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THE FUNCTIONS AND LEGAL ARCHITECTURE OF COOPERATIVE BANKS IN INDIA

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LIST OF ABBREVIATIONS

S.NO	Abbreviations	Full Form
1.	&	And
2.	Ed	Edition
3.	PP	Page Number
4.	Vol.	Volume
5.	RBI	Reserve Bank of India

List of Cases

Bir Singh Vs Mukesh Kumar (2019) 4 SCC 197

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List of Statutes

Statutes:

- Banking Laws (Co-operative Societies) Act,1955
- Banking Regulations Act,1949
- Maternity Benefit Act, 1961

CHAPTER- 1

INTRODUCTION

1.1 OVERVIEW

When it comes to serving as a financial bridge for small businesses, independent contractors, and agricultural and related enterprises, cooperative banking has proven to be beneficial. The Banking Laws (Co-operative Societies) Act of 1955 and the Banking Regulations Act of 1949 govern cooperative banks in India.

Since these banks were founded with the mantra "no profit, no-loss," they don't just look for lucrative business opportunities and clients. As the name implies, mutual aid is the primary goal of cooperative banks. A cooperative bank is a type of financial institution that is owned and operated by its members, who also serve as its clients. A cooperative bank is an organization made up of several people who band together to combine their excess funds to disgorge bankers' or moneylenders' earnings and distribute them to depositors and debtors¹.

1.2 LITERATURE REVIEW

Apart from the economic factors, there exists a strong political will in India that facilitates the cooperative movement. Among the 18 tenets of cooperative society, emphasis has been laid on the control of the society by the members, as they are the ultimate owners of the society. Funds may be raised from the members initially, which is called the share capital of the society. Russian Empire peasants started the first credit cooperatives in 1865. After this, issuance of loans by similar societies commenced in other parts of Europe, Canada, and the USA. Responding to the exceptional needs during the transitional turbulence phase, the first two Soviet government endorsed cooperatives were organised in Tashkent and in 1920 as credit and consumers' cooperatives, respectively.

There are several enabling policies on cooperatives clearly outlining the commitment of the government towards the promotion and sustenance of the cooperative movement in the country. Cooperative societies are also likely to foster members' creativity due to the democratic structure. Geographical considerations prove to be very important in this regard, as population density is frequently seen to have a direct impact on the strength of cooperatives and their ability to offer services.

¹ Bir Singh Vs Mukesh Kumar. (2019) 4 SCC 197

Rise of some cooperative banks in rural India, which had a population of about 100 cities aided by the local need. Additionally, cooperatives have led to the realization of diversification considering the overall requirements of national growth. For example, activities carried on in cooperatives in the hills of Nepal. Other services, including development, health, education, production and distribution of goods, and scenic beauty, have been included in the provision of such services. Structures have been established for carrying out such activities within the cooperatives

1.3 STATEMENT OF PROBLEM

Cooperative banks in India face numerous challenges because of their low capitalization, governance shortcomings, and the existence of a convoluted dual regulatory framework involving the Reserve Bank of India (RBI) and state governments, despite their significance for the rural economy and financial inclusion. The operations of failing institutions such as the Punjab and Maharashtra Cooperative (PMC) Bank have cast the risk management and depositor insurance structures in a negative light, raising questions about their dependability and honesty. Recent changes to the Banking Regulation Act have been made with the intention of giving the RBI more authority. But problems like political meddling, a subpar system, and unskilled labour still limit their expansion and efficacy.

1.4 HYPOTHESIS

The study's conclusions state that structural limitations that cooperative banks in India face, such as inadequate capital bases, subpar corporate governance frameworks, and conflicting regulatory frameworks, can hinder the banks' capacity to fulfil their goals of financial inclusion and rural economic development. Even if some of these regulatory improvements, like the Banking Regulation Act 2020 revisions, aim to improve depositor protection and increase regulation, other fundamental problems, such political meddling and a lack of contemporary systems, might not be adequately addressed. Therefore, in addition to utilizing technology and human resource capabilities, a unified regulatory framework or regime is required to improve the operational efficiency and viability of cooperative banks in India.

