

FINANCIAL VIABILITY OF CREDIT INSTITUTIONS IN INDIA—A STUDY OF DISTRICT COOPERATIVE BANKS

Jagkiran Kaur

Assistant Professor, GGN Khalsa College, Ludhiana

ABSTRACT

Credit facilities are an integral part of the process of commercialization of the rural economy. The private money lenders had instead of being a help to the agriculturists, become invariably an incubus upon them and caused heavy indebtedness. Since independence, a multi agency approach consisting of cooperatives, commercial banks and regional rural banks, known as institutional credit has been adopted to provide cheaper and adequate credit to farmers. The distribution of outstanding debt of farmers in Punjab amongst different agencies shows that institutional credit constitutes 47.9 per cent of total indebtedness of the farmers in the state and the remaining 52.1 per cent of credit requirements are fulfilled by the informal sources. Cooperatives' banking has a crucial role to play in Indian financial system. the central cooperative banks have progressed remarkably on all the fronts, be it profits, deposits, loans and advances or turnover, but it is a matter of great distress that all the central cooperative banks are groaning under the weight of mounting NPAs. The present paper attempts to examine the performance analysis of district central cooperative banks in India through analysis of trends in capital, reserves, loans, borrowings and growth of investment.

Keywords: Credit, Cooperative bank, District Central Cooperative Bank

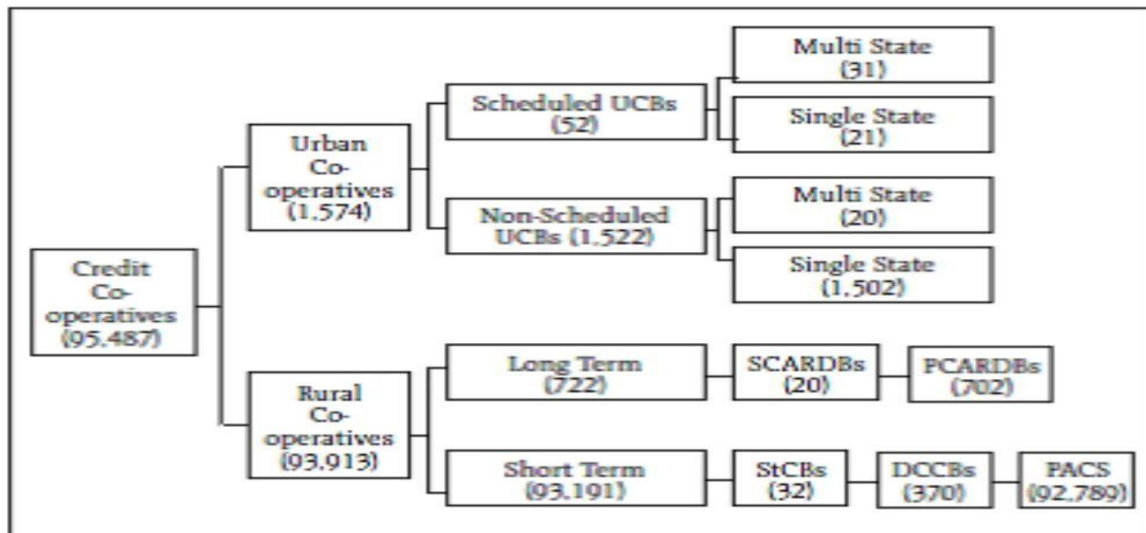
INTRODUCTION

Cooperation has been accepted as an important medium for regeneration of the country's socio-economic life. The Cooperative Societies Act provided for the formation of provincial banks, now, State level Apex Cooperative Banks and Central Cooperative Banks, as a vehicle to run the rural credit movement in India. A cooperative bank is a cooperative credit agency with democratic management, responsiveness to the felt needs and local participation. These banks though are expected to carry on the same business as other banks do but their focus or ideology

is entirely different. With the passage of the Banking Laws (As applicable to cooperative societies) 1965, the cooperative banks have been brought under the purview of the Banking Regulation Act, 1949. This amendment in the Act also amended the RBI Act, 1934, for the purpose of regulating the operations of cooperative societies, which carry on the business of banking. Credit cooperatives include urban cooperative banks and rural cooperative credit institutions were formed to meet specific objectives in the extension of formal financial services to villages and small towns in India. Cooperative banks are created to share a common interest to provide their members a wide range of banking and financial services like loans, deposits and banking services. Structure of cooperative banking is a three tier consists of:

- a. a state cooperative at apex level
- b. a central cooperative bank works at district level
- c. primary cooperative credit societies at village level

STRUCTURE OF COOPERATIVE CREDIT INSTITUTIONS IN INDIA



StCBs: State Co-operative Banks; DCCBs: District Central Co-operative Banks; PACS: Primary Agricultural Credit Societies; SCARDBs: State Co-operative Agriculture and Rural Development Banks; PCARDBs: Primary Co-operative Agriculture and Rural Development Banks.

