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या संस्थेचे त्रैमासिक

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# Challenges faced by the cooperative banks to compete with commercial banks in rural areas of Maharashtra state

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## Abstract:

Cooperative banks play a very important role in the Indian economy especially in rural areas of the country. Maharashtra state has its own history of cooperative sector development. Today after so many years of independence a major part of the population is living in rural areas of the country. Cooperative banks are the main center of mobilizing savings and making available the required finance in rural areas of Maharashtra. But in the past few decades the scenario has changed. Commercial banks are growing very fast compared to cooperative banks. It is shown in the data published by the RBI that the share of cooperative banks is reducing year by year. Cooperative banks are lacking behind in competition. In this research paper we will study the challenges before the cooperative sector banks.

**Key Words:** Cooperative Bank, Rural Banking, Commercial Bank

## Introduction:

Banking sector plays a critical role in the financial health of a nation. The economic development of a country mostly depends upon the efficient banking system. India's economic growth is largely supported by banking sector. Indian banking system has undergone significant transformation following financial sector reforms. Indian banking system is adopting best banking practices, new technology and customer friendly atmosphere with a vision to strengthen

their performance. They transfer funds from regions where it is available in plenty to where it can be efficiently utilized the distribution of funds between regions pave the way for the balanced development of the different regions. They are thus catalytic agents that create opportunities for the development of the resources to speed up the tempo of economic development. Especially, the rural artisans, cottage and small industries, small farmers and agricultural workers are in urgent need of credit. Banks can provide credit facilities through expansion of their branches to rural areas.

## Objectives of the Research:

- ☐ To study the benefits of Cooperative Bank.
- ☐ To identify challenges and problems faced by the Cooperative Bank.
- ☐ To compare the growth of Commercial Banks with Cooperative Banks in rural areas.

## Research Methodology:

This paper is mainly based on the extensive research for which information has collect form secondary sources (Books, Online publications, Annual report of the Bank, Article and Research paper, Publications of RBI and NABARD)

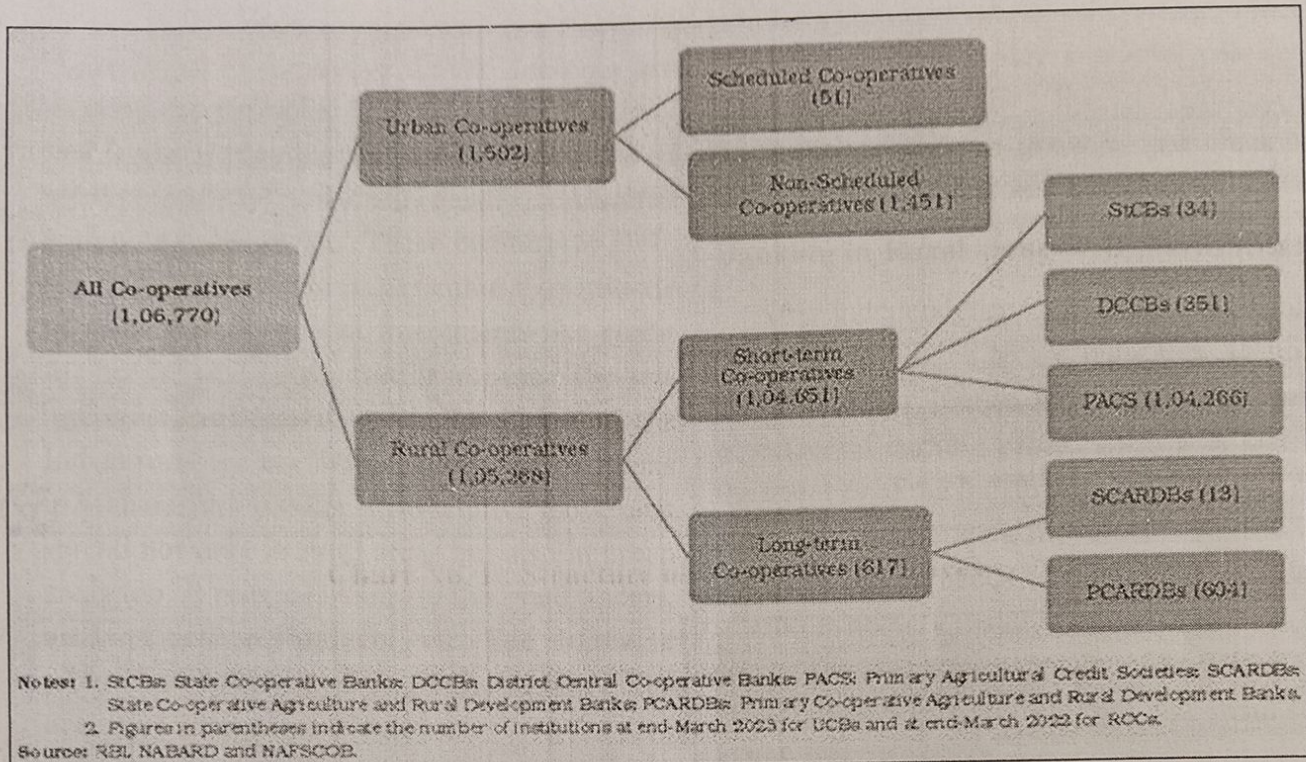
## Classification of Banks in India:

