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Performance appraisal of state co-operative banks ltd. in India

Dr. Dinesh Kumar and Prem Singh

Abstract

The historical roots of the Cooperative Movement in the world days back to days of misery and distress in Europe faced by common people who had little or no access to credit to fund their basic needs, in uncertain times. The idea spread when the continent was faced with economic turmoil which led large populations to live at subsistence level without any economic security. People were forced to poverty and deprivation. It was the idea of Hermann Schulze (1808-83) and Friedrich Wilhelm Raiffeisen (1818-88) which took shape as cooperative banks of today across the world. They started to promote the idea of easy availability of credit to small businesses and for the poor segment of society. It was similar to the many microfinance institutions which have become highly popular in developing economies of today.

Keywords: Performance appraisal, state co-operative banks ltd., India

Introduction

The idea of co-operation in India is not entirely a new device. However, the use of the word in the modern sense is not native to the country. In the primitive societies, the germs of co-operation could be observed in religious institutions and traditional customs. The working of these customs and institutions throw light on the instinct and tradition of mutual assistance, joint action, joint possession and joint management which are found in the thinking and in the life of the people in all ages and all countries. Our Vedas, the Upanishads and Bhagawat Purana have fully subscribed to co-operative existence. The Arthashastra of Kautilya also mentions about co-operatives. In olden time, the institutions of a joint family was comparable to the present day co-operatives. It used to serve as an insurance against illness, incapacity and old age.

During the 17th century, East India Company and the British sought to destroy the indigenous institutions. As a result, more people had to fall back upon agriculture than the land could economically sustain. Coupled with the new system of land revenue, the money-lenders exploited the peasantry. Deplorable conditions of our teeming millions prompted riots in the country (Deccan Riots of 1875). On the suggestions of Justice N. G. Ranade and Sir William Wedderburn, the British Govt, came forward with some reforms. Again, the reforms were too inadequate and inelastic to face the stupendous problem of rural indebtedness.

In was toward the end of 19th century that Sir Fredrick Nicholson (1897) and the famine Commission (1901) made a strong plea for introduction of co-operative credit societies in India. The Madras Govt, deputed Mr. Nicholson to study the cooperative system in India. He submitted his report in the fewest words, "Find Raiffeisen." It means co-operative credit societies may be organized in India on Raiffeison model. At about the same time, Duplex in U.P. Maclagan in Punjab and Lyon in Bengal paved for co-operative movement in its modern and present form.

In was on the recommendation of a committee headed by Sir Edward Law that the first Co-operative Credit Societies Act, 1904 was enacted to encourage thrift, self-help and co-operation. In order to remove the inherent and external defects of the Act of 1904, Co-operative Societies Act, 1912 was passed. This Act also facilitated the registration of all types of co-operatives, including co-operative federations. With the passing of Montague-Chelmsford Act of 1919, Co-operation become a transferred subject. The State of Bombay (Act VII of 1925) followed by by Madras, Bihar, Orissa, Bangal, etc. passed their own Co-

operative Societies Act, keeping the basic pattern of the 1912 Act intact. It may be pointed out that the Act of 1912 is still the basis of co-operative legislation in free India.

Concept of co-operation

Generally speaking, co-operation means living, thinking and working together. Etymologically, the word co-operation is a derivative of the Latin term "co-perari" where "co" means with and "operari" means "to work". Co-operation, an economic miracle of the 19th century, is not a mere slogan. In the present era. It has now reached a stage where it could be counted as a factor in the economic, social, political development of rural India. The co-operative form of social and economic activities had been in existence since time immemorial. The oldest literature like Vedas, Upanishads, Bhagawat Purana, Kautilya's Arthashastra etc., referred about joint actions of the people. Co-operation, is, therefore, a form of organization where persons voluntarily associate together as human beings on a basis of equality for the promotion of economic interests of themselves. Paul Lambert goes a step further by saying that "A co-operative society is an enterprise formed and directed by an association of users applying within itself the rule of democracy and directly intended to serve both its own members and community as a whole." Solidarity, democratic control, mutuality or self-help through mutual help, voluntarism, equality and service motives are its characteristic features.

