

Cooperative Banks and Its Role in Economic Development



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Abstract

Cooperatives are highly relevant and important in the realization of the proposed sustainable development goals. As value-based and principle driven organizations, cooperative enterprises are by nature a sustainable and participatory form of business. Members are cooperative organizations from all sectors of the economy like banking, retail etc. cooperatives as important in improving the living and working conditions of women and men globally as well as making essential infrastructure and services available even in areas neglected by the state and investor-driven enterprises. Cooperatives foster democratic knowledge and practices and social inclusion. They have also shown resilience in the face of the economic and financial crises. Cooperatives are well organized to contribute to sustainable development's objectives plus the governance plan, not least because they are enterprises that tries to meet the economic progress of members while satisfying their interests and preserving the environment. As a model of business based on ethical values and principles whose goal it is to provide for the needs and aspirations of their members, co-operatives play an essential role to cater local community. Cooperatives are member-driven business enterprises in which decisions balance the pursuit of profit with the needs and interests of members and their communities. In seeing the potential for cooperatives to amplify efforts for sustainable socio-economic development, and year 2012 was declared as the International Year of Cooperatives by the UN. Cooperative enterprises can play important role in social justice, economic development, and also environmental protection. Cooperative enterprises are instrumental in providing opportunities for productive employment as well as offering services such as education, improved infrastructure etc. Cooperatives are directed by principle values community that are most of the time rooted in local communities, making them a best option for achieving Sustainable development. Co-operatives playing role in sustainable development needs to be documented and expertise must be developed in their potential as vehicles for sustainable development. Partnerships with relevant agencies and co-operative organizations for mutual learning need to be fostered.

Keywords: Development, cooperatives, UCB, Sustainable.

Introduction

A co-operative bank is a financial entity which belongs to its members we can also say the owners and the customers of their bank. With more than 700 million of its people living in rural areas and with its rural sector contributing about 29 percent of the gross domestic product at factor cost at the 1993-94 prices, no strategy of socio-economic development of India that neglects the rural people and the rural areas can be successful.

Co-operative banks are often created by persons belonging to the same local or professional community or sharing a common interest. Co-operative banks usually provide their members with a large number of banking and financial services. Indian banking is the lifeline of the nation and its people. In India Banking has helped in mounting the very important sectors of the economy and guide in a new sunrise of progress on the Indian horizon. Now, Indian banks can self-assuredly compete with current banks of the world.

Urban Co-operative Bank has play important role for the sustainable development of India. UCBs provide various facilities to the society such as financial assistance to various sectors. Thus, the emphasis of this paper is on the study of functions of UCBs and its objectives and its contribution in economic development of the country

History

A co-operative is a form of organization that is widely prevalent in developing countries including India. It has great potential as an instrument

of rural development. Co-operation as an ethical norm has been eulogized all over the world since time immemorial. For the co-operative banks in India, co-operatives are organized by groups of public and mutually managed and democratically controlled enterprises. They exist to serve their members and depositors and produce better benefits and services for them. The first phase of co-operative bank development was the formation and regulation of cooperative society. Reforms in the constitution which led the Government of India to pass Act in 1919 .by which the subject of "Cooperation" was transferred from Government of India to the regional Governments. The needs of co-operative bank are different. lots of problem were faced by them, which has exaggerated the development of co-operative banks. In most developing countries including India, co-operatives were promoted by their governments as instruments of rural development. In India, thanks to the British legacy, the co-operative form of organization was born in 1904 consequent upon the enactment of the Co-operative Credit Societies Act.

In India, Germany was the main source of the inspiration for the co-operative movement. Co-operative movement in India was started with purpose of creation a breakthrough in the stagnation of the poor community, particularly the huge bulk of agriculturists. Several farmers were literally, born in obligation of debt, lived in debt and even died in debt, which lead passing on their burdens to those who followed. That was the base on which cooperative movement started in India. The trait of Indian co-operative movement is " it is a credit centered movement". The very first co-operative credit societies Act was approved in the year 1904. This act provided founding of credit societies in rural and urban areas for facilitating credit facilities at cheaper rates to ordinary person. Hence the Act predicted the want of urban co-operative banks next to or with the rural credit co-operatives. Then after, the work of establishing co-operative societies is growing rapidly.