The Indian banking sector is broadly divided into two categories one is scheduled and another is nonscheduled banks. All Indian banks which are included in second schedule to the RBI Act 1934 are known as scheduled banks. The banks





Chart No. I : Structure of Credit Cooperatives



in India are also categorized into five different groups according to their ownership and/or nature of operations. They are as follows.

1. Nationalized banks,
2. Private sector banks,
3. Regional Rural Banks,
4. Co-operative banks,
5. Foreign banks.

### Co-Operative Banks :

A co-operative bank is a financial entity which belongs to its members. Where the members themselves are at the same time owners and customers of the bank. Co-operative banks are often created by peoples belonging to the same local or professional community or sharing a common interest. Co-operative banks provide their members wide range of banking and financial services such as loans, deposits, banking accounts etc. Co-operative banks are deeply rooted inside local areas and communities fulfilling their financial needs. They are involved in local development and contribute to the sustainable development of the communities. It

reaches banking access in areas or markets where other banks are less present. They support SMEs, farmers in rural areas, middle or low income households in urban areas. They play an important role on the economic growth in the countries in which they operate in and increase the efficiency of the international financial system.

### Structure of Cooperative Banking in Maharashtra :

There are three level banking structures in Maharashtra cooperative banking sector. The State Co-operative Bank, which is at the top of the credit structure, is also called as the Apex bank. Its functions are to co-ordinate and to guide the working of the Central Co-operative Banks and to arrange re-finance facilities for them. District Central Co-operative Banks, there are 31 District Central Co-op. Banks in Maharashtra working with primary object to provide credit requirements to Primary Credit societies. District Central Co-operative Banks operates as the intermediate between State Co-operative Bank and Primary Agricultural Co-operative Societies.





Primary Agricultural Credit Societies (PACS), at the grass-root level there are Primary Agricultural Co-operative Credit Societies are working for the uplift of the rural poor people. PACS play a prominent role in disbursement of short term agricultural credits mainly for seasonal agricultural operations. These institutions gives strengthen to the various agricultural operations through necessary input instruments like credit for seeds, pesticides, fertilizers, etc. The co-operative institutions are the backbone of the Indian rural society. Urban Co-operative Banks in Maharashtra (UCB) Co-operative movement spread not only in rural areas but also in urban areas too. It provides loans to the small traders, artisans, self-employment, etc. The following table shows the progress of the Primary Co-operative Banks in Maharashtra.

#### Scheduled Commercial Banks (SCB):

Commercial Banks are financial institutions who provide banking services to individuals, businesses, and organizations. The main objective of the commercial bank is to earn profit. They are profit-oriented entities that working on a commercial scale. Commercial banks which

are included in second schedule to the RBI Act 1934 are known as scheduled commercial banks. Commercial banks play a crucial role in the economy by facilitating financial transactions, promoting economic growth, and channeling funds between savers and borrowers.