Co-operative credit structure in India

The co-operative credit structure in India is divisible into two broad categories, agricultural and non-agricultural. The agricultural credit can be further divided into two categories, i.e. the short and medium-credit and the long-term credit. Under this scheme, the short-term and medium-term credit have been organized on federal lines with the Primary Co-operative Credit and Service Societies (PACS) at the village level, District Central Co-operative Banks (DCCPs) at the district level and the State Co-operative banks (StCBs) at the state level as Apex Institution.

In addition to short and medium term credit requirements, farmers also require long-term credit for effecting permanent improvements in land, purchasing agricultural implements and repaying old debts. To cater to these requirements, long-term credit co-operatives have been set-up. These are organized at two levels. The long-term loans are provided by a two-tier structure having Primary Co-operative Agricultural and Rural Development Banks (PCARDBs) at the base level and State Co-operative Agricultural and Rural Development Banks (SCARDBs) at the state level. The rural credit co-operative structure in India is a huge institutional structure comprising 31StCBs, 371DCCBs and 94, 942 PACSs at the grass root level in the short-term credit structure and 20 SCARDBs and 697 PCARDBs in the long-term credit structure as at end-March 2009.

Performance appraisal of state co-operative banks in India

The Apex co-operative banks now occupy an important position in the entire structure of co-operative short-term credit. It is the head of the co-operative movement in the state. A state co-operative bank is the federation of central cooperative Banks in a state. It is the pivot around which all economic activities of the co-operative movement rotate. The Apex banks act as a clearing-house for capital, pools the resources and canalizes the surplus of one locality to meet the deficiency of another to the advantage of the province as a whole. It is, in a sense, a friend, philosopher and guide of the co-operative movement in the state. It links the movement not only with the commercial money market, but also with the Reserve Bank of India as a potential source of the credit for seasonal and emergent needs.

It ensures co-ordination of efforts and uniformity of banking policy as between the different central co-operative banks. It also forms the connecting link between the money market and the co-operative movement. Thus, it is the vertex of the pyramidal structure in a state for the provision of short and medium-term credit to agriculturists on co-operative basis. As on 31st March, 2009, there were 31 State Co-operative Banks in the country with a total membership of 200772 comprising 19424 societies and 181,348 individuals. Their paid up capital was Rs. 139048 lakhs while their deposits stood at Rs. 7131507 lakhs. Their total working capital amounted to Rs. 10590620 lakhs and their borrowings stood at Rs. 2158221 lakhs. The basic objective of the present paper is to examine the performance of State Co-operative Banks. Data have been collected from the various published sources particularly from National Federation of State Co-operative Banks Limited.

The Apex co-operative banks now occupies a significant position in the entire structure of short and medium term credit. They are the head of the co-operative movement in the state and are expected to play a positive role with regard to cooperative credit system. The apex banks are of significance not only for mobilizing the financial resources needed by the movement but also for deploying them appropriately among the various sectors of the movement. The basic objective of the Apex banks is to act as a balancing centre, clearing house and a financing agency of the co-operative institutions working within state level and play a pivotal role in the formulation and execution of credit policies for the co-operative movement as a whole. They provide short and medium-term loans to the central co-operative banks to finance the farmers through their primary credit societies. They act as an investment agency and supervise and guide the activities of central co-operative banks. They also establish and maintain contact with the money market and RBI. Thus, they act as the friend, philosopher and guide of the co-operative movement in the concerned states. The following table shows the performance of state co-operative banks working in different states of the country.

