

A STUDY ON THE WORKING PERFORMANCE OF DISTRICT CENTRAL COOPERATIVE BANKS IN INDIA

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INTRODUCTION

Banking Institutions are the intermediaries between the depositors and the borrowers. They accept deposits and lend money both for productive and consumption purposes. As the capital formation depends on the mobilization of savings, banks have the moral responsibility over the funds that they pool from outsiders. On the other hand, “the borrowers have the responsibility for the repayment of loan together with interest for the smooth functioning of banks”.

Cooperative Banking Structure has a unique position in the Rural Credit Delivery System of India. They have made significant strides in the field of rural credit. Over the years, they have remained the prime institutional agency with their vast network, wide coverage, and outreach extending to the remote parts of the country. The District Central Cooperative Banks (DCCB) occupies a crucial position in the pyramidal structure of Short term Cooperative Credit Structure in the country. They form the backbone of the structure and provide the vital link between the local Primary Agricultural Cooperative Society (PACS) and the State Cooperative Banks (SCB). They act as balancing centers and provide funds to the PACS in the districts when they face shortage by diverting surplus funds of the urban areas. They mobilize resources by accepting deposits from members and non-members and by borrowing from the SCBs. They provide facilities for the investment of the resources of PACS. They develop and extend banking facilities to semi urban and rural areas. They do not only finance the PACS affiliated to them, but also impart strength to them and supervise and guide the working of all the member societies in the district. Above all, they lead the cooperative movement in the respective districts.

STATUS AND PERFORMANCE OF DCCBS IN INDIA

DCCBs are essentially an intermediary structure. The important policy development contemplated by the State Government during the Plan periods consisted of substantial State Partnership in the share capital of DCCBs, linking borrowing with share capital, measures for the mobilization of adequate deposits, linking of deposits with borrowing, application of provisions of BR Act to DCCBs, reorientation of lending on the basis of production plans i.e., crop loan system, provisions of working capital needs of Handloom Weaver Cooperative Societies (HWCS) and Marketing Societies, liberalized lending to the DCCBs by the NABARD, preferential lending to weaker sections, reorganization of DCCBs at the rate of one bank for a district, maintenance of financial discipline such as Non Overdue Cover, Recovery discipline etc. (Srinivas M.: 1990, p.22). These measures and policy initiatives taken by NABARD and concerned State Governments had resulted into a growth in the general performance of DCCBs in India.

Membership

Though the DCCBs were organized mainly for financing PACBs, other types of societies like Weavers Societies, Milk Producers Cooperative Societies, Consumer Cooperative Wholesale Stores, Marketing Cooperative Societies, Processing Cooperative Societies etc., were also admitted as members in DCCBs. They acted as central financing agencies for such societies. In DCCBs, individuals were also admitted as members in the initial years. Though the fresh admission of individual members had been stopped, they formed considerable percentage to the total membership.

Table – 1, Total Membership Position of DCCBs in India

S.No	Year	Membership	Growth rate
1	2004-05	1837433	-
2	2005-06	2182729	18.80
3	2006-07	2146348	-1.67
4	2007-08	2145876	-0.02
5	2008-09	2267850	5.68
6	2009-10	3264849	43.96
7	2010-11	3396881	4.04
8	2011-12	3528802	3.88
9	2012-13	3975660	12.66
10	2013-14	3146070	-20.86

Source: Data compiled from Annual Reports of the NAFSCOB for various years

Total membership position of DCCBs in India has recorded fluctuating trend during the study period. Membership position of DCCBs has increased from 18,37,433 in the year 2004-05 to 3146070 in the year 2013-14. However, the growth was negative during the years 2006-07, 2007-08 and 2013-14. The growth rate was high in the year 2009-10 showing 43.96 percent.