1.5 RESEARCH OBJECTIVE

1. To examine the roles and limitations of cooperative banking institutions in India, with a particular emphasis on their contributions to financial system inclusion and rural development.

2. Specifically, the study assesses how well the current legislative and regulatory framework supports cooperative banks' performance, financial stability, and good governance while considering recent developments in the relevant regulations.

1.6 RESEARCH QUESTION

1. How do Indian cooperation banks' current functions and operational strategies support monetary inclusion and rural development?
2. Considering recent reorganizational modifications, particularly about adjustments to the Banking Regulation Act, why and to what degree have the management and financial performance of the country's cooperative financial institutions improved?

1.7 RESEARCH METHODOLOGY

Using a mixed-method approach, this study will attempt to assess the role and legal position of cooperative banks in the Indian economy in relation to the factors associated with regulation and recent changes. To put it another way, the use of primary sources will entail conducting interviews with legal experts, policymakers, and cooperative bank managers to obtain insight into how the dual regulatory system and the recent changes in the Banking Regulation Act operate in practice. As for the method of secondary sources, the study will examine pertinent legal materials such as statutory provisions, court rulings, government publications, and Reserve Bank of India (RBI) directives to paint a picture of the regulatory environment.

1.8 SCOPE AND LIMITATION OF STUDY

SCOPE: Considering recent changes in the regulatory landscape, particularly the Logo of Banking Regulation Act, and their implications for the governance and reliability of those banks, the current study will examine the operations, issues, and legislation pertaining to India's cooperative banks. The examination of cooperative banks operating in rural and semi-urban regions, their role in expanding access to financial services, and the suitability of regulations for maintaining their stability and accountability are all given particular attention. The primary focus of the study will be qualitative data gathered from interviews with politicians, bank executives, and attorneys, which will be complemented by statistical evaluations of the performance of local banks.

LIMITATIONS: This study will only look at cooperative banks in India, it might not be possible to extrapolate to other nations' cooperative banking practices. Certain proprietary data,

such as organizational structure and internal financial accounts, may not be accessible because of institutional privacy or confidentiality regulations. Furthermore, the study will mostly concentrate on the regulatory side of things and might not cover cooperative banks' technology or operations, which are crucial to their operation. Lastly, because this is qualitative research, the study's findings may be constrained by the subjectivity of qualitative interviews and the state of the material.

CHAPTER- 2

COOPERATIVE BANKS IN INDIA: AN OVERVIEW

2.1 EVOLUTION AND STRUCTURE OF COOPERATIVE BANKS

2.1.1 HISTORY OF COOPERATIVE BANKS

These banks were established to address the credit requirements of rural areas. This was the main cause of the cooperative movement's inception in India. The Cooperative Societies Act of 1904 marked the start of the cooperative movement. This law was passed with the intention of establishing cooperative organizations in India. Cooperative societies were supposed to promote self-help, saving behaviours, and inter-group collaboration. This was intended especially for those with low incomes. This law gave rise to a few credit societies. Even though it started early, not much progress was made until the nation gained its independence².

In India, there are two significant categories of cooperative credit institutions: non-agricultural and agricultural. The whole cooperative credit framework is managed by agricultural credit institutions. As previously said, there are two sorts of agricultural credit institutions: long-term and short-term.

Three tiers make up the short-term agricultural lending organizations that serve farmers' immediate financial requirements. The land development banks provide long-term agricultural finance.

2.1.2 STRUCTURE OF COOPERATIVE BANKS

The Indian Cooperative Banks' Organizational Structure India's cooperative banking system is made to meet the demands of the agricultural and rural communities, which helps to guarantee that everyone in the nation has access to financial services. Cooperative banks in India are

² National Cooperatives Database, <http://cooperatives.gov.in>

categorized into groups according to the services they offer and the areas in which they operate.

The structure's hierarchy may be further broken down into the levels shown below:

1. PACS, or primary agricultural credit societies:

As local units, PACS are found in rural communities at the core of the cooperative banking system. They serve as the initial point of contact for farmers and rural residents and offer short-term financing, savings, and agricultural credit services. Local cooperative members oversee PACS and are subject to the state cooperative societies act³.

