

Role of Cooperative Banks in Rural Development through Agricultural Credit – A Study of Warangal District Central Cooperative Bank

T.V.G. Shastry

Assistant Professor,
Dept. of Commerce & Business Management,
Chaitanya Degree College,
Warangal, TS.

Introduction

India is agricultural based country and its 70% population stay in rural area. The cooperatives which are the life blood of the Indian economy and the mechanism for any developmental programs. Especially in an agriculture dominated rural sector, cooperative banks play a pivotal role in bolstering the common individual and financing his business and personal needs. The cooperative credit structure is serving the Indian society since 1904 and since then it has seen several ups and downs. Despite of several limitations such as restriction of area of operations, limited clients, small volume of business, political interference, this movement is standing since last 108 years and serving the societies. The increase in the level of agricultural loans granted by the cooperative banks positively influence development of agriculture in India.

Co-operation means voluntary association on the basis of equality and for some common purpose. In the word of H. Calvert, “co-operation is a form of organization where in persons voluntarily associate together as human beings on the basis of equality for the promotion of their economic interest”. A co-operative bank is a co-operative society registered either under the central act, multiunit co-operative societies act or under a state act governing co-operative societies and carrying on banking business.

A co-operative bank is a co-operative society engaged in the business of banking. If a co-operative bank is

operating in more than one state, the central act applies. In other cases, state laws apply. The banking laws (Application to co-operative societies) Act, 1965 extended to the co-operative banking sector provides certain provisions of the banking regulations Act and the Reserve Bank of India Act. This policy planning and control including statutory audit functions are supervised by the government while functional aspects like licensing, permission to undertake foreign exchange business and inspection are looked after by the RBI.

The History of Co-Operative Movement:

Co-operative movement originated first in England. Later on it has been introduced in Germany and Italy. The co-operative movement was originated in England in 1844. It was started as a consumer movement. The infant organization was formed by a group of flannel weavers. At this time the weavers in England were badly exploited by the capitalists. They found that co-operation is the only way out of this situation. As a result, 28 flannel weavers joined together and opened a retail store in Rochdale which came to be known as Rochdale co-operative society. The success of this co-operative society paved the way for the establishment of modern co-operative movement. Luigi Luzzatte and Dr. Leone Wollen Burg organized co-operative movement in Italy. Luzzatte organized urban co-operative credit societies known as ‘Banca popular’ means people bank. Robert Owen is the father of modern co-operative movement. He introduced co-operative colony and labour exchange.

Co-operative Movement in India:

The success achieved by many co-operative societies in western countries made the Government to think that the co-operative movement was the solution to relieve the hardships of the farmers and the weaker sections of the society. Sir Frederick Nicholson was deputed to European countries to study the working of the co-operative societies there and to suggest measures for the introduction of co-operative movement in India. On his recommendation the co-operative movement was introduced in India by the enactment of the co-operative societies Act of 1904. Under this Act it was possible to establish only credit co-operative societies. In 1912 the Government passed another Act to facilitate the formation of Non-credit co-operative societies. Though the initiative is taken by the Government to introduce co-operative movement, it acquired popularity among people soon. At present a large number of different types of co-operative societies are functioning throughout India.

The Government of India through the five year plans is providing various incentives to co-operative sector.

Significance of the study:

The Andhra Pradesh State Cooperative Bank Limited (APCOB) is a Scheduled State Cooperative Bank for the State of Andhra Pradesh. The Bank is committed to agricultural and rural development through the Cooperatives. The cooperative credit system in Andhra Pradesh with the APCOB at its apex level is a federal system consisting of a family of 22 affiliated District Cooperative Central Banks (DCCBs), which in turn, have 616 Branches and 2748 Primary Agricultural Cooperative Societies (PACS) through which, developmental agricultural credit is provided, to serve a sizeable chunk of the total membership of the PACS of around 1.5 crores.