In the review published by RBI, it pointed out that, urban co-operative credit societies and Banks are the most important features of the urban cooperative movement in India and make up to some extent for the absence of joint stock banking facilities in the small towns. The first urban co-operative society was established in India, named 'Annyona Shakari Mandli Co-operative Bank' situated in Gujarat in 1889. Middle class Marathi people established this society. It is still functioning Cooperative movement in India was started with a rural bias credit stance. The urban co-operative credit movement in India started with chief object of catering to the banking and credit requirements of the urban middle classes. Thus, the people found out the humble means to get away from the control of the moneylenders. It was initially expected to beat the habit of prudence and saving amongst them.

Recently NABARD, a premier Development Finance Organisation of the Government, has launched an Environmental Promotional Assistance Scheme (EPA) for undertaking activities related to environment protection aimed at sustainable and environment friendly agriculture and rural development with a focus on demonstration of replicable eco-friendly technologies. Cooperative banks Green Growth financing will have to be tied up with agencies like NGOs, Universities and Research Institutions for implementing environment protection programmes in order to ensure technological support and farm guidance and extension services to the farmers for optimum results and benefits.

The cooperative rural credit and banking sector in India with a membership of about 180 million is a major player in agricultural credit operations. The banks need to sensitize the farmers and create an awareness for environment friendly green growth agriculture, which is sustainable. Besides adoption of appropriate replicable technologies for eco-friendly growth of agriculture, the cooperative banks have to evolve a sustainable growth model for financing environment friendly but economically beneficial products for watershed development, production of organic fertilisers, bio-gas for cooking, renewable energy through solar, wind, bio-mass, etc. for meeting power needs, rural housing by use of local resources and such other financial products for village resource management and employment generation

The structure of commercial banking is of branch-banking type; while the co-operative banking structure is a three tier federal one.- A State Co-operative Bank works at the apex level (ie. works at state level). - The Central Co-operative Bank works at the Intermediate Level. (ie. District Co-operative Banks Ltd. works at district level)- Primary co-operative credit societies at base level (At village level). Co-operative banks are deeply rooted inside local areas and communities. They are involved in local development and contribute to the sustainable development of their communities, as their members and management board usually belong to the communities in which they exercise their activities.

Co-Operatives in India

1. Credit Co-operatives and Banks
2. Milk Co-operatives
3. Sugar Co-operatives
4. Natural Resources Management Co-operatives
5. Co-operative Spinning Mills and Weavers' Co-operatives
6. Consumer Co-operatives

The ongoing initiative of the Reserve Bank towards a unified regulatory framework as envisaged in its Vision Document of 2005 for UCBs buttresses initiatives for creating vibrant UCBs. With regard to short-term rural co-operatives, the recommendations of the Expert Committee on the Short-term Co-operative Credit Structure are aimed at addressing the inadequacies afflicting this segment.