2. District Central Cooperative banks are known as DCCBs.

The second layer of cooperative banks that exist around and within a district are DCCBs, which operate as district-level cooperative banks. They operate in a vertical fashion, offering financial services, cash, and technological assistance to the State cooperative banks and the PACS. In addition to handling the credit requirements of few chosen PACS under its management, DCCBs also provide medium-sized loans to farmers and extremely small enterprises. They function in accordance with the RBI's jurisdiction and the State Cooperative Societies Act.

3. State Cooperative Banks, or SCBs for short:

State Cooperative Banks are the second of three tiers of cooperative banks in India. They play a vital role in the operational administration of DCCBs and PACS and consistently contribute financial assistance to the cooperative movement. Additionally, SCBs provide a range of financial services and products, including deposit, borrowing, and investing options. As a result, they oversee a state's cooperative credit system and are subject to both the State Agra Banks' Cooperative Societies Act and the Reserve Bank of India's regulations.

4. National Bank for Agricultural and Rural Development, or NABARD:

In addition to overseeing the financial stability of the cooperative sector, NABARD is the highest authority managing the whole Indian cooperative banking system. It is essential for developing plans, expanding financing, and supporting various initiatives

³ Reserve Bank of India, <http://rbi.org.in>

targeted at the rural and agricultural sectors. Additionally, NABARD makes sure that cooperative banks like PACS, DCCBs, and SCBs are in accordance with the country's agricultural and rural finance plans by establishing criteria for their operations.

5. Urban cooperative banks, or UCCs:

Most cooperative banks, sometimes referred to as UCBs, operate in semi-urban or metropolitan regions and replace co-ops in rural areas. These banks primarily concentrate on offering financial services to low-income urban residents, extremely small businesses, and other markets that commercial banks might not be able to adequately cover. Other than that, UCBs operate like banks but in a cooperative structure. The Reserve Bank of India (RBI) and the State Cooperative Societies Act govern UCBs.

CHAPTER -3

FUNCTIONS OF COOPERATIVE BANKS IN INDIA

3.1 ROLE IN ECONOMIC DEVELOPMENT

1. Development of Rural Areas:

Commercial banks sometimes overlook rural and semi-urban regions, where cooperative banks predominantly operate. These banks promote agriculture, foster economic growth, and aid in rural development by offering easily accessible and reasonably priced financial services. They help farmers and promote contemporary farming methods by providing financing for agricultural uses.

2. Inclusion of Finances:

People who are underserved or left out by larger banks can get financial services through cooperative banks. Small company owners, those with modest incomes, and people without a solid credit history are all included in this. These banks aid in bridging the gap between the official financial industry and the unbanked or underbanked people.

3. Recognition of Small Enterprises:

India's economy depends heavily on small and microbusinesses. They receive much-needed financing and financial support from cooperative banks, which is crucial for economic growth and entrepreneurship. These banks are more inclined to give small

firms loans since they frequently have a thorough awareness of the local business climate.

4. Development of Communities:

Communities have strong links to cooperative banks. They carry out financial literacy programs, promote neighbourhood educational projects, and construct infrastructure, among other community development activities. The general standard of living in these places is enhanced by their presence.

5. Fostering a Culture of Savings:

Cooperative banks promote a culture of frugal living and fiscal responsibility by encouraging their members to save. They help customers plan and create financial stability by offering easy and safe savings accounts.

6. Assistance in Emergencies:

Cooperative banks are frequently essential in helping impacted people and communities by offering financial support and relief during natural disasters, economic downturns, and other calamities. In trying circumstances, this support may be a lifesaver⁴.

3.2 CORE BANKING FUNCTIONS OF COOPERATIVE BANKS

There are certain banking services offered by Indian cooperative banks. In India, cooperative banks carry out a variety of banking functions with the goals of financial inclusion, rural and agricultural development, and community welfare in mind. These banks' primary banking operations consist of:

1. Getting Deposits Moved:

To promote the safe deposit of assets in the economy, cooperative banks must provide a range of deposit plans, particularly in rural and semi-urban regions. Many cooperative banks get income on the deposits with the intention of borrowing the money later. Consequently, PACS, DCCBs, and SCBs guarantee the efficient mobilization of a significant portion of deep savings in rural areas.

