

## SUGGESTIONS TO IMPROVE THE PERFORMANCE OF URBAN CO-OPERATIVE CREDIT SOCIETIES IN MAHARASHTRA

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### Abstract:

*Co-operative Credit Societies are governed by the provisions in the Maharashtra Co-operative Societies Act, 1960 and Maharashtra Co-operative Societies Rules, 1961. Different amendments have been made in this Act and Rules from time to time. Co-operative department of the state is held responsible to co-ordinate the operations of co-operative sector. In respect of credit co-operative societies, the co-operative department plays a role of three deities' viz. Bramha, Vishnu and Mahesh. But the present picture shows that the department has played up till now only a single role i.e. Bramhas role of creation of societies. Other two roles i.e. control and punishments of Vishnu and Mahesh respectively, have not been observed properly.*

### INTRODUCTION

Credit Co-operative Societies are seen as alternatives for money lenders. Limited area and easy accessibility are the important features of any credit co-operative society. Confidence in the managing committee of a credit co-operative society is the force behind deposit mobilization. But this basic concept has started to decline from the minds of public. Credit co-operatives are expected to deal with their members only. But the past record shows that many of these institutions have been caught in trouble because of their large scale dealings with non-members. The capital adequacy is the back bone of any financial institution. Rule 35 of M. Co.-Op. Rules, 1961 restricts the liability of any co-operative institution upto 35% of the net worth. But till today many credit co-operative societies have been found in breaching this provision. The merger of different units is the call of present economic situation. No one mulls over, for uniting the different co-operative units, even after retaining their separate identity, to cope up with the present situation. If provisions of sections 78 to 88 of M. Co.-Op. Act, 1960, which provide sufficient protections to depositors, would have been properly implemented and the culprit would have been punished at appropriate time, the present picture would be different. Unwise spread of large number of credit co-operative, has also created hurdles in the effective implementation of provisions of law by the concerned authority. The transparency and confidence, the two sides of the same coin, do not exist in the present co-operative activities.

There are many examples in which the unwanted elements have lured the public through credit co-operatives for deposit collection and subsequently fled away leaving the depositors in wilderness. Farmers and middle class, in the rural areas, even today, keep their savings in the credit co-operative societies, because of the large expansion of such credit societies. But sudden closer of these societies have created havoc in the lives of many people. When the co-operative department made the study, it was found that around ten thousand of the twenty five thousand credit societies in the state are either bogus or have closed their activities. Many of them were registered by the political leaders to gain votes in elections of D.C.C. Banks etc.

The basic objective of any credit co-operative society is to empower the common man by lending, based on his ability. In the initial period, these societies were run as per their prescribed goals. But in the

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subsequent period they started to use the funds of the society to honour the requirements of committee members and to fulfill the objectives of political leader. They did not consider the viability object for which the funds were disbursed. Similarly while recruiting the staff for the credit society; relations played an important role, sidelining the qualifications and experience. So, by the passage of time, because of inefficient management and enlarging pile of irrecoverable advances, these societies started to become weak and sick. This led to increase in losses due to increase in establishment expenses on one hand and declining recovery and mounting bad-debts on other hand.

### **SUGGESTIONS TO IMPROVE THE PERFORMANCE OF URBAN CO-OPERATIVE CREDIT SOCIETIES IN MAHARASHTRA:**

#### **1 Suggestions for Creation of separate Law for UCCS –**

Out of 25000 registered UCCS in Maharashtra upto 31st March 2011, 15600 UCCS were found in operation. New and unexpected challenges have forced other UCCS either to stop their working or to close the business. Today there is a need to create separate Act for UCCS to cope with challenges and to suit the working of UCCS. Modified Act should provide for creation of separate controlling mechanism on working of UCCS like that of RBI.

#### **2 Suggestions for Creation of ‘Stabilization Fund’ –**

Many UCCS in the state are facing liquidity problems. There is a need to create ‘stabilization fund’ for UCCS to overcome this short-term problem. The controlling body established as above should supervise on statutory liquidity reserve and cash reserve maintained by UCCS.

#### **3 Restrictions on Loans to Committee and Their Relatives –**

Due to unbound distributions of loans to committee and their relatives in UCCS, large number of UCCS in Maharashtra, have been trapped in trouble. These societies do not meet the timely demand of depositors. That leads to crop-up wrong message in the minds of public. To avoid this situation there is a need lay down some restrictions on loans to committee and their relatives.

#### **4 Suggestions to Make Strong Base of Own Fund –**

Many UCCS do not care for increasing their own funds. Share capital and reserves are the source of own funds of society. Many societies fail to increase their share capital and reserves in required proportion. Own funds enable the society to withstand unexpected adverse taking place in future. It helps to create strong capital base by raising more and more share capital and reserves of the society.

#### **5 Suggestions to Fix Appropriate ABR and ALR –**

To improve the profitability of credit society management should take proper care to fix appropriate rates of ABR and ALR. Appropriate margin between ABR and ALR, will help to increase the turnover of the society. These rates are fixed by considering the nature of operational area and ability of society to bear the risk. As far as possible these rates are to be fixed on scientific basis.

#### **6 Permission for Investment of Funds in Urban Co-operative Banks and Nationalized Banks –**

At present, UCCS are allowed to invest their surplus funds in D.C.C. Banks as per byelaw No. F-1-13(c). But it has been observed that many D.C.C. Banks in the state are facing the liquidity problems. Due to which investments of societies have been blocked for many years. To resolve this problem, UCCS should be permitted to invest their surplus funds in sound urban co-op. banks as well as in nationalized banks.

