

CO-OPERATIVE BANKS: "ETHOS OF RURAL INDIA" PROBLEMS AND PROSPECTS

Dr. Sushma Aggarwal*

ABSTRACT

The success of Rural Financial Institutions (RFIs) is largely dependent on their financial strength. Co-operative banks are key financial institution at the grass-root level which shoulders responsibility of meeting credit needs of different types of rural borrowers. The main purpose of this article is to trace the main problems that are being encountered by rural co-operative banks. One of the problems is the wide disparity in the performance of the co-operatives with some of them exhibiting phenomenal performance such as Amul of Gujarat while others are poor performers. Based on analysis certain suggestions have been made with a view to improving the working of co-operative banks. One of the important recommendations is to learn from the success story of the successful co-operatives and adopting their working model for the poor performing co-operatives.

Keywords: Co-Operatives, Rural Credit, Rural Financial Institutions.

Introduction

Rural sector constitutes a very important part of Indian economy. Co-operative banks played a vital role in agriculture and rural development in India. The co-operative banks have more reach in rural India, through their huge network. Despite their huge network, co-operative banks have been suffering from certain problems over a long period of time. This article contributes to the existing literature by examining the performance of the co-operatives, highlighting problems and making important suggestions to overcome these problems.

Objective of Study

The objectives of study are as follows:

- To examine the role of co-operative banks in India
- To examine the financial performance of co-operative banks in terms of their geographical coverage, deposit mobilisation and disbursement of loans and advances.
- To identify problems of co-operative banks and to suggest some suitable remedial measures to overcome the problems that are being faced by them. However, the study will centre around the main searching problems i.e (a) problem of over-dues and (b) problem of non-viability of co-operative banks in India.
 - The article has been divided into three sections. Section I deals with the role co-operative banks in India. Section II analyses the performance and problems of co-operative banks and section III presents conclusions and suggestions.

Research Methodology

Secondary source of data has been used for the study. Data has been obtained mainly from "Report on Currency & Finance", RBI publication, National Bank for Agriculture & Rural Development (NABARD) publications and also data has been obtained from formal & informal on-line sources. Further, discussions and interviews with some officials of NABARD and Co-operative banks have been resorted in order to understand the practical problems that are being faced by co-operative banks.

* Associate Professor, Lakshmi Bai College, University of Delhi, Delhi, India.

Section I

Role of Co-operative Banks in India Banking system has contributed a lot for the development of rural economy by mopping up of small savings from rural masses by way of accepting deposits otherwise savings would sit idle at homes and at the same time providing loans and advances for meeting their different consumption and non-consumption requirement. The Government of India (GOI) started co-operative movement in India in 1904. Co-operative banks were the practically the only institutional source of finance before Nationalisation of fourteen major commercial banks in 1969.

At present, co-operative banks are of two types, One for providing short - term credit consisting of three tiers, State co-operative Banks (SCBS) at state level, District/central Co-operative banks (CCBS/DCBs) at district level and primary Co-operative Banks (PACS) at ground level and Long-Term credit structure consisting of State Land Development Banks (SLDBs) now known as State Co-operative Banks for Agriculture and Rural Development (SCARDBs) at state level and Primary Land Development Banks(PLDBs) now known as Primary Co-operative Bank for Agriculture and Rural Development (PCARDBs) at the field level. Co-operative banks are characterised by following features:

- Co-operative banks are organised on the basic principle of self help
- It is voluntary association of persons. It requires minimum ten members for organising co-operative society under the Co-operative Societies Act 1912.
- Its membership is open for everyone. It is organised as a low cost institution run by the members themselves.
- One person one vote leads to democratic management of cooperative banks in contracts to company where voting is in proportion to share capital held by members.
- Co-operative banks gets many tax benefits, financial and non-financial help.
- Co-operative banks promote ethical values system in rural masses, where everyone feels connected and secured. It is to promote brotherhood and at the same time catalytic agent for rural development. It is the most popular institutional source of rural finance spread throughout the length and width of whole of the country.

