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## “Problems faced by co-operative banks in the Indian Economy”

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### Abstract

Co-operative banks are contributing the constituent part in the India's banking and financial system. The role of cooperatives in Urban areas has been increased in a sufficient part nowadays due to increase of primary co-operatives there but their main role of financing the rural areas is also going on increasing. The co-operative banks' origin can be traced back to the 1904 when the efforts were made to open financial concerns based on cooperation's principles for solving the peculiar problems of Indian Economic Environment. The rural areas imposing the main effect on the co-operative banks. The rural area requires funds for two reasons viz. Working capital through short terms needs and agriculture and other bearing activities through long run requirements. The agricultural and other than agricultural processes in the rural areas is typically seasonal. The households required credit to work seasonal activities in earning and expenditure. A co-operative movement plays a major role in development of social and economic environment in India. But Govt. of India has not provided a good support to the cooperatives due to which many problems have been faced by them. Thus an attempt has been made to elaborate the problems and the relative perspective of co-operative banks in the Indian Economy.

### INTRODUCTION

Co-operative banks are the organs of the cooperation institutions which are very powerful and most emerged part of Indian Developing Process, the institutions were engaged in the production, processing, distribution, servicing, banking and marketing processes. In rural parts of India even today the required capital or funds for agricultural activities were raised through unorganized money market agencies i.e. money lenders who were providing monies at higher rate of interest. The co-operative banks have been moved towards rural areas for overcoming such problems and providing the capital required through short term and long term borrowings at a reasonable rate of interest. Due to this effort of co-operative banks an attempt was made to bring about unity unorganized and organized parts of the Indian Financial Market.

### OBJECTIVES OF THE STUDY

1. To study the problems, difficulties of cooperative banking
2. To elaborate the growth and development of cooperative banks.
3. To examine the effect and impact of co-operative banking.

### RESEARCH METHODOLOGY

The secondary data is playing the major role in the study which is collected through various News papers, Journals, Souvenir, Internet and Books. The study is confined to overall co-operative banking sectors. There is no such statistical tools are used.



The Indian cooperative movement, like its counterparts in other countries of the world has been essentially a child of distress. Based on the recommendations of Sir Frederick Nicholson (1899) and Sir Edward Law (1901), the Cooperative Credit Societies Act was passed in 1904, paving the way for the establishment of cooperative credit societies in rural and urban areas on the patterns of Raiffeisen and Schulze Deglitch respectively. The Cooperative Societies Act of 1912 recognized the formation of non-credit societies and the central cooperative 5 organizations/federations. The state patronage to the cooperative movement continued even after 1947, the year in which India attained freedom. The independent India accepted the concept of planned economy and cooperative organizations were assigned an important role

Thus the co-operative societies in India in fact are playing multi-functional roles both in rural and urban areas. An Expert Group constituted by the Govt of India in 1990 recommended i) to facilitate building up of integrated co-operative structure; ii) to make the co-operative federation organizations responsive towards their members; iii) to minimize government interference and control in the functioning of co-operatives and iv) to eliminate politicization from the cooperative sector. Based on the recommendations, the central govt enacted the Multi State Cooperative Societies Act, 2002 which provided for democratic and autonomous working of the Cooperatives, which came into force with effect from August 19, 2002. Various development activities in agriculture, small industry marketing and processing, distribution and supplies are now carried on through co-operatives. The co-operatives in India have made an all-round progress and their role in, and contribution to agricultural progress has particularly been significant.

#### **Problems faced by co-operative banks**

##### **1) Non-accountability:**

It is like if a child when given too many benefits it gets spoiled.

The same is the case with cooperatives in India. The government gave too many benefits to cooperatives like reservation of items extra benefits like finance facilities so also it was also provided with other support this was a good thing to do, but then there was no further accountability which led to these cooperatives becoming more and more lethargic. Besides as there was no competition they became more and more costly they were not at all efficient and the worst part was that the government allowed them to function like this and pass on the burden of costs to consumers.

##### **2) Vested interest of some people:**

A lot of times people who are in position in control of cooperatives are actually people who have joined cooperatives for personal gains. One of the major problems this causes is conflicting of personal interests with the interest of the cooperatives now this affects the performance of the cooperatives in a negative way.

##### **3) Lack of coordination:**

Generally what happens in cooperatives is that different cooperatives at different level don't coordinate this makes the work of cooperatives difficult. Coordination is the key to success of any organization. The best example for this is AMUL which works best because of coordination

##### **4)The Internal Free Rider Problem:**

This problem arises when:

a) New members who provide very little capital enjoy the same benefits as long-standing or founding members who have major investments in the cooperative in fixed assets (plant, machinery, equipment) and working capital;

b) When the patronage of new members does not make the cooperative much more efficient or competitive by producing significant economies of scale. New members get a "free ride" on the investments and other efforts of existing members, thereby diluting the returns to existing members. In this situation, new members do not have much incentive to provide capital because it will not appreciate in value and existing members have little incentive to provide capital that will disproportionately benefit new members.

#### 5) **Quality more than Quantity:**

This is another major problem faced by different cooperatives who go in for quantity this causes a major problem because they think it's a quick way to earn money so this basically affects the productivity.

#### 6) **No Balanced Growth:**

The cooperatives in northeast areas and in areas like West Bengal, Bihar, Orissa are not as well developed as the ones in Maharashtra and the ones in Gujarat. There is a lot of friction due to competition between different states, this friction affects the working of cooperatives.

#### 7) **Political Interference:**

Now this is the biggest problem faced by Sugar cooperatives in Maharashtra. The Politicians use the sugar coops as if they are their personal property and also they use it to their political advantage. This is the biggest problem of cooperatives as they use them to increase their vote bank. They also get their own favorites on the boards of such boards so they are on control these cooperatives.

### **CONCLUSIONS**

It seems that cooperative banks are playing a vital role in the progress of the rural areas. Besides that they have to face number of problems. In other words the suggestions of Khusro Committee that 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. The deposit mobilization profit and reserves should be commonly shared. In fact the self reliance is the main theme of progress of cooperatives deposit mobilization. The mobilization of small savings from large number of peoples as possible is the desired strategy for deposit mobilization which is the key of success for cooperative banks. The modern practices should be co aided with some institutions for remained alive in the modern era. The computerization and improper leadership should be eliminated. They should improve themselves through the principles of cooperation

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