalments throughout the month. Additionally, because weather factors can cause some years' harvests to fail and thereby prevent timely repayment of debt regardless of the farmer's intentions, the possibility of a failed monsoon causing delayed repayment is taken into consideration.

All non-performing assets are categorised as either substandard assets (non-performing for 12 months or less); doubtful assets (substandard for more than 12 months); and loss assets (wherein the loss has been identified but not yet written off). Provisions are required at certain percentages against all categories. Gross non-performing assets represent the aggregate value of all gross non-performing assets, while net non-performing assets represent gross non-performing assets minus provisions established against those assets.

Example: When does a crop loan become a non-performing asset?

A farmer borrows ₹100,000 for paddy on 31 January 2025; paddy is a short-duration crop. The loan falls due on 31 March 2025. However, he failed to repay the borrowed money. As it relates to short-duration crops, it does not classify as a non-performing asset until the due date has passed for two crop seasons. If he had borrowed money for a long duration crop like sugarcane or a plantation crop, he would be considered a non-performing asset after one crop season. Once classified as such, it will be a substandard asset during its first 12 months and thereafter a doubtful asset.

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Thus, State Cooperative Banks (SCBs) are the apex institutions in the three-tier cooperative credit structure in India, operating at the state level. They serve as the principal link between the National Bank for Agriculture and Rural Development (NABARD), the Reserve Bank of India (RBI), and the District Central Cooperative Banks (DCCBs). The primary objective of SCBs is to provide financial assistance, supervision, and guidance to DCCBs while ensuring the smooth flow of agricultural and rural credit across the state. They mobilise deposits, provide short-term and medium-term finance, coordinate the activities of affiliated cooperative institutions, and implement government-sponsored credit and development programmes. SCBs also play a crucial role in maintaining the financial stability of the cooperative banking system, promoting financial inclusion, strengthening rural credit delivery, and supporting the overall socio-economic development of the state.

Recap

- ◊ SCBs are the highest-level institutions in the three-tier cooperative credit structure, linking NABARD and RBI with District Central Cooperative Banks (DCCBs).
- ◊ They mobilise funds through public deposits, borrowings from NABARD, RBI, and other financial institutions, and government funds.
- ◊ SCBs provide short-term and medium-term finance to DCCBs, ensuring a continuous flow of agricultural and rural credit.
- ◊ They supervise DCCBs, promote sound banking practices, implement government schemes, and provide technical guidance and training.
- ◊ SCBs strengthen the cooperative banking system by promoting financial inclusion, supporting agriculture, enhancing rural credit delivery, and contributing to the socio-economic development of the state.

Objective Questions

1. Which institution is linked with State Cooperative Banks for agricultural refinance?
2. Which apex banking institution regulates the banking system in India?
3. Which level of cooperative bank receives financial assistance from State Cooperative Banks?
4. What is the name of the highest-level institution in the three-tier cooperative credit structure?

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5. Which type of finance is provided by State Cooperative Banks to DCCBs for agricultural purposes?
6. Which process involves collecting funds through public deposits and borrowings?
7. Which practice is promoted by State Cooperative Banks to improve the efficiency of cooperative banks?
8. Which concept refers to providing banking services to all sections of society?

Answers

1. NABARD
2. RBI
3. DCCBs
4. State Cooperative Bank (SCB)
5. Medium Term Finance
6. Fund Mobilisation
7. Sound Banking Practices
8. Financial Inclusion

Self-Assessment Questions

1. Discuss the origin and organisational structure of State Cooperative Banks in India.
2. Explain the objectives and functions of State Cooperative Banks.
3. Describe the sources and management of funds of State Cooperative Banks.
4. Discuss the lending operations and credit services provided by State Cooperative Banks.
5. Explain the role of State Cooperative Banks in strengthening the cooperative credit system and rural development.

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Assignments

1. A State Cooperative Bank has received a large number of deposits but faces increasing demand for agricultural loans. Explain how the bank can manage its funds efficiently while meeting the credit needs of farmers.
2. A District Central Cooperative Bank is experiencing financial difficulties due to poor loan recovery. Explain how the State Cooperative Bank can assist and strengthen its functioning.
3. The Government introduces a new rural development scheme through the cooperative banking system. Explain the role of the State Cooperative Bank in implementing the scheme effectively.
4. Analyse how a State Cooperative Bank can promote financial inclusion in remote rural areas through its lending and supervisory functions.
5. Assume you are the Chief Executive of a State Cooperative Bank. Prepare a strategy to improve rural credit delivery, strengthen DCCBs, and ensure sustainable growth of the cooperative banking system.

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Unit 3
Federations

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ explain the origin, objectives, membership, and organisational structure of the National Federation of State Cooperative Banks Ltd. (NAFSCOB)
- ◊ describe the sources of funds, activities, and functions of NAFSCOB in promoting coordination, capacity building, and modernisation of the cooperative banking sector
- ◊ analyse the role of NAFSCOB in strengthening State Cooperative Banks, supporting financial inclusion, and contributing to the sustainable development of the cooperative banking system in India

Prerequisites

Imagine that 15 State Co-operative Banks from different states were working to support farmers and rural communities. Each bank was facing its own challenges such as arranging funds, improving agricultural credit, dealing with regulatory requirements and communicating with government authorities. Although all these banks were working towards a common goal, there was no common national platform through which they could share experiences, discuss problems and present their collective needs.

The leaders of these State Co-operative Banks gradually realised that they could become stronger if they worked together. They needed an organisation that could bring them onto a common platform and represent their interests at the national level. This idea led to the establishment of the National Federation of State Co-operative Banks (NAFSCOB) in 1964.

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NAFSCOB therefore emerged as a national-level federation of State Co-operative Banks, helping them coordinate their activities, exchange information and experiences, and represent common concerns before the Government, RBI, NABARD and other institutions. Thus, the story of NAFSCOB begins with a simple idea: State Co-operative Banks working together can strengthen the entire co-operative banking system.

Keywords

NAFSCOB, SCB, Apex Federation

Discussion

The cooperative banking system in India consists of institutions that work together to provide financial services to rural and urban communities. The National Federation of State Co-operative Banks Ltd. (NAFSCOB) was established on 19 May 1964 to coordinate the work of State Co-operative Banks and speak for them at the national level. It operates from Vashi, Navi Mumbai. NAFSCOB acts as the apex representative body of State Cooperative Banks and promotes the development of the cooperative banking sector through training, policy advocacy, research, consultancy, and coordination among member banks. It serves as a bridge between the Government of India, the Reserve Bank of India (RBI), NABARD, and State Cooperative Banks.

2.3.1 Origin of NAFSCOB

The National Federation of State Cooperative Banks Ltd. (NAFSCOB) was established in 1964 as the national-level federation of State Cooperative Banks in India. It was formed to strengthen the cooperative banking system by promoting coordination among State Cooperative Banks and representing their interests before the Government of India, RBI, NABARD, and other regulatory bodies. Since its establishment, NAFSCOB has played an important role in improving governance, enhancing operational efficiency, developing human resources, and encouraging innovation within the cooperative banking sector. Through continuous interaction with policymakers and member institutions, NAFSCOB has contributed significantly to the modernization and sustainable growth of cooperative banking in India.

NAFSCOB was established on 19 May 1964 and is registered as a multi-State co-operative society. Its head office is at J. K. Chambers, Sector 17, Vashi, Navi Mumbai 400703. The Federation functions through two wings, namely the Planning, Research and Development Division and the Computer Services Division. It publishes annually the compilation Basic Data on Performance of State Co-operative Banks, which is the standard statistical source on the sector.

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2.3.2 Objectives of NAFSCOB

1. To provide a common forum to the member banks to examine the problems of cooperative credit, banking and allied matters and evolve suitable strategies to deal with them
2. Promote and protect the interest of the member banks in all their activities and to give expression to the views of the member banks.
3. Coordinate with Government of India, Reserve Bank of India, respective State Governments, NABARD and other higher financing institutions for the development of cooperative credit on behalf of the member banks
4. Provide research and consultancy inputs to the member banks to facilitate them to strengthen their own organization.
5. Organise conferences, seminars, workshops and meetings to share the views of common interest with a view to contribute to better policy decisions.

2.3.3 Members

1. State Cooperative Banks

NAFSCOB as a National Level Organisation is also member of the following National and International Organisation or Agencies:

1. National Cooperative Union Of India, New Delhi (NCUI)
2. The Indian Society Of Studies in Cooperation, Pune (ISSC)
3. National Film and Fine Arts Cooperative Ltd. New Delhi (NAFFAC)
4. Indian Bank Association, Mumbai(IBA)
5. The Indian Merchant Chamber(IMC)
6. Computer Society Of India CSI)

2.3.4 Organisation Structure of NAFSCOB

The organisational structure consists of :

1. General Body
2. Board Of Directors
3. Executive Committee
4. Chairman
5. Managing Director
6. Deputy Director
7. Assistant Director
8. Other Staffs

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2.3.5 Fund of the Federation

The fund of the federation shall be raised as follows:

1. Annual subscriptions, contributions, service charges.
2. Donations, contributions and grants from members and others
3. Loans from financial institutions and others
4. Income from publications and journals
5. Grants and loans from state Governments, the Central government , national and international organisations.

2.3.6 Activities and Functions

1. To undertake relevant research studies in agriculture and rural credit from time to time and suggest appropriate strategies.
2. To implement a the all India Mutual arrangement scheme evolved in 1967, to facilitate the transfer of funds from one corner of the country
3. To identify, formulate and evaluate the identified projects for the benefits of the member banks.
4. Provides technical guidance and consultancy to member banks on management, technology, and regulatory compliance. It helps banks adopt modern banking practices.
5. Publishes journals, newsletters, reports, and circulars on banking developments.
6. Encourages member banks to adopt modern technology, sound governance, and effective risk management practices. This enhances efficiency and service quality.
7. Works for the growth, modernisation, and sustainability of the cooperative banking system. It strengthens the cooperative movement and improves public confidence in cooperative banks.

Example: The All India Mutual Arrangement Scheme in practice

In 1967, this Scheme was formulated, enabling one State Co-operative Bank to provide accommodation to other States' Co-operative Banks. As such, funds and instruments can flow freely across State borders throughout the co-operative banking sector. For example, if a member of an agricultural primary society located in Kerala received a check from a co-operative bank in Maharashtra, the check would need to go through a commercial bank before being processed (resulting in a time-consuming and costly process). However, under the above-mentioned scheme, the Kerala Bank may present the check to the Maharashtra State Co-operative Bank as per their standing agreement. Similarly, when a State Co-operative Bank has a temporary surplus of funds, they may lend those funds temporarily to a State Co-operative Bank experiencing a short-term funding deficit; neither will require access to the commercial money markets. Thus, the above-described Scheme lends substance to the coordinating function of NAFSCOB as opposed to simply representing its function.

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Other federations in the co-operative banking sector

As stated earlier, NAFSCOB is not the only national federation. The National Federation of Urban Co-operative Banks and Credit Societies Ltd. represents the apex of all urban co-operative banks and credit societies. The National Co-operative Union of India is also the apex organization of the entire co-operative movement. Its main focus area is education, training and public relations. The National Co-operative Development Corporation provides financing for various aspects of co-operative marketing, processing and storage. Although not a federation, NABARD is the apex development bank for agriculture and rural finance and serves as the financier for all of the co-operative credit systems.

The National Federation of State Cooperative Banks Ltd. (NAFSCOB) is the apex federation representing State Cooperative Banks in India. Established in 1964, it plays a vital role in strengthening the cooperative banking system through training, research, consultancy, policy advocacy, and coordination among member banks. NAFSCOB acts as a link between State Cooperative Banks and regulatory authorities such as the Government of India, RBI, and NABARD. It promotes modern banking practices, capacity building, financial inclusion, and the exchange of knowledge among cooperative institutions. Through its various functions, NAFSCOB contributes significantly to the growth, efficiency, and sustainability of the cooperative banking sector and supports the overall development of rural and agricultural finance in India.

Recap

- ◊ NAFSCOB stands for National Federation of State Cooperative Banks Ltd.
- ◊ It was established in 1964 as the apex federation of State Cooperative Banks in India.
- ◊ NAFSCOB represents the interests of State Cooperative Banks before the Government of India, RBI, and NABARD.
- ◊ It provides training, research, consultancy, and policy support to member banks.
- ◊ NAFSCOB promotes coordination, financial inclusion, and modernization of the cooperative banking sector.

Objective Questions

1. What is the apex federation of State Cooperative Banks in India?
2. In which year was NAFSCOB established?

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3. Which institution regulates the banking system with which NAFSCOB coordinates on policy matters?
4. Which apex rural development institution works closely with NAFSCOB?
5. Which type of support is provided by NAFSCOB to improve the knowledge and skills of bank personnel?
6. Which activity carried out by NAFSCOB helps formulate recommendations for the cooperative banking sector?
7. Which service provided by NAFSCOB offers expert professional advice to member banks?
8. Which concept promoted by NAFSCOB aims to provide banking services to all sections of society?

Answers

1. NAFSCOB
2. 1964
3. RBI
4. NABARD
5. Training
6. Research
7. Consultancy
8. Financial Inclusion

Self-Assessment Questions

1. Explain the origin and objectives of NAFSCOB.
2. Discuss the major functions of NAFSCOB.
3. Describe the role of NAFSCOB in strengthening cooperative banking in India.
4. Explain how NAFSCOB promotes training and capacity building in cooperative banks.
5. Discuss the contribution of NAFSCOB to the development of the cooperative banking sector.

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Assignments

1. Explain the origin, objectives, and functions of NAFSCOB in detail.
2. Evaluate the role of NAFSCOB in the development of the cooperative banking system in India.
3. Discuss the importance of NAFSCOB in promoting financial inclusion and rural development.

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BLOCK 3

Co-operative and Non-Co-operative Credit

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Unit 1
Agricultural Co-operative Credit

Learning Outcomes

After completing this unit, learners will be able to:

- ◊ explain the concept, objectives, and significance of Primary Agricultural Cooperative Societies
- ◊ analyze the contribution of PACS and LAMPS to agricultural development and rural finance
- ◊ evaluate the role of cooperative institutions in promoting sustainable agriculture, mobilizing rural savings, and protecting farmers and tribal communities from exploitation

Prerequisite

The cooperative credit system was established to provide affordable and timely financial assistance to farmers and rural households. Institutional credit enables agricultural producers to obtain funds for cultivation, purchase of agricultural inputs, investment in farm equipment, and other productive activities. It also reduces dependence on informal sources of finance such as moneylenders, who often charge high rates of interest. Along with credit, cooperative institutions provide various support services including the supply of agricultural inputs, marketing assistance, storage facilities, savings mobilization, and the implementation of government development programmes.

Agricultural and rural development are closely associated with the availability of accessible financial services and effective institutional support. Cooperative organizations contribute to increasing agricultural productivity, improving rural livelihoods, generating employment, and promoting financial inclusion. Special cooperative institutions have also been established to address the developmental needs of tribal communities by providing credit, marketing facilities,

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consumer services, and welfare support. The structure, objectives, features, and functions of Primary Agricultural Cooperative Societies (PACS) and Large-Sized Adivasi Multipurpose Cooperative Societies (LAMPS) are discussed in this unit.

Keywords

Primary Agricultural Cooperative Society (PACS), Large-Sized Adivasi Multipurpose Cooperative Society (LAMPS), Agricultural Cooperative Credit, Rural Development

Discussion

3.1.1 Introduction to Primary Agricultural Cooperative Societies

Primary Agricultural Cooperative Societies (PACS) are the basic units of the cooperative credit structure in India and play a crucial role in rural development. They are village-level cooperative institutions established to provide financial and non-financial services to farmers and rural households. PACS function as the first point of contact between the rural population and the cooperative banking system. Their primary objective is to provide affordable and timely credit to farmers, thereby reducing their dependence on private moneylenders who often charge exorbitant rates of interest.

The cooperative movement in India began with the enactment of the Cooperative Credit Societies Act of 1904, aimed at improving access to credit for farmers. Since then, PACS have evolved into multipurpose institutions offering a wide range of services, including agricultural loans, distribution of seeds, fertilizers, pesticides, farm equipment, storage facilities, marketing assistance, and implementation of government welfare schemes. PACS are owned and managed by their members and operate on cooperative principles such as voluntary membership, democratic control, mutual help, and service to members.

PACS constitute the lowest tier of the three-tier cooperative credit system. Through this structure, credit and other financial services are effectively delivered to farmers at the grassroots level. PACS have significantly contributed to agricultural growth, financial inclusion, poverty alleviation, and the overall socio-economic development of rural areas. The primary purpose of PACS is to provide short-term and medium-term credit to members for agricultural and allied activities at reasonable interest rates.

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In Kerala, these societies are commonly known as Service Co-operative Banks or Primary Agricultural Credit Societies, and almost every panchayat has one. For most rural households in the State, the Service Co-operative Bank is the nearest banking institution, and for a great many it is the only one at which they hold an account.

PACS do not function in isolation. They form the base of a three-tier structure through which short-term and medium-term co-operative credit reaches the cultivator.

Table 3.1.1 The three-tier structure

Tier	Institution	Level of operation
Upper (apex)	State Co-operative Bank	State
Middle	District Central Co-operative Bank	District
Base	Primary Agricultural Credit Society	Village or panchayat

Funds flow downward through this structure, and repayments flow upward through it. NABARD refinances the State Co-operative Bank, which finances the District Central Co-operative Banks, which in turn finance the primary societies, which lend to the cultivator. Kerala is an exception to the ordinary pattern: in 2019 the State Co-operative Bank and the District Co-operative Banks were amalgamated into a single institution, the Kerala Bank, so that the primary societies in the State are now affiliated directly to it.

3.1.2 Definition

A Primary Agricultural Cooperative Society (PACS) may be defined as a village-level cooperative institution organized by farmers and rural residents for providing credit and other agricultural services to its members on the basis of cooperation and mutual assistance.

In 1995, the International Co-operative Alliance (ICA) defined a co-operative as "an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise." When applied to village society, a PACS can also be considered a voluntary association of persons, mainly cultivators, that unite to meet their common economic needs through a democratically controlled organisation that offers credit, agricultural inputs, and other services.

PACS are registered according to the respective State Cooperative Societies Acts and operate in a geographically limited area. As such, they constitute the first contact point between the rural farmer and the cooperative banking system. The primary goal of a PACS is to enhance the socio-economic status of its members by offering them timely financial assistance, supporting their savings, contributing to the improvement

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of agricultural output and stimulating rural development. Therefore, PACS are essential in improving both the agricultural sector and the quality of life of rural communities

3.1.3 Historical Evolution of PACS

The historical evolution of Primary Agricultural Credit Societies (PACS) in India is closely tied to that of the Indian cooperative movement. In the absence of cooperative societies, farmers had little option but to rely on moneylenders for credit. Moneylenders would typically charge farmers exorbitant rates of interest, thereby forcing many farmers into long-term debt and poverty. To address these issues, the British Government passed the Cooperative Credit Societies Act in 1904, which signalled the birth of the cooperative credit movement in India. This act provided farmers with access to institutional credit at reasonable rates of interest.

The expansion of the cooperative movement continued in 1912 when the Cooperative Societies Act was passed; this law extended the types of cooperative activities allowed beyond credit and permitted various forms of cooperative societies to be formed. Following India's independence, successive governments of India came to realize the potential benefits that cooperatives could bring to agricultural development and rural well-being. The All-India Rural Credit Survey Committee (1954) suggested that the strength of cooperative institutions needed to be enhanced and that all levels of rural credit activity needed to be integrated with agricultural production and marketing. During the time of the Green Revolution, PACS were instrumental in helping farmers access agricultural credit and deliver farm inputs. Consequently, they emerged as key distributors of seeds, fertilizers, pesticides and crop loans. The creation of the National Bank for Agriculture and Rural Development (NABARD) in 1982 reinforced the cooperative credit structure by giving financial backing to and providing policy guidance to cooperatives.

Prof. A. Vaidyanathan chaired the Committee on Revival of the Short-Term Co-operative Credit Structure in 2004. The committee identified the accumulated loss suffered by co-operative credit institutions and proposed a package comprising recapitalization along with legal and institutional reforms. Recommendations put forward by this committee directly influenced much of the aid given to primary societies over recent years and have prompted changes to the State Co-operative Societies Acts.

The 97th Constitutional Amendment Act (2011) has granted constitutionally protected status to co-operatives. It incorporated the right to establish co-operatives as a fundamental right under Article 19(1)(c), included Article 43B among the directive principles mandating states to promote the voluntary establishment, autonomous functioning, democratic direction and professional administration of co-operatives, and established Part IX-B regarding the registration, supervision and dissolution of co-operative societies.

Since its inception on 6 July 2021, the Indian Government has created a new Ministry of Cooperation to create a unique framework for governance and policy formulation for the sector. Two initiatives undertaken since then relate directly to primary societies.

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Firstly, model bye-laws for PACS were circulated in 2023 that allow a society to pursue more than twenty supplementary functions beyond loaning; thus, enabling a society to become a genuine multipurpose village institution. Secondly, a Centrally-Sponsored Scheme for the computerisation of PACS was sanctioned by the Government in June 2022 whereby primary societies will be placed on a single Enterprise Resource Planning Platform and will be connected with NABARD via the upper-tier organizations in the hierarchy. Learners should consult the website of the Ministry of Cooperation for information about the extent of funding available for this project as at present.

Henceforth, PACS have developed from mere credit societies into multi-purpose rural organisations engaged in marketing, storage, distribution of consumer products, provision of community facilities, and implementation of welfare programs sponsored by Governments. Currently, they continue to function as the foundation stone for the rural cooperative credit system and contribute significantly to developing agriculture and rural areas.

3.1.4 Objectives of Primary Agricultural Credit Societies (PACS)

1. Providing Agricultural Credit

The primary objective of PACS is to provide timely and affordable credit to farmers for agricultural activities. These loans are generally offered for short-term and medium-term requirements such as purchasing seeds, fertilizers, pesticides, irrigation equipment, livestock, and agricultural machinery. PACS charge lower interest rates compared to private moneylenders, making credit more accessible to small and marginal farmers. By ensuring the availability of institutional finance, PACS help farmers avoid financial distress and continue agricultural production without interruption. Timely credit also enables farmers to adopt better farming practices and improve crop yields.

2. Promoting Agricultural Development

PACS play a significant role in promoting agricultural development by supporting farmers with financial assistance and essential agricultural services. They encourage the adoption of modern farming methods, improved seeds, mechanization, and scientific cultivation practices. By providing timely credit and agricultural inputs, PACS help increase farm productivity and agricultural income. They also promote sustainable farming practices that improve soil health and conserve natural resources.

3. Encouraging Savings

PACS encourage their members to develop the habit of saving regularly by accepting deposits from farmers and rural households. These savings help members build financial security and prepare for future emergencies or investment needs. The deposits collected by PACS are utilized to provide loans and other financial services to members, thereby mobilizing local resources for productive purposes. Savings also reduce dependence on external borrowings and strengthen the financial position of the society. Through this practice, PACS promote financial discipline and inclusion in rural communities.

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4. Supplying Agricultural Inputs

PACS ensure the timely supply of essential agricultural inputs such as quality seeds, fertilizers, pesticides, farm tools, and agricultural equipment. They procure these inputs in bulk and distribute them to members at reasonable and affordable prices. This helps farmers obtain genuine products and reduces the chances of purchasing low-quality or counterfeit inputs from private dealers. The availability of quality inputs at the right time improves crop productivity and agricultural efficiency. By supplying agricultural inputs, PACS support successful farming operations and enhance overall agricultural output.

5. Protecting Farmers from Exploitation

One of the major objectives of PACS is to protect farmers from exploitation by private moneylenders, traders, and intermediaries. Many rural farmers face financial difficulties due to high-interest loans offered by informal lenders. PACS provide affordable institutional credit, reducing farmers' dependence on such exploitative sources of finance. They also help members access government benefits and subsidies without unnecessary intermediaries. This improves the financial stability of farmers and protects them from excessive indebtedness and unfair trade practices.

6. Assisting in Marketing of Produce

PACS assist farmers in marketing their agricultural produce by providing better market access and reducing the role of intermediaries. They help farmers collect, store, grade, and transport agricultural products to suitable markets. In some cases, PACS facilitate collective marketing, enabling farmers to negotiate better prices for their produce. By ensuring fair prices, PACS increase farmers' income and reduce post-harvest losses. Efficient marketing support also encourages farmers to improve production and participate actively in agricultural markets.

7. Supporting Rural Development

PACS contribute significantly to rural development by improving the economic and social conditions of rural communities. They generate employment opportunities through agricultural and allied activities supported by cooperative finance. PACS also encourage entrepreneurship, self-employment, and income-generating activities in villages. By improving access to credit, inputs, and marketing facilities, they enhance the standard of living of rural people. Their activities support balanced rural development and reduce poverty in agricultural areas.

3.1.5 Features of Primary Agricultural Credit Societies (PACS)

1. Village-Level Organization

PACS function at the grassroots level and usually cover a single village or a group of nearby villages. Their local presence enables them to understand the needs, problems, and financial requirements of rural farmers more effectively. Since the members and office bearers belong to the same locality, communication is easy, and decisions can

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be taken quickly. This close relationship helps PACS provide timely financial and non-financial services. The village-level structure also promotes trust and active participation among members.

2. Voluntary Membership

Membership in PACS is open to all eligible individuals residing within the society's area of operation. People become members voluntarily by purchasing the required number of shares and agreeing to follow the society's bylaws. No person is forced to join or remain a member of the society. This voluntary nature promotes a sense of ownership, responsibility, and commitment among members. It also reflects one of the fundamental principles of the cooperative movement.

3. Democratic Management

PACS are managed according to democratic principles, ensuring equal participation of all members. Every member has one vote regardless of the number of shares owned, following the principle of "one member, one vote." The members elect a managing committee to oversee the administration and day-to-day activities of the society. Important decisions are taken collectively during general body meetings. This democratic system ensures transparency, accountability, and fairness in the functioning of PACS.

Example: What the society saves the cultivator

Rajan cultivates one and a quarter acre of paddy in Palakkad district and is a member of the Service Co-operative Bank in his panchayat. For the punja season he needs money for seed, fertiliser, ploughing and wages.

The scale of finance for paddy is fixed each year by the District Level Technical Committee. Taking it at Rs 45,000 an acre, Rajan's credit limit works out to about Rs 54,000. The society issues him a Kisan Credit Card for that limit, and he draws on it as the season requires. Interest on a crop loan of this size is charged at seven per cent a year, and if he repays on the due date he receives a further concession of three per cent, bringing the effective rate down to four. Had he gone instead to a private lender in the market, he would have paid the customary three rupees a hundred a month, that is thirty-six per cent a year.

Table 3.1.2 Borrowing from co-operative bank Vs private money lender

	Through the Service Co-operative Bank	Through a private moneylender
Amount borrowed	Rs 54,000	Rs 54,000
Rate of interest	7% a year, reduced to 4% on prompt repayment	3% a month, that is 36% a year
Interest for one season of six months	about Rs 1,080	about Rs 9,720
Difference	Rs 8,640 retained by the cultivator	

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The difference of Rs 8,640 is not an abstraction. It is roughly the cost of a season's fertiliser for the same holding. This is what is meant when it is said that the co-operative society protects the cultivator from exploitation: not that it gives him money, but that it leaves the surplus of his own labour in his own hands. The figures used here are illustrative; the scale of finance and the rates of interest should be taken from the notification current for the year.

4. Service-Oriented Institution

The primary objective of PACS is to provide services to members rather than maximize profits. They offer affordable credit, agricultural inputs, marketing support, and other essential services to improve the welfare of farmers. Any surplus earned by the society is generally reinvested for the benefit of members or distributed according to cooperative principles. The focus remains on improving members' economic and social conditions rather than generating high profits. This service-oriented approach distinguishes PACS from commercial financial institutions.

5. Limited Area of Operation

Each PACS operates within a clearly defined geographical area, usually consisting of one or a few villages. Limiting the area of operation enables the society to maintain close contact with its members and understand local agricultural conditions. It also makes supervision, loan recovery, and service delivery more efficient. The small operational area allows quick identification of members' needs and problems. This feature improves administrative efficiency and strengthens member relationships.

6. Cooperative Ownership

PACS are collectively owned by their members, who contribute share capital to establish and operate the society. Every member has a sense of ownership and responsibility towards the success of the cooperative. Members participate actively in decision-making, policy formulation, and management through democratic elections. Since ownership is shared, the benefits and responsibilities are also shared among members. This cooperative ownership encourages collective growth, trust, and long-term sustainability.

7. Credit and Non-Credit Functions

PACS perform both financial and non-financial functions to meet the diverse needs of rural communities. Their primary credit function is to provide short-term and medium-term loans for agricultural and allied activities. In addition, they supply quality seeds, fertilizers, pesticides, consumer goods, and farming equipment to members. Many PACS also provide storage facilities, marketing assistance, crop insurance support, and financial inclusion services. These multiple functions make PACS comprehensive service institutions for rural development.

8. Self-Help and Mutual Assistance

PACS are founded on the cooperative principles of self-help, mutual assistance, and collective responsibility. Members work together to solve common economic and social

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problems through cooperation rather than individual efforts. The society encourages members to support one another during financial difficulties and agricultural challenges. Cooperation strengthens unity and creates a sense of belonging among members. This spirit of cooperation contributes to the long-term success and stability of the society.

10. Contribution to Rural Development

PACS play an important role in promoting the overall development of rural areas. By providing affordable credit, agricultural inputs, and marketing support, they improve agricultural productivity and farmers' incomes. They also promote financial inclusion by extending banking services to rural populations that often lack access to commercial banks. PACS help create employment opportunities, reduce poverty, and improve the standard of living in villages. Their contribution extends beyond agriculture, making them key institutions for sustainable rural and economic development.

3.1.6 Agricultural Cooperative Credit by PACS

Agricultural cooperative credit is one of the most important services provided by Primary Agricultural Cooperative Societies (PACS). PACS are village-level cooperative institutions established to provide financial assistance to farmers and rural households for agricultural and allied activities. They form the foundation of the cooperative credit structure in India and serve as the primary link between farmers and the cooperative banking system. The main objective of agricultural cooperative credit is to ensure that farmers have access to adequate and timely funds at reasonable interest rates, thereby reducing their dependence on private moneylenders.

PACS provide different types of agricultural loans based on the needs of farmers. Short-term loans are granted for seasonal agricultural operations such as purchasing seeds, fertilizers, pesticides, and paying labor charges. These loans are generally repayable after the harvest. Medium-term loans are provided for purchasing agricultural machinery, livestock, irrigation equipment, and land improvement activities. In some cases, farmers can also obtain long-term credit through cooperative institutions for major agricultural investments.

The financial resources of PACS come from members' share capital, deposits collected from members and the public, reserve funds, and borrowings from District Central Cooperative Banks (DCCBs). Through this system, PACS can mobilize rural savings and channel them into productive agricultural activities. Since PACS operate at the village level, they have better knowledge of local conditions and can assess the credit needs of farmers more effectively.

Agricultural cooperative credit plays a significant role in promoting agricultural development. Timely credit enables farmers to purchase quality inputs, adopt modern farming methods, use advanced technology, and improve productivity. It also helps farmers meet unexpected expenses arising from natural calamities, crop failures, or market fluctuations. By offering credit at affordable rates, PACS protect farmers from exploitation by moneylenders who often charge excessive interest.

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Apart from lending, PACS often integrate credit with the supply of agricultural inputs and marketing support. This comprehensive approach ensures that farmers receive both financial and technical assistance. Agricultural cooperative credit also contributes to financial inclusion by bringing banking services closer to rural communities.

Despite challenges such as inadequate capital, loan defaults, and management issues, PACS continue to play a crucial role in rural finance. Their contribution to agricultural production, rural development, poverty reduction, and the economic empowerment of farmers makes them an indispensable part of India's agricultural and cooperative sector. Thus, agricultural cooperative credit through PACS remains a vital instrument for achieving sustainable agricultural growth and rural prosperity.

3.1.7 Large-Sized Adivasi Multipurpose Cooperative Societies (LAMPS)

Large-Sized Adivasi Multipurpose Cooperative Societies (LAMPS) are cooperative organizations established for the welfare of tribal communities. They provide financial, marketing, and consumer services to tribal people living in rural and forest areas. These societies help improve the economic and social conditions of tribal families. LAMPS work on cooperative principles of mutual help and democratic management. They play an important role in tribal development and rural upliftment. They are called multipurpose because they provide several services under one organization. Their activities include credit, marketing, supply of goods, storage, and welfare services. LAMPS aim to improve the living standards of tribal communities.

LAMPS were established based on recommendations of the Government of India study team on cooperative structures in tribal areas headed by Mr. Bawa in 1971. The team determined that regular primary societies were inappropriate for use in tribal regions due to several factors: in these regions, households require both consumption and production credits; most commercial products are collected from forests rather than farmed; and traders providing cash for products typically provide loans to those same producers. Based upon these findings, the study team concluded that it would be beneficial for the entire region to have one large society to serve as the sole financial institution in that area, while also being responsible for procuring and selling products from the region. These types of cooperatives began to emerge starting in 1972. Cooperatives are usually comprised of residents of scheduled tribe communities. The scope of each cooperative can range from just one tribal region to multiple villages within a single taluk. The broader picture. The work conducted by the cooperatives described above should be viewed as part of a larger body of work and regulatory actions taken over the past 30 years related to tribal rights: the Panchayat Extension to the Scheduled Areas Act of 1996, which expanded local governance to scheduled tribes; the Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act of 2006, which recognized the right of individuals living in forests to gather and dispose of minor forest products; and TRIFED's efforts along with Van Dhan Vikas Kendras to add value to and promote sales of forest-based products. The majority of these regulatory frameworks are implemented locally through the cooperative model, allowing many of the benefits of this framework to reach the individual tribal households.

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In Kerala, this function has been fulfilled primarily by Girijan Service Co-operative Societies located in tribal areas such as Wayanad, Attappady and Idukki, as well as the SC/ST Federation at the state-level, and not through entities known as LAMPS. As mentioned previously, the method of organization varies by state, so students need to research what type of organization exists in their respective districts.

3.1.8 Objectives of LAMPS

1. Providing Credit Facilities

LAMPS provide loans to tribal members for agriculture, animal husbandry and small businesses. These loans help members start or expand income-generating activities. The credit is provided at reasonable interest rates. It reduces dependence on private moneylenders. Timely credit helps improve the economic condition of tribal families.

2. Eliminating Exploitation

Tribal people are often exploited by moneylenders and middlemen. LAMPS protect them by providing fair financial and marketing services. Members can borrow money at lower interest rates. They also receive fair prices for their products. This helps improve their financial security and independence.

3. Marketing Tribal Produce

LAMPS assist tribal people in selling agricultural and forest products. They collect products and market them on behalf of members. This reduces the role of middlemen in the marketing process. Members receive better prices for their goods. As a result, their income and standard of living improve.

4. Supplying Essential Commodities

LAMPS supply essential goods such as food items, clothing, and household products. These goods are provided at reasonable prices. This is especially useful in remote tribal areas where markets are not easily accessible. It ensures the availability of quality products. Members benefit from affordable consumer services.

5. Promoting Economic Development

LAMPS encourage activities that generate income and employment. They support agriculture, cottage industries, handicrafts, and small businesses. Such activities increase the earnings of tribal families. Economic development improves living standards and reduces poverty. Thus, LAMPS contribute to the overall growth of tribal communities.

6. Encouraging Savings

LAMPS motivate members to save a part of their income regularly. Savings help members meet future financial needs and emergencies. The society may offer different deposit schemes for members. Savings also increase the financial resources of the cooperative. This promotes financial discipline among tribal people.

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7. Supporting Government Programs

LAMPS help implement government welfare and development schemes in tribal areas. They act as a link between the government and tribal communities. Benefits such as subsidies, grants, and welfare assistance are distributed through these societies. They also create awareness about government programs. This ensures that tribal people receive the benefits intended for them.

3.1.9 Features of LAMPS

1. Tribal-Oriented Institutions

LAMPS are specifically established to serve tribal communities. Their services are designed according to the needs of tribal people. They focus on improving the economic and social conditions of tribal families. The societies work for the welfare of tribal members. Therefore, they are considered tribal-oriented institutions.

2. Multipurpose Nature

LAMPS perform many functions under one organization. They provide credit, marketing support, consumer goods, and storage facilities. Members can access various services from a single institution. This makes the society more useful and efficient. The multipurpose nature helps meet different needs of tribal communities.

3. Large Area of Operation

LAMPS generally cover a large geographical area consisting of several villages. They serve a large number of tribal members. This wider coverage helps extend cooperative services to more people. It also increases the effectiveness of development programs. As a result, more tribal families benefit from the society.

4. Democratic Management

LAMPS are managed according to democratic principles. Members elect representatives to manage the society. Every member has the right to participate in decision-making. Important decisions are taken collectively. This ensures transparency and accountability in management.

5. Cooperative Principles

LAMPS operate on the principles of self-help, mutual assistance, and equality. Members work together for their common benefit. Each member has equal rights and responsibilities. The society promotes cooperation rather than competition. These principles strengthen unity among members.

6. Development-Oriented Approach

The main objective of LAMPS is community development rather than profit-earning. They focus on improving the welfare of tribal people. Various economic and social development activities are undertaken. The benefits are shared among members. This approach helps promote inclusive growth.

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3.1.10 Organizational Structure of LAMPS

General Body

The General Body consists of all members of the society. It is the highest authority in LAMPS. The General Body elects the Managing Committee and approves major decisions. It reviews the performance of the society regularly. Democratic control is ensured through the General Body.

Managing Committee

The Managing Committee is elected by the General Body. It manages the affairs and activities of the society. The committee formulates policies and supervises operations. It ensures proper implementation of programs and services. The committee is accountable to the members.

President

The President is the head of the society. They preside over meetings and guides the activities of LAMPS. The President ensures smooth functioning of the organization. Leadership and coordination are important responsibilities. The President represents the society in external matters.

Secretary

The Secretary manages the day-to-day administration of the society. They maintain records, accounts, and official documents. The Secretary implements decisions taken by the Managing Committee. The Secretary also handles communication with members. Efficient administration depends greatly on the Secretary's work.

Staff

The staff members assist in various operational activities. They help in accounting, loan processing, marketing, and customer services. Staff members ensure that services are delivered efficiently. They support the management in implementing programs. Their contribution is essential for the smooth functioning of LAMPS.

