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PERFORMANCE ANALYSIS OF DISTRICT CENTRAL COOPERATIVE BANKS – A STUDY IN WARANGAL DISTRICT

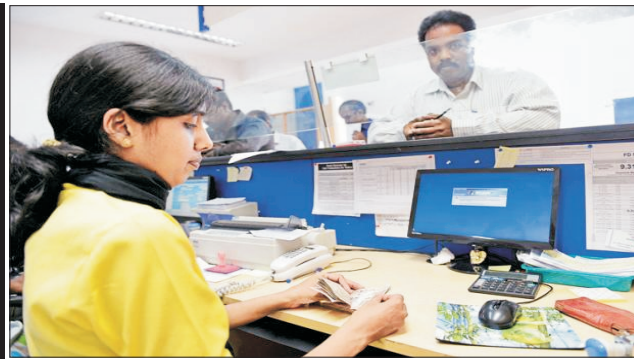
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ABSTRACT :

The cooperative bank has played an important role in the area of agricultural and rural development in the country. It has also developed the allied agricultural sector and has emerged as the most important source of institutional credit in the agricultural sector. Cooperatives provide both short and medium term loans to farmers. Long-term loan is made available by Primary Land Development Banks and Central Land Development Banks. The farmers get credit through cooperative societies, which are regulated by Cooperative Societies Act. Each society grants short-term credit up to eighteen months for carrying out current agricultural operations. The present study is concerned with the performance analysis of District Central Cooperative banks in sample areas of Warangal District.

KEY WORDS: Performance Analysis , agricultural sector , Cooperative Societies Act.



INTRODUCTION

The cooperative bank has played an important role in the area of agricultural and rural development in the country. It has also developed the allied agricultural sector and has emerged as the most important source of institutional credit in the agricultural sector. Cooperatives provide both short and medium term loans to farmers. Long-term loan is made available by Primary Land Development Banks and Central Land Development Banks

The farmers get credit through cooperative societies, which are regulated by Cooperative Societies Act. Each society grants short-term credit up to eighteen months for carrying out current agricultural operations. It also provides medium term

loans for a period ranging between two to five years. The sources of cooperative lie in the efficient utilization of credit on the purpose for which it is granted. Since the times human-beings started sharing the common pursuits of life, the concept of co-operation emerged as a strong instrument of interlinking and living people together.

The cooperation in the modern form took birth during the industrial revolution when working class felt exploited and helpless. Today, the cooperation occupies a vital position as a form of organization in all the countries of the world. It is rightly remarked that cooperation is perhaps more widely distributed geographically than any other modern form of

organization.

In order to bring improvement in agricultural sector, credit played important role in the recent years and cooperatives have emerged as the most important source of institutional credit. Moreover, the problem of rural indebtedness, which assumed alarming proportions during nineteenth century, had necessitated the popularity of cooperative sector. Concept and Principles of Cooperation has been defined for different purposes and in different ways by cooperators, economists, lawmakers and others.

It is enough to say here that the cooperative is an association of persons usually of limited means who have voluntarily joined together to fulfill a common economic need through the formation of a democratically controlled business organization making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking. It denotes a special method of doing business.

A cooperative society is a

voluntary association of individuals, organized in accordance with cooperative principles to satisfy their economic and social needs.

PRIMARY COOPERATIVE SOCIETY:

A society in which the membership is limited to individuals and operates at the village level to attain the following objectives:

- (i) To advance credit on liberal terms and conditions
- (ii) To accept deposits of the people
- (iii) To develop/inculcate the habit of Savings among the farmers.
- (iv) To take up educative, advisory and welfare services for the benefit of farmer members.

TYPES OF CREDIT:

Period or duration is an important basis of classification of agricultural credit.

On the basis of period, credit needs of the farmers may be classified as short-term credit, medium-term credit and long-term credit.

Short-Term Credit:

Short-term or seasonal credit is that which is granted for the purpose of providing working capital requirement of the farmers.

Generally, farmers are required to run their farms efficiently to obtain crop in the best possible manner.

They hold the credit up to the sale of harvest the period for which this type of credit is provided generally ranges between 6 months of 15 months it can exceed more.

According to the All India Rural Credit Review Committee the short-term credit is lump-sum credit facility which is provided to fill up the gap in outlay which cannot be met by the own resources of farmers during the period between two harvest.

The various purposes for which short-term credit is provided are purchase of seeds/fertilizers/ insecticides, hiring of the labor, hire charges of agricultural machineries, payment of electricity bills, tax on lands, go down charges, etc.

The demand of this type of credit is expected to increase at the time of harvest. This type of credit is also known as crop loans.

These loans are disbursed through Primary Agricultural Credit Societies (PACS).