Notes: 1. Figures in parenthesis indicate the number of institutions at end-March 2016 for UCBs and at end-March 2015 for rural co-operatives.

2. For rural co-operatives, the number of co-operatives refers to reporting co-operatives.

Source: RBI.

REVIEW OF LITERATURE

Murthy and Saraswathi (1996) undertook a study to evaluate the quantitative progress made in respect of supply of institutional credit. Using the secondary data made available by RBI in statistical statements relating to cooperative movement in India for a period of 6 years from 1978 to 1983 .The study suggested that making cooperatives as exclusive institutions of weaker sections i.e. making them homogeneous would not result in decline in overdues, as mere homogeneity was not a sufficient condition.

Viswanath (2001) made an analysis of the performance of Credit Co-operatives and their overdues problems in India. He found that between the period 1950-51 to 1995-96, the total loans advanced by them increased from Rs. 24 crores to Rs. 14,201 crores i.e. 587 times, but unfortunately this increase was followed by a corresponding increase in overdues.

Singh (2005) highlighted the importance of the Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act (SARFAESI ACT 2002). He regarded this Act to be a welcome legislation that will have a significant positive implication not only for the banking and financial services sector but also for the economy as a whole. With the enforcement of this landmark Act, it is felt that borrowers will no longer be able to take banks lightly and simply walk away with scarce public money.

OBJECTIVES OF THE STUDY

The present study has been undertaken with the following objectives:

1. To examine paid up share capital, reserves and total borrowings of banks
2. To analyze the loan issued and working capital required in DCCBS.
- 3.

DATA COLLECTION

For achieving the objectives of the study, secondary data were collected and analyzed for the 10 years from 2007-08 to 2016-17. To evaluate DCCBs, Secondary data were collected from Comparative statements of DCCBS, published by National Federation of State Cooperatives

Banks Ltd (NAFSCOB) Reports and other websites, papers, books and journals related to cooperative banking sector

STATISTICAL TECHNIQUES

For the analysis of data, statistical techniques such as Mean, Standard Deviation, Coefficient Of Variation and Percentage have been used.

ANALYSIS OF THE STUDY

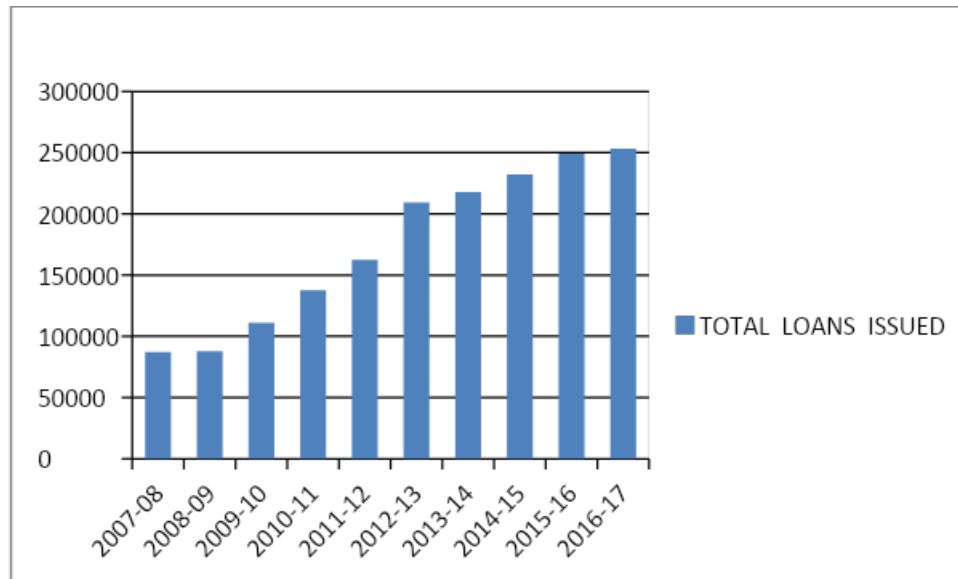
TABLE NO 1. TOTAL LOANS ISSUED

YEARS	TOTAL LOANS ISSUED(AMOUNT IN CRORES)
2009-10	87136
2010-11	87956
2011-12	111076
2012-13	137754
2013-14	162557
2014-15	209371
2015-16	217941
2016-17	232421
2017-18	249376
2018-19	253282
Mean	174887
Standard Deviation	62375.72
CV	35.6663

Source: NAFSCOB Reports

FIGURE 1

TOTAL LOANS ISSUED



INTERPRETATION

Credit deposit ratio play an important role in banking operations .The higher the ratio, more will be lending performance of banks .Total loan issued in different years is continuously increasing that means central banks is providing loan as per the demand ,but loan outstanding is also increasing.

