

A Study on Cooperative Sector Banks in India: Problems & Prospects

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Abstract – This paper intends to analyze the problems & prospects of Indian cooperative sector banks & its relevance for Indian economy. The co-operative sector over the years has made significant contribution to various sectors of national economy and has achieved voluminous growth. Co-operative banks play an important role in the economy of India. These Banks also contribute the major part in the India's banking and financial system. The role of cooperatives banks in Rural and Urban areas has been increased in a Ample part nowadays because of increase of primary co-operatives and their main role of financing both rural and urban area is increasing day by day. However, it has shown weaknesses in safeguarding the interests of the members and fulfillment of objects for which these institutions were organized. Except for a few successful cooperatives, the cooperative movement in India has failed to bring about a transformation of the rural economy. This paper is an attempt to address some of the problems being faced by the Cooperative sector banks in India.

Keywords: Cooperative, Agriculture, Government, SOC

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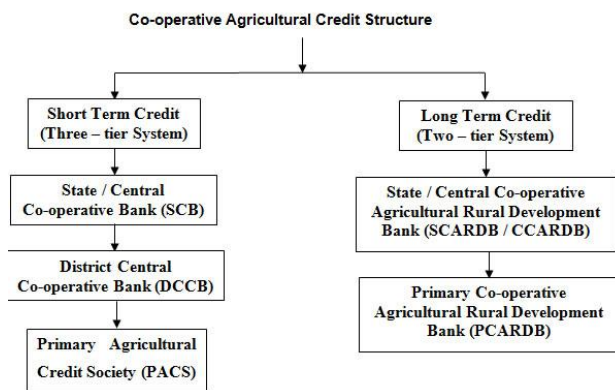
1. INTRODUCTION

One of the major areas of the macro economy that has received renewed focus in recent times has been the financial sector. The financial sector acts as the 'brain' of the economy: it acts as a bridge for channeling resources from final savers to final investors. As a result, the greater the ease of resource intermediation, the lower the cost at which these resources can be available to final investors, enhancing investment and growth. The cooperative sector in India is the largest in the world and it plays a pivotal role in employment generation, poverty alleviation and food security. The cooperative credit system of India has the largest network in the world and cooperatives have advanced more credit in the Indian agricultural sector than commercial banks. Cooperation in a vast country like India is of great significance because:

- It is an organization for the poor, illiterate and unskilled people
- It is an institution of mutual help and sharing.
- It softens the class conflicts and reduces the social cleavages.

- It reduces the bureaucratic evils and follies of political factions.
- It overcomes the constraints of agricultural development.
- It creates conducive environment for small and cottage industries.

A **co-operative bank** is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank. Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks generally provide their members with a wide range of banking and financial services (loans, deposits, banking accounts)



This research study is done with the following objectives:

- To study the problems and prospects faced by Cooperative banks same.
- To know the cooperative principles.
- To suggest the appropriate measures to improve the efficiency of the cooperative banks

2. COOPERATIVE PRINCIPLES

1. Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination

2. Democratic Member Control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions. The elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and cooperatives at other levels are organized in a democratic manner.

3. Members' Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. 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 purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4. Autonomy and Independence

Cooperatives 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 cooperative autonomy.

5. Education, Training, and Information

Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public, particularly young people and opinion leaders, about the nature and benefits of cooperation.

6. Cooperation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7. Concern for Community

While focusing on member needs, cooperatives work for the sustainable development of their communities through policies accepted by their members

3. LITERATURE REVIEW

Sachin R. Agrawal Etal (2012) said that the self reliance is the main theme of progress of cooperatives deposit mobilization cooperative banks should work as a total system and develop self-reliance. The higher authorities of the banking should help the lower authorities in the way of mother institutions. They should provide authority, leadership, guidance, supervision and control. There should be mutual support, help, accountability and responsibility in the system so that there should be a good and effective relationship between there tiers.