District Banks cater the financial needs of the Urban Cooperative Credit Societies, Societies, mandals and District Sales and Purchase Union etc through their branches spread at taluka and village levels in the

concerned District and thereby cover whole state. A Board of Directors manages the District Central Cooperative Banks, (DCCBs) which are periodically elected.

The Managing Director/General Manager is heading the DCCB as a Chief Executive. Several Managers, Branch Agents and Inspectors, assist the Managing Director/General Manager. If the Manager is the Chief Executive, Assistant Managers, Branch Managers, Agents assist him and inspectors are largely responsible for guiding the Primary Agricultural Cooperative Credit Society (PACS) under their charge in the development of business. The main functions of District Central Cooperative Banks (DCCBs) are as follows.

- (i) To provide Short-term loan and Medium term credit facility to primary Cooperative Societies.
- (ii) To provide working Capital to agro-processing units.
- (iii) To provide banking facility to the public.
- (iv) To provide deposits mobilization.

Statement of the problem

The District Central Co-operative Banks is the central financing agency in the entire district. At the district level, 22 Central Co-operative Banks including all mandals. Co-operative banking Union with their branches are operating within their area of operations.

District Banks cater the financial needs of the Urban Cooperative Credit Societies, FSS, LAMPS and the other non-agricultural societies, Taluka and District Sales and Purchase Union etc through their branches spread at taluka and village levels in the concerned District and thereby cover whole state.

The cooperative credit structure has been developed in India with the mission that they will provide the agricultural and finance to the needy farmers at a reasonable rate of interest. The DCCBs are mainly doing three activities in their area of operation like (i) advancement of agricultural finance (ii) collection of

deposits and (iii) providing banking services. Up to 1990 the DCCBs has a monopoly business and they were covering about 70 percent of the population particularly in rural area through their business. After introduction of New Economic Policy (NEP) the business of the DCCBs has become very competitive and they are facing stiff competition in their area of operation where they have to flourish their business before nationalized bank, Commercial Bank, Private Bank, Foreign Banks, Non-Banking Financing Agencies, and others. The overall all profitability of the DCCBs is also going down year to year. Out of 22 DCCBs in Andrapradesh *only* 10 are earning profit and 8 are in loss. The percentage of NPA of the DCCB is also exceeding from 35 to 40 percent in most of the DCCBs. Looking to the present situation prevailing in the area of DCCBs it is revealed that DCCBs have to make themselves more effective and efficient in the area of operation so that they can face the stiff competition and justify their objective of the existence. The present research study has focused on the overall working of the DCCBs and examines the operational efficiency of the DCCBs.

Review of Literature:

A number of studies related to performance of co-operative banking sector in India have been conducted. Here, an attempt is being made to provide an overview of various aspects and issues of this study through the review of existing literature. Some of the main studies selected for review have been discussed below.

Singh and Singh (2006) in their study titled, "Funds Management in Central Co-operative Banks—Analysis of Financial Margin" attempted to estimate the impact of identified variables on the financial margin of the central co-operative banks in Punjab with the help of correlation and multiple step-wise regression approach. The ratio of own funds to working funds and the ratio of recovery to demand were observed to be having positive significant influence on financial margin, whereas over dues to

total loans were found to be negatively associated with the concerned parameter. A high percentage of own funds and timely recovery of previous loans outstanding, as a source of funding new loans by the bank, increased the financial margin in these banks.

Murthy (2008), in his paper titled, "Rural Finance: A Remedial Measure for Rural Poor" focused on the role of financial services as key to enhancing economic development and reducing poverty in rural areas.

Rural finance has often led the way in addressing social, gender and ethnic equity issues which hold families in poverty. He, however, observed that the access was limited for poor households and for micro, small and medium enterprises. Despite rapid economic development in India the number of people living below the poverty line has decreased only slightly.

While there was a numerically strong infrastructure of formal financial institutions in rural India, they often lacked the capacity to provide adequate demand-oriented services. He recommended that the major constraint of such important rural finance agencies, i.e., lack of resources should be removed, by facilitating them to mobilize resources from capital market and other newer sources.

