

▣▣▣▣ CHAPTER NO - 5 ▣▣▣▣

OBSERVATIONS AND SUGGESTIONS

- 5.1 Introduction.
- 5.2 Observations.
- 5.3 Suggestions.
- 5.4 Conclusitons



CHAPTER NO - 5

OBSERVATIONS AND SUGGESTIONS

5.1 INTRODUCTION:-

This is the last and concluding chapter of the present study summarising in brief the main observations of the study that has been undertaken which throw light on the working of Urban credit co-operative societies as well as the problems such societies have to tackle with. The present chapter also includes some of the important suggestions to improve the overall working of such societies and also to overcome the surmounting problems. It is worth while to mention over here that the suggestions have been made in the light of observations of the study. The observations and the findings are based on the analysis of data collected through the scheduled questionnaire and personal interviews with the members and Directors of the various societies under study and also from the published reports of these societies and records with the Assistant Registrar of co-operative societies for Khandala Taluka. The study is based on the analysis of workings of the UCCs in Khandala Taluka. This chapter is, therefore, presented in two parts

1. Observations
2. Suggestions & Conclusions

5.2 OBSERVATIONS:-

Following are the important observations of the study throwing the light on the performance of societies under study as well as the problems they have to face in their day to day working.

A.SOCIETIES & MEMBERSHIP:-

1. There are at present 18 UCCs & excluding the Urban Banks and Salary earners societies of these 8 societies were considered for the purpose of study. The study is confined to the working of these 8 societies for the period of three years i.e 1989-90 to 1991-92.

2. There has been increasing trend noticed, in the number of societies established in the Taluka, indicating the popularity such societies gaining in the Taluka. These societies are becoming more popular and come to be regarded as peoples movement.

3. It is interesting to note that the Khandala Taluka with its villages does not come under the category of urban area. It is the rural area and therefore members of the societies are from the rural areas.

4. Though such societies are meant for the members other than farmers, these societies are composed of farmers too.

5. An increasing trend in the number of total members of such society is noticed. Nearly 12 to 15 percent of the total members of such societies belong to scheduled caste and Tribes. More and more people belonging to the backward classes are becoming the members of these societies. Which is an indication of the popularity of such societies with the people.

B. CAPITAL:-

1. The paid up share capital of such societies is made up of shares held by the members, therefore, the increase in the size of membership results in the increase in paid-up capital. Hence the societies should increase its membership to get more funds for their operations.

2. It has been observed that, it has been the practice of these societies to credit 5 to 10 percent of the loans sanctioned to their members against the paid up share capital.

C. RESERVES:-

1. The societies are required to create statutory reserves by transferring 25 percent of profit to it as per the co-operative laws.

2. Some societies, as has been observed, didnot

follow this, on account of the lack of awareness on the part of the societies of the legal provisions. Many of the societies under study could not create statutory reserves in view of their working losses.

3. The statutory reserve so created is to be held with the DCC Bank which is non-refundable on which the societies do not get adequate returns. To that extent the working capital of these societies is adversely affected which limit the loaning operations of the se societies.

4. It has also been the practice on the part of managing body (i.e. panch committee) of some societies to collect donation for building fund more or less on compulsory basis from their members. While sanctioning the loan applications the members are asked to contribute towards the building and other funds.

D. WORKING CAPITAL:-

1. The working capital has a different connotation in respect of the societies of such types because it includes the total funds in the form of paid-up share capital, reserves, deposits and borrowings.

2. Inadequacy of working capital is a major problem of these societies. Statutory reserve to be held

- with DCC Bank ^{on non}-refundable account, paucity of deposits, apathy on the part of DCC Bank to lend more to these societies, mounting overdues, working losses etc. are the major factors for the inadequacy of working capital of such societies.