⁴ News Bharti, <http://www.finance.newsbharti.com>

2. Services for Credit and Loans:

When it comes to providing credit facilities, cooperative banks are essential, particularly for small enterprises, farm families, and even rural residents. Commercial, housing, personal, agricultural, and even seasonal agricultural loans are among the short-, medium-, and long-term objectives for which they provide loans. Because cooperative banks don't charge exorbitant interest rates as commercial banks do, people are more likely to take out loans from these kinds of banks at cheaper borrowing rates. The loans are intended to invest in agricultural projects, support the development of rural infrastructure, and boost small enterprises.

3. Inclusion of Finances:

Since cooperative banks provide banking services to the underserved and unbanked communities in rural regions, they play a critical role in promoting financial inclusion. They give those who would not be served by traditional banking channels access to financial services, including credit, insurance, and savings. Local banks are able to assist marginalized populations like small-scale farmers and artisans since they are well-established, even in remote areas.

4. Controlling credit and recovering debts in banks:

Effective loan administration and monitoring are crucial for cooperative banks, particularly in the agricultural sector, where loan repayment schedules are subject to fluctuations. Cooperative banks take a number of steps to guarantee loan repayment on time, including collaborating closely with borrowers to comprehend their demands and issues. By providing lending services and overseeing PACS loan portfolios, DCCBs and SCBs also contribute to preventing the credit system from collapsing.

5. Promoting Development in the Rural Area

Rural growth is greatly aided by cooperative banks, especially PACS, which are the lowest rungs of the banking pyramid in rural communities. They fund community-led initiatives as well as irrigation and rural housing infrastructure development projects, among other things. In order to increase agricultural productivity, these cooperative banks are more willing to lend money for the purchase of machinery or agricultural supplies like seeds and fertilizer.

6. Enabling Government Programs:

Additionally, cooperative banks serve as intermediaries for a number of social security enhancement initiatives. They provide advantages including loans, rural pensions, and crop insurance as part of a number of government programs designed to raise the standard of living for individuals living in villages. Implementing programs like Pradhan Mantri Jan Dhan Yojana (PMJDY), which aims to provide financial services to those without access to banking services, is another example of this.

7. Risk management and insurance:

Cooperative banks in rural areas offer a range of insurance products, such as crop, life, and health insurance. Through these products, they assist in managing the financial risks associated with agricultural activities, shielding consumers from losses related to operational failures, natural catastrophes, or unforeseen circumstances.

CHAPTER - 4

LEGAL FRAMEWORK OF COOPERATIVE BANKS IN INDIA

3.1 KEY LEGISLATIONS

- 1 Banking and Regulation Act, 1949:** Several rules for the growth of cooperative banks were published by the Banking Regulation Act of 1949 (as it applied to co-operative societies). The Reserve Bank of India has been given specific authority under the Act to oversee and direct cooperative banks. In 1949, the Act regulating banking institutions was being implemented. However, the registrar of cooperative societies of the state within which the society is currently registered still has the authority to incorporate, administer, and otherwise deal with these banks. Furthermore, except in cases where it is specifically stated in the bank, the requirements of the Banking Regulation Act, 1949 (as they relate to cooperative societies) have been viewed as an addition to and not a derogation of any other legislation already in effect. Cooperative banks must adhere to specific guidelines in order to operate more effectively. It might also be stated that cooperative banks must adhere to the guidelines set forth in all relevant regulations, such as the Banking Regulation Act of 1949⁵.

⁵ Soyeliya Usha L, *A study on Co-operative Banks in India*, 1 IJRHSS 26, 27(2013)

2 Banking Regulation (Co-operative Societies) Rules, 1966 Cooperative banks in India are governed by the Banking Regulation (Cooperative Societies) Rules, 1966, which were put into effect by the Banking Regulation Act, 1949. The rules provide the framework for the management, control, operation, and administration of associative organizations whose primary activity is banking. However, they make sure that banking cooperative societies adhere to the principles of cooperative banking. Management, participation and share capital needs, annual audits and inspections, the maintenance of a Statutory Liquidity Ratio (SLR), borrowing, lending, and other investment rules are some examples of these characteristics⁶. The guidelines also require the members to create an inn reserve fund in order to preserve the liquidity and solvency profiles of the cooperative banks.