Rutamu and Ganesan (2008), in their research article titled, "Profit and Profitability of Co-operative Banks : The Case of Banques Populaires (Peoples' Bank) of Rwanda" stated that financial institutions in general and banking sector in particular play a strategic role in the financing stage of capital formation. In the banking sector, co-operative banks undertake the responsibility of mobilising the scarce savings of the community and channelising these savings for productive investment in the economy. They discussed the performance of Banques Populaires and the determinants of its Profit and Profitability. It had been noted that the net profit was not distinguished from Gross Profit in the years 1994-2004. The empirical results from the six models of Profit and Profitability showed that total assets per

branch, other earnings and total deposits per branch were the determinants of profit in Banques Populaires, while total assets per branch, and the number of branches were the determining variables of profitability of Banques Populaires. The low return from investment of Banques Populaires indicated a lack of cost control and unsatisfactory sources of income other than interest from advances. It was, therefore, crucial that Banques Populaires should make further effort for the improvement of its efficiency in operations so that the low profitability might be uplifted.

Objectives of the Study:

- To study different areas of banking functions in credit management
- To check out the financial stability of the bank
- To study about proper allocations of funds such as providing loans, various investment borrowings.

Methodology:

The study is based on secondary data. Secondary data was collected from annual reports and also existing manuals and like company records balance sheet and necessary records.

Limitations of the Study:

- Some data which may be confidential in nature may not be available.
- The study is done only for the limited period.
- The study is based on published information only.
- The analysis is based on annual reports of the company

Performance analysis of DCCBs

The formation of cooperative society was to provide agricultural loan at reasonable rate of interest was one of the mottos of cooperative movement at the initial stage. The first cooperative credit societies act was introduced by the Government of India in the year 1904 with the intention that the focus of cooperatives

would be given to the farmers and all primary cooperative credit societies will distribute agricultural loan to the farmers at the reasonable rate.

As long as the growth of cooperatives began the activities and diversification of cooperatives also developed, as a result the birth of cooperative credit structure took plan and presently three tiers cooperative credit structure is functioning. At the grass root level primary agricultural cooperative credit societies is directly distributing the agricultural loan (Short-term and medium term) to the farmers, at the center level district central cooperative bank (DCCB) is monitoring the credit structure and at the apex level state cooperative bank (Apex Bank) is facilitating the credit requirement of the state.

Business performance of all DCCBs in Warangal (Rs.inlakcs)

Sl. No	Particulars	2013-14	2014-15
1	Total borrowings of which	48675	50625
	NABARD	16525	17665
	WDCCB	16625	25643
	OTHERS	15525	16574
2	Total investments of which	30200	43432
	Government Security	7802	8765
	Other trustee	8077	8765
	Share of cooperatives	8402	9876
	Others	5919	6789
3	Total loan advances of which	65370	78989
	Short terms	16542	17654
	Medium terms	16800	18976
	Long terms	16900	17890
	Others	15128	18970
4	Profit	398	453
5	Loss	725	543

Source: Data completed from Statistical data of the Warangal district Cooperative Bank

The above table indicates that the overall performance of the DCCBs In Warangal is quite satisfactorily. The total borrowings increased during the period .The performance are better than previous years.

Table 4.4
Lending Operations of DCCBs in Warangal (Rs in lacks)

S.No	Particulars	2013-14	2014-15
1	Total disposable owned funds	573	765
2	Total borrowings	470	400
3	Total deposits	928	1234
4	Total advance able money(1+2+3)	1971	2399
5	Total demand	198	234
6	Total recovery of which		
	* Short term	927	1234
	*Medium term	428	568
	*Long term	551	745

Source: Statistical information Booklet Warangal DCCB.

Table indicates that the overall performance in term of lending operations in DCCBs is satisfactorily. Remaining money has been invested elsewhere to earn higher rate of interest. The table also indicates that on an average the total recovery amount is also in increasing trend. The DCCBs have to mobilize low cost deposit and Increase the advances in non-farm sector and other Small Scale Industries.