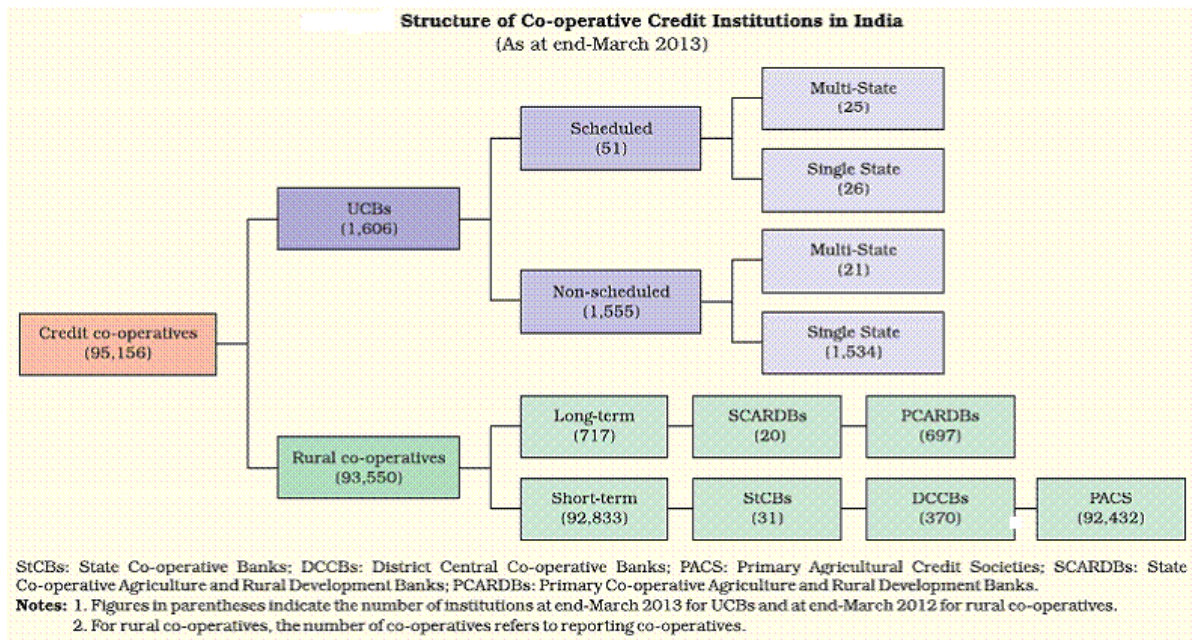


Fig. 1 Source: <http://www.rbi.org.in/scripts/PublicationsView.aspx?id=15441>

Urban Co-operative Bank

Urban Co-operative banks play a pivotal role not only in meeting the credit requirements of various sphere but also play a significant role in the development of Small & Medium industries in urban areas. Although in bank dominated financial system, these institutions account for a small share in the total credit yet they hold a significant position in credit delivery as they cater to different geographic locations and demographic categories. The wide network of Urban co-operative banks, has supplemented the commercial banking network for deepening financial intermediation by bringing a large number of depositors/borrowers under the formal banking network. Demographically, these institutions have enabled access to financial services to low and middle-income groups in of urban areas.

UCBS over the years have been playing a huge role for the development of small and medium enterprises. The housing sector alone accounted for over one third of the total credit of these institutions in 2012-2013.

RBI Policies for Co-operative banks

The RBI appointed a high power committee in May 1999 under the chairmanship of Shri. K. Madhava Rao, Ex-Chief Secretary, Government of Andhra Pradesh to review the performance of Urban Co-operative Banks (UCBs) and to suggest necessary measures to strengthen this sector. With reference to the terms given to the committee, the committee identified five broad objectives: To preserve the co-operative character of UCBs, To protect the depositors' interest, To reduce financial risk, To put in place strong regulatory norms at the entry level to sustain the operational efficiency of UCBs in a competitive environment and evolve measures to strengthen the existing UCB structure particularly in the context of ever increasing number of weak banks, To align urban banking sector with the other segments of banking sector in the context of application of prudential norms in to and removing the irritants of dual control regime and RBI has extended

the Off-Site Surveillance System (OSS) to all non-scheduled urban co-operative banks (UCBs) having deposit size of Rs. 100 Crores and above.

Cooperatives and the Proposed Sustainable Development Goals

Cooperatives are highly relevant and important in the realization of the proposed sustainable development goals. This brief highlights the actual contribution of cooperatives to the twelve SDGs proposed by the High-Level Panel of Eminent Persons in the Post- 2015 Development Agenda in their report of 2013. Though the specific goals, targets and indicators will not be agreed upon until September 2015 as part of the ongoing process, these twelve proposed goals reflect the range of themes that will likely be covered by the SDGs.

Sustainable Development Goals

1. End poverty.
2. Empower girls and women and achieve gender equality.
3. Provide quality education and lifelong learning.
4. Ensure healthy lives
5. Ensure food security and good nutrition.
6. Achieve universal access to water and sanitation
7. Create jobs, sustainable livelihoods and equitable growth.
8. Manage natural resource assets sustainably
9. Ensure good governance and effective institutions
10. Ensure stable and peaceful societies.
11. Create a global enabling environment and catalyse long-term finance.

Merger/amalgamation of UCBs

The Reserve Bank adopted a multi-layered regulatory and supervisory strategy aimed at the merger/amalgamation of viable UCBs and the exit of unviable ones for the revival of this sector. This initiative led to a gradual reduction in the number of UCBs. As a result, the total number of UCBs at end-March 2013 stood at 1,606 as against 1,618 at end-March 2012.