3.1.11 Functions of LAMPS

1. Credit Functions

LAMPS provide loans for farming, livestock rearing, fisheries, and small businesses. Credit helps members invest in productive activities. Loans are provided at affordable interest rates. This reduces dependence on moneylenders. Credit facilities contribute to income generation and development.

2. Marketing Functions

LAMPS help members market their agricultural and forest products. They collect products and arrange their sale in suitable markets. Better marketing facilities help members obtain fair prices. This increases their income and reduces exploitation. Marketing support is a major function of LAMPS.

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3. Supply of Agricultural Inputs

LAMPS provide seeds, fertilizers, pesticides, and farming tools. These inputs are essential for improving agricultural production. Members receive quality products at reasonable prices. Timely availability of inputs helps increase crop yields. This contributes to agricultural development.

4. Consumer Services

LAMPS operate consumer stores for tribal communities. These stores supply essential goods required for daily life. Products are made available at fair and affordable prices. Consumer services reduce dependence on private traders. They improve the quality of life of members.

5. Storage Facilities

LAMPS provide storage facilities for agricultural and forest produce. Proper storage prevents damage and spoilage of goods. Members can store products until market prices improve. This helps them earn better returns. Storage facilities reduce post-harvest losses.

6. Procurement of Minor Forest Produce

LAMPS purchase forest products collected by tribal people. Products such as honey, bamboo, tamarind, and medicinal plants are procured. Members receive fair prices for these products. The society then markets them effectively. This provides an important source of income to tribal families.

Example: Honey and Gooseberry - Middleman Removed

A family residing in a remote tribal settlement in Wayanad collects approximately 40 kg of wild honey per season and 60 kg of gooseberries. A merchant visits the community during the harvest season and offers to purchase the honey for Rs. 120/kg and the gooseberries for Rs. 15/kg for a total of Rs. 5,700. Additionally, he lends money to the family against future harvests and thus ties them to purchasing from him at whatever price he sets when he returns for another year's crop.

If the same amount of product is sold directly to the tribal co-op society, it is measured, evaluated and priced according to government-established procurement prices, i.e., Rs. 200/honey and Rs. 25/gooseberry, totalling Rs. 9,500. Subsequently, the co-op society packages, bottles and sells the product and, after concluding its fiscal year, distributes some portion of any surplus funds back to members who provided it.

The approximate difference of almost Rs. 4,000 per year represents a small portion of the benefit. However, freedom from being bound by a loan to a single vendor is a less tangible yet potentially larger long-term benefit. The prices presented are merely examples and should be compared against current procurement prices for similar products during that time frame.

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7. Promotion of Tribal Industries

LAMPS encourage handicrafts, handlooms, and cottage industries. These activities create employment opportunities in tribal areas. Members can utilize their traditional skills for income generation. The societies provide support for production and marketing. This promotes economic self-reliance among tribal communities.

8. Implementation of Government Schemes

LAMPS help implement various government welfare schemes. They distribute subsidies, grants, and financial assistance to eligible beneficiaries. The societies also spread awareness about government programs. This ensures that benefits reach tribal communities effectively. As a result, development initiatives become more successful

3.1.12 Distinction between PACS and LAMPS

Both are primary co-operative societies working at the base of the structure, and both combine credit with other services. They differ in the community they serve, in the area they cover and in the emphasis of their work.

Table 3.1.3 Distinction between PACS and LAMPS

Basis	Primary Agricultural Credit Society	Large-Sized Adivasi Multipurpose Society
Established for	Cultivators and rural households generally	Members of Scheduled Tribe communities
Origin	The co-operative credit movement from 1904 onwards	On the recommendation of the Bawa study team, 1971; organised from 1972
Area of operation	A village or a group of neighbouring villages	Ordinarily a taluk or a whole tribal tract
Membership	Open to all eligible residents of the area	Ordinarily restricted to Scheduled Tribe members
Principal function	Short and medium term credit with supply of inputs	Credit together with procurement and marketing of minor forest produce
Distinctive function	Crop loans through the Kisan Credit Card	Procurement of honey, gooseberry, bamboo, tamarind and medicinal plants
Consumption credit	Limited	Provided, as tribal households need it between collections
Higher financing agency	District Central Co-operative Bank; in Kerala, the Kerala Bank	The district or State tribal co-operative federation, with the co-operative banking structure
Public assistance	Recapitalisation and computerisation assistance	Assistance under the Tribal Sub Plan and minor forest produce schemes

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Recap

- ◊ PACS are the foundation of the cooperative credit structure in India.
- ◊ PACS provide affordable credit to farmers.
- ◊ PACS provide both credit and non-credit services
- ◊ The Secretary manages the day-to-day administration of the society.
- ◊ PACS supply agricultural inputs at reasonable prices.
- ◊ LAMPS are established primarily for tribal communities.
- ◊ LAMPS provide credit and marketing facilities to tribal members.
- ◊ The President is the head of the society
- ◊ LAMPS promote tribal economic development.
- ◊ LAMPS operate on democratic and cooperative principles.

Objective Questions

1. What does PACS stand for?
2. At which level do Primary Agricultural Cooperative Societies operate?
3. What is the primary objective of PACS?
4. Which Act marked the beginning of the cooperative credit movement in India?
5. Which cooperative principle ensures equal voting rights for all members?
6. What is the main source of ownership in PACS?
7. Who are the primary beneficiaries of LAMPS?
8. What does LAMPS stand for?
9. Which is the highest authority in LAMPS?
10. Who manages the day-to-day administration of LAMPS?

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Answers

1. Primary Agricultural Cooperative Society.
2. Village level.
3. To provide timely and affordable agricultural credit to farmers.
4. Cooperative Credit Societies Act, 1904.
5. One member, one vote.
6. Share capital contributed by members.
7. Tribal communities.
8. Large-Sized Adivasi Multipurpose Cooperative Society.
9. Answer: General Body.
10. Secretary.

Self-Assessment Questions

1. Explain the objectives of PACS.
2. Describe the important features of PACS.
3. Discuss the role of PACS in agricultural development.
4. Explain the concept of agricultural cooperative credit.
5. Describe the sources of finance available to PACS.
6. Explain the objectives of LAMPS.
7. Describe the features of LAMPS.
8. Discuss the functions performed by LAMPS.
9. Explain how cooperative institutions promote financial inclusion.
10. Evaluate the contribution of PACS and LAMPS to rural and tribal development.

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Assignments

1. Visit a cooperative institution and identify the cooperative principles followed in its functioning.
2. Prepare a case study on the contribution of PACS to rural development in your locality.
3. Identify the government welfare schemes implemented through PACS or LAMPS in your district.
4. Analyze the challenges faced by PACS and LAMPS and suggest suitable remedies

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Unit 2

Business Development Plan

Learning Outcomes

After completing this unit, learners will be able to:

- describe the meaning, nature, features, and significance of long-term credit
- explain the role of long-term credit in promoting capital formation, business expansion, and sustainable economic development
- evaluate the contribution of long-term credit to entrepreneurship, infrastructure development, and rural prosperity

Prerequisites

A basic understanding of finance, business planning, and agricultural development provides the foundation for studying Business Development Plans and Long-Term Credit. Business organizations require financial resources to establish, expand, modernize, and sustain their operations. Financial requirements vary according to the nature, size, and objectives of an enterprise, making proper planning essential for effective utilization of resources.

Credit is an important source of finance that enables individuals and organizations to undertake productive activities without depending solely on their own funds. Depending on the repayment period and purpose, credit may be classified into short-term, medium-term, and long-term credit. Long-term credit is generally required for acquiring fixed assets, expanding business operations, developing infrastructure, purchasing machinery, and undertaking projects that generate benefits over an extended period.

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A Business Development Plan is a systematic document that outlines the objectives, strategies, financial requirements, implementation process, and expected outcomes of a business or development project. Such planning helps institutions allocate resources efficiently, assess risks, and achieve sustainable growth. In the agricultural and cooperative sectors, business planning and long-term credit play a significant role in promoting investment, increasing productivity, generating employment, and improving rural livelihoods. An understanding of these concepts provides the necessary background for studying the characteristics, importance, and applications of long-term credit in business and agricultural development.

Keywords

Business Development Plan, Long-Term Credit, Capital Investment, Infrastructure Development

Discussion

3.2.1 Business Development Planning: Purpose and Demand:

Business Development Plans (BDPs) are a written description of what a company plans to accomplish within a certain timeframe; how they intend to achieve those objectives; what resources are needed to achieve them; and what results are anticipated. A BDP transforms an intent into something tangible that can be assessed, reviewed and funded. Whether a farmer intends to develop a dairy unit, a young entrepreneur to establish an agro-processing centre, or a cooperative society to open a warehouse, the plan functions similarly: it obliges the proponent to thoroughly evaluate their proposal before committing financial resources.

Three different areas necessitate the preparation of a BDP. The proponent requires a BDP to compare their concept using numbers versus relying on hopes. A BDP allows the proponent to determine early during the planning phase that the profit margin is insufficient rather than learning later in the second year. The lender requires a BDP to assess whether the proponent has prepared a feasible proposal and whether the proposal has sufficient cash flow to repay the requested loan. Since most long-term loans are repaid through income generated by the investment rather than through collateral, the lender wants to assess both feasibility and repayment potential. Lastly, government programs and development schemes require a BDP to verify that public funds are being utilized effectively. A proposal submitted to a banker without a BDP is essentially unassessable. Unlike a simple cost estimate, a BDP evaluates the entire lifecycle of the investment. In addition to stating the estimated costs of acquiring the asset, a BDP provides information regarding the

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anticipated income from the asset; estimated operating expenses associated with maintaining the asset; when the asset will begin producing revenue; and from what excess revenue will be used to fund instalment payments.

3.2.2 Elements of a Business Development Plan

Executive Summary - Brief summary of the proposal, including total cost, funding requested, and desired outcomes; Enterprise Description - What the enterprise produces or does, location of operation, experience/training/standing of promoters; Market Analysis - Who buys product/service, at what price, through what sales channels, and competitive analysis. This also includes the seasonal fluctuations in commodity prices relevant to agricultural products;

Technical Plan - Land/building/machinery/livestock/planting materials necessary for the project, type of technology proposed, source(s) of equipment/supplies, and availability of technical expertise;

Organizational Structure and Management - Who will manage the enterprise? What personnel will be employed? How will tasks be assigned? Financial Plan - Total cost of developing the project unit, methods of financing showing promoter's equity and amount of loan requested, forecasted net income and expenditures over duration of loan; Debt Service Repayment Plan - Proposed payment installments, any moratoriums included, and debt service coverage ratios; Implementation Schedule - Stages of project development and timing for completion of each stage; Risk Assessment/Safeguards - Principal risk factors identified as threats to success (seasonal variations/disease/price/market), measures proposed to mitigate these risks (insurance);

3.2.3 Business Development Plan of Cooperative Institutions:

Similar to other businesses, co-operatives develop business development plans for similar purposes and with similar elements. However, there are two key differences. First, all co-operative business development plans must be approved by the managing committee and, if the proposed activity represents a departure from traditional activities, presented to the membership body for approval since members have ownership in the co-operative. Second, co-operative business development plans must demonstrate how the proposed activities will benefit members, not simply provide additional surpluses for members. Members expect that a co-operative will exist to meet their needs. In developing a business development plan for adding a storage facility (godown); fair price store; custom hiring center for farm machinery; or primary processing unit, Primary Agricultural Credit Societies (PACS) will include: requirements of members; cost of facility; methods of financing including any central/state scheme subsidies available; forecasted earnings and losses; and impact of new facility on existing operations. Financing support for projects of this nature is provided to PACS under the Agriculture Infrastructure Fund established in 2020 for post-harvest management infrastructure and community farming assets. Under this program, eligible applicants receive an interest subsidy on term loans. To obtain this financing support, PACS must submit a business development plan consistent with the specified format.

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3.2.4 Nature of Long-Term Credit

Long-term credit possesses several unique characteristics that distinguish it from short-term and medium-term credit. These characteristics make it suitable for financing investments that provide benefits over many years.

One important characteristic is its long repayment period. Unlike short-term loans, which are usually repaid within one year, long-term loans allow borrowers sufficient time to repay the borrowed amount. Repayment schedules are designed according to the income generated from the investment, reducing financial pressure on borrowers.

Long-term credit is mainly used for capital formation. Capital formation refers to the creation of productive assets that increase future income. Farmers use long-term loans to purchase tractors, harvesters, irrigation systems, dairy animals, orchards, farm buildings, warehouses, and land improvements. These assets continue to generate income for several years.

Another important feature of long-term credit is that it is generally asset-oriented. Financial institutions provide these loans for acquiring or improving fixed assets rather than meeting daily operational expenses. Since the assets themselves contribute to increased productivity, they help borrowers repay the loan over time.

Long-term credit also contributes significantly to economic development. By financing productive investments, it increases agricultural productivity, employment opportunities, rural income, food production, and overall economic growth. It supports technological advancement and encourages farmers to adopt modern agricultural practices.

Another important aspect is that long-term credit supports sustainable agricultural development. Investments in soil conservation, watershed development, irrigation, renewable energy, farm mechanization, and post-harvest infrastructure improve agricultural productivity while protecting natural resources.

3.2.5 Features of Long-Term Credit

Long-term credit has several important features that make it suitable for financing permanent investments and promoting economic development.

1. Long Repayment Period

The most important feature of long-term credit is its extended repayment period. Loans generally range from five to twenty years or even longer depending on the nature of the investment. The longer repayment period allows borrowers to generate income from the investment before repaying the loan.

2. Used for Capital Investment

Long-term loans are mainly used to purchase fixed assets and create productive infrastructure. Farmers invest these loans in tractors, farm machinery, irrigation systems, orchards, plantations, dairy farms, warehouses, land development, and agricultural processing units.

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3. Creation of Permanent Assets

Unlike short-term credit, which finances recurring expenses, long-term credit creates permanent assets that continue generating income over many years. These assets improve production efficiency and increase long-term profitability.

4. Larger Loan Amount

Long-term credit generally involves larger amounts because investment projects require substantial capital. Financial institutions determine the loan amount based on project cost, borrower contribution, and repayment capacity.

5. Secured Loans

Most long-term loans require collateral security such as agricultural land, buildings, machinery, or other valuable assets. Security protects lenders against the risk of default and enables borrowers to obtain larger loans.

6. Lower Repayment Burden

Repayment is spread over several years through annual, half-yearly, or monthly instalments. This reduces the financial burden on borrowers and allows them to repay according to the income generated by the investment.

7. Moderate Interest Rate

Institutional long-term credit generally carries moderate interest rates compared to loans from informal moneylenders. Government policies and subsidies often make agricultural long-term credit more affordable.

8. Income-Generating Purpose

Long-term loans are sanctioned only for productive purposes that increase future income. Financial institutions expect the investment itself to generate sufficient returns for loan repayment.

9. Technical Evaluation

Banks conduct detailed appraisal before sanctioning loans. They assess project feasibility, cost estimates, expected income, market demand, technical suitability, and repayment capacity to minimize lending risk.

10. Continuous Monitoring

Financial institutions regularly inspect projects after loan disbursement. Monitoring ensures that the funds are properly utilized and helps identify implementation problems at an early stage.

11. Supports Agricultural Modernization

Long-term credit enables farmers to adopt advanced technologies, mechanized farming, improved irrigation systems, scientific cultivation methods, and post-harvest facilities. These investments increase productivity and profitability.

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12. Promotes Rural Development

By financing agriculture, allied activities, and rural enterprises, long-term credit creates employment, improves infrastructure, increases rural income, and enhances the overall standard of living in rural areas.

13. Encourages Entrepreneurship

Long-term finance supports entrepreneurs in establishing dairy farms, poultry units, fisheries, agro-processing industries, cold storage facilities, and rural small-scale industries. This promotes self-employment and rural industrialization.

14. Flexible Repayment Schedule

Repayment schedules are designed according to the nature of the investment and expected cash flow. For example, plantation crops may receive a longer grace period because they require several years before generating income.

15. Institutional Support

Long-term credit is provided mainly by cooperative agriculture and rural development banks, commercial banks, regional rural banks, and refinance institutions such as NABARD. These institutions also provide technical guidance, monitoring, and developmental support

3.2.6 Classification of Agricultural Credit by Period

Agricultural credit is classified by the period for which it is granted, and the period in turn follows from the purpose. The three classes may be compared as follows.

Table 3.2.1 Classification of Agricultural Credit by Period

Basis	Short term	Medium term	Long term
Period	Up to fifteen months	Fifteen months to five years	Above five years
Purpose	Seed, fertiliser, pesticide, wages, current expenses	Livestock, small implements, minor improvements, repairs	Land development, irrigation, machinery, plantations, buildings
Nature of the outlay	Working capital	Partly working and partly capital	Capital
Security	Crop or personal surety	Hypothecation of the asset, or surety	Mortgage of land
Chief source	PACS and commercial banks	PACS, commercial banks and regional rural banks	PCARD Banks, commercial banks and NABARD refinance
Repayment	From the sale of the crop financed	In instalments over a few years	In instalments over many years, often after a moratorium

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3.2.7 Sources of Long-Term Credit

Co-operative agriculture and rural development banks. These are the institutions established for the express purpose of long-term agricultural lending. In the federal pattern, the Primary Co-operative Agricultural and Rural Development Banks lend at taluk level, and the State bank stands at the apex. They are dealt with in Units 3 and 4.

Commercial banks. Since the nationalisation of the major banks in 1969 and the extension of the priority sector obligation, commercial banks have become substantial lenders for farm mechanisation, irrigation, plantation, dairy and agro-processing.

Regional rural banks. Established from 1975 to serve the small and marginal farmer, the artisan and the agricultural labourer, these banks provide both production and investment credit in their areas of operation.

NABARD. NABARD does not ordinarily lend to the cultivator directly. It refinances the institutions that do, and in that capacity is the principal source of long-term funds for the whole structure. It also administers the Rural Infrastructure Development Fund and similar funds for infrastructure.

Non-institutional sources. Moneylenders, traders, landlords and relatives continue to supply a part of rural investment finance, particularly to tenant cultivators and others who cannot offer land as security. The terms are generally harder, and the objective of institutional credit is to displace them.

3.2.8 Importance of Long-Term Credit

Long-term credit plays a crucial role in agricultural and rural development. It enables farmers to invest in productive assets, modern technology, irrigation, land improvement, and farm mechanization. It increases agricultural productivity, promotes diversification into allied activities such as dairy and fisheries, generates employment, improves rural infrastructure, and raises farmers' income. Long-term credit also encourages sustainable farming practices, enhances food security, reduces dependence on informal moneylenders, and contributes to overall economic growth. By supporting capital formation and technological advancement, it strengthens the agricultural sector and improves the quality of life in rural communities.

Long-term credit is an essential component of agricultural and rural finance because it provides the financial resources needed for creating permanent productive assets. Its origin can be traced to the growing need for institutional finance to replace costly informal borrowing and support agricultural modernization. In India, the development of cooperative institutions, Land Development Banks, commercial banks, and the establishment of NABARD significantly strengthened the long-term rural credit system. The nature of long-term credit lies in its focus on capital formation, long repayment periods, productive investment, and institutional supervision. Its features—including extended repayment, larger loan amounts, collateral security, project appraisal, flexible repayment schedules, and support for rural development—make it an indispensable instrument for promoting agricultural productivity, rural entrepreneurship, and sustainable economic development.

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3.2.9 Limitations and Risks of Long-Term Credit

Long-term credit is an instrument, and like every instrument it has its limits. A balanced study must notice them. A long obligation on an uncertain income. The instalments run for many years, but agricultural income fluctuates with the season, the weather and the market. A borrower who has committed himself on the strength of a good year may find the instalment beyond him in a bad one.

The requirement of security. Because these loans are secured on land, they are in practice available only to those who own land and can produce a clear title. Tenant cultivators, share croppers, landless labourers and those whose title is disputed are largely excluded, although their need for investment finance may be as great.

The risk of the gestation period. Where the investment takes years to come into production, as with a plantation, a great deal can go wrong before the first income is earned. Disease, cyclone, flood or a collapse in price may leave the borrower with the debt and without the asset.

Over-capitalisation. A borrower may be persuaded to invest in machinery larger or costlier than his holding can employ, so that the asset stands idle for much of the year while the instalment falls due regularly.

Asset-liability mismatch for the lender. An institution that borrows short and lends long carries a risk of its own. This is one reason why long-term lending was entrusted to separate institutions raising funds through debentures and refinance rather than through deposits.

Diversion of funds. Where supervision is weak, money sanctioned for an asset is sometimes applied to consumption or to the repayment of an old debt, so that the income expected to service the loan is never generated.

These limitations are not arguments against long-term credit. They are the reasons for careful appraisal, for realistic repayment schedules, for insurance, and for the supervision that the lending institutions exercise after disbursement.

3.2.10 Need for a Separate Agency for Long-Term Agricultural Credit

The need for a separate agency for long-term agricultural credit arose because agriculture requires large investments that cannot be met through short-term or medium-term loans. Farmers need financial assistance not only for seasonal farming activities such as purchasing seeds and fertilizers but also for creating permanent assets like irrigation facilities, tractors, farm machinery, land development, plantations, dairy units, warehouses, and farm buildings. These investments require a long repayment period because they generate income over several years. Therefore, specialized institutions were established to provide long-term agricultural credit.

One of the main reasons for creating a separate agency was the unique nature of agriculture. Agricultural income depends on rainfall, climate, pests, diseases, and

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market prices. Since farmers face many uncertainties, they require flexible repayment schedules and lower interest rates. Ordinary commercial banks were not designed to meet these special requirements. A specialised agency could better understand farmers' needs and provide loans suited to agricultural conditions.

Another reason was the lack of affordable institutional finance. Before the development of specialized credit institutions, farmers mainly depended on moneylenders, landlords, and traders for long-term loans. These informal lenders charged very high interest rates and often exploited farmers, resulting in chronic indebtedness. A separate agency helped provide loans at reasonable interest rates and protected farmers from exploitation.

The establishment of specialized institutions also promoted capital formation in agriculture. Agricultural development requires continuous investment in land improvement, irrigation projects, mechanization, horticulture, and allied activities. Long-term credit agencies encourage such investments, leading to higher productivity, increased farm income, and improved rural livelihoods.

A separate agency was also necessary because long-term loans require detailed project appraisal and technical supervision. Unlike short-term loans, long-term investments must be carefully evaluated to ensure that the proposed project is technically feasible and financially viable. Specialized agencies possess trained staff who assess projects, monitor loan utilization, and guide farmers throughout the investment process.

Another important need was to support balanced rural development. Long-term credit agencies finance not only crop production but also dairy farming, poultry, fisheries, sericulture, agro-processing, storage facilities, and rural infrastructure. These activities create employment opportunities, reduce poverty, and improve the standard of living in rural areas. A separate agency helps implement various government agricultural development programmes. Institutions such as State Cooperative Agriculture and Rural Development Banks, Primary Cooperative Agriculture and Rural Development Banks, commercial banks, and the National Bank for Agriculture and Rural Development work together to provide refinance, technical assistance, and financial support for rural development schemes.

A separate agency for long-term agricultural credit is essential because it provides specialized financial services, supports agricultural modernization, encourages capital formation, protects farmers from exploitation, and promotes sustainable rural and agricultural development.

Recap

- ◊ A Business Development Plan provides a roadmap for business growth.
- ◊ Long-term credit is used for capital investment.
- ◊ Business planning helps identify financial requirements.
- ◊ Long-term credit supports business expansion.

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- ◊ Fixed assets are commonly financed through long-term credit.
- ◊ Financial planning improves resource utilization.
- ◊ Long-term credit increases production capacity.
- ◊ Business expansion requires adequate financial resources.
- ◊ Long-term investments generate benefits over several years.
- ◊ Business Development Plans facilitate informed decision-making.
- ◊ Long-term credit supports sustainable rural development.

Objective Questions

1. What is a Business Development Plan?
2. Long-term credit is mainly used for what?
3. Long-term credit is generally repayable after?
4. Which type of assets are financed through long-term credit?
5. Which sector mainly depends on long-term agricultural credit?
6. Which financial institution provides long-term agricultural credit?
7. Capital investment increases:

Answers

1. A document outlining business goals and strategies.
2. Capital investment.
3. More than five years.
4. Fixed assets.
5. Agriculture.
6. Agricultural and Rural Development Bank.
7. Production capacity.

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Self-Assessment Questions

1. Discuss the importance of long-term credit in agriculture.
2. Explain the role of long-term credit in business expansion.
3. Explain the relationship between financial planning and business development.
4. Discuss the role of long-term credit in capital formation.
5. Explain the importance of infrastructure financing.
6. Discuss the role of cooperative institutions in providing long-term credit.

Assignments

1. Prepare a case study on the expansion of a rural enterprise using long-term credit.
2. Analyze a business plan of a small enterprise and identify its financial requirements.
3. Compare the long-term loan products offered by two cooperative banks.
4. Survey the awareness of long-term credit among farmers.

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Unit 3

Primary Agricultural and Rural Development Banks (PARD Banks)

Learning Outcomes

After completing this unit, learners will be able to:

- ◊ explain the concept, objectives, and functions of Primary Agricultural and Rural Development Banks
- ◊ describe the organizational pattern and administrative structure of Primary Agricultural and Rural Development Banks
- ◊ explain the procedures involved in loan appraisal, sanction, disbursement, and documentation
- ◊ know the importance of loan recovery management and its role in ensuring the financial sustainability of cooperative banks
- ◊ savings, and protecting farmers and tribal communities from exploitation

Prerequisite

Agricultural and rural development requires an efficient institutional credit system that provides adequate financial support for farming and allied activities. Primary Agricultural and Rural Development Banks (PARDBs) form an important component of the cooperative credit structure by providing long-term finance for activities such as land development, irrigation, farm mechanization, plantation development, horticulture, and other rural development projects. These banks bridge the gap between the financial needs of rural communities and the availability of institutional credit, thereby contributing to increased agricultural productivity and rural economic growth.

The effective functioning of PARDBs depends on a well-defined organizational structure, sound financial resources, transparent loan sanctioning procedures, and efficient recovery mechanisms. Their financial resources are mobilized through

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share capital, deposits, borrowings from higher financing institutions such as NABARD, government assistance, and other funds. The loan sanctioning process involves receiving applications, verifying documents, appraising projects, assessing repayment capacity, approving loans, executing legal formalities, and disbursing funds. Recovery management ensures the timely collection of loan repayments, reduces overdue loans, and maintains the financial stability of the institution. Together, these concepts explain how Primary Agricultural and Rural Development Banks support sustainable agricultural finance, strengthen the cooperative credit system, and promote balanced rural development.

Keywords

Primary Agricultural and Rural Development Bank (PARDB) , Long-Term Agricultural Credit, Recovery Management, Cooperative Credit

Discussion

3.3.1 Primary Agricultural and Rural Development Banks

Primary Agricultural and Rural Development Banks (PARD Banks) are specialized cooperative financial institutions that provide long-term credit to farmers and rural entrepreneurs. They function at the primary or grassroots level and serve villages, blocks, or taluks. Their main objective is to finance investments that increase agricultural productivity and improve rural livelihoods. They provide loans for land development, irrigation, farm mechanization, horticulture, dairy farming, fisheries, poultry, and other agricultural development activities. These banks form an important part of the cooperative credit structure in India and contribute significantly to rural development.

3.3.2 Organizational Pattern of Primary Agricultural and Rural Development Banks

1. Cooperative Structure

PARD Banks are organized according to the cooperative principles of mutual help, democratic control, and voluntary membership. Every member of the bank is both an owner and a customer, making the institution people-oriented rather than profit-oriented. The cooperative structure encourages members to participate in decision-making and ensures that the bank works for the welfare of farmers. Members have equal voting rights irrespective of the number of shares they own. This democratic system promotes transparency, accountability, and efficient management.

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2. Primary Level Institution

PARD Banks operate at the village, block, taluk, or district level, making them easily accessible to farmers. Their local presence enables them to understand the agricultural conditions, cropping patterns, and financial needs of farmers in their area. Since these banks are located close to the borrowers, they can provide quicker and more personalized services. They also maintain regular contact with farmers and guide them in planning long-term agricultural investments. This grassroots approach improves the effectiveness of rural credit delivery.

3. Membership

Membership in PARD Banks is generally open to farmers, rural artisans, agricultural labourers, and rural entrepreneurs who satisfy the eligibility conditions. A person becomes a member by purchasing shares and paying the prescribed membership fee. Members have the right to participate in meetings, elect directors, and express their opinions regarding the functioning of the bank. Membership strengthens the relationship between the bank and the rural community. It also encourages borrowers to use loans responsibly and repay them on time.

4**. General Body**

The General Body is the supreme authority of the PARD Bank and consists of all its members. It meets periodically to discuss important matters relating to the administration and development of the bank. The General Body approves the annual accounts, budget, audit report, and major policy decisions. It also elects the Board of Directors and reviews the overall performance of the bank. Through these functions, the General Body ensures democratic governance and accountability.

5. Board of Directors

The Board of Directors is elected by the General Body to manage the affairs of the bank. It consists of experienced members who formulate policies and supervise the overall functioning of the institution. The Board sanctions major loans, approves development programmes, monitors loan recovery, and ensures financial discipline. It also appoints key officials for day-to-day administration. Regular meetings of the Board help in making timely decisions for the efficient management of the bank.

6. Chairman and Vice-Chairman

The Chairman is elected from among the members of the Board of Directors and serves as the head of the institution. The Chairman presides over meetings, provides leadership, and represents the bank before government departments and financial institutions. The Vice-Chairman assists the Chairman and performs these duties whenever the Chairman is absent. Both officers play an important role in policy implementation and organizational development. Their leadership ensures smooth functioning and coordination within the bank.

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7. Chief Executive Officer (CEO)/Secretary

The Chief Executive Officer or Secretary is the chief administrative officer of the bank. This officer is responsible for implementing the decisions of the Board of Directors and managing the day-to-day operations. The CEO supervises employees, maintains financial records, processes loan applications, prepares reports, and ensures compliance with banking regulations. The officer also coordinates with higher-level cooperative institutions and government agencies. Efficient administration by the CEO contributes to better customer service and financial stability.

8. Field Officers

Field Officers are appointed to maintain close contact with farmers and supervise the utilization of loans. They inspect farms, verify land records, assess borrowers' financial requirements, and prepare project reports. They also educate farmers about improved farming methods and guide them in implementing development projects. Field Officers regularly monitor the progress of financed activities and ensure that loans are used for their intended purposes. Their supervision helps reduce loan defaults and improves recovery.

9. Supervision by NABARD

National Bank for Agriculture and Rural Development is the apex institution responsible for promoting agricultural and rural development in India. It provides refinance facilities to State Cooperative Agriculture and Rural Development Banks, which in turn support Primary Banks. NABARD conducts inspections, offers technical guidance, and promotes modernization of rural financial institutions. It also introduces innovative rural development programmes and capacity-building initiatives. Through these functions, NABARD strengthens the long-term agricultural credit system in the country.

3.3.3 Sources of Finance of Primary Agricultural and Rural Development Banks

1. Share Capital

Share capital is one of the most important sources of finance for PARD Banks. Members contribute share capital by purchasing shares at the time of joining the bank. In many states, the State Government also contributes share capital to strengthen the financial position of these institutions. Share capital provides permanent funds that can be used for lending operations. A strong share capital base increases the financial stability and borrowing capacity of the bank.

2. Membership Fees

Every new member pays an entrance or membership fee while joining the bank. Although the amount collected from each member is relatively small, the total collection contributes to the bank's financial resources. Membership fees help meet administrative expenses and support the daily functioning of the institution. They also encourage

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commitment and participation from members. This source of finance is stable because it grows as membership increases

3. Deposits

Some PARD Banks mobilize deposits from members and the general public in the form of savings, recurring, and fixed deposits. Deposit mobilization provides additional funds for lending and reduces dependence on external borrowings. Deposits also promote savings habits among rural people and improve financial inclusion. The bank pays interest on deposits and uses the collected funds to provide long-term loans. Increased deposits improve the liquidity and financial strength of the bank.

4. Borrowings from State Cooperative Agriculture and Rural Development Bank

The State Cooperative Agriculture and Rural Development Bank is a source of borrowed funds for PARD Banks. It provides refinance and financial assistance according to the lending requirements of Primary Banks. These borrowed funds enable PARD Banks to sanction larger loans to farmers and rural entrepreneurs. The State Bank also provides guidance regarding the proper utilization of these funds. Borrowing from the State Bank ensures a continuous supply of credit for agricultural development.

5. Refinance from NABARD

NABARD provides refinance assistance to State Cooperative Agriculture and Rural Development Banks for financing long-term agricultural projects. Through this arrangement, sufficient funds become available for Primary Banks to lend to farmers. Refinance helps reduce liquidity problems and supports large-scale agricultural investments. NABARD also offers concessional refinance for priority sectors such as irrigation, horticulture, dairy farming, and renewable energy. This source significantly strengthens the rural credit system.

6. Government Assistance

Both the Central Government and State Governments provide financial assistance to PARD Banks in various forms. This assistance includes share capital contributions, grants, subsidies, interest subsidies, and special development funds. Government support enables these banks to expand their lending activities and implement rural development programmes. It also helps provide loans at lower interest rates to farmers. Such assistance strengthens the overall financial position of the banks.

3.3.4 Loan Sanctioning Procedures

Loan sanctioning is the process through which the bank receives, evaluates, approves, and disburses a loan to an eligible borrower. The procedure ensures that loans are granted only to genuine applicants who have the capacity to utilize and repay the loan.

1. Submission of Loan Application

The first step in the loan sanctioning process is the submission of a loan application by the borrower. The farmer or rural entrepreneur fills in the prescribed application form

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provided by the bank. The application contains details such as the applicant's name, address, occupation, purpose of the loan, amount required, details of land ownership, income, and proposed investment. The borrower must also attach supporting documents such as land records, identity proof, and project estimates. A properly completed application enables the bank to begin the loan appraisal process.

2. Verification of Eligibility

After receiving the application, the bank verifies whether the applicant is eligible to receive the loan. It checks whether the borrower is a member of the bank or fulfils the membership requirements, and whether the land offered lies within the area of operation of the bank. It ascertains that the applicant is of full age and competent to contract, that he is not in default to this or to any other co-operative institution, and that the amount sought is within the maximum borrowing power fixed for a member under the bye-laws. Where the loan is for a purpose covered by a government-sponsored scheme, the bank also verifies that the applicant satisfies the conditions of that scheme. Eligibility is settled at this stage so that neither the bank nor the applicant spends effort on a proposal that cannot in any event be sanctioned.

3. Verification of Documents

The bank carefully examines all the documents submitted by the borrower. These include land ownership certificates, title deeds, tax receipts, encumbrance certificates, identity proof, address proof, and income records. The documents are checked to ensure their authenticity and legal validity. Any discrepancy or missing document is clarified before further processing. Proper document verification protects both the bank and the borrower from future legal disputes.

4. Field Inspection

Field inspection is an important part of the loan sanctioning process. The bank's Field Officer visits the applicant's farm to inspect the land and verify the information provided in the application. The officer assesses the quality of the land, irrigation facilities, existing crops, infrastructure, and feasibility of the proposed project. The inspection helps the bank understand whether the investment is practical and productive. It also prevents false claims and misuse of bank funds.

6. Assessment of Security or Collateral

Most long-term agricultural loans require collateral security. The bank evaluates the value of the agricultural land, buildings, machinery, or other assets offered as security. The legal ownership of the collateral is verified to ensure that it is free from disputes or existing liabilities. The value of the security should be sufficient to cover the loan amount. Adequate collateral protects the bank in case the borrower fails to repay the loan.

7. Loan Sanction

Once all verifications and appraisals are completed, the loan proposal is placed before the competent authority, usually the Branch Manager or the Board of Directors,

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depending on the loan amount. If the proposal satisfies all requirements, the loan is sanctioned. The sanction letter clearly mentions the loan amount, interest rate, repayment period, installment schedule, security, and other terms and conditions. The borrower is informed about the approval and required to accept the loan conditions before disbursement.

8. Execution of Loan Agreement

Before receiving the loan, the borrower signs a formal loan agreement with the bank. The agreement specifies the rights and responsibilities of both the borrower and the bank. It includes details regarding repayment, interest, collateral, default conditions, and legal obligations. The borrower also executes mortgage or hypothecation documents if required. This agreement serves as a legal document for future reference.

9. Loan Disbursement

After completing all legal formalities, the bank disburses the loan. Depending on the nature of the project, the loan may be released as a lump sum or in installments. For example, loans for construction or irrigation projects are often released in stages according to project progress. The bank ensures that the loan amount is used only for the approved purpose. Controlled disbursement prevents misuse of funds and improves project implementation.

10. Post-Sanction Monitoring

Loan sanctioning does not end with disbursement. The bank continuously monitors the progress of the financed project. Field Officers conduct periodic visits to verify whether the borrower is utilizing the loan properly. They also provide technical guidance whenever necessary. Continuous monitoring ensures successful completion of the project and improves the chances of timely repayment.

Example: One loan file from beginning to end

Anil owns one and a half acres in a taluk of Calicut district and wishes to sink a well, install a pump set and level part of his land so that he can raise banana and vegetables through the year. He approaches the Primary Co-operative Agricultural and Rural Development Bank of his taluk.

Table 3.3.1 Procedures

Stage	What happens
Application	He applies in the prescribed form, stating the purpose, and attaches an estimate of the work prepared by an approved technical person.
Eligibility	The bank verifies that he is a member, that his land lies within its area of operation, and that he is not in default to any co-operative institution.

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Documents	Title deed, prior deed, possession certificate, location certificate, encumbrance certificate for the prescribed period and the land tax receipt are produced and examined.
Field inspection	The field officer visits the holding, sees the site proposed for the well, satisfies himself that water is likely to be available, and records the existing cropping.
Appraisal	The estimate of Rs 2,35,000 is examined; the margin of fifteen per cent is fixed at Rs 35,250 and the loan at Rs 2,00,000. The additional income from assured irrigation is estimated at Rs 85,000 a year and compared with the instalment that will fall due.
Security	The land is valued at about Rs 9,00,000. Since the loan is well within the prescribed proportion of that value, the security is adequate.
Sanction	The proposal is placed before the Board, which sanctions Rs 2,00,000 at eleven per cent, repayable in nine annual instalments. A sanction letter setting out the terms is issued.
Documentation	A mortgage deed is executed and registered in favour of the bank, and the loan agreement is signed.
Disbursement	Rs 1,20,000 is released when the work begins, and the balance of Rs 80,000 after the field officer certifies that the well has been completed and the pump set installed.
Follow-up	Six months later, the field officer inspects the holding, verifies that the pump set is in place and insured, and records that the loan has been used for the purpose sanctioned.