TABLE NO 2.

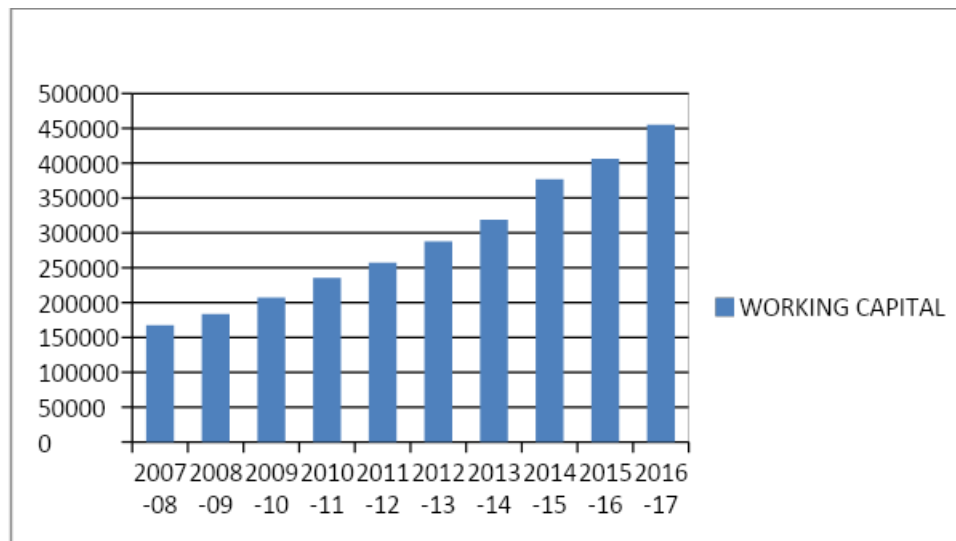
WORKING CAPITAL

YEARS	WORKING CAPITAL(AMOUNT IN CRORES)
2009-10	167768

2010-11	183546
2011-12	207281
2012-13	235431
2013-14	257306
2014-15	288021
2015-16	318651
2016-17	377098
2017-18	406093
2018-19	455213
Mean	289640.8
Standard Deviation	92921.85
CV	32.08176

Source: NAFSCOB Reports

FIGURE 2
WORKING CAPITAL



INTERPRETATION

Cost of management of district central cooperative banks includes salaries, wages and operating expenses to run the bank. Cost of management is measurement of efficiency of bank and cost of working capital and its requirement is continuously increasing .As standard deviation is 92921 ,on the other side CV is 32 .

TABLE NO 3.

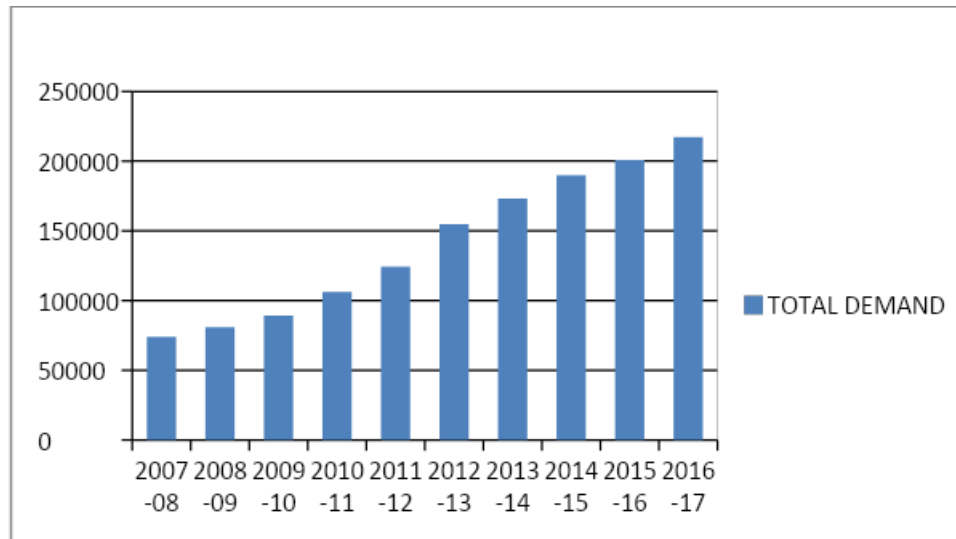
TOTAL DEMAND

YEARS	TOTAL DEMAND(AMOUNT IN CRORES)
2009-10	73914
2010-11	80782
2011-12	89290
2012-13	106119
2013-14	124376
2014-15	154825
2015-16	173329
2016-17	189899
2017-18	200740
2018-19	217328
Mean	141060.2
Standard Deviation	50314.91
CV	35.66911