E. DEPOSITS:-

1. Deposits constitute the most important item of working capital of these societies. These societies accept the deposits on saving account, fixed deposits and daily deposits on which they pay interest at the rate of 6 to 12 percent. It has been observed that though these societies can pay interest at the rate more than the rate of interest of urban banks still these societies are not able to attract and mobilise more deposits from the members. This is mainly because, as has been observed in the personal interview, the deposits of such societies are not covered under 'The Deposit Insurance Guarantee Scheme', and secondly these societies could not create confidence among the members.

2. Inability of the societies to pay the deposits in time to their members also seriously affects the working of these societies. This inability is on account of

- a) non-recovery of loans in time and overdues.
- b) Non availability of cash credit facilities from DCC Bank.

3. The societies have to face stiff competition from commercial and nationalised banks and also from co-operative banks, in collecting the deposits. It has also been observed that some times more than one society operates in the same area within the prescribed population limit for such society.

4. The study also points out that nearly 45 to 50 percent of the total deposit of these societies is on fixed basis on which societies have to pay interest at the rate of 12 to 14 percent. It charges interest at 18 percent on the loans given therefore, the margin of fixed deposit is less. The rate of interest on savings account the daily & monthly deposits is 6 to 8 percent on which the margin is more.

5. No incentives in addition to salary, is given in some societies to pigmy agents to collect daily deposits.

F. LOANS + DISTRIBUTION, OUTSTANDING RECOVERY & OVER DUES:

1. An increasing trend has been observed in the amount of loan outstanding year after year of all the societies (Refer Table No.4.14)

2. The proportion of loans taken by the members

for unproductive purposes is relatively high. It has also been observed that the members have taken the loans for agricultural purposes too.

3. The interest rate charged on loans varies among the various societies under study.

4. No proper care has been taken while sanctioning the loans to the members regarding the purposes for which loans have been taken. The Board of Directors have not carefully looked in to the reasons for loans demanded by the members, as a result, as has been observed, the loans have been taken for unproductive purposes resulting in the overdues. This affects the working of the societies particularly loaning operations.

5. It has also been observed that many societies immediately after registration started giving loans to their members, even before laying down the rules procedures & criteria for the distribution of loans. This too has resulted in to increased amounts of loans outstanding and overdues.

6. No proper scrutiny of the loan applications on the part of Board of Directors While sanctioning loan applications. It has been observed that the loans were sanctioned to the members without considering the rules and the resulations and other formalities for the

distribution of loans in order to gain political favour and advantage. Which has also resulted in to mounting overdues and led to the societies in to financial difficulties.

7. It has also been observed that in many societies number of loan applications were put forward just to favour a particular member enabling him to take more loans.

8. Loan Registers and Register of Guarantees etc. were not properly maintained.

9. No follow-up procedure for the utilisation of sanctioned loans and recovery of loans was followed by the Board of directors .

10. Many members have taken fresh loans for the repayment of loans earliar taken.

11. The proportion of overdues to the loans outstanding is exceptionally high i.e nearly 15 percent because of which societies find it difficult to carry on their operations. It is also interesting to note that the Directors them selves are the defaulters in some societies, not only that, many members have taken loans from their societies with the intention of non-repayment

of such loans, even though they had the repaying capacity. Lack of initiative on the part of chairman, Directors & Secretary in the recovery of loan is also noticed.

12. Though the societies have the right to recover the overdues according to section 101 of co-operative Act. many societies do not avail of this, in view of the fact that the procedure is both costly affair and time consuming. These societies were also not inclined to take legal actions against the defaulters with the fear that it might result in to strained relations between the Chairman and the members and ultimately, will adversely affect the reputation of the Society. Chairmen's personal interest is more important than the societies interest because of which they do not go for the legal actions for the recovery.

G.. BORROWINGS:-

1. The only borrowing source available to the society is the borrowings from DCC Bank. They are not allowed to borrow the funds from other financial institutions.

2. No cash credit facility is given by the DCC Bank to the societies.

3. Cumbersome procedure and the delay are the

other important factors affecting the borrowing capacity of these societies.