Share Capital

The DCCBs were permitted to admit individuals as nominal members for limited purposes, viz., granting of jewel loans, consumer loans etc., so as to bring such borrowers with in the cooperative fold. Apart from the societies and individuals, the State Government also subscribed to the share capital of DCCBs as per the recommendations of the All India Rural Credit Survey Committee (1954). The paid up share capital of a bank was an important factor which determined its maximum borrowing power for raising resources for its operations. The face value of the share normally varies from Rs. 50 to Rs.100 to strengthen the share capital position of the bank.

Table – 2,Share Capital Position of DCCBs in India

(Rs. in Lakhs)

S.No	Year	Paid up Share capital	Growth rate
1	2004-05	338800	-
2	2005-06	354678	4.69
3	2006-07	379299	6.94
4	2007-08	411547	8.50
5	2008-09	451147	9.62
6	2009-10	509813	13.00
7	2010-11	582923	14.34
8	2011-12	607141	4.15
9	2012-13	777653	28.08
10	2013-14	725768	-6.67

Source: As in table-1

The share capital position of DCCBs has doubled over the years of the study period. It has risen from Rs.3,38,800 lakhs in the year 2004-05 to Rs.7,25,768 lakhs in the year 2013-14. However, the growth rate was negative at the end of the study period which stood at -6.67 percent.

Reserve Fund

The second important source of the working capital of DCCBs was the Reserve fund which was set aside from the earnings of the banks to meet the future contingencies. The reserves maintained by DCCBs included Statutory Reserve Fund, Agricultural Credit Stabilization Fund, Building Fund, Special bad debts reserves, Bad and Doubtful Debts Reserves, Non Performing Asset (NPA) Provisions and other funds and reserves viz., Common Good Fund, Employees Relief Fund, etc. In all the States, the DCCBs were required to invest their reserves outside their business. Reserves must be invested in the concerned State Cooperative Bank to the extent of at least 50 per cent and the surplus could be invested in Government and Trustee Securities.

Table – 3,Reserve fund Position of DCCBs in India

(Rs. in Lakhs)

S.No	Year	Reserve	Growth rate
1	2004-05	792982	-
2	2005-06	962014	21.32
3	2006-07	1116455	16.05
4	2007-08	1267286	13.51
5	2008-09	1408294	11.13
6	2009-10	1550512	10.09
7	2010-11	1643573	6.00
8	2011-12	1780801	8.35
9	2012-13	2013296	13.06
10	2013-14	2069202	2.77

Source: As in table-1

The reserve fund of the DCCBs had been increased from Rs.7,92,982 lakhs in the year 2004-05 to Rs.20,69,202 lakhs in the year 2013 - 14 with the growth rate of 2.77 percent. It was due to the fact that adequate provision cover extended against the NPAs that resulted into the increase in reserve fund. It was not actually set aside from the portion of net profit.

Deposits

Deposit was an important tool for resources mobilization. Mobilization of deposits was a welcome sign for the loan operations of the agency and helped further in mobilizing resources. It should form an integral part of the credit planning. A deposit was an important indicator of the success and efficiency of the credit agency. Mobilization of deposits at the institutional level would also help to absorb overdue and keep up the flow of credit in an uninterrupted manner. Mobilization of deposits very much depends upon the degree of confidence through which such institutions enjoy in the eyes of their clients. The main target of Cooperative Banks was to open branches in the unbanked areas and to mop up the savings.

Table – 4, Total Deposits Position of DCCBs in India

(Rs. in Lakhs)

S.No	Year	Reserve	Growth rate
1	2004-05	6679721	-
2	2005-06	7201797	7.82
3	2006-07	7679638	6.64
4	2007-08	8047636	4.80
5	2008-09	8665222	7.67
6	2009-10	9208136	6.26
7	2010-11	10599372	15.11
8	2011-12	12372182	16.73
9	2012-13	14630314	18.25
10	2013-14	16130882	10.25

Source: As in table-1

Total deposits of DCCBs in India had increased from Rs.66,79,721 lakhs in the year 2004-05 to Rs.1,61,30,882 lakhs in the year 2013-14. The deposits position of DCCBs has registered increasing trend during the study period. The growth rate has increased from 7.82 percent in the year 2005-06 to 10.25 percent in the year 2013-14.