Commercial Banks and Regional Rural Banks (RRBs). In such a case where the security is accepted in the form of anticipated crop, production credit is provided.

While the consumption loans are sanctioned on the basis of personal security of the borrowers.

Medium-Term Credit:

Land improvements, purchase of implements, machinery, live-stock, conversion of cultivation system etc. are the purposes for which farmers require medium-term credit.

This credit is provided for more than 15 months but not exceeding 5 years.

The medium-term credit is classified in two categories by the Functional Committee on Cooperative Agricultural Credit of National Co-operative Development Co-operation.

The first category belongs to maintenance or replacement of existing production assets, i.e. normal credit requirements. While the second classification is concerned with new investments for improving the productive efficiency of the farm i.e. special medium-term loans. Further though there is difference between medium-term credit and short-term credit but it is not always possible to make distinction clearly, for instance, when farmer renews his short-term loan after a year it ceases to be such, although it still belongs to the category of short-term credit from the angle of purpose of loans. Again, while loans for growing crops are re-tamable within a year, the same cannot be said in case of loans for the cattle rearing which may take a longer period, despite the fact that these involve ordinary working expenses, like those required for raising crops.

Thus, a sharp distinction between short-term loan and medium-term loan is not possible. Only on the basis of purposes for which the loan is provided, we can make differences. The medium-term credits are repaid in half yearly or annual installments.

Long-Term Credit:

The long-term loans are granted for a longer period i.e. more than 5 years up to 10 years. In some cases it may be granted for a period up to 20 years. As in the case of short-term credit and medium-term loans, the clear distinction between medium-term credit and long-term credit can be easily made. Generally, farmers require all types of credit at the different stages of farming. But the need of long-term finance is more pressing.

As stated by the RBI in its preliminary reports, "Long-Term Credit is more important and if any effective steps are taken to make the agriculturist credit worthy; this is first problem which is to be tackled.

REVIEW OF LITERATURE:

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 overdues 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:

1. To study about proper allocations of funds such as providing loans, various investments, borrowings.
2. To study the agricultural credit structure of the cooperative bank.
3. To study the performance of DCCBs in Warangal.

METHODOLOGY:

Source of Data:

The study is based on Primary and Secondary data. Primary data will be through direct personal interview with the officials of Bank and beneficiaries. Secondary data will be collected from annual reports and also existing manuals and like company records balance sheet and necessary records

Features of Agricultural Credit System:

With a view to fulfill the credit needs of the farmers and to ensure that it serves the national economy as a dynamic factor it is essential that a sound system of credit should be built up. Such system should be able to convert the present 'State credit into a Dynamic credit'. Because the 'static credit' does not increase the output, income and assets at the time of maturity, i.e. end of the credit period.

Contrary to it, under dynamic credit, a satisfactory increase in output, income and assets may be noticed after the maturity of credit. In other words a credit system should be efficient to promote the development. The criteria regarding a good credit system for agricultural finance have been produced by many experts.

'As for the agricultural credit it must be provided from another angle, while dealing with Indian Farmers, who are uneducated and ignorant in respect of implications of various aspects of agricultural credit. So, the credit system should be

scientific and flexible.

This credit system should also be able to encourage the farmers for increasing their production and also a higher standard of living. It may be possible by the favorable support from Government and its agencies.

According to RBI, credit system should have following features the credit system for modern agriculture should integrate the credit with services for ensuring the arrangements of inputs and services along with credit on the one hand the absence of credit is better than facile credit.

Because the former may be used for wasteful consumption purposes which may impose an extra burden on him.

On the other hand facile credit is more dangerous because it may lead the borrower to avail credit without any basic needs.

Under the credit system all areas and farmers (specially small and marginal farmers) should be covered.

In other words, the credit system should be so efficient as to expand its activities horizontally as well as vertically.

Under a good system of credit for modern agriculture emphasis should be given to issue loans for production purposes. But the consumption loans should not be prohibited completely.

The loans should be provided on the basis of anticipated production or increased income which would occur due to the use of credit rather than tangible security or existing income. It will help the small farmers to avail the credit and implement their plan of cultivation. In a credit system, the cost of handling credit and services should be lower. In the absence of this, most of the farmers will deny credit which may cause a burden beyond their repaying capacity.

The credit system should be such which mobilizes sufficient resources to provide finance for the purpose of investment required for modern agriculture.

From the above discussion suitable criteria for a good and sound system of agricultural credit can be given:

- * All the credit needs of short, medium and long-term of the farmers should be met.
- * Credit should be made available as near the door-step as possible and when needed by the farmer.
- * It should generate savings and accelerate economic growth.
- * The borrowers should be encouraged to adopt new technologies without which sufficient capital cannot be generated to repay loans.
- * The lending agency should be geared to finance the entire farming system.
- * The credit agency should be in a position to inter-link with marketing agencies to ensure full recovery of loans¹

Thus in a good and sound system of agricultural credit there should be a provision of continuous evaluation of the credit programmes. This will assist to estimate quantitatively the impact on improvement in respect of farm production, cropping pattern, cropping intensity, farm output, employment opportunity and actual farm income. Under the sound credit system, guidance should be available to farmers for its proper utilization.