Section II

Performance & Problems of Co-operative Banks

It is clear from the data available about the performance of co-operative banks that co-operative banks continued their pivotal role in the provision of credit to agriculture & allied activities in spite of entry of commercial banks in rural credit sector. While the co-operative banks have met some of their financial targets, they are lagging very much in qualitative areas and working of PACS is the weakest link in the entire co-operative credit structure of of the co-operatives banks. Some of the major areas of concerns are presented below:

- **Incompetent Management:** Co-operative banks are managed by members themselves consisting the team of president, secretary and treasurer, generally working for society free of cost / honorary basis. But it is seen they lack professional expertise, lack of motivation, training and experience specially at the field level (in case of PACS). That is why it was suggested by Agricultural credit Review Committee ACRC also known as Khusro committee that every society must have full time paid secretary.
- **Shortage of Capital/ Funds:** One person one vote is the rule for management of co-operative ensuring democratic management but it is devastating factor for those wants control co-operatives. Further, it is non-profit making organisation, therefore there is limited return for stakeholders.
- **Too Much Control by Government:** Every year accounts are subject to audit because they are getting many tax benefits and concessions. Excessive state regulation and interference in management of societies make the functioning of organisation inflexible, time consuming and also results in delay in decision making.
- **Inadequate Coverage:** Co-operative banks grew at a fast rate with the largest network for providing finance in rural masses but it was found may societies are dormant and weak and not potentially viable therefore suggested to merge or closed down. Therefore it witnessed a fall in number of socialites in specific time period.
- **Lack of Motivation:** Absence of profit motive and distribution of dividend stifle incentive and responsibility on the part of the managing committee.

- **Mutual Rivalries:** After the enthusiastic and dramatic start, a co-operative banks often becomes lifeless and penalised with the passage of time. The spirit of mutual help and selfless service gives way to rifts, factionalism and politicking on the part of members. Bickering and intrigue takes place between members over petty issues.
- **Lack of Secrecy:** As a corporate body, co-operative society is required to submit its reports and accounts with the registrar of co-operative societies. Full disclosure and publicity of affairs makes it very difficult to preserve the secrets of business
- **Excessive State Regulation:** A co-operative bank is under detailed supervision by GOI. Such over administered interference reduces the flexibility of day to day operations. Sometimes procedures and formalities results in delays in decision making.
- **Lack of Public Confidence:** A co-operative society enjoys little public confidence due to political conduct of office-bearers and domination by a selected group of individuals.
- **Inadequate Coverage:** It has two fold weaknesses i.e inadequate coverage and weak units. PACs are weak due to low membership and they do not attract enough membership since they are weak. A study conducted by the Reserve Bank of India (RBI) in selected areas found out various reasons for low borrowing membership viz affluent members did not resort to borrowings, lack of upto date land records, small holdings, inadequate and untimely disbursement of loans & advances, non- availability of consumption loans etc. Besides these reasons, the defective loaning policies and procedures and increasing number of defaulting members inhibited the growth of borrowing members.
- **Sharp Regional Variation:** The PACS are not equally developed in all the states and regions and there are wide variations in their growth and performance. Number of PACS, number of viable PACS, membership etc. showing good progress of PACS in the Western, Southern, Northern and Central region but at the same time, it brings into focus, the unsatisfactory growth in North-Eastern and Eastern region.
- **High Overdues:** One of the most distrusting features of the co-operatives banking system of the co-operatives banking system of the base level is the ever-increasing incidence of overdues due to non-payment of loans by the borrowers in time. Although, the loans disbursed by PACS have been increasing in absolute terms from year to year, their capacity to recycle their funds and accelerate the flow of credit to the ultimate honours has been seriously retarded due to their poor recovery performance which has adversely affected their profitability and viability.
- **Lesser Attention to Non-Farm Sector (NFS):** Most of the loans issued by co- operative banks have been issued for agricultural purposes. inspite of the increasing importance of Non-Farm sector (NFS). Data Collected from RBI shows that PACS and PCARDBs have issued 80% of their loans for agricultural purposes.
- **Inadequate and Restricted Credit:** Availability of co-operative credit is inadequate in several ways. Firstly, the PACS provide credit only to a small proportion of total rural population. Secondly, co-operative banks do not provide full credit for all productive agricultural activates. Credit provided is mainly confined to crop finance and for certain identifiable purposes such as digging of wells, installation of pump sets etc. What is required is not only timely financial help but also non-financial help like in form of supply of inputs (better seeds, fertilisers, pesticides), technical assistance, marketing services etc.
- **Inadequate Financial Resources:** Financial resources of co-operative banks are quite inadequate in relation to short-term credit needs of rural economy. This fact is obvious if we look at the percentage of share capital to total working capital and compare the owned funds with borrowing and deposits mobilised by co-operative banks. It is not healthy sign for institutions disbursing credit to a vital sector.
- **Lack of Professional Management:** PACS managed by the its members themselves which are not professional and work on honorary basis. Therefore, it was suggested by Agricultural Credit Review Committee (ACRC) that each society should have full time paid secretary. Even where the secretaries are appointed, they are not well trained and have no motivation to function effectively. Thus, there is an urgent need to ensure selection of good quality staff for running co- operative banks.
- **Non-Viability of Co-operative Banks:** It is obvious from the data available that PACS are facing problem of non- viability and it is equally common in PLDBS. Banks even at higher level have been incurring losses. It has been observed that a large number of PACS did not fulfil