3 Reserve Bank of India Act, 1934: The Reserve Bank of India (RBI), which was founded in 1935, is the country's main monetary institution and governing body. The Reserve Bank is also in charge of creating and carrying out the nation's monetary policy, maintaining monetary and financial stability, and regulating and overseeing banks and non-banking financial entities. This involves being in charge of currency issuance, controlling inflation, and overseeing the economy's total liquidity. It lays down rules for interest rates, foreign reserve preservation, and government debt management in order to guarantee economic growth and stability in other areas entrusted to it⁷.

4.2 REGULATORY BODY OF COOPERATIVE BANKS IN INDIA

1. India's Reserve Bank (RBI):

The highest regulating body for the banking industry, which includes cooperative banks, is the Reserve Bank of India (RBI). As the highest authority, the RBI is in charge of making sure that the money of the cooperatives are managed safely and soundly and that the Banking Regulation Act, 1949 (as modified) and other laws are followed. Through routine inspections, internal audits, and the implementation of policies including capital adequacy and liquidity standards and asset portfolio management, the RBI regulates the operations of State cooperative banks (SCBs) and district central cooperative banks (DCCBs). It also regulates the application of monetary policy and guarantees the efficiency, safety, and soundness of cooperative credit institutions.

⁶ Nagappa Vs Y.R. Muralidhar AIR 2008 SC 2010

⁷ Reserve Bank of India, <http://www.rbi.org.in>

2. The National Bank for Agriculture and Rural Development (NABARD):

NABARD is critical to the stability and development of the cooperative banking sector with respect to agriculture and rural finance. Being the apex organization for agricultural credit, NABARD provides loans, policy support, and training to SCBs, DCCBs, and PACS. Besides refinancing these members and ensuring that cooperative banks contribute to the causes of financial inclusion, agriculture, and rural development, it also monitors the growth and performance of these institutions. To enhance the ability of cooperative banks to promote financial inclusion, NABARD, among other things, helps in formulating operating guidelines for cooperative banks in rural and semiurban areas.

3. Registrar of Cooperative Societies (RCS):

The Registrar of Cooperative Societies, a state-level entity, is responsible for the registration and supervision of cooperative banks and other cooperative organizations. RCS ensures that the main cooperative banks function in accordance with the laws and cooperative principles of the states in which they are situated, as required by the State Cooperative Societies Act. The RCS is part of the cooperative banks' management Authority and plays a part in their governance, which includes electing directors and appointing members to the management committee. While the RBI oversees these associations' financial well-being, the RCS participates in their incorporation, operational administration, and legal conformity with cooperative rules.

4. State Administrations:

Since cooperative banks are governed by the State Cooperative Societies Act, state governments are crucial to their regulation. They are in charge of making sure cooperative banks abide by laws and rules unique to each state, including those pertaining to management committee elections, financial assistance, and the application of cooperative principles. At the PACS and DCCB levels, which primarily serve local and regional populations, the state's participation is very important.

CHAPTER- 5

CONCLUSION

These banks and institutions provide loans and other financial services at affordable rates. Cooperative banks in India are essential for the growth of financial inclusion, especially in rural and underdeveloped areas, according to estimates from economic bibliographies and statistics of the Indian cooperative movement. They are overseen by outside agencies like NABARD and the Reserve Bank of India (RBI) and are governed by rules that guarantee their stability. But difficulties like unclear regulatory frameworks and governance challenges continue to exist. Although recent changes have enhanced its regulatory supervision, it still needs to improve its operating efficiency. Cooperative banks can speed up balanced growth and make a substantial contribution to the socioeconomic advancement of communities if these issues are resolved.

In a controlled setting, cooperative banks may help with both urban and rural development and promote inclusive growth, it might be concluded. By improving their operating efficiency and updating their systems to meet modern banking standards, these institutions may fulfil their mission of socioeconomic development while remaining stable and financially viable.

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