Table 1: Performance of State Co-Operative Banks (Rs. in Lakhs)

S. No.	Main Items	1999- 2000	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05	2005- 06	2006- 07	2007- 08	2008- 09
1.	No. of State Co-operative Banks	29	30	30	30	30	30	30	31	31	31
2.	Total Membership (No.)	136856	122464	104607	133688	150975	156623	153697	148771	150917	200772
3.	Paid up capital	63475	69711	84659	89715	92455			143668	131617	139043
	(a) of which Govt	5929	6487	8476	10257	8983	10281	13912	15026	15286	15595
4.	Total Reserves	314910	371172	41763	500168	557200	658981	734251	814490	863179	876395
5.	Total Deposits	2927892	3261295	3617028	3911178	4286301	4406765	4767221	4919758	5628692	7131507
6.	Total Borrowings	1093544	1198335	1168348	1198508	1352265	1467097	1687166	2215024	2160638	2158221
7.	Working Capital (Wc)	4641047	5221689	5669673	6075475	6525629	7068213	7454366	8344690	8985076	10590620
8.	Investments	1204339	1304016	1434440	1648501	1847687	2132806	2274990	2397029	268854	4035004
9.	Cost of Management (C.M.)	68091	77484	108211	125597	115726	110515	91199	67429	85438	131157
10.	Total Loans Issued	3989345	3361254	3406531	3920286	3486499	4432506	4380354	4706898	5331376	5186621
11.	Total Loans Outstanding	2535701	2548276	3255352	3505215	3563719	3530652	3396099	4667581	4910143	4620084
12.	Total Demand	1573991	1688722	1958116	2241279	2203774	2329419	2438956	277063	3179473	3960751
13.	Total Collection	1374698	1437699	1686897	1843742	1833145	1973608	2103349	2403133	2633473	3617093
14.	Over Dues	199293	251023	271219	397537	370629	355811	335607	367530	546000	343658
15.	Percent of Overdues to Demand	12.66	14.86	13.85	17.74	16.82	15.27	13.76	13.27	17.17	8.68
16.	Percent of CM to WC	1.47	1.48	1.91	2.07	1.77	1.56	1.22	0.81	0.95	1.24
17.	Percent of Overdues to Loans out standing	7.9	9.8	8.3	11.3	10.4	10.07	8.6	7.9	11.1	7.4

Source: NAFSCOB

The above table indicates that the number of State Co-operative Banks (SCBs) which stood at 29 in 1999-2000 increased to 31 in 2008-09. The membership of the SCBs comprises central Co-operative banks, primary co-operative societies and individuals. Total membership of the banks increased from 136856 in 1999-2000 to 200772 in 2008-09 registering an increase of 46.70 percent during the same period.

Share capital

The share capital constitutes the basic source of the working capital of the Apex banks. The SCBs, like the primary co-operative societies and the central cooperative banks raise their capital by issuing shares. The need to build-up share capital at different levels of the co-operative credit structure by linking shareholding with borrowings has received increased emphasis in recent years. During the study period, there has been a noticeable increase in the share capital of the Apex banks. The amount of share capital went-up from Rs. 63475 lakhs in 1999-2000 to Rs. 139048 lakhs in 2008-09 registering an increase of 119.05 percent during the same period.

Reserve funds

The SCBs maintain various types of reserve funds, viz., the statutory reserve funds, bad debt reserve funds, agricultural credit stabilization funds and other funds. The total reserve funds of these banks increased from Rs. 314910 lakhs in 1999-2000 to Rs. 876395 lakhs in 2008-09 witnessing an increase of 178.30 percent during the same period.

Deposits

Deposits are an important constituent of the working capital of the SCBs. The SCBs, being the foundation head of Co-operative finance in the states, have a considerable responsibilities towards meeting the credit requirements of the members of primary societies and the central banks. It is, therefore, highly imperative that, these banks should

make concerted efforts for tapping deposits from urban areas so that these savings may be made available for agricultural development in rural areas. There has been a considerable increase in the amount of deposits of the Apex banks. Their deposits increased from Rs. 2927892 lakhs in 1999-2000 to Rs. 7131507 lakhs in 2008-09 showing an increase of 143.57 percent over a period of 10 years.