Importance of Cooperative Banking: Cooperative bank is useful in the following ways. It is a superior institutional arrangement for financing agricultural operations. Cooperative banks offer loans to farmers so that they might utilize the amount for increasing agricultural production and raising their standard of living.

In a country where the farm population is composed of small farmers who have small lands, cooperative banking is most advantageous. As the society consists of farmers themselves, it knows at first hand the credit problems of the rural poor and strives to find out suitable solutions for them. No other institution can be as effective as the cooperative banks in rural areas, for the other financial institutions are run by persons who do not come from the farming community and who do not have firsthand knowledge of the economic condition of farmers, their temperaments and their requirements.

PERFORMANCE ANALYSIS OF DCCBs:**Table No -1 Business Performance of Warangal DCCB Bank Ltd.
(Rs. in lacks')**

Sl.No	Particulars	2013-14	2014-15
1	Total Deposits of which *savings	261033	282044
	*Current	212 (0.09)	252 (0.09)
	*Fixed	15740 (6.03)	18342 (6.60)
	*others	243080 (93.12)	262893 (93.21)
		2001 (0.76)	567 (.201)
2	Total Advances of which: *short Term	123443	132115
	*Medium Term	74775 (60.57)	79545 (60.21)
	*Long Term	22149 (17.94)	24123 (18.25)
		26519 (21.48)	28447 (21.53)
3	Total Turnover	384476	306740
4	Per Employees Turnover	1450	1565

Note :i) Figures given in parentheses indicates the percentage of total Deposit and Advances.

ii) All the data are based up on end of the year.

Source: Statistical information on the working of Warangal DCCBs

Total deposits in the year 2010-Rs.177990 in the year 2015-it has been increased, Rs.282044 Total turnover has decreased Rs.306740 during the same period Per employee turnover in the year has increased.

Table No: 2 Overall Performance of DCCBs in Warangal (Rs in lacks)

Sl. No	Particulars	2013-2014	2014-15	%age increase over 2013-15
1	Share capital	16687	19231	15.25
2	Reserve	125	130	4.00
3	Deposits	283857	296756	4.54
4	Borrowings	180	192	6.66
5	Advances	118	123	4.24
6	Profit	1285	1365	6.23
7	Loss	-20130	-19801	-1.63
8	Working capital	441420	562340	27.39

Source : Statistical information on the working of DCCBs in Warangal 2013-15

The above table revealed that the overall performance of the DCCBs in Warangal is quite satisfactorily during the period from 2013 to 2015 the share capital reserve, deposits and borrowings are increased by 15.25, 4.00, 4.54 and 6.66 percent during the same period.

The net profit of the DCCBs is increased by 6.23 percent while the working capital is also increased by 27.39 percent during the same period.

The following table indicated the overview of all DCCBs in Warangal.

Table:3 Overview of all DCCBs in Warangal (Rs in lacks)

Sl. No	Particulars	2013-14	2014-15	percentage increase/decrease over 2013-2015
1	No of branches	10	10	
2	Total membership(in Nos)of which	320	230	28.13
	-Institutional	248 (77.25)	174 (75.25)	29.83
	-Individual	201 (62.31)	141 (61.30)	29.85
3	Share capital(total) of which	241 (75.31)	273	11.61
	Societies	164 (51.25)	184	12.19
	Individual	192.47 (60)	202	4.95
	Others	148 (46.25)	152	2.70
4	Reserve Fund (total)	546	637	16.66
	Statutory fund	748 (136.79)	834	11.49
	Agri. Credit	571 (104.57)	642	12.43
	Building fund	368 (67.39)	382	3.80
	Special bad debts	243(44.50)	361	48.56
	Bad&Doubtful fund	303 (55.49)	402	32.67
	Others	558 (102.19)	673	20.60
5	Total deposits	650	870	33.84
	Fixed	464 (71.38)	583	25.64
	Savings	815 (125.38)	835	2.45
	Current	379 (58.30)	420	10.81
	Others	418 (64.30)	512	22.49

Source: data compiled from statistical data of the Warangal district cooperative bank for the year 2011-14

The above table indicates that the overall performance of the DCCBs in Warangal is quite satisfactory during the period from 2011-14. The total membership increased by the 35.39 percent.

Share capital has increased in the year 35.39 percent during the year. The total deposits have increased in the year 2014 as 75.67.

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.

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