4. The rate of interest at which the DCC Bank lends is high.

5. Some societies were also not regular in the repayment of their borrowings.

H. PROFITS AND LOSSES:-

1. An uneven trend in the profits or the losses of the societies under study was noticed, only 2 societies were able to make regular profits continuously three years.

2. The proportion of operating expenses to the total income of various societies is high. i.e. nearly 80 to 90 percent, in some cases the operating expenses were more than the total income.

3. The analysis of operating expenses shows that rent, salaries and Directors/General body meeting expenses are the main items of expenditure. The societies spend more on holding the meetings. As most of the societies do not have their own accommodations, they have to acquire land/buildings on rental basis. It has also been observed that the societies spend more on the

inaugurational functions. As a result the societies have to incur losses especially in the initial year.

4. Except two societies other societies under study did not pay divided for the last three years.

5. It is interesting to note that the societies while preparing the profit & loss Accounts, consider the interest actually received on loans i.e. Interest accrued on loan through an income is not accounted for .

6. Only one society could get 'A' Audit class which indicates the poor performance of other societies.

I. MEETINGS, MANAGEMENT, TRAINING AND DEVELOPMENT:-

1. The majority of the members do not take keen interest in the working of their societies.

2. The attendance to the 'Annual General Meetings' is very poor.

3. It was noticed that the meetings, which could not be held for want of quorum, are held immediately after half an hour for which quorum is not required.

4. No proceedings of the meetings were properly maintained.

5. Lack of awareness as to the provisions of

co-operative Act on the part of Panch Committee was noticed.

6. The by-laws were not adhered to by the managing body in day to day operations especially while sanctioning the loans.

7. Lack of general educations specialised knowledge and training was also noticed.

8. No up keep of books of accounts and records, not availability of the record at right time and at right place.

9. It has also been noticed that some members are the members of two or more societies, enjoying the loan facilities. This practice has also resulted in to the problem of overdues.

5.3 SUGGESTIONS:-

In the light of above observations following are some of the important suggestions made for the better overall workings of such societies.

1. The practice of dual membership be prohibited and the Board of Directors should take every effort to check this practice.

2. The societies should make every effort to attract and mobilise more deposits by devising more attractive schemes and programmes. In fact such societies should also be allowed to collect the deposits not only from the members but also from the public at large. Which will enable them to have a more funds for operations.

3. The deposits of such societies should be secured and protected under 'The Deposit Insurance Gurantee Scheme'. Where by the societies will be able to mobilise more deposits and instill more confidance among their members.

4. The cash credit facilities should be given to such societies. The DCC Bank should change its outlook and attitude towards these societies. They should give more loans at concessional rates against security of statutory reserves, which will enable these societies to have more funds for their operations.

5. In view of tremendous growth of such societies it is the right time to have a separate department in the office of Registrar of co-operative societies (at various levels) to look after the affairs of such types of societies, such department should also be made responsible for carrying our regular inspection of the working of such societies and should render useful

guidance with regard to the legal provisions of the law and the overall working of the society.

6. The number of such societies is ever increasing, the size of membership of such societies has also increased considerably. These societies have to raise loans from the DCC Bank to carry on their operations at high rate of interest, this has landed the societies in to deep waters. The DCC Bank is also not in a position to cope-up with demands of ever increasing societies of such types. The societies are also not able to mobilise more deposits from their members. Therefore, it is suggested that there should be a separate Apex Bank to be created to meet the credit needs of such societies such bank should only cater to the credit needs of UCCs only.

7. In view of ever increasing number of such societies even at the taluka level it is suggested that there should be a Federation of such societies at Taluka level so that it will have a close watch over the workings of such societies. Such federation should see that all the societies in the Taluka become the members of the federation which will help the federation to solve the problems of the member society and establish the co-ordination in the workings of various societies. The

federation should also be held responsible for maintaining the records of such societies.

8. It is also the right time to have a separate Act for such types of societies in view of increasing numbers of such societies, varied nature of their working and their special problems & difficulties.