Set out in this way, the procedure ceases to be a list of formalities and becomes what it actually is: a series of checks, each of which protects both the cultivator and the institution from a loan that ought not to have been made. The figures used are illustrative, and the margin, the rate of interest and the permissible proportion of the value of the security should be verified against the rules current in the bank.

3.3.5 Recovery Management

Recovery management refers to the systematic process adopted by banks to collect loan repayments from borrowers according to the agreed repayment schedule. Efficient recovery management ensures the financial sustainability of the bank and enables it to provide fresh loans to other borrowers.

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1. Preparation of Repayment Schedule

After the loan is disbursed, the bank prepares a repayment schedule based on the expected income from the financed project. Installments may be monthly, quarterly, half-yearly, or annual depending on the nature of agricultural activities. For plantation crops, the repayment period may begin only after the trees start yielding income. A suitable repayment schedule reduces financial burden on the borrower.

2. Maintaining Loan Records

The bank maintains complete records of every loan, including loan amount, repayment dates, outstanding balance, interest due, and installments paid. Modern computerised banking systems help maintain accurate loan records. Proper record keeping enables the bank to monitor repayment performance and identify overdue accounts quickly. Accurate records also facilitate auditing and reporting.

3. Follow-up and Supervision

Bank officials regularly follow up with borrowers after loan disbursement. Field Officers visit farms to monitor project progress and discuss any difficulties faced by the borrower. Continuous supervision helps identify problems at an early stage and allows the bank to provide timely assistance. Good follow-up improves the relationship between the bank and borrowers and encourages regular repayment.

4. Sending Repayment Reminders

The bank sends reminders to borrowers before the due date of each installment. Reminders may be communicated through letters, telephone calls, SMS messages, or personal visits. Timely reminders reduce the possibility of borrowers forgetting repayment dates. They also encourage financial discipline among borrowers.

5. Recovery through Personal Contact

Personal interaction is one of the most effective methods of loan recovery. Bank officials personally meet borrowers to understand their problems and motivate them to repay the loan. Friendly discussions often result in voluntary repayment without legal action. Personal contact also strengthens trust between the bank and its members.

7. Legal Recovery Measures

If a borrower deliberately refuses to repay despite repeated reminders, the bank may initiate legal proceedings. It may enforce the mortgage, recover the loan through cooperative laws, or take action under applicable banking regulations. Legal action is generally considered the last option after all other recovery efforts have failed. It protects the financial interests of the institution.

8. Monitoring Non-Performing Assets (NPAs)

The bank continuously monitors overdue loans to identify Non-Performing Assets (NPAs). An account becomes an NPA when repayments are overdue beyond the prescribed period. The bank prepares special recovery strategies for such accounts.

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Effective NPA management improves the financial health and profitability of the institution.

9. Incentives for Prompt Repayment

Many banks encourage timely repayment by offering incentives such as interest rebates, eligibility for larger future loans, quicker loan processing, and access to special credit schemes. These incentives motivate borrowers to maintain good repayment records. Prompt repayment also improves the creditworthiness of farmers.

10. Importance of Recovery Management

Efficient recovery management ensures that the bank maintains sufficient funds for future lending. It reduces bad debts, improves profitability, strengthens public confidence, and enhances the financial sustainability of the institution. Good recovery performance also enables banks to support more farmers through new development loans. Therefore, recovery management is as important as loan sanctioning in the cooperative credit system.

3.3.6 Distinction between PACS and PCARD Banks

The learner should be careful not to confuse the two primary institutions, since both operate at the base of the co-operative structure and both serve the cultivator.

Table 3.3.2 Distinction between PACS and PCARD Banks

Basis	Primary Agricultural Credit Society	Primary Co-operative Agricultural and Rural Development Bank
Type of credit	Short and medium term	Long term
Period	Up to about five years	Five to fifteen years and more
Purpose	Cultivation expenses, inputs, wages, small equipment	Wells and irrigation, land development, machinery, plantations, dairy units, farm buildings
Level of operation	Village or panchayat	Taluk
Security	Ordinarily the crop, with personal or third-party surety	Mortgage of agricultural land
Apex in Kerala	The Kerala Bank	The Kerala State Co-operative Agricultural and Rural Development Bank

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Principal source of funds	Deposits from members and the public, and borrowings from the higher tier	Borrowings from the State Bank, refinance from NABARD, and formerly debentures
Mode of repayment	After the harvest, within the season	Annual or half-yearly instalments, often after a moratorium

Recap

- ◊ Primary Agricultural and Rural Development Banks provide long-term agricultural credit.
- ◊ State Cooperative Agricultural and Rural Development Banks supervise Primary Agricultural and Rural Development Banks
- ◊ Borrowings from NABARD strengthen Primary Agricultural and Rural Development Banks' lending capacity.
- ◊ Loan appraisal evaluates repayment capacity.
- ◊ Loans are sanctioned after verification.
- ◊ Proper documentation is essential before disbursement.
- ◊ Timely repayment improves financial health.
- ◊ Recovery management reduces overdue loans.
- ◊ Efficient recovery ensures sustainability of cooperative credit institutions.

Objective Questions

1. What is the primary objective of Primary Agricultural and Rural Development Banks (PARDBs)?
2. Who are the major beneficiaries of PARDBs?
3. Which apex institution provides financial support to PARDBs?
4. What is the highest governing body of a Primary Agricultural and Rural Development Bank?

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5. Which source of finance represents the ownership contribution of members in a PARDB?
6. What are overdue loans?
7. How does effective recovery management benefit a PARDB?

Answers

1. To provide long-term credit for agricultural and rural development.
2. Farmers and rural borrowers.
3. NABARD.
4. Board of Directors.
5. Share capital.
6. Loans whose repayments are not made on the due date.
7. It reduces overdues and improves financial performance.

Self-Assessment Questions

1. Explain the objectives of PARDBs.
2. Describe the organizational pattern of PARDBs.
3. Explain the sources of finance available to PARDBs.
4. Explain the role of NABARD in financing PARDBs.
5. Describe the loan sanctioning procedure followed by PARDBs.
6. Explain the significance of loan appraisal.
7. Explain the challenges faced in recovery management.

Assignments

1. Identify and explain the major sources of finance of a selected PARDB.
2. Compare the loan products of a PARDB and a commercial bank.
3. Analyze the role of NABARD in strengthening the operations of Primary Agricultural and Rural Development Banks.

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Unit 4

State Agricultural and Rural Development Bank (SARD Banks)

Learning Outcomes

After completing this unit, learners will be able to:

- ◊ explain the concept, objectives, and significance of State Agricultural and Rural Development Banks
- ◊ describe the constitution and organizational framework of State Agricultural and Rural Development Banks.
- ◊ explain the major functions performed by State Agricultural and Rural Development Banks
- ◊ identify the different sources through which State Agricultural and Rural Development Banks raise funds
- ◊ discuss the role and types of debentures issued by State Agricultural and Rural Development Banks

Prerequisite

State Agricultural and Rural Development Banks (SARDBs) occupy an important position in the cooperative credit structure by serving as the apex institutions for providing and coordinating long-term agricultural finance within a state. These banks play a significant role in supporting Primary Agricultural and Rural Development Banks (PARDBs) by mobilizing financial resources, refinancing loans, supervising operations, and promoting sustainable agricultural and rural development. Their activities contribute to improving agricultural productivity, developing rural infrastructure, and enhancing the economic well-being of farming communities.

The functioning of SARDBs is based on clearly defined objectives, an appropriate organizational structure, and sound financial management. Their constitution specifies the composition of membership, governance, management, and

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administrative responsibilities necessary for efficient operation. Financial resources are mobilized from various sources, including share capital, reserves, borrowings, government assistance, deposits, and financial support from institutions such as NABARD. One of the major methods of raising long-term funds is the issue of debentures, which enables these banks to secure resources for financing agricultural and rural development projects. Debentures may be guaranteed by state governments and subscribed by financial institutions, insurance companies, and commercial banks. The combined operation of these functions, financial resources, and fund-raising mechanisms enables State Agricultural and Rural Development Banks to strengthen the cooperative credit system and promote balanced rural and agricultural development.

Keywords

State Agricultural and Rural Development Bank (SARDB) , Cooperative Credit, NABARD

Discussion

3.4.1 State Agricultural and Rural Development Bank

State Agricultural and Rural Development Banks (SARD Banks), formerly known as State Land Development Banks (SLDBs), are apex cooperative financial institutions established to provide long-term credit for agriculture and rural development. They function at the state level and supervise the activities of Primary Agricultural and Rural Development Banks (PARD Banks). SARD Banks play a vital role in financing agricultural development, rural infrastructure, farm mechanization, land improvement, irrigation projects, horticulture, dairy farming, and other allied activities. They also receive refinance assistance from the National Bank for Agriculture and Rural Development and channel these funds to Primary Agricultural and Rural Development Banks.

The apex bank in Kerala. The Kerala State Co-operative Agricultural and Rural Development Bank illustrates the descent of these institutions from the land mortgage banks of the last century. Its origin goes back to the State Land Mortgage Bank formed in the erstwhile Travancore State in 1931, which merged into the Travancore Credit Bank organised in 1938. As successor to that bank, the Kerala Co-operative Central Land Mortgage Bank was organised in 1956, and the land mortgage banks of Cochin and Malabar were affiliated to it. On the enactment of the State legislation of 1984, the name was changed to Kerala State Co-operative Agricultural Development Bank, and on the amendment of that Act in 1990 to

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Kerala State Co-operative Agricultural and Rural Development Bank. It functions as the apex body for the primary banks at taluk level and is the channel for NABARD schematic lending in the State. The number of affiliated primary banks and the current financial position of the bank should be taken from its annual report or website.

3.4.2 Objectives of State Agricultural and Rural Development Banks

1. To provide long-term agricultural credit

The primary objective of SARD Banks is to provide long-term finance for agriculture and rural development. These loans help farmers invest in permanent assets such as irrigation systems, tractors, farm machinery, land development, plantations, and farm buildings. Long-term credit enables farmers to increase agricultural productivity and improve their income. The repayment period is fixed according to the nature of the investment.

2. To promote rural development

SARD Banks aim to improve the economic and social conditions of rural areas. They provide financial support for dairy farming, poultry, fisheries, horticulture, agro-processing, rural housing, and small rural enterprises. These activities create employment opportunities and increase rural income. Thus, the banks contribute to balanced rural development.

3. To strengthen primary agricultural and rural development banks

SARD Banks supervise, guide, and financially support Primary Agricultural and Rural Development Banks (PARD Banks). They provide refinance, technical assistance, training, and policy guidance to Primary Banks. This strengthens the cooperative long-term credit structure at the grassroots level. Effective supervision improves the efficiency of rural credit delivery.

4. To mobilize financial resources

Another objective is to mobilize funds for agricultural development through share capital, borrowings, debentures, government assistance, and refinance from NABARD. These resources enable the banks to meet the increasing demand for long-term agricultural credit. Proper resource mobilization ensures continuous financial support for rural development programmes.

5. To encourage agricultural modernization

SARD Banks promote the adoption of modern agricultural technology by financing farm mechanization, irrigation facilities, renewable energy, and scientific farming practices. They encourage farmers to invest in productive assets that improve efficiency and reduce production costs. This contributes to sustainable agricultural growth.

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3.4.3 Constitution of State Agricultural and Rural Development Banks

1. Registration as a Cooperative Society

A State Agricultural and Rural Development Bank is registered under the State Cooperative Societies Act. It functions according to cooperative principles such as voluntary membership, democratic management, and cooperation. The bank is owned by its members and works for their welfare rather than for profit. Its activities are governed by the provisions of the Cooperative Societies Act.

2. Membership

The members of SARD Banks generally include Primary Agricultural and Rural Development Banks, cooperative societies, government institutions, and, in some states, individual members. Members contribute share capital and participate in the administration of the bank. They have voting rights in accordance with the cooperative rules. Membership strengthens the financial and administrative base of the institution.

3. General Body

The General Body is the highest authority of the SARD Bank. It consists of representatives of member institutions and meets periodically to approve annual accounts, budgets, audit reports, and important policy decisions. It also elects the Board of Directors. The General Body ensures democratic control and accountability in the functioning of the bank.

4. Board of Directors

The Board of Directors is responsible for managing the affairs of the bank. It formulates lending policies, sanctions major loans, supervises financial operations, appoints senior officials, and monitors the overall performance of the institution. The Board ensures that the bank functions efficiently and fulfills its objectives. It meets regularly to review progress and make important decisions.

5. Chairman and Chief Executive Officer

The Chairman is elected by the Board of Directors and provides overall leadership to the institution. The Chief Executive Officer (CEO) or Managing Director manages the day-to-day administration of the bank. The CEO implements the decisions of the Board, supervises employees, maintains financial discipline, and coordinates with NABARD, government departments, and Primary Agricultural and Rural Development Banks. Together, they ensure the efficient functioning of the bank.

3.4.4 Functions

State Agricultural and Rural Development Banks perform several important functions to promote agricultural growth and rural development.

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1. Providing Long-Term Agricultural Credit

The primary function of SARD Banks is to provide long-term loans for agricultural and rural development. These loans are used for purchasing tractors, harvesters, irrigation equipment, dairy animals, plantation crops, land development, and farm buildings. Since these investments generate income over many years, the repayment period is also long, generally ranging from five to twenty years. Long-term credit enables farmers to improve productivity and increase their income. Thus, the banks play an important role in creating permanent agricultural assets.

2. Financing Rural Development Projects

SARD Banks finance various rural development activities in addition to agriculture. They provide financial assistance for dairy farming, poultry, fisheries, sericulture, beekeeping, agro-processing units, rural housing, and small rural industries. These investments create employment opportunities and improve the standard of living of rural people. By supporting diversified economic activities, the banks reduce dependence on agriculture alone. This contributes to balanced and sustainable rural development.

3. Providing Refinance to Primary Agricultural and Rural Development Banks

SARD Banks act as apex institutions that provide refinance to Primary Agricultural and Rural Development Banks (PARD Banks). Whenever Primary Banks require additional funds for lending, they obtain refinance from the State Bank. This arrangement ensures a continuous flow of long-term credit to farmers. Refinance strengthens the financial position of Primary Banks and enables them to meet increasing credit demand. It also ensures uniform implementation of lending policies across the state.

4. Supervising and Guiding Primary Banks

Another important function of SARD Banks is to supervise the activities of Primary Agricultural and Rural Development Banks. They monitor financial performance, loan utilization, recovery, accounting systems, and overall management. They also provide technical guidance and administrative support whenever necessary. Regular supervision improves efficiency, transparency, and financial discipline. It also helps identify operational problems at an early stage.

5. Mobilizing Financial Resources

SARD Banks mobilize funds from different sources to meet the growing demand for long-term agricultural finance. They raise resources through share capital, government assistance, borrowings, deposits, refinance from NABARD, and the issue of debentures. Adequate financial resources enable them to provide timely credit for development projects. Efficient resource mobilization strengthens the rural credit system.

6. Promoting Agricultural Modernization

The banks encourage farmers to adopt modern agricultural technologies by providing finance for tractors, power tillers, combine harvesters, sprinkler irrigation, drip irrigation, renewable energy systems, and scientific farming methods. These investments improve

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productivity and reduce production costs. Modern technology also increases crop quality and farm profitability. Thus, SARD Banks contribute significantly to agricultural modernization.

7. Assisting Government Development Programmes

SARD Banks actively participate in implementing government-sponsored agricultural and rural development programmes. They channel financial assistance provided under various subsidy and development schemes to eligible farmers. They also coordinate with government departments for effective implementation of these programmes. This helps achieve national objectives of agricultural development, poverty reduction, and employment generation. Government partnership strengthens rural financial inclusion.

8. Promoting Sustainable Agriculture

The banks finance environmentally sustainable agricultural practices such as watershed development, soil conservation, organic farming, rainwater harvesting, renewable energy projects, and efficient irrigation systems. These investments protect natural resources while improving agricultural productivity. Sustainable agriculture ensures long-term food security and environmental conservation. Therefore, SARD Banks contribute to both economic and ecological development.

9. Providing Technical Guidance

Besides providing loans, SARD Banks offer technical advice to borrowers. They help farmers prepare project reports, estimate costs, and adopt modern farming practices. They also provide information about government schemes and improved technologies. Technical guidance ensures proper utilization of loans and increases the success of financed projects. It also improves loan recovery.

10. Strengthening the Cooperative Credit Structure

SARD Banks coordinate the activities of Primary Agricultural and Rural Development Banks and strengthen the cooperative credit system. They formulate lending policies, conduct inspections, organize staff training, and improve management practices. Strong coordination ensures efficient credit delivery throughout the state. This strengthens the overall rural cooperative banking network.

3.4.5 Raising of Funds by State Agricultural and Rural Development Banks

To provide long-term loans, SARD Banks require large financial resources. They mobilize funds from various internal and external sources.

1. Share Capital

Share capital forms the permanent financial base of SARD Banks. It is contributed by member institutions, cooperative societies, Primary Agricultural and Rural Development Banks, and State Governments. The capital invested by members demonstrates their ownership and participation in the institution. A strong share capital base improves

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the borrowing capacity of the bank. It also increases financial stability and public confidence.

2. Government Contribution

Both the Central and State Governments provide financial assistance through share capital contributions, grants, subsidies, and special development funds. Government support strengthens the capital structure of SARD Banks. It enables the banks to provide loans at affordable interest rates. Government assistance is particularly important for financing priority agricultural sectors and rural development programmes.

3. Borrowings from NABARD

NABARD is one of the major sources of refinance for SARD Banks. It provides long-term refinance for eligible agricultural and rural development projects. The refinance assistance improves liquidity and enables the banks to expand lending activities. NABARD also monitors the utilization of funds and provides technical guidance. This strengthens the long-term rural credit system.

4. Deposits

Some SARD Banks mobilize deposits from cooperative institutions, government organizations, and the public. These include savings deposits, fixed deposits, and recurring deposits. Deposits provide an additional source of funds for lending operations. Mobilization of deposits also promotes savings habits among rural people. Increased deposits reduce dependence on borrowings.

5. Issue of Debentures

The issue of debentures is one of the most important methods of raising long-term funds. Debentures are purchased by commercial banks, insurance companies, financial institutions, and government agencies. Since these debentures are generally guaranteed by State Governments, they attract investors. Funds raised through debentures are used for providing long-term agricultural loans. This method has traditionally been the backbone of long-term agricultural finance.

3.4.6 Issue of Various Debentures

Debentures are long-term debt instruments issued by SARD Banks for raising capital. They carry a fixed rate of interest and are repayable after a specified period. Different types of debentures are issued according to the financial requirements of the bank.

1. Ordinary Debentures

Ordinary debentures are issued for raising long-term funds to finance general agricultural development activities. These debentures are generally secured by mortgages created on agricultural land. They carry a fixed interest rate and have a specified maturity period. Financial institutions and commercial banks usually invest in these securities. They provide a stable source of long-term finance.

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2. Government Guaranteed Debentures

Government-guaranteed debentures are backed by the guarantee of the State Government. This guarantee assures investors that the principal amount and interest will be paid even if the issuing bank faces financial difficulties. Because of government support, these debentures are considered very safe investments. Consequently, they attract a large number of institutional investors. They are widely used for financing agricultural development.

3. Special Development Debentures

Special debentures relate to all types of government-sponsored programs (i.e., Subsidy to weaker sections) and are primarily bought by the State Governments and NABARD. The money from special debentures will go directly into that program for which they were sold. These allow the bank to lend on terms that cannot be met through their regular financial resources.

4. Rural Development Debentures:

Rural development debentures are sold in smaller denomination amounts, allowing them to be purchased by people who live in rural areas; many of whom can also become primary bank shareholders. In addition to raising a large amount of money, the main objective of rural development debentures is to encourage rural residents to save and to involve rural residents in funding their own rural development. The amounts raised are significantly lower than those raised through ordinary and guaranteed debenture issues. Debentures are issued according to a prescribed procedure, and primary banks do not have the discretion to decide whether to issue them.

All primary banks agree upon the debenture issuance plan for the year. This plan is then approved by both NABARD and the Reserve Bank. Both organizations consider the proposed debenture issuance with respect to the lending activities of the primary banks and the ability of the market to absorb such activity. A Trustee is hired to protect the interests of the debenture investors. Upon issuing debentures, a floating charge is placed on behalf of the Trustee over the collateral that was pledged by the borrowers of the primary banks. Therefore, the collateral securing the debenture investment is ultimately the agricultural land pledged by the borrower. Historically, the largest investors in primary bank debentures have been the Life Insurance Corporation of India, NABARD, various State Governments, and the Commercial Banks.

Example: How valuable is a State Guarantee?

Let us assume that a State Agricultural and Rural Development Bank has issued debentures totaling Rs.100crore for ten years and has received a state guarantee at an 8% rate. Thus, for ten years, it will pay the debenture investors an annual interest of Rs. 80 crore. At 9.5%, it will lend the money to the primary banks. The primary banks will then lend the money to farmers at 11%. The net spread for the State Bank is therefore 1.5%, i.e., Rs.15lakh annually. From this sum, it will cover all operating costs, create reserves for potential losses and make transfers to its Debenture Redemption Fund, so that there will be Rs.100cr. at maturity when the ten-year debentures come due. The

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value of the guarantee lies in enabling such returns as above. If no guarantee had been given, any investor who wished to lend Rs.100cr. for ten years to a bank lending to farmers exposed to droughts, floods, etc., would demand at least 10% or 10.5% on his loan. There would thus be a need for an additional two crore rupees per annum, just for this single issue, for the State guarantee. That is why the guaranteed debenture has been developed as the chief instrument of long-term agriculture finance.

3.4.7 Redemption of Debentures

Redemption of debentures is the process of repaying the principal amount borrowed through debentures to the debenture holders on the maturity date or in accordance with the terms and conditions of the debenture issue. In the case of State Cooperative Agricultural and Rural Development Banks (SCARDBs), redemption is an important financial responsibility, as debentures constitute a major source of long-term funds for financing agricultural and rural development programmes. The redemption process is governed by the provisions of the applicable Co-operative Societies Act, relevant rules, and the Trust Deed executed at the time of issuing the debentures. Timely redemption discharges the bank's liability, safeguards the interests of investors, and enhances the institution's financial reputation and creditworthiness.

The method of redemption depends on the terms specified in the debenture agreement. The most common method is redemption at maturity, under which the bank repays the entire principal amount in a single payment on the due date. In some cases, debentures may be redeemed in annual instalments or through periodical drawings, whereby only a portion of the debentures is redeemed each year until the entire issue is repaid. Another method is redemption through open market purchase, where the bank buys back its own debentures before maturity if market conditions are favourable and such action reduces the cost of borrowing. Some debentures may also contain provisions for early redemption, allowing repayment before the scheduled maturity date subject to the terms of issue.

To ensure the availability of adequate funds for redemption, SCARDBs create a Debenture Redemption Reserve (DRR) by transferring a specified portion of their annual profits to a separate reserve account. The bank may also maintain Debenture Redemption Investments (DRI) by investing a prescribed percentage of the redemption amount in approved government securities or deposits with scheduled banks. These arrangements reduce the risk of default and ensure that sufficient resources are available when the debentures mature. On the maturity date, debenture holders submit the required documents for verification, after which the bank repays the principal amount along with any outstanding interest. After the successful redemption of all debentures, any balance remaining in the Debenture Redemption Reserve may be transferred to the General Reserve in accordance with applicable laws and accounting regulations. Efficient redemption practices strengthen investor confidence, improve the bank's financial credibility, and facilitate future mobilization of long-term funds

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3.4.8 Present Position and Problems

The account given in this unit describes the structure as it was designed to work. The learner should also know how it works today, for the position has changed considerably.

The decline of the debenture. For much of the twentieth century the guaranteed debenture was the mainstay of long-term agricultural finance. In recent decades flotation of ordinary debentures has largely ceased, and refinance from NABARD has become the dominant source of long-term funds for these banks. The unit's account of debentures should therefore be read as describing an instrument of great historical importance whose present role is much reduced.

Financial strain. Several State-level banks carry accumulated losses and high levels of non-performing assets, the consequence of poor recovery at the primary level, of loan waivers, and of a margin too narrow to absorb either. Some have had their lending curtailed for want of compliance with prudential norms.

Competition and erosion of business. Commercial banks and regional rural banks lend for the same purposes, often with quicker sanction, and the long-term co-operative structure has lost a substantial share of investment credit to them.

Reform measures. A scheme for the computerisation of agriculture and rural development banks has been taken up by the Ministry of Cooperation alongside the computerisation of primary agricultural credit societies. Diversification into rural housing, enterprise and consumer lending, professionalisation of management, and stricter appraisal and recovery are the directions in which reform has been attempted.

A question for the learner. Whether a separate structure for long-term co-operative credit remains necessary, now that commercial banks lend freely for investment purposes and NABARD refinances them equally, is a question on which opinion is divided. The arguments on both sides are worth considering: on one side, the specialised knowledge, the local presence, and the co-operative character of these institutions; on the other, their weak finances and their dependence on refinance. The learner should form a reasoned view.

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Recap

- ◊ State Agricultural and Rural Development Banks are apex cooperative credit institutions.
- ◊ SARDBs supervise Primary Agricultural and Rural Development Banks.
- ◊ NABARD provides refinance support.
- ◊ Debentures help mobilize long-term financial resources.

- ◊ State government guarantees increase the credibility of debentures.
- ◊ SARDBs promote productive investment in agriculture.
- ◊ Proper fund management improves financial sustainability.
- ◊ SARDBs contribute significantly to rural economic development.

Objective Questions

1. What is the primary role of a State Agricultural and Rural Development Bank?
2. What is the main objective of a State Agricultural and Rural Development Bank?
3. Which institution receives guidance and support from a State Agricultural and Rural Development Bank?
4. Who is responsible for the management of a State Agricultural and Rural Development Bank?
5. Which financial institution provides refinance assistance to SARDBs?
6. Which source of finance consists of accumulated profits retained by the bank?
7. Which sector mainly benefits from SARDB financing?

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Answers

1. To provide and coordinate long-term agricultural finance.
2. To promote agricultural and rural development through long-term credit.
3. Primary Agricultural and Rural Development Banks.
4. Board of Directors.
5. NABARD.
6. Reserves.
7. Agriculture and rural development.

Self-Assessment Questions

1. Discuss the importance of SARDBs in the cooperative credit structure.
2. Explain the organizational pattern of SARDBs.
3. Explain the major functions of SARDBs.
4. Describe the role of SARDBs in supervising PARDBs.
5. Discuss the various sources of finance available to SARDBs.
6. Discuss the different types of debentures issued by SARDBs.

Assignments

1. Identify and classify the different sources of finance used by a selected SARDB.
2. Study the role of NABARD in refinancing SARDBs and prepare a report.
3. Collect details of debentures issued by any State Agricultural and Rural Development Bank and summarize their features.
4. Examine the annual financial statements of a SARDB and identify its major sources of income and funds.

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BLOCK 4

Non-Agricultural Co-operative Credit

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Unit 1
Urban Co-operative Banks

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ explain the concept, evolution, and significance of Urban Co-operative Banks
- ◊ describe the constitution, objectives, and organizational structure of Urban Co-operative Banks
- ◊ discuss the major functions and services provided by Urban Co-operative Banks
- ◊ explain the management structure, governance, and regulatory framework of Urban Co-operative Banks

Prerequisite

Before beginning this unit, the learner is expected to be familiar with the meaning of a co-operative society and the principles on which it is founded, which were dealt with in Block 1; with the structure of co-operative agricultural credit, both short-term and long-term, which was dealt with in Blocks 2 and 3; and with the elementary functions of a commercial bank, namely the acceptance of deposits, the grant of loans and advances, and the agency and general utility services.

The learner should also recall that the co-operative credit structure in India has two broad wings. The agricultural wing, studied earlier, serves the cultivator. The non-agricultural wing, which forms the subject of this Block, serves the town-dweller — the small trader, the artisan, the salaried employee and the small industrialist. Urban Co-operative Banks stand at the head of this second wing.

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Keywords

Urban Co-operative Bank (UCB) · Primary Co-operative Bank · Dual Control · Co-operative Governance · Banking Licence · Four-tier Framework · Deposit Insurance · Scheduled and Non-scheduled Bank

Discussion

4.1.1 Introduction

Urban Co-operative Banks (UCBs) are cooperative financial institutions established to provide banking services to people living in urban and semi-urban areas. They operate on cooperative principles such as voluntary membership, democratic control, mutual help, and service to members rather than profit maximization. These banks mainly serve small traders, self-employed persons, salaried employees, artisans, small business owners, professionals, and middle-income groups who may find it difficult to obtain credit from commercial banks.

Urban Co-operative Banks play an important role in promoting financial inclusion by providing affordable banking facilities to weaker sections of society. They mobilize local savings and use these funds to provide loans for productive and personal purposes. Over the years, UCBs have become an important component of India's cooperative banking structure.

In other words, an urban co-operative bank is a cooperative society that is registered either under the state's Cooperative Societies Act or under the Multi-State Co-operative Societies Act, 2002. The cooperative society also receives a banking license as a primary co-operative bank under the Banking Regulation Act, 1949. The two elements are important; if the cooperative does not receive the banking license, then even though it operates much like a traditional bank, it cannot consider itself a bank. This differentiation will be elaborated upon in Unit 2.

4.1.2 Development of Urban Co-operative Banks

Development of the Indian urban co-operative credit movement started in 1889 with the founding of the "Anyonya Sahakari Mandali" in Baroda. The model used by this society was based on the German credit societies organized by Hermann Schulze-Delitzch to service urban artisans and traders. Unlike the Raiffeisen model of organising rural cooperatives, the Schulze-Delitzch model was meant to organise credit societies for urban residents. Statutory authorization of the urban co-operative credit movement occurred through the passage of the Co-operative Credit Societies Act in 1904. With this act, for the first time, credit societies could be formally registered as such in urban areas. The Co-operative Societies Act of 1912 went beyond this statute and provided for both non-credit type organisations and central and apex level federations.

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After the Montagu-Chelmsford Reforms, cooperation was designated a provincial responsibility under Section 73(2)(b) of the Government of India Act, 1919. Following this designation, each province enacted their own cooperative legislation. Prior to the enactment of these provincial statutes, the Maclagan Committee (1915) emphasised that urban credit societies should provide services specifically to the middle-class population of cities. Recommendations made by the committee helped guide the development of the sector during the next several decades.

A significant change occurred on 1 March 1966 when Section 22 of the Banking Regulation Act, 1949 applied to co-operative banks. Therefore, after this date, the banking activities of urban co-operative banks were regulated by the Reserve Bank of India. In contrast, registration and administration remained under the provisions of the respective State Co-operative Societies Acts. The relationship established hereinafter would come to be known as dual control. Dual control has influenced regulation of the sector ever since.

With regard to dual control, a significant amendment to the Banking Regulation Act was passed into law as the Banking Regulation (Amendment) Act, 2020. The new law became effective for urban co-operative banks on June 26, 2020 and significantly increased the authority of the Reserve Bank regarding management, capital and auditing of co-operatives. At the same time, this new law limited dual control in all aspects related to banking functions. As part of a larger initiative to promote cooperative activity throughout India, a new federal ministry responsible for coordination and oversight of cooperative activity in general, including the urban co-operative banking system, was created on July 29, 2021.

The main stages may be summarised thus:

Year	Development
1889	Anyonya Sahakari Mandali established at Baroda — the beginning of urban co-operative credit in India.
1904	Co-operative Credit Societies Act — statutory recognition of credit societies.
1912	Co-operative Societies Act — non-credit societies and federal organisations permitted.W
1915	Maclagan Committee emphasises the role of urban credit societies.
1919	Co-operation becomes a provincial subject under the Government of India Act, 1919.
1966	Banking Regulation Act, 1949 extended to co-operative banks from 1 March; RBI supervision begins.
2020	Banking Regulation (Amendment) Act strengthens RBI's powers over co-operative banks.
2021	Union Ministry of Co-operation created.
2022	RBI introduces the four-tier regulatory framework for UCBs.
2024	Umbrella Organisation (NUCFDC) registered with the RBI.

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4.1.3 Constitution

The constitution and management of Urban Co-operative Banks (UCBs) in India operate under a dual-control framework governed by the Reserve Bank of India (RBI) and respective State Governments. UCBs are governed by the Banking Regulation Act, 1949, and either the State Cooperative Societies Act or the Multi-State Cooperative Societies Act.

4.1.3.1 Key constitutional and structural directives include

Registration: UCBs are registered as cooperative societies under state-specific Acts or the Multi-State Co-operative Societies Act, 2002.

4.1.3.2 Formation of Urban Co-operative Banks

Urban Co-operative Banks are established by a group of individuals having a common economic interest. These individuals voluntarily come together to promote savings and provide credit facilities among themselves.

The formation begins with collecting the required number of members, preparing the bye-laws, raising the minimum share capital, and registering the society under the relevant Cooperative Societies Act. After registration, the bank obtains the necessary banking license before starting its operations. The formation process ensures that the institution is legally recognized and financially capable of carrying out banking activities.

4.1.3.3 Registration

Every Urban Co-operative Bank must be registered under the State Cooperative Societies Act or the Multi-State Cooperative Societies Act if it operates in more than one state. Registration gives the bank legal identity and enables it to enter into contracts, own property, borrow funds, and provide banking services. The registered bye-laws define the objectives, powers, membership rules, management structure, and operational procedures of the bank. Registration also ensures government supervision and legal protection.

4.1.3.4 Membership

Membership in Urban Co-operative Banks is generally open to individuals residing or carrying on business within the bank's area of operation. Cooperative institutions, societies, and certain organizations may also become members according to the bye-laws. Every member purchases shares of the bank and becomes a part-owner. Members enjoy voting rights irrespective of the number of shares held, following the principle of "One Member, One Vote." Members also participate in electing the Board of Directors and influencing important policy decisions.

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4.1.3.5 Share Capital

The capital of an Urban Co-operative Bank is mainly contributed by its members through the purchase of shares. The share capital forms the basic financial foundation of the bank and provides security for depositors and creditors. Members may increase the capital by purchasing additional shares, but voting rights remain equal. Strong share capital improves the financial strength and lending capacity of the bank.

4.1.3.6 nLegal Status

Urban Co-operative Banks are recognized as cooperative institutions with separate legal identity. They can own assets, enter into agreements, sue others, and be sued in their own name. The legal status ensures continuity of the institution even if individual members leave or die. This provides stability and confidence among customers and investors.

4.1.3.7 Democratic Structure

Urban Co-operative Banks follow democratic principles in their governance. Each member has one vote irrespective of the amount of capital contributed. Directors are elected by members during the Annual General Meeting (AGM). Major policy decisions are taken collectively through democratic procedures, ensuring transparency and accountability.

4.1.3.8 Area of Operation

Urban Co-operative Banks mainly operate in urban and semi-urban areas. Their services are designed to meet the financial needs of local communities. Many UCBs operate within a district or city, while larger banks may expand to multiple states after obtaining regulatory approval. Local operations enable the bank to understand customer needs more effectively.

4.1.3.9 Regulatory Framework

Urban Co-operative Banks are regulated by multiple authorities. Banking functions are supervised by the Reserve Bank of India, while cooperative management is governed by the respective State Cooperative Department or the Central Registrar of Cooperative Societies for multi-state banks. Regulatory supervision ensures financial discipline, depositor protection, and compliance with banking laws.

4.1.4 Objectives of Urban Co-operative Banks

The primary objective of Urban Co-operative Banks is to promote thrift, provide affordable credit, and improve the economic well-being of members. The major objectives are explained below.

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1. To Encourage Savings

One of the most important objectives is to cultivate the habit of saving among people. The bank accepts deposits from individuals through savings accounts, fixed deposits, recurring deposits, and current accounts. These savings provide financial security to customers and become a source of funds for lending activities. Encouraging savings also contributes to capital formation in the economy.

2. To Provide Affordable Credit

Urban Co-operative Banks provide loans at reasonable interest rates to their members and customers. Credit is provided for business, education, housing, medical expenses, vehicle purchase, and other productive purposes. Easy availability of credit reduces dependence on private moneylenders who often charge excessive interest rates. Affordable loans improve the financial condition of borrowers.

3. To Promote Self-Employment

Urban Co-operative Banks encourage entrepreneurship by financing small businesses and self-employed individuals. Loans are provided to shopkeepers, artisans, traders, professionals, service providers, and micro-enterprises. Financial assistance helps people establish new businesses, generate employment, and improve their income. This contributes to economic development.

4. To Promote Financial Inclusion

Another important objective is to provide banking services to all sections of society. Urban Co-operative Banks reach people who may not have easy access to commercial banks. They provide basic banking services, deposit accounts, digital banking, remittance facilities, and small loans. Financial inclusion improves the economic participation of weaker sections.

5. To Improve Members' Welfare

The banks work primarily for the welfare of their members rather than maximizing profits. Surplus earnings are utilized to strengthen the bank, create reserves, and distribute limited dividends. Better financial services improve the social and economic condition of members. Member welfare remains the central objective of cooperative banking.

6. To Support Local Economic Development

Urban Co-operative Banks mobilize local savings and invest them within the same community. Loans support local industries, retail businesses, transport operators, educational institutions, and service sectors. Increased investment creates employment opportunities and stimulates regional economic growth. Thus, UCBs contribute to balanced urban development.

7. To Eliminate Exploitation

The cooperative movement aims to protect people from exploitation by private moneylenders. Urban Co-operative Banks provide loans on fair terms and transparent conditions. Reasonable interest rates reduce financial burdens on borrowers. This objective strengthens economic justice and social equality.

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8. To Strengthen Cooperative Principles

Urban Co-operative Banks promote cooperation, mutual help, democratic participation, and social responsibility. Members collectively own and manage the institution while sharing benefits fairly. Cooperative education encourages responsible financial behaviour and strengthens community participation. This objective distinguishes UCBs from profit-oriented banks.

4.1.5 Functions of Urban Co-operative Banks

Urban Co-operative Banks perform a wide range of banking and financial functions.

1. Accepting Deposits

Accepting deposits is the primary function of every Urban Co-operative Bank. The bank receives money from customers in the form of savings deposits, current deposits, fixed deposits, and recurring deposits. Deposits provide safety, liquidity, and interest income to customers. These funds become the main source of lending.