#### Banking in Rural areas of Maharashtra :

After independence in the beginning banking facilities are limited to the big cities. There are private sector banks which run with prime objective of earning profit. Even it is fact that the majority of the Indian population lives in rural areas. The cooperative movements started with the aim to fulfill needs of the people of weaker section in society mainly live in rural area. The cooperative banking is developed to provide the financial services to agriculture and small scale industries.

Now a day the pattern has been changed in rural economy. The commercial banks are focusing more on the rural areas. They fully equipped with latest technology and qualified management and human resource. It makes difficult to cooperative banks to even survive in cut through competition. Agriculture is the

**Table No. I : Share in Credit flow to Agriculture**

	Rural Credit Co-operatives	Regional Rural Banks	Commercial Banks
1	2	3	4
2016-17	13.4	11.6	75.0
2017-18	12.9	12.1	74.9
2018-19	12.1	11.9	76.0
2019-20	11.3	11.9	76.8
2020-21	12.1	12.1	75.8
2021-22	13.0	11.0	76.0
2022-23	11.0	11.2	77.8
<b>Source:</b> Data submitted by banks on ENSURE portal of NABARD.			





biggest sector in rural economy of India. As per below given Table No. I share of the credit flow to agriculture by cooperative banking is reducing year by year at the same time the share of commercial banks shows increasing trend. This table clearly shows the cooperative banks are lacking behind in the competition with commercial banks. There are many challenges faced by the cooperative banks which are discussed below.

### Challenges before Cooperative Banks:

**Financial Scams-** Large number of big Cooperative banks have failed due to financial scams. Examples such as PMC Bank, Maharashtra State Cooperative (MSC) Bank have failed due to financial frauds.

**Board Members as borrowers-** Cooperative bank board members can borrow from the banks, unlike the commercial bank board members. These board members are full control over the bank. It has been seen that they generally misused their borrowing powers to siphon off large sums of money, resulting in major cooperative bank failures.

**Political Connivance and corruption-** The board of the cooperative banks are mainly dominated by the local politicians. The politicians connive with local private financiers and real estate players to issue illegal loans and aid their black money transactions.

**Financial Vulnerabilities-** Cooperative Banks have improper management. Hence they face financial vulnerabilities such as low capitalization, high levels of NPAs, low Capital Adequacy Ratio (CAR).

**Competition with big scheduled commercial banks (SCB)-** SCB are having power of qualified personnel, huge capital base, advanced technology, payment gateways, hence have posed challenges to the Cooperative bank growth in terms of deposit and lending capabilities.

**Regulatory Challenges-** The dual control of cooperative banks- RBI in banking functions and the state government in management functions. It has created regulatory ambiguities and uncertainties, in proper monitoring of cooperative banks.

**Improper audit mechanism-** Audits conducted by state department officials are irregular and lack comprehensiveness.

**Infrastructural Challenges-** The cooperative banks face logistical challenges like sub-standard software and sub-standard booking keeping systems, which has made these banks susceptible to frauds.

**Governance Challenges-** The small size, scattered nature and the lack of a unified brand and policy for cooperative banks makes it difficult for the watchdogs to effectively govern these banks.

### Conclusion:

Rural areas development is very crucial for overall growth of Indian economy. As after so many years of independence even today more than half of the total population lives at rural areas. On the other hand we know the importance of the cooperative banks which operate on not only with object of profit earning but for collective growth of the members and society. The cooperative bank are need to change their attitude and management to stay in competition with commercial banks. This is the time to work on uniformity and centralize governance and regulation of the cooperative banking sector. Also there is need of updating services with standard quality which focus on customer requirements. There is lot of scope for further study in the area of reform of the cooperative banking sector especially in rural areas.

### Suggestions :

- Adopting and implementing latest technology





- Training to the employees for rendering quality and standard of services
- There is need of centralized regulating authority to built uniformity in operations
- Need to develop SOP for operations and auditing
- Permit other services such as Investment, Share Broker, Insurance, etc.

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