

ROLE OF CO-OPERATIVE BANKS IN INDIA: A REVIEW

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ABSTRACT

Some time ago, RBI, taking action on Punjab and Maharashtra Co-operative Bank, had issued an order not to do any kind of work for the coming 6 months. Along with this, the Reserve Bank of India has also issued instructions to the customers of Punjab and Maharashtra Bank. The withdrawal limit was set for It is noteworthy that Punjab and Maharashtra Bank is one of the largest urban co-operative banks in the country, with total deposits of more than Rs 11,617 crore. The way such a big cooperative bank of the country is facing crisis is a matter of concern for the cooperative banking system of the country. It cannot be denied that co-operative banks have not only contributed to the progress of the banking system by connecting the common people in the villages and towns of the country, but have also played an important role in the development of the country's economy. The various levels of cooperative credit structure in India are systematically arranged so that the members can easily assimilate the true spirit and function of the cooperative movement, especially the practical part of this movement, it helps in increasing productivity, increasing employment. Helps. And helps in reducing poverty in rural areas. This article throws light upon the credit operations of co-operative banks in India. This article discusses the cooperative banking system and its importance. Along with this, the challenges faced by the cooperative banking system and the measures to solve it have also been mentioned.

Keywords: *Co-operative Banks, PMC Bank, Society, Co-operative Societies, NABARD, RBI.*

Introduction

The origins of the cooperative movement and its implementation in the modern technical sense can be traced back to the post-industrial revolution in England during the period of the 18th and 19th centuries. The idea of Hermann Schulz and Friedrich Wilhelm Raiffeisen to provide easy loans to small businesses and poorer sections of society during economic downturns took shape in the form of cooperative banks around the world today.

Pre-independence Period (before 1947)

British India replicated this model and based on the recommendations of Sir Frederick Nicholson (1899) and Sir Edward Law (1901), the Co-operative Credit Societies Act, 1904 was passed. It attempted to tackle the problems of rural indebtedness and the consequent conditions of the farmers in the country. This act promoted the establishment of credit cooperatives, which led to the formation of the first urban cooperative credit society, registered in October 1904 at Kanjipuram in the state of Tamil Nadu. This marked the beginning of the institutionalization of the cooperative banking system in India. But there were some loopholes in the Act which restricted access to the expected benefits of cooperative societies.

The Act allowed only the registration of credit societies, and had no provision for the protection of non-credit societies or federal societies. These deficiencies were identified by the Government and to address the same; A more comprehensive legislation known as the Co-operative Societies Act of 1912 was introduced. It recognized the formation and organization of non-credit societies and central co-operative unions. In 1919, after the end of the first world war under the Treaty of Versailles, 1919, the Montague Chelmsford Reforms were introduced in India under which Cooperation becomes a transferred subject which was to be administered by the States. The need for separate acts for effective implementation and to widen the reach of the cooperative banks was felt by the States.

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The Bombay Provincial Government was the first to pass its own act which was known as Bombay Provincial Cooperative Societies Act, 1925. Other state governments like Madras, Bengal, Bihar and Punjab followed the Bombay Act and passed their own legislation in the following years. In 1942, the British Govt. enacted the Multi-Unit Co-operative Society's Act, 1942, the ambit of which covered society's whose operations are extended to more than one state. The Act provided for the regulation of affairs of such society by the provisions of cooperative societies act of the state where the principal business of the society is located. Post-independence period (after 1947) After independence, the movement of cooperative societies maintained its pace even after facing several hardships during that phase and continued to be part of the economic development of the country. The cooperative movement in India was started with the aim of promoting savings to help in the development of farmers, artisans and other sections of the society.

The history of Indian cooperative banking began with the passing of the Co-operative Societies Act in the year 1904. The purpose of this act was to establish cooperative credit societies. During the first 3 years after independence i.e. till the year 1949, nothing important work could be done from the point of view of cooperative banking. However, by then the immediate Indian leaders had recognized the role of cooperative banks to strengthen the country's roots and for this reason, different provisions were made in the initial five year plans to strengthen the cooperative structure of the country.

It is noteworthy that despite the provisions relating to co-operative banking in the initial five-year plans, its development was not possible, due to which the need for more attention was felt. The Sixth and Seventh Five Year Plans played an important role in the expansion and development of the cooperative structure of the country. Cooperative banks differ from commercial banks on the grounds of organisation, governance, interest rates, the scope of functioning, objectives and values. Co-operative bank refers to small financial institutions that provide credit facilities to small businesses in both urban and non-urban areas. Co-operative banks generally provide various types of banking and financial services like lending, depositing money and bank accounts etc. to their members.

Co-operative banks have distinguished themselves from commercial banks on the basis of their organization, purpose, value and features of administration. We may mention that the initial goal of a co-operative bank is not to maximize profits, but to provide the best products and services to its members. Co-operative banks are owned and controlled by members, all of whom democratically elect a board of directors. These are regulated by RBI and come under the Banking Regulation Act, 1949 as well as the Banking Laws Act, 1965. Co-operative banks are registered under the Co-operative Societies Act.