To attract more and more customers, the DCCBs have to think to diversify the business portfolio and banking services.

Table 4.5
ST.Agri. Demand and Recovery of all DCCB in Warangal (Rs.in lacks)

S.No	Particulars	2013-14	2014-15
1	Total demand of ST Loan (agricultural)of which:	18591	23546
	-Previous Year	3499	4567
	-Current Year	9509	10987
2	Total Recovery of ST Loan (Agri)of which:	8447	9876
	-Against Previous Year	1549	1675
	-Actual Recovery of Current Year	7174	7245
	-By Transfer of Accounts	2175	3124
3	Overdue at the end of the year	4121	5432

Note: The Percentages of total demand and recovery

Source: Data completed from statistical data of Warangal DCCB in Warangal.

The above table revealed that the overall performance on the demand and recovery in respect of all the DCCBs in Warangal is quite satisfactory. The above table indicates that overall performance of the district central cooperatives banks in-terms of non-agriculture demand and recovery is quite satisfactorily.

CONCLUSIONS:

It can be concluded that the business performance of DCCBs in Warangal District has been increasing year by year from the observation of financial statements of the bank. In case of deposits the trends in deposits are observed to be increasing and lending advances is also increased but the rate of increase fast. Its increasing levels are slow. It can also be understood that the performance trend of share capital reserves etc are also increasing but at less percentage not even above 10% only the working capital has a remarkable increase.

The overall performance is averagely considered as satisfactory. Therefore it is concluded that DCCBs are working satisfactorily but financial results are still to be increased by creating and promoting awareness about bank facilities to rural people and moreover due to illiteracy and low educational levels rural people may not understand the long procedures or formalities in bank. Therefore it is suggested to provide assistance to people to complete banking formalities or to reduce lengthy procedures in Banks.

SUGGESTIONS:

The owned funds of the cooperative banks should be enhanced:

- (a) By linking up the share holdings to borrowings of big farmers.
- (b) By state Government contribution to a minimum of 50 percent of total share capital as is found in the study that the Government contribution was far less than 50 per cent of share capital.
- (c) By building up adequate reserve fund through better viability of operations; and
- (d) By reducing the present 50 per cent of the share capital investment in the apex bank to 20 per cent.

Customer Services:

Many of the DCCBs are thinking that depositors are their customers it is not true. Customer may be depositor, member, borrower and Potential customer. The infrastructure available with DCCBs is very Poor in view of the requirement of Customers.

It is therefore recommended that the DCCBs should provide required Facility like waiting space, customer information counter, "MAY I HELP YOU" counter and banking information chart in the bank Premises. The employee's response/attitude towards customer Should also be satisfactory

There is a need to improve the attitude of the employees while dealing with customers. This can be done through training and motivation

References

- 1) Chakravarti S "Role of District Central Cooperative Banks on Distribution of Agricultural Loan" Indian Cooperative Review, New Delhi Vol. XXX No. 1 June 1976 pp. 449
- 2) Gaven, I.D. (1979) "The Impact of Agricultural Loans and Advances in Sri Lanka" ' Research Report No. 13 International Food Policy Research Institute (IFPRI) Washington December, 2008
- 3) Kamat G. S (1984) "The Distribution of Loans and Advances a View in Perspective" Indian Cooperative Review New Delhis
- 4) Kaushal O. P. (1972) "Proposed Channel of distribution of Loans for Rural Farmers" Indian Journal,
- 5) Kumar Rakesh "The concept of Regional Credit Distribution Centre".
- 6) Murthy M.G.K. (1984) "Credit Delivery System in Andhra Pradesh" Indian Journal of Banking New Delhi Vol. XIV , No. 8 April (1984) pp. 16-18.

- 7) Prabhakara Rao (2010) "Role of District Central Cooperative Banks on Distribution of Agricultural Loans – A New Concept"