Borrowings

The borrowing constituted the vital source of working funds of DCCBs. A DCCB generally supplemented internal resources by way of borrowings from the higher financing agencies viz., State Cooperative Bank, NABARD, RBI, and State Governments for implementing its lending programmes for different purposes.

Table –5, Total Borrowing Position of DCCBs in India

(Rs. in Lakhs)

S.No	Year	Borrowings	Growth rate
1	2004-05	1827605	-
2	2005-06	1921746	5.15
3	2006-07	2104914	9.53
4	2007-08	2155710	2.41
5	2008-09	2320213	7.63
6	2009-10	2794060	20.42
7	2010-11	3053334	9.28
8	2011-12	2847764	-6.73
9	2012-13	3035483	6.59
10	2013-14	3910116	28.8

Source: As in table-1

The position of borrowings at DCCB level had increased from Rs.1827605 lakhs in 2004-05 to Rs.3910116 lakhs in 2013-14. In the year 2011-12, borrowings has recorded negative growth rate showing - 6.73 percent. The quantum of borrowing has registered increasing trend in all the years of the study period except the year 2011-12 showing Rs.2847764 lakhs. It was due

to the inadequate deposit mobilization drives of the DCCBs and strong dependence of higher financing agencies for the financial support.

Working Capital

The sources of working capital of DCCBs consisted of share capital, entrance fees, reserves and other funds, deposits from cooperatives, individuals and local bodies and other institutions, and borrowings from SCB, NABARD and Government.

Table – 6, Total Working capital Position of DCCBs in India

(Rs. in Lakhs)

S.No	Year	Working Capital	Growth rate
1	2004-05	10202039	-
2	2005-06	10856256	6.41
3	2006-07	11864409	9.29
4	2007-08	12263289	3.36
5	2008-09	13124185	7.02
6	2009-10	14608363	11.31
7	2010-11	16813752	15.10
8	2011-12	18403787	9.46
9	2012-13	20691844	12.43
10	2013-14	23543070	13.7

Source: As in table-1

Total working capital position has increased over the years of the study period. The quantum of working capital has increased from Rs.1,02,02,039 lakhs in the year 2004-05 to Rs. 2,35,43,070 in the year 2013-14. The growth rate of working capital fluctuated from 6.41 percent in the year 2005-06 to 13.7 percent in the year 2013-14.

Investment

After the Introduction of the BR Act 1949 (AACS) the policies of the DCCBs had been rationalized. Every bank should have a comprehensive investment policy duly approved by the Board of Directors. The investment policy should cover both short term investment and long term investment, Statutory Liquidity Ratio (SLR) and Non Statutory Liquidity Ratio (Non SLR). As per Section 24 of the BR Act, 1949 (AACS), all cooperative banks in India, in addition to the cash reserve, shall also maintain cash or gold or unencumbered approved securities. The amount shall not, at the close of the business on any day, be less than 25 per cent of the total demand and time liabilities in India, as on the last Friday of the second preceding forth night. The SLR could be maintained in the form of cash, or gold or in unencumbered approved securities. DCCBs had been permitted to deploy their Non SLR surplus funds in the following categories of investment.

- Certificate of Deposits issued by scheduled commercial banks and IDBI
- Fixed deposits of IDBI/ EXIM Bank
- Indira Vikas Patra
- US 64 of Unit Trust of India.

