CHAPTER – VII

PROBLEMS FACED BY COOPERATIVE BANKS IN
FINANCING POWERLOOM INDUSTRIES

During the study period cooperative banks had sanctioned Rs. 10 crore in 2009-10 for functioning and improving the prevailing of the power loom units in Bhiwandi City. But the condition of disbursement of loan to the power loom sector was not adequate. They are still surviving for their existence. Their condition is worsening during the study period.

Power loom sector has tremendous capacity to generate employment opportunities for the economic development of Bhiwandi City but co-operative banks are reluctant to provide further finance to the unauthorized power loom sector in Bhiwandi city.

Short term co-operative banks prefer to utilize their deposits in investment rather than sanctioning loans and advances because of the risk of NPA. Among the all long and short term co-operative banks the number of PACS is high in loss making. The NPA to loan outstanding ratio is also highest in PACS. So their sustainability is doubtful.

Members of a cooperative sector have little risk, which has upsides and downsides. Cost of ownership also include costs related to the right to residual earnings, in particular the costs of bearing risks associated with the enterprise these are the factual results shown by researcher Hansmann. Because of the cooperative’s 75 intergenerational endowment relaxes cooperative societies in a very particular
situation are in relaxing situation regarding financial activities as risks are borne in the first instance.

Profits are added to the endowment in cooperatives this is the one of the reason that members of cooperatives often also do not receive high rates of remuneration on their investment. In short, members do not face any downside or upside risk result of the buffer function provided by the endowment in it. In some countries, members carry risks beyond their membership contribution and the membership in cooperatives is prestigious for them, In India also cooperative movement is seen as political power zone. In Switzerland and Germany, members of cooperative banks are personally liable for losses, subject to a limit that exceeds the value of their member shares.

The cooperative financial institutions are facing many problems generated by many reasons which have restricted their ability to ensure smooth flow of disbursement of credit in scheduled time. Limited ability to mobilize resources, Low Level of recovery, High transaction cost, fluctuation of rate of interest for long time loans are some of the fearing factors in the growth of cooperatives. Cooperative legislation and administration is very complicated and different definitions are coming as outcome of various local languages, so government interference has become a regular scene. In cooperative institutions many instructions are given in verbal form and the documentation is done about very few instructions leading to the confusion.
OTHER PROBLEMS FACED BY CO-OPERATIVE BANKS

Slow Pace of Growth in Co-operatives:

Despite its rapid growth, the overall progress of Co-operative Movement is not showing satisfactory results as demographic division is more. Some of the principal road-blocks are summarize below:

**Government Interference:** The Co-operative Movement in India was initiated in 1904 under the guidance of British government. Right from the beginning the government has adopted the policy of patronizing the cooperative Movement. The government inherent interference is unavoidable element in the working of these institutions.

As a result people’s enthusiasm for the Movement is in decline phase. After Independence in 1947 the attitude of the government did not show policies framed out by Indian National Congress. Power loom sector was not given proper importance that it deserved in any 5 years Plan. Even today quite often co-operative societies are imposed to appoint people as per the wish of the politicians in that sector and these outsiders are having very few understanding of the basic movement ideology. The risk of it is cooperative institute turned out to be a State-driven institute.

**Mismanagement and Manipulation:** The essence of the Co-operative movement is that it gives the farmers the status of shareholders and assures them good agricultural, educational and other facilities to raise their standard of living. Co-operative institutions are small in size and owned by initially very few members. If they try to increase members it will turns out to be mismanaged. Over the years, this truly democratic nature of this movement is corrupted and farmers with larger stake try to become more powerful which is losing the basic idea behind the cooperation.
Co-operatives cannot think of the dynamic growth as private retail chains in the country. As business houses cannot be run on bureaucratic decisions same way board members are also not capable to take quick, appropriate and member-cum-customer friendly decisions. Traditional type of business of co-operatives must be guided by socio-economic professionals.

**Lack of Awareness:** objectives of the Movement, rules and regulations of co-operative institutions is not the one day or one month study. So many social workers devote end People are not wire life for constructing the cooperative structure and their experience gives success path to the movement. There way of functioning must be written out first and then it is to be framed out in the legal horizon and the law must be amended by the government. To do all this we must be aware about the basic structure in totality.

Unfortunately, no special efforts have been made in this direction. People look upon these institutions as means for obtaining facilities, to design ones social image and concessions from the govt. Lack of cooperative education, ambitious local leders and their politics, caste base voting pattern of the elections to the offices of co-operative societies, bureaucrats attitude about the total sector, less freedom to lower rank officers for their good policy decisions are some of the hurdles in spreading the correct information about the Co-operative Movement and in educating the members about its true character. It has been observed that a large number of members are not aware of the existence of byelaws, their rights and duties and the roles of office-bearers and management staff of the co-operative. Studies have shown that almost 90-92% of members of PACS in Uttar Pradesh have never seen copies of the byelaws of their own co-operatives.
Inadequate Role of Promotional Institutions: To create awareness among co-operative members and general public, the promotional institutions like the National Co-operative Union of India and the state Co-operative Unions/Federations must take a stronger lead to implement member education programmes. Field studies have shown that the educational instructors and field projects are getting ineffective due to:

- lack of programming for them;
- lack of funds;
- inadequate supply of support material; and,
- lack of trainers training programmes.

At present 40 field projects do not have any funds to carry out field activities, nor do they have any support material and work programmes. Also, much of the responsibility rests with the co-operatives themselves. They need to allocate some funds for the education and orientation of their members. The scope of central-level co-operative education fund needs to be revisited so that interested co-operative institutions and specialized agencies are able to generate training and educational materials.

Misconceived Concentration of Power: Although cooperatives are democratic business institutions, yet the distribution and exercise of power at the Board level is a matter of concern. In general, the principal task of the Chairman of the Board is to conduct the meeting and assist in formulating logical business proposals and take appropriate decisions. The chief executive of the cooperative is given the task of implementation of such decisions. In many cases it has been found that the Chairman, due to self-interest, assumes both roles as leader of the organisation as well as that of the executor of the decisions taken. They
become executives reducing the chief executive/managing director to execute the orders from the Chairman. Such a situation generates manipulation and serves self-interest.

In a large number of small cooperatives, Chairmen are the bosses and the managers are mere clerks. To insulate the cooperative from such a situation, a careful study of byelaws is of great relevance where the rights and duties of chairmen and managers are clearly defined. It becomes necessary for cooperative enterprises to develop a proper chart of duties.

**It is concluded that** Co-operative Banks are vast problems due to unorganized powerloom sector in different parts of India. Co-operative Banks are battling with these problems with new regulations and supervisory norms which are conditional as per the RBI policy.