#### **7 Transactions in UCCS should be Restricted to ‘A’ Class Members –**

At present there is no provision in UCCS to give compulsory membership to depositors. Many UCCS have disbursed loans only by giving nominal membership to borrowers and guarantors. These persons do not have the right of information U/S 30 and Rule 32. Complaints from such persons are increasing day by day. So there is a need to provide the membership to depositors and UCCS should be

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restricted to conduct their translations only with 'A' class members.

### **8 Appropriate Training to Employees and Members –**

Government is planning to reduce controls on working of societies and to make them self reliant. If it is to be done, employees of UCCS should be well trained and members of society should be well versed with the operations, for smooth and efficient running of the society. So there should be appropriate training facilities to employees and members of the society.

### **9 Appointment of Experts on Managing Body –**

UCCS should be forced to appoint at least two experts from the field of accountancy, audit, banking, finance, commerce or economics having minimum 10 years experience in the respective field. If it is not done so, by UCCS on their own, the Registrar should make such appointment.

### **10 C.D. Ratio should be as Per RBI Circular –**

RBI in its circular dated 17th Oct, 2012, has laid down the norms of C.D. Ratio for co-operative banks. It states that while calculating C.D. Ratio, 75% of paid-up capital, shall be taken in to consideration. The same norms shall be applied to calculate the C.D. Ratio of UCCS.

### **11 Members of State Cabinet should be barred from Committee Membership of UCCS –**

As per the present provision U/S 73(16) the member of state cabinet cannot become the committee member of society. This provision should not be withdrawn.

### **12 Norms of Loans should be strictly adhered to –**

Loan sanctioning process must be clean and transparent. Depositor money is used for disbursing loans. Committee should take appropriate care that the depositor's funds are not in stake because of faulty loan policy. Therefore, each step should be carefully scrutinized, without violating norms of loan policy. Many UCCS have lost their financial stability, only because non observance of norms of loans.

### **13 Proper Supervision on Utilization of Loan Amount –**

It has been observed that many borrowers have been utilizing the loan amount for the purpose other than the object for which it is sanctioned. This has created problems for loans recovery. Proper supervision on utilization of loan by society; will help to reduce the overdue amount of loans within society.

### **14 Recruitment in UCCS Should Have Proper Approval from Commissioner of Co-operative –**

Co-operative banks submit proposals of recruitment to commissioner of co-operative for approval. It has to show that the present employees have excess working hours over 1800 in a year. This rule should be also made applicable for the recruitment system in UCCS.

### **15 Merger of Weak UCCS with Economically Sound UCCS –**

The state government should start merging weak UCCS with sound credit society within the area, by enforcing the power under section 157 of M.C.S. Act, 1960. For this purpose it can relax provisions of section 17 and 18 of M.C.S. Act, 1960 and Rules, 16 and 17 of M.C.S. Rules, 1961.

### **16 Submission of Annual Statements within Specified Time –**

Each co-operative society in the state is required to submit its annual financial statements within 60 days from the end of financial year U/S 61 of M.C.S. Act, 1960, to the Auditor for audit work. But majority societies found failing to observe this provisions. To minimize irregularities within UCCS, it is advised to submit their records to audit work within time specified.

**17 Separate Body to Curb Misdeeds in UCCS –**

To check indiscipline and unfair means in UCCS, the government should form a separate body, to monitor the transactions in UCCS. Present provisions of punishment of culprits in UCCS should be reviewed and revised to suit the present needs.

**18 Banking Permits to Sound UCCS –**

Malegaon committee formed by RBI to give suggestions has recommended that the sound UCCS should be allowed to carry banking transactions and should be given permit for that purpose. These co-operative credit societies play an important role in the rural areas where banking facilities are not made available. To mobilize the rural savings and to cater the needs of rural public, sound UCCS, should be given banking permits in those areas.

**19 Membership of UCCS to Depositors –**

At present there is no provision in co-operative Act, to give membership to depositors. Many depositors are non-members of society. Due to this they are devoid from the voting rights. When the borrowers has voting rights, why not depositors? So the need of the hour is to give compulsory membership to depositors of society.

**20 Cancellation of Registration of Bogus Credit Societies –**

Even though as per government record, around 25000 co-operative credit societies are registered in state, only 15600 co-operative societies, seem functioning. It seems that other credit societies have either stopped functioning or bogus. These societies seem registered for unknown reasons. So registration of these societies needs to be cancelled.

**21 Maintenance of Liquidity Reserve Should be Made Compulsory to UCCS –**

At present co-operative Banks are expected to maintain statutory liquidity reserve (SLR) at 25%. Similar system should be made applicable to UCCS. Initially it may start with less rate than the banks rate, which may be changed according to the requirement.

**22 Suggestions to Apply Modern Technology –**

UCCS are required to install various modern technology for speedy and efficient operation of their day to day transactions. They include –

- a. Use of EDP system for the accounting work.
- b. Use of proper MIS system.
- c. Installation of appropriate alarm system.

**23 KYC Norms Should Applicable –**

KYC norms necessary for consumer identification shall be made applicable to UCCS. Co-operative department should issue circulars in this direction to bring transaction in UCCS in legal channel.

**24 Suggestions to publish Names of UCCS –**

D.D.R. of respective district should publish the lists showing names of UCCS registered in their jurisdiction, along with their addresses, their registration numbers, status of audit, names of secretary/chairman with their phone numbers and so on. This will help to contact the society or chairman/secretary at appropriate time.

**CONCLUSION:**

Today the activities of honest co-operative institutions have also come under the cloud of suspicion because of few unwanted, powerful elements operating in the co-operative movement. So there is

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a big challenge for the govt.to bring back the lost glory of the movement by removing the doubts from the minds of public to give boost to the co-operative movement. So there is a urgent need to introduce and implement the above suggestions in urban co-operative credit societies in Maharashtra.

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