Objective of Co-operative Banks

- Providing rural finance and micro finance and not profit making.
- To reduce the influence of moneylenders and middlemen.
- To provide credit services to the farmers and weaker sections of the society at comparatively low rates.
- To provide financial assistance and personal financial services to small scale industries and to provide housing financial assistance.
- To provide basic banking services to its members. Promoting the overall development of rural areas.

Literature Review

Jyoti Gupta and Suman Jain (2012) To know about lending banks in India and measure and compare the quality of Co-operative Bank of India and study the effect of its size on effective operating banks has studied.

Sumeet Giram (2014) writes that the city's population of co-operative banks, along with its vast population and membership, as well as the contribution of local technology, has made it an important institution in the field of banking and finance.

The Reserve Bank of India's inspection of UCBs and periodic government audits have not shown any significant change in the unprofessional attitude of the Board of Directors. RBI made an effort by introducing a code of conduct for the board of directors and it is also expected that they will abide by it. From the above quote, it is clear that the paradigm shift of mindset established in the Board of Directors collectively and the Board of Directors individually, becomes a key management of Urban Co-operative Banks.

Soylia Ushal (2013) in her paper has studied the progress of the world economy with the objective of studying banking business to know the lending practices of banks in India and to measure the efficiency of co-operative banks in India. To study the satisfaction level of bank customers with the credit policies of the bank.

Kshitij Deshmukh (2015) analyzed the performance of co-operative banks involved in the progress of local development and financial condition of middle class people. Co-operative banks are registered under the Co-operative Societies Act.

Co-operative Banks and Economy

The growth of the country is hidden in the economic growth of the citizens of the country and the economic development of the members is in the first place in the main principles of all the cooperative structures working around the world. In India also, cooperative banks are working as a lifeline for many people.

Today co-operative banks across the country are working with commercial banks and are playing a vital role in providing need-based finance to people engaged in agriculture and agriculture-based activities.

However, it cannot be denied that the co-operative banks of the country need major changes as per the changing times.

Importance of Co-operative Banks

Co-operative banks have played an important role in the progress of the country by connecting common people in villages and towns with banking.

The main objective of the country's co-operative credit structure is to provide the general public with a better alternative to traditional credit sources and co-operative banks have performed well in achieving this objective. Co-operative banks protect rural credit and the less educated population from the clutches of traditional lenders.

It is to be noted that the traditional lenders have dominated the country for decades and are still exploiting the poor people by charging high rate of interest on loans.

Co-operative banks provide loans to their customers at much cheaper interest rates, as their aim is not to make profit but to provide good services to their members.

Co-operative banks have also encouraged savings and investment by inculcating savings habits among the farmers.

Challenges before Co-operative Banks

Reports of some societies show that cooperative banking despite its long history has failed to win the confidence of farmers in the country and that is the reason why most of the farmers in rural areas take only a small part of the loans taken from cooperative banks.

So far it has failed to meet the needs of small farmers.

Overdues are a big problem at all levels.

Statistics show that the membership of cooperatives in rural areas is only 45 percent, which means that 55 percent of the people in rural areas have not been able to join the cooperative yet. The Banking Commission constituted in the year 1972 had attributed the following reasons for this:

- Inability of people to provide certain security for the loan.
- Mismanagement of land records.
- Inadequacy of the prescribed credit limit.
- Inability of the member to repay the loan.

Several studies have revealed that some co-operative banks in the country have become inactive and some are only on paper.

Most of the co-operative banks are also facing the lack of professional management.

Another important problem arises from the conflict of control over co-operative banks, as they are regulated and controlled by the RBI but administered by the state government.

Outlook for the Further

The lack of corporate governance in the cooperative banking system is a very important issue, which needs to be addressed at the earliest.

The watchdog in the cooperative banking system needs to be made more accountable, as there have been many cases where people have committed scams despite the presence of auditors and investigative institutions. As soon as a big banking scam comes to the fore, the depositors of that bank face problems and they have to wait for a long time to withdraw their own money. In the Madhavpura Mercantile Cooperative Bank scam that happened in the year 2001, about 45,000 depositors of the bank had to wait for more than a year to withdraw their money. Therefore, it is necessary that this problem is addressed at the earliest so that the bank customers do not face any problem.

Experts believe that former deputy governor R. The suggestions of the High Powered Committee on Urban Co-operative Banks constituted under the chairmanship of Gandhi should also be taken into account. The main recommendations made in the report of the committee are: RBI should have more powers over co-operative banks. There is a need to empower RBI to take decisions like closure of banks and providing them liquidity. If the urban co-operative banks want to voluntarily convert into small finance banks and at the same time they meet all the criteria of the central bank, then they should be allowed.

Conclusion

The need for cooperative banks in the country cannot be denied, because through these we have been able to take the banking system in the country to the masses, but in view of the scams related to cooperative banks, it is also necessary that the cooperative banking structure of the country itself Make some basic changes. At present, the problem of conflict of control is the biggest problem facing the co-operative banks, to deal with which it is very important that the Reserve Bank of India and the state government come together on one platform and it is very necessary to work together so that the cooperative banks can contribute. be prepared to give. Due to which the development of the country will increase.

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