Vepa Kamesam (2002) success of economic decisions depends after all on the human resources at the disposal of any organization. a change is needed today in the co-operativebanks which is built on confidence in human capital- the most important of all resources- in commitment, creativity and innovation brought about by proactive management, membership and employees. Strong corporate governance that takes its obligations seriously can truly be a source of strength to the management. The ability to capture knowledge & wisdom gives co-operative banks their competitive advantage. a prerequisite is that participants from all parts of a co-operative

organization know & understand its purpose, core values and visions.

Banishree Das Etal (2006) said that in comparison to the step motherly treatment of the past, cooperatives should be considered an important plank of development. The cooperatives have inherent advantages in tackling the problems of poverty alleviation, food security and employment generation. Cooperatives have immense potential to deliver goods and services in areas where both the state and the private sector have failed.

A Vaidyanathan (2012) discussed about what are the factors and forces that account for this unhealthy state of affairs? What is the experience of efforts to improve the performance of Cooperatives? And what are the reasons that they have not been effective? That these efforts have been ineffective does not mean that cooperatives are foredoomed to failure. on the contrary, it is important to recognize that efficient and vibrant cooperatives, organized & managed as democratic, self-reliant and self- managed institutions offer the best means for the vast Resource-poor and resource-less segments of the country's population to improve their living conditions.

Misal Sm (2011) said that there are many institutional, economical, social political, educational, organizational and managerial factors that affect the performance of cooperatives. Performance of co-operatives in relation to realization of the objectives of rural development presents a mixed picture. They have contributed significantly to the growth at institutional infrastructure in rural areas.

Hassan Danaee Fard Etal (2010) said that Indian cooperative sectors which want to be globalized should note the concept of co-operation emphasizes on the principles of cooperation Define the basic characteristics of any co-operative organization in the world. these principles form the common thread that runs through all the co-operative societies which marginal variations & Iranian cooperatives can cooperate with other countries cooperative sectors for example turkey, azerbaijan and some Arabian countries because of having a common religion.

S. Siva Shankar Etal (2014) said that in a developing state like Chhattisgarh with huge deficits in terms of quality & quantity, the state has to shoulder the primary responsibility of providing cooperative credit. Considering the low living standards of common man, incomplete and imperfect markets, and other socio political considerations it is the primary duty of the government to ensure that its citizens have easy access to cooperative credit, particularly at grass root level.

4. PROBLEMS OF COOPERATIVE SECTOR BANKS

• Lack of Democratic Spirit

Cooperatives need to run on well established democratic principles and elections held on time and in a free and fair manner. it has been observed that majority of the members as well as directors of the society are ill-informed about the activities of the society due to their illiteracy & indifferent attitude. The dominant politicians who normally have political background use to take undue advantage of the resources of the society. it seems majority of the members are ignorant about the objectives of the cooperative movement & the spirit of democracy

1. Fair Audit

It is well known that audits are done entirely by department officials & are neither regular nor comprehensive. Delays in the conduct of audits and submission of reports are widespread. Audit is limited to such accounts as are available & reports seldom examine whether accounts & record are complete, accurate and up to date. Neither the observance of procedures for grant of loans and their recovery nor the veracity of the reported characteristics of borrowers are properly scrutinized. Further, in case of the purchasing activity lots of irregularity & manipulation takes place by the office bearers due to their vested interests. /this causes loss to the society.

2. Abusing Power by the Leadership

Those who control cooperative societies are locally powerful, with strong political affiliations. The political class as a whole, irrespective of party, is loath to dilute, let alone give up the power that they get to garner electoral support, reward their supporters and mobilize funds from their control of cooperatives. Under the existing regime, they are able to abuse this power brazenly and with impunity.

3. Mismanagement & Manipulation

The strength of the movement was the involvement of the farmers who were shareholders & members of the society. Over the years, this truly democratic idea got corrupted and wealthier people having political background became more powerful. in practice, this altered the power structure of the cooperatives. In the elections of the governing bodies, money became such a powerful tool that the top posts of chairman & vice-chairman usually went to the richest political persons even though the majority of members were farmers with small- or medium-sized Holdings. The social power that

the cooperatives brought to rural India was gradually hijacked and turned into a political tool.