9. There should be standard by-laws prescribed for all such societies. The by-laws so prepared should be ideal one, ensuring smooth working of such societies. The federation at the District level should prepare such standard by-laws and see that such by laws adhered to.

10. There should uniform rate of interest on deposits of such societies as well as on loans too.

11. Considering the enormous growth and development of such societies it is suggested that, these societies should have their representation on the Board of Directors of the DCC Bank. i.e The Board of DCC Bank should consist of a Director representing such societies.

12. As has been observed that these societies do not have their own accomodations it is therefore suggested that the Grampanchayat should make the land available and the DCC Ban should render financial

assistance for the construction of office building.

— B. As mounting overdues and recovery of such overdues is the major problem of the societies it is suggested that

a. Every society should frame the rules and regulation in greater detail governing sanction of loans and distribution of loans.

b. The panch committee should strictly adhere to these rules and regulations.

c. Every loan application should be entertained and considered only in the meetings held for such purposes.

d. The loan application should be sanctioned generally for productive purposes.

e. There should be a follow-up procedure. Once the loans are sanctioned, i.e. to see that the loan is used for the purpose for which it is taken, recovery of loans etc.

f. The society should maintain the separate registers with up to date entries of the loan taking members & of sureties. It should also be noted while sanctioning the loan applications and individual should not be the surety for more members.

g. The loans should be sanctioned according to the actual repaying capacity of the members.

h. The payment of loans sanctioned should be made only by chaques.

i. The society should take keen interest and

sincere efforts in recovery of loan. It should not fail to serve a notice on loan taking member if he fails to pay instalments.

j. The society should not hesitate to take legal actions in accordance with the section 101 of the Act against the defaulter. It is societies interest that should be safeguarded and not the individual interest.

k. The Recovery officer be appointed through the co.op. Department itself for the recovery of over-dues of such societies, without charging any fees for such appointments to the societies.

14. It should be made obligatory for the Chairman, the Directors and Secretaries should under go the co-operative training programme. The federation so established at District level should arrange for the training of personnel, of such societies. There should be the professionalisation of co-operative management.

15. There should be the orientation programmes for the members of these societies so as to create the awareness among them, as to the co-operative principles, co-operative law, the members rights and privillages etc. Which will help to create members interest, in day to day working of the society. The members should be very much concious & carefull while electing their representatives on the Panch committee. They should see that their interest is properly safeguarded by such committee.

16. The societies should endeavour to increase their own funds, they should prepare the plans and the schemes so as to increase their own share capital and there by become economically viable. The members of the societies should not look upon the societies as mere pass-ports for the entry in to the political field. Societies are economic units and not the political units.

17. Profit based incentives be given to the Chairman and the Directors in order to improve the working of society. 18) The board of Directors of such societies have to shoulder more responsibilities without much powers delegated to it as a result there is a tendency to shirk the responsibility.

5.4 CONCLUSIONS:-

The Urban Credit Co-operative societies no doubt occupy prominent place among the agencies catering to the credit needs of the urban and semi-urban population. These societies have now become more popular as these societies by providing credit on reasonable terms of the middle class people, can rescue them from the exploitation of money lenders. They can make a significant contribution to the industrial development by extending credit facilities to small enterprenuers, artisans working in urban and semi-urban areas. They can provide intelligent, experienced and effective leadership

to the co-operative movement, because of which such societies have developed and grown to a considerable extent. There has been steady growth and development of such societies in Khandala Taluka also. The first ever urban credit co-operative society was established 1982 in the Taluka ever since then the number of such societies has increased considerably and have become more popular. In spite of growth and development these societies have still to face number of problems and difficulties like, lack of members interest in the working of society, shortage of funds, inefficient management and lack of trained personnel, mounting overdues, lack of awareness as to the provisions of the co-operative law and apathy on the part of DCC Bank to help these societies and so on.

If such problems and difficulties are encountered properly by a rational approach and attitude, such societies will have the better prospects in the future and thereby will be able to serve the good cause for which these societies have been established.