

MAJOR ISSUES AND CHALLENGES OF CO-OPERATIVE BANKS: A RURAL PERSPECTIVE

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In a critical appraisal of Co-operative Banks in India, the study points out that most of the Co-operatives have failed to provide a viable solution for the proper working conditions of the Co-operative Bank. The study revealed recently announced national policy on Co-operatives has added fresh dimensions to metamorphosed Co-operatives several factors which lead to the success of Co-operatives. The role of Co-operative credit delivery system is significant in economic development, especially for the development of agriculture and rural sectors. The Co-operative Banking system must respond and strengthen its infrastructural facilities to complete in the globalised financial system. This study strongly raised that challenges of Co-operatives like bad governance, political interference, lax regulations and pliable managements have turned Co-operative banks into sitting targets for scamsters and freeloaders. There is urgent need to reform and change the existing system of governance in Co-operative Banks.

INTRODUCTION

India has perhaps the World's largest network of Co-operatives which play a key role in development of the rural sector. In our India, as also in other developed and fast developing countries, Co-operatives are used as a potential tool for all round development of society, particularly in rural areas. Co-operative banks are perhaps the first government sponsored supported and subsidised financial agency in India. RBI, NABARD, Central Government and State Government give them financial and other kinds of help. Co-operative banks are expected to provide economic to the rural poor for entrepreneurial efforts. Such banks have proved to be a boon to poor and rural community who had no access to the economic tool of credit. Co-operative banks are making their presence felt simply because there is a relationship of trust and responsibility between the share holders and the bank.

Co-operative banks occupy an important place in the financial system of India. The Co-operative credit system can be broadly classified into urban co-operative banks and rural Co-operative banks. The rural credit delivery system, whereas urban Co-operative banks aim at mobilising savings from the middle-and-low income groups of the people and purvey credit to the weaker sections of the society. The base of the Co-operative Pyramid in India is provided by the primary societies catering to the farmers who, in

turn, often depend for their livelihood on the success of crop. Their malfunctioning can also be traced to the uncertainty of the major activity their support namely; agriculture.

NATIONAL POLICY

The role of Co-operative acquired a new dimension with the changing scenario of globalization and liberalization of the national economy. The national policy aims at ensuring the functions of Co-operative based on the Manchester decentralization of international Co-operative Alliance 1995. Its emphasis on:

- Revitalisation of the Co-operative Structure
- Strengthening of education, training and HRD
- Reduction of regional imbalances
- Greater member's participation and
- Removal of the restrictive regulatory regime

It considers Co-operative as essentially community initiatives for harnessing people's creative power, autonomous, democratically managed, decentralized, need-based and sustainable economic enterprises. Co-operative will, however, remain the preferred instrument of execution of the Public Policy, Particularly in the rural areas.

There is an urgent need in the era of liberalization and globalization to fully exploit available natural, material and human resources in the most efficient and effective manner, it is essential to have financial system at the macro and micro level. Even often nationalization of banks (1969), the spread of banking culture among the poor is still dismal, regional banking imbalance is not yet fully reduced, and inadequate growth in all levels. Infact in the rural areas, the rural oriented banks such as PACBs, RRBs, Lead Banks etc., are not effectively responding to the problems of rural community.

PRIMARY AGRICULTURAL CO-OPERATIVE SOCIETIES (PACS)

Primary Agricultural Co-operative Societies are village level co-operative organizations. A large number are generally multipurpose functional organizations. It is a member's own organization and managed for the betterment of their socio-economic conditions. In the area of LPG's it is essential for the PACS to under take, profitable business to fulfill member's objective and survive in the open and free market economy. The PACS members must show active member economic participation in the overall management and business transactions. All Co-operative societies are affiliated to the District Central Co-operative Banks and made up of several villages as their area of operation. They admit various kinds of agricultural and rural Banking and Non- Banking services.

DISTRICT CENTRAL CO-OPERATIVE BANKS(DCCBS)

The District Central Co-operative Banks are generally located at District Head quarter. The Banking Regulation Act of RBI governs these banks. They have branches located in the rural areas. The membership of DCCBs consists of PACS and individuals. The major portfolios of these banks include current and saving deposits, term deposits,

borrowings from National Banks, Apex Bank, Government, Collect Deposits from Co-operative societies and individuals. The loan advanced are composed of short term, medium and long term loans. The DCCBs compete with Commercial Banks in mobilizing deposits by opening branches in the rural areas. There are 367 District Central Co-operative Banks affiliated to 30 State level Co-operative Banks.