4. Government Interference:

Right from the beginning the government has adopted an attitude of patronizing the movement. Cooperative institutions were treated as if these were part & parcel of the administrative set up of the government. The government interference thus became inessential element in the working of these institutions. As a result people's enthusiasm for the movement did not grow. The movement's independence and self-reliance existed only on paper and files.

5. Modern Banking Practices

They are not having the modern practices of banking in there working viz. net banking, mobile Banking, online banking, e-banking, ATM banking and all other modern banking practices. Due to which they have been eliminated and remained back foot in the modern era of marketing.

6. Lack of Awareness

People are not well informed about the objectives of the movement, the contributions it can make in rebuilding the society and the rules and regulations of cooperative institutions. People look upon these institutions as means for obtaining facilities & concessions from the govt. so long as people expect to get something from the government, they see to it that societies somehow continue to function. Lack of education, dirty politics of the village, caste ridden elections to the offices of cooperative societies, bureaucratic attitudes of the government officers at the lower rank are some of the hurdles in spreading the correct information about the cooperative movement and in educating the people about its true character and vital role in the society.

7. Limited Coverage

The cooperative movement has also suffered on account of two important limitations on its working.

- The size of these societies has been very small. Most of these societies are confined to a few members and their operations extended to only one or two villages. as a result their resources remain limited, which make it impossible for them to expand their means and extend their area of operations.
- Majority of the societies have been single purpose societies. for this reason these societies are not unable to take a total view of the persons seeking help, nor can they analyze and solve problems from different angles. the help these societies render thus cannot be adequate.

8. **Functional Weakness** the cooperative movement has suffered from inadequacy of trained personnel right from its inception. Lack of trained personnel has been caused by two major factors.

- Lack of institutions for this purpose of training personnel. (ii) because of it unsatisfactory working of cooperative institutions, efficient personnel did not feel attracted towards them

9. Lack of Professionalism

Professionalism reflects the co-existence of high level of skills and standards in performing duties entrusted to an individual. The absence of a proper system of placement and skill up gradation inputs constrain professional management in cooperative banks.

5. PROSPECTS OF COOPERATIVE SECTOR BANKS

Reorganization of Societies in order to become economically viable & efficient the minimum number of members in cooperative society should be 5000 & the share capital as rs.50lakhs. To ensure these small societies should be merged to build larger societies. With large amount of resources at its disposal big societies can avail certain facilities, which small societies cannot secure. The weak and inefficient societies should be winded and merged with strong and efficient societies. it will no doubt reduce the number of societies, but this is itself not a bad thing. Otherwise the weak societies would undermine people's confidence in the movement and cause a set back to it from a long term point of view.

► Awareness Campaign

it is necessary to spread the movements people's movement. People should not think it as a part of the government or a department of the govt. people should own it & manage it. People should be educated and about the advantages of this movement. Educational institutions at various levels, radio, TV, newspapers, poster, and other mass media can be used for this purpose.

► Value Based Education

it is increasingly realized by the experts that unless the stakeholders of any organization work & Ensure ethical behavior & spirit of cooperation, that organization will not grow. External means of controlling are never sufficient to regulate the behavior of the persons. Hence, it is very essential that the value based education should become the part of our education system. Value based

education & spirit of cooperation should become the part of primary & higher Education.

► **Accountability**

The accountability for various activities of the society involving financial implications should be clearly defined. these definitions along with the provision for appropriate punishment/measures may be made a part of the 'articles of association' and /or statute. An affidavit /declaration may be made mandatory for all the office bearers including approving authorities about strict compliance with the norms while dealing with the financial issue. System of maintaining appropriate checks and balances may also be designed & incorporated in the system.

