

# Co-Operative Movement & Prudential Norms in Co-Operative Banks

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**Abstract – Banking is one of the key sectors of the economy. Its energy and vitality indicate the health and prosperity of any nation. Banking institution plays a pivotal role in the development of the economy by financing the requirements of trade, industry and agriculture with higher degree of contribution and responsibility. Thus, the development of country is integrally linked with development of banking. Co-operative Banks also occupy an important place in nation's banking system. If one goes through the evolutionary stage of man's history, he will find that cooperative action of some sort had already existed. In fact, it is as old as civilization because without voluntary co-operation of the individuals in a community it would be almost impossible to raise the standard of the family, group or tribe above the subsistence level. Co-operation refers to voluntary association, which is formed on the basis of equality and for some common purposes. The basic principle of the co-operation is "Each for all and all for each". Co-operation as a system has found favour with almost all political parties and economic system all over the world as it offers unlimited opportunities for the people to participate in the economic resurgence especially in developing countries, the establishment and growth of co-operative is looked up, as an effective vehicle for the economic, social and cultural development of its inhabitants.**

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## INTRODUCTION

"Pandit Jawarharlal Nehru said" There are three essentials for an Indian village viz. a co-operative, a panchayat and a school. The panchayat to deal with the political affairs of the village, the co-operative in economic affairs and the school in education, with these things, we can build our country strong foundation. Now it is necessary for us to think about the finance institute which is very close to the farmer, quick in helping is cooperative banking institute because it works on self-help basis".

This chapter has been divided into two sections, section-I deals with evolution of cooperative movement in world, cooperative movement in India and cooperative movement in Haryana; section-II deals with introduction of prudential norms in co-operative banks and also provides the explanation to the concept of Non-Performing Assets.

"The word 'Co-operative' is not new to world. This is quite familiar to a common person. It is as old as human civilization. Its prevalence can be traced out historically to the time when men started sharing the common resources for the needs of various families in the community. The word Co-operative has been derived from the Latin word 'Co-operari' means 'working together'. It is used in two senses. In literary sense- it means working together and in technical sense-it means together for some economic pursuit. The modern co-operative movement, as it exists in

England today, is the aftermath of the great industrial revolution of the 18<sup>th</sup> century. The revolution conferred unnumerable benefits on the capitalists; it caused extreme suffering to the thousands of working class. So, to resolve the acute economic distress that most of the workers found themselves in the movement towards co-operative sprang from the source, the practical experience and the dream. The poorer class of English town was unable to buy food and clothing and other domestic requirement at fair prices.

Co-operation as co-operative movement was introduced for the first time in world in the year **1844** in **ENGLAND** by **28** flannel weavers being influenced by the ideas of '**ROBERT OVEN**' (**1771-1828**) at a place named '**ROCHDALE**' near '**MANCHESTER**'. These **28** weavers are known as "**PIONEER OF ROCHDALE**". Robert Oven developed the concept of co-operative as a basic of new social economic order. The two main considerations, which guided his movement, were:

- Free choice of the people.
- Principles of domestic management.

With the introduction of co-operative movement in England, **Franceis Schulze** and **F. W. Raiffeisen** introduced urban and rural co-operative credit in **Germany**. Raiffeisen worked for the rural co-operative credit and published co-operation in Handicraft. Schulze was in favour of Co-operative

Banks. For moving a step forward towards co-operative movement these two pioneers stressed on the need of dependence on own sources and imagined freedom regarding financial matters. The ideas of these two pioneers are considered ideal as "A Co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspiration through a joint-owned and democratically controlled enterprise."

Co-operative is based on the values of self-help, self-responsibility, democracy, equity and solidarity and the ethical values of honesty, openness, social responsibility and caring for others. The main characteristic of any co-operative institution or enterprise is that it is based on co-operative philosophy. Co-operative is viewed differently by sociologists, economists and lawyers. It is social order to a sociologist in which the man is free from class struggle. Economists believe that co-operative operation is a business organization in which there is no scope of exploitation by the middlemen. It is a large entity to a lawyer in which members enjoy special privileges and concession conferred by law. Besides the basic co-operative values there are principles of co-operation on which co-operative organizations work. In other words the co-operative principles define the co-operative form of the organization. These principles tell us the essential properties of a co-operative organization.

## PRINCIPLES OF CO-OPERATIVE

The co-operative principles are guidelines by which co-operatives put their values into practice. These principles are as follows:

- ♦ **Voluntary and Open Membership:-** Co-operatives are voluntary organizations; open to all persons able to use their service and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
- ♦ **Democratic Member Control:-** Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in democratic manner.
- ♦ **Member Economic participation:-** Member's contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited

compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purpose: developing their co-operative, possibly by setting up reserves, part of which least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

- ♦ **Autonomy and Independence:-** Co-operatives are autonomous, self-help organizations, controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.
- ♦ **Education Training and Information:-** Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their co-operatives. They inform the general public particularly young people and opinion leaders about the nature and benefits of co-operation.
- ♦ **Co-operation among Co-operatives:-** Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.
- ♦ **Concern for Community:-** Co-operatives work for the sustainable development of their communities through policies approved by their members.