2. Providing Loans and Advances

The bank grants various types of loans to members and customers. Loans are sanctioned for housing, education, business expansion, vehicle purchase, personal needs, and working capital. Proper verification of repayment capacity reduces the risk of loan default. Lending promotes economic growth and improves living standards.

3. Financing Small Businesses

Urban Co-operative Banks provide credit to small traders, shop owners, retailers, and entrepreneurs. These loans help businesses purchase inventory, machinery, equipment, and working capital. Financial support enables small enterprises to expand their operations. Business financing generates employment and income.

4. Providing Housing Finance

Many Urban Co-operative Banks offer housing loans. Loans are provided for purchasing, constructing, repairing, or renovating houses. Housing finance helps middle-income families fulfill their dream of home ownership. Regular repayment strengthens the bank's loan portfolio.

5. Payment and Collection Services

Urban Co-operative Banks provide payment services similar to commercial banks. Customers can deposit cheques, transfer funds, receive salaries, pay utility bills, and make electronic payments. These services make financial transactions easier and faster. Efficient payment systems improve customer satisfaction.

6. Investment Functions

The bank invests surplus funds in approved government securities and other safe investments.

Investments generate additional income while maintaining liquidity and complying with regulatory requirements. Careful investment management protects depositors' money. Diversification reduces financial risk.

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7. Agency Functions

Urban Co-operative Banks perform agency services on behalf of customers. They collect dividends, pension payments, insurance premiums, utility bills, and government payments. They may also distribute government welfare benefits. These services increase customer convenience.

8. Foreign Exchange Services

Some licensed Urban Co-operative Banks provide limited foreign exchange services. These include inward remittances, export-related banking services, and foreign currency transactions permitted under banking regulations. Such services support businesses engaged in international trade. Regulatory compliance is essential.

9. Digital Banking Services

Modern Urban Co-operative Banks provide internet banking, mobile banking, ATM facilities, debit cards, and electronic fund transfer services. Digital banking improves accessibility and reduces transaction time. Customers can access banking services anytime and anywhere. Technology enhances efficiency and competitiveness.

10. Customer Service

Providing quality customer service is an important function. The bank guides customers regarding savings, loans, investments, and digital banking. Prompt grievance redressal improves customer confidence. Good service helps retain existing customers and attract new ones.

11. Priority sector lending

Urban Co-operative Banks are required to deploy a prescribed proportion of their adjusted net bank credit in the priority sector, which includes agriculture, micro and small enterprises, education, housing and weaker sections. The prescribed proportion and the timelines for compliance are laid down by the Reserve Bank and are revised from time to time.

4.1.6 Management of Urban Co-operative Banks

Effective management is essential for ensuring financial stability, operational efficiency, and member satisfaction.

1. General Body

The General Body consists of all members of the Urban Co-operative Bank. It is the highest decision-making authority of the bank. Members approve annual accounts, elect directors, amend bye-laws, and discuss major policies. The General Body ensures democratic control over the institution.

2. Board of Directors

The Board of Directors is elected by the members. The Board formulates policies, approves budgets, sanctions major loans, monitors financial performance, and ensures regulatory compliance. Directors safeguard members' interests and provide strategic direction. Good governance depends on an efficient Board.

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3. Board of Management

Following the Banking Regulation (Amendment) Act, 2020, urban co-operative banks above the prescribed size are required to constitute a Board of Management, composed of persons with banking expertise, to advise on and oversee banking operations. It works alongside the elected Board of Directors, which continues to attend to matters of co-operative administration.

4. Chairman and Vice-Chairman

The Chairman is the head of the Board. The Chairman presides over meetings, supervises policy implementation, and represents the bank before government authorities and regulators. The Vice-Chairman performs these duties in the Chairman's absence. Their leadership contributes to smooth administration.

5. Chief Executive Officer (CEO)

The CEO is responsible for the day-to-day management of the bank. The CEO implements Board decisions, supervises staff, manages operations, ensures compliance with regulations, and maintains service quality. The CEO also prepares business plans and financial reports. Efficient administration depends greatly on capable executive leadership.

6. Committees

Urban Co-operative Banks constitute various committees for efficient management. Loan committees evaluate credit proposals, audit committees monitor internal controls, risk management committees assess financial risks, and recovery committees oversee loan collections. Specialized committees improve decision-making and accountability. They help maintain financial discipline.

7. Internal Control System

A strong internal control system safeguards the bank's assets. It includes internal audits, financial inspections, fraud prevention measures, authorization procedures, and periodic reviews. Proper internal controls reduce operational risks and ensure accurate financial reporting. They also enhance public confidence.

8. Human Resource Management

Employees are the backbone of Urban Co-operative Banks. Proper recruitment, training, performance evaluation, and employee development improve organizational efficiency. Skilled employees provide better customer service and ensure compliance with banking regulations. Continuous training helps staff adapt to technological changes.

9. Financial Management

Financial management involves planning, budgeting, fund management, investment decisions, and profitability analysis. The management maintains adequate liquidity, controls costs, manages risks, and ensures sufficient capital adequacy. Proper financial planning supports sustainable growth. Effective financial management protects the interests of members and depositors.

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10. Risk Management

Urban Co-operative Banks face credit risk, liquidity risk, operational risk, market risk, and cyber risk. Management adopts policies to identify, monitor, and minimise these risks. Regular monitoring of loan quality, cybersecurity measures, and regulatory compliance reduces financial losses. Effective risk management ensures long-term stability.

11. Audit and Supervision

Regular audits ensure transparency and accountability. Internal auditors continuously review banking operations, while statutory audits verify financial statements and regulatory compliance. Regulatory inspections identify weaknesses and recommend corrective measures. Timely audits strengthen public confidence and improve governance.

4.1.7 Problems with Urban Co-operative Banks

Urban co-operative banks also experience problems that resulted in the reform efforts of recent years.

i. **The governance structure.** Many boards were selected based on either a political line, community line, etc., rather than on a professional basis. This is why the Banking Regulation (Amendment) Act of 2020 established "fit-and-proper" standards for directors, and directed that all co-operative banks be governed by a Board of Management.

ii. **Asset quality.** Compared with the asset quality of scheduled commercial banks, gross non-performing assets in urban co-operative banks have traditionally been significantly greater, primarily due to lending concentration and poor credit analysis.

iii. **Funding (capital).** An urban co-operative bank cannot issue shares publicly. Therefore, it can only obtain funding from its member-owners. Members can elect to remove their ownership; thus creating instability within the financial structure of the bank.

iv. **Technology (Cyber-Risk).** Small banks often have difficulty installing and maintaining core-banking systems, maintaining compliance with cyber security regulations, and purchasing/developing digital products.

v. **Merger activity.** In the last two decades, there has been a steady decline in the number of urban co-operative banks resulting from consolidation via merger/ cancellation of licenses. For a considerable amount of time, the Reserve Bank did not accept applications for new licenses

vi. **Public depositor trust.** The failures of Madhavpura Mercantile Co-operative Bank (2001), and the failure of Punjab & Maharashtra Co-operative Bank (2019), eroded public trust in the co-operative banking system, and caused significant changes in legislation and regulation since 2020 and 2022.

The Umbrella Organisation outlined in Section 4.1.5, the Four Tier System, and the enhanced authority to supervise the Reserve Bank of India will collectively assist in addressing many of the issues experienced by urban co-operative banks.

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Recap

- ◊ Urban Co-operative Banks primarily serve urban and semi-urban populations.
- ◊ Democratic management is a key feature of UCBs.
- ◊ UCBs contribute to financial inclusion.
- ◊ Deposits are the major source of funds.
- ◊ RBI regulates banking operations of UCBs.
- ◊ The General Body is the highest authority.
- ◊ Urban Co-operative Banks play an important role in India's banking sector.
- ◊ Members are both the owners and customers of Urban Co-operative Banks.
- ◊ Effective management and prudent lending contribute to the financial stability of Urban Co-operative Banks.
- ◊ Transparency, accountability, and member participation are essential for the successful functioning of Urban Co-operative Banks.

Objective Questions

1. Where do Urban Co-operative Banks mainly operate?
2. On which principle do Urban Co-operative Banks function?
3. Who owns an Urban Co-operative Bank?
4. Which is the highest authority of an Urban Co-operative Bank?
5. What services do Urban Co-operative Banks primarily provide?
6. How many votes does each member generally have in an Urban Co-operative Bank?
7. What do loans provided by Urban Co-operative Banks help?
8. Who elects the Board of Directors of an Urban Co-operative Bank?
9. What is democratic control in Urban Co-operative Banks?
10. Whom do Urban Co-operative Banks mainly serve?

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Answers

1. Urban and semi-urban areas.
2. Co-operative principles.
3. The members of the bank.
4. The General Body.
5. Banking services such as accepting deposits, granting loans, remittance services, and digital banking.
6. One vote.
7. Economic and productive activities.
8. The members of the bank.
9. A co-operative principle in which members participate equally in decision-making through democratic voting.
10. Urban and semi-urban communities, including individuals, traders, professionals, and small businesses.

Self-Assessment Questions

1. Explain the importance of Urban Co-operative Banks.
2. Discuss the major functions of Urban Co-operative Banks.
3. Explain the management structure of Urban Co-operative Banks.
4. Describe the powers and responsibilities of the Board of Directors.
5. Explain the role of RBI in regulating Urban Co-operative Banks.
6. How do Urban Co-operative Banks promote financial inclusion?
7. Explain the significance of good governance in Urban Co-operative Banks.
8. Describe the challenges faced by Urban Co-operative Banks.

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Assignments

1. Compare the services of an Urban Co-operative Bank with those of a commercial bank based on account types, loan products, digital banking, and customer services.
2. Study the digital banking facilities available in a selected Urban Co-operative Bank and evaluate their effectiveness.
3. Analyze the governance structure of a selected Urban Co-operative Bank and identify the roles of different management bodies.

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Unit 2
Credit Co-operatives

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ explain the concept, objectives, and importance of Credit Co-operative Societies
- ◊ describe the functions and services provided by Credit Co-operative Societies
- ◊ explain the concept of Employees' Thrift and Credit Co-operative Societies
- ◊ discuss the role and importance of Industrial Co-operative Banks in providing financial assistance to industries

Prerequisite

Before beginning this unit, the learner should be familiar with the co-operative principles studied in Block 1, and with Unit 1 of this Block, which explained what a banking licence is and why it matters. That distinction is central to the present unit.

The learner should also recall the elementary meaning of thrift - the practice of setting aside a part of one's income regularly - since the institutions studied here are built upon it.

Keywords

Credit Co-operative Society · Thrift · Employees' Co-operative Society · Industrial Co-operative Bank · Banking Licence · Deposit Insurance · MSME

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Discussion

4.2.1 Introduction

Credit Co-operative Societies are voluntary associations formed by individuals who come together to promote savings and provide credit to their members at reasonable interest rates. These societies are established on the principles of cooperation, mutual help, democratic management, and self-reliance. Their main purpose is to protect members from exploitation by private moneylenders and to improve their economic and social well-being. Credit co-operatives play an important role in providing financial assistance, especially to low-income groups, farmers, small traders, artisans, and salaried employees.

The constitution of a Credit Co-operative Society refers to its legal structure, organization, membership, and management. A society is formed by a group of individuals who voluntarily agree to work together for their common financial benefit. It is registered under the State Cooperative Societies Act or the Multi-State Cooperative Societies Act if it operates in more than one state. Membership is generally open to all persons who satisfy the conditions laid down in the society's bye-laws. Every member purchases at least one share of the society and becomes a joint owner. Regardless of the number of shares held, each member has only one vote, ensuring democratic control and equality among members.

The General Body, consisting of all members, is the highest authority of the society. It elects the Board or Managing Committee, which is responsible for the day-to-day administration, loan sanctioning, financial management, and implementation of policies. The society raises funds mainly through members' share capital, deposits, reserves, borrowings from cooperative banks, and government assistance where applicable. The constitution ensures transparency, accountability, and member participation in all important decisions.

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4.2.2 Objectives of Credit Co-operative Societies

1. To Encourage Savings

One of the primary objectives of a Credit Co-operative Society is to develop the habit of regular savings among its members. Members are encouraged to deposit even small amounts at regular intervals, making saving a continuous and disciplined practice. These savings help members build financial security and prepare for future needs such as education, healthcare, or emergencies. The accumulated savings also create a common pool of funds that can be used to provide loans to other members. Thus, encouraging savings not only benefits individual members but also strengthens the financial position and sustainability of the society.

2. To Provide Affordable Credit

Credit Co-operative Societies aim to provide loans to members at reasonable and affordable interest rates. Unlike private moneylenders, these societies charge lower

interest, reducing the financial burden on borrowers. Loans are provided for various purposes, including agriculture, business, education, housing, medical treatment, and other personal or productive needs. The loan approval process is generally simpler and faster than that of many commercial banks, making credit more accessible. By providing affordable credit, the societies help members improve their economic condition and meet financial requirements without falling into debt traps.

3. To Eliminate Exploitation

A major objective of Credit Co-operative Societies is to protect members from exploitation by private moneylenders and informal lenders. Moneylenders often charge excessively high interest rates, leading borrowers into long-term indebtedness. Credit co-operatives provide loans on fair terms and transparent conditions, ensuring that members are treated equitably. This reduces dependence on exploitative sources of finance and promotes financial stability. As a result, members can utilize borrowed funds for productive purposes without the fear of unfair financial practices.

4. To Improve the Economic Welfare of Members

Credit Co-operative Societies work to improve the overall economic well-being of their members. Timely financial assistance enables members to invest in agriculture, small businesses, education, housing, and other income-generating activities. Easy access to credit helps increase productivity and encourages entrepreneurship. Members can also use loans to manage emergencies without disrupting their financial stability. Over time, these benefits contribute to higher incomes, better living standards, and improved quality of life for members and their families.

5. To Promote Self-Help and Mutual Cooperation

The philosophy of co-operation is based on self-help and mutual assistance, and Credit Co-operative Societies actively promote these values. Members contribute their savings, participate in decision-making, and share responsibility for the success of the society. The society operates on the belief that collective effort is more effective than individual action in solving financial problems. Members support one another by providing financial resources through the common fund and by participating in the management of the society. This spirit of cooperation strengthens social unity, trust, and collective responsibility among members.

6. To Support Small Businesses and Self-Employment

Credit Co-operative Societies play a significant role in promoting entrepreneurship and self-employment. They provide financial assistance to small entrepreneurs, artisans, traders, farmers, and self-employed individuals who may not have easy access to bank credit. These loans help members establish new businesses, purchase equipment, expand existing enterprises, or improve production. By supporting income-generating activities, the societies contribute to employment generation and local economic development. This objective is particularly important in rural and semi-urban areas where access to formal financial institutions may be limited.

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7. To Ensure Democratic Management

Credit Co-operative Societies function according to democratic principles, ensuring equal participation of all members. Every member has an equal voting right regardless of the number of shares owned, following the principle of "One Member, One Vote." Members elect the managing committee, participate in general body meetings, and take part in important policy decisions. Democratic management promotes transparency, accountability, and fairness in the administration of the society. It also strengthens members' confidence and encourages active involvement in the governance and development of the co-operative.

4.2.3 Functions of Credit Co-operative Societies

Credit Co-operative Societies perform a vital role in mobilizing savings, providing affordable credit, and promoting the economic and social welfare of their members. They are established primarily to meet the financial needs of members through the principles of self-help, mutual aid, and democratic management. Unlike commercial banks, these societies focus on member welfare rather than profit maximization. Their functions extend beyond lending activities and contribute significantly to financial inclusion and community development.

1. Mobilization of Savings

One of the most important functions of Credit Co-operative Societies is to encourage and mobilize savings among members. The societies motivate members to save regularly by accepting deposits in various forms, such as savings deposits, fixed deposits, and recurring deposits. Even small savings are encouraged, enabling members to develop financial discipline and security. These savings become the primary source of funds for the society's lending operations. By promoting thrift, the societies help members build financial resilience while creating a sustainable source of capital for the co-operative.

2. Providing Credit Facilities

The primary function of Credit Co-operative Societies is to provide loans to members at reasonable interest rates. Loans are granted for various productive and personal purposes, including agriculture, business expansion, education, housing, medical treatment, and family needs. The loan procedures are generally simple, with fewer formalities compared to commercial banks. Members can access timely financial assistance without depending on private moneylenders. This function helps members meet their financial requirements while reducing the cost of borrowing.

3. Granting Short-term and Medium-term Loans

Credit Co-operative Societies provide different types of loans depending on the financial needs of members. Short-term loans are generally provided for seasonal agricultural operations, working capital requirements, or emergency expenses. Medium-term loans are offered for purchasing agricultural equipment, livestock, machinery, business development, or home improvements. The repayment schedules are designed according to the borrowing capacity and income pattern of members. This flexibility ensures that members can repay loans without excessive financial pressure.

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4. Promoting Financial Inclusion

Credit Co-operative Societies play a crucial role in extending financial services to economically weaker sections and people living in rural and semi-urban areas. Many individuals who lack access to commercial banks can easily become members of these societies. They provide savings facilities, credit, and other financial services at the local level. This helps integrate underserved communities into the formal financial system. By promoting financial inclusion, the societies contribute to reducing poverty and improving economic opportunities.

5. Eliminating the Dependence on Moneylenders

A significant function of Credit Co-operative Societies is to protect members from exploitation by private moneylenders. Informal lenders often charge exorbitant interest rates and impose unfair repayment conditions. Credit co-operatives provide loans on transparent terms and at affordable interest rates. This reduces the financial burden on members and prevents them from falling into debt traps. As a result, members enjoy greater financial security and independence.

6. Promoting Self-Help and Mutual Assistance

Credit Co-operative Societies operate on the principles of self-help, mutual aid, and cooperation. Members collectively contribute their savings and use the common fund to provide financial assistance to one another. The success of the society depends on active member participation and cooperation. Members support each other by sharing responsibilities and participating in decision-making processes. This strengthens solidarity, trust, and a sense of community among members.

7. Providing Safe Investment Opportunities

The societies provide members with safe and secure avenues for investing their savings. Deposits made by members earn reasonable returns while remaining easily accessible when needed. Since the societies are regulated under co-operative laws and managed democratically, members have confidence in the safety of their investments. This encourages greater participation in savings programmes. Safe investment facilities also help members achieve long-term financial stability.

8. Providing an avenue for members' savings

Deposits made by members earn reasonable returns while remaining accessible when needed. It should be remembered, however, that the safety of such deposits rests on the sound management of the society, on statutory audit and on supervision by the Registrar of Co-operative Societies, and not on any guarantee from the Reserve Bank of India or on deposit insurance, neither of which extends to a credit co-operative society.

9. Promoting Economic and Social Development

Beyond financial services, Credit Co-operative Societies contribute to the overall development of their members and the local community. By providing affordable credit, they encourage entrepreneurship, employment generation, agricultural development, and small business growth. Improved access to finance raises income levels and

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enhances the standard of living of members. Many societies also support community welfare programmes, educational activities, and social development initiatives. Thus, Credit Co-operative Societies serve as important instruments for inclusive economic growth and community empowerment.

4.2.4 Employees' Thrift and Credit Co-operative Societies

Employees' Thrift and Credit Co-operative Societies are voluntary financial organizations formed by employees of a particular institution, department, company, or establishment to promote thrift, encourage regular savings, and provide credit to members at reasonable rates of interest. They function according to the co-operative principles of voluntary membership, democratic management, equality, mutual help, and service rather than profit. These societies are commonly found in government departments, public sector undertakings, educational institutions, banks, hospitals, factories, and private organizations.

The primary purpose of these societies is to improve the economic well-being of employees by helping them save regularly and by providing timely financial assistance for personal, family, and productive needs.

4.2.5 Objectives of Employees' Thrift and Credit Co-operative Societies

The major objectives of these societies are:

1. To encourage the habit of regular savings among employees.
2. To provide loans to members at affordable rates of interest.
3. To protect members from exploitation by private moneylenders.
4. To promote self-help, mutual assistance, and co-operation among employees.
5. To improve the economic and social welfare of members.
6. To provide financial assistance during emergencies.
7. To develop financial discipline and responsible borrowing habits.
8. To strengthen solidarity and unity among employees.

4.2.6 Features of Employees' Thrift and Credit Co-operative Societies

1. Voluntary Membership

Membership in an Employees' Thrift and Credit Co-operative Society is entirely voluntary. Any eligible employee of the concerned organization or institution can become a member by purchasing the required number of shares and agreeing to follow the society's bylaws. No employee can be compelled to join or remain a member against their will. This principle promotes equality, freedom of choice, and a sense of ownership among members.

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2. Democratic Management

These societies are managed according to the democratic principle of "one member, one vote." Every member has an equal right to participate in decision-making regardless of the amount of share capital contributed. The Managing Committee is elected periodically by the members through democratic elections. This system ensures transparency, accountability, and active participation in the administration of the society.

3. Limited Area of Operation

Employees' Thrift and Credit Co-operative Societies generally serve employees of a particular office, institution, factory, company, or department. Their activities are confined to a specific organization or a defined geographical area. This limited area of operation helps the society understand the financial needs of its members more effectively. It also facilitates better supervision, communication, and loan recovery.

4. Regular Savings

One of the primary features of these societies is the promotion of regular savings among members. Members contribute a fixed amount every month, which is often deducted directly from their salaries. These regular contributions help build a common fund that is used for lending to members. The habit of systematic savings also improves employees' financial discipline and economic security.

5. Affordable Credit

The society provides loans to members at reasonable and affordable rates of interest. The loan procedures are simple, and members receive financial assistance without lengthy formalities. This enables employees to meet urgent financial needs without depending on private moneylenders. Affordable credit reduces the financial burden on members and encourages responsible borrowing.

6. Mutual Benefit

Employees' Thrift and Credit Co-operative Societies are established to serve the common interests of their members rather than to maximize profits. The income earned by the society is utilized for improving member services, creating reserves, and supporting welfare activities. Members cooperate by pooling their resources for mutual benefit. This spirit of cooperation strengthens unity, trust, and collective responsibility among employees.

7. Limited Liability

The liability of each member is limited to the amount of share capital subscribed by them. Members are not personally responsible for the debts of the society beyond their agreed contribution. This feature reduces the financial risk associated with membership and encourages greater participation. Limited liability also provides confidence and security to members while investing in the society.

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4.2.7 Functions

1. Promotion of Thrift

The foremost function of the society is to encourage the habit of regular savings among employees. Members are motivated to save a portion of their monthly income through compulsory or voluntary thrift deposits. These savings help members build financial security and prepare for future emergencies. The accumulated savings also strengthen the financial position of the society.

2. Providing Loans

The society provides loans to members for various personal, family, and productive purposes. Financial assistance is available for education, medical treatment, house construction or repair, marriage expenses, purchase of household articles, and emergency needs. Loans are sanctioned quickly with simple procedures and reasonable interest rates. This helps members avoid borrowing from private moneylenders who often charge exorbitant interest.

3. Mobilization of Savings

Employees' Thrift and Credit Co-operative Societies mobilize savings by collecting share capital, thrift deposits, entrance fees, and other member contributions. These funds form the financial base of the society and are utilized for lending activities. Effective mobilization of savings ensures adequate liquidity and financial stability. It also promotes the productive use of members' small savings for collective benefit.

4. Financial Guidance

Many societies provide financial education and guidance to their members. They encourage proper budgeting, financial planning, investment, and responsible borrowing practices. Awareness programmes help members understand the importance of savings and debt management. Such guidance improves financial literacy and enables members to make sound financial decisions.

5. Member Welfare Activities

Apart from financial services, these societies undertake various welfare activities for the benefit of members and their families. They may provide scholarships to children, death relief assistance, festival advances, insurance facilities, and emergency financial aid during natural disasters. Some societies also organize educational programmes, health camps, and awareness campaigns. These welfare measures enhance the social and economic well-being of members.

6. Dividend Distribution

After meeting operational expenses and statutory requirements, the society may distribute a portion of its surplus as dividends to members. Dividend distribution is carried out according to the provisions of the Co-operative Societies Act, Rules, and the society's bylaws. A part of the surplus is also transferred to reserve funds for future stability and growth. This ensures that members receive a fair share of the society's success while maintaining financial sustainability.

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4.2.8 Industrial Co-operative Bank

An Industrial Co-operative Bank is a specialized co-operative financial institution established to provide banking and credit facilities to small-scale industries, cottage industries, village industries, artisans, craftsmen, and industrial co-operative societies. These banks are organized on co-operative principles and function with the objective of promoting industrial development through affordable financial assistance. Unlike commercial banks, Industrial Co-operative Banks primarily focus on meeting the financial needs of the industrial sector, particularly small and medium enterprises (SMEs) that often face difficulties in obtaining credit from conventional banking institutions. By providing financial services and technical support, these banks contribute significantly to industrial growth, employment generation, and economic development.

An Industrial Co-operative Bank is a co-operative banking institution formed by industrial workers, entrepreneurs, artisans, and industrial co-operative societies to mobilize savings and provide financial assistance for industrial activities. It operates on the principles of voluntary membership, democratic management, self-help, and mutual cooperation. Members contribute share capital, and the bank utilizes these funds along with deposits and borrowings to provide loans and other banking services. The bank aims to improve the financial position of industrial units by providing timely and affordable credit.

The main objective of an Industrial Co-operative Bank is to provide adequate and affordable finance to industrial enterprises. It seeks to encourage entrepreneurship by supporting new and existing industrial units. The bank also aims to promote savings among members, generate employment opportunities, strengthen small-scale industries, and contribute to balanced regional development. Another important objective is to reduce dependence on private moneylenders and other costly sources of finance by offering credit at reasonable interest rates.

It should be noted that Industrial Co-operative Banks in the strict sense have not proliferated in India. According to information placed before Parliament by the Ministry of Co-operation, only one Industrial Co-operative Bank remains under the supervision of the Reserve Bank of India and NABARD. The functions described below are therefore best understood as the functions performed for industry by co-operative banks generally, including urban co-operative banks that specialise in industrial finance.

4.2.9 Functions of Industrial Co-operative Bank

1. Providing Industrial Credit

The primary function of an Industrial Co-operative Bank is to provide loans and advances to industrial units. Financial assistance is offered for establishing new industries, expanding existing businesses, purchasing machinery, modernizing production facilities, and meeting working capital requirements. These loans are provided at reasonable interest rates with flexible repayment terms, enabling industries to grow and remain financially stable.

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2. Financing Small-Scale and Cottage Industries

Industrial Co-operative Banks play a significant role in supporting small-scale, cottage, and village industries. These sectors often face challenges in obtaining finance from commercial banks due to limited collateral and small business size. The bank provides financial assistance to artisans, weavers, handicraft workers, carpenters, blacksmiths, and other small entrepreneurs. This support helps preserve traditional industries while promoting rural industrialization and employment.

3. Mobilization of Savings

The bank encourages members and the public to develop the habit of saving by accepting deposits in different forms, such as savings accounts, fixed deposits, recurring deposits, and current accounts. These deposits become an important source of funds for lending operations. Mobilizing savings not only strengthens the financial position of the bank but also promotes financial discipline among members.

4. Providing Working Capital

Industrial units require working capital to meet day-to-day operational expenses such as purchasing raw materials, paying wages, meeting electricity charges, and maintaining inventory. Industrial Co-operative Banks provide short-term working capital loans to ensure uninterrupted production. Timely availability of working capital improves operational efficiency and prevents disruptions in manufacturing activities.

5. Financing Machinery and Equipment

Industrial Co-operative Banks provide medium-term and long-term loans for purchasing machinery, tools, equipment, and modern technology. These loans enable industries to improve productivity, reduce production costs, and enhance product quality. Financial assistance for modernization helps industries remain competitive in domestic and international markets.

6. Promoting Entrepreneurship

One of the important functions of Industrial Co-operative Banks is to encourage entrepreneurship among individuals interested in starting industrial ventures. The bank provides financial support to first-generation entrepreneurs, self-employed individuals, women entrepreneurs, and young business owners. Easy access to finance encourages innovation, business expansion, and the establishment of new industrial enterprises.

7. Providing Banking Services

In addition to lending activities, Industrial Co-operative Banks offer a wide range of banking services similar to commercial banks. These include accepting deposits, issuing cheque books, providing demand drafts, money transfers, electronic banking facilities, ATM services, and safe deposit lockers where available. These services enable members to conduct financial transactions efficiently and securely.

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8. Promoting Industrial Development

Industrial Co-operative Banks contribute significantly to the growth of industries by ensuring the continuous flow of credit. Financial support enables industrial units to increase production, improve efficiency, adopt new technologies, and expand their operations. As industries grow, they contribute to higher industrial output, increased exports, and overall economic development.

9. Generating Employment Opportunities

By financing industrial enterprises, Industrial Co-operative Banks indirectly create employment opportunities. New industries require workers, technicians, managers, and skilled professionals, thereby generating direct and indirect employment. Employment generation improves household income, reduces unemployment, and contributes to social and economic development.

10. Providing Financial Guidance

Many Industrial Co-operative Banks offer advisory and consultancy services to their members. They guide entrepreneurs on project planning, financial management, investment decisions, loan utilization, government subsidy schemes, and industrial policies. Such guidance improves the success rate of industrial projects and ensures effective utilization of borrowed funds.

11. Supporting Government Industrial Policies

Industrial Co-operative Banks actively participate in implementing government programmes designed to promote industrialization and entrepreneurship. They channel financial assistance under various government-sponsored schemes for Micro, Small, and Medium Enterprises (MSMEs), women entrepreneurs, rural industries, and self-employment programmes. This support helps achieve national objectives of inclusive industrial growth and balanced regional development.

12. Ensuring Democratic Management

Industrial Co-operative Banks operate according to co-operative principles. Members elect the Board of Directors through democratic elections based on the principle of "One Member, One Vote." This democratic governance promotes transparency, accountability, and equal participation in decision-making. Members actively contribute to policy formulation and monitor the functioning of the bank.

4.2.10 Micro, Small and Medium Enterprises

Industrial cooperative finance targets primarily micro, small and medium enterprises so learners should know how these are classified. Under the Micro, Small and Medium Enterprises Development Act of 2006, enterprises are classified using a composite criterion of investment in plant and machinery or equipment and annual turnover. If either criterion exceeds a ceiling, the enterprise moves to the next higher category. Limits were revised effective April 1, 2025, as follows:

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Category	Investment in plant and machinery or equipment	Annual turnover
Micro enterprise	Not exceeding ₹2.5 crore	Not exceeding ₹10 crore
Small enterprise	Not exceeding ₹25 crore	Not exceeding ₹100 crore
Medium enterprise	Not exceeding ₹125 crore	Not exceeding ₹500 crore

4.2.11 Importance of Industrial Cooperative Finance

Industrial cooperative finance promotes industrial development by providing timely and affordable assistance to small industries, cottage industries, artisans, and entrepreneurs, and by closing the gap between institutional credit availability and the financial needs of industrial units. This financial service provides easy access to credit through short-term loans, term loans, and machinery loans at reasonable rates. SMEs can establish new units, expand existing businesses, upgrade machinery and increase production capacity. Entrepreneurship is promoted by encouraging people to start new industrial ventures, which helps generate self-employment and reduce unemployment; first-generation entrepreneurs benefit from financial services and technical support. Kerala also supports small and cottage industries that find it hard to get credit from commercial banks because they lack collateral by simplifying loan procedures and offering flexible repayment. Industrial development is also promoted in rural and semi-urban areas, and resources are better utilised and disparities reduced. Finally, mobilising local financial resources and channelling them into productive industry strengthens cooperative movements through self-help and collective economic progress.

Industrial co-operation in Kerala

Kerala stands out with two well-known examples of cooperation in industry. Registered in Vatakara in 1925, Uralungal Labour Contract Cooperative Society is a workers cooperative that undertakes construction and infrastructure contracts and is among the oldest surviving cooperatives that deal with labor contracts. Kerala Dinesh Beedi Workers Central Cooperative Society, formed in Kannur in 1969 when workers who lost jobs banded together into primary societies, is an example of an industrial cooperative directly created in response to unemployment and diversified later into food products, garments, and IT. Both show a distinctive feature of cooperation among workers: workers are not just employees but members and partial owners, and surplus that is generated returns to those who produced it.

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Recap

- ◊ Membership is voluntary in Credit Co-operative Societies.
- ◊ Employees' Thrift and Credit Co-operative Societies are formed for employees of an organization.
- ◊ Employees' societies improve members' financial security.
- ◊ Members generally have equal voting rights.
- ◊ Industrial Co-operative Banks support industrial development.
- ◊ Co-operative credit reduces dependence on moneylenders.
- ◊ Member participation strengthens co-operative institutions.
- ◊ Co-operative institutions operate on mutual help and self-help.

Objective Questions

1. What is the primary purpose of a Credit Co-operative Society?
2. What do Credit Co-operative Societies encourage among members?
3. Who can become a member of a Credit Co-operative Society according to its bylaws?
4. What is the main source of funds for Credit Co-operative Societies?
5. What is the main objective of Employees' Thrift and Credit Co-operative Societies?
6. Who are the members of Employees' Thrift and Credit Co-operative Societies?
7. What are the major features of Employees' Thrift and Credit Co-operative Societies?
8. What types of loans do Employees' Thrift and Credit Co-operative Societies provide?
9. What is an Industrial Co-operative Bank?
10. What is the main objective of Industrial Co-operative Banks?

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Answers

1. To provide affordable credit and encourage savings among members.
2. Regular savings and thrift.
3. Eligible persons who satisfy the membership conditions prescribed in the bylaws.
4. Members' share capital, savings, deposits, and reserves.
5. To promote thrift and provide affordable credit to employees.
6. Employees of a particular organization or institution.
7. Voluntary membership, democratic management, regular savings, affordable credit, and mutual assistance.
8. Personal, housing, education, medical, emergency, and consumer loans.
9. A co-operative bank established to finance industrial co-operatives and small industries.
10. To provide financial assistance for industrial development.

Self-Assessment Questions

1. Discuss the functions of Credit Co-operative Societies.
2. Explain the importance of Credit Co-operatives.
3. Describe Employees' Thrift and Credit Co-operative Societies.
4. Explain the features of Employees' Thrift and Credit Co-operative Societies.
5. Discuss the advantages of Employees' Thrift and Credit Co-operative Societies.
6. Explain the concept of Industrial Co-operative Banks.
7. Describe the functions of Industrial Co-operative Banks.
8. Discuss the role of Credit Co-operatives in financial inclusion.
9. Explain how Credit Co-operatives encourage thrift among members.

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Assignments

1. Compare the loan facilities offered by a Credit Co-operative Society and a commercial bank.
2. Study the loan application and approval procedure of a Credit Co-operative Society.
3. Prepare a case study on the contribution of an Industrial Co-operative Bank to the development of a small-scale industry.

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Unit 3
Housing Co-operatives

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ explain the concept, objectives, and importance of Housing Co-operative Societies
- ◊ describe the management structure and functioning of Housing Co-operative Societies
- ◊ explain the concept and role of Employees' Co-operative Credit Societies in promoting savings and providing credit
- ◊ discuss the role of Housing Co-operative Societies and Employees' Co-operative Credit Societies in improving the socio-economic well-being of members

Prerequisite

Before beginning this unit, the learner should be familiar with the co-operative principles studied in Block 1 and with the management structure of a co-operative society - the General Body, the Managing Committee and the office-bearers- as these recur here in a different setting. The learner should also have an elementary idea of what a housing loan is and how it is repaid in equated monthly instalments, and should recall from Unit 2 that a co-operative society may raise funds from its members, from co-operative banks and from other financial institutions.

Keywords

Housing Co-operative Society · General Body · Managing Committee · Tenant Ownership Society · Tenant Co-partnership Society · Maintenance Charges · Sinking Fund · Nomination

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Discussion

4.3.1 Introduction

Cooperative Housing Societies are formed voluntarily by a collective of people that meet to resolve their own housing needs collectively. Cooperative Housing Societies operate according to cooperative principles (such as voluntary membership, democracy, equity, self-help, and service to members) with a primary focus on providing the best possible quality and price for their members. Primary goals of Cooperative Housing Societies include creating affordable housing options for residents, creating new residential developments and enhancing the overall standard of living for members.

Cooperative Housing Societies are particularly beneficial for middle-class and low-income households that would have difficulty purchasing land or building individual homes. Through combined efforts, members can pool resources to acquire land, secure financing and receive benefits related to housing at lower costs. As such, Cooperative Housing Societies contribute significantly to both social welfare and urban development.

4.3.2 Organization of Cooperative Housing Societies

A Cooperative Housing Society is registered with the state based upon the provisions outlined in the State Cooperative Societies Act. Promoters of the Cooperative Housing Society file an application with the Registrar of Co-op Societies to register the society; the proposed bylaws of the society; the names of the initial members of the society; and any other necessary documentation. Upon approval of the application, the Cooperative Housing Society will be established as a corporation with perpetuity and a common seal.

Membership in a Cooperative Housing Society is available to those meeting the qualifications outlined in both the State Cooperative Societies Act and the bylaws of the specific society. In exchange for being accepted as a member, each member purchases shares and pays an entrance fee. Each member has equal voting power regardless of how many shares they hold, thereby assuring democratic decision-making processes. The General Membership is composed of all members and is responsible for making all major decisions, including approving the annual report, audited statements, and budget, amending the bylaws, and electing the Managing Committee. The Managing Committee is elected by the general membership and is led by a president and secretary. This committee is responsible for managing the daily operations of the society, including financial matters, allocation of housing/land, maintenance of common areas, and implementing decisions made by the General Membership. The societies raise money through contributions of shareholders, entrance fees, deposits, loans secured from co-operative banks and/or financial institutions, government grants, and reserve funds. The monies raised through these methods are utilized by the societies to acquire land, build residences, create infrastructure for public use, and maintain amenities for its residents. The bylaws outline how internal issues will be managed regarding administration

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and include rules regarding: objectives of the society; membership requirements; organisation chart; attendance at and conduct of meetings; auditing; allocation of excess income; and resolution of disputes within the society.

4.3.3 Types of Cooperative Housing Societies

There are four different types of housing cooperatives. While there are some differences among these types, primarily because of ownership structures (i.e., whether the land owner is separate from the builder), most of the variations relate to which entity holds title to either or both property interests.

Type	Nature	Ownership of land and building
Tenant ownership society	The society acquires and develops land and allots plots to members, who then construct their own houses.	Land held by the society; the house is owned by the member.
Tenant co-partnership society	The society acquires the land, and itself constructs the houses or flats, allotting them to members who hold them as members and occupants.	Both land and building are held by the society; the member holds occupancy rights through his shares.
House mortgage society	The society does not build. It advances loans to members against mortgage of their property so that they may buy or build houses.	Owned by the member throughout.
House construction or building society	The society constructs houses for members and transfers ownership to them on completion, after which it may be dissolved or continue only for maintenance.	Transferred to the member on completion.