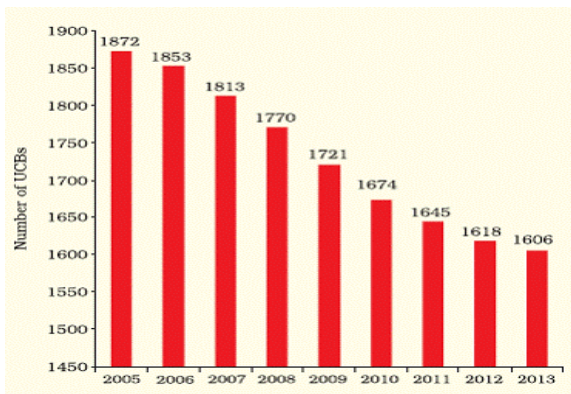


Fig.2 - Total no. of UCB at the end of March 2013
(source: www.rbi.org.in)

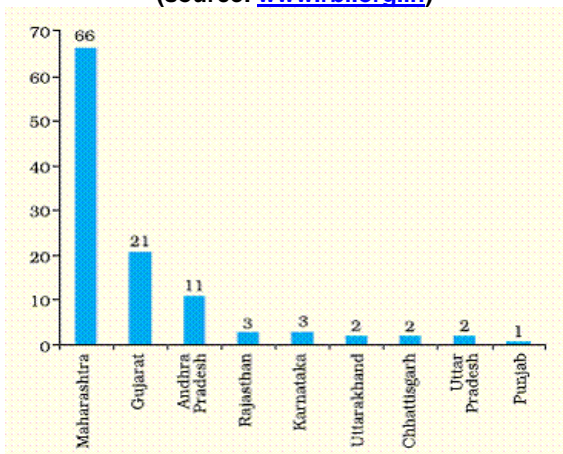


Fig. 3- State wise no. of mergers of UCBs

Implications for UCBs
The provisions of the Constitution (97th Amendment) Act, 2011 would bring uniformity with respect to all the State Co-operative Societies Acts. Some of the implications of the amendments on the functioning of UCBs are: [4]

1. **Supersession of Board:** At present, many of the State Co-operative Societies Acts have provisions to suspend/ supersede the Board of UCBs for a maximum period of five years. The period will be restricted to six months. However, the requirement that Registrar of Co-operative Societies (RCS) would supersede the board of a UCB at the request of the Reserve Bank will continue. The Board of a multi state co-operative bank, can be superseded for a period of five years as provided under section 36AAA of the Banking Regulation Act, 1949 (AACS).
2. **Co-option of professional directors:** Since the Act provides for co-option of two professional directors having experience in the field of banking, management and finance, it will bring professionalism in the working of UCBs. The Reserve Bank had earlier prescribed that UCBs should have at least two professional directors on their Boards. Amendments to the State Acts in this regard will make the RBI's prescriptions enforceable under law.
3. **Appointment of an auditor:** The Act provides for audit by a qualified auditor appointed by the general body of the co-operative society from a panel of qualified auditors approved by the State Government. As per the existing provisions in the

State Co-operative Societies Acts, the appointment of an auditor is being done by RCS.

4. **Election of the Board:** Since the Act provides that election of a Board shall be conducted before the expiry of the term of the Board, the elections to the Board of UCBs will not be postponed indefinitely.
5. The Act would also increase participation by members in the activities of the UCBs as the minimum requirement for attending meeting and utilising the services by members has to be provided by the States by law.

The amendments are expected to result in improved functioning and performance of urban co-operative banks.

Barriers

1. Poor Performance and Loss of Financial Viability.
2. Lack of Professionalism in Management.
3. Excessive Government Control and Political Interference.
4. Lack of Good Leadership.
5. Loss of Focus on the Prime Objective and Growing Alienation of Members.
6. Poor Board-Management Relations.
7. Lack of Performance-based Reward Systems and Poor Work Environment.
8. Strategies are not competent to the private sector players.

Conclusion

Now, it is obvious that co-operative banks have great significance in sustainable development. exclusive of the assistance of co-operative banks, many of public in India would be deficient of the much needful financial support. Co-operative banks take vigorous part in local communities and local development with a stronger obligation and communal responsibilities. cooperative banks are finest way for taking banking to ordinary people, unbanked public in urban and rural areas. Banks presence in the structure of the country is essential to bring about development, which may be is the best reason for fostering them and strengthening their base. Cooperative banks will definitely be at the top because they are people oriented. UCB- Urban Co-operative Bank is vital for the sustainable development of India. Weaker sections are also being financed by these banks. Co-operative bank needs current and future development in IT (information technology). It is essential for the cooperative banks to give ample attention for maximizing returns on resources through valuable services.

Regardless of their irresistible importance in India's rural economy, the majority of the co-operatives are, however, not financially viable due to a variety of reasons, which are discussed in this paper as drawbacks and suffer from many other internal and external constraints. It can be expected that they will learn from its past shortcomings and will try to establish sound network in the banking for sustainable growth and development of the economy.

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Remarking

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