THE ANDHRA PRADESH STATE CO-OPERATIVE BANK (APCOB)

APCOB is a scheduled state Co-operative bank for the state of Andhra Pradesh. The bank is committed to agricultural and rural development through the Co-operatives. The Co-operative credit system in Andhra Pradesh with the APCOB at its level is a federal system consisting of a family of 22 affiliated District Co-operative Central Banks, which in turn, have 563 Branches and 2746 primary Agricultural credit is provided, to serve a sizeable chunk of the total membership of around 1.5 Crores.

The APCOB and affiliate credit structure in Andhra Pradesh showcase a unique experiment of single window credit delivery system as a first of its kind in the country under which, both investment and production credit for agriculture is provided at the gross root level through a single agency. The PACs at the village level has been modeled as a one stop shop for the former for availing of varied short, medium and long term loans both under production and investment credit, input requirement, produce storage facilities essential commodities, banking and rural other services.

A FRIEND IN NEED

The Co-operative network is playing vital role in the governments efforts to provide remunerative prices to farmers and helping them to avoid distress sale. The Government fixes minimum support price of certain commodities thus ensuring minimum support price for non-perishable agricultural commodities. In case the price falls below that level, the Government steps in through National and State Co-operative agencies to procure the commodities and sell the same whenever market terms favorable. This ensures proper return on the produce to the farmer and avoids suffering under losses. The Central and State governments intervene to procure the perishable goods even at a heavy loss. The Central and State Governments through their Co-operative network share the loss equally. Another key activity of the Co-operative societies is the training and education farmers by providing technical guidance to the members thus ensuring increased productivity and production.

MERITS

Co-operative Transactions Cost Minimize

These are also viewed as nexus of contractual relationships among various stakeholders including farmer-members, board members, other employers and clients. The main rationale for the emergence of Co-operation is the expectation on the part of potential Co-operaters that the Co-operative will minimize the transaction costs involved in doing their business and survival of a Co-operative depends on its ability to retains its competitive cost advantage vis-a vis other alternative forms of organization.

Emergence of Successful Co-operation

Charismatic leadership also play a very important role in bringing people together and organizing them around a common goal. Good leadership is a prerequisite not only for creating and nurturing a Co-operative but also for providing a vision, inspiring and guiding both the members and the management.

Use of I.C.T.

The role demanded of Co-operative Organizations has changed dramatically over the last two decades and continuous to be dynamic. With globalization and need for learner, meaner organization, Co-operative must adopt new ways of working. Managers in Co-operatives need to be aware and alert to the various opportunities that their organization can reap from the fast moving world of information and communications technology and then by driving forces with in their organization to realize this potential.

Effective Corporate Governance

There is need for putting effective Corporate Governance in place in Co-operative banks. Some of the steps taken by RBI in the respect in accordance with the recommendations made by the High Power Committee. This should be followed by a transparent mechanism for enforcement of the stipulated norms. Recent developments high lightened, among other things, the need for enhanced disclosure on the part of Co-operative banks so as to ensure that market participants can better perceive their risk and the adequacy of their capital endowment.

DEMERITS

Absence of a Formal System of Corporate Governance

There is no formal system of corporate Governance extent in Co-operative banks. As a result, a number of Co-operative banks have come to be the hot bed of political patronage, unscrupulous financial practices and gross miss management. In certain cases, these have become private fiefdoms of individual political and other functionaries sustaining themselves on public money. *For example:* some time back, a former president of PACS of L.B.Cherala, West Godavari District, Andhra Pradesh misused public money nearly ten million rupees from society. It proved through state Government enquiry but there was no appropriate action. In the politically sensitive Co-operative sector, this is a case of "banking as usual". In the past 20 years several Co-operative banks have been frauded. In view of all this, there is need for putting effective corporate Governance in place for Co-operative Banks. It should be followed by a transparent mechanism for enforcement of the stipulated norm.

Lack of Appropriate System of Financial Administration

The first and foremost serious impediment to healthy financing is the constraint on capital formation in the Co-operative form of business. The Archaic laws and regulations governing Co-operative accounting and audit constitute on another type of constraint to the healthy financial management in India.