► **Legislative Reforms**

The Narasimham committee in its report had rightly observed that a legal framework that clearly defines the rights and liabilities of the parties to contracts and provides for speedy resolution of disputes is essential bedrock of the process of financial intermediation and cooperative bank serene exceptions. any person dealing with any issue involving financial matter of the society in the manner inconsistent with the acceptable norms should be severally punished & the amount misappropriated along with the additional penalty should be recovered from the personal assets of that person. Appropriate legal provision should be made by the government For this purpose. Special fast track courts may be constituted for this.

Complete Transparency in working transparency in the system is the root cause of maintaining democracy & corporate governance in any organization. for efficient working of the society & for avoiding corrupt practices transparency may been sure in the system by following measures

- The cooperative societies should also be brought under the purview of the right to information act. The eligibility criteria for becoming the director of the society should include the mandatory provision of declaration of assets every year.iii. All the documents along with the remarks/notes etc. of the persons dealing with any financial matter should be uploaded on the website of the society.

6. ELIGIBILITY CRITERIA OF MODERN BANKING PRACTICES OR THE DIRECTORS

The amendment in the cooperative societies act may be made to ensure the fair & ethical behavior by the board of directors. Following amendments are suggested-

1. Educational qualification of the director should be at least matriculation pass. This will ensure the informed & active membership & control on activities.
2. At least 1 month certificate course in 'cooperative sector management' conducted by the competent authority. This will ensure knowledgeable & vigilant members. these assets in case of any fraud/misappropriation done by him.
3. The director should not be the member of any political party.

√ **Corporate Governance**

Good corporate governance inessential for the effective functioning of any financial entity. to this end, the Madhava Rao committee suggested that at least two directors with suitable professional qualification and experience should be present on the boards of ucbs and that the promoters should not be defaulters to any financial institutions or banks and should not be associated with chit funds//cooperative banks/commercial banks as director on the board of directors.

√ **Number of Directors**

Out of the total members minimum 1%persons should be the directors/representatives. This will ensure decentralization of power and more participation of members inthe activities of the society

√ **Coordination between Various Stakeholders**

Cooperative banks should try to co-ordinate between the board of management, members, depositors, employees & other stakeholders of bank.

√ **Increase Resources**

The cooperative banks should try to increase their deposits by opening branches in business areas, improve the services to their clients, and introduce different types of deposit schemes & offer competitive rates of interest.

√ **Training for the Employees**

Training for the Employees for building up professionalism in the management of the cooperative enterprises, it is necessary to upgrade the quality of the staff with latest Developments and also to develop proper and cordial relationship between the managers and members of board of directors. Proper and continuous training must be provided tooth cooperative leaders and profession

executives. Programmers for training personnel for computerization, internal management and record-keeping, as well as improving the quality of audit may be continuously arranged for the employees.

√ **Fair Audit**

Audit plays an important supervisory role in ensuring the best performance of the society. but, it is observed that lots of irregularity & negligence take place while conducting audit. Hence, an appropriate mechanism of checks & balances may be evolved & made mandatory for all the Societies. Accountability for erroneous audit along with penal action should also be ensured through appropriate statute. Further, the state government should also conduct a forensic Audit of the loan portfolios & purchases of a representative sample of cooperative societies.

√ **Loan Sanctioning Measures**

The loan from credit societies should be granted in such a manner and under such conditions that these are used productively and not misused. It is in this way that the recourses of the movement will be correctly used and their repayment is ensured. it is only then that the problem of over dues can be properly tackled.

7. LIMITATIONS OF THE STUDY

- The study is limited up to cooperative banking sector only.
- The study is only about the problems and prospects of cooperative banks.
- The present study is limited only to cooperative credit aspect of agriculture. marketing and other aspects have not been taken for the present study.

8. CONCLUSION

Failure of cooperatives would mean failure of best hope for rural India. it is expected that the provisions suggested in this paper will not only ensure the autonomous and Democratic Functioning of co-operatives, but also ensure the accountability of management to the members and other stakeholders and shall provide for deterrence for violation of the provisions of the law.

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