The tenant co-partnership type is the commonest form for flats and apartments, since the common land, the structure and the common amenities cannot conveniently be divided among individual owners. The tenant ownership type is common where members wish to build houses of their own design on separate plots.

4.3.4 Objectives of Housing Co-operative Societies

The primary objective of Housing Co-operative Societies is to provide affordable and quality housing to their members through collective effort and mutual cooperation.

1. To Provide Affordable Housing

The main objective is to help members obtain houses at a reasonable cost. By purchasing land and constructing houses collectively, the society reduces the overall

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cost of housing. Members benefit from economies of scale and lower construction expenses. The society also negotiates better prices for construction materials and services. Affordable housing improves the living standards of middle-income and low-income families. It enables many people to become homeowners who might otherwise be unable to purchase a house. This objective promotes social and economic welfare.

2. To Promote Savings and Collective Investment

Housing cooperatives encourage members to save regularly for housing purposes. Members contribute funds periodically, creating a common pool of resources. These collective savings are used for land purchase, construction, and maintenance activities. Regular savings also improve members' financial discipline. Collective investment reduces individual financial burdens and spreads the cost among all members. The society ensures that funds are used efficiently for common benefits. This objective strengthens financial security and cooperative development.

3. To Improve Living Standards

Housing cooperatives aim to provide safe, healthy, and comfortable living conditions. They develop planned residential colonies with proper roads, drainage systems, water supply, electricity, and sanitation facilities. Many societies also provide parks, community halls, and recreational facilities. Better housing improves the physical, mental, and social well-being of members. A clean and organized environment promotes a better quality of life. Children and elderly residents particularly benefit from improved community facilities. Thus, the society contributes to overall community development.

4. To Promote Mutual Cooperation

Housing cooperatives encourage members to work together for common welfare. Members participate in meetings, maintenance activities, and decision-making processes. Cooperation helps resolve common problems such as repairs, security, and community services. It strengthens unity, trust, and social harmony among residents. Members learn to share responsibilities and support one another. Cooperative living creates a friendly and peaceful neighborhood. This objective reflects the basic principles of the cooperative movement.

5. To Ensure Proper Maintenance

Another important objective is to maintain residential buildings and common facilities efficiently. The society arranges regular repairs, cleaning, waste management, and maintenance of water supply and electrical systems. Proper maintenance preserves the value of the property and ensures safety for residents. Maintenance funds are collected from members according to approved rules. Timely maintenance prevents costly repairs in the future. Good maintenance also improves the appearance and attractiveness of the housing complex. This objective ensures long-term sustainability of the society.

4.3.5 Functions

Housing Co-operative Societies perform several important functions for the benefit of their members.

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1. Purchase and Development of Land

The society identifies suitable land for residential development. It negotiates with landowners and purchases land at reasonable prices. After acquiring the land, the society develops it by constructing roads, drainage systems, water supply, electricity, and other infrastructure. Proper planning ensures efficient utilization of available land. Land development increases the value of the property and provides a better living environment. Members benefit from well-planned residential layouts. This function forms the foundation of housing development.

2. Construction of Houses

The society undertakes the construction of houses or residential apartments for its members. It appoints qualified architects, engineers, and contractors to ensure quality construction. Construction work follows approved building plans and government regulations. The society supervises the progress of work to maintain quality standards and complete projects on time. Collective construction reduces costs and ensures uniform standards. Members receive houses at affordable prices with essential facilities. This function fulfills the primary housing needs of members.

3. Maintenance of Common Facilities

The society maintains all common facilities within the residential complex. These include roads, parks, gardens, community halls, lifts, parking areas, street lighting, water supply, and drainage systems. Regular maintenance ensures safety and convenience for all residents. Maintenance charges collected from members are used for this purpose. Proper upkeep increases the lifespan of common assets. It also creates a clean and pleasant living environment. Efficient maintenance improves member satisfaction.

4. Providing Housing Finance Assistance

Many housing cooperatives help members obtain housing loans from cooperative banks and financial institutions. The society guides members regarding loan applications, documentation, and repayment procedures. Some societies also provide limited financial assistance directly from their own funds. Easy access to housing finance enables members to construct or purchase houses without financial hardship. Proper repayment systems ensure financial discipline. Financial assistance makes home ownership more accessible. This function supports the economic welfare of members.

5. Protecting Members' Interests

The society safeguards the legal and financial interests of its members. It ensures clear ownership documents, proper registration, and compliance with legal requirements. The society resolves disputes among members through peaceful discussions and cooperative methods. It protects members from unfair practices during construction and property transactions. Transparent management builds confidence among members. Legal protection reduces the risk of future disputes. This function ensures security and stability for homeowners.

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4.3.6 Management of Housing Co-operative Societies

The management of Housing Co-operative Societies is essential for ensuring the efficient functioning, financial stability, and long-term sustainability of the society. A well-managed housing co-operative provides safe and affordable housing, maintains common amenities, protects the interests of members, and promotes a healthy community living environment. The management system is based on the co-operative principles of democracy, equality, transparency, accountability, and mutual assistance. Every member has the opportunity to participate in decision-making, while elected representatives are responsible for the day-to-day administration of the society. Effective management also ensures compliance with the provisions of the Co-operative Societies Act, Rules, and the society's bylaws.

1. General Body

The General Body is the highest decision-making authority of a Housing Co-operative Society. It comprises all registered members who have been admitted according to the provisions of the society's bylaws. Every member has one vote irrespective of the number of shares held, reflecting the democratic principle of "one member, one vote."

The General Body usually meets once every year in the form of an Annual General Meeting (AGM), although special general meetings may be convened whenever necessary. During these meetings, members discuss and decide important matters affecting the society. The General Body approves the annual budget, audited financial statements, and annual reports submitted by the Managing Committee. It also decides the rate of maintenance charges, creates reserve funds, approves major repair and development projects, and sanctions loans whenever required.

Another important responsibility of the General Body is the election of the Managing Committee. It elects competent members to administer the affairs of the society for a specified term. The General Body also has the authority to amend the society's bylaws, approve expansion projects, remove committee members for misconduct, and appoint auditors in accordance with statutory provisions. Through active participation in meetings and discussions, members ensure transparency, accountability, and collective decision-making.

2. Managing Committee

The Managing Committee is the executive body elected by the General Body to administer the day-to-day affairs of the Housing Co-operative Society. It functions as the governing body and is responsible for implementing the policies and decisions approved by the General Body.

The committee generally consists of a President, Vice-President, Secretary, Treasurer, and several elected committee members. The term of office is prescribed by the relevant Co-operative Societies Act and the society's bylaws.

The Managing Committee performs a wide range of administrative, financial, and operational functions. It prepares annual budgets, collects maintenance charges

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from members, supervises the maintenance of buildings and common facilities, and ensures proper utilization of society funds. The committee appoints and supervises employees such as managers, accountants, security personnel, electricians, plumbers, and housekeeping staff whenever necessary.

The committee is also responsible for implementing maintenance and repair programmes, arranging insurance for buildings, maintaining water supply, sanitation, electricity, lifts, gardens, parking areas, and other common facilities. It ensures timely payment of taxes, utility bills, insurance premiums, and statutory dues.

Financial management is another major responsibility of the Managing Committee. It maintains proper books of accounts, prepares financial statements, safeguards society assets, and ensures that regular audits are conducted. The committee must maintain transparency by presenting financial reports before the General Body and complying with audit observations.

The committee admits new members, approves transfer of shares, enforces society rules, resolves disputes among members, and represents the society before government departments, financial institutions, and co-operative authorities.

3. President

The President is the head of the Housing Co-operative Society and provides overall leadership to the Managing Committee. The President presides over the meetings of both the General Body and the Managing Committee, ensuring that discussions are conducted democratically and decisions are taken according to the society's bylaws.

The President supervises the implementation of resolutions passed by the General Body and the Managing Committee. They represent the society before government authorities, co-operative departments, financial institutions, local self-government bodies, contractors, and other external agencies. The President also resolves administrative issues, promotes cooperation among members, and ensures that the society functions in accordance with legal and ethical standards.

4. Vice-President

The Vice-President assists the President in carrying out administrative responsibilities and performs the duties of the President during their absence. The Vice-President coordinates various committees, supervises maintenance activities when required, and supports the effective implementation of society decisions. This position ensures continuity in administration and leadership.

5. Secretary

The Secretary is the chief administrative officer of the Housing Co-operative Society. The Secretary manages the day-to-day administration and serves as the link between the members, Managing Committee, and external authorities.

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The Secretary prepares notices, agendas, and minutes of meetings, maintains all statutory records and registers, handles official correspondence, and ensures compliance with the provisions of the Co-operative Societies Act, Rules, and bylaws. The Secretary maintains membership registers, share certificates, property records, agreements, legal documents, audit reports, and other important records.

The Secretary also coordinates with government departments, auditors, contractors, banks, and service providers. In many societies, the Secretary supervises office staff and ensures that all administrative work is completed efficiently and within the prescribed time.

4.3.7 Employees' Co-operative Credit Societies

Employees' Co-operative Credit Societies are voluntary financial organizations formed by employees working in the same institution, company, government department, educational institution, or public sector organization. These societies are established on the principles of cooperation, self-help, mutual assistance, democratic management, and service to members rather than profit. Their primary aim is to encourage savings among employees and provide loans at reasonable interest rates to meet various personal and productive needs. By pooling their financial resources, members can access credit quickly without depending on private moneylenders or high-interest lenders. These societies improve the financial security of employees, promote responsible financial management, and strengthen the spirit of cooperation among members. They play an important role in improving the economic and social well-being of employees and their families.

Recap

- ◊ Housing Co-operative Societies provide affordable housing to members.
- ◊ Members voluntarily join Housing Co-operative Societies.
- ◊ Democratic management is a key feature of Housing Co-operative Societies.
- ◊ Members elect the Board of Directors.
- ◊ Employees' Co-operative Credit Societies encourage regular savings.
- ◊ Employees' Credit Societies provide loans at affordable interest rates.
- ◊ Regular thrift strengthens the financial position of members.
- ◊ Co-operative institutions provide financial support to MSMEs.

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Objective Questions

1. What is the primary objective of a Housing Co-operative Society?
2. Which body is the highest authority in a Housing Co-operative Society?
3. What is the main objective of Employees' Co-operative Credit Societies?
4. Who are the members of Employees' Co-operative Credit Societies?
5. What types of loans do Employees' Co-operative Credit Societies generally provide?
6. What does MSME stand for?
7. How do Housing Co-operative Societies improve members' quality of life

Answers

1. To provide affordable housing to members.
2. The General Body.
3. To encourage thrift and provide affordable credit to employees.
4. Employees of a particular organization or institution.
5. Personal, housing, education, medical, emergency, and consumer loans.
6. Micro, Small, and Medium Enterprises.
7. By providing affordable housing and maintaining common facilities.

Self-Assessment Questions

1. Discuss the management structure of Housing Co-operative Societies.
2. Explain the importance of Housing Co-operative Societies.
3. Explain the functions of Employees' Co-operative Credit Societies.
4. Discuss the advantages of Employees' Co-operative Credit Societies.
5. Explain the role of co-operative institutions in financing MSMEs.
6. Explain the importance of democratic management in co-operative societies.

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Assignments

1. Compare the loan facilities offered by an Employees' Co-operative Credit Society and a commercial bank.
2. Study the procedure for becoming a member of a Housing Co-operative Society and prepare a report.
3. Make a Comparative Study of Housing Co-operative Societies and Employees' Co-operative Credit Societies

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BLOCK 5

Co-operative Banking Institutions

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Unit 1
Banking Regulations Act 1949

Learning Outcomes

After completing this unit, learners will be able to:

- ◊ explain the objectives and significance of the Banking Regulation Act, 1949
- ◊ describe the applicability of the Banking Regulation Act, 1949 to co-operative banks and co-operative societies
- ◊ analyse the salient features of the Banking Regulation Act, 1949 in relation to the regulation and supervision of co-operative banks

Prerequisite

Before beginning this unit, the learner should be familiar with the meaning of banking as the acceptance of deposits from the public for lending or investment, repayable on demand or otherwise; the position of the Reserve Bank of India as the central bank and banking regulator of the country; and the manner in which a co-operative society is registered and administered under a State Co-operative Societies Act. A general acquaintance with the co-operative credit structure in India, as covered in earlier blocks of this course, is also assumed.

Keywords

Banking Regulation Act, 1949; Section 56; co-operative bank; licensing; capital adequacy; dual control; Banking Regulation (Amendment) Act, 2020

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Discussion

The Banking Regulation Act of 1949 is the principal legislation that regulates and supervises banking institutions in India. Originally called the Banking Companies Act of 1949, it was renamed the Banking Regulation Act from March 1, 1966. The Reserve Bank of India has the power to regulate banking through licensing, inspections, issuance of directions, and continuous supervision, with the aim of protecting depositors, restoring public confidence in the banking system, and preventing unsound banking practices. Initially, the Act applied only to banking companies. Provisions were extended to cooperative societies that conduct banking business through the Banking Laws (Application to Cooperative Societies) Act of 1965, which took effect on March 1, 1966 and inserted Section 56 into the Act. The purpose of the extension was to subject cooperative institutions to the same prudent discipline as commercial banks so that depositors placing money with a cooperative bank get comparable protection. The Act applies to State Cooperative Banks, District Central Cooperative Banks, Urban Cooperative Banks and other primary cooperative societies that engage in banking. Primary Agricultural Credit Societies are specifically excluded from the definition of banks and are governed by State Cooperative Societies Acts; they come under the Banking Regulation Act only if they start banking business defined by the Act. Societies formed for purposes other than banking, such as housing, marketing or consumer societies, are completely outside this Act. Because a cooperative bank simultaneously is a cooperative society and a bank, it operates under a system of dual control. Incorporation, membership elections, and management and administration are regulated by state law or the Multi State Cooperative Societies Act of 2002 for cooperative matters, but banking business is regulated by the Reserve Bank of India under the Banking Regulation Act of 1949. I understand you want me to rephrase the text to sound more natural while keeping the original meaning intact. However, you haven't provided any specific text for me to rephrase. Could you please provide the text you'd like me to rephrase? Once you provide it, I'll be happy to rephrase it more naturally.

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5.1.1 Objectives of the Act as Applied to Co-operative Banks

The Banking Regulation Act, 1949, as applicable to co-operative banks, was enacted to establish a comprehensive legal framework for regulating banking activities and ensuring the safe, efficient, and responsible functioning of co-operative banking institutions. The Act seeks to protect the interests of depositors, strengthen public confidence in the banking system, and promote financial stability. Its major objectives are explained below.

◊ **To regulate banking activities carried out by co-operative banks**

The Act regulates the banking business conducted by co-operative banks. It prescribes the legal framework within which these institutions operate, ensuring that banking activities such as accepting deposits, granting loans, making investments, and providing other financial services are carried out in accordance with established banking principles. Regulation promotes uniformity, discipline, and efficiency in the functioning of co-operative banks.

◊ **To safeguard the interests of depositors**

The Act aims to protect the money deposited by members and the public in co-operative banks. It introduces provisions relating to capital adequacy, maintenance of reserves, proper accounting, regular audits, and regulatory supervision to reduce the risk of financial loss. By ensuring that banks operate prudently and responsibly, the Act enhances the safety and security of depositors' funds.

◊ **To maintain financial stability and public confidence in the banking system**

A stable banking system is essential for the overall growth of the economy. The Act seeks to maintain financial stability by ensuring that co-operative banks remain financially sound and capable of meeting their obligations. Effective regulation increases public confidence in co-operative banks, encouraging people to save and invest through these institutions. Greater public trust also strengthens the co-operative banking sector.

◊ **To ensure prudent management and sound banking practices**

The Act promotes professional management and responsible governance in co-operative banks. It lays down standards regarding the appointment of directors, maintenance of financial records, lending practices, and internal controls. These provisions encourage efficient decision-making, minimize operational risks, and ensure that banking activities are conducted in a safe and financially responsible manner.

◊ **To empower the Reserve Bank of India to supervise and inspect co-operative banks**

The Banking Regulation Act authorizes the Reserve Bank of India (RBI) to supervise, inspect, and regulate co-operative banks. The RBI grants banking licences, conducts inspections, issues directions, and monitors the financial health of co-operative banks. These powers enable the RBI to detect weaknesses at an early stage and take corrective measures to protect the interests of depositors and maintain the stability of the banking system.

◊ **To Prevent Mismanagement, Fraud, and Financial Irregularities**

The Act contains several provisions designed to prevent financial misconduct, misuse of funds, and administrative irregularities. Restrictions on loans to directors and related parties, mandatory audits, maintenance of proper accounts, and regulatory inspections help reduce the chances of fraud and corruption. These safeguards ensure that the resources of co-operative banks are managed honestly and efficiently.

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◊ **To promote transparency, accountability, and responsible governance**

Transparency and accountability are essential for the success of any financial institution. The Act requires co-operative banks to maintain accurate financial records, prepare audited financial statements, and comply with regulatory reporting requirements. These measures improve accountability among directors and management while ensuring that stakeholders have access to reliable financial information. Responsible governance also enhances public confidence in the institution.

◊ **To ensure adequate liquidity and capital for banking operations**

Another important objective of the Act is to ensure that co-operative banks maintain sufficient capital and liquid assets to meet their financial obligations. Adequate capital strengthens the financial position of the bank and enables it to absorb unexpected losses, while liquidity ensures that depositors can withdraw their money whenever required. These requirements contribute to the stability, solvency, and long-term sustainability of co-operative banks.

5.1.2 Applicability of the Banking Regulation Act, 1949 to Co-operative Societies

The Banking Regulation Act, 1949, was originally enacted to regulate commercial banking institutions in India. However, with the enactment of the Banking Laws (Application to Co-operative Societies) Act, 1965, many of its provisions were extended to co-operative banks. The objective was to ensure that co-operative banks, which accept deposits from the public and provide banking services, operate in a safe, transparent, and financially sound manner. Although co-operative banks are organized under the Co-operative Societies Acts of the respective States or the Multi-State Co-operative Societies Act, they are also required to comply with the relevant provisions of the Banking Regulation Act because they perform banking functions.

The Act primarily applies to co-operative societies that carry on banking business, that is, societies engaged in accepting deposits from members and the public for lending or investment. These institutions are regulated jointly by the Reserve Bank of India (RBI) and the concerned Registrar of Co-operative Societies. While the Registrar oversees matters relating to registration, elections, membership, and administration, the RBI regulates banking operations, financial stability, prudential norms, and depositor protection.

The principal categories of co-operative banks covered under the Act include State Co-operative Banks, District Central Co-operative Banks (DCCBs), and Urban Co-operative Banks (UCBs).

1. State Co-operative Banks

State Co-operative Banks function as the apex institutions of the co-operative credit structure at the state level. They provide financial assistance and refinancing support to District Central Co-operative Banks and play an important role in implementing agricultural and rural credit policies. Since they conduct banking activities such

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as accepting deposits, granting loans, and managing financial transactions, they are governed by the relevant provisions of the Banking Regulation Act. The RBI supervises these banks to ensure compliance with banking regulations, capital adequacy requirements, liquidity norms, and prudent lending practices.

2. District Central Co-operative Banks (DCCBs)

District Central Co-operative Banks operate at the district level and act as intermediaries between the State Co-operative Bank and the Primary Agricultural Credit Societies. They mobilise deposits, provide credit to affiliated societies and individual customers, and support agricultural and rural economic activity. As banking institutions, they must obtain a licence from the Reserve Bank, maintain statutory reserves, submit to inspection and comply with the prudential regulations prescribed under the Act.

In Kerala, thirteen of the fourteen District Co-operative Banks were amalgamated with the Kerala State Co-operative Bank in November 2019 to form Kerala Bank. The Malappuram District Co-operative Bank did not join the amalgamation and continues to function separately; proceedings relating to its proposed merger are pending before the Supreme Court.

Illustration: Practical Dual Control: Formation of Kerala Bank

In November 2019, Kerala Bank was formed by merging thirteen out of fourteen District Cooperative Banks in the state with Kerala State Cooperative Bank. The merger required action under two different legal regimes. Registration and amalgamation of societies was regulated by the Kerala Cooperative Societies Act of 1969 under the Registrar of Cooperative Societies, while licensing and approval for merger was handled by the Reserve Bank of India under the Banking Regulation Act of 1949. Malappuram District Cooperative Bank did not join this merger. Later the State Government tried to force a compulsory merger and this matter is pending before Supreme Court. One of the questions raised there is whether a state authority can direct a merger of a bank whose deposits are insured and whether a merger requires prior approval of the Reserve Bank

3. Urban Co-operative Banks (UCBs)

Urban Co-operative Banks are established primarily to meet the banking needs of urban and semi-urban populations. They provide services such as savings accounts, current accounts, fixed deposits, housing loans, personal loans, educational loans, and financing for small businesses. Since these banks deal extensively with public deposits, they are subject to strict regulatory supervision under the Banking Regulation Act. Recent legislative amendments have further strengthened the RBI's supervisory powers over Urban Co-operative Banks to improve governance, protect depositors, and enhance financial stability.

4. Co-operative Societies Not Fully Covered by the Act

The Banking Regulation Act does not apply in full to every type of co-operative society. Many co-operative societies are formed for purposes other than banking, such as housing, consumer services, dairy development, marketing, fisheries, handloom

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production, labour welfare, or credit activities limited to members without undertaking banking business. These societies are governed primarily by the State Co-operative Societies Act or the Multi-State Co-operative Societies Act, 2002, depending on their area of operation.

For example, Housing Co-operative Societies, Consumer Co-operative Societies, Marketing Co-operative Societies, and Industrial Co-operative Societies are generally outside the scope of the Banking Regulation Act because they do not perform banking functions as defined under the Act. Their registration, management, audit, elections, and dissolution are regulated by the relevant co-operative legislation rather than banking law.

Similarly, certain Primary Agricultural Credit Societies (PACS) are mainly governed by State Co-operative laws. However, if a society expands its activities and begins conducting banking business as defined under the Banking Regulation Act, the applicable banking regulations may also become relevant.

5.1.3 Licensing of Co-operative Banks under the Banking Regulation Act, 1949

Licensing is one of the most important regulatory provisions of the Banking Regulation Act, 1949, as applicable to co-operative banks. A banking licence serves as the legal authorization that permits a co-operative bank to carry on banking business in India. The licensing requirement ensures that only financially sound, professionally managed, and well-governed institutions are allowed to accept deposits from the public and provide banking services. This provision plays a significant role in protecting depositors, maintaining confidence in the banking system, and promoting financial stability.

Under Section 22 of the Banking Regulation Act, 1949, every co-operative bank is required to obtain a licence from the Reserve Bank of India (RBI) before commencing or carrying on banking business. No co-operative bank can legally accept public deposits, grant loans, or undertake other banking activities without obtaining this licence. The licensing system acts as the first level of regulatory control, ensuring that only eligible institutions enter the banking sector.

Before granting a licence, the RBI conducts a detailed examination of the applicant co-operative bank. The objective is to determine whether the institution possesses the financial strength, managerial capability, and operational readiness necessary to function safely and efficiently. The RBI carefully evaluates several important factors during the licensing process.

1. Financial Strength

One of the primary considerations is the financial strength of the co-operative bank. The RBI assesses whether the institution has adequate financial resources to conduct banking operations without exposing depositors to unnecessary risk.

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2. Capital Adequacy

The RBI also evaluates whether the co-operative bank maintains sufficient capital in accordance with regulatory requirements. Capital acts as a financial cushion that protects depositors and absorbs losses arising from operational or credit risks. Adequate capital enables the bank to expand its business, improve customer confidence, and meet prudential norms prescribed by the RBI. Banks with inadequate capital may face financial instability and may not qualify for a banking licence.

3. Quality of Management

The competence, integrity, and experience of the management are critical factors in the licensing process. The RBI examines the qualifications and background of the members of the Board of Directors, Chief Executive Officer, and senior management personnel. Efficient and ethical management ensures sound decision-making, proper risk management, compliance with banking regulations, and responsible utilization of financial resources

4. Business Viability

The RBI evaluates the proposed business model and long-term viability of the co-operative bank. It assesses whether the institution has realistic business plans, sufficient customer base, effective operational systems, appropriate infrastructure, and the ability to generate sustainable income.

5. Public Interest

The Reserve Bank also considers whether granting a licence would serve the public interest. The establishment of a new co-operative bank should contribute to financial inclusion, improve access to banking services, support local economic development, and strengthen the co-operative credit structure. If the RBI believes that the proposed institution may adversely affect financial stability or fail to protect depositors' interests, it may refuse to grant a licence.

Illustration : Why licensing and supervision matter — the PMC Bank case: PMC Bank was a cooperative bank across multiple states. In September 2019, the Reserve Bank placed the bank under directions and restricted withdrawals because a very large share of loans were concentrated with one group of borrowers and this information had been hidden using many dummy loan accounts. About sixteen lakh depositors were affected. Eventually, the bank was merged into a small finance bank through a scheme drawn up by the Reserve Bank. This case chronicles single events that explain why Section 22 requires licenses before banks can operate, why Section 20 limits exposure to related parties, why Section 35 gives Reserve Bank powers of inspection, why deposit insurance exists, and why Section 45 allows mergers. This immediate occasion was also for the enactment of the Banking Regulation Amendment Act 2020.

5.1.4 Licensing Conditions

Even after granting a licence, the RBI continues to monitor the functioning of co-operative banks. Banks are required to comply with various statutory and prudential

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requirements relating to capital adequacy, liquidity, asset quality, governance, accounting standards, and regulatory reporting. Failure to comply with these conditions may result in restrictions on banking operations, cancellation of the licence, or other supervisory actions by the RBI.

Importance of Licensing

The licensing provision is fundamental to the effective regulation of co-operative banks. It prevents financially weak or poorly managed institutions from entering the banking sector and protects the interests of depositors. Licensing also promotes financial discipline, encourages professional management, strengthens public confidence, and supports the overall stability of the banking system. Through scrutiny before granting licences, the RBI ensures that only competent and financially sound co-operative banks are allowed to conduct banking business.

Minimum Capital and Reserves

Because dealing with public funds is risky, banks must have financial strength sufficient to meet their obligations. Section 11 of the Act prescribes minimum paid capital and reserves below which banks cannot conduct business. Section 17 requires banks to transfer a prescribed share of their annual profits to a reserve fund before declaring dividends so that over time a cushion is built up. Banks also need to maintain reserves in liquid form alongside capital. Section 18 of the Act maintains the Cash Reserve Ratio for cooperative banks that are not scheduled, while Section 42 of the Reserve Bank of India Act, 1934, takes care of this for scheduled State Cooperative Banks. Statutory Liquidity Ratio, meaning the proportion of demand and time liabilities that must be kept in cash, gold or approved securities, is maintained under Section 24 of the Act. Capital enables a bank to absorb any unexpected losses; reserves and liquid assets allow it to meet withdrawals as they come up. Together, they determine both solvency and long-term sustainability of the institution.

Regulation of Management

Another significant provision of the Banking Regulation Act, 1949 relates to the regulation of the management of co-operative banks. Efficient management is essential for ensuring the safety, stability, and proper functioning of banking institutions. Since co-operative banks handle public money, the Act emphasizes the appointment of qualified and responsible persons to manage their affairs.

The Act lays down provisions regarding the constitution, appointment, qualifications, and functioning of the management of co-operative banks. It seeks to ensure that banks are administered by individuals possessing the necessary knowledge, competence, integrity, and experience to manage banking operations effectively.

One of the primary objectives of these provisions is to promote competent leadership. Directors and senior executives are expected to make sound financial decisions, formulate appropriate lending policies, and manage the bank's resources efficiently. Competent leadership contributes significantly to the long-term sustainability and growth of the institution.

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The Act also encourages professional administration by promoting modern banking practices, proper internal controls, and effective risk management. Professional management helps improve operational efficiency, maintain regulatory compliance, and deliver quality banking services to customers.

Another important objective is to ensure proper corporate governance. The management of co-operative banks must function with honesty, transparency, fairness, and responsibility. Directors are expected to act in the best interests of the bank, its members, depositors, and other stakeholders. Sound governance reduces the risk of financial mismanagement, corruption, and conflicts of interest.

5.1.5 The Banking Regulation (Amendment) Act, 2020

The Banking Regulation (Amendment) Act, 2020 is the most important legislative change to the regulatory framework governing the co-operative banking system since 1965. The Act became effective on 26th of June 2020 for Urban Co-operative Banks and Multi-State co-operative banks, and on the 1st day of April, 2021 for State Co-operative Banks and District Central Co-operative Banks. Before this legislation, there had been a succession of failures in the urban co-operative banking sector, demonstrating that the supervisory authority of the Reserve Bank of India (the central bank of India), as regards co-operative banks, was less strong than that which it exercised over commercial banks.

The major amendments made by this Act are as follows.

- ◊ The Supersession of the Board. The Reserve Bank may remove the Board of Directors of a co-operative bank and appoint an Administrator where it appears to the Reserve Bank to be in the public interest, or to protect the interests of depositors.
- ◊ Appointments to Senior Positions. The Reserve Bank shall approve the appointment, re-appointment and removal of the Chairman and Managing Director/Chief Executive Officer of a co-operative bank; the Reserve Bank may also specify such qualifications as it deems necessary for such positions.
- ◊ Capital Increase. A co-operative bank may increase its capital by issuing equity shares, preference shares or debentures to residents within its area of operation, provided such issuance is approved in advance by the Reserve Bank; once shares have been issued, they cannot be withdrawn at the discretion of members. This remedy has addressed one of several difficulties associated with co-operative banks' inability to raise capital through markets.
- ◊ Consolidation and Merger. The Reserve Bank may develop a plan to consolidate or merge a co-operative bank without first declaring a moratorium to freeze depositors' access to their deposits; thus, permitting the transfer of business of a weak bank without causing hardship to depositors.
- ◊ PACS and Long-Term Financing Organizations Excluded. Primary Agricultural Credit Societies, and co-operative organizations that provide long-term financing for agriculture development, and whose name does not contain "bank", "banker" or "banking", nor issue checks, are specifically exempted from application of the amendment.

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The Banking Regulation Amendment Act did not alter the roles of Registrars of Co-operative Societies regarding matters of registration, membership, election and management. Thus, dual regulation continues; however, the regulatory role of the RBI has been significantly enhanced.

5.1.6 Importance of the Banking Regulation Act, 1949 for Co-operative Banks

The Banking Regulation Act, 1949, has played a crucial role in strengthening the co-operative banking sector in India. By extending its provisions to co-operative banks through subsequent amendments, the Act has established a comprehensive regulatory framework that ensures financial stability, depositor protection, and efficient banking operations. It has enhanced the credibility of co-operative banks while enabling them to function in accordance with modern banking standards. The importance of the Act can be understood through the following aspects.

1. Ensuring Financial Discipline

The Act promotes financial discipline by requiring co-operative banks to comply with statutory provisions relating to licensing, capital adequacy, liquidity, accounting standards, audits, and regulatory reporting. These requirements encourage banks to manage their financial resources prudently and maintain long-term financial stability. Sound financial discipline reduces operational risks and contributes to the sustainable growth of the co-operative banking sector.

2. Protecting Depositors' Money

One of the primary objectives of the Act is to safeguard the interests of depositors. The Act requires co-operative banks to maintain adequate capital, reserve funds, and liquidity while following prudent lending practices. Regular inspections, audits, and supervision by the Reserve Bank of India (RBI) help identify financial weaknesses at an early stage and protect depositors from potential losses arising from mismanagement or insolvency.

3. Improving Transparency and Accountability

The Banking Regulation Act requires co-operative banks to maintain proper books of accounts, prepare audited financial statements, and comply with statutory reporting requirements. These measures improve transparency in financial transactions and ensure that directors and management remain accountable for their decisions. Transparent operations enhance the confidence of members, depositors, regulators, and other stakeholders.

4. Enhancing Public Confidence

Public confidence is essential for the success of any banking institution. The regulatory framework established under the Act assures customers that co-operative banks operate under the supervision of the Reserve Bank of India and comply with prescribed banking

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standards. This confidence encourages people to deposit their savings in co-operative banks and utilize their financial services, thereby strengthening the banking system.

5. Reducing Financial Fraud and Mismanagement

The Act contains several provisions aimed at preventing fraud, misuse of funds, and financial irregularities. Restrictions on loans to directors and related parties, mandatory audits, internal controls, and periodic inspections reduce opportunities for corruption and financial misconduct. Regulatory oversight helps ensure that banking operations are conducted honestly and efficiently.

6. Encouraging Prudent Lending Practices

The Act promotes responsible lending by requiring co-operative banks to follow sound credit appraisal, risk assessment, and loan recovery procedures. Prudent lending reduces the incidence of non-performing assets (NPAs), improves asset quality, and strengthens the financial health of banks. It also ensures that credit is extended to deserving borrowers while maintaining the safety of depositors' funds.

7. Supporting Financial Inclusion

Co-operative banks play an important role in extending banking services to rural, semi-urban, and underserved sections of society. By providing a stable regulatory framework, the Act enables these institutions to mobilize savings, provide affordable credit, and promote inclusive economic development. Strong and well-regulated co-operative banks contribute significantly to financial inclusion by serving farmers, small entrepreneurs, self-employed persons, and low-income households.

5.1.7 Salient Features

The Banking Regulation Act, 1949, provides a comprehensive legal framework for regulating banking institutions in India, including co-operative banks. The Act lays down several important provisions to ensure the safety, stability, transparency, and efficient functioning of the banking system. The following are the major salient features and provisions of the Act.

1. Regulation of Banking Business

The Act defines banking and regulates all banking activities carried out by co-operative banks. It prescribes the legal framework for accepting deposits, granting loans, making investments, and providing other banking services. Banks are required to conduct their operations in accordance with the provisions of the Act and the directions issued by the Reserve Bank of India (RBI). This ensures uniformity and financial discipline throughout the banking system.

2. Licensing of Banks

A significant feature of the Act is the requirement that every co-operative bank must obtain a licence from the Reserve Bank of India before commencing banking business. The RBI examines the financial position, capital adequacy, managerial competence, business viability, and public interest before granting a licence

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3. Minimum Capital and Reserve Requirements

The Act requires co-operative banks to maintain adequate paid-up capital, reserve funds, and financial resources. Sufficient capital strengthens the financial stability of banks and enables them to absorb unexpected losses. Reserve funds act as a financial safeguard during difficult economic conditions and enhance the confidence of depositors.

4. Regulation of Management

The Act lays down provisions regarding the appointment, qualifications, responsibilities, and functioning of the management of co-operative banks. It promotes competent leadership, professional administration, good governance, and accountability of directors. The Reserve Bank has powers to intervene in cases of mismanagement, irregularities, or actions affecting the interests of depositors.

5. Cash Reserve and Liquidity Requirements

The Act requires co-operative banks to maintain prescribed cash reserves and liquid assets to ensure that they can meet the withdrawal demands of customers. Maintaining adequate liquidity strengthens public confidence and reduces the risk of bank failures arising from cash shortages.

6. Restrictions on Loans and Advances

The Act imposes restrictions on granting loans to directors, their relatives, and organizations in which directors have substantial interests. These provisions help prevent conflicts of interest, misuse of funds, and favoritism. Banks are expected to follow prudent lending practices and proper credit appraisal procedures while sanctioning loans.

7. Maintenance of Accounts and Audit

Every co-operative bank is required to maintain accurate books of accounts, prepare financial statements, and undergo regular statutory audits. Proper accounting and auditing ensure transparency, financial discipline, and compliance with regulatory standards. They also help identify irregularities and improve public confidence.

8. Inspection and Supervision by RBI

One of the most important features of the Act is the power given to the Reserve Bank of India to inspect and supervise co-operative banks. RBI conducts periodic inspections to assess the financial condition, asset quality, governance standards, and regulatory compliance of banks. It may issue corrective directions whenever necessary to protect depositors and maintain financial stability.

9. Power to Issue Directions

The Act authorizes the RBI to issue binding directions on matters relating to banking operations, investment policies, lending practices, liquidity management, governance, and risk management. These directions ensure that co-operative banks function according to uniform standards and adapt to changing economic and regulatory conditions.

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10. Amalgamation, Reconstruction, and Winding Up

The Act provides legal procedures for the amalgamation, reconstruction, or winding up of financially weak co-operative banks. These provisions protect the interests of depositors and maintain the stability of the banking system by ensuring orderly restructuring or closure of banks when necessary.

Recap

- ◊ The Banking Regulation Act, 1949 regulates banking institutions in India.
- ◊ The Act aims to ensure the stability of the banking system.
- ◊ RBI is the principal authority responsible for licensing banks.
- ◊ Every co-operative bank requires an RBI licence to conduct banking business.
- ◊ Minimum capital requirements strengthen financial stability.
- ◊ Reserve requirements improve the liquidity position of banks.
- ◊ Sound lending practices are encouraged under the Banking Regulation Act, 1949.
- ◊ Banking regulation enhances public confidence in co-operative banks.
- ◊ Regulatory provisions reduce operational risks.

Objective Questions

1. What is the primary objective of the Banking Regulation Act, 1949?
2. Which authority grants licences to co-operative banks?
3. Who regulates banking operations in India under the Act?
4. What is meant by minimum capital requirement?
5. Which provision promotes financial stability?
6. What does capital adequacy indicate?
7. Why is proper governance necessary in co-operative banks?
8. Which regulatory measure reduces banking risks?

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Answers

1. To regulate banking institutions and ensure their safe, sound, and efficient functioning.
2. The Reserve Bank of India (RBI).
3. The Reserve Bank of India (RBI).
4. The minimum amount of paid-up capital and reserves that a bank must maintain to operate safely.
5. Minimum capital and reserve requirements.
6. The financial strength and ability of a bank to absorb losses.
7. To ensure transparency, accountability, and efficient management.
8. RBI regulation, regular inspections, and compliance with capital and reserve requirements

Self-Assessment Questions

1. Discuss the applicability of the Act to co-operative banks.
2. Discuss the significance of reserve requirements.
3. Explain the major salient features of the Banking Regulation Act.
4. Discuss how the Act promotes financial discipline.
5. Discuss the importance of governance in co-operative banks.
6. Explain how the Act strengthens the co-operative banking sector.
7. Evaluate the contribution of the Banking Regulation Act, 1949 to banking stability.

Assignments

1. Compare the licensing conditions for commercial banks and co-operative banks.
2. Analyse the importance of reserve requirements using recent banking examples.