Table -7, Investment Position of DCCBs in India

(Rs. in Lakhs)

S.No	Year	Investments	Growth rate
1	2004-05	2831959	-
2	2005-06	3104430	9.62
3	2006-07	3565630	14.86
4	2007-08	3478322	-2.45
5	2008-09	3712739	6.74
6	2009-10	4079112	9.87
7	2010-11	4824662	18.28
8	2011-12	6104124	26.52
9	2012-13	7562446	23.89
10	2013-14	8297639	9.72

Source: As in table-1

Investment has recorded three-fold increase in the year 2013-14 showing Rs.8297639 as against the year 2004-05 showing Rs.2831959 lakhs. The level of investment was constantly increasing during the study period. In the year 2012-13, the growth rate was recorded to 23.89 percent as against 9.62 percent in the year 2005-06. However, the growth rate stood at 9.72 in the year 2013-14.

Loans and Advances in DCCBs

DCCBs entire credit portfolio may be divided in to two broad categories viz., On Lending and Direct Lending.

On Lending

The primary function of DCCBs should normally be financing the member societies through on lending for Short term (ST), Medium term (MT) and Long-term (LT) loans for agricultural and non-agricultural purposes. The Agricultural Credit Review Committee rightly pointed out that the issue of Short Term Agricultural credit is the single major purpose of the cooperative banks.

While sanctioning the loans to the PACBs, the DCCBs take into consideration its percentage of overdue to demand and the repayment performance. The overdue of more than 40 percent of the demand are usually not sanctioned any credit limits and are considered ineligible for finance.

Each affiliated society is sanctioned every year a credit limit for Short Term and Medium Term purposes based on the credit requirements of the members. The societies operate on the credit limits sanctioned and the amount of loans disbursed to members during a particular year should be within the credit limits sanctioned. DCCBs also extend credit facilities to Primary Handloom Weavers Cooperative societies, Spinning Mills, Sugar Cooperatives and other Cooperative Institutions at the district level by availing credit form the NABARD through the apex bank. DCCBs lend loans to their members such as PACBs, Employees Societies, Urban Banks, Housing Societies, Consumer Whole Sale Stores, Sugar Mills, Spinning Mills, etc., by providing on lending facilities for the agricultural, allied agricultural and non – farm activities.

Direct Lending

DCCB is financing individual members through its branches is called direct lending. They are loans against fixed deposits, life Insurance policies, pledge of gold / silver ornaments etc., for the purchase consumer durables and for other purposes. It may also provide cash credit facility to the businessman / traders against collaterals, Pledge or hypothecation, temporary overdraft facility to the individuals. These banks also sanction loans for non-agricultural purposes viz., Purchase of lorries and buses, bulldozers, earthmovers, construction purpose, establishment of clinic/service centers by Doctors/Engineers and educational loans for pursuing Professional courses etc. DCCBs are having their own branches in the concerned districts.

Table -8, Total loan outstanding position of DCCBs in India

(Rs. in Lakhs)

S.No	Year	Loan Outstanding	Growth rate
1	2004-05	6016562	-
2	2005-06	6205049	3.13
3	2006-07	6361984	2.53
4	2007-08	7208961	13.31
5	2008-09	7673738	6.48
6	2009-10	8546075	11.37
7	2010-11	9597423	12.30
8	2011-12	9720682	12.84
9	2012-13	10499715	8.01
10	2013-14	12279548	16.95

Source: As in table-1

Total loan outstanding position of DCCBs has registered increasing trend during the study period. The loan outstanding position of DCCBs has increased from Rs.60,16,562 lakhs in the year 2004-05 to Rs.1,22,79,548 lakhs in the year 2013-14 with the growth rate of 16.95 percent.

Recovery

The efficiency of a banking Institution as a financial intermediary depend to a great extent on timely recovery of loans. . Poor recovery performance was one of the major weaknesses of DCCBs, which affected the recycling of loans. High

level of overdue had affected the ability of DCCBs in many cases to avail adequate refinance from higher financing agencies.