The Duality of Control

It is the dual control system that is the root cause of most the problems of the Co-operative banks, especially Urban Co-operative Banks. On one hand, under the provision of the Co-operative societies Act, the Registrar of Co-operatives is responsible for regulating their transactions on behalf of State Government and the RBI, on the other hand, on behalf of the Government of India, under the Banking Regulation Act, 1949. It is mainly due to this duality in and over lapping of the regulatory role, that there is no effective regulation of Co-operative banks by any of the two regulatory agencies, viz, the RBI and state Government concerned.

Absence of Transparency

Recent development have highlighted, among other things, the need for enhanced disclosure on the part of Co-operative banks so as to ensure that market participants can better perceive their risk and adequacy of the capital endowment. There is an imperative therefore to put in place a framework setting out disclosure requirements a frame work setting out disclosure requirements un several areas including the modalities adopted by them for computation of their Capital and assessment of their risk.

Lack of Proper Audit by Chartered Accountants

There is a need for better and proper Audit system by professional Chartered Accounts. Now at present, audit of co-operative banks is done by the Registrar of Co-operative societies through the auditors, who are not at all professionally qualified, suitably trained, and properly oriented. Due to the shortage of audit staff relevant to the task involved, Co-operatives are not audited in time properly and regularly. Even when, audits are done, recommendations and observations made in the audit reports are not followed. Consequently, they snowball into scams eventually. As Co-operative Banks are linked to other financial institutions, scams have ripple effects on the entire financial system.

Politicization and Corruption

Since they are not professionals in the field of banking, elected representations cannot be expected to take decisions purely on prudential banking norms. Many a time, elected representatives belong to one or the other political party and they have the party obligations, overriding considerations of service to members of interest of depositors. The system does not provide for ways of fixing quick responsibility on individuals in case of misappropriation and embezzlement or other kinds of malpractices.

Example for recent issue of Madhavapur Bank Scandals in Gujarat. Regarding to this issue, the leader of the opposition in the Gujarat Assembly, Arjun Modhwadia raised that; "The Madhavapur Bank scandal was a Rs 1,2000 million scam. Thousands of depositors who had more than rupees One hundred thousand as deposits in the Bank have not yet got back their deposit money. The Bank has not yet been revived deposit a revival deposit a revival package from the Reserve Bank of India. About 75 smaller Co-Operative banks which had large deposits with Madhavapur Bank were bankrupted".

REMEDIES

To my mind, the answer is as follows:

- (1) Present Co-operative Banking system must change their methods of working patterns and attain qualitative competitive efficiency to face the challenges ahead what is required is to introduce a comprehensive and sustained package of reforms and translate it into action at all levels through Co-ordinated and concentrated efforts of the Co-operatives, the State Government, RBI, NABARD and Central Government.
- (2) Fully Computerized Co-operative Banking system introduce an electronic data processing audit system. All Co-operative organizations are required to have an audit committee of the Board for overseeing and providing directions to internal audit mechanism.
- (3) They have to take action for removing the deficiencies pointed out in the RBI inspection reports within a maximum period of 4 months and provide a certificate to that effect, failing which penalty will be imposed.
- (4) Co-operative Banks should appoint concurrent auditors.
- (5) It is desirable that the training programmes encompass skill upgradation and aptitude development in full measures.
- (6) The Co-operatives must work like professional organisation on sound managerial system.
- (7) Increasing borrowing membership and volume of business are essential steps to improve the profitability of Co-operatives.
- (8) Banking system of functions should be brought under Banking Regulation Act to be regulated by RBI.
- (9) Fostering of healthy of Banker client relationship essential for sustainability of banks through increasing business volume and improving productivity.
- (10) Removal of the politicization of the Banking affairs and involvement.
- (11) An Institutional mechanism to insure uninterrupted credit flow to affected farmers needs to be devised
- (12) Active participation of all members in the business transactions must be enhanced
- (13) The primary Co- Operative is a cutting edge in the Agriculture business. Hence, there is an urgent need to strengthen the primary Co-operatives in order to improve their organization and functional efficacy.
- (14) Effective and efficient education and training system.
- (15) Computerization and mechanization of Co-operative Banking system through modernisation or upgradation.
- (16) Adoption of better banking marketing strategies' and customer relationship management (CRM)

- (17) Co-operative Banking institution must learn how to adopt the latest and modern methods of business operation and transactions.