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3. Compare the Banking Regulation Act, 1949 with the Co-operative Societies Act regarding governance provisions.

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Unit 2

Non-Performing Assets

Learning Outcomes

After completing this unit, learners will be able to:

- after completing this unit, the learner will be able to:
- explain the concept, features, uses, and advantages of co-operative finance
- describe the structure, functions, and role of co-operative finance and banking institutions in India
- explain the concept of Non-Performing Assets (NPAs), recovery management, and measures for improving loan recovery

Prerequisites

The Indian banking system consists of various financial institutions that provide banking and financial services to different sectors of the economy. Co-operative banks occupy a unique position in this system by serving farmers, rural households, small entrepreneurs, self-help groups, and economically weaker sections. Banking activities involve accepting deposits, granting loans, facilitating payments, creating credit, and promoting savings. Agricultural finance and rural finance support farming activities, rural enterprises, and infrastructure development, contributing to balanced economic growth and financial inclusion.

The financial performance of banking institutions depends on concepts such as profitability, liquidity, capital adequacy, asset quality, and operational efficiency. Profitability indicates the ability to earn surplus, while liquidity reflects the institution's capacity to meet short-term financial obligations. Capital adequacy measures financial strength and the ability

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to absorb unexpected losses, whereas asset quality evaluates the health of the loan portfolio. Non-Performing Assets (NPAs) represent loans that are not repaid according to agreed terms and directly affect the financial stability of banks. Recovery management refers to the systematic process of collecting overdue loans and improving repayment performance. The functioning of co-operative finance and banking institutions is supported by the regulatory framework established by the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD).

Keywords

Co-operative Finance, Co-operative Banking, Non-Performing Assets (NPAs)

Discussion

5.2.1 Co-operative Finance

Co-operative finance refers to the system of mobilizing financial resources and providing credit through co-operative institutions that are owned, managed, and controlled by their members. It is founded on the principles of self-help, mutual assistance, democratic control, equality, and service rather than profit. The primary objective of co-operative finance is to provide affordable financial services to members, especially farmers, artisans, small entrepreneurs, workers, and economically weaker sections of society. It seeks to eliminate the exploitation of borrowers by private moneylenders and ensure easy access to institutional credit.

In India, co-operative finance plays a vital role in promoting financial inclusion, rural development, agricultural growth, and socio-economic progress. It complements the formal banking system by extending financial services to areas and communities that are often underserved by commercial banks. The co-operative financial system is regulated by the Co-operative Societies Acts, the Banking Regulation Act, 1949 (as applicable to co-operative societies), and is supervised by the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD).

Co-operative finance is a member-oriented financial system through which co-operative institutions collect funds from members and other sources and utilize these funds to provide loans, savings facilities, and other financial services for the mutual benefit of members. Unlike commercial finance, where profit maximization is the primary objective, co-operative finance emphasizes economic welfare, social justice, and community development.

Members contribute share capital, maintain deposits, and participate in the democratic management of the institution. The funds mobilized are utilized to

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finance productive activities such as agriculture, small businesses, housing, education, and self-employment. Thus, co-operative finance serves as an important instrument for improving the economic condition of individuals and communities.

5.2.1.1 Objectives of Co-operative Finance

The objectives of co-operative finance include:

- ◊ To provide timely and affordable credit to members.
- ◊ To encourage the habit of thrift and regular savings.
- ◊ To protect members from exploitation by moneylenders.
- ◊ To promote agricultural and rural development.
- ◊ To finance small-scale industries, cottage industries, and micro, small and medium enterprises (MSMEs).
- ◊ To support self-employment and entrepreneurship.
- ◊ To promote financial inclusion among weaker sections of society.
- ◊ To improve the economic and social welfare of members.
- ◊ To strengthen the spirit of self-help and cooperation.
- ◊ To contribute to balanced regional development.

5.2.1.2 Features of Co-operative Finance

Co-operative finance possesses several distinctive features that differentiate it from other financial systems.

- ◊ **Member Ownership**

Co-operative financial institutions are owned by their members, who contribute share capital and participate in decision-making.

- ◊ **Democratic Management**

Every member has one vote irrespective of the amount of capital invested, ensuring equality and democratic governance.

- ◊ **Service Motive**

The principal aim is to provide financial services to members rather than maximize profits.

- ◊ **Voluntary Membership**

Membership is open to all eligible persons without discrimination, subject to the provisions of the society's bylaws.

- ◊ **Mutual Assistance**

Members work together for their common economic benefit by pooling financial resources and sharing responsibilities.

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◊ **Affordable Credit**

Loans are provided at reasonable interest rates, making institutional finance accessible to low-income groups.

◊ **Limited Area of Operation**

Most co-operative financial institutions serve a specific geographical area or occupational group, enabling them to understand local needs more effectively.

◊ **Promotion of Savings**

Members are encouraged to save regularly, creating a stable source of funds for lending.

5.2.1.3 Sources of Funds

Co-operative finance institutions obtain funds from multiple sources, including:

- ◊ Share capital contributed by members.
- ◊ Deposits such as savings, fixed, and recurring deposits.
- ◊ Reserve funds created from annual surpluses.
- ◊ Borrowings from higher co-operative institutions.
- ◊ Refinance assistance from NABARD and other development financial institutions.
- ◊ Government grants and subsidies.
- ◊ Retained earnings and donations.

These diverse sources ensure adequate liquidity and enable institutions to extend financial assistance to members.

5.2.1.4 Uses of Co-operative Finance

The funds mobilized through co-operative finance are utilized for various productive and welfare purposes, including:

- ◊ Agricultural production loans.
- ◊ Purchase of seeds, fertilizers, pesticides, and farm machinery.
- ◊ Irrigation, land development, and farm infrastructure.
- ◊ Housing construction and improvement.
- ◊ Education loans.
- ◊ Consumer and emergency loans.
- ◊ Dairy, poultry, fisheries, and allied agricultural activities.
- ◊ Financing small businesses, self-help groups, and MSMEs.
- ◊ Rural infrastructure and community development projects.

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5.2.2 Importance of Co-operative Finance

Co-operative finance occupies a significant place in India's economic development. It provides institutional credit to millions of farmers and rural households who otherwise depend on informal sources of finance. By offering affordable loans, it reduces rural indebtedness and promotes productive investment.

The system encourages regular savings, enabling members to build financial security while creating resources for future lending. It also supports agricultural modernization through financing farm inputs, mechanization, irrigation, and land development. Besides agriculture, co-operative finance promotes cottage industries, rural enterprises, and self-employment, thereby generating employment and increasing income levels.

Another major contribution of co-operative finance is financial inclusion. It extends banking and credit services to marginalized communities, women, small entrepreneurs, and economically weaker sections. By promoting democratic participation and community ownership, co-operative finance strengthens social cohesion and encourages responsible financial management.

5.2.3 Advantages of Co-operative Finance

Co-operative finance offers numerous advantages:

- ◊ Easy access to affordable institutional credit.
- ◊ Lower interest rates compared to informal lenders.
- ◊ Democratic governance and member participation.
- ◊ Promotion of savings and financial discipline.
- ◊ Local knowledge of borrowers, enabling better credit assessment.
- ◊ Flexible lending policies suited to local needs.
- ◊ Encouragement of entrepreneurship and self-employment.
- ◊ Support for agricultural and rural development.
- ◊ Social welfare orientation rather than profit maximization.
- ◊ Strengthening of community development and cooperation.

5.2.4 Challenges of Co-operative Finance

Despite its achievements, co-operative finance faces several challenges. Many institutions suffer from inadequate capital, weak governance, political interference, poor loan recovery, and rising non-performing assets (NPAs). Limited adoption of modern banking technology, lack of professional management, and increasing competition from commercial banks and digital financial service providers also affect their performance. In some regions, low financial literacy and inadequate member participation further reduce operational efficiency.

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5.2.5 Co-operative Finance and Banking Institutions

Co-operative Finance and Banking Institutions are financial organizations established on the principles of co-operation to provide banking and financial services to their members. They are formed by individuals who voluntarily join together to meet their common economic, financial, and social needs through a jointly owned and democratically managed enterprise. These institutions play a vital role in achieving financial inclusion, particularly in rural and semi-urban areas where access to formal banking services is often limited.

The co-operative banking system in India has evolved over more than a century and forms an integral part of the country's financial system. It complements the activities of commercial banks by serving farmers, rural households, artisans, small entrepreneurs, self-employed individuals, and economically weaker sections of society. The functioning of co-operative banks is governed by the Co-operative Societies Acts of the respective States, the Multi-State Co-operative Societies Act, 2002 (where applicable), the Banking Regulation Act, 1949 (as applicable to co-operative banks), and the regulatory guidelines issued by the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD).

The rural short-term co-operative credit structure in India follows a three-tier system. At the village level are the Primary Agricultural Credit Societies (PACS), which provide short-term and medium-term loans to farmers for purchasing seeds, fertilizers, farm equipment, and other agricultural inputs. At the district level are the District Central Co-operative Banks (DCCBs), which provide financial assistance to PACS, mobilize deposits, and ensure the smooth flow of credit within the district. At the state level are the State Co-operative Banks, which coordinate the activities of DCCBs, formulate credit policies, obtain refinance from NABARD, and represent the co-operative banking sector at the state level. In Kerala, the District Central Co-operative Banks have been merged with the Kerala State Co-operative Bank to form Kerala Bank, creating a unified state-level co-operative banking institution.

In addition to the rural credit structure, Urban Co-operative Banks (UCBs) provide banking services to people in urban and semi-urban areas. They serve salaried employees, traders, professionals, small businesses, and self-employed individuals by offering savings accounts, deposits, loans, digital banking services, and other financial products. Co-operative Agriculture and Rural Development Banks (CARDBs) provide long-term finance for agricultural development, including land improvement, irrigation, plantation development, farm mechanization, dairy farming, horticulture, and rural infrastructure projects.

Co-operative Finance and Banking Institutions perform several important functions. They mobilize savings, provide affordable credit, encourage thrift, support agriculture and rural industries, finance micro and small enterprises, promote self-employment, and implement various government welfare and development schemes. Their democratic management system is based on the principle of "one member, one vote," ensuring equal participation in decision-making regardless of the amount of capital contributed.

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Despite their significant contributions, these institutions face challenges such as inadequate capital, rising non-performing assets (NPAs), weak governance, political interference, technological limitations, and increasing competition from commercial banks and digital financial service providers. Continuous reforms, including modernization, computerization, professional management, stronger regulatory oversight, and improved governance, have enhanced their efficiency and sustainability.

5.2.6 Viability and Viability Norms of Co-operative Finance and Banking Institutions

Viability refers to the ability of a co-operative finance or banking institution to operate successfully, remain financially sound, and continue providing quality banking and financial services to its members over the long term. A viable co-operative institution is capable of meeting its financial obligations, earning sufficient income to cover operating expenses, maintaining adequate capital and reserves, and expanding its services without excessive dependence on external financial assistance. Financial viability is essential because co-operative banks primarily serve farmers, rural households, self-help groups, micro and small enterprises, artisans, and economically weaker sections of society. Their sustainability directly influences rural development, agricultural growth, and financial inclusion.

To evaluate the financial health of co-operative finance and banking institutions, regulatory authorities prescribe several viability norms. These norms serve as benchmarks for measuring financial performance, operational efficiency, governance standards, and long-term sustainability.

The first viability norm is Capital Adequacy. Every co-operative bank should maintain sufficient capital to absorb financial shocks, support business expansion, and comply with regulatory requirements. Adequate capital improves the institution's resilience during periods of economic uncertainty.

The second norm is Profitability. Sustainable profits enable co-operative banks to create reserves, strengthen their capital base, invest in technology, expand banking services, and improve member welfare. A financially healthy institution can continue fulfilling both its economic and social objectives.

The third norm is Asset Quality. Healthy loan portfolios with low levels of NPAs indicate efficient credit management. Banks should implement proper credit appraisal systems, monitor loan utilization, conduct periodic reviews, and initiate timely recovery measures to maintain asset quality.

The fourth norm is Liquidity. Maintaining sufficient cash and liquid assets ensures that the institution can meet deposit withdrawals, honour financial commitments, and continue normal banking operations even during periods of financial stress.

The fifth norm is Recovery Performance. Efficient recovery of loans improves cash flow, reduces overdue accounts, and enables the institution to extend fresh credit to deserving members. Recovery can be strengthened through borrower education,

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regular follow-up, restructuring of viable loans, settlement schemes, and legal recovery measures where necessary.

The sixth norm is Efficient Management and Good Governance. Sound governance practices include democratic administration, transparency in decision-making, accountability, ethical conduct, professional management, effective internal controls, and regular statutory audits. These measures improve operational efficiency and reduce financial and operational risks.

The seventh norm is Business Diversification. Co-operative banks should diversify their lending across agriculture, allied agricultural activities, micro, small and medium enterprises (MSMEs), housing, education, self-employment, and rural industries. Diversification reduces dependence on a single sector, spreads credit risk, and ensures stable income.

The eighth norm is Regulatory Compliance and Technology Adoption. Co-operative banks must comply with RBI and NABARD regulations, maintain statutory reserves, follow prudential norms, implement effective risk management practices, and adopt modern technologies such as Core Banking Solutions (CBS), digital payment systems, cybersecurity measures, and computerized accounting. Technological advancement improves operational efficiency, customer convenience, transparency, and competitiveness.

5.2.7 Non-Performing Assets (NPAs)

Non-Performing Assets (NPAs) are loans or advances on which the borrower has failed to repay the principal or interest for the prescribed period. High NPAs reduce the profitability, liquidity, and financial stability of co-operative banks and societies. They weaken the lending capacity of institutions, erode members' confidence, and affect the overall viability of the co-operative sector. Therefore, reducing NPAs is essential for ensuring the sustainability and effective functioning of co-operative finance and banking institutions.

When an account becomes an NPA

The general rule is the ninety-day norm.

- **Term loan.** An account is an NPA if interest or an instalment of principal remains overdue for more than ninety days.
- **Cash credit or overdraft.** An account is an NPA if it remains out of order for ninety days, that is, if the outstanding balance remains continuously in excess of the sanctioned limit or drawing power, or if there are no credits for ninety days, or if the credits are insufficient to cover the interest debited during that period.
- **Bills purchased and discounted.** A bill is an NPA if it remains overdue for more than ninety days.

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◊ **Agricultural advances.** A loan granted for a short-duration crop is an NPA if the principal or interest remains overdue for two crop seasons after the due date. For a long-duration crop, that is, a crop with a season longer than one year, the period is one crop season. The crop season for each crop is determined by the State-level bankers' committee of the State concerned.

The special rule for agricultural advances exists because the income of a cultivator arrives only at harvest. If the ninety-day rule applied, a crop loan would become non-performing before the crop was even ready for sale. Aligning the norm to the crop cycle rather than to the calendar therefore reflects the reality of the borrower's cash flow, and it is of particular importance to co-operative banks, whose lending is heavily agricultural.

Illustration: Working out when an account becomes an NPA

A member of a primary co-operative bank takes a term loan of five lakh rupees, repayable in monthly instalments beginning 1 April 2024. He pays the instalments due in April, May, June, July, August, September and October 2024. The instalment falling due on 1 November 2024 is not paid, and nothing further is received.

The instalment is overdue from 2 November 2024. Ninety days from that date expires on 30 January 2025, and the account becomes a non-performing asset on that date. It is classified as a sub-standard asset from 30 January 2025. If it remains an NPA without recovery, it becomes a doubtful asset on the expiry of twelve months, that is, from 30 January 2026.

Two points deserve attention. It is the overdue instalment, and not the whole loan, that starts the ninety-day count. And once the account is classified as an NPA, interest may no longer be credited to the profit and loss account unless it is actually realised.

Reasons for non-performing loans:

The reasons behind non-performing loans can be categorized as internal to the bank/ credit union and external factors beyond its control.

◊ Internal factors - poor credit assessment and insufficient verification of borrower ability to repay; lack of supervision after loan disbursed which results in funds being directed toward unproductive uses; lending to related parties (eg. Family members) and benami accounts; political interference in the approval process of a loan application as well as in recovery efforts; lack of complete documentation which hinders legal action against the defaulted account; delay in filing legal actions for debt collection.

◊ External factors - natural disasters such as droughts, floods or crops failure due to weather conditions; collapse of the market price of the produce financed by the bank/cooperative; illness, disability or death of the borrower; bankruptcy of business that the cooperative/bank funded due to reason beyond control of the borrower; expectation that future loans will be waived, therefore reducing culture of payback even among those who are capable of doing so.

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Non-performing assets reduce profitability because income is not recognized and provisions must be made; reduce liquidity because funds are locked up; limit capacity to originate new loans; erode confidence between members/depositors; if they continue to exist may render the institution unsustainable.

5.2.8 Recovery Management

Recovery management is the systematic process followed by co-operative societies to recover overdue loans from borrowers. It aims to reduce Non-Performing Assets (NPAs) and improve the financial health of the institution. Effective recovery management ensures that funds are recovered on time and made available for lending to other members. It helps maintain adequate liquidity, profitability, and operational efficiency. Recovery management also promotes financial discipline among borrowers by encouraging timely repayment of loans. A well-planned recovery system strengthens the confidence of members, depositors, and regulatory authorities in the co-operative institution. Therefore, recovery management is an essential component of the sustainable growth and long-term success of co-operative finance and banking institutions.

1. Proper Credit Appraisal

Proper credit appraisal is the process of carefully evaluating a borrower's financial condition before sanctioning a loan. The co-operative society examines the applicant's income, repayment capacity, purpose of the loan, credit history, and available security. This assessment helps determine whether the borrower is capable of repaying the loan within the agreed period. Careful appraisal reduces the chances of loan defaults and minimizes credit risk. It also ensures that loans are granted only to deserving and financially sound members. Proper documentation and verification further strengthen the quality of lending decisions. Thus, effective credit appraisal is the first step in successful recovery management.

2. Regular Monitoring

Regular monitoring involves continuous supervision of loans after they have been disbursed. The co-operative society checks whether borrowers are using the loan for the intended purpose and whether repayments are being made on time. Frequent monitoring helps identify repayment problems before they become serious. Bank officials can provide guidance and support to borrowers facing temporary financial difficulties. It also prevents misuse or diversion of loan funds to non-productive activities. Early identification of irregular accounts enables timely corrective action. Therefore, regular monitoring helps reduce NPAs and improves recovery performance.

3. Follow-up and Personal Contact

Follow-up and personal contact are important methods for encouraging borrowers to repay loans promptly. Co-operative societies maintain regular communication through letters, telephone calls, SMS, emails, and personal visits. Personal meetings help understand the borrower's financial situation and identify genuine repayment problems. Friendly communication often motivates borrowers to fulfil their repayment obligations. Continuous follow-up also reminds borrowers about overdue instalments

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and repayment schedules. Good relationships between society officials and members improve cooperation during the recovery process. Hence, personal contact is an effective and economical recovery strategy.

4. Recovery Camps

Recovery camps are special programmes organized by co-operative societies to collect overdue loans from members. These camps are usually conducted in villages or local communities where borrowers can conveniently make repayments. Society officials explain the benefits of timely repayment and the consequences of continued default. Recovery camps also provide an opportunity to settle disputes and clarify repayment issues. They encourage borrowers to clear overdue amounts through direct interaction with officials. Such camps improve awareness about financial discipline and strengthen member participation. Consequently, recovery camps contribute significantly to reducing NPAs.

5. Loan Rescheduling and Restructuring

Loan rescheduling and restructuring provide relief to borrowers who are unable to repay loans due to genuine financial difficulties. The repayment period may be extended, or instalments may be reduced according to the borrower's repayment capacity. This facility is generally provided in cases of natural disasters, crop failures, business losses, or other unavoidable circumstances. Restructuring helps borrowers avoid default while enabling the co-operative society to recover the loan over a longer period. It reduces the chances of loans becoming NPAs and protects both borrowers and the institution. Proper evaluation is necessary before granting restructuring benefits. Therefore, loan restructuring is an important recovery management tool.

6. One-Time Settlement (OTS)

One-Time Settlement (OTS) is a special recovery scheme introduced for long-pending overdue loans. Under this scheme, borrowers are allowed to settle their outstanding dues by paying a mutually agreed amount within a specified period. OTS enables co-operative societies to recover loans that might otherwise remain unpaid for many years. It reduces litigation costs and speeds up the recovery process. Borrowers also benefit by clearing their liabilities and improving their creditworthiness. The scheme is particularly useful for recovering old and difficult loan accounts. Thus, One-Time Settlement provides a practical solution for reducing NPAs.

7. Legal Recovery Measures

Legal recovery measures are adopted when borrowers deliberately fail to repay loans despite repeated reminders and negotiations. The co-operative society initiates legal proceedings under the relevant Co-operative Societies Act or other applicable laws. Legal notices are issued before taking further action against defaulting borrowers. If necessary, the society may recover dues through attachment or sale of pledged assets as permitted by law. Legal action acts as a deterrent against wilful defaulters and encourages timely repayment. However, it is generally considered the last option after all other recovery efforts have failed. Therefore, legal measures protect the financial interests of the co-operative society.

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8. Incentives for Prompt Repayment

Co-operative societies encourage timely repayment by offering various incentives to borrowers. These incentives may include interest rebates, lower interest rates on future loans, priority in loan sanction, or special recognition for prompt repayment. Such benefits motivate members to repay loans on schedule and maintain a good credit record. Incentive-based recovery creates a positive relationship between borrowers and society. It also reduces the need for costly recovery proceedings and legal action. Members who repay promptly become eligible for larger loans and additional financial services. Therefore, incentives are an effective method for improving loan recovery and strengthening financial discipline.

5.2.9 Importance of Effective Recovery Management

Effective recovery management is essential for maintaining the financial stability of co-operative societies. It helps reduce Non-Performing Assets (NPAs) and improves the quality of loan assets. Timely recovery increases the availability of funds for providing new loans to members. It also improves profitability, liquidity, and capital strength. Efficient recovery builds confidence among members, depositors, and regulatory authorities. It promotes financial discipline by encouraging borrowers to repay loans on time. Effective recovery management ensures the sustainable growth and smooth functioning of co-operative finance and banking institutions.

5.2.10 Government Sponsored Schemes.

Government Sponsored Schemes are development programmes introduced by the Central and State Governments to improve the economic and social conditions of people. These schemes are implemented through co-operative banks and other financial institutions to provide affordable credit and financial assistance. They mainly benefit farmers, rural households, women, small entrepreneurs, and economically weaker sections of society. Co-operative banks play a crucial role in implementing these schemes by providing loans, subsidies, and financial services to eligible beneficiaries.

Objectives

The primary objective of government-sponsored schemes is to promote inclusive economic development and improve the standard of living of people. These schemes aim to reduce poverty, create employment opportunities, increase agricultural production, and encourage self-employment. They also strengthen financial inclusion by providing easy access to banking and credit facilities. The schemes contribute to sustainable rural and national economic development.

1. Kisan Credit Card (KCC)

The Kisan Credit Card (KCC) Scheme provides farmers with timely and affordable credit for agricultural and allied activities. It enables farmers to purchase seeds, fertilizers, pesticides, and other farming inputs without financial difficulty. The scheme offers

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flexible repayment options and lower interest rates to eligible farmers. Co-operative banks play a major role in issuing Kisan Credit Cards and disbursing crop loans.

2. Interest Subvention Scheme

The Interest Subvention Scheme provides interest subsidies to farmers on short-term crop loans. Farmers who repay their loans within the prescribed period receive additional interest concessions, reducing their borrowing cost. The scheme encourages prompt repayment and improves loan recovery for co-operative banks. It also makes agricultural credit more affordable and accessible.

3. National Rural Livelihoods Mission (NRLM)

The National Rural Livelihoods Mission (NRLM) focuses on reducing rural poverty by promoting self-employment and sustainable livelihoods. It supports the formation and strengthening of Self-Help Groups (SHGs), especially among rural women. The scheme facilitates credit linkage, skill development, and income-generating activities. Co-operative banks provide financial assistance and banking services to SHGs under this programme.

4. Dairy Entrepreneurship Development and Allied Sector Schemes

These schemes provide financial assistance for dairy farming, poultry, fisheries, goat rearing, piggery, and other allied agricultural activities. They encourage farmers to diversify their income sources and improve rural livelihoods. Financial support is provided for purchasing livestock, equipment, and infrastructure. Co-operative banks provide loans and assist beneficiaries in implementing these projects successfully.

5. Agricultural Infrastructure Fund (AIF)

The Agricultural Infrastructure Fund (AIF) provides medium- and long-term financial support for creating agricultural infrastructure. It finances projects such as warehouses, cold storage facilities, grading units, and post-harvest management systems. The scheme helps reduce post-harvest losses and improves the marketing of agricultural produce. Co-operative banks play an important role in extending loans under the AIF scheme.

6. PM Formalisation of Micro Food Processing Enterprises (PMFME)

The PM Formalisation of Micro Food Processing Enterprises (PMFME) Scheme supports the modernization and expansion of micro food processing units. It provides financial assistance, technology support, skill development, and credit to small food entrepreneurs. The scheme enhances product quality, value addition, and market competitiveness. Co-operative banks provide credit and financial services to eligible food processing enterprises under this programme.

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Recap

- ◊ Co-operative finance promotes savings among members.
- ◊ Co-operative banks play an important role in financial inclusion.
- ◊ Kerala Bank is the apex co-operative bank in Kerala.
- ◊ Adequate capital is essential for financial stability.
- ◊ Liquidity enables banks to meet financial obligations.
- ◊ Efficient recovery management improves loan recovery.
- ◊ High NPAs reduce the profitability of co-operative banks.
- ◊ RBI and NABARD regulate and supervise co-operative banks.

Objective Questions

1. What is co-operative finance?
2. Who are the primary beneficiaries of co-operative finance?
3. What is the primary objective of co-operative finance?
4. What does NPA stand for?
5. Which factor indicates the financial viability of a co-operative bank?
6. Which institution refinances co-operative banks?
7. What is the full form of PACS?
8. Which bank was formed by merging District Co-operative Banks in Kerala?

Answers

1. Finance provided through co-operative institutions.
2. Members of co-operative societies.
3. To provide affordable financial services.
4. Non-Performing Asset.
5. Capital adequacy.
6. NABARD.

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7. Primary Agricultural Credit Society.
8. Kerala Bank.

Self-Assessment Questions

1. Explain the advantages of co-operative finance.
2. Explain the concept of viability in co-operative finance.
3. Discuss the viability norms of co-operative banks.
4. Describe the effects of NPAs on co-operative banks.
5. Explain the role of the RBI in regulating co-operative banks.
6. Discuss the role of NABARD in strengthening co-operative finance.

Assignments

1. Identify digital banking services provided by a co-operative bank.
2. Prepare a presentation on the role of NABARD in co-operative finance.
3. Analyze the impact of technology on the modernization of co-operative banking institutions.

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Unit 3

Group Lending

Learning Outcomes

After completing this unit, learners will be able to:

- ◊ explain the meaning, objectives, and importance of group lending in co-operative finance
- ◊ describe the major features and different types of group lending models such as SHGs and JLGs
- ◊ analyze the role of group lending in promoting financial inclusion, rural development, and women's empowerment

Prerequisite

Group lending is a system of providing credit to a group of individuals who collectively undertake the responsibility for loan repayment. It is based on the principles of mutual trust, cooperation, joint responsibility, and collective accountability rather than on physical collateral. The concept is widely used by co-operative banks, co-operative societies, Self-Help Groups (SHGs), Joint Liability Groups (JLGs), and microfinance institutions to extend financial services to people who have limited access to conventional banking facilities. Group lending emphasizes collective participation, democratic decision-making, regular savings, and financial discipline among its members.

Co-operative finance refers to the provision of financial services through co-operative institutions that are owned, managed, and controlled by their members. These institutions function on the principles of voluntary membership, democratic governance, mutual assistance, equality, and service rather than profit maximization. They provide savings facilities, credit, and other financial services to support agriculture, rural development, small businesses, artisans, and economically weaker sections of society.

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The concept also includes various group-based lending models such as Self-Help Groups, Joint Liability Groups, co-operative group lending, and microfinance group lending, each designed to meet the financial needs of specific categories of borrowers. The functioning of these models is supported by regular meetings, savings mobilization, peer monitoring, and collective responsibility. In the modern financial environment, co-operative finance operates alongside technological advancements, regulatory frameworks, and increasing competition in the banking sector. Understanding these concepts provides the foundation for studying the objectives, features, types, challenges, and development of group lending and co-operative finance as important instruments for promoting financial inclusion, economic cooperation, and sustainable socio-economic development.

Keywords

Group Lending , Joint Liability , Self-Help Group (SHG) , Joint Liability Group

Discussion

Group lending is a method of providing loans to a group of individuals who collectively accept responsibility for repayment. It is widely adopted by co-operative banks, co-operative societies, Self-Help Groups (SHGs), Joint Liability Groups (JLGs), and microfinance institutions. This lending model mainly benefits farmers, rural women, artisans, small entrepreneurs, and low-income families who often lack collateral to obtain individual loans. Instead of relying on physical security, the system depends on mutual trust and collective responsibility among group members. Group lending promotes financial inclusion by providing easy access to institutional credit for economically weaker sections of society. It also strengthens community participation, encourages savings, and contributes to rural and socio-economic development.

Group lending refers to a system in which a financial institution provides loans to a group of borrowers instead of lending to individuals separately. Members of the group jointly guarantee each other's loans and share the responsibility for timely repayment. This system uses social trust and peer pressure as substitutes for physical collateral. Every member is accountable for maintaining the financial discipline of the group. The model encourages cooperation, mutual support, and responsible borrowing among members. As a result, group lending has become an effective tool for extending credit to people who have limited access to formal banking services.

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5.3.1 Origin of Group Lending

The development of group lending is based on the research by Prof. Mohammed Yunus in Bangladesh. He began offering microcredit loans in 1976, giving small loans to a group of village women in Jobra using his personal money, and he discovered that while they had no assets (collateral), their risk of default was significantly reduced because of their social network and peer monitoring. His first loan recipients created a repayment system where all members of the group were responsible for repaying each member of the group if anyone defaulted on the loan. In 1983, he established Grameen Bank. In 2006, both Prof. Yunus and Grameen Bank received the Nobel Peace Prize. One of the most important concepts of the Grameen Model (the fact that when a small group of people are aware of each other, they will provide better accountability for each other's actions than an outside organisation can), has been adopted and used by all forms of group lending which are reviewed in this unit.

5.3.2 Objectives of Group Lending

The main objective of group lending is to provide affordable and accessible credit to people who cannot obtain loans through conventional banking channels. It aims to reduce dependence on moneylenders who often charge excessive rates of interest. Another objective is to encourage self-employment and income-generating activities among rural and low-income households. Group lending also promotes the habit of regular savings and financial discipline among members. It supports women's empowerment by enabling them to participate in economic activities and improve their financial independence. The system contributes to poverty reduction, employment generation, and inclusive economic development.

5.3.3 Features of Group Lending

Group lending possesses several unique characteristics that distinguish it from individual lending. It is based on joint liability, where every member shares responsibility for loan repayment. Physical collateral is generally not required because the group's mutual guarantee acts as social security. Regular meetings are conducted to discuss savings, repayments, and other group activities. Members monitor each other's financial activities to ensure proper utilization of loans and timely repayment. Democratic decision-making, mutual trust, and collective responsibility are the fundamental features that ensure the success of the group lending system.

1. Joint Liability

Joint liability means that every member of the group is collectively responsible for repaying the loans taken by the members. If one borrower fails to repay, the remaining members are expected to meet the repayment obligation. This creates a strong sense of responsibility and accountability within the group. Members carefully select trustworthy individuals before forming the group. Joint liability encourages peer pressure, which significantly reduces loan defaults. Consequently, financial institutions experience higher recovery rates and lower lending risks.

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2. Small Group Size

Group lending generally involves small groups consisting of five to twenty members. A smaller group allows better communication, coordination, and trust among members. It becomes easier for members to monitor each other's activities and provide mutual support. Small groups also make meetings more effective and decision-making more participatory. Conflicts are easier to resolve because all members know one another personally. Therefore, maintaining a small group size contributes to efficient functioning and successful loan recovery.

3. No Collateral Requirement

One of the most important features of group lending is that borrowers are not required to provide physical assets as collateral. Instead, the financial institution depends on the mutual trust and collective guarantee of the group. This enables poor households, small farmers, and rural entrepreneurs to access institutional credit without owning valuable assets. The absence of collateral reduces financial barriers for economically weaker sections. Social collateral created through group responsibility ensures better repayment behaviour. As a result, group lending promotes financial inclusion among underserved populations.

4. Peer Monitoring

Peer monitoring refers to the supervision of each member's activities by other members of the group. Members ensure that loans are used only for the intended productive purposes. They also encourage timely repayment and provide support whenever financial difficulties arise. Continuous monitoring helps identify repayment problems at an early stage. Since members know each other well, they can effectively assess financial behaviour and creditworthiness. Peer monitoring significantly reduces the chances of loan misuse and default.

5. Regular Meetings

Regular meetings are an essential component of group lending programmes. Members meet periodically to discuss savings, loan repayments, business activities, and plans. These meetings help maintain transparency and strengthen relationships among members. Financial institutions also use these meetings to provide guidance, training, and financial literacy. Regular interaction helps resolve disputes and encourages collective decision-making. Consequently, meetings improve discipline, accountability, and the overall performance of the group.

6. Savings Promotion

Most group lending programmes encourage members to save a fixed amount regularly before becoming eligible for loans. Regular savings develop financial discipline and create a habit of thrift among members. These savings provide financial security during emergencies and reduce dependence on external borrowing. Savings also strengthen the group's financial position and improve its creditworthiness. Accumulated savings may be used for internal lending among members whenever necessary. Thus, savings promotion is an important foundation of sustainable group lending.

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7. Democratic Decision-Making

Group lending follows democratic principles in managing group affairs. Every member has an opportunity to participate in discussions and decision-making. Decisions regarding loan applications, savings, repayments, and other activities are taken collectively. Democratic participation promotes transparency, fairness, and accountability within the group. It also encourages leadership development and mutual respect among members. This participatory approach strengthens unity and ensures smooth functioning of the group.

5.3.4 Types of Group Lending

Group lending is implemented through different models depending on the nature of borrowers and lending institutions. The most common models include Self-Help Groups (SHGs), Joint Liability Groups (JLGs), co-operative group lending, and microfinance group lending. Each model follows the principle of collective responsibility and mutual support. These models are designed to meet the financial needs of different categories of borrowers. They improve access to institutional credit and reduce financial exclusion. Together, they play an important role in promoting inclusive development

1. Self-Help Group (SHG) Lending

Self-Help Group lending involves a small group of individuals, usually women, who regularly save money and become eligible for bank credit. The members collectively manage savings and internal lending before obtaining external loans. SHGs encourage self-employment, entrepreneurship, and income generation. Banks and co-operative institutions provide loans based on the group's repayment performance. SHGs also promote leadership, financial literacy, and women's empowerment. This model has become one of the most successful approaches to rural financial inclusion.

The link of these groups to mainstream banking was made possible by the SHG-Bank Linkage Program. That program was piloted by NABARD (National Bank for Agriculture and Rural Development) in 1992 and initially linked just 500 Self Help Groups (SHGs) to banks. Since then, it has become the largest microfinance program in the world and today is the main way institutional credit is delivered to the poorest households in India. NABARD started the SHG-2 framework in 2012. The new framework allows SHGs to collect voluntary savings beyond mandatory thrift; provides SHGs with an interest-free cash credit facility rather than multiple-term loans; and permits SHGs to organise themselves into Joint Liability Groups (JLGs) to finance larger income-generating projects. NABARD has also used e-Shakti to digitally capture the records of all SHGs so that when an SHG is considering taking out a loan from a bank, the bank does not have to rely on handwritten register entries but can view the SHG's entire history online.

Lending to SHGs enables individuals to establish their own enterprises and encourages entrepreneurship, leadership, literacy around money and overall female empowerment. To date, this approach to rural financial inclusion has been the most successful in India.

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Illustration: A Kudumbashree Neighbourhood Group:

In a panchayat in Malappuram District, fifteen women living adjacent to each other start a Kudumbashree Neighborhood Group. These women meet weekly. Each woman puts aside Rs.50 per week, and the collective savings are distributed among members of the group at rates determined by the group itself. Repayment of those loans is documented in meeting minutes.

When the group demonstrates a consistent ability to save regularly, lend money to each other and repay those loans consistently over a period of six months, they receive a grade rating. With that rating, they qualify to access credit via a bank account established in their name with a Service Co-op Bank. The group lends the borrowed money individually to members of the group – for example, one member may borrow to raise goats, another to purchase equipment for her tailoring business, and two members may use the loan to open a provision shop. No member offers collateral to secure the loan. Instead, their reputation and the good standing of the group serve as collateral. If one of the businesses funded by the group defaults on payment, the group is responsible for paying off the loan, usually using their own funds and giving the defaulting member additional time to get back on track financially. This illustrates how joint liability and social collateral function together in reality.

2. Joint Liability Group (JLG)

A Joint Liability Group consists of individuals engaged in similar economic activities such as farming, dairy, or fisheries. Each member receives an individual loan while all members jointly guarantee repayment. The group usually comprises four to ten members who trust each other. JLGs are particularly useful for tenant farmers and small cultivators who lack land ownership documents. The model improves access to agricultural credit without requiring collateral. It also promotes timely repayment through collective responsibility.

3. Co-operative Group Lending

Co-operative group lending is provided through co-operative societies and co-operative banks to groups of members. Loans are granted for agriculture, dairy farming, fisheries, handicrafts, and small-scale businesses. The society monitors loan utilisation and repayment recovery. Members benefit from lower interest rates and easier access to credit. Democratic management and cooperation strengthen the effectiveness of this lending model. Co-operative group lending contributes significantly to rural development and member welfare.

4. Microfinance Group Lending

Microfinance institutions provide small loans to groups without demanding collateral. The borrowers use the loans for income-generating activities such as tailoring, petty trade, livestock rearing, and handicrafts. Group members support one another in repayment and financial management. Microfinance group lending promotes entrepreneurship among economically weaker sections. It helps reduce poverty by improving household income and employment opportunities. This model has become an important instrument for promoting financial inclusion worldwide.