Table -9, Recovery position of DCCBs in India

(Rs. in Lakhs)

S.No	Year	Loan Demand	Growth rate
1	2004-05	2704314	-
2	2005-06	2876285	6.36
3	2006-07	3158573	9.81
4	2007-08	3682622	16.60
5	2008-09	3909087	6.15
6	2009-10	4355755	11.43
7	2010-11	4675628	7.34
8	2011-12	5444608	16.45
9	2012-13	6513284	19.62
10	2013-14	7706922	18.32

Source: As in table-1

Total recovery position of DCCBs has registered increasing trend during the study period. The loan recovery of DCCBs has increased from Rs. 2704314 lakhs in the year 2004-05 to Rs. 7706922 lakhs in the year 2013-14 with the growth rate of 18.32 percent.

Problem of Overdue

The percentage of overdue to demand had increased in all the cooperatives in India. It was due to the fact that though the overdue was not reduced to a considerable quantum, it had been decreasing slowly due to the ADRS (Agriculture Debt and Relief Scheme) Scheme of Government. The ADRS Scheme popularly known as 'loan waiver' scheme was the outcome of the promise made by the constituents of the National Front Government during 1989 in General Election Campaign. The loan waiver scheme, whatever might be its genuine backdrop, was antithetical to the creation of a climate conducive for recovery. In fact, during this decade, the amount of loan waived exceeded the amount of loan given under short term, medium term and long – term credit, but all these incentives had not created any real impact on agriculture since, as observed by officials, it saved only the big landlords from their debt burden.

Table -10, Percentage of Overdue to Demand position of DCCBs in India

(In percentage)

S.No	Year	Percentage of Overdue to Demand	Growth rate
1	2004-05	35.10	-
2	2005-06	37.40	6.55
3	2006-07	36.90	-1.37
4	2007-08	32.86	-10.95
5	2008-09	31.69	-3.56
6	2009-10	32.93	3.91
7	2010-11	36.53	10.93
8	2011-12	32.69	-10.51
9	2012-13	26.73	-18.23
10	2013-14	27.37	2.39

Source: As in table-1

Percentage of overdue to demand position of DCCBs has registered fluctuating trend during the study period. The loan overdue percentage to demand of DCCBs has increased from Rs. 35.10 percent in the year 2004-05 to 36.53 percent in the year 2010-11 with growth rate of 10.93 percent. The percentage of overdue to demand has come to 27.37 percent in the year 2013-14 registering the growth rate as 2.39 percent.

Profit and Loss

Though the main aim of cooperatives was not maximizing profit, they should earn profit in order to render efficient service to its members. During 2013-14, out of 367 reporting DCCBs, 279 made profits amounting to Rs.1,116 crore, while 88 DCCBs



made losses to the tune of Rs.913 crore. DCCBs operating in 14 out of 19 States made profits, while DCCBs in five States (Jammu and Kashmir, Uttar Pradesh, Maharashtra, Andhra Pradesh and Tamil Nadu) made losses. Number of profit-earning DCCBs in the year 2010-11 had increased in Rajasthan, Bihar, Madhya Pradesh, Uttarakhand, Maharashtra, Karnataka and Kerala. In the case of Maharashtra, while the number of profit-making DCCBs increased, the amount of profits earned declined. The number of loss making DCCBs as well as overall losses incurred by them increased in seven States (Haryana, Jharkhand, West Bengal, Uttar Pradesh, Gujarat, Andhra Pradesh and Tamil Nadu).

CONCLUSION

Any Financial Institution including DCCB carries on business out of funds, which are collected as deposits or borrowing from higher financing agencies. These funds are lent as credit to member societies and individual members through on-lending and direct lending. There should be a regular recycling of these funds. This recycling will take place if the recoveries come back to the banks as per the time – frame fixed for their recovery. Lack of recovery would affect the overall liquidity of the institution and in due course the solvency of the institution itself would be in questioned in the mere future. Thus, the efficiency of a banking Institutions as a financial intermediary depends to a great extent on timely recovery of loans.

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