Source: NAFSCOB Reports

FIGURE 3

TOTAL DEMAND



INTERPRETATION

The above table shows that growth in terms of total demand of loan and working capital .In terms of amount, there is constantly increasing in numbers from 2007-2017. On the other side, mean is 141060 with CV of 35.66.

TABLE NO 4.

PAID UP SHARE CAPITAL, RESERVES AND TOTAL BORROWINGS OF DCCB IN INDIA

YEARS	PAID UP SHARE CAPITAL(AMOUNT IN CRORES)	RESERVE FUNDS(AMOUNT IN CRORES)	TOTAL BORROWINGS(AMOUNT IN CRORES)
2009-10	5820	16377	30475
2010-11	6070	17787	28413
2011-12	7797	20204	30522
2012-13	7255	20692	39101

2013-14	8189	22920	50545
2014-15	8915	24375	61731
2015-16	9774	25690	67229
2016-17	13410	28812	73794
2017-18	12877	31844	77606
2018-19	14696	33445	84820
Mean	9480.3	24214.6	54423.6
Standard Deviation	2984.465	5474.105	20310.47
CV	31.4807	22.60663	37.31924

Source: NAFSCOB Reports

FIGURE 4
PAID UP SHARE CAPITAL

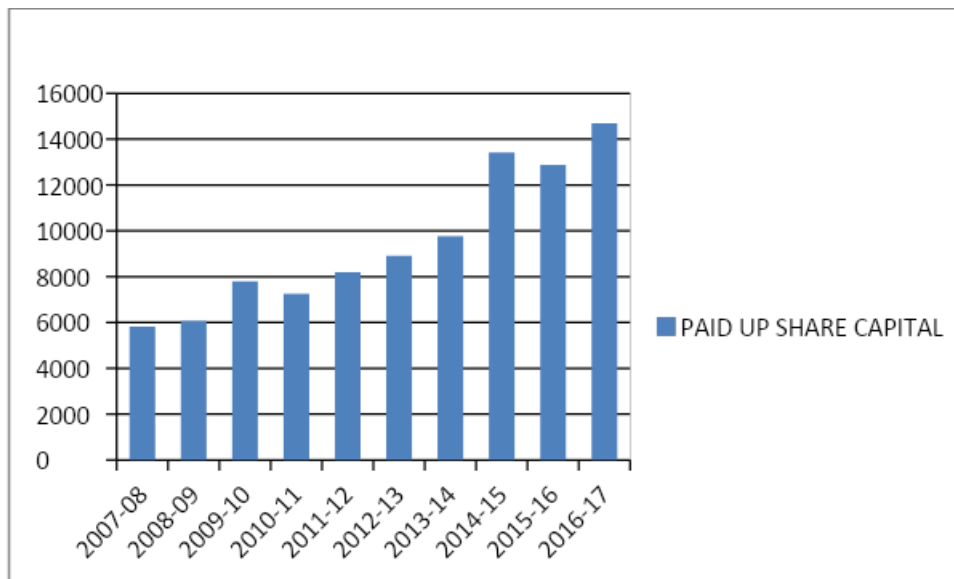
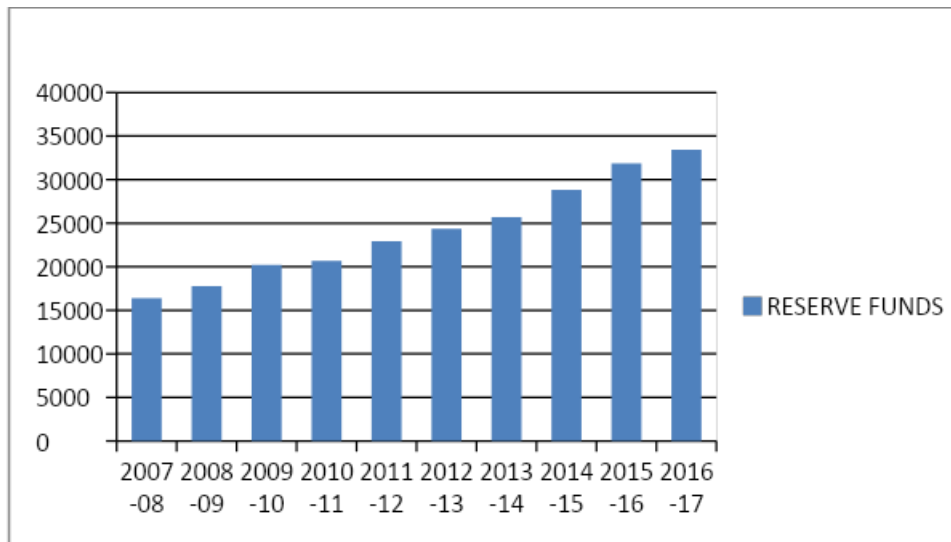