Borrowings

Borrowings constitute the most important source of the working capital of the SCBs. These banks borrow from the Govt., NABARD and other sources. The NABARD is the main source of these borrowings of the Apex banks. NABARD provides loans to these banks for short-term and medium term agricultural purposes. The amount of borrowings which stood at Rs. 1093544 lakhs in 1999-2000 increased to Rs. 2158221 lakhs in 2008-09 registering an increase of 97.36 percent during the same period.

So far as working capital of the banks is concerned, it increased from Rs. 4641047 lakhs in 1999-2000 to Rs. 10590620 lakhs in 2008-09 registering a significant increase of 128.19 percent during the study period. Likewise, the investments have also witnessed a considerable increase. The amount of investments went-up from Rs. 1204339 lakhs in 1999-2000 to Rs. 4035004 lakhs in 2008-09 registering an increase of 235.03 percent during the same period. Similarly, the amount of cost of management has also witnessed an increasing trend. This amount increased from Rs. 68091 lakhs in 1999-2000 to Rs. 131157 lakhs in 2008-09 registering an increase of 92.62 percent.

Loan operations

The SCBs advance loans to the affiliated central co-operative banks and to societies mostly through its branches. Loans may also be given to depositors on the pledge of their fixed deposits receipts. Loans to individual members may be granted in exceptional cases against such securities and on

such terms and conditions as may be determined by the banks from time to time. Financing may be done primarily for agricultural purposes in the form of loans, cash credit and overdrafts. There has been a phenomenal increase in the amount of loan operations of the SCBs. The total amount advanced by these banks increased from Rs. 3989345 lakhs in 1999- 2000 to Rs. 5186621 lakhs in 2008-09 registering an increase of 30.01 percent during the same period.

Similarly, the percentage increase in loan out standings and overdues was 82.20 percent and 72.43 percent respectively over a period of 10 years. The percentage of overdues to loans outstanding has shown a fluctuating trend during the study period. Thus, a distressing feature in the working of the SCBs is the rising trend in overdues. Though these overdues formed only 7 to 11 percent of the total out standings, their appearance should be a matter of serious concern to the authorities of the banks. Likewise, the amount of total demand and total collection also increased by 151.63 percent and 163.1 percent respectively during the study period. The percentage of overdues to demand and the percentage of cost of management to working capital has witnessed a decreasing trend during the reference period. Therefore, serious and sustained efforts should be made to effect recoveries from the central co-operative banks.

Conclusion

It is clear from the above analysis that the banks have made rapid strides and intensive efforts to strengthen and encourage the co-operative movement and also have fully implemented various new policy initiatives and schemes for the same. The banks have achieved a considerable and tremendous growth and progress in case of share capital, reserves, deposits, working capital, investments, borrowings and loans advanced. But one of the most distressing feature in the working of the banks is the rising trend in overdues and loans outstanding. Therefore, effective and sustained efforts should be made to effect recoveries from the central co-operative banks.

The wide network of co-operative credit system across the country provides an institutional mechanism not only for the credit services but for other essential services. So the relevance of these institutions will remain as intact as ever. Democratization, depolarization and decentralization should be the catchwords which must guide the policy parameters for the functioning of co-operative banks in future. All these are inter-related and each one is equally significant at a time when the co-operatives have to face stiff competition from the public, private and foreign sector banks. A big change in the mindset of top leadership and management is also required to strengthen the co-operative banks. They need a combination of new technologies and better processes of credit and risk appraisal, treasury management, product diversification, internal control and external regulation, along with infusion of professionalism. Acting on the recommendations of the Task Force, the Govt. of India has announced a package for the revival of short- terms rural co-operative structure. 25 State have signed MOUs with the Govt. of India and NABARD as at end May, 2009. This meant the coverage of more than 96 percent of the short-term credit structure in the country. 10 states made the necessary amendments in their Co-operative Societies Act as at end May, 2009. To sum up, it may be stated that there

is urgent need for transformation in the mindset, identity, business operations, governance and systems, and procedures which will definitely enhance the morale of co-operative banks to face environmental challenges.

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