## CO-OPERATIVE MOVEMENT IN INDIA

Before independence, there was an undeveloped and uncoordinated credit structure, which was prevailing in our country. The unscrupulous village money-lenders and landlords were playing a vital role in the flow of finance to agriculture and the rural sector in the economy. The wealthy people in the villages were exploiting the poor farmers and artisans by extracting high interest rates. In this manner, the wealth got concentrated in the hands of the few people while the majority of rural poor lived a precarious life. Eradication of poverty farms the grass root level of villages and to get economic upliftment by providing institutional financial help to the needy farmers was one of the basic requirement of the Indian economic ever form the pre-independence period. Efforts to build up institutional financing for rural sector and specifically to agriculture sector started with the

passage of the co-operative credit societies act in 1904, which aimed at freeing agriculturists from the grips of the money-lenders and enabling them to secure production credit to the extent required by them at relatively cheap rates of interest.

The co-operative movement in India started with the objective of giving short-term loans to the small farmers and other economically weaker section of the society. But later on the co-operative movements get spread into the other fields also. As stated earlier, the need for uplift of poor masses of India is being more and more realized ever since the drawn of freedom. Thus co-operative movement in India is effective step in this regard and the co-operative credit societies are playing an important role in solving the financial problem of small persons those are called poor. The co-operative movement in India is the result of the enquiries and recommendation given by **Sir Fredric Nicholson (1899), Mr. Dupernex and Sir Edward Law (1901)**. So, that the co-operative society act was passed for the first time in 1904. The Act permitted the formation of two types of co-operative credit societies. The working of the act of 1904 suffered from defects and could not fulfill the purposes. The act only recognized credit societies and made no provision for central agencies for improved supervision. The classification into rural and urban societies was also unscientific and inconvenient and which were remedied to great extent, by the enactment of co-operative society's act 1912. The act 1912 did remove the deficiencies of the previous Act. It was for the first time, the Act permitted the organization of non-credit societies in India. The co-operative societies act, 1912 provided for registration of Central Co-operative Banks on the recommendation of **"MacLagan's Committee Report"** of 1914, State Co-operative Banks (SCBs) were established emanating three tiers co-operative credit structure i.e. State Co-operative Bank (Apex Bank) at top, Central/ District Co-operative Bank at middle and Primary Society at bottom. In 1912 Bombay Government passed a separate co-operative society act, which was followed by similar enactments in other provinces. After 1920 Central Land Development Co-operative Banks also appeared on the horizon of credit co-operative credit movement. On the recommendations of **Co-operative Planning Committee 1945**, under the chairmanship of **G. Saraiya**, industrial co-operative banks were set-up to extend credit to small-scale co-operative enterprises. After the independence, the co-operative movement comes to be considering as kingpin of development planning. The objective and the efforts to secure a large increase in agricultural production planned and initiated as a part of the planning for economic development made the role of co-operative credit more positive and crucial not only as a substitute for money-lenders but as dependable source for financing agricultural production and development. The co-operative movement in India has even assumed added responsibilities of uplifting

the economically background segment of the society and boosting the trade and industry of the country.

The late Sh. Rajender Prasad, the first president of India declared the first session of the sovereign constituent assembly a classless society for Bharat, which was to be a co-operative common wealth i.e. the entire trade and commerce to be transformed into co-operative pattern. The role of co-operative does not confine to agriculture and small industry but has been extended to the development of large-scale commercial activities. According to Indian constitution co-operative has been considered as an effective source in order to make India welfare oriented state in addition to other sources. At the time when a farmer of the country was fetched in the hands of landlord these words were generally used, **"An Indian farmer takes birth in loans, passes his life with loans and dies while buried under loans and after that his successors has to bear such loans"**<sup>\*2</sup>. But today the development of co-operation has changed the situation of farmers that such statement does not appear to be true. In the present world all the activities are governed and operative by credit and capital. Agricultural activities also require funds likewise other industries.

Agriculture is the central point in economy of every country. The development of agriculture is not possible without providing credit facilities to the farmers. The farmers need fertilizers, manures, hybrid seeds, irrigation facilities and other equipments. These are the primary needs for agriculture and farmers do not have sufficient fund for these purposes. Co-operative banks have made tremendous progress with regard to providing agricultural inputs included credit to rural farmers as also required facilities to rural artisans and handloom weavers. Among co-operative institutions co-operative banks play most significant role in providing funds for various purposes, which are helpful for overall growth of the economy.

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