viability criteria prescribed by various committees on rural credit and NABARD. The viability of the societies was adversely affected because of their low level of loan business compounded with ever increasing incidence of overdues and low level of owned funds and lack of professional management.

- **Lack of Supervision and Inspection:** The existing machinery for supervision of co-operative banks is not adequate in most of the states. Thus, there is utter lack of administrative and supervisory staff of right orientation and requisites qualification.

Section III

Conclusions and Suggestions

On all counts, co-operative banks in India, have established strong roots and made rapid strides in various spheres during the past so many decades. However, the persistent incidence of overdues in the co-operative credit institutions is eating into the vitals of their profitability and viability and has severely affected their credit absorbing capacity and eligibility for fresh finance from NABARD. Apart from this, the over dues have choked the co-operative credit line and have made recycling of funds difficult. The loan waiver announced by the Govt. in part has vitiated the recovery climate and the incidence of wilful default had increased on account of write offs. High amount of overdues have led to the acute problem of non-viability in co-operative banks specially in North-Eastern & Eastern region.

“Survival of the fittest” in the rural Credit sector will assume great significance in years to come, therefore co-operative credit institution will have to function in a purely market oriented competitive environment. Under such possible emerging circumstances the co-operative credit institutions will have to adopt such plans, programmes, procedures and strategies which are effective, competitive and above all viable and profitable business enterprises. For this , following suggestions have been made for increasing the efficiency, productivity and profitability of co-operative banks in India.

- **Mergers/ Revival of Dormant Societies:** It is suggested that totally dormant and defunct co-operative banks should be closed down – whereas co- operative banks which are potentially viable should be revived by introduction of revival as infusion of fresh capital. Cleansing of their balance sheets and reduction of operating cost. A large number of co- operatives have continued to stagnate at a low level of business in spite of more than a decade of their function as 'potential viable' societies. An effort should be made to review defunct or potential viable units at field level by linking (SHGs) Self Help Groups (SHGs) and Non- Government Organisation (NGOs) with them. Priority should be given to women beneficiaries for short-term loans and for non - agricultural purposes which have greatest social benefit and also result in reduction of their transaction cost.
- **Wider Membership:** Efforts should be made to increase the number of viable co-operatives and also their membership should be enlarged by taking non-members into its ambit.
- **Non-financial Transactions & Complementary Service:** Credit alone is not of much use for small farmers unless it is accompanied by other complementary service such as marketing, storage facilities, educating and training of scientific farming, providing standard raw material, technical counselling and assisting in quality check of final product for standardisation should be extended to rural borrowers.
- **Democratic Management:** It is suggested that appropriate leverage and freedom should be given to co-operative banks in their day to day management of business.