FIGURE 5
RESERVE FUNDS



INTERPRETATION

The above table analyzed the funds of DCCBs and their trend in terms of their capital, reserves and borrowings. The amount of capital is 5820 in 2007-08, it has been gradually increased and reached 14696 in 2016-17. In case of reserves, they are 16377 in 2006-07, where as, it was recorded with 33445 in 2016-17. The borrowings are collected by banks to meet short term and long term credit needs. The borrowings of DCCBs in India during the year 2006-07 are 30475, where as, these are 84820 in 2016-17. The standard deviation of capital is 2984.465, reserves are 5474.105, borrowings are 20310.47. When compare to the coefficient of variation of capital, reserves and borrowings, borrowings are more consistent than capital and reserves.

CONCLUSION

From the above analysis it can be concluded that different techniques has been used for analyzing the DCCBs in India and it has been found that growth of these banks have tremendously affected by different strategies and policies adopted by Govt. The financial growth of DCCBs is reflected in the growth of their investments. The capital, reserves, and borrowings increased almost double during the study period, with a nominal percentage of variation. The cost of management per employee has been increasing during the study period due to decrease in number of employees. The variance is less in cost of management to working capital indicates decrease in employees in banks .The management of DCCBs has to concentrate on cost of management, working capital and other operating costs to improve the financial viability of cooperative banks in India.

REFERENCES

- Ayadi, R., Llewellyn, D. T., Schmidt, R. H., Arbak, E., & Pieter De Groen, W. (2010). Investigating diversity in the banking sector in Europe: Key developments, performance and role of cooperative banks.
- Balasubramanian, S. (2014). Performance of Cooperative Banks in the Delivery of Microcredit in Andhra Pradesh. *TIJ's Research Journal of Social Science & Management - RJSSM*, 4.
- Banking & Credit: National Federation of State Co-operative Banks Limited (NAFSCOB). https://agritech.tnau.ac.in/banking/crbank_cooperative_nafscob.html
- Cooperative Banks. *The Indian Journal of Commerce*: Indian Commerce Association, 36-50,DEA Analysis. *The ICFAI Journal of Bank Management*: The ICFAI University Press, 25-38.
- Ghosh, P. K., Mitra, A., & Sarkar, S. (2018). An Appraisal of Performance of Primary Agricultural Cooperative Societies (PACS) in Nadia District of West Bengal. *Economic Affairs*, 63(4), 891-896.
- Government of India, "Report of the study group on Credit Co-operatives in the nonagricultural Kothari C.R. *Business Research methods*, Vikas Publications, New Delhi, 2010. p. 245.

Murthy, C.S and Saraswathi, A: Reducing Overdues In Credit Cooperatives: Some Alternatives, Indian Cooperative Review, January 1996, pg 216-227.

Reddy, C.R. Overdues Management in Cooperative Banks, Himalaya Publishing House, Bombay, 1993,pg 14-16.sectors” (New Delhi: 1963), p.5.

Regulation, Supervision and Financial Stability (August, 2019) retrieved from <https://m.rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1261>

Shankar, M., & Rao, K. S. (2017). Performance of regional rural banks in india: evidential support from telangana state.

Sharma, G. & Kawdia, G. (2006). Efficiency of Urban Co-operative Banks of Maharashtra: A

Verma, S.Ravi. and Reddy, Bhagwan: Analysis of Causes of Overdues in Cooperatives under SWOODS, Cooperative Perspective, Vol-35, No.1, April-June 2000, pg 4-10.

Viswanath, A. R. (1999). An Analysis of the Performance of Agricultural Credit Co-operatives and their Over dues Problem on India. *Indian Co-operative Review*, 26(3), 271-276.