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Table 5.3.1 Comparison of Self-Help Groups and Joint Liability Groups

Basis	Self-Help Group	Joint Liability Group
Size	Ten to twenty members	Four to ten members
Composition	Usually women of similar economic background in a locality	Persons in similar economic activity, often tenant farmers and oral lessees
Savings	Compulsory regular thrift; savings precede credit	Savings not compulsory; credit is the primary purpose
Nature of loan	Loan to the group, on-lent by the group to its members	Individual loan to each member, jointly guaranteed by all
Waiting period	Bank linkage generally after six months of regular functioning and grading	Credit may be extended shortly after formation
Internal lending	Central to the model	Not a feature
Principal purpose	Thrift, empowerment and income generation	Access to production credit without collateral
Promoted mainly by	NABARD under the SHG–Bank Linkage Programme; in Kerala, Kudumbashree	ABARD under the JLG guidelines, through banks and co-operatives

5.3.5 Challenges Before Co-operative Finance and Banking Institutions in the Globalized Economy

Globalization has transformed the financial sector by increasing competition, technological innovation, financial integration, and customer expectations. Co-operative finance and banking institutions, which primarily serve farmers, rural households, small businesses, artisans, and economically weaker sections, are also influenced by these changes. While globalization provides opportunities for expansion, modernization, and innovation, it also exposes co-operative institutions to numerous challenges. To remain competitive and sustainable, these institutions must improve governance, strengthen financial management, adopt modern technology, and enhance customer service. Addressing these challenges is essential for ensuring their long-term viability and continued contribution to inclusive economic development.

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1. Increasing Competition

One of the major challenges faced by co-operative finance and banking institutions is increasing competition from commercial banks, private sector banks, foreign banks, small finance banks, payment banks, and fintech companies. These institutions offer a wide range of innovative financial products and digital banking services. Customers now have multiple options for banking and financial services. As a result, co-operative institutions often struggle to retain customers and attract new members. To remain competitive, they must improve service quality, diversify products, and strengthen customer relationships.

2. Technological Advancements

Rapid technological developments have significantly changed the banking industry. Customers expect online banking, mobile banking, internet banking, UPI services, digital payments, and real-time transactions. Many co-operative institutions face difficulties in adopting modern technologies due to limited financial resources and inadequate technical expertise. Delayed digital transformation reduces operational efficiency and customer satisfaction. Investment in Core Banking Solutions (CBS), cybersecurity, cloud computing, and digital infrastructure has become essential for survival in the globalized financial environment.

3. Rising Non-Performing Assets (NPAs)

High levels of Non-Performing Assets remain a major concern for many co-operative banks and credit societies. Loan defaults reduce profitability, weaken liquidity, and limit the ability to provide fresh credit. Factors such as crop failures, economic uncertainty, poor credit appraisal, and weak recovery mechanisms contribute to rising NPAs. Global economic fluctuations further affect borrowers' repayment capacity. Effective credit risk management, careful loan monitoring, and efficient recovery systems are necessary to reduce NPAs.

4. Limited Capital and Financial Resources

Many co-operative institutions have limited capital compared to commercial banks. Their dependence on member contributions and retained earnings restricts business expansion and investment in technology. Limited financial resources also reduce their ability to withstand economic shocks and unexpected losses. In a globalized economy, institutions require stronger capital to meet regulatory standards and support business growth. Strengthening capital through better profitability, member participation, and government support is therefore essential.

5. Governance and Management Issues

Weak governance is another important challenge confronting co-operative institutions. Political interference, inadequate professional management, lack of accountability, and ineffective decision-making affect operational efficiency. In some institutions, board members lack adequate banking and financial expertise. Poor governance may lead to financial irregularities and declining public confidence. Strengthening corporate governance, professional management, transparency, and internal control systems is essential for improving institutional performance.

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6. Regulatory Compliance

Co-operative finance and banking institutions must comply with various regulations issued by the Reserve Bank of India (RBI), NABARD, and State Co-operative Departments. Compliance with capital adequacy norms, prudential regulations, anti-money laundering guidelines, Know Your Customer (KYC) requirements, and auditing standards requires significant financial and administrative resources. Smaller institutions often find it difficult to meet these regulatory requirements. Failure to comply may result in penalties and restrictions on operations. Therefore, continuous regulatory compliance has become an important challenge.

7. Human Resource Development

The success of co-operative institutions depends largely on skilled and competent employees. Many co-operative banks face shortages of professionally trained staff in banking, finance, information technology, and risk management. Inadequate training reduces productivity and service quality. The rapidly changing banking environment requires continuous skill development and capacity building. Regular training programmes, performance evaluation, and recruitment of qualified professionals are essential for improving organizational efficiency.

5.3.6 Measures to Overcome the Challenges

Co-operative finance and banking institutions can address these challenges by adopting several strategic measures. They should strengthen capital, improve governance, recruit qualified professionals, and provide continuous staff training. Adoption of Core Banking Solutions (CBS), digital banking platforms, artificial intelligence, and cybersecurity systems will improve operational efficiency and customer service. Effective credit appraisal, regular monitoring, and efficient recovery mechanisms will help reduce NPAs. Business diversification, financial literacy programmes, innovation in financial products, and stronger member participation will further enhance competitiveness. Collaboration with NABARD, RBI, and government agencies can also provide financial and technical support for modernization.

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Recap

- ◊ Group lending provides loans to a group of borrowers who share responsibility for repayment.
- ◊ Group lending relies on mutual trust and social collateral instead of physical collateral.
- ◊ Group lending improves access to institutional credit for economically weaker sections.

- ◊ Group lending supports self-employment and income-generating activities in rural areas.
- ◊ Joint liability encourages timely repayment through collective responsibility.
- ◊ Small group size strengthens trust, communication, and effective monitoring.
- ◊ Regular group meetings improve transparency, accountability, and cooperation.
- ◊ Democratic decision-making promotes participation and leadership among members.
- ◊ Microfinance group lending promotes entrepreneurship among low-income households.
- ◊ Rising Non-Performing Assets (NPAs) affect the financial health of co-operative institutions.

Objective Questions

1. Who are the major beneficiaries of group lending?
2. What is the primary objective of group lending?
3. Which feature of group lending replaces physical collateral?
4. Who generally forms a Joint Liability Group (JLG)?
5. Which type of group lending mainly focuses on women's empowerment?
6. Which institution regulates co-operative banks in India?
7. What is a Non-Performing Asset (NPA)?
8. Which banking technology improves digital banking operations in co-operative banks?

Answers

1. Farmers, rural women, artisans, small entrepreneurs, and low-income households.
2. To provide affordable and accessible credit to people without collateral.

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3. Joint liability (social collateral).
4. Farmers and individuals engaged in similar economic activities.
5. Self-Help Group (SHG) lending.
6. The Reserve Bank of India (RBI).
7. A loan that is not repaid according to the agreed terms.
8. Core Banking Solution (CBS).

Self-Assessment Questions

1. Explain the concept of joint liability and its significance.
2. Explain the importance of regular meetings in group lending programmes.
3. Describe the functioning of Self-Help Groups (SHGs).
4. Explain the significance of microfinance group lending.
5. Discuss the causes and effects of Non-Performing Assets (NPAs).
6. Explain the importance of good governance in co-operative financial institutions.

Assignments

1. Compare Self-Help Groups (SHGs) and Joint Liability Groups (JLGs) using a tabular format.
2. Identify five advantages of group lending over individual lending with suitable examples.
3. Study the role of NABARD in promoting SHGs and JLGs and present your findings.
4. Collect data on digital banking services offered by a co-operative bank and prepare a brief report.

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BLOCK 6

Co-operative Marketing

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Unit 1
Co-Operative Marketing

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ explain the concept, structure, and functions of Marketing Societies
- ◊ explain the processing societies and their need and importance
- ◊ evaluate the need and importance of Co-operative Marketing.

Prerequisite

Marketing Societies are co-operative organizations formed by producers (farmers, fishermen, dairy farmers, rubber growers, etc.) with the primary aim of marketing their produce collectively. They are a part of the co-operative movement, which works on the principle of self-help and mutual help. In a marketing society, individual producers who are usually small and scattered pool their resources and efforts to increase their bargaining power, reduce exploitation by middlemen, and secure fair returns. These societies emerged as a response to the problems faced by individual producers such as exploitation by middlemen, lack of storage and transport facilities, poor bargaining power, and unstable prices. By pooling resources and working together, marketing societies enable producers to sell their goods in bulk, ensure fair prices, reduce marketing costs, and provide access to wider markets. Unlike private traders whose primary motive is profit, marketing societies function on the principles of co-operation, mutual help, and service to members.

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Keywords

Marketing Societies, Agricultural Marketing Societies, Primary Marketing Societies

Discussion

6.1.1 Introduction

Marketing Societies play a vital role in strengthening the rural economy by safeguarding farmers, fishermen, rubber growers, and dairy farmers from exploitation. Through federations like **NAFED, Amul, Fishcopfed**, and **Rubber Marketing Federations**, producers get fair prices, better facilities, and access to national and international markets. With modernization and government support, these societies can further improve rural development and farmer welfare.

In essence, marketing societies are not merely commercial organizations but instruments of **social and economic justice**. They empower small producers, reduce rural poverty, and foster self-reliance by working on the principles of cooperation and mutual help. By improving marketing efficiency, promoting exports, and ensuring stability in agricultural and allied sectors, marketing societies contribute significantly **to inclusive growth, rural development, and the overall economic progress of the nation.**

6.1.2 Meaning and definition of Co-operative Marketing

Co-operative Marketing is a Co-operative association of cultivators formed for the purpose of helping members to market their produce more profitably than is possible through private trade.

Definition :

"A marketing society is a co-operative association of producers, particularly farmers, organized to market their produce collectively. Its main aim is to eliminate middlemen, stabilize prices, and ensure fair returns to its members by strengthening their bargaining power". Dr. T.N. Hajela (Economist, Co-operative Theorist).

According to RBI, " Co-operative Marketing is a Co-operative association of cultivators formed primarily for the purpose of helping the members to market their produce more profitably than is possible through private trade".

According to FAO, Co-operative Marketing is a system through which a group of farmers join together to carry on some or all the processes involved in bringing goods to the consumers".

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6.1.3 Channels of Agricultural Marketing - Where the Co-operative Fits

To understand how a new learner can begin understanding Co-operative marketing alternatives, they need to be able to identify the four primary channels of agricultural produce distribution in India. These four channels include;

1. **Private Trade:** Village Traders, Commission Agents, Wholesalers. Private trade is the largest channel of produce movement into the hands of consumers. While private trade allows producers to quickly sell their produce at low cost and without having to deal with a large amount of paperwork, the profit margin made on the produce sold by each individual entity in the process does not involve the original producer.
2. **Regulated Markets:** Regulated markets were established under State APMC acts. In these markets, sales are conducted at public auction within designated market yards and all commissions and fees assessed by the state are regulated.
3. **Electronic Markets:** E- NAM (National Agricultural Market) provides a mechanism to allow buyers from different states to electronically bid on lots available in various regulated market yards across different states.
4. **Producer Collectives:** Co-operative marketing societies, and more recently Farmer Producer Organisations (FPOs). The Central Sector Scheme for the Formation and Promotion of 10,000 FPOs was launched in February 2020, and FPOs registered as producer companies now operate alongside Co-operatives in the same space.

The Kerala position. Kerala is one of the few States that has not brought its agricultural produce markets under an APMC Act. There are therefore no statutory regulated market yards in the State, and by extension very limited e-NAM coverage. The consequence for the learner to grasp is that in Kerala the Co-operative channel, together with State agencies such as Horticorp and the Vegetable and Fruit Promotion Council Keralam (VFPCK), carries a burden that in other States is shared with the regulated market. This makes the subject matter of this Block more important in Kerala, not less.

6.1.4 Objectives of Co-operativeMarketing Societies

The main objectives of marketing societies, particularly Co-operative marketing societies, are to benefit members by achieving better prices for their produce through collective bargaining, eliminating middlemen, improving marketing services, reducing costs, and providing necessary inputs and financing. They also aim to improve product quality through grading, introduce fair trading practices, and foster economic empowerment through self-help. Thus the objectives can be summarised as :

1. To sell the members' products directly in the market that offers the best price.
2. To improve the economic conditions of producers by strengthening their bargaining power.

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3. To help members produce the best products and those in the highest demand.
4. To establish fair trade practices and prevent manipulation of prices.
5. To help farmers obtain finance at a cheaper rate of interest
6. To give the farmers a better understanding of all stages of the marketing process.

6.1.5 Types of Co-operative Marketing Societies

1. **Single Commodity:** They deal only in marketing of a single agricultural commodity. Eg. Sugarcane Co-operative Marketing Society, Cotton Co-operative Marketing Society.
2. **Multi-Commodity:** Such societies deal in marketing of several commodities such as food grains, oilseeds, etc.
3. **Multi-Purpose Multi Commodity:** Such societies deal in marketing of several commodities and also perform other functions such as providing credit, supply of inputs, etc.

6.1.6 Advantages of Co-operative Marketing Societies

1. Market Intelligence Co-operative can obtain data on market price, demand and supply and other information
2. Co-operative marketing helps to reduce cost and improve service.
3. It helps to improve marketability of products and reduce all undesirable market charges.
4. It safeguards the interests of members against rising prices.
5. It provides credit to the farmers and saves them from selling their produce immediately after harvesting.
6. Farmers can wait for a better price as those societies have storage facilities.

6.1.7 Limitations or Problems of Co-operative Marketing

1. Most of the farmers are illiterate and do not know about the benefits of selling produce through Co-operatives.
2. Lower Price: Most of the prices offered by the Co-operatives are less than the open market price.
3. Some of the Societies are of recent origin and do not have adequate capital to work as an efficient unit.
4. Most of the societies do not have sufficient godowns to keep the produce and pledge loans.
5. There is a domination of traders. Most of the societies are dominated by clever and intelligent traders and non-cultivators.

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6.1.8 Need and Importance of Co-operative Marketing Societies

Co-operative marketing societies are vital for the agricultural sector as they empower farmers, improve their economic conditions, and promote fair trade practices. By enhancing bargaining power, providing financial support, and facilitating direct market access, these societies contribute significantly to the overall development of rural economies and the well-being of farmers. The importance of these societies is as follows:

1. Enhancing Bargaining Power

Co-operative marketing societies allow farmers to pool their resources and sell their produce collectively. This collective approach significantly **increases their bargaining strength** against buyers and intermediaries, enabling them to negotiate better prices for their products. By working together, farmers can present a united front, which is more effective than individual negotiations.

2. Direct Market Access

These societies facilitate **direct dealings with buyers**, eliminating intermediaries who often exploit farmers by taking a significant cut of the profits. This direct access ensures that farmers receive fair prices for their produce, which is essential for their economic sustainability.

3. Financial Support and Credit Provision

Co-operative marketing societies often provide **credit facilities** to their members, allowing farmers to avoid selling their produce immediately after harvest when prices are typically lower. This financial support enables farmers to wait for better market conditions, ultimately leading to improved returns.

4. Storage and Transport Facilities

Many Co-operative societies offer **storage facilities**, allowing farmers to store their produce safely until market conditions are favourable. This reduces the risk of loss due to spoilage or theft and helps farmers manage their supply more effectively. Additionally, these societies often provide **transportation services**, making it easier and cheaper for farmers to get their products to market.

5. Market Intelligence and Support

Co-operative marketing societies can gather and share **market intelligence**, providing farmers with valuable information about market prices, demand, and supply trends. This data helps farmers make informed decisions about when to sell their produce and at what price, further enhancing their profitability.

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6.1.9 Functions and Progress of Co-operative Marketing

The functions of marketing societies go far beyond simply selling members' produce. By providing organized facilities for storage, grading, processing, credit, transport, and distribution, they protect producers from distress sales and exploitation by middlemen. These societies also help in price stabilization, value addition, and export promotion, thereby ensuring better returns and strengthening the bargaining power of farmers and other small producers. Thus, the functions include:

1. Marketing of produce goods.
2. Distribution of fertilizers
3. Distribution of seeds and agricultural machinery
4. Grading and pooling of produce goods.
5. Processing activities
6. Provision of storage facilities
7. Provision of financial assistance
8. Manufacture of Implements
9. Foreign and Inter-state trade
10. Other activities
11. Brings down the cost of marketing.
12. Supplies quality goods to customers.
13. Makes available grading & transportation facilities.
14. Acts as a part of the government for procurement and implementation of price support policy.
15. Encourages self–help and thrift.
16. Links marketing with credit.

Thus, the functions of marketing societies not only support the individual economic interests of members but also contribute to the overall growth of the co-operative movement, rural development, and balanced economic progress of the country.

6.1.10 Processing Co-operatives

Processing Co-operatives are specialized co-operative societies formed by producers to undertake processing activities of raw materials, mainly agricultural produce, before marketing them. They provide a platform for farmers, fishermen, and other primary producers to add value to their products through cleaning, grading, packaging, and processing, thereby ensuring better returns. These co-operatives play a crucial role in bridging the gap between production and consumption by transforming raw produce into marketable goods. The primary objective of Processing Co-operatives is to safeguard the interests of small and marginal producers by enabling collective ownership and management of processing facilities. Individual farmers may not have the resources to establish modern processing units, but through co-operatives, they can pool resources

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and share the benefits. By ensuring fair prices, reducing wastage, and enhancing product quality, processing co-operatives strengthen the economic position of their members.

Examples of Processing Co-operatives include:

1. Sugar Co-operatives
2. Dairy Co-operatives
3. Oilseed Co-operatives
4. Fruit and Vegetable Co-operatives
5. Rice Mills & Cotton Ginning Co-operatives

Kerala examples: The learner should be able to name processing Co-operatives from their own State:

- **KERAFED:** the Kerala State Co-operative Coconut Marketing Federation, whose coconut oil complex at Karunagappally in Kollam district produces the KERA brand of coconut oil from copra procured directly from grower members.
- **MILMA:** the Kerala Co-operative Milk Marketing Federation, whose three regional unions chill, pasteurise and convert members' milk into curd, ghee, ice cream and milk powder.
- **MATSYAFED:** the Kerala State Co-operative Federation for Fisheries Development, which undertakes peeling, freezing and value addition of fish landed by member societies.

Rubber marketing societies, which process field latex into ribbed smoked sheet of graded quality before sale.

6.1.11 Objectives of Processing Co-operatives

1. To provide facilities for processing members' produce at reasonable cost.
2. To add value to agricultural and allied produce to fetch higher market prices.
3. To reduce dependence on middlemen and exploitation.
4. To promote collective ownership, democratic decision-making, and equitable distribution of profits.
5. To generate employment and support rural industrialisation.

Thus, Processing Co-operatives are crucial in India, where agriculture is the backbone of the economy. They help reduce exploitation, empower small farmers, promote rural industries, and strengthen the co-operative movement. They are instruments of socio-economic justice, combining business efficiency with social welfare. Marketing and Processing Co-operative Societies play a vital role in agricultural marketing by helping farmers market and process their produce collectively. They eliminate intermediaries, reduce costs, improve quality, and add value to agricultural products. These societies strengthen rural economies, enhance farmers' incomes, create employment, and contribute to national economic development through efficient marketing and processing.

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Recap

1. Marketing and Processing Co-operative Societies are organizations formed by farmers for the collective marketing and processing of agricultural produce.
2. These societies operate on the principles of cooperation and mutual benefit.
3. The main objective of these Co-operatives is to increase farmers' income through efficient marketing and value addition.
4. Co-operative societies help farmers overcome problems such as low bargaining power and exploitation by middlemen.
5. Collective marketing and processing reduce marketing costs and ensure fair returns to members.
6. Processing Co-operatives create employment opportunities and encourage rural entrepreneurship.
7. These societies reduce post-harvest losses and contribute to balanced rural economic development.
8. Marketing and Processing Co-operative Societies strengthen the agricultural marketing system and promote sustainable agricultural and rural development

Objective Questions

1. What are Marketing and Processing Co-operative Societies?
2. Which principles do Marketing and Processing Co-operative Societies follow?
3. What is the main objective of Marketing and Processing Co-operative Societies?
4. Which problems do Co-operative societies help farmers overcome?
5. How do collective marketing and processing benefit members?
6. What opportunities are created by processing Co-operatives in rural areas?
7. Which losses are reduced by Marketing and Processing Co-operative Societies?
8. How do Marketing and Processing Co-operative Societies contribute to agricultural development?

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Answers

1. Organizations formed by farmers for collective marketing and processing of agricultural produce.
2. Cooperation and mutual benefit.
3. To increase farmers' income through efficient marketing and value addition.
4. Low bargaining power and exploitation by middlemen.
5. By reducing marketing costs and ensuring fair returns.
6. Employment opportunities.
7. Post-harvest losses.
8. By strengthening the agricultural marketing system and promoting sustainable rural development.

Self-Assessment Questions

1. Explain the need for Marketing and Processing Co-operative Societies.
2. Discuss the importance of Co-operative Marketing in rural development.
3. Explain the functions of Marketing and Processing Co-operative Societies.
4. Discuss the advantages and limitations of Marketing Co-operatives.
5. Explain how processing Co-operatives add value to agricultural products.

Assignments

1. Explain the concept, objectives, and functions of Marketing and Processing Co-operative Societies.
2. Discuss the need and importance of Co-operative Marketing in the development of Indian agriculture.
3. Explain the role of Processing Co-operative Societies in value addition and rural employment.

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Unit 2
Primary Marketing Societies

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ explain the concept, structure, and functions of Primary Marketing Societies
- ◊ explain the types of Marketing Societies
- ◊ understand the structure of Primary Marketing Societies

Prerequisite

A Primary Market Society is the most basic unit of the co-operative credit structure, usually established at the village or local level. These societies are formed by a group of individuals, mainly farmers, small traders, or rural households, who come together to meet their financial and marketing needs collectively. By pooling resources, they ensure that credit and services are made available at affordable rates, helping members avoid dependence on exploitative moneylenders. The key objective of a Primary Market Society is to provide short-term and medium-term loans, supply agricultural inputs like seeds, fertilizers, and implements, and arrange marketing facilities for the produce of its members. Since these societies are owned, managed, and controlled by their members, they operate on democratic principles where each member has an equal say, regardless of their shareholding. This grassroots structure makes them highly responsive to the needs of rural communities.

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Keywords

Primary Marketing Societies, Structure of Primary Marketing Society

Discussion

6. 2.1 Introduction

Primary Market Societies also act as a foundation for the co-operative movement, linking farmers with higher-level co-operatives such as District Central Co-operative Banks and State Co-operative Banks. They not only provide financial assistance but also encourage savings, self-reliance, and community development. By empowering rural populations and strengthening the agricultural economy, these societies play a vital role in promoting inclusive growth and balanced economic development.

PCMS is an association of cultivators on co-operative principles formed primarily for the purpose of helping members to market their produce more profitably than private trade. The area of operation of primary society is one taluk or more than one taluk. The membership consists of individual producers and PACS working in the area of operation. Membership is open to State and Local Govt., and the liability is limited. The first Marketing Society was organized in Bombay province at Hubli in the year 1915.

6.2.2 Objectives

1. To arrange for the marketing of members' produce to their best advantage.
2. To make advances to members on the pledge of their produce.
3. To arrange for the storage of the agricultural produce of the members.
4. To arrange for the storage of the agricultural produce of the members.
5. To provide the facility of processing, grading, pooling, packing, etc. of the produce of the members to ensure better prices.
6. To act as the agent of the Govt for the procurement of food grain and other commodities.
7. To ensure the habit of thrift, self-help, mutual aid among the members.

6.2.3 Management

1. The Board of Management of a marketing society consists of 9 to 11 members.
2. The marketing society raises funds by way of share capital, borrowings from the co-operatives and other financing agencies, loans and grants from the Government, etc.

6.2.4 Functions

1. **Collective Marketing:** To sell the product of their farmer members in a unified manner to obtain remunerative prices.
2. **Input Supply:** To provide members with agricultural inputs like seeds and fertilizers at reasonable prices.
3. **Infrastructure:** To offer facilities such as storage (godowns) for members'

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produce.

4. **Financial Services:** Some societies may also provide loans and accept deposits from members.
5. **Market Information:** Disseminating information about market prices and trends to farmers.
6. **Government Procurement:** Acting as agents for the government in procuring agricultural commodities.
7. **Value Addition:** Performing processing and value-addition activities to increase the value of agricultural products.

6.2.5 Types of Marketing Societies

The Co-operative Marketing Societies may be grouped into the following types:

1. Single Commodity Co-operative Marketing Society.
2. Multi Commodity Co-operative Marketing Society.
3. Multi-purpose multi-commodity Co-operative Marketing Society.

1. Single Commodity Co-operative Marketing Society

- ◊ These types of societies deal with only one agricultural commodity. For example:
- ◊ Cotton Co-operative Marketing Society
- ◊ Arecanut Co-operative Marketing Society
- ◊ Oilseed Growers Co-operative Marketing Society.

2. Multi Commodity Co-operative Marketing Society

These societies deal with more than one commodity produced by the members, such as oilseeds, cotton, food grains, etc.

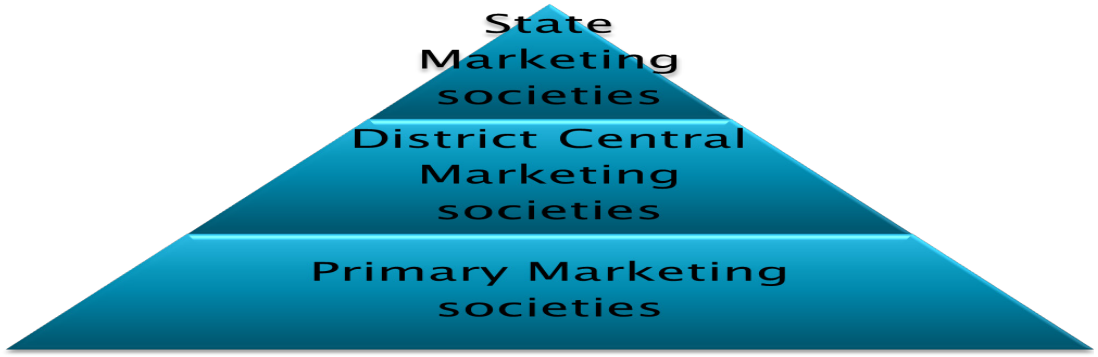
3. Multi-purpose Multi-commodity Co-operative Marketing Society

These societies market a large number of commodities and perform such other functions as providing credit to members, arranging for the supply of the inputs required by them and meeting their requirements of essential domestic consumption goods.

6.2.6 Structure of Co-operative Marketing

The structure of co-operative marketing operates as a **two-tier or three-tier system**, featuring primary societies at the base, central or district unions in the middle (in a three-tier setup), and state or national apex federations at the top.

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1. State level Marketing Societies or Federation

These are apex institutions for all co-operative marketing in the state. Functions of State Level Co-operative Marketing Societies include:

i. They provide credit and other facilities to District Marketing Societies. (DMS)

ii. They buy and sell products of DMS.

iii. Wholesale distribution of chemical fertilizers, iron, steel, cement, sugar, wheat, kerosene, coffee seeds, rice, milk powder, etc., in addition to agricultural implements & insecticides.

iv. Overall co-ordination of co-operative marketing.

2. District Level Marketing Societies – Central Marketing Societies

i. They deal with primary marketing societies (PMS) at village level.

ii. Purchase & sell agro product & supply agri. inputs to farmers through PMS.

3. Primary Marketing Societies

i. They deal in a single commodity or many commodities at a time.

ii. They collect & standardize the produce brought to them by their members & make arrangements for their sale.

iii. They also advance loans to their members against the produce. They are multipurpose societies.

The structure of Co-operative marketing in India is organized as a multi-level system that links farmers with markets through Co-operative institutions. It generally consists of Primary Co-operative Marketing Societies at the village level, District or Central Co-operative Marketing Societies at the district level, State Co-operative Marketing Federations at the state level, and the apex organization, National Agricultural Co-operative Marketing Federation of India Ltd. (NAFED), at the national level. Each level performs specific functions such as procurement, grading, storage, processing, transportation, financing, marketing, and export promotion.

The structure in Kerala is effectively two-tier rather than three-tier. There are no separate district marketing federations; the primary marketing societies are affiliated directly to MARKETFED, which reaches them through its fourteen district offices. The learner should therefore not assume that the three-tier model described in the textbooks is reproduced in every State.

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6.2.7 Problems of Primary Marketing Societies

1. **Inadequate own funds.** Most primary societies work almost entirely on borrowed capital and cannot finance outright purchase of members' produce; they are therefore confined to sale on commission, which is the least remunerative form of business.
2. **Shortage of godown space.** Without storage, the society cannot grant pledge loans, and without pledge loans it cannot prevent distress sales — the very purpose for which it exists.
3. **Weak member loyalty.** A member who receives a marginally higher offer from a private trader, or who needs immediate cash, diverts his produce outside the society, so the society can never assure a buyer of a steady quantity.
4. **Absence of grading and quality control.** Where produce is not graded, the society is obliged to sell an unsorted lot at the price of its worst fraction.
5. **Domination by non-cultivating interests.** Traders and other non-producers who secure election to the board may run the society in a manner that suits their own trading interest.
6. **Lack of trained personnel.** Market intelligence, price forecasting and export documentation require skills that a small society cannot command.
7. **Competition from Farmer Producer Organisations and from organised retail chains**, both of which procure directly from the farm gate and pay promptly.

Recap

- ◊ A Primary Co-operative Marketing Society is the basic unit of the Co-operative marketing system at the village level.
- ◊ It is formed by farmers who voluntarily join together for collective marketing of agricultural produce.
- ◊ The society aims to protect farmers from exploitation and ensure better returns for their produce.
- ◊ The members of a primary marketing society are mainly local farmers and agricultural producers.
- ◊ The society is managed by an elected managing committee in a democratic manner.
- ◊ Every member has equal voting rights in the society.
- ◊ The society collects, grades, sorts, weighs, and stores agricultural produce before marketing it.
- ◊ Bulk marketing increases the bargaining power of farmers and helps them obtain better prices.

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- ◊ Primary Co-operative Marketing Societies reduce dependence on intermediaries and lower marketing costs.
- ◊ These societies provide services such as warehousing, transportation, market information, packaging, quality control, credit, and agricultural inputs.

Objective Questions

1. What is a Primary Co-operative Marketing Society?
2. Who forms a Primary Co-operative Marketing Society?
3. What is the main objective of a Primary Co-operative Marketing Society?
4. Who are the members of a Primary Co-operative Marketing Society?
5. How is the society managed?
6. Which right is equally enjoyed by every member?
7. What activities are performed before marketing agricultural produce?
8. How does bulk marketing benefit farmers?
9. Which intermediaries are reduced through Co-operative marketing?
10. What services are provided by Primary Co-operative Marketing Societies?

Answers

1. The basic unit of the Co-operative marketing system at the village level.
2. Farmers and agricultural producers.
3. To ensure better returns and protect farmers from exploitation.
4. Local farmers and agricultural producers.
5. By an elected managing committee.
6. Equal voting rights.
7. Grading, sorting, weighing, and storage.
8. It increases bargaining power and ensures better prices.
9. Middlemen.
10. Warehousing, transportation, market information, packaging, quality control, credit, and agricultural inputs.

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Self-Assessment Questions

1. What is a Primary Co-operative Marketing Society?
2. State the main objectives of a Primary Co-operative Marketing Society.
3. Explain any four functions of a Primary Co-operative Marketing Society.
4. How does a Primary Co-operative Marketing Society benefit farmer?
5. Explain the meaning, objectives, and features of a Primary Co-operative Marketing Society.
6. Discuss the functions and services provided by a Primary Co-operative Marketing Society to its members.
7. Explain the role of a Primary Co-operative Marketing Society in agricultural marketing and rural development.
8. Describe the advantages and limitations of Primary Co-operative Marketing Societies.
9. What are the various types of marketing societies?

Assignments

1. Explain the concept, organization, objectives, functions, and importance of a Primary Co-operative Marketing Society in detail.
2. Discuss the role of Primary Co-operative Marketing Societies in improving agricultural marketing, increasing farmers' income, and eliminating intermediaries.
3. Evaluate the contribution of Primary Co-operative Marketing Societies to rural development, value addition, and the overall Co-operative movement in India.

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Unit 3
Co-operative Marketing and Federations

Learning Outcomes

After completing this unit, the learner will be able to:

- ◊ understand Co-operative marketing and its Federations.
- ◊ explain the types of Kerala State Co-operative Marketing Federation Ltd.
- ◊ explain NAFED
- ◊ understand the Processing Co-operatives

Prerequisite

A Co-operative is an autonomous association of people united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled business. They are voluntary associations started with the aim of service to members. Co-operative Marketing consists of two words, ' Co-operative or cooperation' and 'marketing'. It is also the marketing for farmers and by the farmers that aims at eliminating the chain of functionaries operating between the farmers and the ultimate consumers and thus securing maximum price for the farmers' produce.

Keywords

Co-operative Marketing, NAFED, KSCMF, Processing Co-operative

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Discussion

6.3.1 Introduction

Federations of Marketing Societies play a crucial role in strengthening the Co-operative marketing structure by linking primary societies with larger markets, financial institutions, and government support systems. By pooling resources and coordinating activities at the district, state, and national levels, these federations ensure fair pricing, efficient distribution of inputs, better storage and processing facilities, and wider market access for farmers. They not only safeguard the interests of producers against middlemen but also promote collective strength, stability, and growth of the Co-operative movement, thereby contributing significantly to rural development and agricultural prosperity.

6.3.2 Historical Development of Co-operative Marketing in India

1. The first market society started in India was the Kumbakonam Agricultural Society, 1913, which supplied seeds, manures and implements and arranged for the sale of the produce of its members. Unit 2 records that the first marketing society was organised at Hubli in 1915. The two statements are reconciled as follows: the Kumbakonam Agricultural Society (1913, Madras Presidency) was the earliest society to take up the sale of members' produce, while the Hubli society (1915) was the first society organised in the Bombay Presidency and the first devoted specifically to the collective sale of cotton
2. The first Market society started in India was the Kumbakonam Agricultural Society in 1913, which supplied seeds, manures, implements and arrangements for the sale of the products of its members.
3. In the years 1915 and 1917, two marketing Co-operative Societies were formed at Hubli and Gadage respectively. The basic objective was to encourage the cultivation of improved cotton and sell it collectively.
4. In 1918, the South Canara Planters' Co-operative Sale Society was formed in the then Madras Presidency for the joint sale of arecanut. It is of particular interest to Kerala students as the earliest organised commodity marketing Co-operative in the Malabar region.
5. In 1920-21, there were only 31 Co-operative Societies. The Royal Commission on Agriculture (1928) stressed the need for group marketing instead of individual marketing.
6. The Central Banking Enquiry Committee (1931) also underlined the need for organised marketing. The XI conference of Registrars of Co-operative Societies (1934) emphasised the importance of Co-operative Marketing.
7. In 1945, the Co-operative Planning Committee recommended that at least 25 per cent of marketable surplus should be channelised through Co-operative

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societies within the next 10 years by framing one society for the group of 200 villages.

8. In 1958, the National Agriculture Co-operative Marketing Federation [NAFED] came into power as the apex body of Co-operative Marketing.
9. In 1963, the National Co-operative Development Corporation (NCDC) was established for the promotion of programmes relating to processing, storage, packing and marketing of rural produce through Co-operative markets.
10. In 1968, the RBI recognised the linking of credit with marketing as a necessary step for the development of agricultural marketing.
11. In July 2021, a separate Ministry of Cooperation was created at the Centre, and in July 2025, the National Cooperation Policy, 2025 was announced, replacing the policy of 2002.

6.3.3 Federations of Primary Marketing Societies

1. State Co-operative Marketing Federations (SCMFs)

State Co-operative Marketing Federations (SCMFs) are apex bodies within each Indian state that facilitate the marketing of agricultural and other commodities for their member Co-operative societies. Examples of SCMFs exist in every state to support specific commodities like food grains, oilseeds, and cotton, offering a unified platform for marketing and promoting the collective interests of Co-operative members and ensuring fair prices for their produce.

2. District Co-operative Marketing Federations (DCMFs)

District Co-operative Marketing Federations (DCMFs) are apex Co-operative societies at the district level in India that are formed by primary marketing societies and individual producers to collectively market their produce, eliminating middlemen and ensuring better prices and profits for producers. They provide services like storage, transportation, and quality assurance for agricultural and other goods, thereby strengthening the Co-operative marketing system and empowering local producers.

3. National Federations

1. National Agricultural Co-operative Marketing Federation (NAFED)
2. Tribal Co-operative Marketing Federation (TRIFED)
3. National Co-operative Consumers' Federation (NCCF)
4. National Co-operative Dairy Federation of India (NCDFI)

6.3.4 National Agricultural Co-operative Marketing Federation (NAFED)

(NAFED) is an apex organization of marketing Co-operatives for agricultural produce in India. It was established on the auspicious day of Gandhi Jayanti on 2nd October 1958. NAFED is registered under the Multi-State Co-operative Societies Act. It played a pivotal role in organizing and strengthening the Co-operative marketing

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system in India. NAFED's price stabilization interventions have been instrumental in protecting farmers' interests. It ensures fair prices for their produce. NAFED undertakes market interventions to stabilize prices when they fall below the minimum support price (MSP) set by the government.

Over the years, NAFED's role has expanded beyond marketing to encompass a wider range of activities. This includes export promotion, infrastructure development, and capacity building.

NAFED has its headquarters in New Delhi with regional offices in Delhi, Mumbai, Chennai and Kolkata. It also operates 28 zonal offices in state capitals and other crucial cities. The NAFED is part of "Operation Greens" where price stabilization measures are implemented in order to increase farmers' income by 2022. It works in tandem with the Food Corporation of India (FCI) in playing a lead role in purchasing oilseeds, pulses under the Price Support Scheme (PSS). The PSS, in turn, is also a scheme under the PM-AASHA scheme.

NAFED has contributed significantly to maintaining price stability of various essentials, primarily pulses and oilseeds, through the implementation of government procurement and distribution policies. In times of extreme price fluctuations, NAFED procures pulses and oilseeds from farmers at an equitable price, thereby preventing severe price increases in the market and helping ensure price stability for farmers and consumers alike. Moreover, NAFED's ability to help farmers avoid being exploited by middlemen enables them to earn better income. Additionally, NAFED's function of enabling the exports of Indian agricultural products (pulses) has helped increase India's market share globally, contribute to agricultural development, and generate foreign currency.