Deposit mobilisation is absolutely vital for the future growth and strength of co-operative banks. A concerted effort should be made to build up the confidence among the prospective customers through improvement and development of deposit instruments which suits the needs or rural borrowers.

- **Professionalisation of Management:** If co-operative banks as a performance oriented, result oriented and profit oriented enterprise, their managers and executives can no longer afford to fumble along in their old, out of date, inefficient, ineffective unresponsive and unprofessional method of business operations. This necessitates adoption of systematic and sustained man power planning and management development. The co- operatives will have to induct professionals to man the key management position.
- **Pro-active Role of Apex/Federal Co-operative Organisation:** The apex co- operative institution must take keen interest in the working and development of primaries which the entire edifice of the co-operative credit structures is built. The apex banks can play more effective and

purposeful role by these measures, 1. safeguard the observance of co-operative principles, 2. Undertake research and assist grass root level co-operative banks, 3. Promote harmonious relations 4. Evolve viability norms and also provide legal aid and advice to their affiliate.

- **Recovery of Overdues:** Accumulation of large number amount of overdues often results in clogging the business and paralysing the working of co-operative banks. There for corrective action should be taken for better recovery like.

The quality of lending should be improved by following these norms:

- 'Not to grant' loan to wilful defaulters.
- The state should provide Infrastructure support like irrigation facility, electricity, road & transport facility by state.
- Credit facility through SHGs and NGOs which will reduce transaction cost also.
- Regular meetings of borrowers, officials to get feedback and for communication.
- Proper planning and product development for rural borrowers for consumption and production loans requirement.
- Control and corrective action for speedy recover.

India is characterised by duality in the Indian economy. There are islands of prosperity and advancement in Sea of backwardness and poverty. The Enterprise like IFFCO and KABIRCO, Amul are the dazzling lights in sea of darkens. There is need to illuminate the whole co-operative movement all over India. Above all the moral values of the co-operative movement should not be sacrificed. A comprehensive programme of co-operative education for dissimilation of co-operative values should be organised by state governments in their respective states to conclude it must be recognised that viability of base level co-operative banks depends on the viability of the entire co-operative structure. Therefore, it would be desirable to retain only viable and potentially viable co-operative banks and liquidate/ merge the defunct/ non-viable units. Further efforts should be made for optimal size of loan business, diversified loan portfolio, quality loan disbursement, deposit mobilisation, concrete effort to control overdues, reduction in transaction cost, appointment of full time paid secretary, increase the number of active and participative members, training of managerial personnel of co-operative banks and also involve more members particularly from the weaker sections of the society and women who constitute a major chunk of the rural population. All the strategies explained above will have work on project time bound basis and should not be adopted in a piece-meal manner. This will obviously require a strong political will coupled with the unbiased and unqualified support of the official and non-official co-operators.

References

1. Aggarwal, R.N. (1996) "Growth of co-operatives and Regional Rural banks in India: Major weaknesses and Reforms", Institute of Economic Growth, 1996
2. GOI, (1997), Agricultural statistics
3. NABARD ' Important items of data, credit and non-credit co-operative societies' , Various issues.
4. Narasimham Committee, M.,(1991), Report of the Committee on Financial System, RBI, Bombay.
5. NABARD. Annual Reports from 2007-08 to 2017-18, Mumbai.
6. Padmavathi. A., and Bhagavan Reddy. B., (2014). "An Overview of RRB's In India",
7. International Journal of Management and Social Sciences Research Review, 1(3), 138-144.
8. Sharma. R.H. (2005), "Will RRB Merges Lead to Efficient Rural Lending" Business Line, September 23, p.42.
9. Singh, R.K.P. (2008), "Indian Economic Conditions Recovery and Over Dues Problems of RRBs Financing", Agriculture, Vol.15, No.2, pp.26-35.
10. Syed Ibrahim, M. (2010), "Performance Evaluation of Regional Rural Banks in India",
11. International Business Research, Canadian Center of Science and Education, Vol.3, No. 4, pp. 203-211.