CONCLUSION

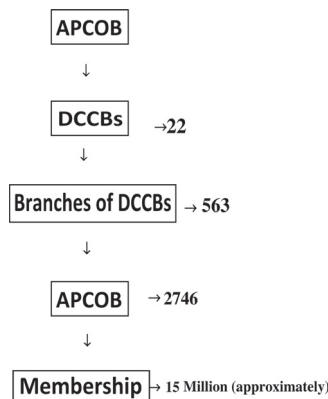
To sum up it is clear that the Co-operatives are truly empowering organizations, in origin, in vision, and in mission, in theory and action. Empowerment within the Co-Operatives focuses initially and primarily on the role of members. It originates with and returns to the members and it can be found in the process of formation, promotion and perpetuation of Co-operatives.

Thus, only through Co-operative institutions can the common man influence the direction of social and economic change in a decisive manner. In fact, Co-operation in India has been recognized as part of the pattern of Indian socialism, especially interpreted in terms rural society. Through Co-operation. We can have “the effective realization of the higher and more prosperous standard of life which has been characterized as better business, better farming and better living”.

The major findings of the study are that the working conditions it examines performance, weakness and the challenges of Co- operative banking system it reviews Co-operative banking system, which links various aspects of the Co-operative Administration the study suggests several remedies to proper and effective functioning of the Administration.

Bad Governance, political interference, pliable managements and lax regulation have turned Co-operative banks into sitting targets for scam asters and free loaders. There is urgent need to reform the existing system of governance in Co- operative banks. Several recommendations for improving the governance system have been made by various committees appointed form time to time by the RBI and the NABARD. It is high and right time that those recommendations that have not yet been adopted are given serious consideration by the authorities concerned, viz, the RBI, the NABARD and ministry of finance, government of India and implemented.

Table
Structure of the Co-operative system



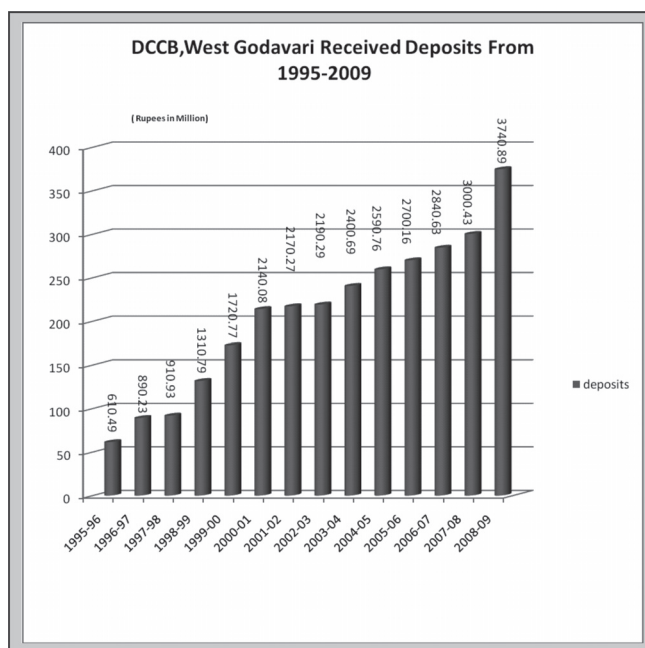
Source: Hand book of DCC, Eluru.

TABLE 2
Co-operative Deposit Interest

<i>Period</i>	<i>Rate of Interest</i>	
S.b. Account Term Deposits	3.50%	
15 Days to 30 Days	4.50%	
31 Days to 45 Days	4.50%	
46 Days to 90 Days	5.00%	
91 Days to 179 Days	6.25%	
180 Days to 270 Days	7.50%	
271 Days to 364 Days	7.50%	
Above 1 Year Upto 2 Years	8.00%	
Above 2 Years Upto 3 Years	8.50%	
Above 3 Years Upto 4 Years	9.00%	
4 Years Above	8.00%	
Special Rates		
<i>Special Rates</i>	<i>Below 1 Year</i>	<i>Above 1 Year</i>
Senior Citizens	0.50%	0.50%
PACS & EMPL CS	0.50%	1.00%
Urban Banks	0.50%	1.00%

Source: Hand book of DCC, Eluru

Table 3
Received Deposits



Source: Hand book of DCC, Eluru.

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