6.3.5 Objectives of NAFED

The objectives of the NAFED shall be to organize, promote and develop marketing, processing and storage of agricultural, horticultural and forest produce, distribution of agricultural machinery, implements and other inputs, undertake inter-state, import and export trade, wholesale or retail as the case may be and to act and assist for technical advice in agricultural, production for the promotion and the working of its members, partners, associates and Co-operative marketing, processing and supply societies in India. Thus, the objectives of NAFED are as follows:

1. To organize, promote, and develop marketing and storage of agricultural and forest produce.
2. To assist with technical advice in agricultural production.
3. Facilitation, coordination and promotion of marketing and trading activities of partners and associates in the agricultural sector.
4. Undertaking purchase, sale and supply of agricultural, marketing and processing requirements such as manure, seeds, fertilizers etc.
5. Facilitate the construction of warehouses as per the Warehousing Act by constructing its own godowns and storage facilities.

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6. Act as an agent of any government or Co-operative for the purchase, sale and storage of agricultural, horticultural and animal husbandry produce.
7. Provide insurance coverage to cover any accidents that may occur.
8. Organize consultancy work for the benefit of allied institutions under the NAFED
9. To undertake marketing research and dissemination of market intelligence;
10. To subscribe to the share capital and undertake business collaboration with Co-operative institutions, public, joint and private sector enterprises, if and when considered necessary for fulfilling the objectives of NAFED.

Thus, the objectives of NAFED are centred on safeguarding farmers' interests by ensuring fair prices, providing efficient marketing support, and promoting Co-operative growth across the country. By undertaking procurement, distribution, storage, processing, and export of agricultural produce, NAFED not only strengthens the agricultural marketing system but also stabilizes markets and prevents exploitation of farmers. Thus, its objectives reflect a strong commitment to enhancing farmer welfare, promoting self-reliance, and fostering balanced rural and national economic development.

6.3.6 Kerala State Co-operative Marketing Federation Ltd.

The Kerala State Co-operative Marketing Federation Ltd. (MARKETFED) is the apex Co-operative marketing organization in Kerala. It functions under the Department of Co-operation, Government of Kerala, and serves as the highest-level federation of primary Co-operative marketing societies in the State. MARKETFED promotes agricultural marketing, supplies quality farm inputs, stabilizes agricultural prices, and safeguards the interests of farmers through the Co-operative system. It also helps eliminate middlemen by providing direct marketing facilities to farmers.

MARKETFED commenced operations on 24 December 1942 as the South Malabar District Wholesale Co-operative Store in the erstwhile Malabar district. In 1958, it was reorganized as the South Malabar District Co-operative Supply and Marketing Society under the State Plan Scheme. On 10 August 1960, it was upgraded into the Kerala State Co-operative Marketing Federation Ltd. (MARKETFED), the apex federation with jurisdiction over the entire State of Kerala.

6.3.7 Objectives

The major objectives of MARKETFED are:

1. To procure, market, and sell agricultural produce of member societies and farmers.
2. To ensure remunerative and fair prices for agricultural products.
3. To eliminate unnecessary middlemen in agricultural marketing.
4. To supply fertilizers, seeds, pesticides, farm implements, and other agricultural

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inputs at reasonable prices.

5. To establish warehouses, godowns, and storage facilities for agricultural commodities.
6. To promote processing and value addition of agricultural produce.
7. To encourage exports of Kerala's agricultural commodities.
8. To strengthen Co-operative marketing societies through financial and technical assistance.

6.3.8 Functions

The important functions of MARKETFED include:

1. Procurement of agricultural produce directly from farmers and member societies.
2. Marketing and distribution of agricultural commodities within India and abroad.
3. Supply of fertilizers, seeds, pesticides, and other farm inputs through Co-operative societies.
4. Establishment and maintenance of warehouses, godowns, and storage facilities.
5. Processing and value addition of agricultural products such as spices and coconut products.
6. Price support operations and market intervention to protect farmers from price fluctuations.
7. Promotion of exports of Kerala's agricultural products like pepper, cardamom, turmeric, dry ginger, cocoa, rubber, and cashew.

MARKETFED is the apex Co-operative marketing federation of Kerala and plays a significant role in strengthening the agricultural marketing system. By ensuring fair prices to farmers, providing quality agricultural inputs, promoting storage, processing, and exports, and reducing the role of intermediaries, it contributes significantly to the development of the Co-operative movement and the rural economy of Kerala.

6.3.9 National Co-operative Development Corporation (NCDC)

It was set up in 1963 by the Central Government by passing the NCDC Act in 1962. NCDC has emerged as a developmental and promotional financing institution for the Co-operative sector in the country. The strategy of the corporation is to strengthen and develop Co-operative institutions to enable them to serve their members and to maintain a sustained growth in their income. NCDC has been implementing a Central Sector/ Corporation Sponsored Scheme for providing financial assistance towards setting up of agro-based processing units.

The major thrust areas financed by NCDC include agroprocessing, agro-marketing, integrated Co-operative Development Project (ICDP) focusing on micro-level co-operatives, consumer co-operatives, coir, Handloom and promotion of information technology in the Co-operative sector.

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6.3.10 Role and Functions of NCDC

1. To provide loans and grants to various co-operative societies.
2. To utilize the National Co-operative Development Fund for various development activities of co-operative societies.
3. To provide technical facilities to agricultural co-operative societies through respective state governments.
4. To participate in the share capital of the different Co-operative societies working at the national level.
5. To develop co-operative fields like processing, warehousing, import-export of agricultural commodities, etc.
6. To assist the State Government in Human Resource Development.
7. To provide funds to State Governments for financing Co-operative societies for the purchase of agricultural produce and foodstuffs.
8. Plan and promote programmes through Co-operative societies for the supply of seeds, manures, fertilizers and agricultural implements.
9. Provide outright grant to Co-operative credit institutions towards their special bad debts reserve.

6.3.11 National Dairy Development Board (NDDB)

National Dairy Development Board (NDDB), an institution of national importance, was set up by the Government of India to promote, plan and organise programmes for development of dairy and other agriculture-based and allied industries along Co-operative lines on an intensive and nationwide basis. During 1951 and 1970, milk production remained stagnant, and per capita availability of milk declined from 132 grams per day to 107 grams per day. The creation of National Dairy Development Board (NDDB) in 1965 was a major step towards the organization of dairying on Co-operative lines. DB supports the development of dairy Co-operatives by providing them financial assistance and technical expertise.

A village-level dairy Co-operative society consists of members who are normally milk producers and residents of the same village but committed to sell a portion of their surplus milk after meeting their household needs to Co-operatives. Each village Co-operative has a milk collection centre which accepts all milk brought by milk producers, tests it and measures the fat content and payment made accordingly.

The district union, in the second tier, is responsible for processing the milk collected by village co-operatives. It also produces milk products after meeting the demand for liquid milk. These unions are federated at the State Co-operative Dairy Federations; they, in turn, market the milk and dairy products produced under a common brand (in Kerala, MILMA products).

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The state-level Dairy Federations have formed the National Co-operative Dairy Federation of India Limited (NCDFI). The National Dairy Development Board (NDDB) was constituted in 1965 under the Ministry of Agriculture. Its headquarters are at Anand, in Gujarat. In 1987, the National Dairy Development Board Act was passed to give it statutory status.

Objects

1. The main object of NDDB is to organize and oversee the planning and execution of dairy development programmes on a National basis.
2. The Board is responsible for organising Anand Model Dairy Co-operative throughout the country and utilising the services of experts in the dairy industry for the development of co-operative dairies in the country.
3. It also provides technical guidance to various states in setting up projects for overall development of milk production, processing, procurement and marketing in the country.
4. The Board is entrusted with the responsibility of organising dairy Co-operatives on the 'Anand Pattern' throughout the country, which led to the launch of Operation Flood Programmes in 1970.

6.3.12 Co-operative Processing

Processing of Agricultural produce is most essential for successful marketing. Processing implies the transformation of products from their non-usable to usable form. Processing increases the value of the product and makes it possible to store it for a longer period. It helps in maintaining a steady supply throughout the year and hence stabilizing the price. In underdeveloped and developing economies, processing is of immense advantage since it helps in making agriculture a profitable profession. The individual farmer cannot undertake processing owing to limited resources, in terms of finance, technical skill and knowledge and limited marketable surplus. Consequently, it is being undertaken by middlemen in the private sector. For achieving maximum economies, processing units may be set up in areas close to the source of supply, especially if there is a risk of the loss of weight or quality during transit. In case of commodities which are bulky or perishable, processing units may even be located at the centres of consumption.

The advantages of a Co-operative processing society

The advantages of a Co-operative processing society are as follows:

1. It can help in decentralization of industries.
2. It may be cheaper because of low wages, low rent of buildings and low cost of transportation.
3. The by-products can also be used in the rural areas.
4. It would help in reducing unemployment among the rural masses.

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6.3.13 CO-OPERATIVE PROCESSING IN INDIA

The importance of Co-operative processing to the rural economy of India has been emphasised by all committees and commissions set up to review the status of the Co-operative movement, but nothing substantial was achieved until the beginning of the Third Five-Year Plan. The establishment of such industries was considered important for accelerating the rate of economic growth and for speeding up rural industrialization. Such industries not only create new employment opportunities but also inspire self-confidence in the farmers from whom new industrial and business leadership is to be built up. The Government of India, at the beginning of the Second Five Year Plan, took a policy decision to support and finance Co-operatives for the processing of agricultural produce. In 1958, the Damle Committee recommended that the programme of Co-operative processing, especially of food crops, should be enlarged. In 1961, the Saraiya Committee gave many recommendations for improving the prospects of Co-operative processing industries in India.

The large-sized processing units such as sugar factories, spinning mills, solvent extraction plants, cattle feed factories, etc, are set up by the Co-operatives organised by the growers either in a federal or unitary form depending upon the size and local situation. Medium and small units such as rice mills, oil mills, jute baling units, etc. have been established as adjuncts (attached) to marketing Co-operatives. Secondary processing units have also been established by a mill group of primary processing societies, e.g., a cotton spinning mill established by Co-operative cotton pressing and spinning societies. The Co-operative processing units have organized their federations at State and national levels.

6.3.14 Problems of Agro Processing Co-operatives

1. Pricing policy of produce like cotton, oil seed, sugarcane etc. is faulty.
2. There is inefficient supply of agricultural produce affecting the functioning of units.
3. In most cases the private traders form co-operative processing units to safeguard their interest. This affects the Co-operative principles.
4. Due to stiff competition and price fluctuations processing societies cannot work tothe fullest capacity.
5. There is scarcity of experienced personnel for management of the societies.

6.3.15 Recent developments in the field of Co-operative marketing include

◊ **Co-operative Minister (2021):** In July of 2021 the Indian government established a separate Ministry of Cooperation. As part of this, all cooperation-related responsibilities that had been carried out through the Ministry of Agriculture are being transferred to the newly-established ministry.

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- ◊ **The National Cooperation Policy (2025):** The National Cooperation Policy was announced on July 24th, 2025 and is intended to replace the National Policy on Co-operatives (2002) that preceded it. This policy outlines a future direction for the development of the country's Co-operative sector based on "six strategic pillars," "16 objectives" and "83 recommendations." Among other things, it has the objective of increasing the portion of GDP accounted for by the Co-operative sector from about 7% to about 21%. Additionally, it has the goal of having at least one Co-operative operating in each village across the country. States will be required to revise their state level Co-operative policies so they align with the requirements set forth in the national policy.
- ◊ **New national multi-State society Co-operatives (2023):** There have recently been three new national multi-state Co-operative societies formed to help fill in some gaps along the marketing supply chain. These include: NCEL (National Co-operative Exports Ltd.), which serves as an umbrella organization for export efforts made by the Co-operative sector; NCOL (National Co-operative Organics Ltd.), which is responsible for aggregating, certifying and marketing organic products sold under the brand name "Bharat Organics"; and BBSSL (Bharatiya Beej Sahkari Samiti Ltd.) for producing high-quality seeds and selling them. Each of these organizations is supported by a combination of different agricultural Co-operatives including IFFCO, KRIBHCO, NAFED, NDDB, GCMMF, NCCF and NCDC.

Co-operative marketing is an important component of the Co-operative movement that enables farmers to market their produce collectively and receive better prices. At the national level, **NAFED** coordinates procurement, processing, storage, exports, and price support operations, while **Kerala State Co-operative Marketing Federation (MARKETFED)** performs similar functions within Kerala by supporting primary marketing societies and supplying agricultural inputs. Processing Co-operatives further strengthen agriculture by converting raw produce into value-added products, increasing farmers' income and generating rural employment. Together, these institutions improve agricultural marketing, reduce exploitation by middlemen, stabilize prices, and promote sustainable rural development.

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Recap

- ◊ Co-operative marketing enables farmers to market their agricultural produce collectively through Co-operative societies.
- ◊ Co-operative marketing helps farmers obtain fair prices and improve their bargaining power.
- ◊ It reduces the role of middlemen and provides storage, grading, processing, and marketing facilities.
- ◊ NAFED is the apex Co-operative marketing organization at the national level in India.

- ◊ NAFED was established in 1958 to promote marketing, procurement, processing, storage, and export of agricultural products.
- ◊ MARKETFED is the apex Co-operative marketing federation in Kerala.
- ◊ MARKETFED procures agricultural produce and supplies fertilizers and pesticides to support farmers and Co-operative societies.
- ◊ Processing Co-operatives convert raw agricultural products into value-added products, reduce wastage, and generate rural employment.

Objective Questions

1. What is Co-operative marketing?
2. Which organization is the apex Co-operative marketing body at the national level?
3. What activities are promoted by NAFED?
4. Which organization is the apex Co-operative marketing federation in Kerala?
5. What does MARKETFED procure from farmers?
6. How do processing Co-operatives increase farmers' income?
7. Which area benefits from employment generated by processing Co-operatives?

Answers

1. A system in which farmers jointly market their agricultural produce through Co-operative societies.
2. National Agricultural Co-operative Marketing Federation of India Ltd. (NAFED).
3. Marketing, procurement, processing, storage, and export of agricultural products.
4. Kerala State Co-operative Marketing Federation Ltd. (MARKETFED).
5. Agricultural produce.
6. By converting raw products into value-added products.
7. Rural areas.

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Self-Assessment Questions

1. Explain the concept, objectives, and functions of Co-operative marketing.
2. Describe the establishment, objectives, and functions of the National Agricultural Co-operative Marketing Federation of India Ltd. (NAFED).
3. Explain the establishment, objectives, and functions of the Kerala State Co-operative Marketing Federation Ltd. (MARKETFED).
4. Discuss the need, importance, and functions of processing Co-operatives in agricultural development and rural economic growth.

Assignments

1. Explain the concept, objectives, and functions of Co-operative marketing.
2. Describe the establishment, objectives, and functions of NAFED.
3. Explain the role and functions of Kerala State Co-operative Marketing Federation (MARKETFED).
4. Discuss the need and importance of processing Co-operatives in agricultural development.

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Unit 4
Consumer Co-operatives

Learning Outcomes

After completing this unit, the learner will be able to;

- ◊ understand the meaning of Consumer Co-operative
- ◊ explain the origin and importance of Consumer Co-operatives
- ◊ explain Primary Co-operative Consumer Stores

Prerequisite

Consumer Co-operatives are enterprises owned by consumers and managed democracies which aim at fulfilling the needs and aspirations of their members. They operate within the market economy, independently of the state, as a form of mutual aid (organization), oriented toward service rather than pecuniary profit. Consumers' Co-operatives often take the form of retail outlets owned and operated by their consumers, such as Food Co-operatives, consumer Co-operative. However, there are many types of consumers' Co-operatives, operating in areas such as health care, insurance, housing Co-operatives, utility Co-operatives, and personal finance (including credit unions).

Keywords

Consumer Co-operative, Primary Co-operative Consumer stores

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Discussion

6.4.1 Introduction

A Consumers' Co-operative Store is a voluntary organisation of consumers, organised to obtain their requirements of consumer goods and services on terms of greatest advantage to them. Modem consumers' Co-operative Stores have been established on the principles of Rochdale Pioneers. According to the Maharashtra Co-operative Societies Act 1960, sec. 2(9) a consumer Co-operative society is defined as "a society the object of which is (a) the procurement, production or processing and distribution of goods or services for its members or other customers, and (b) the distribution among members and customers, of profits occurring such procurement, production or processing and distribution".

In some countries, consumers' Co-operatives are known as Co-operative retail societies or retail co-ops. Consumers' Co-operatives may, in turn, form Co-operative federation. These may come in the form of Co-operative Wholesale Society, through which consumers' Co-operatives collectively purchase goods at

wholesale prices and, in some cases, own factories. Alternatively, they may be members of Co-operative union.

6.4.2 Characteristics

1. Voluntary Association

Consumer co-operatives are formed voluntarily by consumers who come together to safeguard their economic interests. Any consumer who is willing to follow the rules of the society can become a member without any social, religious, or economic discrimination.

2. Democratic Control

These societies function on the principle of democracy, where each member has an equal right to participate in decision-making. Regardless of the number of shares owned, every member gets only one vote, ensuring equality and fairness in management.

3. Supply of Goods at fair Prices

The main objective of consumer co-operatives is to provide essential goods of good quality to their members at reasonable prices. By purchasing in bulk and eliminating middlemen, they protect consumers from exploitation and market fluctuations.

4. No Profit, No Loss Principle

Consumer co-operatives are not driven by the motive of maximizing profit. They work on a "no profit, no loss" basis, and any surplus earned is either reinvested for the growth of the society or distributed among members as dividends.

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5. Open Membership

Membership in consumer co-operatives is open to all sections of society without restrictions of caste, creed, gender, or economic status. This inclusive nature promotes unity, cooperation, and collective welfare among consumers.

6.4.2 Need and Importance

1. Supply of goods and services as per need of the consumers.
2. Eradication of malpractices like black marketing, artificial scarcity, hoarding and cheating in measurements.
3. Establishments of proper trading system – consumer Co-operatives supply good quality products at reasonable costs.
4. Eradication of trader's chain – There is a long chain of middlemen between producers and consumers who add their profits making the things costly. Consumer co-operatives purchase things directly from producers at cheaper price.
5. Consumers have to satisfy their needs as per their income – Due to existence of consumer co- operatives consumers automatically learn to satisfy the needs as per income and the habit of savings.

6.4.3 OBJECTIVES

These stores have the following objectives:

a. To serve the members and customers by supplying household consumption goods required by them at their doorsteps.
b. To provide the consumer goods of good quality at a reasonable price and protect the interest of members.
c. To stabilise the price line and check the exploitation by the private investment.

6.4.4 Structure of Consumers' Co-Operative Stores in India

Regarding the structure of consumers' Co-operatives in India, no uniform pattern of organisation was followed in India. In some states, they followed 'two-tier system'. In some other states, we find 'unitary system', while in various other states we find 'federal structure'. Chart showing the federal structure of consumers' co-operative stores in India.

1. The National Consumers' Co-operative Federation
2. The State Consumers' Co-operative Federations
3. The wholesale Consumer Stores
4. The Primary Consumer Stores

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Tier	Institution	Principal function
National	National Co-operative Consumers' Federation of India Ltd. (NCCF)	Bulk procurement at national level, price stabilisation, guidance and assistance to the State federations
State	State Consumers' Co-operative Federation — in Kerala, CONSUMERFED	Wholesale supply to affiliated societies, training, financial assistance, market intervention within the State
District / Wholesale	Wholesale or Central Consumer Store	Bulk purchase, storage and distribution to primary stores; may operate branches.
Primary (base)	Primary Consumer Co-operative Store	Retail sale of daily necessities to members and the public

6.4.5 FUNCTIONS AND OPERATIONS

a. To protect consumers from the exploitation of private businessmen like inferior goods, overcharged prices, less weight and adulteration.

b. To freeze the price line at its level and try to bring it down.

c. To extend customer services like dental clinics, medical advice, tailoring, banking and postal services.

d. Propaganda on unfair trade practices, done by businessmen.

e. To supply household consumer goods to consumers at reasonable prices in good quality.

f. To supply controlled goods like sugar, kerosene, etc.

g. To eliminate middlemen in the business field between consumers and manufacturers and establish private properties earned by business people.

h. To give the benefit of the stores to the members by distribution of dividend and patronage dividend.

6.4.7 Problems Faced by Consumer Co-operatives in India

1. Consumers in India are indifferent to their own needs and still believe in the private trade system.
2. Consumer co-operatives are not well integrated and are scattered and isolated.
3. The procurement and purchase operations are technically faulty.
4. They also face problems of low efficiency and low level of quality of products.
5. There is also intense competition from private traders who create various problems for the consumer movement.

6.4.8 Primary Co-operative Consumer Stores

Membership is restricted to a particular locality, to persons engaged in a particular profession or occupation. The main activity of these stores is the supply of consumer

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goods. In some cases, subsidiary services are also provided, like oilseed crushing, paddy husking, etc. They act as fair price shops. (E.g.) Students' Consumers' Co-operative Stores.

A primary Co-operative consumer store is a retail business owned, managed, and controlled by consumers at the local level to sell daily needs goods at fair prices. Primary consumer Co-operative stores are grassroots retail societies that sell daily goods at fair prices, operating under a multi-tier structure linked to state and national federations. Any individual who agrees to the society's bylaws and purchases the required share capital can become a member. Each member has equal voting rights irrespective of the number of shares held. The society functions on democratic Co-operative principles. These societies promote consumer welfare, improve the standard of living, and strengthen the Co-operative movement. They create healthy competition in the retail market. They also ensure a regular supply of essential commodities.

Primary Co-operative Consumer Stores are the basic units of the Co-operative consumer movement. They are formed by consumers who voluntarily join together to purchase and distribute essential goods such as groceries, food items, household articles, stationery, textiles, and other daily necessities at reasonable prices. These stores purchase goods directly from producers, wholesalers, Co-operative wholesale societies, or federations, thereby reducing the role of middlemen. They ensure quality products, correct weights and measures, and continuous availability of essential commodities. The stores are managed democratically, with each member enjoying equal voting rights regardless of the number of shares held. Any surplus earned is generally distributed as a patronage bonus or used for the development of the society. Primary Co-operative Consumer Stores protect consumers from unfair trade practices, price manipulation, adulteration, and artificial shortages while promoting consumer welfare and strengthening the Co-operative movement.

6.4.9 Structure and Tier Levels

1. National Level: Headed by the National Co-operative Consumers Federation of India Ltd. (NCCF).
2. State Level: Managed via State Consumer Co-operative Federations.
3. District/Wholesale Level: Central or wholesale consumer stores operating branch networks.
4. Primary Level: Grassroots retail societies, student co-operatives, and Neethi stores serving local communities.

6.4.10 Objectives and Functions

1. **Price Stabilization**: Supplying essential food, medicine, and household items at low or subsidized rates.
2. **Consumer Protection**: Preventing the exploitation of buyers by private middlemen and commercial retailers.
3. **Democratic Ownership**

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Consumer Co-operatives are voluntary organizations established to supply quality goods to consumers at reasonable prices while eliminating middlemen and protecting consumers from exploitation. The movement originated in 1844 with the Rochdale Pioneers in England, whose principles became the foundation of the global Co-operative movement. Primary consumer Co-operative stores function at the grassroots level by purchasing goods in bulk and distributing them directly to consumers. These societies promote fair trade, stabilize prices, encourage savings, provide quality products, and improve consumer welfare. Through democratic management and service-oriented operations, consumer Co-operatives contribute significantly to economic development, social justice, and the strengthening of the Co-operative sector.

Recap

- ◊ A consumer Co-operative is a voluntary organization formed by consumers to purchase and distribute goods at reasonable prices.
- ◊ Consumer Co-operatives operate on the principles of democratic management, voluntary membership, and service before profit.
- ◊ The main objective of a consumer Co-operative is to protect consumers from exploitation by middlemen.
- ◊ The modern consumer Co-operative movement began with the Rochdale Society of Equitable Pioneers in 1844.
- ◊ Consumer Co-operatives in India expanded after Independence to improve the distribution of essential commodities.
- ◊ Consumer Co-operatives ensure the supply of quality goods at fair prices and promote consumer welfare.
- ◊ Primary consumer Co-operative stores purchase goods in bulk and sell them directly to members and the public.

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Objective Questions

1. What is a consumer Co-operative?
2. Which principles guide consumer Co-operatives?
3. What is the main objective of a consumer Co-operative?
4. Which society started the modern consumer Co-operative movement?
5. How do consumer Co-operatives help consumers?
6. What do primary consumer Co-operative stores do?

Answers

1. A voluntary organization formed by consumers to purchase and distribute goods at reasonable prices.
2. Democratic management, voluntary membership, and service before profit.
3. To protect consumers from exploitation by middlemen.
4. Rochdale Society of Equitable Pioneers.
5. By supplying quality goods at fair prices.
6. They purchase goods in bulk and sell them directly to members and the public.

Self-Assessment Questions

1. Define a consumer Co-operative society.
2. What is meant by a primary consumer Co-operative store?
3. State the objectives of consumer Co-operative societies.
4. Explain the origin of the consumer Co-operative movement.
5. Who were the Rochdale Pioneers, and why are they important?
6. List any five functions of consumer Co-operative societies.
7. Explain the origin and development of the consumer Co-operative movement.
8. Discuss the objectives and importance of consumer Co-operative societies.
9. Explain the organization and working of primary consumer Co-operative stores.
10. Describe the functions of consumer Co-operative societies.
11. Discuss the role of consumer Co-operatives in consumer protection.

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Assignments

1. Explain the origin and development of the consumer Co-operative movement.
2. Discuss the objectives, importance, and functions of consumer Co-operative societies.
3. Explain the organization, working, and significance of primary consumer Co-operative stores.
4. Describe the role of consumer Co-operatives in consumer protection and price stabilization.
5. Discuss the challenges faced by consumer Co-operative societies and suggest measures for improving their performance.

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Unit 5
Co-operative Consumers' Federation

Learning Outcomes

After completing this unit, the learner will be able to;

- ◊ understand the concept of Kerala State Co-operative Consumer Federation.
- ◊ explain the origin and importance of the National Co-operative Consumer Federation.
- ◊ explain the role of a Consumer Co-operative.

Prerequisite

A "Consumer Co-operative Federation" is an umbrella organization that supports and coordinates consumer Co-operatives within a region or country. In India, the National Co-operative Consumers' Federation (NCCF) is the national apex body, and state-level federations like Consumerfed in Kerala serve the same function at the state level. These federations help to promote consumer Co-operatives, facilitate the procurement and distribution of goods, and protect consumers from exploitation by ensuring affordable pricing and quality products.

Keywords

KSCCF- NCCF, Co-operative Consumer Federation

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Discussion

6.5.1 Introduction

Consumer Co-operative Federations are apex organizations formed by a group of primary consumer co-operative societies to coordinate, support, and strengthen their activities. They function at district, state, or national levels, depending on their scope, and provide a unified structure for smaller societies to work collectively.

The following are the Consumer Co-operative Federations

6.5.2 National Consumer Co-operative Federation [NCCF]

The National Co-operative Consumers' Federation of India Limited (NCCF) is the apex federation of the consumer Co-operatives in the country. NCCF was set up on 16 October 1965 and is administered under the Multi-State Co-operative Societies Act, 2002. The present membership of the NCCF is 136, comprising Primary Co-op. Stores, Wholesale Societies, and State-level Consumer Co-operative Federations, National Co-operative Development Corporation and the Government of India. The commercial operations of the NCCF are handled through its headquarters at New Delhi and 34 branches/sub-branches located in the State Capitals and other important procuring centres in different parts of the country. NCCF also runs a dal processing unit at Bhiwani. It also runs two retail counters at Dak Tar Bhawan, Parliament Street, New Delhi and at Nehru Place, New Delhi.

Its objective is to procure consumer goods in bulk at the national level, ensure their timely distribution to state and district federations, and maintain fair prices for consumers. It also aims to protect consumer interests, promote fair trade practices, and support member co-operatives with financial and technical services. Its objectives are:

1. To procure essential goods in bulk directly from producers at the national level,
2. To distribute them fairly to state and district federations,
3. To stabilize market prices and prevent black-marketing or hoarding,
4. To promote consumer welfare by ensuring quality and affordable goods,
5. To provide financial, technical, and managerial assistance to affiliated co-operatives, and
6. To represent consumer co-operatives at the central government level for favourable policies and support.

NCCF today. NCCF is one of the central nodal agencies under the restructured PM-AASHA scheme. It procures pulses, oilseeds and copra at the Minimum Support Price from farmers pre-registered on its e-Samyukti portal, maintains buffer stocks of pulses and onion under the Price Stabilisation Fund, and undertakes the subsidised retail sale of Bharat Dal, Bharat Atta and Bharat Rice. It thus stands at the meeting point of producer price policy and consumer price policy — procuring from the farmer at a floor price and selling to the consumer at a ceiling price.

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6.5.3 State Consumer Co-operative Federation

Kerala State Co-operative Consumers' Federation Ltd. (CONSUMERFED)

The CONSUMERFED is the apex body of consumers' co-operatives in Kerala. Established on 04-09-1965, the head office of CONSUMERFED is located at Gandhi Nagar, Kochi. The organization comes under the Department of Cooperation of the Govt. of Kerala. It is also connected nationally to NCCF.

Membership & Management

Members include all primary & wholesale consumer co-op stores in Kerala and the State Govt. as part of the share capital. The General Body consisting of representatives from each member society is the highest authority. The Policy Direction is provided by the Board of Directors appointed by the General Body and the operational direction of the daily affairs of Consumerfed is taken care of by the Managing Director.

Aims & Objectives

1. To function as a central wholesaler and supplier to consumer co-operatives in Kerala.
2. To offer basic commodities to the community at fair and reasonable costs.
3. To intervene in the market when necessary to stop hoarding and artificially create shortages and profiteer – especially during festival season.
4. To deliver quality products free from contamination with accurate weight and quantity.
5. To provide economic, administrative and professional services to member Primary Societies and to develop their skills and knowledge.
6. To implement schemes undertaken by State and Central Govts and aimed at promoting consumer welfare and the Public Distribution System.

Functions

Neethi Stores Network. Consumerfed operates a wide network of Neethi Stores/ Neethi Super Markets throughout Kerala, selling grocery and household items at regulated prices, and Neethi Medical Stores selling generic drugs at substantially lower than printed price.

Festival Market Intervention. During Onam/Ramzan/Christmas, Consumerfed organises special fairs at which 13 essential commodities notified by the Government are sold at subsidised prices fixed by the state. This is one of the most visible consumer co-op activities in Kerala and is primarily how the government controls price increases during festivals.

Bulk Purchase and Wholesale Supplies. Buying large quantities of rice/pulses/oil/ sugar, etc., essentials and distributing them to the affiliated primary stores

Supporting PDS. Working as a government agent for distributing controlled commodities when assigned to do so.

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Aiding Member Societies. Providing on credit supplies, advice on administration, training employees and helping member societies to modernize their stores.

Increasing Awareness Amongst Consumers. Programs regarding adulteration, weights & measures, consumer rights, etc.

6.5.4 District Consumer Co-operative Federations

District-level federations operate as intermediaries between state federations and primary societies. Their objectives are to strengthen consumer co-operatives in the district by arranging bulk purchases, providing storage facilities, and supplying goods at controlled prices. They also assist in marketing local products and serve as a link for communication and coordination among member societies.

District federations act as intermediaries between state federations and local primary societies. Their objectives are:

1. To purchase goods in bulk from state federations or manufacturers,
2. To ensure timely distribution to primary co-operative outlets,
3. To provide storage, warehousing, and transport facilities,
4. To encourage fair trade practices and prevent consumer exploitation,
5. To promote local produce and assist in its marketing, and
6. To act as a communication link between primary societies and higher federations.

6.5.5 Primary Consumer Co-operative Societies

At the grassroots level, primary consumer co-operative societies directly serve members and the local community by running retail outlets. Their objectives are to provide daily necessities and essential goods at reasonable prices, ensure good quality products, and protect consumers from exploitation by private traders. They also focus on promoting savings and generating local employment opportunities.

Primary consumer co-operative societies work directly at the community level by running retail outlets. Their objectives are:

1. To supply daily necessities and essential goods at reasonable prices,
2. To ensure quality and authenticity of products for consumers,
3. To protect members from exploitation by private traders,
4. To encourage savings and financial discipline among members,
5. To generate employment opportunities for local people, and
6. To promote the principle of mutual help and democratic functioning at the grassroots level.

6.5.5.1 International Consumer Co-operative Federations

At the global level, bodies like the International Co-operative Alliance (ICA) promote consumer co-operatives worldwide. Their objectives include encouraging international

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co-operative trade, sharing best practices, advocating for consumer rights globally, and strengthening solidarity among consumer co-operatives across countries.

Global organizations such as the International Co-operative Alliance (ICA) act as international federations of consumer co-operatives. Their objectives are:

1. To promote co-operative principles and values across countries,
2. To encourage co-operative trade and collaboration globally,
3. To share knowledge, experiences, and best practices among nations,
4. To represent co-operatives at international forums and safeguard consumer rights,
5. To strengthen solidarity and networking between co-operatives worldwide, and
6. To support sustainable development and fair trade practices through co-operatives.

6.5.6 HOSPITAL CO-OPERATIVES

Hospital co-operatives are those co-operatives which aim to provide and promote healthcare to the community through a network of hospitals.

Kerala Co-operative hospital Federation (hospital fed)

It was established in 1999, and the headquarters is in Cochin. The main objectives of hospital Co-operatives are;

1. To promote healthcare to the community through a network of hospitals.
2. Provide employment opportunities
3. Medical aid to the members at reasonable cost

6.5.7 Role of Consumer Co-operatives

1. Protection from Exploitation:

Consumer co-operatives safeguard their members from the unfair practices of middlemen, hoarding, and black-marketing. By procuring goods directly from producers or wholesalers, they eliminate intermediaries and ensure that consumers get quality products at fair prices.

2. Availability of essential commodities

One of the major significances of consumer co-operatives is ensuring the steady supply of essential goods such as food grains, clothing, and household items. They play an important role in making basic commodities easily accessible, especially in rural and semi-urban areas.

3. Promotion of Fair Prices

Consumer co-operatives sell goods on a “no profit, no loss” basis, which helps stabilize market prices. This prevents artificial price hikes and ensures affordability for

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the general public, benefiting not only members but also the community at large.

4. Encouragement of savings

By offering goods at reasonable rates and sometimes providing credit facilities, consumer co-operatives help members save money. They also distribute surplus earnings as dividends, which further strengthens the financial position of consumers.

5. Social and Economic Justice

These co-operatives operate on democratic principles, giving every member an equal voice in decision-making. By promoting equality and mutual benefit, they foster a sense of social justice and contribute to building a fairer economic system.

6. Contribution to the Co-operative Movement

Consumer co-operatives are an integral part of the broader Co-operative movement, promoting values like self-help, mutual trust, and collective responsibility. They not only empower consumers but also spread awareness about the benefits of Co-operative living in society.

Illustration - What market intervention is worth to a household

Consider a family in Malappuram buying its Onam requirements. The table compares the open market rate with the subsidised rate at a Neethi Store fair.

Commodity	Open market (₹)	Neethi Store fair (₹)
Rice — 10 kg	480	300
Toor dal — 2 kg	320	220
Coconut oil — 2 litres	440	330
Sugar — 3 kg	150	105
Total	1,390	955

The saving to this one household is ₹435, or about 31 per cent of the bill. Two further points deserve emphasis in class. First, the saving is available to any purchaser, whether or not he is a member of the society — the Co-operative here is acting as an instrument of public policy, not only as a service to its own members. Second, and more important, the private shop across the road is obliged to moderate its own rates for the duration of the fair, so the benefit extends well beyond those who actually queue at the Neethi counter. This indirect effect on the general price level is the real justification for consumer Co-operative market intervention, and it cannot be measured from the sales figures of the federation alone.

Summary

Consumer Co-operative Federations play a vital role in strengthening the co-operative movement by linking primary societies with state, national, and even international levels. They ensure the smooth supply of goods, stabilize prices, and protect consumers from exploitation while also providing financial, technical, and managerial support to affiliated co-operatives. By coordinating efforts at different levels, these federations not

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only safeguard consumer interests but also promote fair trade, economic stability, and social welfare. Thus, they act as pillars of the consumer co-operative system, ensuring efficiency, unity, and sustainability in serving the community.

Recap

- ◊ A Consumer Co-operative Federation is an apex organization that supports and coordinates consumer Co-operative societies.
- ◊ Consumer Co-operative Federations procure goods in bulk and distribute them through affiliated Co-operative stores.
- ◊ These federations ensure fair prices and efficient distribution of consumer goods.
- ◊ KSCCF is the apex consumer Co-operative federation in Kerala.
- ◊ KSCCF supplies essential commodities to primary consumer Co-operative stores and government institutions.
- ◊ NCCF is the national-level apex consumer Co-operative organization in India.
- ◊ NCCF procures and distributes essential commodities and implements government welfare schemes.

Objective Questions

1. What is a Consumer Co-operative Federation?
2. How do Consumer Co-operative Federations distribute consumer goods?
3. What is the main purpose of Consumer Co-operative Federations?
4. Which organization is the apex consumer Co-operative federation in Kerala?
5. What does KSCCF supply to primary consumer Co-operative stores?
6. Which organization is the national-level apex consumer Co-operative body in India?
7. What activities are undertaken by NCCF?

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Answers

1. An apex organization that supports and coordinates consumer Co-operative societies.
2. Through affiliated Co-operative stores.
3. To ensure fair prices and efficient distribution.
4. Kerala State Consumers Co-operative Federation (KSCCF).
5. Essential commodities.
6. National Co-operative Consumers' Federation of India Ltd. (NCCF).
7. Procurement, distribution, exports, imports, price stabilization, and implementation of welfare schemes.

Self-Assessment Questions

1. Define a Consumer Co-operative Federation.
2. What is KSCCF?
3. Expand NCCF.
4. What is the National Co-operative Consumers' Federation of India?
5. State the objectives of KSCCF.
6. Mention any five functions of KSCCF.
7. State the objectives of NCCF.
8. Explain the Consumer Co-operative Federation and its objectives.
9. Discuss the origin, objectives, and functions of the Kerala State Consumers Co-operative Federation (KSCCF).
10. Explain the objectives and functions of the National Co-operative Consumers' Federation of India Ltd. (NCCF).

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Assignments

1. Discuss in detail the structure, objectives, functions, and achievements of the Kerala State Consumers Cooperative Federation (KSCCF).
2. Explain the objectives, functions, and importance of the National Cooperative Consumers' Federation of India Ltd. (NCCF) in promoting consumer welfare.
3. Evaluate the role of KSCCF and NCCF in ensuring consumer protection, price stabilization, and equitable distribution of essential commodities.

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